PR18: Schedule 8 - Final impact assessment on the measure of passenger operator performance

June 2017

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

Policy	Incentives Schedule 8
Policy area	Schedule 8 – improving the measure of passenger operator regime
Background	The Schedule 8 regime for passenger train operating companies (TOCs) is intended to incentivise operators to limit the delay they cause to other operators. It does this by making passenger train operators pay for the long-run revenue impact of delay that they cause to other operators.
	Payments from one operator to another are paid via Network Rail: Network Rail acts as central counterparty under an arrangement known as the 'STAR model' (i.e. all liabilities between operators flow through Network Rail). This significantly reduces the transaction costs of the regime and avoids the need for contractual arrangements between each passenger, freight and charter train operator.
	However, due to limitations on the data systems (i.e. PEARS) at the time of the previous review, passenger operator performance in Schedule 8 is actually measured using a proxy, based on the delay that passenger operators cause to themselves. This kind of delay is known as 'TOC-on-self' delay. Since the amount operators pay is intended to cover the impact of the delay they cause other operators, the calibration of the regime needs to assume a fixed relationship

	between TOC-on-self delay and the amount of delay caused to other operators in order to set the operators' payment rates. This document refers to the delay that the passenger operators cause to other operators (including passenger, freight and charter operators) as 'TOC-on-TOC' delay. Schedule 8 should also help incentivise operators to make the right decisions about whether or not to cancel one of their services. Currently, when a passenger operator cancels one of its services, Schedule 8 attributes a predetermined amount of lateness, known as 'deemed minutes late'. This treats the operator as though they had delayed themselves by that many minutes, with the assumed knock-on effect on other operators, even though in practice cancellation of services may not delay other operators.
Which of the PR18 outcomes does this charge/incentive deliver against?	Outcome: The network is reliable Description of outcome: • Operators minimise the delay they cause • The impact of delay on operators, passengers and freight is minimised

Problem under consideration with the current charge/incentive

The current measure of passenger train operator performance does not accurately incentivise train operators to avoid delaying other operators. It provides stronger incentives to passenger train operators to avoid delaying themselves instead of avoiding delaying other operators.

Although it is important that passenger operators do not delay their own services, it is not the role of Schedule 8 to incentivise that – there are other incentives in place on passenger operators to do this (e.g. fewer passengers using their services in future, franchise obligations or reputational incentives). Since the intention of the Schedule 8 passenger operator regime is to incentivise passenger operators to limit delay to other operators, a measure of performance that more directly incentivised them to limit delay to other operators would be an improvement.

The current measure of performance may also distort the incentives on passenger operators to cancel their own services. For instance, depending on when an operator cancels one of their services, it may be that the cancellation causes no disruption. However, because the current measure of performance assumes that the cancellation always results in a certain amount of lateness, passenger operators may (in addition to the incentives against cancelling their services) have a perverse incentive to avoid cancelling their services. That is, there may be some instances in which cancelling a service would reduce disruption, but because the measure of performance would treat the cancellation as having caused disruption, an operator may opt not to cancel the service, although that may be the best thing for the network as a whole.

What is the scale of the issue & who is impacted?	
The problem under consideration mainly affects passenger train operators. The Schedule 8 regime incentives for these operators are not as accurate and effective as they would be if they better reflected the impact of delay that they cause to other operators.	
Options to be considered	
Option 0: Do nothing	• The current measure of passenger operator performance is based on TOC-on-self delay.
Option 1: Improved measure of passenger operator performance	• The proposed option would change the current measure of passenger operator performance to one based on TOC-on-TOC delay.
Assessment of options	
Assessment of option 1 (Improved measure of passenger operator performance)	Changing the measure of passenger operator performance would have the following benefits: • It would make the passenger operator regime's incentives more accurate, i.e. they would better reflect the impact of delay that passenger operators cause to other operators. • It would increase incentives on passenger train operators to help other operators recover from delay that they cause. • The new measure of passenger operator performance would fix the reduction in incentives to cancel services when this would reduce the amount of disruption caused to other operators. • The actual sums that Network Rail pays on behalf of passenger train operators would better match the amounts it would receive from those operators. • The new way of measuring passenger operator performance would simplify the calculation and administration of the regime. This would reduce the cost of administering the regime and would make the regime less prone to errors. This would have a positive impact on Network Rail, operators and potentially funders. Changing the measure of passenger operator performance would have the following costs: • The proposed measure would potentially reduce incentives on Network Rail to help operators recover from delay that it has not caused. This would be because Network Rail would be less exposed to the financial impacts of reactionary delay that it has not caused. • In response to the consultation several operators raised concerns that when Network Rail manages reactionary delay on operator-caused

	incidents poorly, the resulting additional delay is not reliably attributed to Network Rail. As a result this option could lead to operators paying for delay that arises due to Network Rail's mismanagement of reactionary delay.
	• Responses to the consultation also noted that if operators were exposed to the cost of Network Rail's poor management of reactionary delay this could significantly increase the cost and acrimony around delay attribution.
	• Network Rail would be required to implement some administrative changes, including updating billing systems and updating the PEARS system (i.e. Network Rail's performance reporting system).
	• Franchising authorities may need to update their in-franchise models as a result of the proposed option.
Recommendation	• In light of concerns around the accuracy of current delay attribution and the potential impacts of the change on the delay attribution process, we do not propose to pursue this option in PR18.
	• The assessment highlights that there remain potential benefits from moving to a measure of passenger operator performance based on delay caused to other operators, including to passengers and other end users. This would be consistent with the purpose of Schedule 8.
	• We plan to work with industry to improve the delay attribution process, so that we are better placed to realise these potential benefits for CP7.

Next Steps
- Industry needs to address issues with the costliness and accuracy of delay attribution. We will be working with industry to facilitate a new, more effective approach.