

Improving Network Rail's renewals efficiency

ACE consultation response

11 September 2017

Response to consultation questions

Q1. Have we identified the main causal factors explaining recent trends in efficiency? Do you have any views on their relative importance?

Overall, ACE agrees with the causal factors that have been identified by ORR in the consultation paper. However, we believe that Network Rail have been seriously distracted by the Enhancements story in CP5, which has not only drawn in many of their best people but also resulted in regular significant changes to the renewal plan to make the overall budget balance the enhancement overspends.

ACE believes the poor planning at the start of Control Period 5 (CP5) is of high importance and has had a significant impact on ACE member companies. Contract delays from poor preparation has reduced design work for renewals and have forced some ACE member companies to move staff out of rail teams. It is important that this trend does not continue in Control Period 6 (CP6) where there has been little visibility of the pipeline to date, particularly in light of the current skills shortage in the UK rail sector.

Some ACE member companies did note the devolution of Network Rail has not had a visible impact on the renewals efficiency decline in CP5. We therefore view this factor to be of lower relative importance.

Q2. Are there any factors that we have not identified? If so, could you explain their significance, ideally illustrated with evidence and/or practical examples.

ACE has identified eleven additional factors as drivers for the renewals efficiency decline.

1. An underestimation or overestimation of the scope of works involved in renewal activities. ACE notes the cause may be because Network Rail does not have a 'controlling mind', such as a Chief Engineer or Sponsor, able to make a final decision on the scope of work in the best interest for all involved.
2. The strong focus on possession deadlines. Staff are sometimes arriving on site with partially complete designs in order to meet time pressures. The merging of project stages together to chase unachievable end dates will lead to an increase in errors or poor planning.
3. Network Rail do not have a strategic cost control culture at the project level. Years of living under a regulated asset base when additional borrowing was easy has definitely not worked its way out of the project manager or sponsor community.
4. Projects that are driven by commitments at the Department for Transport, including delivery dates, before the scope of work is known.
5. The two delivery organisations within Network Rail for renewals work (Infrastructure Projects and Works Delivery) may be inefficient. Although the capability and competence of these organisations are different, each has their own level of support functions and overheads. It may be worth exploring if their current operating models (including internal processes) are the efficient and cost-effective.
6. ORR's method for measuring renewal costs. Overall, efficiencies are measured in terms of a year on year reduction in unit rate, as has been the case for many years.

For example, the expectation for Network Rail to save 20% on efficiencies in CP5 was unrealistic. Given Network Rail and ORR are much more informed about renewals costs, ACE believes it may be appropriate to consider an alternative method for measurement.

7. The cost stacks within Network Rail are areas to target for efficiencies. For example, around 40% of track renewal costs are associated with the materials, haulage and other services provided by an internal organisation within Network Rail. There may be scope for ORR to apply additional scrutiny in this area, or to open the purchase of materials from other suppliers.
8. Network Rail's risk adverse approach to overruns. Concerns over negative responses (by the public, media or the Minister) are driving Network Rail to plan less yardage in renewal projects, guaranteeing a reduction in efficiencies.
9. An under resourced procurement division at Network Rail. This is resulting in significant delays for releasing tenders and poor preparation at the start of control periods. Network Rail would also benefit from investing in leadership and staff capable of making procurement decisions.
10. Complex internal processes within Network Rail. These complex processes are getting in the way of 'common sense' solutions that can save time and money. Network Rail's GRIP processes are suitable if applied correctly. There may be an argument for a GRIP 'light' for renewals where the 'solution' is obvious. For example, insisting on all the full GRIP stages for the introduction of a single standard turnout on a non-electrified line takes months rather than days. However, the key message is that up-front development/design saves downstream construction costs.
11. A slowdown of renewals works at the start and end of control periods. This significantly impacts the supply chain, particularly at the start of CP5 when there was a heavy focus on enhancements. Five years control periods may not be providing enough certainty for businesses, particularly when compared to the length of the investment pipeline for High Speed 2.

Q3. Do you have any views on Network Rail's planning capability?

ACE believes Network Rail could revisit its rules for contingency planning. Currently, all projects are required to have a set of contingency margins, regardless of their geographic location. Network Rail could consider applying contingency margins based on the impact of an overrun for a project. For example, the impact of an overrun on a category 4 line will not be the same as an overrun on a category 1 line. The current costs associated with the Delivering Work Within Possessions standard (DWWP) and contingency planning may be outweighing the benefits for some projects.

ACE member companies feel Network Rail is over populated by project managers but under-resourced at the engineering and procurement levels. ACE believes that some renewals efficiencies can be achieved, particularly in the planning stage, when the right level and competency of staff are allocated to projects.

Lastly, ACE is concerned about the delivery of plans for CP6. Network Rail needs to be preparing for outlays in CP6 now. There is a significant risk that preparations for CP6 will be worse than in previous control periods if current trends continue. We understand that the CP6

Development Fund which would have ensured this happened was another casualty of the Hendy review.

Q4. Do you think we have identified the right priority areas for our scrutiny of Network Rail's plans during PR18?

On the whole, ACE believes ORR have identified the right priority areas for scrutiny of Network Rail's plans during PR18. It is critical that the failings in planning for CP5 do not repeat themselves.

In the past, a number of unforeseen events have occurred which have increased costs and therefore decreased opportunity for efficiency. ACE believes Network Rail and ORR are much better informed in this area than in previous control periods and are well placed to implement a number of lessons learned.

It is important that the messages and lessons learned in Network Rail are travelling to all staff in Network Rail. Some issues identified in this consultation paper will take strong leadership to ensure change is implemented across the organisation with the focus on clear project requirements and outcomes such that accurate costs are identified and fixed in the development stages.

About ACE

As the leading business association in the sector, ACE represents the interests of professional consultancy and engineering companies large and small in the UK. Many of our member companies have gained international recognition and acclaim and employ over 250,000 staff worldwide.

ACE members are at the heart of delivering, maintaining and upgrading our buildings, structures and infrastructure. They provide specialist services to a diverse range of sectors including water, transportation, housing and energy.

The ACE membership acts as the bridge between consultants, engineers and the wider construction sector who make an estimated contribution of £15bn to the nation's economy with the wider construction market contributing a further £90bn.

ACE's powerful representation and lobbying to government, major clients, the media and other key stakeholders, enables it to promote the critical contribution that engineers and consultants make to the nation's developing infrastructure.

Through our publications, market intelligence, events and networking, business guidance and personal contact, we provide a cohesive approach and direction for our members and the wider industry. In recognising the dynamics of our industry, we support and encourage our members in all aspects of their business, helping them to optimise performance and embrace opportunity.

Our fundamental purposes are to promote the worth of our industry and to give voice to our members. We do so with passion and vision, support and commitment, integrity and professionalism.

Further information

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