Route requirements and scorecards

A PR18 consultation

July 2017

Contents

Executive Summary

Network Rail has already established scorecards in CP5 for key parts of its business. This includes customer focused route scorecards for the geographic routes, and the freight and national passenger operator route (FNPO). We anticipate that these scorecards will continue in style and structure, but with some adjustments to support the requirements of PR18. Scorecards support the relationship between Network Rail and its customers, and they offer a flexible and realistic approach to setting targets.

The use of scorecards is still fairly new and evolving, but we have seen that they allow customers to influence Network Rail's annual targets and objectives and enable them to align them with their own. The process for setting scorecards means that Network Rail and operators can adapt quickly to emerging issues and reset targets through the annual process to reflect what is happening on the ground.

While scorecards are primarily a tool for Network Rail to manage its business and align its targets with customers' requirements, they could also complement the regulatory framework in CP6; specifically the approach to determining what the company should deliver, the incentives on the company to deliver and the way that ORR undertakes monitoring and enforcement. To do this, scorecards must:

- **Be balanced**, and so reflect the full range of outcomes that Network Rail is required to deliver. This includes current customer interests, but also longer-term interests of future passengers and freight customers (notably their interest in longer-term asset sustainability and improved safety outcomes).

- **Support comparison between routes** (and, where appropriate, the system operator (SO)), so that they provide an additional source of incentives on each route to improve performance and a stimulus for sharing best practice.

- **Capture requirements specified in governments'** High Level Output Specifications, where this is appropriate.

We also have expectations around the governance and change processes around scorecards, that they have appropriate quality assurance, are consistent over time and have strong stakeholder engagement in their development and for any revisions to measures or targets. These are discussed further in our consultation on the overall framework for regulating Network Rail.

There are certain measures which we expect to see included on a route scorecard and are set out in this consultation document. The reason we expect to specify certain measures is so that we can be sure there will be data to enable comparison between routes on a

consistent basis for the whole control period. Given our objective to promote comparison and competition between routes, we propose more measures for the geographic route scorecards. The FNPO plays an important role, and we think this approach will mean that it is appropriately supported by the geographic routes.

For two of these measures (the routes' contribution to train punctuality and reliability, and network sustainability) we expect to set a level of performance, probably a 'regulatory minimum floor'. This will enable us to allow Network Rail to create and use scorecards as it intended, while sending clear signals in these key areas about when we might expect to take regulatory action if performance were to deteriorate.

As the scorecards would complement the regulatory framework rather than replace it, there are also a small number of other requirements we expect of Network Rail. For example the capability of the network, which would need to be treated separately.

If the approach set out here is adopted then the PR18 scorecards would form part of the final determinations, providing a broad description of what Network Rail is expected to deliver during CP6. It would provide a baseline against which ORR will monitor the company's performance. This would reduce the need for ORR to set other regulatory requirements on the company in the determinations.

This document focuses on the routes (geographic and FNPO). Separately, we have set out some ideas for how the System Operator (SO) business unit within Network Rail could report on its operational performance in CP6, including the possible measures that could feature in its scorecard. That consultation can be found here .

The HLOSs were published on 20 July 2017. We will consider how they affect the proposed approach alongside our assessment of the consultation responses in finalising our conclusions (due to be published in early 2018).

Chapter 3 of our overall framework consultation addresses the policy principles about how we expect to use scorecards in CP6, and therefore what decisions we expect to make as part of PR18. This document also addresses stakeholder engagement, our approach to monitoring and enforcement and change control.

1. Introduction

1.1   This is a supporting document to our PR18 consultation 'The overall framework for regulating Network Rail' (which is available here). Chapter 3 of that document sets out how we propose to make use of Network Rail's scorecards in how we regulate the company in CP6.

1.2   This document focuses on the geographic routes and the freight and national passenger operator routes. We discuss separately the possible ways to measure the SO performance, and what might appear on the SO scorecard, in our separate consultation (which is available here).

1.3   It also follows on from our earlier consultation on the outputs framework, and our recent update paper on this (which can be found here).

Purpose

1.4   Network Rail already sets measures, trajectories and ranges in its CP5 scorecards, and expects that to continue in CP6. In some cases, these are centrally mandated and in others these are route-led or developed with the routes' customers.

1.5   As set out in our overall framework consultation, we consider that scorecards in CP6 must:

■   continue to reflect a balance of the range of outcomes that Network Rail is required to deliver;

■   support the comparison between routes; and

■   capture requirements specified in the HLOSs where this is appropriate.

1.6   This would enable us to make use of scorecards in CP6. We have set out for consultation where we expect to specify measures to be included on the route strategic business plan scorecards for the geographic routes and the FNPO. We also indicate where we expect to set specific 'targets' in a way that supports the trajectories and ranges that will be agreed between Network Rail and its customers.

1.7   We will take a view in our draft and final determinations of how balanced each route scorecard is. We set out in this document what we expect our broad approach to be in each area (for both the geographic routes and the FNPO), whether or not we propose specific measures, and whether or not we would expect to set a 'target' and what that may look like.

1.8   In each case where we are requiring a measure, we consider that there is a need to secure the measure on the scorecard for the duration of CP6 (subject to change processes set out in our overall framework consultation). Where we are proposing that a measure is included in the scorecard that might not otherwise appear, we have included a draft impact assessment in the annex to this document (which is available here). These will be updated following consultation as appropriate.

1.9   These measures and targets are in addition to those measures, trajectories and ranges which will form the "PR18 scorecard" and on which we may place reliance, e.g. financial performance measures that Network Rail may propose, or measures agreed with its customers.

1.10   Our proposed requirements for scorecards are summarised in table 1 below. It will be for Network Rail to decide what measures on its scorecards contribute to its internal incentive arrangements. Where we do not propose to set a target, the measures are intended to contribute toward achieving a balanced scorecard which is comparable between routes, in order to drive improvement through competition.

Table 1

Location	Measure	Target
Geographic routes	Network sustainability measure	Minimum floor
	'Route performance'[1] 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

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[1] Here we mean each Network Rail routes' contribution to train punctuality and reliability.

Location	Measure	Target
	Freight train miles	No target
FNPO route	Freight Delivery Metric	Potential minimum floor
Non-scorecard requirements	Network capability requirement	Baseline to be maintained

1.11 We will determine in our final conclusion for PR18 what we will designate as 'reasonable requirements' under the licence and what will be enforced under condition 1 of the licence more generally.

Structure

1.12 We anticipate that Network Rail's route[2] scorecards will continue to reflect to varying degrees the following areas:

■ Health and safety

■ Financial performance

■ Asset management

■ Train performance

■ Other customer measures

■ Investment

1.13 The exact structure of scorecards varies between routes. Some routes currently also include a section for people measures, which we consider to be a matter for Network Rail's internal management.

1.14 We have structured this document around the areas listed on the route scorecards. As part of our periodic review we will assess the scorecards included in the route strategic business plans to see how successfully they deliver a balanced view of the

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[2] In this document, the term 'route' includes the FNPO route, with 'geographic route' used to indicate if the FNPO is not included.

outcomes that Network Rail delivers. We intend to engage on an ongoing basis with the industry and with Network Rail on this.

1.15 We have also set out at section 8 some other requirements that we propose to make which do not fit on scorecards, normally because there is currently no appropriate quantitative measure which could be included on a scorecard. We may designate these 'reasonable requirements' in our final determination.

