

**Corporate Strategy 2006-09
and Business Plan 2006-07**

April 2006

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Foreword

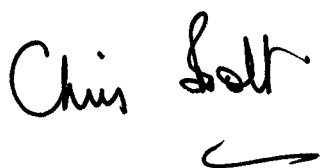
The Office of Rail Regulation is now the combined safety and economic regulator for Britain's national rail network – as well as being the safety regulator for London Underground, trams, metros and heritage railways. This increase in responsibilities is the second major change affecting the Office in less than two years – the first being the move to a Board structure in place of an individual regulator in July 2004.

This document explains how we will approach our new expanded role over the next three years. In integrating our regulatory functions, we will seek to increase the effectiveness of our interventions, and thereby continue to promote improved safety, customer performance and value for money across the industry.

As an independent regulator, operating within the statutory framework of the Railways Acts and the Health and Safety at Work etc. Act 1974 and funded by the industry, we need to ensure that our policies and decisions do indeed promote the public interest. We will monitor delivery by the railway companies and take appropriate enforcement action where this is needed. But we will also seek to influence the development of effective relationships between Network Rail, operators, suppliers and funders and encourage the development of a clear strategy for the industry to enable it to meet the needs and expectations of rail users.

This is particularly important over the period covered by this strategy, which covers the next Periodic Review of Network Rail's outputs and charges. This Review takes place within the framework established by the Railways Act 2005, which includes statements from Ministers of what they want the railways to achieve and the funds available. But it needs to take proper account of pressures on rail capacity reflecting continued growth in demand from both passengers and freight users, and continuing concerns about value for money.

We are very conscious of the responsibilities placed on us, and the expectations that have been created in merging economic and safety regulation. We believe that our strategy – refined to take account of helpful feedback on the draft published before Christmas 2005 – provides a robust basis for delivering those expectations. We are ready for the challenge.

A handwritten signature in black ink that reads "Chris Bolt". The signature is written in a cursive style. Below the signature is a small, horizontal, slightly curved line.

Chris Bolt

Chairman

Executive Summary

Introduction

1. This document is the Office of Rail Regulation's (ORR) Corporate Strategy for the period 2006-09. It updates the strategy we published in April 2005, and has been developed following consultation and a series of seminars with rail industry stakeholders. We have also incorporated our 2006-07 business plan.
2. This strategy is written from the standpoint of our role as economic regulator of the main-line railway (those services using Network Rail's network). But it also recognises our responsibilities across the wider Great Britain rail industry (including the London Underground Limited (LUL), metros and heritage railways) for safety and competition regulation.
3. The rail industry exists to meet the needs of its customers, and the public policy objectives of its funders. It faces a number of challenges: growth, costs, safety, performance and its contribution to sustainable development and environmental improvement. This strategy focuses on how ORR, as independent regulator, will facilitate the industry meeting these challenges and achieving a better public interest outcome. It reflects our new role as the combined safety and economic regulator.
4. Our long-term vision for the main-line railway industry is:

a successful partnership of Network Rail, operators, suppliers and funders working together to meet the needs of passengers and freight customers and deliver a safe, high performing, efficient and developing railway.
5. We will approach our safety and competition responsibilities beyond the main line railway consistently with our statutory duties, and our safety, efficiency, performance and development vision for the main-line railway.
6. Over the 2006-09 period, our focus will be on:
 - securing continuous and sustained improvement in safety, performance and customer service;

- pursuing relentless improvement in the railway's efficiency and value for money; and
 - through these and other actions, enabling the railway to grow and develop to meet the requirements of funders and the aspirations of stakeholders.
7. We believe that independent regulation can add value beyond formal direction, approval and enforcement. We can influence, facilitate and educate, challenge, adjudicate and align incentive mechanisms in the public interest.
8. We will adopt best practice regulatory principles of proportionality, accountability, consistency, transparency and targeting, pursuing the public interest objectives set out in section 4 of the Railways Act 1993. Where it is appropriate for the regulatory body to step back and leave delivery to the industry, we will do so. Where regulatory intervention can add value in public interest terms, we will act.

Improving health and safety performance

9. In our new role as health and safety regulator for all railways in Great Britain, our immediate priority will be to secure a seamless transition to the new arrangements, and to ensure that safety is not compromised while the transfer of responsibility from the Health and Safety Executive (HSE), and other changes in the regime, take effect.
10. Over the period of this strategy we will develop our policies for health and safety regulation, covering all the railways in Great Britain. Our general approach is:
- we are convinced that continuous improvement in health and safety can be achieved through improved processes, competences and culture, as well as good maintenance and timely renewal of equipment. In well-managed companies and organisations, improved business performance and safety go hand-in-hand. This approach is already adopted by many parts of the railway industry and we will encourage its further adoption;
 - we are convinced that improved safety can go hand-in-hand with improved efficiency. In particular we will be encouraging the industry to develop

more efficient ways of maintaining and improving safety, and to eliminate unnecessary costs;

- we will review specific risk areas and options for addressing them including by regulatory action; and
- we will foster dialogue and debate with stakeholders on health and safety issues in the industry.

11. As part of ORR, the primary role of Her Majesty's Railway Inspectorate (HMRI) will be to monitor, and where necessary enforce, compliance with safety requirements. We will do this in the ways described in our enforcement policy¹. HMRI will work with duty holders to identify problems and ensure they are addressed. It will also link into the wider development of our safety policy, and where appropriate provide advice and intelligence for the whole of ORR. We will implement the move already in progress away from specific approvals of equipment to focusing on the safety management systems which railway companies and organisations have in place.
12. We will ensure effective working arrangements are in place with other safety bodies including the Health and Safety Commission (HSC) / HSE (where we will ensure alignment of safety regulation policies for rail with those for UK industry in general), the Rail Accident Investigation Branch (RAIB), the Rail Safety and Standards Board (RSSB) and relevant European Union (EU) organisations.

Securing improved efficiency and performance of the main-line railway

13. As the monopoly owner of the national rail infrastructure, Network Rail has a vital role in industry safety, performance, efficiency and development. We expect the company to pursue innovative and efficient solutions in the best interests of users and funders of the railway, and Network Rail will be the major focus of our monitoring and review work. We will monitor performance and efficiency against the company's regulatory obligations; challenging, incentivising and encouraging further improvement where appropriate and taking enforcement action where this is necessary in the public interest.

¹ <http://www.rail-reg.gov.uk/upload/pdf/254.pdf>

14. Network Rail has wider responsibilities for industry performance and planning, and also for facilitating network enhancement. We will ensure it carries out these responsibilities properly and effectively. Network Rail needs to ensure it works proactively and effectively with other key stakeholders, and we will pursue this actively.
15. The production by Network Rail of Route Utilisation Strategies (RUSs), including the network-wide freight utilisation strategy, is a critical element in medium and long-term planning and development of the railway. Network Rail needs to address both its own objectives and wider public interest criteria in leading this programme. We will use our powers and influence to ensure the development of sound approaches and methodologies so that best practice emerges in what is a new and evolving process.
16. We also have a wider monitoring role, and we will develop this to provide authoritative and independent commentary on rail industry performance. We will implement our review of licensing arrangements for operators other than Network Rail, and develop and enforce the regime going forward.
17. We will develop improved monitoring of rail industry environmental performance and consider whether current industry arrangements facilitate the rail industry playing a bigger role in facilitating sustainable development and environmental improvement.

Securing robust plans for 2009 and beyond for the main-line railway

18. A key task over the period of this Corporate Strategy will be to carry out the independent periodic review of Network Rail's track access charges (to be completed in 2008 for implementation in 2009) (the Periodic Review 2008). This will reflect the new processes introduced by the Railways Act 2005, and will involve a full review of outputs and expenditure of the main-line railway as a whole.
19. During the preparation phase, running to early 2007, Government (the Secretary of State for England and Wales, and Scottish Ministers) will develop specifications of what it wants the industry to deliver and how much it is prepared to pay. During this period, ORR will be working to improve the information and analytical tools available, particularly through reviewing

Network Rail's plans, and participating in development of the network modelling framework.

20. Once we have issued our formal review notice, and the Government specifications and statements of funds available have been produced, it will be for ORR to assess output and expenditure implications for Network Rail, and for access charges. This will require a comprehensive review of the company's plans. ORR will operate transparent and consultative processes through the whole of Periodic Review 2008 (PR2008).
21. Information about industry costs, performance, revenue and volumes and safety will be an essential input to this work. Improved information in wider areas is also vital to making the industry work more effectively, but it is clearly important not to introduce unnecessary burdens. The ORR-led development of the Information Network will help address these points.
22. PR2008 will facilitate the Government's objective of giving devolved and regional funders a more effective say in the level and costs of railway service provision. In the case of Scotland, Scottish Ministers will support the railway and specify outputs separately, and the review will reflect this. In the case of Wales, London and the Passenger Transport Executives (PTEs), different arrangements will be in place, but the review arrangements will need to reflect these key stakeholder interests. The outcome will need to ensure there is a clear baseline against which such funders can seek changes in outputs and funding.
23. Feeding into PR2008 will be the work on Network Rail's long-term signalling strategy (including the implications of the European Rail Traffic Management System (ERTMS)) and on improving the planning and efficiency of engineering possessions. We will work closely with the industry on both of these.

Improving and aligning relationships in the main-line railway

24. We will encourage train operators and Network Rail to develop a more effective partnership to improve and develop the railway and enable it to meet growth in traffic. We will facilitate this, and use our powers to foster the relationship.

25. In an industry where delivery is in the hands of the private sector, we believe that decentralised decision-making, market mechanisms and incentives are vital to securing efficient delivery in response to the needs of customers and funders. We will encourage development of these, and alignment of incentives with public interest objectives. We will seek to foster competition in the provision of railway services and supplies where it is in the public interest, and discharge our competition regulation functions covering all railways in Great Britain.
26. The main-line railway has a wide range of stakeholders. We believe that the full range of public authority funders, the railway supply industry, and user representatives, have a great deal to contribute and we will foster development of processes to enhance this contribution.
27. In particular, we:
 - believe it is important that incentives on franchised passenger operators are aligned with other industry arrangements, and will work closely with the Department for Transport (DfT), the Scottish Executive and the Welsh Assembly Government on this;
 - recognise the specific needs and importance of rail freight and the need to ensure fair treatment between freight and other users of the network;
 - will proactively follow-up the implementation of our framework for investment in the railway, and encourage innovative approaches to developing the capability, quality and performance of the railway; and
 - will encourage innovative ways of delivering improvements to stations consistent with a public and private partnership approach.

