Update on Outputs Framework

Next steps following Working Paper 4

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Introduction

1.1 This document identifies emerging thinking and next steps following our publication of working paper 4: Outputs Framework[1] (issued July 2016) and subsequent discussions with the industry including via working groups led by the Rail Delivery Group (RDG)[2]. It draws together various strands of thinking that will inform our forthcoming Overall Framework consultation document in summer 2017.

1.2 Working paper 4 (WP4) set out our initial position in relation to the requirements that Network Rail must deliver in control period 6 (CP6). We received ten responses and these have been published on our website, together with a summary which is appended to this document. We would like to thank all those who responded.

1.3 Since publication of the working paper, we have provided updates on our emerging thinking on our approach to CP6 requirements in the following publications:

- conclusions on the initial PR18 consultation[3];

- November 2016 system operation consultation[4];

- our guidance to Network Rail on its strategic business plan[5].

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[1] The working paper on the outputs framework (working paper 4) is available here.

[2] The ORR notes of the RDG Outputs working group (July – December 2016) can be found here. Since January 2017, Outputs items are now covered at the RDG Route-level regulation, charges and incentives working group. The ORR notes of these meetings are available here.

[3] The conclusions on the PR18 initial consultation document, comprising a letter and summary of comments with ORR's response, is available here.

[4] The November 2016 system operation consultation document is available here.

[5] The guidance to Network Rail on its strategic business plans is available here.

1.4   A number of significant questions remain to be answered in relation to what requirements will be placed on Network Rail in CP6, particularly in the context of more customer-focused scorecards at both route and system operation level. This document outlines our emerging position and sets out next steps. This is intended to support on-going engagement with stakeholders, as policy in this area develops.

The emerging approach to the outputs framework

1.5   The first half of WP4 addressed structural issues in relation to the outputs framework. It explained the role that regulated outputs have played in recent control periods, what the changes in context have been, and what this might mean in terms of the requirements we set for Network Rail in CP6. In particular, we noted that the introduction of customer-focused route-level scorecards for 2016-17 was a key change in context that would impact on CP6. We also set out how outputs could work within our new approach to route-level regulation and a more targeted approach to regulating the national system operator.

1.6   In general, the responses to WP4 welcomed the principles that we had set out in relation to the outputs framework.

1.7   Following publication of the working paper, discussions with stakeholders – notably in the RDG working group – have highlighted the importance of establishing a clear relationship between scorecards and the requirements that Network Rail must deliver in a control period for the funding it receives.

1.8   Network Rail introduced customer-focused route scorecards for financial year 2016-17, and it has developed these further for 2017-18 (this time with earlier and greater customer engagement). It has yet to establish a scorecard for the national system operator (NSO). At this stage, the industry's experience and impact of customer-focused scorecards – in terms of their development, their use to assess Network Rail's progress, and their effectiveness as a tool to focus and deliver improvement – is still in its early stages.

1.9   What scorecards look like in CP6, their status and the status of the various measures on them are core questions we are seeking to address in our forthcoming Overall Framework consultation.

Incorporating scorecards in outputs policy

1.10   Scorecards could play an important role in how we assess Network Rail's delivery in CP6. Our overarching principles for policy development in this area are that:

■   we support the movement towards closer alignment between Network Rail and passenger and freight operators, to the extent that this benefits end users;

- this needs to be done in a way that builds on the positive incentives in place in the industry; and

- our policy must protect against situations where arrangements between Network Rail and operators do not reflect the best interests of current or future passengers (e.g. at the end of a franchise), freight end users, the long term sustainability of the network, or any other area covered by our wider statutory duties.

1.11 Against this background, and reflecting on our recent discussions with stakeholders, we have set out some emerging views on the role of scorecards and how they could support the regulation of Network Rail.

1.12 We consider that scorecards have two equally important purposes in CP6:

- to provide a clear line of sight to, and alignment between, Network Rail and its customers (both current and future); and

- to enable comparison and promote a sense of competition between routes to perform well.

1.13 Scorecards should also be more balanced in CP6, representing the interests of funders, and current and future customers and end users.

