

25-Jun-18

Procuring for CP6

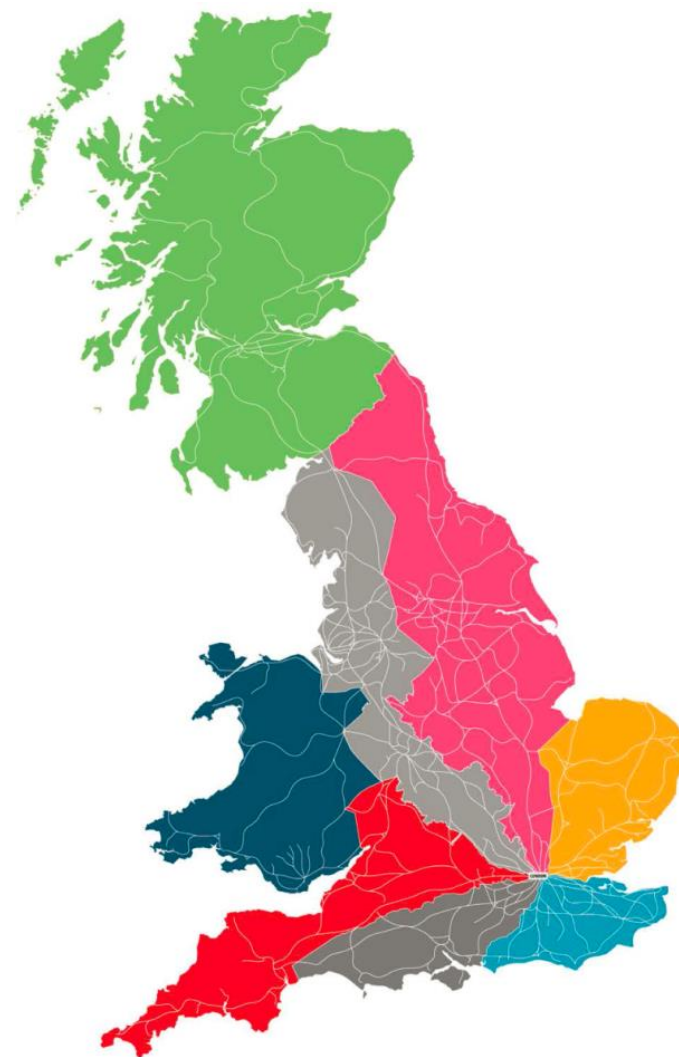


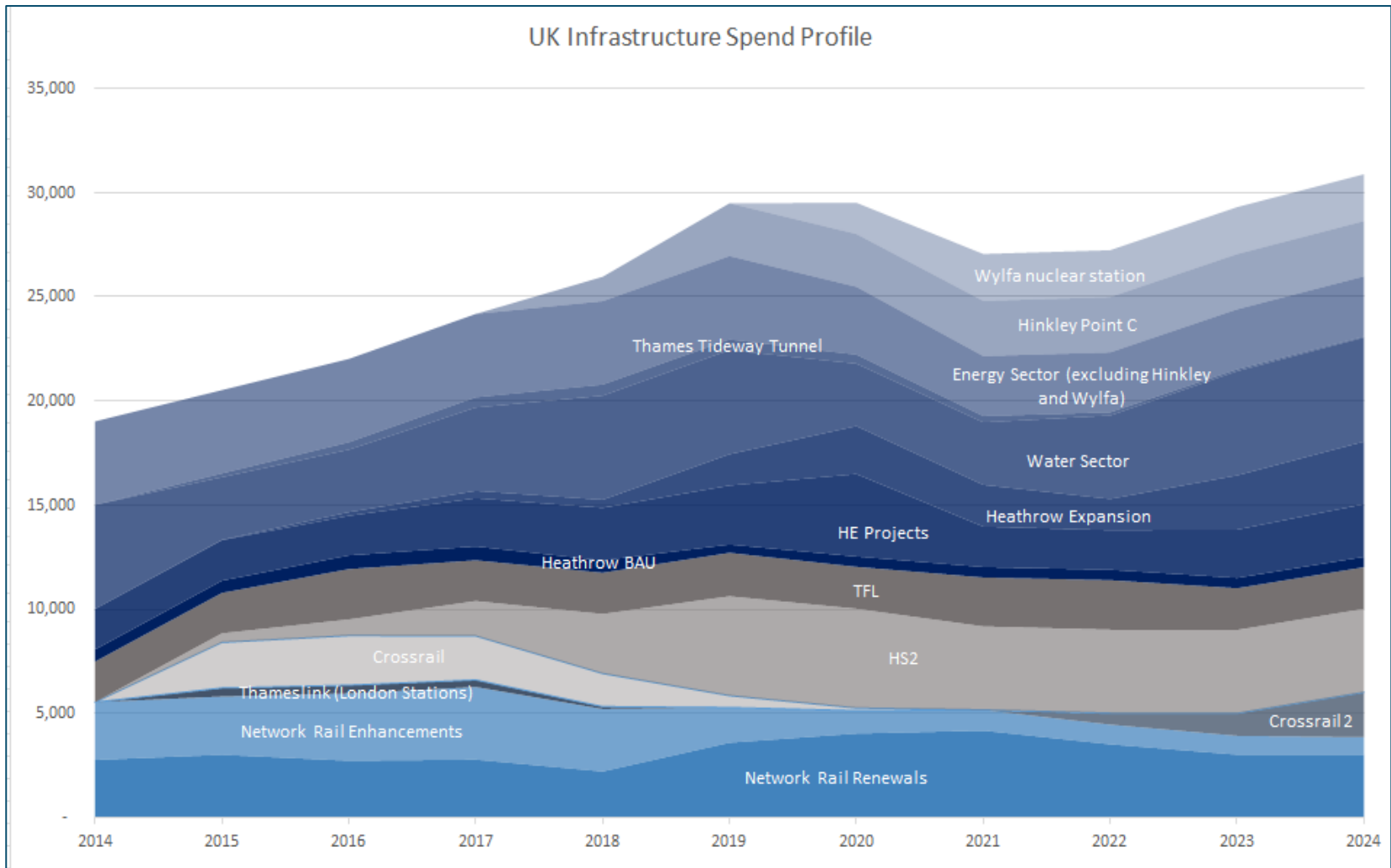
- Control Period 6 (CP6) procurement strategy objectives
- CP6 workload
- CP6 procurement programme
- Sustainable procurement
- Improvements to our terms and conditions
- How do we improve safety standards and diversity and inclusion (D&I) throughout the supply chain?



