

Appendix K Network Rail Procurement and Supply Chain Strategy

Infrastructure Projects

CP5 Procurement and Supply Chain Strategy

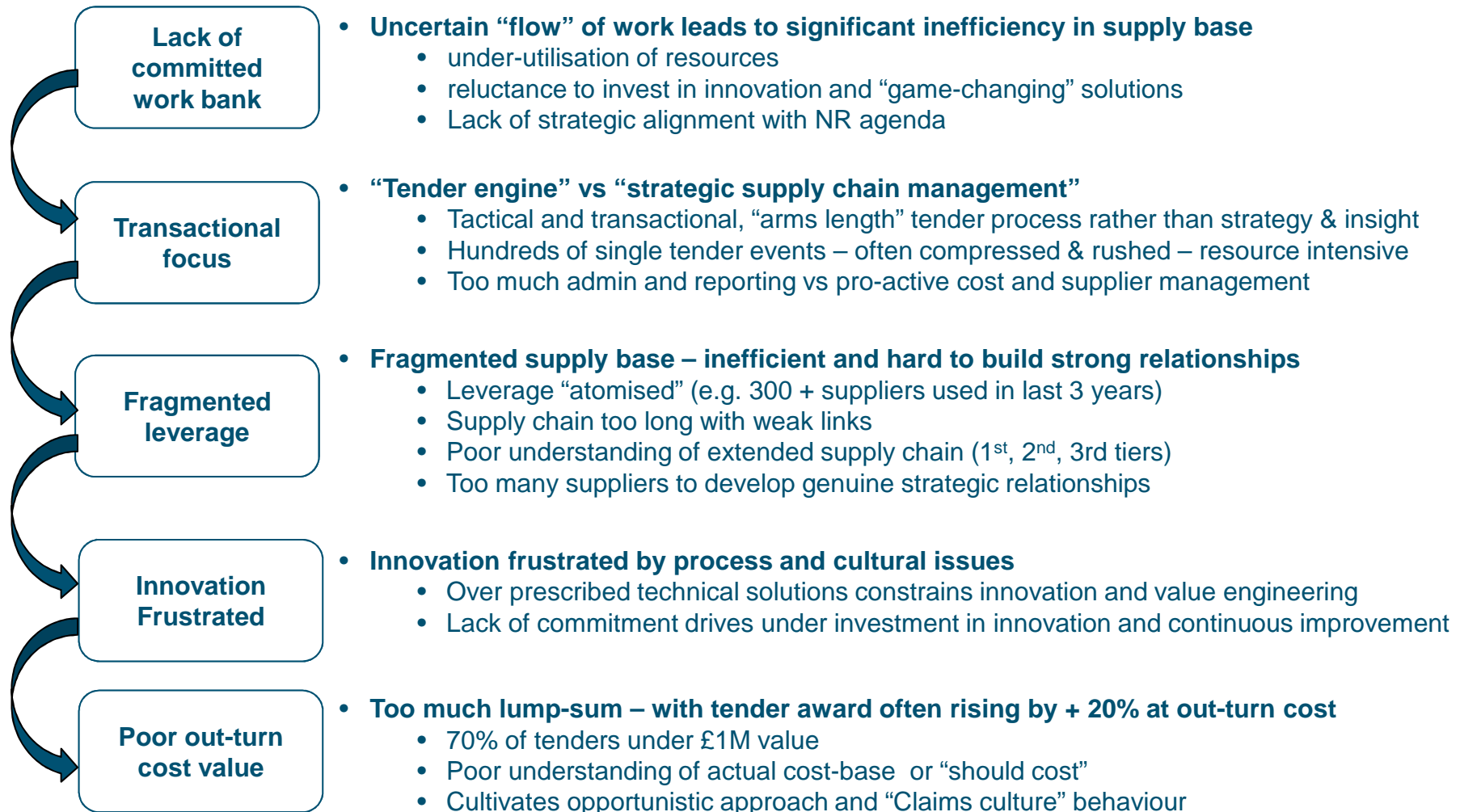
Supplier Briefing

Central Region

10th July 2013







Most inefficiencies can be tracked back to the lack of a committed work bank - fixing this is key to driving better value for money in CP5

Root causes of inefficiency



The regulator has set significant efficiency challenges – we must improve all our key performance areas whilst finding over £2bn efficiencies in CP5

Objectives set for Network Rail by ORR

<p>Safety</p> 	<p>Improve safety for passengers and workers - approved £67m of funding to upgrade and close level crossings in England and Wales</p>
<p>Infrastructure</p> 	<p>Complete projects to increase capacity and improve service as fast as possible</p>
<p>Passengers</p> 	<p>Give more say to rail users on how the railway is improved, putting passengers "at the heart of decisions"</p>
<p>Asset data</p> 	<p>Provide better and more up-to-date data on the condition of assets, so problems can be fixed before they occur</p>
<p>Punctuality</p> 	<p>On average of 92.5% of trains on all routes across the UK must arrive on time, compared with its target of just over 90% now</p>
<p>Value for money</p> 	<p>Give greater value for money - the ORR requires Network Rail and the supply chain to make £2 Bn further savings</p>

“Network Rail and the supply chain must make further savings and give greater value for money, through... improved management and more efficient ways of working but not at the expense of safety ”

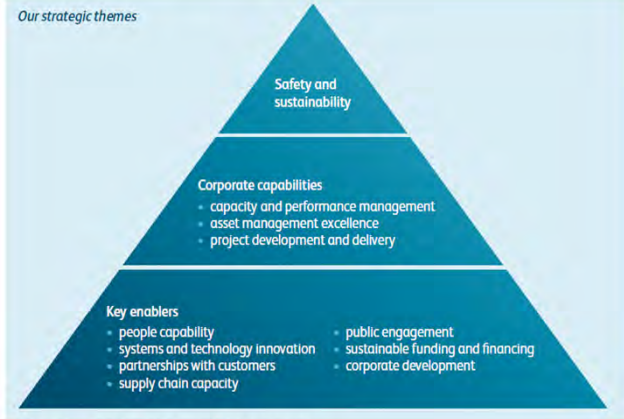
ORR Draft Determination (12th June)

“ Network Rail could do what it is promising to do for less money and more efficiently ”

**Anna Walker
Chairwoman ORR Board**

Network Rail have identified 12 strategic themes which will be crucial to delivering our CP5 commitments