1.14 In respect of how requirements and metrics are set and reflected in the regulatory determinations:

- **requirements agreed by Network Rail, customers and stakeholders should continue to be the main focus of scorecards, with ORR requiring further measures to either underpin the customer requirements in key areas (such as network performance) or to meet other regulatory objectives .** If scorecards are successfully embedded as an effective tool for Network Rail, its customers and wider stakeholders, then scorecards could also include some (or possibly all) of Network Rail's regulated requirements for CP6. This means that scorecards capture most (or all) of the metrics and targets that Network Rail is required to deliver during CP6. In holding Network Rail to account in CP6, ORR could then first look to scorecards, and also more closely at specific measures on the scorecard as appropriate, whether these are ORR-led requirements or customer-led requirements;

- **we will require some metrics for the purpose of supporting comparison and competition between routes (and potentially with the NSO).** These should appear on scorecards and might supplement and underpin – rather than replace – customer-agreed metrics;

- **we will also require some metrics to ensure that scorecards are balanced;** This is so that scorecards reflect both current and future users – this may be where Network Rail-customer/stakeholder agreement is unlikely and/or risks not adequately representing the long-term interests of end users. It is likely that we will need to set some high level requirements for Network Rail for CP6, for example, in relation to safeguarding the long term sustainability of the network;

- **some measures may need to be forecast over the five-year control period to give funders clarity on what they are buying.** We expect there to be a process of reviewing and updating customer-led scorecard measures and targets during CP6, in response to changing circumstances and customer priorities. **the approach taken may vary between routes and across different metrics/outcomes.** The incentives on customers and Network Rail will vary across routes, over time and between each type of metrics/outcomes. Reflecting this, the potential for customer agreement to reasonably reflect end-users' interests may vary significantly. This may lead to ORR adapting its role across routes and across metrics/outcomes, meaning that we take a different role in different circumstances; and

- **requirements will be set at route level (including the Freight and National Passenger Operator route (FNPO)), for the NSO and could be needed for certain other Network Rail functions.** While our focus is on Network Rail's routes and the NSO, we may also consider it appropriate to set requirements for other parts of its organisation. This will depend on any specific concerns we have following review of Network Rail's strategic business plans (SBPs) and where Network Rail determines accountability for a particular activity should lie.

1.15 We have also been considering how our on-going **monitoring and enforcement** roles might adapt to incorporate the scorecard process. In this respect, our emerging views are that:

- there should be a balanced set of requirements for Network Rail to deliver against and to support monitoring and enforcement;

- some of these requirements could be set through Network Rail-customer/stakeholder negotiation, in which case we would put appropriate weight on performance against these agreed requirements when assessing Network Rail's performance and its compliance with its licence;

- other requirements may be made by us, to enable in particular a consistent view across routes; and that

- ideally all of the CP6 requirements would be captured in scorecards, reflecting a mix of customer/stakeholder-agreed requirements and some set by ORR.

1.16 Finally, scorecards are one part of a wider picture of what and how Network Rail delivers to its customers, funders and wider stakeholders. In particular, we envisage that scorecards would be supported by both the annual business planning process and **action plans**. This architecture is effectively in place in some areas – such as performance strategies which should align with the performance sections of the scorecards, or the enhancements delivery plan, which sets out the key milestones for each major project, programme and fund. We consider that Network Rail needs to articulate carefully how scorecards fit within the wider context of its plans and strategies and, in particular, how they fit within safety legislation.

Specific requirements – emerging view

1.17 The second half of WP4 set out our thoughts on what requirements we might make for specific targets in CP6. We have not reiterated the background behind each area. The specific measure and requirements will of course be informed by requirements in the high level output specifications (HLOSs) set out by funders.

1.18 As set out earlier, we expect to set some requirements for Network Rail routes (including the FNPO) and the NSO. Following our assessment of Network Rail's SBPs, there might potentially be areas of concern where we may feel it appropriate to set an additional requirement outside of a scorecard or for a different part of Network Rail's business (e.g. at the corporate level or for Investment Projects).

Transparency

1.19 We expect Network Rail to continue to make management data available to us: agreed *ex ante* and on an *ad hoc* basis as appropriate. We expect to specify and request certain information via the data protocol arrangement with Network Rail where possible, or by relying on our information powers in situations not envisaged by the data protocol. We are currently working with Network Rail to update the data protocol so that it is appropriate for a route-devolved model.

1.20 Transparency was raised as an issue by two respondents to WP4. We expect to continue to publish appropriate sets of data to fulfil our role as a producer of Official Statistics. This will continue to be via our statistical releases and tables on our data portal. The data supplied to us from Network Rail and other industry bodies that we then publish enables external users to make their decisions based on appropriate, high quality and trusted data.

