A great deal from Britain’s railways – safe, reliable, efficient
Our business plan for 2012-13
April 2012
A great deal from Britain’s railways

2012-13 is a pivotal year in shaping how the railways deliver for Britain far into the future. ORR has an important part to play.

Through our Periodic Review of Network Rail – much of which will be undertaken this year – we will be advising Government and taking decisions on the framework for financing and delivering improvements in the infrastructure and operation of the railway through to 2019 and beyond.

At the same time, much is changing in the organisation of the railway sector – new partnerships across the industry, new train franchises, new alliances between rail businesses, and enhancements to infrastructure and rolling stock all give new opportunities for different ways of working.

We will have a big role in making sure that the different parties in the industry – Network Rail, the train companies, rolling stock providers and the broader supply chain – are properly focused on working together to meet the needs of customers, taxpayers, and the expectations of funders.

With the Department for Transport, Transport Scotland, the Welsh Government and other funders of rail services, we will need to make sure the rail system as a whole serves customers well and provides value for money.

So the Periodic Review, while focusing on infrastructure, will take a whole-industry perspective. We will find ways to incentivise Network Rail to work more collaboratively with train companies where it is in customers' interests and raises efficiency; and to work with the supply chain to make sure rail customers benefit from reduced costs and innovation. And we will look for other ways in which – beyond the Periodic Review – we can help to make sure businesses across the industry are able to work together to make the system better as a whole.

The UK Government’s Command Paper ‘Reforming our Railways: Putting the Customer First’, was published in March 2012 and envisages a wider role for ORR in pursuing whole-industry efficiency and improving the passenger experience. This will first of all move responsibility for issues such as the monitoring of passenger complaints-handling processes to ORR, and explore the potential for an ORR role in relation to monitoring train operator performance. We will take this forward in 2012-13, as well as working with the Government and industry stakeholders on whole-industry efficiency and performance.
We have set three priorities for the coming year, drawing on our strategy\(^1\), discussions with the industry and governments and our own assessment of the key challenges ahead. These are:

- Reducing the industry's **costs**;
- A sharper focus on **customers**; and
- Excellence in **safety** culture and management across the industry.

These priorities, along with our statutory duties, will guide everything we do.

Delivering our strategy and plan will make new demands on ORR, requiring us to raise our productivity and use our expertise in different ways. It will also require us to develop the way we regulate, using a wider range of levers (see page 9).

The development of the regulatory agenda in a particularly complex sector, taking a whole-system approach and bearing down on Network Rail’s costs in the Periodic Review are all achievable, but mean that our priorities and ways of working in this year and beyond need to be sharper than ever.

Recognising these pressures, the Board and I commissioned a Capability Review to assess both our strengths and areas we need to enhance in order to deliver across this wider agenda of change and reform in the sector.

Having consulted widely with people across the sector, consumer groups and in government, the **Capability Review** has now reported. It gave a positive assessment of ORR’s capabilities, and identified areas in which we can strengthen our governance, operations and skills to meet the new challenges. We will be taking action during the year to address the Capability Review and further strengthen ORR.

Alongside our vision for the railway, we have set out our vision for ORR and the way we regulate, based on engagement with the sector and with ORR’s staff. We also set out the behaviours we are adopting in ORR, focused on what each of us can do better to make a bigger difference in achieving the priorities – summarised as: Living in the real world; Engaging collaboratively; being Ambitious and Demanding (LEAD).

We will introduce measures which reinforce these behaviours and address areas we need to strengthen, for example, in specific skills areas, forging better links with sources of expertise outside ORR, governance and succession planning.

All of this will mean that over the coming year we will take significant steps towards our ambition of being best in class as a regulator; and securing a good deal for taxpayers and for the customers of Britain’s railways.

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\(^1\) This is the fourth year of our corporate strategy

Richard Price  
Chief Executive
The plan and its strategic context

About us

ORR is the independent economic and safety regulator for Britain’s railways. We are responsible for:

- Regulating health and safety standards and compliance across the whole industry.
- Regulating Network Rail as a monopoly provider of rail infrastructure, including setting its funding and outcomes to be achieved.
- Competition and consumer rights issues across the industry as a whole.
- Publication of key statistics on the performance of the railways.
- Economic and safety regulation of HS1.

We work with the industry’s funders in England, Scotland and Wales to get clarity on what they want the railways to deliver (for instance in terms of punctuality and capacity) for the £3.9bn a year they spend on rail.

Our independence from government enables us to provide a stable and predictable environment that allows major long-term investments to be made efficiently. And we combine this with monitoring and tough challenge to the industry on performance and efficiency.

In this Plan for 2012-13, we set out:

- What we aim to achieve in the context of our current five-year strategy and how we plan to use the money we levy from the industry.
- The challenges the industry faces in raising its game on value for money.
- The changing role of regulation in supporting and challenging the industry to go as far as it can in giving its customers and funders a great deal by reducing its costs, improving customer experience, and achieving excellence in safety.
The industry context

Railways are a long-term business. Investment decisions made today have implications for decades to come.

