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Tables 14 and 15 show how the numbers baselined in the business plan have been amended by the change control system, reflecting the judgements concerning overlays and other factors applied during the RF process.

In overall terms, the route has established processes for monitoring progress and identifying issues with the delivery of its renewals programme. We saw clear and comprehensive reporting and review through the DRAM PBR reporting pack and heard good descriptions of the RAM progress review meetings which support the DRAM PBR reporting. Variances to plans are identified and managed by the route and, broadly speaking, there are logical links between changes to forecast outturn expenditure and to the associated key volumes. Our main concern is the overlay process and, in particular, its transparency and the potential for it to delay (rather than just smooth) significant trends in overall delivery.

## 2.5 Conclusions and recommendations

In our opinion, Wales route is operating a mature project delivery model which can be expected to identify and control risks to delivering planned renewals volumes and expenditure within reasonable forecasting tolerances in years 1 and 2 of CP6.

We found that top level reporting was of reasonable quality, but we consider that improvements could be made including to the consistency of lower level reporting and management systems to make comparison and analysis of performance clearer.

### Overall management of renewals

1. The overall process for managing renewals is complex with a combination of formal and informal processes all of which rely on the skills, experience and professionalism of those involved.
2. We consider that the process being followed in Wales route is comprehensive and can be expected to support the identification, discussion and mitigation of significant risks or issues likely to threaten delivery of the route's renewals programme.
3. We saw a number of different spreadsheet-based systems in use across the different asset teams to manage and track their portfolios. Whilst we did not identify any specific issues, we believe that there would be benefits in terms of improved consistency of data, reporting and analysis if the route adopted a standard tool such as the Integrated Management System (IMS) system developed in LNW route.



### **Stage 1 – Workbank management**

1. In overall terms, the route has a good approach to workbank management with all work for years 1 and 2 identified (albeit that, as is reasonable, some items are provisional allowances for minor emerging works).
2. The workbank stability Leading Indicator is a useful broad guide to the level of change in the portfolio but it operates at too high a level to show significant movements in individual asset groups.
3. The route operates a detailed, spreadsheet-based change control system. This has a classification to identify the cause of change, but a significant proportion of items are 'unclassified' and the lack of structure at the second level of classification makes detailed analysis difficult.
4. The available analysis indicates significant levels of change within the workbank. Whilst some of this may be attributed to positive factors which may be expected to improve delivery and/or efficiency, it is not the case for all changes. In particular, there are indications that around 20% of change may arise from slippage of projects which is of concern against an aspiration for stable workbanks.

### **Stage 2A – Authorisation and project development**

1. The approach to securing project authority varies across asset groups with some (such as track) obtaining pre-authority for all stages early in the development cycle and others (such as structures) following a staged approach with option selection decisions made only after site investigation and initial design work has been completed. The timing of authorisation can also vary according to the planning lead times associated with the work (track and signalling schemes typically having the longest lead times). It is therefore important that this is reflected when setting glide paths for the authorisation leading indicator and assessing performance against it.
2. Issue and acceptance of remits is an important milestone in the project delivery process. Wales route does not have a combined record of the status of remits with each RAM team managing this through its local governance processes. We consider that a more systematic approach would improve assurance that the remitting process is proceeding to schedule.
3. Up to date data on the status of investment authority for year 1 (at the same level of detail as for the year 2 leading indicator) was not readily available in the route. We consider that the absence of central tracking illustrates the importance of improving data capture and reporting processes in general.
4. The route has a procurement strategy which can be expected to support delivery of its renewals plans. Nevertheless, there will always be risks of supplier failure and/or increases in rates if expected delivery or commercial arrangements are disrupted.



### Stage 2B – Delivery planning

1. The leading indicator is a useful guide to the delivery of signalling and track schemes which rely heavily on disruptive possessions. It does not reflect availability of the Engineering Access Statement ('Rules of the Route') access necessary for less disruptive work. Whilst this is managed through the route's planning and review processes, its status and any risks associated with it are not readily visible.
2. There is limited visibility of the status of environmental and other consents in periodic reporting packs. Delays in obtaining consents have affected delivery of structures work and we consider that improvements to management information would help to avoid this risk in the future.

### Stage 3 – Design and construction

1. In overall terms, the route has well established processes for monitoring progress and identifying issues with the delivery of its renewals programme. We saw a reasonable quality of reporting and review through the DRAM PBR reporting pack and heard good descriptions of the RAM progress review meetings which support the top-level reporting. Variances to plans are identified and managed by the route. Our main concern is the overlay process and, in particular, its transparency and the potential for it to delay (rather than just smooth) significant trends in overall delivery.
2. Wales route, in common with other routes, uses overlays to adjust performance projections reported by its delivery teams. This is reasonable and Wales use a good, transparent breakdown of their overlays into four different groupings. We have seen evidence that the route is actively managing its overlays for emerging works, overplanning and deliverability risk. Nevertheless, we suggest that the overlay process warrants further review and monitoring by ORR to ensure that they are applied consistently and accurately.
3. The route's efficiency holding overlay is a good and transparent way of managing unallocated efficiency targets. We are however concerned about the lack of movement in this overlay since the beginning of year 1 and the implied risk to achieving efficiency targets. Efficiencies are considered in Part 3 of this report but the sample which we reviewed does not cover the full extent of this overlay.

### Overall risks

The main areas of risk which we have identified are:

**Volume of change** – The level and nature of changes to the workbank and the timing of its delivery could exceed the management team's ability to manage within DEL limits and/or threaten efficiencies related to stable workbank and Early Contractor Involvement.



