



# The overall framework for regulating Network Rail

Stakeholder event,  
8 September 2017



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# Introduction and PR18

Chris Hemsley

# 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

Item	Lead	Time
Coffee		9:45
Welcome and introduction to PR18	Chris Hemsley	10:15
Introduction to the consultation	Emily Bulman	10:30
Scorecards	Lynn Armstrong	10:50
Coffee		11:30
Network Rail's engagement with stakeholders	Robert Cook	11:45
Our approach to monitoring and enforcement	Sam McClelland-Hodgson	
Managing change to our PR18 settlement	Emily Bulman	12:15
Next steps and close	Chris Hemsley	12:40
Close		1:00



**Demands on the Network**

**Reclassification & Public Spending**



**A changing context**

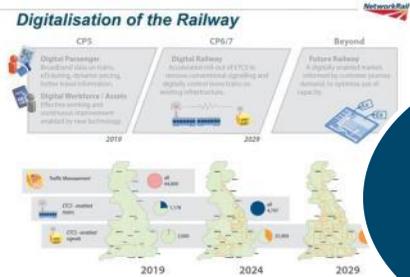
**Efficiency & Performance**



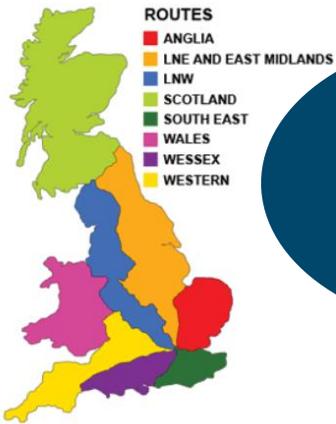
**Political Devolution**



**Digital Railway**



**Operational Devolution**



# 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”***



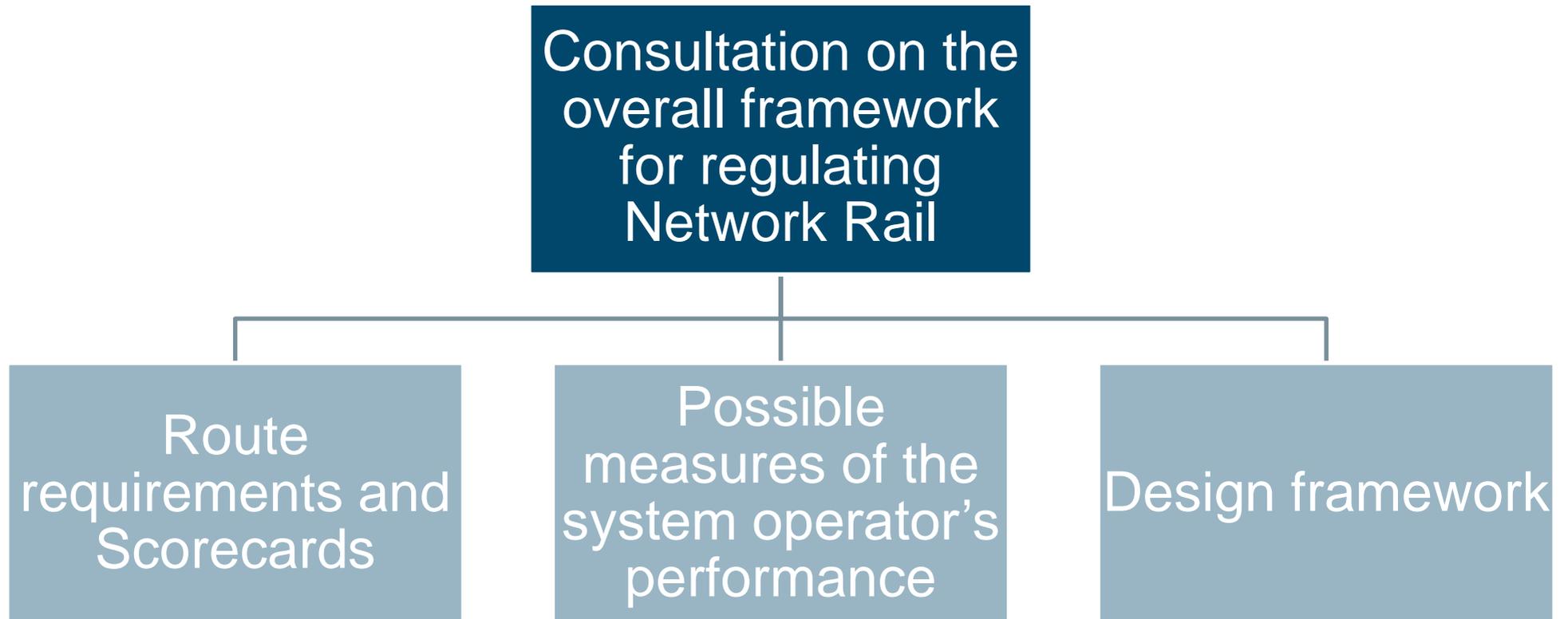
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# The consultation

