Presented pursuant to the GRA Act 2000, c.20. s.6

Office of Rail Regulation

Resource Accounts 2006–07

LONDON: The Stationery Office
HC 748

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Annual Report

Introduction

These accounts cover the operation of the Office of Rail Regulation (ORR) for the period 1 April 2006 to 31 March 2007. They have been prepared on an accrual basis in accordance with the Government Resources and Accounts Act 2000 and HM Treasury's Financial Reporting Manual.

ORR's aims and objectives

The aim of ORR is as follows:

> *"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"*

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.

We also recognise our responsibilities across the wider Great Britain railway industry (including the London Underground, light rail, 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.

The following objectives support this aim:

1. Improving Health and Safety Performance

   - To deliver our vision of continuous improvement in health and safety, achieved alongside improved performance and efficiency, whilst sustaining and developing the railway. We will build on the strategy previously developed by the Health and Safety Commission/Executive (HSC/E), but reflect the combined safety and economic regulation role of ORR, and the fact that our safety regulation responsibilities cover all railways in Great Britain.

2. Securing improved efficiency and performance

   - 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. Securing robust plans for 2009 and beyond

   - 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. Improving and aligning relationships and incentives in the industry

- 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 European Union rail policy; and
- To engage actively with the Government, Network Rail and other stakeholders to support effective franchising through the alignment of Network Rail's development of Route Utilisation Strategies, the Government's future franchising programme and the consideration of track access agreements.

5. Governance, organisation and resourcing

- To provide effective governance and corporate support services enabling ORR to achieve its objectives.

Nature of ORR's functions

ORR was established by the Railways and Transport and Safety Act 2003 to replace the Office of the Rail Regulator. It is a non-ministerial government department, funded through licence fees and safety levies, the value of which are set by ORR. Our functions were broadened by the Railways Act 2005, which established us as the combined safety and economic regulator for the railway industry. A key stage in this process was the transfer of responsibility for Rail Safety Policy and Her Majesty's Railways Inspectorate from the Health and Safety Executive.

We are independent of, but work closely with, the Department for Transport (including the Rail Accident Investigation Branch), the Health and Safety Executive and the Rail Safety and Standards Board.

ORR Board

ORR was established on 5 July 2004 under the Railways and Transport Safety Act 2003. We are an independent statutory body led by a Board. The Secretary of State for Transport makes appointments to the Board for a fixed term of up to five years but he can only remove individual members for incapacity or misbehaviour (section 1(3) of the Railways Act 1993).

During 2006-07, the Board composition was as follows:

		Period of appointment
Chairman	Chris Bolt	5 July 2004 to 4 July 2009
Non-Executive Directors	Peter Bucks	5 July 2004 to 4 July 2008
	Jeffery Jowell QC	5 July 2004 to 4 July 2008
	Jane May	5 July 2004 to 4 July 2009
	Jim O'Sullivan	1 April 2005 to 31 March 2010
	Chris Stokes	5 July 2004 to 4 July 2006
	Richard Goldson OBE	2 October 2006 to 31 March 2010
Chief Executive	Bill Emery	19 September 2005 to 18 September 2008
Executive Directors	Michael Beswick	20 March 2006 to 19 March 2011
	Linda Williams	15 January 2007 to 14 January 2012
	John Thomas	15 January 2007 to 14 January 2012
	Michael Lee	15 January 2007 to 14 January 2012

Details of the remuneration of the Board and directors are set out in the Remuneration Report.

ORR publishes a register of Board interests on its website. The rules around Board conflicts are included in the Board's rules of procedure and these were reviewed during the year with final changes agreed in January 2007. At the start of each meeting Board members identify any potential conflicts and on the rare occasions where there is a clear or potential conflict the relevant member withdraws from the meeting during discussion of the relevant item and this is recorded in the minutes.

Audit Committee

Until 4 July 2006, the Audit Committee was chaired by an independent member. A non-executive director, Peter Bucks, now chairs the committee, and it comprises one other non-executive director and one independent member. Meetings are held at least four times a year and are always attended by: ORR's Chief Executive as the Accounting Officer, the Director of Corporate Services, the Deputy Director Corporate Services, the Head of Finance and representatives from the National Audit Office and ORR's internal audit service. Other ORR management attend at the request of the Committee.

The Committee's role is to advise the Accounting Officer and the Board on the adequacy of internal controls, corporate governance, risk management and audit arrangements.

Remuneration Committee

The Committee's role relates to the pay and performance of ORR senior civil service staff. Full details of the Committee's membership, role and senior staff salary and pension entitlements are given in the Remuneration Report on page 9.

Employees

Training and Development

During the year we continued to give high priority to training and development of all staff to enhance their skills and expertise in pursuit of our objectives. Staff have personal development plans which are updated as part of the Performance and Development Review process. These facilitate focused training and development in achievement of individual and ORR objectives. We were reassessed as Investors in People in February 2007, and successfully retained our accreditation. This was an important achievement for the merged organisation.

Employee Involvement

We attach great importance to managing, developing and training our staff in accordance with best practice. A Staff Council has been established which represents both the trade unions and staff representatives. This replaced the previous negotiating forums – the Staff Forum and the Rail Forum.

In September 2006, a staff survey was commissioned and 94% responses received. Directorates have been developing action plans in response to the comments raised and these plans are in the process of being rolled out alongside the publication of a Corporate Values Action Plan. During the year a number of workshops were held around the country to enable staff to provide feedback and comment on ORR as a whole and review our priorities for the next 12 to 18 months.

A staff suggestion scheme was also piloted during the year and action has commenced to implement some of the proposals made.

Health and Safety

Structured organisational arrangements are in place to ensure compliance with the Health, Safety and Environmental Policy at different levels within ORR. The Health and Safety policy statement describes our responsibilities and objectives and is available to all employees.

In order to meet its statutory obligations ORR has established a Health and Safety Committee. Its main function is to act as a forum for discussion on health and safety matters between the staff and union safety representatives and the organisation. It studies accident trends and dangerous occurrences with a view to identifying trends and reporting back to management on unsafe/unhealthy conditions and practices, providing recommendations for corrective action. It also checks the effectiveness of safety training and communications and assists in developing health and safety policies, rules and systems of work. In order to see the effectiveness of the safety arrangements members accompany Facilities staff on a three monthly health and safety walkround.

Equal Opportunities

We are committed to a policy of equal opportunities. Recruitment is carried out on the basis of fair and open competition and selection on merit in accordance with the recruitment code laid down by the Civil Service Commissioners. Our aim is to be fair to everyone and to ensure that no eligible job applicant or employee receives less favourable treatment on the grounds of gender, ethnicity, disability, sexual orientation, religious belief, trade union activity or any other irrelevant factor. Our Equality and Diversity Policy is available to all employees via the Staff Handbook.

Accounting Boundary

We do not exercise in-year budgetary control over any other public or private body. We are a single entity department whose entire operations are within the accounting boundary reflected in these accounts.

Auditors

Our accounts are audited by the Comptroller and Auditor General. The audit opinion and report of the Comptroller and Auditor General are included with the Statement of Accounts. The notional cost of providing external audit services was £35,000 (2005-06: £32,000). There was no auditor remuneration (actual or notional) for non-audit work. The Audit and Risk Assurance unit of the Department for Transport (DfT) provides an internal audit service to ORR. This cost £37,000 (2005-06: £23,312).

In so far as the Accounting Officer is aware, there is no relevant audit information of which our auditors are unaware. The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that our auditors are aware of that information.

Suppliers

We aim to pay all bills in accordance with agreed contractual conditions, or where no such conditions exist, within 30 days of receipt of goods and services or the presentation of a valid invoice, whichever is the later. During the year 90% (2005-06:95%) of invoices were paid within the target period and for the latter eight months of the year we achieved 95% or greater.

Management Commentary

Review of ORR's Activities

The ORR Annual Report 2006-07, which was published in June 2007, contains a full breakdown of the Office's outputs and its achievement against its objectives.

2007 was ORR's first year as the combined independent safety and economic regulator for railways in Great Britain. The transition of safety responsibilities from HSE Rail to ORR was accomplished seamlessly on 1 April 2006. A priority for the merged organisation has been to encourage joint working across the office and we have done this in a number of key areas. Overall we achieved our business plan objectives while making significant savings compared with our budget.

