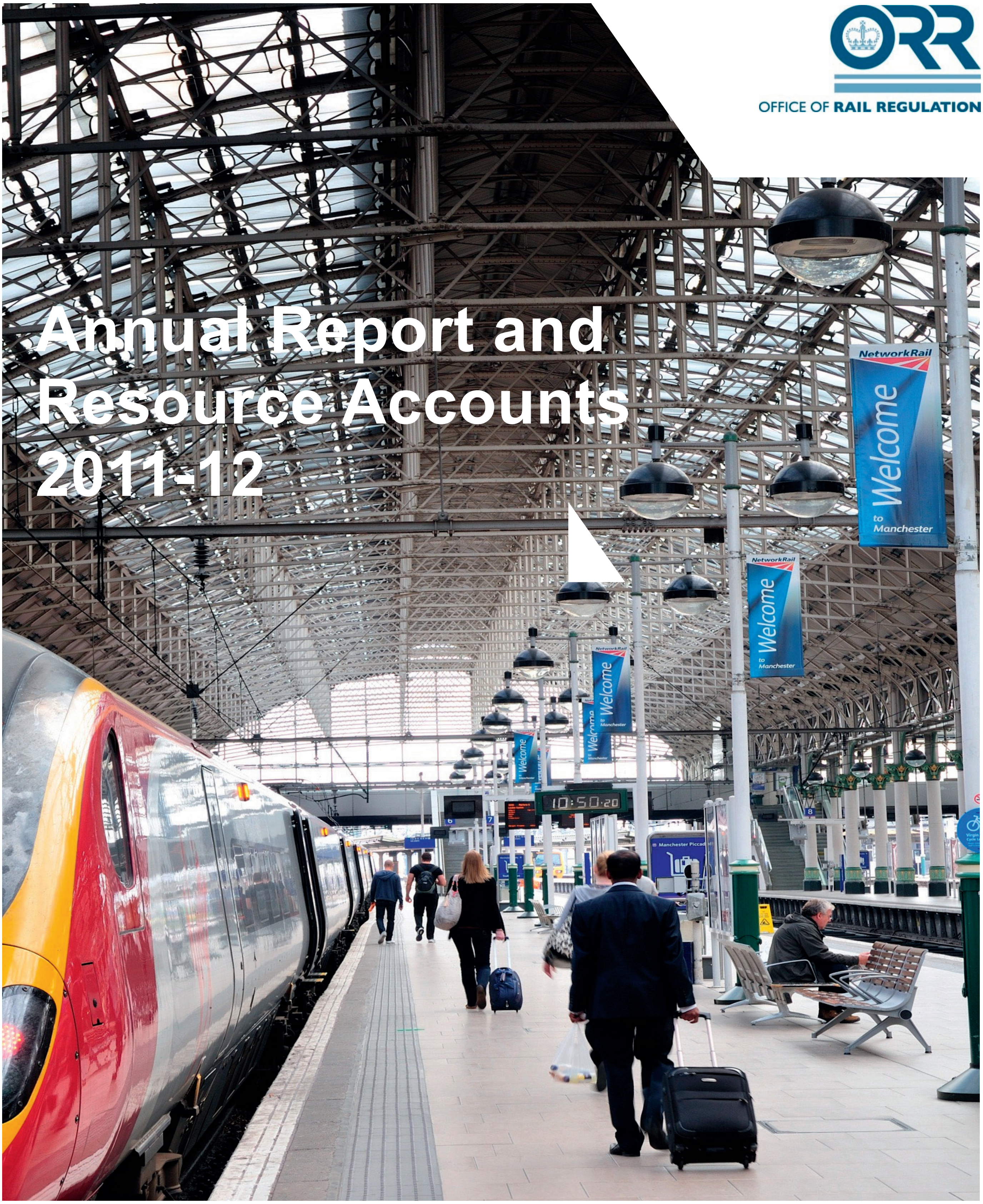
# Annual Report and Resource Accounts 2011-12




**June 2012**

HC 27

# Annual report and Accounts 2011-12

Report presented to Parliament pursuant to section 74 of the Railways Act 1993

Accounts presented to the House of Commons pursuant to section 6 of the Government Resources and Accounts Act 2000

Accounts presented to the House of Lords by Command of Her Majesty

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**This is part of a series of Annual Report and Accounts which, along with the Main Estimates 2012-13 and the document Public Expenditure: Statistical Analyses 2012-13, present the Government's outturn and planned expenditure for 2012-13**



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# Contents

# Formal report to the Secretary of State and Scottish Ministers

To the Secretary of State for Transport and the Scottish Ministers.

I enclose the report of the Office of Rail Regulation (ORR) for the year ending 31 March 2012 as required by section 74(1) of the Railways Act 1993 and the Scotland Act 1998 (Transfer of Functions to Scottish Ministers etc) Order 1999.

I can confirm that during the period ORR:

- Made no reference to the Competition Commission
- Received no general directions under section 69(2) of the Railways Act 1993.

Anna Walker

**Anna Walker**
Chair, Office of Rail Regulation
June 2012

# Overview

Against a background of difficult economic conditions, with continuing pressures on public finances, the last year has seen a continued commitment to continuing investment in Britain's railways by the Governments in London, Edinburgh and Cardiff and other funders. This has included a further £1.4bn investment programme including £390 million on enhancement and renewal works on top of a substantial programme of already committed projects.

Despite the economic downturn, we have seen continuing growth with a 7 per cent increase in passenger journeys and 12.5 per cent increase in freight being carried by rail over the past year. We have also seen above-inflation fare price increases and the sector still dependent on over £4bn of public subsidies a year, which underlines the importance of securing greater efficiency across the industry.

We remain focused on our core roles of regulating Network Rail and health and safety across the entire sector. But we are also committed to ensuring that our regulation helps the wider industry to get a better grip on its costs, whilst delivering the levels of safety, performance and efficiency that passengers, freight customers and taxpayers rightly expect.

This report gives an overview of our achievements over the past year. It is worth highlighting in particular:

- **Our continued focus on holding Network Rail to account**. During the course of the year we have worked with the company as it continues to make progress towards excellence, especially in the critical areas of asset management and health and safety. We have also intervened where the company has fallen short of what is required. This included the action we took on behalf of passengers over the levels of train performance on long-distance routes.
- **Our developing role on passenger-facing issues**. As part of our expanding remit on passenger-facing issues we put in place a new licence condition to ensure that train operators and Network Rail work to ensure the provision of better passenger information, particularly during periods of disruption.
- **Our commitment to increasing transparency**. We published, for the first time, cost and revenue data drawn from across the whole sector as part of our developing programme to progressively increase transparency.
- **Our support for industry reform**. We actively supported the development of alliances between Network Rail and train operators where they deliver greater efficiency and allow train services to be better attuned to local needs – provided there is transparency and no undue discrimination against other users of the network such as freight operators.
- **Our focus on improving whole-sector efficiency**. Following our joint sponsorship with the Department for Transport of the McNulty Rail Value for Money Study, we successfully launched our periodic review of Network Rail's costs and outputs. We have taken some initial decisions which have enabled the industry to push ahead with its planning for 2014-2019 and beyond.

- **Our continuing focus on excellence in health and safety culture and risk control**. We have continued to work with the industry to encourage improvements in health and safety. This has included promoting our model for monitoring and managing safety culture which has now been widely adopted by dutyholders across the industry and our occupational health programme which has highlighted the need for improvements to aspects of worker health and welfare.

  We have worked with Network Rail to ensure that they have an improved risk assessment process for level crossings – the biggest cause of public safety risk on the railways – and look to them to deliver.

  Where necessary we have not hesitated to take enforcement action where this has been necessary to protect those who use and work on the railways. In the past year we issued 35 improvement notices and 12 prohibition notices and had six successful prosecution cases heard.

Those who use and pay for Britain's railways expect to have safe and reliable services which represent good value for money, regardless of who is responsible for delivering them. They also have a right, given the amount of public money going into the sector, to expect transparency, clear accountability and a continued drive for efficiency. That is why these are and will remain key areas of focus for us.

| | |
|---|---|
| **Anna Walker** | **Richard Price** |
| Chair | Chief Executive |

# About ORR

As the independent regulator of Britain's railways we play a pivotal role in ensuring the industry delivers a safe, effective and efficient system, focused on the needs of users and responsive to the priorities of funders.

## Our functions

### Our work in perspective

ORR is a non-ministerial government department with around 280 staff and an annual budget of around £30 million. We are funded almost entirely through a licence fee and safety levy charged to railway service providers. Around 62% of our costs relate to our safety roles, and 38% to economic regulation.

We oversee a sector whose annual turnover is £18bn.

Each year on Britain's rail network:

- Passengers take 1.3 billion journeys
- Timetabled trains travel 500 million kilometres
- Around 100 million tonnes of freight is moved

Over £5 billion is invested in maintenance and modernisation.

Since the start of our current five-year corporate strategy in 2009-10 we have reduced our annual costs by an average of £1.8m per year in real terms and reduced our headcount whilst delivering increased levels of activity. As a result we have handed back to the industry £3.5m in rebates over the past 3 years.

As a national safety authority we regulate health and safety for the entire mainline rail network in Britain as well as High Speed 1 (HS1), London Underground, light rail, trams and the heritage sector.

Our functions as economic regulator of the mainline railway include setting Network Rail's funding to enable it to carry out its work efficiently, ensuring that it delivers the agreed outputs whilst improving its own efficiency.

Our functions as economic regulator of HS1 include the pre-approval of framework agreements and undertaking periodic reviews of HS1's charges. We publish a separate annual report in respect to our safety responsibilities and economic functions for HS1.

As a competition and consumer authority we use our powers to ensure that users and funders of railway services benefit from competitive railway markets and that passengers are treated fairly.

## How we make a difference

| | | |
|---|---|---|
| **For passengers** | We ensure the railways are increasingly safe and efficient, and consistently delivering agreed levels of performance | Over the past year, safety, performance and passenger satisfaction continued at record levels<br><br>We dealt with 186 consumer and competition enquiries |
| **For taxpayers** | We ensure that the railways deliver committed outputs and improvements whilst improving efficiency | Over the past year we continued to bear down on Network Rail's costs – they are on track to deliver cumulative savings of £15bn by 2014 |
| **For train operators** | We ensure fair access to the rail network at reduced costs | Over the past year our review of access arrangements has reduced timescales, simplified contracts and brought down costs<br><br>We dealt with 412 track access contract applications |
| **For railway workers** | We ensure risks are reduced and encourage a safer working culture | Over the past year there were zero workforce fatalities and the industry has begun to raise its game on occupational health |
| **For freight customers** | We ensure fair access to the network at reduced costs | Over the past year we ensured that there were no barriers to competition associated with ownership of rail freight sites |
| **For the supply industry** | We encourage Network Rail to work collaboratively with its suppliers | Over the past year we have ensured that they have an active voice in industry planning and reform |

## Our approach

We monitor and, where necessary, enforce delivery across the industry of its regulatory obligations – safety, performance, efficiency and investment – and encourage further improvement to meet the needs of customers and improve value.

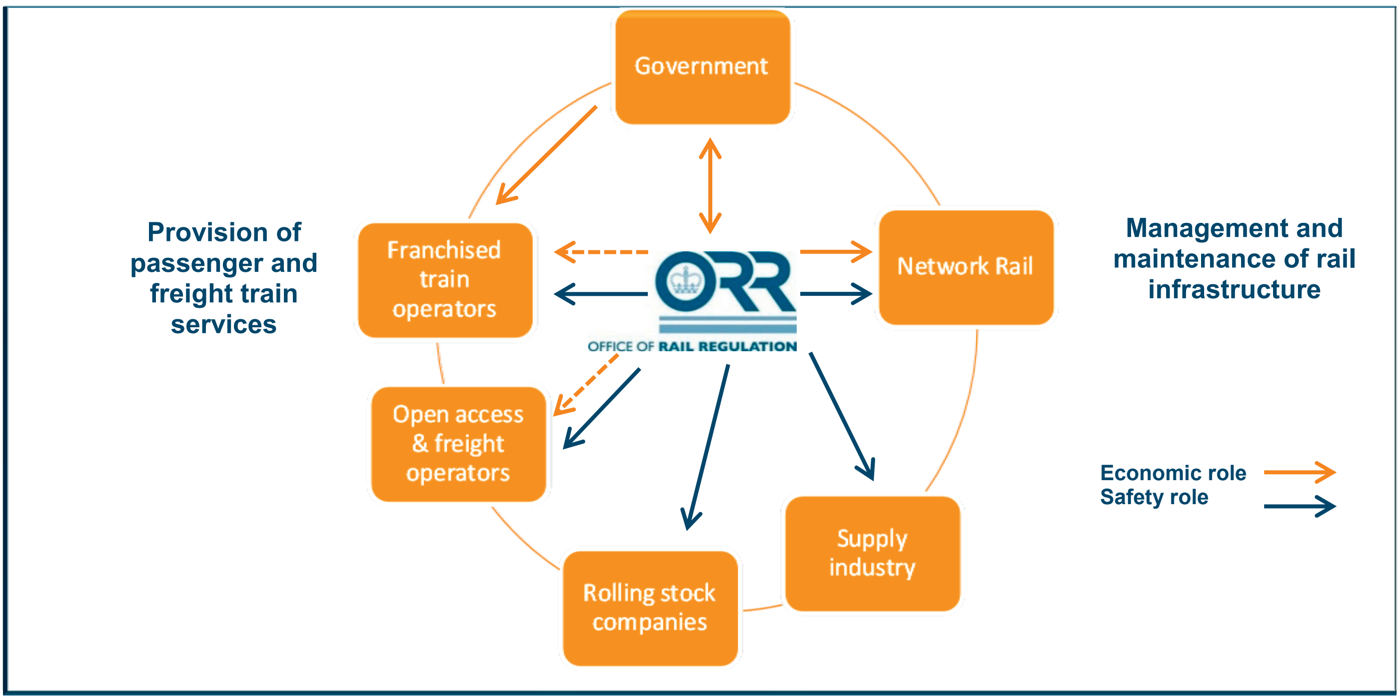
We carry out periodic reviews of the mainline railway to set Network Rail's outputs and funding and then ensure that these outputs are met.

We use our powers concerning access to railway facilities (track, stations and depots), industry codes and cooperation arrangements, licences, consumer and competition law, and keep under review the framework for relationships within which the different parts of the industry work together.

We do not set or enforce the terms of franchises under which governments buy passenger services from the private sector or regulate fares.