Responding to this consultation

1.1 This **consultation closes on 21 September 2017**. Please submit your responses, in electronic form, to our PR18 inbox (PR18@orr.gov.uk). You may find it useful to use this pro forma to structure your response.

1.2 We plan to publish all responses to this consultation on our website. Accordingly, when sending documents to us, we would prefer that you send your correspondence to us in Microsoft Word format or Open Document Format. This allows us to apply web standards to content on our website. If you do email us a PDF document, where possible please:

- create it from an electronic word processed file rather than sending us a scanned copy of your response; and

- ensure that the PDF's security method is set to "no security" in the document properties.

1.3 Should you wish any information that you provide, including personal data, to be treated as confidential, please be aware that this may be subject to publication, or release to other parties or to disclosure, in accordance with the access to information regimes. These regimes are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004). Under the FOIA, there is a statutory code of practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence.

1.4 In view of this, if you are seeking confidentiality for information you are providing, please explain why. If we receive a request for disclosure of the information, we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on ORR.

2. Health and safety

2.1   Network Rail is required to comply with health and safety legislation and it is a core part of ORR's role to assess how Network Rail performs in this area. While health and safety measures may be included on scorecards, such measures alone are not sufficient for ORR to assess health and safety performance against, although they can provide an indication in some areas.

2.2   Our regulatory approach promotes and measures the management of health and safety risk through a risk management maturity index known as RM3. We use RM3 to assess Network Rail and we expect the route scorecards to feed in to it as part of a suite of other measures and inputs.

2.3   Network Rail already includes health and safety measures on its scorecards and we expect this to continue in CP6. It is important that scorecards are balanced and including appropriate health and safety measures will be important for achieving this.

2.4   We will not require specific health and safety measures or targets for scorecards as they are for Network Rail to determine with its stakeholders. However, we would expect to see some health and safety measures included which are common across all the routes and across the control period. With the new devolved route structure a degree of customisation of other measures appropriate to each route may be sensible.

2.5   We will also review the measures on route scorecards as a whole and consider whether any may have broader implications for health and safety.

Questions

2.6   Do you have any comments on our proposed approach to the health and safety aspects of route scorecards?

3. Financial Performance

3.1   Monitoring Network Rail's financial performance is important to:

- provide early warning of financial sustainability issues at geographic route level;

- facilitate financial benchmarking between geographic routes;

- highlight relationships between output achievements and expenditure levels; and

- facilitate performance related pay if applicable.

3.2   We currently monitor Network Rail's financial delivery using measures of financial performance and efficiency[3]. We report our findings twice a year in our [Network Rail Monitors](#) and in our yearly [annual efficiency and finance assessments](#).

3.3   When measuring Network Rail's financial performance it is important to make adjustments for renewals work that was planned to be carried out but which has not been delivered. This ensures that we can distinguish between lower spend driven by increased efficiency and lower spend driven by the deferral of work that still needs to be done.

3.4   Our Financial Performance Measure (FPM) makes a series of adjustments to account for the volume of work undertaken, to gain a better understanding of underlying changes in efficiency relative to our assumptions. In broad terms, if Network Rail delivers its planned work at the expected cost, FPM will be zero. If work is deferred but expenditure is not reduced to the same extent, or the work is completed but expenditure is higher, FPM will be negative. Other increases in costs – such as higher overheads – would also, with everything else being equal, make FPM negative.

3.5   In PR18 as part of the financial framework workstream, we are developing our overall regulatory approach for assessing and challenging Network Rail's financial performance, so that we can effectively hold it to account. We will consult further on this in our autumn update paper on the PR18 financial framework.

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[3] Financial performance measures and efficiency are explained in chapter 7 of our first consultation on the financial framework for PR18. This is available [here](#).

3.6   We think that financial performance measures on route scorecards can help customers and other stakeholders understand Network Rail's progress by providing comparative data, for example:

■   poor financial performance (even though the access charges paid by train operators are not directly affected);

■   output levels that might otherwise seem inexplicably good or poor (because associated spending levels would not be visible); and

■   overspending against budgets, e.g. that might put planned renewals programmes at risk.

3.7   In order for financial performance measures that are included on scorecards to be useful for customers and other stakeholders, they will need to be consistent with these principles:

■   be transparent for stakeholders (including route customers and government funders);

■   allow for consistent assessment of each routes' progress over time, and allow route comparison;

■   be consistent with the method used for ORR's calculation of financial performance (but baselines can vary if Network Rail think that annually updated budget figures are more relevant for the assessment of financial performance on the route scorecards than our determination baselines); and

■   reflect any reallocation of responsibilities and budgets amongst routes after the PR18 determination.

3.8   We consider it is essential that financial performance is reflected in route scorecards. The issue is about the best way of doing this. The key questions are:

■   Should we specify a financial performance measure that we expect Network Rail to include in its scorecards[4]?

   –   Network Rail already includes a financial performance measure in its scorecards that is calculated on the same basis as our financial

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[4]Network Rail may also agree some specific financial performance parameters with customers under alliances or other agreements, possibly with financial performance sharing.

performance measure but which uses its annual budget as the baseline[5]. It is planning to take the same approach in CP6 and we could rely on this.

- Instead of relying on Network Rail to continue this approach as part of the PR18 scorecard, we specify that it includes our financial performance measure on its scorecards.

■ Should we specify a minimum level for the financial performance measure?

- Most stakeholders who responded to our financial framework consultation question on this issue did not see value in making financial performance a specific 'regulatory output' (this is similar to setting a minimum level). We acknowledge this point and we do not currently think that we will set a minimum level of performance for the scorecards.

3.9 If the additional measure is included on the scorecards in addition to, or instead of, the current financial performance measure then careful consideration would need to be given to:

■ whether year on year changes in efficiency should be shown or whether actual efficiency should be compared to the assumptions in our PR18 determination or Network Rail's budget;

■ whether we should include an additional measure which takes into account more detailed diagnostic information and leading indicators of efficiency delivery. The aim would be to test whether efficiency initiatives were likely to be delivered. We are planning on including this measure in our regulatory reporting of Network Rail as discussed in our recent consultation on improving Network Rail's renewals efficiency and we are also considering including it on the scorecards; and

■ the range of activities included – for example, it might be limited to a set of operational efficiency initiatives put forward by a route or cover a whole category of activities, e.g. OSMR.

3.10 The FNPO and SO business units require a different type of financial performance measure to the geographic routes. Network Rail already includes financial measures for the FNPO based on charges income and operating expenditure. We discuss the

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[5] This measure has separate numbers for operations, support, maintenance and renewals (OSMR) and enhancements. In addition, Network Rail also reports on a cash flow measure.

potential role for financial performance measures for the SO in our separate consultation on possible SO measures.

Questions

3.11 We have the following questions that we would like your views on:

- Would financial performance measures on scorecards provide useful information to customers and other stakeholders? If you think they would, which ones would be most helpful?

- Should ORR specify the financial performance measures to be included on the scorecards and the rules for calculating them?

- Should we set a minimum level of financial performance requirement?

- Should we specify that an efficiency measure should be included on the scorecards?

- Should we specify that diagnostic information and leading indicators of efficiency delivery should be included on the scorecards?

- Do you have any views on the financial performance measures that should be used for the FNPO and SO business units?

4. Asset management

4.1 In CP5 Network Rail already includes some asset management measures in its scorecards. For CP6 scorecards must include a consistent measure of how well each geographic route is delivering a sustainable network in addition to any other measures Network Rail continues to include. By sustainability we mean delivering sufficient renewals to counter the on-going deterioration of network assets through ageing and wear-out in order to protect the interests of future users and funders. We propose to specify a 'network sustainability measure' with an associated 'minimum floor'.

