

# ORR Business Plan

## Financial year 2013-14

April 2013



OFFICE OF RAIL REGULATION



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# Foreword

This is an important year for ORR, in which we will make decisions that help to determine the shape of Britain's railways for the rest of this decade and beyond.

Later this year we will conclude our Periodic Review of Network Rail, which will set the framework for financing and delivering improvements in the infrastructure and operation of the railway through to 2019. The Periodic Review will lay the foundations for the development of the sector for the foreseeable future. We will use it to support new partnerships across the industry, new alliances between rail businesses, and to enable enhancements to infrastructure and services that create new opportunities for different ways of working.

ORR will continue to support the rapid pace of change that is affecting the sector, ensuring that Network Rail, the train companies, rolling stock providers and the broader supply chain – are able to share the benefits of working together to meet the needs of customers, taxpayers, and the expectations of funders.

This year we want to make ORR even more accountable to all of our stakeholders for what we do and why we do it. This is why we consulted earlier in 2013 on the emerging themes for this business plan, and on the five strategic objectives around which we now plan all of our activities as an organisation. These strategic objectives sharpen the focus and transparency of what we do, what we are trying to achieve for the railways and how ORR is making a difference on behalf of the railways customers and funders.

Our first objective is to drive for a safer railway. Across all of our activities our priority will always be to ensure the health and safety of railway customers, workers and the public. We will continue to ensure we meet our health and safety duties to safeguard the public by enforcing the law and ensuring that the rail industry delivers continuous improvement in its health and safety performance.

Our second objective is to support a better service for customers. As the competition and consumer authority for the sector, ORR never loses sight of the fact that the railways exist for the benefit of their customers. We will continue focus on holding Network Rail to account for its performance and for delivering high standards of service across the railway network, on behalf of both passengers and freight customers. We will promote on-going improvement in the experience of passengers by encouraging the industry to work together, particularly to provide greater transparency of information about the cost and the quality of services provided across the network.

Our third objective, to secure value for money from the railway, will be a major focus of ORR's work this year as we conclude our periodic review of Network Rail. PR13 will set the efficiency assumptions and performance targets that we expect Network Rail to meet over the period 2014-19, delivering the services and investment in network enhancements that the government has specified, while improving efficiency and performance over the rest of this decade.

By delivering our statutory duties and responsibilities we are confident that ORR can deliver its fourth objective, to support the development of an increasingly dynamic and commercially sustainable rail sector. Our railways make an important contribution to the growth and prosperity of the UK, and the regulatory environment that we create can do much to support innovation and efficient long-term investment across the rail industry. As part of PR13, later this year we will consult on our Long Term Regulatory Statement which will set out our long-term vision for the development of the sector and our regulation of it.

Finally, our fifth objective reflects the fact that the performance and efficiency challenge does not stop with the industry. ORR must itself be a high-performing organisation, which demonstrates continuous improvement in the way that we use our resources to maximise the value of our regulation while minimising our own costs. That is why for the 5th year running we are making efficiencies that reduce ORR's running costs in real terms by 13% from 09/10 and this year by 4% per cent (2.5% in cash terms).

We are looking forward this year to helping deliver a better, safer, more efficient railway for Britain.



Richard Price

Chief Executive

# How we work

The Office of Rail Regulation is the combined independent regulator for the rail industry. We are: the economic regulator for railway infrastructure (Network Rail and HS1); the health and safety regulator for the rail industry as a whole – including main line, metro, tramways and heritage railways across Britain;- and the industry's consumer and competition authority. Our statutory duties and the better regulation principles provide a framework for discharging our functions. In particular, we aspire to be consistent with both the good regulatory principles recommended by the 2005 Hampton review and the 2011 Better Regulation Executive principles of economic regulation.

We also have a role in providing independent advice to the government and to the industry about the future of the railways, and we work with regulatory authorities in other sectors in the UK and rail authorities across the world to develop best-practice standards in railway regulation.

This variety of functions makes it particularly important that ORR takes a strategic approach to defining its role, choosing what activities to pursue and applying our limited resources in a way that maximises value while reducing cost and risk for the industry.

We plan our annual activities in the context of our long-term vision for the railway, and in pursuit of our strategic objectives as an independent regulator. This business plan is organised around these five strategic objectives. These objectives guide our work, indicate a direction of travel, help us to determine priorities and strengthen our accountability to our stakeholders for what we are here to achieve. The objectives allow us to plan our annual activities in a longer-term context, and to more easily determine where we are allocating our resources in the most efficient way.

This business plan begins with a summary of what we aim to achieve this year, and then goes into detail around the following five strategic objectives. In the sections that follow we explain for each objective:

- Why we set this objective
- Vision for what we want the rail industry to achieve



- What ORR does to support this
- What we will do in 2013/14
- How we will measure success

Our five strategic objectives are:

**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.

# i. Drive for a safer railway

## Why we set this objective

ORR is the health and safety regulator for the whole of the rail industry, responsible for safeguarding the public by challenging the rail industry to identify and assess risks properly and comply with the law. We push for excellent health and safety management systems because individual managers are human, and their performance varies. We want businesses to be so good at managing risk that it becomes increasingly unlikely that they will fail through dips in performance of individuals, leading to injury or ill health.

**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.

## Vision for what we want the rail industry to achieve

We want Britain's railway industry to be the world leader in operating a network that protects and promotes the health and safety of its passengers, the workforce and the public. This means that duty holders must demonstrate excellence in health and safety management so that over time we consistently see zero industry caused fatalities year-on-year across the rail network.

We believe that continuous improvement should be led by the industry itself, demonstrating excellence in healthy and safety management, increasingly achieved through its own assurance processes with less need for intervention by ORR.

