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CP7 Efficiency Planning

Final Report

14 October 2024

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Executive summary

Executive summary (1)

Network Rail has targeted almost £3.9bn¹ of efficiencies for Control Period 7 (CP7, 2024/25 to 2029/30). The Office of Rail and Road (ORR) and Network Rail jointly commissioned Nichols to undertake an independent assessment of Network Rail's preparedness to deliver its efficiency plans in the first two years of CP7 (FY25 and FY26).

Our review considered a sample of high value efficiency initiatives within the Eastern, North West & Central, Scotland, Southern and Wales & Western regions, as well as initiatives developed centrally by Network Rail Route Services Directorate (RSD) and Technical Authority (TA). The review represented a snap-shot position in August 2024. It entailed interviews across Network Rail's teams and consideration of relevant documentary evidence.

Our review considered:

- The alignment of region and functional efficiencies to ORR's final determination.
- The overall quality of efficiency plans, including the:
 - Explanations of business changes that will result in efficiency savings.
 - Inputs and assumptions around calculations.
 - Risk management process.
 - Assurance process.
 - Application of lessons learned from Control Period 6.
- The risks to the initiatives and the plans for mitigating them.
- Whether overall, the regional efficiency forecast is reasonable, based on those plans.

Note 1: £3.9bn is in nominal cash prices, which is equivalent to the £3.7bn stated within the final determination at 2023/24 prices.

Executive summary (2)

Alignment. Network Rail efficiencies are detailed within its ‘fishbone tracker’ that sets out the typology, value and maturity of all efficiencies it proposes to deliver. The Period 4 (July 2024) fishbone tracker, which is used for regular reporting, demonstrates that there is clear alignment of regional and national function efficiencies to regional delivery plans and that these, in aggregate, fully align to the CP7 efficiencies target stated in the ORR’s final determination.

Business change. The extent and quality of documentation on business change is variable across initiatives sampled. This variability correlated with initiative maturity, with better information for more mature initiatives, although initiative owners were often able to set out a better understanding than documents indicate. We consider that there needs to be more emphasis on documenting actions needed to enable business changes.

Calculations. Detail on efficiency calculation details, assumptions and calculation methodologies varied across regions and initiatives. While some variation is to be expected, notably for early-stage and complex plans, it was sometimes difficult to establish a clear ‘line of sight’ from pre-efficient baselines to post-efficient targets. This may make some initiative targets hard to assure. We also found inconsistency in the application of inflation to efficiency calculations although, for the sample we considered, this is not expected to be a major item in terms of value.

Risk management. A key risk management tool applied by regions is ‘overplanning’ their efficiency portfolio by targeting greater efficiency than required to meet targets to anticipate change if less mature initiatives are delayed, cancelled or result in lower savings. The size of this overplan varies between regions. All regions then use ‘overlays’ to reduce (risk adjust) forecasts. This acknowledges that it is early in the Control Period, therefore many of the initiatives are at a low level of maturity. While overlays are an appropriate technique, it makes performance reporting unclear, as the numbers currently stated as a ‘forecast’ net efficiency (after overlay adjustment) are (in four of five regions) the delivery plan ‘target’. Network Rail has acknowledged this point and is expecting to release this constraint on forecasts after and in the light of its ongoing initial assurance process.

Assurance. We found good evidence of robust continuous assurance processes within each region and at Network Rail group-level. Assurance of plans and scrutiny of pre-efficient baselines and post-efficient targets, was initiated early in FY25. This initial assurance phase is anticipated to be completed in September for Rolling Forecast 6 (RF6) or in December for Rolling Forecast 9 (RF9), depending on the region. While this is a positive intervention, this means that efficiency forecasts for FY25 and FY26 are not yet stable.

Executive summary (3)

Lessons learned. We observed that the overall framework for managing and reporting efficiencies within Network Rail is more mature than it was at the equivalent point in CP6, with evidence of a strong culture and focus on efficiencies within ‘business as usual’ activity. We also heard a good articulation of knowledge sharing and lessons learnt from CP6 during interviews, and how they have been accounted for in CP7 plans. Building on this, there is evidence of sharing of good practice and data via cross-region discussions, although there is opportunity to strengthen documentation of this learning.

Risks to initiatives. We found variable levels of detail in documentary evidence of risks to initiatives and mitigation plans to address these risks, although typically with evidence of better information for larger and more mature initiatives and for those that are a specific regional project. We consider that efficiency initiatives would benefit from greater detail on risks and their mitigation.

Whether overall, the regional efficiency forecast is reasonable

Our sample of efficiency initiatives, based on their forecast value in FY25 and FY26, covered a broad portfolio of ‘new for CP7’ solutions that are set out in Network Rail’s National Efficiency Plan. This includes initiatives related to: rail industry reform (notably ‘modernising maintenance’); improved access work undertaken on the network; new commercial and procurement models with the supply chain; efficient workbank clienting, design development and capital delivery and; nationally enabled plans related to new technology, innovation and application of standards.

We found that almost 80% of the initiatives that we sampled were already relatively mature in development terms. Two thirds of the sample we assessed as having a ‘high’ level of confidence of delivery, based on documentary evidence reviewed and via interviews with Network Rail’s teams.

Whilst the initial assurance phase is still ongoing, there remains inherent uncertainty and instability in the efficiency forecasts for years 1 and 2 of CP7. However, we consider that the current scale of the overplan of the efficiency portfolio provides a substantial buffer to any under-delivery. This overplan is a key factor that provides confidence that the forecast for FY25 and FY26 is reasonable based on current plans.

Notwithstanding this, the approach to and scale of overplanning varies across the regions and central functions. The overplan typically comprises a large number of early-stage initiatives, so there is some inherent uncertainty on the scale of efficiency that may be realised in future. We conclude that there is an opportunity for Network Rail regions to apply greater effort on these less mature plans now, early in CP7, in order to meet or even outperform early years targets, drive implementation of business changes that enable and unlock efficiency benefits, de-risk delivery and, to mitigate the effect of potential future financial headwinds.

Executive summary (4)

Recommendations

While our overall assessment of efficiency planning for years 1 and 2 of CP7 is broadly positive, we have set out a number of recommendations in our main report on areas to strengthen or that represent opportunities for greater efficiency delivery. These recommendations relate to:

- Early completion and reporting of the results of the initial regional level assurance process phase that was underway at the time of our review, accompanied by additional group guidance on efficiency calculations.
- Greater focus on the documentation of the positive management actions on business change and on the mitigation of initiative delivery risks (linked to the opportunity to target less mature plans early in CP7 to de-risk delivery and given challenging efficiency targets in later years of CP7).
- Guidance enabling greater consistency in the approach to the application of overlays, supported by suitable analytical techniques that align to the efficiency reporting regime already in place.
- Documented details on efficiency actualisation after completion of enabling activities for initiatives, to assess whether and how benefits are realised.
- A rapid review to understand and address the lower level of regional confidence in efficiency plans and calculated benefits for Route Services Directorate enabled initiatives that are then handed over to and delivered by the regions.
- Strengthening of knowledge management processes to support learning and sharing good practice across the devolved regional structure.

Executive summary (5)

Wider context

Network Rail has a challenging overall efficiency target to deliver in CP7. Our remit was to assess Network Rail’s preparedness to deliver its efficiencies plans in years 1 and 2 of CP7, which comprises almost one quarter of its total target for CP7. The review did not assess plans for years 3, 4 and 5 of CP7, which represent the majority of Network Rail’s total target.

In assessing efficiency plans, we looked at efficiencies (scope and cost) and inefficiencies. We did not consider other cost drivers which sit within the wider landscape of Network Rail’s ‘Fishbone Framework’, including headwinds, tailwinds, scope changes and input prices.

We recognise, however, that the UK rail sector continues to face a challenging environment, with evident cost pressures and risks, and potential for future instability and change. These factors are inherently difficult to predict and plan for. This accentuates the need for a concerted and proactive focus on early year efficiency initiative enabling activity, to meet and even outperform early CP7 targets and therefore de-risk delivery in later years.

We also acknowledge that Network Rail, with ORR engagement, will need to address such external impacts if/as they arise during CP7, to ensure that the business overall is continuing to do the right things, and apply change control if any course-corrections on efficiency plans are required.



Wider ‘Fishbone Framework’ context (illustrative)



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Introduction

Introduction (1)

Network Rail has targeted almost £3.9bn¹ of efficiencies for Control Period 7 (CP7, 2024/25 to 2029/30), comprising 15% efficiency on renewals (capex efficiencies) and 10% on operating expenditure (opex efficiencies) by the end of the Control Period.

To assure that Network Rail is well prepared to deliver its efficiency plan and meet its efficiency target for CP7, ORR and Network Rail are seeking to understand the current state of efficiency plans, using FY25 and FY26 as a gauge.

An Independent Reporter review by Nichols was jointly commissioned by the ORR and Network Rail in June 2024 to provide an independent assessment of Network Rail's preparedness to deliver efficiency plans in the first two years of CP7.

As part of the review, Nichols have undertaken data analysis of Network Rail's Period 4 efficiency fishbone tracker and reporting packs, and held interviews with each of the regions, RSD, TA and group, with a view to understanding the overarching approach to efficiencies and undertaking a review of sampled efficiency initiatives.

This report comprises Nichols final report.

Acknowledgement

We would like to thank the Network Rail teams for their input, documentary evidence and clarity of discussions. We would also like to highlight the openness and transparency across all teams in interviews.

Note 1: £3.9bn is in nominal cash prices, which is equivalent to the £3.7bn stated within the final determination at 2023/24 prices.

Introduction (2)

Scope of review

Our review considered the following:

- The alignment of region and functional efficiencies to the £3.9bn of efficiencies stated in the final determination.
- The overall quality of efficiency plans, including:
 - Explanations of business changes that will result in efficiency savings.
 - Inputs and assumptions around calculations.
 - Risk management process.
 - Assurance process.
 - Application of lessons learned from CP6.
- The risks to the initiatives and the plans for mitigating them.
- Whether overall, the regional efficiency forecast is reasonable, based on those plans.

Structure of report

Our Findings, Conclusions and Recommendations are set out in the sections which follow, supported by a region-by-region assessment at Annex A, aggregate efficiency data at Annex B, high-level comparison with CP6 themes in Annexes C and D, and a list of abbreviations in Annex E.

Introduction (3)

Methodology

We undertook a sample-based review, as per the ORR and Network Rail remit, with the sample selected on the basis of the following criteria:

- High value initiatives in terms of contribution to year 1 and 2 efficiency targets.
- Mix of Blue-Red-Amber-Green (BRAG) categories.
- Mix of asset groups.
- Include national function-led initiatives.

Our evidence-based considered:

- Group process and policy documents, and efficiency data.
- Regional and national function initiative documents.
- Group, region and national function interviews and follow-up clarifications.

Introduction (4)

The review considered the following assessment criteria:

Network Rail BRAG assessment

Definitions:

| Rating | Description |
|--------|---|
| Blue | Enabling activity has been delivered; i.e. milestones have been hit and are waiting for the benefits to be realised |
| Green | Enabling activity is in place with delivery plan and milestones, and the business is confident in delivery |
| Amber | Strategic theme assigned but no plan in place, or a plan is in place with low confidence of delivery |
| Red | Commitment to save, no strategic theme assigned or plan in place to deliver |

Our confidence assessment

Based on evidence of maturity and robustness of national function or regional efficiency data, regional approach to efficiency and sample initiatives.

| Rating | Description |
|--------|--|
| ●●● | High – e.g. evidence of good quality documentation/information with no areas of concern |
| ●● | Medium – e.g. reasonable quality documentation though with gaps or areas for improvement |
| ● | Low – e.g. limited or missing information |



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Findings

Introduction to findings

Our Findings are set out in the following slides, and cover the following:

- Alignment of efficiencies to the final determination
- Explanations of business changes that will result in efficiency savings
- Inputs and assumptions around calculations
- Risk management process
- Assurance process
- Application of lessons learned from CP6
- Risks to the initiatives and the plans for mitigating them
- Good practice within efficiency initiatives
- Good practice in the management of efficiency initiatives
- National function efficiency initiatives
- Efficiencies reporting

Findings (1)

Alignment of efficiencies to the final determination

The P04 fishbone tracker (July 2024) demonstrates that there is clear alignment of regional and functional efficiencies to regional delivery plans and that these, in aggregate, align to the £3.9bn of efficiencies stated in the ORR's final determination.

The contribution the regions and functions make to this target are illustrated in summary graphs in Annex A.

At initiative level, we found some examples of documentary evidence in 'Savings on a Page' (SOAP), 'Plans on a Page' (POAP) and 'BRAG packs' not fully aligning with the efficiency forecast figures and profiles set out in the fishbone tracker. This was due to ongoing internal assurance activity to review and verify pre-efficient baselines and post-efficient forecasts, and the timing between fishbone tracker updates. The initial assurance process will take time to complete, and regions are anticipating any changes required will be reflected in their RF6 (September 2024) and/or RF9 (December 2024) fishbone tracker submissions. See Findings (5) on assurance.

Whilst the initial regional-level assurance phase is ongoing, Network Rail's current efficiencies plans within the fishbone tracker are aligned to ORR's final determination published in 2023.

Note 1: £3.9bn is in nominal cash prices, which is equivalent to the £3.7bn stated within the final determination at 2023/24 prices.

Note 2: Documentary evidence to support individual initiatives was presented, in the main, via 'Savings on a Page', 'Plans on a Page' and 'BRAG packs'.

Findings (2)

Explanations of business changes that will result in efficiency savings

Detailed guidance and a support network is provided at Network Rail group-level. There is a good and consistent categorisation of sampled efficiency initiatives in all regions in line with Network Rail Group's guidance.

We found that documentation on business change at an initiative level was variable, with both good examples as well as those with less information set out. As a general rule, we found that this variability correlated with initiative 'BRAG' stage; i.e. more mature information for 'Blue' and 'Green' initiatives and, as would reasonably be expected, less mature for early-stage 'Amber' initiatives.

We also found many examples where the 'voice-over' provided by initiative owners during interviews was more articulate and positive as evidence of the understanding of business changes and preparedness for these than the fishbone tracker and POAPs would suggest. This was the case in both Scotland and Wales and Western regions.

Generally, efficiency initiatives would benefit from a review to consider providing greater detail to articulate the positive management action that will enable to business change that drives the efficiency value.

Findings (3)

Inputs and assumptions around calculations

Calculation methodologies, how these calculations are set out, the approach to establishing pre-efficient baselines and the level of detail presented all vary across the regions and initiatives. While some degree of variation is to be expected, it was sometimes difficult to establish a clear 'line of sight' from initiative first principles and pre-efficient value, to scope of business change activity, to calculation assumptions through to the forecast numbers. This may make initiative targets hard to assure, and subsequently, hard to demonstrate the efficiency has been 'banked' in future.

We recognise that it is not always straightforward to quantify efficiency savings from initiatives, where the principal of the initiative is sound, but there is inherent uncertainty in the value of the saving or how that saving will be demonstrated (for example, savings generated from increased productive time in a possession). For such initiatives, it is important that the assumptions that underpin the calculations are set out, and on the whole, these assumptions were well articulated.

We observed that there is some inconsistency in or lack of clarity on how the pre-efficient (CP6) baseline cost is generated. i.e. not all regions or initiative owners do this in the same way, and this is not always fully aligned with the pre-efficient baseline guidance contained within the fishbone framework.

We also note that group-level guidance recommends that inflation is applied to individual initiative calculations in line with the Rolling Forecast (RF) process. During our review we found inconsistent application of inflation, including some examples where inflation had not been applied at all. Although this is not expected to be a major item in terms of value, it may be addressed via additional group guidance or support.

It is important to note that a number of efficiency initiatives are subject to ongoing review and assurance of their calculations and forecasts. See Findings (5) on assurance.

Overall, there is evident inconsistency in terms of the level of detail on calculations (notably for less mature initiatives) and line of sight from pre-efficient baseline assumptions.

Findings (4)

Risk management process

No region has a documented risk management process for efficiencies. Risk is generally addressed through governance and assurance processes.

The primary risk management tool applied by regions is by 'over-programming' (also referred to as an 'overplan'); i.e. 'overplanning' their CP7 efficiency portfolio in order to manage risk by planning to deliver a higher value of efficiencies than are required to meet targets. This anticipates change if less mature initiatives are delayed, cancelled or result in lower savings than anticipated. This is good practice in portfolio management.

The size of this overplan varies between regions. See Annex B to illustrate this point. i.e. some regions have a large overplan of (typically) less mature Amber and Red initiatives, others have a small overplan.

RSD and Southern maintain an offline 'hopper' of potential initiatives that could constitute an additional overplan in terms of how regions approach this topic. This also reflects a different approach to reporting; i.e. regions report all potential ideas and then risk adjust them, whereas RSD only include new initiatives in it baseline via change control only after it is confident risks to delivery are reduced.

All regions use 'overlays' to bring efficiency forecasts back down to delivery plan target levels; i.e. an adjustment applied at portfolio-level to reflect the prevailing confidence levels and risks related primarily to early-stage Amber and Red initiatives. This is not in line with group guidance which states that overlays need 'robust commentary and justification for the amounts recognised'.

