



Costs, customers and safety

How rail businesses can gain the confidence of customers and taxpayers; and how regulation can help

Speech to the Rail Industry Reform conference, London, 28 February 2012
Richard Price, Chief Executive, Office of Rail Regulation

In my time so far at ORR, my aim has been to focus regulation on three things: ensuring that the industry reduces its costs; that it is responsive to its customers; and that it strives for excellence in safety. The reform agenda which Roy McNulty pointed towards, the changes described this morning by Teresa Villiers, the work of RDG, and our framework of regulation including the Periodic Review of Network Rail all provide opportunities for the industry to raise its game on each of these three things.

As regulator for Britain's railways, ORR's job is to help create the environment in which the businesses which make up the railway can rise to this challenge. Sometimes this will mean closer collaboration; sometimes it will mean tougher competition. What matters is that in all key decisions taken by businesses throughout the railway industry, over the next few years,

- they are focussed on improving efficiency, delivering what customers want, and doing so safely; and
- they have the confidence in the market, in the stability and predictability of funding arrangements and regulation, so that they can innovate, hire and develop the best people, and invest to achieve this.

The role of ORR is to make sure that the regulatory framework underpins this, so that as far as possible the rail industry has the freedom to deliver for customers and taxpayers and to make its own judgements on what will work best

Firstly, it's worth remembering that things are moving in the right direction.¹ This ought to give the industry and its customers confidence that great things can be achieved. Over the last ten years, the industry's achievements have been impressive. Passenger demand has

¹ See charts at the end of this paper.

risen by more than 40 per cent. On a more crowded network than ever, punctuality has risen to near-record levels, and passenger satisfaction is at record levels. On top of that, through the two last Periodic Reviews, Network Rail will have made cumulative savings of £15bn – improving efficiency since 2003 to cut its annual costs by around 40 per cent.²

This shows the level of transformation the industry has achieved over the last ten years – in the wake of a crisis which risked shattering its confidence. It is also worth noting that the UK's safety record puts us among the safest railways in Europe – though we know we need to maintain our focus throughout the industry on safety culture and performance.

I'm sure you all know that there is a 'but' coming. We should celebrate what the industry has achieved, but recognise that there is much further to go. Our rail costs are still much higher than they need to be and there are still big opportunities to reduce them. The industry still has a way to go to achieve CP4's uncompromising targets on efficiency and performance. And information on the industry's operation and performance needs to improve significantly.

Efficiency, competition and greater freedom

A further step change is needed to achieve the in-excess-of £2.5billion annual savings that we will be looking for the industry to deliver by 2019.

Consumers and funders need to be confident that they are getting a good deal from Britain's railways. With £4bn of taxpayer's money going into the industry every year, and big new projects being committed, Governments in London, Cardiff and Edinburgh have shown that they believe in rail, but need to be sure they will get value for their money. We need to put passengers in a position where they don't have the feeling they are being ripped off – because prices are rising and they don't know why; or because they are not sure they got the best fare.

² The cumulative reduction in operating, maintenance and renewals expenditure achieved during the 10 years of Network Rail's Control Periods 3 and 4, starting in 2003-04, is £15 billion. Network Rail's efficiency gains mean that annual operating, maintenance and renewals expenditure in 2013-14 is projected to be around 40 per cent lower than at the efficiency levels of 10 years earlier. Operating expenditure includes support costs and network operations costs.

Taxpayers and rail users quite rightly expect quality services and value for money – and our prime motivation, our driving force, must be to ensure that they get what they pay for through their taxes and through the farebox.

I firmly believe that this requires a collaborative whole-industry approach between Network Rail and train operators. The periodic review provides an ideal opportunity for us to turn ambition into action. The goals that we set Network Rail will be tough and challenging, make no mistake. We will be on their case to make sure they deliver.

But it is how the industry performs as a whole, how it establishes partnerships, how it shares risk and reward so that interests are aligned around improving efficiency and performance, that will make the difference. Network Rail will be the focus of the Periodic Review, but the industry as a whole needs to work together to get results across the system as a whole. This is no time for anyone to be cheering from the side-lines.

