2018 periodic review draft determination

System Operator draft settlement document

June 2018

System Operator: draft settlement document

Purpose and PR18 context

This document sets out our key proposals regarding the System Operator's (SO's) settlement for CP6, including what it is committing to its customers and what it will be funded to deliver this. The SO's settlement forms part of our overall determination for Network Rail.

The 2018 periodic review is the process through which we determine what Network Rail[1] should deliver in respect of its role in operating, maintaining and renewing its network in control period 6 (CP6)[2] and how the funding available should be best used to support this. This feeds through into the:

■ service that passengers and freight customers receive and, together with taxpayers, ultimately pay for; and

■ charges that Network Rail's passenger, freight and charter train operator customers will pay for access to its track and stations during CP6.

This document forms part of our draft determination, which sets out our overall decisions on PR18 for consultation. We have also published an overview document, setting out:

■ our proposed decisions in all the main areas of PR18 and next steps;

■ a summary of how we will regulate Network Rail's delivery in CP6; and

■ next steps in PR18.

In addition, there are high-level summaries of our main decisions for each of England & Wales and Scotland. The full set of documents that form the draft determination is set out in the diagram on the following page. After taking account of consultation responses, we will publish our final determination in October 2018.

A map of our earlier consultations and conclusions that have led up to our draft determination is available here.

Responding to the consultation on our draft determination

We welcome comments on this document and/or the other documents that form part of our draft determination by **Friday 31 August 2018**. Full details on how to respond are set out

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[1] All references to Network Rail in this document are to Network Rail Infrastructure Limited.

[2] CP6 will run from 1 April 2019 to 31 March 2024.

in Appendix B of our [overview document](). This includes how we will treat any information provided to us, including that which is marked as confidential. Subject to this, we expect to publish responses alongside our final determination in October 2018.

We have provided a [pro-forma](), should you wish to use this when responding. If you choose not to use the pro-forma, we would be grateful if you would make clear in your response that you are commenting on this supplementary document. This will assist our process for reviewing comments.

Our draft determination documents (includes weblinks)*

PR18 draft determination overview document	
England & Wales summary	**Scotland summary (and supporting annex)**
Draft settlement documents	**Supplementary documents**

England & Wales	Route review summaries		SBP assessment	Supplementary documents

Draft settlement documents:
- FNPO route
- System Operator

Route review summaries (England & Wales):
- Anglia route
- LNE & EM route
- LNW route
- South East route
- Wales route
- Wessex route
- Western route

SBP assessment:
- Scorecards and requirements
- Health & safety
- Review of Network Rail's proposed costs
- Other single till income
- Stakeholder engagement

Policy:
- Financial framework
- Review of network licence
- Overview of charges & incentives decisions
- Infrastructure cost charges consultation
- Variable usage charge consultation

Other documents
- Glossary
- Consultancy & reporter studies

Conclusions to earlier consultations
- Conclusions to working paper 8 on managing change
- Conclusions on our approach to assessing efficiency & wider financial performance

*Please note that some documents, including consultancy and reporter studies and impact assessments, will be published following 12 June 2018.

Summary

1. The SO is a business unit within Network Rail that is responsible for strategic planning, managing changes to what the network delivers, managing Network Rail's Sale of Access Rights framework, and producing the timetable. For CP6, the SO will have its own settlement as part of Network Rail's determination. The SO will report separately on what it is delivering for its customers (both in the form of SO scorecards and through other reporting tools) and will have its own budget to fund these activities. This should support industry's desire for an expert, transparent and impartial SO that acts in the best interests of the system as a whole, favouring neither operators nor Network Rail in its decision making.

2. Our review of the SO's CP6 plan and the way we will regulate it over CP6 reflects wider rail industry developments that affect the SO. In particular, the SO's role is changing as part of Network Rail's devolution of responsibilities to the routes in England and Wales, and in response to wider political devolution of funding and franchising decisions (in addition to the existing devolved arrangements that exist in Scotland). Increasingly, the SO also needs to manage a network that is busier and more complex, and it needs to integrate new enhancements projects and accommodate new and different services in a timely and efficient way. Our review of the SO's strategic plan and our approach to regulating it in CP6 seeks to reflect this.

3. Our review is also taking place in the context of recent problems with the late finalisation of the May 2018 timetable that has caused substantial disruption to passengers through cancelled and delayed services. We are investigating these issues and expect the SO to reflect the lessons learnt from this issue in its plans for CP6.

4. In its strategic plan, the SO is seeking a total expenditure of £272m, compared with around £145m in CP5[3]. For this increased budget, the SO proposes to deliver:

    ■   a more iterative and 'modular' form of strategic planning, aligned to key franchising and rolling stock decisions and informed by more effective stakeholder engagement;

    ■   an improved provision of advice to a wider number of funders relating to future projects and franchising decisions;

    ■   a more accurate and resilient timetable that is provided to industry in a more effective manner; and

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[3] In 2017/18 prices. This figure includes £29m of capital expenditure and £116m of operational expenditure.

- more automated timetable processes and a move towards 'per second' timetabling through increased investment in its technological capabilities.

5. Having assessed the strategic plan with regard for these changes and drawing on our wider work with industry in this area, we consider that the SO's proposed spending of £272m in CP6 is justified.

6. In turn, as part of our determination, we will require[4] the SO to deliver the following commitments that it has made in its CP6 plan:

- **report on its performance through the (national) tier 1 scorecard, as well as the tier 2 (directorate level) and tier 3 (geographically disaggregated) SO scorecard structure**. The SO should also set out what each measure means (e.g. what data it is based on) so that its stakeholders can interpret what the scorecards are saying about the SO's performance;

- **produce and publish an annual narrative report to explain those elements of its performance that do not lend themselves to scorecard reporting**, and to reflect on the quality of its service and areas for improvement. To ensure the report is sufficiently comprehensive, we require the SO agree the content of its annual report with its Advisory Board; and

- **embed the external governance framework as set out in its strategic plan to enable stakeholders to influence the SO's priorities and, where necessary, to challenge its performance**. These governance arrangements should support the SO's objectives of being impartial, expert and transparent.

7. In addition, we are also requiring the SO to:

- **lead the development of a plan for journey time improvements**, working with other parts of Network Rail (including the Scotland route and the Freight and National Passenger Operator (FNPO) route) and with industry, which meets the requirements of the Scottish Ministers' HLOS[5]. The SO must also work in cooperation with the Scotland route to implement the plan;

- **implement the recommendations from the Nichols' review of the SO's capital expenditure controls and processes,** which we commissioned jointly with Network Rail to provide assurance that the SO's controls and processes can enable it to deliver £61m of proposed investment in its systems. To support this, we also require the SO to produce an action plan of how (and by when) it

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[4] These requirements could be subject to change during CP7. Our change control procedures would enable the SO to develop and implement improvements to this reporting framework, subject to certain controls (including appropriate engagement with stakeholders).

[5] Those requirements are to deliver a Scotrail minutes per mile target of 1.587 by December 2019 and 1.576 by December 2024 and a freight speed increase of 10%, by December 2024.

will implement each of these recommendations by 31 August 2018, and provide a statement on its progress against this plan in the SO's first annual narrative report; and

■ **take account of lessons learnt from the May 2018 timetable change**, including our ongoing investigation into Network Rail's role and our wider inquiry into why the system as a whole failed to produce and implement an effective timetable.

8.   To support the SO being impartial, expert and transparent, we are also consulting on changes to Network Rail's network licence to embed the SO into its structure and to require it to comply with a number of requirements (such as internal governance arrangements).

9.   Our approach to regulating the SO in CP6 is intended to deliver industry with an improved understanding of the SO's roles and responsibilities and its performance against this. This will enable us, in turn, to monitor its delivery to customers and hold it account in an effective way over CP6.

10. The rest of this document is structured as follows:

■ the background and context section discusses the role of the SO (and the wider developments that affect this) and our new regulatory framework for the SO;

■ the summary of the SO's strategic plan discusses the proposals in the SO's strategic plan, including:

  – what it plans to deliver;

  – its proposed expenditure; and

  – its governance and reporting proposals; and

■ our assessment of the SO's strategic plan sets out our decisions in each of the above areas.

