The overall framework for regulating Network Rail

Stakeholder event,
8 September 2017
Purpose of stakeholder event

To learn more about ORR policy proposals
to inform your consultation responses

“The rail industry is changing, and the way we regulate is too. Our consultation on the overall framework for regulating Network Rail sets out our proposed new approach to regulating the company, including by building on its devolution of responsibilities to its routes and the creation of a distinct system operator”
## Agenda

<table>
<thead>
<tr>
<th>Item</th>
<th>Lead</th>
<th>Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coffee</td>
<td></td>
<td>9:45</td>
</tr>
<tr>
<td>Welcome and introduction to PR18</td>
<td>Chris Hemsley</td>
<td>10:15</td>
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<tr>
<td>Introduction to the consultation</td>
<td>Emily Bulman</td>
<td>10:30</td>
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<tr>
<td>Scorecards</td>
<td>Lynn Armstrong</td>
<td>10:50</td>
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<tr>
<td>Coffee</td>
<td></td>
<td>11:30</td>
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<tr>
<td>Network Rail’s engagement with stakeholders</td>
<td>Robert Cook</td>
<td>11:45</td>
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<tr>
<td>Our approach to monitoring and enforcement</td>
<td>Sam McClelland-Hodgson</td>
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<tr>
<td>Managing change to our PR18 settlement</td>
<td>Emily Bulman</td>
<td>12:15</td>
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<tr>
<td>Next steps and close</td>
<td>Chris Hemsley</td>
<td>12:40</td>
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<tr>
<td>Close</td>
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<td>1:00</td>
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</table>
A changing context

Demands on the Network

Digital Railway

Reclassification & Public Spending

Efficiency & Performance

Operational Devolution

Political Devolution

Digitalisation of the Railway

Digital Railway

HM TREASURY

Transport for the North

Office of Rail and Road
Periodic review 2018 (PR18)

- Because Network Rail is a monopoly, we regulate it to ensure that it delivers for operators and end users, as market pressures may not be effective.

- PR18 is the price control for the next ‘control period’ (CP6), which we expect to run from 2019-2024.

- Through the periodic review, we will determine funding, outputs and charges. We also set the framework of incentives and our approach to monitoring and enforcement for CP6.
What are we trying to achieve from PR18?

“A safer, more efficient and better used railway, delivering value for passengers, freight customers and taxpayers in control period 6 and beyond”
The consultation

Emily Bulman
Suite of documents

Consultation on the overall framework for regulating Network Rail

- Route requirements and Scorecards
- Possible measures of the system operator’s performance
- Design framework
Key themes for the consultation

We will be:

- putting an increasing focus on regulating each of Network Rail's route businesses
- encouraging closer working between Network Rail and train operators and other key stakeholders
- making greater use of comparison between routes to incentivise delivery
- strengthening our regulation of Network Rail's System Operator function

This approach should facilitate Network Rail to become more efficient and responsive to the needs of its customers, strengthen its accountability, and contribute to better outcomes for passengers, freight customers and taxpayers.
Other PR18 work

(Not the focus of this consultation)

- Track access charges and contractual incentives
- Financial framework
- Enhancements, treatment of items in the HLOSs
- Network Rail’s efficiency and efficient cost assessment
- Implementation of the determination
Network Rail

- Network Rail owns, operates, maintains, and develops, most of the mainline railway network in Great Britain.
- Reclassified as a public sector arm’s length government body, with the Secretary of state as its sole ‘member’ in September 2014.
Consultation chapter headings:

3. Scorecards

4. Network Rail’s engagement with stakeholders

5. Our approach to monitoring and enforcement

6. Managing changes to our PR18 settlements
Scorecards

Lynn Armstrong
Impetus for change

- In CP5, we set a number of output targets for Network Rail

- Some potential weaknesses with this approach
  - “Stretching but achievable” but based on lengthy projections and some key targets have not been delivered
  - Concerns outputs lead Network Rail to treating ORR as its primary customer
  - Network Rail’s status means levying fines is a less effective tool than it was