1.21 Depending on new data requirements agreed for CP6 monitoring, there may be a need to change the statistics we publish to be in line with what is being used within the industry (e.g. any new CP6 performance metrics, or more disaggregation of data by route). As the data will already be supplied to ORR for regulatory purposes, we do not expect there to be an additional burden placed on Network Rail. We will

consult with users of our statistics and stakeholders before implementing any changes. This process meets the requirements of the user engagement protocol of the Code of Practice for Official Statistics.

Specific requirements

1.22 In terms of progress in other areas, this is summarised belowin the format outlined in our working paper, including indications of what, at this stage, we consider will be likely to be required.

Network themes

Health and safety

1.23 We do not expect to set 'regulated requirements' for safety, unless there are any additional requirements over and above existing legislative requirements from funders in their HLOSs. We will need to satisfy ourselves that the incentives on Route Managing Directors are appropriately balanced in terms of safety. Network Rail may choose to include safety measures on scorecards and for this to play a role in how it discharges its compliance with safety legislation.

Sustainable development

1.24 Again, as set out in WP4, we do not currently expect to set regulated requirements for sustainable development or environmental issues, unless there are any additional requirements over and above existing legislative requirements included in the HLOSs.

1.25 As set out in our PR18 initial consultation conclusions document, in respect of environmental sustainability we have a statutory duty to contribute to the achievement of sustainable development and will continue to discharge that duty in PR18. We also recognise that the Department for Transport (DfT) and Transport Scotland have each said that they have an objective in this area. Reflecting this, the main means in PR18 for supporting sustainable development is with Network Rail's plans for CP6, and for these to reflect any sustainable development objectives set out in each of the governments' HLOSs.

1.26 Furthermore, Network Rail's planning assumptions for its SBPs refer to the Rail Sustainable Development Principles, and also set out sustainable development metrics which its routes and business units will need to take account of when producing their plans.

Network activity

Network operation

1.27 In November 2016, we consulted on the development of a regulatory settlement for the NSO in CP6[6]. This consultation has now closed. This document set out our decisions on some aspects of the regulatory framework for the Network Rail NSO, as well as aspects of the separate settlement for the NSO, on which we sought views. It included a set of proposals for measures relating to the NSO's operational performance (including possible regulated requirements).

1.28 These measures could: form part of the NSO scorecard (which Network Rail intends to have in place for the beginning of CP6); feature in wider monitoring and reporting requirements we set for the NSO; and/or be used to set specific 'outputs'. We will continue to work closely with Network Rail and industry to help develop these measures.

1.29 Our initial thinking is that:

■ some measures will need to be capability-based, to capture the improved capabilities and/or skills of the NSO (as it is difficult to measure some of the outcomes that the NSO has delivered); and

■ the NSO scorecard will need to reflect the NSO's performance with respect to each of its stakeholders, including its support for long-term planning and funders' enhancement decisions.

1.30 The NSO will need to engage with its customers and stakeholders in the development of the measures and in reporting on them, and to demonstrate how it is doing that.

1.31 Network Rail is developing a separate strategic plan for the NSO and plans to discuss this formally with stakeholders in late spring 2017.

1.32 We will publish further thinking on the NSO measures in summer 2017 and will continue to engage with stakeholders in this area, including through the RDG system operation working group.

Asset management

1.33 It is important to maintain the long term sustainability of the network, particularly in light of the overall constraints on public sector spending, and to understand the impact of decisions to defer renewals activity.

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[6] The system operation consultation document is available here.

1.34 Reflecting this, we are interested in ways to ensure that Network Rail can assess the impact of different ways of balancing renewals and maintenance activity. This might take the form of an assessment of the financial impact (relative to the minimum whole-life cost approach) associated with deferred renewals, or a sustainability measure. We are developing an approach in this area which we are discussing with Network Rail, and will discuss with the RDG route regulation working group, ahead of wider consultation.

Enhancements

1.35 We will set out a summary of the responses to working paper 5[7] on enhancements shortly.

1.36 The extent to which the HLOSs will include committed enhancements is unclear, although we expect that both DfT and Transport Scotland are likely to adopt a "pipeline" approach to enhancements. A clear change control process needs to be developed to reflect situations where a commitment is made during CP6 to deliver an enhancement from the pipeline.