Background and context

The role of the SO

11. The SO is a relatively small business unit within Network Rail, with around 700 staff currently. Its managing director reports directly to the Network Rail CEO and is a member of its executive committee. The SO's describes its activities across four key areas:

■ **strategic planning:** The SO leads the industry's long term-planning process, analysing the future needs of the network and working with industry to advise

funders on the options for how the network should develop over the longer-term (30 years hence);
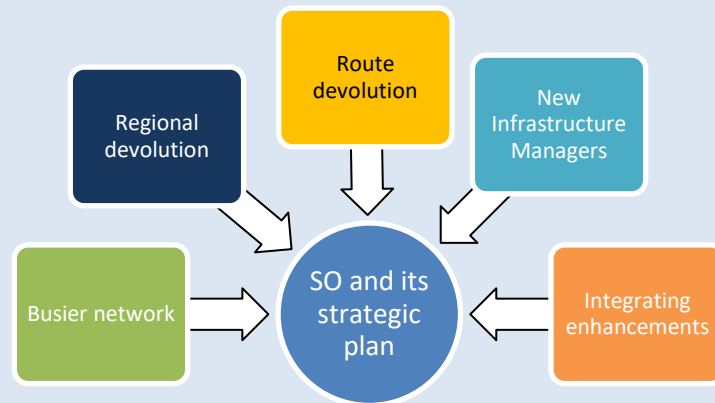
- **managing output changes to what the network delivers:** The SO manages the early development of enhancements, undertakes the economic analysis underpinning projects' business cases and manages the overall enhancement projects portfolio and the pipeline process. The SO also advises franchising authorities about the services the network can accommodate, works with HS2 to ensure the future service is integrated into the rest of the network and manages Event Steering Groups (which bring industry together to prepare for major timetable changes);

- **managing the access rights framework:** The SO owns Network Rail's Sale of Access Rights (SoAR) framework for granting access rights to the network, and provides the analysis that informs Network Rail's (and ORR's, where necessary) access decisions; and

- **producing the timetable:** This is the key, final product of the SO. The SO translates the rights that operators hold, and the train paths that they bid for, into the timetable according to the processes set out in the Network Code. The timetabling process includes production of the Timetable Planning Rules (TPRs), publication of the six-monthly working timetable and amendment to the timetable up to 24 hours in advance of operation.

12. The SO contributes to system safety across these four activities. For instance, it has a key role in ensuring that enhancements are safe by design from the earliest stages, and conducts safety critical analysis around the pedestrian flow through stations. In planning the timetable, it ensures that trains are safely routed on the network and sets frameworks that ensure there is enough engineering access for works to be completed safely.

13. Unlike in many network industries, the SO within Network Rail does not have a substantive role in real-time operations (for example, signalling is undertaken by the routes). However, some activities delivered by routes, for instance engineering access planning, are undertaken in accordance with frameworks that the SO owns.

14. The role and position of the SO has developed in response to wider industry changes (see Box 1 on the following page). At the beginning of CP5, the SO's functions were undertaken separately throughout Network Rail. In 2016, these functions came together to form 'Network Strategy and Capacity Planning', which subsequently evolved into the SO through the 'Fit for the Future' organisational change programme.

Box 1: The context of the SO's strategic plan

The SO's role has needed to change in response to a number of wider changes in rail, as illustrated in Figure 1.

Figure 1: Drivers for the evolving role of the SO

The SO's role has needed to play a stronger role to support the devolution of responsibilities to Network Rail's routes to ensure planning decisions remain joined-up. Simultaneously (and in addition to its existing role in Scotland supporting the government's decisions), regional devolution of funding and franchising decisions (e.g. to the Welsh Government or Transport for the North) means the SO now needs to work with and support a wider range of stakeholders in planning the future needs of the network. As the number of infrastructure managers increases (HS2, Crossrail etc), the role of the SO and the quality of its advice becomes even more important.

The SO also has a stronger role in supporting a more incremental 'pipeline' approach to developing and funding enhancements (as recommended by Dame Colette Bowe's review into the planning of Network Rail's CP5 enhancements programme). This is reflected in the Memorandum of Understanding between Network Rail and the DfT that clarifies the roles and responsibilities of the DfT and Network Rail in the delivery of government-funded enhancements. The SO supports this pipeline approach by establishing the necessary business cases throughout a project's lifecycle by managing the work at a project and portfolio level and, ultimately, by integrating those projects into the timetable to ensure they deliver the expected benefits. Discussions over the most appropriate governance of enhancements are on-going in Scotland.

More broadly, the network is forecast to become 10% busier during CP6, and the operational introduction of Thameslink and Crossrail make the network more connected and complex than ever before. These changes drive a substantial increase in timetabling work as each individual train becomes harder to schedule onto on already busy network. Indeed, we have recently seen significant passenger disruption arising from the late introduction of the May 2018 timetable.

Our new regulatory framework for the SO

15. Our PR13 determination did not establish a regulatory framework specifically for the SO's functions. Rather, in CP5, we regulate the SO's performance as part of Network Rail's wider activity, for example:

     ■ Network Rail is obliged to report on the cause of the delay minutes it is responsible for that includes delays caused by timetable planning errors. As an indicator, this information is intended to help us (and industry) monitor the SO's overall performance;

     ■ drawing on the above, Network Rail produces a biannual dashboard of system operation metrics[6]; and

     ■ under its licence, Network Rail is obliged to secure the operation of the network in a timely, efficient and economical manner. In doing this, it also has related obligations regarding planning, capacity allocation and timetable planning. We are currently investigating Network Rail's role in the late implementation of the May 2018 timetable.

16. This periodic review (PR18) includes a much sharper focus on the SO. In CP6, and in line with our wider approach to route-level regulation, we are setting a separate settlement for the SO as part of Network Rail's wider determination.

17. As part of this settlement, the SO will report separately on what it is delivering for its customers by way of SO-specific scorecards and an annual narrative report. It will also have its own revenue requirement to fund its activities, as well as its own regulatory asset base (RAB) to reflect the value of its investment. We have set this at an opening value of £80m[7] based on the SO's past levels of investment, and consistent with our wider methodology for calculating a route's RAB.

18. We are also consulting on changes to Network Rail's network licence to embed the SO into its structure. We are proposing to restructure Network Rail's existing licence obligations to reflect the separation of functions within its business. This will mean that the SO will take on responsibility for complying with a number of licence conditions, including around the long term planning process, capacity allocation and timetabling. We may take enforcement action against Network Rail if we find that the SO failed to do everything reasonably practicable to meet these obligations.

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[6] The *Network System Operator Dashboard*, published by Network Rail, is available here.

[7] This is discussed further in the *PR18 draft determination supplementary document – Financial framework,* available here.

Summary of the SO's strategic plan

19. For CP6, the SO business unit has produced its own strategic plan, in line with the route businesses. This has been underpinned by improved stakeholder engagement and a much stronger degree of ownership by the SO of its own plan.

Key proposals in the SO's strategic plan

20. The SO's strategic plan (supplemented by some further commitments as set out in a May 2018 letter from the SO to ourselves[8]) sets out the service it will provide to customers over CP6 and how it will do that. It proposes the following key improvements across each of its activities:

 - **strategic planning**: The SO is proposing to change how it undertakes its long-term planning function in response to stakeholder feedback, moving away from producing 'route studies' (undertaken on a rolling basis every 7-10 years) to a more flexible and 'modular' approach that develops options for funders (called Continuous Modular Strategic Planning), including to inform the enhancement pipeline and upcoming franchise decisions;

 - **managing changes to what the network delivers**: The SO has committed to delivering a better analytical service to support enhancement and franchise decisions. It aims to improve its 'end-to-end' process to ensure that the envisaged benefits of infrastructure investments are realised in the timetable. It is also seeking to resource dedicated franchise managers to promote alignment between its decisions and those of the franchising authorities, as well as wider decisions across Network Rail;

 - **managing the access rights framework**: The SO intends to improve the processes underpinning the SoAR Panel and to strengthen its ability to analyse the impacts of capacity allocation decisions; and

 - **timetable production**: The SO expects to carry out significantly more work to accommodate new enhancements (e.g. electrification in Scotland), new rolling stock (e.g. in Greater Anglia) and more services (e.g. from Crossrail, Midland Main Line) in the timetable. At the same time, it is committing to reduce delay minutes caused by its timetable errors by 16% over the course of CP6, as well as becoming more responsive to customer requests for access to the network. However, whilst timetabling will remain a heavily manual process during CP6, the SO is proposing to invest £61m in several technology-led change programmes. Some of this investment is designed to automate timetable

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[8] We have published this clarifying letter on our website, here.

production and enable conflict detection using its Train Planning System (TPS)[9].

