



OFFICE OF RAIL REGULATION

Rail regulation in Great Britain

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26 March 2014

Outline

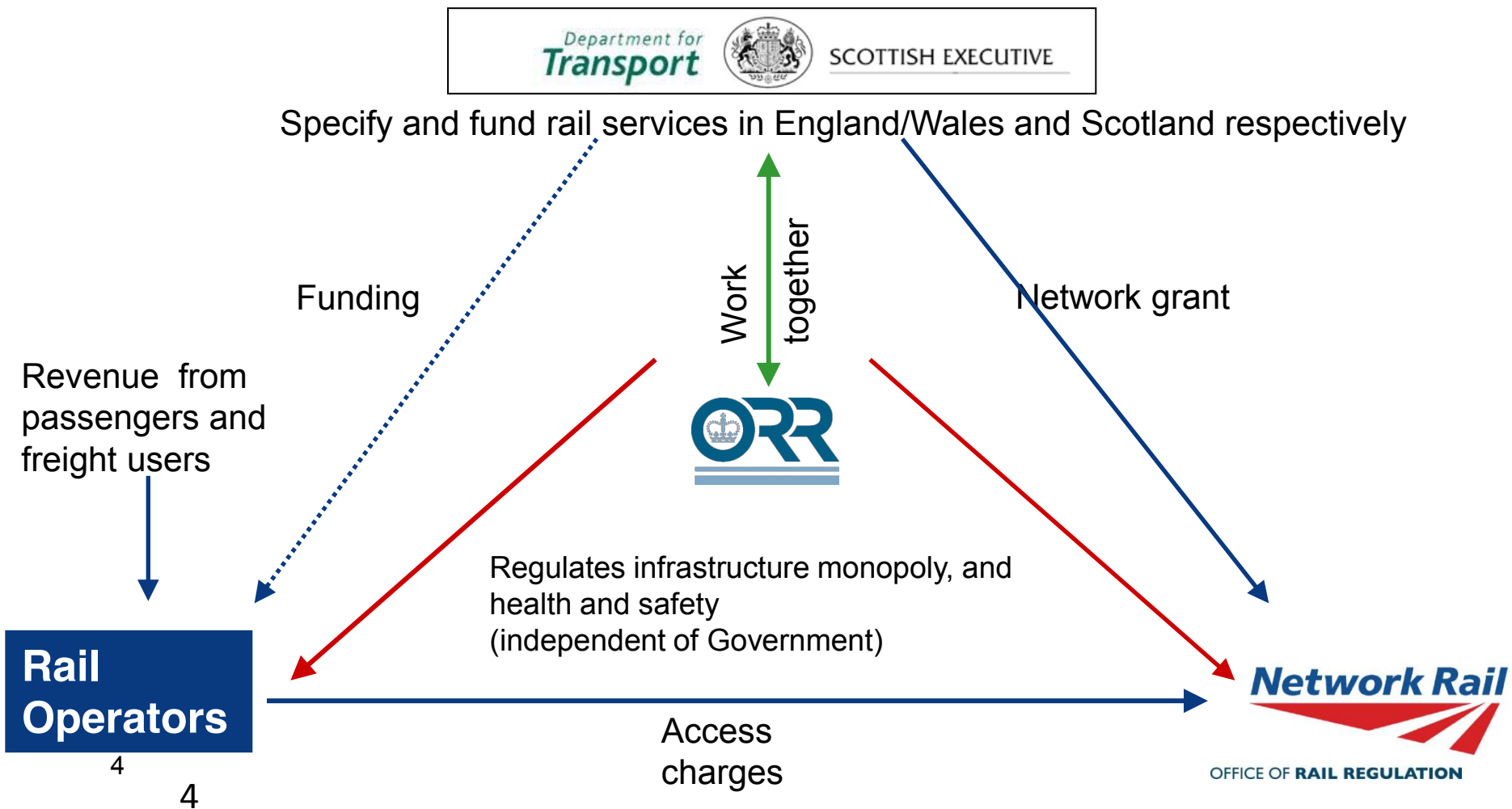
- The structure of the railway sector in Great Britain
- Office of Rail Regulation
- The legal basis for economic regulation in Great Britain
- Progress