Emily Bulman

# Suite of documents



# 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



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# 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

### 2016/17 Route Scorecard - Anglia



	Full Year						
	AIP % WEIGHTING	Full Year Outturn	WORSE THAN TARGET	TARGET	BETTER THAN TARGET	ACHIEVEMENT	WEIGHTED ACHIEVEMENT
<b>Safety</b>							
Lost Time Injury Frequency Rate (LTIFR)	5.0%	0.777	0.550	0.524	0.438	0.0%	0.0%
Close calls raised	2.0%	7,331	4,500	6,000	7,500	94.4%	1.9%
Close calls % closed within 90 days	20%	3.0%	80.7%	70%	80%	90%	53.5%
Train accident risk reduction measures	5.0%	87.4%	60%	80%	100%	68.6%	3.4%
Top 10 Milestones to reduce level crossing risk	5.0%	90.0%	60%	80%	100%	75.0%	3.8%
<b>Financial Performance</b>							
Financial Performance Measure (FPM) - excl. enhancements (£m)	10.0%	£(28)m	£(7)m	0	£7m	0.0%	0.0%
Financial Performance Measure (FPM) - enhancements only (£m)	20%	5.0%	£m	£(2)m	0	£2m	52.5%
Cash Compliance - Income & Expenditure	5.0%	£(43)m	£(2)m	0	£8m	0.0%	0.0%
<b>Investment</b>							
Top Investment Milestones	10%	10.0%	88%	60%	80%	100%	68.8%
<b>Asset Management</b>							
Reduction in service affecting failures	5.0%	3.0%	0.0%	2.0%	4.0%	75.0%	3.7%
Track Plain Line (Track Km)	3.1%	109	120	126	133	0.0%	0.00%
Track S&C (Point Ends)	0.8%	35	48	50	53	0.0%	0.00%
Underbridges (m2)	0.6%	2,415	1,676	1,789	1,862	100.0%	0.56%
OLE re-wire and mid life refurb (Wire runs)	0.6%	6	5	6	6	100.0%	0.57%
<b>Train Performance</b>							
Abellio Greater Anglia PPM	2.0%	88.8%	89.5%	90.1%	90.7%	0.0%	0.0%
c2: PPM	2.0%	94.5%	96.4%	96.7%	97.0%	0.0%	0.0%
London Overground PPM	2.0%	94.5%	94.4%	95.1%	95.5%	7.1%	0.1%
TfL Rail PPM	2.0%	94.7%	93.7%	94.0%	94.3%	100.0%	2.0%
Abellio Greater Anglia CaSL	1.5%	3.1%	2.7%	2.5%	2.2%	0.0%	0.0%
c2: CaSL	1.5%	2.2%	1.5%	1.3%	1.1%	0.0%	0.0%
London Overground CaSL	1.5%	2.4%	2.1%	1.8%	1.6%	0.0%	0.0%
TfL Rail CaSL	1.5%	2.7%	2.5%	2.2%	2.1%	0.0%	0.0%
c2: Right Time Arrival	0.5%	73.0%	76.1%	78.0%	79.9%	0.0%	0.0%
LOROL Right Time Arrival	0.5%	75.7%	76.1%	79.9%	83.7%	0.0%	0.0%
TfL Rail Right Time Arrival	0.5%	83.4%	80.0%	84.0%	88.0%	42.5%	0.2%
Abellio Greater Anglia Right Time Arrival	0.5%	64.7%	66.5%	68.4%	69.8%	0.0%	0.0%
Freight Delivery Metric (FDM)	4.0%	93.9%	91.2%	92.6%	94.0%	98.2%	4%
<b>Locally Driven Customer Measures</b>							
Your Voice Action Plans completed	3.0%	100.0%	80.0%	90%	100%	100.0%	3.0%
Passenger Satisfaction	3.0%	84.0%	83%	85%	87%	25.0%	0.8%
Passenger Satisfaction (Liverpool Street)	2.0%	88.0%	89%	90%	91%	0.0%	0.0%
Reduction in Railway Work Complaints	2.0%	830	595	563	532	0.0%	0.0%
T-12 Milestone Delivery	3.0%	98.0%	94%	97%	100%	66.7%	2.0%
Crossrail East Milestones	3.0%	9	5	7	9	100.0%	3.0%
Number of Temporary Speed Restrictions (TSRs)	4.0%	37	24	20	16	0.0%	0.0%