Despite the tragic accident at Grayrigg, the year as a whole saw continued improvement in rail safety. The new Railways and Other Guided Transport Systems Regulations came into effect in April 2006 and we worked with the industry to ensure smooth implementation. We made sure we considered reports and recommendations from the Rail Accident Investigation Branch effectively. Meanwhile our targeted programme of inspection continued and we developed topic strategies and policy approaches on key safety issues. Our safety regulation responsibilities cover all railways in Great Britain.

The national network saw further improvement in the performance it delivered to its customers. The public performance measure stood at 88.1% at the end of quarter 4, above Network Rail's year end target of 87.6%. We continued to monitor and press for improvement through partnership between Network Rail, train operators and their suppliers. Network Rail continued to deliver against its efficiency targets, and we welcome the company's commitment to a more proactive role in developing and improving the railway with its industry partners. There are still some areas of inconsistency in Network Rail's performance, and we followed these up with appropriate action. Our National Rail Review now gives an independent assessment of industry performance and key industry issues every quarter, and we were pleased to be able to report sustained higher levels of customer satisfaction.

The national railway continued to attract more passengers and freight traffic, and provision of extra capacity in an efficient way is now its biggest challenge. The periodic review of Network Rail's outputs, funding and access charges, due to be completed in 2008 will help address this. During the year, we issued our review notice, requiring Ministers in London and Edinburgh to set out what they want from the railway, and funding available to deliver it. We gave advice to Ministers to inform this.

We challenged Network Rail's efficiency and delivery plans set out in its initial strategic business plan. We published caps for freight charges to give greater certainty to freight operators and customers.

In the publicly specified, privately delivered railway, incentives, market mechanisms and decentralisation can and should be fostered. This is a key element of our work on the periodic review. We have also worked closely with the industry to improve industry codes and contracts, particularly the Network Code and stations and depots codes.

Using our competition law powers, we issued our decision on the complaint against English, Welsh and Scottish Railway in the market for rail haulage of coal. We received a complaint from the Department for Transport about the rolling stock leasing market, and in April 2007 decided there were sufficient grounds to refer the market to the Competition Commission for a full investigation.

It has been encouraging to see the rail industry committing to improving its sustainable development performance, and we have now published our own policy to facilitate this and monitor industry performance. We carried out our first survey of rail industry stakeholders in the autumn of 2006. Generally the feedback we received was very positive, with some suggestions for improvement. We are already acting on these.

We are committed to a programme of ever more focused and effective regulation, and to best practice in regulation. An example of this in action was our review of the regulatory requirements on insurance, which will eliminate unnecessary costs and bureaucracy. We reorganised our senior team structure in January 2007 to help us focus on the challenges ahead and our Board was strengthened by the appointment of additional executive members.

Financial Commentary

The following is a summary of the main financial information:

Operating costs summary

	2006-07	2005-06
	£000	£000
Income		As restated
Deferred income from prior year	3,581	1,447
Licence fees, safety levy and miscellaneous income	28,933	20,923
	32,514	22,370
Expenditure		
Administration costs	29,181	26,015
Administration costs – transition	–	1,814
	29,181	27,829
Less: Income deferred to following period	3,335	3,581
Net Operating Deficit	**2**	**9,040**
Reconciliation of Resource Outturn to the Resource Budget Outturn		
Net Resource Outturn	2	1,842
Adjustments in respect of machinery of government transfer of functions from HSE (note 26)	–	7,198
Net Operating Costs	2	9,040
Resource Budget Outturn	2	9,040

The prior year figures have been restated to show the effect of the transfer of functions from HSE Rail. The financial effect of these adjustments is shown in note 26.

In the year £32.3million was levied as licence fee and safety levy income. Out of this £29.0 million was recognised as income to offset the expenditure of ORR in 2006-07, with the balance of £3.3 million being retained as deferred income. This will be used to reduce the licence fee and safety levy income in 2007-08.

In the year total gross operating costs amounted to £29.2 million. This expenditure was made up of staff costs (2006-07: 65%, 2005-06: 61%), consultancy cost, including the purchase of legal services (2006-07: 7%, 2005-06: 8%) with other non-pay related running costs making up the balance (2006-07: 28%, 2005-06: 31%). Although there have been significant savings against budget, these have been across the whole departmental costs and at no detriment to any particular area.

Capital expenditure in the year totalled £0.8 million. The initial voted capital requirement was £0.5 million, but an additional drawdown of £0.75 million from our End Year Flexibility was requested from HM Treasury to meet the additional capital needs of merging with HSE Rail, in particular the development of suitable Information Systems.

The amount of resource allocated to each of our main objectives is shown on the Statement of Operating Costs by Departmental Aim and Objectives on page 25. Expenditure against our objectives identified in our Business Plan 2005-08 was as follows:

	Corporate Budget	Actual	Variance
	£000	£000	£000
Improving Health and Safety Performance	13,000	11,601	(1,399)
Securing improved efficiency and performance	3,110	2,775	(335)
Securing robust plans for 2009 and beyond	2,760	2,463	(297)
Improving and aligning relationships and incentives in the industry	3,150	2,811	(339)
Governance, organisation and resourcing	10,680	9,531	(1,149)
	32,700	29,181	(3,519)

Across ORR, staff costs, legal consultancy and other consultancy costs have been significantly below budget, contributing to the £3.5 million overall variance. There has been a review of working practices to improve efficiency and effectiveness, in particular the use of consultants and external legal resources, which has resulted in lower costs across ORR and eliminated the need to utilise the contingency element in the budget. Of the £32.7 million budget, £2 million was retained as a contingency which was not utilised. Despite the underspend, we have delivered on our main priorities set down in the corporate strategy and business plan for 2006-07.

Going Concern

The balance sheet at 31 March 2007 shows a negative Taxpayers' Equity of £1.94 million. This reflects the inclusion of liabilities falling due in future years, including the repayment of excess cash to Treasury's Consolidated Fund. Any liabilities in excess of cash receivable in year will be financed mainly by drawings from the UK Consolidated Fund. Such drawings will be from grants of Supply approved annually by Parliament, to meet our Net Cash Requirement. Under the Government Resources and Accounts Act 2000, no cash may be drawn from the Fund other than required for the service of the specified year nor retained in excess of that needed. All unspent cash, including that derived from our income, is surrenderable to the Fund.

In common with other government departments, the future financing of our liabilities is accordingly to be met by future grants of Supply and the application of future income, both to be approved annually by Parliament. Such approval for amounts required for 2007-08 has already been given. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Financing and the impact on ORR's risk profile

We are self-financing. Funding is raised through licence fee income and a safety levy received during the year from the network infrastructure provider and railway service providers, and as such we normally have no net cash-funding requirement. However, due to timing differences between the receipt of licence fee and safety levy income and expenditure, short-term borrowings are obtained from HM Treasury's Contingencies Fund and repaid within the year. None of these monies are invested. Consequently, we are not exposed to financial instruments, interest rate or liquidity risks, and its method of financing has no significant impact on the organisation's risk profile.

Future Developments

Key focus areas for 2007-08 will include:

1. Improving health and safety performance;

   - continue to fulfil our obligations to enforce health and safety law, focusing our efforts on the most serious risks and where intervention will have the most effect

   - continue to actively support the industry with the implementation of the Railways and Other Guided Transport Systems (Safety) Regulations 2006 (ROGS)

   - continue with our targeted inspection plans for all the main-line rail companies, London Underground, trams, metros and heritage railways

2. Securing improved efficiency and performance;

   - continue to monitor Network Rail's delivery of 'hard' outputs (eg operational performance, asset condition) for the network as a whole and, where relevant at the local level

- continue to monitor Network Rail's progress on asset management and their response to the recommendations of the independent reporter on this area

- focus on areas where Network Rail is taking on a larger role in the industry and on the operation of cross-industry processes by Network Rail as well as the effectiveness of its efforts to improve its relationships with its industry partners

3. Securing robust plans for 2009 and beyond through the periodic review;

- continue to take forward the periodic review while developing and consulting on a suite of suitable definitions and measures for the outputs that Network Rail will be required to deliver in the next control period – these will *inter alia* cover network capability and availability

- ensure that Network Rail's plans satisfy both the High Level Output Specification and the wider needs of the rail market and customers and can be delivered within the limits set by the Statement of Funds Available

4. Improving and aligning relationships and incentives in the industry;

- develop specific proposals for improved incentive frameworks and reflect them in industry codes, licences and charging structures

- continue to facilitate investment to improve the railway and to improve the contractual and economic framework for stations and depots

- in conjunction with enforcing the relevant competition legislation and addressing related complaints, we will continue our programme of market studies with the aim of reviewing the working of all the significant markets associated with the railway sector over time

5. Improving the effectiveness of ORR as a combined safety and economic regulator

- develop and implement a new communications strategy and further improve engagement with stakeholders on key policy issues

- influence the regulatory framework affecting the railways in Europe and its implementation in Great Britain

- change to a common set of terms and conditions for our staff.

