



***Periodic Review 2013  
First Consultation***

**12 July 2011  
London**



OFFICE OF RAIL REGULATION

# *Overview of PR13*

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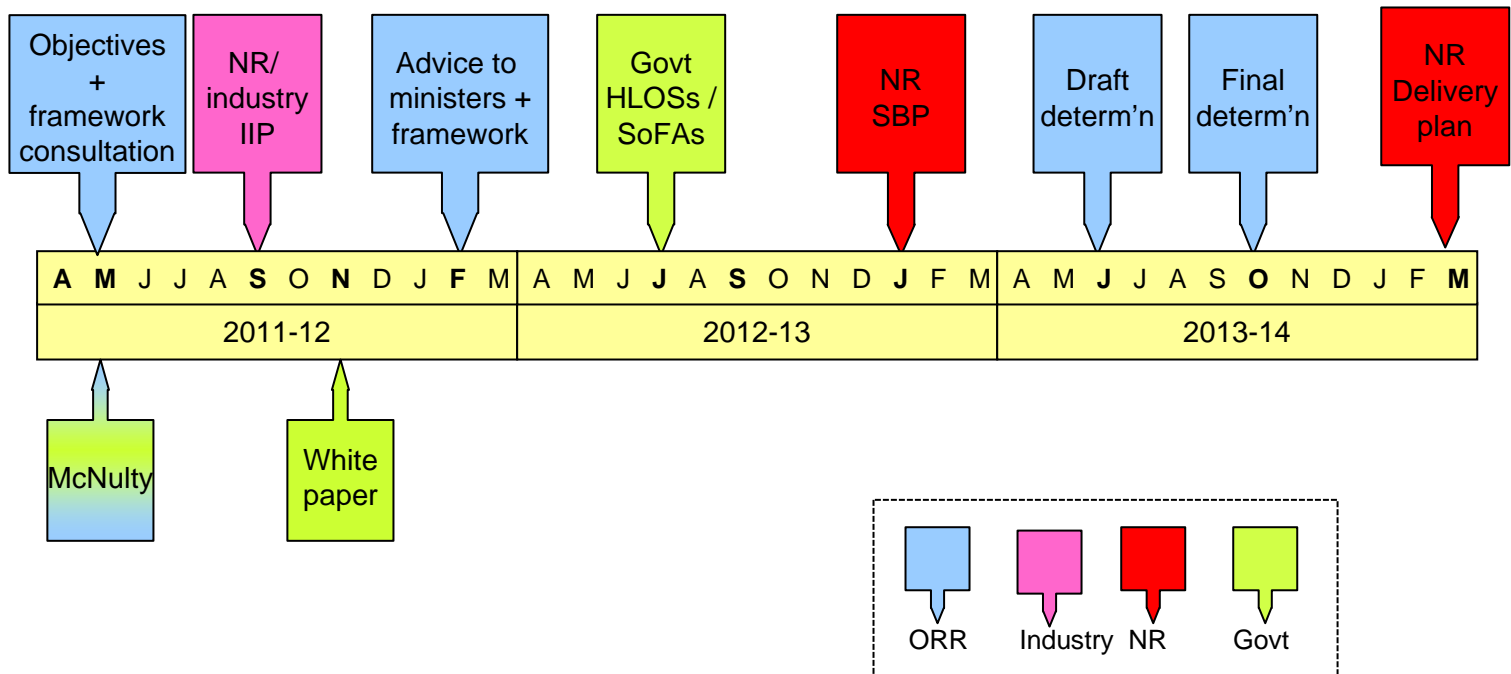


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# Overview

- A periodic review is a major 2-3 year industry wide process
- PR13 applies to control period 5 (CP5): 1 April 2014 to 31 March 2019
- PR13 will establish:
  - Network Rail's **outputs** (reliability, capacity, safety, etc)
  - Network Rail's **revenue requirement** based on our assessment of its efficient expenditure and other costs and income
  - The levels of **access charges**
  - **Incentives, contractual arrangements & regulatory framework** –
- We take account of governments' "**high level output specifications**" and "**statements of public funding available**" (HLOSs and SoFAs)
- We determine outputs and revenues separately for England & Wales and Scotland
- *... this all forms a "balanced package" of judgements/decisions*

# Key milestones



# *Undertaking PR13*

- In undertaking PR13 we will:
  - Have regard to our **section 4** public interest duties (including guidance from ministers)
  - **Involve and consult stakeholders** extensively on all the key issues and proposals
  - Carry out in line with **best practice economic regulation**
- We intend to...
  - Be **output** and **outcome** based
  - Use **market mechanisms/incentives** to promote **competition**
- We will ensure PR13 is integrated into the **wider industry reform programme**
- Have **separate “price controls”** including for Scotland and routes in England & Wales

## *First consultation*

- Our **first consultation** published on 25 May is the first key public stage in the review, with three aims:
  - Explain the timeline/process
  - Consult on our principles and objectives
  - Explain and seek views on key "regulatory framework" issues
- Key regulatory framework issues covered include:
  - Duration of the control period
  - Disaggregation of the 'price control' to route level
  - Outputs
  - Incentives
  - Structure of access charges
  - Indexation of income