Since the very substantial problems of the late 1990s and early years of this century, the railway and the businesses which run it have gone through a period of real transformation.

- The railways are carrying 40 per cent more passengers – more than at any time since the 1920s, on a network less than half the size.
- Levels of punctuality are close to an all-time high on a network which is closer to capacity than ever.
- The industry's recent record on safety is good, though there is no room for complacency.
- Network Rail's improved efficiency has reduced its costs by 40 per cent since 2004-05.
- The freight sector remains competitive and has led the way in achieving major gains in productivity.
- The industry has committed to managing its greenhouse gas emissions through a ‘carbon management framework’ to deliver reductions in train traction related CO2 emissions. Individual organisations are focusing on reducing their carbon footprints. For example, Network Rail has reduced CO2 emissions from its offices, stations and depots by around 8% since 2006-07, and is forecasting a 20% reduction from this base by the end of the control period.

But we all know that there is much more to do before passengers and taxpayers really feel they are getting a good deal from the railways.

ORR co-sponsored last year’s review of the industry’s value for money by Sir Roy McNulty, which pointed to the scope for much greater efficiency, innovation and performance. And our own work shows that Network Rail has much to do in the management of its assets to unlock further improvements in costs and performance.

Funders of the railways across England, Scotland and Wales have shown that they are willing to invest in rail. But they need to be sure that they get what they pay for; and it is common ground between the regulator and the industry that costs remain far too high.

The policy context

Our established approaches and powers help us to make sure the industry achieves more at a lower cost. But both the policy context and the ways in which regulation can make a difference are changing too.

- ORR has developed new approaches to assessing the maturity of management across the industry – particularly on managing risk and safety management.
- We have taken a whole-industry approach to understanding the drivers of the cost of the railway – and in January took a big step forward by publishing for the first time transparent financial accounts on a whole-industry basis, route-by-route.
- Network Rail's work to devolve key aspects of control to managers of its 10 routes, developments in alliancing between Network Rail and train companies, and the prospect of infrastructure concessions are all potentially game-changing for the way the system is managed and financed.
Meanwhile the UK Government’s Command Paper ‘Reforming our Railways: Putting the Customer First’ set out the developing policy context, describing among other things its intention to give ORR a stronger whole-system role to hold the industry to account on how it is serving its customers. We are also working closely with the governments in Scotland and Wales on their aspirations for the railways and how independent regulation can help to secure value for the money that they, and the Scottish and Welsh customers put into the industry.

Evolving our approach

Over the last year, we have begun to put in place changes to the way we regulate.

Along with whole-system cost data, we are making much more use of disaggregated data, allowing comparisons on cost and performance between different parts of the network.

We have also increased our focus on things that matter to customers. We have taken steps to address two of the biggest sources of customer dissatisfaction – how the railway keeps people informed when things go wrong, and the punctuality and reliability of train services, which is generally good but in places falls short of customers’ expectations.

It is important to recognise that the fragmented nature of the industry, and the ownership structure of Network Rail, mean that conventional approaches to incentive-based regulation are not always as effective as they have been in other regulated industries.

ORR’s approach, focusing on establishing incentives for improving outcomes and efficiency, has achieved a lot in the last ten years. While our fundamental regulatory approach remains focused on the industry delivering outcomes for customers – such as reliability and capacity – we are putting more emphasis on looking ahead to make sure railway businesses are doing what they reasonably can to prevent problems before they arise.

In particular, we believe that focusing on key enablers, including the industry’s management of its assets and wider management quality, can unlock future gains in performance and efficiency, and help to move the industry towards excellence in safety culture.

The challenge in the coming year, and beyond, is to make sure that:

- Our regulation of the sector progressively achieves more for customers and funders of the railway.
- The industry takes full responsibility for delivering a safe, reliable and efficient railway.
- The industry is able to take its own decisions on how best to get a better deal for customers and taxpayers.
- There is better management and different ways of working.
- The industry is able to attract more private investment.

To that end, regulation needs to be as non-burdensome and unintrusive as it can be, consistent with achieving accountability and delivery in the public interest.

We agree with the UK Government’s assessment in its Command Paper that independent regulation has more to offer in the railway industry, both in pressing the industry to raise its game on efficiency, and in ensuring that it achieves more for its customers. Through 2012-13, we will also be engaged in discussions with the Scottish and Welsh governments on their aspirations for the railway, including what can be delivered through the Periodic Review.
Our vision for the industry is a great deal from Britain’s railways – safe, reliable and efficient.

Our work this year reflects that, using our existing levers and also developing the way we regulate in the following areas:

- Bearing down on monopoly performance and abuse, and taking a forward-looking approach to performance risk.
- Incentivising collaborative whole-system approaches between Network Rail, train operators, rolling-stock companies and the wider supply chain.
- Benchmarking performance standards and value for money; publishing and making more use of disaggregated data at route and service level.
- Greater transparency across the industry including at local level, particularly on costs, the provision of accurate, timely, transparent and meaningful data to funders and users to help them to make better-informed choices.
- Competition – in the supply chain, and in the provision of infrastructure services, as well as in train services.
- Focusing on key enablers which unlock future performance and efficiency.