Sustainability Report

Environmental Policy

ORR seeks to integrate environmental management fully with business and daily operational management. This ensures that short and long-term environmental and associated health and safety issues are considered when decisions are made regarding new and existing facilities and equipment. The organisation is committed to the continuous improvement of all aspects of our environmental and health and safety performance.

An audit of operations will be carried out on an annual basis to identify strengths and weaknesses in our processes and plans, and identify actions to be taken to prevent problems or correct deficiencies. This will be in line with government sustainability targets.

We will communicate with individuals, communities where required and concerned parties regarding the environmental and safety aspects and impacts of our operations. This will include producing an environmental report to accompany the yearly health and safety review and report, which is to be submitted formally to the ORR Board.

We will support sustainable development, the responsible use of natural resources and energy conservation.

We will seek to integrate environmental and safety considerations into all relevant internal working practices. We will also seek to be more environmentally efficient through programmes of waste minimisation and pollution prevention, including product recycling with specific and measurable reduction targets where practicable. We will aim to minimise the use of non-renewable resources and to develop an energy conservation programme to ensure efficient use of energy within the office.

Remuneration Report

Remuneration Committee

The Remuneration Committee consists of non-executive members of the Board, with Jeffrey Jowell as its chairman and Peter Bucks and Richard Goldson as members. It met twice during the year 2006-07.

The Committee's role is to review the remuneration packages of ORR's senior civil servants; to keep under review the criteria for allocating individuals to performance tranches and awarding bonuses; to make recommendations to the Board on pay decisions for senior civil servants; and to recommend to the Board broad pay policy in relation to all aspects of executive remuneration and to monitor the operation of the pay system. Our civil servant pay strategy accords with parameters set by the Cabinet Office for the Senior Civil Service following recommendations by the Senior Salaries Review Body. Further information about the work of the Review Body can be found at www.ome.uk.com.

Board members are appointed by the Secretary of State for Transport.

Service Contracts

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made. Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk.

Remuneration of senior civil servants is set out in their contracts and is subject to annual review in line with awards recommended by the Senior Salaries Review Body. The notice period for all senior members of ORR does not exceed six months. The Chief Executive is the only senior member issued with a fixed term contract. His contract expires on 18 September 2008.

The arrangements for early termination of contracts of senior civil servants are made in accordance with the service contract of the relevant individual. Each contract provides for a payment in lieu of notice on early termination based on the provisions of the Civil Service Compensation Scheme. During the year one executive member left ORR, and early termination payments of £298,402 were made (2005-06: one executive received early termination payments of £71,000).

Each senior civil servant participated in a bonus scheme which is in line with the Senior Salaries Review Body recommendations. The bonus is based on the individual's performance. Bonus payments are non-consolidated and non-pensionable.

The remuneration of the Chairman and non-executive directors is set by the Secretary of State for Transport. Remuneration of non-executive Board members is by payment of salaries and they have no entitlement to performance related pay or pension benefits, with the exception of the Chairman who is entitled to pension benefits. Compensation in the event of early termination is at the discretion of the Secretary of State.

Salary and Pension entitlements

The following information has been subject to external audit. The salary and pension entitlements and benefits in kind of the most senior managers of ORR during 2006-07 were as follows:

Remuneration		**2006-07**		**2005-06**
	Salary	Benefits in kind	Salary	Benefits in kind
	£000	£000	£000	£000
Bill Emery** *Chief Executive*	155-160	600	75-80 *(from 19 September 2005)* *(140-145 full year equivalent)*	600
John Thomas** *Director, Competition and Regulatory Economics*	100-105	600	80-85 *(from 4 April 2005)*	600
Juliet Lazarus *Director, Legal Services*	95-100	–	90-95	–
Linda Williams*** *Director, Railway Inspectorate*	105-110	6,600	45-50 *(from 26 September 2005)* *(90-95 full year equivalent)*	7,200
Michael Beswick *Director, Safety and Economic Policy Development*	110-115	–	105-110	–
Michael Lee*** *Director, Access, Planning and Performance*	100-105	700	45-50 *(from 27 September 2005)* *(90-95 full year equivalent)*	700
Rob Andrews* *Director, Rail Safety* *(to 28 December 2006)*	105-110	–	70-75 *(from 15 July 2005)* *(95-100 full year equivalent)*	–
Sarah Straight *Director, Safety and Economic Policy Development*	90-95	–	90-95	–
Lynda Rollason *Director, Corporate Services*	100-105	–	100-105	–

Notes * an additional payment of £298,402 was made as part of an early retirement package
** benefits in kind comprise subsidised gym membership
*** benefits in kind comprise travel benefits

'Salary' includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

'Pension entitlement/allowances' relates to an allowance paid to senior staff who have chosen to take extra salary to invest in a pension scheme of their own choice rather than participate in a Civil Service pension. No senior managers exercised this option. Pension benefits are shown on page 11.

Pension Benefits

	Accrued pension at age 60 as at 31/3/07 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31/3/07 *(or at end date)*	CETV at 31/3/06	Real increase in CETV (funded by employer)
	£000	£000	£000	£000	£000
Bill Emery (a) *Chief Executive*	40-45 (pension) 130-135 (lump sum)	0-2.5 (pension) 2.5-5 (lump sum)	932	878	20
John Thomas (b/c) *Director, Competition and Regulatory Economics*	5-10 (pension)	0-2.5 (pension)	90	69	18
Juliet Lazarus (c) *Director, Legal Services*	0-5 (pension)	0-2.5 (pension)	46	29	14
Linda Williams (a) *Director, Railway Inspectorate*	35-40 (pension) 105-110 (lump sum)	2.5-5 (pension) 12.5-15 (lump sum)	877	734	109
Michael Beswick (d) *Director, Safety and Economic Policy Development*	45-50 (pension) 35-40 (lump sum)	0-2.5 (pension) 0-2.5 (lump sum)	992	925	67
Michael Lee (d) *Director, Access, Planning and Performance*	45-50 (pension) 40-45 (lump sum)	0-2.5 (pension) 0-2.5 (lump sum)	841	786	55
Rob Andrews (a) *Director, Rail Safety (to 28 December 2006)*	25-30 (pension) 80-85 (lump sum)	0-2.5 (pension) 2.5-5 (lump sum)	480	452	16
Sarah Straight (a) *Director, Safety and Economic Policy Development*	35-40 (pension) 105-110 (lump sum)	2.5-5 (pension) 7.5-10 (lump sum)	653	587	52
Lynda Rollason (a) *Director, Corporate Services*	5-10 (pension) 20-25 (lump sum)	0-2.5 (pension) 2.5-5 (lump sum)	132	110	19

Notes (a) opted to join Classic, (b) opted to join Classic plus, (c) Premium, (d) member of the Railway Pension Scheme
No employer contributions were made to a partnership pension account
Pension payments of £82,000 were paid to a former senior manager

Non-executive Directors

Non-executive Directors received the following salaries:

	2006-07	**2005-06**
	£	£
Chris Bolt	104,256	102,800
Peter Bucks	20,283	15,420
Jeffery Jowell QC	20,283	15,420
Jane May	20,283	15,420
Jim O'Sullivan	20,283	25,700
Chris Stokes	5,303	15,420
Richard Goldson OBE	10,129	–

Chris Bolt's accrued pension at 60 as at 31 March 2007 is in the range £2.5-5.0k with a real increase of £0-2.5k. The CETV at 31 March 2007 is £65k (31 March 2006: £39k) with a real increase of £21k. In addition to the amounts shown above, Non-executive Directors are also entitled to receive reimbursement of expenses incurred in relation to their duties.

Civil Service Pensions

Pension benefits are provided through the Civil Service Pension (CSP) arrangements. From 1 October 2002, civil servants may be in one of three statutory based ‘final salary’ defined benefit schemes (Classic, Premium, and Classic plus). The Schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium, and Classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of Premium or joining a good quality ‘money purchase’ stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for Classic and 3.5% for Premium and Classic plus. Benefits in Classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years’ pension is payable on retirement. For Premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of Premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per Classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer’s basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach 60, or immediately on ceasing to be an active member of the scheme if they are already 60.