ORR is looking to the industry to take the initiative. Our interest is in efficiency and in what is delivered, while interfering as little as possible in how it is delivered. We recognise that TOCs and Network Rail need space to innovate and develop their businesses to serve their customers – and we want them to take on more responsibility for planning and running the industry. The Rail Delivery Group – as the collective leadership of the industry – is central to this. It has our very high hopes and encouragement for the future. Not just the long-term future, but also the near future, and we hope to see real progress towards solving longstanding collective problems of coordination across the industry very soon.

I hugely support Network Rail's steps towards devolution, allowing a tighter management focus on the priorities of customers on a route-by-route basis. I am also delighted to see the development of alliances – as a spur both to efficiency and to greater customer satisfaction. In the next few days we will publish our statement on the regulatory expectations of alliances – not to get in the way but so that anyone investigating the possibility of an alliance knows early on what we need – and it's not onerous, simply requiring transparency so that alliance members remain accountable, and fairness so that third parties do not suffer discrimination in their access to the network. Alliancing has real

potential to improve the lot of customers and taxpayers, and our aim is to make sure it can happen.

We also support longer and more flexible franchises as a route to greater efficiency, but recognise that accountability for delivery and use of the public money must remain paramount. For me the additional flexibility the Department intends to grant through new franchises is key if businesses are to be able to innovate, improve efficiency and respond to what customers want.

Holding the industry to account

In that vein, I believe in avoiding regulating where it is not necessary – and that is the ORR’s approach. Over time I want to see regulation across this industry becoming less intrusive, as businesses step up and respond to customers and markets and making their own judgements about how to drive up efficiency and deliver value for customers.

Today, that is not always possible. The regulator’s role is to protect the public interest when markets do not work efficiently. We give the industry incentives and room to deliver, but intervene when performance falls short. We will always act in the public interest and make no apology for it, whether it is on performance, safety, or value for money.

Notwithstanding the generally high levels of reliability and punctuality across the network, we have recently seen areas in which performance has simply not been up to customers’ expectations; nor up to the standards set out in the regulatory contract Network Rail signed up to. There have been particular problems on long-distance passenger services and in freight. We issued enforcement notices to Network Rail on both, and will be looking carefully to ensure that the required improvement plans and activity are in place. That includes an onus on the industry to act as a system, recognising that train companies often have some of the best levers to resolve and reduce delays, working closely with Network Rail. We have acted to encourage that. It is what the industry’s customers expect.

Another immediate challenge is the provision of good quality passenger information to the travelling public. We have consulted Network Rail and all of the train operating companies

in recent months on the need to get this right. It is an acid test for whether our railways can be taken seriously by the public as a customer-focused industry.

Like many people in this room, this is an important part of my daily experience as a customer of the railway, not just a regulator. People accept that incidents and delays occur, both planned and unexpected. What upsets them is when no one tells them what is happening or what to expect next. It sounds so obvious, and yet performance here varies from the commendable to the totally unacceptable. It is one of the biggest sources of customer dissatisfaction.

I have written to the train companies to ask them to revise their code of practice so that it can be used as the basis for a commitment to work across the industry to ensure that customers are kept properly informed when things go wrong.

We do not take new regulation in this area lightly. I positively resist the extension of regulation where it is not justified. But sometimes the last resort proves to be necessary to get results in the public interest. Businesses which already perform well on passenger information have nothing to fear from this. The point is to make sure that the industry as a whole is not undermined by those who have not met the most basic customer expectations.

Safety

Safety is an issue where there is no room for complacency. Despite a major improvement in recent years, none of us should for one minute be under the illusion that somehow we've cracked it – as Grayrigg and Elsenham show. The fact is that the industry's reputation is only as good as the next incident.

Safety costs are not an overhead –they are a fundamental prerequisite for being entrusted with running the railways. This is not about 'gold-plating'. It is about taking a proportionate, risk-based approach which ensures that the public and rail workers are not put in harm's way. Excellence in safety culture and management is a matter of effective business management.

New ways of working – transparency and deregulation

Looking ahead, the industry faces even more challenges in the way it does business.

Sitting at the heart of what we do must be a commitment to improve transparency on costs, revenue and operations, both as a means of empowering the public and to inform better decision-making for funders in the industry itself. The stranglehold on information regarding costs and revenue needs to be broken.

ORR is determined to give the public more information about how much their local rail services cost. In January we gave a breakdown for the very first time at route level – and are now working hard with the industry to publish information on individual services. Taxpayers are entitled to know how their money is being spent.