**Deltas between forecast and actual delivery** – That the route is able to improve its planning and delivery against plan such that the level of variance seen in year to date reports is managed out over the remaining periods.

**External factors** – External or exceptional factors such as severe weather, enhancement schemes or operational incidents could impact the route's delivery plans either to an extent or at a time in the year when it was unable to mitigate their effects.

**Management of overlays** – That the route is able to maintain a high level of accuracy and objectivity when setting and adjusting overlays to the forecasts made by responsible managers and their Delivery Agents.

### Leading Indicators

We have considered the route's position as reported in the Leading Indicator reports in the relevant sections above. We consider that the existing indicators are useful and should be maintained. However, we believe that the complexity and dynamic nature of the delivery environment means that the indicators should not be regarded as providing comprehensive assurance of route preparedness.

### Recommendations

The following recommendations are made to the route comprising:

- Recommendations presented in the Draft Report based on the route specific conclusions discussed above
- Changes arising from a cross-route consistency check that also apply to this route

### General improvements to renewals preparedness

**Recommendation R1** – The route should consider adopting a unified reporting and management system such as the IMS developed in LNW route. We understand that some consideration has already been given to this. Using a common tool to improve data quality, consistency and analysis can be expected to support future improvements in the delivery of renewals.



**Recommendation R2 – The route should undertake further work to improve the consistency and detail relating to change control so as to:**

- Implements a standard set of change categories to facilitate better analysis of the drivers of change
- Identify a benchmark for ‘normal acceptable’ levels of change in a renewals portfolio
- Identify and address the drivers of changes which have the potential to disrupt the efficient planning and delivery of the portfolio
- Learn lessons from changes introduced to improve delivery so that these can be better embedded in future plans

**Preparedness to deliver in year 1**

The findings and conclusions, discussed above, indicate a number of areas of risk to delivery in year 1 and we make the following recommendations:

**Recommendation R3 – The route should undertake further monitoring to provide assurance that the variances seen in year to date financial and volume performance against budget are managed out consistently to meet year end targets.**

**Recommendation R4 – The route should enhance the process to set and review overlays to ensure that RAMs and Delivery Agents have an appropriate level of input and full visibility of the adjustments made.**

**Recommendation R5 – The route should work with Network Rail centre to clarify whether funding will be available to cover potential over expenditure in the event that its overlays prove to be too conservative in the run-up to RF8. We think that improved clarity of this would assist managers in working to the required year end position.**

**Recommendation R6 – The route closely monitors, and informs ORR by exception, on the following strategic threats that are likely to be outside the tolerance of risks they can mitigate and therefore would impact on achievement of year 1 targeted levels of renewals:**

- Supply chain issues given the uncertain economic situation
- Impact of the completion of the IP transition into the routes, specifically IP Track
- Severe weather



## **Preparedness to deliver in year 2**

The findings and conclusions, discussed above, indicate a number of areas of specific risk to delivery in year 2 and we make the following recommendations:

**Recommendation R7 – The route should improve its monitoring of remit development and acceptance so that the overall position can be reported, analysed and managed accordingly.**

**Recommendation R8 – The route should improve its management information to provide a consistent collated picture of:**

- The design status of projects
- Progress in obtaining environmental and other consents
- The procurement status of projects (i.e. a tender event schedule)

**Recommendation R9 – The route closely monitors, and informs ORR by exception, on the following strategic threats that are likely to be outside the tolerance of risks they can mitigate and therefore would impact on achievement of year 2 targeted levels of renewals:**

- Continuation of supply chain issues given the uncertain economic situation
- Impact of changes arising from development activity on enhancement programmes approved through the enhancements governance
- Delays to awarding the remaining framework contracts needed to support CP6 works and any possible impact on unit rates and/or efficiencies of the awarded contracts

## **Leading and route progress Indicators**

We have recommended to Network Rail centre further enhancements to the Leading Indicators in our overall phase 2 review summary.

**Recommendation R10 – The route develops progress indicators for their own use in the following areas:**



### **Change control**

- Volume of change managed by the change control process for each asset group (this could supersede the workbank stability Leading Indicator).
- Analysis of change into a limited number of standard categories. Feedback from this may assist in differentiating between positive reasons for change (for example, to deliver efficiencies) and negative reasons (for example, slippage). Over time, this may assist in setting benchmarks for improved performance.

### **Deltas between forecast and actual delivery**

- An index of year to date performance against plan for each asset group expressed in terms of volume and expenditure. This would be intended to drive improvements in planning and to provide assurance of delivery within each year by demonstrating that performance is converging on the year end targets.

### **Management of Overlays**

- An index based on the level of delivery (and possibly other) overlays for each asset group relative to the forecast outturn. This should provide greater visibility of this aspect of financial reporting and would support comparison across the routes.
- Tracking the size of overlays over the financial year. This would provide assurance that overlays are reducing as forecasts are progressively being replaced by actual costs. This would focus on financial overlays but could also be extended to volume overlays.

Other ideas have been considered such as the number of projects which have started on site over each year (planned versus actual). Or tracking of key milestones within the IP planning system. Whilst these may have some value, they are likely to prove difficult to implement due to the diversity of records and databases which we have seen in our review.

