



OFFICE OF RAIL REGULATION

ORR Business plan consultation Financial Year 2013-14

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Foreword

The Office of Rail Regulation is the combined specialist safety and economic regulator for the rail industry. We are the economic regulator for infrastructure (Network Rail and HS1), the safety regulator for the rail industry as a whole – including main line, metro and tram lines across Britain - and the industry's consumer and competition authority. This document invites views on our proposed activities and objectives for 2013-14.

This year will see the completion of our Periodic Review of Network Rail's outputs and funding for the five years to 2019-20. We will drive for the best possible outcome for the railway's customers and for taxpayers, including stretching but achievable efficiency improvements, better and more reliable services, and investments which improve the railway's capacity and resilience, and which underpin safety and sustainability. Alongside the Periodic Review, we will set out our longer-term vision for regulation of the rail industry setting out how, over the next five years and beyond, we will work with the industry towards a regulatory framework which sees the industry taking more responsibility for how the railway is delivered, with less detailed regulatory intervention over time. We will also be improving our focus on the railway's delivery for its customers, both as regulator and in our role as consumer authority for the industry. We will continue to focus on the safety of the railway, both ensuring that rail businesses comply with their safety duties and focusing on improving the management of key health and safety risks across the industry. And we will continue to work with the industry to promote transparency – both improving the availability of information for passengers planning journeys, and the data available to funders and taxpayers on the costs of the railway to inform funding decisions.

Reflecting our longer-term approach to regulation of the rail industry, we have established a new set of strategic objectives for the ORR. This document sets out our direction of travel to 2030, what we aim to achieve between now and 2020, and what we will do in 2013-14 to make progress against our strategic objectives. We have identified efficiency savings across our activities for 2013-14 which result in a cash saving of 2.5% reduction on our annual cost in cash terms or 4% in real terms.

We want to hear what you think. We would be delighted if you could join us at our consultation event on 7th February at our office in London and at our forthcoming event in Scotland – or alternatively we would be happy to receive comments in writing, responding to the questions posed at the end of this document.

Richard Price, Chief Executive, Office of Rail Regulation

Overview of ORR's 5 Strategic Objectives

This year, the ORR Board agreed a new set of strategic objectives for our regulation of the rail industry in the coming decades. The strategic objectives provide the framework for what we aim to achieve in 2013-14 and form the basis for planning and managing our business over the coming years.

1. Drive for a safer railway: Enforce the law and ensure that the industry delivers continuous improvement in the health and safety of passengers, the workforce and public, by achieving excellence in health and safety culture, management and risk control.

2. Support a better service for customers: Use our powers to hold the industry to account for performance and standards of service across the railway network, for passengers and freight. Promote on-going improvement in the experience of passengers by encouraging the industry to work together, including to provide greater transparency of information.

3. Secure value for money from the railway, for users and funders: Strengthen incentives for the whole industry to work together to drive greater efficiency from the use and maintenance of existing railway capacity, and more cost-effective investment in the network.

4. Promote an increasingly dynamic and commercially sustainable sector: Support sustainable economic growth by promoting innovation and efficient long-term investment across the rail industry through the appropriate development of effective markets and regulatory intervention.

5. Be a high-performing regulator: Develop and apply proportionate and risk-based regulation, taking a whole-sector approach. Make more effective use of our resources across safety and economic functions, maximise the value of our regulation while minimising the costs of compliance for the industry.

What will be different in 2013/14

The ORR has used the new strategic objectives set out above to frame the activities we plan for 2013-14. Our aim is to improve outcomes for rail users, funders and the public; as well as the safety of all who come into contact with the railway. Our activities for 2013-14 both encourage industry improvement and change during this year, and prepare for further improvements in future years as we make progress towards the strategic objectives.