Meeting the governments' HLOS requirements

21. With responsibilities for the whole of Great Britain's mainline rail network, the SO needs to meet the requirements of both the Secretary of State's HLOS for England and Wales and the Scottish Ministers' HLOS for Scotland.

22. The Secretary of State's HLOS does not include any specific requirements for the SO, though the work of the SO will be essential to meet his high level objectives in England and Wales. For example, the SO's role in producing the timetable has a significant impact on train performance, including how it varies across parts of the network.

23. However, reflecting the different nature of its HLOS, the Scotland Ministers have set a number of specific requirements on the SO, including[10]:

   ■ improved freight and passenger journey times;

   ■ the creation of an expert whole-industry project client;

   ■ dedicated timetabling resource for Scotland;

   ■ availability of cross-border routes; and

   ■ the development of a depot and stabling strategy.

The SO's proposed expenditure
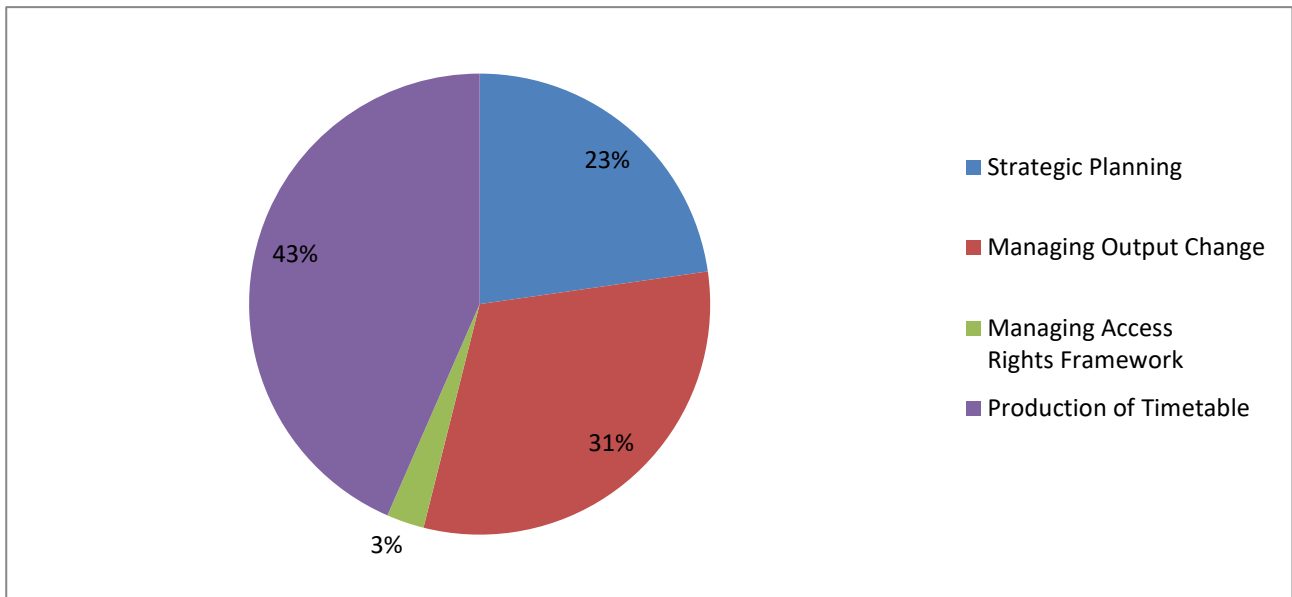
24. To deliver all of its commitments, the SO is proposing a substantial uplift in its operating expenditure from £116m in CP5 to £211m in CP6[11]. For context, this spend can be roughly allocated to each aspect of its operating model, as illustrated in Figure 2 (though it should be noted that this is only an estimate).

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[9] Note that the benefits of this additional capital investment are not yet reflected on the SO's scorecard.

[10] These requirements, as well as wider Transport Scotland requirements on Network Rail, is discussed in the supporting annex to our *PR18 draft determination Executive summary – Scotland,* available here.

[11] The £211m figure does not reflect the value of the work that the SO undertakes for funded projects, which it charges directly to the projects. We discuss this in following sections.
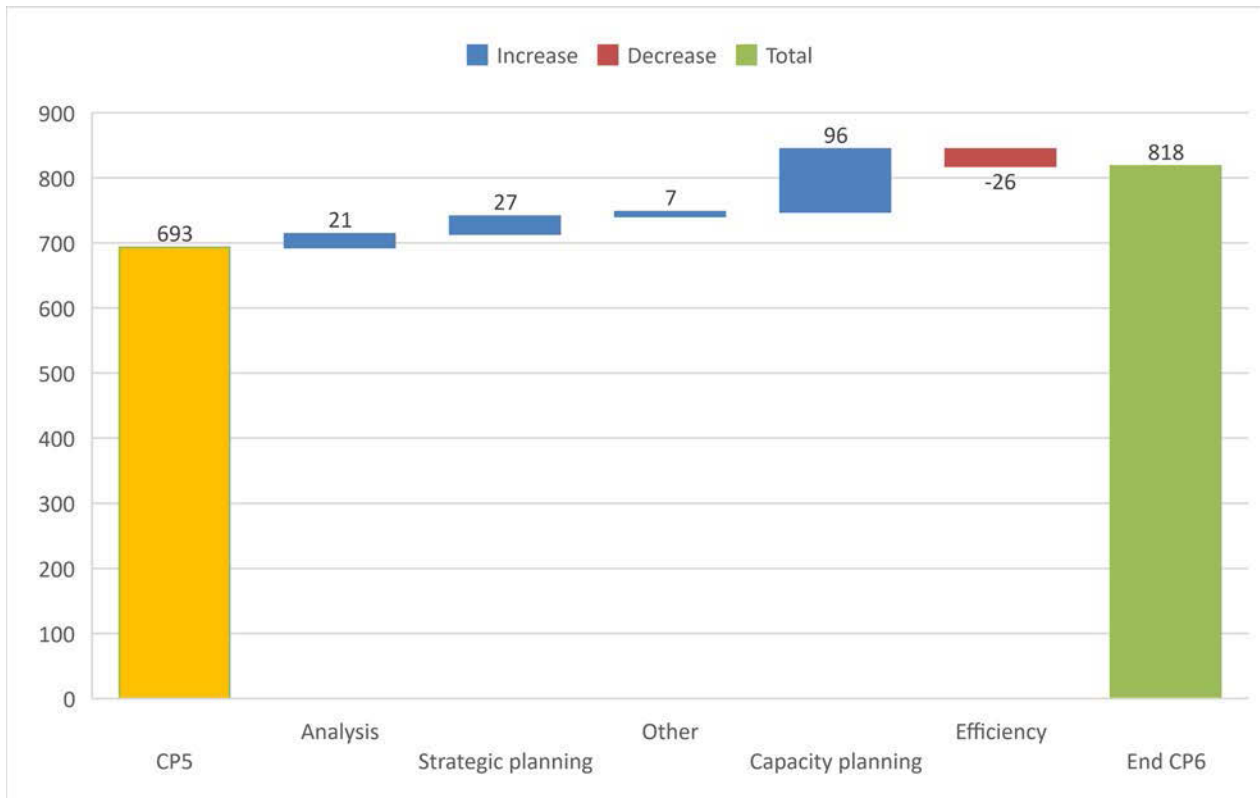
Figure 2: The SO's operational expenditure by activity area

25. In some areas, the SO's strategic plan proposes additional spending relative to the CP5 base case. Some of the main drivers included (described in terms of £m increases relative to CP5) include:

   ■ £32m of the increase is caused by a transfer of some activities that were previously charged against capital funds to the SO's operational expenditure budget. For instance, this includes the technical feasibility work underpinning strategic planning. This is intended to ensure that the SO has sufficient funding for these activities;

   ■ an additional £28m to reinforce the timetabling production team. Timetabling activities will be more complex and time consuming due to the growth in train services and volume of timetable change anticipated;

   ■ an additional £11m to sustain the investment in additional strategic planning resource (including the new roles of Principal Strategic Planners), who serve as SO-specific resources to bring together the needs of multiple funders and the routes to integrate the network as a whole; and

   ■ an additional £12m to reinforce and expand its analytical capabilities, £2m to resource the embedded SO-support in franchising teams and £2m to deliver the Scottish Ministers' HLOS requirement of a 'whole system client'.

