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

Office of Rail Regulation

Resource Accounts 2004–05

LONDON: The Stationery Office
HC 284

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Contents

Annual Report on the Accounts

Introduction

The Office of Rail Regulation came into being on the 5 July 2004, with the newly appointed Regulatory Board assuming all the powers and statutory functions of the Rail Regulator.

These accounts cover the operation of the Office of the Rail Regulator and the Office of Rail Regulation (ORR) for the period 1 April 2004 to 31 March 2005. They have been prepared on an accrual basis in accordance with the Government Resources and Accounts Act 2000 and HM Treasury's Resource Accounting Manual.

ORR's aims and objectives

The aim of ORR is as follows:

> *Through independent, fair and effective regulation to create and maintain the incentives and conditions necessary to achieve the continuous improvement of a safe, well-maintained and efficient railway which meets the needs of its users, and facilitate investment in capacity to satisfy the demands of growth in passenger and freight traffic at the time it is needed.*

The following three main objectives listed in Schedule 5 of these accounts support this aim:

- To ensure the monopoly infrastructure provider's effective and efficient stewardship of the national rail network;

- To ensure the fair and efficient consumption of rail capacity, and promote effective and efficient relationships between players in the rail industry;

- To promote competitive markets for the benefit of users of the railway and to prevent anti-competitive agreements and practices in the rail industry.

The aim and objectives were reviewed during the reporting year following the establishment of the Regulatory Board and ORR's Corporate Strategy and Business Plan 2005-08 and were revised and refocused.

Nature of ORR's functions

The Office of the Rail Regulator was established by the Railways Act 1993 and was a non-ministerial government department, funded through licence fees, whose staff supported the Rail Regulator in fulfilling his duties. It worked closely with the Strategic Rail Authority, the Health and Safety Executive and the Rail Safety and Standards Board.

The Rail Regulator was an independent appointee who held a range of statutory functions and powers to regulate the stewardship of the national rail network, investment in the rail industry, and other key aspects of rail service provision. His duties included the protection of the interests of users of railway services, the promotion of efficiency and economy, and the promotion of competition for the benefit of users of railway services.

In addition to the powers conferred by the Railways Act 1993, as amended by the Transport Act 2000, the Rail Regulator had concurrent powers with the Office of Fair Trading to investigate competition cases under the Competition Act 1998, as amended, and the Enterprise Act 2002. The Rail Regulator concurrently held the position of International Rail Regulator (IRR) and acted as the licensing authority for domestic and international rail services in Great Britain.

On the 5 July 2004 the Railways and Transport Safety Act 2003 established the Office of Rail Regulation to replace the Office of the Rail Regulator. The Office of Rail Regulation currently consists of a chairman and four non-executive directors, all appointed by the Secretary of State. The Secretary of State also appointed Chris Bolt, the Chairman of the Office of Rail Regulation, to the position of International Rail Regulator.

Accounting Boundary

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

OPERATING AND FINANCIAL REVIEW

Review of ORR's Activities

The ORR Annual Report 2004-05, which was published in June 2005, contains a full breakdown of the Office's outputs and its achievement against its objectives.

Principal among the activities were:

- a continuing contribution to the policy discussions on the Government's rail review and subsequently to the plans for implementation of the proposals in *The Future of Rail* White Paper;
- the introduction of Local Output Commitments (LOCs) to improve Network Rail's local accountability to its customers;
- consultation on and introduction of the first stage of the reform of the Network Code;
- the publication of final conclusions on the reform of the railway industry's dispute resolution regime;
- a decision to approve open access rights to allow Hull Trains to operate an extra service a day in each direction between Hull and London King's Cross;
- the publication of final policy conclusions on the Stations Code;
- the publication of a guide to the model passenger track access contract describing the key provisions in simple terms;
- consultation on reviews of Network Rail's costs and charges and future signalling expenditure and the Schedule 8 performance regime;
- the publication of the findings of a review of the role of the Rail Safety and Standards Board;
- the publication of the first Network Rail Monitor, a new quarterly balanced scorecard on Network Rail's performance as owner and operator of the national rail network against a range of operational and financial measures;
- the publication of guidance for rail operators applying for licence exemptions.

Future Developments

A central focus for 2005-06 will be to build on the preparatory work undertaken in 2004-05 to ensure the effective transfer to ORR of the new functions set out in the Railways Act 2005. The Act provides *inter alia* for ORR to take on the rail safety functions currently falling to HSE Rail and the intention is that the move to a combined economic and safety regulator will streamline the regulatory system, reduce bureaucracy and ensure that important issues of safety performance and cost are considered as a whole and not in isolation from one another.

Financial Commentary

The following is a summary of the main financial information:

Operating costs summary	**2004-05**	**2003-04**
	£000s	£000s
Income		
Deferred income prior year	239	–
Licence fees received	14,208	14,773
Other income (publications; library)	9	13
	14,456	14,786
Expenditure		
Administration costs	(13,010)	(14,549)
Sub total	**1,446**	**237**
Income deferred to following period	(1,447)	(239)
Net operating (deficit)	(1)	(2)

In the year £14.21 million was levied as licence fee income. Out of this £13.0 million was recognised as income to offset the expenditure of ORR in 2004-05, giving a total of £1.4 million being retained as deferred income and used to fund the work of the ORR in future years, with licence fee income in 2005-06 reduced accordingly.

Net resource outturn for the year of £1,000 was in line with Parliamentary Supply Estimates.

In the year total gross operating costs amounted to £13.0 million. This expenditure was made up of staff costs (51%), consultancy costs and the purchase of legal services (21%) with other non-pay related running costs making up the balance (28%).

Capital expenditure in the year totalled £228,000 in respect of furniture, office and computer equipment, a slight decrease in comparison to the previous year, and below the voted level by £272,000. This balance can be combined with an underspend of £161,000 from 2002-03 and utilised in future years through Treasury's End Year Flexibility Scheme.

The amount of resource allocated to each of ORR's three main objectives is shown in Schedule 5 (Resources by Departmental Aim and Objectives) on page 16.

Going Concern

The balance sheet at 31 March 2005 shows a negative Taxpayers Equity of £1.9 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 ORR's Net Cash Requirement. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than required for the service of the specified year or retained in excess of that needed. All unspent monies, including those derived from ORR's income, are 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 2005-06 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

Funding is raised through licence fee income received during the year from train operating companies and the network infrastructure provider, and as such ORR normally has no net cash funding requirement. However, due to timing differences between the receipt of licence fee income and expenditure, short-term funding is obtained from HM Treasury's Contingencies Fund and repaid within the year. None of these monies are invested. Consequently, ORR is 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.