The following pages set out what our objectives mean in terms of longer-term change, and in that context, what we expect our plan to achieve by the end of 2013-14. In line with our objectives, we will make changes in a number of our activities during 2013-14. The principal areas in which you can expect to see changes in the next year are as follows:

Improving transparency and quality of information for decision-making by customers, industry players, government, and regulators, including:

- Ensuring that better benchmarking data are widely available on infrastructure and service provision
- Giving customers timely information to inform their purchase and travel choices
- Ensuring that accurate real-time travel information is available for passengers
- Driving for greater accuracy and transparency of right-time information
- Improving information on whole industry costs by simplifying and explaining the flows of revenue and subsidy and where this goes
- Challenging Network Rail to use best practice in procurement to drive efficiency

Improving understanding of **what drives customer value** and using this to:

- Use proactively all regulatory levers to ensure the industry delivers an improved customer experience
- Inform decision-making by the industry, ORR and Government
- Maintain pressure on industry to improve customer experience by setting new regulatory targets and KPIs, holding the industry to account, identifying best practice
- Improving customer perceptions of value by demonstrating what people are getting for their money and what represents value for money (when compared with other railways and industries)

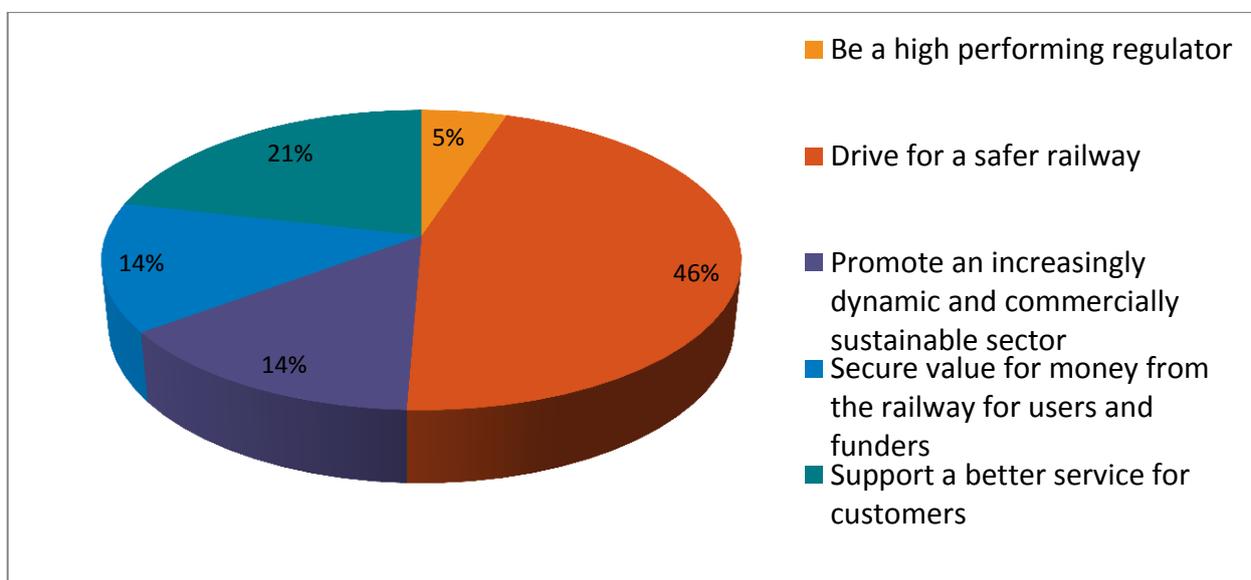
- Explaining how the £4bn of annual public subsidy is used and how it drives value for passengers, freight customers and taxpayers.

Maintaining pressure on the **whole industry to work better together** by:

- Moving from regulatory-driven change to industry-led change by creating the right conditions for markets to work effectively together with better data transparency and encouraging changes in approach e.g. over operational network capacity and efficiency benefit sharing mechanisms
- Putting customers at the centre of the industry by using what matters to them and a better understanding of how interfaces work to drive holistic improvement e.g. capacity management
- Improving performance monitoring by defining metrics that are meaningful to customers, reflecting what matters to them in their experience of using the railway, and monitoring the whole industry against them
- Taking a whole-system approach to railway safety and increasingly embedding best practice and self-monitoring
- Ensuring that the UK rail industry works effectively with Europe

How the ORR is deployed against delivering its Strategic Objectives

Strategic objective	Total Whole Time Equivalent staff numbers deployed	% of ORR workforce
Be a high performing regulator	14	5%
Drive for a safer railway	132	46%
Promote an increasingly dynamic and commercially sustainable sector	40	14%
Secure value for money from the railway for users and funders	40	14%
Support a better service for customers	60	21%



ORR Objective 1: Drive for a safer railway: Enforce the law and ensure that the industry delivers continuous improvement in the health and safety of passengers, the workforce and public, by achieving excellence in health and safety culture, management and risk control.