Our Strategic Themes



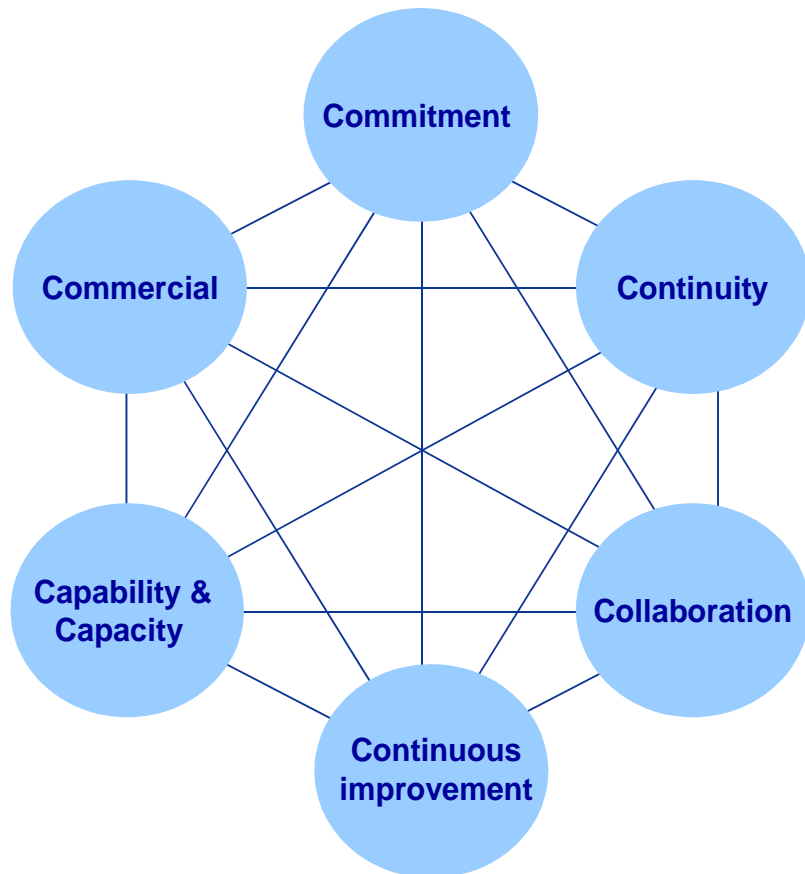
Date: 01.06.12 Strategic Themes 2012 - Supporting you in realising your objectives

- 12 strategic themes
- Workforce and system safety
- Capacity and performance management
- Asset Management Excellence
- Project Development and Delivery
- Sustainability
- Systems and Technology Innovation
- Sustainable Funding and Financing
- People Capability
- Partnership with Customers
- Supply Chain Management
- Corporate Development
- Public Engagement

Our Supply Chain is our main strategic lever to achieve these outcomes. Supply Chain Management must become a core competence and is a strategic imperative.

We have identified 6 key value levers that underpin our CP5 strategy development

Six key value levers



Value Lever

What this means to us

Commitment

Provide increased commitment to the supply-chain to encourage innovation and investment

Continuity

Optimise the efficient utilisation of resources, working closely with Routes to ensure continuity of work; stability drives productivity, improved safety and sustainability.

Collaboration

Work more closely with a high capability supply chain – extending visibility and control of critical resources in the extended supply chain

Capability & Capacity

Build a robust supply chain with demonstrable capability and capacity to fulfil all NR requirements

Commercial

Develop a greater understanding of the cost-base and ensure commercial model incentivises all to meet Network Rail's goals

Continuous improvement

Foster Innovation and best practice – getting better and better in all key performance areas

We have placed our Customers, Safety and Value for Money at the heart of our CP5 Vision

“We will delight our customers and stakeholders by providing innovative and efficient solutions, ensuring safe delivery to plan and budget. We will work collaboratively with them to optimise their demand, then manage efficient delivery through a highly capable, responsive, focussed and motivated supply chain.”



- Build relationships with c. 10-12 key T1 contractors
- Continuous Improvement of key performance measures and root-cause analysis of issues
- “Leaning” of internal and external processes
- Supply chain HUB – coordinating the procurement and development of key Tier 2 suppliers
- Deeper understanding of the Cost-Base
- Whole-life cost – linking to Route Opex costs

- Understand Customer needs
- Demand Planning and Aggregation
- Programme Integration and Planning
- Consent Management
- Access Optimisation and Integration
- Stakeholder Management
- Converting Customer Output Specifications into Efficient Solutions
- Whole Life Cost Evaluation

Our strategy will mend broken processes and force issues to be addressed

Our procurement and delivery strategy will also enable a significant improvement in Safety

Health & Safety

Our number 1 priority



Commitment & Continuity of work

- Enable **directly employed stable and consistent workforce** for effective behavioral change
- Security to **invest** in staff, system, process and technological innovation
- Allows for **longer-term planning and risk management** - projects can be planned in periods of better weather conditions and daylight.
- **Shifts focus** from tendering on to **delivery and safety performance** and **removes barriers** to **sharing of best practice and innovation**.

Closer to fewer for longer

- Easier to **embed safety initiatives** and **share best practice** across contractors
- **Higher capability and competent staff** will gravitate to the consolidated supply chain
- Effective and **independent performance measurement** and benchmarking (linked to profitability) will drive up standards.

Early Engagement in End-to-End process

- End to end engagement supports **Safe by Design** principles and allows **safe buildability** and **safe operability** to be considered earlier.
- Long-term programme and planning facilitates **off-site modularized production** in a controlled environment.
- Long-term engagement with strategic Tier 1 allows **the cascade of H&S benefits of strategic Tier 2**

Increase focus on Safety in tender and contract

- Major **selection criteria** for delivery partners – systems and behavioral
- PQQ and ITT process will require suppliers to describe how commitment based contracts will be used to **invest in improving safety performance** over contract period
- **Safety KPI's will be competitively tendered** (height of bar) and initiatives required to support year on year improvement.

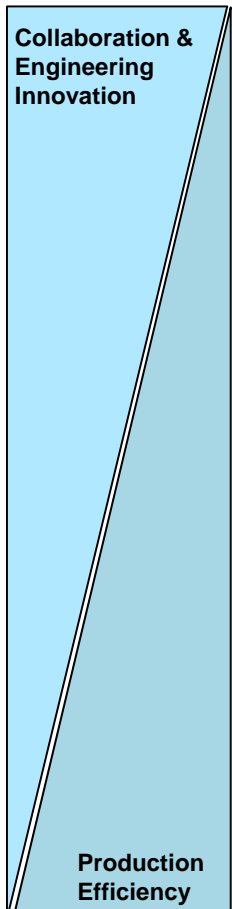
In CP5 we will seek greater collaboration with our extended supply chain – to foster innovation in Tier 2 and assure quality and value for money



Goals

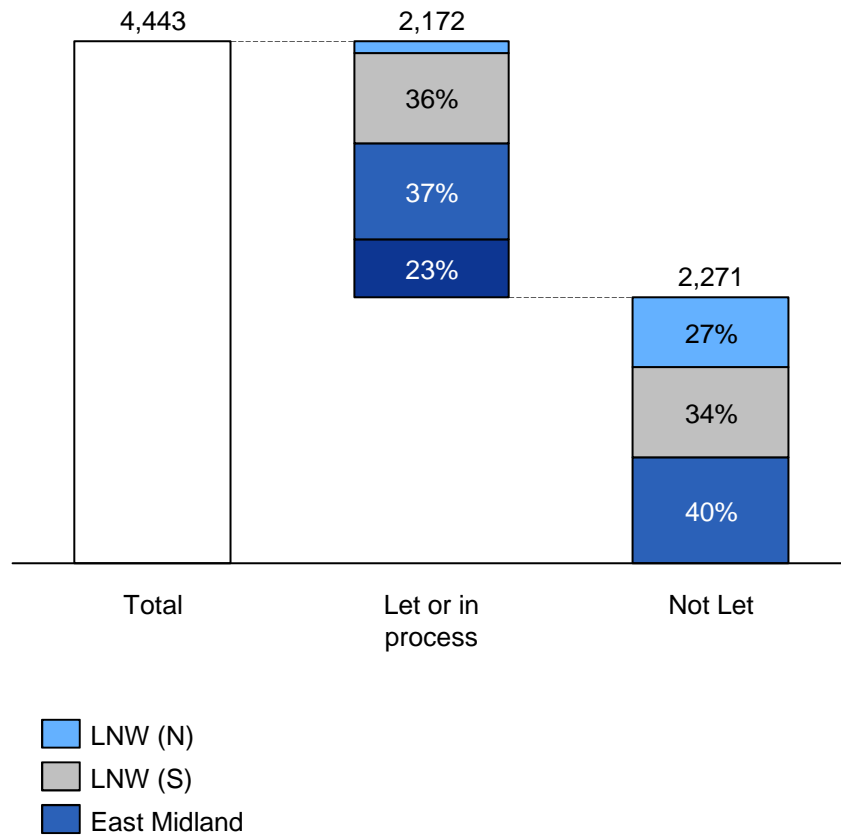
- **Innovation** – encouraging and directing innovation
- Consistent and clear **asset strategy**
- **Assuring Value for Money** – co-ordinated procurement with full NR leverage
- **Sustainability** – ensure the extended supply chain is sustainable
- **Commitment** - Provide visibility and commitment to the extended market to enable strategic investment and capacity is secured
- **Manage strategic risks in the extended supply chain** – first by understanding them and then taking action to mitigate them
- Understanding how the **end to end processes** work and how these can be made more efficient