Total Achievement

40.1%

Anglia Modifier

0.960

Anglia Outturn

35.5%

Date - July 2017

# 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

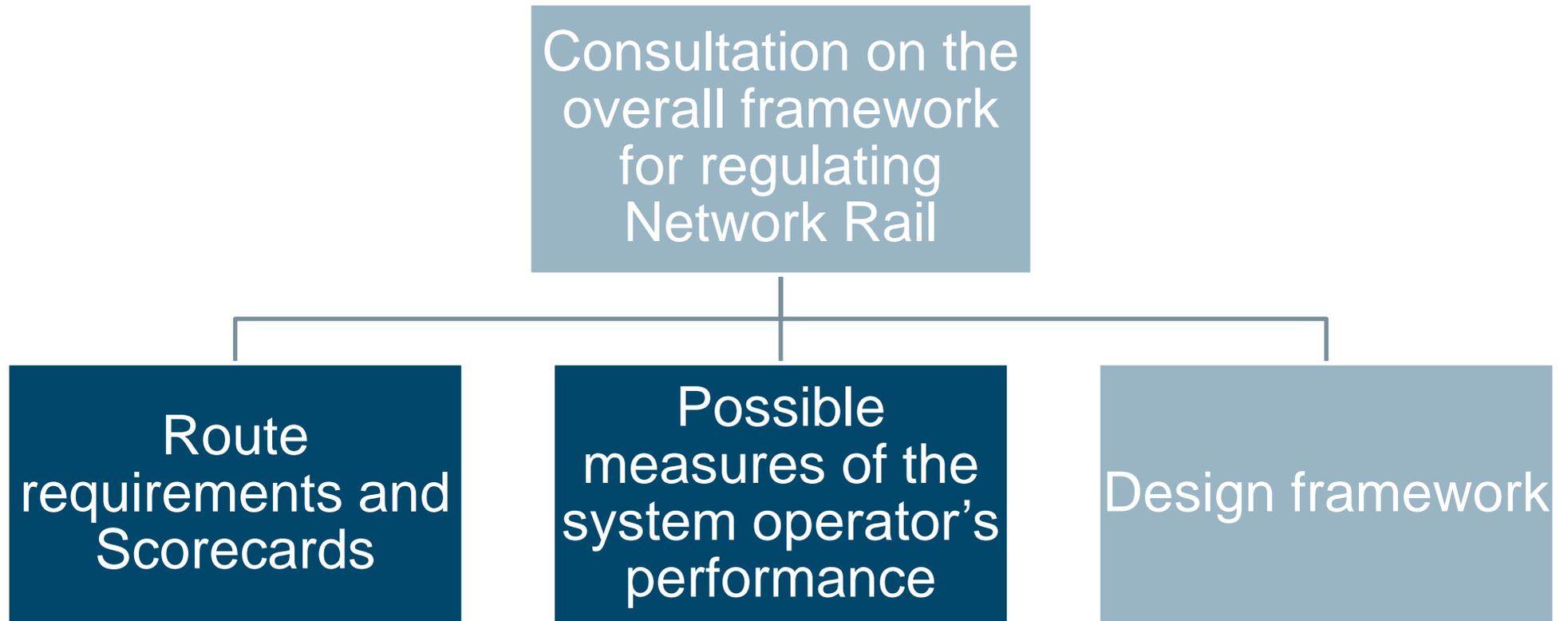
- **be balanced** across Network Rail's key activities and stakeholders
- **support comparison and competition** between routes (and, where appropriate, the SO)
- **capture requirements specified in HLOS**, where this is appropriate
- we are consulting separately on whether we should require **specific 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