Priorities for 2013/14

Exercise our statutory responsibilities in line with our published policies and procedures, including the strategic risk priorities that guide our approach to planned inspection and audit, by:

- Continuing to target half of our front-line inspection activity with Network Rail and other railway duty holders on high risk activities, including the condition and management of structures and earthworks, new electrification schemes, and employee competence.
- Ensure that the industry acts in response to known safety issues that are raised, including recommendations made by the Rail Accident Investigation Branch, particularly those in the 'James Street' report, that require the industry to consider the risks for passengers getting on and off trains;
- Continue to extend use of ORR's Railway Management Maturity Model (RM3), which measures how well duty holders are managing health and safety risks on the railway.
- Continue to conduct our formal investigation of accidents and incidents and formal enforcement work in an efficient, effective and timely fashion.
- Ensure duty holders identify and secure further safety improvements for workers when maintaining and renewing the railway infrastructure.
- Ensure that the industry is aware of changed Common Safety Methods provisions and has adequate processes in place to deliver these changes;
- Perform our on-going duties to issue Level Crossing orders, safety certificates and train driving licences.

We want to see by 2020

- Continue with our occupational health programme, requiring the industry to make a step change in its approach to managing health risks.
- The achievement of zero industry-caused fatalities to the public, passengers and the rail workforce.
- 50% of railway duty holders should be able to demonstrate 'excellence in health and safety' as defined in RM3.
- There should be a continued reduction in the need for ORR to take formal enforcement action in response to failures by duty holders to maintain health and safety on the railway.
- Good understanding and control of total system risk

Vision for 2030:

- Britain's railway industry is the world leader in operating a network that protects and promotes the health and safety of its passengers, the workforce and the public.
- We want all duty holders to demonstrate excellence in health and safety so that we consistently see zero industry caused fatalities year-on-year across the rail network by 2030.
- Continuous improvement should be led by the industry itself, demonstrating excellence in healthy and safety management, increasingly achieved through self-regulation with less and less need for intervention by ORR.

How will we measure our progress?

- We will track improvements in outcomes from the industry risk models, in particular to infrastructure failure risk in 2013/14.
- We want to see a continual reduction in the number of top high risk events and major injuries
- Evidence of an improvement in the measured outcomes under the RM3 model for each and every duty holder.

ORR Objective 2: Support a better service for customers: Use our powers to hold the industry to account for performance and standards of service across the railway network, for passengers and freight. Promote on-going improvement in the experience of passengers by encouraging the industry to work together, including to provide greater transparency of information.

Priorities for 2013/14

- Review ORR's activities and processes to ensure that we put the interests and priorities of rail customers at the heart of what we do. Consider how we can make industry transparency act in the best interests of customers.
- Conduct regular reviews of Network Rail's plans to improve punctuality and reliability on the Long Distance and London South East sectors to ensure that they achieve the performance agreed in Control Period 4 (2009-14).
- Enhance our capability to analyze and publish rail performance data, including for the direct benefit of passengers.
- Develop a policy framework to guide improvements in the availability and clarity of customer information about rail performance and standards, building on actions already taken to make the rail industry more directly accountable to its customers.
- Conduct new research to understand the aspects of rail services that customers most value, to help prioritise ORR's activities and inform policy development. Also consider customer research into ticketing complexity
- Work with the rail freight industry to ensure that its status as an important customer of rail infrastructure is recognised and enhanced, including through a new Freight Customer Panel
- Implement our duties under the Equality Act to improve the accessibility of the railway for disabled people.
- Work with Network Rail and train operators to learn from the experience of delivering the 'Joint Performance Improvement Plans' and to share best practise across the industry.

We want to see by 2020

- Consumers feel well-informed when making choices about whether, when and how to use the railway. An industry in which the customer experience is comparable with the best consumer experience in any sector.
- The ready availability of high quality, trusted information about railway performance, costs and funding meaning that customers and taxpayers understand how their fares or taxes are used on the railway.
- A regulatory and policy environment which applies a strong understanding about customer value in the decisions and actions taken about rail.
- An industry that is directly accountable to its customers for service quality, performance and value for money.
- Industry data made more widely available to third parties, resulting in greater richness of consumer electronic applications that improve the customer experience of using the railways.

ORR's vision for 2030:

- A railway run primarily in the interests of its customers, both passengers and freight, where companies are able to benefit from the rewards of putting their customers first.
- Passenger service and experience should be the highest ever in 2030. We want the industry to deliver consistent year-on-year improvements in levels of passenger satisfaction.
- Rail freight should continue to play an important role in Britain's logistics, on an increasingly flexible and capacious network that can more efficiently and effectively meet the demands of both passenger and freight services.