While overlays are an appropriate technique, they make forecasting performance somewhat opaque, as the numbers currently being reported as a 'forecast' are in fact a 'target' (all regions except North West & Central), generated by taking latest 'overplan' value and overlaying this back to the regional CP7 delivery plan target. Network Rail has acknowledged this point and is expecting to release this constraint on forecasts after, and in the light of, its ongoing assurance activities.

Use of an overplan to manage risk is good practice, although not currently qualified/quantified as it is being used to simply track back to the region's target; a more consistent risk-based (and proportionately 'scientific') approach based on initiative maturity may be appropriate.

Findings (5)

Assurance process

We found good evidence of a robust assurance processes within each region. Most regions have plans to undertake initial Line of Defence 1 (LOD1) assurance of efficiency initiatives, however, the extent to which they have done already (by the time of our review) varied. Regional governance is also robust with lots of forums where efficiency is discussed and reported on, with good articulation of accountability.

Internal LOD1 assurance of CP7 efficiencies was initiated early in year 1, a process that was ongoing at the time of our review in August 2024.

This assurance process includes scrutiny of both pre-efficient baselines (typically CP6 exit rates) and post-efficient targets for CP7. For example, group is undertaking Supply Chain Organisation (SCO) exit rate review to provide consistent pre-efficient unit rates for all regions.

This initial assurance process will take time to complete. Regions are anticipating any changes required will be reflected in their RF6 (September 2024) and/or RF9 (December 2024) fishbone tracker submissions.

This is positive evidence of robust internal assurance and challenge to targets, including to ensure consistency of approach with group-level oversight. It does, however, mean that efficiency forecasts for FY25 and FY26 of CP7 are not yet stable. We saw evidence that this change could result in initiative forecasts going up or down; i.e. we saw evidence that it is an objective process, not systematically leading to higher or lower values.

It will be important for the regions to complete their initial LOD1 assurance process as soon as practicable, in order to provide a clear and stable baseline for efficiency plans.

Findings (6)

Application of lessons learned from CP6

We observed that the overall framework for managing efficiencies is more mature than it was at the equivalent point in time in CP6. See summary comparator at Annex C.

Generally, we heard a good articulation of lessons learnt from CP6 during interviews, and how they have been accounted for in CP7 plans, for example:

- Accountability – increasing ownership of and accountability for efficiency delivery, both in terms of individual initiatives and at overall plan level; i.e. routes are accountable for delivering their own targets.
- Targets – (linked to accountability) by setting regional targets and cascading them down to individual routes and business centres to: (a) develop their own local plans to meet the targets and; (b) making them responsible for reporting progress against those targets.
- People – ensuring not just finance personnel are involved in the development of efficiency initiatives from the start, hence also relevant delivery and technical specialists, plus need for more resource to manage and assure the plan.

There is, however, relatively little evidence of specific documentation setting out this CP6 learning.

We saw good evidence of knowledge sharing between regions and national functions, focused on more significant efficiency initiatives by value.

Lessons have been learnt from CP6 efficiency delivery although there is little evidence of formal documentation.

Findings (7)

Risks to the initiatives and the plans for mitigating them

We found variable levels of quality and detail in documentary evidence of risks to initiatives and mitigation plans to address these risks; this also varies per BRAG stage with (generally) more information for more mature initiatives.

There is also variability evident on how adjustments are made for risk i.e., some efficiency owners risk adjust forecast initiative values and others do not, thus some values may be 'most likely' whilst others are 'best case'.

There were some examples for initiatives that form part of a wider programme of change which is applying risk management. Similarly, initiatives which are a larger by value and/or that are specific regional 'project' (for example, Wales & Western's possession optimisation), there is generally more detail evident. For initiatives which are less formally recorded, this risk information is typically either missing or more high level.

During discussions to probe risks with regional teams, we noted some common high level risk themes across the various sampled initiatives. These risks included, but are not limited to:

- Achievability of targets set top-down.
- Achievability of targets for national function enabled initiatives.
- Scale and timing of business change activity required to enable delivery, including improving culture and practice ('ways of working').
- Dependency on the supply chain to make changes.

Efficiency initiatives would benefit from greater detail on risks and their mitigation, and an assessment of the achievability of efficiencies in FY25 and FY26.

Findings (8)

Good practice within efficiency initiatives

Of the initiatives reviewed, we considered the following particularly innovative with significant value, and as a result a good potential for wider deployment to other regions:

| Initiative | Description | Region | CP7 value |
|-------------------------------|---|----------------------|-----------|
| Possession optimisation | Digitising how possessions are taken and then given up to increase productive time. Noted that, following the first trials in Wales & Western, regional roll out was part of discussions. | Wales & Western | £48m |
| Project Spear | A framework to increase and maximise the volume and type of works that take place in a blockade. It was noted the region is talking to the Department for Transport (DfT) to potentially expand this to become a whole railway industry approach. | North West & Central | £31m |
| Risk based approach to design | Design solution tailored to site, as opposed to a generic approach. The Southern Integrated Delivery (SID) 'deep alliance' contracts specifies a proven risk-based method of defining earthworks solutions that manage risk to the railway, improve the status or condition of the asset, and minimise the cost of delivering the required volumes. | Southern | £22m |
| Geospatial | New approach to geospatial surveys to reduce external costs, improve data management to reduce repeat survey requirement and better utilisation of technology to deliver more efficiently. | Scotland | £3m |

Findings (9)

Good practice in the management of efficiency initiatives

As part of our review, we identified the following areas of good practice which could be shared with other regions:

| Theme | Description | Region |
|--------------------------------|---|----------|
| Assurance Reporting | Eastern have developed a 'Power BI' application to analyse their efficiency fishbone tracker data and provide insights at initiative owner, route, asset, category and regional level. This has helped the region identify issues, benchmark data and target assurance. | Eastern |
| Governance | RSD have established a formal change control process that governs the contents of the efficiency tracker, ensuring formal evaluation of initiatives before they are added (or removed) from the baseline. | RSD |
| Assurance Knowledge management | Southern hold Executive-level 'efficiency days' held quarterly with detailed presentations and data, undertake deep dives into routes and specific efficiency initiatives, with action plans set out and feed into regional governance. | Southern |
| Opportunity management | Southern undertake detailed reviews to cross-fertilise ideas across routes and asset groups. This was evidenced by detailed analysis of opportunities. | Southern |

Findings (10)

National function efficiency initiatives

We found the alignment between TA enabled efficiency values and regional adoption was high (£360m out of £369m across CP7). Conversely, for RSD enabled efficiency values, regional adoption was low (£133m out of £372m across CP7). However, we note that RSD have recently added over £100m to their opportunities bank, which is yet to be reviewed and assured by the regions, and thus the size of the gap may be affected by the timing of our review.

Dialogue between regions and national functions was found to be good, and a number of regions commented that this was an area of improvement in CP7 compared to CP6.

With nationally enabled initiatives, there is by definition a 'give/get' between each region and the national function, which creates an accountability risk. Whilst we found some anecdotal evidence of this in our discussions with regions, we saw no evidence of any accountability gaps in the two initiatives sampled.

TA Standards was noted as an area where there was good agreement between regions and the national function on the size of the efficiency opportunity presented. We also note that updates to standards is a recurring efficiency, and the earlier in the Control Period a standard is updated, the greater the efficiency benefit.

The observed difference between the region's deployment of RSD-enabled initiatives and the RSD reported view, suggests there is an opportunity for greater efficiencies to be realised from the national RSD programmes.

Findings (11)

Efficiencies reporting

We found evidence that the defined BRAG status of some initiatives does not reflect group guidance; for example, one labelled Green, however when we applied the guidance, we found it to be Amber or Blue in some cases. Given that BRAG status is the primary metric used at group level to gauge efficiency plan maturity and, by extension, likelihood of achieving targets, this could scale up to a reporting inaccuracy.

We also observed variability in maturity levels within Amber rated initiatives, indicating that the Amber rating covered a wide spectrum of initiative maturity not seen in initiatives of the other BRAG ratings. This is especially prevalent where plans to deliver efficiencies are in place, but regions choose to take a conservative view of confidence in delivery, thus classifying them as Amber as opposed to Green.

Initiative BRAG ratings need to be assured to improve confidence in providing an accurate measure of overall delivery plan status.

Whilst the Blue rating BRAG status provides confidence that enabling activity has been delivered, the fishbone tracker does not indicate if benefits are being realised and to what extent they align to the forecast. This would be a useful confidence indicator during the course of the financial year, especially where initiatives are complex or are dependent on deploying changes via the supply chain or new technology, where there may be a greater risk to the delivery of the assumed efficiency value.

The fishbone tracker does not deal with the actualisation of benefits delivered.



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Summary of efficiency initiative reviews

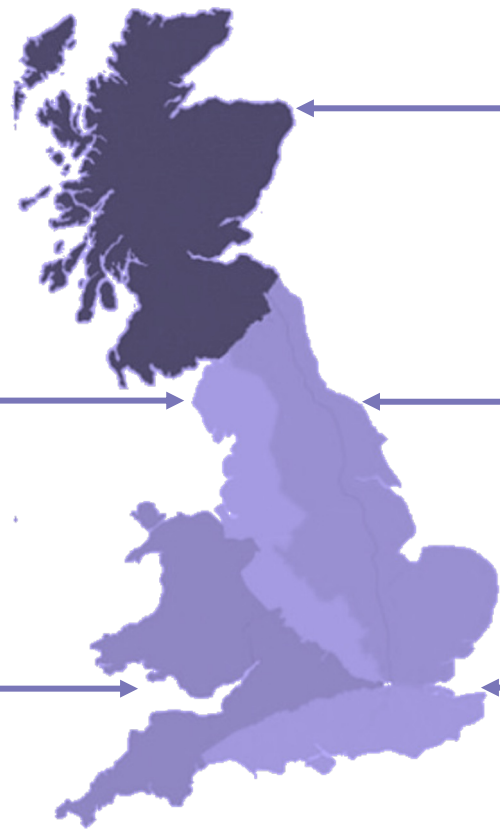
Initiative sample summary

Summary of initiatives, values and BRAG rating

RSD sample (national)
 £12.4m: 1 capex initiatives
 £5.5m: 1 opex initiatives
 Rating: 0 1 2

North West & Central sample
 £29.2m: 3 capex initiatives
 £16.3m: 3 opex initiatives
 Rating: 2 2 2

Wales & Western sample
 £24.1m: 3 capex initiatives
 £14.1m: 3 opex initiatives
 Rating: 1 4 1



Map of Network Rail regions

Scotland sample
 £15.4m: 3 capex initiatives
 £2.8m: 3 opex initiatives
 Rating: 0 3 3

Eastern sample
 £18.5m: 3 capex initiatives
 £12.2m: 3 opex initiatives
 Rating: 1 3 2

Southern sample
 £41.4m: 3 capex initiatives
 £22.0m: 3 opex initiatives
 Rating: 2 3 1

Sample summary

Summary of sample

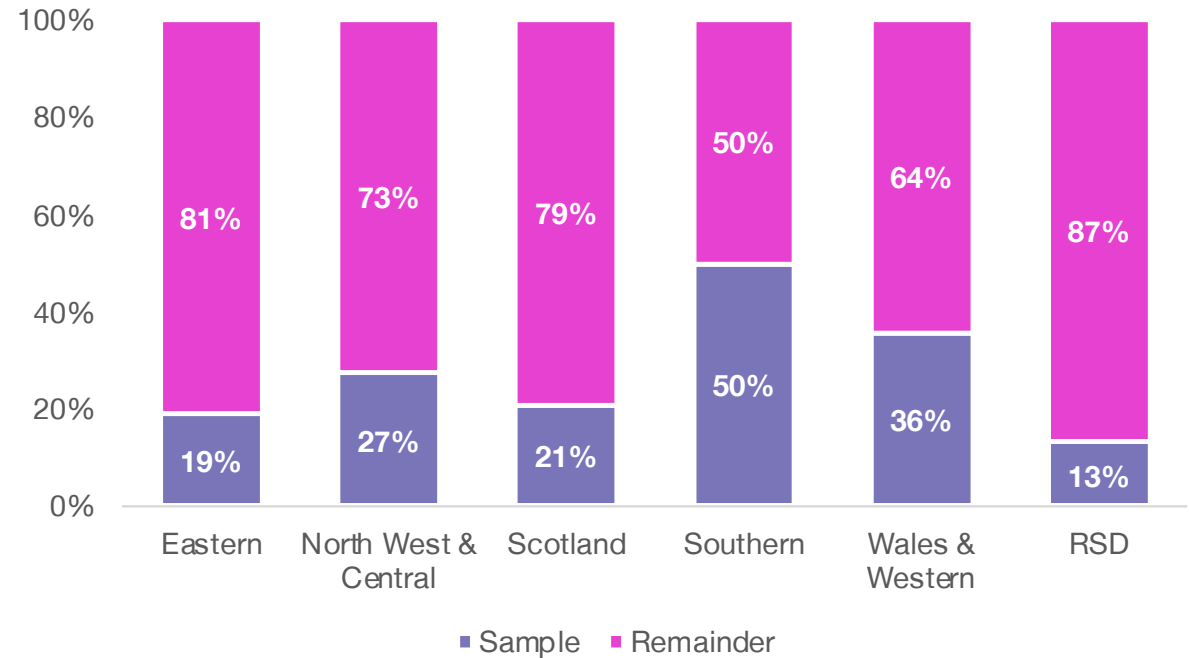
The sample comprised 33 initiatives across five regions and national functions, including TA and RSD.

The initiative sample comprised a total of £215m of efficiencies spanning FY25 (year 1) and FY26 (year 2), compared to a total target of £780m of efficiencies covering both years.

The sample is equivalent to 27% of the total target for both years combined (comprising 35% in FY25 and 24% in FY26).

The proportion (in terms of value) of the sample varied per region as the sample size was fixed but where there are different numbers of initiatives within each regional plan, and as the value and the profile of these initiatives varies. The sample also sought to consider a diverse range of initiatives types and asset classes, not just those of highest efficiency value.

Aggregate of FY25 and FY26 sample



Sample initiative rating summary

Sample initiative rating summary – aggregate data from Annex A

Our sample was selected initially based on efficiency forecast value in years 1 and 2. It is important to note, therefore, that it is not possible to compare regions directly, as the sampled split per BRAG rating is different in each case. For example, as shown below, Scotland’s sample comprised three Amber initiatives and no Blue initiatives, so cannot be compared with Eastern, which has a uniform mix of Blue, Green and Amber initiatives.

| Network Rail BRAG rating | BRAG | | | | High ●●● | Medium ●● | Low ● | Total number |
|-----------------------------|----------|-----------|-----------|----------|-----------------|----------------|---------------|-----------------|
| | Blue | Green | Amber | Red | | | | |
| Eastern | 1 | 3 | 2 | - | 4 | 2 | - | 6 |
| North West & Central | 2 | 2 | 2 | - | 4 | 1 | 1 | 6 |
| Scotland | - | 3 | 3 | - | 3 | 3 | - | 6 |
| Southern | 2 | 3 | 1 | - | 5 | 1 | - | 6 |
| Wales & Western | 1 | 4 | 1 | - | 3 | 2 | 1 | 6 |
| Route Services | - | 1 | 2 | - | 3 | - | - | 3 |
| Total number | 6 | 16 | 11 | 0 | 22 (67%) | 9 (27%) | 2 (6%) | 33 |

Summary of confidence rating against BRAG rating

High value initiatives sampled are largely mature (Blue and Green). The below is the aggregate of data in Annex A

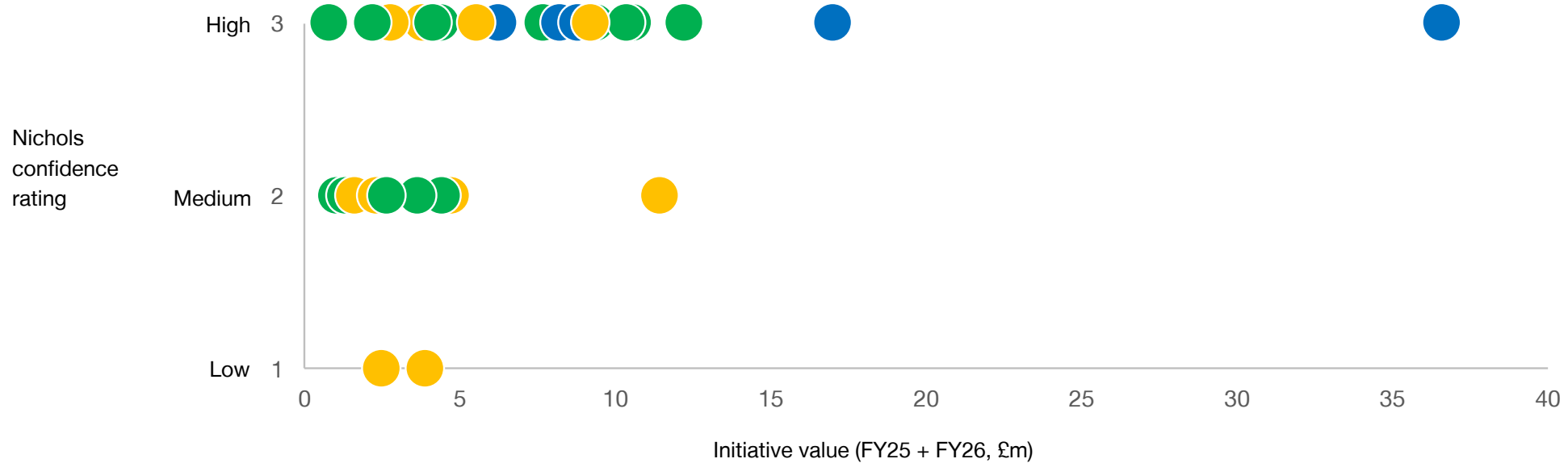
| Network Rail's year 1 BRAG rating * | High ●●● | Medium ●● | Low ● | Total value |
|-------------------------------------|-----------------------|----------------------|--------------------|------------------------|
| Blue | 6 | 0 | 0 | £87m (41%) |
| Green | 11 | 5 | 0 | £78m (36%) |
| Amber | 5 | 4 | 2 | £50m (23%) |
| Total number | 22 (67%) | 9 (27%) | 2 (6%) | 33 (100%) |
| Total value | £176m (82%) | £33m (15%) | £6m (3%) | £215m (100%) |

We did not sample any Red rated initiatives.