# 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

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

# 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 1: Possible measures of the SO's performance against its (specific) activities					
SO activity*	SO's role	Possible SO performance measure	SO accountable (for performance with respect to this measure)?	Quantitative metric (unlikely to require commentary to understand it)?	Commentary
<b>Strategic planning</b> <i>i.e. Considering the future requirements of the network and identifying solutions (including non-infrastructure solutions) to address constraints and to inform choices for funders</i>	Lead the long-term planning process	A1 Progress against planned milestones for LTPP	✓	✓	<ul style="list-style-type: none"> <li>- The SO is accountable for meeting the LTPP milestones</li> <li>- The measure would be quantitative (e.g. proportion of milestones met)</li> <li>- The measure doesn't reflect quality of the LTPP outputs</li> <li>- Network Rail would need to consider how any future modular approach to the LTPP might work with this</li> </ul>
		A2 Number of capacity improvements identified which don't require infrastructure investment (e.g. operational solution) (only requires a minimal investment (e.g. less than £1m))	x	?	<ul style="list-style-type: none"> <li>- The SO is not (solely) accountable for delivery against this measure</li> <li>- Although a number could be attributed to this, this would have more meaning when supported with commentary and explanation</li> <li>- It could encourage low cost solutions</li> <li>- It may be difficult to measure in practice and could be subject to gaming</li> <li>- It may give rise to perverse incentives, if it encourages the SO to disproportionately favour small-scale investments which deliver fewer cumulative benefits than a single large scheme</li> </ul>
		A3 Demonstrable consideration of non-infrastructure solutions within all strategic planning documents	✓	✓	<ul style="list-style-type: none"> <li>- The SO is accountable for producing long term planning documents</li> <li>- It could be expressed quantitatively, e.g. the number of documents lacking such a discussion</li> <li>- It could address stakeholder concerns that the LTPP favours capital / infrastructure solutions over operational solutions</li> </ul>
		A4 Stakeholder satisfaction with LTPP (e.g. by way of a survey and comparison among market/route studies)	✓	✓	<ul style="list-style-type: none"> <li>- The SO is broadly accountable for stakeholder satisfaction with the LTPP process</li> <li>- This measure would be quantitative (e.g. level of stakeholders saying they are 'satisfied' or 'very satisfied')</li> <li>- Stakeholder satisfaction for each LTPP could be assessed by way of comparative competition, given that it is repeated for different parts of the network and by different SO teams</li> <li>- It should focus on satisfaction with the process/engagement rather than the final result.</li> </ul>

# Questions



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# 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

## Freight & National Passenger Operators

Draft Route Strategic Plan – RF2 May 26<sup>th</sup> 2017



Locally Driven Customer Measures	AIP % WEIGHTING	FYF	WORSE THAN TARGET	TARGET	BETTER THAN TARGET
Your Voice Action Plans completed	4.0%	95.0%	80%	90%	100%
Passenger Satisfaction	5.0%	87.5%	84%	88%	90%
Reduction in Railway Work Complaints	2.0%	1,456	1,474	1,397	1,319
Virgin Network Advocacy Measure	1.0%	35	30	35	40
Northern Right Time Arrival	1.0%	48.8%	46%	48%	50%
Chiltern Right Time Arrival	1.0%	70.8%	77%	81%	85%
CrossCountry Right Time Arrival at Birmingham New Street only	1.0%	30.1%	25%	35%	45%
Right Time Departures from Major Stations	1.0%	61.3%	58%	60%	62%
London Midland Cross City DPI	1.0%	41	56	55	54
Merseyrail Autumn Delay Minutes	1.0%	6,088	10,926	9,910	9,460
PPM Failures due to Possession Overruns	2.0%	1,400	1,500	1,450	1,350