Establishing ORR as a combined safety and economic regulator

28. Our immediate priority will be to ensure a seamless transition to the merged office including our new health and safety regulation responsibilities. Beyond that we will ensure the office is resourced with the right level of capability to meet the demands it faces. We will develop new values for the merged office.
29. We will develop a communications strategy for our new role, including a focus on effective stakeholder relationships.

30. We will develop measures of our efficiency and effectiveness, aiming for continuous improvement and avoiding unnecessary burdens on the industry that funds us.

1. Introduction and vision

Introduction

- 1.1 This document sets out the Office of Rail Regulation's (ORR) Corporate Strategy for the regulation of the railway industry in Great Britain for the next three years. Annex A summarises our business plan for 2006-07.
- 1.2 Our economic regulation responsibilities are focused on the main-line railway (largely the services using Network Rail's infrastructure). But our competition responsibilities, and our responsibilities under some of the EU directives, range more widely across the rail sector. Our health and safety regulation responsibilities cover all rail services in Great Britain including metro, heritage and light railways, and tramways.
- 1.3 The main-line rail industry faces a number of challenges:
 - there is a consensus that the strong growth in passenger and freight traffic we have seen over the last ten years is likely to continue into future years, requiring a much greater focus on making better use of, and developing, the capacity and capability of the network;
 - the costs of delivering the railway, and improving the railway, have increased significantly. These are now being addressed, but need to be significantly further reduced if the industry is to develop;
 - over the last decade, safety performance has generally improved, but there is an expectation of continuous improvement and a need to address areas of concern, for instance the workforce safety record;
 - operational performance has now recovered well, but further and sustained improvement is necessary to meet customer and stakeholder expectations;
 - Network Rail is getting to grips with its responsibilities for managing its assets, but is now taking on wider industry responsibilities and needs in particular to develop its partnerships with key stakeholders; and

- rail remains in comparative terms an environmentally friendly form of transport, but the industry will need to consider how this position can be sustained and developed.
- 1.4 As the independent regulator for a rail industry that is a partnership between the public and private sectors, our job is to facilitate and, where we can, ensure delivery of the public interest as defined by our statutory duties.
- 1.5 This document is an update of our first Corporate Strategy, which was published in April 2005. We have updated the strategy to:
- set out in more detail how we expect safety regulation to develop following the merger with HSE Rail.
 - make more explicit the contributions ORR will make to helping the industry address the challenges set out above and thus better meet stakeholder aspirations;
 - focus more on the public interest outcomes of our work;
 - set the Corporate Strategy in the context of a better defined vision of what we are trying to achieve;
 - reflect the incorporation of a number of significant European Union (EU) policies into the UK regulatory regime; and
 - reflect the work done since April 2005 on the programme for the Periodic Review 2008 (PR 2008).

Vision

- 1.6 Our long-term vision for the main-line railway industry is:
- a successful partnership of Network Rail, operators, suppliers and funders, working together to meet the needs of passengers and freight customers, and deliver a safe, high performing, efficient and developing railway.**
- 1.7 We also recognise our responsibilities across the wider Great Britain rail industry (including the London Underground, metros and heritage railways) for safety and competition regulation, and will approach these consistently with

our statutory duties and our safety, performance, efficiency and development vision for the main-line railway.

1.8 Over the 2006-09 period, our focus will be:

- securing continuous and sustained improvement in safety, performance and customer service;
- pursuing relentless improvement in the railway's efficiency and value for money; and
- through these and other actions, enabling the railway to grow and develop to meet the requirements of funders and the aspirations of stakeholders.

1.9 Our aim remains:

- to apply independent, fair and effective regulation to enable the railway to be safe, well maintained and efficient and to ensure that it provides value for money for users and for its funders.

1.10 Our approach and operating principles remain that we will:

- set out clearly in advance of each initiative the processes and expected timescales for both policy development and specific regulatory decisions, with an assessment of impacts, and allowing appropriate time for consultation;
- encourage the industry to develop its own solutions to problems;
- undertake rigorous monitoring of the delivery of agreed outputs, providing companies with an opportunity to explain shortfalls and develop recovery plans, but being prepared to take effective enforcement action where this is in the public interest;
- participate fully in industry working groups to ensure that regulatory policies are properly understood, while maintaining ORR's independence;
- provide the industry, Government and the public with appropriate, clearly presented and timely safety, performance and cost information, in order to promote understanding of how the industry is performing and to provide a basis for effective decisions safely to deliver improved service, greater efficiency and better value for money.

1.11 This means we will be prepared to step back from direct involvement where issues are best addressed by the industry, but also to intervene where regulatory intervention will add most value. We believe this approach is consistent with the Government's 'better regulation' objectives and we will be keeping under review all aspects of our activity in the light of these objectives.

1.12 We will adopt best practice regulation principles in all we do:

- **proportionality** in the exercise of our functions reflecting the circumstances of the case;
- **accountability** both through our statutory obligations and through public and stakeholder scrutiny;
- **consistency** so that stakeholders know what to expect from ORR;
- **transparency** including consultation, publication of information about the performance of the industry and of ORR, and giving full reasons for our decisions; and
- **targeting** of our activities to achieve the best public interest benefit and to take regulatory action where it will add the most public interest value. Where we believe it is appropriate for us to step back and leave delivery to the industry we will do so.

1.13 We have extensive powers of direction and approval in the railway industry. But, consistently with our statutory duties, we can also:

- **influence** – we aim to use our influence with the rail industry and others to increase the likelihood of successful delivery of our long-term vision;
- **facilitate and educate** – we use our independent position to facilitate productive dialogue between stakeholders and where appropriate educate them in the available options consistent with our long-term vision;
- **challenge** – we conduct thorough analysis so that we can expose gaps and then challenge Network Rail and others to address them, in order to move performance towards or past the benchmark positions. Performance in these terms includes safety, reliability, quality of service and efficiency. This is **not** attempting to manage delivery by the regulated company or companies;

- **align incentive mechanisms** – we work to improve and align all the available incentive mechanisms, simplifying where appropriate, but also being prepared to develop new mechanisms so that Network Rail and its partners all have strong, consistent and continuous incentives to move rapidly towards achieving our long-term vision;
 - **adjudicate** – we carry out fair, timely, evidenced and well articulated adjudications of disputes raised with us so that the affected parties can move on past the particular dispute. We make others aware of our rationale as an aid to their avoiding similar disputes; and
 - **enforce** – we use rigorous, timely and effective enforcement where this is necessary and appropriate, in order to ensure compliance with requirements.
- 1.14 We attach great importance to effective engagement with the full range of industry parties and other stakeholders. We will continue to foster such relationships (including new relationships arising from our functions as safety regulator). We will seek new ways to improve this engagement. Whilst we encourage the industry to solve problems by dialogue and the established processes, we believe it is important that problems should not be allowed to fester and, if we can help, we welcome them being brought to our attention.
- 1.15 We believe that independent regulation can play a particularly important role in ensuring that ‘whole industry’ issues are addressed, and that the long-term implications of decisions are fully considered.

Structure of this document

- 1.16 ORR’s key activities cover:
- enforcing and developing health and safety legislation for the railways;
 - monitoring and enforcing delivery of committed outputs, especially by Network Rail;
 - determining Network Rail’s allowed revenue to reflect the cost of outputs specified by government; and
 - setting and influencing the terms of key relationships in the national railway, and acting as a competition authority for the railway industry.

- 1.17 The structure of this document reflects this structure of activities. The final chapter describes our approach to the organisation and resourcing of the office.
- 1.18 Annex A to this document summarises our 2006-07 business plan. Annex B summarises the financial implications.

Consultation

- 1.19 We published a draft of the updated corporate strategy for consultation on 15 December 2005. Industry seminars were held in London, Leeds, Glasgow and Cardiff. Written responses to the consultation were received from the following organisations, and these responses can be found on the ORR website (www.rail-reg.gov.uk) and in its library:
- Association of Train Operating Companies (ATOC);
 - English Welsh & Scottish Railway Limited (EWS);
 - The Go-Ahead Group plc;
 - Heritage Rail Association;
 - National Express Group plc;
 - Network Rail;
 - Parry People Movers Limited;
 - Passenger Focus;
 - Porterbrook Leasing Company Limited;
 - Rail Safety Standards Board (RSSB)
 - Strathclyde Passenger Transport Executive (SPTE)
 - Transport for London (TfL); and
 - Transport Scotland

2. Improving health and safety performance

Introduction

- 2.1 This chapter sets out our strategy for the regulation of health and safety on Great Britain's railway. The strategy aims to deliver our vision of continuous improvement in health and safety, achieved alongside improved performance and efficiency, whilst sustaining and developing the railway. It builds on that previously developed by the Health and Safety Commission/Executive (HSC/E), but reflects the combined safety and economic regulation role of ORR, and the fact that our safety regulation responsibilities cover all railways in Great Britain.
- 2.2 Our general approach will be to:
- monitor and enforce compliance with health and safety law, and maintain an inspectorate with the capability to do this;
 - encourage and promote the achievement of continuous improvement in health and safety by the rail industry through good management, improved processes and competence, and the renewal of equipment;
 - encourage and facilitate more efficient ways of delivering this continuous improvement;
 - facilitate an informed debate about options to address risks, which are of concern to society but where there is currently no solution which meets the statutory test of reasonable practicability; and
 - engage effectively with the full range of stakeholders on health and safety issues.

Background

- 2.3 The Railways Act 2005 and associated secondary legislation will transfer responsibility for the regulation of health and safety on the railway from the HSC and HSE to ORR in early 2006. ORR will be the Rail Safety Authority for Great Britain and will have responsibility for safety regulation policy across all

railways in Great Britain, including the main-line railway, urban metro systems (such as the London Underground), tramways and heritage railways. ORR will also have responsibility for enforcement of the Health and Safety at Work etc. Act 1974 and other relevant statutory provisions for rail related activities². Thus, our safety regulation responsibilities go much wider than our economic regulation responsibilities.

- 2.4 The introduction of the Interoperability Regulations and Railways and Other Guided Transport Systems Regulations (ROGS) will also occur in 2006, implementing EU law. ROGS represent a significant change in the way that railways are regulated. They will have a significant impact upon industry's own safety related processes, and represent a significant challenge, particularly to Network Rail, to ensure effective and efficient processes are in place.
- 2.5 Our immediate objective is to ensure that these changes are implemented in a way that does not compromise safety, nor unnecessarily increase cost, and yet achieves the policy objectives set out in the Government's July 2004 White Paper *The Future of Rail*, in a manner consistent with EU requirements and broader Government policies. Reflecting this, our approach to implementing this strategy through our business plans will be an evolutionary one.