### In particular, by 2020 we want to see:

- The achievement of zero industry-caused fatalities to the public, passengers and the rail workforce as a result of systematic management.
- 50% of railway duty holders should be able to demonstrate 'excellence in health and safety' management as defined in the Railway Management Maturity Model (RM3).
- A step change in the industry's approach to managing occupational health risks.
- Less need for ORR to take formal enforcement action in response to failures by duty holders to maintain health and safety on the railway.

- Better understanding and control of total system risk across the industry, with duty holders working together to understand and manage shared risks where they exist.

## **What ORR does to support this**

Around half of ORR's resources are devoted to achieving this objective. We are responsible, as the prosecuting authority, for enforcing the law in line with our Enforcement Policy.<sup>1</sup> We want the industry to achieve excellence in health and safety culture, management and risk control so that, over time, there is less need for intervention by ORR and sustained compliance with the law. We support the industry in doing this by promoting best practice in health and safety across the railway.

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<sup>1</sup> See: <http://www.rail-reg.gov.uk/server/show/nav.1848>

**To ‘drive for a safer railway’ in 2013-14 ORR will continue to focus on ensuring that the industry delivers continuous improvement in the health and safety of passengers, the workforce and public:**

- Continue to target half of our front-line inspection activity with Network Rail and other railway duty holders on a risk basis, 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, such as those in the ‘James Street’ report, concerning the risks for passengers getting on and off trains.
- Continue to extend the use of ORR’s Railway Management Maturity Model (RM3), which measures the maturity of duty holders management of health and safety risks.
- Continue to conduct investigations of accidents and incidents and undertake formal enforcement work in an efficient, effective and timely fashion.
- Ensure duty holders identify and secure the safety of workers when maintaining and renewing the railway infrastructure.
- Ensure that the industry is aware of Common Safety Methods arising from European law and has adequate processes in place to deliver these changes.
- Perform our on-going duties to consider applications for Level Crossing orders, safety certificates, safety authorisations and train driver licences.
- Promote greater industry capability on addressing occupational health risk management.

## **How we will measure success**

We want to see continuous, sustained year-on-year improvement in health and safety across the industry, leading to zero industry-caused passenger fatalities and an ever decreasing overall safety risk.

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. And we want to see evidence of an improvement in the measured outcomes for management capability under the RM3 model for each and every duty holder.

### **Passenger safety**

- A 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 continuous 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 continues to improve as measured by FWI per 1,000,000 hours worked per year; particularly in the number of major injuries.

### **Public safety**

- The risk to the public at level crossings is reduced 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 duty holders, 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.

| Key external milestones for 2013-14         |                                                                                                                                                       | Q1 | 2013-14<br>Q2 | Q3 | Q4 | 2014-15<br>onwards |
|---------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|----|---------------|----|----|--------------------|
| <b>Drive for a safer railway</b>            |                                                                                                                                                       |    |               |    |    |                    |
| <b>Industry management of change</b>        | Assess TfL management of health and safety issues whilst adding services to East London Line.                                                         |    |               |    |    |                    |
|                                             | Review Network Rail's revised level crossing management arrangements.                                                                                 |    |               |    |    |                    |
| <b>Infrastructure Safety</b>                | Review Network Rail's earthworks regime to ensure it delivers accurate knowledge of slope conditions and control.                                     |    |               |    |    |                    |
|                                             | Monitor Network Rail's transition from standards to a risk based competency regime.                                                                   |    |               |    |    |                    |
| <b>Level crossings</b>                      | Monitor Network Rail's level crossing safety enhancement plan, including crossing closures and improve sighting arrangements.                         |    |               |    |    |                    |
| <b>Health and safety management systems</b> | Monitor Network Rail's management capability performance against the Railway Management Maturity Model (RM3).                                         |    |               |    |    |                    |
|                                             | Review management system maturity in railway duty holders (including TOCs and FOCs) using RM3.                                                        |    |               |    |    |                    |
| <b>Industry occupational health</b>         | Review duty holder's public reporting on occupational health to inform ORR review of occupational health strategy.                                    |    |               |    |    |                    |
|                                             | RM3 evaluation of three areas of occupational health management of Network Rail, focusing on Hand-Arm Vibration Syndrome (HAVS), Asbestos and Silica. |    |               |    |    |                    |

| Key external milestones for 2013-14               |                                                                                                                                        | Q1                                                                                                                                                                        | 2013-14<br>Q2 | Q3 | Q4 | 2014-15<br>onwards |
|---------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|----|----|--------------------|
| <b>Workforce safety</b>                           | Assess effectiveness of control measures in place to safely access the mainline railway for maintenance and renewal.                   |                                                                                        |               |    |    |                    |
|                                                   | Review safe design of On-Track Machines and the effectiveness of workforce safety arrangements during their maintenance and operation. |                                                                                        |               |    |    |                    |
| <b>Better regulation</b>                          | Embed the Railway Management Maturity Model (RM3) as a self-assessment tool for ORR.                                                   |                                                                                        |               |    |    |                    |
|                                                   | Establish central investigations team                                                                                                  |                                                                                        |               |    |    |                    |
| <b>Rolling stock</b>                              | Monitor maintenance arrangements for life-extending rolling stock, particularly corrosion and fatigue in old stock.                    |                                                                                        |               |    |    |                    |
| <b>Statutory work</b>                             | Verify that new train driving licence processes and procedures have been discharged.                                                   |                                                                                        |               |    |    |                    |
| <b>Reactive work</b>                              | Regular peer reviews to ensure timely, consistent and efficient investigation of accidents, incidents and complaints.                  |                                                                                        |               |    |    |                    |
| <b>Influencing</b>                                | Publish Chief Inspector's Annual Safety Report                                                                                         |   |               |    |    |                    |
| <b>Managing RAIB investigation reports</b>        | Publish final reports to RAIB on the ORR website.                                                                                      |                                                                                      |               |    |    |                    |
| <b>Industry capability and competence</b>         | Undertake 'human failure' inspection, focusing on fatigue, driver distraction, supervision and communications competences.             |                                                                                      |               |    |    |                    |
|                                                   | Monitor TOC and FOC transition from rule to risk based approach.                                                                       |                                                                                      |               |    |    |                    |
| <b>Management of interface system safety risk</b> | Assess Network Rail's vegetation management strategy.                                                                                  |                                                                                      |               |    |    |                    |