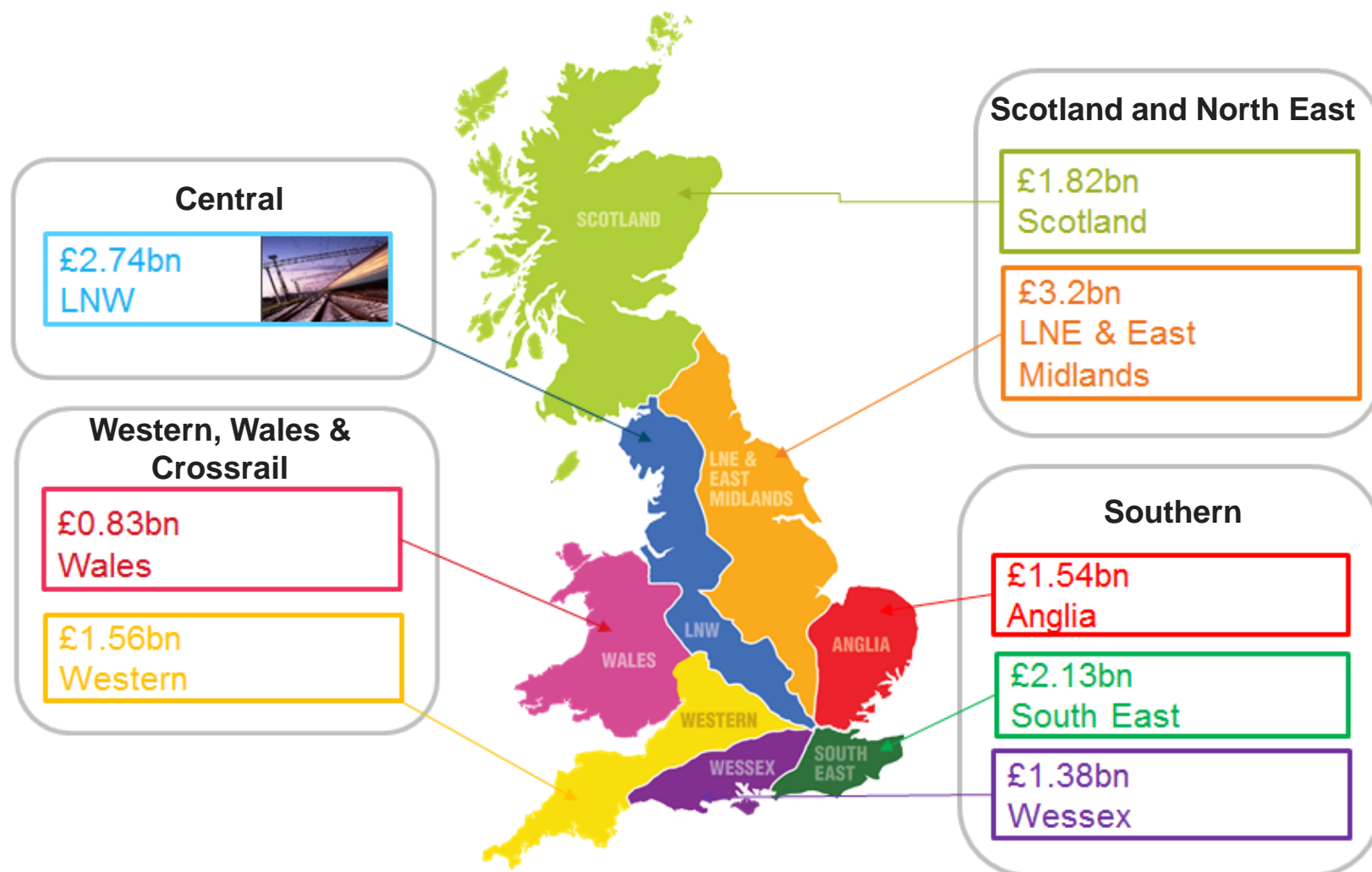
CP6 procurement strategy objectives

1. Ensure that the needs of the Route Businesses and passengers are met by improving safety performance, demonstrating value for money, efficiency and allowing innovation to thrive.
2. Improve/reward safety and contract performance with a fair return, whilst addressing poor performance.
3. Incorporate lessons learnt from CP5 to promote a stronger performance culture.
4. Foster industry leading collaboration and support an effective and sustainable supply chain.
5. Aligned with Route Services (RS) commercial and procurement transformation plan.
6. Ensure that Network Rail remains a client of choice for key suppliers in a growing market.