Our work programme during this year will develop these approaches with the aim of ratcheting up the industry’s efficiency over time and raising customers’ and funders’ confidence that they will get a consistently good deal from the railway.
## Our strategy - a summary

### This is our vision for the industry

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<tr>
<th>Industry Vision</th>
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<tr>
<td><strong>A great deal from Britain’s railways: safe, reliable, efficient</strong></td>
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We believe that by 2020 a successful railway in Britain must be:

- A transport mode of choice, because it has a reputation for serving customers well.
- Safe for its customers, workers and the wider public.
- Dynamic and modern, and a real source of national pride.
- A key driver of our economy and a major provider of connectivity for our communities, regions and nations.
- Sustainable and robust.
- Value for money, and transparent about its costs and where it is subsidised.

As a result, the industry will deliver for those who use, work on and fund our railways:

- A safer railway with zero industry-caused fatalities.
- A railway that is value for money.
- A railway that constantly drives for excellence.
- A railway that focuses on its customers.
- A railway that contributes to economic growth, connectivity and environmental sustainability.

### Priorities

- Reducing the industry’s costs.
- A sharper focus on customers.
- Excellence in safety culture and management across the industry.
Our internal vision

ORR Vision

• Working together for a better railway: proactive, proportionate, professional

We are here to make a difference and the behaviours we will adopt to maximise our impact are:

LEAD

• Living in the real world
• Engaging collaboratively
• Ambitious for ourselves and those we regulate
• Demanding higher standards of ourselves and others

Annual Review

Resource costs*

- Reducing the industry's costs
- A sharper focus on customers
- Excellence in safety culture and management across the industry

*Central and support functions such as legal services and human resources have been apportioned against the three priorities

Delivery

Vision

Priorities

Annual objectives of the business plan

Annual programme and team plans

Annual individual objectives

Progress and accountability

We review how well we have done in delivering our business plan and achieving our vision and priorities in our annual report and accounts. This document is laid before Parliament each year.
Overall progress

The past year has been another difficult one for the wider economy with continuing pressures on public finances. But it was also a year that saw a clear Government commitment to continuing investment in Britain’s railways, including a planned £32bn investment in HS2.

Despite the economic downturn, we saw continuing growth in passenger and freight markets. But due to the industry’s high costs we also saw above-inflation fare price increases and the sector still dependent on over £4bn of public subsidies a year.

We remain focused on our core roles of regulating Network Rail and health and safety across the entire sector. But we are also committed to ensuring that our regulation helps the wider industry to get a better grip on its costs, whilst delivering the levels of safety, performance and efficiency that passengers, freight customers and taxpayers expect.

This is reflected in progress against our strategic objectives over the past year.

We have continued to focus the whole industry on moving towards excellence in health and safety culture and risk control.

- Our model for monitoring and managing safety culture has now been widely adopted by dutyholders across the industry.
- Our occupational health programme has highlighted the need to improve aspects of worker health and welfare that have been too often overlooked by the industry.
- Our programme of audits and inspections has helped to ensure a clear industry focus on key areas of risk.
- We have worked closely with Network Rail to ensure that they have got a better grip on the risks associated with the 6,500 level crossings that they manage.
- We have maintained close links with the Olympic authorities, and we will continue to monitor the industry’s preparations, in advance of the Olympic and Paralympic games.
Holding Network Rail to account for delivering on its commitments and working more effectively and collaboratively with its customers.

- We are pleased with the progress that the company has made with its shift to a more devolved decision-making structure, establishment of alliances with train operators, and the opening up of major projects work to greater contestability, but we continue to push it to go further.
- We took action against the company for failing to meet targets on long-distance routes and freight train performance.
- We continued to monitor the delivery of CP4 outputs as well as pushing for better progress on the key enabling activities of asset management and safety culture.

Helping the industry to improve value for money and efficiency in order to justify continuing investment.

- We were joint sponsors with the Department for Transport of the McNulty Review which highlighted the scope for increased value for money across the sector.
- We consulted on the Initial Industry Plan for the next control period from 2014-19.
- We published the first tranche of industry wide financial information as part of our drive to progressively increase transparency on industry costs.

Ensuring that industry reform focuses on delivering real and lasting benefits to passengers, freight customers and taxpayers.

- We have actively engaged with the industry-led Rail Delivery Group as it established its priorities.
- We published a joint consultation with the Department for Transport on a wider role for regulation.
- We have introduced a new licence condition to ensure that train operators and Network Rail work to ensure the provision of better passenger information, particularly during periods of disruption.
- We have issued a policy statement setting out our support for and approach to alliances between Network Rail and train operators.

Ensuring that our Periodic Review (PR13) helps to align incentives across the sector and deliver the McNulty efficiencies and broader industry reform.