Network sustainability

Why should this be included on scorecards?

4.2 During CP5 Network Rail has deferred a significant volume of renewals work and we are concerned about the long-term impact of this on the sustainability of the network. Maintaining and renewing the network in the short, medium and long term is one of Network Rail's key requirements, as set out in its Network Licence.

4.3 We already require Network Rail to forecast the future condition of the network assets in the medium and long term in its SBP and Delivery Plan, and to report on it in the annual return so we can monitor progress.

4.4 There is currently a regulated output called the Stations Stewardship Measure (SSM), which takes some account of the condition of stations assets. We are proposing to adopt a common approach for all principal asset groups, including stations and therefore that we would no longer set a specific requirement for SSM. However we expect Network Rail to continue to report SSM (or a replacement measure, subject to ongoing industry discussions on station measures).

4.5 The purpose of adopting a scorecard measure for sustainability is in recognition that it is a key outcome for the network. By requiring a consistently calculated measure, we are able to compare how well each geographic route is managing asset sustainability, and to assess this in the context of other related measures such as financial performance, and route performance (affecting train reliability and punctuality). It also provides a stronger mechanism for communicating our concern (including potentially taking enforcement action) should there be a material shortfall during CP6. Such a measure will help us to understand the medium term impacts of any decisions taken in the control period.

Development of measure

4.6 Our preferred approach is to assess the value of the residual life or asset condition score for each principal asset group (including stations) and for each route.

4.7 As an alternative we have considered setting an output based on the overall cost of delivering any shortfall in the planned renewals, in effect the future liability. This is an easier concept to communicate to stakeholders, however it is not a direct measure of sustainability, and it does not take into account that actual residual life can differ from forecast because the rate of degradation turns out to be greater or less than expected.

Which scorecard should this be included on?

4.8 We propose that this is measured at geographic route level. It would not be appropriate to include an FNPO target for this measure as the FNPO does not manage assets directly.

Level of performance to be delivered

4.9 We envisage setting a 'minimum floor' by reference to Network Rail's forecast of residual life or asset condition score in its SBP, providing we are satisfied with its asset management plans.

4.10 We envisage that the floor will be based on our assessment of Network Rail's trajectories included in the SBP factoring in that it should have effect only if there is a material shortfall and recognising that forecasting residual life or asset condition score is not a precise calculation.

4.11 We expect to see forecasts of residual life or asset condition score for the principal asset groups in each route strategic plan for CP6.

4.12 We are liaising with Network Rail to develop the details of a practicable measure based on the proposed approach.

Questions

4.13 Do you have any comments on whether we should require a measure of network sustainability and the proposed measure selected?

4.14 A draft impact assessment is included in the annex to this document. Do you have any comments on this?

5. Train performance

5.1 In this section we set out how we expect train performance to be managed in CP6, and include details on our proposed measures in this area.

5.2 Train performance – i.e. the punctuality and reliability of services is an extremely important outcome which both Network Rail and train operators contribute to. As such we anticipate that scorecards will reflect a combination of operator determined measures and targets, supported by a single consistently calculated measure of Network Rail's performance in each route.

5.3 Network Rail currently includes train service performance measures on its CP5 scorecards. This reflects discussions between Network Rail and its customers and will result in agreed trajectories for CP6. This has the benefit of ensuring that all route scorecards reflect customer requirements and aspirations and we anticipate that this will continue. It also provides flexibility to align Network Rail's targets with those of a franchised train operator.

5.4 However, Network Rail currently compares its own contribution to performance in this area by assessing how well each route delivers to the targets it has agreed – which are not consistent or comparable. There is no single consistent measure used to assess Network Rail's routes' contribution to train performance on scorecards. We consider that a consistent route level measure must be included on scorecards which reflects how well each route is contributing to overall train performance – hence we refer to this as route performance. The purpose of this is to:

■ enable transparent and accurate comparison between routes and over-time in CP6. This would benefit a number of parties, not just ORR. For example it would give a clearer view to funders and franchising authorities of where there may be a greater need for investment. It may be useful to owning groups to inform franchise bidding. It means that operators can change the measures that they use to assess their performance while continuing to have a consistent measure to refer to.

■ provide a focus on Network Rail's contribution to the punctuality and reliability of the network, rather than using combined measures such as Public Performance Measure (PPM) or similar measures (which reflect both Network Rail and train operators' contribution to punctuality and reliability).

■ provide transparency on one scenario when ORR would be likely to consider regulatory action, because we expect to set a 'minimum floor' using this consistent measure (we set out more about how this is intended to work below)

      –   Using a separate measure focused on Network Rail's performance to do this means that we can support the requirements agreed by Network Rail and its customers rather than cut across them.

5.5   We think network and train performance should be reflected on scorecards as follows:

(a)   Measures of train service performance that Network Rail and its customer agree on the appropriate scorecard;

(b)   A consistent geographic route level performance measure reflecting the passenger market; and

(c)   Either:

      –   A consistent geographic route level performance measure reflecting the freight market; or

      –   Performance measures reflecting the freight market on the FNPO scorecard

5.6   Regarding (a), we anticipate that Network Rail and train operators will continue to agree appropriate measures and targets that reflect local requirements. Regarding (b), we set out below the route performance measures we are proposing.

5.7   In order to understand how these two sets of performance measures would relate to each other, we have set out the following worked examples. These demonstrate a number of scenarios and explain what action we would expect to take in each. This should be considered alongside our proposals for how Network Rail will engage with stakeholders to support effective delivery and how we will monitor and enforce in CP6 (as discussed in Chapters 4 and 5 of the Overall Framework consultation document respectively).

5.8   We set out below some scenarios with a visual simplification of the principles involved – in reality there will not be such a clear mathematical relationship between the various performance measures and as such they would not appear on the same graph as shown in these scenarios.

Scenario 1 – performance is above and/or in line with expectations and improving.

5.9   In this scenario performance is higher than the minimum floor and there is no concern. If performance is greatly exceeding the minimum and increasing beyond the agreed target then we could revisit the floor. See graph for scenario 1 below.

Scenario 2 – performance is above and/or in line with expectations.

5.10 In this scenario (overleaf) performance is in line with expectations but may fluctuate around the target and some recovery actions may be required if performance dips. See graph for scenario 2 below.

Scenario 3 – performance is varied but remains above the floor.

5.11 In this scenario performance is not consistent but is above the minimum floor. We would consider how Network Rail is engaging with its stakeholders to address this issue and we may seek action plans and evidence of performance measures. See graph for scenario 3 below.

Scenario 4 – performance falls below the floor.

5.12 In this scenario performance is poor and falls below the floor. Taking account of how Network Rail is engaging with its stakeholders in addressing the issue, we are likely to take action and carry out a licence investigation. We will seek improvement plans and evidence of performance measures and may consider further enforcement action.

5.13 Should there be continued failure to meet the minimum floor requirements then the level of the floor may be re-examined, for example if there is a shock to the network that is out of the control of Network Rail or potentially following action under the licence. Engagement with affected customers and funders would be required.