| Key external milestones for 2013-14          |                                                                     | Q1 | 2013-14<br>Q2                                                                       | Q3                                                                                  | Q4                                                                                  | 2014-15<br>onwards |
|----------------------------------------------|---------------------------------------------------------------------|----|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|--------------------|
| <b>Supply chain management</b>               | Publish report on supply chain management project.                  |    |                                                                                     |                                                                                     |  |                    |
| <b>InterGovernmental Commission and CTSA</b> | Publish comprehensively reviewed guidance on bi-national regulation |    |                                                                                     |  |                                                                                     |                    |
| <b>European (Safety) Railway Policy</b>      | Publish annual health and safety report to ERA                      |    |  |                                                                                     |                                                                                     |                    |

## ii. Support a better service for customers

### Why we set this objective

Railways have some natural monopoly characteristics and ORR is responsible for holding Network Rail to account for the quality and standards of service that it delivers across the railway network on behalf of its customers. We are also the competition and consumer authority for the UK rail sector as a whole. We work to ensure that the railway ultimately exists to benefit the people who use it - passengers and freight customers. Across all of our activities we ask how we can maximise the benefits to rail users, and how to put power in their hands. This is what we are doing during this year's Periodic Review, which will define many of the standards of performance and efficiency that we want to see from Network Rail for the next five years. We also believe that the whole industry can do more to develop a sharper focus on customers to ensure passengers and freight customers benefit from improved safety, efficiency and capacity, and we are working with stakeholders across the industry to support this.

**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.

### Vision for what we want the rail industry to achieve

We want to see a railway that is 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. Levels of passenger service and satisfaction have steadily improved in recent years and we want the industry to continue to deliver consistent year-on-year improvements in levels of passenger satisfaction. Rail freight should play a growing role in Britain's logistics, on an increasingly flexible network, with more capacity, that can more efficiently and effectively meet the demands of both passenger and freight services.

#### In particular, by 2020 we want to see:

- 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 to increase capacity and improve stations is delivered on time.
- The ready availability of high quality, trusted information about railway performance, costs and funding so that customers and taxpayers understand how their fares or taxes are used on the railway.
- An industry that is directly accountable to its customers for service quality, performance and value for money, with less need for regulatory or government intervention overall.
- A regulatory and policy environment which applies a strong understanding about customer value in the decisions and actions taken about rail.
- Industry data made more widely available to third parties, resulting among other things in greater richness of consumer electronic applications that improve the customer experience of using the railways.
- Passengers will get better information to help them plan their journeys and make better choices, including when services are disrupted.

## **What ORR does to support this**

We aim to create a regulatory and policy environment which applies a strong understanding about customer value in the decisions and actions taken about rail. We work with stakeholders including Passenger Focus to support the development of an industry in which the customer experience is comparable with the best consumer experience in any sector, where passengers feel well-informed when making choices about whether, when and how to use the railway. We hold Network Rail to account for the delivery of the services and enhancement projects that we agreed through our Periodic Reviews. For the wider industry we need to understand what best practice looks like in other sectors, so we can encourage the rail industry to move towards it, and recognise high performance where it exists.

As well as holding Network Rail to account ourselves, we will move towards a whole industry that is ever more directly accountable to its customers for service quality, performance and value for money. Our focus on transparency means that we will continue to publish up to date information on costs, performance and customer outputs across the railway, so that operating companies and customers know what is happening and so that they can increasingly hold each other to account for performance.

**To ‘support a better service for customers’ in 2013-14 ORR will continue to hold the industry to account for its performance against regulatory targets, and work to create commercial incentives that motivate the industry to put customers first:**

- Deliver a Periodic Review for 2014-19 that sets outputs and standards for Network Rail that reflect what consumers want, and which creates stronger commercial incentives for the whole industry to put the interests of rail customers and funders first.
- Conduct regular reviews of Network Rail's plans to improve punctuality and reliability, with particular focus on high-risk routes like the Long Distance and London South East sectors to hold them accountable for achieving the performance targets that were set in the current regulatory period (2009-14).
- Make appropriate use of our powers under competition and consumer law, conducting market studies into areas like ticketing and retail, and taking enforcement action where appropriate, to ensure that rail markets are open and fair and operate in the best interests of passengers and freight.
- Work with Network Rail and train operators to learn from the experience of delivering the ‘Joint Performance Improvement Plans’, to share best practice across the industry and to make sure that there have been real and lasting benefit in the experience of customers.
- Continue to improve transparency and accountability across the industry by enhancing the availability and clarity of rail performance data, including that published by ORR for the direct benefit of passengers.
- Work with Passenger Focus and other consumer experts to understand the aspects of rail services that customers most value, to help prioritise ORR's activities and inform policy development.
- Set up a new Freight Customer Panel to work with the rail freight industry to ensure that its status as an important customer of rail infrastructure is recognised and enhanced.
- Monitor the performance of Train Operating Companies in providing information to passengers during periods of disruption.
- Implement our new duties to oversee policy towards disabled passengers and also complaints handling by railway companies.