- Network Rail has introduced and gradually evolved scorecards during CP5
Scorecards
Example from Network Rail’s annual return

<table>
<thead>
<tr>
<th>2016/17 Route Scorecard - Anglia</th>
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</thead>
<tbody>
<tr>
<td><strong>Safety</strong></td>
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<tr>
<td>AIP % WEIGHTING</td>
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<tr>
<td>LTI Frequency Rate (LTIFR)</td>
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<tr>
<td>Close calls raised</td>
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<tr>
<td>Close calls % closed within 90 days</td>
</tr>
<tr>
<td>Train accident rate (%)</td>
</tr>
<tr>
<td>Top 10 Milestones to reduce level crossing risk</td>
</tr>
<tr>
<td><strong>Financial Performance</strong></td>
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<tr>
<td>AIP % WEIGHTING</td>
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<tr>
<td>Financial Performance Measure (FFM) - excl. enhancements (£m)</td>
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<tr>
<td>Financial Performance Measure (FFM) - enhancements only (£m)</td>
</tr>
<tr>
<td>Cash Compliance income &amp; expenditure</td>
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<tr>
<td><strong>Investment</strong></td>
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<tr>
<td>AIP % WEIGHTING</td>
</tr>
<tr>
<td>Top investment milestones</td>
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<tr>
<td><strong>Asset Management</strong></td>
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<tr>
<td>AIP % WEIGHTING</td>
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<tr>
<td>Reduction in service affecting failures</td>
</tr>
<tr>
<td>Track Plain Line (Track km)</td>
</tr>
<tr>
<td>Track S&amp;C (Point Ends)</td>
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<tr>
<td>Underbridges (m²)</td>
</tr>
<tr>
<td>GUL re-wire and mild life refurb (Wire runs)</td>
</tr>
<tr>
<td><strong>Train Performance</strong></td>
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<tr>
<td>AIP % WEIGHTING</td>
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<tr>
<td>Abellio Greater Anglia PPM</td>
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<td>London Overground PPM</td>
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<td>TSL Rail PPM</td>
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<tr>
<td>Abellio Greater Anglia CSIL</td>
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<tr>
<td>CSIL</td>
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<tr>
<td>London Overground CSIL</td>
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<td>TSL Rail CSIL</td>
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<td>CSIL Right Time Arrival</td>
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<td>LOROL Right Time Arrival</td>
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<td>Abellio Greater Anglia Right Time Arrival</td>
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<tr>
<td>Freight Delivery Metric (FDM)</td>
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<tr>
<td><strong>Locally Driven Customer Measures</strong></td>
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<tr>
<td>AIP % WEIGHTING</td>
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<tr>
<td>Your Voice Action Ware completed</td>
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<tr>
<td>Passenger Satisfaction</td>
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<tr>
<td>Passenger Satisfaction (Liverpool Street)</td>
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<tr>
<td>Reduction in Railway Work Complaints</td>
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<td>T-12 Milestone Delivery</td>
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<td>Crossrail East Milestones</td>
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<tr>
<td>Number of Temporary Speed Restrictions (TSRs)</td>
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<table>
<thead>
<tr>
<th>Date - July 2017</th>
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<tbody>
<tr>
<td>Total Achievement</td>
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<tr>
<td>Anglia Modifier</td>
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<td>Anglia Outturn</td>
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</table>
Scorecards

- Network Rail’s scorecards have different uses for different parties
- Network Rail uses scorecards to help manage its business and, where appropriate, create alignment with its customers
  - Its management incentive scheme is linked to delivery
- For us, scorecards have **two** important purposes in CP6:
  - Provide clear line of sight to, and alignment with, Network Rail’s customers; and
  - Incentivise routes through comparison and competition
- We can use scorecards in how we regulate Network Rail in CP6
Our proposed requirements for PR18 and CP6 scorecards

- **be balanced** across Network Rail’s key activities and stakeholders

- **support comparison and competition** between routes (and, where appropriate, the SO)