We have segmented our CP5 programme into 3 main delivery models, differentiated by scheme value and complexity

Key Value driver	Delivery Model	Value Drivers
 <p>Collaboration & Engineering Innovation</p> <p>Production Efficiency</p>	<p>Alliance</p>	<ul style="list-style-type: none"> ▪ Schemes single projects - high value, multi-discipline and complex ▪ Main value driver is maximising engineering innovation and early contractor engagement, with a collaborative and integrated team approach ▪ Contractor will engineer solution to cost, working in Alliance with NR utilising the Stafford model and other learnings from across NR ▪ Early commitment to secure and develop constrained resource. ▪ Design to budget on an end to end solution, with shared risk on “best for project “ basis.
	<p>Panel</p> <p>Civils Buildings Railway Specialist</p>	<ul style="list-style-type: none"> ▪ Single project schemes - medium value, 90% single-discipline and medium complexity ▪ Main value driver will come from engineering solutions and innovation ▪ Value will be optimised by providing continuity for project-teams across planned sequential schemes, using single discipline contractors, minimising demob/mob disruption ▪ Facility in contract to form mini-Alliances to deliver the few (c.10%) multidisciplinary schemes ▪ Co-opetition will be incentivised - sharing best practice and “peer-reviewing” solutions
	<p>Programme</p>	<ul style="list-style-type: none"> ▪ Lower complexity, lower value, repetitive schemes (typically renewals) aggregated into programmes – representing 79% of total to-be-let schemes, yet only 26% of to-be-let value ▪ Main value driver is Productivity, with efficiency coming from optimisation of resources across multiple schemes and continuous improvement from delivering repeatable work types ▪ Commitment and continuity of workbank with geographic exclusivity - enabling consistent resource utilisation, productivity improvement, investment in resource and delivery innovation

IP Central Region's CP5 total work bank is £4.4bn where £2.3bn (51%) is yet to be let

IP Central's CP5 spend forecast (£m)

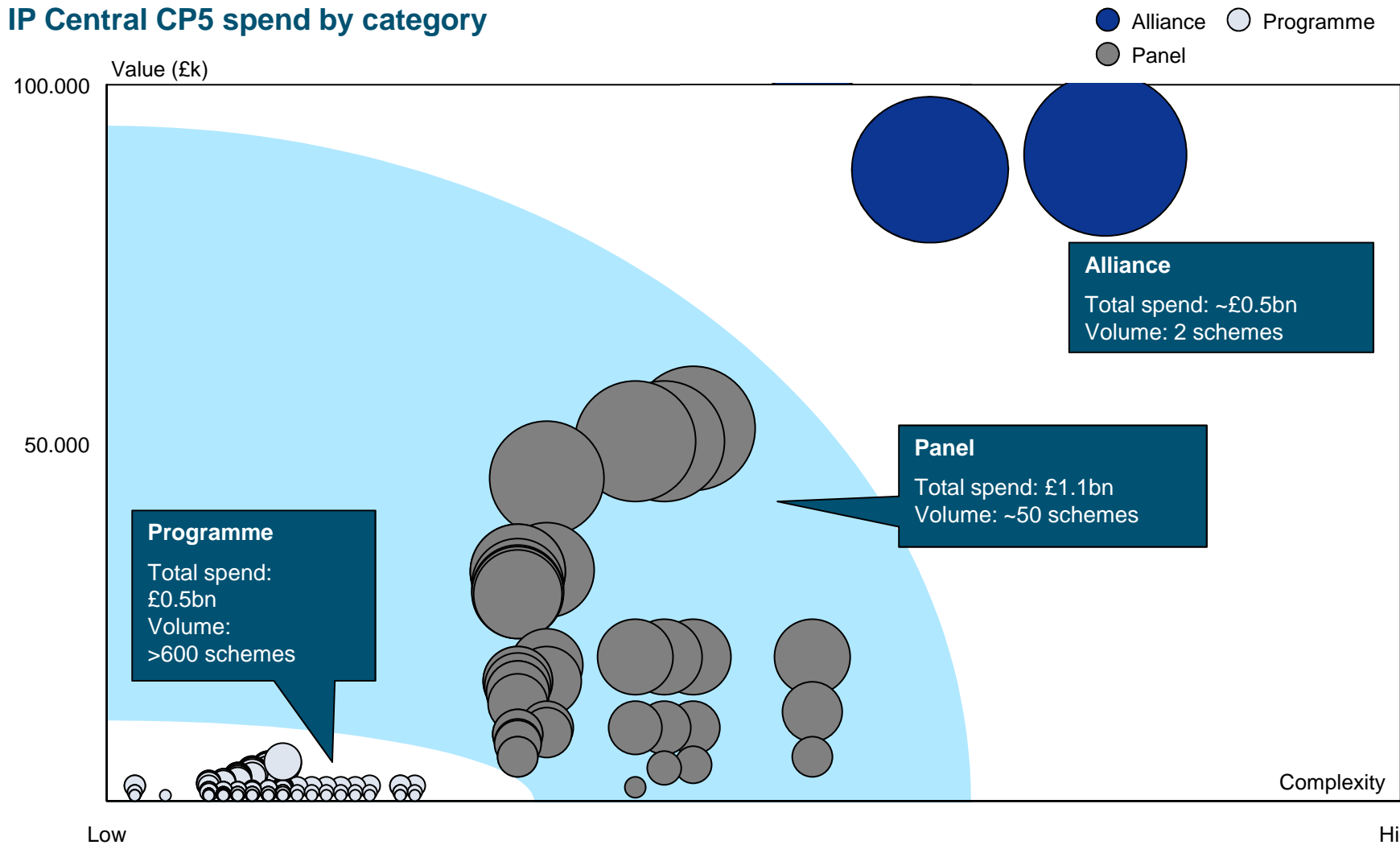


Comments

- IP Central region's CP5 forecasted spend is £4.4bn where £2.2bn is yet to be let
- 49% of the total forecasted spend has already been let or is in process
- The remaining £2.2bn to be let is split:
 - 40% East Midlands
 - 34% LNW (South)
 - 27% LNW (North)

We have segmented our Procurement and delivery route by scheme value and complexity

IP Central CP5 spend by category



Programmes - Lower complexity, lower value, repetitive schemes (typically renewals) aggregated into committed programmes with geographic exclusivity

Value levers

- Main value driver is **Productivity**, with **efficiency** coming from optimisation of resources across multiple schemes and continuous improvement from delivering repeatable work types
- **Commitment and continuity of work bank** with geographic exclusivity – enabling:
 - consistent resource utilisation
 - productivity improvement
 - investment in resource and delivery innovation
- **Tier 2:** Post-award we will work collaboratively with the delivery partners to identify opportunities for NR to directly procure key goods and services to the benefit of all parties.