**Recommendation R11 – With the appointment of a Regional Capital Programme Director, the opportunity is taken to review and improve the quality and consistency of management data across all Delivery Agents, for example, a dashboard report for the status of renewals programmes. Work to do this should be coordinated with the other recommendations in this report.**

In the meantime, it may be more practical for ORR staff to gain direct assurance about the status of delivery by receiving DRAM periodic PBR reports and attending regularly a sample of DRAM review meetings.





## 3. Efficiencies delivery assessment

### 3.1 Efficiencies preparedness assessment approach

#### Introduction

In March 2019, ORR confirmed its assessment that Network Rail was better prepared to deliver efficiency improvements in CP6 than it was at the start of CP5. Our Independent Reporter mandate was commissioned to further assess preparations and progress being made to deliver these plans at route level.

The mandate for the Reporter set out a high-level scope:

“The reporter should assess the preparedness of the route to deliver efficiency savings in the first two years of CP6. This should consider whether the routes have credible efficiency plans both in terms of the estimates of savings that will be achieved and plans for delivery.”

To assess the preparedness of a route to deliver efficiency savings, the Reporter took a similar approach to the renewals assessment and examined the reasonableness of the route's management system of planning, monitoring and controls of efficiency delivery. We interpreted reasonableness as meaning proportionate to the challenges and risks associated with efficiency delivery. We found in review phase 1 that efficiencies varied in terms of the scale of challenges and risks, therefore we concluded that a 'one size fits all' approach to an efficiency delivery management system should not be the expectation.

For simplicity, we sought to characterise efficiencies into a small number of categories to reflect different points on a scale of size of challenges and risks to delivery. We did this so that we could define our expectations of what is reasonable for each of the categories i.e. the further up the scale then our expectations of the efficiencies management system being higher.



## Efficiency delivery landscape

To explain this further, it is necessary to describe the landscape surrounding delivery of efficiency plans and some of the inherent challenges and risks.

As part of the Strategic Business Planning (SBP) process for CP6, each Network Rail route committed to efficiency savings. Network Rail centre provided a 'fishbone' framework of categories to provide consistency in the articulation of efficiency initiatives. The routes were responsible for forecasting cost savings from each initiative which were either derived as:

1. A 'top-down' estimate. Largely based on asset manager expert engineering adjustments to pre-efficient costs, which were the subject of financial analysis of workbanks, in some cases supported by external expertise and modelling. The estimates may also have been subject to discussion and agreement with the relevant Delivery Agents (IP or Works Delivery).
2. A 'plan-based' estimate. Derived from an early understanding of a delivery and change approach which may be supported by an outline plan and assumptions'.

'Top Down' estimates in the SBP efficiencies plan were therefore effectively 'initiative targets' to be developed subsequently with implementation plans. The initiative targets were then aggregated and apportioned as post-efficient cost targets:

- For capex, to asset groups, initiatives and then deliverer agents based on the amount of work (and work type) they planned for CP6. Delivery Agents subsequently and continue to assign post-efficient cost targets to projects.
- For operational expenditure (opex), where this estimating approach has been used the targets were allocated across departments/units in the organisation structure, which are then effectively the projects that will deliver the efficiencies.

The consequence of the top-down process is that responsibility for efficiency delivery planning moves to 'project level' and, with a very large number of projects to deliver at route level, it is inevitable that this brings additional challenges:

- Each project has to plan for how it will deliver its allocated post efficient savings target. That may require the project to implement multiple different efficiency initiatives, each requiring its own implementation plan i.e. the number of implementation plans required to deliver the original SBP 'initiative target' has multiplied.

In contrast to other efficiency initiatives where responsibility stays at a programme/deliverer/delivery unit level that will require one implementation plan to deliver one initiative.



- Efficiencies forecasts are developed at project level on an emergent basis as projects are developed.
- On-going reconciliation of project level emergent efficiency forecasts is required with the original 'top down' targets and fishbone categories, in order to reconcile against the Efficiency Tracker and provide assurance that efficiencies will be realised.

The risks to delivering the efficiencies plan are also greater due to:

- The responsibility for delivery of efficiencies has effectively been delegated and distributed across the routes Delivery Agents (IP or Works Delivery) and their project managers i.e. it is now dependent on more people to achieve.
- A project manager could now be responsible for embedding several efficiency initiatives to achieve their overall target cost savings i.e. their understanding and competence required has now also increased.
- The level of complexity of embedding an initiative into a project varies:
  - **'Simple'** – The efficiency initiative has already been enabled by others and there is minimal activity or change required to implement it in a project.
  - **'Not simple'** – The efficiency is still to be enabled by the team or others and requires explicit activity or change by the project to implement it, for example, 'challenge standards', 'change scope' is up to the Project Manager to deliver and enable.
- The efficiency forecasts emergent from developing project efficiency delivery plans may not aggregate up to achieve the overall efficiency targets.

### Efficiency Categories

Building on an understanding of the challenges and risks set out above, and for the purpose of setting out our expectations of a proportionate Efficiencies Management System, we have defined the following categories of initiatives:

- (A)** – Capex, minimal (or completed) enabling activity, for example, Contract Rate Reductions.
- (B)** – Capex, requires considerable enabling activity to implement in a project, for example, Possession Utilisation efficiencies.
- (C)** – Opex, minimal enabling and implementation activity, for example, SCO Rate Card efficiencies and Haulage.
- (D)** – Opex, requires considerable implementation effort, for example, Organisation Restructure.