Railways in Great Britain

- 16,000 route km, one-third electrified
- 2,500 stations
- 130,000 staff (30,000 in Network Rail)
- 9,000 level crossings, 40,000 bridges and tunnels
- Over 23,000 trains daily (mostly passenger but over 1000 freight trains)
- Over 3 million passengers each week day, heavily focused on London where rail has a very strong market position
- 60 million tonne kilometres of freight moved every day, mostly coal and containers. But overall rail share of freight market about 8%
- £5 billion per annum subsidy focused on the passenger railway



Rail structure: key relationships



The mainline railway in Great Britain

- Network Rail - infrastructure operator. Funded by track access charges and government network grant. Financed by debt; debt currently backed by government; no equity.
- HS1 – infrastructure operator on 30 year concession – funded entirely by track access charges.
- Passenger train operators – 17 passenger franchises (with 10 different owner groups); 3 “open access” passenger operators.
- Freight train operators – 5 companies with different size/ownership.
- Rolling stock mostly owned by leasing companies, some by train operators.
- Supply industry – highly competitive, increasingly globalised.
- Industry organisations – Rail Safety and Standards Board, Association of Train Operating Companies, Railway Industry Association, Passenger Focus, Rail Freight Group, Trade Unions.
- Governments – UK, Scotland, Wales, London, regional/local
- ORR – independent regulatory body.



Office of Rail Regulation

- We are the **independent** safety and economic regulator of railways in Great Britain. Most of our work focuses on the main line railway; our safety responsibilities cover all railways in GB.
- Set up in 1994; our role derives from UK and EU legislation.
- **Independent** of ministerial control; public interest objectives are set by Act of Parliament. Government provides “guidance” on rail strategy, but ORR must balance this against other statutory objectives.
- Economic regulation role similar to other UK utilities and thus well understood; safety regulation of railways transferred from the Health and Safety Executive to ORR in 2006.



ORR – Structure and Governance

- About 280 staff. 170 on safety regulation; 110 on economic regulation. A mix of people from the public sector, private sector and railway industry
- Led by a Board (currently 12 members including CEO and Chair) rather than individual regulator. Appointed by Minister on fixed term contracts
- Parliamentary scrutiny
- Decisions can be challenged in court by judicial review.
- Funded by industry
- Legal basis in
 - sections 15 to 17 and schedule 1 of the Railways and Transport Safety Act 2003; and
 - paragraph 28 of The Railways Infrastructure (Access and Management) Regulations 2005



ORR is the combined independent regulator for the rail industry

Economic regulator for railway infrastructure (Network Rail and HS 1)

Health & safety regulator for the rail industry as a whole – including main line, metro, tramways and heritage railways across Britain

The industry's consumer and competition authority and passenger rights enforcement body – including complaints handling policies, disabled people's protection policies and ticketing and fares codes of practice

ORR also has 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 in Europe to develop best-practise standards in railway regulation

ORR – Our key activities

- Enforcing and developing health and safety legislation for railway services
- Determining access charges and outputs for infrastructure manager, reflecting Government specification and public funds available
- Monitoring and enforcing delivery of outputs by the infrastructure manager
- Establishing access and licensing regime; approving or directing individual access applications
- Commenting on industry performance; ensuring information flows for planning
- Acting as the competition authority for railway industry
- Acting as appeal body in industry disputes
- Potential new functions as part of future rail industry reform



The legal basis for economic regulation

➤ The Railways Act 1993

➤ amended several times, particularly by the Transport Act 2000, the Railways and Transport Safety Act 2003 and the Railways Act 2005

➤ Particular sections of interest:

➤ S 1 – the establishment of ORR

➤ S 6 to 16 and 55 to 58 – licensing operators of railway assets

➤ S 17 to 22C – Access regulation

➤ S 72 – the register



The Railways Act 1993 (continued)

- S 144 – enforcement
- S 146 – making false statements
- Schedule 4 – access appeals process
- Schedule 4A – review of access charges by ORR

Railways and Transport Safety Act 2003

- Part 2 – establishment of Office of Rail Regulation (to replace the Office of the Rail Regulator)
- Schedule 1 – detailed arrangements for appointment of the Board and financial basis for the office

The Railways Infrastructure (Access and Management) Regulations 2005

- Amended in 2009 to take account of HS1 operation
 - Implement the First Railway Package as necessary and address any potential conflicts with the Railways Act
 - Will be amended in 2015 to implement Directive 2012/34 EU
 - Particular provisions:
 - Part 2 – access to infrastructure and services
 - Part 3 – infrastructure management
 - Part 4 – infrastructure charges
 - Part 5 – allocation of infrastructure capacity
 - Part 6 – regulation and appeals

