

Promoting safety and value in Britain's railways



Our strategy for 2009-14



OFFICE OF RAIL REGULATION

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Foreword

Rail users rightly expect services which are safe, meet their needs and give value for money. Railways also have a wider importance to the economy and society. As the independent safety and economic regulator of Britain's railways, we have a key role in helping to ensure that they meet the expectations placed upon them.

Our role is a broad one: unlike most European rail regulators, who focus on licensing of operators and disputes about access to the network, we are also responsible for regulating railway health and safety, setting Network Rail's output requirements and funding and making sure it delivers, and facilitating cooperation within the rail industry to deliver continuous improvement.

Reflecting the duties placed on us by Parliament, we start with the expectations of rail users and of Governments and other funders, both today and in the future. Much rail investment has a long lead time, and railway assets are long-lived, so we take a long-term perspective, looking at the performance of the railway as a whole. We believe that decisions taken closer to the point of delivery will generally deliver the best outcome for rail users, giving companies the freedom to manage and reflecting local needs. So we seek to ensure that commercial incentives are properly aligned with the needs of users and society and are such as to encourage real partnership.

But rail users and taxpayers want independent assurance that they are getting improved safety and value, and we provide that assurance. To do this we need to have access to good information and intelligence, and make the most effective use of it. If we see emerging problems, we do not hesitate to take action, including enforcement action when that is necessary to change behaviour.

This is the context for our regulatory strategy for the next five years, 2009-14.


Over this period, the rail industry must deliver significant further improvements in safety, performance and efficiency, and increase capacity to meet the expected growth in passenger and freight traffic. It must also develop robust and credible plans for further improvements beyond 2014. Only by doing this can the railways play their full part in a sustainable transport sector.

Our vision is that Britain's railways should deliver safety, performance and efficiency equivalent to the best comparable railways in the world. If they are to approach this, the industry needs to make further significant improvements in focusing on the needs of its customers and thus the value it offers to users and funders. It must continue to work to improve its health and safety record. All this will require excellence in asset management and the management of capital projects, alongside making the best use of existing capacity and ensuring that the industry has the right skills and information.

Against that background, we believe that we can add most value by focusing on:

- providing assurance of continuous improvement in health and safety performance across all railways, including London Underground, trams and the heritage sector;
- monitoring and, as necessary, taking enforcement action, to ensure that Network Rail delivers the improvements set as part of the 2008 periodic review;
- carrying out our next periodic review in a way that ensures effective cross-industry planning to maximise rail's contribution to meeting Britain's transport needs cost-effectively and sustainably, to underpin decisions by governments in London and Edinburgh on future outputs and funding for the rail sector and our own decisions on Network Rail outputs and funding;
- keeping under review the way different parts of the industry work together to deliver improved safety, performance and value for money and using our powers and influence to promote improvement across the whole industry, even if we do not currently have specific functions.

We believe that in this way we will help the industry deliver the levels of safety and value which rail users and taxpayers demand. We stand ready to be judged on our own effectiveness as a regulator by whether the railway is successful in delivering that outcome.



Chris Bolt
Chairman



Bill Emery
Chief executive

December 2008



I. Our approach

Introduction

1. The Office of Rail Regulation is the independent safety and economic regulator of Britain's railways. This document is our corporate strategy for 2009-14 setting out our key priorities and how we plan to deliver them.
2. We have consulted widely in developing this strategy. We have considered carefully the points, criticisms and suggestions made by interested parties, and are very grateful for these contributions. The results of our consultation are on our website.

Our role in the railways

3. The mainline railway in Britain relies on private sector companies to deliver rail services for passengers and freight users, and to supply equipment and expertise. Network Rail, a private sector not for dividend company, is owner and operator of the national rail infrastructure. Other parts of the railway, outside the mainline sector, are structured in a different way, but all face commercial pressures and incentives, and rely on effective partnership between different companies and organisations to secure delivery. Governments and other public sector transport funders also have an important role, because of the importance of the railways to the economy and society and the significant subsidy paid to them.
4. Regulation plays a key role in making this structure work. As national safety authority we regulate health and safety for all railways in Britain (including the London Underground, light rail, trams and the heritage sector as well as the mainline railway). We are a competition authority for all railways and related supply markets and also have powers to enforce some consumer law for railways. We have a wide range of economic regulation functions for the mainline railway, in particular setting Network Rail's funding and outputs as the monopoly operator of the network, and enforcing delivery and ensuring fair access to that network. We do not, however, set or enforce

the terms of franchises under which governments buy passenger services from the private sector.

5. In essence we:

- provide **assurance** to stakeholders – taxpayers, users of the railways, governments and funders, rail industry companies and employees: and
- facilitate **improvement** in the working of the structures and processes of the industry so the railways better meet the needs of those stakeholders.

6. We do this by:

- monitoring and where necessary enforcing delivery by the whole industry of its regulatory obligations – safety, performance, efficiency and investment - and encouraging further improvement to meet the needs of customers and improve value;
- carrying out periodic reviews of the mainline railway to set Network Rail's outputs and funding; and
- using our powers concerning access to railway facilities (track, stations and depots), industry codes and cooperation arrangements, licences and competition law, and keeping under review the framework of relationships within which the different parts of the industry work together.

Our objectives and vision

7. We are independent of government and of the industry but accountable to Parliament and the courts for the achievement of objectives set out in UK and European law. These objectives lead us to promote continuous improvement in:

- health and safety performance of the railways;
- the value the railways offer to users and funders, including meeting the needs of passengers and of freight users, and the wider needs of society and the economy.

In summary we promote safety and value in Britain's railways.

We pursue our objectives reflecting the available public funding and what governments and other funders want the railways to achieve with that funding.

8. We have considered what our objectives might mean as a vision for the long-term success of the railways. Such a vision needs to be challenging for the industry and ourselves, but also capable, over time, of being delivered. The vision we have is set out in the text box on the following page:

A vision for Britain's railways

Health and Safety:

Zero workforce and industry-caused passenger fatalities, with an ever decreasing overall safety risk.

Needs of users:

Satisfaction levels of passengers and freight users equivalent to the best in railways and in other forms of transport.

Efficiency:

Efficiency equivalent to that achieved by the best comparable railways across the world.