Our strategy

- 2.6 The railway industry can, like all good practice industries, continuously examine its own behaviour, competences and management systems to identify and implement improvements and it should do this before considering the case for further major investment and enhancement. Thus, rail health and safety can be continuously improved, alongside eliminating unnecessary costs and continually improving performance. Good health and safety performance is an integral part of good business performance and in the longer term we would expect our approach to intervention to be influenced by the extent to which the railway industry demonstrates a proven, mature and professional approach to risk mitigation.

² The precise range of activities that ORR will enforce is set out in the Enforcing Authority Regulations 2006.

2.7 This approach is consistent with the European Safety Directive, which requires member states to ensure that railway safety is generally maintained and, where reasonably practicable, continuously improved.

2.8 Our strategy has four main elements:

- putting in place an effective, transparent and risk-based health and safety regulatory framework and intervention strategy;
- learning from experience and building relationships;
- influencing the European agenda; and
- ensuring our effectiveness as a combined safety and economic regulator.

Risk-based regulatory framework and intervention strategy

2.9 Our approach will be to:

- ensure there is a consistent measurement framework for industry health and safety performance, making data publicly available on our own activities and the health and safety performance of those we regulate;
- on the basis of analysis of risks and opportunities, identify and assess priorities and cost effective options to improve health and safety. This work will inform our inspection strategies, the development of policy and our advice to Government on safety issues;
- keep our policies under review, not changing for the sake of making changes, but ensuring they are consistent with our overall vision;
- provide clear and relevant guidance to operators and others on meeting legal requirements; and
- keep under review existing rail-specific health and safety legislation, recommending improvements, including revocation or simplification, where current legislation is no longer appropriate. We recognise that rail companies have general duties under health and safety legislation and all recommendations for rail-specific legislation will be supported by robust regulatory impact assessments.

2.10 We will maintain a strong and credible inspectorate to hold duty-holders to account for compliance with health and safety law, but also to work with them to facilitate improvement. The inspectorate's activities will primarily be driven by risk (i.e. giving priority to the most significant risks that result in the greatest potential for harm) and the likely effectiveness of the intervention. We will take full account of:

- causes of worker, public and passenger injury/ill health;
- available intelligence (where necessary seeking more) such as that from incidents, inspector observations and assessment, and research findings;
- recommendations from the Rail Accident Investigation Branch (RAIB), and industry formal enquiries;
- statutory obligations on ORR, such as safety certification and authorisation of new plant works and equipment;
- risks arising from changes in the regulatory regime, particularly the ROGS and Interoperability Regulations and consequential changes to safety management systems, as well as changes driven by the cross-industry initiative to reduce the number of Railway Group Standards; and
- public, employee and passenger concerns.

2.11 Intervention plans for 2006-07 are being developed to ensure consistency of approach and prioritisation, and will be discussed with operators and safety representatives. They focus on:

- reducing key risks to workers and passengers, informed by recently developed 'topic strategies', and securing improvements in specific areas of concern e.g. level crossings, track, human factors, signals passed at danger, route crime and risks at stations;
- the continuation of approvals work until the proposed ROGS regulations come into force, and helping the industry prepare to meet the new legal requirements;
- ongoing Safety Case assessment and acceptance work with proportionate effort put into verification and follow up of action plans; and

- the investigation of accidents where there may have been a significant breach of legal requirements, and an effective response to complaints received about rail health and safety.

Learning from experience and building relationships.

2.12 We will develop and maintain our relationship with HSC/E to:

- share knowledge and benefit from each other's specialist skills and thus improve the efficiency of regulation;
- ensure consistency between ORR's health and safety policy for the rail industry, and general health and safety policy developed by HSC/E;
- ensure a consistent approach to enforcement of health and safety law between enforcement authorities; and
- provide input into the development of general health and safety policies by HSC/E.

2.13 We will develop our relationship with the full range of industry stakeholders:

- working with the Rail Industry Advisory Committee (RIAC) as an ORR-chaired forum to engage with the full range of industry parties;
- developing high level relationships on safety matters with the rail industry, trades unions, passenger and freight customer representatives, professional institutions and training organisations, and other stakeholders;
- for the main-line railway, working with RSSB to ensure improved and better coordinated understanding of risks and the options for dealing with them; improve the standards framework; and ensure an effective research and development programme;
- building on existing HSE Rail relationships with those railways which are not subject to economic regulation by ORR; (such as metro and light rail operators and the heritage sector); and
- ensuring we work effectively with the RAIB and address issues raised in RAIB recommendations.

2.14 We will promote dialogue with Government and other funders to:

- ensure understanding of risks in the industry and the most effective and efficient options for addressing them;
- support decisions on outputs sought from the railway and funding available; and
- facilitate more cost effective ways of delivering safety outputs and improvements.

2.15 We will proactively address independent recommendations³ for improvement and ensure that:

- recommendations are tracked, assessed and progressed with actions and outcomes made public. Recommendations that are not considered reasonably practicable will be considered as part of our advice to government, accompanied by economic assessments; and
- existing HSC major accident independent inquiries (e.g. Potters Bar) are continued by ORR through to completion.

2.16 We will keep these arrangements under review, and be prepared to listen to concerns raised by stakeholders.

Influencing the European agenda

2.17 We will seek to influence the EU safety agenda and programme in a way consistent with delivery of our vision, and in consultation with industry stakeholders.

2.18 We will provide advice and technical support to the Department for Transport (DfT) in relation to legislative change and provide policy and technical input to the development of Common Safety Measures, Indicators and Targets, approaches to Safety Certification and Authorisation; and safety elements of Technical Specifications for Interoperability (TSIs).

2.19 We will engage with the rail safety regulator for Northern Ireland and the UK delegation to the Channel Tunnel Safety Authority, sharing information and

³ Sources of independent recommendations include:

- public inquiry reports (where action on these remains incomplete)
- reports following Rail Accident Investigation Board (RAIB) investigations
- reports following other investigations eg. by the industry or HSE/ORR (eg. into Hatfield and Potters Bar incidents).

advice and seeking to ensure common approaches. We will also engage with other safety regulators through pan-EU groupings to share information and where appropriate develop common positions among regulatory bodies.

- 2.20 We will work with the rail industry to influence the work of the European Rail Agency in the development of Common Safety Targets, Common Safety Methods and the Safety Certification regime.

Maximising the effectiveness of a combined safety and economic regulator

- 2.21 ORR's responsibility as both safety and economic regulator for the main-line railway, provides opportunities to bring "*regulation of all aspects of the rail industry – safety, reliability and efficiency – together under a single public regulator [to] streamline the regulatory system, reduce bureaucracy, and ensure that these issues are looked at as a whole, and not in isolation from one another.*"⁴
- 2.22 We have created a strengthened rail safety policy function as a separate directorate in ORR, focused on the strategy for rail safety; and will retain a separate railway inspectorate within ORR, with rights of access to the Board on safety matters, and with effective operational feedback to the safety policy function. We will ensure that this function, and the railway inspectorate, are resourced to meet the needs of this strategy, both in terms of skills and capability, recognising the changes resulting from creation of the RAIB and the introduction of ROGS.
- 2.23 We have already established governance arrangements to ensure there is an integrated framework for taking safety and economic decisions, and to seek to address any differences of view between the safety policy and economic policy functions. We have and will maintain arrangements to enable Inspectors to enforce the law in line with the policies agreed by the ORR Board.
- 2.24 We will develop arrangements so that we can:
- encourage and facilitate the industry to challenge costs, including those related to safety, and to find alternative less costly approaches that

⁴ This is taken from The Future of Rail White Paper. Department for Transport July 2004

maintain and improve health and safety standards and meet legal obligations;

- promote and encourage an improved decision-making framework and modelling capability for the industry and its regulators; and
- contribute to the development of costed and efficient options for change.

2006-07 priorities

2.25 Delivering our vision and strategy for rail health and safety regulation as part of a combined safety and economic regulator will take some time. Our overriding focus initially will be to continue to deliver the regulatory functions delivered by HSC/E in a seamless fashion. Her Majesty's Railway Inspectorate (HMRI) will follow its intervention strategy, and Work Plan, that are currently being developed, reviewing and revising the Plan in the light of experience or events. Over time we will start to address the opportunities offered by the merger.

2.26 During 2006-07, we will:

- develop policy positions on key risks (e.g. level crossing, worker and irregular working risks, and risks at stations);
- continue with the development of topic strategies, discussing widely with stakeholders. We will pay particular attention to major sources of risk and to workforce safety;
- develop our input to the DfT/Scottish Executive high level output specification (HLOS) for the main-line railway;
- review the effectiveness of RIAC and other stakeholder relationships;
- review guidance on the interpretation of reasonable practicability and issue such guidance as stakeholders may find helpful;
- continue with the Potters Bar independent inquiry currently being run by HSE;
- develop mechanisms to report regularly on the health and safety performance of industry as well as delivering an annual report to the European Rail Agency; and

- start to review the effectiveness of legislation promoting simplification where it is seen an effective use of resources. We will also play a full role as the national safety authority in developing and implementing the EU agenda.

2.27 Our 2006-07 business plan outputs are summarised in Annex A.

3. Securing improved efficiency and performance

Introduction

- 3.1 In Chapter 1, we emphasised the importance of continuous improvement in performance of the railway and relentless improvements in efficiency. The Access Charges Review 2003 (ACR2003) funded Network Rail on the basis of significant improvements in performance and reductions in costs. Network Rail has made significant progress against these measures. The challenge for the company is now to build on the performance improvement so as to enable the industry better to meet customer needs, and to ensure that cost reductions are genuine efficiency improvements rather than deferring problems. This is alongside developing a long-term asset management strategy and fulfilling its wider industry role.
- 3.2 This chapter sets out what we will do in terms of monitoring, reporting, reviewing, challenging and enforcing to achieve improvement. It focuses on the current Network Rail price control period (i.e. to 2009) and on the main-line railway for which we are the economic regulator.
- 3.3 The main elements of our strategy are:
- monitoring and reporting on industry performance, and ensuring that relevant and reliable information is available to those who need it;
 - holding Network Rail to account for delivery against its obligations including those set out in ACR2003;
 - ensuring that Network Rail in its stakeholder relations and its wider industry role acts in a responsive, proactive and innovative way;
 - holding licence holders other than Network Rail to account for delivery of public interest obligations; and
 - reviewing current rail industry environmental performance.

