CP6: moving from final determination to delivery

John Larkinson, Chief Executive, Office of Rail and Road

14 November 2018
Periodic Review 2018: ORR's Final Determination
Background to PR18: The basic process

**High level output specification (HLOS)**
What they want to be achieved by railway activities during the control period

**Statement of funds available (SoFA)**
Public resources likely to be available to achieve the HLOS

Secretary of State (for England & Wales) and the Scottish Ministers each provide ORR with:

- ORR's determination
  - Over a 2-3 year period, ORR develops its policy framework for the periodic review

Produces its ‘strategic business plans’ setting out how it would deliver the HLOS requirements and how much this would cost

Determines whether Network Rail’s SBP would deliver the HLOS and whether there are sufficient funds available for this

Decides what Network Rail should deliver and funding at route level

ORR’s determination
The final determination in numbers

£35bn of spending on operating, maintaining and renewing the network

£545m in efficiency improvements (a 10% improvement) in E&W

£245m for R&D, backed by new governance

£73m in efficiency improvements (a 12% improvement) in Scotland

£16.6bn of renewals in GB

£40m to set up a new performance innovation fund

An additional £80m of safety improvements (on top of the initial plans)

Funding for an additional 100 timetabling staff

Simplification by removing 5 charges/incentive mechanisms
What’s different?

■ Context:
  – Network Rail in public sector
  – Route based approach

■ Learning lessons from CP5
  – Simplify framework
  – Better processes for managing change
  – Focus on Network Rail preparedness

■ Funding increase
  – To fund asset sustainability
The way we will regulate Network Rail in CP6 will need to reflect the wider context

- We want to
  - reinforce the relationship between Network Rail and its customers, including through use of scorecards
  - support further devolution to the routes and the System Operator (SO)
  - reflect government’s objective that asset condition is maintained
  - learn lessons from CP5, including the need for the company to ‘own’ its plans.
Our decisions regarding Network Rail’s delivery in CP6
Our overall findings on Network Rail’s Plans

- They are a significant improvement compared with previous plans
  - More justification
  - Improved stakeholder engagement
  - ‘Ownership’ of the plans by routes and the SO

- The plans are fit for purpose, and we have broadly accepted them.

- This reflects that Network Rail responded positively to a number of challenges that we set in our draft determination.

- We have set out a number of additional requirements, and adjusted the Network Rail performance trajectory for one route.
Set a series of CP6 baseline trajectories:

- Used to measure how well each route is performing
- Specified using a new metric: Consistent Route Measure – Performance (CRM-P)
- Measures each route’s contribution to overall passenger delay

Two operators presented new evidence, some of which we accepted. This changed the trajectory in one route.
E&W asset sustainability

- We raised concerns that the future profile of asset condition was not sustainable, and asked Network Rail to allocate more funds to renewals.

- In response, Network Rail improved its analysis and demonstrated that sufficient progress would be made with a 17% increase in renewals spend (to £14.6bn) relative to its original plans.

**Long-term forecasts for asset sustainability, as measured by CSI**

- CSI measures the change in average asset condition, relative to the end of CP4. An increase indicates that average asset condition is improving.

- Improved forecast outcomes in longer term.

- Similar estimated outcomes at end of CP6 and over CP7.
Scorecards capture customer requirements

- Includes a number of customer-agreed targets
- Scorecards for each geographic route, FNPO and SO
- Performance measured relative to target
- Measures across a range of outcomes
- Individual weightings reflect relative importance
- Overall performance affects management pay

<table>
<thead>
<tr>
<th>Route: Wales</th>
<th>RMD:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Safety</strong></td>
<td></td>
</tr>
<tr>
<td>Lost Time Injury Frequency Rate (LTIFR)</td>
<td>PRP%</td>
</tr>
<tr>
<td>5.0%</td>
<td>0.377</td>
</tr>
<tr>
<td>2.0%</td>
<td>5.195</td>
</tr>
<tr>
<td>1.0%</td>
<td>90%</td>
</tr>
<tr>
<td>YTD Close Calls Closed % Within 90 Days</td>
<td>PRP%</td>
</tr>
<tr>
<td>5.0%</td>
<td>79%</td>
</tr>
<tr>
<td>3.0%</td>
<td>9%</td>
</tr>
</tbody>
</table>

| Train Performance (PRP 20%) |
| ATW PPM | PRP%  | PRIOR YEAR | WORSE | TARGET | BETTER | PERIOD ACTUAL | FYF | ACHIEVEMENT |
| 7.0% | 0.922 | 91.3% | 91.2% | 93.0% | 93.0% | 91.2% | 0% |
| ATW CASL | PRP%  | PRIOR YEAR | WORSE | TARGET | BETTER | PERIOD ACTUAL | FYF | ACHIEVEMENT |
| 3.0% | 3.0% | 3.1% | 2.9% | 2.4% | 2.3% | 3.10% | 0% |
| ATW On-time to 3 | PRP%  | PRIOR YEAR | WORSE | TARGET | BETTER | PERIOD ACTUAL | FYF | ACHIEVEMENT |
| 0.0% | N/A | 80.1% | 80.8% | 82.7% | 84.2% | 80.8% | 4% |