## How we measure success

- We will monitor Network Rail's delivery against the output obligations that we agreed for 2009-14, including performance, enhancement projects and reducing disruption to passengers from engineering work, delivering benefits to funders, customers and taxpayers. And we will set new measures for the period 2014-19.
- We want to see a continued year-on-year increase in overall passenger and freight customer satisfaction.
- We will continue to collect and publish performance data for the railway, including our second report on Train Operator Benchmarking, our second report on Whole Industry Costs, and the Passenger Experience Report, as well as the data regularly published in the Network Rail Monitor.
- We will continue to monitor and assess how the industry is progressing against its plans to provide high-quality information to passengers, particularly when things go wrong.
- Passengers benefit from more timely, appropriate and accurate information so that they can plan their journeys with a reasonable degree of assurance.

| Key external milestones for 2013-14    |                                                                                              | Q1                                                                                    | 2013-14<br>Q2                                                                         | Q3                                                                                  | Q4 | 2014-15<br>onwards |
|----------------------------------------|----------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|----|--------------------|
| Support a better service for customers |                                                                                              |                                                                                       |                                                                                       |                                                                                     |    |                    |
| PR13                                   | Publication of our draft determination on PR13.                                              |    |                                                                                       |                                                                                     |    |                    |
|                                        | Publication of PR13 final determination.                                                     |                                                                                       |                                                                                       |  |    |                    |
| Transparency & performance             | Publish quarterly Network Rail Monitor report                                                |    |                                                                                       |                                                                                     |    |                    |
| Consumer                               | Publish ORR's first consumer 'Passenger Experience' report.                                  |                                                                                       |                                                                                       |  |    |                    |
|                                        | Monitor TOC performance in delivering information to passengers during periods of disruption |                                                                                       |                                                                                       |  |    |                    |
| Localism                               | Publish consultation on ORR's localism role                                                  |    |                                                                                       |                                                                                     |    |                    |
|                                        | Publish guidance explaining ORR's localism role                                              |                                                                                       |  |                                                                                     |    |                    |
|                                        | Train Operating Companies passenger engagement models - publish report on best practice.     |  |                                                                                       |                                                                                     |    |                    |
| Equality                               | Implement new duties for equality & disability                                               |  |                                                                                       |                                                                                     |    |                    |
| Freight industry                       | Consult industry on set up of a Freight Customer Panel                                       |                                                                                       |  |                                                                                     |    |                    |

### iii. Secure value for money from the railway

#### Why we set this objective

ORR is the economic regulator for the main rail network infrastructure, with responsibility for securing value for money for the railway's users and funders. Driving down industry costs is key to delivering better value for money in the rail industry, and reducing the railway's reliance on the £4 billion per annum subsidy that it receives from the taxpayer. This year ORR will conclude the Periodic Review of Network Rail for the next Control Period 5 ('CP5', 2014-19), which will define the efficiency improvements that we want to see from Network Rail for the next five years and beyond. By improving efficiency we will increase the choices available to customers, taxpayers and funders. We will also initiate work on our 2014 Periodic Review of High Speed 1 (HS1).

**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.

#### Vision for what we want the rail industry to achieve

Ultimately, with growing demand and increased efficiency Britain could in the future enjoy a railway that is largely able to meet its own costs from the revenues that it generates, with less reliance on taxpayer subsidy, where the subsidy that remains is better directed to deliver the greatest social and economic benefit.

In order to achieve this we need to have a railway that better understands and reflects the real costs of its operation, including access charges that accurately reflect the real cost of using the network. This will allow rail services and investment to be more driven by commercial incentives, and to more effectively deliver what customers value most.

#### In particular, by 2020 we want to see:

- Substantial progress against the efficiency challenge, described in part by the 2011 Rail Value for Money Study chaired by Sir Roy McNulty, with the whole industry working together to make savings.
- Network Rail on track to deliver the specific efficiencies and targets that we will set for it later this year in PR13, delivering benefits to the railways customers and funders.

- Further innovations in industry structure that help to drive value from the railway as a whole and not disadvantaging third parties, including more and better partnership working across the industry and successful alliances between Train Operators and Network Rail and between Network Rail and the supply chain.
- Efficient 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 planning investments based on accurate asset condition information and 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).
- Greater use of comparative economic regulation taking into account route-level information and international benchmarking.

## What ORR does to support this

ORR is responsible, on behalf of the railway's customers and funders, for holding Network Rail to account for delivering the targets we set the company for CP4 (2009-14), and from next year the targets we set for CP5 (2014-19). We want Network Rail to have in place robust data, systems and processes for reporting efficiency and publish an assessment of the company's efficiencies that is robust and transparent. As part of PR13 we will determine how Network Rail will report on financial performance and efficiency in CP5, which will form the basis of Regional Efficiency Benefit Sharing Mechanism.

It is ORR's responsibility to provide assurance for the railway's funders (customers and taxpayers) 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.