## Efficiency Management System expectations

We see routes' Efficiency Management Systems as comprising attributes at three levels:

- 'Project level'. A project is the means by which efficiencies are realised. For example, savings achieved by an individual Oracle project.
- 'Initiative level'. Where changes necessary to realise efficiencies are designed, developed and change enabling outputs (enablers) are delivered. Projects use enablers to make their changes to realise efficiencies. For example, where an efficiency initiative can be applied to multiple projects such as Optimisation of Access.
- 'Portfolio level'. Where overview, coordination and assurance of multiple projects and initiatives happens.

Our expectation is that the level of planning and management at 'project level' and 'initiative level' is proportionate to the size of the challenge and risk associated with delivering efficiency targets. We defined efficiency categories A to D above to reflect varying levels of challenge and risk associated with different initiatives. In the following table, we have defined our expectations of planning and management features at both a 'project level' and 'initiative level' for each of the four categories A to D. Routes overall efficiency plans will comprise all four categories and therefore we have also defined our expectations of features at 'portfolio level' as common to all four categories. If an initiative is comprised of sub-initiatives, then the category can be applied at the lower level. When we are examining our samples of different efficiencies at a route, we will seek evidence of these features and that they are being used appropriately.

Efficiency Management System feature	Capex		Opex	
	(A) Low	(B) High	(C) Low	(D) High
<b>Project level:</b>				
1. Efficiencies delivery plan (note 1)	Minimal	YES	Minimal	YES
2. Efficiencies forecast documentation (note 2)	YES	YES	YES	YES
3. Post implementation review of actual efficiencies achieved (benefits realisation)	YES	YES	YES	YES
4. Change management plans (note 5)		YES		YES

5. Initiative delivery plans (note 3)	Minimal	YES		
6. Initiative forecast plans (note 4)	YES	YES		
7. Initiative change management plans (note 5)		YES		
<b>Portfolio level: (asset group, Delivery Agent, route)</b>				
8. Validation of emergent efficiencies with forecast targets (traceable to fishbone tracker line items)	YES	YES	YES	YES
9. Assurance function to assess project/initiative efficiency level delivery	YES	YES	YES	YES
10. Portfolio Management / Change Management support (note 6)	YES	YES	YES	YES

Table 16: Proportionate planning and management of efficiency delivery by initiative category

## Notes on the Table:

1. Efficiency delivery plan for each project, for every initiative should include (as a minimum):
  - Description of efficiency initiative (granular level of business change) and rationale
  - Description of how it will generate efficiency
  - Action plan/implementation plan with milestones and dates for enabling efficiencies
  - Identified risks with corresponding mitigations
2. Efficiency forecast documentation for each project. We would expect to contain forecast calculation with underpinning detail, record of assumptions, rationale and time phasing.
3. Efficiency enabler delivery plan. We would expect to see resources assigned, and should include (as a minimum):
  - Description of efficiency initiative (granular level of business change) and rationale
  - Description of how it will generate efficiency
  - Action plan/implementation plan with milestones and dates for enabling efficiencies
  - Identified risks with corresponding mitigations



4. Initiative forecast plan. We would expect to contain forecast calculation with underpinning detail, assumptions, rationale and time phasing.
5. Feature 7 is required to ensure that all the change management enablers are being delivered at the 'initiative level'. These enablers will be used at project level to underpin their change management plans, Feature 4. Where required, change plans should be supported with adequate resources to assist implementation.
6. Change management support for the project level to implement common changes across their portfolio, including owning and disseminating good practice, organising training and knowledge sharing.

### **3.2 Route review context**

Our review was undertaken during August to October 2019 and led for the route by its Route Financial Director, DRAM, Financial Controller and evidenced through meetings and documentation from RAMs (for capex efficiencies) and initiative owners (for opex efficiencies). For key reference forecast data, we reviewed the route's Period 4 2019/20 (RF4) efficiency forecast relative to the baseline efficiencies (RF11). The latter are intended to reflect the route's target for CP6 within the ORR's final determination. To assess the preparedness of the route to deliver efficiency savings in the first two years of CP6, the Reporter considered the route's latest opex and renewal (capex) efficiency plans. We reviewed the overall quality of these plans, whether the efficiency forecasts appear reasonable based on those plans, and whether they are consistent with the route's agreed allocation within the £3.1bn total of efficiencies within the ORR's final determination.

### **3.3 Assessment scope**

Our review focused on 'material efficiencies' as per the mandate and for consistency of our approach across all routes we adopted the sampling principles of selecting the:

- Top three unique capex initiatives from different asset groups by value for years 1 and 2.
- Top three opex efficiencies, including Intelligent Infrastructure and SCO where they existed, by value for years 1 and 2.

The following table shows the initiatives in our sample with the forecasts shown as at RF4 in year 1 of CP6. We have also referenced our efficiency categories, as described in section 3.1 of this report.

Type	Initiative	Asset / Delivery Group	£m						% of year 1 + 2 opex / capex
			FY20	FY21	FY22	FY23	FY24	CP6	
Capex	Development of Works Delivery Capabilities (Category B)	Structures	0.6	0.7	0.7	0.5	0.6	3.0	5%
Capex	Improved Contracting Strategies (Category A)	Signalling	0.4	2.5	1.2	0.7	0.5	5.4	11%
Capex	Stable Workbank (Category B)	Track	1.6	1.7	1.1	1.1	0.0	5.5	12%
Opex	Intelligent Infrastructure (Category D)	Maintenance	0.1	0.7	1.4	2.0	2.7	6.9	6%
Opex	Organisation Restructure (Category D)	Maintenance	2.3	3.4	2.7	2.1	1.2	11.6	40%
Opex	Fatigue Management (Category D)	Operations	0.6	0.6	0.6	0.7	0.7	3.2	9%