- We carried out an extensive initial consultation including regional events in Cardiff, Edinburgh, Manchester and London.
- We issued a number of consultations on important issues including incentives.
- We issued our Advice to Ministers on schedule.
- We issued our requirements to Network Rail to inform production of its Strategic Business Plan.

Developing our capabilities in the light of the increasing challenges we face.

- We made a number of changes to strengthen ORR's Board.
- We became the first regulator to commission an external capability review.
- We created a new expert advisory panel to help challenge our thinking on economic issues.
- We completed the first phase of a project to develop a framework for objectively measuring the value for money of our regulation, with further work planned over the coming year.

Those who use and pay for Britain's railways expect to see safe, reliable and value for money services – regardless of who is responsible for delivering them. They also have a right, given the amount of public money going into the sector, to expect transparency and clear accountability. That is why these are and will remain key areas of focus for us.
Our priorities

We have set three priorities for the coming year, drawing on our corporate strategy, discussions with the industry and the Governments and our own assessment of the key challenges ahead.

Our priorities are:

- Reducing the industry’s costs.
- A sharper focus on customers.
- Excellence in safety culture and management across the industry.

In delivering against these priorities we will:

- Continue to focus on aligning incentives and supporting more collaborative industry-led approaches through our Periodic Review of Network Rail’s outputs and funding requirements. The review reaches a crucial stage over the coming year as we take the High Level Output Specifications and Statements of Funds Available from the Secretary of State for Transport and Scottish Ministers and move towards producing our draft determination in the summer of next year.

- Continue to focus on our roles as health and safety regulator for the whole industry and holding Network Rail to account. These are key functions and fundamental to helping the industry to deliver for passengers, freight customers and taxpayers efficiently, effectively and safely.

- Demonstrate our effectiveness in improving the experience of passengers and freight customers; build on the findings of our Capability Review and develop our role, reflecting the Government’s priority for ORR to put passengers at the heart of what we do.

- Through this year, we will continue to review our activities to make sure that we are increasingly focused on areas which will help the industry to achieve significant improvements in cost, customer focus and safety.
1. Reducing the industry’s costs

What does this mean?

Driving down industry costs is key to delivering better value for money in the rail industry. By improving efficiency we will increase the choices available to customers, taxpayers and funders, who will be able to buy more and pay less. We are not the economic regulator for the whole rail industry, but we have an important role to play in driving down costs across the industry.

In particular, we will:

- Make sure that Network Rail is as efficient as it can be – in terms of the scope and quality of the work it does and what it costs to do it.
- Support innovation in the industry, driving new and better ways of doing things and secure whole sector efficiency.
- Enable customers and funders to make informed choices.
- Ensure that markets in the rail industry work effectively.
- Ensure that we do not compromise the safety and long term sustainability of the industry, taking advantage of the synergies between continuous improvement in health and safety and good business management.

What do we want the rail industry to achieve?

We want to see:

- Network Rail on track to deliver its CP4 efficiencies, bringing benefits to customers, and taxpayers.
- More clarity on how Network Rail’s efficiency is measured, and robust data showing what efficiencies it has achieved.
• Network Rail staff effectively incentivised to deliver and outperform against the CP4 targets we set for the company.

• Funders and other stakeholders able to understand the flow of costs, revenues and subsidy in the industry, making informed choices and engaging in informed debate as a result.

• More partnership working across the industry.

• Improvements in asset management excellence trajectory.

• Network Rail continuing to deliver continuous improvement in health and safety.

To make this happen we will:

• Hold Network Rail to account for delivering the targets we set the company for CP4.

• Ensure that Network Rail has in place robust data, systems and processes for reporting efficiency and publish an assessment of the company’s efficiencies that is robust and transparent. This will include providing clarity on the payments the company will make to TOCs that have helped it to achieve efficiencies under our efficiency benefit sharing mechanism.

• Set out the regulatory framework we will use for PR13, which will drive costs down through CP5. We will provide further detail on specific approaches including:
  -mechanisms to improve the alignment of incentives (including regional efficiency benefit sharing, schedules 4 and 8); and
  -the role of charges in recovering cost and sending signals for efficient use of the network.

• Monitor Network Rail against the milestones set out in our Strategic Business Plan (SBP) requirement letter to ensure that it provides a challenging and robust SBP for CP5, and sets that plan in a long term context.

• Take account of comments we receive on our alliancing policy statement, publishing a revised version as appropriate.

• Work with Network Rail and the industry to ensure that the building blocks for concessions are in place.

• Monitor Network Rail against key components of the overall asset management excellence trajectory. In the key areas of asset knowledge and maintenance planning their January 2013 target is 56% (current score 45%).

• Monitor and assess how the industry is progressing against its plans to provide high-quality information to passengers, particularly when things go wrong.

• Publish a report providing comparative data on TOC costs, revenues and subsidy.

• Conclude our work on the provision of real time train information.