- **capture requirements specified in HLOS**, where this is appropriate

- we are consulting separately on whether we should require **specific measures** to be included in routes or the SO scorecard
A ‘balanced’ scorecard

- Reflects (as far as possible) the range of key activities that a route/SO undertakes, and the interests of all of its customers and stakeholders

- Fully **balanced scorecards** for CP6 should reflect the interests of:
  - Current customers
  - Funders
  - Future customers
Proposed measures

Consultation on the overall framework for regulating Network Rail

Route requirements and Scorecards

Possible measures of the system operator’s performance

Design framework
Route requirements & scorecards

- **Range of Network Rail and customer measures**
  - Trajectories and ranges for each measure

- **Additional measures required by ORR**

- **Small number of ‘minimum floor’** – more likely to trigger formal investigation if breached for two measures
  - Route performance
  - Network sustainability

<table>
<thead>
<tr>
<th>Location</th>
<th>Measure</th>
<th>Target</th>
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<tbody>
<tr>
<td>Geographic routes</td>
<td>Network sustainability measure</td>
<td>Minimum floor</td>
</tr>
<tr>
<td></td>
<td>‘Route performance’ for passenger market</td>
<td>Minimum floor</td>
</tr>
<tr>
<td></td>
<td>‘Route performance’ for freight market</td>
<td>Potential minimum floor</td>
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<tr>
<td></td>
<td>Overall passenger satisfaction with the journey by route</td>
<td>No target</td>
</tr>
<tr>
<td></td>
<td>Rate of change in off-peak journeys by route</td>
<td>No target</td>
</tr>
<tr>
<td></td>
<td>Passenger satisfaction with the station</td>
<td>No target</td>
</tr>
<tr>
<td></td>
<td>Passenger train miles</td>
<td>No target</td>
</tr>
<tr>
<td></td>
<td>Freight train miles</td>
<td>No target</td>
</tr>
<tr>
<td>FNPO route</td>
<td>Freight Delivery Metric</td>
<td>Potential minimum floor</td>
</tr>
<tr>
<td>Non-scorecard requirements</td>
<td>Network capability requirement</td>
<td>Baseline to be maintained</td>
</tr>
</tbody>
</table>
Possible measures of the SO’s performance

■ SO is currently developing its scorecard and other reporting mechanisms for CP6
  – Dialogue with its customers and broader stakeholders

■ Our document is intended to support these discussions by setting out the ideas we’ve heard from industry on possible ways of measuring the SO’s performance

■ It is not intended to represent ORR’s preferred measures

■ We may set some ORR-determined SO measures for CP6. This is subject to what the SO proposes reporting on for CP6

<table>
<thead>
<tr>
<th>TABLE 1. Possible measures of the SO’s performance against its strategic activities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SO activity</strong></td>
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<tr>
<td>---------------------------------------------------------------</td>
</tr>
<tr>
<td>Strategic planning</td>
</tr>
<tr>
<td>---------------------------------------------------------------</td>
</tr>
<tr>
<td>A2 Number of expected improvements identified which don’t require immediate action, where (e.g., operational solutions) require a minimal investment (e.g., less than £1M)</td>
</tr>
<tr>
<td>---------------------------------------------------------------</td>
</tr>
<tr>
<td>A3 Considerable period of development of new infrastructure and their adherence to the strategic planning documents</td>
</tr>
<tr>
<td>---------------------------------------------------------------</td>
</tr>
<tr>
<td>A4 Stakeholder consultation (LPPP) (e.g., by way of a survey and consultation) involving stakeholders and the LPPP</td>
</tr>
</tbody>
</table>
Questions
Engagement with stakeholders

Robert Cook
An increasing role for stakeholders

- Greater meaningful engagement with customers and stakeholders
- Led at the route / system operator level
- We recognise different interests, capabilities, resources
- ORR not prescriptive…
- …but we have set out some expectations
Minimum requirements (route/SO level)

- CP6 strategic plan
- Scorecards
- Annual business and actions plans, setting out what will be delivered for stakeholders
- Direct discussions with customers

