PR13: A challenging but achievable benchmark for Network Rail

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Setting the scene

I'd like to thank Marketforce and the IEA for inviting me here today. Perhaps it is opportune that on a day when the Government has published its Autumn Statement, I will be talking to you about value for money and investment and how ORR sees the future for a network which must put its customers and taxpayers first.

Just over a month ago we announced the final determination for control period five. This sets out a stretching but achievable agenda for Network Rail to deliver between 2014 and 2019.

Network Rail is charged with delivering value from £38bn of taxpayers' and customers' money on a service that touches the lives of most people in this country, whether commuters, workers, customers of rail freight-connected supply chains, tourists, or people visiting family and friends.

Demand for Britain's railways continues to boom. Last year our network carried 1.5bn people – that's 24,000 trains per day. Over the next five years passenger numbers are forecast to rise by another 14%.

Increasing demand means increasing pressure to make better use of capacity. It brings pressure to provide greater efficiency, both operational and financial, and it brings pressure to provide what the customer wants.

Network Rail is effectively a monopoly supplier of rail infrastructure in Britain, and is consequently not subject to the normal commercial pressures businesses face in competitive markets. That is why the company is subject to economic regulation. ORR's economic role is to make sure the company is set stretching commitments to serve its customers and to deliver services. This is so that – as far as possible – it can provide quality, great customer service, and value for money – as businesses do when they are subject to competition. I'll say more later about how we are doing this.

In the current climate of fiscal constraint, every area of spending needs to show value for money – that is true whether the source of the money is taxpayers, fare payers, or rail-using businesses. Efficiency really matters.

It's a huge undertaking – and one in which we will be giving our full support to Network Rail. We want to see it succeed in achieving the outputs and meeting the targets that it has been funded to deliver.

To do this, we will work very closely with the company and hold it fully to account. The network is too important and the sums invested too large to have it any other way. It is what the public expects us to do.

Serving customers and taxpayers

Our Final Determination for the next five years is partly driven by the priorities of the governments – in London, Edinburgh and Cardiff. But it is also the product of an extremely thorough consultation exercise. We listened very carefully to what the rail industry and its customers told us they wanted – and we worked hard to balance these interests as fairly and effectively as possible.

As a result, we have developed a robust, challenging, and balanced package.

Passengers will benefit from better punctuality across the network, with at least nine out of ten trains in Scotland, and local and commuter-belt services in England and Wales trains arriving on time – and an overall national punctuality target of 92.5%.

We have also set a national target which requires no more than three services in every hundred being cancelled or experiencing delays of more than 30 minutes.

As part of this, we will focus on the worst performing routes to bring the whole network up to a more consistent national standard.

This includes significant improvements in punctuality and reliability on long distance services. We have tightened the targets to reduce cancellations and significant lateness for long-distance services on the East and West Coast Main Lines, and introduced a new punctuality target specifically for Great Western's long-distance trains. We have responded to what long-distance customers are most worried about: we need to see fewer bad days.

The final determination also requires Network Rail to reduce delays from engineering works by 8% for passenger trains and 17% for freight services by the end of CP5 – all the more important and challenging given the amount of investment work that will be going on across the network in the next five years.

Passengers will also benefit from a £12bn enhancement programme to improve the network's quality and capacity. This investment will improve inter-city journey times, provide more capacity around urban commuter hubs; and improve links with major ports and airports. It will enhance and expand Britain's strategic freight network, with

£230m ring-fenced for freight-specific schemes: there will be a continued focus on improving the provision of infrastructure services for the freight sector.

It will involve projects all over the country, from major developments in London to the vital Edinburgh-Glasgow corridor in Scotland. We will also see Network Rail push ahead with a nationwide electrification programme, including the Great Western Main Line, the Welsh Valleys and the main line to Swansea. Expansion of the Northern Hub, providing extra capacity and electrified routed centred on Manchester, will also be a priority.

We have given Network Rail the benefit of two extra years to develop priced proposals for delivering those enhancement schemes which are at an early stage of development. We will be looking closely to ensure that Network Rail's proposals represent good value for money – and that it consults rail travellers and train operators properly on its plans and how they are delivered. These must focus squarely on what its customers want.

Both customers and taxpayers benefit from better value for money too. Improving the efficiency of the railway gives people choices – and government has chosen to redeploy savings in the day-to-day costs of the network back into a better railway for the future.

Overall we have asked the company to secure nearly 20% more efficiencies over the next control period – and we have asked it to reduce its day-to-day running costs by £1.75bn from those originally proposed in its business plan.

If you remember the McNulty analysis of a few years ago, which identified the scale of the efficiency challenge Network rail faces to be among the most efficient in Europe – our Periodic Review means that Network Rail will have delivered its share of the McNulty Challenge by 2019, though there is more to do across the rest of the industry.

We have identified areas in which Network Rail needs to go further in delivering better value and efficiency than it has proposed, with a detailed bottom-up analysis, activity by activity, across the company – and assessing how quickly it is reasonable to expect the company to move towards best practice. But I acknowledge the good work that Network Rail has done – and in some areas our assessment is very close to what the company itself proposed.