Statutory duties

- Promote improvements in railway service performance
- Protect the interests of users of the railway network for passengers and freight
- Promote use and development of the network, efficiency and economy
- Promote competition where in the interest of users
- Enable providers of railway services to plan the future of their businesses with a reasonable degree of assurance; not make it unduly difficult for Network Rail to finance its activities
- Contribute to the achievement of sustainable development
- Have regards to the funds available to the Secretary of state for Transport



ORR's approach to regulation

- Encouraging industry to develop solutions to its own problems and put its customers first
 - support for self-regulation through contractual partnership between infrastructure manager and train operators
- Publishing clear information on performance and costs to improve understanding and facilitate better decisions by operators and customers and development of the network
- Develop and implement effective incentives for performance and efficiency and promote use of markets and direct competition
- Push decision making closer to users
- Active engagement with industry and other interested stakeholders



Access to the network

- Train operators need track access contracts giving them permission to use Network Rail's network.
- These contracts must be approved by ORR; we can direct Network Rail to enter a track access contract if they cannot agree.
- Standard contracts and transparent charges provide protection to train operators against Network Rail monopoly; Network Code sets out common rules for operation and timetabling of network.
- Transparent criteria for approval. Is this the best use of capacity; is it preventing better uses; are there benefits of new services/competition?
- Similar protection for other facilities (stations, maintenance depots, freight depots).
- Integrally linked with access charge review.



Setting Network Rail outputs and funding

- ▶ Periodic reviews (normally every five years) establishes Network Rail's outputs, revenue requirement and access charges; interim reviews under certain conditions. Charging review for 2014-2019 was completed at the end of 2013.
- ▶ Governments (UK and Scotland) set out what they want from railways and how much money they have available. Industry led by Network Rail produces a delivery plan.
- ▶ ORR reviews Network Rail's expenditure requirements and implication for access charges

Setting Network Rail outputs and funding (continued)

- ORR decides whether the outputs can be delivered for the funds available; if not, government reviews its specification.
- ORR sets out outputs (e.g. performance, investment projects) and funding for Network Rail reflecting government specification and ORR public interest duties
- In doing this ORR decides how much efficiency improvement Network Rail should make – by benchmarking etc. (40% efficiency improvement 2004-14 and we are requiring a further 20% by 2019).
- Impact on who pays: in 2011/12, 60 % of cost paid by fares; 30% by governments.