Table 17: Sample route efficiency forecasts at RF4

We have set out our findings using the structure from the mandate:

- a. Quality of the description of business change and how it will generate efficiency
- b. Calculation of the forecast efficiency
- c. Arrangements for monitoring progress in implementing business changes
- d. Approach to risk identification and management
- e. Identification and documentation of limitations in forecasting and lessons learnt in efficiency plans



## a. Quality of the description of business change and how it will generate efficiency

In assessing the quality of business change descriptions, we took into consideration the proportionality principle recognising that some initiatives rely on business change to realise efficiencies and others do not. For example, a new contract framework (Category A) has minimal reliance on business change compared with implementing new maintenance technology and associated work practices (Category D). However, our review still sought evidence of documentation for all initiatives as to how each will generate efficiencies and what actions are required to enable and release efficiency benefits.

**The opex and capex samples reviewed included good quality descriptions of business change and how they will generate efficiencies.** The route has plan-on-a-page (POAP) templates that it uses to document initiative descriptions and milestone actions to generate efficiencies. Of the sample efficiencies reviewed, these templates were consistently well documented. The route reviews and updates POAPs on a quarterly basis, aligned with the rolling forecast process, and revises initiative descriptions as required to reflect any rescoping of the business change.

Descriptions of the sample initiatives reviewed include:

- **Structures Development of Delivery Works Capabilities (Category B).** This initiative is a good example of business change that delivers efficiencies through the increased use of Planned Preventative Maintenance (PPM) work gangs and through reduced project management overheads achieved by using Works Delivery (rather than IP) with lower rates. The initiative clearly describes how efficiencies should be achieved, however it is currently underperforming against the forecast target. This is attributed to a lack of supporting metrics to better utilise Works Delivery resources and the route is now seeking to establish better management tools to monitor and optimise this initiative. This is discussed further in section (d) of this report.
- **Organisational Restructure (Category D).** This initiative represents all planned organisational changes in the route for CP6. This documentation shows the timing of scheduled headcount increases and reductions, which makes the line of sight between the business change, forecast calculation and yearly benefits profile easy to trace. The route has grouped all organisational changes into the single centrally reported fishbone line item, which simplifies alignment for finance and HR planning.
- **Fatigue management (Category D).** The Fatigue Management initiative generates £3.1m CP6 efficiencies through reduced overtime costs achieved through optimised resource rostering. The efficiency when viewed in isolation could be considered an anomaly in that it relies on a significant £6.3m CP6 headwind for increased staff, which is required to support the change to national rostering standards that are designed to reduce fatigue.





## b. Calculation of the forecast efficiency

We assessed the calculation of forecast efficiencies for our sample of initiatives, including the definition and justification of inputs to estimates, assumptions, methods and, where appropriate, the consistency of these with the approach agreed by Network Rail's cost benefit working group. Consideration of the uncertainty and risk within these forecasts and their delivery is covered in section (d) on 'approach to risk identification and management'.

As discussed earlier the responsibility for forecasting efficiencies is undertaken at 'project level' on a project by project basis where the SBP efficiency was derived 'top down' and at 'initiative level' if it was 'plan based'.

**The route and the deliverers have jointly agreed capex forecasts, however some forecast assumptions made at the time of the SBP have not been realised.** High-level estimates were used for capex forecasts at the time of the SBP/RF11 baseline and the route continues to validate forecasts at each quarterly rolling forecast. Assumptions made at the time of the SBP forecasts appear reasonable. However, there are two capex examples where assumptions have not been achieved:

- **Structures Development of Works Delivery Capabilities.** The forecast assumed that Works Delivery's project management overhead cost would be 8%, compared with IP's higher overhead rate of 12%. In practice however, Works Delivery's overhead in year 1 is approximately 11% and resulting in lower realised savings. Treatment of this shortfall is discussed further in section (d).
- **Signalling's Improved contracting strategies.** This initiative assumed that a national framework contract would be introduced by 1 April 2019. However, the awarding of this contract was delayed and will not be in effect until May 2020, impacting Year 1 benefits (discussed further in section (d)).

**The route has clearly documented opex forecast calculations that have been validated by central teams where appropriate.** Of the opex sample initiatives reviewed, the route produced documentation that clearly shows inputs, assumptions and method of calculation. The route has advised that where applicable, assumptions and methods of calculations have been validated by relevant central teams. For example, at the time of the SBP the route developed its own Intelligent Infrastructure forecast model (prior to the central calculator being developed) and has used more detailed section manager level (rather than route level) activity-based planning (ABP) input data. This approach and model have been endorsed by the central Intelligent Infrastructure Programme.

**At RF4 the Organisation Restructure forecast had an unintended error in the Year 2 forecast, which has since been corrected.** Calculations provided for the Organisational Restructure for Year 2 total to £2.7m rather than £3.4m. The route has advised this was a forecasting phasing error, which inadvertently formed the RF11 £3.4m year 2 baseline. However, the route has since corrected this at Period 6.



### c. Arrangements for monitoring progress in implementing business changes

We assessed the arrangements for monitoring progress in implementing efficiency plans at 'project level' and also delivery of business change enablers at 'initiative level', to consider if there is clearly documented evidence of appropriate governance and oversight. Our focus was not on monitoring progress in achieving efficiency savings targets.