26. In order to deliver the proposed operational expenditure, the SO proposes to increase its number of staff in CP6. Most significantly, the SO plans to expand the capacity planning function by almost 100 staff members in the early years of CP6 (from around 450). This will includes around 60 timetable planners, as well as

additional capacity analysts and a programme management team. It has already begun recruiting for these roles. The SO also plans to expand its economic analysis team to provide analysis in support of enhancement, franchising, and route budget allocation decisions. It also proposes to create a small number of franchise manager roles, as well as to increase its resources in strategic planning, mainly in the north of England.

Figure 3: Changes in the SO's headcount

Efficiency and chargeable work

27. Over the course of CP6, the SO proposes to become around 5% more efficient in the delivery of its activities, mainly through continuous improvement. It plans to roll out training to half its staff before CP6 in order to achieve this. The SO considers this efficiency will enable a reduction in the timetable planner headcount towards the end of CP6.

28. In addition to the work that is funded by operational expenditure, the SO also undertakes significant amounts of work on behalf of funders, specifically the early development of projects (where it acts as the project sponsor) and in undertaking economic, capacity and pedestrian flow[12] analysis to assess the value of the project.

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[12] Pedestrian flow analysis considers how passengers move through stations.

It charges the costs of its staff's time directly to these projects, rather than including them in operational expenditure.

The SO's proposed capital expenditure

29. Separately, the SO's strategic plan also includes substantial capital investment in its own capabilities (£61m in total). In addition to £21m of system renewal costs held within the Route Services plan[13], the SO's strategic plan also includes £55m of investment for the following schemes:

- **Data improvement (£8m)** – this is intended to refine the information necessary for the TPS to calculate timetables to a much finer degree of accuracy;

- **Train Planning System (£16m)** – this is focused on unlocking the currently unused capabilities of the SO's TPS to enable conflict detection and calculation of running times based on the infrastructure (and train) capability model. This programme also requires input and support from industry (which the SO will need to work effectively with its customers to deliver), and has dependencies with the data improvement programme discussed above;

- **Better access planning (£12.5m)** – this is intended to deliver a replacement for the Possession Planning System that integrates with the TPS. This would automate the process (which is currently resource-intensive) and ensure that trains cannot be planned which conflict with possessions; and

- **Whole system modelling (£19m)** – this is expected to enhance the SO's ability to model capacity and performance more swiftly and across the whole network.

30. There is also a small amount of capital expenditure (£5.5m) to support the SO's role in managing the enhancements portfolio and tracking the benefits of enhancements.
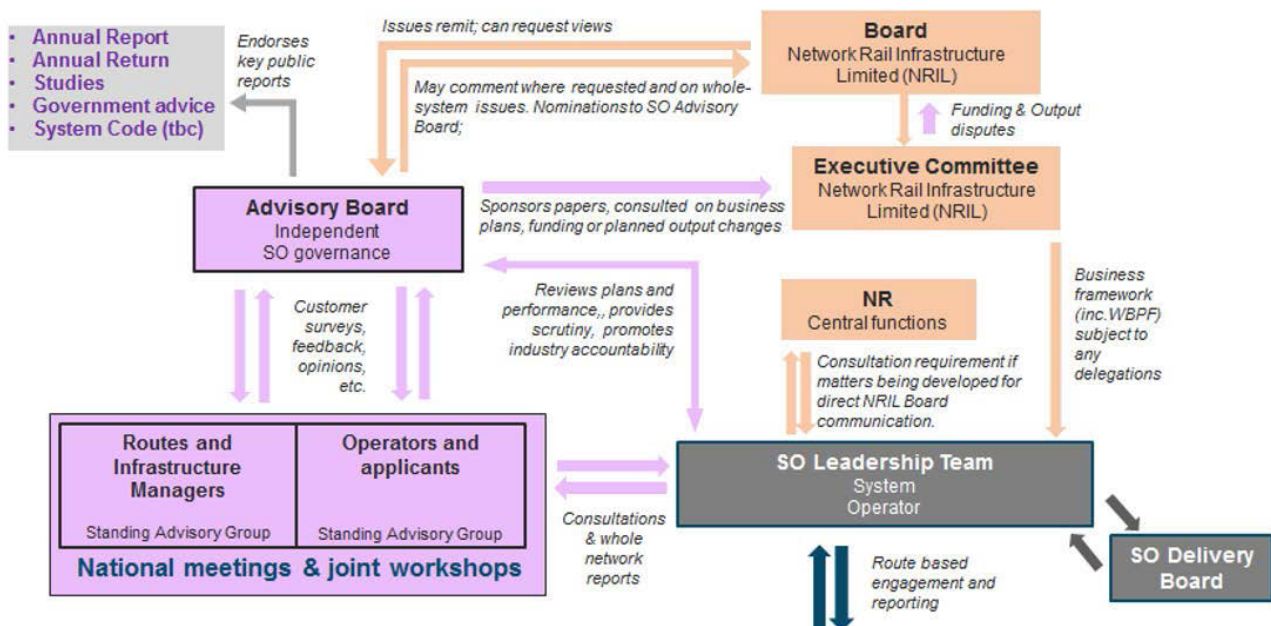
The SO's proposed reporting arrangements and governance

SO's proposed external governance arrangements

31. The SO intends to strengthen its external governance arrangements to improve the way it works with stakeholders and to demonstrate the impartiality of its decisions. The new external governance arrangements are illustrated in Figure 4.

Figure 4: The SO's proposed governance structure

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[13] Network Rail's Route Services business unit supplies services to routes, the SO and other Network Rail functions. Generally, these services are those where there is an efficiency of scale (for instance, route services purchases track on a national basis to secure a better market rate), or where the service provided needs to be consistent on a national basis (for instance IT services). This £21m refers to licences for the SO's IT software which are owned and administered on behalf of the SO.

- Annual Report
- Annual Return
- Studies
- Government advice
- System Code (tbc)

Endorses key public reports

Issues remit; can request views

May comment where requested and on whole-system issues. Nominations to SO Advisory Board;

Board
Network Rail Infrastructure Limited (NRIL)

Funding & Output disputes

Advisory Board
Independent SO governance

Sponsors papers, consulted on business plans, funding or planned output changes

Executive Committee
Network Rail Infrastructure Limited (NRIL)

Customer surveys, feedback, opinions, etc.

Reviews plans and performance,, provides scrutiny, promotes industry accountability

NR
Central functions

Consultation requirement if matters being developed for direct NRIL Board communication.

Business framework (inc. WBPF) subject to any delegations

Routes and Infrastructure Managers
Standing Advisory Group

Operators and applicants
Standing Advisory Group

National meetings & joint workshops

Consultations & whole network reports

SO Leadership Team
System Operator

Route based engagement and reporting

SO Delivery Board

32. They contain the following elements:

- **a new SO Advisory Board** to hold the SO to account by reviewing and challenging its performance. The SO's Advisory Board will provide independent and expert scrutiny and challenge of the SO's work and processes, as well as providing assurance to its customers. The Advisory Board will also play a role in endorsing the SO's annual business plan and annual narrative report.

  The Advisory Board's membership will include an independent chair, a rail SO expert from outside the UK, a Network Rail non-executive director, and passenger/freight end-user representatives. Its membership will also include industry and funder representatives. To enhance its independence from the Network Rail executive, the Advisory Board will be able to provide comments directly to the Network Rail Board. The Advisory Board will meet quarterly. The SO will publish the papers and the minutes of the meetings so that stakeholders (and ORR) have full visibility of discussions; and

- **two standing advisory groups consisting of operators and infrastructure managers** to support the Advisory Board and to improve the representation of the SO's customers. These allow the SO to directly engage with all its customers in a single forum, and also give the SO's customers a direct route to provide comment and feedback on the SO's delivery to them. These groups also have the authority to request any information from the SO and to provide scrutiny of its business plan. These groups are expected to meet three or four times a year.

33. The SO is currently introducing these governance arrangements, with the first meeting of the Advisory Board taking place in July 2018. It will review these arrangements in consultation with its stakeholders in early 2019.