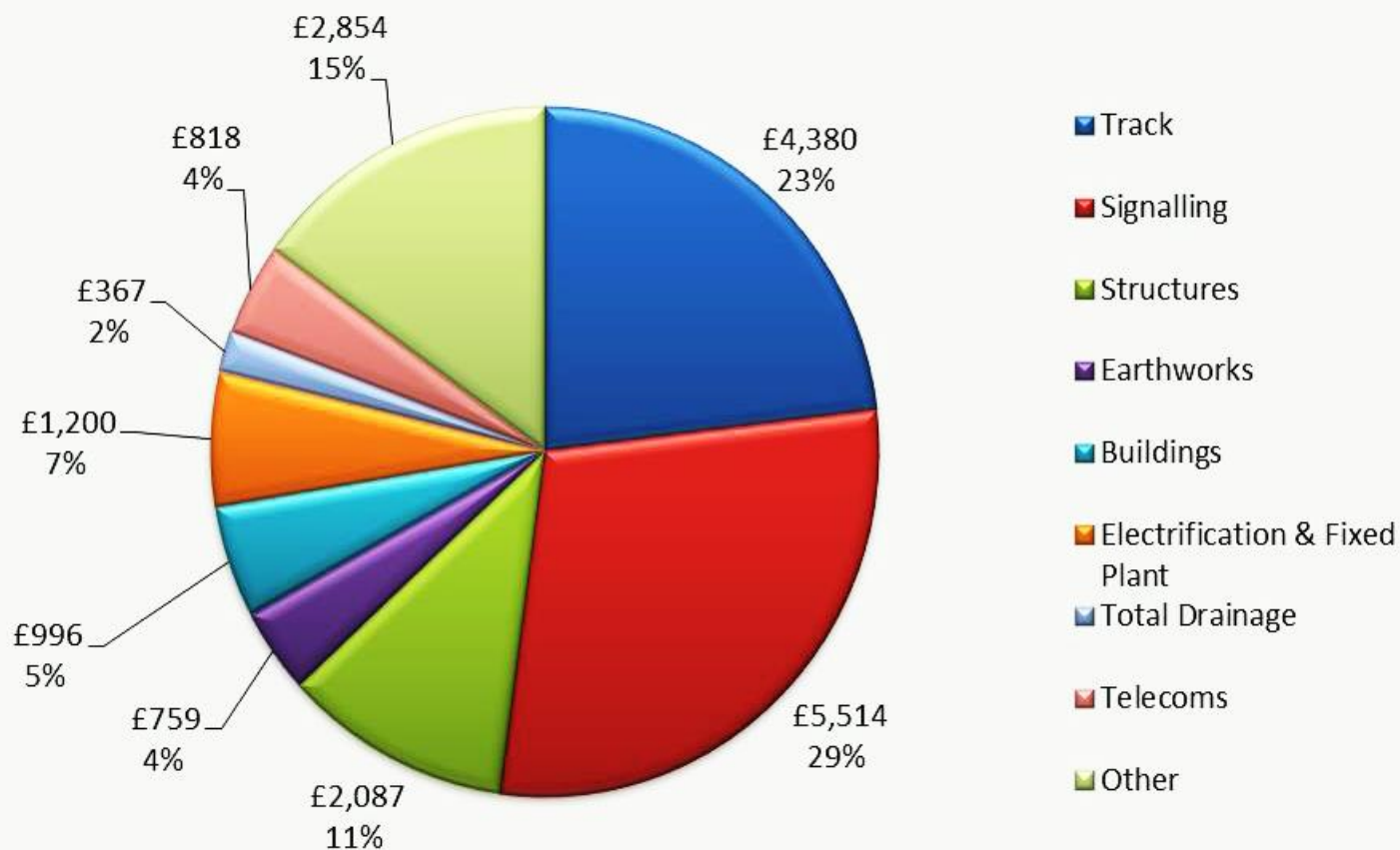


CP6 renewals spend by route/region



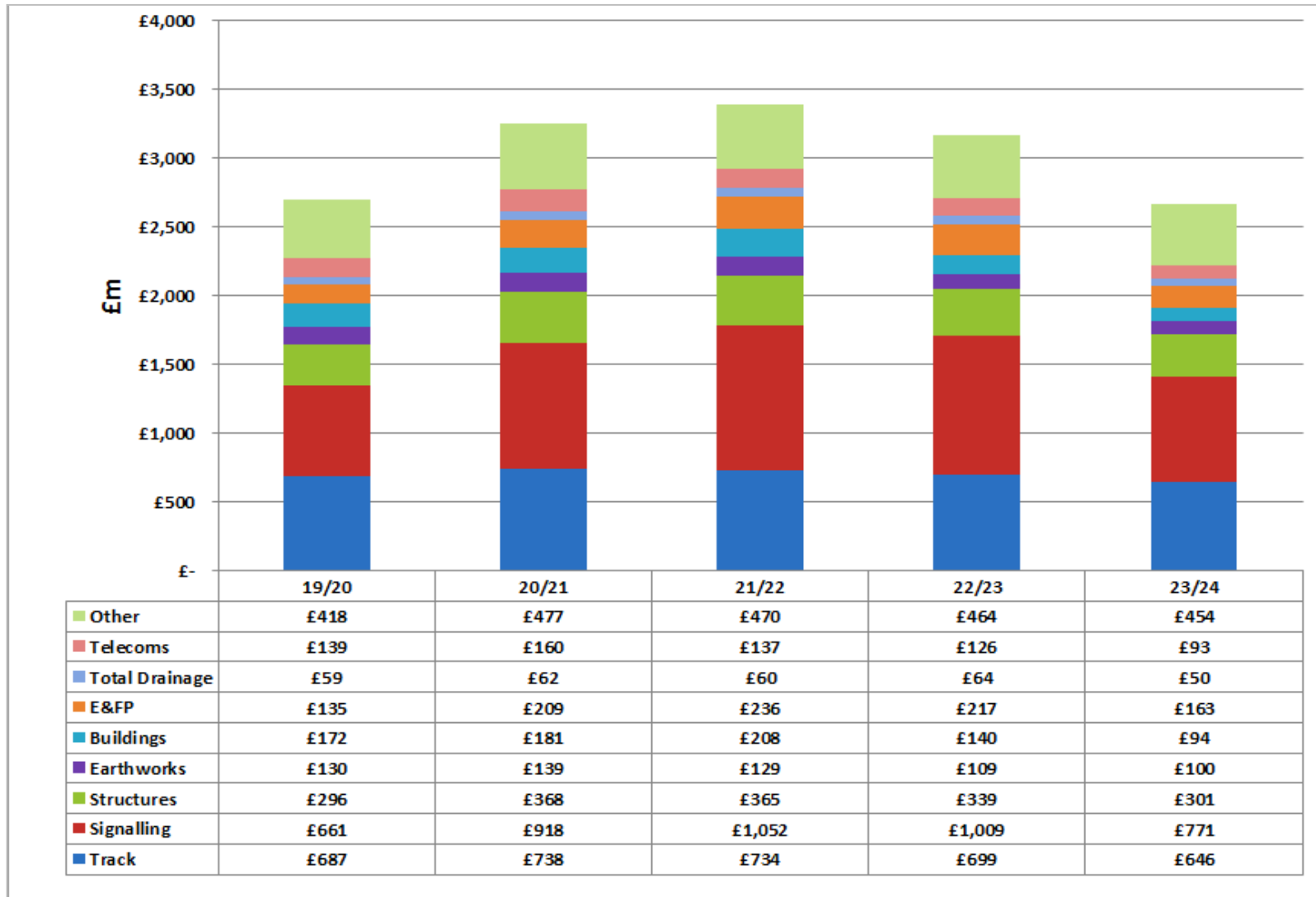
Plus network wide spend of **£4.8bn**

CP6 renewals supply chain spend by category



Spend in million pounds

CP6 renewals anticipated supply chain spend



Route Strategic Business Plan Data, December 2017 – reduced by 20% for Network Rail costs and Schedule 4 allowances.

CP6 route/regional renewals strategy

| Route | Proposed contract strategy (subject to approval) | Infrastructure Projects (IP) region | IP National Programmes | |
|-------------------------------------|---|--|---|--|
| Anglia | New multi-disciplined framework | Southern | Track 3 x new alliances aligned to route geographies covering both plain line and switches and crossings (S&C) | Signalling 3 x frameworks aligned to route geographies for Major Signalling & Telecoms, aligned to route strategies |
| South Eastern | New multi-disciplined framework | | | |
| Wessex | New multi-disciplined framework | | | |
| Western | New multi-disciplined framework | Western Wales and Crossrail | | |
| Wales | New multi-disciplined framework | | | |
| London North East and East Midlands | New multi-disciplined frameworks | Scotland and North Eastern | | |
| Scotland | New multi-disciplined framework | | | |
| London North Western | Renegotiate and extend current frameworks. In event requirements cannot be met, re-tender | Central | | |