As the industry seeks to improve its efficiency and value for money we have a vital role in helping to make change happen in ways that benefit end users, balancing the varied interests of the many industry players and ensuring that safety and already planned efficiency and performance improvements are not compromised.

## Industry structure



We operate within a relatively complex structure with several key relationships that are critical to the definition and operation of the industry:

- Government, through franchise agreements, defines the requirements for franchised operators to deliver minimum train service specifications, fares and ticketing policy, quality of service and any required enhancements. Franchise agreements are monitored and enforced by Government

- The rights and obligations of both train operators and Network Rail are set out in access contracts between both parties which are regulated by ORR. Common procedures for timetabling and operation of the network are set by the industry Network Code

- Government sets out its high level requirements of Network Rail and the broader industry in five-year Control Periods. ORR translates these requirements into detailed outputs and funding requirements through the periodic review process. ORR then monitors and enforces Network Rail's outputs through its Network Licence

# Our key activities in 2011-12

**As national safety authority** we regulate health and safety for the entire mainline network in Britain as well as London Underground, light rail, trams and heritage sector.

Over the past year we have:

- Carried out our planned programme of risk-based audits and inspections, taking enforcement action and issuing guidance as required
- Taken forward our occupational health programme
- Ensured that Network Rail continues to improve the safety of level crossings

**As economic regulator** of the mainline railway we set Network Rail's funding to enable it to carry out its work efficiently and ensure it delivers the agreed outputs whilst improving its efficiency.

Over the past year we have:

- Continued to hold Network Rail to account for delivering its CP4 commitments
- Successfully launched our periodic review of Network Rail (PR13)
- Streamlined the industry's access contracts to reduce burdens and costs

**As a competition and consumer authority** we use our powers to ensure that users and funders of railway services benefit from competitive railway markets and that passengers are treated fairly.

Over the past year we have:

- Taken steps to ensure the industry improves the provision of information to passengers
- Undertaken research into ticketing complexity and whether this leads to wrong purchases
- Improved transparency by publishing data on industry costs, complaints handling and station usage

# Looking ahead

## Our priorities for 2012-13 and beyond

We have set three very clear priorities for the coming year, drawing on our corporate strategy, discussions with the industry and Governments and our own assessment of the key challenges ahead.

Our business plan which was published in April sets out what these mean in practice over the coming year, including our assessment of the degree of stretch facing the industry.

These priorities are:

- **To drive down industry costs, including delivering the £1bn savings identified by the McNulty Review**
- **To ensure that the industry puts its customers at front of mind**
- **To help the industry achieve excellence in health and safety culture with world-class safety management**

In delivering against these priorities we will:

- continue to focus on our roles as health and safety regulator for the whole industry and holding Network Rail to account. These are core functions and fundamental to helping the industry to deliver for passengers, freight customers and taxpayers efficiently, effectively and safely.
- continue to focus on aligning incentives and supporting more collaborative industry-led approaches through our Periodic Review of Network Rail's and HS1's outputs and funding requirements. The Network Rail review reaches a crucial stage over the coming year as we take the High Level Output Specifications and Statements of Funds Available from the Secretary of State for Transport and Scottish Ministers and move towards producing our draft determination in the summer of next year.
- take forward the new passenger-facing functions given to us by Government building on the findings of our Capability Review

# Looking back

## Delivery against our priorities for 2011-12

Our business plan for 2011-12, published in March 2011, set out our priorities for the past year within the context of the progress made so far against our corporate strategy for 2009-14.

These priorities delivered against the two principal roles and seven key themes outlined in our strategy.

Our priorities were:

- **Securing delivery by the industry (and particularly Network Rail) of its regulatory obligations:**
    - Holding Network Rail to account against its licence conditions
    - Working with the industry to promote and achieve excellence in health and safety culture and risk control
    - Delivering our consumer programme to achieve better outcomes for passengers and freight users
- **Helping the mainline railway to meet the long-term challenges:**
    - Taking forward the periodic review of Network Rail's outputs and the level of access charges for train operators
    - Engaging with and responding to industry reform
    - Informing and influencing in Europe
    - Reviewing output obligations set in PR13 to ensure they contribute to the sustainable development of the railway and the role it plays in supporting the economy, providing connectivity and managing impact on the environment

The following section reports on delivery over the past year, highlighting examples of our activities and the outcomes achieved.

## Securing delivery by the industry of its regulatory obligations

| Holding Network Rail to account against its licence obligations |
|---|
| Success measures for 2011-12:<br><br>• Network Rail delivers against its plans and licence obligations; and<br><br>• The agreed trajectories for excellence in asset management and in health and safety culture and risk control |
| **Outcomes delivered:**<br><br>• Network Rail delivered against its programme of enhancement projects<br>• We took action for a breach of licence on long-distance and freight performance<br>• We raised concerns over the pace of progress against the asset management and health and safety trajectories |
| **Progress towards our strategic goal:** Network Rail has made good progress in a number of areas (including the delivery of enhancement projects and a reduction in disruption due to engineering works). It has also made progress with its transformation through devolution of decision making to routes and the establishment of alliances with train operators. But we have concerns over its ability to deliver a number of its CP4 targets and will be pushing it hard to make up ground. |

### Examples of our activities during the year

| | |
|---|---|
| Long-distance and freight performance: Following an extensive investigation into declining punctuality on key parts of Britain's railways, we found Network Rail in breach of its licence.<br><br>We required Network Rail to work with the relevant passenger operators to produce robust plans showing that it was doing everything reasonably practicable to deliver performance commitments for long distance services. We also called on the company to establish a freight 'recovery board' – the first time such a mechanism has been used. | Asset management and safety: Network Rail's own assessment showed its asset data to be behind the trajectory for developing its strategic business plan. We undertook an audit to identify what the company needs to do to inform PR13 and how that compares with the asset information it has provided.<br><br>Network Rail's draft CP5 asset policies set out its evolving maintenance and renewal thinking for all key asset groups. We completed a comprehensive review which tested the policies for robustness, sustainability and efficiency and pressed the company to make significant progress. |

### Next steps

- We will publish our annual assessment of Network Rail's performance
- We will carry out a review of a sample of enhancement projects looking at whole-life cost efficiency and deliverability
- We will assess Network Rail's efficient delivery of maintenance, renewals and enhancements

| Working with the industry to promote and achieve excellence in health and safety culture and risk control |
| --- |
| Success measures for 2011-12:<br>• All duty holders measuring safety culture, with appropriate action plans in place;<br>• Delivery against our programme plans; and<br>• Improved health and safety performance |
| **Outcomes delivered:**<br>• For the fifth successive year there were no passenger fatalities on board a train<br>• The risk of harm to passengers at the platform/train interface decreased<br>• Workforce safety improved<br>• There was a reduction in risk to the public at level crossings<br>• For the second successive year LUL achieved our vision of zero industry-caused fatalities |
| **Progress towards our strategic goal:** The overall picture contains a number of positives with some good progress being made by dutyholders. However, we still have a number of concerns including management of workforce safety in Network Rail and the lack of effective safety management systems in parts of the heritage sector. We are also concerned at the amount of enforcement action we have had to take over the past year in the heritage sector and against Network Rail and it's contractors. |

**Examples of our activities during the year**

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| <u>Management maturity model:</u> Our rail management maturity model provides an objective means of measuring a dutyholder's safety culture.<br><br>We completed a reassessment of all major dutyholders against the maturity model and found that most had shown some improvements in key areas. | <u>Audit and inspections:</u> Our inspection work, with co-operation with Network Rail's own reviews, identified weaknesses in the company's maintenance activities following a major reorganisation the previous year.<br><br>As a result, and before any risks materialised, 200 posts were reinstated in various roles around the network. |

**Next steps**

- We will continue to focus on catastrophic risks to passengers and the public
- We will look at how the industry is managing safety risks associated with change
- We will look at the management of fatigue across the industry
- We will carry out an audit of Network Rail's revised level crossing risk assessment process

| Delivering our consumer programme to achieve better outcomes for passengers and freight users |
|---|
| Success measures for 2011-12:<br><br>• An overall increase in passenger and freight satisfaction |
| **Outcomes delivered:**<br><br>• Passengers, funders and taxpayers have access to more data and information about the rail services they pay for, in particular on whole industry finances; what passengers are complaining about; and the throughput through major stations<br>• Passengers have more means to access information about the real time running of their trains and to make complaints<br>• The freight industry (both operators and customers) can plan their business with more confidence about the status and availability of freight sites |
| **Progress towards our strategic goal:** We have made good progress over the past year and our programme will build on this further in the coming year. |

### Examples of our activities during the year

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| Consumer empowerment: As well as publishing data on complaints we have been working with train operators and Network Rail to secure their engagement with complaint-forwarding public websites. We believe such websites will play an increasing role in enabling passengers individually and as a group to engage with train operators and exert pressure when things go wrong.<br><br>We will want to see an industry increasingly attuned to how consumers engage with their services including via social networking sites and build on advances already made in these areas. | Freight sites: We identified problems associated with the ownership of rail freight sites by freight operating companies which might ultimately limit the choice of haulier available to customers and impact on the degree of competition in the freight market.<br><br>We encouraged all freight industry parties to play their full part in designing a framework that enables both the suppliers and buyers of railway services to plan their business with a reasonable degree of assurance that there are no unnecessary barriers to competition. |

### Next steps

- We will be conducting the second in a series of three freight customer surveys
- We will evaluate industry measures to ease problems with the freight facilities market
- We will publish TOC performance data at a more disaggregated level and add more data
- We will explore with third party developers the use that could be made of industry data/information
- We will be publishing our policy approach to transparency

## Helping the mainline railway to meet the long-term challenges

| **Taking forward the Periodic Review (PR13) of Network Rail's outputs and the level of access charges for train operators** |
|---|
| Success measures for 2011-12:<br><br>• We engage the right stakeholders at the right time in the PR13 process and that they have the right opportunity to inform our thinking;<br><br>• Credible and robust industry plan;<br><br>• Network Rail demonstrates that it is on course to deliver a credible strategic business plan; and<br><br>• We provide effective advice to Ministers |
| **Outcomes delivered:**<br><br>• The periodic review has been successfully launched with consultations carried out on a range of critical issues<br>• The industry has set out its initial plan for what the railways should deliver and at what cost<br>• We delivered our advice to Ministers |
| **Progress towards our strategic goal:** We remain on target to deliver PR13 within the timescales set out at the start of the process. |

### Examples of our activities during the year

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|---|---|
| Stakeholder engagement: We ran a series of consultation events in Cardiff, Edinburgh, Manchester and London to kick off the review and to consult on our objectives and overall approach.<br><br>These events enabled interested parties to discuss PR13 in the context of industry reform and some of the key technical issues. | Incentives: We consulted on detailed issues and proposals relating to incentives as part of our work on PR13.<br><br>The Rail Value for Money study highlighted a lack of alignment in the incentives between the key players in the rail industry. Our consultation set out for comment our more detailed plans for improving the alignment of incentives and encouraging better outcomes for customers, funders and society. |

### Next steps

- We will publish the framework for setting Network Rail's funding
- We will consult on the outputs Network Rail should be required to deliver
- We will consult on Network Rail's strategic business plan

| Engaging with and responding to industry reform |
|---|
| Success measures for 2011-12:<br><br>• Our views are taken into account on changes to industry structure<br><br>• Industry engages positively with the McNulty review findings |
| **Outcomes delivered:**<br><br>• Rail industry has focused on the need to improve its efficiency and deliver greater value for money<br>• Greater industry leadership for whole-sector issues through Rail Delivery Group<br>• Network Rail has decentralised decision making to route level and is discussing a range of alliancing arrangements with train operators |
| **Progress towards our strategic goal:** We have had good engagement with the DfT, Network Rail, train operators and others on a range of industry reform issues, including incentive alignment and alliances. The Government's Command Paper has set out a longer-term vision with an expanded role for regulation. |

**Examples of our activities during the year**

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|---|---|
| Alliancing: We issued a policy statement setting out our regulatory position on alliances following Network Rail's decision to enter into closer working arrangements with a number of train operators on parts of the network.<br><br>Our statement provides clarity for all parties and makes clear our support for alliances which aim to deliver a better service for passengers and freight users at lower costs.<br><br>We also required Network Rail to publish a policy statement setting out the principles it willl adopt in negotiating and agreeing alliances and how it will treat all train operators fairly. | Stations: We worked closely with DfT, Network Rail and ATOC to facilitate DfT's policy of giving train operators greater responsibility through the franchise process for the stations they operate and manage.<br><br>ORR willl monitor and enforce these new asset stewardship responsibilities through a licence condition.<br><br>This has already been rolled out in the Greater Anglia franchise and we continue to work with DfT, Network Rail and ATOC in preparation for roll-out of these arrangements in future franchises. |

**Next steps**

| |
|---|
| • We will develop, in conjunction with DfT, a plan for taking forward the intention for ORR to take a more whole-industry role<br>• We will ensure, through PR13, that the industry delivers the efficiency savings identified by the McNulty Review<br>• We will explore the best way of institutionalising the role of the industry-led Rail Delivery Group |

| Informing and influencing in Europe |
| --- |
| Success measures for 2011-12:<br><br>• We have effective working relationships with European regulatory bodies, safety authorities and European rail bodies on proposed implementation measures and sharing of best practice<br><br>• We identify EU policy initiatives early enough to allow effective influencing and promote the UK approach |
| **Outcomes delivered:**<br><br>• UK interests were successfully promoted through our influencing of European rail policy<br>• Reduced regulatory burden for the UK rail industry through our approach to implementation of European safety, interoperability and economic legislation<br>• Strengthened alliances with the regulatory and safety bodies across Europe |
| **Progress towards our strategic goal:** ORR works within an environment that is shaped by Europe, and the EU vision of a single market for rail services, unencumbered by economic and technical barriers.<br><br>Through cross-office engagement on European issues and our effective liaison with DfT and key stakeholders, we have ensured that the European agenda is consistent with our strategic goals, and helps us to achieve a safer, more efficient railway.<br><br>IGC and CTSA are working towards a more open, fair and competitive market in the Channel Tunnel, ensuring the regimes for setting safety requirements and access charges for operators are in line with European requirements. |

### Examples of our activities during the year

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| --- | --- |
| We worked with the European Rail Agency to develop a European common safety method on supervision to be applied by national safety authorities that reflects the importance of duty holders' safety management systems, as in the UK. | In June 2011 ORR co-founded IRG-Rail, a forum of independent economic rail regulators. We have already agreed a harmonised approach to cross-border freight appeals, developed uniform methods for market-monitoring, and successfully influenced the Recast negotiations |

### Next steps

- We will take over as Chair of IRG-Rail, and will be responsible for consolidating the success achieved so far by this forum of independent regulatory bodies, seek to extend membership further, and continue to harmonise cross-border regulatory practice
- We will seek to influence policy discusssions on the Fourth Rail Package to help ensure that the legislative proposal is compatible with the strategy for UK rail
- We will seek to influence the European Commission's proposals for the future role of the European Rail Agency

# Delivering our strategy

## Developing our capabilities


We are commmitted to improving our effectiveness and efficiency year-on-year. During the past year we decided to undergo a Capability Review using the model used widely across Whitehall departments. We are the first regulator to do so. The independent review team was asked to test our capabilities both across our current roles and functions and possible expanded future responsibilitities.