Sample correlation

Sample correlation (Network Rail BRAG data)

- Majority of initiatives rated 'High' confidence.
- High value initiatives predominantly Blue and Green (i.e. more mature).
- Relatively few 'Low' rated initiatives, and which are Amber (i.e. less mature).
- Nichols BRAG assessment, as per Annex A, is for potentially even greater extent of Blue coverage.





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Conclusions

Conclusions (1)

Whether, overall, the regional efficiency forecast is reasonable, based on plans

77% of the initiatives we sampled are relatively mature (Network Rail assessed Blue or Green BRAG ratings combined). Our assessment of the very latest status of these initiatives would potentially increase this value further.

We have assessed that approaching 82% of initiatives as having a 'high' level of confidence of delivery based on evidence of plans we reviewed. There are few initiatives that we assessed as having a low level of confidence, all of which are rated Amber, and so are naturally at an early stage of development at this time.

There is also evidence of good practice, plus knowledge sharing and (while not documented) of the application of learning from lessons from CP6.

Inconsistency is a theme that stands out; notably in the quality of documentation and calculations. We conclude that processes could be tightened up and proportionate extra guidance provided to support this.

Planned efficiency forecasts for years 1 and 2 will be adjusted based on the results of Network Rail's initial LOD1 assurance process, and any adjustments of pre- and post-efficient data. This process is expected to be concluded at RF9 (December 2024). While this is a positive intervention and in process only four months into CP7, we conclude that this could have been anticipated and progressed earlier. As a result, there is inherent uncertainty and instability in FY25 and FY26 efficiency forecasts, although where efficiency forecasts could go up or down compared to current data, due to the prevailing reliance on financial overlays.

We believe that these overlays could be better articulated and justified, as opposed to being used primarily as an accounting tool to balance forecast back to target. It would be more insightful to regional management to move towards reporting a genuine forecast, which would move up and down at each RF. This approach would also place greater onus on regions and initiative owners to get individual initiative forecast numbers as accurate as possible, as this is currently masked by the substantial overlay. There is acknowledgement of this within Network Rail, given that plans are not pinned down and assured yet. i.e. it is recognised as an area of concern and is being addressed.

Conclusions (2)

Whether, overall, the regional efficiency forecast is reasonable, based on plans

The scale of the over-plan of the efficiency portfolio (see Annex B), means that not all initiatives need to be delivered in order to meet the efficiency target. This is a key factor that leads us to conclude that the forecast for FY25 and FY26 appears reasonable based on current plans, although this will be clearer following completion of the initial regional LOD1 assurance.

However, we have only assessed a small sample of initiatives for FY25 and FY26 of CP7, and confidence levels in the wider portfolio will inevitably be dependent on the quality and deliverability of these plans. i.e. the large number of initiatives that are currently at early stages of development and/or calculation maturity may result in either higher or lower achievement compared to overall CP7 targets.

We observe that there is an opportunity for regions and group to increase their efforts on efficiency initiatives early in CP7. By doing so they can aim to exceed early CP7 annual targets which would de-risk delivery in future years and mitigate the potential effect of future headwinds on delivery plans. We consider that there may need to be additional resource targeted at this activity to plan, manage and support this extra effort, and to tend to the quality of efficiency documentation.

In some cases, we saw evidence of stretching efficiency targets, for example in track renewals in Scotland, where initiative owners and delivery teams will continue to need strong support from leadership/governance groups and from support functions to make timely decisions and facilitate business change.

Finally, we believe that there is an opportunity to better understand and address the more limited uptake of RSD enabled efficiencies, to improve region's confidence in these.

Conclusions (3)

Additional Scotland region consideration

Scotland is subject to separate funding arrangements and efficiency targets than England & Wales. This represents a potential 'resilience risk' to the achievability of Scotland's efficiency targets for CP7, as the efficiency target for Scotland is delivered by one region (comprising one route), whereas the efficiency target for England & Wales is delivered by four regions (comprising 13 routes). As a result, there is greater flexibility for England & Wales to achieve its overall efficiency target, as it comprises a portfolio of regions and routes, so that if one region underperforms, that efficiency 'shortfall' may be picked up by over-delivery in other regions. There is no such flexibility within Scotland.

Our review covered all five Network Rail regions and its findings, and the recommendations that result, also apply to all five regions. As context for the above consideration, the following are a summary of our conclusions on Scotland's efficiency targets:

- Its current efficiency capex and opex tracker aligns to its regional delivery plan and to its separately funded efficiency target noted above.
- The application of overlays and unidentified items is obscuring the current forecast, noting this is planned to be addressed by RF9.
- There is evidence of a robust assurance process, although not all sampled initiatives had been assured, but with work underway to do so.
- The overall framework for managing and reporting efficiencies within Scotland is more mature than it was at the equivalent point in CP6.
- The sampled capex efficiency initiatives in Scotland are both ambitious and dependent upon a programme of business changes. These, notably for track renewals, will require continued strong leadership and organisational support to enable timely delivery of year 1 and 2 targets.
- Given the current relatively large overlay adjustment and conservative view of initiative BRAG ratings and values being taken for some nationally enabled initiatives, we believe that Scotland can still meet and/or exceed its efficiencies targets for years 1 and 2 of CP7.

Conclusions (4)

Route Services Directorate (RSD) and Technical Authority (TA) nationally enabled initiatives

The following table shows the percentage of each region’s total efficiencies value that is being enabled by RSD and TA. This is based on the whole efficiency data set provided for July 2024 (P04) as opposed to only the sample data set, to provide a complete view. An overall ranking against the CP7 total efficiencies value identifies the highest to lowest gearings.

This indicates that each region has a different degree of dependency on initiatives over which they have a lesser degree of control and or influence compared to those it develops and enables itself. This does not automatically represent a risk, although could be investigated further as part of a deeper dive into nationally enabled efficiency initiatives. Note also that this aggregate data does not consider what specific national enabled initiatives each region has adopted and in which proportion (which varies), their achievability, and how each region has treated these initiatives in their profiling over time and overlay risk adjustments.

| Region | FY25 * | FY26 * | CP7 overall | Rank by CP7 % ** |
|----------------------|--------|--------|-------------|------------------|
| Scotland | 14% | 14% | 12% | 4 |
| Wales & Western | 39% | 35% | 23% | 1 |
| Eastern | 14% | 17% | 14% | 3 |
| North West & Central | 31% | 22% | 16% | 2 |
| Southern | 6% | 11% | 10% | 5 |

* Percentage of total efficiencies that are enabled by RSD and TA, by value. Data source: FY25 P04 fishbone tracker (July 2024).

** Rank is CP7 overall, ranged 1 (highest %) to 5 (lowest %) regional value.



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Recommendations

Recommendations (1)

| No. | What is the issue | Recommended action | Rating | Proposed Owner(s) |
|-----|--|--|-------------------------|---|
| 1. | Initial LOD1 assurance of plans and scrutiny of pre-efficient baselines and post-efficient targets had not been completed at the time of the review. This means that there is currently inherent uncertainty and instability in year 1 and 2 CP7 efficiency forecasts. | Regions complete the initial LOD1 assurance process, prioritising year1 and 2 initiatives, as soon as practicable to give confidence in the accuracy of the reported efficiency forecast values and profiles. | Essential (by RF9) | Regions and national functions |
| | | Consideration given to regions and functions reporting an LOD1 assurance status to provide greater transparency and confidence in reported forecasts. | Recommended | Regions and national functions |
| 2. | Inconsistency of individual efficiency initiative documentation. | Regions apply additional attention and effort to improve the quality and consistency of efficiency fishbone entries and supporting documentation, prioritising schemes delivering efficiencies in FY25 and FY26. This should include fully populating BRAGs/POAPs to include greater details of business change, delivery plans, calculations, risk and assumptions. | Essential (by RF9) | Regions and national functions |
| | | Additional group-level guidance is provided which targets greater consistency in efficiency calculations, including pre-efficient baselines. | Recommended | Group-level |
| 3. | The efficiency forecast, that would be expected to vary with progress and performance, is currently a target, that is therefore fixed (with the exception of North West & Central). The current approach to reporting is to use overlays to bring gross efficiency plans back down to targets. It is therefore unclear what the likely annual efficiency forecast is at this time. | Following completion of the initial ongoing LOD1 assurance process, regions review and revise where appropriate their overlays and forecasts, to seek to refine and justify these, so that efficiency values show the 'most likely' forecast not the target. | Essential (end 2024/25) | Regions and national functions |
| | | Consideration of use of an overlay risk calculation tool to quantify or sense check overlays, at different points in the financial year. | Recommended | Group-level and/or regions and national functions |

Critical Do immediately **Essential** Do by specified date **Recommended** Good practice

Recommendations (2)

| No. | What is the issue | Recommended action | Rating | Proposed Owner(s) |
|-----|---|--|-------------|---|
| 4. | The fishbone reporting framework does not identify if efficiency initiatives are realising benefits and if they are, to what extent they are realising benefits. | Consideration given to regions and functions reporting efficiency actualisation at certain points in the financial year (e.g. in line with the RF process) to provide greater transparency and confidence in yearly efficiency forecasts. | Recommended | Regions and national functions |
| 5. | Evidence of lower level of region confidence in efficiency plans and calculated benefits for RSD enabled initiatives. | Network Rail group undertake and facilitate a deeper dive review with regions and RSD with a view to identifying a summary action plan to close this gap. | Recommended | Group-level |
| 6. | While there is evidence of good knowledge sharing across the regions and to/from group at formal governance forums, there is limited detail on the fishbone tracker to enable knowledge sharing on a more ad-hoc individual initiative level. | Network Rail strengthen knowledge management process via the fishbone tracker or other tools. For example by modifying the fishbone tracker with initiative owner details, to enable owners of similar initiatives across all regions to identify and connect with each other. | Recommended | Group-level and or regions and national functions |

Critical Do immediately **Essential** Do by specified date **Recommended** Good practice

Consideration for recommendation 3

Overlay risk calculation tool

For recommendation 3, we outline a potential tool that regions and/or group could use to calculate regional portfolio risk and justify the value of the overlay which adjusts the gross efficiency plan to a forecast value. This tool could be used by regions to calculate and justify their overlay, or by group to sense check the regions overlays reflect the reported maturity and RF period.

The ability of a region to achieve its gross efficiency plan is largely influenced by: (a) the maturity of the plan (i.e. BRAG composition) and; (b) the time remaining in the financial year (i.e. the time left to convert Red/Amber/Green initiatives to Blue and subsequently deliver the benefits).

The tool applies a percentage to the gross efficiency plan by BRAG and RF period, as per the table below, to calculate a risk adjusted efficiency forecast.

| BRAG Status | RF3 | RF6 | RF9 | RF11 |
|-------------|-----|-----|-----|------|
| Red | 20% | 10% | 5% | 0% |
| Amber | 50% | 25% | 10% | 5% |
| Green | 90% | 75% | 60% | 45% |
| Blue | 95% | 95% | 95% | 95% |

Worked example

In the following worked example, the overlay risk calculation tool is applied to the Period 4 Wales & Western FY25 figures and assumes a point in time of RF6.

Based on regional plan maturity and time of year, this approach estimates that £36m of efficiencies could be achieved in FY25. This indicates that an appropriate overlay would be £25m.

| BRAG Status | Gross efficiency (£m) | RF6 adjustment | Adjusted value (£m) |
|--------------|-----------------------|----------------|---------------------|
| Red | - | 10% | - |
| Amber | 22.4 | 25% | 5.6 |
| Green | 33.9 | 75% | 25.5 |
| Blue | 5.4 | 95% | 5.1 |
| Total | 61.7 | - | 36.2 |



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Annex A – Regional assessment

Eastern

North West & Central

Scotland

Southern

Wales & Western

Route Services Directorate

Technical Authority

Key to ratings

Network Rail BRAG assessment

Definitions:

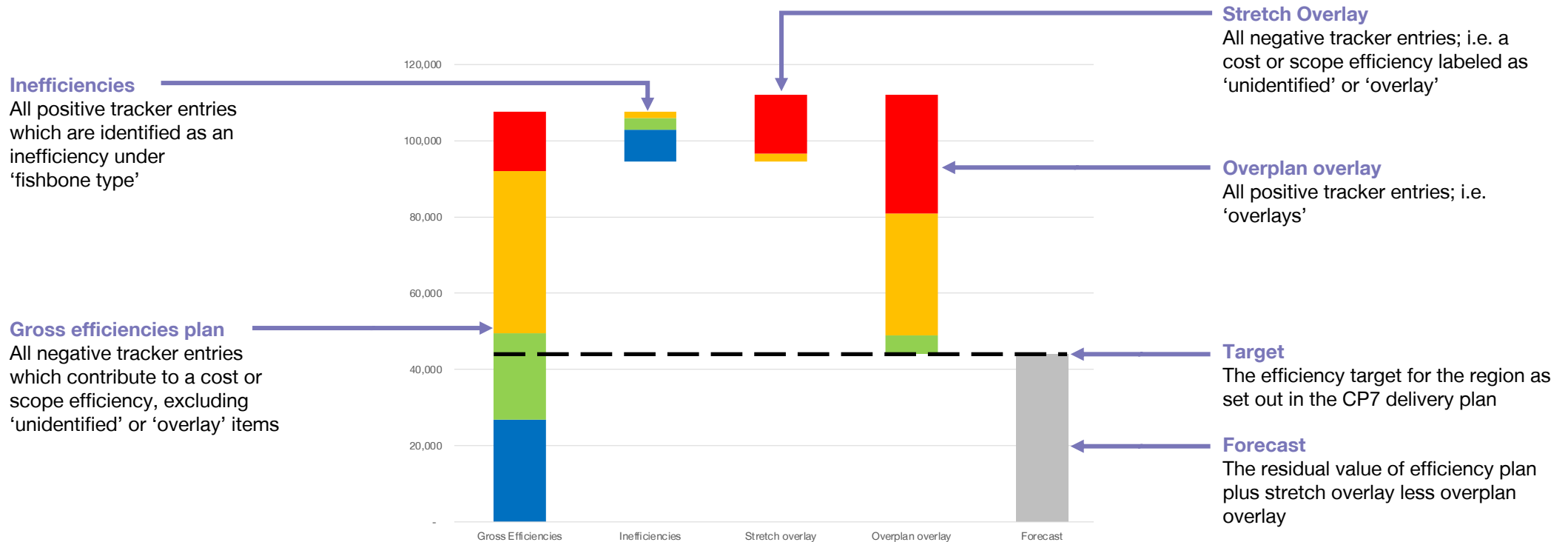
| Rating | Description |
|--------|---|
| Blue | Enabling activity has been delivered; i.e. milestones have been hit and are waiting for the benefits to be realised |
| Green | Enabling activity is in place with delivery plan and milestones, and the business is confident in delivery |
| Amber | Strategic theme assigned but no plan in place, or a plan is in place with low confidence of delivery |
| Red | Commitment to save, no strategic theme assigned or plan in place to deliver |

Our confidence assessment

Based on evidence of maturity and robustness of central and/or regional efficiency data, regional approach to efficiency and sample initiatives.

| Rating | Description |
|--------|--|
| ●●● | High – e.g. evidence of good quality documentation/information with no areas of concern |
| ●● | Medium – e.g. reasonable quality documentation though with gaps or areas for improvement |
| ● | Low – e.g. limited or missing information |

Key to regional graphs



Eastern (1)

CP7 efficiency context

Data source – FY25 P04 fishbone tracker (July 2024)

| Metric | Description |
|--------|--|
| £995m | Final Determination regional efficiency target, including direct and allocated costs (at 2023-24 prices) |
| £814m | Regional Delivery Plan target (nominal) |
| £44m | FY25 (year 1) efficiency target |
| £108m | FY25 (year 1) gross efficiency plan (equivalent to 245% of target) |
| £116m | FY26 (year 2) efficiency target |
| £139m | FY25 (year 2) gross efficiency plan (equivalent to 120% of target) |
| £30.6m | FY25+26 (year 1+2) total value of efficiency initiatives sampled in our review (see below) |

