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Current and future plans for rail - Office of Rail Regulation

Summary

1. Following the Board's discussion of rail franchising, and rail policy developments currently underway, at the last meeting in March, it was agreed to invite the Office of the Rail Regulator (ORR) to give a presentation to the Board on issues arising from current and forthcoming review processes.
2. The ORR is interested in Members' views on how they can ensure that communities and local government are involved in the Periodic Review consultation on Network Rail's outputs, revenue requirement and access charges, and incentives across the railway.
3. The Board will receive a presentation from Anna Walker, Chair of the ORR Board, followed by discussion of key issues arising for local government.
4. This paper provides background to the ORR, an outline of review processes and suggests issues arising from the Board's previous discussion on rail which Members may wish to raise with the ORR.

Recommendation

Members to agree next steps as set out at paragraph 9.

Action

Officers to progress proposed next steps subject to comment from Members.

Contact officer: Caroline Green
Position: Senior Policy Consultant
Phone no: 020 7664 3359
E-mail: Caroline.Green@local.gov.uk

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Overview of the Office of Rail Regulation

1. The Office of Rail Regulation (ORR) is the safety and economic regulator for Britain's railways. As such the ORR is responsible for ensuring that Network Rail operates and plans the future use and development of the network and maintains and enhances its assets in such a way that meets the reasonable requirements of its customers and funders.
2. The ORR is led by a Board appointed by the Secretary of State for Transport and is chaired by Anna Walker. It defines its main roles as:
 - Securing delivery by the industry of its regulatory obligations;
 - Helping the mainline railway meet the long-term challenges;
 - Enhancing and keeping under review the industry's framework of incentives, accountabilities and competition.

Periodic Review of Network Rail

3. The ORR will publish its consultation on the 2013 periodic review (PR13) of Network Rail on 25 May 2011. The periodic review is one of the core functions of the ORR, is a major programme of work and will have significant implications for the industry, taxpayers and passengers. PR13 will define Network Rail's outputs, revenue requirement and access charges, and incentives across the railway, for the period from 1 April 2014 to 31 March 2019 (control period 5 – "CP5"). The process provides an opportunity for the LG Group to influence the future regulatory framework for Network Rail to improve accountability and integration with local transport investment.
4. The key milestones in the Periodic Review process are as follows:
 - May 2011 – ORR consultation on the objectives for PR13 and the key regulatory framework issues which require early debate and resolution;
 - September 2011 – Network Rail and its industry partners publish the initial strategic business plan (ISBP);
 - February 2012 – ORR put advice to ministers and publish a framework for setting outputs and access charges;
 - July 2012 – the Secretary of State and Scottish Ministers each publish their 'high level output specifications' (HLOS) and 'statements of public funding available' (SoFA);
 - January 2013 – Network Rail publishes its strategic business plan;

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- June 2013 – ORR publish their draft determination on Network Rail's outputs and access charges for 2014-19; and
- October 2013 – ORR publish their final determination on Network Rail's outputs and access charges for 2014-19 which will take effect on 1 April 2014.

Wider Policy Developments

5. The ORR Periodic Review was originally planned to begin in October 2010, but was delayed in order to take into account the improving rail value for money study led by Sir Roy McNulty (Final report expected on 19 May), the Department for Transport's strategic reviews of franchising and Network Rail's structure, and the comprehensive spending review. The outcome of these reviews will have significant implications for the industry which will need to be reflected in the PR13. The DfT is expected to publish a Green Paper on rail in summer 2011 followed by a White paper in November 2011.

Suggested issues for discussion with the ORR

6. The McNulty VfM study has identified substantial scope for savings from reducing Network Rail and Transport Operating Company (TOC) costs and improving value for money. The study estimates that this could yield £50-100 million in year 2014/15, increasing to £600 million - £1 billion by 2018/19. How will the new Regulatory Framework ensure these savings are delivered without affecting the investment required in rail infrastructure?
7. Rail is on a strong underlying growth trend and in the current fiscal climate there is a risk that investment decisions will be made on the basis not of meeting forecast demand, but on the amount of public money available. The LG Group has argued that Network Rail and the Train Operating Companies should be encouraged to look beyond public subsidy to other models for transforming revenue growth into investment, including for example Tax Increment Financing, maximising potential of developments around stations, linking with local and regional development schemes. How can the ORR support this approach?
8. Transport networks, including rail, are crucial to the sustainable economic development of cities and local economies. Therefore decisions on rail investment need to be integrated with plans for local economic growth and employment and land use planning to ensure that local transport networks serve the needs of the local economy and promote growth. How does the ORR ensure that local requirements and benefits are taken into account in determining outputs for Network Rail?

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Next Steps

9. A potential way of taking forward issues raised by the discussion at the Board and to facilitate wider engagement with local authorities would be a joint LG Group / ORR seminar during the consultation of the PR 13 objectives. Members are asked for views on this proposal.

Financial Implications

10. The proposed action can be delivered within the Board's existing work programme budget.