How will we measure our progress?

- We will continue to collect and publish performance data for the railway, including the Train Operator Benchmarking II report, Whole Industry Costs II, and the passenger experience report, as well as the data regularly published in the Network Rail Monitor.
- We will continue to develop a whole industry approach to performance monitoring, including the continued monitoring of passenger information, particularly during service disruption.

ORR Objective 3: Secure value for money from the railway, for users and funders: Strengthen incentives for the whole industry to work together to drive greater efficiency from the use and maintenance of existing railway capacity, and more cost-effective investment in the network.

Priorities for 2013/14

Deliver Periodic Review 2013 (PR13), in particular:

- Agree a set of regulated outputs, targets and indicators which reflect what customers and society want and allow us to hold Network Rail to account whilst not stifling innovation and micro-managing it.
- Create incentives and processes which deliver a significant improvement in Network Rail's capabilities – including a set of comprehensive targets for Control Period 5 (2014-19) about asset condition, and metrics on capacity management and system operation. Also create a framework which encourages outperformance, innovation and collaboration that facilitates sensible decisions on trade-offs
- A challenging but achievable efficiency target for Network Rail
- Early and detailed engagement with passenger and freight train operators and the ORR in the process of scoping the High Level Output Statement (HLOS) enhancement portfolio to ensure that projects deliver the railway its customers need it to operate
- More cost reflective charging in CP5 and a path for further development of cost reflectivity and incentives in CP6

We want to see, by 2020

- Innovations in industry structure (including successful alliances between train operators and Network Rail, and between Network Rail and the supply chain) and industry behaviours (better working together) driving value for users and taxpayers from the railway as a whole and not disadvantaging third parties
- Network Rail planning based on accurate asset and capacity data
- Cross Industry collaborative rollout of new technology such as European Rail Traffic Management System (ERTMS) that has learnt the lessons of previous national projects
- Network Rail investments prioritised via robust Whole Life Cost models
- More cost reflective charges, which in turn provide real incentives for efficient provision and usage of the network (includes greater exposure of train operators to Network Rail's cost, and more of Network Rail's costs recovered through charges rather than grant)
- More use of comparative economic regulation including proven international benchmarking

ORR's vision for 2030:

- With growing demand and increased efficiency Britain could have a railway by 2030 that can largely meet its own costs from the revenues that it generates, with less subsidy, but with that subsidy better directed to deliver the greatest social and economic benefit
- We want to have a railway that understands and reflects the real costs of its operation, including access charges that accurately reflect the cost of using the network.
- A railway which is internationally recognised as being highly efficient
- Rail services and investment more driven by commercial incentives

How will we measure our progress?

- Network Rail delivers against the targets, KPIs and enablers we set out in our determination and at least meets the efficiency challenge we have set it.
- Whole industry performance KPIs for the Public Performance Measure (PPM), Cancellation and Serious Lateness (CASL) etc.

ORR Objective 4: Promote an increasingly dynamic and commercially sustainable sector: Support sustainable economic growth by promoting innovation and efficient long-term investment across the rail industry through the appropriate development of effective markets and regulatory intervention.

Priorities for 2013/14

- The publication of our vision and objectives for the sector in a Long-Term Regulatory Statement, to be consulted on later in 2013.
- Progressive developments in the shape and structure of rail markets, including devolution within Network Rail, the effective use of infrastructure alliances and more real-cost pricing in all rail markets.
- Active participation in industry leadership forums such as RDG and NTF to ensure our approach to regulation incentivises greater whole industry collaboration and efficiency.
- Engagement in the development of EU rail policy to promote alignment with UK objectives, and to encourage open markets, competition and interoperability across the Europe.
- Drive better industry transparency as a way of achieving market driven regulation

We want to see, by 2020

- Greater pluralism in the way that railway services are provided, including successful devolution of Network Rail infrastructure to route levels, use of alliances where appropriate, and closer working between infrastructure providers and service operators across the whole network.
- The creation of an effective and efficient System Operator function that will help to enable greater efficiency and flexibility in an increasingly complex and busy network.
- A European policy landscape that is consistent with and supportive of UK objectives for rail.