SO's proposed reporting arrangements

34. To enable stakeholders to hold the SO accountable for its delivery, the SO has proposed to report its performance in a variety ways*:*

   ■   the SO has proposed three different 'tiers' of scorecards:

   –   a 'tier 1' scorecard that will include measures from across its operating model, for instance strategic planning milestones, franchise milestone delivery, the number of train delays caused by the timetable, and its compliance in meeting milestones relating to the introduction of the timetable 12 weeks in advance[14];

   –   'tier 2' scorecards for each of the seven directorates within the SO (four regional Strategy and Planning teams, the HS2 integration team, the Capacity Planning team, and the Programmes and Policy team). The Tier 2 scorecard for the Scotland Strategy and Planning team will include measures relevant to the SO's delivery of the Scottish Ministers' HLOS;

   –   'tier 3' scorecards aligned to each routes that contain local priorities identified by the routes and operators; and

   ■   an annual narrative report that will discuss the SO's performance in activities that do not lend themselves to quantified measurement, including on the quality of the SO's work. The SO plans to consult with its stakeholders on the scope of this report during the summer of 2018, before agreeing a format with its Advisory Board in early 2019 (discussed in its May 2018 letter to ORR).
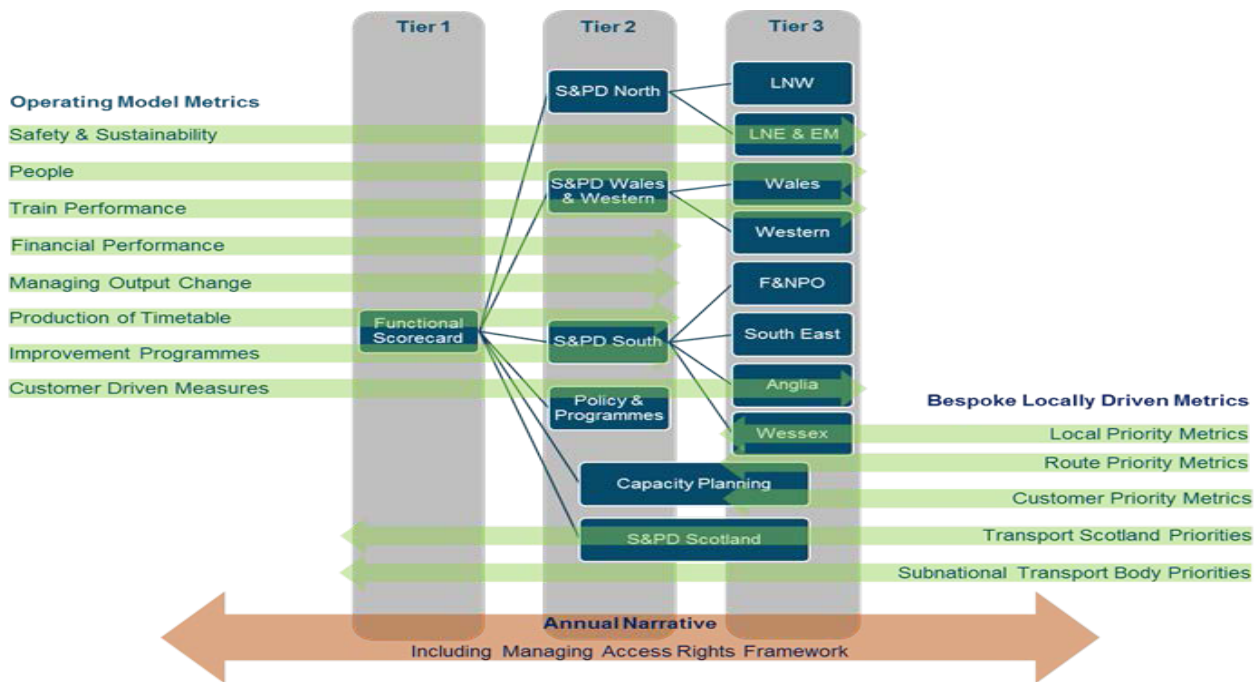
35. Because some of the SO's work is influenced by changing funder priorities on enhancement projects and franchising timescales, as well as on industry priorities for strategic planning, the SO expects some of its precise deliverables to change from year to year. Rather than committing to milestones in its plans for these type of deliverables, the SO is therefore proposing to update its plans annually, setting out its outputs (which will be agreed with stakeholders) for the following year hence.

36. Figure 5 illustrates how the SO's reporting tools will support each other. Some measures on the tier 1 scorecard (e.g. SO impact on train performance) are disaggregated to the tier 3 route scorecards. The tier 2 scorecards contain a mix of

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[14] The SO's strategic plan did not include a forecast for this measure, known as TW-12 (because the informed traveller timetable is released 12 weeks before the week of operation). However, since then, the SO has committed to a 90% target throughout CP6. This is discussed in the SO's May 2018 letter to us, available here.

disaggregated measures from the tier 1 scorecard, and some measures which are specific to their function. The tier 3 'route' scorecards also contain some disaggregated measures, but also include local priorities which are driven through engagement with the routes and their customers.

Figure 5: SO's CP6 reporting tools

SO's proposed reporting in Scotland

37. To demonstrate that it meets the requirements of the Scottish Ministers' HLOS, the SO has included measures (some of which are still under development) on a dedicated tier 2 Scotland scorecard. In many cases, these targets will also be included in the Scotland routes' scorecard, reflecting the fact that the SO and Scotland route (and other parts of Network Rail) will need to co-operate to deliver the HLOS. Where requirements do not lend themselves to scorecard reporting (e.g. cross border route availability), the SO will report qualitatively on these in its annual narrative report.

38. To ensure that top level organisational focus remains on Scotland issues, the tier 1 scorecard will also contain a specific measure (to be agreed with Transport Scotland). This will either focus on particular aspects of the HLOS, or act as an aggregate measure of the performance on the tier 2 Scotland scorecard. Further detail on how Network Rail proposes to deliver the Scottish HLOS requirement can be found in the Scotland route settlement document[15].

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[15] Available here.

Our assessment of the SO's strategic plan

39. In the course of our assessment, we have:

     ■ analysed the SO's strategic business plan;

     ■ hosted three high-level meetings with the SO's managing director and its senior leadership team to discuss its strategic plan and challenge it on aspects of its plan;

     ■ undertaken 14 'deep dive' meetings with the SO to scrutinise certain aspects of its plan in more detail. We particularly focused on the SO's capital expenditure proposals, its plans to increase the size of the timetable planning team and the changes it proposes to strategic planning; and

     ■ jointly commissioned an independent reporter study with Network Rail, which was undertaken by Nichols, to consider the appropriateness of the SO's proposed processes and controls for its capital expenditure portfolio.

40. We have also considered our earlier work and findings regarding the issues and opportunities associated with system operation, as well as our consultation on measures of the SO's performance.

41. In this section, we discuss our assessment of:

     ■ the SO's stakeholder engagement;

     ■ the extent to which its proposals address our previously identified issues and opportunities in system operation;

     ■ the extent to which its proposals address the requirements of the governments' HLOSs;

     ■ the SO's costs; and

     ■ its governance and reporting.

Our assessment of the SO's stakeholder engagement

42. As part of our SBP review, we have assessed how well Network Rail's routes and the SO engaged with their stakeholders to inform their strategic plans. We wanted the routes/SO to engage with their stakeholders because it would help them to meet their stakeholders' requirements, and because it would allow them to use operators' railway expertise and understanding of operations, access and costs to make their plans more efficient, realistic and credible.

43. We have assessed the SO's approach with respect to three areas: **scope and methods of engagement; recording and analysis of priorities; and trade-offs**

and line of sight. Our findings with respect to each of these three areas are discussed below.

44. **Scope and methods of engagement** refers to which stakeholders the SO engaged with and how well it did this. We found that the SO's engagement was generally well governed, although it could have been more inclusive:

- the SO engaged with a good range of stakeholders, reflecting the variety of parties impacted by its decisions. However, we have no evidence of engagement with external suppliers, including providers of its timetable planning systems;

- the SO tailored its engagement to the needs of different stakeholders. For example, it has used one to one meetings, workshops, existing groups (such as the Planning and Operational Group and the Operational Planning Strategy Group within the National Task Force), and email correspondence to engage with different stakeholder groups;

- the SO gave its stakeholders the opportunity to understand and influence its developing strategic plan by sharing drafts and inviting comments in May and December 2017. It demonstrated good transparency in setting out and responding to the feedback on its December 2017 plan from the stakeholders who were able to respond within the deadline set by the SO; and

- some stakeholders commended the openness and transparency of the SO's engagement process. However, some stakeholders said that that engagement started too late or that they had not been engaged to the extent that they would have liked (the Department for Transport, DfT, in particular, said it had not had sufficient opportunities to influence the plan earlier in the process).