5.14 See graph for scenario 4 below.

Scenario 1 – performance is above and/or in line with expectations and improving
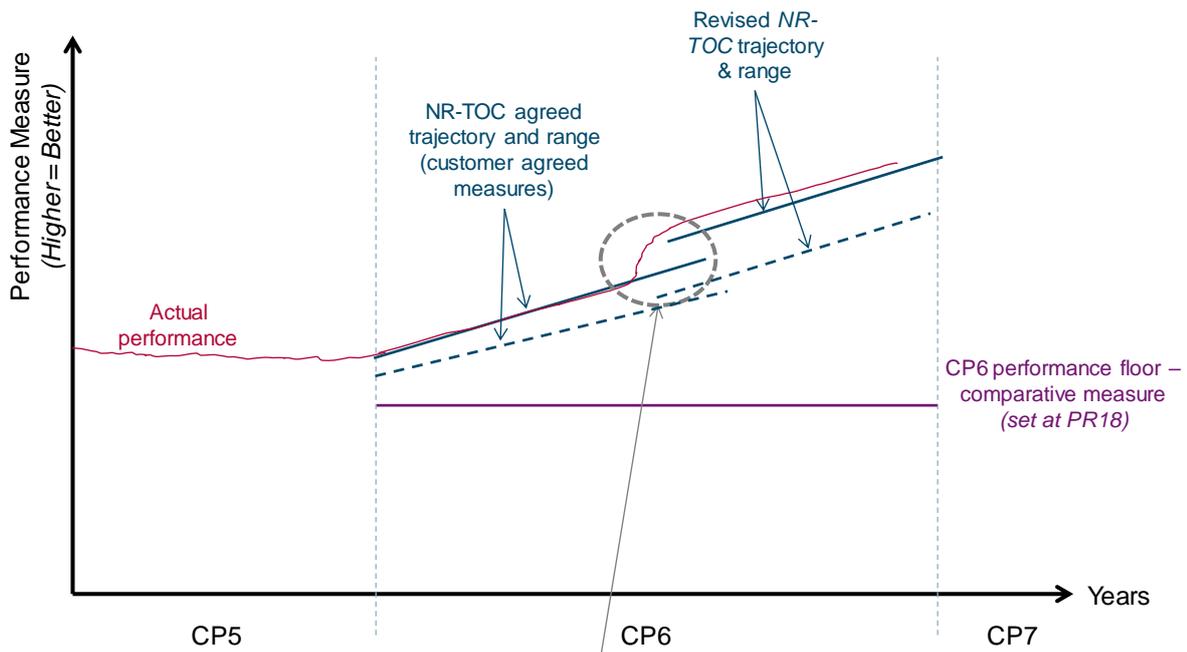
Significant, sustained improvement:
- Could be triggered by completion of an enhancement scheme, new rolling stock and/or other initiatives
- Provides a prompt for Network Rail and operators considering new range and trajectory in annual scorecard setting process
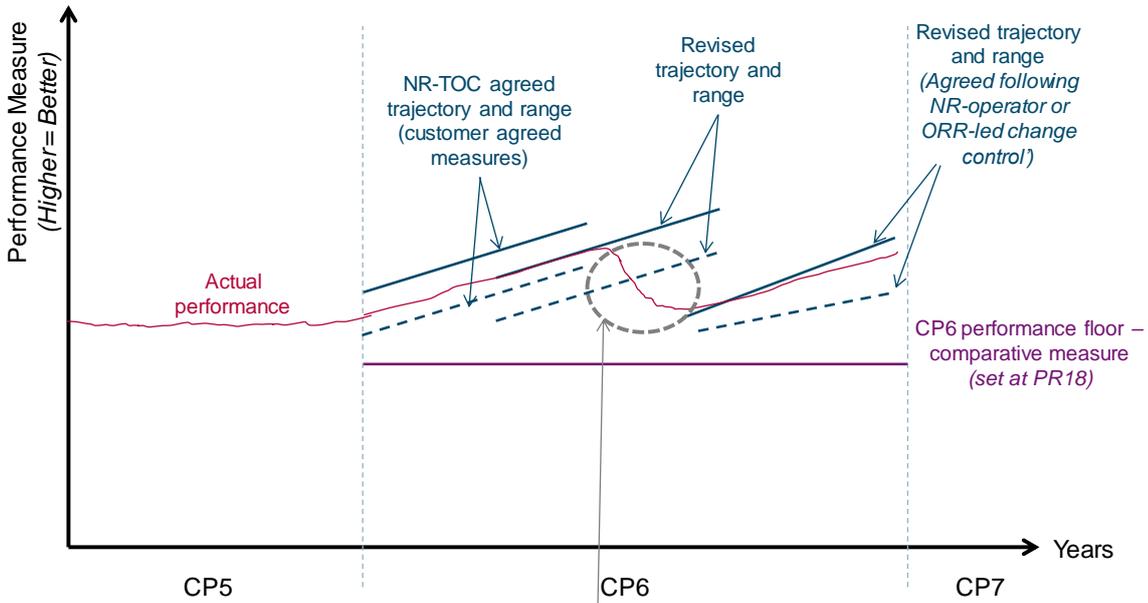- Performance floor unchanged