1.37 However, if we do need to set requirements as part of our final determination, or indeed as part of a pipeline approach to enhancements, these need to be realistic, meaningful and challenging for Network Rail. These should be based around meaningful milestones (e.g. Entry Into Service) and not arbitrary dates (i.e. simply the end of the control period).

1.38 The process for managing the pipeline is emerging between Network Rail and its funders. We will take a position on requirements once we have a better understanding of how non-HLOS enhancement programmes and projects will be commissioned and once we have had sight of the extent to which enhancements are included in either of the HLOSs.

1.39 In any case, regulated requirements are likely still to be milestone-based as for control period 5, but could be focused on different points in the project lifecycle.

Network deliverables

Network performance

1.40 We note that a key aim of the introduction of scorecards is to align more closely the requirements of operators and Network Rail. Although scorecards are broader than performance, this is inevitably a significant area of focus, and many of the measures on the "locally driven" section of the scorecard (or on the second level "customer scorecards") also reflect performance focused measures.

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[7] These will be published on our website here (note – due to purdah restrictions at the time of publication, these will be made available after the end of purdah in June 2017).

1.41 Our policy in this area will be informed by what the respective governments stipulate in their HLOSs, and also the development of the role of operators in setting targets with Network Rail, including the extent to which it is appropriate for an operator to set a suitable target with Network Rail. We are clear that there are situations where other parties will to be involved in setting targets, for example, where an incumbent franchisee is in the last year of its franchise, it may be appropriate for the franchising authority to be involved in establishing a target.

Network performance – passenger

1.42 To support our increasing focus on regulating each of Network Rail's route businesses and to enable comparison and competition between routes – we expect Network Rail to include at least one performance measure which is consistent across all routes on its scorecards to support comparability.

1.43 In addition, we are exploring options for how requirements agreed between customers and Network Rail might complement measures set by ORR for comparability purposes. In this regard, we are considering whether there would be benefits to ORR setting a minimum performance level – or performance 'floor'– which might act as a backstop for performance levels, in the expectation that customer-led measures and targets would provide the principal way to encourage appropriate levels of performance.

1.44 In this approach, failure to meet or exceed the performance floor would typically trigger an investigation under Network Rail's licence. We are discussing separately with Network Rail and the RDG working group how this might work in practice.

Network performance – freight

1.45 In their responses to WP4, and also our initial PR18 consultation document, a number of parties including Freightliner, RDG and First Group supported our proposal to retain the Freight Delivery Metric (FDM), which had been developed by the freight industry for CP5.

1.46 The current CP5 route scorecards contain a route-apportioned FDM for failures over the FDM threshold within a route (this is known as FDM-R). The strength and effectiveness of the relationship between the FNPO route and the geographic routes remains to be proven, and this is likely to affect our decisions in relation to any route freight performance measures. Again we will discuss the approach with the RDG route regulation working group.

Network availability

1.47 We recognise that there are issues with the current measures in this area (the Possession Disruption Index for Passenger and Freight – PDI-P and PDI-F

respectively). Availability of the network remains an important area of focus and is one of our six key outcomes for Network Rail to deliver in CP6.

1.48 Europe Economics (EE) has conducted some analysis in this area to help develop our thinking further in this area. EE considered that industry planning processes and the role of Schedule 4 appear generally strong. However, these are focused on Network Rail's immediate customer rather than explicitly taking into consideration the end user impact. We do not think it is appropriate to continue with the current PDI measure in CP6 as we do not consider that this is currently driving a focus on managing the impact of possessions on passengers and freight end users.

1.49 However, it is important that we continue to provide regulatory focus in this area to keep the interests of end users at the forefront and we are examining ways that this could be achieved. These options include an explicit licence condition, a more general 'output' requirement, on-going monitoring of lower level measures or an improvement programme. We expect routes to set out their processes and plans for ensuring that the network remains open for business, and ideally this should be reflected on scorecards or associated action plans.

Network capacity

1.50 Capacity remains an important issue for the GB rail network. There are two particular issues here: whether Network Rail is delivering as much capacity from the physical network as possible; and whether that capacity is being put to the best use in terms of balancing passenger and freight volumes, reliability and engineering access.

1.51 TRL Ltd has conducted some analysis for us based on our four definitions of capacity (Notional Capacity, Plannable Capacity, Capacity in Use and Throughput) which we set out in our August 2015 system operation consultation[8]. This work was undertaken to explore the potential for capacity measures.