## *Initial consultation*

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- We are **consulting widely** because we want PR13 to be informed by the views and experiences of stakeholders and other interested parties
- 12 week consultation closes on **2 September** – we encourage written responses from everyone who has views they would like to share with us
- We will continue to consult on key issues, such as our approach to efficiency, and on rail competition, through the PR13 process
- PR13 will be more successful with broad participation



***Shaping Britain's railways:  
the periodic review in context***

**Richard Price, Chief Executive**



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# *McNulty: the challenge*

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## *McNulty: the challenge*

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“Figures in clouds are uncertain

Cost allocation of the shaded block not known

Total train operating costs

Excluding track access –

Partly”

With thanks to Modern Railways, July 2011

## *Context*

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- On many measures – including safety, performance and customer satisfaction – Britain's railways have never been more successful
- More passengers and freight being carried than ever before, with demand forecast to grow
- Significant investment in rolling stock and new infrastructure
- But success has come at a high cost for passengers and taxpayers – overall industry unit costs in 2009/10 the same as in 1996/97

# *Periodic Review 2013*

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- The periodic review is our assessment of:
  - what Network Rail must deliver
  - the money it needs to do so, and
  - the incentives needed to encourage delivery/ outperformance
- But it is also a major opportunity to help drive through wider step change in whole-industry performance and efficiency

## *Wider reform agenda*

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- Franchise reform
  - moving to longer, less highly specified franchises in England & Wales, with potentially a different approach in Scotland
- Network Rail devolution
  - moving away from centralised decision making
- McNulty review
  - action will be needed from across the sector to achieve positive change

# *McNulty: key future challenges*

- **Significant cost reduction**
  - 30% in whole unit costs by 2018/19
- Clarity on **respective roles**
- More **whole system/partnership working**
- Greater **transparency**
- Greater **comparability and contestability**
- Best practice approach to **key enablers:**
  - asset management
  - project and programme management
  - supply chain management
  - safety, standards and innovation

These areas are 2/3 of savings identified
- Making **best use of existing capacity**

## *Levers and incentives beyond regulation*

- Transparency of information
- Competition- potentially on rail but also comparative through benchmarking plus greater contestability of current NR monopoly elements such as stations
- Governance, management incentives and potential reform of members
- Financial structure (decisions for Government)
- NR as a network/system operator incentivized to maximize use of the network
- Partnership working and alignment of incentives between NR, TOCs, ROSCOs and suppliers.

## *Some key issues*

- How best to align incentives between train operators, Network Rail and what governments/customers want?
- How best to improve efficiency and reduce costs to taxpayers and customers?
- How best to improve the transparency of industry costs?
- How to get the rail industry to play a more effective role in planning and delivering the railway?
- How to get the best out of, and continue to develop, the existing rail network?
- How best to balance risk and reward across the industry?
- How best to deliver better value for money without compromising safety?



## *PR13: our overall objective*

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*“To protect the interests of customers and taxpayers by ensuring our determination enables Network Rail and its industry partners to deliver or exceed all the specified outcome and output requirements safely and sustainably, at the most efficient levels possible comparable to the best railways in the world by the end of the control period”*

# *Periodic Review 2013*

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*The Rail Delivery Group perspective*

*Anton Valk*

**abellio** 

*12 July 2011*

## *Rail Value for Money Study*

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- Many positives
- But also many barriers to efficiency
  - Fragmentation
  - How Network Rail and TOCs operate
  - Roles of Government and industry
  - Ineffective incentives
  - Franchising
  - Fares structure/regulation
  - Limitations on whole-system approaches
  - Supply chain management
  - Legal and contractual Framework
  - Rail Industry culture and relationships

# *The Rail Delivery Group*

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- Covers
  - Industry-wide strategies
  - Existing “whole system” activities.
  - Focus for cost reduction and FvM
- Published Terms of Reference and Membership
- Open and transparent: [www.raildeliverygroup.org](http://www.raildeliverygroup.org)
- Successful NTF model has been adopted
- Credible senior industry leadership: CEOs of major passenger & freight groups and Network Rail are members of the group
  - Small programme office for VfM delivery

## *Terms of reference of the Rail Delivery Group*

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- Industry-wide issues
- No duplication or over-riding of the primary accountability for delivery
- Co-ordination of the objectives for key cross-industry groups:
- Systems Agency and National Safety Task Force
- Review of all other cross-industry groups
- Initial priority:
  - to review cross-industry work by the Planning Oversight Group for the Initial Industry Plan (IIP)
  - adopt a limited number of big ticket items for 2011/2012

## *The role of the RDG in the Periodic Review*

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- Importance to engage in the Periodic Review to achieve savings
- Early wins will be identified and tackled immediately
- RDG will liaise with the Planning Oversight Group, focussing on high value initiatives in the Initial Industry Plan
- The Periodic Review must not add to industry costs-simplification of charging
- Room for the industry to realise the opportunities and achieve efficiency potential

## *Examples of high value initiatives*

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- The RDG will focus in 2011/2012 on high value initiatives - still to be determined - such as:
  - Asset management
  - Staff costs, working practices
  - Innovation in train operations, stations, fares and distribution
  - Rolling stock strategy
  - Closer working between NR and TOCs to deliver VfM

These have to be achieved while improving services to rail users measured by performance, NPS, information during disruption, infra availability etc

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