Our monitoring and enforcement work will be closely linked to our work on the periodic review of access charges set out in Chapter 4.

Monitoring and reporting

3.4 In our monitoring and reporting activities we aim to:

- promote understanding of the performance of the industry, in terms of outputs, safety, efficiency and sustainability, and the reasons for changes in performance;
- enable the current position to be challenged and the potential for further improvement to be identified;
- ensure that reliable information is available to those in the industry, and other stakeholders who may need it, to facilitate better decision making; and
- minimise unnecessary burdens on the industry.

3.5 Our key activities in this area will comprise:

- developing our monitoring publications (including National Rail Trends) to provide a more effective independent assessment of industry performance;
- carrying out specific reviews of issues identified: and
- developing the Information Network (see 3.29 below).

Enforcement

3.6 Our enforcement and penalties policies (to be published in the first quarter of 2006–07) will set out our approach to enforcement of licence obligations. Our objective will be to ensure that our monitoring and review work addresses key public interest issues, but that if it does come to a licence breach or potential licence breach, we will take speedy and effective action. We will seek ways of improving the timeliness of our actions, recognising the importance the industry attaches to this.

Holding Network Rail to account

3.7 We are committed to transparent monitoring of Network Rail's delivery against the expectations set out in ACR2003. The current framework for monitoring includes:

- a review of Network Rail's annual business plan focused on performance in the current control period;
- regular review of a range of Key Performance Indicators (KPIs) embracing operational performance, asset performance, asset stewardship, activity levels and financial performance (published quarterly in the Network Rail Monitor for Great Britain, and the Network Rail Monitor for Scotland); and
- an annual assessment of Network Rail's performance across a similar range of measures.

3.8 We intend to build on this structure to improve the overall effectiveness of our monitoring. We will do this by continuing to develop, with Network Rail, KPIs which:

- are better targeted at the critical activities and output measures and measure the right things (including the longer-term sustainability of the network);
- are more effective at informing decisions and incentivising behaviour which will deliver our objectives; and
- reflect the specific needs of devolved governments and other funders.

3.9 We will also wish to focus on Network Rail's plans to improve its effectiveness in a number of specific activities, including:

- its role as asset manager for the railway infrastructure. The company has improved the quality and availability of asset information, but it needs to do more to ensure efficient management of its assets over the medium- and long-term, and to ensure availability of timely and accurate information needed by other industry parties;
- the planning and implementation of possessions for maintenance and renewal activity on the network. This will be undertaken in the context of the Possessions Review. We expect to see network availability and possession productivity measures being developed as part of the regular reporting structure;
- measuring the capacity and capability of the network;

- its role in timetabling and operating the network;
- its role in network enhancement; and
- the annual business planning process which underpins this.

As infrastructure manager for the national rail network, Network Rail has a number of obligations under EU legislation (e.g. the production of the annual Network Statement) and we would expect these to be aligned with processes and obligations under the domestic regulatory regime.

- 3.10 Where performance falls short of targets we will set out first to understand the reason, then if necessary to ensure that Network Rail develops and implements plans to remedy the shortfall. We recognise the importance of timely action, and we will seek ways to facilitate this. Where appropriate, we will take enforcement action in accordance with our statutory duties and our enforcement policy.⁵
- 3.11 We will use the independent regulatory reporters to provide assurance of the quality of data received from Network Rail and to help draw lessons from it.
- 3.12 ORR will encourage a more active role for Network Rail's Members. We believe that the results of our independent monitoring of the company's delivery against targets should be considered by the Members and inform any challenges by them to the company's management.

Cost efficiency

- 3.13 At present Network Rail expenditure is significantly below the levels provided for in ACR2003. We will seek to establish to what extent the underspend is a consequence of:
- Network Rail achieving greater unit cost efficiencies than anticipated;
 - reductions in the level of activity which will not impact on outputs or sustainability of the network;
 - activity and expenditure being deferred; and/or
 - any reduction in activity which would impact on output or sustainability.

⁵ <http://www.rail-reg.gov.uk/upload/pdf/259.pdf>

- 3.14 This understanding will be important in ensuring that Network Rail delivers the agreed outputs, and does not compromise the longer-term sustainability of the network. It will also feed into the work to support PR2008.
- 3.15 Network Rail has strong incentives to reduce unit costs and there is every indication that it is starting to be successful in doing this. ORR will want to understand not only how Network Rail's performance in this respect compares with the assumptions underlying ACR 2003, but also how it compares with relevant benchmarks elsewhere, both in absolute and in relative terms.
- 3.16 We will also wish to understand where and how further cost reduction is being unreasonably constrained by factors outside Network Rail's direct control. This could include instances of inappropriate standards, though we recognise that many standards are under Network Rail's direct control. We will look to Network Rail to identify and to challenge such constraints through the processes available to it. We will seek to facilitate changes that will enable greater efficiencies, without prejudicing either safety or established outputs.

Outputs

- 3.17 Network Rail, and indeed the railway industry as a whole, is currently delivering much better operational performance than expected at the time of ACR2003. ORR applauds this achievement and improvements such as the restoration of compliance with advance timetable information requirements, which are delivering real benefits to rail users. We will now look to the industry to continue with an improving trajectory, and to establish a robust base for the 2009 -14 control period.

Sustainability

- 3.18 The long life and slow degradation characteristics of many railway assets means that delivery of short-term outputs alone is no guarantee of sustainability. ORR therefore places great importance on evidence of responsible and efficient asset management. Network Rail has developed an Asset Information Strategy to address deficiencies in its understanding and documentation of the asset base. ORR has accepted this Strategy and will actively monitor its delivery. In parallel, Network Rail needs to continue to improve its decision support tools to enable robust development of more efficient asset management strategies. There is still a low level of

understanding about the longer-term relationship between activity and expenditure levels, and outputs (e.g. train performance).

Network Rail's wider responsibilities

3.19 Network Rail is currently performing well against a number of the expectations set out in ACR2003. But the company faces a major challenge to become much more responsive and proactive in such areas as:

- facilitating efficient enhancement of the railway infrastructure including through innovative new mechanisms, and bearing and managing appropriate risks;
- facilitating improvement in stations and depots, and carrying out its property activities in a way which responds to the needs of stakeholders; and
- meeting specific needs of devolved national and regional funders.

3.20 This means that Network Rail should be looking for the best solution from the perspective of users and funders, and recognition of this needs to extend across the whole of the company. ORR will encourage and challenge Network Rail to do this, taking more formal regulatory action where appropriate, including under Condition 25 in its Network Licence concerning treatment of dependent persons.

3.21 Network Rail has also taken on wider rail industry responsibilities following the Government's 2004 White Paper. These comprise responsibility for:

- facilitating improvement in whole industry performance; and
- producing route utilisation strategies (RUSs).

3.22 Network Rail's new performance responsibilities will require work on performance planning and management processes, and on analysis and monitoring of network performance. We expect Network Rail to take a leadership role in these areas, developing opportunities to improve performance and address areas of poor performance.

3.23 Network Rail will need to take a wider role in industry planning. Production of RUSs will be at the heart of this, but Network Rail will also need to have

regard to customer/operator (e.g. freight) and funder requirements (e.g. TfL), which go across a number of routes. Network Rail's route planning process will need to be fully aligned with the RUS process. The company will need to work with the industry on the development of better ways of using existing capacity and capability, more cost effective ways of delivering and developing the railway, and the longer-term technical strategy.

- 3.24 This wider role is another major challenge for Network Rail, and ORR will ensure that Network Rail carries it out in such a way that is responsive to the needs of stakeholders and in accordance with the public interest. ORR will engage proactively in the industry planning and RUS processes to this end.

Licensing

- 3.25 ORR is responsible for licensing train, station and light maintenance depot operators, and certain network operators as well as Network Rail. During 2005-06 our Licensing Review focussed on simplifying this regime (consistent with the principles of the Hampton report produced for HM Treasury) and ensuring consistency with EU requirements.
- 3.26 Our priority over the period of this Corporate Strategy will be on the implementation of the Licensing Review we carried out in 2005, and on effective monitoring and enforcement of compliance with licence obligations. We will work closely with the DfT, the Scottish Executive and the Welsh Assembly Government to ensure clarity of responsibility for monitoring and enforcement between our licence responsibilities and their franchise agreement responsibilities.

The rail industry's contribution to environmental improvement and sustainable development

- 3.27 By comparison with other modes of transport, rail generally has a good record in terms of environmental impact and contribution to sustainable development. But it appears that in recent years rail has not improved in a number of key respects relative to other modes.
- 3.28 ORR's public interest duties include requirements to have regard to the impact of the provision of rail services on the environment, and to promote sustainable development. Thus far we have largely discharged this duty by facilitating and encouraging the use and development of the network, and

through publication of environmental guidance, which feeds into licence conditions requiring companies to have an environment policy. ORR now intends to take a more proactive approach to its discharge of these duties, initially by:

- developing our reporting and assessment of industry environmental performance, and how it compares with other modes and comparable industries;
- reviewing the current industry arrangements (including licence provisions, ORR environmental guidance, and incentives) for facilitating and incentivising improved environmental performance; and
- participating in the railway industry, DfT and ORR initiative coordinated by RSSB, to define and implement the steps necessary to ensure the sustainability of the railway.

We seek to integrate environmental and sustainable development objectives more effectively into all our activities, and encourage the industry to do the same.

Information Network

- 3.29 Underpinning much of the work set out in this chapter and in other chapters of this strategy is the need to improve the quality and scope of information available for industry decision making. Our work on developing the industry information network will include an industry data strategy designed to deliver improvement, linked to the development of an industry data catalogue and data code.

2006-07 priorities

- 3.30 Based on the strategy set out above, our priorities in 2006-07 will be:

- developing our monitoring framework and the Information Network;
- improving measures of Network Rail effectiveness in key areas, in particular its customer and stakeholder relationships;
- implementing the Licensing Review; and

- developing our policy on environmental issues and sustainable development.

