



Independent Reporter

Enhancement Project Spend Efficiency Assessment

Executive Summary

ORR

Network Rail

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Executive Summary

Introduction

The Network Rail Property team is responsible for generating income from Network Rail's estate to reinvest in its rail infrastructure. In 2010/11, Network Rail reported expenditure of approximately £37m on commercial property projects under the Investment Framework (IF) and seek approval for inclusion within the Regulatory Asset Base (RAB).

The Independent Reporter has been mandated by the Office of Rail Regulation (ORR) and Network Rail, to sample a small number of commercial property projects to establish their suitability for inclusion to the Regulatory Asset Base (RAB) under the IF arrangements. This will then be used as justification for adding the remainder of the portfolio expenditure.

Methodology

The Independent Reporter has reviewed a representative sample of the commercial property projects, as determined by Network Rail and ORR, to identify the suitability for inclusion within the RAB, based upon the financial criteria set by the ORR Investment Framework and by Network Rail.

The sample projects reviewed, including a review of the Investment Papers and site visits by the Independent Reporter include:

- Sample Project 1 – Acquisition of freehold
- Sample Project 2 – Arch refurbishment for commercial letting
- Sample Project 3 – Arch refurbishment for commercial letting
- Sample Project 4 – Arch refurbishment for commercial letting
- Sample Project 5 – Development of station car park
- Sample Project 6 – Station Development (Multi-storey car park, bus interchange and station retail units)
- Sample Project 7 – Development of industrial units

Conclusions

Based upon the available evidence the Independent Reporter has concluded the following:

The Independent Reporter is satisfied that the sample projects have been identified and developed based upon income opportunities and that Network Rail has taken advantage of emerging opportunities from external parties and the local environment.

The Independent Reporter is satisfied that adequate procurement routes have been selected for each of the projects, particularly the use of competitive tendering in the poor economic climate.

The Independent Reporter is satisfied with the delivery timescales of the projects. All of the projects have delivered within anticipated final cost (AFC) although four of the sample projects have required re-authority, with satisfactory justification.

The Independent Reporter identifies that one sample project does not currently meet the required financial criteria set by ORR and Network Rail. Network Rail has confirmed that additional funding is being sought and the project is being reviewed to determine whether additional income can be generated, and should this be unsuccessful, the project is unlikely to progress.

The Independent Reporter recommends that ORR is to keep this project under review and adjust Network Rail's RAB in the future if it does not meet the investment framework criteria.

The Independent Reporter considers that all of the other six sample projects (2010/11 expenditure) are suitable for inclusion within the RAB.

David Simmons

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