# 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



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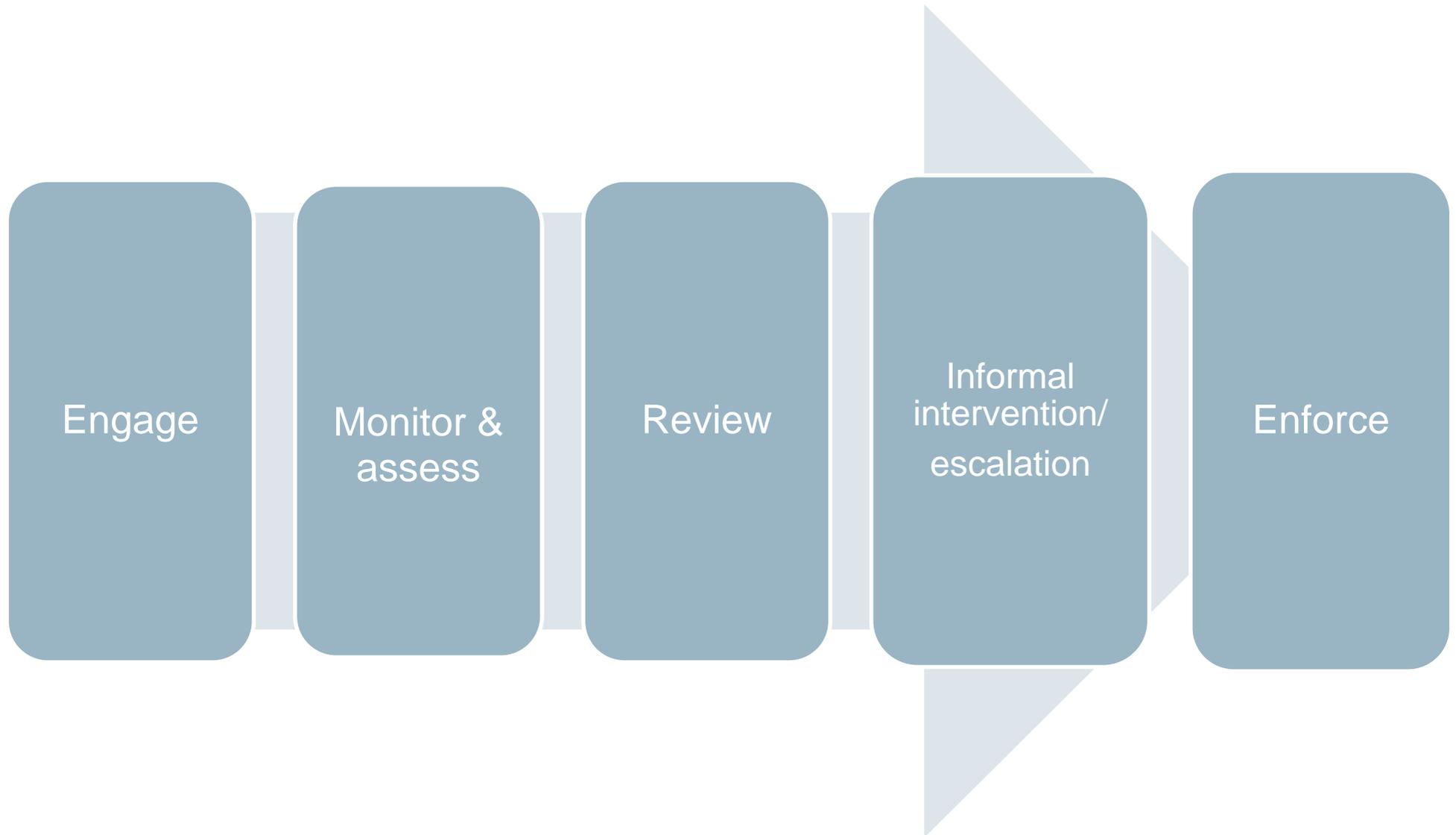
# Monitoring and enforcement