Key Developments since the Balance Sheet Date

The Railways Act 2005 gained Royal Assent on 7 April 2005. This Act provides ORR with the powers to integrate the economic and safety regulation of the railways industry. A key stage in this process will be the transfer of responsibility for Rail Safety Policy and Her Majesty's Railways Inspectorate from the Health and Safety Executive during financial year 2005-06.

Post Balance Sheet Events

There have been no post balance sheet events as defined by SSAP17.

Audit Committee

From 1 April 2004 to 4 July 2004 the Office of the Rail Regulator had an established Audit Committee chaired by the Rail Regulator, and consisting of executive directors and independent non-ORR members. Internal and external auditors and representatives from ORR's Resources Division, which includes Finance, attended by invitation. This Committee's role was to advise the Accounting Officer of the Office of the Rail Regulator on the adequacy of internal controls, corporate governance, risk management and audit arrangements.

Following the formation of the Office of Rail Regulation a new Audit Committee was established, and had its first meeting in September 2004. An independent member chairs the Committee, and with two non-executive directors comprises the committee's membership. Representatives from NAO, Internal Audit and ORR's Executive attend by invitation.

Management

The Advisory Board of the Office of the Rail Regulator was chaired by the Rail Regulator and during the period from 1 April 2004 to 4 July 2004 its members were:

Rail Regulator	Tom Winsor
Director, Corporate Affairs	Keith Webb
Director, Rail Policy	Michael Beswick
Director, Infrastructure and Economic Regulation	Tim Martin

Six non-executive directors served on the advisory board until its dissolution on 4 July 2004:

Chris Bolt
Jeffrey Jowell QC
Jane May
Suzanne McCarthy
Robin Saunders
Chris Stokes

The Rail Regulator was an independent statutory officer, appointed under the Railways Act 1993. The Rail Regulator's appointment was for a period of five years starting 5 July 1999 and finishing on 4 July 2004. During this period the appointment could have been terminated on grounds of incapacity or misbehaviour. The standard process, as set out in the Civil Service Management Code, can be used to terminate the contracts of other Advisory Board members.

Executive Directors on the Advisory Board are members of the Senior Civil Service, and are appraised in line with Senior Civil Services requirements. Their remuneration comprises basic salary, performance related pay and pension provision, and is governed by job-weight (JESP, Job Evaluation for Senior Posts), market forces, internal relativities, skills and experience.

Details of the remuneration of the Rail Regulator and the Advisory Board are set out in Note 2 to the accounts.

There were no company directorships or other significant interests held by Advisory Board members that may have caused conflict with their responsibilities as members of the Advisory Board.

Following the establishment of the Office of Rail Regulation on the 5 July 2004 a new Board was established consisting of the Chairman, four further non-executives and until 17 October 2004 the Chief Executive:

Chairman	–	Chris Bolt
Non-executive Directors:	–	Peter Bucks
	–	Jeffery Jowell QC
	–	Jane May
	–	Jim O'Sullivan (Appointed on 1 April 2005)
	–	Chris Stokes
Chief Executive	–	Suzanne McCarthy (Resigned 17 October 2004)

Pensions

Employees are mainly covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which is non-contributory and non-funded. Although the scheme is a defined benefit scheme, liability for payment of future benefits is a charge to the PCSPS. Details of the PCSPS scheme statements and other financial information can be found in the resource accounts of the Cabinet Office; Civil Superannuation (www.civilservice-pensions.gov.uk).

Some employees, including the Director, Rail Policy, 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 pensions of the previous Rail Regulators and the Chairman are by-analogous with the PCSPS. The accruing cost of providing for the future benefits, which is based on actuarial advice, is charged to the Operating Cost Statement (Schedule 2) except for actuarial gains or losses which are taken to the Statement of Total Recognised Gains or Losses. A provision for the expected future liabilities is disclosed as a liability on the balance sheet.

Equal Opportunities

ORR is 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. ORR's 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.

Training and Development

During the year ORR continued to give high priority to training and development of all staff to enhance their skills and expertise in pursuit of ORR's 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 their individual and ORR objectives.

Payment of suppliers and Performance

ORR aims 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 latter. During the year 95% (88% 2003-04) of invoices were paid within the target period.

Auditors

ORR's 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 £30,000 (2003-04 £28,000). 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 the cost of which was £21,219 (2003-04 £23,380).

Keith Webb 24 June 2005
Accounting Officer

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.

For the financial year 2003-04 and up until the end of his appointment on 4 July 2004 the Treasury had appointed the Rail Regulator as the ORR's Accounting Officer with responsibility for preparing ORR's accounts and transmitting them to the Comptroller and Auditor General. From the 5 July 2004 the Treasury appointed Suzanne McCarthy the Chief Executive of the Office of Rail Regulation as Accounting Officer with responsibility for preparing the accounts and for transmitting them to the Comptroller and Auditor General. Keith Webb was appointed as Chief Executive and Accounting Officer from 18 October 2004.

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

- observe the 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 Resource Accounting Manual, have been followed, and disclose and explain any material departures in the accounts; and
- prepare the financial statements on a going concern basis.

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

Statement on Internal Control

Scope of responsibility

As Accounting Officer of 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 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 establishment of the Office of Rail Regulation on 5 July 2004 resulted in the replacement of the Rail Regulator with a Board and the adoption of new terms of reference for the ORR's Audit Committee.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than 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 the Office of the Rail Regulator for the year ended 31 March 2004 and up to 4 July 2004, and in the Office of Rail Regulation from the 5 July 2004 up to the date of the approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

ORR's risk management framework has been further developed over the course of the year under the guidance of the Chief Executive and the Head of Corporate Services. In August 2004, the Chief Executive together with Executive Directors and Deputy Directors reviewed the Risk Register in the light of the Government's Rail Review White Paper. This review led to the identification of new risks in respect of the external environment and a consequential revision of the Risk Register. The Risk Register was posted on the ORR Intranet making it readily available to all staff.

In accordance with Internal Audit recommendations and corporate governance best practice, a Risk Management Strategy document was developed, setting out the key features of ORR's risk management framework and providing guidance for staff on their role in the process. A draft was considered at the Audit Committee meeting in March 2005 and the document was amended in the light of comments put forward by the Committee members and by Internal Audit. It will be posted on the ORR intranet shortly.

The Regulator's advisory Board and (from 5 July 2004) the ORR Board took regular reports on risk with formal papers on progress presented on 2 June 2004 and 12 July 2004.

The Audit Committee continued to scrutinise the risk management framework, taking regular reports on progress at its meetings throughout the year. In September the committee noted the revised Risk Register and in November it took a paper providing details of how ORR was managing the risks associated with the White Paper. Executive Directors continued to present monthly reports against the business plan to the Director's Management Group. Those reports covered the risks and control actions for which they were responsible as well as progress on planned activities.