Initiatives value

| FY25, £k | FY26, £k | Total CP7, £k | Name (type) |
|----------|----------|---------------|---|
| 1,468 | 2,824 | 13,525 | Anglia re-rail (capex) |
| 3,590 | 6,760 | 40,920 | East Coast Digital Programme (ECDP) (capex) |
| 2,065 | 1,749 | 4,075 | PACE in structures (capex) |
| 3,090 | 3,126 | 15,915 | Modernising maintenance (opex) |
| 1,205 | 2,438 | 11,206 | Reactive maintenance (opex) |
| 555 | 1,776 | 10,875 | Intelligent infrastructure (opex) |

Eastern (2)

| Line of Enquiry | Findings |
|---|---|
| Alignment of region and functional efficiencies | <ul style="list-style-type: none"> • P04 fishbone tracker aligns to the total efficiency in the regional delivery plan and the breakdown of capex and opex efficiency savings within this. • Sample initiatives vary in alignment to P04 fishbone tracker, owing to revisions since the last RF3 update. These will be reflected in the RF6 submission. |
| Explanations of business changes | <ul style="list-style-type: none"> • Evidence of business change details for all efficiency initiatives, although some may benefit from additional detail to articulate specific positive management actions and resulting efficiencies. |
| Inputs and assumptions around calculations | <ul style="list-style-type: none"> • Overall good calculation detail is evident. • Baseline for track not yet assured and agreed with group; until then an estimated CP6 mid-point value is being used. • Efficiency forecasts are expected to be updated after assurance at RF9. • To note only, ECDP efficiency is compared to traditional signalling. Our review does not consider other costs (e.g. in-cab equipment) within the ETCS business case, as not in scope and may influence overall industry efficiency. |
| Risk management process | <ul style="list-style-type: none"> • There is a significant overplan. Extensive overlays are then applied to bring this overplan down to the delivery plan target. The region are taking prudent approach to releasing these following assurance activities in RF6 and RF9. |
| Assurance process | <ul style="list-style-type: none"> • Evidence of robust assurance arrangements in place. • There is positive management intervention ongoing to assure all efficiency forecasts, including ensuring that all pre-efficient baselines are correctly applied to calculations. This does, however, result in uncertainty in the forecast until this activity is complete, currently forecast to be at RF9. |
| Risks to the initiatives and the plans for mitigating them | <ul style="list-style-type: none"> • Variable levels and quality of documented evidence at initiative level within BRAGs/POAPs. |
| Whether overall, the regional efficiency forecast is reasonable | <ul style="list-style-type: none"> • Evidence indicates that it is reasonable. • Efficiency forecasts for FY25 and FY26 may be adjusted based on the ongoing and planned regional top-down assurance and re-baselining, which is expected to conclude by RF9. |

Eastern (3)

Initiative assessment summary

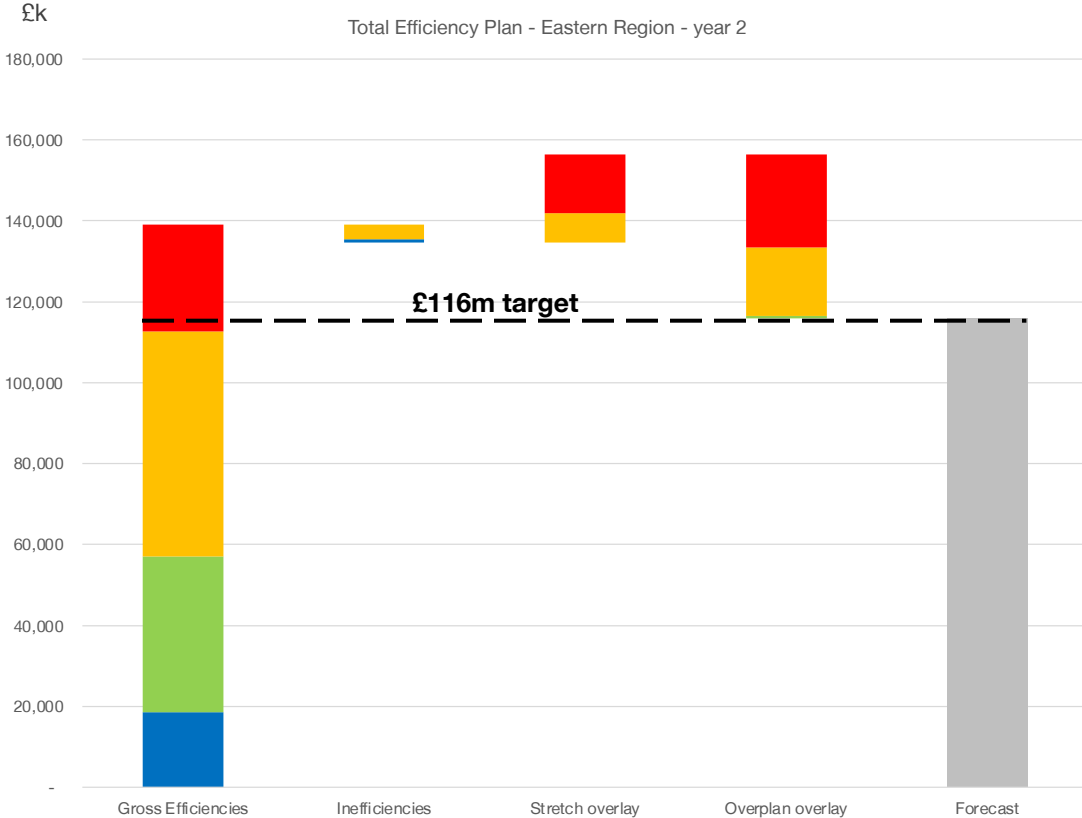
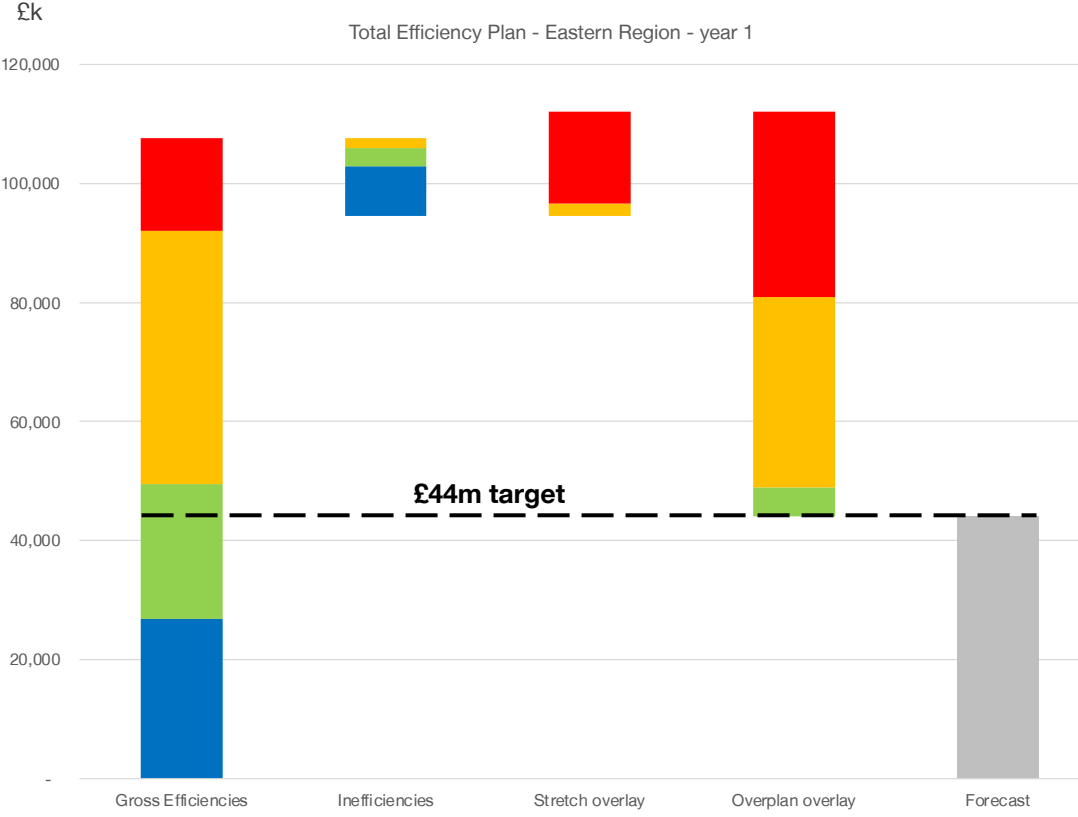
| Initiative name | Re-rail | | ECDP | | PACE in structures | | Modernising maintenance | | Reactive maintenance | | Intelligent Infrastructure | |
|---|----------|---------|----------|---------|--------------------|---------|-------------------------|---------|----------------------|---------|----------------------------|---------|
| Initiative number | ANTR0019 | | ECSIG010 | | ECST003 | | NEOP042 | | ECOP011 | | ANGOP010 | |
| BRAG rating * | NR | Nichols | NR | Nichols | NR | Nichols | NR | Nichols | NR | Nichols | NR | Nichols |
| FY25 BRAG | Green | Blue | Green | Green | Amber | Blue | Blue | Blue | Green | Green | Amber | Amber |
| FY26 BRAG | Green | Green | Green | Green | Amber | Green | Blue | Blue | Green | Green | Amber | Amber |
| FY25 + FY26 forecast (£m) | 4.39 | | 10.35 | | 3.81 | | 6.22 | | 3.64 | | 2.33 | |
| Capex / Opex | Capex | | Capex | | Capex | | Opex | | Opex | | Opex | |
| Assessment line of enquiry | | | | | | | | | | | | |
| Alignment to tracker | ... | | ... | | . | | . | | . | | . | |
| Change detail / description | ... | | ... | | ... | | ... | | ... | | .. | |
| Calculation | ... | | ... | | ... | | .. | | .. | | .. | |
| Schedule / milestones | ... | | ... | | ... | | .. | | ... | | .. | |
| Risk / mitigation | .. | | ... | | ... | | ... | | ... | | .. | |
| Assurance | .. | | ... | | . | | ... | | . | | . | |
| Overall rating (is forecast reasonable) ** | ... | | ... | | ... | | ... | | .. | | .. | |

* Nichols assessment of BRAG rating at P04 (July 2024)

** Nichols assessment of confidence in achieving the CP7 year 1-2 forecast efficiency value

Eastern (4)

Waterfall including overlays per BRAG stage



North West & Central (1)

CP7 efficiency context

Data source – FY25 P04 fishbone tracker (July 2024)

| Metric | Description |
|--------|--|
| £902m | Final Determination regional efficiency target, including direct and allocated costs (at 2023-24 prices) |
| £773m | Regional Delivery Plan target (nominal) |
| £49m | FY25 (year 1) efficiency target |
| £94m | FY25 (year 1) gross efficiency plan (equivalent to 192% of target) |
| £113m | FY26 (year 2) efficiency target |
| £155m | FY26 (year 2) gross efficiency plan (equivalent to 137% of target) |
| £44.5m | FY25+26 (year 1+2) total value of efficiency initiatives sampled in our review (see below) |

Initiatives value

| FY25, £k | FY26, £k | Total CP7, £k | Name (type) |
|----------|----------|---------------|--|
| 4,093 | 4,093 | 8,185 | Saving realised via competitive tender against assumed framework (capex) |
| - | 12,195 | 31,100 | Efficient possession planning (capex) |
| 4,128 | 4,680 | 9,240 | Route Services SCO (capex) |
| 3,087 | 4,615 | 22,603 | Ops model reorientation (opex) |
| 2,332 | 2,366 | 12,038 | Controlled recruitment (opex) |
| 1,922 | 1,950 | 9,922 | Reactive maintenance (opex) |

North West & Central (2)

| Line of Enquiry | Findings |
|---|---|
| Alignment of region and functional efficiencies | <ul style="list-style-type: none"> P04 fishbone tracker aligns to the total efficiency in the regional delivery plan and the breakdown of capex and opex efficiency savings within this. |
| Explanations of business changes | <ul style="list-style-type: none"> Within the sampled initiatives, the business change description was generally good and easy to understand, with the one exception of the Amber rated 'reactive maintenance' initiative which did not have a BRAG document. |
| Inputs and assumptions around calculations | <ul style="list-style-type: none"> Initiatives rated Blue/Green had good, detailed calculations and clear understanding of the baseline. Amber initiatives did not have the same supporting detail, and it was acknowledged that these would be further developed. |
| Risk management process | <ul style="list-style-type: none"> A large overplan exists relative to targets. Overlays are used to bring values down to the reported forecast for FY25 and FY26 of £55m and £122m respectively. Numerous overlays will shortly be re-structured into two types; split per route and region. |
| Assurance process | <ul style="list-style-type: none"> Regional assurance process built in line with governance arrangement, culminating in a regional efficiency board. Routes have their own targets and are a first line of assurance. Region is not yet undertaking assurance audits, but its aspiration is to do so later in FY25. |
| Risks to the initiatives and the plans for mitigating them | <ul style="list-style-type: none"> Of the sampled initiatives, most were Blue, and hence risks to enabling milestones had passed. Amber initiatives have limited risk information. Evidence that risk to the realisation of efficiency was understood, but generally seen to be low risk. |
| Whether overall, the regional efficiency forecast is reasonable | <ul style="list-style-type: none"> Of the sample, the four Blue/Green initiatives had realistic forecasts associated with them. One (controlled recruitment) could be developed into a Blue initiative with limited extra effort. Whilst a significant overplan exists for FY25 and FY26, a large portion of that plan is Amber rated. For FY25, the gross plan has £41m Blue/Green, so the region needs to find £8m from Amber initiatives to hit the £49m FY25 target. As noted above, there is evidence in the sample review of Amber initiatives that could be quickly developed to a mature status. Overall, given the size of the overplan and robust governance oversight in place, the FY25 and FY26 targets and forecasts are assessed as reasonable. |

North West & Central (3)

Initiative assessment summary

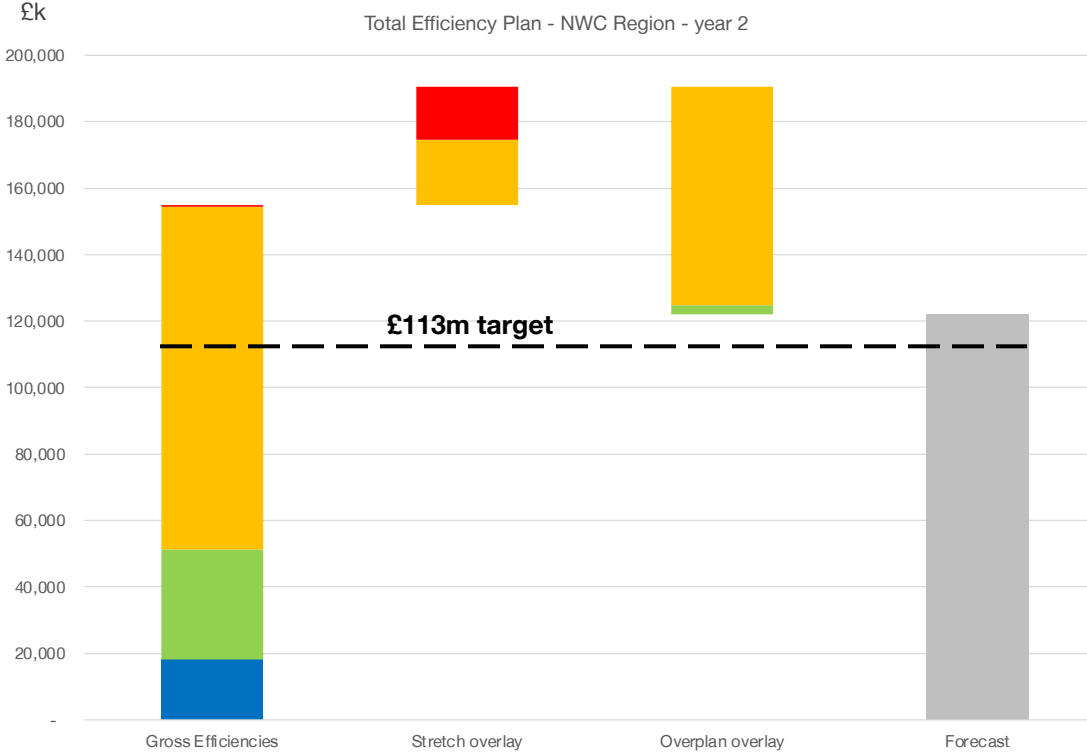
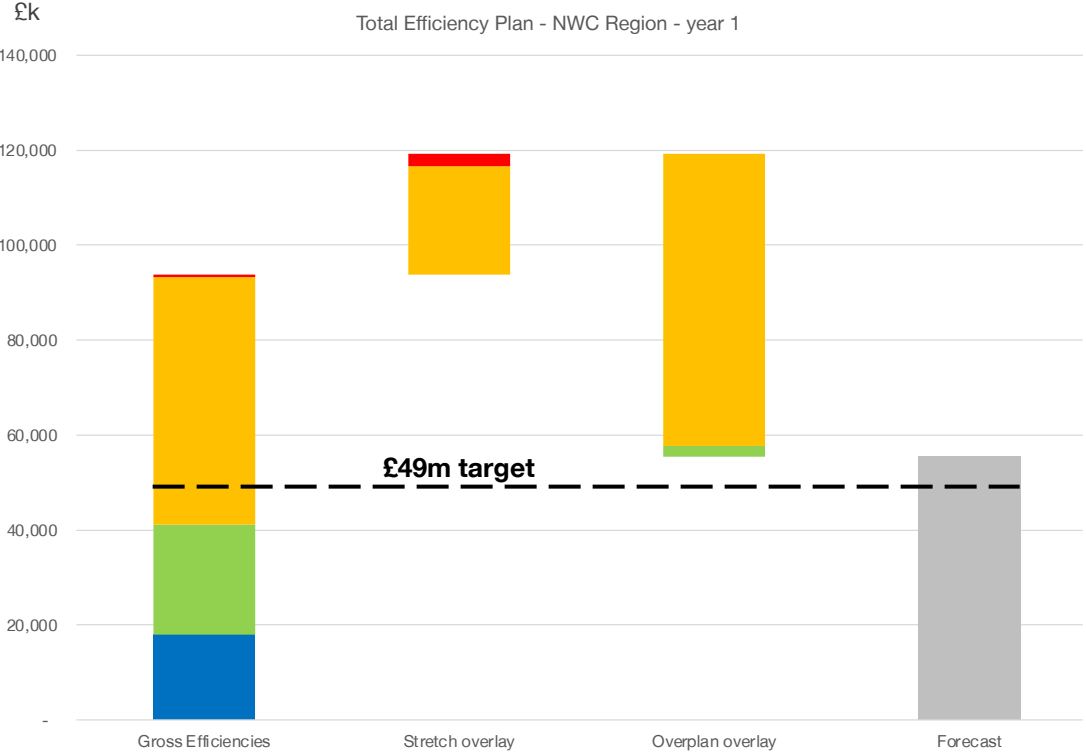
| Initiative name | Ops' model re-orientation | | Reactive maintenance | | Controlled recruitment | | Efficient possession planning ('Spear') | | Signalling competitive retendering | | RSD SCO | |
|---|---------------------------|---------|----------------------|---------|------------------------|---------|---|---------|------------------------------------|---------|---------|---------|
| Initiative number | NWO0177 | | NWO0036 | | NWO0035 | | n/a | | 165010_0016 | | n/a | |
| BRAG rating * | NR | Nichols | NR | Nichols | NR | Nichols | NR | Nichols | NR | Nichols | NR | Nichols |
| FY25 BRAG | Green | Blue | Amber | Amber | Amber | Amber | Green | Blue | Blue | Blue | Blue | Blue |
| FY26 BRAG | Green | Blue | Amber | Amber | Amber | Amber | Amber | Blue | Blue | Blue | Blue | Blue |
| FY25 + FY26 forecast (£m) | 7.70 | | 3.90 | | 4.70 | | 12.20 | | 8.20 | | 8.80 | |
| Capex / Opex | Opex | | Opex | | Opex | | Capex | | Capex | | Capex | |
| Assessment line of enquiry | | | | | | | | | | | | |
| Alignment to tracker | ●●● | | ●● | | ●●● | | ●● | | ●●● | | ●● | |
| Change detail / description | ●●● | | ●● | | ●● | | ●●● | | ●●● | | ●●● | |
| Calculation | ●●● | | ● | | ●● | | ●●● | | ●●● | | ●●● | |
| Schedule / milestones | ●●● | | ● | | ● | | ●●● | | ●●● | | ●●● | |
| Risk / mitigation | ●●● | | ● | | ● | | ●●● | | ●● | | ●●● | |
| Assurance | ●●● | | ● | | ● | | ●●● | | ●●● | | ●●● | |
| Overall rating (is forecast reasonable) ** | ●●● | | ● | | ●● | | ●●● | | ●●● | | ●●● | |