Further details about the CSP arrangements can be found at the website www.civilservice-pensions.gov.uk .

Some employees, including the Director, Safety and Economic Policy Development and the Director, Access, Planning and Performance, are covered by the provisions of the Railway Pension Scheme (RPS), which is contributory and funded. The scheme is a defined benefit scheme with obligations met by the RPS trustees. Details of the RPS scheme statements and other financial information can be found in the Annual Report and Accounts of Railway Pensions Management Limited (www.railwaypensions.co.uk).

The former Rail Regulators’ and Chairman’s pensions are by analogy with the Principal Civil Service Pension Scheme. During 2006-07 this scheme had one member in employment (2005-06: one member). The accruing cost of providing for the member’s future benefits, which is based on actuarial advice, is charged to the Operating Cost Statement. A provision for the expected future liabilities for the Rail Regulators’ and Chairman’s Pension Scheme is disclosed as a liability on the balance sheet.

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member’s accrued benefits and any contingent spouse’s pension payable from the scheme. A CETV is the amount that would be paid by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the Cabinet Office’s Civil

Superannuation Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Please note that the factors used to calculate the CETV were revised on 1 April 2006 on the advice of the Scheme Actuary. The CETV figure for 31 March 2006 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2007.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Bill Emery
Accounting Officer
21 June 2007

Statement of Accounting Officer's Responsibilities

Under the Government Resource and Accounts Act 2000, ORR is required to prepare resource accounts for each financial year, in conformity with a Treasury direction, detailing the resources required, held, or disposed of during the year and the use of resources by ORR during the year.

The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of ORR and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

The Treasury has appointed the Chief Executive as ORR's Accounting Officer with responsibility for preparing ORR's accounts and for transmitting them to the Comptroller and Auditor General.

In preparing these resource accounts, the Accounting Officer is required to comply with the Government Financial Reporting Manual prepared by the Treasury and, in particular, to:

- observe all relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards, as set out in the Government Financial Reporting Manual, have been followed, and disclose and explain any material departures in the accounts, and
- prepare the financial statement on a going concern basis.

The relevant responsibilities of the Accounting Officer (including his responsibility for the propriety and regularity of public finances for which an Accounting Officer is answerable, for the keeping of proper records and for safeguarding ORR's assets) are set out in the Accounting Officer's Memorandum, issued by the Treasury and published in Government Accounting.

Statement on Internal Control

Scope of responsibility

As Accounting Officer for the Office of Rail Regulation (ORR), I have responsibility for maintaining a sound system of internal control that supports:

- the obligations laid down in, or arising from, the Railways Act 1993 as amended by the Transport Act 2000, the Railways and Transport Safety Act 2003 and the Railways Act 2005;
- the concurrent powers held with the Office of Fair Trading to investigate competition cases under the Competition Act 1998, as amended, and with the Enterprise Act 2002;
- the achievement of ORR's departmental policies, aims and objectives; whilst,
- safeguarding ORR's public funds and departmental assets for which I am personally responsible in accordance with the responsibilities assigned to me in Government Accounting.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in ORR for the year ended 31 March 2007 and up to the date of the approval of the annual reports and accounts, and accords with Treasury guidance.

Capacity to handle risk

The Business Planning and Corporate Governance team in the Corporate Services directorate has lead responsibility for managing and driving forward the risk management process and for ensuring that risk management is effectively implemented and embedded in ORR's management and business planning processes. The team has put forward formal papers to the ORR Board and the Audit Committee and has facilitated discussions on risk at directorate level.

The ORR Board reviewed risk in November 2006. The Audit Committee continued to scrutinise the risk management framework and took formal papers on risk management at each of its quarterly meetings (June, September and December 2006, and March 2007).

The assessment of risks and the identification of appropriate controls forms a key part of the business planning process. Each Directorate is required to consider these aspects and include them in the working level planning documentation.

The risk and control framework

ORR's Risk Management Strategy sets out the key features of the risk management framework and provides guidance for staff on their role in the process. The Risk Management Strategy was kept under review during the reporting year and further refined to ensure that it remained consistent with the developing policies and procedures.

The risk management framework has been further developed over the course of the reporting year and ORR now has in place a three-tier risk management structure comprising:

- a strategic risk register
- an operational level risk register; and
- directorate risk registers.

All the risk registers are available to staff on ORR's intranet.

The *strategic risk register* is a concise statement of the key strategic risks facing ORR. It identifies risk owners and control actions along with progress and next steps on these. The strategic risk register is reviewed every month at the Directors Group meeting and any significant changes to the risk profile are brought to the attention of the Board at its next meeting through the chief executive's report. In addition to this monthly review process, the strategic risk register is formally submitted to Board for consideration twice a year.

The key strategic risks include the occurrence of a major rail incident and shortcomings in ORR's response, as well as more general deterioration in the industry's safety standards and performance. Failure to deliver the Periodic Review 2008 is also covered.

The *operational level risk register* remains the principal organisational risk management tool. It marshals the risks facing ORR into four categories:

- External Policy Risks
- Industry Risks
- Organisational Risks
- Delivery Risks

It is reviewed and updated once a month at the Directors Group meeting alongside the strategic risk register.

There are more than 20 operational level risks covered in the operational level risk register. These include: divergent EU legislation or rulings, industry safety and performance failure, failings in terms of human and other resource planning, business continuity failure and deficiencies in information received from industry parties.

The *directorate risk registers* were introduced during the year and now form the principal focus for risk management at working level. Each directorate is required to maintain a directorate risk register and to review this regularly as part of its routine management processes. To keep the paperwork to a manageable level, the directorate risk registers themselves are not formally submitted to Directors Group, but they do inform the review of the operational level risk register and the strategic risk register at the meeting once a month (see above). In addition, the directorate risk registers are submitted periodically to the Audit Committee and the relevant director or deputy director is required to attend the meeting to account for the effectiveness of the directorate review processes.

A number of changes have also been made to the format of the risk registers:

- risk is now assessed at baseline, target, and current levels, with the baseline being the assessment of the level of risk at the beginning of the financial year rather than before the implementation of any controls. This makes for a more dynamic review process with the current level becoming the new baseline at the beginning of each financial year;

- a changes log has been introduced allowing the reader to track the updates and amendments made;
- a date for the attainment of the target risk level is stated where this is appropriate.

The strategic risk register and the operational level risk register now share a common format and directors are being encouraged to adopt this same format for the directorate risk registers.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place. Executive Directors have provided a statement of assurance for their areas of responsibility at the end of the 2006-07 financial year.

Some of the key features of the system are as follows:

- monthly Board and weekly directors' meetings to review strategic plans and to manage policy, resource and operational requirements;
- regular Audit Committee meetings, which include an independent member as well as internal and external auditors. These meetings provided informed advice on the adequacy of internal controls, corporate governance; risk management and audit arrangements;
- independent internal audit, provided by the Audit and Risk Assurance Division of the Department for Transport, which operates to criteria defined in Government Internal Audit Standards and reports to, and agrees forward plans with the audit committee;
- a team within Corporate Services Directorate dedicated to the development and implementation of corporate governance within ORR;
- a Budget Manager Training Manual, Procurement Manual and a Financial Procedures Manual;
- comprehensive budgeting systems with an annual budget which is reviewed and agreed by the Board, and with regular monthly and annual accounts with actual performance compared to budget;
- a scheduled monthly session at Directors Group to monitor and review a range of financial matters, including performance against forecast budget and any procurement issues;
- consultations with industry stakeholders on the contents of the Corporate Strategy and draft budget and licence fees/safety levy; and
- individual accountability plans for each staff member which align with the ORR's Business Plan objectives through each directorate and ensure that its affairs are conducted with efficiency, economy and effectiveness.

The detailed internal control arrangements within ORR are kept under review by its Audit Committee and Board, as appropriate.

Furthermore, at least annually, the Audit and Risk Assurance Division of the Department for Transport provides me with a report on internal audit activity for ORR. This independent report has given substantial assurance on the adequacy and effectiveness of ORR's system of internal controls.