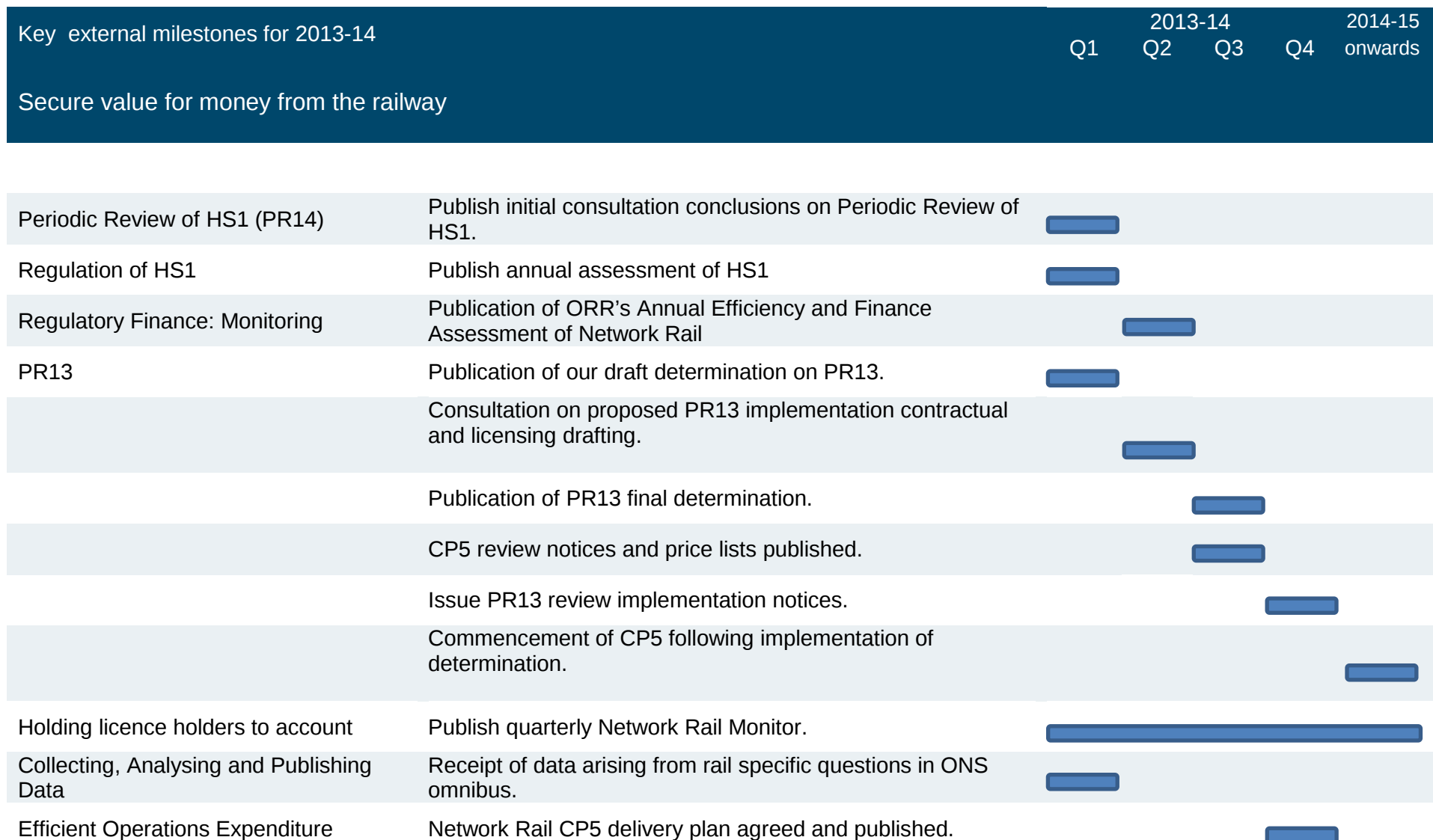
We also support innovation in the industry, driving new and better ways of doing things, and secure whole sector efficiency. We are increasingly focused on what we can do to ensure that customers and funders are able to make informed choices when using the railway, so that markets in the rail industry work effectively. And we do all of this while ensuring 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.

**To 'secure value for money from the railway, for users and funders' in 2013-14 ORR will continue to hold Network rail accountable for the regulatory outputs agreed in the last periodic review, as well as deliver PR13 for the next period:**

- Through the Periodic Review (PR13) set out the regulatory framework which will deliver the performance and network enhancements that the government has specified for the period 2014-19 and drive down associated costs over this period.
- Consult on our draft determination and Long Term Regulatory Statement in June and over the summer, ahead of setting our final determination in October.
- Set challenging but achievable efficiency targets for Network Rail, and set specific regulated outputs, indicators which reflect what customers and society want, which will enable us to hold Network Rail to account whilst not stifling innovation or micro-managing.
- We will also create incentives and processes which deliver a significant improvement in Network Rail's capabilities – including considering targets for the next regulatory period about asset condition, and metrics on capacity management and system operation.
- In delivering the above we will create a framework which encourages outperformance, innovation and collaboration that facilitates commercial behaviour and decision-making.
- We will create incentives for industry cooperation and closer working to deliver efficiencies, including the Regional Efficiency Benefit Sharing Mechanism.
- We will continue to monitor and hold Network Rail to account for performance against the various targets and outputs specified in the current regulatory period.
- Separately, we will take forward work on the Periodic Review of High Speed 1 (HS1) which is due to conclude later in 2014.

## How we measure success

- We will monitor Network Rail's outputs and efficiency against the challenge set in CP4.
- We will continue to encourage Network Rail to deliver better real-time information on asset condition to demonstrate that maintenance and enhancements are being undertaken efficiently and effectively, driving towards excellence in asset management.
- Hold Network Rail to account 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%).
- We will further improve our approach for calculating and reporting efficiencies through CP5, providing stakeholders with greater transparency and confidence, and ensuring Network Rail is held to account.
- We expect to see more partnership working and alliances between Network Rail and operating companies, with appropriate safeguards in particular on transparency and without discrimination.
- We will continue to monitor and publish comparative data on train operating company costs, revenues and subsidy.



## iv. Promote an increasingly dynamic and commercially sustainable sector

### Why we set this objective

The railway makes an important contribution to the prosperity of the UK economy and brings communities closer together. It is also heavily dependent on government financial support, and is shaped in large part by public policy decisions taken by a variety of bodies. Part of ORR's role is to support the development of the industry, and to advise government on aspects of policy

towards it. In doing so we are clear that we want the industry to become ever more dynamic and commercially sustainable, and ultimately less reliant on external support and direction, with less need for regulation. This aspiration for the industry directly supports the achievement of our other objectives for efficiency, safety, customer satisfaction and a better regulatory environment. Ultimately this also supports the economic prosperity of the UK.

**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.

### Vision for what we want the rail industry to achieve

The railway has enjoyed a remarkable period of growth over the last decade, with increased investment, passenger numbers and levels of satisfaction. We expect this to continue, and the government has reaffirmed its commitment to invest in the railway over Control Period 5 to enhance capacity and improve services in anticipation of continued growth.