1.52 This work has identified one broad way of measuring how effective Network Rail is in taking the physical network and turning this into capacity that can be put to use. This would compare a measure of Notional Capacity (roughly, the maximum throughput under ideal and highly stylised conditions) with a measure of the maximum throughput achieved on the network, referred to as 'Capacity in Use'. The changes in the ratio between the two metrics could be informative. In particular, an increase in the proportion of Capacity in Use could provide strong evidence of improvements in timetabling, timetable planning rules or other factors impacting on how much capacity is delivered from the network. The level of the ratio itself would not, however, be particularly informative, as there is no 'right' level for this measure.

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[8] August 2015 consultation is available at the bottom of the page on System operation in control period 6 (CP6).

1.53 Further work by Network Rail would be needed to implement this metric across the network. We also need to consider whether such a measure is likely to improve the NSO's performance and outcomes for customers and end users. As a first step, we have asked Network Rail to investigate the resources that would be required in developing these measures, to allow us and industry to understand whether the benefits would be sufficient when compared with the costs.

1.54 However, we will not be able to set a specific regulatory requirement based on these metrics for CP6. We remain interested to understand the benefits of reporting such measures and whether we should introduce regulatory requirements to encourage Network Rail's continued development of metrics in this area. Detailed discussion on this is being taken forward within the RDG system operation working group. We are also interested to see what capacity measures Network Rail and its stakeholders may select for scorecards.

Network capability

1.55 There is evidence that some of the network capability issues we have seen in the past are recurring, for example changes to the network being carried out without the appropriate consents in place. This reinforces the need for us to retain a focus on the capability of the network. As set out in our working paper, we expect to take a similar approach to network capability as we have done in CP5 and this could be either an output or a more explicit licence requirement.

Asset condition

1.56 We expect to continue to receive Network Rail's management data for assets but will await review of the SBP before determining whether there will be any requirements for specific assets. This will be in line with our approach to asset management and sustainability of the network.

Financial performance

1.57 Our January 2017 consultation on the financial framework for PR18[9] contained further detail on our proposals to include a financial performance or efficiency target, and we continue to work with Network Rail in this area. We will consider the responses to this consultation and provide an update in our July 2017 consultation on the overall framework for CP6 and our September 2017 update publication on the financial framework.

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[9] See page 66 of the consultation document on the financial framework for PR18.

Network outcomes

End user experience

1.58 We welcome the inclusion of passenger satisfaction (as measured by the National Rail Passenger Survey – NRPS) on scorecards. As suggested in WP4, this is not an area where Network Rail is likely to have sufficient control for this to be set as a specific regulatory requirement. However, we are keen that Network Rail retains focus on end users, and for this to be reflected on scorecards. This could take the form of satisfaction (measured by the NRPS), end user revenues (passenger and freight revenue) or end user volumes. This would be an area that we would be likely to take into consideration in our wider view of the role of scorecards within the wider regulatory framework.

TOC/FOC customer experience

1.59 We noted in our working paper that Network Rail had made some progress in developing its customer service maturity model during CP5, but that it had ceased to carry out its annual customer satisfaction survey (which was an integral part of that customer service maturity model). The responses to WP4 from Network Rail's customers were largely neutral in this area.

1.60 While route scorecards give some indication of Network Rail's delivery to its customers, it can only cover a limited number of areas, and only measures what has or has not been delivered, rather than the customers' satisfaction with that. Even if Network Rail were to deliver in all the areas on the scorecard, its customers could continue to have other material concerns. We note that routes are taking a variety of approaches to customer satisfaction, with some including pulse check measures on scorecards. We think it is important that Network Rail continues to focus on its wider customer satisfaction and how this can be measured possibly to facilitate comparison between routes.

Next steps

1.61 We will continue to work with a wide range of stakeholders to develop further our thinking on key areas of policy on both how requirements and scorecards relate to each other, and will also share our development of individual metrics.

1.62 We will be issuing a consultation in summer 2017 on the overall framework for route-level regulation in CP6. This will provide further detail on the areas discussed in this paper, including on the relationship between scorecards and our regulatory outputs framework. It will also set out our views on the core set of measures to support our PR18 objectives of route level regulation and regulation of the NSO. We expect to issue a supporting document with further detail on specific measures.