Our approach to regulating the railways

9. We believe that the best way in which we can contribute to achievement of our vision for the industry is to:
 - promote, where possible, effective market mechanisms and competition, because these are more likely to be responsive to the changing needs of rail users and more likely to lead to better outcomes than purely administrative mechanisms;
 - use our powers to apply effective regulation where market mechanisms do not work or are unlikely to work;
 - encourage the decentralisation of decisions closer to the user, as a means of improving their quality, while ensuring that customer and efficiency benefits of a common network approach are not lost;
 - promote true partnership in the industry, particularly between Network Rail and its train operator customers and its suppliers. In many cases alignment of incentives and market mechanisms will lead to such partnership; we can add most value where such mechanisms are not working effectively;
 - take a longer term view because railway assets are long lived and the lead times for investment are often long; and
 - create an environment in which the rail industry takes responsibility for, and solves, its own problems.
10. Consistent with this we:
 - focus our work on achieving better **outcomes** for stakeholders based on our objectives. The implication of this is that we judge our success by that of the industry, and aim for the most effective solution irrespective of whether it involves regulation;
 - take a **proportionate and targeted** approach based on evidence and analysis, focused on areas where we believe we can add the most value and on where the risks to delivering the outcomes are greatest;

- **focus on systemic problems** and do not try to second-guess day to day management decisions. Delivery is the responsibility of individual companies and organisations; and
 - **intervene swiftly and effectively** where the industry is failing to meet the expectations of its stakeholders, and use the full range of our powers and influence where we consider this will lead to improvement. Prevention is better than punishment after the event.
11. We firmly believe that successful companies deliver improved safety alongside improving efficiency and performance and investing for the future. Therefore we take an integrated approach across our health and safety and economic responsibilities.
 12. We pursue our statutory objectives through formal exercise of our functions – through monitoring, inspecting, reviewing, approving, directing and enforcing. In addition, we use our influence, and our statutory responsibility to keep the provision of rail services under review, to encourage and facilitate improvement. In doing this we are prepared to challenge the industry and government to solve problems, and where appropriate we will suggest solutions.
 13. We are committed to consistency and transparency in our decision-making, including effective consultation processes and giving full reasons for our decisions. We are introducing impact assessments to make more visible the options we have considered and our assessment of the effect of new and changed policies. These will help us demonstrate how well we fulfil our statutory duty to minimise unnecessary regulatory burdens on the industry.
 14. We aim for continuous improvement in our own efficiency, without compromising the effectiveness with which we carry out our work.

This document

15. The rest of this document sets out the background and then our strategy:
 - chapter 2 assesses the lessons of the last five years for the industry and ourselves;
 - chapter 3 describes the challenges the industry, and ourselves as its regulator, face over the next five years and the implications of them;
 - chapter 4, our strategy, sets out the strategic themes against which we will set our priorities and test our success; and
 - chapter 5 outlines what we will do to deliver our strategy.





2. Lessons from 2004-09

How well has the industry performed?

1. Britain's railways have made considerable progress in recent years, recovering from the failures in safety, cost management and performance of 1999-2001 and consolidating that improvement. The rail industry can and should build on this. But there remain weaknesses which highlight blockages and impediments to further improvement. The text boxes below show the key areas where the industry has done well, and those which in our view highlight scope for further improvement.

Progress

- Passenger volumes on the mainline railway have grown by 26% in five years and are at the highest level for over sixty years. Freight volumes have also grown;
- There has been continued improvement in safety performance, with only one passenger fatality in a train accident in the last four years;
- Much improved operational performance by Network Rail and train operators working in partnership has been reflected in higher levels of customer satisfaction – which for passengers now stands at 80%;
- Significant improvements in efficiency have been achieved – Network Rail has improved efficiency by 23% over the period 2004 to 2008;
- Major investment has gone into the mainline railway. Almost one-fifth of the passenger coaches in use have been introduced since April 2004. Major infrastructure projects such as the Channel Tunnel rail link (High Speed 1) and west coast main line upgrade have been, or are well on the way to being, delivered, alongside many smaller schemes and £11 billion investment by Network Rail in renewing the infrastructure;

Progress

- There has been similar major investment in the London Underground, also accompanied by improving safety performance;
- Successful innovations have been introduced – such as remote monitoring of the condition of trains, Network Rail's automated track monitoring, and the industry's apprenticeship and management training schemes.

Scope for improvement

- Although overall satisfaction levels have improved, passenger value for money ratings remain disappointing and there are weaknesses such as overcrowding and disruption caused by engineering work;
- Although in safety terms our railways compare well with the rest of Europe, there is a need for continued vigilance, and some areas of concern remain – for instance fifteen employees have been killed at work on the railways since April 2004 and there is variation in the quality of occupational health practice across the industry. The quality of safety culture is not measured in a systematic way;
- Our work for the 2008 periodic review has shown that Network Rail's efficiency still lags behind that of comparable railways in Europe, and its approach to asset management is by no means world class;
- The need for us to take enforcement action on delivery of projects by Network Rail has highlighted weaknesses in planning and execution. The west coast project has delivered an improved railway but has taken longer and proved more expensive than originally envisaged, and caused major disruption to users;
- Improvement and innovation across interfaces in the railway has proved more difficult – for instance the railway mobile telecommunications system (GSM-R) has been delayed and cost more than originally expected;
- Although Network Rail's relations with its customers and suppliers are better, there is scope for further improvement;
- There have been localised performance failures for instance on First Great Western, reflecting failures by both Network Rail and the train operator.

How regulation has contributed

2. Improvement in the railways has been achieved against a more stable institutional background. Network Rail took over the national rail infrastructure from Railtrack in 2002. The UK government's white paper of 2004 and the Railways Act 2005 gave us responsibility for health and safety regulation of the railways, while reinforcing our role as independent economic regulator. Responsibility for specification and funding

of railways for England and Wales remains primarily with the UK government, but in Scotland has been devolved to Scottish ministers. Some responsibilities have been devolved to the Welsh Assembly Government, Transport for London and the passenger transport executives in England.

3. We have sought to provide a stable and predictable regulatory framework, but one flexible enough to accommodate evolutionary change in the industry. This has built on the work done by the Rail Regulators up to 2004 and by the Health and Safety Executive before 2006. We have taken a balanced approach, based on evidence and analysis, being prepared to praise the industry for its achievements but, in the event of failure or likely failure, to criticise and take action.
4. We achieved a seamless transfer of responsibility for rail health and safety regulation in 2006, and since then have been able to achieve greater joint working and integration in our approach to regulating railways. In addition we have achieved significant efficiency improvements without affecting delivery of our regulatory work.
5. Our 2006-09 corporate strategy set out four key priorities:
 - improving health and safety performance;
 - securing improved efficiency and performance of the mainline railway;
 - securing robust plans for 2009 and beyond for the mainline railway; and
 - improving and aligning relationships in the mainline railway.
6. We assess below how independent regulation has contributed to improvement in the railways in 2004-9 under each of these headings. In some cases the regulatory action came before 2004, but the effects were felt in 2004-9, highlighting the time it can take for such action to have its full effect on what is delivered to users.