In April 2005 an office-wide audit of the effectiveness of the control actions was undertaken. The objectives were:

(a) to determine the extent to which the control actions were reflected in the Performance and Development Reviews (PDRs) of individual ORR staff responsible for the delivery of key outputs;

(b) to review the effectiveness of those controls in mitigating the relevant risks; and on the basis of these objectives; and

(c) to provide the information the Executive Directors would require in order to complete the annual statement of assurance.

The lessons learned from the audit will inform the further development of the risk and control framework going forward.

The risk and control framework

In January 2005, the Directors Management Group agreed a number of proposals for further developing and refining the risk and control framework. These proposals included:

- a revised structure for the Risk Register, with risks grouped into four different categories: external policy risks, industry risks, organisational risks and delivery risks;
- a new format, with an assessment of residual risk (risk remaining after implementation of the control actions) and a "red, amber, green" colour coding for ease of reference;
- clarification of the role of the Risk Owner – an Executive Director or Deputy Director with responsibility for monitoring and reporting on the control actions in respect of each risk and for providing an annual assurance statement informing the Statement on Internal Control.

These changes are being introduced.

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 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. An assurance statement has been developed in response to NAO Management Letter recommendations and Executive Directors had to provide a statement of assurance for their areas of responsibility at the end of the 2004-05 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, consisting of an independent Chair and two Non-executive Directors, 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 standards defined in the Government Internal Audit Manual and reports to, and agrees forward plans with the audit committee;
- a team within Corporate Affairs Directorate dedicated to the development and implementation of corporate governance within the Office of Rail Regulation;
- 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 Budget and Consultancy Committee to monitor and control budgets and overall financial performance on a monthly basis;

- consultations with industry stakeholders on the contents of the business plan and draft budget and licence fees; and

- PDR's 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 the Office of Rail Regulation 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 report includes an independent opinion on the adequacy and effectiveness of ORR's system of internal controls.

Keith Webb 24 June 2005
Accounting Officer

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

I certify that I have audited the financial statements on pages 11 to 35 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 17 to 19.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 6 the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Accounts. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resource and Accounts Act 2000 and Treasury directions made thereunder, and 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. I also report if, in my opinion, the Annual Report is not consistent with the financial statements, if the Department has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Accounts, 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.

I review whether the statement on pages 7 to 9 reflects the Department's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by the Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Department in the preparation of the financial statements, and of whether the accounting policies are 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 are free from material misstatement, whether caused by error, or by fraud or other irregularity, 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 have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Office of Rail Regulation at 31 March 2005 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended, and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by the Treasury; and
- 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.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

4 July 2005

National Audit Office
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Victoria
London SW1W 9SP

Schedule 1

Summary of Resource Outturn

	2004-05							2003-04
	Estimate			Outturn			Net Total compared with Estimate	
	Gross expenditure	A-in-A	Net Total	Gross expenditure	A-in-A	Net Total	savings/ (excess)	Prior year Outturn
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1 To create a better railway for passengers and freight, and better value for public funding authorities, through independent, fair and effective regulation	14,798	14,797	1	13,010	13,009	1	–	2
Total Resources	**14,798**	**14,797**	**1**	**13,010**	**13,009**	**1**	**–**	**2**
Non-Operating Cost A-in-A	–	–	–	–	–	–	–	–
Net Cash Requirement	**–**	**–**	**1**	**–**	**–**	**–**	**1**	**1,487**

The difference between the estimate for gross expenditure and the outturn is an underspend of £1,788,000. The main reason for the underspend is reduced consultancy expenditure as projects were put on hold due to a review of ORRs strategic direction. The review was a result of the Department for Transport's White Paper, *The Future of Rail.*

Summary of income payable to the Consolidated Fund

(In addition to appropriations in aid, the following income relates to the ORR and is payable to the Consolidated Fund (cash receipts being shown in italics and figures in £000s))

		2004-05 Forecast		**2004-05 Outturn**	
		Income	Receipts	Income	Receipts
	Note	£000	£000	£000	£000
Total	4	–	*204*	1,930	*1,930*

Schedule 1 (continued)

Reconciliation of Resources to Cash Requirement

	Note	Estimate £000	Outturn £000	Net total outturn compared with estimate saving/(excess) £000	2003-04 Outturn £000
Net total resources		**1**	**1**	**–**	**2**
Capital:					
Acquisition of fixed assets	10 & 11	500	228	272	339
Investments		–	–	–	–
Non-operating A-in-A:					
Proceeds of fixed asset disposals		–	–	–	–
Accruals adjustments:					
Non-cash items (staff costs)	2	–	(12)	12	(40)
Non-cash items (other admin costs)	3	(710)	(1,198)	488	(504)
Changes in working capital other than cash	12	–	(961)	961	536
Changes in creditors falling due after more than one year		–	–	–	–
Use of provision	16	6	14	(8)	31
Excess cash receipts surrendable to the Consolidated Fund	15	204	1,928	(1,724)	1,123
Net cash requirement (Schedule 4)		**1**	**–**	**1**	**1,487**

Schedule 2

Operating Cost Statement
for the year ended 31 March 2005

		2004-05		2003-04	
	Note	£000	£000	£000	£000
Administration Costs					
Staff costs	2	6,611		6,437	
Non-staff administration costs	3	6,399		8,112	
Gross Administration Costs			**13,010**		**14,549**
Operating income					
Raised for current year	5	(14,217)		(14,786)	
Less: Deferred income	15	1,208		239	
			(13,009)		**(14,547)**
Net Administration Costs			**1**		**2**
Net Programme Cost			**–**		**–**
Net Operating Cost	7 & 8		**1**		**2**
Net Resource Outturn	8		**1**		**2**

All income and expenditure are derived from continuing operations.

Statement of Total Recognised Gains and Losses
for the year ended 31 March 2005

	2004-05	Restated 2003-04
	£000	£000
Net operating cost	(1)	(2)
Actuarial loss on by-analogy pension scheme	(1)	–
Net gain on revaluation of tangible and intangible fixed assets	23	5
Total recognised gains and losses for the financial year	**21**	**3**

Schedule 3

Balance Sheet
as at 31 March 2005

	Note	31 March 2005 £000	31 March 2005 £000	31 March 2004 £000	31 March 2004 £000
Fixed Assets					
Tangible Assets	10	785		1,062	
Intangible Assets	11	22		48	
			807		**1,110**
Current Assets					
Debtors	13	739		513	
Cash at bank and in hand	14	1,930		1,123	
		2,669		1,636	
Creditors (amounts falling due within one year)	15	(4,295)		(2,301)	
Net Current Liabilities			**(1,626)**		**(665)**
Total assets less current liabilities			**(819)**		**445**
Provisions for liabilities and charges	16	(896)		(266)	
			(896)		**(266)**
Total assets less total liabilities before pension liabilities			**(1,715)**		**179**
Provision for by-analogy defined benefit pensions	16		**(196)**		**(175)**
Total assets less total liabilities after pension liabilities			**(1,911)**		**4**
Taxpayers' equity					
General fund	17		(1,934)		(19)
Revaluation reserve	18		23		23
			(1,911)		**4**