Scenario 2 – performance is above and/or in line with expectations
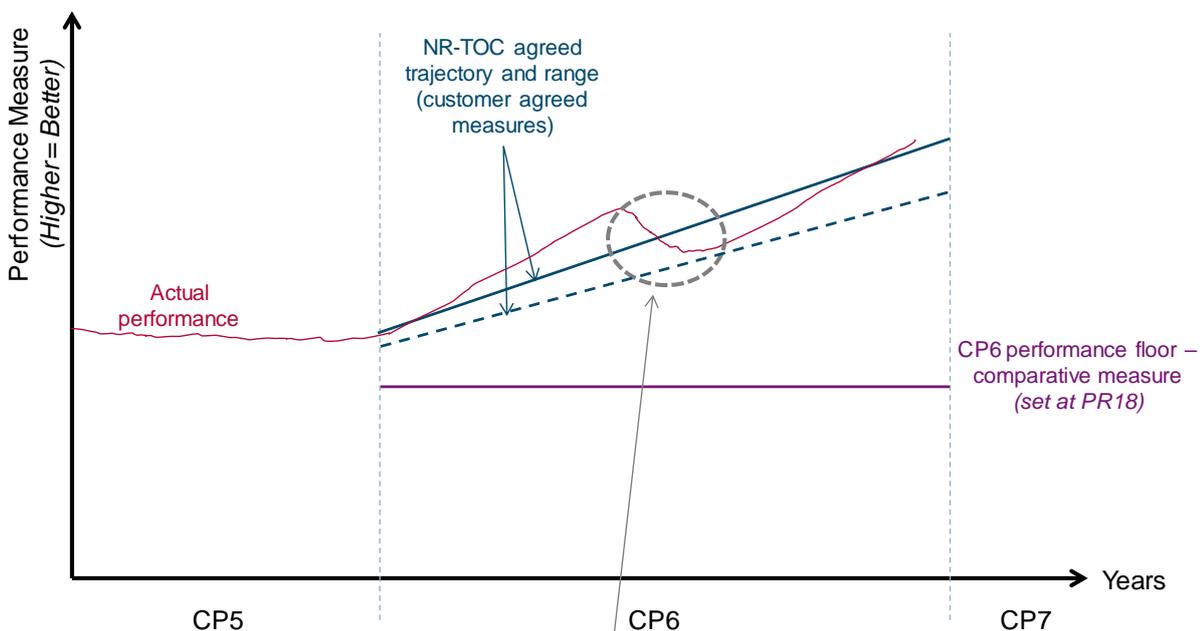
Performance falls below agreed 'target' level (but within agreed tolerances):
- Expect customers and Network Rail to discuss at route level, could be an agreed action plan for recovery back to target (e.g. via performance strategies)
- Network Rail and customers decide whether variances prompt a review of the scorecard, but in this scenario, less likely
- ORR may increase its monitoring, but unlikely to escalate significantly if managed effectively at route level
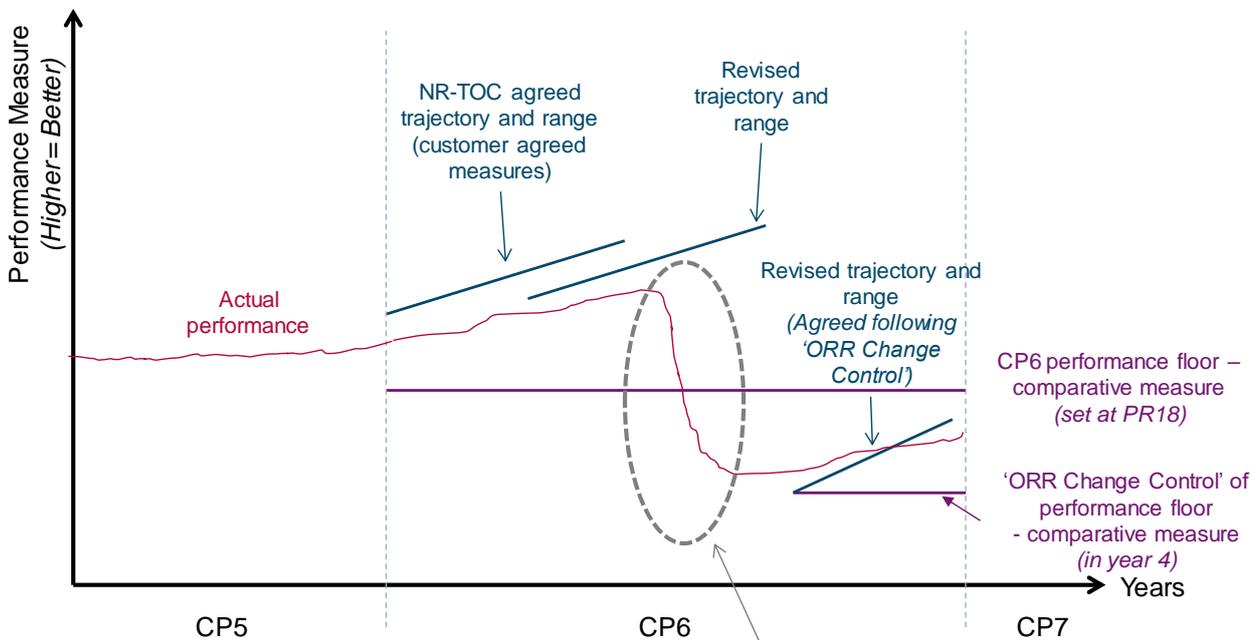
Scenario 3 – performance is varied but remains above the floor

Performance Measure
(Higher = Better)

NR-TOC agreed trajectory and range (customer agreed measures)

Revised trajectory and range

Revised trajectory and range *(Agreed following NR-operator or ORR-led change control')*

Actual performance

CP6 performance floor – comparative measure *(set at PR18)*

Years

CP5

CP6

CP7

Something happens, pushing performance below agreed target and tolerance:
- Discussion at route level on performance levels
- ORR might informally 'investigate', looking at performance relative to floor and scorecard levels, and wider context
- ORR enforcement policy puts more weight on performance against scorecard if meets a set of criteria, such as whether agreed in advance.

Scenario 4 – performance falls below the floor

Performance Measure
(Higher = Better)

NR-TOC agreed trajectory and range (customer agreed measures)

Revised trajectory and range

Actual performance

Revised trajectory and range *(Agreed following 'ORR Change Control')*

CP6 performance floor – comparative measure *(set at PR18)*

'ORR Change Control' of performance floor - comparative measure *(in year 4)*

Years

CP5

CP6

CP7

Something happens, pushing performance below regulatory 'performance floor':
- Investigation highly likely, drawing on evidence from scorecards and discussions at route-level
- Investigation determines whether issue due to events within Network Rail's control (or not)
- Performance floor is reset, with possible enforcement if the matter deemed within Network Rail's control

Route performance – passenger market

5.15 This section sets out more detail about the consistent route measure, and how we might set the minimum floor.

Why should this be included on scorecards?

5.16 Network Rail's contribution to the performance of the network is a key output which feeds through into important outcomes such as passenger satisfaction.

5.17 The industry, through NTF, has reviewed the current Public Performance Measure (PPM) and Cancellation and Significant Lateness (CaSL) measures. It has started to adopt a suite of potential alternative measures which reflect the varying requirements of different operators' businesses. Individual operators will determine with Network Rail which measures they will use for scorecards, and for franchised operators this is likely to reflect their franchise targets.

5.18 In order to support this approach, we think it is important also to have an objective, consistently measured view of how well each Network Rail route is contributing to the performance that passengers' experience. Consistent measurement will allow for comparison between the different routes and over time within an individual route.

5.19 This consistent measure will also underpin the more tailored priorities agreed between Network Rail and each operator. With a greater focus on Network Rail and its operators agreeing scorecard measures at route level, it is likely that there will be greater variety of measures used to assess network/train service performance of each route. However, to allow for benchmarking Network Rail's route performance, either against itself or another route, a common measure is required.

Which scorecard should this be included on?

5.20 This should be included on the geographic route scorecards.

5.21 We do not consider that it needs to be included on the FNPO scorecard. National passenger operators should be protected by the existence of a minimum floor in each of the geographic routes, and may agree operator specific targets as with route level operators. For the SO, there may be a role for the SO to report on its 'contribution' to PPM, by reporting on the number of delay minutes (or incidents) caused by timetable errors. We discuss this in our separate consultation document on possible SO measures.

Development of measure

5.22 ORR commissioned Steer Davies Gleave (SDG) to assess the options for a consistent route level measure for route performance, both those previously proposed by industry and those SDG developed as part of the project (see here).

5.23 The key objectives considered when assessing potential measures were:

■ Comparison between routes – it must be possible to make meaningful comparisons using the measure, accounting for the differing characteristics of each route. Some form of normalisation will be needed, although it is unlikely that all different aspects of routes will be controlled.

■ Ease of calculation – the measure should be straightforward to calculate, primarily rely on data already collected by industry systems and be resilient against future changes (e.g. to route boundaries).

■ Consistency – it would be useful if the measure were correlated with the other performance measures. This will help support the delivery of other scorecard measures.

■ Passenger (end customer) focus – the measure should reflect the passenger experience on the railway, changing in line with the lateness experiences on the services they use.

■ Credibility – it is important that the measure is accepted and understood by key stakeholders, in particular those who are expected to use the measure. There is a balance to be found between simplicity and suitability.

5.24 There are two aspects to the development of this measure:

■ Which elements of delay to include in the measure; and

■ How the measure is normalised to enable route comparison.

  – Normalisation is necessary in order to enable comparison of routes – for example, the South East route may generate more delay than the Wales route, because of the volume of services on each route.

Which elements of delay to include in the measure:

5.25 The recommendations made by SDG allocated delay minutes into three categories:

- delay minutes that occur directly on the route as a result of Network Rail, but not train operator, caused incidents on the same route – which we refer to as *primary delay*;

- delay minutes that occur on the route that are caused in reaction to both Network Rail and train operator caused incidents (for example, other trains that were affected by the original delay) on the same route – which we refer to as *direct reactionary delay*;

- delay minutes that occur on the route that are caused in reaction to both Network Rail and train operator caused incidents on a different route – which we refer to as *indirect reactionary delay*.

