

Commercial Case

4.1 Purpose

The purpose of this commercial case is to provide evidence on the commercial viability of Key Output 1 and the procurement strategies that will be used.

The Midland Main Line (MML) is part of the strategic rail network and plays a key role in enabling economic, environmental and community benefits at national, regional and local level. It serves a diverse set of markets for rail services including inter-regional, commuter, long distance and freight. (See Figure 1 Midland Main Line in the Strategic Case).

The Government has committed to a continued programme of investment in rail to meet projected increases in demand from passengers and freight¹. The Government has also committed to carbon emission, greenhouse gas and air quality targets.²

These commitments are reflected in the DfT's strategic objectives, namely to:

- *Boost economic growth and opportunity;*
- *Build a One Nation Britain;*
- *Improve journeys;*
- *Be safe, secure, sustainable; and*
- *Drive efficiency and innovation.*

The MML Programme is designed to contribute to the objectives set out above by achieving the following outcomes:

- *Deliver shorter journey times into St Pancras;*
- *Increase passenger capacity into St Pancras through the addition of a 6th path;*
- *Reduce crowding on services;*
- *Reduce operating costs and environmental impact through electrification of the line from Bedford to Corby, and;*
- *Increase freight capacity.*

4.2 Output Specification

The outputs and expected outcomes and benefits from the programme are given in Section 2.3 of the Strategic Case.

Following the Hendy Review in 2015, the MML Programme was re-phased and converted into two key output stages to be delivered by 2019 and 2023 respectively. The revised Enhancement Delivery Plan set these out as follows:

¹ National Infrastructure Delivery Plan 2016 -2021, Infrastructure and Projects Authority (reporting to HM Treasury and Cabinet Office) March 2016

² The Government's first four Carbon Budgets have been set covering the period out to 2027. The Government is also committed to implementing the EU's 2030 Green House Gas (GHG) target of at least a 40% reduction in domestic EU GHG emissions through EU Emission Trading System (EU ETS).

Key Output 1 – December 2019 Working Timetable:

- ▶ Provision of 25kv electrification from the existing limits at Bedford to Kettering and Corby;
- ▶ enabling of improved journey times through the delivery of key infrastructure schemes;
- ▶ Additional capacity for a 6th Long Distance High Speed service to serve between St Pancras and Kettering / Corby; and 3 freight paths per hour between Bedford and Kettering;
- ▶ Enhanced capability at key stations south of Leicester through extension of platforms and other operational measures; and
- ▶ New stabling facilities at Kettering.

Key Output 2 – CP6:

- ▶ Provision of 25kv electrification from Kettering to Nottingham and to Sheffield via Derby;
- ▶ Enabling improved journey times through the delivery of key infrastructure schemes;
- ▶ Completion of adjustments to existing Fast Line OLE south of Bedford, increasing the permissible speed for electric trains; and
- ▶ Enhancing the capability at key stations north of Leicester through extension of platforms and other operational measures and completion of gauge enhancement works to provide W12 clearance.

A new East Midlands franchise is due to start in August 2019. The Key Output 1 (KO1) outcomes and benefits have been developed with the DfT franchise competition team to ensure that they are delivered through the next franchise. This will include ensuring that the Invitation To Tender (ITT) contains the necessary requirements of the franchisee to enable the benefits of KO1 to be realised.

From March 2019 the DfT commercial management team will manage a 6 period Direct Award to the current franchisee (East Midlands Trains). This Direct Award will cover the period until the start of the next franchise in August 2019 and allow time for the franchise competition, which is ongoing, to conclude.

4.3 Sourcing Options

Infrastructure enhancement works will be delivered by NR who will define the contractual arrangements required for each scheme.

The Department has recently been considering alternative funding and delivery mechanisms to delivery of enhancement programmes. The OBC approved in October 2016 for KO1 concluded that further exploration of this option would likely incur significant delays to delivery timescales, especially as the programme has some projects already in delivery and the procurement for delivery of remaining projects is well advanced. Consideration of alternative delivery models has been undertaken during the development of the East Midlands franchise competition. The current approach has been agreed with the Secretary of State.