The reviewers spoke with 115 individuals from inside ORR, from across the industry, in Government and more widely and were able to draw on a wealth of information such as staff and stakeholder surveys.

The review found that ORR is an organisation with many positives. Our stakeholders rate us as a professional body, with capable staff that are committed to the task of ensuring that the railways are safe, reliable and efficient. As we hoped, the Review also identified areas in which we can do better. These range from aspects of our governance and processes, to specific areas of skills and succession planning. The Review identified change management capability as a particular area which we could strengthen in the short term.

Their overall conclusion was that ORR is ready to take on some of the new functions set out in the joint consultation document we published with the Department for Transport, because we already perform similar functions in relation to Network Rail – including areas such as complaints handling and monitoring train operator performance. Further functions such as enforcement of train operator contracts and fares regulation, which represent a more substantial extension of our role and require new areas of expertise, could follow when progress has been made in implementing ORR's change agenda, addressing the recommendations the Review identifies.

## Engaging with our people

In October 2011 we again participated in the civil service people survey. This was the third year that we have taken part in this survey.

The results showed that employee engagement in ORR held up overall against a difficult context in terms the current pay freeze and reforms to public sector pensions. Despite this there were some clear areas for improvement, including leadership and management of change and the need for greater clarity on organisational vision. We took steps to address these and, as shown by our subsequent re-accreditation for Investors in People we have made good progress. Not only did we achieve re-accreditation but we have been encouraged to submit ourselves for assessment against the Silver and Gold standard and intend to do so next summer.

## Engaging with our stakeholders

We have continued to improve our engagement with stakeholders across the industry and more widely, meeting with them regularly to discuss key issues, seek their views and explain our approach. In addition to extensive day-to-day working level contacts we hold regular formal meetings with Network Rail, train operators, supply industry, passenger bodies and funders and other stakeholders. We run regular workshops on key issues, speak at industry conferences and engage with the parliaments in London, Edinburgh and Cardiff.

During the year we carried out a stakeholder survey to seek feedback on our performance, and assess perceptions of our strengths and weaknesses. The survey findings echoed those of the Capability Review with most stakeholders satisfied with how we do our job, a high level of praise for the professionalism and expertise of our people and credit for the openness with which we deal with the industry. However, we are perceived by some stakeholders as sometimes being a little slow to reach decisions, to be insufficiently proactive and to lack commercial insight. We are considering all of these as part of our change agenda.

## Better regulation

We are firmly committed to making our regulation of Britain's railways both focused and effective and to benchmark ourselves against regulatory best practice and better regulation principles.

We are required by legislation to keep our functions under review and ensure that in exercising them that we do not impose or maintain unnecessary burdens. In the past year, we have reviewed a number of important policies and processes that have streamlined processes and decisions in a number of areas. This included reviewing the industry's access contractual arrangements, including our associated internal procedures, to reduce timescales and regulatory requirements, simplify and clarify contracts and bring down overall costs incurred by the industry.

We also participated in the Government's 'Red Tape Challenge'. Our initial response to challenges to a number of economic and safety regulations meant that a further 'star chamber' was deemed to be unnecessary.

We also participate in joint working with other regulators through the Joint Regulators Group which launched a number of formal working groups across a number of topics enabling mutual transfer of knowledge and expertise on issues common across regulated industries.

## Equalities duties

In accordance with the Equality Act 2010, ORR has an obligation to give due regard to eliminating discrimination, promoting equality of opportunity, and fostering good relations for people sharing protected characteristics.

We consulted on our equality objectives showing how ORR intends to fulfil this role towards the end of the business year. We will report annually on delivery against our objectives and will review them regularly to ensure that they remain relevant, realistic and challenging.

## Complaints to the Parliamentary Ombudsman

No formal complaints were investigated during the 2011 calendar year.

## Human resources

The table below shows the profile of ORR employees as at 31 March 2012.

| Grade | Total* | Male | Female | White | Ethnic minority | Not known | Disabled |
|---|---|---|---|---|---|---|---|
| SCS | 13 | 9 | 4 | 12 | 0 | 1 | 0 |
| Grade A | 22 | 15 | 7 | 20 | 1 | 1 | 1 |
| Grade B | 31 | 22 | 9 | 22 | 1 | 8 | 2 |
| Grade C | 98 | 79 | 19 | 64 | 6 | 28 | 4 |
| Grade D | 33 | 20 | 13 | 20 | 8 | 5 | 3 |
| Grade E | 27 | 18 | 9 | 18 | 7 | 2 | 2 |
| Grade F | 32 | 7 | 25 | 12 | 12 | 8 | 3 |
| Grade G | 24 | 11 | 13 | 9 | 10 | 5 | 1 |
| **Total** | **280** | **181** | **99** | **176** | **46** | **58** | **16** |

[Note: these figures are actual staff in post at 31 March 2012. The resource accounts give the average staff number over the year (ie 270). *Excludes chair and non-executives]

### Recruitment

We adhere to the Civil Service Recruitment Principles of open and fair competition and selection on merit.

During the year 11 people joined us from other government departments and we recruited eight people who were new to the civil service. We appointed six people on temporary contracts of less than two years, as permitted exceptions to the Recruitment Principles and there were no reportable exceptions.

Of the 25 people who joined ORR between 1 April 2011 and 31 March 2012:

- 56 per cent of those recruited were women (80 per cent of those joining our senior management grades were women)
- 28 per cent of those recruited were from ethnic minorities
- 4 per cent of those recruited were known to be disabled

### Pay and reward

In common with the rest of the public sector the past year was the first of a two-year pay freeze for ORR.

### Health and Safety

We fully recognise and accept our legal responsibility in relation to the health, safety and welfare of our employees and for all people using our premises. We comply with the Health & Safety at Work Act 1974 and all other relevant legislation as appropriate.

We are committed to the positive promotion of accident prevention and the elimination of incidents involving personal injury, illness or damage. We actively monitor and manage our staff attendance, ensuring that staff receive the support and advice they need from an occupational health professional when appropriate. We have also promoted well-being activities, including running stress awareness workshops and running a ‘healthy living’ week.

### Diversity and equality

We are committed to the principles of equality and diversity and aim to ensure that nobody receives less favourable treatment particularly on the basis of age, disability, gender re-assignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

We have engaged with our Staff Representatives Group when developing our approach to equality and have raised awareness with staff about the changes arising from the Equality Act 2010. Our workforce information helps us to monitor our progress and identify and tackle any areas of concern. This information is reviewed regularly and is published on our website.

## Business planning and finance

ORR is a non-ministerial government department funded almost entirely through a licence fee and railway safety levy charged to railway service providers. The totals of expenditure and income have to be planned through the Treasury and accounted for to Parliament. The chief executive is the Accounting Officer for these funds.

The resource accounts for the financial year 2011-12 have been prepared on an accruals basis, which means that expenditure and income have been accounted for in the periods in which they occurred, irrespective of when any cash was received or paid.

As mentioned above, ORR is funded almost entirely by the rail industry – broadly train operating companies and Network Rail. We work within a defined budget, and invoice for the safety levy and licence fee to meet our costs. If we receive income which is in excess of what we have spent in the year, we carry this forward to a future year. The effect of this is that future charges for the safety and licence fees can be reduced.

In 2011-12 we spent £28.73m. We levied £27.78m for safety, licence fees and miscellaneous services and added £3.07m income carried forward from the previous year. This left a balance of £2.12m to carry as deferred income into next year.

Most of our costs (67.2%) were salaries – £19.31m in 2011-12. A further £1.61m was spent on consultancy fees, including the purchase of legal services. The remainder of our expenditure (£7.82m) was on other non-pay related costs, including non-cash costs such as depreciation of our non-current assets[1] and making provision for future years' expenditure. A summary of our expenditure and income over the past two years is shown below.

| Income (£000) | 2011-12 | 2010-11 |
|---|---|---|
| (Deferrred)/accrued income from prior year | (3,065) | (1,421) |
| Licence fees, safety levy and miscellaneous income received | (27,784) | (30,027) |
| **Total income** | (30,849) | (31,448) |
| **Expenditure (£000)** | **2011-12** | **2010-11** |
| Staff costs | 19,307 | 19,901 |
| Other costs | 9,423 | 8,484 |
| Less (add) income deferred/(accrued) to future years | 2,121 | 3,065 |
| **Net operating deficit (as voted by Parliament)** | 2 | 2 |

| Reconciliation between resource outturn and resource budget outturn | 2011-12 | 2010-11 |
|---|---|---|
| Net resource outturn | 2 | 2 |
| Net operating costs | 2 | 2 |
| Resource budget outturn | 2 | 487 |

| Expenditure by core function | 2011-12 | | | | 2010-11 | |
|---|---|---|---|---|---|---|
| | Budget £000 | Actual £000 | Variance £000 | % Variance | Actual £000 | Variance 2010-11 to 2011-12 |
| Safety regulation | 18,773 | 17,785 | (988) | -5% | 17,762 | (23) |
| Economic regulation | 11,963 | 10,945 | (1,019) | -9% | 10,623 | (322) |
| **Total** | 30,736 | 28,730 | (2,006) | -7% | 28,385 | (345) |

[1] Depreciation is a non-cash expense that reduces the value of the asset over its useful life, as the result of wear and tear, age or obsolescence. Non-current assets are items such as fitting out of buildings, furniture, software licences and software development, all of which have a useful life of more than1 year, and a value of more than £5,000.

### Economy measures

We continue to monitor our economy and efficiency performance indicators and have further refined them. Examples are provided in the table below. We also continue to meet with other regulators to compare data and share best practice in monitoring performance.

| Economy measures | 2010-11 at 2011-12 prices | 2011-12 actual | 2011-12 budget | Variance 2011-12 budget to actual | 2012-13 budget | Variance 2010-11 to 11-12 actuals | Variance 2011-12 actual to 12-13 budget |
|---|---|---|---|---|---|---|---|
| Total expenditure (£m) | 29.7 | 28.7 | 30.7 | (2.0) | 30.7 | (1.0) | 2.0 |
| Permanent staff numbers | 287 | 270 | 287 | (17) | 286 | (17) | 16 |
| Accommodation costs (£000) | 2,018 | 2,344 | 2,650 | (306) | 2,444 | 326 | 100 |
| Accommodation costs/person | 7.0 | 8.7 | 9.2 | (0.6) | 8.5 | 1.6 | (0.1) |
| Accommodation costs/total costs (%) | 6.8 | 8.2 | 8.6 | (0.5) | 8.0 | 1.4 | (0.2) |
| Support costs (£000)* | 5,245 | 4,878 | 4,879 | (0.8) | 4,884 | (367.3) | 6.2 |
| Support costs/total costs (%)* | 17.7 | 17.0 | 15.9 | 1.1 | 15.9 | (0.7) | (1.1) |
| Support staff numbers* | 36.2 | 30.5 | 31.1 | (0.6) | 27.4 | (5.7) | (3.1) |
| Support staff number/ total staff number (%) | 12.6 | 11.3 | 10.9 | 0.4 | 9.6 | (1.3) | (1.7) |
| Consultancy costs (£000) | 1,679 | 1,606 | 2,460 | (854.4) | 2,447 | (73.8) | 841.4 |
| Consultancy cost/total costs (%) | 5.7 | 5.6 | 8.0 | (2.4) | 8.0 | (0.1) | 2.4 |
| Staff costs (£000) | 20,828 | 19,307 | 19,484 | (176.5) | 19,601 | (1,521.3) | 293.9 |
| Average staff cost/head (£000) | 72.6 | 71.5 | 68.0 | 3.4 | 68.5 | (1.1) | (2.9) |
| Staff turnover (%) | 10.6 | 10.6 | 3.3 | 7.3 | 3.5 | 0.0 | (7.1) |
| Sickness absence (%) | 1.6 | 1.4 | - | - | - | (0.2) | - |

[Note: *Corporate Services less CEO]

## Resource management

During the year our director's group reviewed the management accounts each month, receiving information on key areas of spend, budgets and forecasts. A summary of the management accounts was presented each month to the Board. Meetings were also held between budget holders and the finance team on a regular basis where the results were discussed at a more detailed level.

## Prompt payment initiative

We are committed to the prompt payment of our suppliers and seek to pay all valid invoices within 30 days of receipt. During 2011-121, 98.2% of invoices were paid within 30 days with 36.6% paid within 10 days.

## Accommodation strategy

We have now completed the roll-out of our accommodation strategy and have reduced the number of our offices to six from 21.

## Facilities management

Our facilities team manage and supply a multi-site operation across our offices. We have maintained a good relationship with our landlords in London, the Civil Aviation Authority, and other government departments for our regional offices.

## Information systems

During the past year we have successfully completed the outsourcing of our information systems to Capita Secure Information Systems.

## Information management

We have an agreed information management strategy, setting out our vision of managing our information efficiently and intelligently as a combined safety and economic regulator.

We have experienced one information risk incident which we considered to be sufficiently significant for the Information Commissioner to be informed.  The Information Commissioner confirmed that no action was required.

## Customer correspondence

| | 2010-11 | 2011-12 |
|---|---|---|
| Parliamentary Questions – response within 24 hours | 7 met (100%) | 22 met (100%) |
| Freedom of Information – response within 20 working days | 176 met (86%) | 204 met (91%) |
| General enquiries – 90% response within 20 working days | 1,876 met (96%) | 1,834 met (95%) |

## Sustainable development

We continue to implement our corporate sustainability initiative and adhere, wherever possible, to government guidelines.