CP6 procurement programme - status

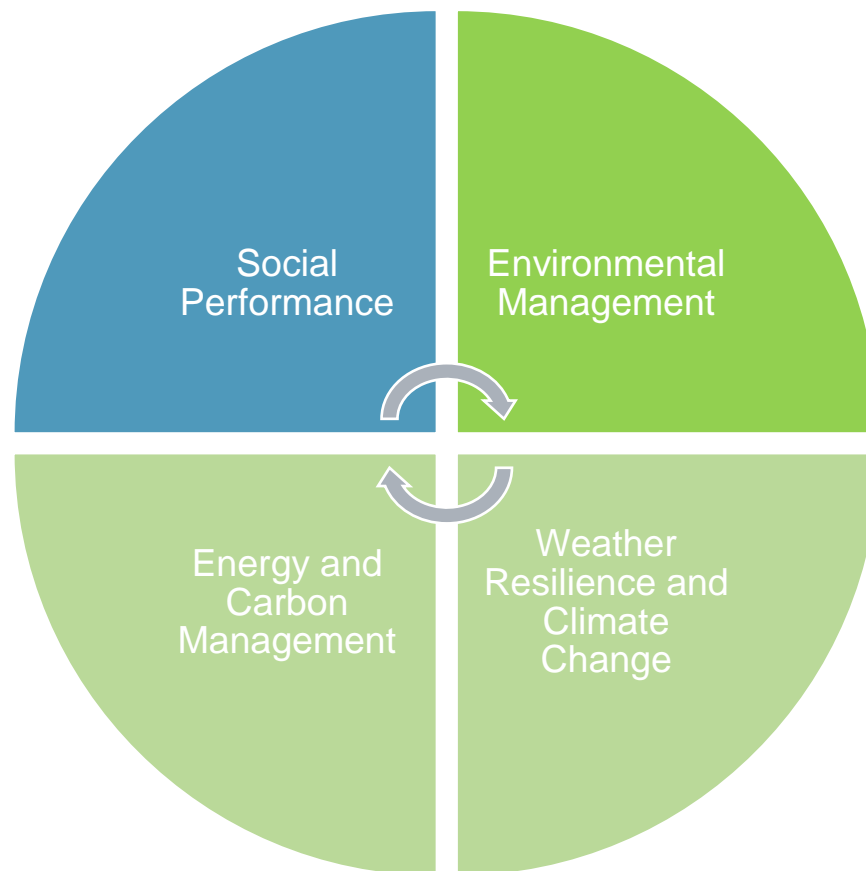
- Nationally co-ordinated with local leadership
- Integrated CP6 procurement schedule in place
- Weekly progress review and reporting by relevant commercial directors
- Invitations to tender (ITT) staggered to manage resources and enable continuous improvement
- Contract coverage in place to enable transition
- Linked to Network Rail website to provide workbank/pipeline visibility to supply market
- Award recommendation quality criteria being developed
- Efficiency delivery gateway process being developed (IP/Route/RS)

| Current status | | RAG |
|--------------------------------|--|-----------------|
| Wales | Pre-qualification questionnaire (PQQ) forecast 30/07 | Green |
| Western | PQQ forecast 30/07 | Green |
| Anglia | ITT issued 28/05 | Green |
| South East | ITT issued 28/05 | Green |
| Wessex | ITT issued 28/05 | Green |
| LNE | ITT issued 24/04 | Green |
| Scotland | Various – on schedule | Green |
| LNW | Options enacted | Green |
| Buildings & Civils | Framework completed and in use | Green |
| Track | PQQ issued, ITT to be issued 15/06 | Amber/ Green |
| Signalling and Digital Railway | Major Signalling Framework: PQQ Forecast 15/11, ITT Forecast 21/01 2019 | Amber |
| | S&T Framework: PQQ Forecast 10/08, ITT Forecast 2/10 Minor Signalling: PQQ Forecast 13/08, ITT Forecast 18/09 | |
| Design Frameworks | Outstanding Excom Approval - PQQ to be issued 3/07 | Amber |
| Various Other | Ongoing | Green |