Bill Emery
Accounting Officer
21 June 2007

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Office of Rail Regulation for the year ended 31 March 2007 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises the Introduction and Management Commentary, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Department's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Department's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2007, and the net cash requirement, net resource outturn, net operating cost, operating costs applied to objectives, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information given within the Annual Report, which comprises the Introduction and Management Commentary, is consistent with the financial statements.

Audit Opinion on Regularity

In my opinion, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Report

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

28 June 2007

Statement of Parliamentary Supply

Summary of Resource Outturn 2006-07

Request for Resources	Estimate Gross Expenditure	Estimate A in A	Estimate Net Total	Outturn Gross Expenditure	Outturn A in A	Outturn Net Total	2006-07 Net Total outturn compared with Estimate: saving/(excess)	2005-06 Outturn as restated Net Total
	£000	£000	£000	£000	£000	£000	£000	£000
To create a better railway for passengers and freight, and better value for public funding authorities, through independent, fair and effective regulation (Note 2)	32,704	(32,702)	2	29,181	(29,179)	2	–	7,199
Rail Safety Transition (Note 2)	–	–	–	–	–	–	–	1,841
Total resources (Note 3)	**32,704**	**(32,702)**	**2**	**29,181**	**(29,179)**	**2**	**–**	**9,040**
Non-operating cost A in A	–	–	–	–	–	–	–	–

Net cash requirement 2006-07

	Note	Estimate	Outturn	2006-07 £000 Net total outturn compared with estimate: saving/(excess)	2005-06 £000 Outturn
Net cash requirement	4	69	0	69	6,097

Summary of income payable to the Consolidated Fund.

(In addition to appropriations in aid, the following income relates to the Department and is payable to the Consolidated Fund (cash receipts being shown in italics)).

	Note	Forecast 2006-07 £000 Income	Forecast 2006-07 £000 Receipts	Outturn 2006-07 £000 Income	Outturn 2006-07 £000 Receipts
Total	5	–	–	2,478	*2,478*

The notes on pages 26 to 41 form part of these accounts

Operating Cost Statement
for the year ended 31 March 2007

	Note	Staff Costs	Other Costs	2006-07 Income	2005-06
		£000	£000	£000	£000
Administration Costs:					as restated
Staff Costs	7	19,127	–	–	17,068
Other administration costs	8	–	10,054	–	10,761
Operating income	9	–	–	(29,179)	(18,789)
Totals		19,127	10,054	(29,179)	9,040
Net Operating Cost	3			**2**	**9,040**

Statement of Recognised Gains and Losses
for the year ended 31 March 2007

	2006-07	2005-06
	£000	£000
		as restated
Net Operating Cost	2	9,040
Net gain on revaluation of tangible fixed assets	(112)	(171)
Actuarial loss/(gain) on by-analogy pension scheme	68	(1)
Overnight change in pension liability	–	27
Recognised gains and losses for the financial year	**(42)**	**8,895**

The notes on pages 26 to 41 form part of these accounts

Balance Sheet
as at 31 March 2007

	Note	2007 £000	2007 £000	2006 £000	2006 £000
Fixed assets:				as restated	
Tangible assets	10	4,073		4,241	
Intangible assets	11	253		110	
			4,326		**4,351**
Current assets:					
Debtors	12	757		2,312	
Cash at bank and in hand	13	478		5,333	
		1,235		7,645	
Creditors (amounts falling due within one year)	14	(6,661)		(12,575)	
Net current liabilities			**(5,426)**		**(4,930)**
Total assets less current liabilities			**(1,100)**		**(579)**
Provisions for liabilities and charges	15		(468)		(730)
Total net liabilities before pension provision			**(1,568)**		**(1,309)**
Pension liabilities	15		(370)		(265)
Total net liabilities			**(1,938)**		**(1,574)**
Taxpayers' equity:					
General fund	16		(2,225)		(1,758)
Revaluation reserve	17		287		184
			(1,938)		**(1,574)**

Bill Emery
Accounting Officer
21 June 2007

The notes on pages 26 to 41 form part of these accounts

Cash Flow Statement
for year ended 31 March 2007

	Note	2006-07 £000	2005-06 £000 as restated
Net cash inflow from operating activities	18a	2,153	2,068
Capital expenditure and financial investment	18b	(1,675)	(2,832)
Payments of amounts due to the Consolidated Fund	18e	(5,333)	(1,930)
Financing	18d	–	6,097
(Decrease)/Increase in cash in the period	18e	**(4,855)**	**3,403**

The notes on pages 26 to 41 form part of these accounts

Statement of Operating Costs by Departmental Aim and Objectives
for the year ended 31 March 2007

	2006-07			2005-06		
	£000	£000	£000	£000	£000	£000
	Gross	Income	Net	Gross	as restated Income	Net
Aim: ORR applies 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						
Objectives:						
Improving Health and Safety Performance	11,601	(11,600)	1	13,283	(6,085)	7,198
Securing improved efficiency and performance	2,775	(2,775)	–	2,806	(2,806)	–
Securing robust plans for 2009 and beyond	2,463	(2,463)	–	2,570	(2,570)	–
Improving and aligning relationships and incentives in the industry	2,811	(2,811)	–	3,831	(3,831)	–
Governance, organisation and resourcing	9,531	(9,530)	1	5,339	(3,497)	1,842
Net operating costs	**29,181**	**(29,179)**	**2**	**27,829**	**(18,789)**	**9,040**

An explanation of the methodology for allocating costs to objectives is given in note 1.16 and note 19.

The notes on pages 26 to 41 form part of these accounts

Notes to the departmental resource accounts

1. Statement of accounting policies

The accounts have been prepared in accordance with the 2006-07 Government Financial Reporting Manual (*FreM*) issued by HM Treasury. The accounting policies contained in the *FReM* follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

In addition to the primary statements prepared under UK GAAP, the *FReM* also requires the Department to prepare two additional primary statements. The *Statement of Parliamentary Supply* and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement. The *Statement of Operating Cost by Departmental Aim and Objectives* and supporting notes analyse the Department's income and expenditure by the objectives agreed by its Board in consultation with licence fee payers.

Where the *FReM* permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Department for the purpose of giving a true and fair view has been selected. The Department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their value to the business by reference to their current costs.

1.2 Tangible Fixed Assets

These comprise fitting out costs; furniture, office and telecommunications equipments and computers.

Tangible fixed assets are stated at current cost using appropriate indices provided by the Office of National Statistics.

During the year, the Directors reviewed the accounting policy in respect of fixed assets and concluded that the capitalisation threshold be increased from £500 to £5,000.

1.3 Depreciation

Depreciation is provided at rates calculated to write-off the valuation of tangible fixed assets by equal instalments over their estimated useful lives. Lives are normally in the following ranges:

Fitting out costs	up to 15 years (limited to period of remaining lease)
Furniture, Office & Telecom Equipment	5 – 10 years
Information Technology & Purchased software licences	3 – 5 years
Motor vehicles	3 years

1.4 Intangible fixed assets

Purchased computer software licences are capitalised as intangible fixed assets where expenditure of £5,000 or more is incurred. This threshold was increased during the year from £500. Software licences are amortised over the shorter of the term of the licence and the useful economic life. The useful economic life for software is normally 3 years. Intangible fixed assets are stated at current cost using appropriate indices provided by the Office of National Statistics.

1.5 Operating income

Operating income is income which relates directly to ORR's operating activities. It comprises licence fees, safety levies and safety related income. It includes not only income appropriated-in-aid of the Estimate but also income payable to the Consolidated Fund, which in accordance with *FReM* is treated as operating income. The operating income is stated net of VAT.

Since all costs are recovered via the licence fees or safety levy and these are invoiced based on estimated costs, any over recovery is treated as deferred income within Creditors, and any under recovery is treated as accrued income within Debtors.

1.6 Administration expenditure

In the Operating Cost Statement administration costs reflect the costs of running ORR. These include both administration costs and associated operating income. Income is analysed in the notes between that which, under the administrative cost-control regime, is allowed to be offset against gross administration costs in determining the outturn against the administration cost limit, and that operating income which is not.

1.7 Capital charge

A charge, reflecting the cost of capital utilised by ORR, is included in operating costs. The charge is calculated at the real rate set by HM Treasury (currently 3.5 per cent) on the average carrying amount of all assets less liabilities, except for:

a cash balances with the Office of the Paymaster General, where the charge is nil;

b liabilities for amounts to be surrendered to the Consolidated Fund, where the credit is nil.