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



# 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

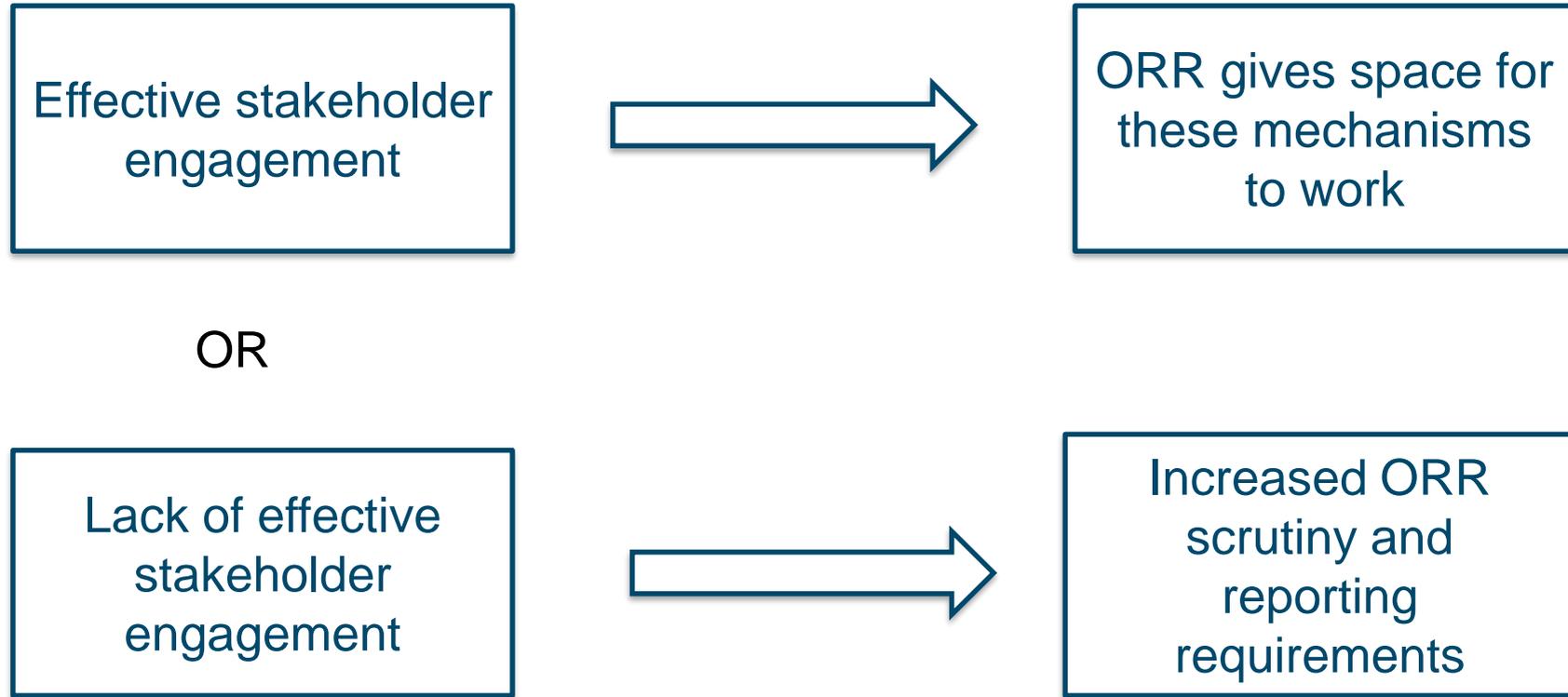
# Route-level comparisons and reputational incentives

