



## **Customer Focused Regulation - Speech by Joanna Whittington, CEO, Office of Rail and Road, Whitehall and Industry Group (WIG), 21 March 2017**

Thank you for inviting me to speak today.

This is my first major outing since becoming permanent Chief Executive of ORR last month, though some of you may know the Transport Select Committee gave me the opportunity to rehearse some of what I'm going to say just yesterday.

Let me start with what the Office of Rail and Road is and what we do.

It was a regulator-colleague of mine, Andrew Haines of the CAA, who said at a WiG breakfast last year that the only reason regulators exist is to "protect the citizen".

Spot on.

ORR's role is just that: we protect the interests of rail and road users, improving the safety, value and performance of railways and roads today and in the future.

Some of our functions have been around a long time.

In 2015 we celebrated the 175th anniversary of the Railway Inspectorate.

The same year, we took on an extra role for ensuring that the strategic roads network in England is managed to deliver best performance.

And that's when we became the "Office of Rail and Road" from being just the Rail Regulator, which many in the rail industry still know us best by. And today it's the rail industry that's I'm talking about; and how ORR is holding it to account to deliver performance, service and value for money, now and in the future.

### **CHALLENGES FACING RAIL TODAY**

Rail today is facing many challenges.

Railway operation in Great Britain is approaching being a £15 billion industry, with many moving parts across both public and private sectors.

Passengers' expectations of their journeys, and the information they have about them especially during disruption is, rightly, ever increasing.

And the requirement to run a safe railway for passengers, rail workers and other users is as strong as it has ever been.

Our role as regulator is to ensure all this holds together in the best interests of current and future users and funders.

And specifically, to ensure Network Rail spends the billions of public money allocated to it efficiently. So we understand the scale we're talking about, for the current 2014 – 2019 period, that amount is £37.5 billion.

## **GROWTH**

Let's talk about growth for a minute. We all know there's been sustained growth in rail passenger numbers over many years - which is a success story.

Twice as many people travel on trains today than twenty years ago, and half of them do so here in the capital.

As a result, Network Rail's network is increasingly busy, with train miles – kilometres if you prefer - up by nearly 25% since 2005-06.

Capacity improvements over time have benefitted passengers and freight customers and allowed more services to run, but passenger numbers are forecast to continue to grow. There is no sign of any let up.

A busier network increases the challenges for Network Rail:

- on the time available to maintain and renew the infrastructure;
- timetabling additional services is more complex;
- having greater passengers to accommodate at stations
- needing longer station dwell times when boarding trains;
- even with digital signalling, capacity itself is finite - limiting expansion of services despite strong demand for them.

There are also, obviously, safety considerations with growth which for us as safety regulator for all Britain's railways is always the first and overriding concern.

## **CONSUMERS**

Then there are the users of the railway.

Our role as regulator very much focuses on the user. Passengers today are funding an increasing proportion of the costs of running the railway – now nearly three quarters of the total, with the balance met by taxpayers.

Understandably therefore, there is a very public focus on fares, value for money and the level of service and performance that passengers expect in return.

Performance on the railway as measured by the number of trains arriving 5 or 10 minutes late at their final destination has been declining in recent years. Some but not all of this has been the responsibility of Network Rail.

And for Network Rail's freight customers, we are also seeing some significant shifts where there have been substantial declines in coal volumes, while intermodal and construction-related freight has grown. Those shifts pose questions; how can the rail network best support freight growth, and provide it with the flexibility required to meet the needs of its new customers?

## **EFFICIENCY**

Passenger growth and expectations on users mean Network Rail's efficiency is more important than ever and there is a clear case for reform of the way the system is operated, designed and planned for the future.

It's an issue I'm pleased to say is being taken seriously and with a recognition of three key challenges:

- one for **government**, as owner of the railway, to decide what sort of railway it wants to have (and by extension, buy).

Government also needs to work out where it wants its priorities to lie : recovering operating performance / investing in capacity / and what the size, structure and funding of the rail industry should be.

- one for the **industry**, to get closer to its customers, and deliver a better service.
- And one for **us** as **regulator**: to help industry improve and evolving our regulatory framework to incentivise and support better performance under the realities of the new ownership structure, passenger demand and pressures on capacity.

Network Rail has already started to respond to these challenges through its Transformation Plan. But the situation has not been good and on key elements of its work bank such as renewals it is less efficient now than it was at the beginning of this control period with further work being deferred into the future.

A key part of that Plan is to split its organisation into a network 'system operator' and to devolve the rest of its operating activities from its centre into its route businesses.

As regulator, we think this is good news for both efficiency and accountability.

## **WHAT IS A PRICE CONTROL?**

So that's the context with some quite significant challenges in it. Now, in the second half of what I want to say, I want to talk about work preparing for Network Rail's next funding period - control period 6, which runs from 2019 to 2024.

This is where we agree the costs and 'outputs' to be delivered by Network Rail over that five year period and, more widely, the incentives it creates on users of the rail network to perform for users : train operating companies, for example.

In ORR's regulatory shorthand, the programme of work is called PR18. It's a highly consultative process with industry and rail users. We began in May 2016 with a big 'Initial Consultation' and will finish with our 'final determination' in late 2018.

## **A LISTENING REGULATOR**

PR18 is a big exercise for us and has to be a process with proper dialogue, involving a wide range of stakeholders, which gives us an opportunity as regulator to demonstrate that we are listening

This is a really important opportunity for everyone to have a say in what the five years from 2018 should look like for 'our railway'.

Involvement of the usual stakeholders and the industry is fundamental but it's essential that we also listen to as many organisations as is practicable, including consumers.