Lotting

- **Lotting** : 11 lots in 2 Geographies (LNW North Northern Area, LNW North Southern Area & LNW South) covering Property; Earthworks; Structures; and E&P renewals

Programmes - Lower complexity, lower value, repetitive schemes (typically renewals) aggregated into committed programmes with geographic exclusivity

Contract Form:

- Geographically exclusive 5 +5 year Programmes with volume commitment
- Opportunity for additional 5 year CP6 extension, subject to performance over CP5
- Contract will use the recent NR13C Programme contract developed for the National LX Replacement (Footbridge) project (with amendments to specific commercial models and pricing templates)
- NR12 call-off contract (simplified work instruction)
- Committed 5 year programme let on a representative work “basket” priced using “building block” composite rates supported by 1st principle detailed costs
- Out-performance incentivised with gain-share linked to KPIs
- Year on Year efficiency commitments to reflect continuous improvement

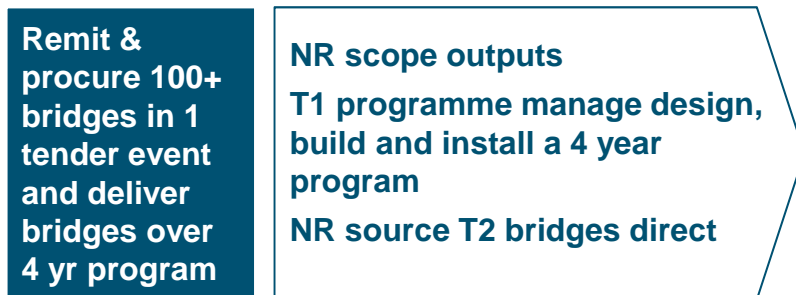
We have developed our Programme strategy and delivery model during the recent Procurement of the National level crossing programme

Commercial strategy shift for footbridges

Previous Strategy



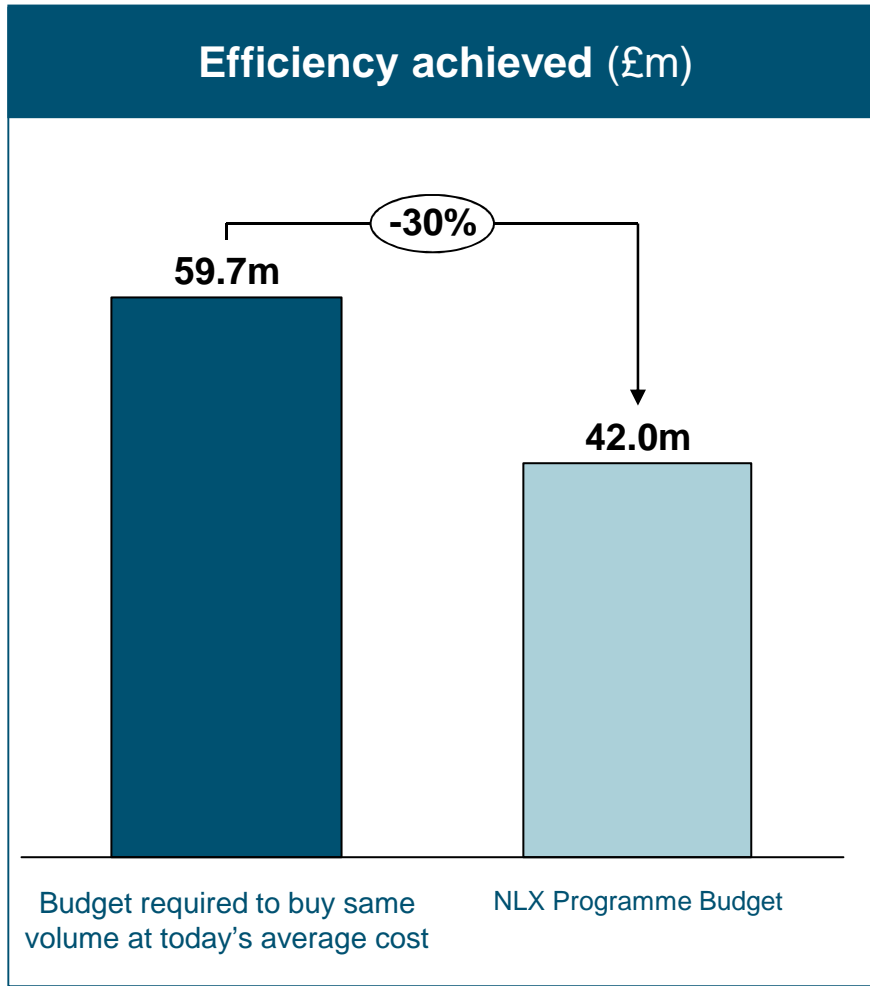
New Programme Strategy



Commercial strategy

- Work with Asset Mgt and IP Technical to **develop a clear work-program** (scope, out-line project scopes; locations, out-put dates, restrictions etc..)
- We **competitively tendered the whole 4 year work-bank** for the National Level Crossing Programme bundling together T1 design, build & install
- **Efficiency benefits have come from:**
 - Commitment – stability & investment
 - Program leverage – “win-big, lose long”
 - Dilution of o/head and optimisation of plant, labour and materials
 - Elimination of design duplications
 - Innovation & value engineering of the bridge specifications
 - Bridge manufacturing optimisation

The programme based approach realised significant benefits compared with the traditional procurement approach, and delivery in 35% less time



- ### Benefits achieved
- Reduced public harm risk as programme delivery greatly accelerated (e.g. from 4 to 2.5 years)
 - T1 and T2 combined cost reduction in excess of 30% compared to a representative set of recent schemes. This is equivalent to installing a further 60 two track stepped bridges
 - New Programme contract developed with cost certainty for the entire Control Period driven by the Total Programme Cost
 - Innovation - best technical innovations adopted a through rigorous value engineering process
 - Major workload reduction for tender resources (i.e. # of tenders reduced from 40 to 2)
 - Improvements in contract terms and risk reduction (e.g. Ground risk transferred)
 - Post contract process improved
 - Risk of claims & variations mitigated
 - Programme staff now free to focus on delivery, quality, safety and continuous improvement of performance

Notes: 1 10% efficiency included in steel bridge price (after Yr 1) for innovation to be incorporated in NR Standards
 Source: NR and Efficio analysis

Programme categories include property, structures, earthworks, and E&P renewals works with 27 sub-categories

Property	Structures	Earthworks	E&P
Canopies (replace and renew)	Overbridges (replace and renew)	Cuttings	Signalling power
Canopies (repair)	Overbridges (repair and preventative)	Embankments	OLE
Platforms (replace and renew)	Underbridge	Drainage	Distribution
Platforms (repair)	Bridge over water (repair / strengthen)	Rock-face netting	Protection relays
Footbridge stations (replace and repair)	Bridge over water (preventative)	De-vegetation	Cables
Depots and stations (replace and repair)	Tunnels	Access Steps	Point heating
	Grit blast and painting		SCADA
Category			
Sub-category	Hidden critical elements		

Panels – framework of contracts to design and deliver multiple mid-value (£5-£50 M) schemes leveraging engineering excellence and innovation

Value levers

- **Innovation** - with early engagement (GRIP2/3) of an integrated team to develop design and scope.
- **Closer collaboration & integration** with IP/Supplier teams, concentration of quality resources, with incentivisation and sharing of innovation value
- **Commitment and geographic exclusivity** enabling continuity of engagement across schemes to:
 - minimise demob/mob disruption and build on teamwork and collaboration
 - retain & build capability, resources & expertise.
- **Incentivise Co-opetition** – e.g. sharing best practice and “peer-reviewing” solutions, supply chain HUB
- Appointed Panel partners will also work collaboratively to secure and deliver **externally funded schemes**

Lotting

- Geographically exclusive 5 + 5 yr contracts let in 9 Lots by Primary Discipline (Buildings; Civils, Rail Eng x 3 Areas)
- Option for forming multi-discipline Alliances by Area as directed by NR for specific schemes.