5.26 After consulting with Network Rail's Route Performance Managers and the Rail Delivery Group's (RDG) route-level regulation, charges and incentives working group, there is consensus on two elements of this, but not the third.

- There is a consensus for including primary and direct reactionary delay. This comprises the vast majority of delay.

- However, there was not alignment over whether indirect reactionary delay should be included.

  - This might mean that the route is being held responsible for something that is arguably not in their control (as the delay has been generated elsewhere).

  - But, including this in the measure could encourage active management and minimisation of this delay on the route on which it was occurring.

  - This is a small proportion of all delay.

How the measure is normalised

5.27 SDG assessed a number of normalisation factors such as train kilometres, track kilometres, route kilometres and service intensity (train kilometres ÷ track kilometres).

5.28 It will not be possible to control for all relevant factors in the specification of a single route-based performance metric, therefore a simple solution would be preferable. To keep the measure as straightforward as possible, we propose to use train kilometres to normalise the delay minutes. Whilst there are merits to the service intensity measure, it was felt that this introduced an additional level of complexity.

5.29 The recommendation made by SDG is to normalise any measure including reactionary delay by service intensity. This is because the ability to recover the train service following an incident is affected by the number of trains on the network.

5.30 Our view is that a more straightforward normalisation, such as train kilometres, would be preferable.

5.31 Network Rail's Route Performance Managers and RDG's route-level regulation, charges and incentives working group agreed with this position. They also accepted that this would involve a degree of simplification which would not reflect all the factors that may affect performance.

5.32 Whilst there are merits to the service intensity measure, it was felt that this introduced an additional level of complexity, which would increase the difficulty of understanding of the measure.

5.33 On balance we are minded to use the sum of all three elements of delay minutes and use train kilometres as the normalisation factor. We expect Network Rail to include on each geographic route scorecard a consistent route measure for passenger performance:

■ Comprising of primary, direct and indirect reactionary delay; and

■ Using a simple normalisation factor such as train kilometres as a simple normalisation factor.

Level of performance to be delivered

5.34 In terms of the level of performance to be achieved, we anticipate that Network Rail and its customers will agree performance trajectories which balance the requirements of those customers and what Network Rail considers it can deliver. As set out at the beginning of this section we expect to set a 'minimum floor' to underpin this approach. This approach should provide space for Network Rail and operators to have more aspirational discussions, using the scorecard targeting mechanism to provide stretch without associated regulatory consequence if this is not met.

5.35 Our approach to this will be influenced by the level of performance that Network Rail proposes it can deliver in its SBP, which we will then assess. However options for this could be based on:

■ Using the average performance over CP5 (or over a longer period) as a baseline, the floor could be set as:

- – A baseline level

- – Plus x%

- – Minus x%

- ■ Lowest performance achieved plus x%

- ■ Highest performance achieved minus x%

5.36 We will discuss this in detail with Network Rail.

5.37 Network Rail should set out in its SBP what level of performance it expects to deliver for the funding for which it is provided in the SoFA, using this measure. We note that there is no direct mathematical alignment between this measure and other industry level measures but we expect Network Rail to provide its assessment of how it considers this relates to the levels of performance it has agreed with its customers.

Questions

5.38 Do you agree our proposed approach to the having a consistently calculated route measure? We would like to hear views in consultation on the respective merits of imported and indirect reactionary delay with regard to its inclusion in this measure.

5.39 Do you agree with the approach to normalisation of the consistently calculated route measure?

5.40 Do you have any comments on the options for setting a regulatory minimum floor?

5.41 Do you agree this measure should be on geographic route scorecards and not FNPO, and in particular that this will afford appropriate protection to national passenger operators as well as those operators aligned to a geographic route?

5.42 A draft impact assessment is included in the annex to this document. Do you have any comments on this?

Route performance – freight market

Why should this be included on scorecards?

5.43 We want a measure which provides an indication of how well Network Rail is delivering freight performance.

5.44 We have commented in our overall framework consultation that the geographic route scorecards need to reflect the interests of all freight and national passenger customers.

Which scorecard should this be included on?

5.45 The options are:

(a)   No freight measure or target is required by ORR, meaning that freight operators will negotiate their own measures and targets with Network Rail;

(b)   We require a freight performance measure on the FNPO scorecard only (and monitor route level performance off scorecards);

(c)   We require freight performance measures on both the FNPO scorecard and the geographic route scorecards. If a measure were to be included on a geographic scorecard, there are also two options for what the route level measure could be (we set these options out below); or

(d)   We require only a consistent freight measure on the geographic route scorecards (again subject to the options identified below).

5.46 We assess these options in the impact assessment at annex to this document.

Development of measure

5.47 The measure used would vary according to the approach taken to where freight scorecard measures would appear, and this section is structured accordingly.

FNPO scorecard measures

5.48 The Freight Delivery Metric (FDM) is the percentage of trains that arrived at their destination within 15 minutes of the scheduled arrival time. Freight trains are only considered to have failed FDM if the delay was caused by Network Rail.

5.49 FDM was developed by the freight industry for CP5. There has been broad support from the freight operators for continuing to focus on FDM in CP6 – this was demonstrated in responses to our July 2016 Outputs Working Paper and through discussion with RDG.

Geographic route scorecard measures/monitoring data

5.50 Network Rail and freight operators have also been using FDM-R (an indication of the route level contribution to overall FDM) on geographic route scorecards in CP5. If it

is considered appropriate to continue to reflect freight performance on geographic scorecards, then there are two options:

(i) Continue to use FDM-R (an indication of the route level contribution to overall FDM). To be classed as an FDM-R failure, the freight train must have failed FDM, that is arrived at its destination 15 minutes or more late as a result of Network Rail caused delay. To be included as an FDM-R failure, the train must have incurred 15 or more Network Rail caused delay minutes on the route. It is not intended that the values of FDM-R aggregate to National FDM. It is possible for an FDM failure to result in either zero or multiple FDM-R failures; or

(ii) Seek to create a delay minutes based measure similar to the proposed passenger measure which could either be included in scorecards or be used to track each route's performance through the data protocol. We understand that Network Rail freight teams already monitor a measure that is similar in principle to the comparable passenger measure.

5.51 Even if geographic scorecards do not reflect freight measures, it would be appropriate for us to monitor freight performance at a route level.

Level of performance to be delivered

5.52 In CP5, the National FDM floor was 92%.

5.53 We need to decide whether we will set a 'minimum floor' in the same way as we are proposing to for passenger operators. This could apply to either FDM or to either of the route level measures.

5.54 A key reason for setting a floor for the passenger market is due to the likely variation in measures that train operators will use to reflect their franchise commitments. There are fewer industry measures of performance for freight, and there appears to be support for continuing with FDM. As such, there may be no similar need to provide an additional measure for consistency.

Questions

5.55 Should ORR require measures on the FNPO scorecard, the geographic route scorecards or both?

5.56 Should ORR set a minimum floor in relation to freight performance as we propose to do for passenger performance?

5.57 Should FDM-R be used to provide a view of how well routes are delivering to freight (whether on geographic route scorecards or just as background monitoring data) or should a delay minutes measure be adopted/developed?

5.58 A draft impact assessment is included in the annex to this document. Do you have any comments on this?

6. Other customer measures

6.1 We recognise that (as now on CP5 scorecards) the CP6 scorecards (and customer scorecards) will contain a number of train and freight operator driven measures. These will be determined following the normal engagement between Network Rail and its customers.