The following figures cover our offices in London and Glasgow only.

| Greenhouse gas emissions (tonnes $CO_2$) | |
|---|---|
| Electricity | 315.6 |
| Oil | 190.0 |
| Gas | 7.2 |
| Travel: Car (personal user)<br>Air<br>Rail<br>Car (hire) | 81.3<br>28.7<br>152.3<br>8.8 |
| **Gross emissions total** | **784** |
| Gross emissions of official business travel (tonnes $CO_2$) | 161 |
| CRC gross expenditure (£) | 52,015 |
| Expenditure on official travel (£) | 686,000 |

| Waste (tonnes) | |
|---|---|
| Total waste | 12.3 |
| Hazardous waste | 0.0 |
| Non-hazardous to landfill | 1.3 |
| Non-hazardous recycled | 11.0 |
| Non-hazardous incinerated/energy from waste | 0.0 |

| Water | |
|---|---|
| Water consumption (cubic metres) | 1,781 |
| Water supply costs (£) | 3,133 |

| Finite resources | |
|---|---|
| Electricity non-renewable (Kwh) | 567,017 |
| Electricity renewable (Kwh) | 34,539 |
| Gas (Kwh) | 39,485 |
| Other (Kwh) | 62,124 |
| Total energy expenditure (£) | 63,545 |

# Resource accounts

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- certificate and report of the Comptroller and Auditor General to the House of Commons
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# Resource accounts 2011-2012

**These accounts cover the operation of the Office of Rail Regulation (ORR) for the period 1 April 2011 to 31 March 2012. They have been prepared on an accrual basis in accordance with International Financial Reporting Standards (IFRS), the Government Resources and Accounts Act 2000 and HM Treasury's 2011-12 Financial Reporting Manual.**

## Introduction

The Office of Rail Regulation was established by the Railways and Transport and Safety Act 2003 to replace the Office of the Rail Regulator. It is a non-ministerial department, funded through licence fees and safety levies, the level 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.

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.

These accounts cover the operation of the Office of Rail Regulation (ORR) for the period 1 April 2011 to 31 March 2012. They have been prepared on an accrual basis in accordance with International Financial Reporting Standards, the Government Resources and Accounts Act 2000 and HM Treasury's 2011-12 Financial Reporting Manual.

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.

## Remuneration Report

## Remuneration Committee

The Remuneration Committee's role relates to the pay and performance of ORR senior civil service (SCS) staff, and, since 20 October 2009, it also has a strategic oversight of the approach to remuneration, performance, reward and other terms and conditions of all staff. It consists of non-executive members of the Board. For 2011-12 these were Anna Walker (committee chair from April 2011-December 2011), Stephen Nelson (appointed from October 2011 and chairman from January 2012), Peter Bucks, and Tracey Barlow (appointment from May 2011).

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; 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.

The committee met on 16 May 2011 and 7 June 2011 to consider senior civil servants' pay strategy and remuneration and its recommendations were agreed by the Board on 21 June 2011. The committee also reviewed this year's SCS pay round at its meeting on 7 June 2011. At its 13 December 2011 meeting the committee discussed non-SCS performance and reward and received updates on the High Performance Programme Board and Directors objectives for 2011-12. The non-SCS performance and reward was also discussed at the meeting on 31 January 2012.

## 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.

Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

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 taking into account the recommendations of the Senior Salaries Review Body, and subject to Government approval. The notice period for all senior members of ORR does not exceed six months.

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 depending upon the reason for the termination, based on the provisions of the Civil Service Compensation Scheme. One executive received an early termination payment of £180k in 2011-12 (2010-11:nil).

Each senior civil servant participated in a bonus scheme (using the annual Cabinet Office guidance 'Managing Performance within the Senior Civil Service'), which takes into account the recommendations of the Senior Salaries Review Body and is subject to Government approval. 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.

## Salary and Pension Entitlements

The following sections provide details of the remuneration and pension interests of the most senior managers of the ORR during 2011-12, and has been subject to external audit.

### Remuneration

| | 2011-12 | | | 2010-11 | | |
|---|---|---|---|---|---|---|
| | Salary £000 | Bonus Payments £000 | Benefits in kind (to nearest £100) | Salary £000 | Bonus Payments £000 | Benefits in kind (to nearest £100) |
| Bill Emery***<br>*Chief Executive*****<br>(Left ORR on 28th June 11) | 45-50 | – | 100* | 165-170 | – | 200* |
| Richard Price***<br>*Chief Executive*<br>(Joined ORR on 16th May 11) | 120-125 | – | – | – | – | – |
| John Thomas ***<br>*Director, Railway Markets and Economics*<br>(Left ORR on 7th March 11) | – | – | – | 100-105 | 5-10 | 600* |
| Cathryn Ross***<br>*Director, Railway Markets and Economics*<br>(Joined ORR on 8th August 11) | 85-90 | – | – | – | – | – |
| Juliet Lazarus **<br>*Director, Legal services* | 85-90 | – | – | 85-90 | 0-5 | – |
| Ian Prosser<br>*Director, Railway Safety* | 120-125 | – | – | 120-125 | – | – |
| Michael Beswick<br>*Director, Rail Policy* | 115-120 | – | – | 115-120 | – | – |
| Ken Young<br>*Director, External Affairs* | 80-85 | – | – | 80-85 | 0-5 | – |
| Michael Lee***<br>*Director, Railway Planning and Performance*<br>(Left ORR on 21st February 12) | 95-100 | – | – | 105-110 | – | – |
| Lynda Rollason<br>*Director, Corporate Services* | 105-110 | – | 300* | 105-110 | 5-10 | 500* |
| **Band of Highest Paid Director's Total Remuneration (£'000)** | 135-140 | | | 165-170 | | |
| **Median Total Remuneration (£)** | 53,974 | | | 54,274 | | |
| **Ratio** | 2.6 | | | 3.0 | | |

The variation in the ratio between 2010-11 and 2011-12 is caused because the remuneration of the highest paid director in 2011-12, was lower than that in 2010-11, whilst the median salary remained the same.

Richard Price became Accounting Officer on 17th June 2011.

*Benefits in kind comprise subsidised gym membership

** The full-year basic equivalent salary for Juliet Lazarus, (who works part-time hours) is in the range £120,000 to £125,000.

*** The full year equivalent salaries are as follows:
Bill Emery in the range of £160,000 – £165,000 (11-12)
Richard Price in the range of £135,000 – £140,000 (11-12)
Cathryn Ross in the range of £130,000 – £135,000 (11-12)
Michael Lee in the range of £105,000 – £110,000 (11-12)
John Thomas – in the range of £105,000 – £110,000 (10-11)

'Salary' includes gross salary; 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.

Bonuses shown separately and not in gross salary above are based on performance levels attained and are made as part of the appraisal process. The bonuses reported in 2011-12 relate to performance in 2010-11 and the comparative bonuses reported for 2010-11 relate to the performance in 2009-10.

'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 35.

****The former chief executive received a payment of £180k, when he left office in June 2011. This payment was reported as an accrual in the 10-11 resource accounts and disclosed in the remuneration report. The former chief executive was vice chair of CERRE (Centre on Regulation in Europe) from March 2010. He received no remuneration for this work, but his travel and accommodation expenses were met by ORR.

## Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a final salary scheme (**classic**, **premium** or **classic plus**); or a whole career scheme (**nuvos**). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus** and **nuvos** are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an 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**, **classic plus** and **nuvos**. Increases to employee contributions will apply from 1 April 2012. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial 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. **Classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

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 from a panel of three providers. 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 pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic**, **premium** and **classic plus** and 65 for members of **nuvos**.

In order that the defined benefit obligations recognised in the financial statements do not differ materially from those that would be determined at the reporting date by a formal actuarial valuation, the FReM requires that "the period between formal actuarial valuations shall be four years, with approximate assessments in intervening years".

The last formal actuarial valuation undertaken for the Principal Civil Service Pension Scheme (PCSPS) was completed in March 2007 .Consequently, a formal actuarial valuation would have been due by March 2011. However, formal actuarial valuations for unfunded public service pension schemes have been suspended by HM Treasury on value for money grounds while consideration is given to recent changes to public service pensions and while future scheme terms are developed as part of the reforms to public service pension provision. The primary purpose of the formal actuarial valuations is to set employer and employee contribution rates, and these are currently being determined under the new scheme design.

Approximate actuarial assessments in intervening years between formal valuations using updated membership data are accepted as providing suitably robust figures for financial reporting purposes. However, as the interval since the last formal actuarial valuation now exceeds four years, the amounts recognised in these financial statements have been prepared using updated membership data, such as would have been provided for a formal valuation. In undertaking this valuation, the methodology prescribed in IAS 19, relevant FReM interpretations, and the discount rate prescribed by HM Treasury have also been used.

Further details about the Civil Service pension arrangements can be found at the website
http://www.civilservice.gov.uk/my-civil-service/pensions/index.aspx

Some employees, including the Director, Rail Policy and the Director, Railway 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 Trustee Company Limited. (www.railwaypensions.co.uk).

The former Rail Regulators' and former Chairman's pensions are by analogy with the Principal Civil Service Pension Scheme. During 2011-12 there was no member (2010-11– no 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 former Rail Regulators' and Chairman's Pension Scheme is disclosed as a liability on the Statement of Financial Position.

### 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 a payment made 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 figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

### Real increase in CETV

This reflects the increase in CETV that is 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.

## Pension Benefit

| | Accrued pension at age 60 as at 31/03/12 and related lump sum | Real increase/ (decrease) in pension and related lump sum at age 60 | CETV as 31/03/12 | CETV as 31/03/11* | Real Increase (decrease) in CETV |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Bill Emery (a)<br>*Chief Executive*<br>*(left ORR 28th June 11)* | 60-65 (pension)<br>180-185 (lump sum) | 0-2.5 (pension)<br>1.5-2.0 (lump sum) | 1,416 | 1,347 | 8 |
| Richard Price (a)**<br>*Chief Executive*<br>*(Joined ORR 16th May 11)* | 30-35 (pension)<br>90-95 (lump sum) | 5.0-7.5 (pension)<br>15-20 (lump sum) | 442 | 333 | 82 |
| Cathryn Ross (a)<br>*Director, Railway Markets and Economics*<br>*(Joined ORR 8th August 11)* | 15-20 (pension)<br>55-60 (lump sum) | 0-2.5 (pension)<br>2.5-5.0 (lump sum) | 241 | 221 | 11 |
| Juliet Lazarus (c)<br>*Director, Legal services* | 10-15 (pension) | 0-2.5 (pension) | 158 | 135 | 9 |
| Ian Prosser (e)<br>*Director, Railway Safety* | 10-15 (pension) | 2.5-5.0 (pension) | 102 | 69 | 24 |
| Michael Beswick (d)<br>*Director, Rail Policy* | 60-65 (pension)<br>50-55 (lump sum) | 1.5-2.0 (pension)<br>2.5-5.0 (lump sum) | 1,396 | 1,172 | 224 |
| Ken Young (e)<br>*Director, External Affairs* | 5-10 (pension) | 0-2.5 (pension) | 50 | 30 | 15 |
| Michael Lee (d)<br>*Director, Railway Planning and Performance*<br>*(left ORR 21st February 12)* | 60-65 (pension)<br>55-60 (lump sum) | 1.5-2.0 (pension)<br>2.5-5.0 (lump sum) | 1,138 | 950 | 188 |
| Lynda Rollason (a)<br>*Director, Corporate Services* | 15-20 (pension)<br>45-50 (lump sum) | 0-2.5 (pension)<br>1.5-2.0 (lump sum) | 290 | 258 | 9 |

Notes (a) opted to join Classic, (b) opted to join Classic plus, (c) Premium, (d) member of the Railway Pension Scheme from date of appointment, (e) Nuvos

* The actuarial factors used to calculate CETVs were changed during 2011. The CETVs at 31/3/11 and 31/3/12 have both been calculated using the new factors, for consistency. The CETV at 31/3/11 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.

** Richard Price became Accounting Officer on 17th June 2011.

## Non-Executive Directors

Other Non-executive Directors received the following salaries:

| | Period of Office | 2011-12 £ | 2010-11 £ |
|---|---|---|---|
| Anna Walker | 5 July 2009 to 4 July 2014 | 120,000 | 120,000 |
| Peter Bucks | 5 July 2004 to 31 March 2014 | 21,776 | 21,776 |
| Dr. Chris Elliot | 1 July 2007 to 31 March 2011 | – | 21,776 |
| Richard Goldson OBE | 2 October 2006 to 31 March 2011 | – | 21,776 |
| Tracey Barlow | 1 February 2010 to 31 January 2015 | 21,776 | 21,776 |
| Steve Walker | 1 February 2010 to 31 January 2015 | 21,776 | 21,776 |
| Mike Lloyd | 1 March 2010 to 28 February 2015 | 21,776 | 21,776 |
| Mark Fairbairn* | 5 September 2011 to 4 September 2015 | 12,461 | – |
| Stephen Nelson* | 5 September 2011 to 4 September 2015 | 12,461 | – |
| Ray O'Toole* | 5 September 2011 to 4 September 2015 | 12,461 | – |

Notes
*Full year equivalent is £21,776

In addition to the amounts shown above, Non-executive Directors are also entitled to receive reimbursement of expenses incurred in relation to their duties.

ORR meets the costs of the tax due on these taxable benefits.

| | 2011-12 £ | 2010-11 £ |
|---|---|---|
| Benefits paid or due | 12,233 | 8,155 |
| Tax Liability | 10,876 | 7,177 |

The liability is paid in the year following the benefit.

Richard Price
Accounting Officer
24 May 2012

# 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 statements 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 'Managing Public Money' published by the Treasury.