Improving health and safety performance

7. Key contributions of independent regulation have been:
 - the Railway Safety Regulations 1999, made on the advice of the Health and Safety Commission, requiring the introduction of the train protection and warning system, and the withdrawal of older (Mark 1) rolling stock, which have led to a major reduction in the risks associated with train accidents;
 - improved industry cooperation on safety, which we have facilitated, for instance through the establishment of the Rail Safety and Standards Board by the industry and the Rail Regulator in 2003, and our review of its operation in 2005;
 - the focus in our inspection activity on priority areas like infrastructure failures such as broken rails, which are now at record low levels; and
 - the Railways and Other Guided Transport Systems (ROGS) Regulations made in 2006 on the advice of the Health and Safety Commission, which made clear the responsibility of duty holders for the safety of operations and equipment.

Securing improved efficiency and performance of the mainline railway

8. The access charges review carried out by the Rail Regulator in 2003 set funding and outputs for Network Rail for 2004-09, creating financial and operational stability. Following the UK government's 2004 white paper, we gave Network Rail responsibility for facilitating whole industry operational performance, and producing route utilisation strategies, backed up by changes in its licence. These changes have helped facilitate partnership working on performance and more effective timetabling of the mainline network, and have been a key input into planning for 2009-14.
9. Network Rail has done much to improve its performance and efficiency, but regulatory action has been needed to address specific failings. We secured an industry recovery plan to ensure delivery of advanced timetable information, and required Network Rail to improve the documentation of network capability and the management of major projects (including the west coast main line). In a small number of important cases we have levied penalties on the company where it has failed to comply with its obligations, in order to incentivise future compliance.
10. We have made our monitoring of Network Rail performance more systematic, and, through regular publication, more transparent. We have worked with the industry to improve the quality of statistics and other data for decision making.

Securing robust plans for 2009 and beyond

11. We determine, through periodic reviews, the outputs required from Network Rail and the access charges that train operators must pay to use the mainline network. The review which concluded in 2008 was the first to be carried out under the structure set up by the Railways Act 2005, with the UK and Scottish governments specifying the funding they were prepared to put into the railways, and what they wanted that funding to achieve. In the light of these specifications, we determined what could be achieved for the money available, the implications for Network Rail's outputs and funding, and the financial, monitoring and incentive frameworks under which Network Rail and its train operator partners will work together to deliver the outputs required.
12. The 2008 review has secured robust and deliverable plans for 2009-14 that provide for the required improvements in performance, safety and the mainline railway's ability to cater for more passengers and freight, all at significantly improved levels of efficiency. During the review we have developed new ways to evaluate Network Rail efficiency, particularly by benchmarking against comparable organisations elsewhere in the world. The effective safety input into the review highlighted the benefits of us being an integrated safety and economic regulator. Wide industry input into the review has been particularly valuable and we need to build on this for the next review.
13. We have approved access option contracts for the East London Line and Crossrail projects. As independent regulator we had to balance the different uses of the network and in particular the need of funders for assurance that their objectives would be met with the need to enable future flexibility in use of the network.

Improving and aligning relationships in the mainline railway

14. The structure of the mainline industry relies strongly on cooperation between different industry companies and organisations – Network Rail, train operators, suppliers, public sector funders - to secure efficient delivery. The industry has been most effective at achieving improvement where there has been real partnership, with aligned objectives and incentives.
15. For instance, such partnership has enabled Network Rail and train operators to exceed expectations in improving punctuality of trains. This was facilitated by regulatory action – we brought the companies involved together in 2005 to improve operational performance in Scotland, and performance on First Great Western is now improving as a result of improved partnership working following concerted regulatory action by the Department for Transport on the train operator, and ourselves on Network Rail. The ROGS arrangements rely on cooperation across the industry to reduce risk at the interfaces and ensure the safety of the railway system as a whole.
16. We have used our powers to improve alignment in the industry. As part of the 2008 periodic review we have sought better to align the incentives on Network Rail with those of train operators to support improvements in performance and increases in rail traffic.
17. Partnership is not just a matter of contracts. For instance joint performance improvement plans have encouraged Network Rail and train operators to work together, with us prepared to intervene in the case of failure by either party to agree or deliver the plans. We believe this approach has been more effective in promoting partnership to improve performance than a purely contractual approach.
18. In some markets, customers have benefited from increased competition. An example of this is in the rail freight market, where there has been increased competition both between existing operators and from new operators. We have helped make this competition more effective, including by an extensive investigation and action following complaints about abuses in the market for transport of coal by rail. More widely we have used our powers to enable extension of competition from 'open-access' passenger and freight operators. We have carried out studies of the operation of particular rail markets: in the case of rolling stock leasing we referred the market to the Competition Commission for review.
19. Reflecting the increasing scope of European Union rail legislation, we have worked with the industry and government to influence its development and to ensure it is implemented effectively in the UK.