Keith Webb
Accounting Officer

24 June 2005

Schedule 4

Cash Flow Statement
for the year ended 31 March 2005

	Note	2004-05 £000	2003-04 £000
Net cash inflow/(outflow) from operating activities	See A below	2,156	(16)
Capital expenditure and financial investment	See B below	(226)	(347)
Payments of amounts due to the Consolidated Fund		(1,123)	(3,725)
Financing	See C below	–	1,486
Increase/(decrease) in cash in the period		**807**	**(2,602)**

Reconciliation of operating cost to operating cash flows

	Note	2004-05 £000	2003-04 £000
Net operating cost		**1**	**2**
Adjustments for non-cash transactions (staff costs)	2	(12)	(40)
Adjustments for non-cash transactions (non staff costs)	3	(1,198)	(504)
Adjustments for movements in working capital other than cash	12	(961)	527
Use of provisions	16	14	31
Net cash (inflow)/outflow from operating activities (A)		**(2,156)**	**16**

Analysis of capital expenditure and financial investment

	Note	2004-05 £000	2003-04 £000
Tangible fixed asset additions	10	218	332
Intangible fixed asset additions	11	10	7
Adjust for movement in capital creditors	12	–	9
Proceeds of disposal of fixed assets		(2)	(1)
Net cash outflow from investing activities (B)		**226**	**347**

Analysis of financing and reconciliation to net cash requirement

	Note	2004-05 £000	2003-04 £000
From the Consolidated Fund (Supply): current year (1)(C)		–	1,486
Advances from the Contingency Fund		8,000	11,000
Repayment to the Contingency Fund		(8,000)	(11,000)
Net financing		**–**	**1,486**
(Increase)/decrease in cash	14	**(807)**	**2,602**
Net cash flows other than financing		**(807)**	**4,088**

Adjustments for payments and receipts not related to Supply:

	Note	2004-05 £000	2003-04 £000
Amounts due to the Consolidated Fund – received in prior year and paid over	14	(1,123)	(3,725)
Amounts due to the Consolidated Fund – received and not paid over		2	–
Excess cash to be paid to the Consolidated Fund	15	1,928	1,123
Net cash requirement (Schedule 1)		**–**	**1,487**

Notes:
(1) The amount of Supply actually issued to support the net cash requirement is a token £1,000.

Schedule 5

Resources by Departmental Aim and Objectives
for the year ended 31 March 2005

	2004-05			2003-04		
	£000	£000	£000	£000	£000	£000
	Gross	Income	Net	Gross	Income	Net
Aim: Through independent, fair and effective regulation, to create and maintain the incentives and conditions necessary to achieve the continuous improvement of a safe, well-maintained and efficient railway which meets the needs of its users, and facilitate investment in capacity to satisfy the demands of growth in passenger and freight traffic at the time it is needed.						
Objective 1 To regulate the monopoly infrastructure provider's effective and efficient stewardship of the national rail network.	5,339	(5,339)	–	8,584	(8,583)	1
Objective 2 To facilitate effective and efficient working relationships between players in the rail industry.	6,185	(6,184)	1	4,571	(4,570)	1
Objective 3 To prevent anti-competitive agreements and practices in the rail industry and promote competitive markets.	1,486	(1,486)	–	1,394	(1,394)	–
Net Operating Costs	**13,010**	**(13,009)**	**1**	**14,549**	**(14,547)**	**2**

Notes to the Accounts

1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2004-05 Resource Accounting Manual (RAM) issued by HM Treasury. The accounting policies contained in the RAM follow UK generally accepted accounting practice (UK GAAP) to the extent that is meaningful and appropriate to the public sector. Where the RAM permits a choice of accounting policy, the accounting policy which has been judged to be the most appropriate to the particular circumstances of ORR for the purposes of giving a true and fair view has been selected. ORR'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. The minimum level for capitalisation of a tangible fixed asset is £500.

Tangible fixed assets are stated at current cost using appropriate indices as published by HM Treasury PES Paper (2005) 03, as appropriate for each asset category.

1.3 Depreciation

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

Fitting out costs	up to 15 years
Furniture, Office Equipment & Telecoms	5-10 years
Computers	3-5 years

1.4 Intangible Fixed Assets

Purchased computer software licences are capitalised as intangible fixed assets where expenditure of £500 or more is incurred. 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 three years.

Intangible fixed assets are stated at current cost using appropriate indices as published by HM Treasury PES Paper (2005) 03, as appropriate for the asset category.

1.5 Operating Income

Operating income is income which relates directly to the operating activities of ORR. It comprises licence fees and charges to external customers for copies of documents from the Public Register. It includes not only income appropriated-in-aid of the Estimate but also income payable to the Consolidated Fund, which in accordance with RAM is treated as operating income. The operating income is stated net of VAT.

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

1.6 Net 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%) on the average carrying amount of all assets less liabilities, except for:

- cash balances with the Office of the Paymaster General (OPG) where the charge is nil; and
- 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

(a) Past and Present employees are covered by the provisions of the Principal Civil Service Pension Schemes which is described in Note 2. This defined benefit scheme is unfunded and is non-contributory except in respect of dependants' benefits. The 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 Principal Civil Service Pension Scheme (PCSPS) of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS.

(b) In addition, seven 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 also shown under staff costs in the Operating Cost Statement.

(c) Past Rail Regulators and the current Chairman have separate pension arrangements that are 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 16.

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 20, "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 3.5%), including provisions for past and present Rail Regulators' pension commitments.

1.12 Valued Added Tax (VAT)

Most of the activities of ORR are outside the scope of VAT and, in general output tax does not apply and input tax on 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 Schedule 1

The information contained in Schedule 1 and associated notes is based on the Request for Resources information that will form part of the parliamentary approval processes.

1.14 Comparative Amounts

Comparative amounts relate to the Office of the Rail Regulator and have been restated where necessary to conform to current presentation.

1.15 Going Concern

The balance sheet at 31 March 2005 shows a negative Taxpayers Equity of £1,911,000. This reflects the inclusion of liabilities falling due in 2005-06, 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 money may be drawn from the Fund other than required for the service of the specified year or retained in excess of that needed. All unspent monies, including those derived from ORR's income, are 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 2005-06 has already been given. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

1.16 Contingent Liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, ORR discloses for Parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of a transfer of economic benefit is remote. These comprise all items (whether or not they arise in the normal course of business) over £100,000 (or lower, where required by specific statute or where material in the context of resource accounts) which are required by the Resource Accounting Manual to be noted in the resource accounts.