# Governance Statement

ORR is the independent safety and economic regulator for Britain's railways, established on 5 July 2004 under the Railways and Transport Safety Act 2003. We are a non-ministerial government department led by a Board consisting of eight non-executive directors (including the Chair) and five executive directors (including the chief executive). The Board held 11 meetings in 2011-12 (including a meeting in York and a meeting in Edinburgh) and two awaydays.

| The ORR Board |
|---|
| **Non-executive directors**<br>**Anna Walker**, *chair from 5 July 2009 to 4 July 2014*<br>**Peter Bucks**, *non-executive director 5 July 2004 – 31 March 2010 and reappointed to 31 March 2014*<br>**Tracey Barlow**, *non-executive director, 1 February 2010 to 31 January 2015*<br>**Steve Walker**, *non-executive director, 1 February 2010 to 31 January 2015*<br>**Mike Lloyd,** *non-executive director, 1 March 2010 to 28 February 2015*<br>**Stephen Nelson**, *non-executive director, 5 September 2011 to 4 September 2015*<br>**Ray O'Toole**, *non-executive director, 5 September 2011 to 4 September 2015*<br>**Mark Fairbairn**, *non-executive director, 5 September 2011 to 4 September 2015* |
| **Executive directors**<br>**Bill Emery**, *chief executive, 19 September 2005 and reappointed from 19 September to 28 June 2011 (left ORR on 28 June 2011)*<br>**Richard Price**, *chief executive, 16 May 2011 to 15 May 2016*<br>**Michael Beswick**, *executive director rail policy, 20 March 2006 to 19 March 2011 and reappointed until 14 June 2014*<br>**Michael Lee**, *executive director railway planning and performance, 15 January 2007 to 14 January 2012 (left ORR on 21 February 2012)*<br>**Ian Prosser,** *executive director railway safety, 26 September 2008 to 25 September 2013*<br>**Cathryn Ross**, *executive director railway markets and economics, 8 August 2011 to 7 August 2016* |

The Secretary of State for Transport makes appointments to the Board for a fixed term of up to five years but can only remove individual members for grounds under section 1(3) of the Railways Act 1993. The Board objectives are aligned to key business and risk management activities.

The Board's rules of procedure include strict guidelines on conflicts of interest. A register of Board members' interests is published on our website and members declare interests on agenda items at the start of every Board and committee meeting. On the rare occasion where there is a conflict of interest the relevant member withdraws from the meeting during discussion of the relevant item and this is recorded in the minutes.

The Board has three standing committees; audit, remuneration and safety regulation. It also has a periodic review committee that meets as appropriate to oversee the programme. The Board, its meetings and committee meetings are governed by the Board's rules of procedure. The Board and standing committees also review their performance annually. This year our Board and committee review is also taking account of the recent Capability Review findings.

A summary of the role of each committee, along with a review of the committee's activities during the year is set out below. Annex A provides the record of attendance for the Board and each committee.

## Board Committees

*Audit Committee*

The Audit Committee supports the Board in its responsibilities for issues of risk control and governance and associated assurance. Its role is to review the comprehensiveness of assurances in meeting the Board and the Accounting Officer's assurance needs, and the reliability and integrity of those assurances, as well as to provide an opinion on how well the Board and Accounting Officer are supported in decision taking and in discharging their accountability obligations (particularly in respect of financial reporting and risk management).

The Audit Committee comprises two non-executive directors (one of whom chairs the committee) and an independent member who is a qualified accountant. Membership of the committee is reviewed every three years. In 2011, the committee agreed to seek a replacement for Jeremy Chittleburgh who had served with distinction as the independent member since March 2007. Following a successful recruitment process, the ORR Board appointed Melvyn Neate as independent member from 1 March 2012.

During the year the committee reviewed:

- progress made in delivering the planned strategy and activities of external and internal audit (including progress made in implementing audit recommendations);
- the robustness of ORR's risk management and control processes;
- ORR's process for producing the annual governance statement and the annual report and resource accounts; and
- information security, business continuity and internal health and safety arrangements.

*Remuneration Committee*

The remuneration committee maintains a strategic oversight of the approach to remuneration, performance and reward, as well as other terms and conditions for all staff. It also has a specific role in reviewing the remuneration packages of ORR's senior civil servants including the chief executive. The committee comprises three non-executive directors – including the ORR Chair.

The committee met four times during the year, and areas considered included:

- SCS pay policy and non-consolidated performance related pay awards for 2010-11; and
- emerging proposals for a new performance management and pay system covering all non-SCS staff following the expiry of ORR's previous three-year pay agreement on 31 July 2011

*Safety regulation committee*

The safety regulation committee's role is to develop, maintain, review and update ORR's health and safety regulatory strategy and the overall adequacy of arrangements to meet ORR's statutory duties. It consists of a mix of non-executive and executive members.

The committee met five times during the year covering a diverse range of topics. These included:

- management and maintenance of structures, looking at Network Rail's asset management policy;
- occupational health in the industry;

- the preparation work on planning, timetabling and crowd control for travel during the Olympics;
- BP Deepwater Horizon, US National Commission report summary, lessons to be learnt, at a strategic level, that could feed into our role as a regulator; and
- Train Protection and Warning system (TPWS) – industry strategy.

*Periodic review committee*

The role of the periodic review committee is to oversee and provide guidance on the delivery of the programme of work associated with ORR's periodic review of Network Rail's revenue requirement for the next five-year control period. It is chaired by the chief executive and consists of non-executive and executive members.

The committee met three times during the year – all in quarter four. It considered a number of specific aspects of the periodic review including:

- route based efficiency sharing mechanism;
- on-rail competition consultation;
- proposals for a cap on freight charges;
- Network Rail's strategic business plan;
- Possessions and performance regimes;
- Incentives for innovation;
- NR's financing arrangements; and
- capacity utilisation incentives.

### Board performance

The ORR Board commissioned an independent Capability Review in November 2011. The Review's scope was:

- to assess ORR capability against its current functions;
- to assess ORR capabilities against a potentially expanded role as recommended in Sir Roy McNulty's 2011 report on Britain's railways.

The review team undertook a work programme between 21November and the 2 December 2011. This programme included interviews with individual Board members.

The Capability Review concluded that ORR is a 'healthy organisation', viewed as a professional body, ready to take on additional powers to drive improvements in passengers' experience – including monitoring train performance and service standards – because it already successfully undertakes similar functions. The Review also highlighted areas in which ORR can make improvements including the way the Board works, how ORR handles change, and enhancing skills in certain areas. ORR has fully accepted the Capability Review's recommendations and is strengthening itself to ensure that changes are made and fully embedded in the organisation.

In terms of the role of the Board the review team found that:

*'The ORR Board consists of talented and insightful individuals. Recent recruitment has further strengthened a Board that has the capability required to lead ORR effectively. Almost half the Board: 3 non-executive directors, 1 director and the Chief Executive, have joined in the last 6 months. These appointments provide a good platform for leading further change. There are examples of effective decisions by the Board over the last six months. These include passenger information during disruption and tackling Network Rail's performance on some of its CP4 targets"*

As part of the Board's annual review of its committee effectiveness and in setting is objectives for 2013 it is taking account of the Capability Review findings.

### Compliance with the Corporate Governance Code

ORR is a non-ministerial government department with its functions vested in a statutory Board. On that basis, there are some departures from the model envisaged in the enhanced departmental board protocol. Specifically, ORR's Board does not include a finance director: rather the key financial expertise is incorporated through the weekly executive Directors' Group meetings which are attended by the Deputy Director of Corporate Services who is a professional accountant. Also, ORR's remuneration committee does have a role in deciding individual reward for SCS staff. This approach adds a useful element of independence and objectivity given the small size of the department.

The Board considers that ORR is compliant with the principles established in the Corporate Governance Code[1]. The Board and senior team operates according to the recognised precepts of good corporate governance in business:

- Leadership
- Effectiveness
- Accountability
- Sustainability

ORR's chief executive is the departmental Accounting Officer and as such is personally responsible and accountable to Parliament for the organisation and quality of management in the department, including its use of public money and stewardship of its assets.

### Business plan

ORR produces and publishes an annual business plan, setting out resource requirements and key outputs planned for the coming financial year. The plan is a working document which is used to enable the Board and executive to make decisions on the appropriate allocation of resources.

Monthly reports on progress with the delivery of planned outputs form an important part of the assurance process allowing the Board and the executive to monitor the delivery of ORR's objectives.

### Risk management

The business planning and corporate governance team in the corporate services directorate leads on managing and driving forward the risk management process and ensuring that risk management is effectively implemented and embedded in ORR's processes. The team has put forward formal papers to

[1] Corporate Governance in central Government Departments: Code of good practice 2011

the ORR Board, the Audit Committee and the executive directors' group and has facilitated discussions on risk at directorate and team level.

The assessment of risks and the identification of appropriate controls form a key part of the business planning process. Each directorate considers these aspects and includes them in the working level planning documentation.

At a senior level, leadership is given to the risk management process through Board reviews and through the Audit Committee's scrutiny programme. The Board considered papers on risk in May 2011 and January 2012. The Audit Committee continued to scrutinise the risk management framework and took papers on risk management at each of its quarterly meetings

*Risk review workshop*

On 19 September 2011, the Board and senior managers attended a risk management workshop facilitated by Deloitte, ORR's internal audit provider. The aims of the workshop were, firstly to identify the key risks facing ORR and secondly, to obtain a consensus as to their importance. Feedback from participants and from the Deloitte suggested that these aims were met.

*Risk management strategy*

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.

ORR has a two-tier risk management structure comprising:

- a high level risk register; and
- directorate risk registers.

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

The *high level risk register* is a concise statement of the most significant risks facing ORR. It identifies risk owners (at director or deputy director level) and control actions along with progress and next steps on these. There are currently 10 high level risks, covering industry safety, Network Rail performance, changes to the structure of the industry and subsequent expectations of ORR, stakeholder relations and the Olympics, as well as ORR's own organisational effectiveness.

The *directorate risk registers* incorporate programme and project risk registers by reference and provide the principal focus for risk management at working level. Each of the six directorates is required to maintain a directorate risk register and to review this regularly as part of its routine management processes. The directorate risk registers are submitted to the Audit Committee in rotation 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 work programmes and processes (for example, information systems support services) are delivered through third party suppliers. In these cases contracts and risks are managed by the commissioning directorate or manager with lead responsibility for ensuring the required outcomes.

A standard format is used for the high level and directorate risk registers. Risk is described using a "context, event, consequences" sequence, and each risk is scored at the inherent (i.e. uncontrolled) level, as well as at the current and target levels. The target score for each risk represents a statement of ORR's risk appetite in relation to each risk. A relatively high target score reflects a decision to tolerate a relatively high level of risk in the relevant area. A “risk control strategy” box specifies the approach to controlling the risk – seeking to reduce probability, business impact or both, and the control actions tables are designed to present an action plan approach to risk control, with key delivery dates specified. Finally the register also specifies success measures and the current position against these.

Risk owners have the opportunity at regular team and directors’ group meetings, to escalate risk from project and programme to directorate level and from directorate level to high level.

*Information assurance*

ORR has established an information management strategy which sets out how we will manage our information more efficiently and intelligently as a combined safety and economic regulator. The implementation of this strategy is managed through the information management programme, which includes an area of work on information assurance.

We maintain a risk register on information risk and have formed an information security forum (chaired by our Senior Information Risk Owner (SIRO)) to oversee our compliance with our government information assurance requirements, to monitor breaches in information security and recommend follow-up actions, and to provide a central management point for matters relating to information assurance.

We follow the requirements of Government’s Security Policy Framework, and submit a report on information assurance annually to Cabinet Office. This year, our focus has been on compliance with the security policy framework as well as ensuring we have the correct procedures in place for handling information security incidents. We also continue to ensure that a good yet risk-appropriate security culture is embedded at ORR. To this end, we have re-issued our security guidance documentation to staff and provide security training.

We have experienced one information risk incident which we considered to be sufficiently significant for the Information Commissioner to be informed. This was due to our third party payroll supplier (Logica) mistakenly sending an email containing password protected files with ORR pay data to a recipient at another government department. We ensured that the email was immediately deleted and contacted the IT department of organisation concerned to make sure it was permanently deleted from their system.

*Internal audit*

On 1 April 2011, Deloitte took over from RSM Tenon as ORR’s internal audit provider. Deloitte delivered a programme of audit reviews which was developed jointly with the executive and the Audit Committee. The plan was designed to address the key risks facing the organisation and to provide assurance that ORR’s key business processes are fit for purpose.

At least annually, Deloitte provides the Accounting Officer with an independent report on internal audit activity for ORR. All internal audit reports in 2011-12 offered a positive assurance opinion. Deloitte’s annual report for 2010-11 provided a positive opinion on the adequacy and effectiveness of ORR’s governance, risk management and control.

Richard Price

**Richard Price**
**Accounting Officer**

**24 May 2012**

## Board meeting attendance 2011-12

| Board member | April | May | June | July | September | October | November | December* | January | February | March | Total/ possible |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Anna Walker (Chair) | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | A | ✓ | 10/11 |
| Tracey Barlow (NED) | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 11/11 |
| Michael Beswick (Executive) | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 11/11 |
| Peter Bucks (NED) | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | A | 10/11 |
| Bill Emery (CEO) | ✓ | ✓ | | | | | | | | | | 2/2 |
| Mark Fairbairn (NED) | | | | | ✓ | ✓ | ✓ | ✓ | ✓ | A | ✓ | 6/7 |
| Michael Lee (Executive) | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | | 9/9 |
| Mike Lloyd (NED) | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | A | ✓ | ✓ | ✓ | 10/11 |
| Stephen Nelson (NED) | | | | | ✓ | ✓ | ✓ | A | ✓ | ✓ | ✓ | 6/7 |
| Ray O'Toole (NED) | | | | | ✓ | A | ✓ | ✓ | ✓ | ✓ | ✓ | 6/7 |
| Richard Price (CEO) | ✓** | ✓ | ✓ | A | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 10/11 |
| Ian Prosser (Executive) | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 11/11 |
| Cathryn Ross (Executive) | | | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 7/7 |
| Steve Walker (NED) | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 11/11 |

[Notes:*additional meeting, **attended as an observer]

## Audit committee attendance 2011-12

| Committee member | May | September | December | March | Total/ possible |
|---|---|---|---|---|---|
| Tracey Barlow (Committee chair) | ✓ | ✓ | ✓ | ✓ | 4/4 |
| Peter Bucks | ✓ | ✓ | ✓ | ✓ | 4/4 |
| Jeremy Chittleburgh* | ✓ | ✓ | ✓ | | 3/3 |
| Melvyn Neate** | | | | ✓ | 1/1 |

[Note: *independent member until February 2012, **independent member from March 2012]

## Remuneration committee attendance 2011-12

| Committee member | May | June | December | January | Total/ possible |
|---|---|---|---|---|---|
| Stephen Nelson *(Committee chair – from February 2012)* | | | A | ✓ | 1/2 |
| Anna Walker *(Committee chair – until December 2011)* | ✓ | ✓ | ✓ | ✓ | 4/4 |
| Tracey Barlow | ✓ | ✓ | ✓ | ✓ | 4/4 |
| Peter Bucks | ✓ | ✓ | ✓ | ✓ | 4/4 |