3.31 Our 2006-07 business plan outputs are summarised at Annex A.

4. Securing robust plans for 2009 and beyond

Introduction

- 4.1 The 2008 Periodic Review (PR2008) will determine Network Rail's outputs and funding up to 2014 within the framework of desired outputs and available funding set by funders, and will thus require a comprehensive review of rail industry outputs, expenditure and funding. It will also establish an appropriate incentive framework for Network Rail. PR2008 will be a primary means by which we can secure delivery of the vision set out for the main-line railway in Chapter 1 above, and will therefore be a major focus of ORR's activity over the next three years.
- 4.2 The Railways Act 2005 means that PR2008 will be conducted in a significantly different way from previous periodic reviews. Specifically:
- there will be a proactive role for the Secretary of State and Scottish Ministers to specify the high-level outputs that they are seeking from the railway (e.g. capacity, performance and safety) and the total public funding that is, or is likely to be, available;
 - we will need to consider the most cost effective way of delivering what funders want to buy in situations where there is more than one way of delivering an output specification. Hence we need to understand the relative costs and benefits of different options, and the contribution to be made not just by Network Rail, but also other industry parties in delivering the high level output specifications (HLOS);
 - we will need to understand other stakeholders' aspirations and consider how they are taken into account; and
 - in the event that the public financial resources are inadequate to deliver everything specified, we will have to decide how much of what the Secretary of State and/or Scottish Ministers want in terms of railway outputs should be achieved.

- 4.3 PR2008 will be conducted in a rigorous and open manner with full opportunity for stakeholder input. There will obviously be times when information will need to be kept confidential (e.g. for commercial reasons), but we will work to keep this to a minimum.
- 4.4 The challenge in delivering an outcome which satisfies the requirements of passengers, freight customers and funders in terms of affordable and value for money improvements in capacity, performance and safety, is a considerable one. Significant and timely engagement from train operators and a wide range of other stakeholders will be required if the review conclusions are to deliver this.
- 4.5 Network Rail has a critical role to play in this exercise in setting out its projections of the efficient costs of delivering a given set of outputs. It is our intention to put Network Rail centre stage in this review. It must make a soundly based, clearly argued and fully quantified case for what it intends to deliver and at what cost, within the framework of what funders wish to buy. We will then need to examine Network Rail's proposals in detail.

Objectives

- 4.6 In our August 2004 document⁶, we proposed the following overarching aim for the review as follows:
- “to ensure an outcome to the review which secures value for money for users and taxpayers, by determining the level of Network Rail access charges and outputs in a way which balances the interests of all parties.”
- 4.7 This is underpinned by specific objectives as set out below.

Setting Network Rail's access charges

- 4.8 Our objective is to set Network Rail's access charges which are:
- so far as reasonably practicable, cost reflective so as to give good signals to users and funders; and
 - neither higher nor lower than they need to be to enable the high-level outputs to be delivered on an efficient and long-term sustainable basis

⁶ <http://www.rail-reg.gov.uk/upload/pdf/245.pdf>

and to provide passengers/freight customers with what they want at a value for money price.

Setting Network Rail's outputs

4.9 We will set Network Rail's outputs:

- with improved definition (e.g. capability, availability and reliability) and suitably disaggregated. This will ensure clarity of what customers and funders are receiving for their money, focus Network Rail's planning/management and facilitate the measurement and monitoring of outcomes;
- targeted to what users and funders want from the railway;
- as forward looking, with a trajectory in the short, medium and long-term in order to challenge Network Rail better to understand the drivers of good performance in all timeframes; and
- wherever practicable, moving away from specifying inputs (e.g. activity levels), but recognising the need to ensure sustainability of outputs over the longer-term.

Improving incentives

4.10 We will aim to improve incentives to:

- deliver continuous improvement in operations and maintenance and renewal/enhancement procurement efficiency;
- optimise cost/quality trade-offs based on evidence of what railway users value;
- balance outputs in different timeframes (e.g. performance in the short- and longer-term);
- challenge Network Rail to improve its knowledge of the performance of its assets given changing patterns of usage, and to optimise the trade-off between maintenance and renewal interventions;
- develop Network Rail's planning framework; and
- promote continuous improvement in health and safety.

We will also aim to ensure better alignment of incentives across the industry.

Periodic review process

4.11 There are three main phases to the periodic review: a preparation phase, a formal review phase and an implementation phase.

Preparation phase

4.12 This phase has already begun for PR2008, and runs until we issue our formal access charges review notice (we expect to issue the notice early in 2007).

Key elements of the preparation phase are:

- an initial assessment of Network Rail revenue requirements and consultation on the financial framework (December 2005);
- consultation on the overall incentives framework (summer 2006);
- Network Rail's initial strategic business plan in June 2006, followed by an ORR review of it. Both Network Rail's development of the plan, and our review of it, will require significant input from industry stakeholders;
- throughout the period, development of the analytical framework and information to inform the review, with the DfT, the Scottish Executive, Network Rail and other stakeholders. A particular focus of this will be on understanding Network Rail and industry cost-drivers, and on participating in development of the network modelling framework with the DfT and the Scottish Executive; and,
- Network Rail, train operators and other parts of the railway industry developing ways of delivering likely government objectives in the most cost-effective way, including identifying ways in which industry planning, specification and competencies can be improved.

Review phase

4.13 Following issue of our formal notice of a review, it will be for the Secretary of State and Scottish Ministers to produce their specifications of what they wish to be achieved by railway services and the funds available. These are expected to be published in June/July 2007 and then:

- ORR will need to establish the outputs required of Network Rail, the funding required to deliver them efficiently, and how this should be reflected in access charges. We will do this by setting out planning assumptions for Network Rail, and then reviewing its cost submission based on these;
- if the specification of what is to be achieved is not consistent with the funding available, ORR will ultimately be required to decide what elements of the specification should be delivered consistent with the funding available; and
- ORR will finalise the work on the incentive framework, and conclude its work on the structure of charges and on freight charges.

Implementation phase

- 4.14 Once ORR has published its final conclusions, it will be for Network Rail to publish a business plan setting out in detail how it proposes to deliver the conclusions. Any variation mechanisms in access contracts or franchise agreements may need to be triggered.

Related reviews

- 4.15 Work is already under way on the review of Network Rail's longer-term strategy and expenditure requirements for signalling. We will integrate this work with the PR2008 work, but recognise the importance of the process allowing for earlier conclusions so as to enable Network Rail and the supply industry to plan with greater confidence. This work will also need to consider the implications of European Rail Traffic Management System (ERTMS) development for Network Rail's signalling renewal plans.
- 4.16 The ACR2003 made provision for a further review covering strategy and incentives for efficient use of engineering possessions. This is now being taken forward by an industry working group. We expect that this work will be a key input into the PR2008 work, focused particularly on:
- ensuring the appropriate measurement of network availability and possession effectiveness and efficiency;
 - setting targets for network availability; and

- incentivising efficient use of possessions, and timely completion of work.

Involvement of devolved governments and other funders

- 4.17 As noted above, the Scottish Ministers now have a statutory involvement in periodic reviews separate from that of the Secretary of State, and we will work closely with the Scottish Executive recognising this. We believe that significant benefits can be achieved from the railway in Scotland being specified in accordance with local needs, but also having regard to the needs of freight and longer distance passenger services. Network Rail will have separate outputs and funding for Scotland. We will ensure the ring fencing of funding in Scotland (and England and Wales), meaning that customers and funders bear the risks (or rewards) associated with Network Rail's out-or under-performance in each jurisdiction. It will be for the company to decide on the most efficient way of delivering its required outputs, having regard to the Great Britain-wide regulatory framework.
- 4.18 The National Assembly for Wales will have responsibility for funding a range of services serving Wales, so clearly its desired outputs and funding will have a bearing on the process. Other funders (such as TfL and the Passenger Transport Executives (PTEs) in England) will be able to buy incremental outputs (or seek to move funding from rail to other activities). Mechanisms will need to be put in place to enable this, including better understanding of costs and cost-drivers at the local level. Network Rail's business plans following the periodic review will need to identify outputs at the local level in sufficient detail to enable such funders to specify enhancements or other changes in outputs compared with the baseline covered by DfT/Transport Scotland funding. The outcome of the review will need to contain mechanisms to facilitate such changes.

Freight charges

- 4.19 As part of the analytical work on costs, we will want to gain a much better understanding of the efficient cost of different types of train operation including freight. We will then need to decide whether and what changes to make to freight track access charges from April 2009. We see no reason at present why this should depart from the current position that freight should not contribute to the common costs of the railway.

Closures

4.20 Under the Railways Act 2005, ORR has the responsibility of checking that closures involving train services, network and stations comply with the statutory procedures and guidelines established by the Secretary of State/ Scottish Ministers. We will establish appropriate procedures for this.

2006-07 priorities

4.21 Based on the strategy set out above, our priorities in 2006-07 will be:

- developing the analytical and modelling framework for the PR2008, especially on costs, linked to our work on the Information Network;
- reviewing Network Rail's initial strategic business plan;
- further work on possessions, signalling and incentives;
- advising the DfT and the Scottish Executive on development of the HLOS and statement of funds available; and
- encouraging the industry to develop cost-effective approaches to delivering an improved railway.

4.22 Our 2006-07 business plan outputs are summarised at Annex A.

5. Improving and aligning relationships and incentives in the industry

Introduction

- 5.1 Chapter 1 of this document outlined the structure of the railway industry as a public and private sector partnership, with Government and other funders setting objectives, and the private sector delivering these and the needs of users as reflected through the market. It also set out our regulatory priorities, focused on facilitating development and growth and prioritising relentless reduction in costs and continuous improvement in safety and performance.
- 5.2 The industry has made considerable progress in working together in recent years, and this has been reflected in improvements in performance and passenger satisfaction. This chapter considers the way in which the various industry relationships and incentive mechanisms (including contracts, industry codes and market mechanisms) can continue to be developed in line with the ORR vision.
- 5.3 We believe this can be best achieved if:
- incentives throughout the industry supply chain are aligned with the needs of customers, and the objectives of Government and other funders;
 - decision-making is decentralised, empowering private sector companies to deliver in accordance with market needs; but recognising that the benefits of the railway as a network should not be lost;
 - market mechanisms and competition are fostered where they are likely to be effective;
 - Network Rail and other industry players are subject to effective accountability through regulation in the public interest (including for safety); and
 - the industry takes an active role in developing the arrangements which underpin delivery.

5.4 As independent safety and economic regulator of the main-line railway, we will continue to:

- facilitate and encourage the industry to deliver safe and efficient services meeting the reasonable needs of users and funders, through, for instance, developing appropriate incentive mechanisms, and, if appropriate, using our powers of enforcement to ensure the industry works in the public interest;
- act as an umpire in some of the key relationships; and
- use our regulatory powers to resolve systemic issues which are not effectively dealt with by local contractual provisions; particularly holding to account companies or groupings (such as Network Rail) with a monopoly or dominant position.