* Nichols assessment of BRAG rating at P04 (July 2024)

** Nichols assessment of confidence in achieving the CP7 year 1-2 forecast efficiency value

North West & Central (4)

Waterfall including overlays per BRAG stage



Scotland (1)

CP7 efficiency context

Data source – FY25 P04 fishbone tracker (July 2024)

| Metric | Description |
|--------|--|
| £410m | Final Determination regional efficiency target, including direct and allocated costs (at 2023-24 prices) |
| £389m | Regional Delivery Plan target (nominal) |
| £26m | FY25 (year 1) efficiency target |
| £39m | FY25 (year 1) gross efficiency plan (equivalent to 150% of target) |
| £62m | FY26 (year 2) efficiency target |
| £87m | FY26 (year 2) gross efficiency (equivalent to 140% of target) |
| £18m | FY25+26 (year 1+2) total value of efficiency initiatives sampled in our review (see below) |

Initiatives value

| FY25, £k | FY26, £k | Total CP7, £k | Name (type) |
|----------|----------|---------------|---|
| 799 | 1,578 | 7,271 | Industry reform TA standards (capex) |
| 467 | 1,145 | 6,417 | Market led planning (capex) |
| 2,468 | 8,976 | 31,833 | Track renewals integration (capex) |
| 519 | 801 | 4,623 | Plant strategy & CEFA (opex) |
| 400 | 319 | 2,544 | Geospatial (opex) |
| 400 | 400 | 2,000 | Modernising maintenance apprentice utilisation (opex) |

Scotland (2)

| Line of Enquiry | Findings |
|---|---|
| Alignment of region and functional efficiencies | <ul style="list-style-type: none"> • P04 fishbone tracker aligns to the total efficiency in the regional delivery plan and the breakdown of capex and opex efficiency savings within this. • BRAG ratings broadly aligned with the central tracker. Some initiatives are already delivering benefits. |
| Explanations of business changes | <ul style="list-style-type: none"> • Documentary evidence of this for all the initiatives sample. • Level of detail varied, although good for all Green rated initiatives and the majority of Amber rated initiatives and where this is expected to be further developed. |
| Inputs and assumptions around calculations | <ul style="list-style-type: none"> • Calculations were provided for all initiatives. They were clear and sufficiently detailed. • Inputs were consistently baselined on CP6 exit price. |
| Risk management process | <ul style="list-style-type: none"> • Application of overlays and unidentified items is obscuring view of real forecast. • Use of challenge panels noted to address risks. • Overlays are used and are planned to be released at RF6 and RF9. |
| Assurance process | <ul style="list-style-type: none"> • Evidence of a robust assurance process is in place. • Not all the initiatives sampled had been assured, however, although work was underway to do so. |
| Risks to the initiatives and the plans for mitigating them | <ul style="list-style-type: none"> • Relatively limited detail for Amber rated initiatives, although (as would be expected) better for Green rated initiatives. • Noted the track renewal initiative is a challenging top-down stretch target and requires concerted effort to achieve, and will be dependent on business change, continued strong leadership and organisational support to enable timely delivery. |
| Whether overall, the regional efficiency forecast is reasonable | <ul style="list-style-type: none"> • Evidence suggests the track capex target (the largest by value of our sample) will be a challenge and so impacts on confidence for FY25 and FY26 targets. • By way of mitigation, Scotland could exceed target as it is currently under-reporting BRAG status for some initiatives (i.e. rated Amber for one initiative that is already delivering benefits) and there is some upside to numbers on the nationally enabled initiatives that has not yet been taken into account. |

Scotland (3)

Initiative assessment summary

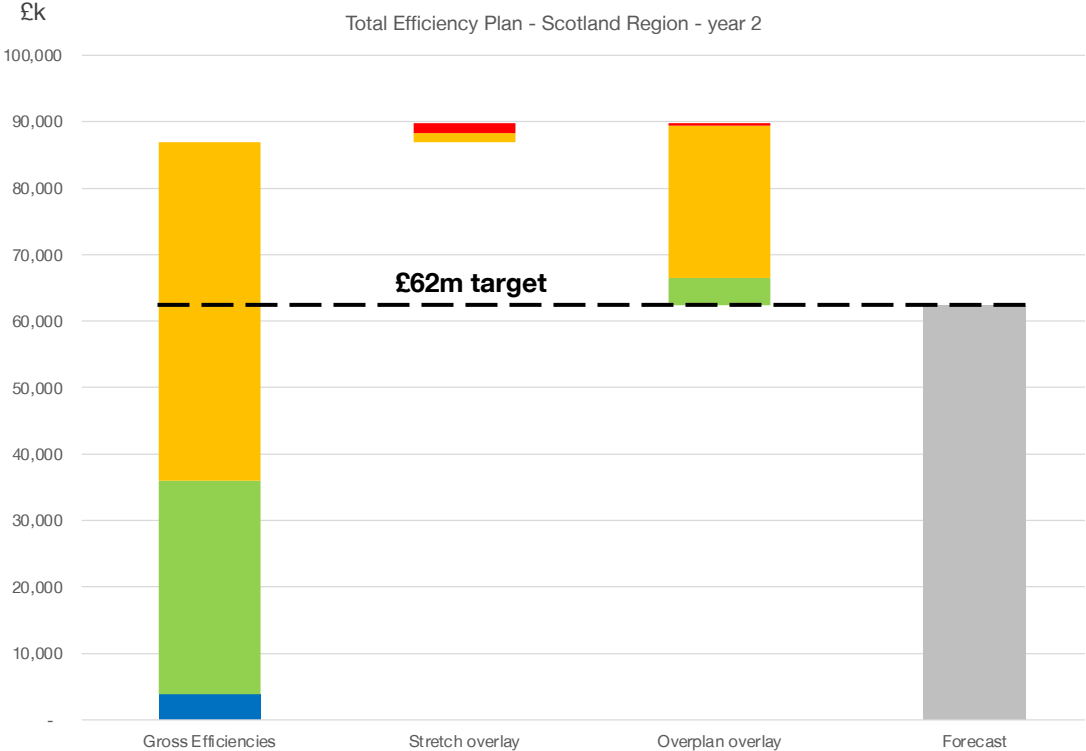
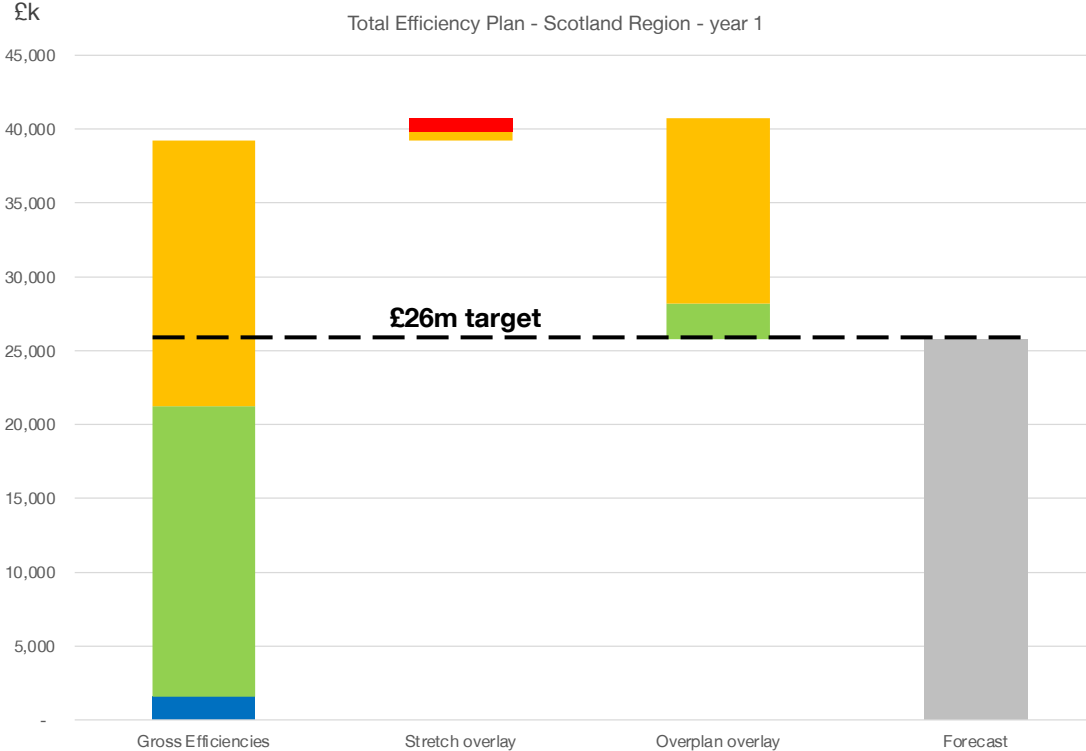
| Initiative name | MM apprentices utilisation | | Plant strategy and CEFA | | Geospatial | | Market led planning | | Industry reform TA standards | | Track renewals integration | |
|---|----------------------------|---------|-------------------------|---------|------------|---------|---------------------|---------|------------------------------|---------|----------------------------|---------|
| Initiative number | SCO0127 | | SCO0043 | | SCO0080 | | SCO0127 | | SCO0184 | | SCO0060 | |
| BRAG rating * | NR | Nichols | NR | Nichols | NR | Nichols | NR | Nichols | NR | Nichols | NR | Nichols |
| FY25 BRAG | Green | Blue | Green | Green | Green | Blue | Amber | Amber | Amber | Amber | Amber | Amber |
| FY26 BRAG | Green | Blue | Green | Green | Green | Green | Amber | Amber | Amber | Amber | Amber | Amber |
| FY25 + FY26 forecast (£m) | 0.80 | | 1.32 | | 0.79 | | 1.61 | | 2.38 | | 11.44 | |
| Capex / Opex | Opex | | Opex | | Opex | | Capex | | Capex | | Capex | |
| Assessment line of enquiry | | | | | | | | | | | | |
| Alignment to tracker | ... | | . | | ... | | .. | | ... | | . | |
| Change detail / description | ... | | .. | | ... | | ... | | ... | | ... | |
| Calculation | ... | | .. | | . | | .. | | ... | | .. | |
| Schedule / milestones | ... | | .. | | .. | | .. | | .. | | . | |
| Risk / mitigation | ... | | . | | ... | | .. | | ... | | .. | |
| Assurance | ... | | . | | ... | | .. | | .. | | . | |
| Overall rating (is forecast reasonable) ** | ... | | .. | | ... | | .. | | ... | | .. | |

* Nichols assessment of BRAG rating at P04 (July 2024)

** Nichols assessment of confidence in achieving the CP7 year 1-2 forecast efficiency value

Scotland (4)

Waterfall including overlays per BRAG stage



Southern (1)

CP7 efficiency context

Data source – FY25 P04 fishbone tracker (July 2024)

| Metric | Description |
|--------|--|
| £773m | Final Determination regional efficiency target, including direct and allocated costs (at 2023-24 prices) |
| £655m | Regional Delivery Plan target (nominal) |
| £42m | FY25 (year 1) efficiency target |
| £44m | FY25 (year 1) gross efficiency plan (equivalent to 104% of target) |
| £85m | FY26 (year 2) efficiency target |
| £92m | FY26 (year 2) gross efficiency plan (equivalent to 108% of target) |
| £63m | FY25+26 (year 1+2) total value of efficiency initiatives sampled in our review (see below) |

Initiatives value

| FY25, £k | FY26, £k | Total CP7, £k | Name (type) |
|----------|----------|---------------|---|
| 15,524 | 21,066 | 97,001 | NR staff efficiencies (capex) |
| 655 | 1,986 | 19,641 | Commitment to outperform inflation allowances (capex) |
| - | 2,201 | 22,013 | Risk based approach to design (capex) |
| 8,500 | 8,500 | 42,500 | Modernising maintenance (opex) |
| 939 | 1,825 | 8,238 | Industry reform TA standards (opex) |
| 1,100 | 1,100 | 5,500 | Seasonal (opex) |

Southern (2)

| Line of Enquiry | Findings |
|---|--|
| Alignment of region and functional efficiencies | <ul style="list-style-type: none"> • Generally, a strong alignment between region and group numbers. For one initiative sampled new numbers had been formulated which would be reconciled in P5/RF6. The new numbers were materially higher. • BRAG ratings broadly aligned with central tracker except for one initiative which was rated higher by the region and us. |
| Explanations of business changes | <ul style="list-style-type: none"> • Clearly articulated and supported by documentation in all initiatives. This documentation consisted of BRAG packs or explanatory slides. The changes were grounded in reality through the inclusion of any risks that had materialised. |
| Inputs and assumptions around calculations | <ul style="list-style-type: none"> • Calculations were provided for all initiatives. They were clear and sufficiently detailed. • Inputs in most cases was a CP6 exit price. The inflation initiative used a calculation based on the difference between a rate included in a contract and the rate provided in the final determination. |
| Risk management process | <ul style="list-style-type: none"> • Whilst there is no explicit process documented, there is good evidence of risk management at route and regional level through the governance/assurance process in place. Risks to individual initiatives are managed at initiative level. • Unlike other regions, Southern has a small overplan so it will need to deliver almost all initiatives to forecast values in order to meet targets. A 'hopper' of ideas exists which should be able to support the growth of the regional overplan. We also note that some forecasts explicitly defined conservatively, so may be improved upon. |
| Assurance process | <ul style="list-style-type: none"> • Good evidence of both route and regional level governance and assurance, where individual initiative owners attend and report to senior management. Main initiatives have been through a level of route and/or regional assurance. • Good evidence, in particular, for opex initiatives of status reporting and trend analysis. |
| Risks to the initiatives and the plans for mitigating them | <ul style="list-style-type: none"> • As noted above, the cautious view being taken of some forecast numbers (lower than in the fishbone tracker) to account for risk/optimism will help to mitigate potential shortfall e.g. risk based approach to design. |
| Whether overall, the regional efficiency forecast is reasonable | <ul style="list-style-type: none"> • The limited overplan means the region will need to deliver almost all planned efficiencies to hit target, which is a risk. • However, the level of governance and assurance seen at regional level, and the maturity of the sampled initiatives, means there is no evidence to suggest the forecast will not be met, and therefore we conclude the forecast to be reasonable. • Planned efficiency forecasts for FY25 and FY26 are expected to fully align with the fishbone tracker at RF6 or possibly next period. |