There are some small additional third party funding sources as well as the enhancements portfolio funding agreements between the Department and NR. These are detailed in section 1.3 of the financial case.

Delivery of the new train services and benefits to customers will be enabled through the new East Midlands franchise agreement. The specification for the franchise is still in development, and the franchise consultation concludes on 11th October 2017 with ITT scheduled for April 2018.

4.4 Procurement Strategy

4.4.1 Infrastructure Enhancements

Infrastructure enhancements will be managed through the extant CP5 process as refined by the Hendy and Bowe reviews and in line with the DfT and NR MOU signed in March 2016³. The governance structure put in place is set out in section 1.4 of the Programme Management case.

Delivery of rail infrastructure enhancements is the responsibility of NR and its sub-contractors whilst rolling stock procurement will be delivered through the new franchise.

The infrastructure outputs required are outlined in Figure 2 (section 2.3.2) in the strategic case. The outputs require a mix of electrification works along the Midland Main Line alongside substantial civil engineering works to enhance the capacity of the route.

NR Sponsor teams will deliver the required enhancements through the NR Infrastructure Projects team and through further contractual arrangements as required. Contractual arrangements will be developed on a scheme by scheme basis by NR and are subject to NR's governance processes.

4.4.2 Agreed Commitments Document

An Agreed Commitments Document has been agreed between NR and DfT, which establishes a contractual type arrangement for delivery of enhancements.

The ACD has been created in response to the recommendations of the Bowe Review and the February 2017 GIAA Report on the impact of the Bowe and Hendy Reviews. The MML programme is the first enhancement programme to use a document of this kind.

The ACD provides clarity regarding the:

- i. definition of the programme and outputs to be delivered by NR;
- ii. funding envelope within which this shall be delivered;
- iii. governance arrangements and change processes;
- iv. delivery schedule; and
- v. roles to be played and behaviours to be enacted by DfT and NR.

The ACD will also be used as the basis for infrastructure assumptions included in the relevant franchise agreements by DfT. The aim of the ACD is to foster a productive and clear relationship between DfT and NR. It has been prepared to impose similar commitments on each party to encourage reciprocity.

³ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/509545/mou-dft-network-rail-rail-enhancements.pdf dated March 2016

The ACD does not create a contractual relationship as this would not be actionable between DfT and NR. It also does not alter relationships with any third parties, or any legal or regulatory agreements.

Although the ACD is a new document agreed between DfT and NR, it formalises working practices that are already in place. It will therefore create greater clarity in delivery of KO1 and not create any delivery risks to the programme. The ACD will continue to be evaluated by DfT and NR programme teams after implementation to monitor its effectiveness. It can then be used as a template for use on other enhancement programmes as appropriate.

The ACD is attached as an Annex A to this document.