Monitoring and enforcing delivery

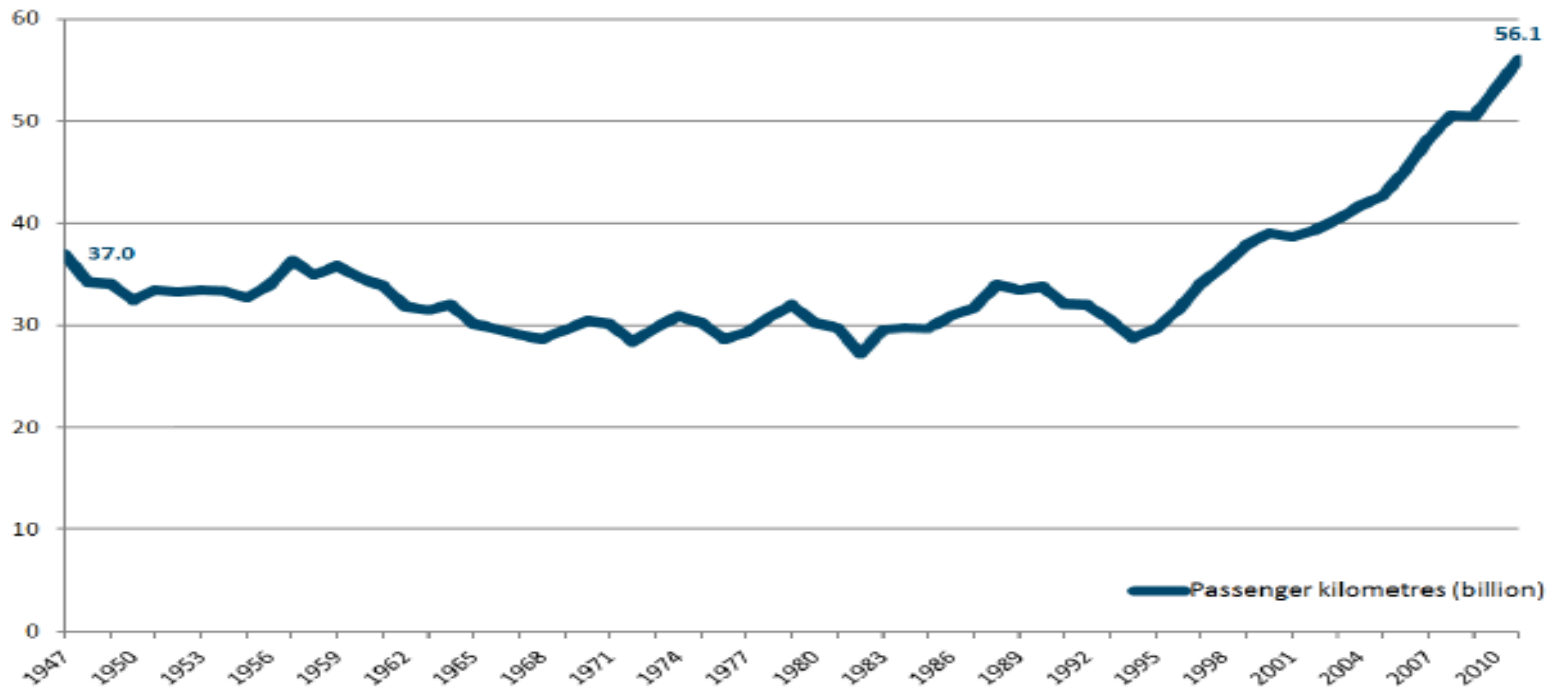
- Network Rail operates under a licence enforced by ORR.
- ORR uses that licence to monitor Network Rail delivery against outputs set by periodic reviews and other requirements.
- If Network Rail fails to comply, or is likely to, we can require it to take remedial action and/or levy penalties.
- We can change licence by agreement or by referral to the Competition Commission if Network Rail do not agree.
- This provides assurance to government about what it is getting for the money; it complements the contracts individual train companies have with Network Rail.