Panels – framework of contracts to design and deliver multiple mid-value (£5-£50 M) schemes leveraging engineering excellence and innovation

Contract Form:

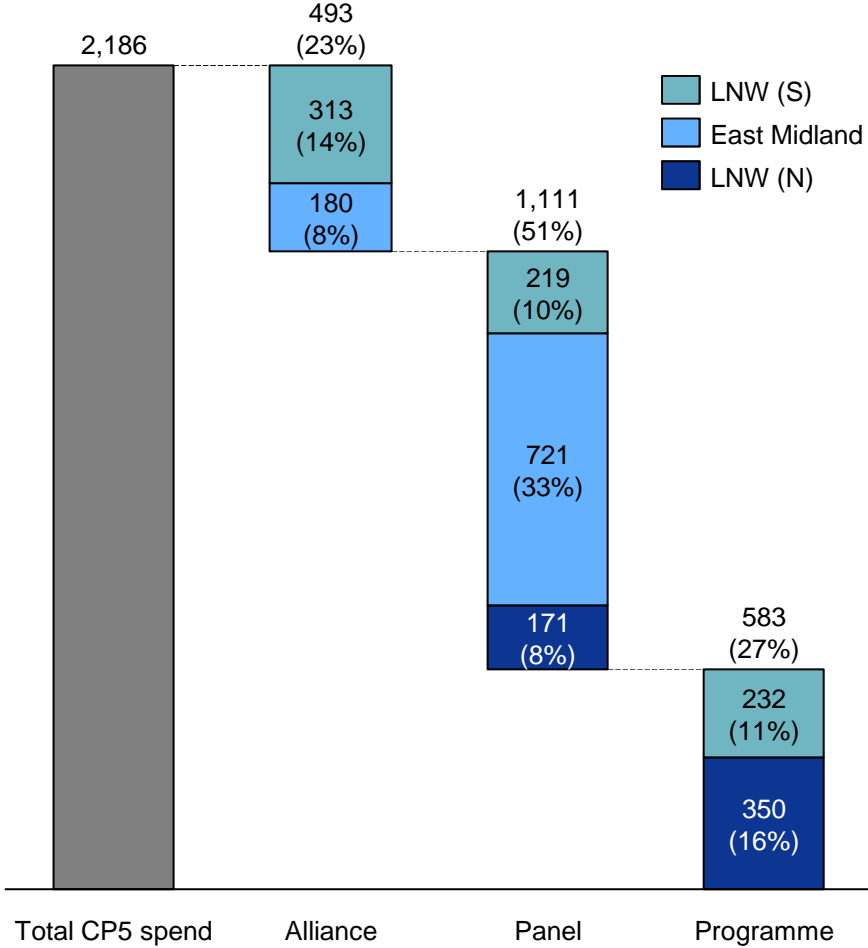
- NR 13 – Programme Framework contract with commitment to geographic exclusivity for defined discipline
- NR12 – Award individual schemes or packages of schemes as design & TC approved if under SBP & efficiency challenge
- Supplementary Collaboration agreement for multi-disciplined schemes where required (10%)
- Profitability & potential CP6 extension to be linked to performance through KPIs.

2 stage approach to Target cost setting

- 1) Setting the TC. Design to Cost with suppliers issued at Grip 2/3 stage with a sense checked SBP, to maximise innovation and efficiency (in key design phase). Formal incentivised peer review process for final TC. Share savings below SBP with supplier.
- 2) Out-performing the TC. Incentivise supplier to out-perform TC as per normal gain share mechanism

The ca. £2.2bn of IP Central Region's remaining CP5 spend will be addressed by 3 sourcing routes: Alliance, Panel, and Programme

IP Central CP5 spend by sourcing route (£m)



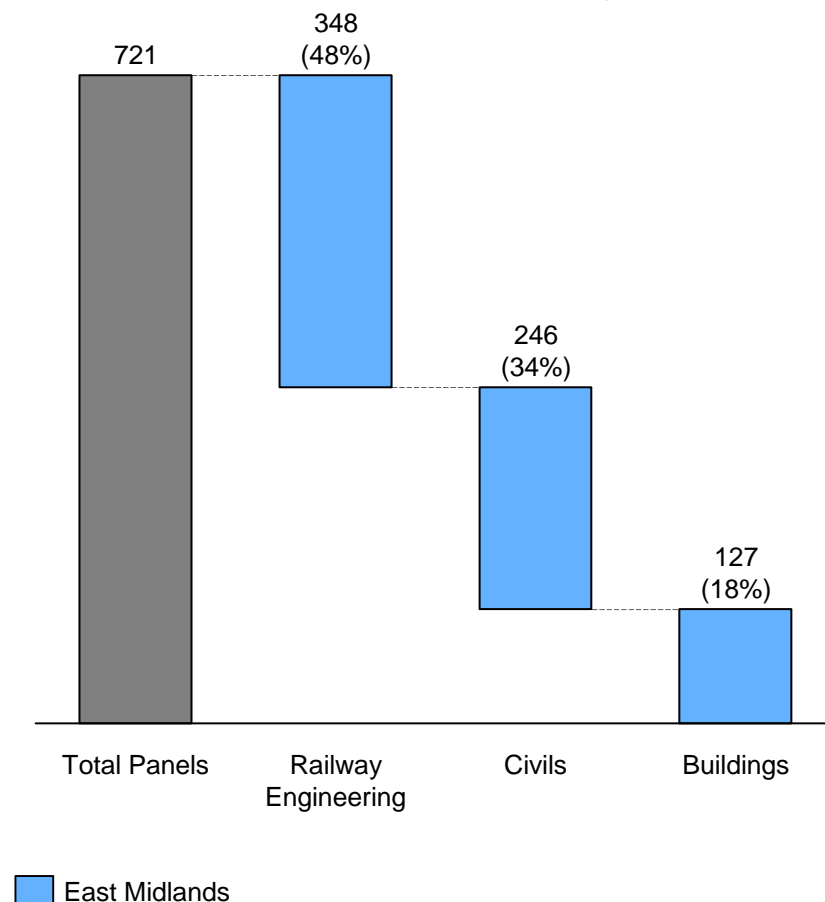
Key Findings

- IP Central region's CP5 spend is circa £2.2bn represented by 3 sourcing routes; Alliance, Panel, and Programme covering LNW (South), LNW (North), and East Midland
- Alliance schemes are major schemes with high-complexity and spend
- Panel represents mid-size schemes with individual contract value between £5m-£100m per schemes.
- Programme represents small schemes with individual contract values of less than £5m (79% scheme volume but only 27% of overall value)

