



OFFICE OF **RAIL AND ROAD**

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Sir Peter Hendy

Chairman

Network Rail Infrastructure Limited

One Eversholt Street

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3 May 2016

Dear Sir Peter,

Network Rail's performance in 2015-16

I am writing to set out ORR Board's view of Network Rail's performance in 2015-16 to feed into your Remuneration Committee's consideration of Network Rail's performance during the year.

As in previous years our comments are structured around the categories in your Management Incentive Plan (MIP). For ease of reference we have set these out in the table attached.

Our intention is to publish this letter on our website in late June alongside our next Network Rail Monitors. The Monitors are our more detailed assessment of Network Rail's performance for the full year.

I am copying this letter to Rt Hon Patrick McLoughlin MP, Claire Perry MP, Lord Ahmad, Philip Rutnam and Bernadette Kelly at the Department for Transport. I am also copying it to Roy Brannen and Aidan Grisewood (Transport Scotland), Mal Drury-Rose (Welsh Government) and Michael O'Higgins at Network Rail.

Yours sincerely,

Stephen Glaister

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Chair

Network Rail's Management Incentive Plan (MIP)

Key measure of performance	Percentage of bonus available	Network Rail's assessment of percentage payable for 2015-16 performance	ORR comments (if applicable)
Safety	20	14.7	<p>During 2015-16 there were no passenger fatalities on Network Rail managed infrastructure or stations. There were also no workforce fatalities and a 30% significant reduction in the number of RIDDOR-specified injuries. Unconfirmed figures indicate that the number of level crossing fatalities will be the lowest ever recorded – with no motorist fatality at a crossing since May 2014. We also acknowledge the leadership Network Rail has shown in pushing forward the first industry-wide health and safety strategy launched in April 2016.</p> <p>Network Operations has reduced and rationalised the challenging number of change initiatives that routes were required to adopt (from 121 to 21). This has brought the focus that we highlighted as missing when we wrote last year.</p> <p>Our Rail Management Maturity Model (RM3) assessment of Network Rail found that it has now delivered a central audit function that identifies key weaknesses in risk controls. But the assessment also found that delivery of the changes required to rectify those weaknesses has been slow and that there was weak or inconsistent assurance at the front line, with supervisors and managers not always clear about their role in ensuring compliance, or having insufficient time to do so. Our detailed inspections of management of poor track geometry showed a level of non-compliance that is not picked up by formal audit.</p>

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			We have seen some improvements in Occupational Health. Central initiatives and strategies are starting to build in assurance regimes to check frontline compliance and encourage better stakeholder engagement. However, as previously stated in our Occupational Health report, there is still a disconnect between the centre's strategies/procedures and route/ site implementation.
Train performance	20	0.9	<p>In England and Wales, punctuality as measured by the Public Performance Measure (PPM) moving annual average (MAA) was 88.9% falling below Network Rail's internal target of 89.6% and the regulated target of 92.1%. This represents a decline on 2014-15 when 89.6% was achieved. Cancellations and significant lateness (CaSL) was 3.1% at the end of 2015-16, 0.2 percentage points (pp) worse than the internal target and 0.9 pp below the regulatory target. This represents a decline since 2014-15 when 2.9% was achieved.</p> <p>In Scotland the PPM MAA was 90.6%, 1.4 pp below the regulated target of 92.0%. This represents an improvement on 2014-15 when 90.5% was achieved.</p> <p>Analysis at train operating company (TOC) level shows a more varied picture. PPM for a small number of TOCs was ahead of the agreed target (e.g. PPM for TfL Rail was 94.0%, 1.7pp ahead of target). But PPM for the majority of TOCS was below the agreed target with some falling well below that level (e.g. PPM for GTR was 81.5%, 4.3pp below the target of 85.8% and for Southeastern it was 86.9%, 3.6pp below the target of 90.5%.</p> <p>Freight performance, as measured by the Freight Delivery Metric was 94.3% against a regulatory target of 92.5%. It was, however, below Network Rail's internal target of 95%.</p>

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Financial performance	20	1.5	<p>The regulatory financial performance measure (FPM) is based on the PR13 determination. Network Rail also monitors FPM against an internal target.</p> <p>Network Rail's unaudited internal FPM of £161 million in underperformance for the FPM excluding enhancements and a further £210 million for negative FPM for enhancements, giving total underperformance of £371 million at Period 13.</p> <p>The unaudited regulatory FPM has a further £462 of underperformance against the PR13 baseline, with a further adverse adjustment of £129 million for missed outputs, giving total underperformance of £962 million at Period 13.</p> <p>Underperformance against the internal and regulatory financial targets indicates that progress in delivering efficiencies has been less than planned and this is a concern.</p>
Investment – investing in the rail way	10	6.4	<p>Some high profile projects were completed during the year including the Borders new railway, Birmingham New Street, Manchester Victoria and complex work on the Farnworth tunnel. However, there were significant cost and affordability problems requiring a major re-baselining exercise (the Hendy Review) which has now secured greater certainty.</p> <p>In October 2015 we completed a formal licence investigation concluding that the company was in breach of its licence due to systemic weaknesses in the planning and delivery of projects. However, we also concluded that Network Rail was taking appropriate steps to remedy the position as evidenced through the enhancements improvement plan (EIP) and as a consequence we did not impose an Order.</p>

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			<p>Network Rail has made good progress in putting these improvements in place and at year end had delivered 67% of the overall improvement programme outputs (against the October 2015 baseline target of 68%). However we note that delivery of the outputs (e.g. issuing a new procedure) is only the first stage of the EIP. We will require further assurance that Network Rail is embedding the improvements and achieving the anticipated benefits.</p>
Asset Management	15	11.71	<p>Network Rail's Composite Reliability Index (CRI) - a measure of improvement in asset reliability weighted by asset type and potential for failure - continued to show improvement in 2015-16 with a 7% reduction in incidents compared to the previous year.</p> <p>Network Rail delivered its planned renewals volumes for the year for most asset categories. On the civils portfolio, Network Rail achieved the planned renewals volumes for earthworks although it under-delivered by 11% in respect of underbridges. RF11 forecast data suggested that volumes for overbridges and footbridges would fall short of plan by 67% and 58% respectively.</p> <p>We have also noted that some £738m worth of work mainly associated with track, signalling and civils has been deferred to 2016-17. Shortfalls in this work on a prolonged basis will have implications for safety and sustainability of the assets.</p>

Key measure of performance	Percentage of bonus available	Network Rail's assessment of percentage payable for 2015-16 performance	ORR comments (if applicable)
Satisfaction	15	0.5	<p>Network Rail's 2015 annual survey of its customers (i.e. TOCs/FOCs) showed that overall 41% of customers were satisfied whilst 37% were dissatisfied. This compares with last year when 40% were satisfied and 41% were dissatisfied.</p> <p>As far as passenger satisfaction levels are concerned, the latest results of the Transport Focus National Rail Passenger Survey (NRPS) (for autumn 2015) showed that nationally the percentage of passengers satisfied with their journey overall was 83%. This is an increase on autumn 2014 result when 81% of passengers were satisfied. It is also higher than the spring 2015 result of 80%.</p> <p>It is important in this context to recognise the growth in passenger numbers in recent years with almost 1.7 billion passenger journeys during the year – a third more than just five years ago.</p>
Totals	100	35.71	