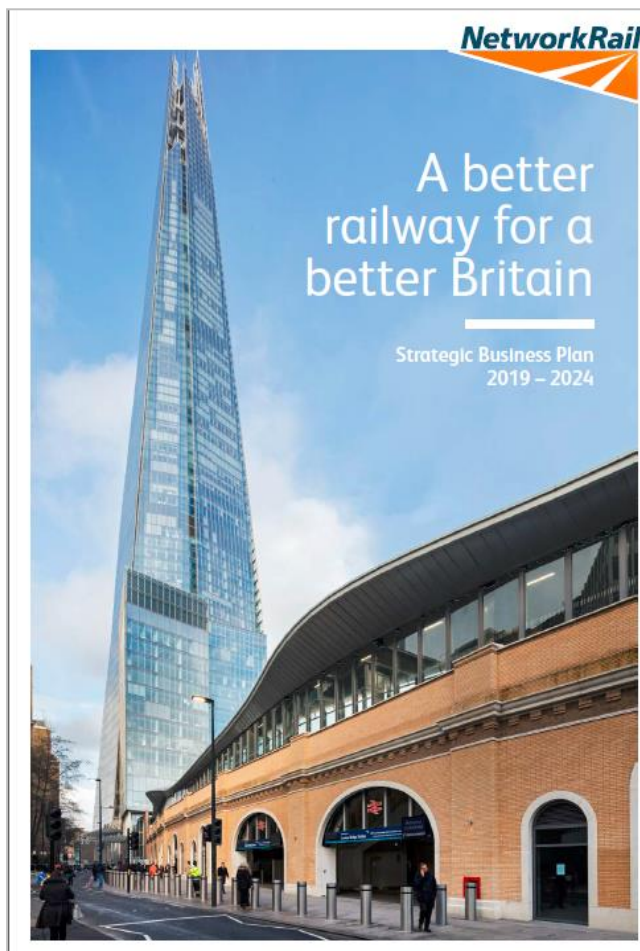
Note: Procurement schedule is in its early stages and RAG ratings will change over next 6 months

CP6 sustainable procurement

- Community engagement
- Diversity, Inclusion and Accessibility
20% female by 2020
- Employment, Skills & Training
One apprentice per £3m spend
- Local procurement and SMEs
65% spend by 2021
- Rail heritage
- Employee engagement



- Waste
Suite of targets
- Biodiversity
- Pollution prevention
- Responsible sourcing
- Capital carbon
- Energy efficiency
- Climate change adaptation



- Holding suppliers to account for contractual performance and the provision of commercial data for improved cost planning and benchmarking.
- Suite of improvements to our standard T&Cs.
- National Performance Metrics within our CP6 contracts.
- Commercial Performance and Assurance Metrics for Cost Planning, Procurement, Collaboration Commercial and Claims Management.
- Greater engagement via cross industry working groups.
- Focused work-streams via the Commercial Directors' Forum on collaboration and commercial working practices.
- Create a 'business as usual' approach to value capture and efficiency targets.
- Fully embed IPs One Vision One Way programme.
- Actively promote a performance culture that brings a focus to efficiency targets and improved commercial practices.

Key changes to Network Rail T&Cs

| Matter for consideration | Way forward and commentary |
|---|--|
| <u>Project Bank Accounts (PBAs)</u> Incorporate PBAs into Alliances and major CP6 programmes | <u>Include PBA option clause in all major works contracts for CP6</u> These will provide security for sub-contractors in event of main contractor failure and visibility on subcontractor payment terms and practices. Run a 'pilot' in Central Region to obtain practical experience & liaise with Highways England who are strong advocates of this approach. Option clause for PBAs is 'on' unless switched off by Network Rail. This will be seen as progressive, but should be 'targeted' (criteria to be confirmed). |
| <u>Define Subcontract Payment Terms</u> Contractualise the Fair Payment Charter's (FPC) 28 day payment terms through to the Tier 2 supply chain | <u>Include defined Tier 2 / subcontractor payment terms within Network Rail standard T&Cs</u> This is the next step that builds on the principles of the Fair Payment Charter (FPC) and 'formalising' the approach will make it easier to assure. It will 'enrol' new market entrants and those not currently committed through the FPC to a way of doing business. Aligns with the requirements of the Public Contract Regulations and supports 'targeted' use of PBAs. This will be seen as progressive, consistent and industry leading. |
| <u>Expressly Prohibit Retentions</u> Contractualise the Fair Payment Charter's' approach to expressly prohibit retentions on monies to the Tier 2 supply chain In practice, retentions do not solve the problem with remedying defects/completing handback documentation | <u>Include defined Tier 2 / subcontractor retention terms within NR standard T&Cs</u> Ban retentions between Tier 1 and the Tier 2 supply chain. Do not support retention bonds. This is the next step that builds on the principles of the FPC and 'formalising' the approach will make it easier to assure. It will 'enrol' new market entrants and those not currently committed through the FPC to a way of doing business and will bring focus to a 'right first time' to the quality of works. It will be seen as progressive, consistent and industry leading. |