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 which are not required to be disclosed by FRS 12 are stated at the amounts reported to Parliament.

2.1 Staff costs

Staff costs consist of:

	2004-05			Restated 2003-04
	£000	£000	£000	£000
	Total	Permanently employed staff	Others	Total
Wages and salaries	5,312	5,067	245	5,187
Social security costs	488	474	14	464
Other pension costs	815	793	22	746
Sub total	**6,615**	**6,334**	**281**	**6,397**
Less recoveries in respect of outward secondments	–	–	–	–
Total	**6,615**	**6,334**	**281**	**6,397**
Non-cash items:				
By-Analogy pension current service costs	12	12	–	–
Provision for 'By-Analogy' pensions	–	–	–	40
Total net costs*	**6,627**	**6,346**	**281**	**6,437**

*Of the total a charge of £16,110 has been made to capital.

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but 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).

For 2004-05, employers' contributions of £685,341 were paid to the PCSPS (2003-04 £648,568) at one of four rates in the range 12 to 18.5% of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2005-06, the salary bands will be revised and the rates will be in a range between 16.2% and 24.6%. The contribution rates reflect benefits as they accrue, not the costs as they are actually incurred, and reflect past experience of the scheme.

The 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 £127,844 were paid to the trustees of the RPS in 2004-05 at a rate of 2.2825 times the individual member's contributions, on the basis of actuarial valuations. ORR matches some of the BRASS2 contributions (an AVC scheme) made by the members. In 2004-05, matching contributions of £2,300 were made.

Notional contributions of £24,798 as advised by the Government Actuary, have been charged to the Operating Cost Statement in 2004-05 as well as £2,952 contributions from Mr Winsor and Mr Bolt in respect of the accrued pension liability for the Chairman and past Rail Regulators. The liability at 31 March 2005 is estimated at £196,000.

2.2 Average number of persons employed

The average number of whole-time equivalent persons employed during the year is shown in the table below.

	2004-05 Number			2003-04 Number
	Total	*Permanently employed staff*	*Others*	*Total*
Objective				
1. To regulate the monopoly infrastructure provider's effective and efficient stewardship of the national rail network.	57	55	2	51
2. To facilitate effective and efficient working relationships between players in the rail industry.	57	52	5	56
3. To prevent anti-competitive agreements and practices in the rail industry and promote competitive markets.	14	11	3	21
Total	**128**	**118**	**10**	**128**

2.3 Salary and pensions entitlements

The salary, pension entitlements and the value of any taxable benefits in kind of the most senior members of the ORR were as follows. This covers the Rail Regulator and the Executive Directors of ORR:

2004-05

Name Position	Salary, including performance pay (£k)	Benefits in kind (rounded to nearest £100)	Real increase in pension and related lump sum at age 60 (£k)	Total accrued pension at age 60 at 31/3/05 and related lump sum (£k)	CETV at 31/3/04 (nearest £k)	CETV at 31/3/05 (nearest £k)	Real increase in CETV (nearest £k)	Employers contribution to partnership pension account including risk benefit cover – to nearest £100
Senior Management								
Tom Winsor *Rail Regulator* *Until 4 July 2004*	45-50	3,200	–	–	–	–	–	N/A (see salary section below for details)
Suzanne McCarthy (b) *Chief Executive* *From 5 July 2004* *Until 17 October 2004*	50-55	–	7.5-10 No Lump sum	25-30 No Lump sum	276	414	129	N/A
Keith Webb (a) *Chief Executive* *From 18 October 2004*	65-70	–	5.0-7.5 Plus 17.5-20.0 Lump sum	65-70 195-200 Lump sum	1,014	1,188	106	N/A
Keith Webb (a) *Director,* *Corporate Affairs* *Until 17 October 2004*	105-110				Shown above			
Sarah Straight (a) *Director, Rail Markets and Access* *From 2 November 2004*	30-35	–	2.5-5.0 Plus 7.5-10.0 Lump sum	20-25 Plus 65-70 Lump sum	282	344	49	N/A
Michael Beswick (d) *Director, Rail Policy*	100-105	–	2.5-5.0	40-45 Plus 30-35 Lump sum	N/A	N/A	N/A	N/A
Tim Martin (a) *Director, Infrastructure and Economic Regulation*	130-135	–	0-2.5 Plus 2.5-5.0 Lump sum	5-10 Plus 15-20 Lump sum	61	87	20	N/A
Juliet Lazarus (c) *Director, Legal Services* *From 19 July 2004*	35-40	–	0-2.5 No Lump sum	5-10 No Lump sum	–	9	7	N/A
Lynda Rollason (a) *Head of Corporate Services and Change Management* *From 2 November 2004*	35-40	–	0-2.5 Plus 0-2.5 Lump Sum	5-10 Plus 15-20 Lump sum	58	71	10	N/A

Notes:

(a) Opted to join Classic.
(b) Opted to join Classic Plus.
(c) Premium.
(d) Member of Railway Pension Scheme.

Non-executive Directors of the Office of the Rail Regulator Advisory Board (until 4 July 2004) received salaries in the year shown below:

	Salaries
	£
Chris Bolt	3,750
Jeffery Jowell QC	3,750
Jane May	3,750
Suzanne McCarthy	–
Robin Saunders	Consent to disclosure withheld
Chris Stokes	3,750

Non-executive Directors of the Office of Rail Regulation Statutory Board (from 5 July 2004) received salaries in the year shown below:

	Salaries
	£
Chris Bolt	78,000
Peter Bucks	11,250
Jeffery Jowell QC	11,250
Jane May	11,250
Chris Stokes	11,250

In addition to the fees shown above, Non-executive Directors are also entitled to receive expenses.

2003-04

Name Position	Salary, including performance pay (£k)	Benefits in Kind (rounded to nearest £100)
Senior Management		
Tom Winsor *Rail Regulator*	180-185	9,300
Keith Webb *Director, Corporate Affairs*	155-160	–
Steve Gooding *Director, Rail Market, Access and Performance*	55-60	–
Michael Beswick *Director, Rail Policy*	90-95	–
Tim Martin *Director, Infrastructure and Economic Regulation*	125-130	–
Eric Brown *Chief Legal Adviser and Director, Legal Services* *Until 20 November 2003*	Consent to disclosure withheld	

Non-executive Directors of the Office of the Rail Regulator Advisory Board received salaries in the year shown below:

		Salaries
		£
Chris Bolt	From 8 January 2004	3,750
Jeffery Jowell QC	From 1 March 2004	1,250
Jane May	From 1 March 2004	1,250
Suzanne McCarthy	From 15 March 2004	–
Robin Saunders	From 1 January 2004	Consent to disclosure withheld
Chris Stokes	From 1 November 2003	6,250
Peter Warry	Until 31 December 2003	11,250

In addition to the fees shown above, Non-executive Directors are also entitled to receive expenses.