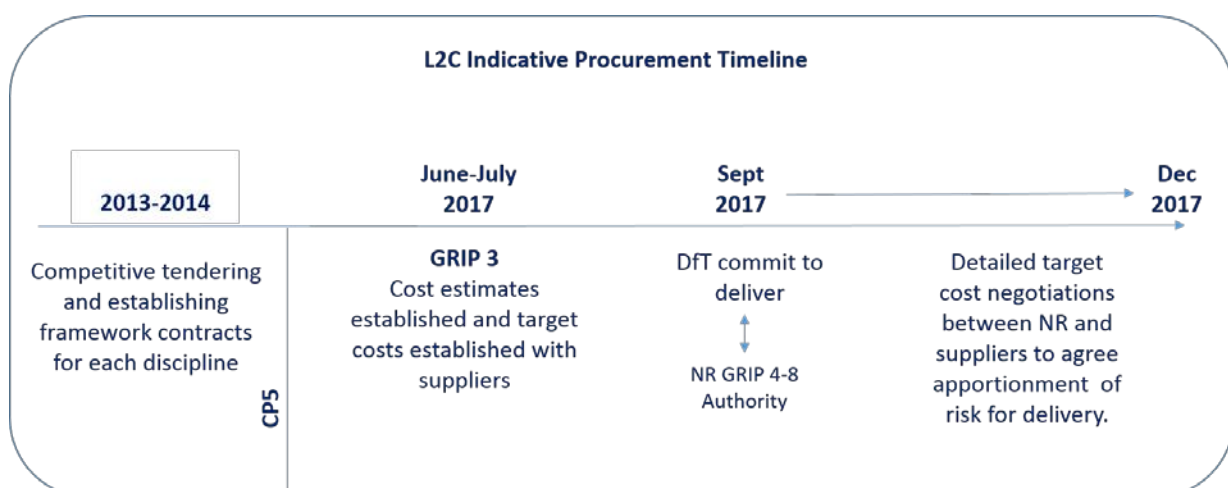
4.4.3 Network Rail Procurement

The procurement strategy NR have used for L2C, Derby Remodelling and the other KO1 schemes is outlined below. The appropriateness of their procurement strategy will be considered by NR's internal governance and does not fall within the remit of DfT decision making.

4.4.3.1 L2C procurement strategy (at GRIP3 Stage Gate Review AFC £1.018bn which includes a P80 Point Estimate of £803.790m, Inflation of £24.020m and COWD £191.077m)

To more effectively deliver the programme, Network Rail integrated the four MML Enhancement Delivery Plan line items (*Midland Main Line Electrification KO1 (MMLe)*, *Bedford to Kettering Capacity (B2K)*, *Long Distance High Speed services Platform Lengthening phase 1 (LDHSs)* & *Kettering Electric Stabling (KES)*) into one larger, single integrated project, London to Corby (L2C). This change was agreed by the MML Programme Board.

Prior to each control period Network Rail's framework agreements are competitively tendered for each route. As the design and development of works progress, NR in conjunction with relevant suppliers obtain target cost estimates which support the NR GRIP3 stage gate. Following DfT and NR authority, detailed target cost negotiations will take place between NR and suppliers to agree apportionment of risk for delivery through the QCRA.



NR Infrastructure Projects team have utilised NR National and Regional Framework contracts in order to secure the right resources and buying gain efficiencies for each discipline. The frameworks utilised are as follows:

- Electrification (inc Power & Distribution) – National Electrification Programme Framework, Carillion Powerlines JV
- Track & ancillary Civils – CP5 Infrastructure Projects (IP) Central Multi-discipline Panel Framework, Carillion Rail
- Signalling – CP5 National Signalling Framework, Siemens
- Stations – CP5 IP Central Stations Framework, Galliford Try
- Route Clearance – CP5 IP Central Civils Frameworks, Amalgamated Construction & J Murphy & Sons
- Grid points are procured directly with National Grid

4.4.3.2 Derby Remodelling (GRIP6 – AFC £188.291m, multi-funded enhancement/renewal scheme, COWD £30.774m)

The appropriate procurement and contract strategies have been carried out by NR, and this project is now at delivery stage.

4.4.3.3 Kettering to Corby (GRIP6 – AFC £131.170m, COWD £103.629m)

The appropriate procurement and contract strategies have been carried out by NR, and this project is now at delivery stage.

4.4.3.4 Other KO1 schemes (AFC £79.876m, COWD £8.724m)

Owing to the maturity of the remaining schemes (GRIP3 or below) the procurement and contract strategies for these are still being developed by NR. DfT will work with NR to clarify their recommended strategies as they are developed.

4.4.4 Franchise

DfT Network Services and Passenger Services are working closely together to ensure the expectations for infrastructure delivery remain aligned with the development of the ITT for the new franchise. See section 1.2 of the Programme Management Case for more detail.

The Rail Group approach to rail franchising draws upon the recommendations of the Brown report and the Department's response to that report. The development of the specification will be delivered in liaison with colleagues across the Department. The team will seek to implement the existing policies of the Department and will seek to explore improvements where appropriate. The Franchise Policy Development team will assist in the development and implementation of rail franchising policy that is designed to consistently deliver the Department's objectives for the franchising programme.

The franchise will be conducted in line with the Department's Franchise Competition Guide (updated February 2016). A more detailed commercial approach will be developed as part of the franchise competition project. Lessons learned from previous franchise competitions, particularly those that interacted with other enhancement schemes, have been (and will continue to be) incorporated into the development of the ITT.

