26 September 2017

PR18 SBP Planning Assurance Mandate – Summary Report

Reference: L2Ni007

26 September 2017

Final Summary Report

Background

This report presents the findings of a review of Network Rail's strategic business planning process undertaken by the Nichols Group in August and early September 2017. The review was commissioned by Network Rail and ORR under the Independent Reporter framework; the mandate reference is "L2Ni007: PR18 – SBP planning assurance review".

The mandate responds to a request by the Secretary of State to seek further assurance on Network Rail's progress in developing efficient plans for CP6 between publication of the High Level Output Statements (HLOS) for England & Wales and Scotland on 20 July 2017 and the planned issue of Statements of Funds Available (SoFA) for England & Wales and Scotland in October 2017.

Purpose of the review

The mandate set out the purpose of the review:

"The Independent Reporter is required to consider how Network Rail is developing the Strategic Business Plan (SBP) and if the planning approach is appropriate. This will include whether there is sufficient challenge on efficiency, recognising that Network Rail will continue to develop its approach both ahead of the SBP submission and during CP6 through continuous business planning.

The Reporter is not required to recommend efficient volume or expenditure numbers for CP6, nor to form an opinion on the volume and expenditure numbers in the current iteration of the business plans. The reporter is required to give an opinion on how Network Rail is progressing with development of the SBP".

Scope

The mandate required the Reporter to answer three high level questions:

1. Is Network Rail developing robust expenditure plans for each area of OMR (Operations, Maintenance and Renewals)?

2. Is progress with the development of these plans on track?

3. Is there sufficient challenge on efficiency?

The mandate specified more detailed areas of assessment underneath the three high level questions.

It specifically excludes any requirement to recommend efficient volume or expenditure numbers for CP6. Similarly, the mandate did not include reviewing deliverability planning as this was covered in a separate Reporter review 'L2Ni006 PR18 Deliverability Review'.

Context for OMR plans

Figure 1 below sets the OMR plans in context within a hierarchy of plans feeding into Route Strategic Plans (RSPs).
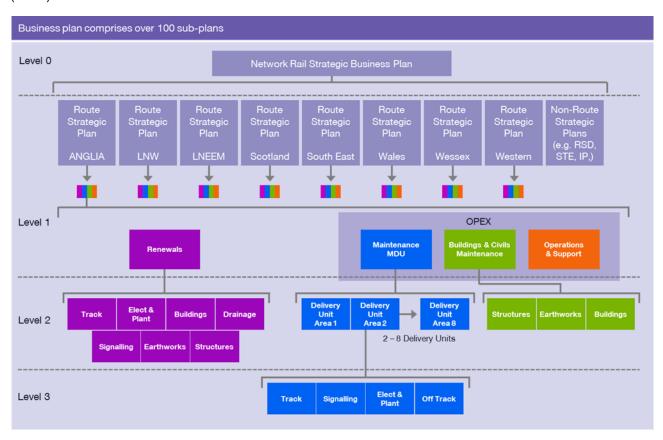

Figure 1: Strategic Business Plan is a hierarchy of lower level plans within each route

Assessment approach

We assessed a sample of OMR plans across the routes. Our assessment of each plan in the sample sought to address each of the three questions in the scope. The sample included:

- 14 asset renewals plans covering: track; signalling; electrification and plant; structures earthworks and drainage; and buildings

- Maintenance delivery units plans in 5 of the 8 routes

- Operations plans in 3 of the 8 routes

- One central support (non route) plan

Network Rail is implementing a rolling business planning process, with each iteration prefixed with 'RF' for rolling forecast and suffixed by the reporting period when it was produced. We used the plans completed for RF2 as the basis of our assessment, as RF6 was still work in progress at the time of the review.

Our assessment of robustness considers whether there is evidence that Network Rail has undertaken a planning process with the following quality criteria:

- There is a clear strategy at route level which feeds top-down into the asset interventions planning

- The route planning objectives are clear and have considered stakeholder inputs

- The plans are owned at route and Route Asset Manager (RAM) level

- The asset interventions planning has taken account of funding availability, safety, performance and asset life outcomes

- The asset interventions planning considers renewals and maintenance holistically for each asset type

- The basis of the work scope underpinning the plan is clear and transparent

- The delivery strategy has been considered and assumptions made are transparent

- The basis of the unit rates[1] is clear and transparent

- There has been appropriate assurance applied to the planning process inputs and outputs

The success criteria for a robust planning process is a realistic plan that can form the baseline for monitoring by the Regulator and the Funder.