Source: Network Rail IP (Central Region, Sean O'Brian, Drew Tranter, Duncan Golding), Efficio Analysis

East Midland represent the main CP5 Panel spend with 65% of the total and almost half of it is Railway Engineering spend

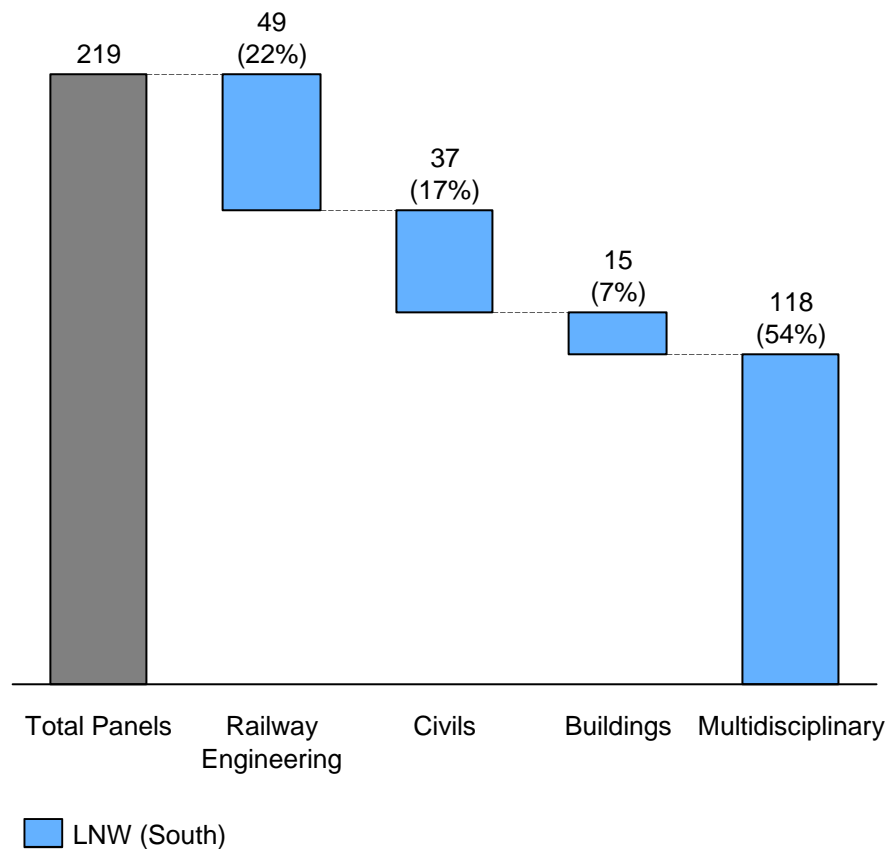
East Midland Panel spend by category (£m)



Comment
<ul style="list-style-type: none"> East Midland route spend of £721m represent 65% of the CP5 Panel spend Almost half of the spend is represented by Railway Engineering schemes Railway Engineering includes track, signalling and E&P The sourcing route includes ca 30 mid-size schemes with individual contract value between £5m-£100m per scheme NB – these figures exclude 3rd Party funded schemes, which will be delivered with the successful delivery partner

LNW (S) total Panel spend is £219m and represent 20% of the total CP5 Panel spend in the Central region. Multidisciplinary schemes stand for half of the route's total

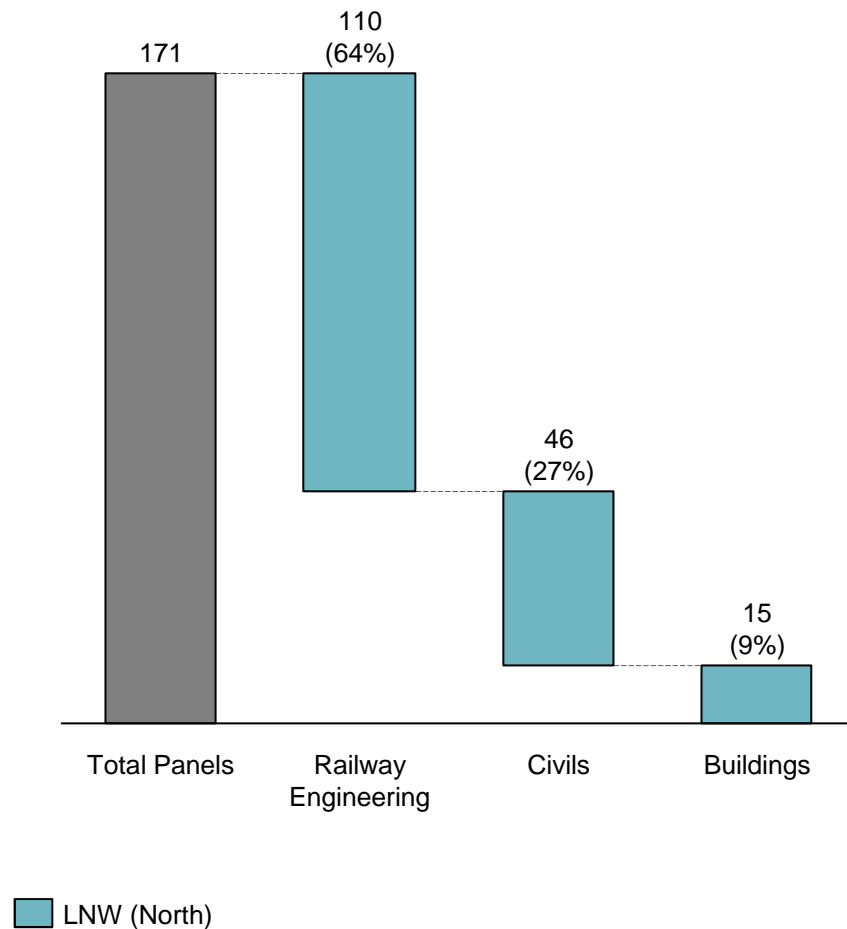
LNW (S) Panel spend by category (£m)



Comment
<ul style="list-style-type: none"> LNW (S) spend is £219m and represent 20% of the total CP5 Panel spend in the Central region Multidisciplinary schemes represent half of the spend where railway engineering, civils and building schemes are included in each of the schemes The sourcing route includes 11 mid-size schemes with individual contract value between £5m-£100m per scheme NB – these figures exclude 3rd Party funded schemes, which will be delivered with the successful delivery partner

LNW (N) Panel spend is £171m and represent 15% of the total CP5 Panel spend in the Central region and 64% of the total is related to Railway Engineering schemes

LNW (N) Panel spend by category (£m)