**Both opex and capex have established efficiency programme governance with supporting project documentation and processes.** The route has clearly defined roles and responsibilities for the planning, delivery, monitoring and assurance of efficiencies. Governance meetings for opex efficiencies include periodic; Budget Holder Review meetings, Joint Efficiency Review panels and deep dive sessions (with the Change Management Office attending); and High-level Reporting Review meetings. Capex governance meetings are tied to RAM delivery meetings that cover efficiencies and include; Investment Panels, periodic Change Control meetings, RAM PBRs; and the Quarterly Efficiency Board. Assurance and oversight of both opex and capex efficiencies is provided by the Management Team Meeting (MTM) that is attended by the route's leadership team. Week two of the MTM meeting cycle focuses on efficiency delivery and week three focuses on strategic planning including efficiencies. Meetings are supported by appropriate project documentation that includes POAPs, efficiency trackers, risk registers and action logs.

**The route has implemented a two-fold approach to monitoring capex efficiencies.** To monitor the financial delivery of efficiencies the route has developed a tool that calculates the variance of each capex efficiency initiative for all assets (as per the centrally reported fishbone items). The tool then RAG (Red, Amber, Green) scores each initiative based on the degree of negative variance to the forecast target. Although this is lagging indicator, it does provide a quick and impartial flag to help identify underperforming initiatives.

In addition to financial monitoring, the route monitors the implementation of enabling actions to achieve capex efficiencies at a portfolio level. This is done through a readiness assessment of the route's ten largest renewals projects (two per asset group). The assessment RAG scores each project against fourteen readiness factors that are aligned to the centrally reported fishbone categories (Access, Commercial, Delivery, Design, Technology and Workbank Planning). The assessment is intended to provide some assurance that RAM teams and deliverers are planning and monitoring actions required to deliver their efficiency initiatives. We consider this approach a positive innovation by the route to proactively monitor the implementation of capex efficiencies and has the opportunity to be further enhanced.

**There is evidence of detailed implementation plans and monitoring for opex initiatives, however further planning is required to assure Intelligent Infrastructure's delivery in year 2.**



Opex initiative examples of monitoring progress in implementing business changes include:

- **Organisation Restructure (Category D).** The HR team actively manages a Positive Management Action tracker that shows a detailed forward plan of all organisational changes and timings. The tracker provides a clear line of sight between implementation dates and benefits realisation.
- **Fatigue Management (Category D).** As noted in section (a), implementation of the Fatigue Management initiative is based on the recruitment and training of staff. Given the complexity of sequencing, associated with the process of cascaded recruitment (starting with recruiting the most senior positions first), a detailed schedule has been developed that includes staff consultation, training and rostering considerations. The project team have also developed a roles and responsibilities RACI (Responsible, Accountable, Consulted, Informed) matrix to assist the co-ordination of project implementation. This is particularly important given degree of staff and union consultation required.
- **Intelligent Infrastructure (Category D).** The route currently has no schedule of actions documented to monitor that the project is progressing at a rate sufficient to realise the year 2 forecast. The route intends to engage Works Delivery to project manage the implementation, and at which point a detailed project plan will be developed. However, this work cannot be remitted to Works Delivery until the route has secured funding from the central Intelligent Infrastructure Programme and funding can only occur after the route finalises and submits its investment paper. The development of a set of critical milestones dates would assist the route assure itself whether the implementation timeline is within range of the target forecast profile.

#### d. Approach to risk identification and management

We looked for evidence of the route's approach to the identification and management of risks to its efficiencies plans, including its assessment of uncertainty in forecast savings.

**The route showed evidence of a clearly defined risk management system and process of escalation from a project level through to a route/portfolio level for both opex and capex initiatives.** Efficiency project management teams record efficiencies risks in the Active Risk Management (ARM) log with mitigation actions and assigned owners. ARM risks are then linked to the efficiency tracker that provides good traceability across project documentation. In addition, current risks and mitigation actions are updated and reported periodically through POAP templates. Where necessary, risks are escalated at the Efficiency Governance Board where actions are tracked and then escalated further to the MTM if senior management intervention is required. The route records route level risks related to CP6 efficiencies within the Enterprise Risk Management system.



**Of the sampled initiatives reviewed there are a number of year 1 and 2 forecasts at risk, which the route is addressing.** Forecast risks noted include:

- **Signalling's Improved Contracting Strategies.** Delays in the finalising the national MsSREF signalling framework has put risk on the year 1 forecast, with the route reporting ~25% below forecast at RF4. To mitigate shortfalls, IP Signalling have been packaging contracts to achieve alternate efficiencies in an attempt to hold to budgeted post-efficient prices. The route advises that it will review the initiative's forecast at RF8 and potentially reduce the forecast if required whilst offsetting any forecast reduction with increased forecasts of other, better performing, efficiencies within the capex.
- **Structures Development of Works Delivery Capabilities.** As discussed in section (b), the project management overhead rates of Works Delivery are higher than assumed for the forecast, which has put the forecast at risk. The RAM team has identified a number of mitigating actions aimed to improve engagement between the route and Works Delivery as well as to improve the quality of information available to better plan and manage resources to maximise efficiencies. The route continues to monitor this risk and will review the forecast further at RF8.
- **Fatigue Management.** The process of recruitment within Network Rail that supports the promotion of internal staff, extends the time to recruit considerably and is impacting this initiative. In addition, there is national shortage of training facilities, which will further delay the implementation of new rosters required to achieve forecast benefits. Currently, the route is behind schedule to recruit and train the twenty-six staff required for the initiative. However, the route continues to RAG score this initiative as green, as financially the route is better off due to the delayed headwind of additional staff costs. The route has advised it will adjust both the headwind and efficiency at RF8 for year 1 and at RF11 for year 2 to better align the forecast with the revised implementation timeline.
- **Intelligent Infrastructure.** As discussed in section (c), there is risk to the year 2 forecast as a detailed programme and benefits profile is still to be developed. The route has advised it will review the year 2 forecast at RF8 with a further review on progress at RF11.