The following salary and pension details are provided in accordance with the 2004-05 Resource Accounting Manual (RAM) issued by HM Treasury.

Salary

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

The Regulator had the use of a Government Car Service car and driver as provided for in his terms of employment at an estimated benefit of £3,200 (2003-04 £9,300).

Non PCSPS Pension Schemes

Only pension benefits paid for by the Civil Service as the wider employer or the Railway Pension Scheme are included in the above calculations.

The Office of the Rail Regulator was a statutory appointment which was not covered by the PCSPS. The appointment of the Chairman is also not covered by the PCSPS. Mr Winsor and Mr Bolt's pension benefits are met through an unfunded "by-analogy" scheme and subject to a statutory earnings cap. Details of the scheme are the same as for the PCSPS but with specific differences; where he is aged 50 or under at the end of his current appointment or any extension, his pension is deferred and comes into payment at age 60. Alternatively where he is aged over 50 at the end of his current appointment or any extension, his pension is due immediately and without augmentation or actuarial reduction.

Pension benefits for Mr Beswick are provided through the Railway Pension Scheme (RPS). The RPS is a "final salary" scheme with benefits based on pensionable pay and flat rate pension, both averaged over the final year of membership. The normal retirement age is 60 and members pay contributions of 5% of section pay (i.e. pensionable pay less 1.5 times basic state pension). Pensions increase in line with the Retail Prices Index. On death in service the scheme pays a lump sum of four times average pensionable pay.

PCSPS Pension Scheme

Pension benefits are provided through the Civil Service pension 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 the 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).

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

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 spouse's contingent pension payable from the scheme. A CETV is a payment 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 CS 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. CETV's are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Benefits in Kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. Travel arrangements for Tom Winsor fell into this category.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of 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.

3. Non-staff administration costs

	2004-05	2003-04
	£000	£000
Rental under operating leases:		
Hire of Office equipment	34	166
Other operating leases	713	713
	747	**879**
Non-cash items (Note a):		
Auditors remuneration and expenses*	30	28
Depreciation and amortisation of fixed assets		
Tangible fixed assets	373	252
Intangible fixed assets	28	37
Loss on disposal of fixed assets	95	–
Capital charge credit	(33)	(7)
Interest charges in respect of by-analogy pension scheme	11	–
Diminution in value of fixed assets	56	61
	560	**371**
Provisions:		
Provided in year		
Provision for Early Retirement	513	–
Provision for dilapidations and other leasehold liabilities	192	50
Provision for rent increase	(75)	75
Provision for tax on benefits in kind	8	7
	638	**132**
Other:		
Travel and Subsistence	54	50
Hospitality	11	14
Consultancies	2,697	5,200
IT & Telecoms	150	97
Landlord service charges & rates	396	336
Printing & stationery	259	228
Recruitment & training	259	263
Other	628	542
	4,454	**6,730**
	6,399	**8,112**

*There was no auditor remuneration for non-audit work.

Notes:

(a) The total of non-cash transactions included in the Reconciliation of Resources to Net Cash Requirement in Schedule 1 and in the Reconciliation of Operating Costs to Operating Cashflows in Schedule 4 comprises:

	2004-05
	£000
Other administration costs – non cash items (as above)	466
Provisions provided in year	638
Add non-cash costs	
Loss on disposal of fixed assets	94
Total non-cash transactions	**1,198**

4. Analysis of income payable to the Consolidated Fund

Analysis of income payable to the Consolidated Fund. In addition to appropriations-in-aid, the following income related to the ORR and is payable to the Consolidated Fund (cash receipts being shown in italics).

	2004-05 Forecast Income	2004-05 Forecast Receipts	2004-05 Outturn Income	2004-05 Outturn Receipts
	£000	£000	£000	£000
Operating income & receipts – excess A-in-A	–	–	–	–
Non-operating income & receipts – excess A-in-A	–	–	2	*2*
Subtotal	–	–	2	*2*
Other operating income & receipts not classified as A-in-A	–	–	–	–
Other non-operating income and receipts not classified as A-in-A	–	–	–	–
Other amounts collectable on behalf of the Consolidated Fund	–	–	–	–
Excess cash surrenderable to the Consolidated Fund	–	*204*	1,928	*1,928*
Total	**–**	***204***	**1,930**	***1,930***

5. Income and appropriations in aid

Operating income not appropriated in aid (i.e. surrenderable to the Consolidated Fund) is analysed for resource budget purposes between that which is included in public expenditure and that which is not (see note 6).

2004-05

	Resource Outturn	Reconciliation to Operating Cost Statement				Operating Cost Statement
	A-in-A	Transfer of estimate cover	Netted off gross expenditure in sub-head	Payable to Consolidated Fund	Transactions between Request for Resources	Income
	£000	£000	£000	£000	£000	£000
Administrative income:						
Licence fees	13,000	–	–	–	–	13,000
Miscellaneous	9	–	–	–	–	9
Interest received	–	–	–	–	–	–
Sale of fixed assets	–	–	–	–	–	–
Total	**13,009**	**–**	**–**	**–**	**–**	**13,009**

2003-04

	Resource Outturn	Reconciliation to Operating Cost Statement				Operating Cost Statement
	A-in-A	Transfer of estimate cover	Netted off gross expenditure in sub-head	Payable to Consolidated Fund	Transactions between Request for Resources	Income
	£000	£000	£000	£000	£000	£000
Administrative income:						
Licence fees	14,534	–	–	–	–	14,534
Miscellaneous	10	–	–	–	–	10
Interest received	2	–	–	–	–	2
Sale of fixed assets	1	–	–	–	–	1
Total	**14,547**	**–**	**–**	**–**	**–**	**14,547**

5. Income and appropriations in aid *(continued)*

An analysis of income from services provided to external and public sector customers is as follows:

	2004-05 Income	2004-05 Full costs	2004-05 Surplus/ (deficit)	2003-04 Income	2003-04 Full costs	2003-04 Surplus/ (deficit)
	£000	£000	£000	£000	£000	£000
Administration income						
Licence Fees	14,208	13,010	1,198	14,773	14,549	224
Licence Fees deferred	(1,208)	–	(1,208)	(239)	–	(239)
Sale of fixed assets	–	–	–	1	–	1
Interest received	–	–	–	2	–	2
Miscellaneous	9	–	9	10	–	10
	13,009	**13,010**	**(1)**	**14,547**	**14,549**	**(2)**

6. Administration cost limits

The administration costs control regime is set by HM Treasury. Outturn against individual administration cost limits was as follows:

	2004-05 Outturn	2004-05 Limits	2003-04 Outturn	2003-04 Limits
	£000	£000	£000	£000
Request for resources 1				
To create a better railway for passengers and freight, and better value for public funding authorities, through independent, fair and effective regulation	13,010	14,798	14,549	15,296
Total within administration cost control	**13,010**	**14,798**	**14,549**	**15,296**
Administration Expenditure excluded from administration cost limit	–			
Administration Income Allowable within the administration cost limit	(13,009)		(14,547)	
Net administration outturn	**1**		**2**	

7. Reconciliation of net operating cost to net resource outturn

	2004-05	2003-04
	£000	£000
Net operating cost (Note a)	1	2
Remove non-supply expenditure (-) and income (+), including income scored as Consolidated Fund extra receipts (CFERSs):	–	–
Net resource outturn (Note a)	**1**	**2**

Note:

(a) Net operating cost is the total of expenditure and income appearing in the Operating Cost Statement (Schedule 2). Net resource outturn is the total of those elements of expenditure and income that are subject to parliamentary approval and included in the ORR's Supply Estimate. The outturn against the Estimate is shown in the Summary of Resource Outturn (Schedule 1).