Implications for our strategy

20. We have drawn a number of conclusions from the experience of the last five years:

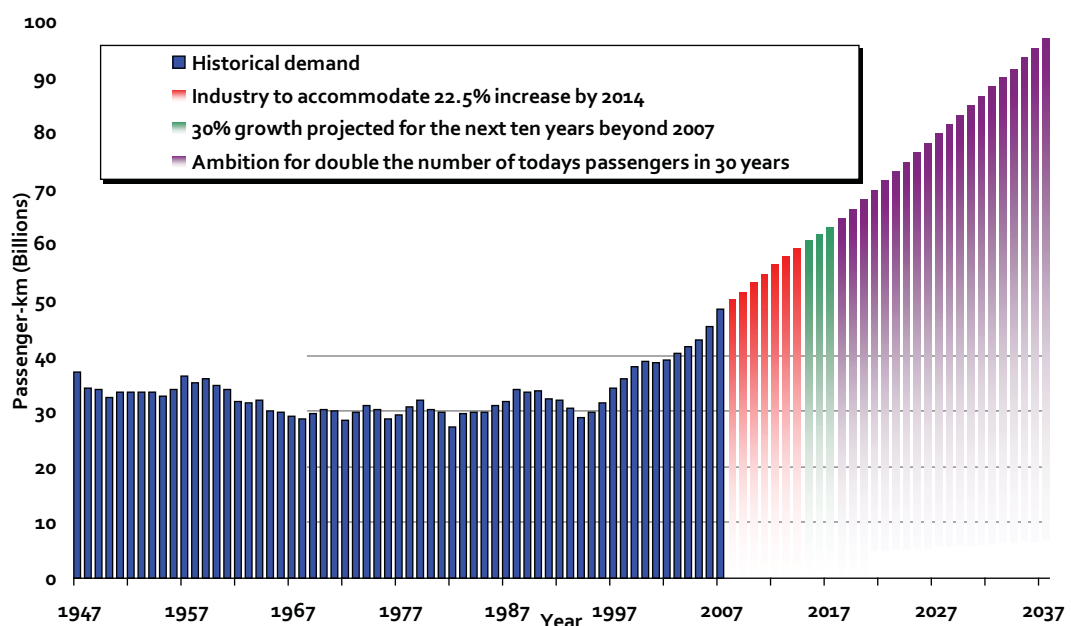
- the progress made by the industry and the contribution made by a stable but flexible regulatory regime suggest we should take an evolutionary approach in our strategy;
- the time lag between much regulatory action and the effect on industry outcomes further highlights the importance of a stable regulatory environment and of a long-term perspective;
- the new process for the periodic review has worked very well, with governments being required to define what they want from the mainline railway and what they are prepared to pay;
- there is scope for further improvement in industry safety processes and safety culture and in operational performance and efficiency;
- in particular Network Rail still has some way to go to achieve its vision of being a 'world-class' company. This will require significant improvement in the company's capabilities and processes in such areas as timetable planning, infrastructure asset management and delivery of major projects;
- the industry is in the best position to decide how to achieve improvement, and we should not generally seek to prescribe detailed solutions to it. We can help identifying problems and ensuring the industry addresses them, if necessary by timely and effective regulatory action;
- the industry is working better in partnership, but there is more to be done to improve alignment of incentives. In particular there remains a concern that Network Rail's incentives are not well aligned with the needs of customers, and train operators with short-term franchises are not incentivised to take a long-term perspective;
- experience with a number of major projects, such as the GSM-R telecommunications system and the introduction of new trains and signalling systems, and the arrangements for long-term sustainability of the train protection and warning system, have highlighted misalignments of incentives where projects cross key interfaces in the railway. This highlights the importance of management of key interfaces between different parts of the industry if the needs of users are to be met effectively and efficiently;
- more can be done to improve data for decision making, information management systems and competences of people and companies; and
- there have been benefits in the integration of safety and economic regulation, and we should build on them. Responses to consultation on our strategy have highlighted the importance our stakeholders attach to us improving our skill base and the effectiveness with which we use information, and being quicker and more proactive in dealing with problems.

3. The challenges of 2009-14 and beyond

What the railways will be expected to deliver

- I. There is now a clear consensus, reflected in the UK government's 2007 white paper, 'Delivering a sustainable railway'¹, about what the mainline railway needs to deliver over the longer term:
 - in 25-30 years time the railway is likely to need to be able to carry double the current levels of passengers and freight, requiring significant increases in capacity. Many key corridors will be at capacity earlier than that. Figure 1 shows the implications of this growth in a historical perspective;

Figure 1: Illustrative demand growth to 2037



¹ See: Delivering a sustainable railway published by the Department for Transport on 24 July 2008, <http://www.dft.gov.uk/about/strategy/whitepapers/whitepapercm7176/>

- customers are likely to be more demanding of service and value for money;
- society is likely to demand a greater contribution from the railways to achieving environmental, social and economic objectives such as carbon reduction, health, safety and security, social inclusion and sustainable economic growth;
- the rail industry is likely to need to offer improved value for money to funders and taxpayers. In 2007-08 the mainline railway received £5 billion in subsidy; in future a greater proportion of funding is likely to come from the farebox; and
- the industry is likely to need to innovate and harness new technology and build its capability and competences in support of this.

Scottish Ministers have similar long-term aspirations for the contribution the railways can make to social and economic objectives.

2. In the light of this the mainline railway faces a double challenge in 2009-14:
 - safely delivering the outputs set by the 2008 periodic review within the funds available; and
 - becoming much better prepared to respond to the longer term needs of users and funders.
3. Other railways, for instance the London Underground, face similar challenges of delivery over the next five years and sustainable growth over the longer term.

Delivering in 2009-14

4. The required levels of punctuality and reliability on the mainline railway will need the industry to deliver continued improvement in operational performance, working in partnership to build on what has been achieved in 2004-09.
5. Timely and efficient delivery of the significant improvements in capacity required will be a test of industry capability, particularly in Network Rail, which will need to ramp up significantly its enhancement programme. It will require the industry to work in partnership in areas (such as major cross-industry projects) where thus far the track record has been mixed.
6. Customers are likely to expect more from the railways, as from all services. If the railways are to be responsive to these expectations, Network Rail will need to be better aligned with its train operator customers and with end users. Initiatives like the seven day railway which aims to reduce disruption from engineering work will need to be taken forward: the scale of disruption caused by the west coast main line project is unlikely to be acceptable in the future.
7. We have set demanding efficiency targets for Network Rail, which should see it close a significant part of the gap between its efficiency performance and that of comparable railways. Railways will, however, still make large demands on the public purse, and the rail industry needs to work together to find ways of improving the efficiency of the railway as a whole, and doing it more quickly.
8. The pace of change needed in the industry means that it will need excellent safety management processes and safety culture to ensure continued improvement in safety.

9. Thus the delivery challenge in 2009-14 is different, and in a number of respects harder, than that faced in 2004-09. Failure to deliver will damage the longer term credibility of the railways with governments and users.