1.63 In the meantime we welcome any further engagement with stakeholders on the issues outlined above or any additional points you may wish to raise. Please contact our policy lead in this area:

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Appendix

Summary of responses to Outputs Framework Working Paper 4

Introduction

1. This document is a summary of stakeholder responses to ORR's June 2016 *Working Paper 4: Outputs Framework*. Working Paper 4 (WP4) was part of a series of working papers to support our policy development for the 2018 periodic review of Network Rail (PR18). We sought views regarding setting the design and nature of the outputs Network Rail will achieve in control period 6 (CP6) and the priorities for PR18 in relation to outputs.

2. We received 10 responses to WP4 from a range of organisations including train operating companies (TOCs), industry bodies and government. Table 1 lists all respondents to this consultation.

Summary

3. In general, the responses to WP4 were supportive and welcomed the proposed approach to the outputs framework. Most of the stakeholders agreed with setting separate requirements at system and route level.

4. However, some stakeholders (DfT, Network Rail and RDG) suggested that the outputs framework should be made more flexible to respond to the reforms under consideration and varying customer requirements over time or changes in Network Rail's geographic routes.

5. Most stakeholders did not approve of the practice of imposing fines on Network Rail as they believe that such fines are ineffective and inappropriate. They instead suggested use of reputational incentives and remedial plans to tackle the problem of potential non-compliance.

Principles for a CP6 outputs framework

6. Most stakeholders agreed with the principles set for the outputs framework and the high level outcomes which are to be delivered by Network Rail.[10] However, some stakeholders provided suggestions and proposed improvements regarding the outputs to be achieved in CP6, their alignment with Network Rail's route and system operation and the overall flexibility and transparency of the outputs framework.

7. Arriva argued that outputs should be disaggregated and aligned with Network Rail's route and system operation structure. The Welsh Government also argued that outputs should be disaggregated geographically.

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[10] High level outcomes for Network Rail are a network that is more efficient, better used, expanded effectively, safer, available and reliable.

8.   The Welsh Government further recommended that ORR should take into account the Welsh Government's plans for the South Wales metro area along with Network Rail's Wales's route area. It also suggested incentivising Network Rail to improve the resilience of the network when carrying out maintenance.

9.   Two respondents stressed the need for the outputs framework to support greater transparency and less complexity in terms of performance, output and data collection. According to the Freight Transport Association, freight performance should be made transparent through the publication of freight performance measures along the lines of the Freight Delivery Metric (FDM). The Urban Transport Group suggested that ORR should move towards a more open data approach with greater emphasis on collaboration and transparency. It further stated that ORR's objective of simplifying and limiting complexity is not best achieved by concentrating on a few high level national outputs.

10. Transport Scotland, DfT and Network Rail emphasised the importance of having a flexible outputs framework. Transport Scotland stressed that the outputs framework must be flexible enough to reflect the broad policy objectives and distinct markets served by Scotland's railways.

11. DfT stated that the framework for CP6 must be flexible enough to respond to other reforms currently under consideration. It suggested that the best way to achieve this is by holding Network Rail's routes and central functions accountable for delivery of outcomes to customers and funders rather than micromanaging specific inputs. Network Rail believed that that the outputs framework should be more flexible so as to be able to respond to the possibility of changing customer requirements.

12. Most stakeholders were supportive of the key objectives of CP6. Network Rail thought a more significant reform to the regulatory framework was necessary in order to support deeper devolution and an increased focus on customers.

13. Network Rail stated that the number of CP6 outputs should be limited to key priorities and proposed to work with ORR ahead of CP6 to update the joint Memorandum of Understanding (which sets out how Network Rail and ORR co-operate and work with one another in relation to data collection activities).

14. Network Rail further stated that scorecards agreed with customers should be the basis of the outputs framework for CP6.These scorecard output targets should be aligned with customer-related targets in franchise agreements to support a focus on customers' priorities. Network Rail also argued that each scorecard output should have a defined regulatory status and that the CP6 regulatory framework should not hinder the company's ability to make changes to its business in order to improve financial or operational performance. Furthermore, it proposed to develop initial CP6 scorecards for the system operator and routes (including the FNPO route).

Route and system operator outputs

15. All respondents welcomed the proposal to regulate at route level and the system operator role. However, different views on how outputs could be set to support the proposed approach were presented by different stakeholders.

16. Arriva UK Trains Limited suggested that output measures should be defined to align with the measures used by the route and system operation functions. It argued that establishing effective mechanisms to hold Network Rail and route and system operation teams accountable for the outputs delivered will be much more challenging at a route level than has been the case when such matters have been addressed at a national level.