8. Analysis of net resource outturn by Estimate subhead and reconciliation to Operating Cost Statement

	2004-05							2003-04
	Admin	Other current	Gross resource expenditure	A-in-A	Net total	Estimate	Net total outturn compared with Estimate	Prior year Outturn
	£000	£000	£000	£000	£000	£000	£000	£000
Request for resources 1 To create a better railway for passengers and freight, and better value for public funding authorities, through independent, fair and effective regulation	13,010	–	13,010	(13,009)	1	1	–	2
Resource Outturn	**13,010**	**–**	**13,010**	**(13,009)**	**1**	**1**	**–**	**2**

Reconciliation to Operating Cost Statement

			Gross resource expenditure	A-in-A	Net Total
Non supply expenditure	–	–	–	–	–
Income payable to the Consolidated Fund	–	–	–	–	–
Transactions between Request for Resources netted off in Operating Cost Statement	–	–	–	–	–
Income netted off in gross sub-head grossed up in Operating Cost Statement	–	–	–	–	–
Transfer of estimate cover	–	–	–	–	–
Gross operating expenditure			**13,010**		
Operating income				**(13,009)**	
Net operating cost					**1**

9. Analysis of capital expenditure and associated A in A

	Capital expenditure	Loans, etc.	A-in-A	Net total
	£000	£000	£000	£000
Request for resources 1 To create a better railway for passengers and freight, and better value for public funding authorities, through independent, fair and effective regulation	228	–	–	228
Total 2004-05	**228**	**–**	**–**	**228**
Total 2003-04	339	–	–	339

10. Tangible fixed assets

	Fitting Out Costs	Furniture, Office Equipment & Telecoms	Information Technology	Assets under construction	Total
	£000	£000	£000	£000	£000
Cost or Valuation					
At 1 April 2004	913	838	978	–	2,729
Additions	–	19	178	21	218
Disposals	(79)	(210)	(377)	–	(666)
Reclassifications	–	–	–	–	–
Revaluation	35	10	(48)	–	(3)
At 31 March 2005	**869**	**657**	**731**	**21**	**2,278**
Depreciation					
At 1 April 2004	473	494	700	–	1,667
Charged in year	99	122	152	–	373
Disposals	(43)	(157)	(369)	–	(569)
Reclassifications	–	–	–	–	–
Revaluations	18	4	–	–	22
At 31 March 2005	**547**	**463**	**483**	**–**	**1,493**
Net Book Value at 31 March 2005	**322**	**194**	**248**	**21**	**785**
Net Book Value at 31 March 2004	**440**	**344**	**278**	**–**	**1,062**

The valuation of fixed assets is based on depreciated replacement cost. There have been no external professional valuations performed at ORR to date.

The balance of £21,000 for assets under construction consists of work on the development of a World Wide Web accessible database of Stations Code documents (£14,000) and work underway on upgrading ORR's internet and e-mail infrastructure (£7,000).

11. Intangible fixed assets

The ORR's intangible fixed assets comprise purchased software licences.

	Purchased Software licences
	£000
Cost or Valuation	
At 1 April 2004	334
Additions	10
Disposals	(91)
Revaluation	(8)
At 31 March 2005	**245**
Amortisation	
At 1 April 2004	286
Charged in year	28
Disposals	(91)
Revaluations	–
At 31 March 2005	**223**
Net Book Value at 31 March 2005	**22**
Net Book Value at 31 March 2004	**48**

12. Movements in working capital other than cash

The movements in working capital used in the Reconciliation of resources to cash requirement comprise:

	2004-05	**2003-04**
	£000	£000
Increase/(decrease) in debtors	226	(648)
(Increase)/decrease in creditors: current	(1,995)	1,176
(Increase)/decrease in creditors: capital	–	9
	(1,769)	537
Adjustment: movement in working capital not related to net operating costs		
– Amounts due to the Consolidated Fund	807	–
– Movement in working capital related to the acquisition/disposal of tangible fixed assets	–	–
– Decrease/(increase) in Consolidated Fund debtors	1	(1)
Net increase in working capital other than cash	**(961)**	**536**

The movement in working capital other than cash used in the Cash Flow Statement comprise:

	2004-05	**2003-04**
	£000	£000
Increase/(decrease) in debtors	226	(648)
(Increase)/decrease in creditors: current	(1,995)	1,176
(Increase)/decrease in creditors: capital	–	9
	(1,769)	537
Adjustment: movement in working capital not related to voted resource consumption		
– Amounts due to the Consolidated Fund	807	–
– Movement in working capital related to the acquisition/disposal of tangible fixed assets	–	–
– Decrease/(increase) in Consolidated Fund debtors	1	(1)
Net increase in working capital other than cash	**(961)**	**536**

13. Debtors

	2004-05	2003-04
	£000	£000
Amounts falling due within one year:		
Trade debtors	–	1
Other debtors	–	25
Staff debtors	53	53
Prepayments and accrued income	554	295
HM Customs and Excise (VAT)	117	138
Payroll deposit account	15	–
Amounts due from the Consolidated Fund in respect of supply	–	1
	739	**513**

Staff debtors represent loans outstanding, of which £53,071 relates to season ticket loans for 57 employees (2003-04: £52,542 for 51 employees) and £264 relates to advances made to three employees (2003-04: £961 to one employee).