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[1]The "unit rates" are total project out-turn rates which for early cost planning is considered appropriate.

Is Network Rail developing robust expenditure plans for each area of OMR?

We consider that Network Rail is following a progressive planning process that should lead to robust expenditure plans for OMR.

Overall process covering OMR

We consider that the principle of developing robust core plans prior to making adjustments for headwinds and efficiencies provides clarity between realism and ambition and provides a good focus for future challenge.

Throughout our sample assessments of route plans we observed a clear ownership of the basis of these plans by the Director of Safety and Route Asset Management (DRSAM) and also by the Route Asset Managers (RAMs).

Operations

Our conclusions are that Network Rail has developed operational targets in conjunction with its stakeholders, which are clearly and transparently set out. Network Rail has a good understanding of the operational requirements to meet these targets and these requirements reside within the route organisations so providing accountability for the targets set.

Network Rail has identified and costed organisational requirements within the business plan albeit that consistency of presentation and improved linkage to Operational Strategies is not sufficiently transparent. These are required to understand the basis of the resource plan underpinning the costs and how it relates to operational strategies, for example, deployment of resources to reduce Delays Per Incident (DPI). We have been told that such improvements will be visible in the RF6 submissions.

Maintenance

Network Rail's Activity Based Planning (ABP) process and tool provides a consistent analysis and presentation of estimated maintenance costs across routes and delivery units.

Activity based planning means that maintenance activities are planned at a granular level using approximately 550 standard job types. Each standard job has an expected time allocated to complete the task and the volume of each job type is specified for all five years of the control period. This provides transparency both of the planned work volumes and also the associated planned work hours, enabling both verification and challenge of both. The move to activity based planned has occurred in the last 18 months and provides significant improvements to the transparency of planned work and hours.

The ABP tool provides data for each route and delivery unit in a consistent form that promotes comparison and benchmarking both within a route and across routes. This is an area which Network Rail, its funders and regulators may wish to develop in the future. We observed that route management were using this information already to compare activity within their routes. The improved transparency provided by ABP should assist both Network Rail and its stakeholders in improving understanding of maintenance costs and their drivers both ahead of, and through RF6.

It is necessary to understand how the model is structured and the basis on which both direct maintenance costs and additional factors are estimated. We consider that more transparency of the cost drivers behind allowances for non-productive time (referred to as Non Time On Tools (NTOT)) and the other costs in the ABP model is needed. This would assist in understanding the final business plan figures. It is important to note that NTOT levels are not a strong proxy for efficiency as they are significantly influenced by factors such as access, geography and the level of rapid response cover for assets that are critical to performance.

Renewals

Workbanks are found to be well developed based on knowledge of asset conditions, safety and standards requirements and known performance requirements. The workbank planning is based on achievable outcomes and is properly planned with the right stakeholders engaged. All RAMs have described the route-by-route knowledge of asset conditions and interventions. The workbanks are targeting the safe operation of the railway using smaller-scale like for like modern equivalent form replacements prioritised over larger-scale full scheme renewals.

The RAM is at the centre of planning and decides activity volumes for renewals and maintenance based on funding available for the asset and route objectives. The funding level for each of the assets is set by the DRSAM. Independent professional review and challenge of route's decisions is provided by the asset professional heads in the central Safety, Technical and Safety (STE) directorate. Final review of the RF6

plans should check that any significant divergences between volumes proposed by the routes and volumes indicated by STE's models and policies have been reconciled.

The supply chain is being developed to cater for the changing work types. Network Rail Infrastructure Projects (IP) procure and project manage the major renewals work on behalf of the routes. We met with the IP Commercial and Development Director who has initiated a review of the supply chain procurement strategies for CP6. The Track Renewals procurement strategy has been reviewed as a matter of urgency to address issues in the current CP5 arrangements, which led to significant fluctuation in unit rates charged by IP to the routes.

The cost plans are set at a level that is considered to be achievable as they have been built up using outturn data providing realistic delivery budgets for the core plan, with efficiency commitments separately identified. Recognising that each asset type has specific cost characteristics, RAMs had both national and their own local unit rate information available to feed into the development of cost plans. Network Rail centre has developed the national unit rates by collating national outturn data for each asset type. For example this has been presented through the Integrated Cost Model for national signalling rates. These unit rates provide a benchmark relating to the known cost of previous delivery. The decision on which unit rate to use in an asset renewal cost plan is the responsibility of the RAM, although this is then subject to subsequent assurance by the central estimating teams. However, we consider that the plan would benefit from more transparency of the decision process for the selection and approval of appropriate unit rates used in route level cost plans.