The longer term challenge

10. The expectation of longer term growth presents a further set of challenges which in our view are qualitatively different from those the railways have faced in recent times. For instance there will be much less opportunity to provide extra capacity by making better use of broadly the existing infrastructure using broadly the existing technology, as has been largely the case so far. It will be necessary to exploit opportunities to use new technology (for instance train control) to get more out of the existing infrastructure, and to expand the infrastructure.
11. Nor may it be assumed that there will be continued investment in improving the railways if the industry does not continue to improve efficiency and the value for money it offers. Over the long-term the industry should not be complacent about developments in other transport modes to improve sustainability and reduce rail's advantage in that respect. Moreover, customer expectations of services – including rail – are likely to continue to rise.
12. Rail projects typically have long lead times, and in many cases this is inherent in their scope and scale. Some of the factors involved are outside the industry's direct control and planning timescales need to reflect this. But some important long-term decisions will need to be made over the next five years, and the industry needs to address blockages and improve responsiveness for things within its control.
13. The rail industry is in the best position to take the lead on developing longer term options for the future development of the railways. This will need to be done as a collaborative and properly resourced effort – a true partnership – across the range of industry stakeholders, and aligned with governments' wider transport strategies and the needs of local, regional and devolved funders.
14. The industry has already begun joint work on longer term planning. That between Network Rail and train operators on options for electrification is an example of what can be done.
15. In meeting these challenges, the rail industry will increasingly be affected by European and other international developments. Growing internationalisation of the supply market has created opportunities to benefit from innovation and standardisation, but also competition for specialist resources and expertise. European Union rail policy has generally been consistent with the approach taken in the UK, but its implementation will increasingly affect the UK rail industry, and influencing the European rail agenda will become increasingly important.
16. The current economic situation may depress short-term revenues and affect the ability of governments to pay for improvements in the railways beyond those already committed. There is no indication, however, that this materially changes the long-term position outlined above. The mainline industry's sustainable rail programme, led by the Rail Safety and Standards Board, has identified different long-term scenarios for rail in

terms of the impact of economic growth on the railways and the policy choices made by government. Under all the scenarios, rail is likely to play a significant role in the sustainable development of the economy. But the different scenarios highlight the need for the industry (and not just the mainline sector) to be prepared to respond flexibly to different possible outcomes.

Implications of the challenges

17. The implications of this for the rail industry are profound:
- the combination of ensuring delivery in 2009-14 and planning for the longer term is a major test of industry capability and credibility but also a bigger and more complex challenge than that in the past;
 - the industry must not lose its focus on passengers and freight customers;
 - meeting the combined challenge will require a major extension in the scope of partnership working including in areas where this has so far been less successful than on, for instance, day to day performance;
 - blockages to, and gaps in, such partnership working, will need to be addressed;
 - the whole industry's skill-base and capability, and its processes and information systems, will need to be developed to support this; and
 - Network Rail, consistent with its ambition of being a world class company, will need to change significantly to deliver what is expected of it.

Implications for ORR

19. We set out in chapter 1 a vision for the railways based on our objectives which lead us to promote continuous improvement in:
- the health and safety performance of the railways;
 - the value the railways offer to users and funders, including the meeting the needs of passengers and of freight users, and the wider needs of society and the economy.
20. In the light of this vision, the experience of the past five years, and the challenges the industry faces, we have identified a number of key enablers for a successful industry in 2009-14 and for future industry success. We are describing them as strategic themes and will judge our own performance by how effectively the industry addresses them. The themes are:
- focus on the needs of passengers and freight customers, now and for the future;
 - excellence in health and safety culture and risk control;
 - excellence in asset management;
 - improved industry planning and timely and efficient delivery of major projects;
 - efficient use of capacity on the mainline network;
 - development by the industry of the capabilities of its people; and
 - high quality data and information for key decisions.

We outline in chapter 4 how we will use these themes to set our priorities as regulator.

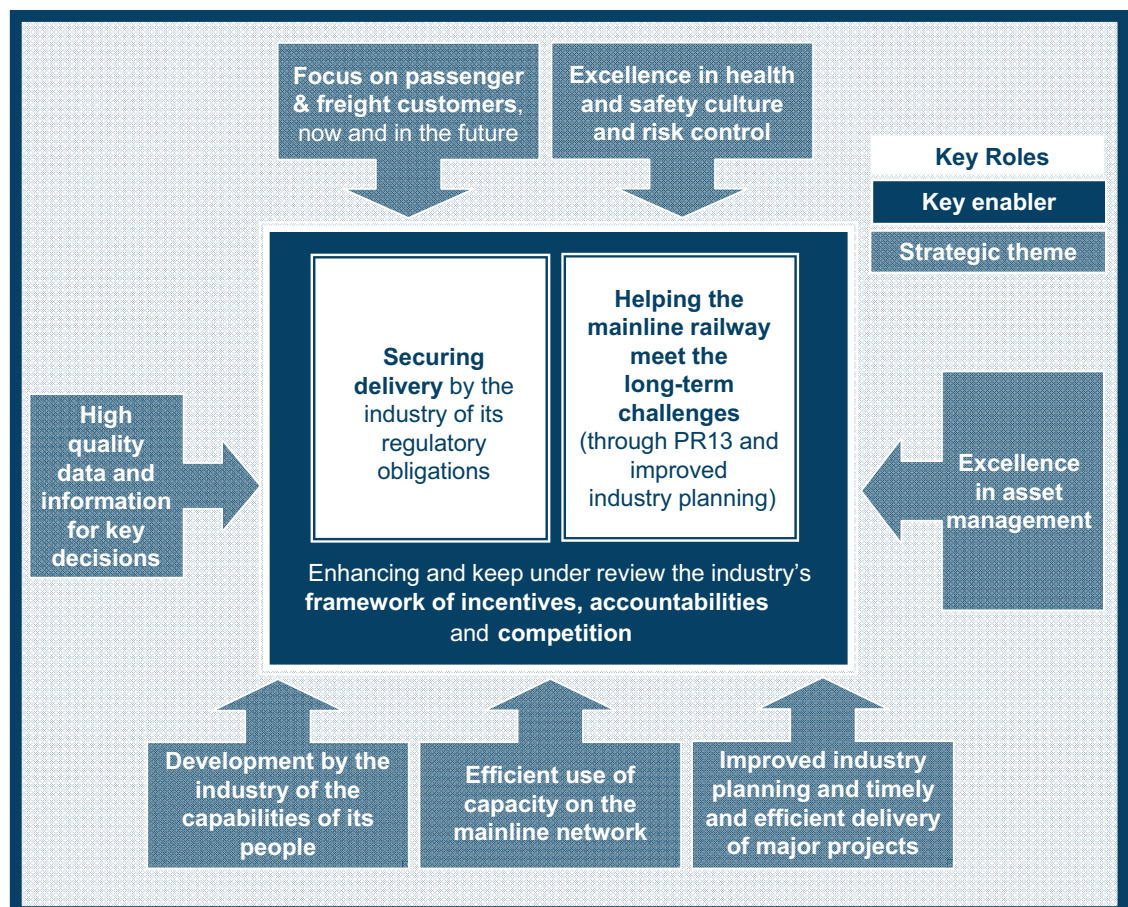


4. Our strategy

Introduction

1. Our strategy is summarised in Figure 2.

Figure 2 : Promoting safety and value in Britain's railways



2. For each of the strategic themes identified in chapter 3 we have considered three questions:
 - what would be a sensible goal for the railways in 2009-14, consistent with our vision, by which we should set our priorities?
 - by what key outcomes should we assess our success and that of the industry?
 - what should we do through our regulatory powers and influence to promote achievement of these outcomes?