5.5 As a competition authority for both the main-line railway and other railways in Great Britain, we will seek to ensure that users are able to enjoy a fair share of the benefits of competition. We also recognise our new responsibilities under European legislation, for instance covering capacity allocation on the Channel Tunnel Rail Link (CTRL).

5.6 This chapter considers our approach under the following broad headings:

- the partnership between train operators and Network Rail; and
- relationships between the industry and Government/funders.

Partnership between train operators and Network Rail

5.7 The key train operator-Network Rail relationship is embodied in the track access contracts between them, and the Network Code, which forms an integral part of these. The terms of access contracts are approved or directed by ORR.

5.8 Our approach will be to:

- ensure that network capacity is allocated in the public interest;
- ensure that the terms of the relationship and the associated processes incentivise and facilitate a public interest outcome;

- encourage the industry to continue to take greater responsibility for the terms of the contracts, and of the industry contractual codes; and
- seek means of reducing the cost of the process, and focusing effort on where it generates most value.

5.9 To this end we will:

- encourage development of robust medium-term joint performance improvement plans (JPIPs) between train operators and Network Rail;
- ensure that Network Rail improves the information available to train operators to plan their activities (including in particular information about its route plans and about network capability);
- encourage the industry to develop a more effective and efficient timetabling process, and an efficient strategy for engineering possessions which reflects the needs of users;
- encourage and facilitate further work on reform of the Network Code, including in particular changes to the network and vehicle change process. We believe it is important that these issues are addressed to improve working of processes and facilitate a better whole-industry outcome;
- as part of PR2008, develop an improved structure of charges which gives more effective incentives and price signals to decision makers;
- ensure that the RUS process (see Chapter 3) is better linked to the contractual and regulatory processes concerning network access;
- use our approval and direction powers to encourage a more effective relationship between Network Rail and train operators and to ensure that network capacity is allocated in the public interest;
- deal fairly and expeditiously with appeals made to us;
- ensure our processes are aligned with requirements of EU legislation as well as domestic legislation; and
- consider ways of reducing the regulatory burden imposed by the exercise of our access functions, and how their exercise can add most value.

Where appropriate, our approach will be to set out the principles which should be adopted, but let the industry make these operational.

- 5.10 ORR published our framework for investment in the railway ⁷ in October 2005. A priority over the next three years will be to use regulatory powers and influence to ensure that this framework does facilitate enhancement of the network and other facilities, and to address emerging problems, both generally and in specific cases. The first step will be to ensure that the framework is followed up with Network Rail's production of model terms and conditions, and by the introduction of company processes to encourage and facilitate improvement in the network. We will want to ensure Network Rail takes a positive and proactive approach to facilitating investments, including small-scale improvement and the use of its discretionary enhancement funds.
- 5.11 The statutory regime governing access to infrastructure covers stations and depots as well as track. We have seen considerable innovation in the development, management and financing of depots in recent years; less in the case of stations. Our strategy is threefold:
- through the enhancement framework, facilitating cost effective and efficient enhancement;
 - replacing existing contractual arrangements by the Stations Code and Depots Code. Not only will these streamline arrangements, they will also facilitate alternative structures; and
 - encouraging the spread of best practice, and development of practical and innovative new arrangements to broaden the industry's funding and expertise base for station and depot improvements.
- 5.12 A well-developed and competitive supply market is vital to improving industry performance and efficiency. In Chapter 4, we outlined the periodic review process that should give greater longer-term planning certainty to the supply market. We will also want to ensure that:
- Network Rail plays a full role in facilitating the development of an efficient supply market (including areas beyond its direct responsibility such as new rolling stock); and

⁷ <http://www.rail-reg.gov.uk/upload/pdf/255.pdf>.

- there are no unnecessary blockages to achieving a competitive and efficient supply industry, for example in procurement arrangements or in the standards regime.
- 5.13 More generally we see the development of competition between private sector providers of rail services and equipment as being an important means of improving efficiency and delivery over the medium to long term. We will use our powers to carry out market studies where this is most likely to be effective. In particular we believe it is important that Network Rail fosters competitive and innovative solutions to the improvement of railway services and that good supply-chain management and partnering is a key way of delivering efficiencies.
- 5.14 A number of new entrants have come into the rail freight market in recent years, and we believe this has benefited freight customers. The recent Access and Management Regulations 2005 (following from the EU Directive) will further foster this, and we will play our role in ensuring these operate to the benefit of freight customers.

Relationship between train operators and funders

- 5.15 The key relationship between public sector funders of the railway and the train operators who deliver services to passengers is the franchise agreement. The future development of the franchise agreement is a matter for the Government and the market for franchises. We believe it is important to secure the alignment of incentives between the franchise agreement and other industry relationships, and we will work with Government to achieve this. We also believe that train operators have an important contribution to make to the development of this relationship because of their closeness to the customer.
- 5.16 The periodic review process set out in Chapter 4 above will involve a comprehensive review of industry finances and outputs. We consider it important that any changes to industry outputs resulting from the process can be fed through into franchises where this is appropriate. We will continue to discuss with the DfT how this process can be made more effective. A possibility might be an 'arbiter' role for ORR; currently the DfT does not consider this necessary.

- 5.17 We will continue to work with the Office of Fair Trading (OFT) and the Competition Commission in providing railway expert advice in order that those authorities can undertake their statutory role in the assessment of the potential competition effects of proposed franchise acquisitions.

2006-07 priorities

- 5.18 Based on the above strategy, during 2006-07 our focus will be on:
- working with the industry on further development of the Network Code;
 - dealing with access approvals and directions effectively and efficiently;
 - discharging our competition and EU responsibilities
 - effective engagement with the RUS process;
 - following up the investment framework so that it delivers results; and
 - encouraging innovative ways of improving performance, quality and efficiency at stations and depots.
- 5.19 Our 2006-07 business plan outputs are summarised at Annex A.

6. The new ORR

Introduction

6.1 This chapter sets out how we propose to achieve our immediate priority of a seamless transition in becoming the new safety and economic regulator, and how we will move forward to develop the capability, effectiveness and efficiency of the merged organisation. It outlines the resource implications of this strategy, and our governance arrangements and our communications strategy.

A seamless transition

6.2 Our top priority in the first year of the Corporate Strategy 2006-09 will be the successful implementation of the transfer of responsibility for safety regulation from the HSC/E to ORR. This is expected to take place in early 2006.

6.3 Key elements of this transition will be:

- transferring Her Majesty's Railway Inspectorate (HMRI) and rail safety policy staff from the HSE to ORR;
- developing of common values and culture across the merged organisation;
- moving into new accommodation for the merged organisation;
- introducing new funding arrangements for the merged organisation;
- providing the necessary corporate services infrastructure (e.g. information technology, finance and planning, human resources and stakeholder relations); and
- as outlined in Chapter 2 above, developing a new health and safety regulation strategy for the merged organisation, with a seamless approach at the time of the transition.

Capability, effectiveness and efficiency of the merged organisation

6.4 We have proposed that from April 2006, ORR will be funded by a combination of a licence fee levied from Network Rail and an industry levy covering the

cost of safety regulation. We believe it is very important that we demonstrate to other stakeholders that we have the capability to do the job required of us, and tight control of costs and resourcing.

- 6.5 We now have in place a new organisational structure for the merged organisation, and the necessary senior level appointments have been made. We are developing shared values for the new organisation.
- 6.6 At the same time as the merger takes effect, HMRI's role will begin to change significantly as a result of the new Railways and Other Guided Transport Systems and Interoperability Regulations. Much of this has already been reflected in the Rail Delivery Programme being implemented by HMRI. In addition the approach set out in Chapter 2 above implies a significant refocusing of the safety policy activities. ORR will want to be satisfied that it has an appropriate level of resourcing for its safety related activities in the new environment, and will be carrying out a specific review once the transfer has taken place.
- 6.7 Our overall approach to the resourcing of the office will be to:
- implement this Corporate Strategy, with its greater focus on outcomes and analysis meaning some refocusing of the office's resources and the development of new capabilities;
 - develop better measurements of the outputs and value for money of regulatory activity, and the efficiency and value-added nature of our processes;
 - improve our efficiency over time;
 - identify activities where we are not adding significant public interest value and reduce the resources devoted to them; and
 - be prepared to put in extra resources (including new capabilities and skills) where this will add public interest value.

Implications for resourcing of the merged organisation

- 6.8 In 2005-06 ORR's expenditure as economic regulator is forecast at £13.1 million. This is somewhat less than our budget primarily because we have

been able to use in-house resources to deliver our 2005-06 Business Plan rather than having to purchase legal and consultancy resources externally.

- 6.9 Consistent with continuing improvement in our efficiency, we are committed to reducing the underlying costs of our activities by 2% per annum in real terms (RPI-2). With the work on PR2008 over the period 2006-09, we would expect some increase in economic regulation work over and above the underlying level of activity reflected in the 2005-06 expenditure. We believe that part of this can be covered by the refocusing of activities, but expect that the cost of our economic regulation activities covered by the licence fee will be £13.8 million in 2006-07 and of the order of £15 million per annum in the next two years.
- 6.10 Our current estimate is that the cost of our safety-related activities will be £18 million, to be covered by the safety levy in 2006-07.
- 6.11 We continue to develop specific efficiency measurements and targets, covering both the efficiency/timeliness with which we discharge our functions and the outcomes/effectiveness of our activities.
- 6.12 More detailed financial information is provided in Annex B.

Governance

- 6.13 ORR comprises a statutory Board and an office in support. The Secretary of State appoints the Board's members, but the Board takes its decisions independently of the Government and individual industry parties.
- 6.14 The Board sets the strategy and high-level policies for the office, and ensures that ORR delivers against these. Responsibility for policy development and delivery rests with the office, led by the Chief Executive.
- 6.15 Board members bring a wide range of railway, safety, business, regulatory and public policy expertise and experience. They seek to ensure that the work of the office is focused on facilitating improvements in rail safety, performance and efficiency, in accordance with the statutory duties placed on ORR. Given the different periods of appointment of individual Board members (which range from two to five years), the Board will be able to provide greater continuity of approach than was possible with individual regulators.

- 6.16 The Board has established an Audit Committee comprising an independent Chairman and two non-executive directors. Staff members also attend Audit Committee meetings along with representatives from the Internal Audit Team and the National Audit Office. The Audit Committee's role is to assist the Chief Executive in fulfilling his oversight responsibilities and those of the Board. It reviews and advises on the adequacy of ORR's financial reporting process, its system of internal controls, its management of risks and audit arrangements. Reflecting with best practice elsewhere in the public sector, the Board has established a Remuneration Committee for senior staff.
- 6.17 In addition, the Board has set up a Safety Regulation Committee and a Periodic Review Committee. The former will focus on ensuring the Board is informed about current safety issues, and developing ORR's safety policies in the light of this strategy. The Periodic Review Committee will provide Board oversight of the work on PR2008.