And greater clarity about the costs of providing different services helps those funding them to make choices about what they are buying. As more decisions pass to local level – for example through the PTEs – this information is an essential factor in good decision-making. Seeming to withhold this information when railways receive billions in public spending undermines the industry's legitimacy. We will press on with our work to illuminate financial flows in the industry. I welcome the help Network Rail and ATOC have given us in doing this so far.

The future

So what should we expect next? If I were talking to you a couple of months from now, I would probably have much more to tell you, because we are on the eve of an absolutely critical phase of the reform agenda. A number of things are about to happen.

All of us are looking forward to the government's command paper, which will set out a broad vision and direction of travel for the industry. Theresa Villiers gave you a summary of what Ministers intend to address. We all need a long-term understanding of the future, because this is a long term industry. Most major decisions on funding in the short run require clarity on where we are going in the longer term.

Our advice to Ministers on the Periodic Review will come out in March. We provide separate advice on the Periodic Reviews in Scotland and in England and Wales, with for the first time a separate focus on Wales in a letter to the Welsh Minister. The Advice will inform their decisions on what they want the railways to deliver for the public in future years, expressed in their High Level Output Statements (HLOS) and their Statements of Funds Available (SOFA). We will publish this advice so that what we propose is clear and transparent.

Role of ORR

Another question which we will address in the next few months is on the role of ORR in relation to regulation of the system as a whole. At the moment we have a whole industry role on safety, we have consumer and competition responsibilities across the whole industry, we act as the economic regulator for Network Rail and High Speed 1, and have a shared role with DfT and Transport Scotland in relation to the performance of the system.

In two days from now, our joint consultation with DfT will close. The Government has signalled that it wants ORR to take a stronger role, placing passengers at the heart of regulation. Making a success of that requires us – as an independent regulator – to understand both customers’ needs and wider public policy requirements, including the need for rail companies to be empowered to plan their business effectively and to understand and respond to customer demands. Independent regulation can contribute to getting government and regulators out of the detail of delivery, and focusing on getting the right framework of funding and accountability so that railway businesses can innovate and deliver.

We are keen to respond positively to whatever is asked of us – and we’re very clear that this means no compromise on our current core role in relation to Network Rail’s performance and efficiency, where we will build on our strong track record.

Like any good regulator, it is vital that we live by our own high standards. ORR has many strengths and we will become a world-class regulator, and to do that we need to subject ourselves to scrutiny of our own performance, just as we scrutinise others. At the end of 2011 we carried out a capability review to assess our fitness for purpose, both now and for

the future. We are the first regulator to do such a review, and I am very grateful to all those across the industry and government who contributed to it. It is a positive and helpful review – and of course it is identifying areas in which we need to strengthen for the future – which is precisely what we asked it to do. We will be publishing those results very shortly.

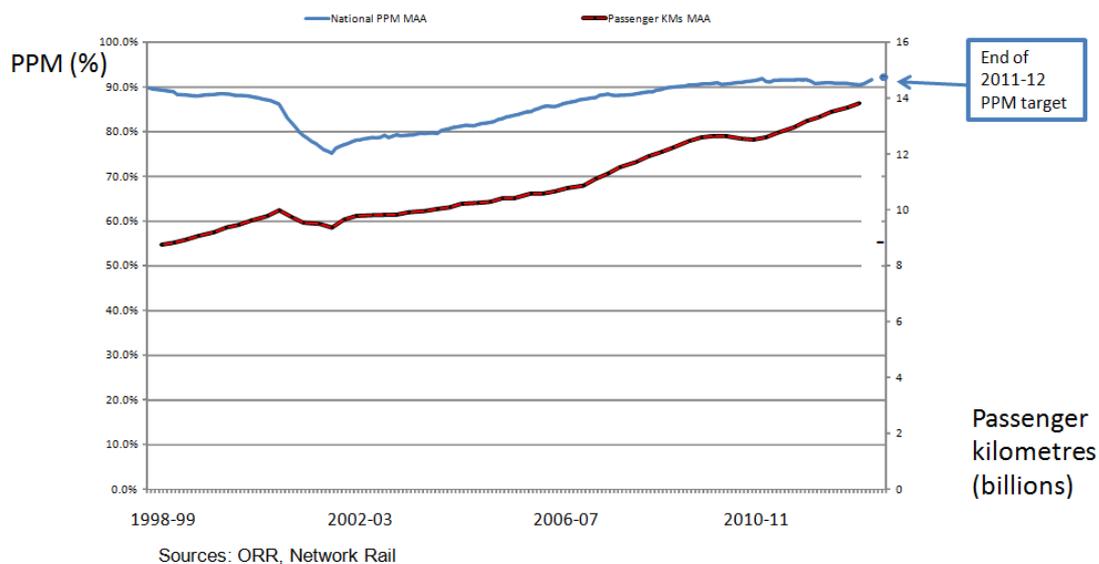
Being a regulator is rarely about winning popularity contests. It is about acting in the public interest, in a demanding, rigorous and transparent way. Our focus will remain on getting costs down to an efficient and sustainable level, raising the industry's customer responsiveness, and excellence in safety. None of those three things can be achieved in one corner of the industry alone, and customers and funders' expectations from the reform agenda mean a tough task ahead for all of us.