- Wide range of powers (financial penalties, orders, investigation)



How is the UK railway doing ?

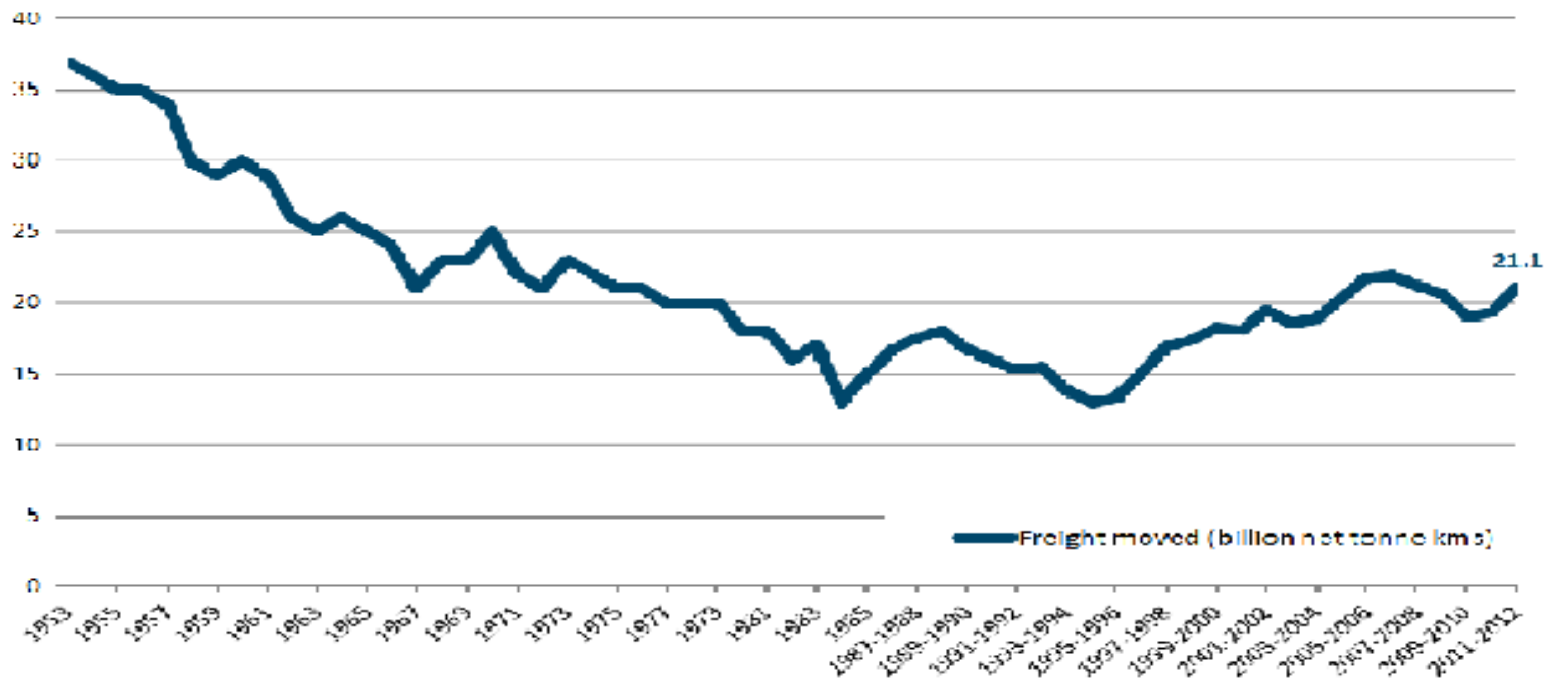
- A growing railway (passenger and freight). Though some challenges (e.g. how to achieve continued freight growth, investment in passenger and freight capacity including some risk transfer to private sector).
- Improved performance and safety, record levels of passenger satisfaction.
- Innovative and competitive supply market.
- Costs are reducing but scope to go further. Government is determined to get more value for money from railways, and the McNulty report has made recommendations on infrastructure devolution and 'alignment of incentives'.