<table>
<thead>
<tr>
<th>Locally Driven Customer Measures</th>
<th>AIP % WEIGHTING</th>
<th>FYE</th>
<th>WORSE THAN TARGET</th>
<th>TARGET</th>
<th>BETTER THAN TARGET</th>
</tr>
</thead>
<tbody>
<tr>
<td>Your Voice Action Plans completed</td>
<td>4.0%</td>
<td>95.0%</td>
<td>80%</td>
<td>90%</td>
<td>100%</td>
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<tr>
<td>Passenger Satisfaction</td>
<td>5.0%</td>
<td>87.5%</td>
<td>84%</td>
<td>88%</td>
<td>90%</td>
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<td>Reduction In Railway Work Complaints</td>
<td>2.0%</td>
<td>1,456</td>
<td>1,474</td>
<td>1,307</td>
<td>1,310</td>
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<td>Virgin Network Advocacy Measure</td>
<td>1.0%</td>
<td>35</td>
<td>30</td>
<td>35</td>
<td>40</td>
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<td>Northern Right Time Arrival</td>
<td>1.0%</td>
<td>48.8%</td>
<td>46%</td>
<td>48%</td>
<td>50%</td>
</tr>
<tr>
<td>Chiltern Right Time Arrival</td>
<td>1.0%</td>
<td>70.8%</td>
<td>77%</td>
<td>81%</td>
<td>85%</td>
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<tr>
<td>CrossCountry Right Time Arrival at Birmingham New Street only</td>
<td>1.0%</td>
<td>30.1%</td>
<td>25%</td>
<td>35%</td>
<td>45%</td>
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<tr>
<td>Right Time Departures from Major Stations</td>
<td>1.0%</td>
<td>61.3%</td>
<td>58%</td>
<td>60%</td>
<td>62%</td>
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<tr>
<td>London Midland Cross City Dpl</td>
<td>1.0%</td>
<td>41</td>
<td>56</td>
<td>55</td>
<td>54</td>
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<tr>
<td>Merseyrail Autumn Delay Minutes</td>
<td>1.0%</td>
<td>6,088</td>
<td>10,926</td>
<td>9,110</td>
<td>9,460</td>
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<td>PPM Failures due to Possession Overruns</td>
<td>2.0%</td>
<td>1,400</td>
<td>1,500</td>
<td>1,450</td>
<td>1,350</td>
</tr>
</tbody>
</table>
Principles of good stakeholder engagement

- Effective
- Inclusive
- Well-governed
- Transparent
ORR empowering stakeholders

- Setting expectations / standards for engagement
- Ensuring good quality comparative performance information
- ORR will investigate and take appropriate action where performance problems are not being addressed
Assessing the quality of engagement

- Quality of engagement should start being assessed
- This assessment could be led by ourselves, or Network Rail centre
- Will evolve over Control Period 6
Possible model

Customer engagement

- Governance architecture
  - Routes report annually on how they engage effectively, including the key forums, their purpose, governance, and outputs

- Setting requirements
  - Route/SO scorecards are an overarching statement of what must be delivered. Routes/SO and their stakeholders agree, and review annually, customer metrics and targets

- Monitoring
  - Scorecards, supported by route business plans, and broader route/customer data

- Improving
  - Action plans developed to improve performance and address concerns at route level

- Escalation
  - Pre-agreed structured escalation to Network Rail centre and ORR

ORR role

- In PR18, ORR sets principles for stakeholder engagement
  - ORR uses periodic assessment of routes’ engagement to help prioritise its monitoring

- In PR18, ORR sets requirements for scorecards covering key areas, ensuring comparability between routes, appropriately reflecting the HLOSs; and setting regulatory minimum floor for two areas: performance and network sustainability

- Routine ORR publications, including comparisons of routes
- Business as usual and risk-based monitoring

- ORR monitors areas of concern more closely and undertake structured escalation to push for action
- ORR investigates and may bring enforcement action where concerns are not being effectively addressed
Monitoring and enforcement