45. **Recording and analysis of priorities** refers to how well the SO recorded, analysed and reflected on its stakeholders' priorities. We found that the SO was transparent in how it recorded and reflected on individual stakeholders' needs in its requirements and responses log, though some of the analysis presented in the plan could have been clearer:

- the SO's strategic plan lists 24 things that different stakeholder groups have said they need from the SO, and consolidates these into nine different priorities. For each priority, the strategic plan says what the SO plans to do to address them by the end of CP5 and in CP6;

- however, the plan could have been clearer about how stakeholders' priorities relate to each other. For example, the plan includes an appendix to the strategic plan that lists 25 "core messages from our customer consultation" and states what action the SO will take in response to them. These do not clearly link to the 24 items or the 9 priorities listed in Section 3 of the plan, but rather

set out high level summaries of stakeholder comments on each aspect of the operating model;

■ the SO carefully recorded and reflected on its stakeholders' priorities. In its supplementary information, the SO provided a requirements and responses log setting out in detail the comments expressed by stakeholders at the workshops and the SO's responses to them;

■ while the plan's treatment of stakeholder priorities is fairly comprehensive, it was confusing and could have benefitted from more explanation. For example, the link between stakeholder needs listed in Section 3 of the plan and the core messages from customer consultation in the appendix is unclear; and

■ the plan does not explain whether or how the SO used research data to inform its view on passenger requirements.

46. **Trade-offs and line-of-sight** refers to how well the SO has demonstrated a robust process for deciding between competing stakeholder priorities, and how well it has established a line-of-sight between stakeholder priorities and the actions it has committed to in its plan. We found that the plan could have done more to demonstrate clearly that the SO's engagement has been effective in influencing what the SO will and will not do in CP6:

■ the plan set out in some detail the action the SO planned to take to meet its stakeholders' priorities; but

■ it could have been clearer about whether there are any stakeholders' priorities it has not been able to meet, and if so why it is unable to do so.

Our assessment of the SO's strategic plan against the issues and opportunities in system operation

47. We have also considered the SO's strategic plan in the context of the issues and opportunities associated with system operation that we previously identified[16]; see Box 2. We also note that stakeholder feedback from that consultation has been reflected in the SO's strategic plan and its CP6 scorecards. For instance, the SO's scorecards will include measures on the 'timetable planner vacancy gap' and 'Event Steering Group milestones'.

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[16] Both these consultations, and our other past work on system operation, are available on our website, here.

Box 2: The SO's plans in addressing system operation issues and opportunities

In November 2016, following consultation with Network Rail and industry, we set out our views on the key issues and opportunities associated with system operation. Here, we discuss how the SO (and its CP6 strategic plan) have responded to each of these.

- **The incentives the SO faces when trading-off increased capacity use, performance and cost are not currently balanced. This is partly due to the fact that there are currently no accurate measures of available network capacity.** As part of some work we commissioned in 2017, the Transport Research Laboratory (TRL) identified possible measures of capacity utilisation of the network. Building on this, the SO has operationalised a measure, testing it on different parts of the network. While this has not resulted in a measure of network capacity that can be readily used, it has given rise to other uses within the SO. We would welcome further research into this area over CP6.

- **The SO's activity of managing the Train Planning Rules (TPRs) and producing capacity studies to inform investment and capacity allocation decisions (by funders or ORR) could be improved.** Over CP5, the SO has undertaken a review of TPRs (called the Timetable Rules Improvement Programme) that has delivered some performance improvements. However, the SO considers that this programme has now achieved the 'easy wins', and in CP6 it proposes to focus instead on ensuring that TPRs are quickly updated in response to changes to the network. It also proposes to improve the capability of its capacity analysis team and to progress its Whole System Modelling programme.

- **The SO's production of the working timetable could be more effective at unlocking benefits (both in terms of capacity use and performance).** The SO will be required to accommodate a greater volume of traffic over CP6 (e.g. to accommodate new Crossrail services). It will need to do this in an efficient and timely way. To meet this, it has committed to making improvements in the timetable process, for example by committing to reduce delay minutes caused by the timetable by 16% over the course of CP6. This SO will continue to be required to finalise the six-monthly timetable at least 12 weeks in advance; and

- **The alignment of incentives between the SO, Network Rail (in general) and operators in relation to operational performance could be improved.** As discussed above, the SO proposes to focus on the 'basics' of producing a timely and high quality timetable to contribute to operational performance, reflected in the inclusion of '502a delay' (delays caused by the timetable) on its top tier scorecard. The SO's capital investment in the TPS is also intended to improve this further, for example by enabling automatic conflict detection.

48. In addition, we are in the process of investigating Network Rail's role in the May 2018 timetable implementation, and the whole industry's role in providing information to passengers. This is discussed in Box 3. This investigation sits alongside ORR's inquiry, at the request of the Secretary of State, into why the system as a whole failed to produce and implement an effective timetable. We expect the SO to take account of lessons learnt, recommendations and decisions from both areas of work.

Box 3: Issues relating to the implementation of the May 2018 timetable

In February 2018, Network Rail announced that it was not able to produce finalised timetables 12 weeks in advance. Instead, it set out plans to finalise timetables six weeks in advance, and to introduce a recovery plan to get the timetabling schedule back to normal. Related to this, there have also been significant issues with the recent introduction of the May 2018 timetable that have left passengers unable to access journey information in the usual timescales (typically journey information is available 12 weeks in advance), and led to substantial disruption to passengers through cancelled and delayed services. The SO plays a key role in these activities.

In response to these problems, we are investigating these issues under three strands of work focusing on:

- the development, management and delivery of the industry's recovery plan;
- the provision of journey information from passenger operators and ticket retailers (so passengers can plan journeys, buy tickets and receive information on options when things change); and
- the root causes and lessons learned from how this issue arose.

We have launched a formal licence investigation into Network Rail following our initial root causes review, where we have identified particular concerns with:

- Interfaces and their management between Infrastructure Projects (IP) and the SO, both as a potential root cause of the current TW-12 problems and as a risk to the recovery plan and future timetables;
- whether prioritisation decisions, such as whether to delay an enhancement, are being taken with passengers and a whole system perspective in mind; and
- the management of late notice timetable changes and their impact on services and the availability of passenger information.

Our assessment of the SO's strategic plan against the requirements of the governments' HLOSs

49.   We have received assurances that the SO's strategic plan will enable it to meet the requirements of the Secretary of State's HLOS in England & Wales.

50.   We have also received assurances that the SO's strategic plan enables it to meet the Scottish Ministers' HLOS requirements that it is accountable for (although it will need to work with others across Network Rail and industry to meet these). These relate to:

- **the creation of an expert whole-industry project client**: The SO has committed to deliver this (and is seeking an additional £2m to do so);

- **dedicated timetabling resource for Scotland**: The SO has committed to continue to meet this requirement, and has a dedicated team of around 30 staff developing the timetable for Scotland;

- **availability of cross-border routes**: To do this, we require Network Rail to use all reasonable endeavours to plan to keep at least one cross-border route available at all times and to ensure that journey times on the available cross-border route are kept as short as possible. When this is not possible, Network Rail must alert operators, funders and ourselves, and provide justification as to why it is not possible; and

- **the development of a depot and stabling strategy**. The SO will develop a depot and stabling capability plan, in conjunction with Transport Scotland and industry partners, for the 15 years from 2019 to 2034 to support the predicted passenger growth forecasts and rolling stock strategies set out in franchise agreements. We understand the SO will address this through its strategic planning studies.

51.   We set out further details on this in the supporting annex to the Scotland summary document[17].

52.   However, one particular element of the Scottish Ministers' HLOS was the requirement to improve journey time for each year of CP6 in such a way that delivers a minutes per mile target of 1.576 by December 2024 for Scotrail services, and a 10% improvement in freight speeds.

53.   Journey time is a whole industry output and different parts of Network Rail (including the SO, the Scotland route and the FNPO) and industry are responsible for contributing to it. For CP6, **the SO will be accountable for leading the development of a plan for journey time improvements, working with other parts**

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[17] Available here.

of Network Rail (including the Scotland route and the FNPO) and with industry, which meets the requirements of Scottish Ministers. The plan must be:

- developed in cooperation with the ScotRail Franchise and industry;

- consulted with Transport Scotland;

- provided to ORR by 30 November 2018 for review and approval;

- finalised and provided to all affected parties by 31 March 2019; and

- updated and amended as appropriate through CP6.