Working with an industry which itself shows a renewed spirit of collaboration, we are up for that task.

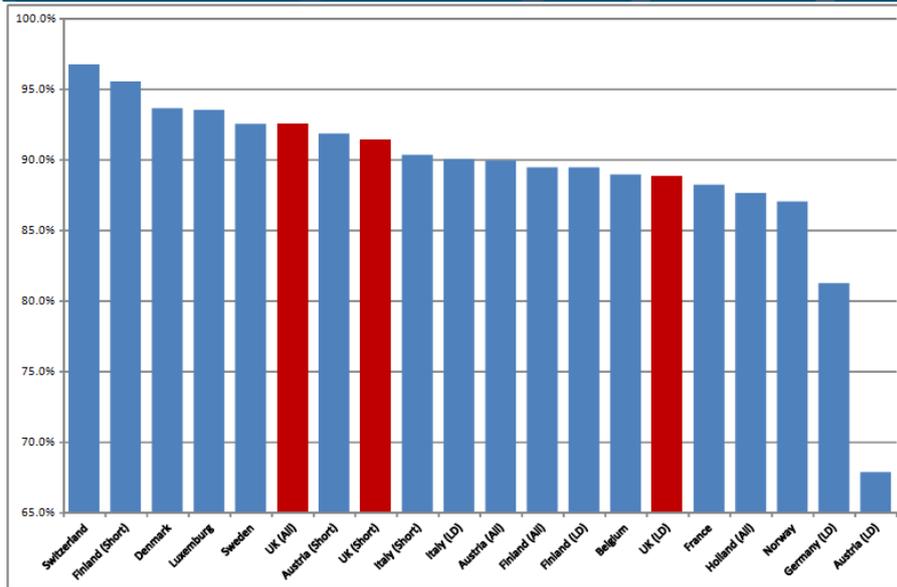
RICHARD PRICE

February 2012

Rising punctuality, rising demand

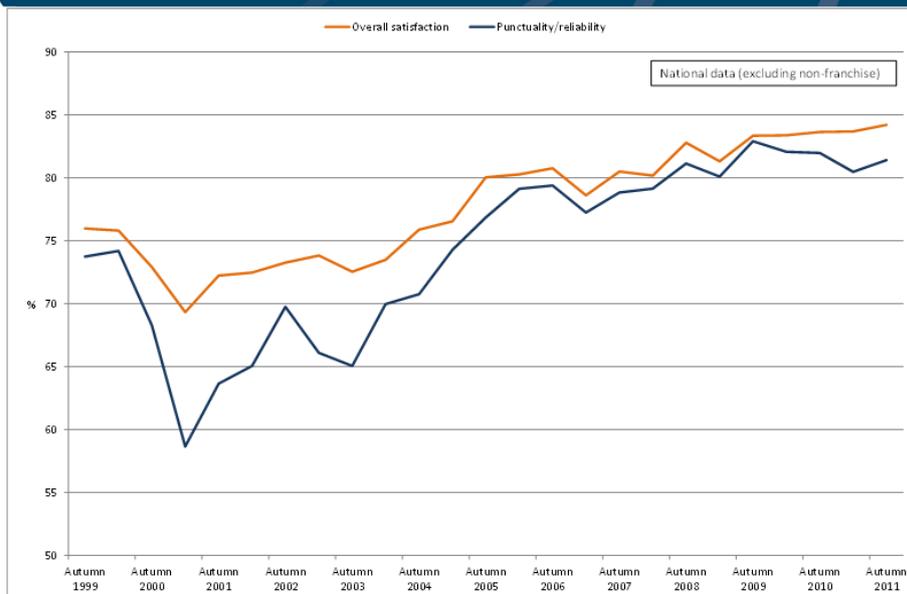


2009 Performance: UK vs. Europe (PPM)



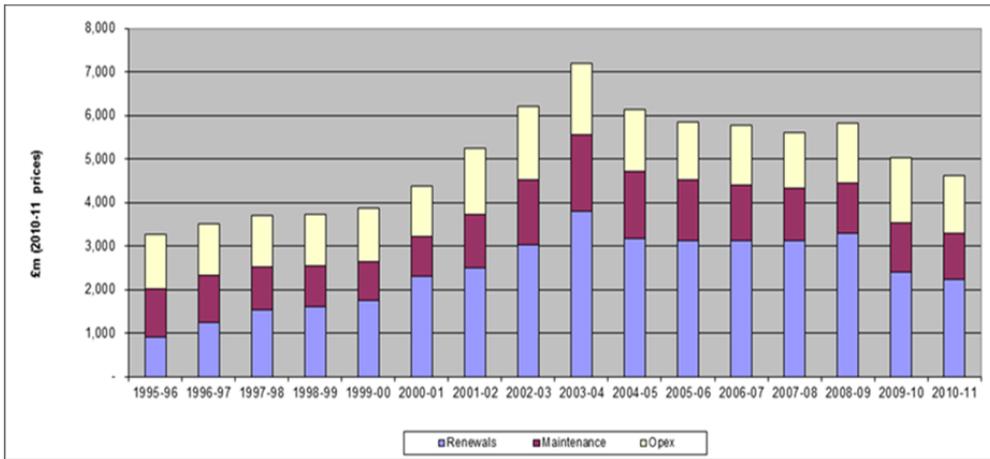