On maintenance, we have in fact added back money in the early years of the control period where – looking carefully at the track-record in CP4 – we concluded that the company needed more time than it had asked for to introduce change and to make sure it is implemented safely and sustainably.

Health and safety

We are of course both the economic and safety regulator, so let me be absolutely clear. These two roles are entirely complementary. We do not compromise one for the sake of the other. In this periodic review ORR has for the first time made full use of its expertise to reach a balanced judgement across the company – making use of what our inspectors observe on the railway, day-in-day-out, to help inform our economic judgements on efficiency and sustainability.

We are a better economic regulator because we are the safety regulator, and we are a better safety regulator because we are the economic regulator.

An efficient railway is a safe railway – correspondingly an unsafe railway cannot be efficient. And all the evidence and analysis shows that good health and safety is also good for business performance.

The final determination recognises this, as it recognises the need to push safety improvements even further on from the major progress the industry has made over the past decade, to the point where we now have one of the safest railways in Europe.

But there is still much to do. We cannot be complacent. Too many people are still getting hurt.

Track worker safety is not good enough and must improve. We've identified £250m to help to tackle this, from protecting those working with high voltage electricity to providing better warning of approaching trains.

Poor occupational health is costing millions in inefficiencies and for the first time we have, in our final determination, formally factored in savings for Network Rail of £50m over the next five years, achievable through improvements in their occupational health management.

Greater efficiency does not necessarily mean less investment. Take a look at what we've agreed to fund to improve public safety at level crossings.

Network Rail's original proposal offered an 8 per cent risk reduction for a £67m outlay. Having sat down with the company and got to grips with the issues, we worked together to develop a much more robust – and better funded – £109m ring-fenced package.

This will target a 25 per cent risk reduction by the end of 2019 and potentially close over 500 level crossings.

Pound for pound, it offers a much better return to the taxpayer – and greater protection for the public.

We have also put in £600m of additional investment in renewing the network's civil structures – bridges, embankments, tunnels – doing more as Network Rail develops a better understanding of the condition of its assets.   This will help to address many decades of under-investment in the fabric of the existing network.

Punctuality: the big challenge

Of course there have been big challenges in CP4, Network Rail has delivered a large programme of enhancements through the period, and its record of delivering major projects on time and on or below budget is now very impressive. Lots of things have gone well. The numbers of people travelling by train have rocketed, there are more trains on the network to meet that demand, and passenger satisfaction is near record levels.

But after a decade of fairly steady improvement, we have seen punctuality diminish in recent years, and that matters enormously to customers. It is the biggest single cause of dissatisfaction for rail users.

There is no doubt that the challenge is now huge. Network Rail is heading for a substantial financial penalty at the end of this current control period for poor punctuality on the long distance sector.

Our most recent edition of *Network Rail Monitor*, published last week and covering the three months to October, warns that the company may fail to reach its punctuality targets in all of the passenger sectors by the end of CP4 – not just long distance trains, but those in Scotland, London and South East and the regional sector too.

In the last quarter, more than 122,000 trains did not meet their punctuality targets, accounting for over four million train delay minutes.

On a more congested network the answers are never entirely straightforward. But we know that excellence in asset management is a very large part of the answer. And from what we see on the network, with people working hard to maintain and renew the system, we know that with better information on asset condition and more attention to predicting and preventing failures, the reliability and resilience of the network and the quality of our train services can be improved.

You hear a lot about asset failures, the bad days, where train service punctuality takes hours to recover. Yet I see a lot of good practice from Network Rail which tells me that it doesn't have to be like this.

Take the example of the Anglia Route out of Liverpool Street to Stratford and Shenfield in the run-in to the Olympic Games. Rather than risking a series of high-profile asset failures, the route management did a check across their critical assets – what they know about their condition, their likelihood of failure, and what would be needed to recover.

When overhead line failures were identified as the biggest risk to train performance, Anglia Route pinpointed and fixed over 2,500 overhead faults between Shenfield and Liverpool Street.

The result was a trouble-free games as far as rail travel was concerned, with negligible delays and disruption. And more than that, there is now an Anglia legacy – overhead assets which are in better condition, and are better understood.

And it's no coincidence that the punctuality improvement on the line has been sustained. The approach is now being replicated on the West Coast Main Line, and the lessons are being learned.

Devolution and empowering local management is also making a difference. I see examples of Network Rail's teams stepping up the quality of possessions planning, to get the most work done possible by the expert staff and equipment deployed in the time available.

And I see examples of better collaboration between Network Rail and the train companies to improve access to the track for maintenance and renewals – supported both by better relationships and engagement at route and local level, as well as nationally by the Rail Delivery Group.

The truth is that these examples show what can be done – but they are still too few and far between. While Network Rail has made significant inroads into getting a grip on its assets portfolio, the reality is that there is still a very long way to go on asset management and planning. Of course more trains on the network makes it harder to get the access – but this is about getting the basics right around planning, scheduling the work and making sure it's delivered in the time available.