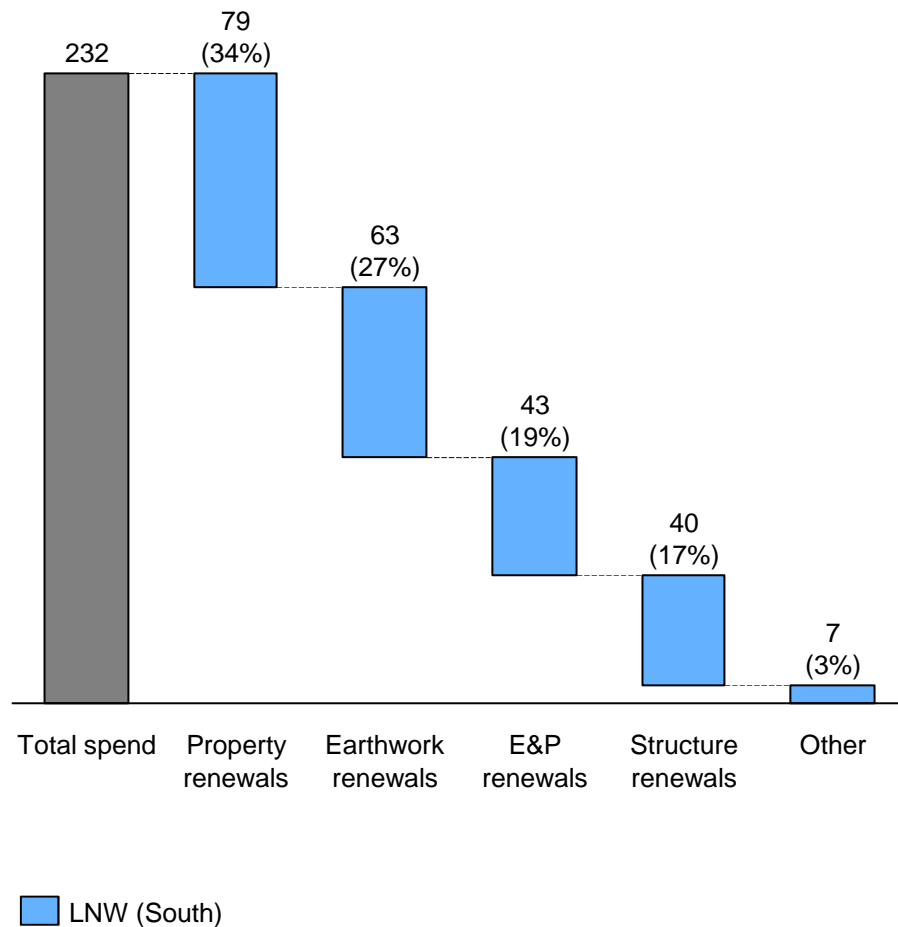


Comment
<ul style="list-style-type: none"> LNW (N) Panel spend is £171m and represent 15% of the CP5 total panel spend in the Central region Railway engineering includes track, signalling and E&P and they represent 64% of the route's spend The sourcing route includes 10 mid-size schemes with individual contract value between £5m-£100m per scheme NB – these figures exclude 3rd Party funded schemes, which will be delivered with the successful delivery partner

Source: IP Central CP5 work bank, 30 April 2013 workshop discussions

In LNW (South) The CP5 programme spend is £232m with over 250 projects. Ca. 40% of it is represented by property and earthwork renewals

LNW (S) Programme spend by category (£m)

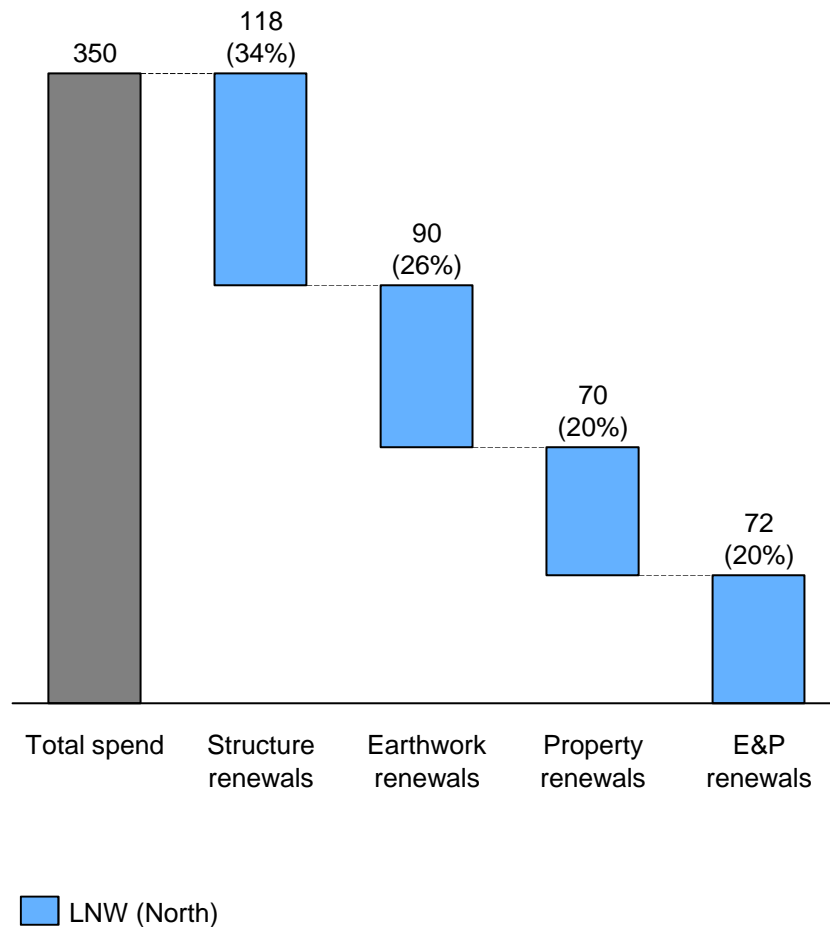


Comment
<ul style="list-style-type: none"> ■ The total CP5 programme spend in LNW (S) is £232m and it represent 40% of the total CP5 Programme spend in Central region ■ Property renewals in LNW (S) is mainly represented by property and earthworks renewals with ca. 60% of the workbank ■ Programmes include more than 250 small, low complex, and repeatable schemes with individual contract values of less than £5m – the vast majority less than £2m

Source: IP Central CP5 work bank, 30 April 2013 workshop discussions

In LNW (North) the CP5 programme spend is £350 M with over 400 projects and 60% of it is represented by structures and earthwork renewals

LNW (N) Programme spend by category (£m)



Comment
<ul style="list-style-type: none"> ■ The total programme spend in LNW (N) is £350m ■ Programme renewals is mainly represented by structures and earthworks renewals with 60% of the workbank ■ Programmes include more than 400 small, low complex, and repeatable schemes with individual contract values of less than £5m – the vast majority less than £2m

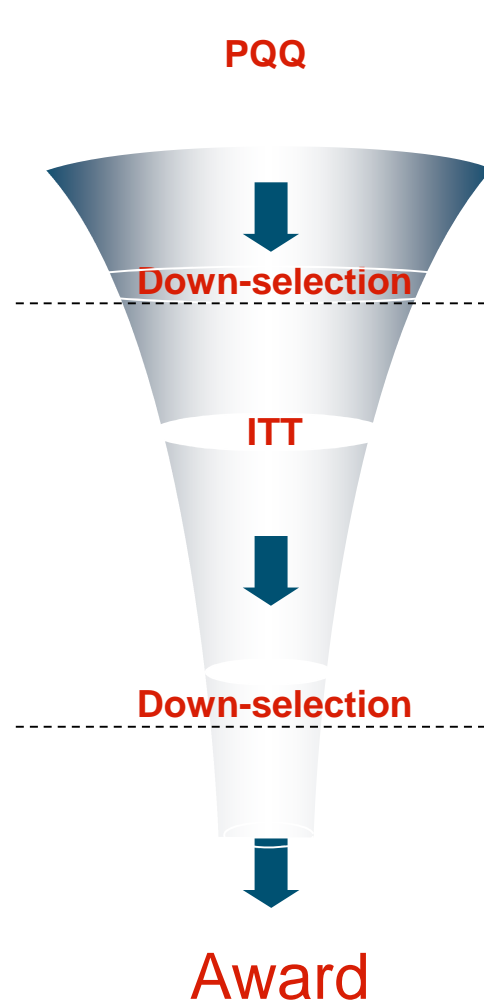
Source: IP Central CP5 work bank, 30 April 2013 workshop discussions