6.2 We propose that there should also be some consistent customer and end-userfocused measures to enable comparison across routes, thereby contributing to a balanced scorecard that supports route competition. For clarity, we are not proposing to add to 'customer scorecards', nor replace any measures requested by Network Rail's customers. We are seeking to provide a consistent route level view of some key customer and end-user outcomes in order to focus the routes on these areas.

6.3 We have set out some proposed measures for consideration. In all cases these draw on existing data and we feel there would be benefit in giving transparency to such measures by including them on the scorecards.

6.4 However, we are conscious of the limited effectiveness if a scorecard contains 'too many' measures.

End user experience - passenger

Why should this be included on scorecards?

6.5 Satisfaction of network users – and in particular passengers – is a key outcome for rail. Network Rail's interaction with passengers can be, for the most part, characterised by either direct or indirect engagement. Direct engagement with passengers occurs at the 18 mainline stations that Network Rail formally manages ('managed stations'). Indirect engagement occurs where passengers experience rail journeys which may be affected by Network Rail's actions. In both senses, Network Rail's performance will have a bearing on the passenger experience and for this reason, it is essential that each route is both cognisant and held to account for the role it plays.

Development of measure

6.6 We have identified three potential measures for inclusion in geographic route scorecards, two of which focus on aspects of train passenger services and one which concerns passengers' experiences at managed stations. These are:

(a) **Overall passenger satisfaction with the journey by route** – We understand that passenger satisfaction is already included on some of the current

scorecards but we consider that this should be a requirement for consistent measurement on all eight geographic route scorecards (as measured by the National Rail Passenger Survey). This will serve to focus each route's attention on the quality of service passengers on their route are experiencing (including how this compares with other routes and over time) and consider how they are ultimately contributing to it through their network services. In particular, the ability to compare overall passenger satisfaction across routes should also lead those routes who perform least well on this measure to examine what is driving these scores and take steps to improve performance if analysis shows aspects of their service delivery is undermining passenger outcomes. Actions to improve performance could also be informed by learning from those routes performing well on this measure by highlighting instances of best practice that can potentially be replicated by others.

(b) **Rate of change in off-peak journeys by route** – Per the PR18 outcomes, we want Network Rail routes to be focused on ensuring that the network is 'better used'. This proposed measure is based on the logic that if services are delivered to a standard that meet passenger expectations and preferences then, by extension, it is likely to lead to an increase in demand for those services. This will be evidenced through a higher volume of passenger journeys. This is especially true of off-peak services where it is likely that the majority of journeys are more discretionary (e.g. more leisure and fewer commuter based journeys). In other words, there is likely to be more demand elasticity in off-peak services. For this reason, reporting on the rate of change in off-peak journeys by route would allow each route to see how it was progressing towards increasing passenger journey volumes and whether it was achieving the same rates of growth as other routes.

(c) **Passenger satisfaction with the station** – This would focus on reporting solely on overall passenger satisfaction with Network Rail managed stations, part of the twice-yearly NRPS. Managed stations are the primary ways in which Network Rail directly interacts with passengers. As the Station Facility Operator for each managed station, Network Rail is also directly accountable, under its station licence and regulated station agreements, for a wide range of facilities and services provided to passengers within its stations. Each route and each individual station should therefore take a keen interest in its performance on this measure. The Wales route has no managed stations, so this would not apply (unless this were to change).

6.7 We currently consider that measure a) is a strong passenger-oriented measure because it is the most overt and overriding indicator of the extent to which services,

as a whole, are meeting passengers' expectations. The limitations of this measure, in the context of the route scorecards, relate to the fact the passenger journey experience is influenced by wide range of factors for which each Network Rail route will only be partly responsible for. Likewise, measure b) has a number of limitations in terms of the degree to which Network Rail can influence an increase or decrease in off-peak journeys on its routes. The rate of change will, for example, also be heavily dependent on the availability and quality of services provided to passengers by TOCs operating on the routes. Nevertheless, this measure's inclusion would contribute to encouraging greater utilisation of existing network capacity by increasing the transparency at route-level around the trends in passenger journey volumes. Measure c) is subject to some limitations in the sense that while Network Rail are ultimately responsible for the facilities and services provided in their managed stations, it is nonetheless the case that TOCs also engage directly with passengers in these stations and so can also influence the passenger experience.

Which scorecard should this be included on?

6.8   We propose that all three measures are included in each of the eight geographic route scorecards with the benefit that this will keep routes focused on the end user in relation to the primary aspects of their service delivery that impact on passenger outcomes.

Level of performance to be delivered

6.9   Where it is difficult to separate Network Rail's contribution, and therefore hold it to account directly, it is less appropriate to set a performance level. We would expect that all three measures would therefore be operating principally to promote transparency and visibility of the passenger experience on the scorecard.

Questions

6.10 Does the inclusion of these proposed consistent passenger-related measures, collectively and individually, add value in terms of increasing the transparency and accountability of the impact of each route's service delivery on the passenger experience?

6.11 Noting that the managed station measure would not apply to the Wales route, are there any other routes to which these measures, collectively or individually, would not be relevant (or less relevant / add less value)?

6.12 A draft impact assessment is included in the annex to this document. Do you have any comments on this?

Use of the network - TOC/FOC

Why should this be included on scorecards?

6.13 A key objective of PR18 is that Network Rail engages with and takes account of its customer needs, in managing its network and taking key decisions.

6.14 The ability for TOCs/FOCs to make maximum use of the network is central to their ability to grow their businesses. It is therefore important that Network Rail takes a consistent approach across its routes in meeting the needs of its principal customers, passenger TOCs and freight operators, in this respect. We are keen to encourage route competition in this area.

6.15 As such we propose requiring a measure to show the extent to which Network Rail's routes are responding to its customers' needs to make increased use of the network. We would want to reflect both the freight and passenger markets.

Which scorecard should this be included on?

6.16 We think this should be included on the geographic route level scorecards for passenger services and the FNPO for freight, due to the nature of strategic freight corridors.

6.17 As above there could also be a role for the SO to report on how the network is used by freight operators, as well as other passenger services. We discuss this in our separate consultation document on possible SO measures.

Development of measure

6.18 Network Rail is already incentivised to increase capacity for operators through the volume incentive, this measures Network Rail's performance in supporting passenger and freight growth across four separate metrics:

- ■ passenger train miles

- ■ passenger revenue

- ■ freight train miles; and

- ■ freight gross tonne miles.

6.19 We intend to introduce a separate route scorecard measure for passenger and freight services based on the volume incentives metrics above. However, because of the need to keep scorecards manageable we propose using only one of each of the passenger and freight metrics. We think for consistency train miles should be used

as the measure for both passenger and freight and because Network Rail is limited in the impact it can have on the other measures, for example in the case of passenger revenue. However, we are open to suggestions on which of the metrics to use.

6.20 We have discussed this proposal with Network Rail who have agreed to take forward the work to develop an appropriate methodology.

Level of performance to be delivered

6.21 We would not expect to set a scorecard target for these measures. The volume incentive already creates a target in this area. We will consult later this year on the volume incentive in CP6.

Questions

6.22 Do you agree the volume incentive measures should be included as a scorecard measure to encourage Network Rail to support passenger and freight traffic growth? If no, please say why or suggest another form of measure we should consider?