Key changes to Network Rail T&Cs

| Matter for consideration | Way forward and commentary |
|---|---|
| <p><u>Introduce time-bar clauses</u></p> <p>Introduce industry standard time-bar clause</p> <p>Late submissions and claims for entitlement cause AFC forecast issues and inability to take mitigating actions in a collaborative manner.</p> <p>Also delays payments down the supply chain, affecting cash flow</p> | <p><u>Include time-bar clause in all major works contracts for CP6</u></p> <p>Contractual timescale to align with standard industry practices including that already adopted in Southern Region on their frameworks.</p> <p>This will bring the rail sector in line with mainstream construction and improve commercial discipline and the timely submission of entitlement.</p> |
| <p><u>Introduce Step in Rights</u></p> <p>Include Step In Rights using the Third Party Rights Act in all major works contracts</p> | <p><u>Include Step-in Rights in all major works contracts for CP6</u></p> <p>Establishes a contractual link with sub contractors in event of termination thereby avoiding difficult and time consuming negotiations.</p> <p>Avoids the collateral warranty 'cottage industry'.</p> |
| <p><u>Strengthen Performance Measurement & Incentives</u></p> <p>Inconsistent key performance indicators (KPIs) prevent 'peer to peer' performance and capability comparisons</p> | <p><u>National Performance Metrics (NPM) in CP6 Contracts</u></p> <p>This will standardise performance metrics to support like for like comparison and structured continuous improvement</p> <p>Commercial incentives (linked to National Performance Metrics or stand alone) will reward achievement</p> |
| <p><u>Standardise Rail Methods & Schedules</u></p> <p>Promote standard approaches through the supply chain</p> | <p><u>Strengthen Discipline on Preliminaries, Measurement and Schedules</u></p> <p>Standard Preliminaries, Daywork and Plant Schedules to bring greater consistency and pricing/cost transparency</p> |
| <p><u>Contract Administration & Data Capture Improvements</u></p> <p>Update relevant procedures and guidance to address weaknesses identified</p> | <p><u>Network Rail & National Commercial Directors Forum (NCDF) Working Group Review</u></p> <p>NCDF review tools and templates, as well as other initiatives to improve the commercial stewardship of CP6 and agree details, proposals and provide necessary industry guidance and training.</p> |

Supplier engagement, performance & development

Key supplier working groups implemented

- Strategic Supplier Interface Group
- Tier 2 Interface Group
- National SME forums
- Greater use of industry groups (RICA, RSG, CECA and RIA)
- Next stage: Route/Regional Supplier Groups

Account management process refreshed ('SAM' process)

Introduction of BRAVO (online procurement portal) and National Performance Metrics

Upskilling Network Rail commercial management staff through our 'One Vision One Way' ambition

Alliancing best practice developed and shared



- We have an integrated procurement programme for CP6 to ensure contracts cover the transition period effectively, with appropriate mobilisation
- Lessons are being incorporated from CP5 in how we procure, contract and engage with our suppliers
- Sustainability requirements are being deployed
- We have work to do to progress and embed a performance culture and incentivisation in line with National Performance Metrics
- Supply chain have raised concerned over lack of visibility of enhancements for CP6, so this is something we will continue to provide clear communication on