• Publish our second report on whole industry costs, moving to a greater level of disaggregation than our first report.
Our success measures include:

- Network Rail delivers its CP4 efficiencies.
- Network Rail is driving towards best practice in asset management, including asset condition data; and delivers the agreed trajectories for excellence in asset management.
- An agreed and improved approach for calculating and reporting efficiencies is in place, providing stakeholders with greater transparency and confidence, and ensuring Network Rail is held to account.
- More partnership working and alliances between Network Rail and TOCs, with appropriate safeguards in particular on transparency and without discrimination.
- The PR13 programme plan is delivered, laying the foundations for CP5 cost reductions.

How will we do this?

- By working collaboratively with the industry to understand how best to align incentives through the value chain to deliver what customers and taxpayers want in the most efficient way.
- By working with Network Rail on key enablers designed to deliver improvements in its business and safety management now and in the long term. For CP4, these enablers include excellence in asset management. In this year, we will develop appropriate enablers for CP5.

Key dates for 2012-13 include:

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<th>Date</th>
<th>Event Description</th>
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<tr>
<td>April 2012</td>
<td>Publish our ‘Setting the financial and incentive framework for CP5’ document, following our consultations in 2011.</td>
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<tr>
<td>August 2012</td>
<td>Publish annual assessment of Network Rail – financial efficiency.</td>
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<td></td>
<td>Produce consultation on Network Rail’s required outputs, business enablers and KPIs.</td>
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<tr>
<td>September 2012</td>
<td>Publish our report on TOC cost efficiency benchmarking.</td>
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<tr>
<td>January 2013</td>
<td>Network Rail produces its Strategic Business Plan for CP5.</td>
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<tr>
<td>February 2013</td>
<td>Publish our second report on whole-industry costs.</td>
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2. A sharper focus on customers

What does this mean?
The industry needs to develop a sharper focus on customers to ensure passengers and freight customers benefit from improved safety, efficiency and capacity. Ultimately, the railway exists to benefit the people who use it - passengers and freight customers. There are constraints – not least, money: it is not possible to deliver everything that everyone wants. But in everything we do, we will ask how we can maximise the benefits to rail users.

What do we want the rail industry to achieve?

- Network Rail must deliver its performance targets so that fewer trains are late, and in particular, fewer trains are very late (more than 30mins) or cancelled.
- Network Rail improves its working methods so that when engineering works take place more trains should run and there should be less reliance on buses. Fewer engineering jobs should overrun.
- Network Rail's work (as part of £8bn enhancements programme) to increase capacity and improve stations are delivered on time, so amongst other things longer trains can run.
- A more competitive freight market which benefits customers.
- Passengers will get better information to help them plan their journeys and make better choices, including when services are disrupted.
- Passenger and freight satisfaction scores will increase.

To make this happen we will:

- Hold Network Rail to account to deliver the enhancement projects it has committed to complete.
- Take enforcement action, when necessary, to secure benefits to passengers and freight customers.
- Ensure the industry works to the new code of practice and local delivery statements to deliver improvements in the information supplied to passengers about their journey.
• Publish new, more detailed information on train performance.
• Regularly publish our analysis of Network Rail's delivery and increase the range of data available.
• Develop our understanding of passenger satisfaction so that it can be benchmarked against other operators/countries.
• Ensure that decisions on capacity allocation take full account of the impact on passenger and freight customers.
• Contribute to the Department for Transport’s fares and ticketing review.
• Influence the European agenda to ensure alignment and consistency with our strategy and objectives.
• Do the work this year to help deliver further improvements in the future:
  - defining what outputs Network Rail will need to deliver from 2014 onwards; and
  - securing a high quality Strategic Business Plan from Network Rail.

Our success measures include:

• Network Rail successfully delivers its CP4 output obligations, including performance, capacity and reducing disruption to passengers from engineering work, delivering benefits to funders, customers and taxpayers.
• Passengers benefit from more timely, appropriate and accurate information so that they can plan their journeys with a reasonable degree of assurance.
• There is a continued increase in overall passenger and freight customer satisfaction.
• Zero industry-caused passenger fatalities and an ever decreasing overall safety risk.

How will we do this?

• By working collaboratively with Network Rail and the industry to ensure they are effectively meeting their commitments and responding to passenger and freight customer requirements.
• Continue working with Passenger Focus, London Travel Watch and the Forum of Consumer Experts to increase our understanding of consumer issues and debate options for targeting our interventions.
• By working with the industry to get a better understanding of how in practice they deliver to their customers and to ensure best practice is applied.
### Key dates for 2012-13 include:

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<th>Date</th>
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<tr>
<td><strong>May 2012</strong></td>
<td>Publish more disaggregated data on train performance. Report on findings from research study on passengers’ perceptions of ticket complexity.</td>
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<tr>
<td><strong>September 2012</strong></td>
<td>Undertake a Freight Customer Survey and publish findings.</td>
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<tr>
<td><strong>October 2012</strong></td>
<td>Publish a report which focuses on consumer awareness of current refund rights on season tickets.</td>
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<tr>
<td><strong>November 2012</strong></td>
<td>Monitor and evaluate the success of remedies put in place to address issues identified in the Freight Sites market review.</td>
</tr>
<tr>
<td><strong>January 2013</strong></td>
<td>Network Rail produces its Strategic Business Plan for CP5, placing this in the longer term context.</td>
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<tr>
<td><strong>Each quarter</strong></td>
<td>Publish the Network Rail Monitor each quarter.</td>
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3. Excellence in safety culture and management across the industry

What does this mean?

