

## Outsourcing Needs Expert Buyers



The collapse of Carillion, one of Network Rail's largest suppliers and a future contractor for building HS2 raises many questions about the outsourcing of rail renewal and enhancement work. Passenger franchising, another form of outsourcing as train operating companies are contracted to run specified services is also experiencing poor bidding practices.

Construction firms are under great pressure to submit bids that sustain a flow of work and the temptation is to set prices below the cost of delivering outputs which has been all too apparent in the rail industry. Jarvis acquired a number of the original rail infrastructure renewal and maintenance companies at the time of privatisation but like Carillion fell victim to poor cost estimation as work expanded.

Passenger franchise failures started with the removal of Connex from South Eastern in 2003, followed by the National Express withdrawal from the East Coast contract in 2009 and now on the same route the admission by the Stagecoach / Virgin consortium that is not able to sustain the promised level of premium payments to the Department for Transport.

While the emphasis has been focused on the behaviour of bidders the evidence suggests successful *outsourcing needs expert buyers*. Organisations justify outsourcing decisions in the belief that contractors can bring about desired outputs more cheaply than if these are undertaken by in-house staff. Network Rail reversed that judgement in 2003 as costs escalated when it decided to bring infrastructure maintenance in house and transfer 16,500 staff to the company.

NR said at the time that the trouble was that BR's systems for managing maintenance, and most engineering records, were passed to the contractors. Minimal engineering expertise was maintained because it was assumed that the contractors would take most decisions, monitor their own work, and deliver on broad output specifications.

Larger scale renewal and enhancement projects continued to be outsourced. This policy has not been without failure and the mantra that *outsourcing needs expert buyers* was lacking in decisions made about the method to be used for Great Western electrification where the implications of a recently introduced Technical Specification for Interoperability (TSI) on changes to overhead wire clearance altered the system design.

*There is no shortage of skills at FCP to advise on successful procurement outcomes given the*

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*amount of industry experience that is offered.*

[The National Audit Office \(NAO\)](#) has recently investigated the operation of the Govia Thameslink Railway which was awarded the Thameslink Southern and Great Northern (TSGN) franchise in 2014. The findings indicate that flaws in franchise design demonstrated again that *outsourcing needs expert buyers*. The NAO was critical that the DfT had made decisions that had impacted negatively on passengers which meant that the franchise had not delivered value for money.



For the specified 2018 train services Network Rail had written to the DfT saying that the plan did not represent a workable timetable, and later in the process that the train service proposed by Govia in its winning bid was non-compliant with timetable planning rules and requirements for engineering possessions.

For the future positive changes have already been made by the DfT which places greater emphasis on the quality content of bids that benefit passengers and less on the financial offer made which has too often implied cutting costs to the detriment of the journey experience.