17. Freightliner welcomed the focus on the national system operator and supported the high-level system operation outcomes identified by ORR. It further suggested the need for metrics to be balanced, to ensure that the right trade-offs are made between cost, performance and capacity.

18. The Welsh Government suggested that the route score cards should reflect the wider customer base of Network Rail.

19. Go-Ahead Group stated that output targets should differ between routes as each route has different operational characteristics. It agreed with the concept of route-based scorecards but was of the view that there should be greater engagement with TOCs in developing these. It also strongly supported the inclusion of National Rail Passenger Survey (NRPS) targets in the route output framework.

20. The Freight Transport Association stated that it is important that freight performance is measured and published.

21. DfT agreed that there is a need for separate outputs for the system operator.

Route-level regulation

22. The Urban Transport Group, Go-Ahead Group and Arriva UK Trains Limited broadly agreed with the proposed route-level outputs and supported the output monitoring mechanisms.

23. The Urban Transport Group further stated that ORR's concerns regarding the lack of data available in the short term to determine route-level outputs is rather exaggerated as there is detailed data at a very fine spatial and temporal level. It also stated that the role of stakeholder challenge forums is already informally played by regional transport authorities, although this can be improved in the future. It suggested that customer engagement might be difficult to achieve given the scope of the rail industry.

24. Go-Ahead Group agreed that targets should be set at both system and route level as well as at TOC level.

25. Go-Ahead, Arriva UK Trains Limited, RDG and Network Rail believe that it is inappropriate to fine Network Rail in a devolved structure where the accountability for delivery is at an operational level.

26. Arriva UK Trains Limited instead recommended the use of structured remedial plans developed and delivered at an operational level with direct customer input and regulatory oversight. Network Rail argued that enforcement should be used as a backstop only if there is a breach of its network licence or abuse of its monopoly position.

27. Network Rail did not agree with the way in which the current outputs framework is based on a series of specific outputs assessed individually. It stated that there is a need for a balanced scorecard approach, with assessment of outputs together (rather than individually) at a scorecard level. It further stressed that the assessment should be based on customers' and stakeholders' views rather than data interrogation by ORR.

28. Network Rail suggested that in order to secure the necessary focus on the needs of end users (i.e. passengers and freight customers) operators should reflect the requirements of end users in the setting and monitoring of outputs. Transport Scotland stressed that it is important that scorecards are seen as credible by both funders and customers and that they provide the right incentives.

29. Freightliner argued that in order to ensure consistency of targets, route scorecards need to give equal importance to performance, capacity utilisation and the quality of train services. It further stressed the importance of ensuring that route metrics are consistent with those of the national system operator to ensure alignment of objectives. It also supported rationalisation of the output data collected and reported by Network Rail.

30. Network Rail was concerned that the engagement process for CP6 is not fully developed due to limited industry resources and timing constraints.

Central Network Activity

31. Network Rail suggested that the system operator should have its own regulated outputs based on scorecard measures that are informed by customers (train operators). It further agreed with the working paper that there is no need to set regulated outputs for Network Rail's central core.

Potential Outputs

32. The working paper discussed four potential output areas: network themes, network activity, network deliverables and network outcomes. Some stakeholders commented on improvements that could be made to the outputs used in these areas.

Network themes

33. Network themes reflect the "context" that determines how network activity must be undertaken, particularly in terms of health and safety and sustainable environmental development. Only Network Rail, Transport for Scotland and the DFt commented on the approach to network themes.

34. According to Network Rail, health and safety outputs should not have a regulatory status and thus should not be part of scorecards as these outputs are internal measures. For sustainable development outputs, it was of the view that these need to be consistent across the industry.

35. Transport for Scotland stated that it is keen to see progress in the area of environmental sustainability, and particularly wishes to see steps taken to support decarbonisation of rail and to increase the resilience of the infrastructure to climate change and weather impacts.

36. DfT also stressed the importance of environmental sustainability and encouraged ORR to consider the role of the outputs framework in informing government investment decisions.

Network activity

37. Network activities include activities related to the maintenance and improvement of the capability of the network and the services that the network can support. WP4 subdivided these activities into asset management capabilities, network operation and enhancements.

38. The proposed approach to this potential output area did not attract extensive comments from stakeholders. Only the Urban Transport Group, the Welsh Government and Network Rail expressed views.