- Achieving excellence in safety culture and management is an essential element of our strategy as we seek to ensure a zero tolerance to industry-caused passenger, workforce and public fatalities, with an ever decreasing overall safety risk. There will also be an increased emphasis on occupational health management to ensure the industry's approach demonstrates good practice and also contributes to increased efficiency.

What do we want the rail industry to achieve?

Passenger safety

- A 5% reduction over the year in train accident risk to passengers in terms of fatalities and weighted injuries on the mainline railway as measured by the Precursor Indicator Model and 5% improvement in fatalities and weighted injuries per passenger journey on London Underground.

- Reduced passenger harm at the platform – train interface on the mainline railway as measured by the Fatality Weighted Injury (FWI) index per passenger journey.

Workforce safety

- Across the whole industry the workforce's safety improves by 5% as measured by FWI per 1,000,000 hours worked per year.

Public safety

- The risk to the public at level crossings is reduced by 7% as measured by the precursor indicator for fatalities and weighted injuries to the public.
Industry’s Management Maturity

- We see, over a period of either one or two years, a noticeable improvement in the overall position in the maturity model's components for at least 5 significant dutyholders, covering all parts of the industry e.g. a part of Network Rail, LUL, train and freight operators.

Major incidents

- No major incident occurs that can be attributed to management failures of the industry.

To make this happen we will:

- Carry out a planned programme of statutory work, proactive inspection/audit, investigations, policy, dutyholder liaison and intelligence-gathering work.

- Deliver our planned proactive work, which is designed around nine programmes that were devised at the beginning of the control period. These cover either the areas identified by the risk profile, or enablers i.e. those areas of the safety management system that are key to protecting against risk.

The nine programmes:

- Safety management systems;
- Industry staff competence;
- Management of change;
- Interface system safety;
- Asset safety;
- Construction/CDM compliance;
- Workforce safety;
- Workforce occupational health; and
- Europe.

The key safety risks that we will focus on this year are:

Level crossings

- An audit inspection on Network Rail’s management of risk assessment and control of risk at level crossings.

Change in the industry

- Audit and inspection of the management of change arising from Network Rail’s devolved routes, and alliances with train operating companies.
Workforce safety

- Testing London Underground’s engineering protection arrangements; On site inspections on Network Rail construction sites regarding, for example, Road Rail Vehicle Operations.

Signals passed at danger and irregular working

- Inspection of higher risk dutyholders to check their management of fatigue.

System interface risks

- Our low adhesion inspection and follow up on dutyholder plans for Autumn 2012.

Infrastructure failures

- Assessing track access arrangements in Network Rail for key track inspection and maintenance.
- Assuring the implementation of Network Rail’s final actions to complete the last of the Grayrigg recommendations.

Occupational health

- Proactive inspection to secure legal compliance, targeting hand arm vibration and hazardous substances.

Other key activities

- Permissioning activities i.e. safety authorisations, safety certifications, approvals and certification of entities in charge of maintenance.
- Delivery of IGC’s and CTSA’s functions by providing support to members of the UK delegations and co-ordinating meetings and secretariat functions.
- Legislative policy work arising from domestic and European sources, including introducing a new process for managing the new entities in charge of maintenance regime, train driver licensing requirement and a process for facilitating cross-border traffic.

Our work in addressing the key safety risks includes:

- Audit, inspection, investigation and enforcement;
- Authorising, certifying and supervising safety management systems;
- Intelligence-gathering and policy development; and
- Working with stakeholders including Government departments, industry bodies, worker representatives and other enforcing authorities.

Some 50% of our operational inspectors’ time will be assigned to proactive inspection and audit.
Our success measures include:

- Delivery of planned commitments in our nine health and safety programmes.
- Improved safety performance and culture in line with the metrics above (i.e. on passenger safety, workforce safety, risk to the public at level crossings and the industry's management maturity).

How will we do this?

- Use the full range of our powers and influence to encourage and challenge the industry to develop its health and safety management to a level of excellence.