Sam McClelland-Hodgson
Fundamentals remain the same in CP6

- Legislative framework unchanged
- Network Rail remains a single company
- Network Rail is regulated against its network licence
- ORR’s enforcement powers and broad principles unchanged
- Continue to fulfil our duty to investigate any complaints about contravention of licence conditions (unless frivolous/vexations)
Overall staged approach continues in CP6

Engage - Monitor & assess - Review - Informal intervention/escalation - Enforce
Changes in CP6

But how we work within this framework will certainly evolve. For CP6 we are proposing to:

- Exploit potential for new incentives: reputational, procedural and management
- Use comparisons across routes to recognise both success and shortcomings
- Target monitoring and enforcement activities at the routes, the SO, as appropriate
- Consider making some customer requirements licence requirements
- Reflect the effectiveness of stakeholder engagement in our decisions

Reinforces customer-focused approach
Route-level comparisons and reputational incentives

- Highlighting comparative performance draws attention to both best and worst performing areas of business. Can help identify good practice as well as areas to address.

- Also allows regulator to target scrutiny more appropriately
  - Focus on areas where performance demonstrably weaker
  - And areas that are high risk because of past performance patterns

- Particular opportunity to exploit ‘reputational’ incentives to encourage improvements in performance. Routes want to compete (we have seen this already through NR’s assessments of the strategic business plans) and people have pride in their work
Route comparison incentives

Reflecting our overall approach to PR18, we want to use comparisons across routes/the SO to:

- recognise and incentivise good performance,
- use the sense of rivalry to drive improvements, and
- inform our approach to intervening and enforcing where necessary, and make greater use of reputational incentives

For comparisons to be meaningful however, each route needs clarity and certainty over its own regulatory settlement which identifies the funding available to the route together with the outputs it is expected to deliver.
Discretionary link with stakeholder engagement

Effective stakeholder engagement  ORR gives space for these mechanisms to work

OR

Lack of effective stakeholder engagement  Increased ORR scrutiny and reporting requirements
Incentives for CP6

We are consulting on introducing a number of new incentives, alongside existing financial incentives, including:

- reputational
- procedural
- management
Questions
Managing changes to our PR18 settlements

Emily Bulman
Change

■ Things that could change in CP6…
  – Route boundaries
  – Route budget allowances
  – Organisational structures
  – Output requirements

■ Changes that could affect…
  – The ability to plan effectively
  – The accountability of routes/the SO to their stakeholders for delivery commitments
  – Our (and others’) ability to compare across routes

■ These changes all relate to our route level settlements – they are either changes to what the route is expected to deliver, or the resources it has available to deliver them
Change management process

NR proposes change
Engages with us and stakeholders
NR decides on whether to enact change or not
ORR decides whether to adjust PR18 baselines
Our proposals

Network Rail must report changes transparently, and engage with stakeholder appropriately.

For large changes (e.g. a merge of routes):
- Network Rail would make the case for change
- We would provide a formal opinion
- It would then be Network Rail’s decision

Changes might be aggregated and baseline reset at financial year end.
Questions
Summary and next steps

Chris Hemsley
Key points from the consultation

- Route level regulation should encourage competition between routes, enable better comparisons, and support ongoing devolution.
- Use of scorecards to clearly define customer expectations, and inform our monitoring.
- Encouraging closer working between Network Rail, operators and other key stakeholders.
- Structured use of reputational incentives.
- Improve the understanding of changes to our route level settlements to ensure that accountability is not lost.
Overall Framework Consultation

- Consultation closes:  
  21 September 2017

- Conclusions:  
  January 2018

- Three other supporting documents published

Consultation on the overall framework for regulating Network Rail

Route requirements and Scorecards
Possible measures of the system operator’s performance
Design framework

October 2017
- Governments provide their updated statements of funding available (SoFA)

December 2017
- Network Rail publishes its strategic business plans

Early 2018
- ORR scrutinises Network Rail’s business plans

June 2018
- ORR consults on its draft determination

October 2018
- ORR publishes its final determination

March 2019
- Network Rail publishes its delivery plan

April 2019
- Control Period 6 begins
Thank you for listening