Focus on passenger and freight customer needs

Goal for 2009-14: Passengers and freight customers benefit fully from improved safety, performance, efficiency and capacity.

Reasons for the goal: Ultimately the success of the railways and their credibility with government depend on how well the industry meets the needs of passengers and freight customers.

Success measures:

- Delivery of the improved performance (including reduction in disruption caused by engineering work), safety and capacity specified in the 2008 periodic review.
- Further significant increases in overall passenger satisfaction measured by the Passenger Focus survey, and improvements for passengers with reduced mobility and other groups with specific needs.
- Improvements in specific areas of customer concern such as confidence in planning journeys and trust in fair treatment, reduced disruption caused by engineering work and improved quality of stations.
- Evidenced improvements in freight customer satisfaction.

What we will do:

- Enforce delivery of the outputs set for Network Rail by the periodic review and its delivery plan commitments.
- Comment on how well this delivery is meeting the needs of customers and identify areas for improvement, and use our powers and influence to remove blockages to innovation and further improvement.
- Continue to make the industry framework more aligned to incentivise Network Rail and train operators better to meet the needs of users, and to promote competition where it is likely to be to the benefit of users.
- Working with the Department for Transport, Transport Scotland, Passenger Focus and London TravelWatch, consider ways in which we as the independent regulator can help improve the credibility and effectiveness of passenger protection in the mainline railway. This includes using our powers to enforce consumer legislation and to enforce European Union technical specifications for interoperability which increasingly have a direct impact on end users, and could involve more extensive use of our power to keep the railways under review.
- Continue to promote development of a competitive freight market and responsiveness in Network Rail to the needs of freight, and ensure that the rail freight industry is monitoring the effectiveness with which user needs are being met.
- Always test our policies and actions against the passenger and freight customer perspective.

Excellence in health and safety culture and risk control

Goal for 2009-14: All parts of the railways have excellent health and safety culture and risk control processes.

Reasons for the goal: Overall safety performance in the rail industry is on an improving trend. But there is still a need for vigilance, and areas of weakness such as employee safety remain. We believe that achieving this goal will enable the industry to come much closer than it currently is to achieving the vision of zero employee and industry-caused passenger fatalities and declining levels of risk. More consistent adoption of best practice in occupational health will also contribute to increased efficiency.

Success measures:

- The safety culture in all major duty holders has improved by 2014 to a level that can be shown to be excellent on an internationally acknowledged measurement system.
- The industry puts in place rules, standards, procedures and technology to support that culture.
- All incidents and injuries are investigated promptly and thoroughly by the industry and actions closed out through a robust process.
- Occupational health management in the industry reflects good practice.

What we will do:

- Introduce more systematic audit, as well as inspection, of dutyholders' management systems, incident investigations and action tracking processes, both in the mainline railway and other parts of the industry.
- Make greater use of our powers to ensure that duty holders measure their safety culture and identify and address weaknesses.
- Use our influence, and if necessary take regulatory action, so that all duty holders implement good practice for management of occupational health.
- Use our powers to ensure the industry manages in an effective way the safety of the railway system as a whole, and the safety interfaces between different companies and organisations.



Excellence in asset management

Goal for 2009-14: By 2014 whole-life asset management in the rail industry matches that of best practice comparators.

Reasons for the goal: Good asset management – using the right data to make decisions which optimise across the whole industry the selection, inspection, maintenance and renewal of assets – plays a key role in determining performance and efficiency in asset-intensive industries like the railways. Network Rail still has some way to go to achieve world class efficiency and a key enabler for this will be improving the quality of its asset management. Moreover there remain concerns about how efficiently interfaces within the industry are being managed, and thus about asset management in the industry as a whole. Asset management is also integral to improving the industry's sustainable development performance.

Success measures:

- By 2014 Network Rail is rated excellent in asset management using an internationally recognised measurement system, and other relevant parts of the industry are testing their asset management processes in a similar way.
- Network Rail meets the efficiency challenges set in the 2008 periodic review, and works with train operators and suppliers to strive for further improvement and innovate for the future.
- Interfaces between different parts of the railways (for instance between track and train) are specified and managed in a safe and cost effective way, taking best advantage of European Union interoperability requirements.
- All parts of the industry develop and implement risk-based maintenance procedures.
- The industry monitors its carbon footprint and other aspects of its environmental performance and at least maintains its relative position compared with other modes.

What we will do:

- Continue regular assessments of Network Rail's asset management capability against best practice, including audit of asset management processes from a safety, efficiency and sustainability point of view.
- Encourage a structured approach to measuring and reviewing asset management performance across the industry.
- Encourage the industry to compare itself with the efficiency levels of other railways and other comparable organisations and identify how these can be achieved, and initiate such work ourselves if necessary.
- Secure improvement in the effectiveness with which the industry maintains and improves key technical and operational interfaces in a safe and cost effective way. As an example of this, we will ensure the industry has arrangements in place to ensure the continued effectiveness of the train protection and warning system.
- Monitor the impact and likely impact of European Union standards and policies and use our influence and powers to ensure benefits are realised.
- Ensure that industry planning for the 2013 periodic review incorporates a technical strategy consistent with the best long-term whole industry outcome and the needs of sustainable development.
- Use our powers and influence under the industry framework to address blockages to innovation and improved efficiency.

Improved industry planning and timely and efficient delivery of major projects

Goal for 2009-14: Committed improvements to the railways are delivered in a timely and efficient way, and credible plans are in place to meet the longer term challenges the industry faces.