Key dates for 2012-13 include:

<table>
<thead>
<tr>
<th>September 2012</th>
<th>Publish ORR's annual safety report to ERA.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Ensure the Law Commission’s draft Bill and regulations for level crossings reform meet ORR aspirations.</td>
</tr>
<tr>
<td>December 2012</td>
<td>Review and report on enforcement regime for Rail Vehicles Accessibility Regulations/Persons with reduced mobility TSI.</td>
</tr>
<tr>
<td>March 2013</td>
<td>Ensure that amendments are made to Railways and Other Guided Transport Systems Regulations (to implement directive changes and improve outcomes).</td>
</tr>
<tr>
<td>Throughout the year</td>
<td>Conduct a review of the health and safety (Enforcing Authority Railways and other guided transport systems) Regulations 2006.</td>
</tr>
<tr>
<td></td>
<td>Our major audit and inspection activities take place throughout the year, and our policy activities are scheduled in line with European developments or domestic legislative change.</td>
</tr>
</tbody>
</table>
Our approach to delivery

Our functions

Our functions as economic regulator of the mainline railway include setting Network Rail’s funding to enable it to carry out its work efficiently, ensuring that it delivers the agreed outputs whilst improving its own efficiency.

As a competition and consumer authority, we use our powers to ensure that users and funders of railway services benefit from competitive railway markets and passengers are treated fairly.

As the National Safety Authority, we regulate health and safety for the entire mainline rail network in Britain as well as London Underground, light rail, trams and the heritage sectors.

Our approach

We have a wide range of regulatory levers at our disposal and we will continue to develop these – for example, by using and publishing more disaggregated analysis, and taking a whole-industry approach. These range from ‘soft’ influencing, dialogue with the industry and agenda-setting on issues at one end of the spectrum through to audit, inspection and enforcement at the other. We use all of them depending on the circumstances.

In choosing between these levers, and in considering how to use them, we aim to be proactive; to focus on outcomes; to base what we do on evidence, and regulate proportionately to risk; and to look for collaboration or industry-led solutions wherever they achieve the best results.

We always aim to ensure that our approach across the industry is consistent and proportionate to the risks and outcomes at stake.

Our economic and health and safety functions involve managing very different kinds of risk, using different legal frameworks. We are developing a common understanding of risk and how best to manage it and putting this at the heart of our combined economic and safety role.

We aim at all times to exemplify the principles of better regulation – proportionality, consistency, accountability, transparency and effective targeting.

We will also be addressing the findings from the recent Capability Review of ORR. The Review identified many positives for the organisation - we are rated as a professional organisation by our stakeholders with both committed and capable staff. The Review also identified areas in which we could do better and these ranged from aspects of our governance and processes, to specific areas of skills, succession planning and our change management capability.
## Key Timings in 2012-13

<table>
<thead>
<tr>
<th>Quarter 1 (April-June)</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Publish our ‘Setting the financial and incentive framework for CP5’ document, following our consultations in 2011.</td>
</tr>
<tr>
<td>- Publish more disaggregated data on train performance.</td>
</tr>
<tr>
<td>- Consult on our approach to transparency.</td>
</tr>
<tr>
<td>- Consult on efficiency benefit sharing and alliancing.</td>
</tr>
<tr>
<td>- Report on findings from research study on passengers perceptions of ticket complexity.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Quarter 2 (July-September)</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Assess Network Rail’s efficient delivery of renewals and enhancements.</td>
</tr>
<tr>
<td>- Ensure that the Regulatory accounts for 2011-12 are delivered according to the reporting requirements.</td>
</tr>
<tr>
<td>- Produce and publish an annual financial performance and efficiency review for 2011-12.</td>
</tr>
<tr>
<td>- Undertake a review of ORR’s approach to sustainable development.</td>
</tr>
<tr>
<td>- Produce updated econometric benchmarking based on international regional data.</td>
</tr>
<tr>
<td>- Ensure the Law Commission’s draft Bill and regulations for level crossings reform meet ORR aspirations.</td>
</tr>
<tr>
<td>- Undertake a Freight Customer survey.</td>
</tr>
<tr>
<td>- Produce a Train Operating Company (TOC) cost efficiency benchmarking report.</td>
</tr>
<tr>
<td>- Produce consultation on Network Rail’s required outputs, business enablers and KPIs.</td>
</tr>
<tr>
<td>- Publish ORR’s annual safety report to ERA.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Quarter 3 (October-December)</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Finalise and implement changes to the station access contractual regime.</td>
</tr>
<tr>
<td>- Explore consumer awareness of current refund rights on season tickets. Publish a report of our findings together with recommendations.</td>
</tr>
<tr>
<td>- Monitor and evaluate the success of remedies put in place to address issues identified in the Freight Sites market review.</td>
</tr>
<tr>
<td>- Review and report on enforcement regime for Rail Vehicles Accessibility Regulations/Persons with reduced mobility TSI.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Quarter 4 (January-March)</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Consult/assess Network Rail’s strategic business plan.</td>
</tr>
<tr>
<td>- Produce and publish whole industry accounting information.</td>
</tr>
<tr>
<td>- Ensure that necessary amendments are made to the Railways and Other Guided Transport Systems (Safety) Regulations 2006 (ROGS).</td>
</tr>
<tr>
<td>- Conduct a review of the Health and Safety (Enforcing Authority Railways and Other Guided Transport systems) Regulations 2006.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Continuous activities throughout 2012-13</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Deliver our nine planned health and safety work programmes.</td>
</tr>
<tr>
<td>- Ensure timely and efficient investigation of selected accidents, incidents and complaints and appropriate enforcement action.</td>
</tr>
<tr>
<td>- Conduct audits and inspections to address key health and safety risks.</td>
</tr>
<tr>
<td>- Ensure availability and performance of the ORR data portal, and that it evolves to meet user needs efficiently.</td>
</tr>
<tr>
<td>- Assess Network Rail’s progress towards excellent asset management.</td>
</tr>
<tr>
<td>- Ensure delivery of our statutory obligations.</td>
</tr>
<tr>
<td>- Ensure our policy activities are scheduled in-line with European developments or domestic legislative change.</td>
</tr>
<tr>
<td>- Ensure that RAIB recommendations are processed and handled.</td>
</tr>
</tbody>
</table>
Our resources
Our budget for the delivery of our 2012-13 business plan totals £30.7m. This has been held at the same level as 2011-12.