Southern (3)

Initiative assessment summary

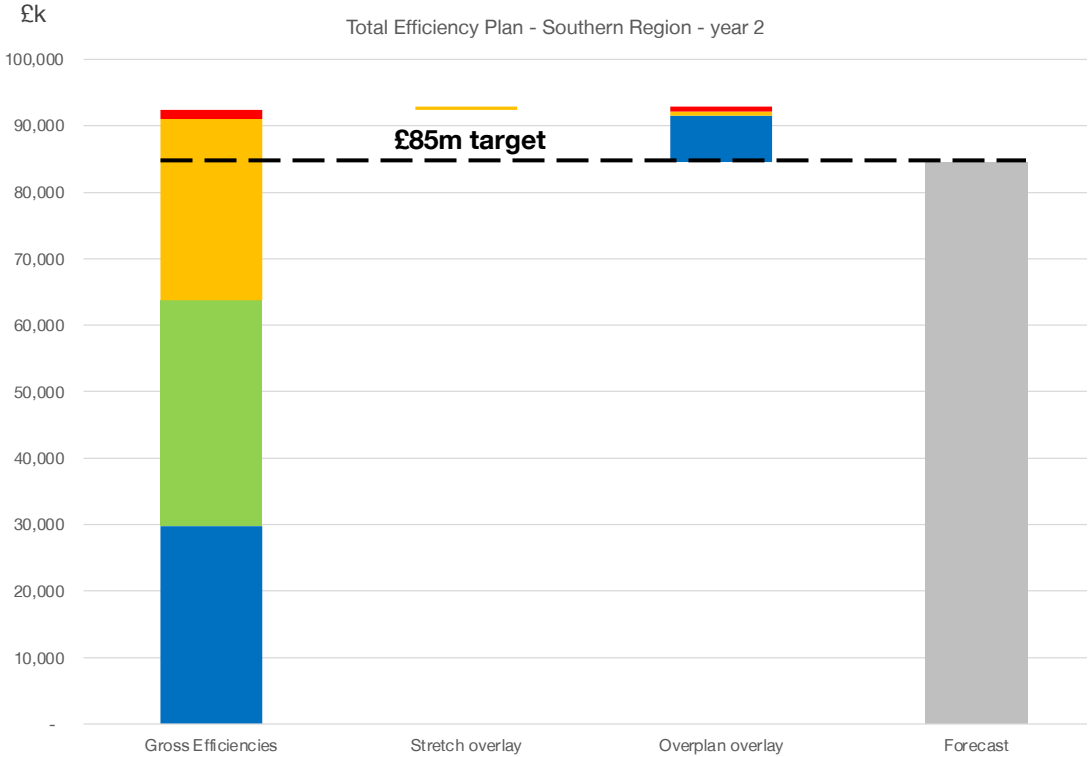
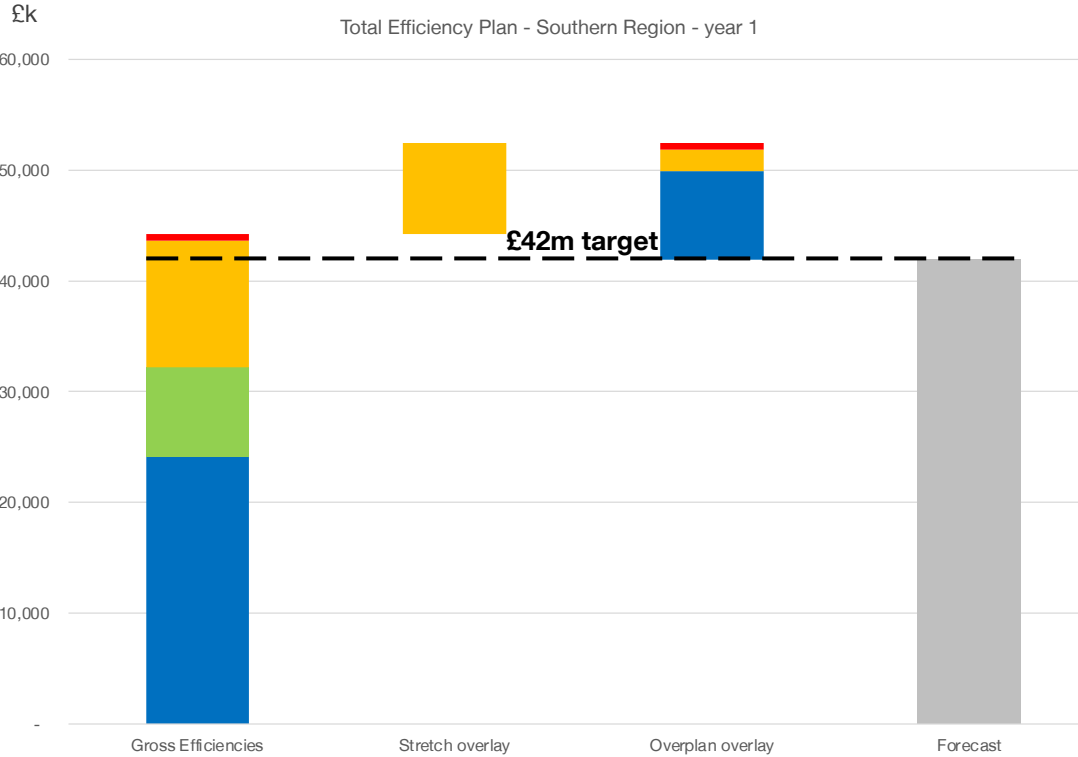
| Initiative name | Seasonal | | Industry reform TA standards | | Modernising maintenance | | Risk based approach to design | | NR staff efficiencies | | Outperform inflation allowances | |
|---|----------|---------|------------------------------|---------|-------------------------|---------|-------------------------------|---------|-----------------------|---------|---------------------------------|---------|
| Initiative number | SNO0033 | | SNO0091 | | n/a | | SNC0004 | | (all capex lines) | | n/a | |
| BRAG rating * | NR | Nichols | NR | Nichols | NR | Nichols | NR | Nichols | NR | Nichols | NR | Nichols |
| FY25 BRAG | Green | Blue | Amber | Amber | Blue | Blue | Green | Green | Blue | Blue | Green | Green |
| FY26 BRAG | Green | Blue | Amber | Amber | Blue | Blue | Green | Green | Blue | Blue | Green | Green |
| FY25 + FY26 forecast (£m) | 2.20 | | 2.76 | | 17.00 | | 2.20 | | 36.60 | | 2.64 | |
| Capex / Opex | Opex | | Opex | | Opex | | Capex | | Capex | | Capex | |
| Assessment line of enquiry | | | | | | | | | | | | |
| Alignment to tracker | ... | | ... | | ... | | . | | ... | | ... | |
| Change detail / description | ... | | ... | | ... | | ... | | ... | | ... | |
| Calculation | ... | | .. | | ... | | ... | | ... | | .. | |
| Schedule / milestones | ... | | ... | | ... | | ... | | ... | | .. | |
| Risk / mitigation | ... | | .. | | ... | | ... | | ... | | . | |
| Assurance | ... | | ... | | ... | | ... | | ... | | .. | |
| Overall rating (is forecast reasonable) ** | ... | | ... | | ... | | ... | | ... | | .. | |

* Nichols assessment of BRAG rating at P04 (July 2024)

** Nichols assessment of confidence in achieving the CP7 year 1-2 forecast efficiency value

Southern (4)

Waterfall including overlays per BRAG stage



Wales & Western (1)

CP7 efficiency context

Data source – FY25 P04 fishbone tracker (July 2024)

| Metric | Description |
|--------|--|
| £575m | Final Determination regional efficiency target, including direct and allocated costs (at 2023-24 prices) |
| £494m | Regional Delivery Plan target (nominal) |
| £35m | FY25 (year 1) efficiency target |
| £62m | FY25 (year 1) gross efficiency plan (equivalent to 177% of target) |
| £72m | FY26 (year 2) efficiency target |
| £83m | FY26 (year 2) gross efficiency plan (equivalent to 115% of target) |
| £38m | FY25+26 (year 1+2) total value of efficiency initiatives sampled in our review (see below) |

Initiatives value

| FY25, £k | FY26, £k | Total CP7, £k | Name (type) |
|----------|----------|---------------|--|
| 5,141 | 5,218 | 26,553 | Intelligent Client – Management overhead reduction (capex) |
| 2,589 | 1,831 | 8,903 | Intelligent Client – Flexibility in specification/design and value engineering (MVP) track (capex) |
| 2,056 | 7,305 | 32,033 | Possession optimisation (capex) |
| 514 | 521 | 2,653 | Operations overtime (opex) |
| 1,233 | 1,252 | 6,367 | Contracting strategy CEFA (opex) |
| 5,242 | 5,319 | 27,062 | Modernising maintenance (opex) |

Wales & Western (2)

| Line of Enquiry | Findings |
|---|--|
| Alignment of region and functional efficiencies | <ul style="list-style-type: none"> P04 fishbone tracker aligns to the total efficiency in the regional delivery plan and the breakdown of capex and opex efficiency savings within this. |
| Explanations of business changes | <ul style="list-style-type: none"> Well articulated during interviews, however BRAG packs and savings on a page (SOAPs) for the initiatives selected were light on detail when describing the specific business change and may need to be strengthened. |
| Inputs and assumptions around calculations | <ul style="list-style-type: none"> Sampled initiatives generally had supporting calculations with them, although not all were easy to follow, and in one instance (operations overtime) the calculation appears to have not accounted for the 'net' efficiency. Calculations could be strengthened to include more detail and explanation, or where relevant, reference out to another document where calculations can be found. |
| Risk management process | <ul style="list-style-type: none"> At regional level, a sizable overplan exists relative to targets. Overlays bring the forecast down to target for the purposes of reporting. No formalised risk management process exists, though risks to initiatives managed at initiative level. |
| Assurance process | <ul style="list-style-type: none"> Assurance regime established at regional level, with plans to review all initiatives. At the time of review, this was only just starting so the majority of initiatives have not yet been assured. There was some evidence of initiatives with BRAG statuses that did not reflect the maturity of the initiative. Assurance reviews would pick this up and improve the accuracy of the regional BRAG picture. |
| Risks to the initiatives and the plans for mitigating them | <ul style="list-style-type: none"> The degree to which risk is considered varied per initiative. Some (e.g. possession optimisation) which are a project in themselves had well developed risk information including a risk register, some (e.g. 'Minimum Viable Product') accounted for risk in the calculations, while other initiatives were light on risk information. |
| Whether overall, the regional efficiency forecast is reasonable | <ul style="list-style-type: none"> While the sampled initiatives may not deliver their current forecast numbers, any shortfall at initiative level may be mitigated by the size of the overplan in FY25. This is further supported by the fact the FY25 plan has Blue/Green initiatives valued at £39m, so the region would not have to rely on any Amber initiatives to deliver the FY25 target. However, as most initiatives have not yet been through regional assurance, the BRAG make up could change. The FY26 forecast is higher and the overplan is smaller, so there is a higher risk to the delivery of the FY26 target. |

Wales & Western (3)

Initiative assessment summary

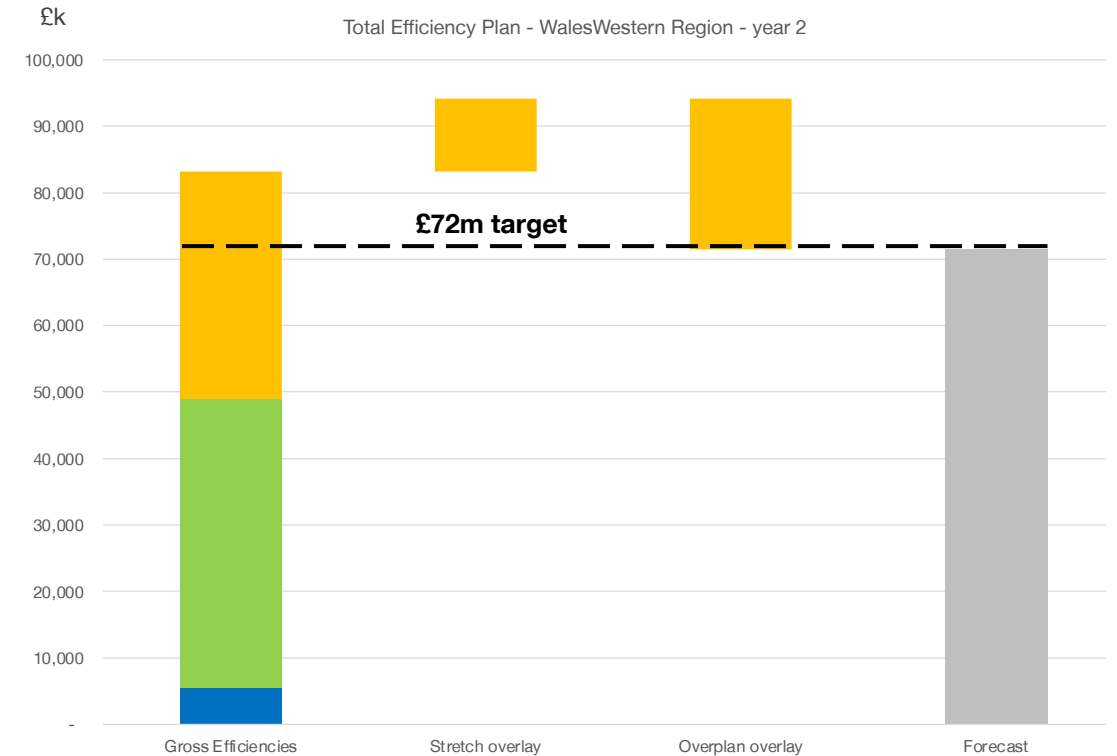
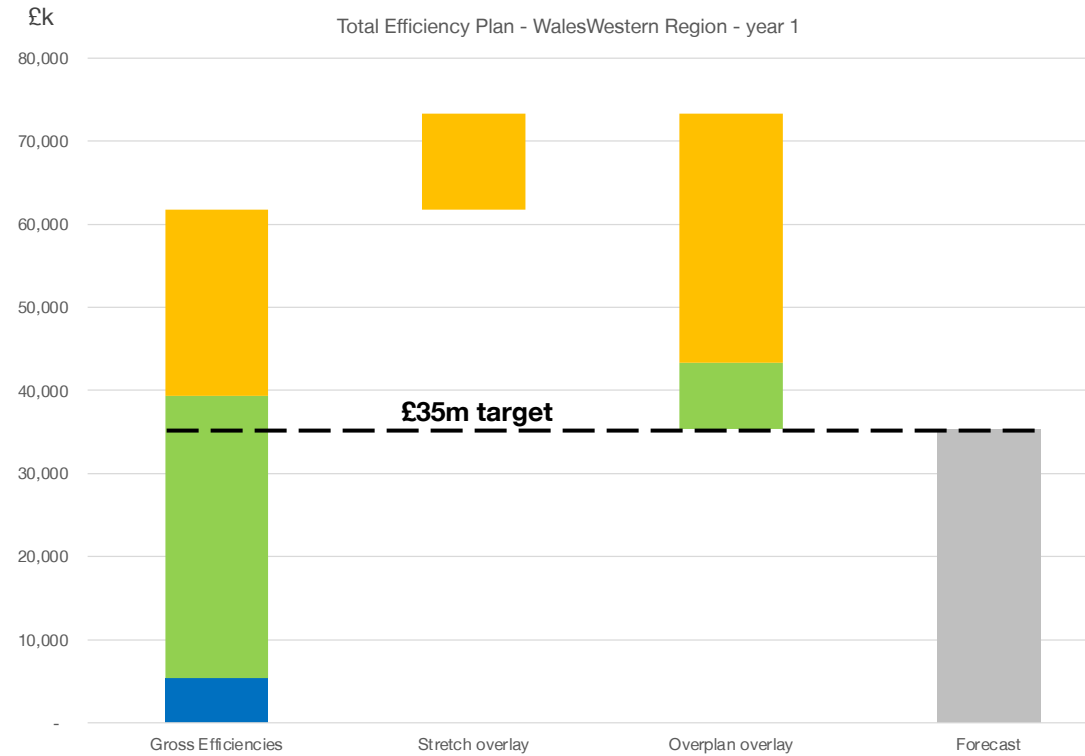
| Initiative name | Intelligent client -MVP - track | | Management overhead | | Possession optimisation | | Operations overtime | | CEFA | | Modernising maintenance | |
|---|---------------------------------|---------|---------------------|---------|-------------------------|---------|---------------------|---------|---------|---------|-------------------------|---------|
| Initiative number | WWC0045 | | All capex lines | | All capex lines | | WVO0058 | | WVO0022 | | WVO0203 | |
| BRAG rating * | NR | Nichols | NR | Nichols | NR | Nichols | NR | Nichols | NR | Nichols | NR | Nichols |
| FY25 BRAG | Green | Green | Blue | Blue | Green | Green | Green | Green | Amber | Red | Green | Blue |
| FY26 BRAG | Green | Amber | Blue | Blue | Green | Green | Green | Green | Amber | Amber | Green | Blue |
| FY25 + FY26 forecast (£m) | 4.42 | | 10.36 | | 9.36 | | 1.04 | | 2.49 | | 10.56 | |
| Capex / Opex | Capex | | Capex | | Capex | | Opex | | Opex | | Opex | |
| Assessment line of enquiry | | | | | | | | | | | | |
| Alignment to tracker | ●●● | | ●●● | | ●●● | | ●●● | | ●●● | | ●●● | |
| Change detail / description | ●●● | | ●●● | | ●●● | | ●● | | ●● | | ●●● | |
| Calculation | ●● | | ●●● | | ●●● | | ●● | | ● | | ●● | |
| Schedule / milestones | ●● | | ●● | | ●●● | | ●● | | ● | | ●● | |
| Risk / mitigation | ●●● | | ●● | | ●●● | | ●● | | ● | | ●● | |
| Assurance | ●● | | ●●● | | ● | | ● | | ● | | ● | |
| Overall rating (is forecast reasonable) ** | ●● | | ●●● | | ●●● | | ●● | | ● | | ●●● | |

* Nichols assessment of BRAG rating at P04 (July 2024)

** Nichols assessment of confidence in achieving the CP7 year 1-2 forecast efficiency value

Wales & Western (4)

Waterfall including overlays per BRAG stage



Note: Wales and Western have a small inefficiency of £10k, which is not identified on the graph.