In summary – The Programme lots comprise over 600 schemes with a total value of £583 M

IP Central CP5 Programme spend (£m)

		Structure Renewals	Earthwork Renewals	Property Renewals	E&P Renewals
LNW North	North	25	56	20	72
	South	80	34	50	
LNW South		67	63	60	43
Total spend per annum		37	31	26	23
Total Programme spend in CP5		185	153	130	115

We will be running a 3 stage evaluation process, with a behavioural assessment of the final 2 scorers in each lot



1st Stage

- PQQ responses assessed
- Down-selection according to evaluation according to defined criteria
- ITT documents issued to Qualified tenderers

2nd Stage

- Clarification of bids (all criteria)
- NR Evaluation of bid as per defined criteria
- A minimum of 2 tenderers taken through to Behavioural assessment
- Score out of 100, multiplied by factor of 0.7 to create a commercial & technical score out of 70

3rd stage

- Behavioural assessment workshops of top scorers
- Maximum score 30%
- Behavioural score added back to Technical & Commercial score to define highest evaluated total score

Evaluation criteria - Programmes

Programmes PQQ Criteria

Criteria	% weighting
Capability & Experience	35%
Health & Safety	20%
Collaboration	20%
Capacity	15%
Sustainability	10%

Programmes ITT Criteria

Criteria	% weighting
Commercial	45%
Technical and Delivery	25%
Health & Safety	10%
Collaboration	10%
Sustainability	10%

Evaluation criteria - Panels

Panels PQQ Criteria

Criteria	% weighting
Company assurance / Financial stability	Pass/Fail
Capability & Experience	35%
Health & Safety	20%
Collaboration	20%
Capacity	15%
Sustainability	10%

Panels ITT Criteria

Criteria	% weighting
Commercial	30%
Technical and Delivery	25%
Innovation	15%
Health & Safety	10%
Collaboration	10%
Sustainability	10%

Lotting rules

Programmes	Panels
Tenderers can bid for all Lots in all Areas	Tenderers can bid for all Lots in all Areas
A Tenderer can win all disciplines in a single geographic area	A Tenderer can win all disciplines in a single geographic area
Network Rail will not appoint any single bidder for any discipline across all three areas	Network Rail will not appoint any single bidder for any discipline across all three areas
The maximum number of Lots a Tenderer can win for any single work type is 2 Lots (except E&P which will be 1 Lot)	The maximum number of Lots a Tenderer can win for any single work type is 2 Lots
In any event a Tenderer cannot be awarded any more than <u>4 individual Lots</u> irrespective of what discipline or area he has Tendered for	In any event a Tenderer cannot be awarded any more than <u>3 individual Lots</u> irrespective of what discipline or area he has Tendered for



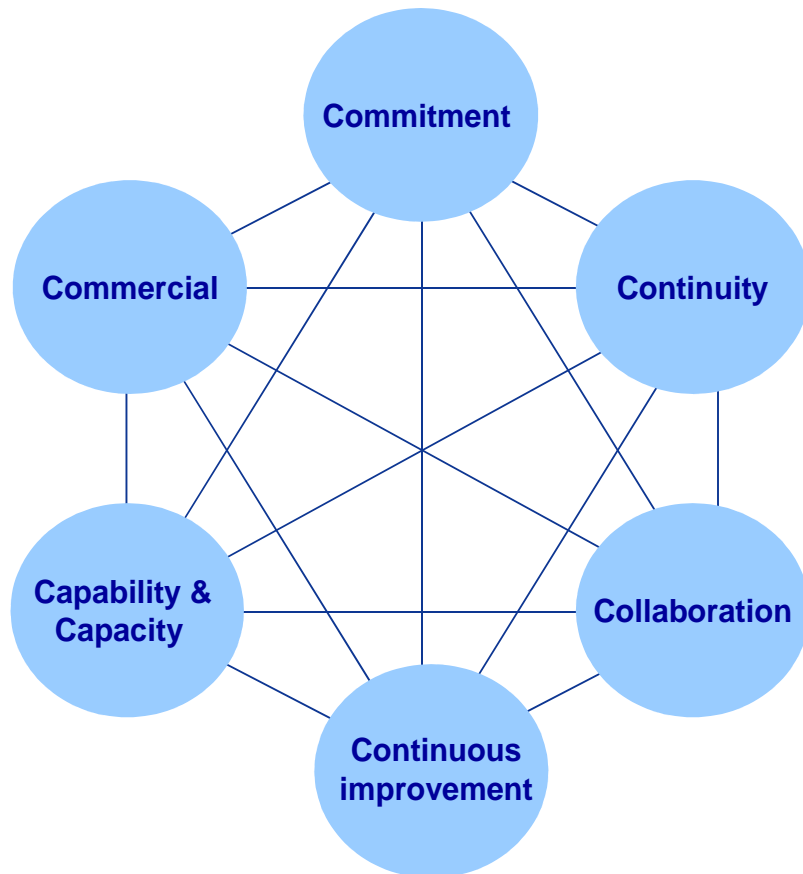
Timelines

ITT process and key deadlines – Programmes & Panels

Deadlines - Programmes	Deadlines - Panels	Activity
22 July	22 July	PQQ issued
30 August	30 August	PQQ return date
30 Sept	7 Oct	ITT documents issued to shortlisted bidder via e-Sourcing
23 Dec	31 Jan 2014	Tender submission deadline
Jan – Feb 2014		Network Rail tender evaluation
Feb – March 2014		Clarification of proposals
March		Short listing - take top 2 per lot into Behavioural assessment
March – April 2014		Behavioural workshops (30% total potential score)
April 2014		Network Rail approvals
April 2014		Standstill letters issued
April/May 2014		Final contract drafting
May 2014		Contract signed by all parties (contract commencement)
May 2014 onwards		Implementation

Summary – we have consulted widely and incorporated your feedback into our CP5 strategy

Six key value levers



Value Lever

What this means to us

Commitment

Provide increased commitment to the supply-chain to encourage innovation and investment

Continuity

Optimise the efficient utilisation of resources, working closely with Routes to ensure continuity of work; stability drives productivity, improved safety and sustainability.

Collaboration

Work more closely with a high capability supply chain – extending visibility and control of critical resources in the extended supply chain

Capability & Capacity

Build a robust supply chain with demonstrable capability and capacity to fulfil all NR requirements

Commercial

Develop a greater understanding of the cost-base and ensure commercial model incentivises all to meet Network Rail's goals

Continuous improvement

Foster Innovation and best practice – getting better and better in all key performance areas

The successful bidders will be able to demonstrate they have the capability and commitment to deliver our vision

- Relentless focus on **Health and Safety**
- We will work with **fewer, closer for longer** to create a **highly capable supply chain**
- We will create **sustainable supply chains** – reflective and supportive of **their local communities**
- We need to achieve “**step-change**” **performance** to meet our **CP5 goals**, and we **believe Innovation and investment** will be crucial to deliver these
- We want to work with people who **understand collaboration** and who are **committed to work with us** to achieve our goals
- We will run a **fair, equal and transparent process** to select our delivery partners

Please note the final ITT documents have precedence in all matters, and your bid should be solely based on the information contained in the issued ITT documents