



# PR18: Schedule 8 – Draft impact assessment on approach to setting benchmarks

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December 2016

This document has been published alongside [‘Improving incentives on Network Rail and train operators: A consultation on changes to charges and contractual incentives’](#).

Policy	Incentives - Schedule 8
Policy area	Schedule 8 – Benchmarks
<b>Background</b>	<p>Schedule 8 benchmarks serve the purpose of minimising money flows within the Schedule 8 regime. They are not intended as targets, nor are they intended to have any other incentive effects.</p> <p>When Network Rail or operators perform worse than their benchmark they make payments to the affected operators. Conversely, if they perform better than their benchmark they receive payments.</p> <p>The benchmarks for both the passenger and freight Schedule 8 regimes are recalibrated at the start of each control period.</p> <p>In the passenger operator regime:</p> <ul style="list-style-type: none"><li>• The benchmarks vary at the level of the service group (i.e. at the sub-operator level) and where applicable there are separate benchmarks for peak and off-peak services.</li><li>• In PR13, passenger operator benchmarks were set on the basis of the past performance of each service group, while Network Rail’s benchmarks were set based on the performance needed to deliver the regulated Public Performance Measure (PPM) targets, together with the associated improvement trajectories.</li></ul> <p>In the freight operator regime:</p> <ul style="list-style-type: none"><li>• The benchmarks are constant across all freight operators,</li></ul>

	<p>both for Network Rail and operators.</p> <p>In PR13, freight operator benchmarks were set on the basis of average past performance across all freight operators, while Network Rail's benchmarks were set on the basis of its own past performance.</p>
<b>Which of the PR18 outcomes does this charge/incentive deliver against?</b>	<p><b>Outcome:</b> The network is reliable</p> <p><b>Description of outcome:</b></p> <ul style="list-style-type: none"> <li>• Network Rail delivers the optimal level of reliability for every service</li> <li>• Operators minimise the delay they cause to the efficient level</li> </ul>
<b>Problem under consideration with the current charge/incentive</b>	
<p>The main issue considered in this assessment concerns the approach to setting benchmarks on the basis of historical performance either at the Network Rail or individual operator level.</p> <p>Setting passenger operator benchmarks and Network Rail's benchmark in the freight regime on the basis of historical performance reduces their incentive to improve their performance. This is particularly an issue towards the end of the control period, since doing so could result in a more challenging benchmark in the subsequent control period.</p>	
<b>What is the scale of the issue &amp; who is impacted?</b>	
<p>Franchised passenger operators are generally held neutral to any changes in benchmarks that occur during their franchise. As a result, the above incentive effects of the current approach to setting benchmarks would likely only apply to open access operators.</p> <p>Under the current regime, freight operators who experience poor performance in one control period are worse off in the subsequent control period (all else being equal) as a result of Network Rail's benchmark being less challenging.</p>	
<b>Options to be considered</b>	
Option 0: Do nothing	<ul style="list-style-type: none"> <li>• Continue with the current approach to setting benchmarks in both the passenger and freight Schedule 8 regime.</li> </ul>
Option 1: De-link benchmarks from any individual organisation's historical performance	<ul style="list-style-type: none"> <li>• In the passenger regime, operator benchmarks would no longer be set on the basis of the individual operator's historical performance.</li> <li>• For the freight regime, Network Rail's benchmark would no longer be set on the basis of its historical performance.</li> <li>• No changes would be made, in this regard, to the way that either freight operator benchmarks or Network Rail's benchmarks in the passenger regime are set.</li> </ul>
<b>Assessment of options</b>	
Assessment of option 1 (De-link benchmarks from any individual	<ul style="list-style-type: none"> <li>• This option would avoid reducing the incentive (principally on open access) passenger operators</li> </ul>

organisation's historical performance)	<p>to improve their performance, due to the link to having a tougher benchmark in the next control period.</p> <ul style="list-style-type: none"> <li>• It would also remove this dis-incentive for Network Rail in respect of freight operators.</li> <li>• This option could also lead to a simpler approach to setting benchmarks in the passenger regime, which could lower the administrative costs of the regime.</li> </ul>
<b>Recommendation</b>	<ul style="list-style-type: none"> <li>• Develop a new methodology that de-links passenger operator benchmarks and the Network Rail benchmark in the freight regime from past performance.</li> </ul>
<b>Next Steps</b>	
<ul style="list-style-type: none"> <li>• As work begins on the re-calibration of the Schedule 8 benchmarks for PR18 we will agree with industry a new methodology for setting the passenger operator benchmarks and the Network Rail freight benchmark.</li> <li>• We also plan to explore options to reduce the diversity of the benchmarks in the passenger regime to lower the costs of administering the regime and reduce the risk of errors.</li> </ul>	



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