Route Services Directorate (1)

CP7 efficiency context

Data source – FY25 P04 fishbone tracker (July 2024)

| Metric | Description |
|--------|--|
| N/A | Final Determination regional efficiency target, including direct and allocated costs (at 2023-24 prices) |
| £465m | Regional Delivery Plan target (nominal) |
| £43m | FY25 (year 1) efficiency target |
| £41m | FY25 (year 1) gross efficiency plan (equivalent to 95% of target) |
| £92m | FY26 (year 2) efficiency target |
| £57m | FY26 (year 2) gross efficiency plan (equivalent to 62% of target) |
| £18m | FY25+26 (year 1+2) total value of efficiency initiatives sampled in our review (see below) |

Initiatives value

| FY25, £k | FY26, £k | Total CP7, £k | Name (type) |
|----------|----------|---------------|--|
| 4,111 | 4,167 | 21,034 | ESD internal efficiency (capex) |
| 2,056 | 2,084 | 10,517 | Evergreen end user computer (capex) |
| 2,741 | 2,780 | 14,132 | Third party maintenance and licensing (opex) |

Route Services Directorate (2)

| Line of Enquiry | Findings |
|---|--|
| Alignment of region and functional efficiencies | <ul style="list-style-type: none"> Both opex and capex sample initiatives do not fully align with the P04 fishbone tracker. Variances reflect reprofiling and changed predicted amounts. Alignment is expected with the RF6 submission. The BRAG ratings were consistent with the central tracker. |
| Explanations of business changes | <ul style="list-style-type: none"> For all the initiatives this was clearly articulated. The level of information provided; i.e. BRAG packs, details of governance arrangements was thorough. |
| Inputs and assumptions around calculations | <ul style="list-style-type: none"> Pre-efficient baseline stated in all cases. In one initiative, this was not a CP6 value, it was an originally agreed way of delivering a programme of work. This was the only initiative sampled in our review where such a baseline had been chosen. Detailed calculations were present in all cases. |
| Risk management process | <ul style="list-style-type: none"> Unlike the regions, RSD does not utilise an overplan as a risk mitigation tool, but rather has an under plan for both FY25 (95%) and FY26 (62%). This means it will need to deliver all the initiatives listed in the tracker for both years, plus further savings from as of now unidentified initiatives. A background 'hopper' of ideas does exist, which will be important to develop if RSD are to deliver its FY25/26 targets. There is some conservatism in BRAG categories. There is the inherent issue of actualisation verses the BRAG ratings. If some projects are wide in scope, some elements may be under-developed and others may already be delivering benefits. |
| Assurance process | <ul style="list-style-type: none"> Evidence of robust assurance arrangements in place. Change control procedure in place for swapping efficiency initiatives in and out of the function tracker. Actualisation of benefits likely to be affected by changes in volumes, which may lead to benefits being realised later. |
| Risks to the initiatives and the plans for mitigating them | <ul style="list-style-type: none"> Risk management activity had been undertaken on all the initiatives. Evidence pointed to this having been done competently and effectively. Thinking about Forex risk on one project was noted and this demonstrated an excellent grasp of the subject matter. |
| Whether overall, the regional efficiency forecast is reasonable | <ul style="list-style-type: none"> Planned efficiency forecasts for FY25 and FY26 will change at RF6 and are reasonable. From the three selected there is an upside in terms of BRAG rating and benefit actualisation. |

Route Services Directorate (3)

Initiative assessment summary

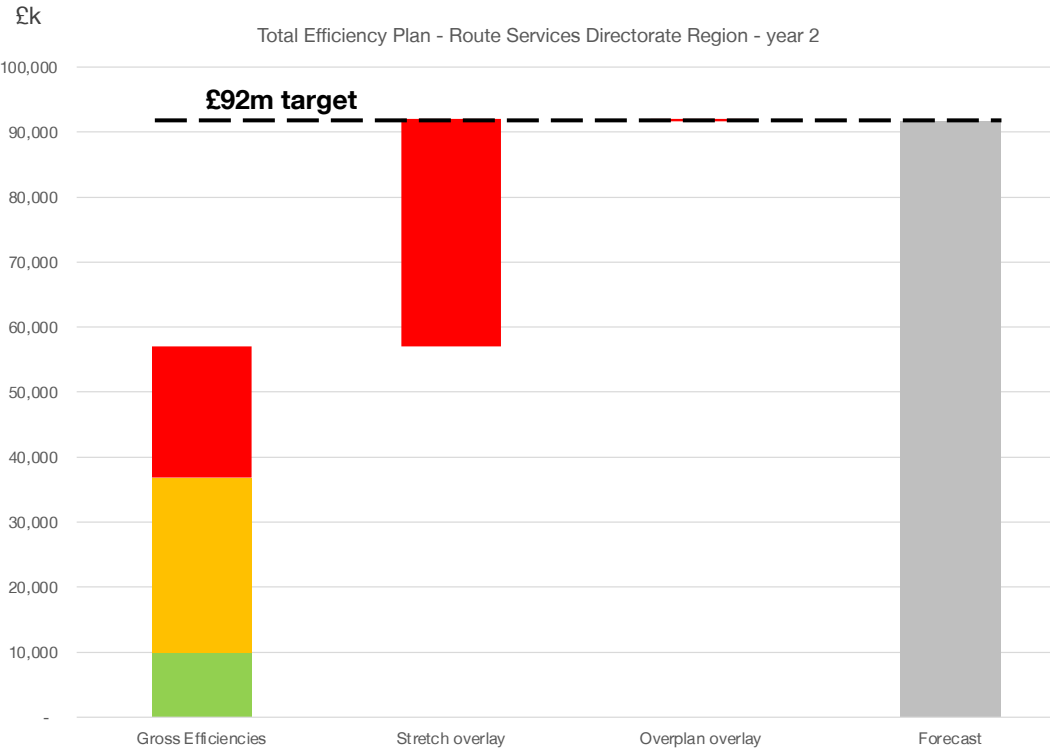
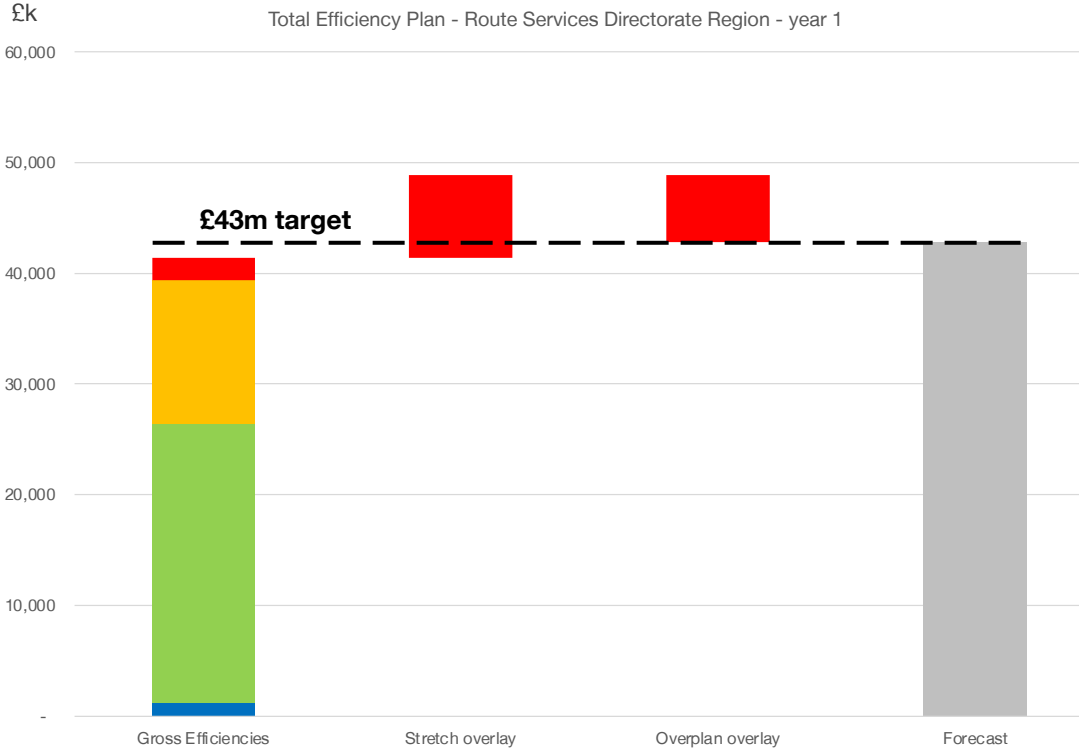
| Initiative name | ESD internal efficiency | | Evergreen and end user computer | | 3rd party maintenance & licensing | |
|---|-------------------------|---------|---------------------------------|---------|-----------------------------------|---------|
| Initiative number | RSC0053 | | RSO0043 | | RSO0045 | |
| BRAG rating * | NR | Nichols | NR | Nichols | NR | Nichols |
| FY25 BRAG | Amber | Blue | Green | Blue | Amber | Green |
| FY26 BRAG | Amber | Green | Green | Blue | Amber | Green |
| FY25 + FY26 forecast (£m) | 9.22 | | 4.14 | | 5.52 | |
| Capex / Opex | Capex | | Capex | | Opex | |
| Assessment line of enquiry | | | | | | |
| Alignment to tracker | ●● | | ●● | | ●● | |
| Change detail / description | ●●● | | ●●● | | ●●● | |
| Calculation | ●●● | | ●●● | | ●●● | |
| Schedule / milestones | ●● | | ●●● | | ●●● | |
| Risk / mitigation | ●●● | | ●●● | | ●●● | |
| Assurance | ●● | | ●●● | | ●●● | |
| Overall rating (is forecast reasonable) ** | ●●● | | ●●● | | ●●● | |

* Nichols assessment of BRAG rating at P04 (July 2024)

** Nichols assessment of confidence in achieving the CP7 year 1-2 forecast efficiency value

Route Services Directorate (4)

Waterfall including overlays per BRAG stage



Technical Authority enabled (1)

Summary findings

TA enabled efficiencies are in three groups; TA standards, TA R&D and TA engineering. Across the three, TA have identified £369m of 'opportunity' that they believe could be delivered in CP7 by the regions. There is good alignment between the opportunity value presented by TA and the adoption by the regions (regions adopted £360m of the £369m TA opportunity equating to 98%, and £33m of £38m opportunity in FY25, equating to 87%).

In our sample we covered three TA enabled initiatives; two being TA standards, and one being TA R&D.

TA standards

TA standards is the largest group in terms of opportunity value (£222m across CP7). This is a top down generated target from the William-Shapps white paper. Within region trackers, these mostly exists as placeholder lines currently, and when specific standards are identified, then a new line is added to the region trackers with the specific value of the saving, which is then netted off the placeholder line.

There is a defined process for how Network Rail reviews and updated standards, within which efficiency savings is a criteria included in any evaluation. Standards come up for review on a cyclic basis.

Savings accruing from Standard changes are recurring efficiencies for every year, and therefore the earlier the update is undertaken in the control period, the more efficiency savings accrue.

TA have undertaken the initial calculations of the opportunity that exists, which are then presented to the regions to review and accept as appropriate.

There is a good consensus between the national function and the regions, which is backed up with regular dialogue.

There was no evidence of any lack of clarity on accountability or handoff issues on the initiatives examined.

TA R&D

R&D opportunity accounts for £72m across CP7, again with very good adoption the regions (£71m). The £72m opportunity is generated from a hopper of technical projects with bottom up calculations, which are presented to regions for adoption and tracked using an 'adoption dashboard'.

Technical Authority enabled (2)

Initiative assessment summary

| Initiative name | Industry reform TA standards | | Industry reform TA standards | | Possession optimisation | |
|---|------------------------------|----------------|------------------------------|----------------|-------------------------|----------------|
| Initiative number | SCO0184 | | SNO0091 | | All capex lines | |
| BRAG rating * | NR | Nichols | NR | Nichols | NR | Nichols |
| FY25 BRAG | Amber | Amber | Amber | Amber | Green | Green |
| FY26 BRAG | Amber | Amber | Amber | Amber | Green | Green |
| FY25 + FY26 forecast (£m) | 0.72 | | 2.76 | | 9.36 | |
| Capex / Opex | Capex | | Opex | | Capex | |
| Assessment line of enquiry | | | | | | |
| Alignment to tracker | ●●● | | ●●● | | ●●● | |
| Change detail / description | ●●● | | ●●● | | ●●● | |
| Calculation | ●●● | | ●● | | ●●● | |
| Schedule / milestones | ●● | | ●●● | | ●●● | |
| Risk / mitigation | ●●● | | ●● | | ●●● | |
| Assurance | ●● | | ●●● | | ● | |
| Overall rating (is forecast reasonable) ** | ●●● | | ●●● | | ●●● | |

* Nichols assessment of BRAG rating at P04 (July 2024)

** Nichols assessment of confidence in achieving the CP7 year 1-2 forecast efficiency value

Route Services enabled (1)

Summary findings

RSD enabled efficiencies do not have an efficiency target in the way that the regions do. RSD develops a view on what savings are possible for a list of centrally developed initiatives. RSD then socialises these initiatives with the regions, who select items that they believe they can deliver, and to what level of efficiency. Regions remain accountable for all efficiencies that are enabled by national functions.

There is a large difference between the RSD view of efficiency and what the regions have adopted into their plans (£87m vs. £19m in FY25). However, we note that RSD have recently added over £100m to their opportunities bank for CP7, which is yet to be reviewed and assured by the regions, and thus the size of the gap may be affected by the timing of our review.

Dialogue/communication between regions and RSD was found to be generally good, with ‘drop-in’ sessions held by RSD. A “healthy tension” is said to exist relating to the difference in RSD efficiency numbers and regional numbers. The large difference in numbers indicates that there is low confidence by the regions in the RSD initiatives at this time.

The two initiatives sampled were at differing levels of maturity, NWC SCO was Blue and Eastern Intelligent Infrastructure was Amber. We assessed the level of maturity to be in line with the BRAG framework.

With nationally enabled initiatives there is, by definition, a ‘give/get’ between region and national function, which creates an accountability risk. Whilst we found some anecdotal evidence of this in our discussions with regions, we saw no evidence of any accountability gaps in the two initiatives sampled.

The initiatives assessed are sensitive to workbank volumes; i.e. if assumed workbank volumes drop, the efficiency value will drop proportionally.

The current value of the regional adoption of RSD enabled efficiencies (£19m in FY25, £28m in FY26) is substantially lower than the RSD view of the opportunity. We cannot confirm if the RSD view is reasonable, but a potentially significant opportunity exists to improve upon the current regional values assumed.