39. The Urban Transport Group supported ORR's suggestions with regard to network capability and agreed with the proposed financial performance measures. However, it argued that capacity outputs may need to be set and monitored at an even more disaggregated level. It further recommended that ORR maintain a close oversight of asset condition.

40. The Welsh Government was not satisfied with the enhancement process in place and commented that it needs to be more robust.

41. Network Rail stated that it needs to consider whether asset management capability should be given a regulatory status going beyond regulation through its network licence.

Network deliverables

42. Network deliverables are features of the day to day operation of the network that are mainly influenced or controlled by Network Rail and are likely to be important to its direct customers. These features include network performance in terms of passengers and freight, network availability, network capacity and capability, asset condition and financial performance.

43. Most stakeholders responded positively to the proposed approach to network deliverables and appeared to support the use of the freight delivery metric to measure freight performance.

44. The Urban Transport Group broadly agreed with proposed passenger network performance measures and recommended employing a wider range of metrics relating to timetable, quality and reliability. It was however concerned about placing too much weight on passenger-based performance measures while ignoring the wider socio-economic benefits of services.

45. Transport Scotland and Network Rail suggested that output measures and targets should be consistent across the industry. Network Rail further recommended that route activity within system operation should be reported at route level, whereas the system operator functional scorecard should be focused on the outputs of the network-wide function. It also argued for the regulatory treatment of financial performance to be consistent with scorecards and for ORR's approach to continue to focus on reporting and monitoring against its forecast trajectory.

46. According to Transport Scotland, its top priority is a challenging but achievable and affordable outputs framework that supports its rail freight strategy and complements the delivery of broader targets and obligations contained within the ScotRail and Caledonian Sleeper franchise contracts.

47. Arriva UK Trains Limited recommended a greater degree of flexibility in the structure of the outputs, particularly in the case of the scorecards, so that the changing needs of end users can be reflected in outputs. It also recommended ORR to not forego collection of time series data when rationalising the data requirement for monitoring purposes.

48. Freightliner and Network Rail supported the continued use of FDM. Freightliner, however, disagreed with the use of the Possession Disruption Index (PDI), which it argued is not effective as a tool to monitor the impact of possessions on operators.

Network Rail advocated the use of a disaggregated version of FDM for routes instead of switching to another metric, in order to ensure continuity in the data collected.

49. Freightliner further suggested that the level of CP6 outputs should be set against the 'exit position' for CP5 and looked at on a case-by-case basis to understand why targets were not met and what factors contributed to this. Go-Ahead Group supported the use of the Public Performance Measure (PPM) in conjunction with other appropriate performance measures but stated that using it as a universal performance measure can lead to perverse incentives.

50. Go-Ahead Group and DfT commented on the financial performance arrangements. Go-Ahead Group was of the view that financial performance arrangements are insufficient and thus alternative approaches should be considered. DfT said that it cannot make a judgement on changing financial monitoring measures to outputs and that this decision should be discussed in the consultation on the framework to monitor and incentivise Network Rail's financial performance.[11]

51. Network Rail was against having network availability measures on the scorecard. With regard to performance metrics, it argued that the regulatory treatment of passenger performance should not focus on point targets but should reflect the uncertainty associated with forecasting levels of performance.

52. With regard to engagement, Network Rail suggested that the engagement process with end users should be led and owned by TOCs and freight operating companies (FOCs), which can then represent end users in the determination of priorities.

Network outcomes

53. Network outcomes relate to outcomes in Network Rail's control such as end-user experience and TOC/FOC customer experience.

54. Most of the stakeholders did not comment in detail on the proposed approach to these outcomes. The Urban Transport Group and Network Rail were the two respondents which provided comments in this area.

55. The Urban Transport Group supported the satisfaction metric but argued that it is not enough on its own and that more should be done to develop complementary measures (such as surveys of infrequent users or measures linked to socio-economic outcomes) to assess how Network Rail is impacting passenger experiences.

56. Network Rail argued that TOC/FOC customer satisfaction should be included on its route and system operator scorecards to assess its relationship with its customers. However, Network Rail does not support giving TOC/FOC customer satisfaction a

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[11] Consultation on the financial framework for PR18

regulatory status, as it is directly accountable to its customers and incentivised through its scorecard.

Table 1: Respondents to working paper 4

Organisation
Arriva UK Trains Limited
Department for Transport
Freight Transport Association
Freightliner
Go-Ahead Group
Network Rail
Rail Delivery Group
Transport Scotland
Urban Transport Group
Welsh Government