Rail regulation in Great Britain

Agnès Bonnet, Head of European Policy
Office of Rail Regulation
Madrid
21 October
Outline

• Rail structure in Great Britain
• Office of Rail Regulation
• Its status and roles
• Current rail performance
Railways in Great Britain

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

- Network Rail – private sector infrastructure owner and operator. Funded by track access charges and government network grant. Financed by debt; debt currently backed by government; no equity.

- Passenger train operators – 17 passenger franchises (with 10 different owner groups); 4 “open access” passenger operators.

- Freight train operators – 4 companies with different size/ownership.

- Supply industry – highly competitive, increasingly globalised.

- Industry organisations – Rail Safety and Standards Board, Association of Train Operating Companies, Railway Industry Association, Passenger Focus, Rail Freight Group, Trade Unions.

- Governments – UK, Scotland, Wales, London, regional/local

- ORR – independent regulatory body.
Specify and fund rail services in England/Wales and Scotland respectively

Funding

Regulates infrastructure monopoly, and health and safety (independent of Government)

Access charges

Network grant

Work together

Revenue from passengers and freight users

rail structure: key relationships
Office of Rail Regulation

• We are the independent safety and economic regulator of railways in Great Britain. Most of our work focuses on the main line railway; our safety responsibilities cover all railways in GB.

• Set up in 1994; our role derives from UK and EU legislation.

• Independent of ministerial control; public interest objectives are set by Act of Parliament. Government provides “guidance” on rail strategy, but ORR must balance this against other statutory objectives.

• Economic regulation role similar to other UK utilities and thus well understood; safety regulation of railways transferred from the Health and Safety Executive to ORR in 2006.
ORR - Structure and Governance

- About 290 staff. 170 on safety regulation; 120 on economic regulation. A mix of people from the public sector, private sector and railway industry.

- Led by a Board (currently 13 members including CEO and Chair) rather than individual regulator. Appointed by Minister on fixed term contracts.

- Parliamentary scrutiny.

- Decisions can be challenged in court by judicial review.

- Funded by industry.
**ORR - Our key activities**

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

- Promote improvements in railway service performance
- Protect the interests of the railway network for passengers and freight
- Promote competition where in the interest of users
- Enable providers of railway services to plan the future of their businesses with a reasonable degree of assurance
- Contribute to the achievement of sustainable development
- Have regards to the funds available to the Department for Transport
**ORR’s approach to regulation**

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

- Periodic reviews (normally every five years) establishes Network Rail’s outputs, revenue requirement and access charges; interim reviews under certain conditions. Next charging review (2014-2019) currently being prepared.

- Governments (UK and Scotland) set out what they want from railways and how much money they have available. Industry led by Network Rail produces a delivery plan.

- ORR reviews Network Rail expenditure requirements and implication for access charges

- ORR decides whether the outputs (can be delivered for the funds available; if not government reviews its specification.

- ORR sets out outputs (e.g. performance, investment projects) and funding for Network Rail reflecting government specification and ORR public interest duties

- In doing this ORR decides how much efficiency improvement Network Rail should make – by benchmarking etc. (21% efficiency improvement 2009-14).
Monitoring and enforcing delivery

- Network Rail is the monopoly infrastructure manager. It operates under a licence enforced by ORR.

- ORR uses that licence to monitor Network Rail delivery against outputs set by periodic reviews and other requirements.

- If Network Rail fails to comply, or is likely to, we can require it to take remedial action and/or levy penalties.

- We can change licence by agreement or by referral to the Competition Commission if Network Rail do not agree.

- This provides assurance to government about what it is getting for the money; it complements the contracts individual train companies have with Network Rail.

- Wide range of powers (financial penalties, orders, investigation)
Access to the network

• Train operators need track access contracts giving them permission to use Network Rail’s network.

• These contracts must be approved by ORR; we can direct Network Rail to enter a track access contract if they cannot agree.

• Standard contracts and transparent charges provide protection to train operators against Network Rail monopoly; Network Code sets out common rules for operation and timetabling of network.

• Transparent criteria for approval. Is this the best use of capacity; is it preventing better uses; are there benefits of new services/competition?

• Similar protection for other facilities (stations, maintenance depots, freight depots).

• Integrally linked with our role in regulating Network Rail.
How is the UK railway doing?

• A growing railway (passenger and freight). Though some challenges (e.g. how to achieve continued freight growth, investment in passenger and freight capacity including some risk transfer to private sector).

• Improved performance and safety, record levels of passenger satisfaction.

• Innovative and competitive supply market

• Costs are reducing but scope to go further. Government is determined to get more value for money from railways, and the McNulty report has made recommendations on infrastructure devolution and ‘alignment of incentives’.
Safety trend has improved since privatisation

Significant long-term reduction in train accident risk

- Train accidents with on-board fatalities
- Average number over preceding 10 years

Last fatal train accident in February 2007

Current rate 0.5 per year (ten-year average)
Passenger kilometres (billions)

GB annual data 1947 to 2010
Freight moved (billion net tonne kms)

GB data 1953 to 2010-11
Performance has been improving
Infrastructure expenditure (by Railtrack and Network Rail) rose dramatically post-Hatfield and remains too high...
Investment has increased

Chart 6.4 Investment (£ millions at 2008-09 prices)
Great Britain annual data 1999-00 to 2008-09
…but this has led to increased Government support

Government support to the rail industry (£ billions)

Year

£ in billions

Conclusions

• A publicly-specified, privately-delivered railway

• Fully resourced expert independent regulation is an essential part of UK model
  ▪ Provides assurance to government and users of the mainline railway

• After breakdown in 2000 we have had nearly ten years of sustained improvement:
  ▪ Overall passenger satisfaction at all time high
  ▪ Performance at all time record, passenger levels ditto, safety ditto
  ▪ Improving efficiency (+27% in last five years) but still a way to go... and passengers don't like current value for money
  ▪ Dynamic freight market
  ▪ High and continuing levels of investment in the railway and rolling stock

• Getting a lot right!
Thank you for listening

• Any questions?

ORR website
www.rail-reg.gov.uk