54.   The SO must also work in cooperation with the Scotland route to implement the plan.

Our assessment of the SO's costs

SO Operational Expenditure

55.   There are growing demands on the SO's resources. Reflecting this, the SO requires more funding to deliver the service level it provides currently. In particular, we note that:

- there are a number of activities which the SO considers a core part of its role, but which have been paid for by capital enhancement funds in CP5. Most notably, this includes the technical feasibility costs arising from strategic planning and the integration of major enhancements (e.g. Crossrail, HS2) into the timetable. Reflecting the fact that these are essential functions of the SO, we have included this in its operational expenditure requirement, amounting to £32m. These costs would have otherwise arisen elsewhere in the industry;

- the SO is operating in a more complicated environment than at the beginning of CP5, as discussed above. There have been consistent stakeholder calls for improved engagement, and the strengthening of strategic planning capabilities proposed in the plan is intended to address this (at a cost of £11m); and

- the SO forecasts a 10% increase in the numbers of trains it needs to schedule over CP6. Furthermore, as the network becomes busier and more complex, the SO estimates that it will take around a minute longer to schedule each train, amounting to 175,000 hours of additional work over CP6 (using current methods of timetable planning). It therefore proposes to strengthen its timetable planning function substantially to meet this challenge, to provide additional resilience in responding to emerging events and to reduce the number of delays caused by errors in the timetable. In total, the SO's strategic plan includes an additional £24m across the control period to reinforce the timetabling team.

56. In addition to this increased complexity, there are also some areas where stakeholders have said they would support additional funding to the SO in return for improvements in its performance or service provision[18]. Reflecting this, the SO's strategic plan provides for:

- further reinforcement of its timetable planning team so that it is able to manage unexpected events better and look further ahead when planning timetables (at an additional cost of £4m);

- improved quality of advice that it provides in relation to managing changes to the network. This includes reinforcing its analytical capabilities (£12m additional) and increasing its role in supporting franchise authorities (£2m). There are also some costs associated with the SO's role in integrating HS2 (£2m) and in delivering the Scottish HLOS requirement of a 'whole system client' (£2m);

- cost increase (£2m) to reduce its current vacancy gap from 2.2% to 1.2% during CP6. A larger organisation requires additional training and IT costs (£3m); and

- new external governance structure that has some small additional costs (£1m). The SO also proposes to strengthen its internal project management capabilities to deliver its capital investment projects (£2m).

57. We think the additional costs in each of these areas are justified and, accordingly, we consider that the SO's pre-efficient operational costs of £223m are justified (we discuss the efficiency targets applied to the SO below).

Efficiency and 'chargeable' work

58. In its plan, the SO said it could realise efficiencies of 5% of its total costs, mainly through the application of continuous improvement to its activities. This is substantially more ambitious than other central functions within Network Rail. The SO has argued that this target is achievable because it is only recently beginning to implement focussed continuous improvement, unlike some other central functions. Whilst the SO's predecessor organisations have had a mixed record on realising efficiencies, we will hold the SO to this five per cent target.

59. We therefore consider that the SO's efficient operating expenditure of £211m is broadly justified, as set out in its strategic plan.

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[18] It is worth noting, however, that Transport Scotland said that more of the SO's current functions should be undertaken at by the Scotland route.

60.   The SO's operational expenditure profile is relatively flat across CP6, reflecting the broadly consistent nature of its work[19]. However, the SO is proposing a substantial increase in Year 1 of the control period, particularly the expansion of the timetable planning team, and it is making efforts now to recruit these roles. In line with the rest of Network Rail, we expect the SO to have some ability to move its funding between years, and we would expect it to carry funding forward if it was unable to fully occupy its organisation chart in year 1.

61.   The SO also undertakes substantial amounts of work that it charges directly to enhancement projects, particularly in the early development stages. In line with our broader approach to PR18, this work associated with enhancements is not included within the SO's settlement or subject to our review. However, we have been assured that possible fluctuations in the capitalised work bank do not endanger core activities (such as strategic planning).

The SO's capital expenditure

62.   The SO proposes to spend £61m in capital expenditure over CP6, of which £55m is for capacity planning systems. However, there is considerable uncertainty associated with the SO's capital spend, as its portfolio of projects is at a very early stage of development, and their outputs and costs are not yet confirmed. Furthermore, Network Rail does not have a good record of delivering large scale technology and change programmes in timetabling (most notably, we found against it in 2010 as a result of its flawed introduction of the Integrated Train Planning System[20]).

63.   However, there has been strong and consistent stakeholder support for the SO to invest in its technological capability. To deliver these improvements, the SO will need to manage its programmes as an investment portfolio. To provide assurances that the SO is well equipped to deliver its capital expenditure programme in CP6, we jointly commissioned (with Network Rail) an independent reporter study, undertaken by Nichols, to consider whether the SO's processes and controls for capital expenditure are suitably robust[21].

64.   Nichols found that there is already a good foundation of processes and controls for the effective management of the SO capital expenditure programmes for CP6. However, Nichols recommended that some improvements should be made readiness for the commencement of CP6.

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[19] This does not refer to the chargeable work the SO undertakes on funded projects, the volume of which is likely to be less steady.

[20] More information on this past investigation is available on our website, see here.

[21] Nichols' *Review of Network Rail System Operator CP6 processes and controls for investment decisions relating to capex spend* is available here.

65. In light of this, we therefore require the SO to meet the key recommendations of the report, specifically that:

- **the SO should clarify and strengthen the level of relevant industry representation in the development and delivery of the CP6 SO capital expenditure programmes**;

- **building on the good foundations already in place, the SO should further clarify and strengthen its processes and controls for capital expenditure programmes; and**

- **the SO should improve its resource management across its capital expenditure portfolio, including in relation to relevant financial contingency.**

66. To provide an audit trail of the SO's actions implementing these improvements, we require it to produce an action plan of how (and by when) it will address each of the recommendations by 31 August 2018, and to provide a statement on its progress against this plan in the SO's first annual narrative report.

67. Throughout CP6, we also require the SO to report on its capital expenditure and the progress it is making on its capital programmes through its scorecard and in its annual narrative report. This should also include its progress in implementing Nichols' recommendations. In addition, the SO's delivery plan, which Network Rail will publish in March 2019, should set out forward looking milestones and forecast benefits for each of these projects, once defined.

68. We therefore consider that the SO's proposed capital investment portfolio is justified, and we have included its capital expenditure of £61m in its efficient cost.

Our conclusions on the SO's efficient costs

69. Following our review, we conclude that the efficient cost for the SO is £272m (comprising £211m operational expenditure and £61m capital expenditure).

70. In calculating the SO's revenue requirement below, we have also included the central costs (including renewals and industry costs) that have been allocated to the SO through the financial framework in a consistent manner with the routes. This leads to a total revenue requirement of £355m, which is subsequently allocated to the route businesses. For this reason, many of the lines on this table are not applicable. The detail of this is included in Table 1 on the following page.

Table 1: Summary of our CP6 expenditure and income assumptions for the SO

£m (2017-18 prices)	CP5 total	CP6					
		Total	2019-20	2020-21	2021-22	2022-23	2023-24
SO support costs[22]	116	211	41	42	43	43	42
Central support costs[23]	0	37	8	8	7	7	7
Operations	0	0	0	0	0	0	0
Maintenance	0	1	0	1	0	0	0
SO renewal costs[24]	29	61	8	12	21	13	6
Central renewal costs[25]	0	14	3	3	3	3	2
Schedule 4&8	0	0	0	0	0	0	0
Industry costs and rates	0	14	3	3	3	3	3
Route controlled risk funding	0	5	1	1	1	1	1
Route contribution to group portfolio fund	0	13	1	2	3	3	4
System Operator[26]	(145)	(355)	(65)	(71)	(81)	(73)	(65)
Gross revenue requirement	**0**	**(0)**	**(0)**	**(0)**	**(0)**	**(0)**	**(0)**
Other single till income	0	0	0	0	0	0	0
FNPO recharge	0	0	0	0	0	0	0
Net revenue requirement	**0**	**(0)**	**(0)**	**(0)**	**(0)**	**(0)**	**(0)**
Recovered through							
Variable charges	0	0	0	0	0	0	0
Fixed charges / Network Grant	0	0	0	0	0	0	0
Total SOFA related income	**0**	**0**	**0**	**0**	**0**	**0**	**0**

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[22] These are the SO's operating costs, which are discussed in this settlement document.