## Safety regulation committee attendance 2011-12

| Committee member | April | August | October | December | March | Total/ possible |
|---|---|---|---|---|---|---|
| Steve Walker *(Committee chair)* | ✓ | ✓ | ✓ | ✓ | ✓ | 5/5 |
| Michael Beswick | ✓ | A | A | ✓ | ✓ | 3/5 |
| Bill Emery | A | | | | | 0/1 |
| Mark Fairbairn | | | | ✓ | ✓ | 2/2 |
| Juliet Lazarus | A | ✓ | ✓ | ✓ | ✓ | 4/5 |
| Michael Lee | ✓ | ✓ | ✓ | ✓ | | 4/4 |
| Mike Lloyd | ✓ | A | A | ✓ | ✓ | 3/5 |
| Ray O'Toole | | | | ✓ | ✓ | 2/2 |
| Richard Price | | A | ✓ | ✓ | ✓ | 3/4 |
| Ian Prosser | ✓ | ✓ | ✓ | ✓ | ✓ | 5/5 |
| Allan Spence | ✓ | A | A | ✓ | A | 2/5 |
| Caroline Wake | ✓ | ✓ | ✓ | ✓ | ✓ | 5/5 |
| Anna Walker | ✓ | ✓ | ✓ | ✓ | A | 4/5 |

## Periodic review committee attendance 2011-12

| Committee member | January | February | March | Total/ possible |
|---|---|---|---|---|
| Anna Walker *(Committee chair)* | ✓ | A | ✓ | 2/3 |
| Tracey Barlow | ✓ | ✓ | ✓ | 3/3 |
| Michael Beswick | ✓ | A | ✓ | 2/3 |
| Peter Bucks | ✓ | ✓ | ✓ | 3/3 |
| Mark Fairbairn | ✓ | A | ✓ | 2/3 |
| John Larkinson | ✓ | ✓ | A | 2/3 |
| Juliet Lazarus | ✓ | A | ✓ | 2/3 |
| Michael Lee | A | | | 0/1 |
| Mike Lloyd | A | ✓ | ✓ | 2/3 |
| Paul McMahon | ✓ | ✓ | ✓ | 3/3 |
| Stephen Nelson | A | ✓ | ✓ | 2/3 |
| Ray O'Toole | ✓ | ✓ | ✓ | 3/3 |
| Richard Price | ✓ | ✓ | ✓ | 3/3 |
| Cathryn Ross | ✓ | ✓ | ✓ | 3/3 |

# 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 2012 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Department's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. I have also audited the Statement of Parliamentary Supply 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

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Department's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2012 and shows that those totals have not been exceeded; and

- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2012 and of its net operating cost for the year then ended; and

- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

### Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and

- the information given in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or

- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or

- I have not received all of the information and explanations I require for my audit; or

- the Governance Statement does not reflect compliance with HM Treasury's guidance.

### Report

I have no observations to make on these financial statements.

**Amyas C E Morse** **28 May 2012**
**Comptroller and Auditor General**
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

## Statement of parliamentary supply

### Summary of Resource and Capital Outturn 2011-12

| | | | | | | | | 2011-12 | 2010-11 |
|---|---|---|---|---|---|---|---|---|---|
| | | Estimate | | | Outturn | | | | Outturn |
| | Note | Voted | Non-Voted | Total | Voted | Non-Voted | Total | Outturn compared with Estimate: saving/ (excess) | Total |
| | | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Departmental Expenditure Limit** | | | | | | | | | |
| – Resource | | 2 | – | 2 | 2 | – | 2 | – | 2 |
| – Capital | | 800 | – | 800 | 641 | – | 641 | 159 | 296 |
| **Annually Managed Expenditure** | | | | | | | | | |
| – Resource | | – | – | – | – | – | – | – | – |
| – Capital | | – | – | – | – | – | – | – | – |
| **Total Budget** | | 802 | – | 802 | 643 | – | 643 | 159 | 298 |
| Non-Budget | | | | | | | | | |
| – Resource | | – | – | – | – | – | – | – | – |
| **Total** | | 802 | – | 802 | 643 | – | 643 | 159 | 298 |
| | | | | | | | | | |
| Total Resource | | 2 | – | 2 | 2 | – | 2 | – | 2 |
| Total Capital | | 800 | – | 800 | 641 | – | 641 | 159 | 296 |
| Total | | 802 | – | 802 | 643 | – | 643 | 159 | 298 |

Explanations of variances between Estimate and outturn are given in Note 2.

| **Net Cash Requirement 2011-12** | | | | | |
|---|---|---|---|---|---|
| £000 | Note | 2011-12 Estimate | | 2011-12 | 2010-11 |
| | | | Outturn | Outturn compared with Estimate: saving/ excess) | Outturn |
| | 4 | 2,000 | 1,542 | 458 | – |

| **Administration Costs 2011-12** | | | |
|---|---|---|---|
| £000 | 2011-12 Estimate | 2011-12 Outturn | 2010-11 Outturn |
| | 2 | 2 | 2 |

Figures in the shaded areas are voted totals or other totals subject to Parliamentary control.

The notes on pages 54-73 form part of these accounts

## Statement of comprehensive net expenditure

for the year ended 31 March 2012

| | Note | Staff Costs £000 | Other Costs £000 | 2011-12 Income £000 | 2010-11 £000 |
|---|---|---|---|---|---|
| **Administration Costs:** | | | | | |
| Staff Costs | 7 | 19,307 | – | – | 19,901 |
| Other administration costs | 8 | – | 9,423 | – | 8,484 |
| Operating Income | 9 | – | – | (28,728) | (28,383) |
| Other comprehensive expenditure | | – | – | – | – |
| **Totals** | | 19,307 | 9,423 | (28,728) | 2 |
| **Net Operating Cost for the year ended 31 March 2012** | | | | 2 | 2 |

The notes on pages 54-73 form part of these accounts

## Statement of financial position

as at 31 March 2012

| | Note | £000 | 31 March 2012 £000 | £000 | 31 March 2011 £000 |
|---|---|---|---|---|---|
| **Non-current assets:** | | | | | |
| Property, plant and equipment | 10 | 1,953 | | 2,386 | |
| Intangible assets | 11 | 1,121 | | 692 | |
| **Total non-current assets** | | | **3,074** | | **3,078** |
| **Current assets:** | | | | | |
| Trade and other receivables | 12 | 1,167 | | 1,678 | |
| Cash | 13 | 1,424 | | 1,831 | |
| **Total current assets** | | 2,591 | | 3,509 | |
| **Total assets** | | | **5,665** | | **6,587** |
| **Current liabilities:** | | | | | |
| Trade and other payables | 14 | (7,912) | | (10,065) | |
| Provisions | 15 | (137) | | (302) | |
| (amounts falling due within one year) | | | | | |
| **Total Current Liabilities** | | | (8,049) | | (10,367) |
| **Total non-current assets less liabilities** | | | (2,384) | | (3,780) |
| **Non-current liabilities** | | | | | |
| Provisions | 15 | (1,001) | | (1,103) | |
| Other payables >1 year | 14 | – | | (20) | |
| Pension Liabilities | 15 | (446) | | (421) | |
| ***Total non-current liabilities*** | | | (1,447) | | (1,544) |
| **Assets less liabilities** | | | **(3,831)** | | **(5,324)** |
| **Taxpayers' Equity:** | | | | | |
| General Fund | | | (4,067) | | (5,632) |
| Revaluation reserve | | | 236 | | 308 |
| **Total taxpayers' equity** | | | **(3,831)** | | **(5,324)** |

Richard Price

**Richard Price**
**Accounting Officer**
**24 May 2012**

The notes on pages 54-73 form part of these accounts

## Statement of cash flows

for year ended 31 March 2012

| Cash flows from operating activities | Note | 2011-12 £000 | 2010-11 £000 |
|---|---|---|---|
| Operating Cost | 3 | (2) | (2) |
| Adjustments for non-cash transactions | 7,8 | 589 | 783 |
| (Increase)/Decrease in trade and other receivables | | 511 | (402) |
| Increase/(Decrease) in trade and other payables | | (1,208) | 1,978 |
| Increase/(Decrease) in payables not passing through Statement of Comprehensive Net Expenditure | | 281 | (34) |
| Use of provisions | 15 | (199) | (488) |
| Use of provisions – by analogy pension | | (15) | (14) |
| **Net cash (outflow)/inflow from operating activities** | | **(43)** | **1,821** |

| Cash flows from investing activities | 2011-12 £000 | 2010-11 £000 |
|---|---|---|
| Property plant and equipment additions | (24) | (107) |
| Intangible non-current assets additions | (607) | (279) |
| **Net cash outflow from investing activities** | **(631)** | **(386)** |

| Cashflows from financing activities | 2011-12 £000 | 2010-11 £000 |
|---|---|---|
| From the Consolidated Fund (Supply) – current year | 2,000 | – |
| Advances from the Contingencies Fund | 10,000 | 10,000 |
| Repayments to the Contingencies Fund | (10,000) | (10,000) |
| **Net financing** | **2,000** | **–** |

| | Note | 2011-12 £000 | 2010-11 £000 |
|---|---|---|---|
| **Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund** | | **1,326** | **2,227** |
| Payments of amounts due to the Consolidated Fund | | (2,699) | (2,984) |
| Amounts due to the Consolidated Fund – and not paid over | | 966 | 486 |
| **Payments of amounts due to the Consolidated Fund** | | **(1,733)** | **(2,498)** |
| **Net increase/(decrease) in cash and cash equivalents after adjustments for receipts and payments to the Consolidated Fund** | | (407) | (271) |
| **Cash and cash equivalents at the beginning of the period** | 13 | 1,831 | 2,102 |
| **Cash and cash equivalents at the end of the period** | 13 | 1,424 | 1,831 |

The notes on pages 54-73 form part of these accounts

## Statement of changes in taxpayers' equity

For the year ended 31 March 2012

| | General Fund £000 | Revaluation Reserve £000 | Total Reserves £000 |
|---|---|---|---|
| **Balance at 31 March 2010** | (3,858) | 308 | (3,550) |
| Changes in accounting policy | – | – | – |
| **Restated balance at 1 April 2010** | **(3,858)** | **308** | **(3,550)** |
| Changes in taxpayers' equity for 2010-11 | | | |
| Actuarial gain relating to pension provision | 17 | – | 17 |
| Non cash charges | | | |
| Auditors remuneration | 42 | – | 42 |
| Operating cost for the year | (2) | – | (2) |
| **Total recognised income and expenditure for 2010-11** | **57** | **–** | **57** |
| Net Parliamentary Funding – drawn down | – | – | – |
| Excess cash surrenderable to the Consolidated Fund | (1,831) | – | (1,831) |
| **Balance as at 31 March 2011** | **(5,632)** | **308** | **(5,324)** |
| Changes in taxpayers' equity for 2011-12 | | | |
| Actuarial loss relating to pension provision | (17) | – | (17) |
| Non cash charges | | | |
| Auditors remuneration | 42 | – | 42 |
| Operating cost for the year | (2) | – | (2) |
| Additional depreciation charged for revaluation on assets | – | (72) | (72) |
| **Total recognised income and expenditure for 2011-12** | **23** | **(72)** | **(49)** |
| Net Parliamentary Funding – drawn down | 2,000 | – | 2,000 |
| Amounts issued from the Consolidated Fund for Supply but not spent at year end | (458) | – | (458) |
| **Balance as at 31 March 2012** | **(4,067)** | **236** | **(3,831)** |

The notes on pages 54-73 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 2011-12 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the ORR for the purpose of giving a true and fair view has been selected. The particular policies adopted by the ORR are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

In addition to the primary statements prepared under IFRS, the FReM also requires ORR to prepare one additional primary statement. The Statement of Parliamentary Supply and supporting notes show Outturn against Estimate in terms of the net resource requirement and the net cash requirement.

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.

### 1.1 Accounting convention

These accounts have been prepared under the historical cost convention.

### 1.2 Tangible non-current assets

These are comprised of fitting out costs; furniture, office and telecommunications equipment and computers. The minimum level for capitalisation of a tangible non-current asset is £5,000. The grouping of assets below the threshold has been restricted to IT and fit out costs.

Tangible non-current assets are carried at valuation in existing use. Depreciated modified historic cost is used as a proxy for current value as annual revaluations would not create a material difference to the carrying value of the assets.

### 1.3 Depreciation

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

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

### 1.4 Intangible assets

Purchased computer software licences and software development costs are capitalised as intangible non-current assets where expenditure of £5,000 or more is incurred. Software licences are amortised over the shorter of the term of the licence and the useful economic life. Software development costs are amortised over 5 years or the life of the asset whichever is shorter. The useful economic life for software is normally 3-5 years. Depreciated modified historic cost is used as a proxy for current value as annual revaluations would not create a material difference to the carrying value of the assets.

### 1.5 Operating income

Operating income is income which relates directly to ORR's operating activities. It comprises licence fees, concession fees (HS1), safety levies and safety related income 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 Current Liabilities, and any under recovery is treated as accrued income within Current Assets.

### 1.6 Administration expenditure

The statement of comprehensive net expenditure reflects the costs of running ORR. These include both administration costs and associated operating income.

### 1.7 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.

### 1.8 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.

The last formal actuarial valuation undertaken for the PCSPS was completed in 2007. Consequently, a formal actuarial valuation would have been due by March 2011. However, formal actuarial valuations for unfunded public service pension schemes have been suspended by HM Treasury on value for money grounds while consideration is given to recent changes to public service pensions and while future scheme terms are developed as part of the reforms to public service pension provision. The primary purpose of the formal actuarial valuations is to set employer and employee contribution rates, and these are currently being determined under the new scheme design.

Approximate actuarial assessments in intervening years between formal valuations using updated membership data are accepted as providing suitably robust figures for financial reporting purposes. However, as the interval since the last formal actuarial valuation now exceeds four years, the amounts recognised in these financial statements have been prepared using updated membership data, such as would have been provided for a formal valuation. In undertaking this valuation, the methodology prescribed in IAS 19, relevant FReM interpretations, and the discount rate prescribed by HM Treasury have also been used.

In addition, six 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 benefits of the British Rail section are ultimately guaranteed by the Secretary of State. The amount paid in respect of these pensions is shown under staff costs in the Operating Cost Statement.

Past Rail Regulators 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.

### 1.9 Leases

*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 17, "Commitments under leases", are not discounted.