| Locally Driven Customer Measures (PRP 20%) |
| Stakeholder perception survey | PRP%  | PRIOR YEAR | WORSE | TARGET | BETTER | PERIOD ACTUAL | FYF | ACHIEVEMENT |
| 2.0% | N/A | 60% | 70% | 75% | 0% | 70% | 0% |
| Working together with industry partners | PRP%  | PRIOR YEAR | WORSE | TARGET | BETTER | PERIOD ACTUAL | FYF | ACHIEVEMENT |
| 3.0% | N/A | 65 | 104 | 143 | 19 | 146 | 100% |
| Number of Railway Works Complaints | PRP%  | PRIOR YEAR | WORSE | TARGET | BETTER | PERIOD ACTUAL | FYF | ACHIEVEMENT |
| 2.0% | N/A | 336 | 300 | 266 | 16 | 266 | 100% |
How we will hold Network Rail to account in CP6
Strengthening the role of routes

- Each route has a settlement and separate requirements to deliver

- ORR will be making greater use of comparison between routes to understand how they are performing.

- We are also proposing changes to Network Rail’s licence to:
  - recognise the route and SO structure of the company
  - require transparency if route budgets are reduced
  - increase the ability of routes to choose how they procure goods and services

<table>
<thead>
<tr>
<th>CP6 total, £m (2017-18 prices)</th>
<th>Operations, Support &amp; Maintenance</th>
<th>Renewals</th>
<th>Other *</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anglia</td>
<td>1,185</td>
<td>1,588</td>
<td>1,054</td>
<td>3,826</td>
</tr>
<tr>
<td>LNEEM</td>
<td>2,624</td>
<td>3,322</td>
<td>1,985</td>
<td>7,931</td>
</tr>
<tr>
<td>LNW</td>
<td>3,411</td>
<td>3,203</td>
<td>2,109</td>
<td>8,724</td>
</tr>
<tr>
<td>Southeast</td>
<td>2,018</td>
<td>2,346</td>
<td>1,689</td>
<td>6,052</td>
</tr>
<tr>
<td>Wales</td>
<td>678</td>
<td>957</td>
<td>349</td>
<td>1,984</td>
</tr>
<tr>
<td>Wessex</td>
<td>1,030</td>
<td>1,455</td>
<td>964</td>
<td>3,449</td>
</tr>
<tr>
<td>Western</td>
<td>1,286</td>
<td>1,627</td>
<td>933</td>
<td>3,846</td>
</tr>
</tbody>
</table>
Holding Network Rail to account

**Key**
- Existing approach
- New approach for PR18 / CP6

**Network Rail and Industry**
- Escalation by operators & funders
- Scotland HLOS tracker
- Views of Railway Boards
- Quarterly Scorecards
- Managing Change Process
- Network Rail’s periodic reporting
- NR explanation of central procurement
- SO annual report
- FNPO annual report
- Reporting on cancellations and delay per incident

**ORR ongoing monitoring**
- Delivery against PR18 requirements
- Comparison to CP6 baseline trajectories
- Comparisons between routes
- Comparisons to agreed scorecards
- Strength of route and SO level accountability

**Holding to account**

**Monitoring**
- Understanding Network Rail’s performance and governance arrangements

**Reporting**
- Publishing information about Network Rail’s performance, including to sharpen incentives on delivery

**Investigation and early resolution**
- Investigating concerns to resolve quickly

**Enforcement**
- Deciding if there is a licence breach; taking action

**ORR enforcement**
- Enforcement orders
- Financial penalties (‘fines’)
- Route/ SO financial sanctions

**ORR investigation and early resolution**
- Gathering in-depth information
- Require a formal improvement plan
- ORR hearings

**ORR reporting**
- ORR report: Network Rail monitor
- ORR report: Network Rail AEFA
- Greater use of comparison tables
- New approaches to reporting?
Preparing for CP6
Importance of a good start to a Control Period

[Bar chart showing renewals volume delivery compared to plan for various categories: Plain Line, S&C, Signalling, Underbridges, Earthworks, OLE re-wire and mid-life refurb, Conductor Rail Renewal, with percentage deviations ranging from -70% to +70%]
CP6 preparedness – leading indicators

Percentage of renewals projects in 2019-20 with financial authorisation

Percentage of required network access in 2019-20 booked
Our view of NR preparedness

- Route preparation going well on:
  - Renewals workbanks
  - Engineering access
  - Maintenance resource.

- Greater concern on efficiency – less progress in the routes.

- Substantially better than in run-up to CP5, but tracking of route efficiency plans does not yet capture enough information to show progress in developing efficiency plans.

- But Network Rail is developing its capacity and we expect to see substantial progress in next few months.

- We will continue to monitor and report on progress in the run-up to the start of the control period.