14. Cash at bank and in hand

	2004-05	2003-04
	£000	£000
Balance at 1 April	1,123	3,725
Net change in cash balances	807	(2,602)
Balance at 31 March	**1,930**	**1,123**

The following balances at 31 March are held at:

	2004-05	2003-04
Office of HM Paymaster General	1,829	1,101
Commercial banks and cash in hand	101	22
Balance at 31 March	**1,930**	**1,123**

The balance at 31 March comprises:

	2004-05	2003-04
CFERS received and due to the Consolidated Fund	1,930	1,123
	1,930	**1,123**

15. Creditors

	2004-05		2003-04	
	£000	£000	£000	£000
Amounts falling due within one year				
Trade creditors		9		173
Other creditors		5		2
Receipt paid to ORR but due to SRA		84		–
Payroll deposit account		–		455
Accruals		820		312
Deferred income:				
Current year	1,208		239	
Prior year	239		–	
		1,447		239
Amounts issued from the Consolidated Fund for supply but not spent at year end		–		–
Parliamentary funding for prior year Excess Vote		–		(3)
Consolidated Fund extra receipts due to the Consolidated Fund		1,930		1,123
Total		**4,295**		**2,301**

16. Provisions for liabilities and charges (see also Note 1.9c)

	Provision for early retirement	Provision for increase in rent	Provision for dilapidations on rented offices	Provision for taxable benefits in kind	Total
	£000	£000	£000	£000	£000
Balance at 1 April 2004	–	75	183	8	266
Provided in the year	513	(75)	192	8	638
Provision utilised in the year	–	–	–	(8)	(8)
Balance at 31 March 2005	**513**	**–**	**375**	**8**	**896**
Of which:					
Payable within one year	286	–	375	8	669

The head office of ORR is occupied under a 15 year lease, due to expire in 2008. There is an obligation at that time to return the occupied part of the building to its original 'shell' condition. A provision of £375,000 is made for the cost of this work.

In 2004-05 £513,000 was provided for the compulsory early retirement costs of the Director of Corporate Affairs representing the net present value of the cost of providing a pension, compensation and an early lump sum settlement until the PCSPS pension begins at age 60.

Details for by-analogy defined pension schemes

Class	Liability	As at 31 March 2005	As at 31 March 2004
		£000	£000
Actives		11	79
Deferreds		88	–
Pensioners		97	96
Dependant Pensioners		–	–
Total Present Value of the scheme liabilities		**196**	**175**

Liability Calculation:	
Present value of scheme at 01/04/2004	175
Current service cost (net of employee contribution)	12
Employee contribution	3
Interest costs	11
Past Service Costs	–
Actuarial losses	1
Less benefits paid	(6)
Plus Net Individual Transfers in	–
Present value of Scheme Liabilities at 31/3/05	**196**

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 2004-05 ORR contributed £12,000 in respect of the active member, and £11,000 in respect of interest costs. GAD have advised that the ORR contribution for 2005-06 should be estimated at 10.7% of gross salary of the active member.

	31 March 2005	31 March 2004
Other relevant financial assumptions are as follows:		
Inflation	2.5%	2.4%
Rate of increase in salaries	4.0%	2.4%
Rate of increase for pensions in payment and deferred pensions	2.5%	2.4%
Rate used to discount scheme liabilities	6.1%	6.0%

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

17. Reconciliation of net operating cost to changes in general fund

	2004-05		2003-04	
	£000	£000	£000	£000
Net operating cost for the year (Schedule 2)	(1)		(2)	
Non operating income not appropriated-in-aid payable to the Consolidated Fund	(2)		–	
Parliamentary funding for prior year Excess Vote	(3)		3	
		(6)		1
Parliamentary Funding:				
Drawn Down	–		1,486	
Deemed Supply	–		–	
Amounts due from Consolidated Fund in respect of Supply	–		1	
		–		1,487
Transfer to general fund of realised element of revaluation reserve (Note 18)		6		10
Actuarial loss on by-analogy defined benefit pension scheme		(1)		–
Transfer to General Fund in respect of revaluation on disposals (Note 18)		17		–
Transfer from Consolidated Fund for standing services		–		–
Consolidated Fund creditor for cash unspent		(1,928)		(1,123)
Non cash charges:				
Cost of capital	(33)		(7)	
Auditor's remuneration	30		28	
		(3)		21
Net (decrease)/increase in general fund		(1,915)		396
General fund at 1 April		(19)		(415)
General fund at 31 March (Schedule 3)		**(1,934)**		**(19)**

18. Revaluation Reserve

	2004-05	2003-04
	£000	£000
Balance at 1 April	23	28
Arising on revaluation during the year (net)	45	18
Transferred to general fund in respect of realised element of the revaluation reserve	(6)	(10)
Transferred to general fund in respect of realised element on disposals	(17)	–
Back log depreciation	(22)	(13)
Balance at 31 March	**23**	**23**

The Revaluation reserve reflects the unrealised element of the cumulative balance of indexation and the revaluation adjustments.

19. Capital commitments

	2004-05	2003-04
	£000	£000
Contracted capital commitments at 31 March for which no provision has been made	–	–

20. Commitments under leases

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.

	2004-05	Restated 2003-04
	£000	£000
Obligation under operating leases comprise:		
Land and buildings		
Expiry within 1 year	–	–
Expiry after 1 year but not more than 5 years	713	–
Expiry thereafter	–	713
	713	**713**
Other		
Expiry within 1 year	5	5
Expiry after 1 year but not more than 5 years	29	29
Expiry thereafter	–	–
	34	**34**

21. Other financial commitments

ORR had not entered into any non-cancellable contracts (which are not operating leases) as at 31 March 2005.

22. Contingent liabilities disclosed under FRS 12

There were no reportable contingent liabilities at 31 March 2005.

23. Related-party transactions

There have been a small 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 including funding of the payroll and charges for internal audit services.

None of the board members, key managerial staff or other related parties has undertaken any material transactions with ORR during the year.

24. Notes to Schedule 5

Capital is employed exclusively for administration purposes. Its distribution between objectives is therefore not markedly different from the proportion of the related gross administration cost.

Administration costs and related receipts have been attributed to objectives in the following way. The first stage allocates costs including staff costs, consultancy and legal costs, that can be directly attributed to an objective as identified in the business plan. Secondly overheads are allocated in proportion to direct costs.

25. 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

Set out below is a comparison by category of book and fair values of the ORR's financial assets and liabilities as at 31 March 2005.

	Book value	Fair value	Basis of valuation
	£000	£000	
Primary financial instruments			
Financial Assets:			
Cash at Bank	1,930	1,930	
Financial Liabilities:			
Provisions	896	896	See note (a)
Liability in respect of by-analogy defined benefit pension	196	196	

Notes:

(a) As at 31 March 2005 the fair value was the same as the book value since, in the recent calculation of book value, the expected cash flows were discounted by the HM Treasury discount rate of 3.5% in real terms.

26. Intra-government balances

	Debtors: amounts falling due within one year	Creditors: amounts falling due within one year
	£000	£000
Balances with other central government bodies	136	1,982
Balances with bodies external to government	603	2,313
At 31 March 2005	**739**	**4,295**
Balances with other central government bodies	139	1,600
Balances with bodies external to government	374	701
At 31 March 2004	**513**	**2,301**

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