[23] This reflects the operating costs of other central functions which are allocated to the SO.

[24] This is the SO's capital expenditure investment, which are discussed in this settlement document.

[25] This reflects the capital expenditure costs of other central functions which are allocated to the SO.

[26] This reflects the fact that the SO's costs are fully charged to the routes.

Our assessment of the SO's proposed governance and reporting arrangements

Our assessment of the SO's proposed stakeholder governance arrangements

71.   Effective governance is particularly crucial for the SO, given its wide range of customers. In particular, these governance arrangements must support the SO in performing its functions in an impartial, expert and transparent manner. The SO needs to act in the best interests of the system as a whole, favouring neither operators nor Network Rail in its decision making.

72.   As discussed above, the SO has proposed new external governance arrangements to support these objectives. We welcome the SO's proposals in this area and require it to follow through on these plans. Its approach should enable us to rely on the external governance arrangements in the way we monitor the SO's performance in CP6.

Our assessment of the SO's proposed reporting arrangements

73.   We have worked with the SO and industry over the past two years to help develop measures of the SO's performance. There are currently only a limited number of measures, reflecting the fact that, to date, there has been relatively little focus on the SO's reporting. Our work has included two consultations looking at how the SO's performance can best be measured:

- ◼ in 2016, and as part of consulting on the SO's CP6 regulatory framework, we made some high level suggestions on possible measures of the SO's performance[27]; and

- ◼ in July 2017, we undertook a more narrowly focussed consultation on possible measures of the SO's performance, in order to support industry's discussions on the development of the SO scorecards[28]. In general, stakeholders indicated they were supportive of having a comprehensive range of measures of the SO's performance, that there was a need to measure the quality of the SO's delivery and that there is a need for qualitative reporting to complement the SO's scorecard.

74.   Taking account of our work and stakeholder feedback, we consider that the SO's proposed reporting meets the requirements for scorecards set out in our July 2017

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[27] Our 2016 consultation on the *Development of the regulatory settlement for the Network Rail national system operator in CP6* is available here.

[28] Our 2017 consultation on *Possible measures of the system operator's performance* is available here.

consultation on the overall framework for regulating Network Rail[29]. Specifically, we consider:

- that the SO's proposed scorecard is 'balanced', because it reflects the full range of outcomes that it is expected to deliver and the range of its stakeholders' interests;

- that while there will be only limited comparability between the SO's performance and the routes' performance as set out in the scorecards, the SO's tier 3 scorecards enable comparison between the service the SO provides to the different routes; and

- across the tier 1 scorecard, the tier 2 Scotland scorecard and the proposed annual narrative report, we consider that the SO is able to demonstrate whether or not it is meeting the requirements of the Scottish Ministers' HLOS. However, we note that the development of the relevant measures and targets is in progress.

75. In line with this, we do not propose to set any regulatory minimum floors[30] for the SO, as we consider that to do so would potentially create perverse incentives to focus on some aspects of its operational model at the expense of others. Stakeholder responses to our July 2017 consultation supported this approach. However, this would not preclude us investigating any issues relating to the SO's poor performance, where we consider it appropriate to do so. We will take the trajectories defined in the SO's strategic plan as the baseline against which we will report the SO's performance in CP6[31].

76. However, we do expect the SO to take forward two (albeit less significant) changes to its CP6 SO's scorecards:

- to express the target for the SO's Financial Performance Measure in a way that is consistent with the routes (i.e. +/- from £0); and

- to define all measures on the scorecards in advance of CP6. This is important to enable stakeholders to interpret them in a meaningful way. While the SO's strategic plan went a good way towards this, some further work is required.

77. We recognise that the measures on the SO's scorecards will evolve over CP6. Reflecting the SO's key role in providing services to the entire industry, we would

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[29] Our 2017 consultation on the *Overall framework for regulating Network Rail* is available here.

[30] Regulatory minimum floors refer to the level of a measure at which we would be highly likely to consider a formal investigation against Network Rail – in CP6 we are applying a floor to the train performance and asset sustainability measures on the route scorecards.

[31] Most clearly, this will apply to the 502a trajectories. If the SO considers that circumstances have materially changed rendering these forecasts irrelevant, it can adjust them through the managing change process.

expect it to engage with its stakeholders on possible changes to the scorecards using its new external governance framework, especially where changes are likely to have a significant impact on stakeholders. The Advisory Board will have a formal role in challenging and advising the SO on its annual scorecard. This would complement any wider and/or bilateral engagement the SO could undertake in engaging on changes to its scorecards. Where stakeholders have material concerns relating to changes in the scorecards, we would expect the SO to propose that this be considered as part of the managing change process[32].

78.   Whilst we acknowledge that measuring the SO's performance is not easy, we consider that there are opportunities to develop more meaningful measures of the SO's performance during CP6. We expect that the tier 3 route level scorecards could be used to trial measures that might be used more widely in the future.

79.   Furthermore, the SO's new annual narrative report will be a key element of its reporting. It gives the SO the opportunity to discuss the quality of its work and aspects of its performance which cannot be measured quantitatively. Stakeholders have expressed strong interest for this. To ensure the report is sufficiently comprehensive we require that the SO formally agrees the content of its annual report with its Advisory Board.

80.   The SO also owns various frameworks which the routes have to work in accordance with, for instance on planning engineering access or in complying with the Network Change process. There may be a value in the SO reporting on routes' compliance with SO-set frameworks and guidance.

Our draft settlement decisions

81.   We consider that this settlement gives the SO the efficient resources it needs to meet the commitments it has set out to its strategic plan, to meet the requirements of both governments' HLOSs and to continue on its transformation to become the recognised expert for rail system operation analysis. We therefore consider the SO's efficient cost of £272m are justified. However, it is crucial that the SO is able to effectively demonstrate the success of its delivery, its value for money, and its ability to provide independently minded advice and decisions.

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[32] We set out our policy in this area in our supplementary document, *Working Paper 8:Managing change affecting the PR18 settlements – Conclusions* – it is available here.

82. We therefore require[33] the SO to deliver the following commitments that it has made in its CP6 plan:

- **report on its performance through the (national) tier 1 scorecard, as well as the tier 2 (directorate level) and tier 3 (geographically disaggregated) SO scorecard structure**. The SO should also set out what each measure means (e.g. what data it is based on) so that its stakeholders can interpret what the scorecards are saying about the SO's performance;

- **produce and publish an annual narrative report to explain those elements of its performance that do not lend themselves to scorecard reporting**, and to reflect on the quality of its service and areas for improvement. To ensure the report is sufficiently comprehensive we require the SO agree the content of its annual report with its Advisory Board; and

- **embed the external governance framework as set out in its strategic plan to enable stakeholders to influence the SO's priorities and, where necessary, to challenge its performance**. These governance arrangements should support the SO's objectives of being impartial, expert and transparent.

83. In addition, we are also requiring the SO to:

- **lead the development of a plan for journey time improvements**, working with other parts of Network Rail (including the Scotland route and the Freight and National Passenger Operator (FNPO) route) and with industry, which meets the requirements of the Scottish Ministers' HLOS[34]. The SO must also work in cooperation with the Scotland route to implement the plan;

- **implement the recommendations from the Nichols' review of the SO's capital expenditure controls and processes,** which we commissioned jointly with Network Rail to provide assurance that these controls and processes can enable the SO to deliver £61m of proposed investment in its systems. To support this, we also require the SO to produce an action plan of how (and by when) it will implement each of these recommendations by 31 August 2018, and provide a statement on its progress against this plan in the SO's first annual narrative report; and

- **take account of lessons learnt from the May 2018 timetable change**, including our ongoing investigation into Network Rail's role and our wider

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[33] These requirements could be subject to change during the control period - if the SO develops a more appropriate method of engagement and reporting through discussions with its stakeholders, then we would not block those improvements.

[34] Those requirements are to deliver a Scotrail minutes per mile target of 1.587 by December 2019 and 1.576 by December 2024 and a freight speed increase of 10%, by December 2024.

inquiry into why the system as a whole failed to produce and implement an effective timetable.

84.   This proposed settlement and our approach to regulating the SO should support industry's desire for an expert, transparent and impartial SO that acts in the best interests of the system as a whole, favouring neither operators nor Network Rail in its decision making.