Our funding will support the delivery of our three priorities:

- Reducing the industry's costs (29% of budget).
- A sharper focus on customers (19% of budget).
- Excellence in safety culture and management across the industry (52% of budget).

The key areas of work that we will carry out are set out in this plan with more detail provided in our separate activity table.

Our resource plans will be subject to ongoing review throughout the year.

Our expenditure is recovered through a safety levy (payable by all industry duty holders) and a licence fee (payable by Network Rail). We also receive other income via fees for our contribution to the work of the Channel Tunnel Safety Authority, the Intergovernmental Commission and High Speed One.

Any excess income for 2011-12 will be refunded in 2012-13 by way of a reduction in the safety levy and licence fee.

Our five year budget projection (2012-13 prices)

<table>
<thead>
<tr>
<th></th>
<th>09-10 budget</th>
<th>10-11 budget</th>
<th>11-12 forecast</th>
<th>12-13 forecast</th>
<th>13-14 forecast</th>
<th>Total for CP4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business plan 2009-10</td>
<td>34.7</td>
<td>34.7</td>
<td>34.1</td>
<td>33.4</td>
<td>33.0</td>
<td>169.9</td>
</tr>
<tr>
<td>Business plan 2010-11</td>
<td>33.5*</td>
<td>34.2</td>
<td>33.1</td>
<td>33.0</td>
<td>32.5</td>
<td>166.2</td>
</tr>
<tr>
<td>Business plan 2011-12</td>
<td>33.5*</td>
<td>31.7</td>
<td>31.7</td>
<td>30.7</td>
<td>30.2</td>
<td>157.8</td>
</tr>
<tr>
<td>Business plan 2012-13</td>
<td>33.5*</td>
<td>30.2**</td>
<td>29.8***</td>
<td>30.7</td>
<td>30.7</td>
<td>154.9</td>
</tr>
</tbody>
</table>

Notes:
RPI used to adjust FY09-10 and FY11-12 figures. Inflation between 2010-11 and 2011-12 assumed to be at 4.8% (Dec 2010 RPI annual rate).
*Actual expenditure for FY 09-10 uprated by RPI.
**Actual expenditure for 10-11 uprated by RPI from March 2011 to January 2013.
***Predicted expenditure for 2011-12 uprated to January 2013 price base.
### Income – business plan 2012-13 (2012-13 prices)

<table>
<thead>
<tr>
<th></th>
<th>09-10 budget</th>
<th>10-11 budget</th>
<th>11-12 forecast</th>
<th>12-13 forecast</th>
<th>13-14 forecast</th>
<th>Total for CP4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safety levy</td>
<td>19.6</td>
<td>17.2</td>
<td>17.1</td>
<td>16.2</td>
<td>16.2</td>
<td>86.4</td>
</tr>
<tr>
<td>Licence fee</td>
<td>12.3</td>
<td>11.3</td>
<td>10.9*</td>
<td>13.0</td>
<td>13.0</td>
<td>60.5</td>
</tr>
<tr>
<td>Channel Tunnel</td>
<td>1.3</td>
<td>1.4</td>
<td>1.4</td>
<td>1.3</td>
<td>1.3</td>
<td>6.8</td>
</tr>
<tr>
<td>Other income</td>
<td>0.2</td>
<td>0.3</td>
<td>0.3</td>
<td>0.2</td>
<td>0.2</td>
<td>1.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>33.5</strong></td>
<td><strong>30.2</strong></td>
<td><strong>29.8</strong></td>
<td><strong>30.7</strong></td>
<td><strong>30.7</strong></td>
<td><strong>154.9</strong></td>
</tr>
</tbody>
</table>

*the underspend in 2011-12 will be refunded to the industry.

### Permanent headcount (whole time equivalent)

<table>
<thead>
<tr>
<th></th>
<th>2008-9 actual</th>
<th>2009-10 actual</th>
<th>2010-11 actual</th>
<th>2011-12 forecast</th>
<th>2012-13 forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>332</td>
<td>301.7</td>
<td>299.4</td>
<td>286.6</td>
<td>286.1</td>
<td></td>
</tr>
</tbody>
</table>