The way that rail infrastructure is provided is also undergoing a period of change. Network Rail is reorganising to devolve operational control to local routes, shortening management chains and bringing services closer to their customers. The concession to own and operate High Speed 1 was successfully let, paving the way for the possibility of other rail infrastructure concessions in the future. Infrastructure alliances are in various stages of development, including between South West Trains and Network Rail in the Wessex region, promoting closer working and the innovation of new approaches to operating, maintaining and upgrading the network in that area. The devolved administrations continue to work more closely with Network Rail and the Localism Act further encourages the consideration of rail services at a more local level. ORR has played an important role in facilitating each of these areas of change, and we will continue to take a leading role in shaping the future of UK rail.

These are positive developments that will support the development of effective markets in rail. We want to see a railway that grows sustainably by innovating and developing new services and attracting new passengers and freight. We believe that this is the best way to create a self-sustaining rail industry that is much less reliant on Government for direction and for finance, with need for less regulatory intervention. In doing so the sector will be able to make an even greater contribution regionally and nationally to connectivity, well-being and economic growth.

**In particular, by 2020 we want to see:**

- A more financially sustainable and self-reliant railway, that better understands its own costs and reflects needs of its customers in the way that it operates.
- The development of greater pluralism in the way that railway services are provided, advancing the current trend away from a one-size-fits all approach, to a fit-for-purpose approach that better meets the needs of communities across the UK.
- Closer local coordination of rail infrastructure and services where it is desired through alliances, including in the devolved administrations.
- Effective devolution of Network Rail infrastructure to route levels 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 capacity, competition and flexibility on an increasingly complex and busy network.
- A supportive European policy landscape that helps to achieve UK objectives for access and competition in rail across the continent, with more choice and variety in UK-continental services.

## **What ORR does to support this**

As the economic, competition and consumer regulator for the sector, we want to progressively make markets in rail services more effective at every level, from consumers to the infrastructure supply chain. We believe that this is the most effective route to creating a financially sustainable industry that best meets the needs of its customers in an efficient and safe manner. In doing so we see no trade-off between safety and efficiency in rail markets – a safe railway is an efficient railway.

We will adapt our regulatory approach in response to and in support of developments in rail markets, facilitating change where we can and ensuring that it supports our and the Government's objectives for the railway. This includes stepping-up our engagement with an increasingly important European policy landscape for rail, ensuring that it is consistent with and supportive of the UK's objectives. We want to encourage open markets, competition and interoperability across Europe in a way that gives customers

greater choice and variety of services between the UK and the continent, and that gives UK firms fair access to European markets.

**To ‘promote an increasingly dynamic and commercially sustainable sector’ in 2013-14 ORR will:**

- Alongside the draft determination for PR13, in June we will consult on our long-term vision and objectives for the development of a dynamic and commercially sustainable rail sector in our draft Long-Term Regulatory Statement.
- Use CP5 to create a regulatory environment that moves the industry and its regulation closer to the sort of self-regulating structures and sustainable markets that we want to see in CP6 and beyond.
- Use PR13 to support 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.
- Continue to be an active participant in industry leadership forums such as RDG and NTF to ensure our approach to regulation incentivises greater whole industry collaboration and efficiency.
- In light of the European Commission’s publication of the Fourth Rail Package we will step up our engagement in the development of EU rail policy, to promote alignment with UK objectives, and to encourage open markets, improved safety, competition and interoperability across Europe.
- As we conclude PR13, we will begin work on PR18. This will include various market studies and the development of our regulatory approach in light of the forces that are changing the - shape of UK rail markets and to achieve the next steps in safety, efficiency and customer satisfaction.

## How we measure success

- Through our consultation later in 2013 on our Long-Term Regulatory Statement we will gauge the support of our stakeholders for the vision and objectives that we set out about the future of rail regulation in the UK.

- 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).

| Key external milestones for 2013-14                                 |                                                                                                                                                                               | Q1 | 2013-14<br>Q2 | Q3 | Q4 | 2014-15<br>onwards |
|---------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|---------------|----|----|--------------------|
| Promote an increasingly dynamic and commercially sustainable sector |                                                                                                                                                                               |    |               |    |    |                    |
| PR13                                                                | Consult on our vision and objectives for the sector in a Long-Term Regulatory Statement                                                                                       |    |               |    |    |                    |
|                                                                     | Publication of PR13 final determination.                                                                                                                                      |    |               |    |    |                    |
|                                                                     | Active participation in industry leadership forums such as RDG and NTF to ensure our approach to regulation incentivises greater whole industry collaboration and efficiency. |    |               |    |    |                    |
| Market Studies                                                      | Publication of timetable and scope for retail project.                                                                                                                        |    |               |    |    |                    |
|                                                                     | Publish consultation document on retail project next steps.                                                                                                                   |    |               |    |    |                    |
|                                                                     | Publish statement next steps to address concerns in the freight facilities market.                                                                                            |    |               |    |    |                    |
|                                                                     | Publish statement on the next steps on access to real time train information and the effectiveness of National Rail Enquiry's Code of Practice.                               |    |               |    |    |                    |
| Access & Network Code Casework                                      | Process and decide all access approvals, Network Code casework, and closure ratification applications in line with published policies and within published timescales.        |    |               |    |    |                    |
| Europe                                                              | Contribute to the European Commission's consultation on the 4 <sup>th</sup> Railway package for opening up EU rail markets.                                                   |    |               |    |    |                    |

| Key external milestones for 2013-14                                 |                                                                                           | Q1 | 2013-14 |    | 2014-15                                                                             |
|---------------------------------------------------------------------|-------------------------------------------------------------------------------------------|----|---------|----|-------------------------------------------------------------------------------------|
|                                                                     |                                                                                           |    | Q2      | Q3 | Q4 onwards                                                                          |
| Promote an increasingly dynamic and commercially sustainable sector |                                                                                           |    |         |    |                                                                                     |
| European interoperability policy                                    | Conclude engagement with DfT and Network Rail to develop a strategy for interoperability. |    |         |    |  |

## v. Be a high-performing regulator

### Why we set this objective

ORR should ensure that it is applying regulatory best practice across all of our activities. This means applying the principles of better regulation that have been developed by the community of professional regulators in the UK and internationally, and using regulatory tools that are appropriate and effective in every instance. We are funded by the industry that we regulate and we have a responsibility not to add unnecessarily to the costs of the industry, by being efficient ourselves and by maximising the value of our activities.