Route Services enabled (2)

Initiative assessment summary

| Initiative name | RSD SCO | | Intelligent Infrastructure | |
|---|-----------|----------------|----------------------------|----------------|
| Initiative number | n/a | | ANGOP010 | |
| BRAG rating * | NR | Nichols | NR | Nichols |
| FY25 BRAG | Blue | Blue | Amber | Amber |
| FY26 BRAG | Blue | Blue | Amber | Amber |
| FY25 + FY26 forecast (£m) | 7.70 | | 2.33 | |
| Capex / Opex | Capex | | Opex | |
| Assessment line of enquiry | | | | |
| Alignment to tracker | ●● | | ● | |
| Change detail / description | ●●● | | ●● | |
| Calculation | ●●● | | ●● | |
| Schedule / milestones | ●●● | | ●● | |
| Risk / mitigation | ●●● | | ●● | |
| Assurance | ●●● | | ● | |
| Overall rating (is forecast reasonable) ** | ●●● | | ●● | |

* Nichols assessment of BRAG rating at P04 (July 2024)

** Nichols assessment of confidence in achieving the CP7 year 1-2 forecast efficiency value

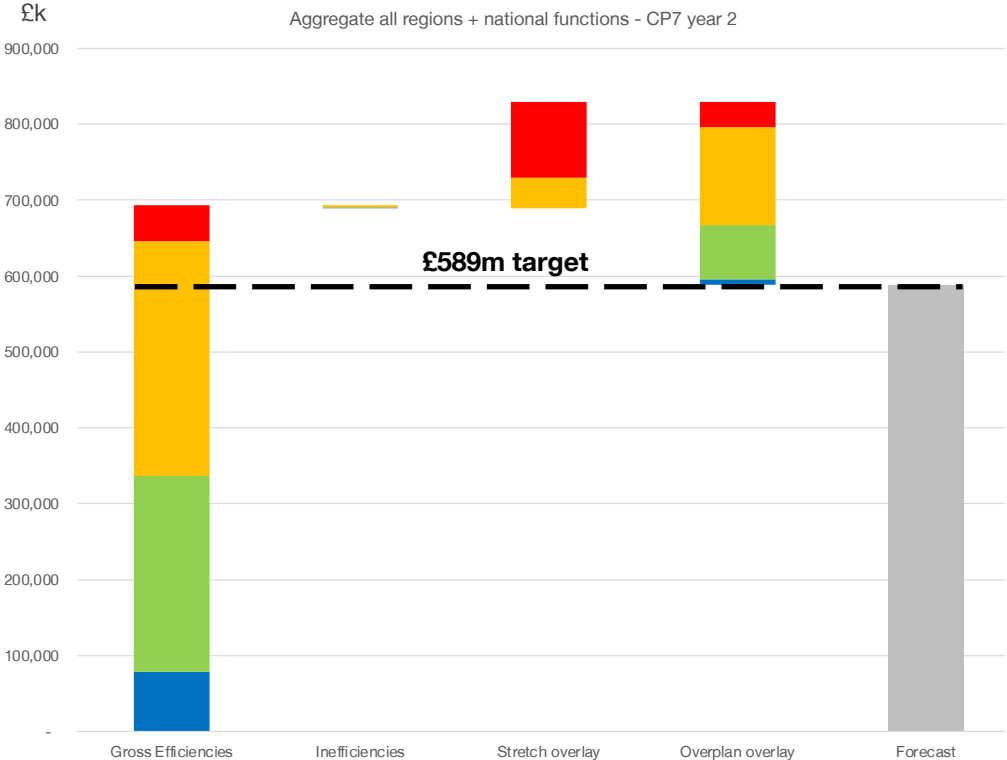
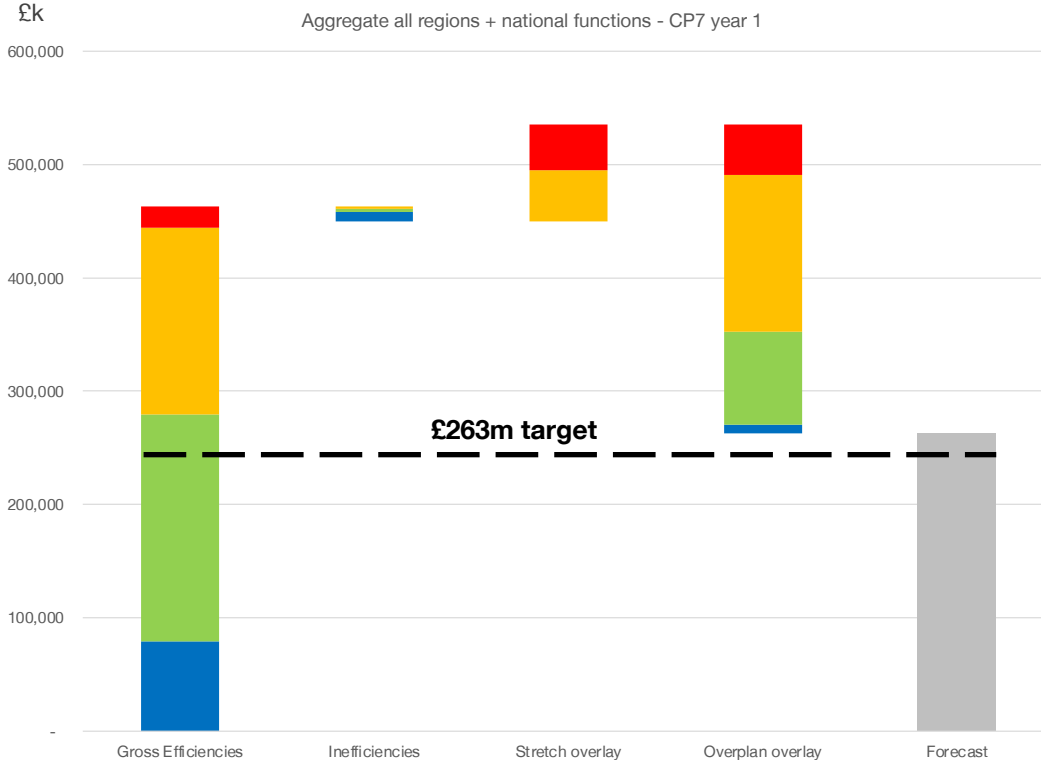


nichols

Annex B – CP7 Aggregate data

CP7 Aggregate data (1)

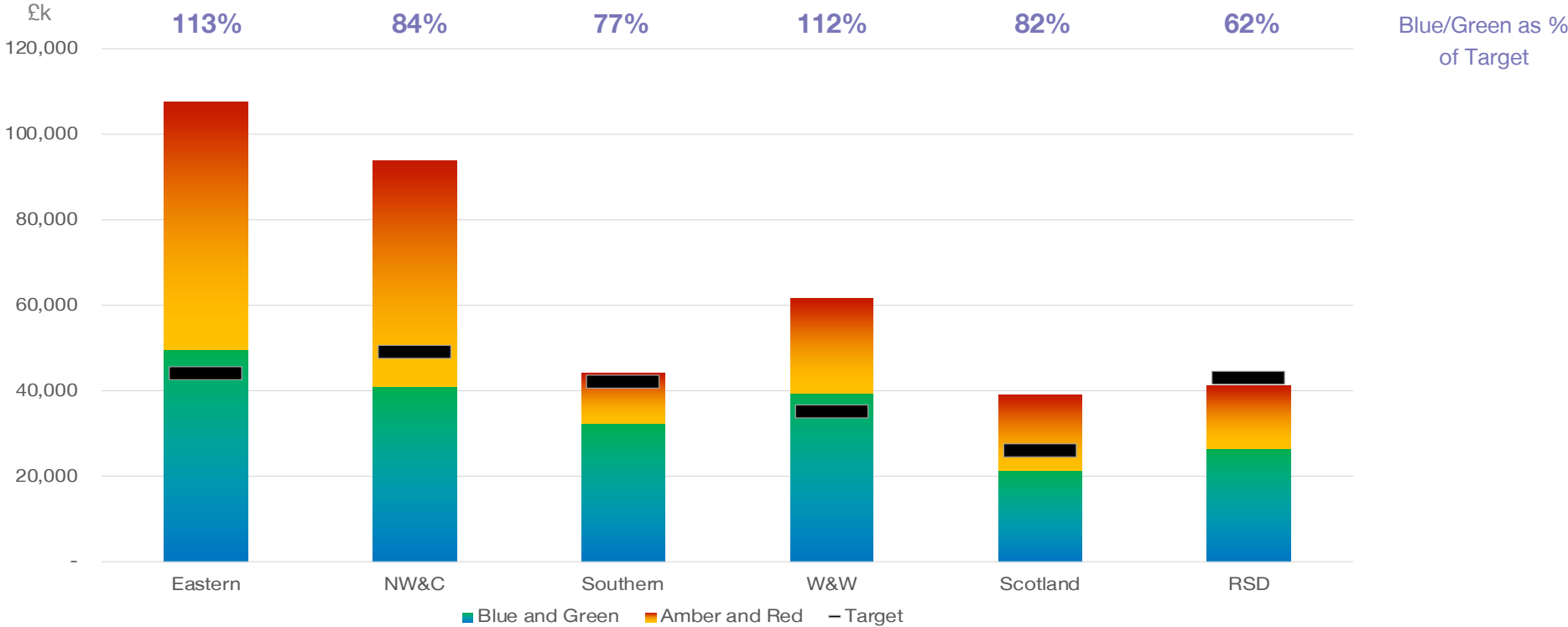
CP7 aggregate data waterfall



CP7 Aggregate data (2)

FY25 comparison by region of targets as a proportion of total the more mature (i.e. Blue/Green) efficiency plans

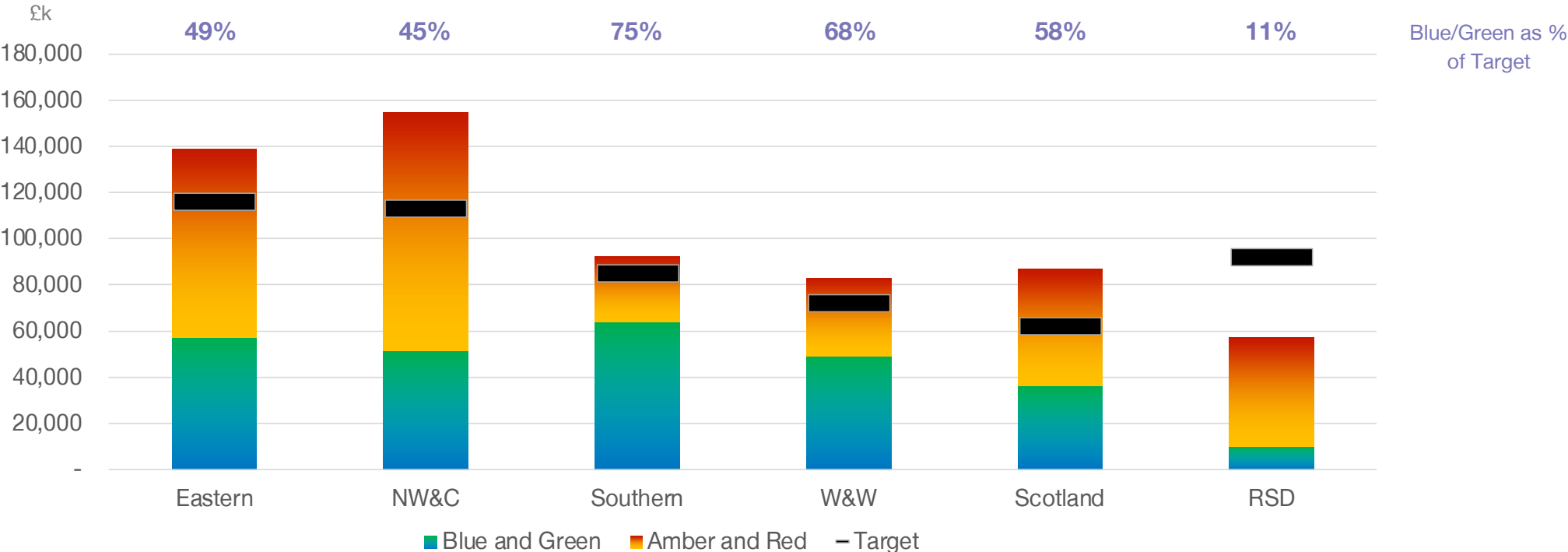
The graph below shows each reviewed region and function’s gross efficiency plan relative to their CP7 efficiency target for FY25. To note some regions and functions (Southern and RSD) maintain a separate offline ‘hopper’ of efficiency initiatives which are not included in the fishbone tracker, and therefore their gross efficiency plan is not fully represented in fishbone reporting.



CP7 Aggregate data (3)

FY26 comparison by region of targets as a proportion of total the more mature (i.e. Blue/Green) efficiency plans

The graph below shows each reviewed region and function’s gross efficiency plan relative to their CP7 efficiency target for FY26. To note, as per the previous slide, some regions and functions (Southern and RSD) maintain a separate offline ‘hopper’ of efficiency initiatives which are not included in the fishbone tracker, and therefore their gross efficiency plan is not fully represented in fishbone reporting.





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Annex C – CP6 Comparator

High-level comparison with CP6 findings (1)

Nichols undertook a similar Independent Reporter assessment of Network Rail’s efficiencies plans in early CP6. We have undertaken a summary check for evidence of those CP6 findings in our CP7 review, as summarised below.

| CP6 findings | Observation in CP7 |
|---|---|
| Plans consistent with the FD, with some plans forecasting outperformance | Unchanged |
| Wide variation in quality of efficiency forecast documentation, and most forecasts lack underpinning detail, assumptions, rationale, time phasing | Unchanged, though this varies per BRAG stage, and lesser detail is for Amber and Red initiatives, which is not unreasonable |
| Difficult to reconcile line of sight from plans to targets, so routes could further develop existing tools and products for documenting efficiencies | Improved although this could still benefit from additional focus |
| Efficiency plans and forecasts for opex initiatives more mature than for capex, acknowledged then that achieving capex efficiencies inherently more difficult | No evidence of this identified |
| Limited evidence of management of risks | Unchanged, although use of overlays to correct for risk at portfolio-level |
| Senior support, which flows down to most individual teams | Unchanged |
| Majority of savings programmed for later years, so more needed to be done to produce robust plans early on | Unchanged |
| Lack of monitoring, where if a project achieves post-efficient cost, then efficiency is deemed delivered, however there are many influences on Anticipated Final Costs (AFCs) | This assumption was not evident, which is positive, although little evidence of ongoing monitoring of benefits realisation |

High-level comparison with CP6 findings (2)

Conclusions

- The majority of the issues we identified and reported on in early CP6 are not evident early in CP7, which is a positive conclusion.
- Overall, there appears to be a more mature approach in place and a further developed group oversight and controls regime in place.
- The quality of documentation at initiative still varies, however, and the treatment of risk at initiative level remains relatively limited.



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Annex D – CP6 Maintenance study

CP6 Maintenance study (1)

Maintenance Comparator Study

In 2022, Nichols conducted a study for ORR, assessing Network Rail's maintenance practices. This study covered potential initiatives related to new technology, maintenance working practices, use of independent rostering, broader staff skills and deployment of multifunctional teams.

These initiatives are now part of Network Rail's plans for modernising maintenance within its wider 'Workforce Reform' programme, and are included in its efficiency plans for CP7. We sampled four relevant efficiency initiatives within the Eastern, Scotland, Southern and Wales & Western regions.

For a summary of progress compared to our review in CP6 see slide over.

CP6 Maintenance study (2)

| Finding (2022) | Evidence of progress (2024) |
|---|--|
| <p>Deployment of technology: Network Rail has made significant advances in its use of technology [and] compares well against the sectors. However, to take advantage of deployment of technology, Network Rail needs to have the flexible and responsive working practices others are using.</p> | <ul style="list-style-type: none"> • Modernising Maintenance initiatives sampled do not highlight new technology although other efficiencies do; e.g. Wales & Western possession optimisation, Eastern Intelligent Infrastructure, Scotland geospatial and Southern seasonal initiatives. • Technical Authority has a hopper of R&D initiatives that mean further technology enabled initiatives could be developed and deployed in CP7. |
| <p>Maintenance practices: Network Rail review standards every five years or when an event prompts change. It encourages suppliers and stakeholders to challenge standards and propose changes. Despite the volume and complexity of Network Rail's standards catalogue, other companies review standards more frequently.</p> | <ul style="list-style-type: none"> • There is a Technical Authority initiative to generate efficiency via updated standards. • A well-defined process exists, which allows for standards to be reviewed more frequently than five years if required. |
| <p>Independent rostering: Current Network Rail practice appears to be more restrictive and less flexible than most organisations we spoke to who roster staff individually, have a shorter roster cycle managed centrally and did not report issues with deploying staff when needed.</p> | <ul style="list-style-type: none"> • Modernising Maintenance initiatives provided evidence in Scotland and Eastern that maintenance rosters have been improved; e.g. to centralise and professionalise; and adjustment of T&Cs in Eastern. • Secondary benefit achieved in reducing the numbers of vehicles required. |
| <p>Individuals with broader skills: Frontline operatives managed in discipline-based teams and operate independently of each other, where elsewhere entry level maintenance practitioners were expected to cover a wide range of tasks.</p> | <ul style="list-style-type: none"> • No evidence seen from the sample initiatives reviewed. |
| <p>Multifunctional teams: Network Rail practice is for individual teams by discipline however, multi-disciplinary teams who can cover most maintenance needs was a common model with others that appears to be more efficient.</p> | <ul style="list-style-type: none"> • Modernising Maintenance evidence provided; e.g. in Southern, where this is a design principle used to generate efficiencies, and in Scotland where there has been success in including second and third year track apprentices within the Delivery Unit rosters. |



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Annex E – Abbreviations

Abbreviations

| | | | |
|------|---------------------------|------|------------------------------|
| AFC | Anticipated Final Cost | POAP | Plan on a Page |
| BRAG | Blue Red Amber Green | R&D | Research & Development |
| CP | Control Period | RF | Rolling Forecast |
| DFT | Department for Transport | RSD | Route Services Directorate |
| FY | Financial Year | SID | Southern Integrated Delivery |
| NR | Network Rail | SOAP | Savings on a Page |
| LOD | Line of Defence Assurance | TA | Technical Authority |
| NW&C | North West and Central | T&C | Terms & Conditions |
| ORR | Office of Road and Rail | W&W | Wales and Western |

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