1.8 Foreign exchange

Transactions which are denominated in a foreign currency are translated into sterling at the rate of exchange ruling on the date of each transaction, except where rates do not fluctuate significantly, in which case an average rate for a period is used.

1.9 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' benefits. ORR recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, ORR recognises the contributions payable for the year.

In addition, eight present employees are covered by the provisions of the Railways Pension Scheme (RPS) which is contributory and funded. The scheme is a defined benefit scheme with the obligations met by the trustees. The amount paid in respect of these pensions is shown under staff costs in the Operating Cost Statement.

Past Rail Regulators and the current Chairman have separate pension arrangements that are broadly analogous with the PCSPS. Like the PCSPS, the pension arrangements are defined benefits and unfunded schemes. A provision to meet ORR's liability for future payment is included in these accounts. The provision is based on actuarial valuations carried out by the Government Actuary's Department. The amounts paid and provided under these pension arrangements are included in the Operating Cost Statement and shown in Note 15.

1.10 Operating Leases

Rentals due under operating leases are charged to the Operating Cost Statement over the lease term on a straight-line basis, or on the basis of actual rentals payable which fairly reflects the usage. Future payments, disclosed at Note 21, "Commitments under leases", are not discounted.

1.11 Provisions

ORR provides for legal or constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the real rate set by HM Treasury (currently 2.2 per cent). The provisions for past Rail Regulators' pension commitments have also been assessed using a discount rate of 2.8 per cent.

1.12 Value Added Tax (VAT)

Most of ORR's activities are outside the scope of VAT and in general output tax does not apply and input tax on some purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

1.13 Comparative amounts

Comparative amounts are restated where necessary to conform to current presentation. On 1 April 2006, ORR took on the responsibility for Rail Safety Policy and HM Railways Inspectorate from the Health and Safety Executive. Prior year figures have been restated to reflect this machinery of government change. Further details of the financial effect of these changes is given in note 26.

1.14 Going Concern

The balance sheet at 31 March 2007 shows a negative Taxpayers Equity of £1.94 million. This reflects the inclusion of liabilities falling due in 2007-08, including the repayment of excess cash to Treasury's Consolidated Fund. Any liabilities in excess of cash receivable in year are financed mainly by drawings from the UK Consolidated Fund. Such drawings are from grants of Supply approved annually by Parliament, to meet ORR's Net Cash Requirement. Under the Government Resources and Accounts Act 2000, no cash may be drawn from the Fund other than required for the service of the specified year nor retained in excess of that needed. All unspent cash, including that derived from ORR's income, is surrenderable to the Fund.

In common with other government departments, the future financing of ORR's liabilities is accordingly to be met by future grants of Supply and the application of future income, both to be approved annually by Parliament. Such approval for amounts required for 2007-08 has already been given. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

1.15 Contingent Liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, the department discloses for parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of Government Accounting.

Where the time value of money is material, contingent liabilities which are required to be disclosed under FRS 12 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by FRS 12 are stated at the amounts reported to Parliament.

1.16 Statement of Operating Costs by Departmental Aim and Objectives

The Statement of Operating Costs by Departmental Aim and Objectives has been prepared from the underlying books and records. Where possible costs have been directly attributed to each objective. Overhead costs have been attributed in proportion to direct costs.

2. Analysis of net resource outturn by function

				Outturn		2006-07 Estimate	2005-06 as restated
	Admin	Gross Resource Expenditure	A in A	Net Total	Net Total	Net Total outturn compared with Estimate	Prior-year outturn
	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1 (RfR 1): To create a better railway for passengers and freight, and better value for public funding authorities, through independent, fair and effective regulation							
A Administration, associated capital other expenditure	12,398	12,398	(12,397)	1	1	–	1
B Rail Safety Regulation	16,783	16,783	(16,782)	1	1	–	7,198
Rail Safety Transition	–	–	–	–	–	–	1,841
Resource Outturn	**29,181**	**29,181**	**(29,179)**	**2**	**2**	**–**	**9,040**

Explanations of variances between Estimate and outturn are given in the Management Commentary.

3. Reconciliation of outturn to net operating cost and against Administration Budget

3(a) Reconciliation of net resource outturn to net operating cost

			2006-07		2005-06 as restated
		Outturn	Supply Estimate	Outturn compared with Estimate	Outturn
	Note	£000	£000	£000	£000
Net Resource Outturn	2	2	2	–	9,040
Net operating cost		2	2	–	9,040

3(b) Outturn against final Administration Budget

	2006-07		2005-06 as restated	
	Budget	Outturn	Budget	Outturn
	£000	£000	£000	£000
Gross Administration Budget	32,704	29,181	19,001	27,829
Income allowable against the Administration Budget	(32,702)	(29,179)	(16,500)	(18,789)
Net outturn against final Administration Budget	**2**	**2**	**2,501**	**9,040**

The variance between 2005-06 budget and outturn arose as a result of the transfer of functions – see note 26 for an analysis of the restated outturn for the year.

4. Reconciliation of resources to cash requirement

	Note	Estimate £000	Outturn £000	Net total outturn compared with estimate: saving/(excess) £000
Resource Outturn	2	2	2	–
Capital				
Acquisition of fixed assets	10, 11	1,250	769	481
Accruals adjustments				
Non-cash items (staff costs)	7	–	(25)	25
Non-cash items (other administration costs)	8	(1,189)	(1,207)	18
Changes in working capital other than cash		–	(605)	605
Use of provision	15	6	588	(582)
Excess cash receipts surrenderable to the Consolidated Fund	5	–	478	(478)
Net cash requirement		**69**	**0**	**69**

5. Analysis of income payable to the Consolidated Fund

In addition to appropriations in aid, the following income relates to the department and is payable to the Consolidated Fund (cash receipts being shown in italics):

	Note	Forecast 2006-07 Income £000	Forecast 2006-07 Receipts £000	Outturn 2006-07 Income £000	Outturn 2006-07 Receipts £000
Excess cash surrenderable to the Consolidated Fund	13	–	–	478	*478*
Other amounts collectable on behalf of the Consolidated Fund	12, 18f	–	–	2,000	*2,000*
Total income paid and payable to the Consolidated Fund		–	**–**	**2,478**	***2,478***

Other amounts collectable on behalf of the Consolidated Fund comprises fines received or receivable on behalf of, and paid or payable to, the Consolidated Fund.

6. Reconciliation of income recorded within the Operating Cost Statement to operating income payable to the Consolidated Fund

	Note	2006-07 £000	2005-06 £000 as restated
Operating income	9	29,179	18,789
Income authorised to be appropriated-in-aid		29,179	18,789
Operating income payable to the Consolidated Fund		–	–

7. Staff numbers and related costs

Staff costs comprise:

	2006-07			2005-06
	Total	Permanently employed staff	Others	Total
	£000	£000	£000	£000
				as restated
Wages and salaries	**14,981**	14,193	788	13,403
Social security costs	**1,274**	1,274	–	1,162
Other pension costs	**2,847**	2,847	–	2,523
Sub Total	**19,102**	18,314	788	17,088
Less recoveries in respect of outward secondments	–	–	–	(52)
Total	**19,102**	18,314	788	17,036
Non cash items: By analogy pension current service costs	**25**	25	–	32
Total net costs*	**19,127**	**18,339**	**788**	17,068

*of the total no charge has been made to capital

Included in the figure for other pension costs are employers' contributions of £2,712,860 payable to the Principal Civil Service Pension Scheme PCSPS (2005-06: £2,355,404) at one of four rates in the range 16.2 to 24.6 per cent (2005-06: 16.2 to 24.6 per cent) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The salary bands and contribution rates were revised for 2005-06 and will remain unchanged until 2008-09. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

The (PCSPS) is an unfunded multi-employer defined benefit scheme and ORR is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

The Railway Pension Scheme (RPS) is a funded multi-employer defined benefit scheme administered by Railway Pensions Management Limited. Details of the RPS pensions statements can be found in the Annual Report and Accounts of the RPS at (www.railwaypensions.co.uk). Employer contributions of £130,094 were paid to the trustees of the RPS in 2006-07 at a rate of 2.2825 times the individual member's contributions, on the basis of actuarial valuations (2005-06: £160,515). ORR matches some of the BRASS2 contributions (an AVC scheme) made by the members. In 2006-07, matching contributions of £4,506 were made (2005-06: £2,300).