**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.

### Vision for what we want the rail industry to achieve

We want to support the development of a rail industry that takes the lead in delivering a safe, efficient railway which continuously improves in the interests of its customers, with the need over time for substantially less government or regulatory intervention overall.

We will continue to work to create a regulatory environment that supports self-regulating commercial behaviour which is in the interests of customers and society, only intervening proportionately where necessary. To deliver this ORR will work with the industry to improve the effectiveness of rail markets, and adapt our regulatory approaches in support of developments in the industry.

We support the case, in time, for having 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.

### In particular, by 2020 we want to see:

- 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, with government stepping back where ORR is asked to step forward.
- ORR as a trusted and respected regulator by industry, government and rail customers. As European rail regulation becomes more important we increasingly want to lead the debate about best practice in rail regulation internationally.
- An even more efficient ORR, including the significant sharing or federation with other regulatory or governmental organisations to deliver more efficient use of resources where it makes sense to do so.

## **What ORR does to support this**

ORR is committed to the continuous professional development of our people and of the regulatory tools that we use. We learn from best practice developed by other regulators and develop our own industry-leading approaches where necessary, as we are doing to encourage rail industry efficiency in PR13 and through the development of internationally recognised safety maturity models such as RM3.

Just as we are committed to improve the clarity and quality of information available about the efficiency and performance of the industry, we will continue to improve the transparency of the information that we provide about ourselves and our activities.

We will continue to participate in initiatives promoted by the UK government, joint regulatory groups and international experts like the Organisation for Economic Cooperation and Development (OECD) to promote better regulation, and will hold ourselves accountable to the principles and standards of good regulatory practice.

### To 'be a high-performing regulator' in 2013-14 ORR will:

- Continuously strengthen our professional regulatory expertise when applying proportionate and risk-based regulation across our safety, economic and consumer functions.
- Work to improve the way that we consult with, and make ourselves accountable, to our stakeholders. Beginning with PR13, we will make our communications clearer, more relevant and more effective overall.
- Hold ourselves accountable for the delivery of the outputs specified in this business plan, by updating stakeholders throughout the year on our progress with our activities and milestones.
- Continue to invest in our employees, developing their professionalism and expertise and making ORR a more effective and flexible organisation that has the right people with the right capabilities for the job.
- Develop ORR's capability for measuring the value of the activities that it undertakes, and the value and costs that it imposes on the industry.

### How we measure success

- We will monitor the degree to which our stakeholders in the industry, government and rail customers regard ORR as a trusted and respected regulator.
- We hold ourselves increasingly accountable for our performance, both against comparable regulatory bodies and against the principles of better regulation set out by government. We apply measures of accountability where they exist and work to develop relevant benchmarks against which we can measure the effectiveness of our performance.
- Continuing to benchmark overhead costs with other regulators and public bodies.

| Key external milestones for 2013-14 |  | Q1 | 2013-14<br>Q2 | Q3 | Q4 | 2014-15<br>onwards |
|-------------------------------------|--|----|---------------|----|----|--------------------|
| Be a high-performing regulator      |  |    |               |    |    |                    |

|                                   |                                                     |  |  |  |  |  |
|-----------------------------------|-----------------------------------------------------|--|--|--|--|--|
| Financial Management & Governance | Production of ORR Annual Report & Resource Account. |  |  |  |  |  |
|                                   | Publication of 2013/14 ORR Business Plan            |  |  |  |  |  |
|                                   | Consult on 2014/15 ORR Business Plan                |  |  |  |  |  |
|                                   | ORR Board approves 2014/15 Business Plan            |  |  |  |  |  |
|                                   | Publication of 2014/15 ORR Business Plan            |  |  |  |  |  |

# 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 a 2.5% reduction on our annual cost in cash terms, or 4% in real terms, compared with 2012-13.

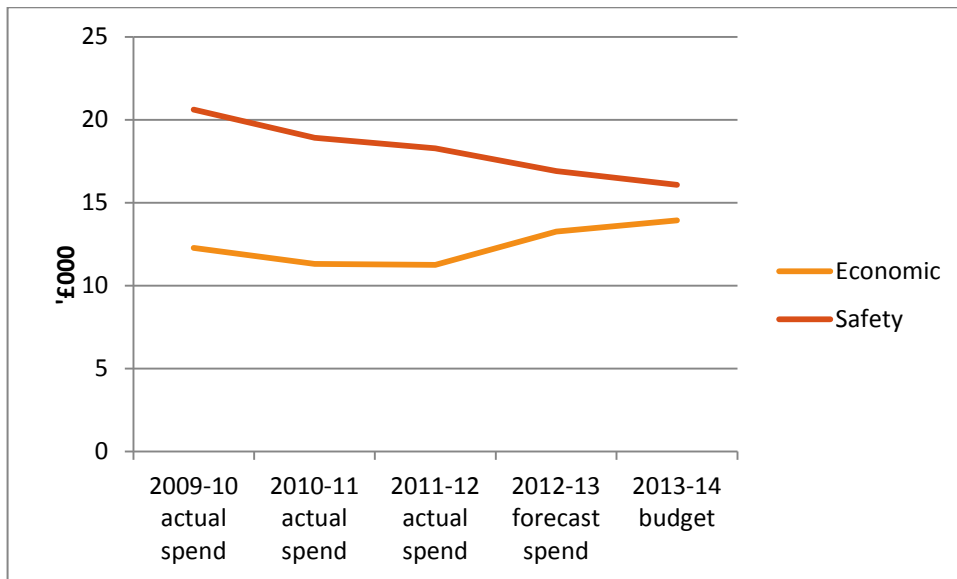
This will be principally achieved by:

