

DRIVE 10 - 25% EFFICIENCY GAINS FROM OPERATIONAL EXPENDITURE PROGRAMMES



“Historically, asset management regimes have actually developed more as a result of organic growth in maintenance demand followed by stark realisation of contractual and regulatory responsibilities; rather than by driving best-in-class strategies and processes up front to meet core business objectives efficiently.” Tom Kane - Partner, Head of Rail

Railway companies have to demonstrate that they are on track to achieve cost savings and efficiency targets. However, current trends show that this has resulted in virtually a blind assault on cost base by simply cutting operational expenditure. There is insufficient consideration given to investing in a long-term asset management approach that drives value from the operation, maintenance and renewal of railway assets.

Taking relatively simple steps

The question is, “why are major rail asset organisations, after more than 10 years recognition of asset management as a necessary discipline, not taking the relatively simple steps to drive 10 - 25% efficiencies into their operational expenditure programmes?”

Attempts to build effective asset management regimes have a tendency to fall by the wayside. This is because the complexity, size and diverse nature of rail assets can make the task seem too daunting to finish, even though it has often been started. This can be attributed to the size of the potential savings not being fully understood by the stakeholders. In recent history, only London Underground Ltd has really stayed the distance to achieve a reasonable measure of control over its asset base, as it was driven to set the parameters for asset performance and its measurement under the PPP arrangement.

Asset life cycle and whole life planning

Short-term cost cutting measures are extremely tempting and are often selected at the detriment of the most efficient operating model over the medium and long term. It is essential that the asset life cycle and whole life planning are at the forefront of any asset management strategy, prior to determining the most appropriate operating model to deliver it. This should be followed by a re-engineering of the supply chain to deliver the benefits.

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Under-performance

Without an effective strategy in place this leads to the all too familiar fire fighting approach to maintenance and under-delivery of the budgeted spend. Over the medium to long term, operators will experience under-performance of the asset with regard to availability, reliability and sustainability, as well as tired looking assets that do little to enhance the customer’s travelling experience.

Fundamentally, without the right investment plan and approach this will result in degraded asset values and the very real potential to compromise the operation of a ‘safe railway’.

Key to success

The key to success is to find the optimum strategy to determine the best preventative maintenance and renewals intervention points. Then strike a balance between Capex and Opex spend, based on a decision framework derived from a systematic approach around asset behaviour and technological advancement.

To drive efficiency gains into operational expenditure programmes operators should:

- Always start with an accurate asset register and a system to track and control asset health
- Understand the asset’s performance targets and align the asset management strategy with business objectives and financial plan over the long-term
- Ensure the supply chain is focused upon client need which encourages sustainable long-term relationships and drives innovation and efficiency - establish robust performance measures
- Reduce the cost of operations and maintenance through optimal whole-life planning and best value programme management
- Determine the optimal time to invest through robust investment forecasts underpinned by future passenger demand

- Put in place the right leadership and culture to change current prevalent practices to secure commitment to a different plan and approach
- Always look to maintain and enhance the passenger experience - i.e. the passenger experience should be at the heart of the overall strategy, not just a bolt on, which requires a customer centric approach.

Operators that achieve effective asset management will extend the life of their assets, maintain or enhance their ultimate value, make them more available and reliable for passengers, and manage regulatory and safety demands more successfully. They will also increasingly reduce comparative operating costs as effective asset management is knowledge based and therefore becomes self-educating during the asset life cycle. In short, the value of the business will increase through lower operational costs and higher passenger volumes from the existing infrastructure.

Achieving business objectives

The focus of asset management in the UK rail industry has been crystallised around privatisation and regulation. It has been fuelled by the ensuing fragmentation of the industry. Fundamentally though, it is also recognised as a highly desirable ‘steady state’ to aspire to for any vertically integrated railway system around the world, as a means to providing a safe and reliable service to passengers.

Operators that get this right will drive 10 - 25% efficiencies into their operational programmes and deliver to their overall business objectives. As they seek to balance varying stakeholder priorities they will maximise the financial and economic benefit from the development, delivery and operation of their assets.

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