Notional contributions of £25,000 as advised by the Government Actuary have been charged to the Operating Cost Statement in 2006-07 in respect of the accrued pension costs for the current Chairman and past Rail Regulators (2005-06: £32,000). The liability at 31 March 2007 is estimated at £370,000 (31 March 2006: £265,000).

Average number of persons employed

The average number of whole-time equivalent persons employed during the year was as follows.

Objective	2006-07 Total	Permanent staff	Others	2005-06 Total
	Number	Number	Number	Number
				as restated
Improving Health and Safety Performance	**179**	170	9	**156**
Securing improved efficiency and performance	**23**	17	6	**31**
Securing robust plans for 2009 and beyond	**25**	25	–	**16**
Improving and aligning relationships and incentives in the industry	**54**	54	–	**37**
Governance, organisation and resourcing	**98**	74	24	**58**
Total	**379**	**340**	**39**	**298**

8. Other Administration Costs

	2006-07	2005-06
	£000	£000
		as restated
Rentals under operating leases		
Hire of Office Equipment	56	36
Other Operating Leases	1,070	1,607
	1,126	**1,643**
Non-cash items		
Depreciation	657	385
Amortisation	61	22
Cost of Capital Credits	(81)	(90)
Interest charges in respect of by-analogy pension scheme	15	13
Diminution in value of fixed assets	194	240
Impairment of fixed assets	–	425
Auditors' remuneration and expenses*	35	32
	881	**1,027**
Provisions:		
Provision for redundancy costs	318	–
Provision for dilapidations and other leasehold liabilities	–	138
Release of provision for accommodation costs	(7)	–
Provision for tax on benefits in kind	15	8
	326	**146**
Other		
Travel and subsistence	1,093	1,162
Hospitality	41	10
Consultancies	2,184	2,379
IT and Telecommunications	1,061	247
Landlord service charges and rates	554	629
Printing and stationery	412	178
Recruitment and training	544	365
Other	1,832	2,975
	7,721	**7,945**
	10,054	**10,761**

*There was no auditor remuneration for non-audit work

9. Income

		Note	2006-07 £000	2005-06 £000 as restated
Licence fees	**RfR1**		13,828	15,012
Less: Deferred income	**RfR1**	14a	(1,431)	(2,134)
Safety Levy and related safety income	**RfR1**		18,460	–
Less: Deferred income	**RfR1**	14a	(1,898)	–
HSE Fees and charges	**RfR1**		-	5,643
Miscellaneous income	**RfR1**		220	268
			29,179	**18,789**

Fines received or receivable on behalf of the Consolidated Fund are not recognised as income of ORR.

10. Tangible fixed assets

	Fitting out costs	Furniture, Office Equipment and Telecoms	Information Technology	Information Technology assets under construction	Motor Vehicles	Total
	£000	£000	£000	£000	£000	£000
Cost or valuation						
At 1 April 2006, as restated	3,696	1,281	1,557	–	42	6,576
Additions	79	69	80	301	18	547
Adjustment in respect of change in capitalisation threshold and write off of assets	(917)	(554)	(301)	–	–	(1,772)
Revaluations	25	–	(76)	–	–	(51)
At 31 March 2007	**2,883**	**796**	**1,260**	**301**	**60**	**5,300**
Depreciation						
At 1 April 2006, as restated	1,039	684	612	–	–	2,335
Charged in year	123	126	389	–	19	657
Adjustment in respect of change in capitalisation threshold and write off of assets	(938)	(567)	(182)	–	–	(1,687)
Revaluations	9	1	(88)	–	–	(78)
At 31 March 2007	**233**	**244**	**731**	**–**	**19**	**1,227**
Net book value at 31 March 2007	**2,650**	**552**	**529**	**301**	**41**	**4,073**
Net book value at 31 March 2006, as restated	**2,657**	**597**	**945**	**–**	**42**	**4,241**

11. Intangible fixed assets

Intangible fixed assets comprise software licences

	2006-07
	£000
Cost or valuation	
At 1 April 2006	355
Additions	222
Adjustment in respect of change in capitalisation threshold	(13)
Revaluation	(16)
At 31 March 2007	**548**
Amortisation	
At 1 April 2006	245
Charged in year	61
Adjustment in respect of change in capitalisation threshold	(2)
Revaluation	(9)
At 31 March 2007	**295**
Net book value at 31 March 2007	**253**
Net book value at 31 March 2006	**110**

12. Debtors

12(a) Analysis by type

	2006-07	2005-06
	£000	£000
		as restated
Amounts falling due within one year:		
Trade debtors	308	30
Other debtors	–	69
Staff Debtors	106	106
Prepayments and accrued income	178	2,011
HM Revenue and Customs (VAT)	147	81
Payroll deposit account	18	15
Total debtors at 31 March	**757**	**2,312**

Included in staff debtors are season ticket loans for 90 employees totalling £78,561 (2005-06: £85,246 for 89 employees) and £24,508 relating to other advances made to 53 employees (2005-06: £15,150 for 53 employees).

12(b) Intra-Government Balances

	Amounts falling due within one year	
	2006-07	2005-06
	£000	£000
		as restated
Balances with other central government bodies	168	96
Balances with bodies external to government	589	2,216
Total debtors at 31 March	**757**	**2,312**

13. Cash at bank and in hand

	2006-07	2005-06
	£000	£000
Balance at 1 April	5,333	1,930
Net change in cash balances	(4,855)	3,403
Balance at 31 March	**478**	**5,333**
The following balances at 31 March were held at:		
Office of HM Paymaster General	433	5,266
Commercial banks and cash in hand	45	67
Balance at 31 March	**478**	**5,333**
The balance at 31 March comprises excess cash surrenderable to the Consolidated Fund	**478**	**5,333**

14. Creditors

14(a) Analysis by type

	2006-07		2005-06	
	£000	£000	£000	£000
				as restated
Amounts falling due within one year				
Trade creditors		4		1,010
Other creditors		–		9
Accruals		2,844		2,642
Deferred income – current year	3,329		2,134	
Deferred income – prior year	6		1,447	
		3,335		3,581
Excess cash surrenderable to the Consolidated Fund				
Received		478		5,333
Total creditors at 31 March		**6,661**		**12,575**

14(b) Intra-Government Balances

	Amounts falling due within one year	
	2006-07	2005-06
	£000	£000
		as restated
Balances with other central government bodies	478	5,765
Balances with bodies external to government	6,183	6,810
Total creditors at 31 March	**6,661**	**12,575**

15. Provisions for liabilities and charges

	Early retirement	Accommodation	Taxable benefits in kind	Total
	£000	£000	£000	£000
Balance at 1 April 2006	209	513	8	730
Provided in the year	318	–	15	333
Provisions not required written back	–	(7)	–	(7)
Provisions utilised in the year	(82)	(506)	–	(588)
Balance at 31 March 2007	**445**	**–**	**23**	**468**

The accommodation provision was established in order to satisfy the obligation to return our previous offices to their original "shell" condition. This work was completed during 2006-07.

Details for by-analogy defined benefit pension schemes

	As at 31 March 2007	As at 31 March 2006
Class	£000	£000
Actives	102	51
Deferreds	145	108
Pensioners	123	106
Total Present Value of the Scheme Liabilities	**370**	**265**

	2006-07	2005-06
Liability calculation	£000	£000
Present value of scheme at 1 April	265	196
Current service cost (net of employee contribution)	25	32
Employee contribution	4	4
Interest costs	15	13
Actuarial losses/(gains)	68	(1)
Overnight increase in liabilities	–	27
Less: benefits paid	(7)	(6)
Balance at 31 March	**370**	**265**

Former Rail Regulators and the current Chairman benefit from a defined benefit pension scheme by-analogy with the PCSPS. An actuarial valuation was carried out on the scheme by the Government Actuary's Department (GAD) at 31 March 2005. In 2006-07 ORR contributed £25,000 in respect of the active member, and £15,000 in respect of interest costs. GAD have advised that ORR's cost for 2006-07 should be estimated at 20.7% of gross salary of the active member.

The pension provision is unfunded, with benefits being paid as they fall due and guaranteed by the employer. There is no fund, and therefore no surplus or deficit.

	As at 31 March 2007	As at 31 March 2006
Relevant financial assumptions made by the actuary are as follows:	% per annum	% per annum
Inflation	2.75%	2.5%
Rate of increase in salaries	4.30%	4.0%
Rate of increase for pensions in payment and deferred pensions	2.75%	2.5%
Rate used to discount scheme liabilities	4.60%	5.4%

On 1 April 2005 the discount rate for pension scheme liabilities changed from 3.5 per cent to 2.8 per cent per annum leading to an overnight increase in the pension liability of £27,000.