Is the development of these plans on track?

We consider that Network Rail is on track in their development of expenditure plans for OMR for CP6 and we expect the RF6 post efficient cost plans to reflect significant development since RF2.

Overall process covering all OMR

Network Rail's Business Review Team (BRT) have set an overall time line for production of the SBP. We consider that the processes described coupled with the high degree of ownership of the process demonstrated by the BRT during our review provides a strong basis for Network Rail to control production of the business plan. Throughout our review, we have seen a clear focus on providing detailed and well-argued plans at both route and headquarters level. This, along with the strong central management described above, can be expected to lead to timely completion of the work required for submission of the SBP.

A caveat to being on track is the timing and detail of the Statements of Funds Available (SoFA). If this introduces significant changes compared to Network Rail's planning assumptions then it will need to be duly considered and the plans updated accordingly. However, we consider that the planning process is sufficiently robust to manage reasonable levels of change in a controlled manner. In the event that timescales come under pressure, we consider that it is important that the planned assurance activities by STE on work volumes; IP on cost planning and by the BRT on ABP and the overall production of the plan should be protected. Whilst the routes have shown high levels of accountability for the content of local plans, these overall checks are important to the integrity and quality of the plan as a whole.

Maintenance plans

Network Rail's own assurance of the ABP process at RF2 indicated that several routes were relatively immature in their development and use of the tool; central assurance by BRT of the ABP submissions for each Maintenance Delivery Unit (MDU) indicated that only 50% were rated 'green' with an assessed quality score of over 2 out of 5. Rolled up to route level, only three of the eight routes achieved a 'green' rating. Whilst we have seen encouraging signs of progress during the review, these ratings are indicative of the steep learning curve, which routes need to navigate as they develop the maturity of their use of the ABP tool for RF6.

Not all of these routes were included in our sample and so further review of ABP assurance at RF6 would be necessary to ensure that all have reached an appropriate standard.

Renewals plans

Based on our review sample, the plans are on track and are shown to be maturing between RF2 and RF6. The plans can also be expected to continue to be developed further for CP6 delivery. The renewals plan at RF2 was rated at between 6 and 8 out of 10 for maturity in the BRT assurance review. This has risen to 8 out of 10 as refinements are realised including, unit rate improvements, stakeholder integration, supply chain development and access planning improvements.

Operations plans

Based on our review sample, the operations plans should be maturing between RF2 and RF6. The plans can also be expected to continue to be developed further for CP6 delivery. We have been assured that greater transparency over the basis of the plans will be provided in the RF6 submission.

Is there sufficient challenge on efficiency?

We consider that Network Rail is applying a coordinated approach to identifying and developing potential efficiencies for CP6 and there is a good level of management visibility and challenge.

There is a clear process by which efficiencies are developed by cross-route forums for each of the main asset types. These forums are led by a nominated DRSAM and are supported by the central STE Directorate providing technology based efficiency opportunities, for example, Intelligent Infrastructure.

Efficiency proposals were generally less developed at RF2 than the core plan and the routes have subsequently worked on firming up their proposals for RF6. The BRT expect significant improvements in the next round of submissions. Identification and delivery of efficiencies is a rolling process and we expect further progress up to and during CP6 to confirm the feasibility and scale of the efficiencies identified.

Given that work on headwinds and efficiencies is still progressing in the approach to RF6 submissions, BRT and ORR may wish to validate the level of maturity and deliverability of these items once they have been finally collated and documented.

The development process includes challenge of the route level efficiency plans from the route executive, Chief Financial Officer (CFO) and then the Network Rail executive. This approach provides a good level of management visibility and local accountability for delivering the benefits and is an improvement on the previous CP5 'top down' application of efficiency overlays.

Recommendations

1	**Asset intervention planning**	Ensure there is a more transparent audit trail of decision-making and analysis used when considering different asset intervention options.
2	**Renewals plans**	Ensure there is a more transparent audit trail of the selection, consideration and approval of unit rates. This recommendation is seeking transparency and audit trail for the decision process.
3	**Maintenance plans**	Develop more transparency on cost drivers behind Activity Based Planning (ABP) Non Time on Tools (Travel, site setup, train delays etc.) and other costs.
4	**Operations plans**	Ensure there is more transparency and consistency of presentation to link headcount to operational strategy. In particular the strategy to provide rapid response in 'hot spot' areas.
5	**Efficiencies Planning**	Ensure that the expected benefits from the asset improvement initiatives can be traced directly into reductions in specific standard jobs for benefits tracking.