4.5 Risk Allocation and Transfer

Risks to the programme will be managed between the programme team, franchise competition team and NR as appropriate. Ultimately the Department will continue to hold the reputational and cost risks of services, franchising and infrastructure issues irrespective of who is best placed to

manage those risks. The approach to management of risk in the programme is set out in Section 1.4.7 of the Programme Management Case.

NR will manage the delivery risks. Risks relating to the interface with other strategic rail priorities (i.e. Thameslink, HS2, Rolling Stock, Franchise etc.) are discussed and managed through the DfT MML Integration Group. DfT risk to the business case and programme outcomes will be managed via the relevant DfT governance and management arrangements.

Technical and commercial risks relating to the delivery of the infrastructure enhancements will mostly be held and managed by NR. Significant risks will be reviewed through the MML Programme Board.

NR will seek to transfer technical and delivery risks to its contractors where possible incentivising contracts to minimise cost, schedule and quality risks.

A NR Quantitative Cost Risk Assessment (QCRA) has been undertaken on all cost elements of the London to Corby project (which accounts for 71% of the AFC of KO1). This process has reviewed the L2C project assumptions, risks and opportunities around cost and gives an uplift allowance based on the project's lifecycle including consideration made for risk likelihood and impact, cost certainty and scope certainty. The output of this QCRA process is a risk exposure which has informed the contingency on the L2C project (£133m). The K2C and Derby Remodelling projects are authorised for delivery, and this included the QCRA process. NR are managing risks and the correct contingency for these works to ensure their delivery to the regulated milestones. For the remainder of KO1 schemes (accounting for 5.6% of KO1 AFC), NR risk processes including QCRA will be carried out as they reach higher levels of maturity. For more detail see Section 1.5.3 of the financial case.

4.6 Human Resource issues including TUPE

NR already has a multidisciplinary team working on the Midland Main Line enhancement programme, with a track record of project delivery on the East Midlands Route – recent examples include the Kettering – Corby capacity enhancement and Nottingham Station Resignalling & remodelling.

The supply chain has responded positively to the opportunity and the Midland Main Line work is expected to support 800 jobs outside Network Rail during the CP5 period and into CP6, as well as supporting apprenticeships in Network Rail and in the wider supply chain.

In part due to the pausing and un-pausing of the electrification work on the Midland Main Line, and concurrent delivery with other electrification schemes nationally, industry risks do exist over the availability of critical electrification resources. The learning from this impact of this risk elsewhere has been factored into the delivery strategy and methodology, in order to mitigate this risk as far as possible – programme timescales and production rates are not driven by excessive resource profiles, instead relying on long-term deployment of repeatable processes using specific named resources. Critical Signalling resources have been captured within NR's national resource prioritisation process.

4.7 Implementation (Contract) Timescales

The key programme milestones and deliverables are summarised in the table below.

| Milestone / Deliverable | Target Date |
|--|---------------------|
| Full Business Case for Midland Mainline Programme– Key Output 1 | Sep 2017 |
| NR Major Contract Award – L2C* | Oct 2017 |
| Outline Business Case for a new East Midlands Franchise | Apr 2018 |
| ITT published – East Midlands Franchise | Apr 2018 |
| Derby Remodelling | Oct 2018 |
| East Midlands Franchise – direct award extension of 6 periods | Mar 2019 - Aug 2019 |
| Full Business Case for a new East Midlands Franchise | Mar 2019 |
| East Midlands franchise award issued | Apr 2019 |
| East Midlands franchise start (assuming 6 period extension to direct award) | Aug 2019 |
| Infrastructure available for 6 th path and electric services to Corby | Aug 2020 |
| Key Output 1 – Benefits Start Date | Dec 2020 |

*NR contract award dates for all remaining KO1 scope be formalised in Q4 2017.

4.8 Contract Management Approach

NR will develop the contractual management requirements for schemes within the MML Programme. DfT will have oversight of contractual performance and issues arising from their contracts through the MML Programme Board. The NR sponsor team will ensure that delivery of the schemes through NR Infrastructure Projects is consistent with maximising value for the Department and for the public.