## e. Identification/documentation of limitations in efficiency forecasts and lessons learnt in efficiency plans

### Forecast limitations

During our discussions with the route, we noted the following examples of limitations to their approach to forecasting efficiencies:

- **Signalling's Improved Contracting Strategies.** The route noted that this initiative's forecast only assumes the upside associated with a national signalling contract. However, there may be inefficiencies (or headwinds) associated with this initiative in the event that the nominated contractor is a different supplier of signalling equipment and results in retraining costs of maintenance workers. Likewise, if the selected contractor does not have the capability required for Wales' CP6 planned work types, this may lead to the route contracting outside of the national agreement and therefore not achieving the assumed initiative benefits.
- **Fatigue Management.** The route is reporting centrally the cost of the additional staff required for this initiative as a headwind, with the overtime savings reported as an efficiency. The other way this initiative could be reported is by offsetting the efficiency against the headwind and reporting a smaller net-headwind. However, whatever way this initiative is reported is of less importance than understanding that both the efficiency and headwind need to be considered together and that the efficiency can only be enabled through the recruitment of more staff and consequently incur greater costs.

### Lessons learnt incorporated into efficiency plans

The route has noted the following examples of lessons learnt that have been incorporated into their efficiency planning:

- **Structure's Development of Works Delivery Capabilities.** In CP5, the route noted the efficiencies that could be achieved through PPM gangs provided they could develop a steady pipeline of work to maximise their utilisation. From this learning, the route has increased its minor works budget by 50% in CP6 to allocate the gangs more work and generate greater efficiencies.
- **Impartial RAG scores.** The route's Special Projects team has developed a capex variance monitoring tool. The tool derives a RAG score based upon the size of the variance between forecast target and actual benefits achieved. The route has noted that having the RAG score based on a formula, rather than professional judgement, provides consistency in reporting and removes the potential for optimism bias that could influence RAG scores and associated management attention.



## Conclusions and recommendations

This section draws together our conclusions from our review of efficiencies at Wales route and provides recommendations for ORR and Network Rail to consider. We have structured this section under the headings in the Reporter's mandate:

- Quality of efficiency plans
- Reasonableness of savings forecasts, based on efficiency plans
- Consistency of total efficiencies with final determination

### Quality of efficiency plans

We defined our expectations of planning within the context of an overall Efficiencies Management System which is described in our assessment methodology at the start of this section. In answering this question, we have sought to consider proportionately and seek evidence of quality in efficiency planning where we believe it is most needed, for example, in our categorisation of efficiencies it is Category B (capex) and D (opex).

**The overall quality of efficiency plans is good, however there are still areas for improvement.** The route has well-established project documentation, programme governance, risk management and reporting of efficiencies that appears to have matured since development of the SBP. Wales showed good evidence of project milestones and risk mitigation actions documentation. However, there was less evidence that initiatives were being managed to a planned schedule of dates that align to forecast efficiency targets. To enhance the planning and monitoring of efficiencies implementation further, the route could improve the clarity of project milestones dates and associated progress reporting against implementation schedules. As an example, noted previously, the route could assure itself further of the Intelligent Infrastructure forecast by developing a critical path of milestones required to achieve year 2 delivery. We suggest that milestones monitored should include the key actions required to engage Works Delivery.

**Recommendation E1 – The route should enhance its milestone planning and monitoring of enabling and implementation actions to deliver capex efficiencies. This should be a scalable solution, allowing for different degrees of project complexity (Category A to B). Western's Quad spreadsheets provide a good example of such a solution, with milestones captured at an asset and initiative level then consolidated to provide portfolio and/or route level reporting.**

**Dedicated resources (Change Management and Special Project teams) for both capex and opex efficiencies provide a portfolio approach to efficiencies that emphasise efficiency delivery across the route.** For CP6, the routes have ownership of their efficiency forecast targets and the accountability to plan



and delivery to these targets. This has created the need for the routes to develop their business planning capability and the systems and process they use to manage their efficiencies. Wales has responded to this need by employing dedicated teams to support the development of an efficiency's portfolio (for both opex and capex) and improve the quality of efficiency planning, monitoring and delivery. We understand Wales' efficiency management was slow to mobilise after setting the SBP and RF11 baseline, however we have seen evidence that the route has been making good progress in more recent periods. We also observed in Wales, that there appears to be a joined-up approach to efficiencies management between RAM teams and deliverers. We consider this to be critical, given the 'accountable-responsible' nature of the working relationship between the route (accountable) and Delivery Agents (responsible) associated with delivering efficiencies.

**The route is developing its approach to monitoring of capex efficiencies, which could be further enhanced.** The route's innovative Project Level Assurance approach of assessing its top ten renewals progress is an example of good practice. The approach is innovative as it is one of the few examples we have seen that seeks to develop a systematic approach to proactively plan and monitor enabling and implementation actions required to deliver capex efficiencies (we cite IP Signalling's EPOP process as another example). We believe that this approach could be further enhanced and have recommended potential improvements for consideration.