ORR's vision for 2030:

- A railway which continues to grow sustainably by developing new services and attracting new passenger and freight.
- A self-sustaining rail industry that is much less reliant on Government for direction and for finance, with need for less regulatory intervention.
- A sector that makes an even greater contribution regionally and nationally to connectivity, well-being and economic growth.

How will we measure our progress?

- PR13 aims to deliver significant progress in the development of dynamic and commercially sustainable rail markets by the end of Control Period 5 (2014-19).
- ORR will consult on its Long-Term Regulatory Statement by summer 2013. The outputs from this consultation will inform ORR's planning of its medium and long term priorities for CP6 and beyond.

ORR objective 5: Be a high-performing regulator: Develop and apply proportionate and risk-based regulation, taking a whole-sector approach. Make more effective use of our resources across safety and economic functions, maximise the value of our regulation while minimising the costs of compliance for the industry.

Priorities for 2013/14

- Develop a common vision with stakeholders for the future of rail regulation in the UK, including through consultations with industry conducted as part of PR13, and in light of policy developments in government.
- Improve our approach to applying proportionate and risk-based regulation across safety and economic functions. Strengthen our accountability to our stakeholders and the public, and be transparent about the cost of our regulation and also the public and social value which we deliver.
- Develop an ORR workforce plan to enhance our technical capability
- Continue to reduce our overhead costs. Explore opportunities for shared-services or federation with other appropriate public bodies

We want to see, by 2020

- A more integrated and effective approach to independent regulation of rail in the UK, that creates less complexity and cost to the industry and its customers.
- Successful integration of any logical extensions to ORR's role.
- ORR as a trusted and respected regulator by industry, government and rail customers.
- Significant sharing or federation with other regulatory or other governmental organisations to deliver more efficient use of resources.

ORR's vision for 2030:

- A rail industry that takes the lead in delivering a safe, efficient railway which continuously improves in the interests of its customers, with substantially less government or regulatory intervention
- A single independent regulatory authority for the whole rail industry that is proportionate, risk-based and maximises the value of regulation while minimising the costs of compliance for the industry.
- A regulatory environment that supports commercial behaviour which is in the interests of customers and society, only intervening proportionately where absolutely necessary.

How will we measure our progress?

- We hold ourselves increasingly accountable for our performance, both against comparable regulatory bodies and against the principles of better regulation set out by government.
- Establish a clear method of assessing our own impact on the industry.
- Continuing to benchmark overhead costs with other regulators.

ORR Budget

The ORR will work within a reduced budget envelope for 2013-14 and in December the Executive proposed an overall budget envelope of £29,960k. This plan delivers result a 2.5% reduction on our annual cost in cash terms, or 4% in real terms, compared with 2012-13.

This will be achieved principally by:

- Absorbing a planned Central Government-wide 1% salary increase
- Moving resource from support activities to Transparency, Policy, Consumer and Periodic Review-related activity
- Reducing non-pay budgets including travel, training, recruitment, telecoms and outsourcing costs
- Reducing consultancy budget

Questions

The ORR is keen to receive feedback on its business plan proposals from stakeholders and would like to receive responses on some or all of the following:

1. Does look like the right balance of activity bearing in mind where we are in the regulatory cycle?
2. Do our proposed areas of activity on customer experience and transparency have the right focus?
3. Does our activity to promote a dynamic and sustainable sector have the right level of ambition?
4. Have we demonstrated sufficient depth of aspiration in our activity?
5. Do we have the right organisational capacity to carry this out?
6. Have we done enough to monitor Network Rail's efficiency and performance? Is there anything you think would get better outcomes?
7. What measures would you want to see us use to measure our own efficiency and effectiveness?
8. Are there any major omissions of activity?

What to do next?

We would welcome your comments on our plans. You can contribute by:

- Attending the consultation conference on 7th February 2013 at One Kemble Street between 2pm and 5pm and give us your views. There will also be an equivalent Scotland event, details to be announced soon on our website.
- Sending a more detailed response to:
 - ORRBusinessPlan@orr.gsi.gov.uk
 - Or in writing to: ORR Business Plan Consultation, One Kemble Street, London WC2B 4AN
- Consultation closes at midday on Friday 15th February
- Consultation responses will be published on 22nd February – if you would prefer your response not to be published then please let us know as part of your response; if you would like some of your response redacted then please provide a full and redacted response.
- Our final Business Plan will be published in March 2013

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