- 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



# Incentives for CP6

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

- reputational
- procedural
- management



# Questions



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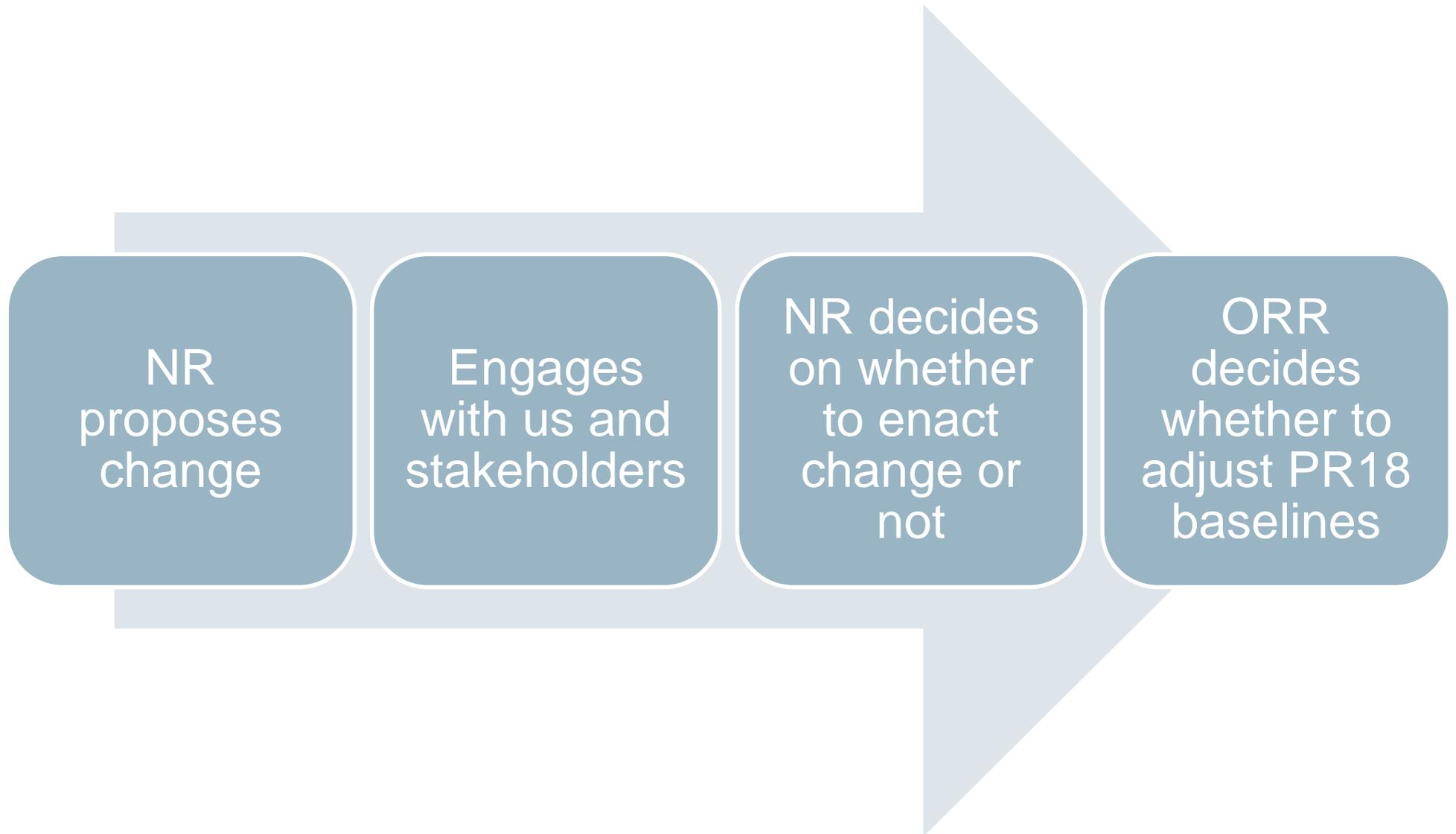
# Managing changes to our PR18 settlements

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



# 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



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# Summary and next steps

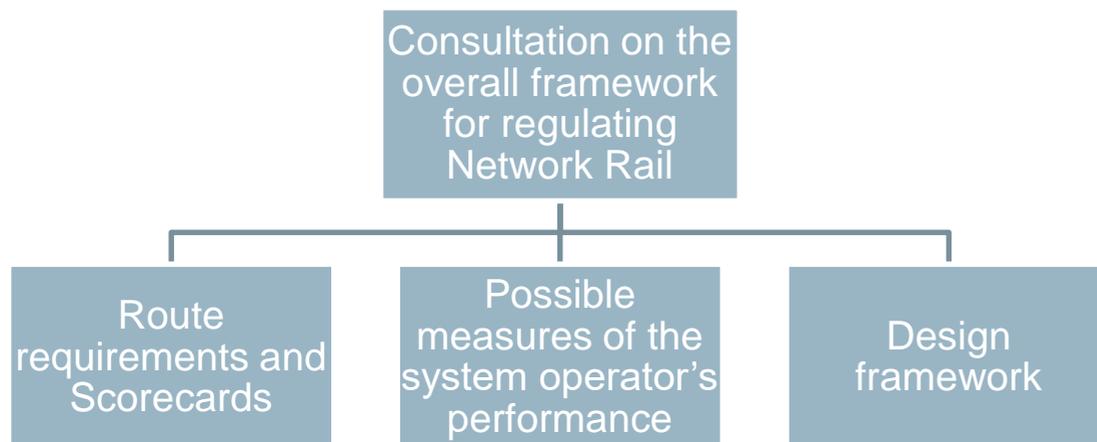
Chris Hemsley

# 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



<http://orr.gov.uk/rail/consultations/pr18-consultations/consultation-on-the-overall-framework-for-regulating-network-rail>

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



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**Thank you for  
listening**