**Recommendation E2 – That the route considers the following enhancements to its Project Level Assurance approach:**

- a. Extend the readiness assessment factors to include additional, initiative specific, custom factors that are the key actions required to enable and implement a given initiative.
- b. Add a timing dimension to indicate when a project should have progressed and completed a given readiness assessment factor. This would support both the forward planning of activities as well as monitoring overdue actions.
- c. Add additional projects to the sample at each period/quarter when significant projects are due to commence. Likewise, sample projects should continue to be monitored periodically until any outstanding assessment areas are complete.

Seek opportunities, working with Delivery Agents, to embed efficiency enabling and implementation actions into their standard project delivery processes.



### **Reasonableness of savings forecasts based on efficiency plans**

**The route is still validating that it can achieve capex forecasts, but this appears to be maturing.** At the time of developing forecasts for the SBP/RF11 baseline the use of high-level estimates and associated assumptions are considered reasonable. However, two of the three capex sample efficiencies we reviewed had assumptions that were not being realised in order to achieve year 1 forecasts. The route is taking corrective action to review and revise these forecasts as part of the rolling forecast process at RF8 and RF11, and learnings from year 1 should provide better assumptions for which to base year 2 forecasts.

**Opex efficiencies provide better line of sight between implementation plans and forecasts but still may result in changes.** Due to the nature of opex efficiencies it is generally simpler to see the relationship between project-level milestones, initiative-level forecast assumptions and the timing of when benefits will be achieved than it is for capex efficiencies. The Wales opex forecasts reviewed did provide good line of sight, however each sample reviewed had factors that will likely, or has, resulted in change to year 1 and 2 forecasts. Similar to capex efficiencies, as planning progresses into the Control Period the route will be in a better position to refine its forecasts with review and revision at RF8 for year 1 and at RF11 for year 2 forecasts.

**Recommendation E3 – The route should continue to refine the documentation of efficiency forecasts. In particular, the route should ensure that a clear record of assumptions is defined of the key items that influence the efficiency forecast as well as their associated timings to release benefits. This will assist risk monitoring and mitigation action planning of efficiencies.**



### Consistency of total efficiencies with final determination

The opex and capex efficiency plans have been refined since the start of CP6 and initiative line items within the centrally reported fishbone trackers have been adjusted accordingly. As shown in the table below, as at RF4 the total CP6 route efficiencies have increased by 3% since the RF11 baseline. This includes an increase of £3.4m in capex efficiencies gained through additional efficiencies achieved by track, structures and drainage RAM teams in year 1. Opex efficiency forecasts have increased by £0.8m overall, evenly spread over the Control Period from years 2 to 4. This increased forecast is associated with efficiencies assumed through reducing costs of public liability claims, to be achieved by the route's proactive treatment of Japanese Knotweed.

	FY20	FY21	FY22	FY23	FY24	CP6
<b>RF11 £m</b>	<b>15.2</b>	<b>26.0</b>	<b>35.6</b>	<b>33.8</b>	<b>28.2</b>	<b>138.8</b>
Capex	9.4	17.7	26.7	23.3	17.2	94.3
Opex	5.8	8.3	8.8	10.5	11.0	44.4
<b>RF4 £m</b>	<b>18.5</b>	<b>26.2</b>	<b>35.8</b>	<b>34.0</b>	<b>28.4</b>	<b>142.9</b>
Capex	12.8	17.7	26.7	23.3	17.2	97.7
Opex	5.7	8.5	9.0	10.7	11.2	45.2
<b>% Change</b>	<b>22%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>3%</b>
Capex	36%	0%	0%	0%	0%	4%
Opex	0%	2%	2%	2%	2%	2%
<b>RF4 Yearly Profile</b>	<b>13%</b>	<b>18%</b>	<b>25%</b>	<b>24%</b>	<b>20%</b>	<b>100%</b>
Capex	13%	18%	27%	24%	18%	100%
Opex	13%	19%	20%	24%	25%	100%

Table 18: Total route efficiency targets – RF11 baseline and Period 4



## Summary

We have provided below a summary of the routes preparedness to deliver its efficiency plans against headings requested at the mandate Steering Group.

## Programme

Wales are establishing a portfolio approach with structured project management materials for both capex and opex efficiencies. The route's Special Project team support of capex efficiencies has made a notable difference to the quality of project definition and monitoring of progress (with progress also evident in opex projects). The team's capex variance reporting approach and assurance of top ten projects is good practice. There are some milestones planned and monitored, however this could be improved particularly for capex efficiencies (with a good example seen in the opex sample of efficiencies).

Overall the route's planning and delivery of efficiencies is maturing but it is still to be well-established. Proper planning and management of actual business change and/or improvement will be increasingly important in future years when stretch targets apply.

## Forecasts

There is reasonable line of sight between calculations reviewed and forecasts reported centrally. Capex forecasts are generally top-down estimates with further work required to validate targets bottom-up, to provide more certainty that forecasts can be achieved. There was good detail seen in bottom-up opex calculations. However, we note the route has some efficiencies in the sample that are at risk and may need to be reforecast down in RF8 and with shortfalls offset through alternate efficiencies.

## Documentation

The route's POAP documentation is of a consistently high standard. There is evidence of good tracking of initiative forecasts between each rolling forecast cycle and key programme documents are updated as initiatives progress. The route also presented good risk management processes and documentation. The main areas related to documentation for the route to improve is the definition and tracking of enabling and implementation actions, as well as, maintaining clear records of assumptions of forecast calculations, particularly for capex initiatives.