Reasons for the goal: Delivery of the large scale enhancement programme required to increase capacity in 2009-14 is of itself a major challenge to the industry, and it is combined with the need to develop plans to meet the longer term challenges set out in chapter 3.

Success measures:

- Enhancements planned for 2009-14 are completed in a timely and efficient way, minimising the impact on rail users.
- The mainline industry has in place a better framework for specification and management of cross-industry projects such as GSM-R, the European Rail Traffic Management System (ERTMS), and major capacity enhancement projects, with better alignment between the different parties involved.
- The most beneficial future enhancements are selected to increase the capacity and performance of the railways beyond 2014.
- Continued improvement is achieved in safety performance on railways where major capital programmes are being delivered (including both the mainline railway and the London Underground).

What we will do:

- Monitor and if necessary use our regulatory powers to enforce delivery by Network Rail of the enhancements required by the 2008 periodic review and the commitments in the delivery plan.
- Keep under review Network Rail capability – including in planning and project management – to deliver the projects that are required in 2009-14 and in the future, and take any necessary action.
- Monitor and audit the safety verification and safety management processes for large enhancement projects in the mainline and other sectors.
- Promote innovative ways of delivering capital projects more quickly and efficiently.
- Use our powers and influence to improve the effectiveness and alignment of the economic and contractual framework for delivery of major projects requiring cross-industry partnership.
- Base our 2013 periodic review on an industry plan, including costed options for enhancements.
- Continue to provide a regulatory framework for investment able to adapt to changing requirements of funders and other investors in the railways.



Efficient use of capacity on the mainline network

Goal for 2009-14: The mainline industry has in place arrangements to achieve the best use of capacity on the network.

Reasons for the goal: A key means by which growing demand on the railways can be efficiently met is by optimising the use of capacity on the infrastructure.

Success measures:

- The processes and capability to generate timetables which make best use of capacity, meeting the needs of users and funders, are in place, led by Network Rail.
- Route utilisation strategies covering the period up to 2019 and beyond are in place for all major mainline railway routes, with the route utilisation strategy for the network as a whole addressing strategic issues which cut across routes.
- ERTMS is successfully trialled on relevant Network Rail infrastructure and plans are in place for timely and efficient future roll-out.

What we will do:

- Use our influence and our powers concerning access to the network and under the network code and the network licence to ensure development of better timetabling and longer term route utilisation strategies.
- Improve the analytical tools and economic models that we use to inform decisions on use of scarce network capacity.
- Ensure that the technical strategy underpinning planning for the 2013 periodic review enables better use of capacity including improved train control through ERTMS, and assess the delivery, efficiency and effectiveness of the GSM-R and ERTMS projects, including by audit and inspection.
- Subject to the regulatory structure being established by the UK government, implement effective regulation of the High Speed 1 route consistent as far as possible with the rest of the network.



Development by the industry of the capabilities of its people

Goal for 2009-14: All parts of the industry put in place arrangements so that they have and can sustain the skills and competence needed to meet the challenges of 2009-14 and beyond.

Reasons for the goal: The challenges of delivery in 2009-14 and of planning for the future will require the industry to develop the capability of its people. Capability and competence are also vital to delivery of a safe railway. This is a new priority for us, reflecting the importance of this issue.

Success measures:

- All parts of the industry have long-term resource and skills plans in place.
- Each duty holder has a validated competence management system meeting best practice for comparable organisations.

What we will do:

- Encourage the industry to put in place the necessary plans, both at company level and across the industry.
- Inspect and audit the competence management systems of duty-holders.



High quality data and information for key decisions

Goal for 2009-14: Data produced by the industry is better turned into information so that all parties can make effective and consistent use of it, and the industry's management systems are more robust and meet international standards.

Reasons for the goal: This builds on the work we have done to improve the quality and availability of data for decision making, and reflects the importance of data and management systems to safe and efficient delivery.

Success measures:

- Key decisions by the industry and government, and the 2013 periodic review, are informed by better information particularly on disaggregated costs, asset reliability and condition; network capacity and the demand for use of rail services.
- More reliable data is available for the planning and management of key interfaces such as those between the track and the train.
- Information and data collection systems are robust and obsolete systems are replaced by 2014.
- Management systems in industry companies meet internationally recognised standards.

What we will do:

- Audit the management systems of duty holders where necessary from a safety perspective, or see appropriate external accreditation achieved.
- Encourage, and where appropriate use our powers to require, improvements to the quality and availability of data for decision making and planning and management of key interfaces.
- Ensure availability of statistics which are relevant, accurate, timely and directed to the right audiences, and eliminate unnecessary reporting.

Implications of our strategic themes

We have set out above our priorities for 2009-14 and what we will do to promote delivery of them. We believe they build on what we have been doing in 2004-09 and thus are consistent with continuation of the stable and predictable regulatory environment. But they also reflect the challenges the industry faces going forward, and contain sufficient flexibility to evolve in the light of events outside our control. We will refine them through our annual business planning process.

The approach set out above has significant impact on how we perform our regulatory role and on the capabilities and skills we require as an organisation. We describe how we will deliver the strategy in Chapter 5.



5. Delivering our strategy

Introduction

1. This chapter describes what we will do to deliver our strategy. It outlines how we will perform our key roles as set out in Chapter 1 - providing assurance to stakeholders and facilitating improvement - to advance the strategic themes in Chapter 4. It then sets out how we will ensure we have the necessary capability and resources.

Securing delivery

2. To **secure delivery** by the whole industry of its regulatory obligations, we will:
 - ensure effective management by the industry of health and safety risks – on the London Underground, light rail, trams and the heritage sector as well as the mainline railway;
 - monitor and enforce delivery by Network Rail of its licence obligations including those defined by the periodic review; and
 - monitor and enforce compliance with licence obligations of train operators, and competition law and consumer law in the rail industry.

In doing this we will set priorities based on our legal responsibilities to secure compliance and the strategic themes in chapter 4.

Health and safety

3. We will take a more structured approach to our health and safety assurance role. This will involve:
 - defining more clearly the outcomes we expect and understanding the risks, both actual and potential, that exist;

- gathering, analysing and reviewing the intelligence necessary to give us a clear understanding of status and progress. This includes focused and accurate information and data, findings from structured audits which include ground level inspections, results of detailed investigations, structured evaluation of safety culture and management systems and one to one meetings;
- using this intelligence to target actions on significant and systemic issues. These include using our influence to promote necessary corrective action, taking formal enforcement action and influencing changes in frameworks and legislation; and
- monitoring and further reviewing the effect of our actions with effective feedback to duty holders on strategic issues.

