



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

June 2017

This impact assessment supports conclusions following our December 2016 consultation ['Improving incentives on Network Rail and train operators: A consultation on changes to charges and contractual incentives'](#) (henceforth referred to as the 'consultation'). The assessment of the options contained within this document has been updated to reflect points raised in response to the consultation.

Policy	Incentives Schedule 8
Policy area	Schedule 8 – Benchmarks
Background	<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 re-calibrated at the start of each control period.</p> <p>In the passenger operator regime:</p> <ul style="list-style-type: none">• 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.• 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.

In the freight operator regime:

- The benchmarks are constant across all freight operators, both for Network Rail and operators.
- In PR13, freight operator benchmarks were set on the basis of average past performance across all freight operators. Network Rail's benchmarks were set on the basis of its freight performance target in the last year of CP4 uplifted for delay allocated to Network Rail that is not captured in the delay attribution system (i.e. TRUST) and also third party delay caused to freight operators.

Which of the PR18 outcomes does this charge/incentive deliver against?

Outcome: The network is reliable
Description of outcome:

- Network Rail delivers the optimal level of reliability for every service
- Operators minimise the delay they cause to the efficient level

Problem under consideration with the current charge/incentive

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.

Setting operator or Network Rail benchmarks 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.

What is the scale of the issue & who is impacted?

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.

Options to be considered

Option 0: Do nothing

- Continue with the current approach to setting benchmarks in both the passenger and freight Schedule 8 regime.

Option 1: De-link benchmarks from any individual organisation's historical performance

- In the passenger regime, operator benchmarks would no longer be set on the basis of the individual operator's historical performance.
- For the freight regime, we will consider separately whether the approach to setting Network Rail's benchmark needs to be changed. This will be discussed with Network Rail and freight operators in the Schedule 8 re-calibration working group.
- 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.

Assessment of options	
Assessment of option 1 (De-link benchmarks from any individual organisation's historical performance)	<ul style="list-style-type: none"> • This option would avoid reducing the incentive on (principally open access) passenger operators to improve their performance, due to the link to having a tougher benchmark in the next control period. <ul style="list-style-type: none"> ○ Responses to the consultation highlighted that the perverse incentive to passenger operators of the current approach is low, since they already have commercial and contractual incentives to perform well – so the incentive benefits of moving away from the current regime are likewise probably low. • 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. <ul style="list-style-type: none"> ○ Responses to the consultation noted that any administrative savings of a more standardised regime would likely be low and outweighed by the impacts on cash flows within the regime.
Recommendation	<ul style="list-style-type: none"> • Continue to set passenger operator benchmarks on the basis of past performance.



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