There is a substantial shortfall in the volumes of maintenance and renewals work that Network Rail should have done – and the company has underspent in these areas to the tune of well over a billion pounds in the current control period.

That's £723m for renewals and £423m for maintenance; and alongside that, significant backlogs in maintenance and under-deliver in renewals. Under-spending is not efficiency when your customers suffer the consequences. The money is there, and in many places the ideas are there to ensure it is spent efficiently to get the best results for rail users.

With winter just around the corner and less than four months to go before the end of CP4, preparation for bad weather and clearing this mountain of outstanding maintenance and renewals work has to be priority number one if we are to generate forward momentum going into CP5.

The network needs to become much more resilient to climate change and extreme weather events, while recovery times following these need to improve.

Spending the right amount of money in the right place at the right time will reduce delays, bring down costs and secure a safe and sustainable railway now, and for the future.

I have no doubt whatsoever about the commitment of staff in the track, in the signal boxes, in the control and management centres, to delivering better infrastructure and a better service. I know that they want to deploy and develop their expertise to meet these challenges.

But to get this right requires a positive transformation in the business. We need to see Network Rail moving from a 'find and fix' to a 'predict and prevent' culture, helped by new technology and a better understanding of the assets.

To that end we have established – for the first time – mandatory asset management targets for the company in CP5. We have also protected Network Rail's maintenance budgets in the early years of CP5 so the company has time to adopt new technology and working practices, enabling it to deliver better performance and efficiencies based on sound change management which means new practices are both safe and sustainable.

Doing things differently

Running an efficient and reliable railway is Network Rail's responsibility. As the regulator, ORR will be doing things differently in CP5 to help turn things around.

We will be taking a much closer look at the company's performance, particularly on asset management and progress towards making the network more resilient to the elements. We will watch delivery of maintenance and renewals closely, reflecting what we learned from CP4, where under delivery early on in the control period is now showing up in poor performance.

ORR is determined to be a proportionate and effective regulator in CP5. Often less is more. We want to intervene only where necessary, leaving the running and management of the railway to the industry itself.

We and the Department for Transport need to give you – in Network Rail, in train operators and in the supply chain – the space to use your expertise and innovation to deliver a better and more efficient railway and to find new and better ways to serve your customers and attract new ones. We strongly believe that the industry needs the freedom to innovate and deliver.

But right now, people look at this and they say: this regulator is asking too much; insisting on thousands of pieces of data; micromanaging the company.

<u>No</u>. ORR has learned from what we have observed in practice in CP4. Our approach is entirely proportionate to the risk we are currently seeing of non-delivery. We will never micro-manage the company. But we will seek assurance that it is on

track to deliver what it was funded for; that its plans to deliver are credible; and we will ask the difficult questions and seek better answers from the company where things are at risk of going significantly off plan.

Being an effective and proportionate regulator means looking for the warning signs, understanding the delivery mechanisms and the risks, getting the information early and focusing on the right issues.

Stepping in at the end and spending our time focusing on penalties for missing targets is a bad place to be, and none of us wants to repeat this. In CP5 we will act proactively to identify problems and to press Network Rail to address them before they cause disruption and become a problem for rail users.

For the total of £38bn being spent on the railway between now and 2019, we have set Network Rail a total of just 58 regulated national targets for the end of CP5. That is the regulatory contract for the five years of 2019.

The company has an enormous amount of freedom in how it chooses to use its resources and deliver in that period – more I suspect than many of Network Rail's own managers realise. When you hear stories that 'the regulator won't let us do x, y or z with the money' – it's rarely true. Yes, there are many more indicators which we have asked for to give us assurance on delivery – but they are the same as those we would expect the company itself to have in place to manage the business.

We will give Network Rail increasing freedom once we see performance turning around, trajectories being met, the company's own plans being achieved, and outputs getting to the levels they have been funded to reach.

In the meantime, the resources and the capabilities are there, in Network Rail, to tackle the backlogs and turn it around. It is demanding, but it is achievable. I am confident that the company can do it, and that Network Rail will rise to the real opportunities of CP5. That is what we are looking for.

Conclusion

I'd like to thank you for listening to me today. I want you to take away a positive picture away with you from this session.

Above all, I want to get across that asset management and planning is the key to unlocking a better-performing railway.

Most good things flow from it and I firmly believe that getting it right will produce a transformation.

CP5 provides us all with an abundance of challenges, not problems.

There are exciting opportunities to be grasped and developments to be had which will make our railways even more efficient, safer and respected.

How Network Rail and the train-operating companies come together, not just as supplier and customer, but also as partners in delivering a service to the public, is absolutely vital to progress.

Everyone here has a part to play. No one is a spectator.

We need to work together to deliver what customers and taxpayers demand of the industry.

The success of the industry in doing this is fundamental to enriching peoples' lives and boosting our recovering economy.

Thanks for listening.