*Finance leases*

A finance lease is one that transfers substantially all the risks and rewards incidental to ownership of an asset. Interest charges due under finance leases are charged to the Operating Cost Statement. Future payments, disclosed at Note 17, "Commitments under leases", are discounted at the rate specified in the lease.

### 1.10 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%). However, the new rules under IFRS state that the discount rate applied to the provision for voluntary early retirements should be discounted at the pension rate and not at the 2.2% provisions rate. The provisions for past Rail Regulators' pension commitments have also been assessed using a discount rate of 2.8% net of price inflation (2010-11: 2.9%).

### 1.11 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 non-current assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT. The rate of VAT increased to 20% from January 2011.

### 1.13 Going Concern

The statement of financial position at 31 March 2012 shows a negative Taxpayers' Equity of £3.831 million. This reflects the inclusion of liabilities falling due in 2011-12, including the repayment of excess cash to the Treasury's Consolidated Fund. Any liabilities in excess of cash receivable in year are financed mainly by drawings from the UK Contingencies Fund. Drawings from the Consolidated Fund 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 cash, 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 2012-13 has already been given. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these accounts.

### 1.14 Contingent Liabilities

In addition to contingent liabilities disclosed in accordance with IAS37, 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 Managing Public Money.

Where the time value of money is material, contingent liabilities which are required to be disclosed under IAS37 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by IAS37 are stated at the amounts reported to Parliament.

## 2. Net outturn

### 2.1 Analysis of net resource outturn by section

| | 2011-2012 | | | | | | 2010-2011 |
|---|---|---|---|---|---|---|---|
| | Outturn | | | | Estimate | | Outturn |
| | Administration | | | | | Net total compared to Estimate | Total |
| | Gross £000 | Income £000 | Net £000 | Total £000 | Net Total £000 | Estimate £000 | £000 |
| Spending in Departmental Expenditure Limit | | | | | | | |
| Voted: | | | | | | | |
| A. Economic regulation, administration, associated capital, other expenditure | 10,945 | (10,944) | 1 | 1 | 1 | – | 1 |
| B. Safety regulation, administration and other expenditure | 17,785 | (17,784) | 1 | 1 | 1 | – | 1 |
| **Total** | **28,730** | **(28,728)** | **2** | **2** | **2** | **–** | **2** |

ORR's variance against the Estimate (£2.3m) was due largely to underspends in the following areas: consultancy (£854k), non-use of contingency (£400k), accommodation (£306k), non-cash items (£211k) and salaries (£177k)

### 2.2 Analysis of net capital outturn by section

| Spending in Departmental Expenditure Limit | 2011-2012 Outturn Gross £000 | Income £000 | Net £000 | Estimate Net £000 | Net total compared to Estimate £000 | 2010-11 Outturn £000 |
|---|---|---|---|---|---|---|
| Voted: | | | | | | |
| A. Economic regulation, administration, associated capital, other expenditure | 260 | (11) | 249 | 800 | 551 | 296 |
| B. Safety regulation, admin and other expenditure | 409 | (17) | 392 | – | (392) | – |
| **Total** | **669** | **(28)** | **641** | **800** | **159** | **296** |

The variance between the Estimate and the Outturn is due to capitalised staff costs being less than budgeted for. ORR was also able to recover VAT on bespoke software which was not anticipated in the Estimate.

### 2.3 Variance in net cash requirement

At the time of the Estimate ORR anticipated spending more cash towards the end of the financial year, than was the case.

## 3. Reconciliation of outturn to net operating cost and against administration budget

### 3.1 Reconciliation of Net Resource Outturn to Net Operating Cost

| | | Note | 2011-12 £000 Outturn | 2010-11 £000 Outturn |
|---|---|---|---|---|
| Total resource outturn in Statement of Parliamentary Supply | Budget | 2 | 2 | 2 |
| Net Operating Cost in Consolidated Statement of Comprehensive Net Expenditure | | | 2 | 2 |

### 3.2 Outturn against final Administration Budget

| | 2011-12 Outturn £000 | 2010-11 Outturn £000 |
|---|---|---|
| Gross Administration Costs | 28,730 | 28,385 |
| Gross Income relating to administration costs | (28,728) | (28,383) |
| **Net Outturn – administration costs** | **2** | **2** |
| Administration costs limit – Estimate | 2 | |

## 4. Reconciliation of net cash requirement to increase/(decrease) in cash

| Net Cash Requirement to increase in cash | Note | 2011-12 £000 | 2010-11 £000 |
|---|---|---|---|
| Net cash requirement | | (1,542) | – |
| From the Consolidated Fund (Supply) – current year | | 2,000 | – |
| Amounts due to the Consolidated Fund – received in a prior year and paid over | 13 | (1,831) | (2,102) |
| Amounts due to the Consolidated Fund – and not paid over | | 966 | 1,831 |
| **(Decrease)/Increase In cash** | | **(407)** | **(271)** |

## 5. Excess cash payable to the Consolidated Fund

### 5.1 Analysis of amounts payable to the Consolidated Fund

| | Outturn 2011-12 £000 | Outturn 2010-11 £000 |
|---|---|---|
| Excess cash surrenderable to the Consolidated Fund | – | 1,831 |
| **Total** | **–** | **1,831** |

### 5.2 Consolidated Fund

| | 2011-12 £000 | 2010-11 £000 |
|---|---|---|
| Balance of Intergovernmental Commission Levy due to be paid in 2012-13 | 966 | 882 |
| **Total** | **966** | **882** |

ORR levies the Channel Tunnel Concessionaire an amount each year to an agreed formula from which the costs of the Intergovernmental Commission are deducted. The balance of the levy is due to the Consolidated Fund and is paid over after year end, once final costs are known.

## 6. Statement of operating cost by operating segment

| | | | 2011-12 | | | 2010-11 |
|---|---|---|---|---|---|---|
| | Economic Regulation £000 | Safety Regulation £000 | Total £000 | Economic Regulation £000 | Safety Regulation £000 | Total £000 |
| Gross Expenditure | 10,945 | 17,785 | **28,730** | 10,623 | 17,762 | **28,385** |
| Gross Income | 10,944 | 17,784 | **28,728** | 10,622 | 17,761 | **28,383** |
| **Net Expenditure** | **1** | **1** | **2** | **1** | **1** | **2** |

*Description of segments*

**Economic Regulation** – as the economic regulator of the mainline railway, ORR sets Network Rail's funding to enable it to carry out its work efficiently, ensuring that it delivers the agreed outputs whilst improving its own efficiency.

**Safety Regulation** – ORR regulates the health and safety of the entire mainline network in Britain as well as London Underground, light railway, trams and heritage sector.

We are a combined safety and economic regulator for the rail industry. We have identified the segments above by reference to the cost of work we carry out in respect of these two functions. Corporate activities are allocated to safety and economic regulation on the basis of their direct costs.

No individual train operating company contributes more than 10% of our income. However Network Rail paid £4.8 million in safety levy in 2011-12 (£5.4 million in 2010-11).

## 7. Staff numbers and related costs

| Staff costs comprise: | | | 2011-12 | 2010-11 |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| | Total | Permanently Employed Staff | Others | Total |
| Wages and Salaries | 15,162 | 14,598 | 564 | 15,563 |
| Social Security costs | 1,451 | 1,424 | 27 | 1,399 |
| Other pension costs | 2,919 | 2,919 | – | 3,000 |
| **Sub Total** | **19,532** | 18,941 | 591 | 19,962 |
| Less recoveries in respect of outward secondments | (225) | (225) | – | (61) |
| **Total** | **19,307** | **18,716** | **591** | **19,901** |
| Non cash items: by analogy pension current services costs | – | – | – | – |
| **Total net costs*** | **19,307** | **18,716** | **591** | **19,901** |

*£104k staff costs not included above have been capitalised and appear in Note 11

*Staff costs comprise:*

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. The scheme actuary valued the scheme as at 31 March 2007 and a formal actuarial valuation was due by 31 March 2011. However, formal actuarial valuations for unfunded public service pension schemes have been suspended by HM Treasury on value for money grounds while consideration is given to recent changes to public service pensions and while future scheme terms are developed as part of the reforms to public service pension provision. The primary purpose of the formal actuarial valuations is to set employer and employee contribution rates, and these are currently being determined under the new scheme design.

Included in the net figure for other pension costs are employer's contributions of £2,822,493 payable to the PCSPS (2010-11: £2,927,496) at one of four rates in the range 16.7% to 24.3% (2010-11: 16.7% to 24.3%) of pensionable pay, based on salary bands. The Scheme's Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2011-12 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a **partnership** pension account, a stakeholder pension with an employer contribution. Employer's contributions of £10,585 were paid to one or more of the panel of three appointed stakeholder pension providers (2010-11: £9,741.49). Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £713.06, 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees. Contributions due to the partnership pension providers at the date of the Statement of Financial Position were £735.04

The Railway Pension Scheme (RPS) is a funded multi-employer defined benefit scheme administered by Railway Pensions Trustee Company Limited. This is a defined benefit scheme which prepares its own scheme statements. Details of the RPS pension statements can be found in the Annual Report and Accounts of the RPS at (www.railwaypensions.co.uk). Employer contributions of £93,521 were paid to the trustees of the RPS in 2011-12 at a rate of 2.374 times the individual member's contributions, on the basis of actuarial valuations (2010-11: £91,731). ORR matches some of the BRASS2 contributions (an AVC scheme) made by the members. In 2011-12, matching contributions of £4,908 were made (2010-11: £4,908).

With regard to the accrued pension costs for former Chairman and past Rail Regulators, no notional contributions (as advised by the Government Actuary) have been charged to the Operating Cost Statement, (2010-11: nil). The liability at 31 March 2012 is estimated at £446,000 (31 March 2011:£421,000).

*Average number of persons employed*

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

| | | | 2011-12 Number | 2010-11 Number |
|---|---|---|---|---|
| | Total | Permanent Staff | Others | Total |
| **Segment** | | | | |
| 1. Economic Regulation | 103 | 98 | 5 | 105 |
| 2. Safety Regulation | 180 | 173 | 8 | 195 |
| **Total** | **283** | **270*** | **13** | **300** |

* 1.63 (full term equivalent) people have been engaged on capital projects.

*Included in "Others" are:*

| Others | Number | Amount (£000) |
|---|---|---|
| Non-Executive Directors (NEDs) | 6.7 | 271 |
| (taking into account NEDs who did not work a full year) | | |
| Agency Staff | 4.8 | |
| Specialist Contractor | 1.1 | |
| Consultant | 0.1 | |
| Total (Excluding NEDs) | 6.0 | 320 |
| **Total** | **13** | **591** |

### 7.1 Reporting of Civil Service and other compensation schemes – exit packages

Comparatives shown (in brackets) for previous year

| 1 Exit Package cost band | Number of compulsory redundancies | Number of other departures agreed | Total number of exit packages by cost band (total cost) |
|---|---|---|---|
| 2 <£10,000 | 0 (0) | 0 (0) | 0 (0) |
| 3 £10,000 - £25,000 | 0 (0) | 0 (0) | 0 (0) |
| 4 £25,000 - £50,000 | 0 (4) | 1 (0) | 1 (4) |
| 5 £50,000 - £100,000 | 0 (1) | 1 (0) | 1 (1) |
| 6 £100,000 - £150,000 | 0 (0) | 0 (0) | 0 (0) |
| 7 £150,000 - £200,000 | 0 (0) | 0 (2) | 0 (2) |
| **8 Total number of exit packages by type (total cost)** | **0 (5)** | **2 (2)** | **2 (7)** |
| **9 Total resource exit cost/£** | **0 (243,319)** | **118,557 (333,392)** | **118,557 (576,711)** |

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full either prior to the year of departure or in the year of departure. Where ORR has agreed early retirements, the additional costs are met by the department and not by the Civil Service Pension Scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

ORR has no continuing liability in respect of the pensions of the two members of staff who received voluntary exit payments in 2011-12.

## 8. Other administrative costs

| | 2011-12 £000 | 2010-11 £000 |
|---|---|---|
| **Rental under operating leases:** | | |
| Hire of office equipment | 1 | 1 |
| Other operating leases | 912 | 912 |
| | **913** | **913** |
| **Non-cash items:** | | |
| Depreciation | 347 | 540 |
| Amortisation | 225 | 163 |
| Loss/(Gain) on disposal of non-current assets | 19 | – |
| Employers Pension past service costs | – | (56) |
| Interest charges in respect of by analogy pension scheme | 23 | 20 |
| Auditors' remuneration and expenses* | 42 | 42 |
| | **656** | **709** |
| **Provisions:** | | |
| Provision for redundancy costs/(Provision no longer required) | (88) | 46 |
| Provision for dilapidations and other leasehold liabilities | 20 | 28 |
| | **(68)** | **74** |
| **Other:** | | |
| Travel and subsistence | 875 | 789 |
| Hospitality | 78 | 81 |
| Consultancies | 1,606 | 1,605 |
| IT & Telecoms | 2,096 | 1,337 |
| Landlord service charges & rates | 867 | 214 |
| Severance payment accrual | – | 180 |
| Printing & stationery | 213 | 272 |
| Recruitment & training | 521 | 529 |
| Staff-related (including staff restaurant) | 327 | 167 |
| Building-related | 504 | 763 |
| External services – internal audit, payroll, banking and finance | 252 | 256 |
| External services – other | 549 | 581 |
| Other costs | 34 | 14 |
| | **7,922** | **6,788** |
| | **9,423** | **8,484** |

*There was no auditor remuneration for non-audit work

## 9. Income

| | Note | 2011-12 £000 | 2010-11 £000 |
|---|---|---|---|
| Licence Fees | | 11,852 | 12,088 |
| (Less): Income deferred to future year | 14(a) | (910) | (1,488) |
| Safety Levy and related safety income | | 18,628 | 19,074 |
| (Less): Income deferred to future year | 14(a) | (1,211) | (1,577) |
| Miscellaneous income | | 369 | 286 |
| | | **28,728** | **28,383** |

