

Railtex: Knowledge Hub: 12 May 2015



Regulation and innovation for a better railway

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Rail industry successes

- Rail journeys across Britain up by 5% to 1.3bn in 2013-14
- The overall level of freight moved in 2013-14 reached over 22bn net tonnes
- Only set to increase – by 2020 predictions of an additional
 - 45 million passenger journeys
 - 200 freight trains per day
- Significant government investment
 - £21 billion on current network
 - £12 billion on major enhancements
- Crossrail, Thameslink and major electrification programme
- Strong regional interest in rail
- Safety record – currently best in Europe



But there are challenges to face...

- lots of **successes**, but there are **challenges** to be faced across industry;
 - growth
 - capacity
 - need for better performance across the network
 - Customer expectations (both passengers and freight)
 - size of investment programme
 - continued pressure on the sector to operate more efficiently
 - skills gap within the supply chain.

- Can **innovation** in practices and technology help provide solutions?



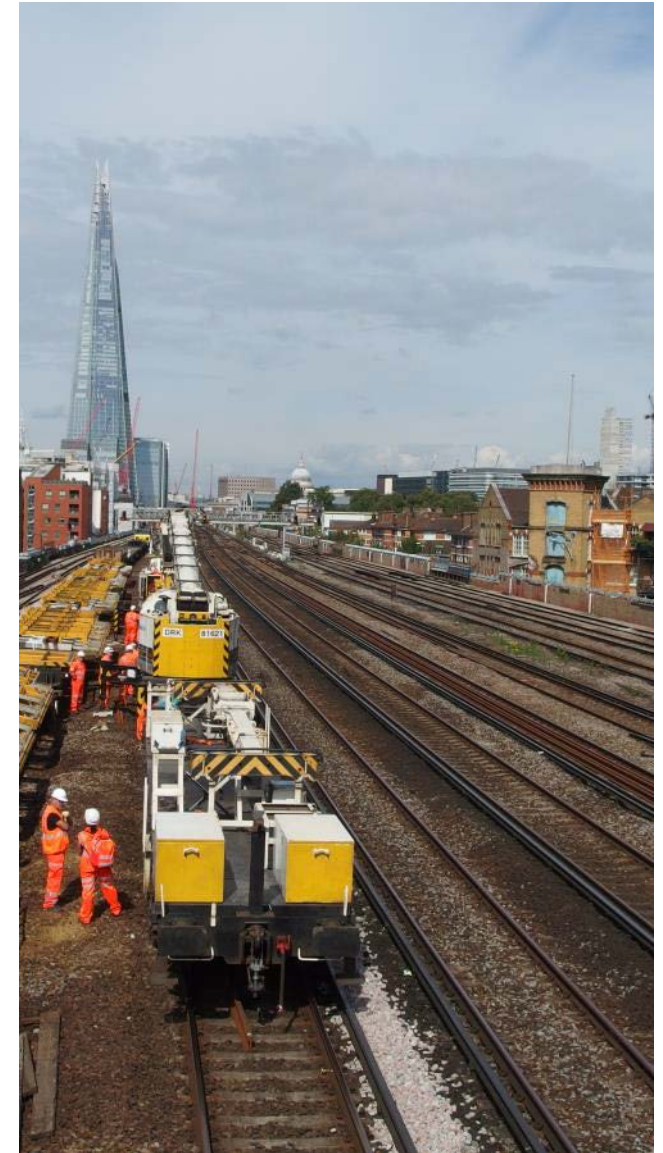
What is innovation?

- Innovation can take different forms
 - Big step change innovation – e.g. Digital Railway
 - Smaller innovative changes – which still have an impact
 - Short or longer term e.g. 10/20 years
 - Processes **and** technology
- Innovation needed across the whole sector
 - infrastructure
 - rolling stock
 - ticketing
 - passenger information
- Regulators **cannot** drive innovation, this must come from the sector

Innovation funding

	£m
CP5 innovation fund with match funding from Network Rail	50
Network Rail Strategic R&D fund	50
RSSB research fund	<u>47</u>
Total	147

Additional funding is available for TOCs through the Future railway project managed by RSSB and through franchise agreements managed by DfT.



How can regulation help? Stability and certainty

- **Stability and certainty**
- Government confirms **what** it wants from the railways and **level** of investment it wants to make
- Funding level set for 5 year control period
- But regulatory targets incentivise longer term behaviour
- Industry should be able to forward plan with more certainty and resource with appropriate skills to meet demand
- For CP5 timescales were established for the delivery of projects to help manage peaks and troughs – especially important for the supply chain.



How can regulation help? CP5 Targets

For CP5 – we set tough regulatory targets on;

- Major enhancement programmes
- Punctuality and Performance Measures PPM
- Reductions in engineering disruptions
- Good asset management and information
- Efficiency improvements (19% on top of previous 40% plus)
- Help shape a longer term view for the sector (we set this out in our LTRS)

These are not achievable without innovation.

Efficiency



Graph showing regulatory efficiency targets and delivery over 3 control periods (Taken from Network Rail Strategic Business Plan January 2014)

How can regulation help?

Drive behaviours and key future developments

- Set **incentives** to encourage closer working across the sector – e.g. PPM affects Network Rail and TOCs
- Clarity on scope cost and timetable for **major enhancement projects**
- **Digital Railway**; ORR is working alongside Network Rail and industry as it develops its vision of the digital railway.
- **Safety by Design**;
 - Early involvement of regulator – new MOU with HSE to be more involved in design eg HS2.



Customer Facing Innovation

- Very important!
- Passengers now pay 60% of annual cost of railway
- We **expect** service similar to other sectors
- Areas for development
 - Smart ticketing
 - Wider range of retail channels?
 - Better passenger information during disruption
 - Personalised offers

Look ahead to the future - PR18

- We are thinking **now** about PR18 – CP6, 2015-19
- And we want PR18 to think ahead to CP7 and CP8 (2020-2029)
- 1st CP6 consultation document early in 2016. It will cover
 - **Incentives** – how do we encourage closer working across the sector?
 - Can a greater focus on Network Rail as a **system operator** maximise capacity and facilitate delivery of a digital railway? Could this be a key deliverable under CP6?
 - Move towards more **route based information** for better comparisons
 - **Regulatory package that provides clarity of output** that takes into account innovation
 - **Charging** regime that takes account of capacity constraints and rewards innovation
- To deliver today and plan for the future is a collective effort involving the whole industry, so please **get involved early**.

Conclusions

- £25bn of renewals and enhancements in CP5 to improve Britain's railways and manage growth for both passengers and levels of freight
- Innovation is crucial to the delivery of this
- Innovation need to come from the sector, but the regulator can set put the right framework round it
- Work has started to look ahead to CP6 (2019-24) and beyond. We will need the whole sector's help to ensure this is innovative and drives the right behaviour





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