Source: International Comparison of UK performance (NTF)

Rising passenger satisfaction



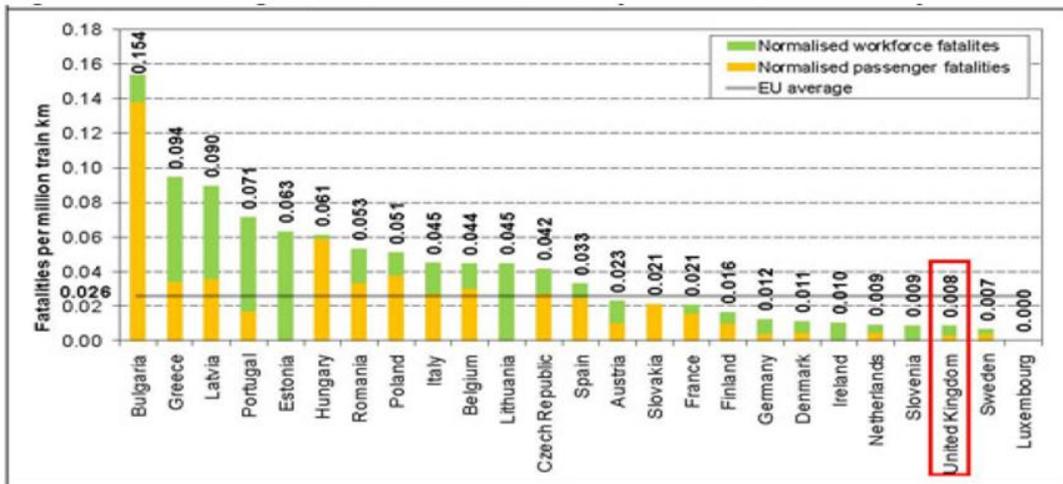
Source: National Passenger Survey

GB rail infrastructure operations, maintenance and renewals spend since 1995-96



2010-12 prices
Source: ORR

Safety - passenger and workforce fatality rates 2004 to 2009



Source: ORR Health & Safety Report July 2011