- Absorbing a planned Central Government-wide 1% salary increase
- Reducing non-pay budgets including travel, training, recruitment, telecoms and outsourcing costs
- Reducing consultancy budget

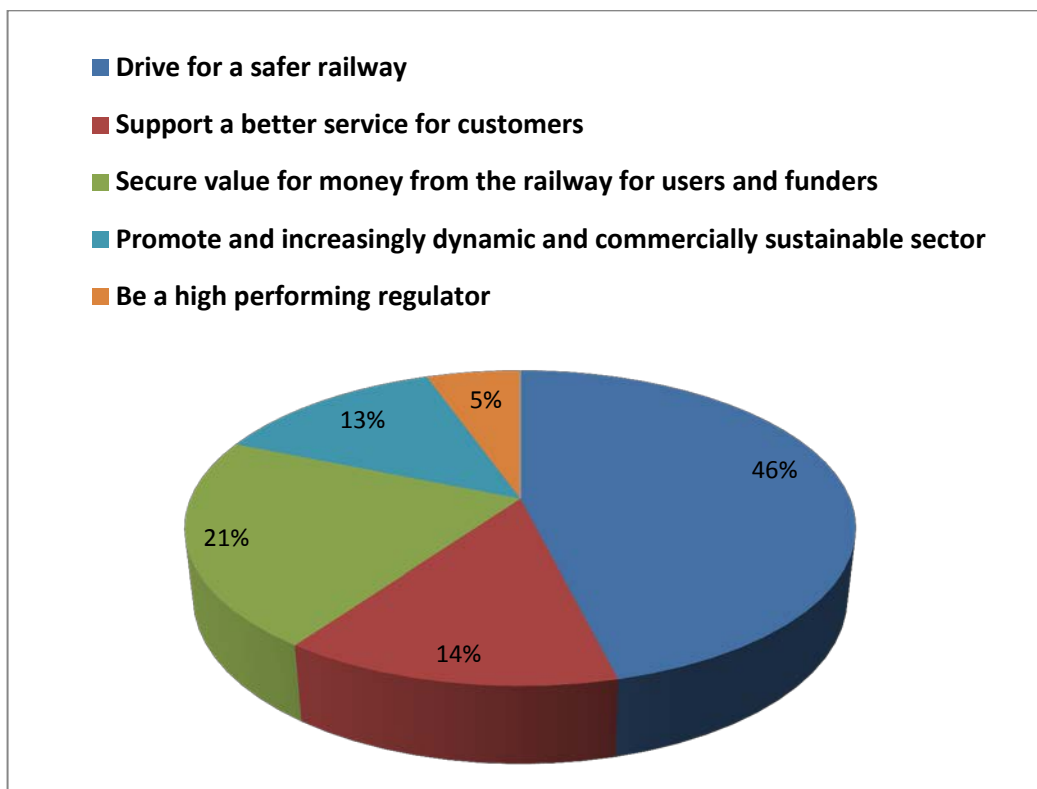
In real terms, ORR's 2013-14 budget has reduced by 13% since 2009-2010.

| <b>In nominal terms</b>                                 | <b>2009/10<br/>Actuals<br/>£000s</b> | <b>2010/11<br/>Actuals<br/>£000s</b> | <b>2011/12<br/>Actuals<br/>£000s</b> | <b>2012/13<br/>Forecast<br/>£000s</b> | <b>2013/14<br/>Budget<br/>£000s</b> | <b>Total for CP4<br/>£000s</b> |
|---------------------------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|---------------------------------------|-------------------------------------|--------------------------------|
| Economic                                                | 11,054                               | 10,623                               | 10,945                               | 13,264                                | 13,825                              | 59,711                         |
| Safety                                                  | 18,575                               | 17,762                               | 17,785                               | 16,898                                | 16,135                              | 87,155                         |
| <b>TOTAL</b>                                            | <b>29,629</b>                        | <b>28,385</b>                        | <b>28,730</b>                        | <b>30,162</b>                         | <b>29,960</b>                       | <b>146,866</b>                 |
| <b>In real terms<br/>uprated by RPI to 13-14 prices</b> | <b>2009/10<br/>Actuals<br/>£000s</b> | <b>2010/11<br/>Actuals<br/>£000s</b> | <b>2011/12<br/>Actuals<br/>£000s</b> | <b>2012/13<br/>Forecast<br/>£000s</b> | <b>2013/14<br/>Budget<br/>£000s</b> | <b>Total for CP4<br/>£000s</b> |
| Economic                                                | 12,839                               | 11,751                               | 11,553                               | 13,596                                | 13,825                              | 63,564                         |
| Safety                                                  | 21,575                               | 19,648                               | 18,773                               | 17,320                                | 16,135                              | 93,451                         |
| <b>TOTAL</b>                                            | <b>34,414</b>                        | <b>31,399</b>                        | <b>30,326</b>                        | <b>30,916</b>                         | <b>29,960</b>                       | <b>157,015</b>                 |

The chart below shows the split between safety and economic activity over time



Our resource against each strategic objective is as shown below:



Supporting these five strategic objectives are management and business support activities, including Board management and development, communications, corporate project development, financial management and governance and various directorate support functions. Approximately 60 ORR staff are engaged in such support activities.



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