The UK experience (1)



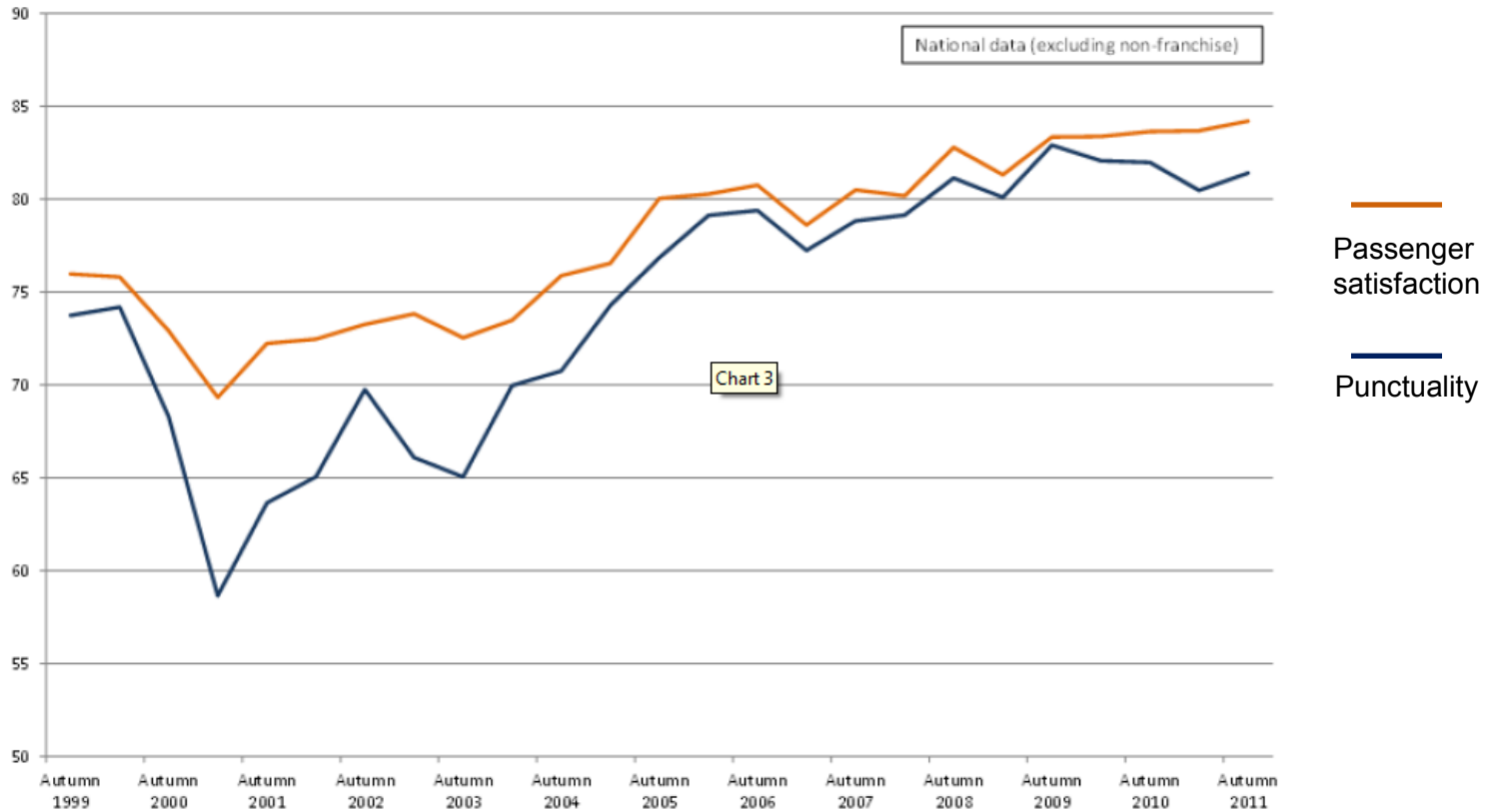
Strong growth in passenger numbers

The UK experience (2)



Improvement in Freight

The UK experience (3)

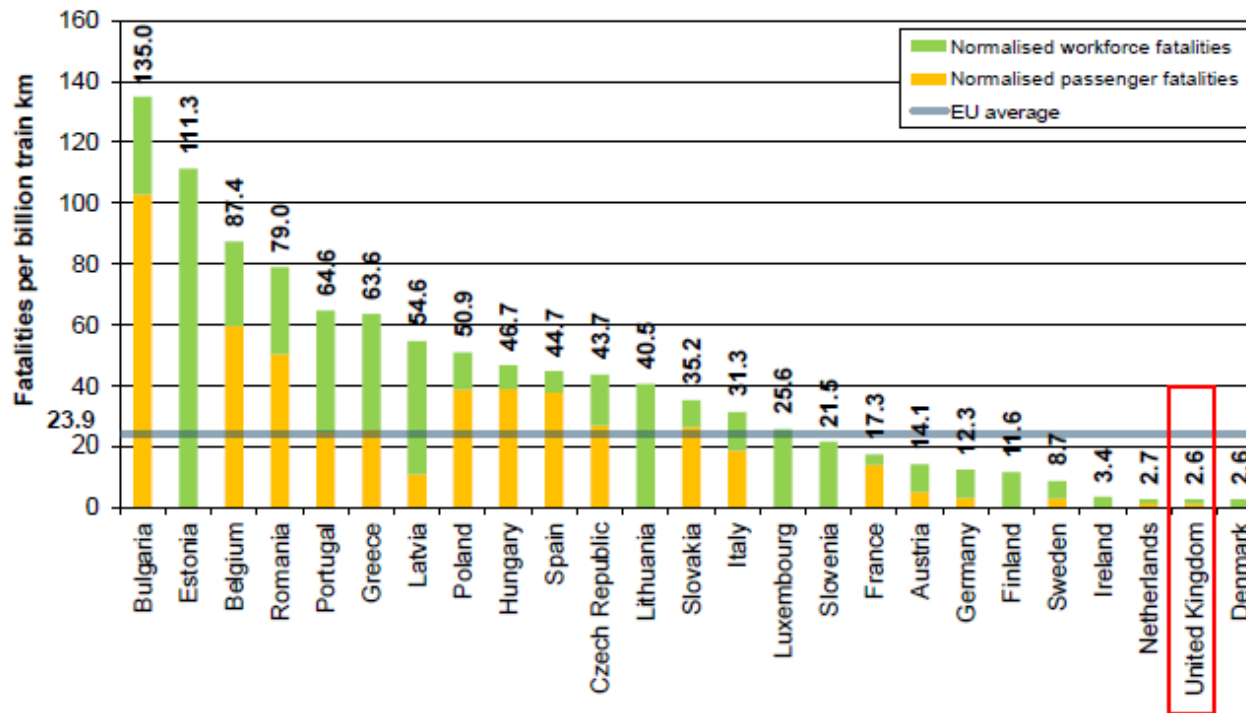


Steady improvement in satisfaction and punctuality



The UK experience (4)