For example, we proposed new approaches to how Network Rail charges operating companies (the structure rather than the level of its charges) to use the railway; the feedback was pretty definitive : "far too much change". So we've scaled this back a lot, focusing on a small number of key changes.

This is, incidentally, typical of our overall approach to regulation: engage with stakeholders > agree outputs > monitor progress > report transparently on delivery.

This approach to engagement and planning provides assurance to governments, funders and increasingly customers.

Our reports and monitoring provide authoritative evidence and commentary that supports funders and consumers in holding Network Rail to account for delivery and efficiency (and

also Highways England, on the roads), and inform future rounds of discussion and planning.

## **ROUTES**

ORR is strongly supportive of the work Network Rail is also doing in devolving its operations into the Routes. We think that it provides a real opportunity for Network Rail to improve the way it is able to meet the needs of its freight customers, passengers and funders and importantly reintroduce incentives into NRs business.

The benefits from this 'devolution' are twofold:

- Network Rail gets to be closer to and understand better the needs of its customers;
- and
- there are stronger opportunities for meaningful comparison and competitive performance between the eight Network Rail route businesses, each striving to efficiently meet the targets it has agreed with its own local customers.

Each route now has a separate 'scorecard', driven by customer need, and agrees with each of its local train operators the outputs that are therefore more important.

Inevitably there is still more work to do, and ultimately success will depend on the Network Rail routes delivering against the scorecards to build credibility with the train operators.

But we're pleased with progress so far and over the next year this should filter down to better performance for passengers and users. For example, All of Cross Country's routes go through Birmingham. Therefore they are targeting their trains arriving on time at Birmingham, rather than being as focused on right time arrival at the trains final destination.

We also see real benefit in a mechanism which strengthens the relationship between train operators and Network Rail. This allows us as regulator to step back while creating a stronger line of sight to the passenger or freight customer.

We actually want the engagement between Network Rail and train operators, and ultimately passengers, to go much further and to be hardwired into the periodic review process - so that Network Rail's **overall** business planning process builds off this local engagement.

Our draft guidance to Network Rail routes on how they prepare their plans for the five years from 2019 in particular sets out the engagement which they should seek in preparing their plans.

We set our expectation that the Network Rail routes would engage with their train operators, passenger groups and others before they prepared their five-year plans, and then again once they have produced them.

And we are monitoring this.

What this does mean though is that the success of routes and operational devolution depends on all of us – regulator included – in stepping up and changing the way we engage and behave across the industry.

Our hope is that over time we will be able to produce a comprehensive set of data at route level across the full range of a Route's responsibilities – health and safety, asset management, train service performance, enhancements and finance.

And importantly, that we publish this information in a way which is accessible and usable to a wide audience. It should enable those local stakeholders who will be so critical in setting the outputs of a route to also challenge the route against delivery.

I then want our bi-annual 'Network Rail Monitor' to become required reading for Network Rail Route Managing Directors and their local stakeholders as they prepare for their regular face to face meetings.

## **THE SYSTEM OPERATOR**

Finally, I have talked a lot about Network Rail's Routes but Routes on their own won't deliver the railway we want without strong system operation foundations too.

A National System Operator that excels at timetabling, capacity management and analysis can effectively counter the risk that increased devolution to routes could undermine the quality of service to those operating across them - freight operators being a case in point.

So in setting the periodic review, we have asked Network Rail to prepare a separate business plan for the 'National System Operator'. We will also determine a separate funding settlement for it.

This approach will:

- improve the National System Operator role's transparency so that funders and operators are better informed about its decisions, impact and rationale;

- sharpen incentives to manage the Network more effectively, both in terms of optimising the performance of train services and improving the use of capacity; and
- support longer term investment in better data, processes and technology so the National System Operator has the tools and capability to deliver and enables the rest of the industry to deliver the benefits of a joined-up railway.

There is more work to be done on how we will measure the success of the National System Operator but we have made a good start and will be talking to all those interested : Network Rail routes, all operators including both passenger and freight, all funders, as well as passenger groups.

Our immediate priority for Network Rail is we now want the System Operator to be visible, and take its proper place in the industry.

## **WHAT WE ARE DOING NOW**

We are not waiting though for the start of April 2019 to use this 'route devolution', as its known, to drive performance and closer working between Network Rail and its customers.

Already, we are publishing more route based information in our six monthly reporting of Network Rail's performance

- In our Annual Monitor of Network Rail performance last June we compared route level expenditure by category against budget for the first time.
- In our half year Monitor last November, you can see for the first time how asset performance has changed by route since 2014.
- And in this June's Network Rail Monitor we will be publishing a further comparative set of information on a route by route basis.

As regulator, we can provide useful commentary and comparison on how effective Network Rail has been in meeting its various commitments to their local customers, translating the data in a way helpful to the customer and to Network Rail in demonstrating good and poor performance in a balanced manner.

In due course, information should be published at route level by default. We are already moving our Network Rail Monitor in this direction, and can (and expect to) do more, for other areas such as safety and asset management.

So the basic structures are in place.

Now we want to see the behaviours that show devolution is real. Without these, we won't see improvements in performance: from Network Rail to its train operators; and from those train operators to their passengers and customers.

This means encouraging more, better, conversations between Route Managing Directors and customers; visibly so.

We also want to see the right behaviours within Network Rail's business: for example, if the Infrastructure Projects Division does not deliver the services Routes need, then we would expect routes to take action and develop their own relationships with suppliers.

I hope I have set out this morning three things:

- what ORR is about and where we see our role in protecting current and future transport users;
- Our approach to the 2018 Periodic Review of Network Rail, in securing value for money for users and funders of the railway;
- How are working with the industry on the Periodic Review and other initiatives for the benefit of everyone who relies on Britain's railways to be safe, reliable and efficient;

Thank you.