Technical overview: Payments relating to disruption

Network Rail sometimes pays train companies for the long term impact of disruption on their business. These payments are unrelated to short-term passenger refunds and are not made based on individual delays.

So how is the payment calculated?

Described in its simplest form, the payment is calculated in stages:
1. measuring lateness (and cancellations) at **all** the different destinations;

2. calculating average passenger lateness (through applying a special weighting to each destination to reflect relative passenger numbers – late arrival in a big city would be more significant than in a small town);

3. establishing which disruption was caused by the train company and which was caused by Network Rail;

4. using the apportionment of disruption to quantify the overall lateness caused by each party;

5. comparing each party's overall lateness against the targets in the track access contract (between Network Rail and each train company); and

6. applying payment rates to calculate the overall sum.

Does this consider all minutes of disruption or just those above a certain threshold?

All incidents of disruption are taken into account, including cancellations.

What is the payment rate?

There is no standard payment rate. The rates vary not only between train companies but also between the individual service types within each company's business. This is because the long term impact of disruption will differ depending on geography, time of day, type of service (e.g. commuter or leisure), length of journey, service frequency and other economic factors.
The payment rates are not specific to individual delay minutes. It can be applied only to the average passenger lateness figure across the entire route over a whole day.

Why do train operating companies pay Network Rail when levels of disruption are low?

If overall punctuality is higher than an agreed target, train operators may well make payments (under the Schedule 8 scheme) to Network Rail. This is because economic research tells us that train companies will see an increase in revenue from ticket sales, in the longer term, if disruption levels are very low. Where Network Rail has directly contributed to this punctuality by beating its own targets (e.g. through reduced infrastructure failures) then it receives a reward / incentive payment from train operators.

Who sets the targets?

The rail industry's regulator, the Office of Rail and Road (ORR), sets the performance targets in the contracts between Network Rail and train operating companies. Targets are different not only for each train company but also for each individual service type within a train company's business.

Why are the performance targets not set at zero minutes lateness?

The targets are set pragmatically, recognising that some level of disruption is inevitable on a busy operational railway. However, the targets do, generally, get tougher each year to encourage the industry to improve reliability. The targets also incorporate an element for the events which we cannot prevent such as severe weather but which we must nevertheless manage.

What else does Network Rail take responsibility for?

Network Rail takes responsibility for any disruption originating from the rail network itself. Most obviously, this includes infrastructure problems such as signalling failures, but it also includes trespass, vandalism and the effect of severe weather.

What if operators disrupt each other?

Network Rail has contracts with each operator but train operators do not have contracts with other train operators. Therefore, Network Rail acts as a clearing house for the financial impact of delay caused by one train operator, affecting another. The 'clearing house' mechanism is referred to as the 'star model' because of the fact that all payments are made to Network Rail, who then distribute them to the appropriate train operator. Having Network Rail at the 'centre' of all of the performance money flows greatly simplifies the administration of the performance regime as otherwise each train operator would need contracts and payment mechanisms with each other train operator – this would result in c.400 bilateral arrangements.