Communications and stakeholder relationships

- 6.18 We will develop a new communications strategy to reflect the needs of the merged organisation and the updating of the Corporate Strategy. Key elements of this will include:
- presenting ORR's work as combined safety and economic regulator so that our role is better understood among stakeholders and the wider public;
 - reinforcing our position as an independent, authoritative and influential voice in the railways;
 - encouraging debate among stakeholders about the wider policy issues; and
 - continuing to develop a more effective relationship with stakeholders.
- 6.19 The railways have a wide range of stakeholders within the industry, including users and funders, and the wider community. We have always prided ourselves on effective engagement and consultation with stakeholders. This will be even more important for the merged office, so a key element of the communications strategy will be effective stakeholder relationships, including formal and informal liaison arrangements.

- 6.20 We will continue to engage in the development and implementation of EU policies with the DfT, the UK rail industry and EU institutions.

ORR's approach to consultation

- 6.21 We believe that good consultation is a prerequisite of good regulation and helps ensure that our policies are well informed, evidence-based and reasonable. We are committed to open, accessible and transparent consultation and dialogue with the Government, industry and the public.
- 6.22 The Cabinet Office, supported by the Better Regulation Commission/Executive, recommends a minimum of twelve weeks for consultation. Given the amount of discussion with stakeholders prior to formal consultation and the different issues consulted on, there may however be occasions when a twelve-week period would be inappropriate and delay action.
- 6.23 Our approach to consultation usually begins with informal consultation followed by a staged approach to the publication of consultation documents (e.g. initial consultations or draft conclusions), usually with a six to eight week consultation period and seminars where appropriate. Where, however, a new policy proposal has not been reflected in the relevant corporate strategy or business plan, a longer period of consultation will be allowed unless circumstances require urgent action.
- 6.24 We will:
- continue to develop our programme of informal discussions, seminars and other events with industry parties, including pre-consultation discussions and the development of 'expert' groups, to give us advice on specific issues;
 - maintain a phased programme of consultations going forward. We will try to target consultations more effectively, so that those which concern major strategic issues are more clearly separated from more routine consultation;
 - generally continue to conduct formal consultations with a minimum twelve weeks consultation on a particular issue, although not necessarily in individual twelve week consultation periods (for instance we may have two

consultations, one on the main policy issues, and one on the detail, with a **total** consultation period of twelve weeks); and

- have regard to the nature of the issue when deciding on the length of consultation periods. For example, when the issue is of a political nature a full twelve week period is likely to be required for proper scrutiny by local or national governments.

6.25 In carrying out consultations, we will involve the full range of relevant stakeholders, including:

- representatives of rail users and employees;
- Network Rail, train operators and franchisees;
- industry suppliers and providers of finance; and
- public sector funders.

6.26 ORR will continue to produce formal documents where appropriate, but increasingly we will seek to use electronic communications as a substitute for the production of printed documents.

2006-07 priorities

6.27 Based on the strategy set out above, our focus in 2006-07 will be on:

- achieving a seamless transaction to the new organisation;
- developing our human resources strategy and values so as to develop our people and our capability;
- tightly controlling expenditure, and developing of efficiency measures for our activity, as we expect of the industry;
- developing our key stakeholder relationships; and
- making our consultation processes more effective.

6.28 Our 2006-07 business plan outputs are summarised at Annex A.

Annex A: Summary of Business Plan outputs

Improving health and safety performance			
Our objective is: <i>To maintain and develop effective health and safety regulation of the railway following the transfer of responsibility from HSC/E to ORR</i>			
2.1	Development of policy for key health and safety risks and a strategy for achieving on-going improvements	(1) develop policy positions on key risks (e.g. level crossing, worker and irregular working risks, risks at stations)	From Q2
		(2) monitor, contribute towards and influence industry research and development programmes as appropriate	As required
2.2	Initial implementation and further development of topic strategies to improve health and safety performance through targeted inspectorate action	(1) publish HMRI initial topic strategies and engage stakeholders in the planned further development	Q2, and thereafter
		(2) ensure the provision of strategic input to HMRI planning processes and HMRI input to strategy development	Q3
2.3	Proactive Intervention Activity: Network Rail, Train and freight operators, LUL	(1) provide feedback to duty holders on the outcomes of 2005-06 Delivery Plans	Q2
		(2) produce well targeted Inspection plans for 2006-07, monitoring progress throughout the year with specific feedback to duty holders and progress reports	Q2,Q4
		(3) develop forward Inspection plans for 2007-08	Q4
2.4	Investigation of incidents and complaints	(1) investigate incidents in accordance with established criteria and procedures and meeting specific milestones or performance measures	As required
		(2) investigate complaints in accordance with guidance and procedures and meeting specific milestones or performance measures	As required
2.5	Enforcement action arising from inspection, investigation or other work	(1) take appropriate enforcement action in accordance with ORR's published Enforcement Policy	As required
2.6	Information and Intelligence	(1) provide supporting statistics for the European Rail Agency (ERA) on signals passed at danger and other matters for external purposes, quarterly reports on health and safety performance; and RIDDOR data on a continuing basis	Throughout
2.7	Railway Safety Case certifications and authorisations, Approvals, Authorisations (under Interoperability) and Level Crossing Orders	(1) assess/authorise Railway Cases/Certifications in accordance with various target dates, milestones, procedures and performance measures	As required
		(2) authorise railway industry schemes and level crossing orders in accordance with various target dates, milestones, procedures and performance measures	As required
		(3) provide appropriate and timely advice as required to DfT on franchise work	As required

Improving health and safety performance

Our objective is: *To maintain and develop effective health and safety regulation of the railway following the transfer of responsibility from HSC/E to ORR*

2.8	Development and maintenance of effective and integrated stakeholder health and safety policy relations	(1) organise three Railway Industry Advisory Committee (RIAC) meetings (in May, October, February) and one RIAC Public meeting in Q3 - providing timely advice as required	Throughout
		(2) review RIAC's effectiveness and consider any resulting recommendations for change	Q4
		(3) keep our relationship with HSC/E under review during the year	Throughout
		(4) ensure that non merger-critical Memoranda of Understanding/Agency Agreements are in place	Q2
2.9	Independent recommendations for safety improvement	(1) include in the Railway Inspectorate's Annual Report final report of progress with the recommendations arising from the Cullen Inquiry	Q2
		(2) track progress and ensure, where necessary, implementation of recommendations from RAIB investigations	As required
2.10	Development of Guidance and Standards supporting implementation of domestic legislation	(1) implement the new ROGS legislative framework, producing appropriate procedures and publishing guidance	Q3
		(2) provide informed consistent and appropriate input/advice on domestic UK and European issues	As required
		(3) review our Health and Safety Enforcement Policy in light of experience and publish findings	Q3/4
		(4) review and publish our interpretation of ALARP (As Low As Reasonably Practicable) principles	Q4
2.11	Maintenance and development of GB safety legislation	(1) examine the case for revising level crossing legislation	Q3
2.12	UK Secretariat to Channel Tunnel Safety Authority and specialist inspection support	(1) provide support and inspection activity as required to the CTSA and Intergovernmental Commission	As required
2.13	European and International Rail Safety Policy	(1) provide briefings and attend meetings - ERA (monthly), International Liaison Group of Government Railway Inspectors (six-monthly) and the Network of National Safety Authority (quarterly)	As required

`Securing improved efficiency and performance

Our objectives are: *To monitor Network Rail's performance in the delivery of a safe, sustainable and efficient network with improving performance and to intervene where required taking enforcement action which is focused, timely, proportionate and effective; and To provide, through the effective discharge of our licence functions, an efficient and flexible mechanism to protect the interests of railway users by ensuring that appropriate common industry agreements and standards are entered into and maintained*

3.1	Regulatory policy and enforcement	(1) complete and implement a review of our Network Rail monitoring framework	Q1
		(2) assess Network Rail's Business Plan for 2006-09	Q1
		(3) undertake a preliminary (pre-Periodic Review) review of the terms of Network Rail's licence	Q1
		(4) identify improvements to the definition of Network Rail outputs in readiness for the 2008 Periodic Review	Q3
		(5) respond to complaints made under Network Rail's network licence, acknowledging the complaint within ten working days and working towards a resolution within two months	As required
3.2	ORR's approval functions under the Network Licence	(1) determine land disposal submissions within three months of the date of the submission by Network Rail	As required
		(2) update regulatory arrangements for land disposals and review Condition 12 consent to property activities	Q1
		(3) review Network Rail's business planning criteria	Q3
3.3	Monitoring and reporting on Network Rail and the industry	(1) publish Network Rail Monitors	Quarterly
		(2) publish National Rail Trends every quarter	Quarterly
		(3) implement recommendations arising from the outcome of the audit of National Rail Trends	Q1
		(4) publish the Annual Assessment of Network Rail's performance, following consideration of Network Rail's annual return and the reporter's audit of it	Q2
		(5) overhaul the existing structure of statistical and monitoring publications so that ORR is giving a more effective independent assessment of industry performance and needs	Q2
		(6) use reporters to assess particular aspects of Network Rail's business	throughout
3.4	Review of Route Utilisation Strategy work by Network Rail	(1) issue objection/non-objection decisions on SWML RUS (Q1), Cross London RUS (Q2) , and on the NW and Scotland RUSs (Q4)	Q1,Q2, Q4
		(2) review RUS guidelines	Q3

Securing improved efficiency and performance

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3.5	Asset management	(1) evaluate Network Rail's six-monthly progress reports on the asset register	Q1, Q3
		(2) assess Network Rail's achievement of compliance with Condition 24 of its Network Licence within three months of notification by Network Rail of completion of core tasks	Throughout
		(3) publish the reporter's evaluation report of Network Rail's asset management	Q2
3.6	Manage and develop the Information Network	(1) review the initial rail reporter report on Network Rail data and review the detailed report	Q1, Q2
		(2) secure the agreement of the Information Network Stakeholder Group to a prioritised action plan	Q2
		(3) implement the Information Network Data Code	Q3
3.7	Licensing policy and casework	(1) in consultation with the industry, review operators' third-party liability insurance arrangements and ORR procedures, and implement conclusions	Q2-Q4
		(2) consider the case for extending the class exemptions regime	Q2
		(3) consult on revised insurance arrangements	Q3
		(4) deal with licensing casework in accordance with published timescales	Throughout
		(5) assess and approve appropriate changes to the industry CAHA and contribute to any review by the RIDR Committee	As required
3.8	Environmental issues and sustainable development	(1) participate in industry review of Part E (Environment) of the Network Code	Q2
		(2) undertake a gap analysis based on a review of what the industry is and should be doing in this area identifying proposals for action and developing a programme for implementation	Q2-Q4
		(3) review guidance which operators must take due account of in establishing environmental policies under the operator licence	Q2-Q4