Network Rail

4. Our approach to enforcement of Network Rail's outputs was described in our 2008 periodic review determinations¹. These set challenging delivery targets for Network Rail, while assuming significant efficiency improvements. We expect our determinations to be reflected in the company's 2009-14 delivery plan to be published in March 2009, which will set out its commitments to meet its obligations.
5. We will monitor and enforce Network Rail's delivery against the outputs set by the determinations and the commitments in the delivery plan, against other reasonable requirements of train operators and funders, and against its other licence obligations. We will do our own monitoring and reviews, focusing on the key risk areas and using the regulatory reporters as appropriate, but we also expect Network Rail to work with train operators through mechanisms such as joint performance improvement plans, route plans and station plans, with us intervening in the event of significant failings in process or delivery.

Other obligations

6. In fulfilling our responsibilities to enforce licence obligations of train operators, and competition and consumer law in the rail industry, we will take a similar approach to that we take for our other enforcement work, based on our statutory responsibilities and the risks to delivery of improved outcomes. The use of market studies to enable us to identify how well markets are working is an example of how we identify priorities. We will develop our policy for fulfilling our new responsibilities for enforcement of European Union technical specifications for interoperability.

Periodic review and industry planning

7. It is also our role to encourage further improvement in the railways. Our **periodic review** of the mainline railway, and specifically of Network Rail's outputs and funding, for the period 2014-19, and the processes leading up to it, will be key to helping the mainline industry meet the long-term challenges that it faces. Progress on the strategic themes set out in chapter 4 will be vital to a successful review.
8. We expect that by July 2012 governments in England and Wales and in Scotland will need to produce specifications of what they want the railways to deliver and how much money they will commit to the mainline railway. The process leading up to this will need to link to the wider transport planning agendas of the UK and Scottish governments,

¹ See: Periodic review 2008: Determination of Network Rail's outputs and funding 2009-14, published on 30 October 2008, at: <http://www.rail-reg.gov.uk/server/show/category.1917>

including the process set out by the UK government in its document 'Delivering a sustainable transport system'².

9. As noted in chapter 2, industry involvement was of great benefit to the periodic review which we have just concluded. In our view this means that for the next review there needs to be much stronger industry input into the development of the UK and Scottish governments' output specifications and funding statements, and into the review. In particular, by 2011, the industry, through Network Rail, will need to set out realistic options for the railways going forward which take account of likely customer requirements and with robust costs for safe and efficient delivery as an input to governments' wider transport planning. This will require extensive cross-industry working during 2009 and 2010.
10. A key difference compared with the previous review will be that, owing to the long-term challenges the industry faces, the plans on which the review is based will need to be founded on a much firmer view of what is required over the longer term.

Making the industry framework work better

11. We will continue to encourage the industry to take the initiative to improve the **framework** of relationships within which it operates rather than relying on us or government. In support of this, but not in place of it, we will keep the framework under review to ensure that it facilitates and enables effective cooperation to address short, medium and long-term issues, and to advance the strategic themes set out in Chapter 4.
12. Alongside this we will aim to improve the timeliness of our decision making on access to railway facilities, industry codes and cooperation arrangements, licences and competition law.
13. The implementation of European Union rail policies has an increasing effect on the rail industry in Britain. We will continue to work with industry stakeholders, government, and EU institutions to maximise the benefit to railway users in Britain from their implementation. We will collaborate with other rail regulators and safety authorities in Europe to exchange information and best practice.

Implementation

14. Our strategy builds on what we have done over the last five years, but to deliver it we will, like all parts of the industry, need to change. We will need to build on our capabilities to reflect our strategic themes, and exploit fully the benefits of being an integrated safety and economic regulator. We will continue to invest in our staff to develop their skills in ways that best match the needs of our strategy so that they can confidently apply sound and measured judgement.
15. We will exploit opportunities for further improvement in our own efficiency but not allow this to compromise our effectiveness as a regulator. In particular we believe there is considerable scope to become more efficient through better targeting and planning of our work and through speedier and better processes and systems.

² See: Delivering a sustainable transport system: consultation on planning for 2014 and beyond, published by the Department for Transport on 24 November 2008, at <http://www.dft.gov.uk/consultations/open/planning/>

16. We have considered the implications of our strategy for our resourcing and for the costs reflected in the licence fee and safety levies payable by Network Rail and other duty holders. The need to invest to improve our efficiency and capabilities could well involve cost increases in the first one to two years of the strategy, but we believe that our costs will then fall in real terms as the benefits of the changes have their effect. We will aim for the average cost per annum over the next five years to be no larger in real terms than our budget for this year. In our annual business plan for 2009-10, which we will publish in March 2009, we will set our budget for 2009-10 and outline projected costs for the following four years.
17. The main areas where we will strengthen our capability and organisation to support our strategic themes are:
 - to improve the effectiveness of our safety regulation work we will enhance the way our inspectors work, adopt a more structured audit-based approach and aim to become swifter on safety enforcement. We will reorganise our rail safety directorate in line with the main duty holder groups – Network Rail, train operators, metros, trams and heritage;
 - to promote excellence in asset management in the industry we will consolidate our engineering resources from across the office and invest in their continued professional development to ensure our knowledge base is current. Where we do not have sufficient expertise, we will use high quality consultant knowledge;
 - to be better able to monitor the delivery of major enhancement projects we will need more expertise in the management of large and complex projects. As part of this we will increase the specification for the regulatory reporters;
 - to improve our ability to facilitate industry planning and improve the working of the industry framework we will better integrate the teams involved, ensuring that they maintain up to date understanding of the working of the industry; and
 - to enable us better to identify emerging problems and prioritise our activities we will bring together in one team the work we do to collect and analyse information to create useful intelligence. This will include better use of feedback from our inspectors and better information management systems within ORR;
 - to improve engagement with key stakeholders we will introduce a more focused and integrated approach to the necessary two-way communication.
18. These changes will further enhance our effectiveness as regulator of Britain's railways and enable us to play a full part in making sure that the railway industry meets the challenges it faces in 2009-14.

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ORR metro team

ORR IAM team

Graeme Clarke

Brian Clarke

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One Kemble Street
London
WC2B 4AN

T: 020 7282 2000
F: 020 7282 2040

www.rail-reg.gov.uk