16. General Fund

The General Fund represents the total assets less liabilities of each of the entities within the accounting boundary, to the extent that the total is not represented by other reserves and financing items.

	2006-07	2005-06
	£000	£000
		as restated
Balance at 1 April	(1,758)	(1,934)
Net Parliamentary Funding		
Drawn Down	–	6,097
Machinery of Government General Fund transfer – see note 26	118	8,527
Net Transfer from Operating Activities		
Net Operating Cost	(2)	(9,040)
Excess cash surrenderable to the Consolidated Fund	(478)	(5,333)
Non Cash Charges		
Cost of Capital Credit	(81)	(90)
Auditors' remuneration	35	32
Transfer from Revaluation Reserve	9	9
(Loss)/Gain relating to pension liabilities	(68)	1
Overnight increase in pension liabilities	–	(27)
Balance at 31 March	**(2,225)**	**(1,758)**

17. Revaluation Reserve

The revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments (excluding donated assets).

	2006-07	2005-06
	£000	£000
Balance at 1 April	184	23
Arising on revaluation during the year (net)	25	202
Transferred to General Fund in respect of realised element of the revaluation reserve	(9)	(9)
Additional depreciation charged on revaluation of assets	87	(32)
Balance at 31 March	**287**	**184**

18. Notes to the Cash Flow Statement

18(a) Reconciliation of operating cost to operating cash flows

	Note	2006-07 £000	2005-06 £000 as restated
Net operating cost	3	2	9,040
Adjustments for non-cash transactions	7,8	(1,232)	(1,205)
Decrease in Debtors		(1,555)	1,573
Decrease/(Increase) in Creditors		44	(3,303)
Use of provisions	15	588	312
Adjustments relating to transfer of functions			
Net operating costs	26	–	(7,198)
Debtors	26	–	(1,868)
Creditors	26	–	581
Net cash outflow from operating activities		**(2,153)**	**(2,068)**

18(b) Analysis of capital expenditure and financial investment

	Note	2006-07 £000	2005-06 £000 as restated
Tangible fixed asset additions		1,523	2,742
Intangible fixed asset additions		152	132
Adjustments relating to transfer of functions Fixed Assets	26	–	(42)
Net cash outflow from investing activities		**1,675**	**2,832**

18(c) Analysis of capital expenditure and financial investment by Request for Resources

All capital expenditure and financial investment relate to Request for Resources 1.

18(d) Analysis of financing

	Note	2006-07 £000	2005-06 £000 as restated
From the Consolidated Fund (Supply) – current year	16	–	6,097
Advances from the Contingencies Fund		10,000	8,000
Repayments to the Contingencies Fund		(10,000)	(8,000)
Net financing		**–**	**6,097**

18(e) Reconciliation of Net Cash Requirement to increase in cash

	Note	2006-07 £000	2005-06 £000 as restated
Net cash requirement	4	–	(6,097)
From the Consolidated Fund (Supply) – current year	18(d)	–	6,097
Amounts due to the Consolidated Fund – received in a prior year and paid over		(5,333)	(1,930)
Amounts due to the Consolidated Fund received and not paid over		478	5,333
(Decrease)/Increase in cash		**(4,855)**	**3,403**

18(f) Receipts outside the scope of the Department's activities

£2 million was received from EWS in respect of fines levied by the department. This was paid over to the Consolidated Fund during in the year.

19. Notes to the Statement of Operating Costs by Departmental Aim and Objectives

Programme grants and other current expenditures have been allocated as follows:

	2006-07	2005-06
	£000	£000
		as restated
Improving Health and Safety Performance	11,601	13,283
Securing improved efficiency and performance	2,775	2,806
Securing robust plans for 2009 and beyond	2,463	2,570
Improving and aligning relationships and incentives in the industry	2,811	3,831
Governance, organisation and resourcing	9,531	5,339
Total	**29,181**	**27,829**

ORR's objectives were revised for 2006-07 to reflect the changes described in the management commentary and prior year figures have been restated accordingly. Expenditure has been allocated in proportion to the number of staff working on each objective.

ORR's capital is employed exclusively for administrative purposes.

20. Capital commitments

On 28 March 2007, ORR entered into a contract in respect of the provision of a new Human Resources system. The capital value of this contract is £88,590. No provision has been made (31 March 2006:nil).

21. Commitments under leases

21.1 Operating leases

Commitments under operating leases to pay rentals during the year following the year of these accounts are given in the table below, analysed according to the period in which the lease expires.

	2006-07	2005-06
	£000	£000
Obligations under operating leases comprise:		
Land and buildings:		
Expiry within 1 year	–	177
Expiry after 1 year but not more than 5 years	–	–
Expiry thereafter	904	749
	904	**926**
Other:		
Expiry within one year	–	7
Expiry after 1 year but not more than 5 years	43	39
Expiry thereafter	–	–
	43	**46**

22. Other financial commitments

The department had not entered into any other non-cancellable contracts (which are not operating leases) for any new capital expenditure as at 31 March 2007 (31 March 2006:nil).

23. Financial Instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and its licence fee financing structure, ORR is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. ORR has no powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the department in undertaking its activities.

As permitted by FRS 13, debtors and creditors which mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

Liquidity risk

ORR's net revenue resource requirements are financed by resources voted annually by Parliament, as is its capital expenditure. ORR is not therefore exposed to significant liquidity risks.

Interest rates and foreign currency risks

ORR is not exposed to any significant interest rate or foreign currency risks.

Fair values

There is no material difference between the book values and fair values of ORR's financial assets and liabilities as at 31 March 2006.

24. Contingent liabilities disclosed under FRS 12

There were no reportable contingent liabilities at 31 March 2007 (31 March 2006:nil).

25. Related Party Transactions

There have been a number of transactions with other government departments and other central government bodies. Most of these transactions have been with the Department for Transport and relate to the provision of payroll services and charges for internal audit services.

Additionally during the year, £137,100 (2005-06: £93,814) of income was received from the Office of the Public Private Partnership Arbiter in respect of services provided by ORR. A balance of £2,903 (2006: £3,330) was outstanding at year end. The Office of the PPP Arbiter is a related party as Chris Bolt, ORR's Chairman, holds the position of PPP Arbiter.

No other board members, key managerial staff or other related parties have undertaken any material transactions with ORR during the year.

26. Transfer of Functions

On 1 April 2006, ORR took on the rail safety functions which previously fell to HSE Rail. Accordingly the prior year comparatives have been restated, where necessary, to reflect this machinery of government change. The financial effect of the change is shown in the table below.

	As per 2005-06 resource accounts	Machinery of government change	2005-06
	£000	£000	£000
Administration Costs			as restated
Staff costs	7,909	9,159	17,068
Other administration costs	6,859	3,902	10,761
Operating income	(12,926)	(5,863)	(18,789)
Net Operating Costs	**1,842**	**7,198**	**9,040**
Fixed assets			
Tangible assets	4,199	42	4,241
Intangible assets	110	–	110
	4,309	**42**	**4,351**
Current assets			
Debtors	444	1,868	2,312
Cash at bank and in hand	5,333	–	5,333
	5,777	**1,868**	**7,645**
Creditors (amounts falling due within one year)	(11,994)	(581)	(12,575)
Net current liabilities	**(6,217)**	**1,287**	**(4,930)**
Total assets less current liabilities	**(1,908)**	**1,329**	**(579)**
Provisions for liabilities and charges	(730)	-	(730)
Total net liabilities before pension provision	**(2,638)**	**1,329**	**(1,309)**
Pension liabilities	(265)	-	(265)
Total net liabilities	**(2,903)**	**1,329**	**(1,574)**
Taxpayers' equity:			
General fund – balance brought forward	(3,087)	–	(3,087)
Net Operating Costs	–	(7,198)	(7,198)
Machinery of Government General Fund transfer	–	8,527	8,527
	(3,087)	1,329	(1,758)
Revaluation Reserve	184	–	184
	(2,903)	**1,329**	**(1,574)**

27. Post Balance Sheet Events

There were no reportable post balance sheet events between the balance sheet date and 3 July 2007, the date when the Accounting Officer despatched the accounts to HM Treasury. The financial statements do not reflect events after this date.

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