Robust plans for 2009 onwards

Our objective is: *To carry out a periodic review of Network Rail's track access charges, reaching a determination which achieves an optimal and fair outcome from a whole industry perspective, ensuring that Network Rail receives the right financial incentives for it to deliver on its obligations to customers and funders*

4.1	Develop regulatory financial framework	(1) publish our emerging views on Network Rail's financial framework	Q2
4.2	Incentives framework	(1) publish a consultation document on the incentives framework and our emerging conclusions	Q2, Q4
		(2) publish a consultation document on the structure of costs and charges	Q1
4.3	Network Rail Strategic Business Plan	(1) publish and consult on assessment of Network Rail's initial Strategic Business Plan for 2009+	Q3
		(2) publish draft conclusions for the Signalling Review for 2009+ including technical strategy	Q3
4.4	Industry Possessions Review	(1) hold industry seminar on possessions	Q2
		(2) publish our final conclusions	Q3
4.5	Work with the Department for Transport (DfT) and the Scottish Executive to support the development of the HLOSs and build the analytical capability to analyse and assess the HLOSs	(1) working closely with DfT/Transport Scotland, Network Rail and RSSB, develop new strategic forecasting model and associated data sets	Q1
		(2) facilitate the development by Network Rail of the first and second versions of the Infrastructure Cost Model	Q1, Q3

Improving and aligning relationships and incentives in the industry

Our objectives are: *To facilitate industry relationships through the effective use of incentives, markets and contracts and to align the delivery of rail services with the public interest through rail operators and Network Rail working in partnership*
To exercise our competition powers so that rail users benefit from competition in the rail industry and rail markets work effectively
To inform and influence the effective development and application of EU rail policy
To engage actively with the Government, Network Rail and other stakeholders to support effective franchising through the alignment of Network Rail's development of RUSs, the Government's future franchising programme and the consideration of track access agreements

5.1	Reform of the Network Code	(1) work with industry to facilitate completion of its review of Parts F (vehicle change) and G (network change) of the Network Code	Q1
		(2) complete review of Part J (Changes to access rights) of the Network Code	Q1
		(3) bring into full effect Part K (information), issuing notices as appropriate	Q1 & Q4
		(4) develop programme of work and implement recommendations on improving Part B including the delay attribution process	Throughout
		(5) consider third party rights under the Network Code to the extent that this is not picked up by other specific workstreams	Q1
5.2	Track access casework	(1) deal with track access casework in accordance with published timescales	Throughout
		(2) wider review of our Criteria and Procedures documents, including exploring scope for encouraging the industry to take greater responsibility for ensuring the efficient delivery and robustness of the contractual arrangements, consulting the industry and publishing revised documentation	Q2-Q3
5.3	Appeals and determinations	(1) dealing effectively and efficiently with appeals under the Network Code, the Access and Management Regulations and ratifying closure decisions under new Network Modification provisions	As required
5.4	Investments policy and analysis (casework)	(1) approve model terms for third party schemes	Q1
		(2) carry out our annual review of Network Rail's involvement in investments and our annual analysis of third party investment and publish revised investment guidelines	Q2/Q3
5.5	Stations Code	(1) implement the core Stations Code	Q1-Q2
		(2) support the implementation of a more efficient division of maintenance and repair responsibilities at pilot stations	Throughout
		(3) develop guidance material and templates	Q4

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5.6	Revised measures of station and depot condition and of station facilities	(1) monitor implementation of revised station condition measure	Throughout
		(2) agree a new depot condition measure and monitor implementation	Q3-Q4
		(3) agree a new station facilities measure and monitor implementation	Q3-Q4
5.7	Depots Code	(1) support the development of industry view on finalising the liability framework and incorporate into the Code	Q1
		(2) finalise drafting of Code documentation and make the Depots Code available to the industry, and support subsequent implementation	Q1-Q2
5.8	Stations and Depots casework	(1) deal with stations and depots casework in accordance with published timescales	Throughout
		(2) consider proposals for the customisation of station and depot documentation associated with enhancements and novel financing arrangements	As required
		(3) monitor Network Rail's national pollution prevention programme (until the end of the programme)	Throughout
		(4) keep under review our approval processes, including exploring the scope for greater use of General Approvals, implementing changes as and when necessary	Throughout
5.9	Station development strategies	(1) work with the industry towards the development of a strategy for the regulation and enhancement of stations which enables the medium to long-term needs of passengers, users and funders to be delivered	Q2-Q4
5.10	Negotiation of European legislation	(1) participate in Brussels working group meetings to promote the UK position on passenger rights and market access proposals in the Third Package of proposed legislative measures	Throughout
		(2) work with DfT on drafting documents reflecting developments/proposed way forward	Throughout
		(3) represent the UK position at Brussels meetings as proposals progress, to ensure UK rail industry interests are properly taken into account	Throughout
5.11	Implementation of European legislation	(1) influence transposition of EU legislation into domestic law as the need arises	As required
		(2) work with DfT and/or DTI on drafting Regulations and consultation documents	Throughout

Improving and aligning relationships and incentives in the industry

Our objectives are: *To facilitate industry relationships through the effective use of incentives, markets and contracts and to align the delivery of rail services with the public interest through rail operators and Network Rail working in partnership*
To exercise our competition powers so that rail users benefit from competition in the rail industry and rail markets work effectively
To inform and influence the effective development and application of EU rail policy
To engage actively with the Government, Network Rail and other stakeholders to support effective franchising through the alignment of Network Rail's development of RUSs, the Government's future franchising programme and the consideration of track access agreements

		(3) provide advice on the implementation of the First Package and on market access issues	Throughout
5.12	Advice on the competition impact of franchise acquisitions or other mergers	(1) provide reactive advice (but typically within seven days to OFT and 7-14 days to the CC) to the competition authorities on relevant mergers arising out of franchise acquisition and other railway acquisitions as appropriate	As required
5.13	General competition policy	(1) contribute and provide advice from a GB railway perspective to the development of competition policy in Europe and the UK	As required
5.14	Competition casework	(1) ensure the timely and efficient consideration of cases in accordance with internal targets for each stage of the case (although actual timings will depend on complexity of the case, we would normally expect a case to take a minimum of 40 weeks from draft decision to decision)	Throughout
5.15	Market studies	(1) develop a strategy for a 5-8 year rolling programme of market reviews	Q1
		(2) monitor railway markets on a continuing basis and take action where appropriate	Throughout

Establishing ORR as a combined safety and economic regulator

Our objective is: *To provide effective governance and corporate support services enabling ORR to achieve its objectives*

6.1	Policy coordination and development of the Corporate Strategy and underpinning Business Plan	(1) develop and implement programmes for regular liaison with key stakeholders including the Scottish Executive and the Welsh Assembly	Throughout
		(2) consult stakeholders on a revised Corporate Strategy	Q3
		(3) publish the final version of the Corporate Strategy	Q4
6.2	Corporate Governance, Risk Management and Board Support	(1) submit periodic reports on risk (including updated versions of the High Level Risk Register) to the Board (every six months) and to the Audit Committee (every quarter)	6-monthly, quarterly
		(2) support the Board as required and in undertaking an annual review of its performance and the Audit Committee in an annual review of its performance	Throughout/Q1-Q2
		(3) review the Audit Committee's terms of reference	Q2
6.3	Funding ORR's economic and safety regulation activities (licence fees and the safety levy)	(1) recover from Network Rail a fixed proportion (100%) of economic regulation costs through the licence fee	Q1
		(2) implement the industry levy arrangements to recover the costs of safety	From Q1
6.4	Financial and management accounting services and procurement	(1) ensure the provision of effective and efficient financial and management accounting and procurement services meeting the needs of internal and external stakeholders	Throughout
6.5	Human Resources	(1) ensure the provision of effective and efficient human resources management services meeting both organisational needs and the needs of our staff	Throughout
6.6	Information Systems	(1) ensure the availability of effective, efficient and robust information services meeting the requirements of internal and external stakeholders	Throughout
6.7	Communications	(1) ensure the provision of effective communications meeting the requirements of internal and external stakeholders	Throughout
		(2) respond to enquiries	20 working days
6.8	Legal Services	(1) ensure that decisions on policy, casework and other matters are made with the benefit of timely and high-quality legal advice	Throughout
6.9	Accommodation and support facilities	(1) provide adequate accommodation for all ORR staff and develop additional services, including the provision of standard services at locations other than Kemble Street	Q1-Q2
		(2) set up an effective health, safety and security regime including training and integration as appropriate	Q1
6.10	Better Regulation	Development of a programme to deliver "better regulation" objectives	Q2

ANNEX B

Economic Budget FY 2006-07 compared with prior years' performance

1. The table below sets out expenditure and licence fees collected for each year from 2000-01. The figures have been adjusted by RPI to bring them to 2006-07 price levels. A 2.5% RPI increase has been assumed for the year 2005-06 to 2006-07. The table excludes any expenditure relating to safety regulation.

Financial Year	Expenditure (£ million)	Licence Fees Invoiced (£ million)	
2000-01	14.1	15.6	
2001-02	11.7	15.0	Railtrack Administration
2002-03	15.2	11.4	Access Charge Review
2003-04	15.7	16.1	Access Charge Review
2004-05	13.7	14.9	
2005-06	13.4	15.4	
2006-07	13.8	13.8	

Sources of Income for the Financial Year 2006-07

2. The total budget of £32.7 million for both economic and safety regulation will be matched by the same amount of income. The sources of income are set in the table below.

Income Description	Income (£ million)
Licence fee for economic regulation	13.8
Rail safety levy	18.0
Recovery of CTSA costs from DfT	0.6
Recovery of prosecution costs - HMRI	0.2
Other (inc. OPPPA accommodation)	0.1
Total	32.7

Summary of estimated costs by chapter of this document

Chapter	Total Costs
Chapter 2	£13,000,000
Chapter 3	£3,110,000
Chapter 4	£2,760,000
Chapter 5	£3,150,000
Chapter 6	£10,680,000
Total	£32,700,000