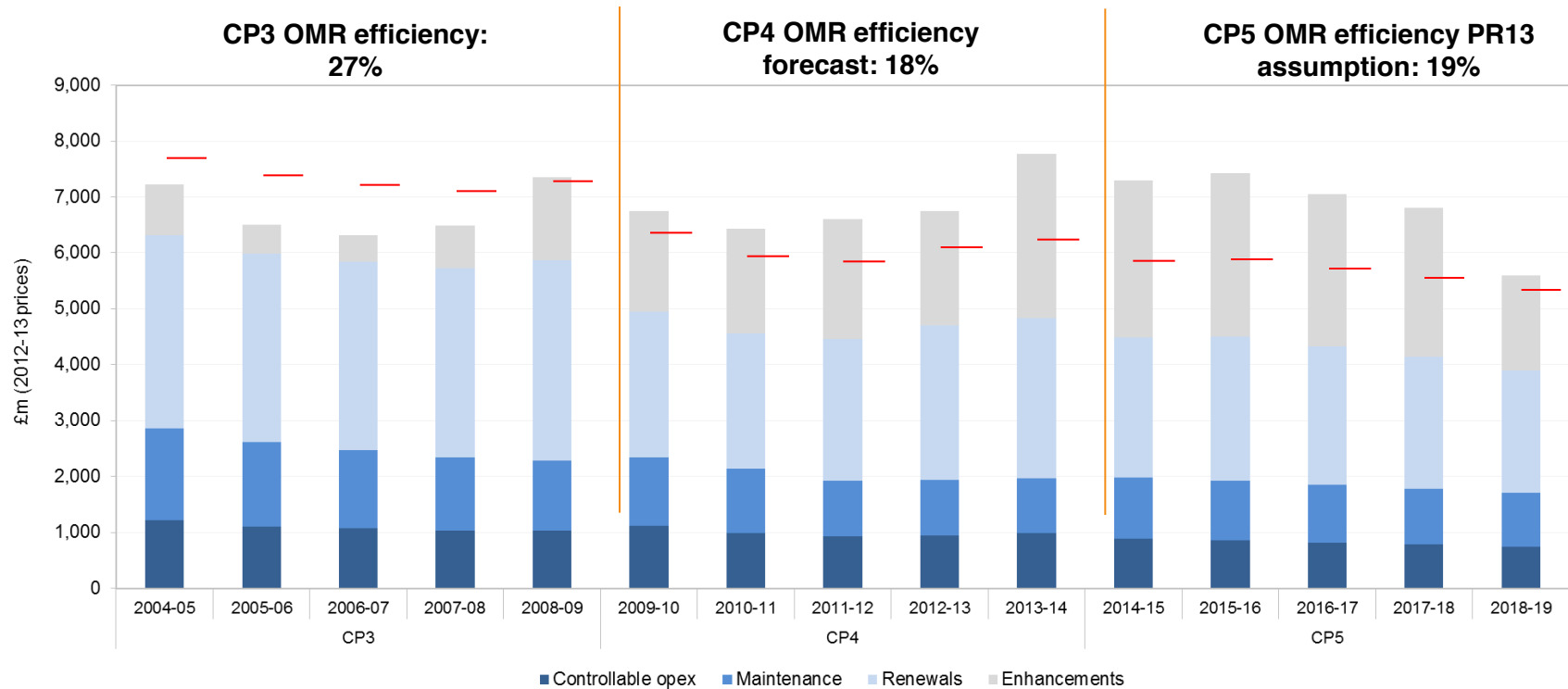
Comparison of passenger and workforce fatality rates across the European Union railways, 2007-11



Steady improvement in safety – now amongst the best in Europe



The UK experience (5) Network Rail costs



Costs brought under control, projected to fall further.
Regulator bearing down on infrastructure costs/ efficiency



Conclusions

- A publicly-specified, privately-delivered railway
- Fully resourced expert independent regulation is an essential part of UK model
 - Provides assurance to government and users of the mainline railway
- After breakdown in 2000 we have had nearly ten years of sustained improvement:
 - Overall passenger satisfaction at all time high
 - Performance at all time record, passenger levels ditto, safety ditto
 - Improving efficiency but still a way to go... and passengers don't like current value for money
 - Dynamic freight market
 - High and continuing levels of investment in the railway and rolling stock
- Getting a lot right!

Questions?

➤ <http://orr.gov.uk/>