6.23 If yes, which of the freight and passenger metrics should be used?

6.24 A draft impact assessment is included in the annex to this document. Do you have any comments on this?

7. Investment

7.1 CP5 scorecards currently include some reflection of Network Rail's role in delivering network enhancements (delivery of some key milestones is included). These can be on behalf of governments, or on behalf of third party investors. The approach to enhancements in CP6 is still under development across the industry, and as such it is difficult at this stage to set out in detail proposals for what we might expect to see on scorecards.

7.2 However, investment on Network Rail's network is expected to continue, in particular:

- government-funded enhancements; and

- investments funded by third parties.

7.3 As such, geographic route scorecards in particular should reflect the different types of enhancement on the route. The FNPO is not directly responsible for assets, and it is not currently clear whether it will be responsible for any type of enhancement activity. The SO has a specific role in managing the overall portfolio of enhancements, undertaking some of the early-stage development of project work and securing the benefits of the project. We discuss possible measures relating to the SO's activities in this area in our separate consultation document on possible SO measures.

New sources of funding for investments

7.4 In this area in particular, Network Rail's monopoly position could potentially have a negative effect in how it deals with third parties who wish to invest on the network. Network Rail should also be encouraged to find new sources of funding for the network. As such this is an area we are interested in keeping a focus on, ideally by using scorecards. Responsibly for identifying, coordinating and supporting new sources of investment funding could sit with the routes, the SO and/or other parts of Network Rail (e.g. Digital Railway).

7.5 There are three broad ways to bring in new sources of investment:

- direct contribution to infrastructure costs;

- provision of infrastructure by third party in return for charge income; and

- concession operation in return for a fee.

7.6   Projects involving a finance/build/operate solution by a single party might also be possible in the future.

7.7   We will discuss these approaches further in our Autumn update paper on the PR18 financial framework. We are also in the process of reviewing the Investment Framework[6].

7.8   We are considering ways in which we could achieve more transparency in this area and whether a scorecard measure would be appropriate. Options include:

   ■   financial targets for this objective, e.g. how much new funding has been received – although there is a risk that these targets might produce perverse outcomes;

   ■   a quantitative assessment of, for example the number of 'opportunity assessments' undertaken by routes (or the SO) in respect of potential third party investment in prospective capital projects; and

   ■   assessment of third party satisfaction on engagement with Network Rail.

7.9   Our corresponding consultation document on possible SO measures also discusses measures in this area.

Questions

7.10 What do you think should be measured in this area to support the objective of maximising new sources of funding, and ensuring that Network Rail treats these sources fairly?

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[6] Investment framework consolidated policy & guidelines (October 2010)

8. Other 'output' requirements

8.1 There are other requirements that we are likely to make of Network Rail which are not suited to being incorporated into scorecards. However, these will also form part of our ongoing monitoring.

Network availability

8.2 The objective of monitoring network availability is to encourage Network Rail to reduce the levels of disruption to passengers and freight customers caused by planned engineering work. It is intended to provide a balance to the amount of engineering work so that the network can be maintained, renewed, or enhanced, without unduly disrupting the end users of the railway.

8.3 We monitor Network Rail's compliance with the licence (in a risk-based and proportionate way); we want to be assured that Network Rail is doing everything reasonably practicable in this important area. Network availability will remain an important area of focus and is one of our six key outcomes for Network Rail to deliver in CP6. We defined this as: "taking effective decisions to limit delays and cancellations, and their impact on end users".

8.4 In CP4 and CP5 we used the Possession Disruption Index (PDI) for passengers (PDI-P) and freight (PDI-F). ORR recognises that there are a number of concerns with these measures in that they are complex, lagging and inaccurate following franchise changes. Therefore, we do not anticipate that use of PDI will continue into CP6.

8.5 However, during CP6 we are expecting significant levels of work will be needed across the network. As such we are minded to continue monitoring this important area.

8.6 We seek views on the most effective way of delivering network availability as an outcome in CP6. The options include:

- Relying only on the incentives driven by Schedule 4;

- Requiring a single scorecard measure – noting the concerns with PDI, and that to date no appropriate replacement has been identified; or

- Relying on monitoring a variety of measures outside the scorecard.

8.7 For any of these options we would either continue to rely on Licence Condition 1 as a means of enforcement or we could create a more specific licence obligation to address this issue.

8.8 We also seek views on how network availability should be monitored and where this should feature in Network Rail's reporting. For example, a possible SO measure could reflect the extent of adherence (e.g. number of breaches) of Network Rail's own Access Framework Principles, a set of planning guidelines/governance structure to inform when routes should undertake possessions. This reflects the SO's role in overseeing these principles. We discuss this further in our separate consultation on possible SO measures. Alternatively, a route measure could focus on the extent to which the network is available or unavailable to end users, to identify where there may be a disproportionate effect.

8.9 Network Rail has proposed some additional "early warning indicator" measures to supplement the view on how well it is performing in relation to network availability. It intends to publish these shortly, and to include them in its regular Possession Indicator Report which is issued to operators; it does not propose to include these on route scorecards. We are interested in views about the usefulness of these new early warning indicators as part of the wider monitoring of this area.

8.10 We would encourage full engagement from the industry to help ensure that any new measures are fully fit for purpose.

Questions

8.11 A draft impact assessment is included in the annex to this document. Do you have any comments on this?

Network capability

8.12 We expect to continue to take a similar approach to network capability as we have done in CP5 – i.e. to set a base requirement at start of CP5 in terms of track mileage & layout, line speed, gauge, route availability, electrification type. It is important to set a baseline against which we and other stakeholders can assess the capability of the network. Network capability has remained an issue of concern throughout CP5.

8.13 This could be either a 'reasonable requirement' (but separate from scorecards) or a more explicit licence requirement. We are currently reviewing the Network Licence in light of PR18. We previously consulted on this in our Outputs Working Paper and received some supportive responses from consultees. We welcome any further views on this.

Questions

8.14 Do respondents have views on how our monitoring of capability should or could change?

Network capacity

8.15 Capacity remains an important issue for the rail network in Great Britain. There are two particular issues here:

■ what capacity is available on the physical network for use, and whether Network Rail is using this capacity efficiently to maximise the number of services without compromising other operational considerations (given prevailing demand); and

■ whether that capacity is being put to the best use in terms of balancing passenger and freight volumes, reliability and engineering access (noting that how 'well' capacity is used is subjective).

8.16 In terms of current measures of capacity:

■ requirements for 'capacity' have been made in HLOSs in terms of the number of seats on services into key cities, for example. This sets out how much capacity governments expect to see in terms of moving passengers, and supports funders' actions in relation to the network.

■ The volume incentive (which we are seeking to adopt the measures from as part of the proposals for network use measures) also seeks to provide Network Rail with incentives to grow volume across the network. It does this by providing an upside benefit if actual traffic levels are above forecast. The mechanism also has a symmetric downside, with a penalty to Network Rail if traffic volumes are below forecast; and

■ There are a range of measures relating to throughput i.e. the number of actual services that run on a day, as discussed above

8.17 Currently, there is no established way to measure the available capacity on each geographic route (or how 'well' capacity is being used). The 'use of the network' measures proposed in section 6 of this document would go some way to providing a 'capacity' based measure but do not address how much capacity is available, or whether the available capacity is being put to good use.

8.18 Reflecting its role in making use of capacity (e.g. through establishing the timetable, (the SO could seek to develop possible measures and/or possible reporting tools. We discuss this further in our separate consultation document on SO measures

Questions

8.19 Do respondents have any proposals for how capacity issues should be reflected at route level?