## 10. Property, plant and equipment

| | Fitting Out Costs £000 | Furniture, Office Equipment & Telecoms £000 | Information Technology £000 | Total £000 |
|---|---|---|---|---|
| **Cost or valuation** | | | | |
| At 1 April 2011 | 3,371 | 1,057 | 1,840 | 6,268 |
| Prior year adjustment | – | – | – | – |
| Additions | – | – | 14 | 14 |
| Disposals | – | – | (1,840) | (1,840) |
| At 31 March 2012 | **3,371** | **1,057** | **14** | **4,442** |
| **Depreciation** | | | | |
| At 1 April 2011 | 1,184 | 905 | 1,793 | 3,882 |
| Charged in year | 250 | 76 | 21 | 347 |
| Disposals | – | – | (1,812) | (1,812) |
| Revaluations | 69 | 3 | – | 72 |
| At 31 March 2012 | **1,503** | **984** | **2** | **2,489** |
| **Carrying amount at 31 March 2011** | **2,187** | **152** | **47** | **2,386** |
| **Carrying amount at 31 March 2012** | **1,868** | **73** | **12** | **1,953** |
| | | | | |
| **Asset financing** | | | | |
| Owned | 1,868 | 52 | 12 | **1,932** |
| Finance lease | – | 21 | – | **21** |
| **Carrying amount at 31 March 2012** | **1,868** | **73** | **12** | **1,953** |

## 11. Intangible assets

Intangible assets comprise software licences and software development costs

**Cost or valuation**

| | Data Warehouse | Document Management (DM) System | HR Database | Capitalised Staff Costs (on DM system) | Software licences | Total £000 |
|---|---|---|---|---|---|---|
| At 1 April 2011 | 456 | 10 | 218 | 132 | 632 | 1,448 |
| Additions | 24 | 506 | – | 104 | 21 | 655 |
| Disposals: actual cost | – | – | – | – | (314) | (314) |
| Revaluation | – | – | – | – | – | – |
| **At 31 March 2012** | **480** | **516** | **218** | **236** | **339** | **1,789** |
| **Amortisation** | | | | | | |
| At 1 April 2011 | 90 | – | 144 | 12 | 510 | 756 |
| Charged in year | 90 | 38 | 30 | 35 | 32 | 225 |
| Disposals: depreciation on cost | – | – | – | – | (314) | (314) |
| Revaluation | – | – | – | – | – | – |
| **At 31 March 2012** | **180** | **38** | **174** | **47** | **228** | **668** |
| **Carrying amount at 31 March 2011** | **366** | **–** | **74** | **120** | **122** | **692** |
| **Carrying amount at 31 March 2012** | **300** | **478** | **44** | **189** | **110** | **1,121** |
| **Asset financing** | | | | | | |
| Owned | 300 | 478 | 44 | 189 | 110 | 1,121 |
| **Carrying amount as at 31 March 2012** | **300** | **478** | **44** | **189** | **110** | **1,121** |

## 12. Trade receivables and other current assets

### 12(a) Analysis by type

| | 31 March 2012 £000 | 31 March 2011 £000 |
|---|---|---|
| **Amounts falling due within one year** | | |
| Trade receivables | 298 | 143 |
| Staff receivables | 104 | 102 |
| Prepayments and accrued income | 665 | 1,324 |
| HM Revenue and Customs (VAT) | 98 | 93 |
| **Amounts falling due after more than one year** | | |
| Staff receivables | – | 13 |
| Prepayments and accrued income | 2 | 3 |
| **Total at 31 March 2012** | **1,167** | **1,678** |

Included in staff debtors are season ticket loans for 67 employees totalling £95,024 (2010-11 £96,811 for 69 employees) and £6,514 relating to other advances made to 31 employees (2010-11: £17,716).

### 12 (b) Intra-Government Balances

| | Amounts falling due within one year £000 | | Amounts falling due after more than one year £000 | |
|---|---|---|---|---|
| | 2011-12 | 2010-11 | 2011-12 | 2010-11 |
| Balances with other central government bodies | 696 | 1,073 | – | – |
| Balances with Local Authorities | 10 | – | – | – |
| Balances with bodies external to government | 459 | 589 | 2 | 16 |
| **Total receivable at 31 March** | **1,165** | **1,662** | **2** | **16** |

The above assets are disclosed at their carrying value which is assumed to approximate to their fair value due to their short term nature.

### 13. Cash and cash equivalents

| | 2011-12 £000 | 2010-11 £000 |
|---|---|---|
| Balance at 1 April | 1,831 | 2,102 |
| Net change in cash balances | (407) | (271) |
| **Balance at 31 March** | **1,424** | **1,831** |
| | | |
| The following balances at 31 March were held at: | | |
| Government Banking Service | 1,395 | 1,799 |
| Commercial banks and cash in hand | 29 | 32 |
| **Balance at 31 March** | **1,424** | **1,831** |

The Paymaster accounts closed in October 2010 as part of the migration of banking services to the Government Banking Service. Outstanding balances were transferred over to the relevant CitiBank account.

### 14. Trade payables and other current liabilities

#### 14(a) Analysis by type

| | 31 March 2012 £000 | 31 March 2011 £000 |
|---|---|---|
| **Amounts falling due within one year** | | |
| Other taxation and social security | 11 | 9 |
| Trade payables | 300 | 440 |
| Other payables | 727 | 725 |
| Accruals | 3,309 | 3,061 |
| Deferred income | 2,121 | 3,065 |
| Current part of finance leases | 20 | 52 |
| Balance of Intergovernmental Commission levy payable to the Consolidated Fund | 966 | 882 |
| Excess cash surrenderable to the Consolidated Fund Received | – | 1,831 |
| Amounts issued from the Consolidated Fund for supply but not spent at year end | 458 | – |
| **Total current liabilities at 31 March** | **7,912** | **10,065** |
| **Amounts falling due after more than one year** | **–** | **20** |
| **Total trade payables and other current liabilities** | **7,912** | **10,085** |

### 14(b) Intra-Government Balances

| | Amounts falling due within one year £000 2011-12 | 2010-11 | Amounts falling due after more than one year £000 2011-12 | 2010-11 |
|---|---|---|---|---|
| Balances with other central government bodies | 1,704 | 3,847 | – | – |
| Balances with Local Authorities | – | 10 | – | – |
| Balances with bodies external to government | 6,208 | 6,208 | – | 20 |
| **Total receivable at 31 March** | **7,912** | **10,065** | **–** | **20** |

The above liabilities are disclosed at their carrying value which is assumed to approximate to their fair value due to their short term nature.

### 15. Provisions for liabilities and charges

The provision for early retirement was established to provide for future retirement benefits of staff who have retired early or may be required to retire early or be made redundant. Included in the provision is an amount of £336,000 in respect of the 'Smarter Government Proposals' for reducing the number of Senior Civil Servant posts. The provision for accommodation has been established in order to satisfy the obligation to return our offices to their original condition. The provision has been calculated on a cost/square foot basis and discounted from the end of the lease date.

| | Early retirement/ restructuring £000 | Accommodation £000 | Total £000 |
|---|---|---|---|
| Balance at 1 April 2011 | 1,005 | 400 | 1,405 |
| (No longer required)/provided for in year | (88) | 20 | (68) |
| Provisions utilised in the year | (199) | – | (199) |
| **Balance at 31 March 2012** | **718** | **420** | **1,138** |

### Analysis of expected timing of discounted flows

| | Early Retirement | Accom-modation | Total | 2010-11 Total |
|---|---|---|---|---|
| Not later than one year | 137 | – | **137** | **302** |
| Later than one year and not later than five years | 581 | 30 | **611** | **829** |
| Later than five years | – | 390 | **390** | **274** |
| **Balance at 31 March 2012** | **718** | **420** | **1,138** | **1,405** |

### Details for by-analogy defined benefit pension schemes

| Class | As at 31 March 2012 £000 | As at 31 March 2011 £000 |
|---|---|---|
| Actives | – | – |
| Deferred | 168 | 152 |
| Pensioners | 278 | 269 |
| **Total Present Value for the Scheme Liabilities** | **446** | **421** |

| Liability calculation | As at March 2012 £000 | As at March 2011 £000 |
|---|---|---|
| Present value of scheme at 1 April | 421 | 487 |
| Current service cost (net of employee contribution) | – | – |
| Employee contribution | – | – |
| Interest costs | 23 | 20 |
| Actuarial (gains)/losses | 17 | (17) |
| Benefits paid | (15) | (13) |
| Past service cost | – | (56) |
| **Balance at 31 March** | **446** | **421** |

Former Rail Regulators 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 2012. (In 2010-11 ORR contributed £20k in respect of interest costs). The current Chairman has no pension arrangements with ORR.

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.

ORR has recognised all actuarial gains and losses immediately through the General Fund.

| | As at 31 March 2012 % per annum | As at 31 March 2011 % per annum |
|---|---|---|
| RPI Inflation assumption | – | – |
| CPI Inflation assumption | 2.00 | 2.65 |
| Rate of increase in salaries | 4.25 | 4.90 |
| Rate of increase for pensions in payment and deferred pensions | 2.00 | 2.65 |
| Rate used to discount scheme liabilities | 4.85 | 5.60 |

## History of experience losses/(gains)

| | Year Ending 31/03/2012 | Year Ending 31/03/2011 | Year Ending 31/03/2010 | Year Ending 31/03/2009 | Year Ending 31/03/2008 |
|---|---|---|---|---|---|
| **Experience loss/(gain) arising on the scheme liabilities** | | | | | |
| Amount (£'000) | 12 | 11 | (30) | 2 | 1 |
| Percentage of scheme liabilities at end of year | 2.7% | 2.5% | -6.1% | 0.5% | 0.2% |

## Estimate of contributions expected to be paid into the scheme over the year 1 April 2012 to 31 March 2013

As there are no active members in the scheme the estimated contributions for 2011-2012 are nil.

Under IAS19 employers are required to disclose any other material actuarial assumptions used for the assessment. Accordingly the life expectancies shown below illustrate the longevity assumption used for the assessment.

## Life expectancy at retirement

| Current Pensioners | As at 31 March 2012 | | As at 31 March 2011 | |
|---|---|---|---|---|
| Exact Age | Men (years) | Women (years) | Men (years) | Women (years) |
| 60 | 29.0 | 32.4 | 29.2 | 32.5 |
| 65 | 24.0 | 27.3 | 24.1 | 27.3 |

| Future pensioners | As at 31 March 2012 | | As at 31 March 2011 | |
|---|---|---|---|---|
| Exact Age | Men (years) | Women (years) | Men (years) | Women (years) |
| 60 | 31.5 | 35.0 | 31.1 | 34.6 |
| 65 | 26.9 | 30.4 | 26.5 | 29.9 |

## Cumulative amount of actuarial gains and losses.

The cumulative actuarial loss for the year to date amounts to £144,000 (31 March 2011: £115,000)

## Present value of scheme liabilities

| | Value at 31/03/2012 £000 | Value at 31/03/2011 £000 | Value at 31/03/2010 £000 | Value at 31/03/2009 £000 | Value at 31/03/2008 £000 |
|---|---|---|---|---|---|
| Liability in respect of: | | | | | |
| Active member | – | – | – | 186 | 133 |
| Deferred pensioners | 168 | 152 | 185 | 127 | 138 |
| Current pensioners | 278 | 269 | 302 | 115 | 122 |
| **Total present value of scheme liabilities** | **446** | **421** | **487** | **428** | **393** |

## 16. Capital commitments

The information management project goes live on 10 April 2012. There are approximately £42,000 contracted capital commitments to run against this project. (31 March 2011: nil).

## 17. Commitments under leases

### 17.1 Operating leases

Total future minimum lease payments under operating leases are given in the table below for each of the following periods.

| | 31 March 2012 £000 | 31 March 2011 £000 |
|---|---|---|
| **Obligations under operating leases comprise:** | | |
| Buildings | | |
| Not Later than one year | 941 | 941 |
| Later than one year and not later than five years | 3,598 | 3,764 |
| Later than five years | 2,466 | 3,463 |
| | **7,005** | **8,168** |

There is an implied operating lease in part of the contractual arrangements we have in place for the provision of information technology managed services to the organisation.

ORR has a contract from July 2011 to June 2015 for the provision of a fully managed service for a complete range of information technology services. We pay an amount based on the number of users with a variable service charge per user depending on whether a desktop or laptop unit is used. However, the price per unit includes all other information services such as: the provision of an offsite data centre (which is not exclusively used by ORR); the staffing of service desk support; TUPE arrangements for 8 transferred staff; server infrastructure; Local Area Network infrastructure; Wide Area Network infrastructure; data and file storage; installation and support of ORR software; office relocation and decommissioning work; security network compliance to IL3 standard; the government's secure intranet; video conferencing and remote access arrangements; contract management and support. As a result, it is impracticable to separate the lease payments for the various items of hardware, from all other IS services paid under the contract.

The estimated value of our information technology managed services (based on current levels of service delivery is) £1.678m per annum until June 2015.

### 17.2 Finance leases

Total future minimum lease payments under finance leases are given in the table below

#### Obligations under finance lease comprise

| | 31 March 2012 £000 | 31 March 2011 £000 |
|---|---|---|
| Leases other than buildings | | |
| Not Later than one year | 20 | 32 |
| Later than one year and not later than five years | – | 20 |
| Later than five years | – | – |
| Less interest element | (1) | (2) |
| | **19** | **50** |

In 2011-12 an amount of £1,253 interest was paid in respect of this finance lease (2010-11: £1,260)

### 18. Other financial commitments

Apart from the capital commitments mentioned in Note 16 the department has not entered into any non-cancellable contracts (which are not finance leases) for any new capital expenditure as at 31 March 2012 (31 March 2011: nil)

### 19 Losses and special payments

There were no special payments in excess of £250,000 in either 2011-12 or 2010-11.

### 20. Financial instruments

Because of the largely non-trading nature of its activities and its licence fee and safety levy financing structure, ORR does not face significant medium to long-term financial risks.

As the cash requirements of the department are met through the Estimates process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body of a similar size.

The majority of financial instruments relate to contracts for non-financial items in line with the Department's expected purchase and usage requirements and the Department is therefore exposed to little credit, liquidity or market risk.

*Interest rates and foreign currency risks*

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

*Fair values*

The carrying amount for Current assets (Note 12) and Current liabilities (Note 14) approximate to their fair value due to their short term nature.

There is no material difference between the book values and fair values of ORR's financial assets and liabilities as at 31 March 2012.

## 21. Contingent liabilities disclosed under IAS37

There were no reportable contingent liabilities at 31 March 2012 (31 March 2011: nil).

## 22. Related party transactions

In addition to balances due to the Consolidated Fund (see note 14) regarding excess cash and Intergovernmental Commissionaire levy, there have been a small number of transactions with other government departments and other central government bodies.

(During 2010-11 £62,837.11 of income was received from the Office of the Public Private Partnership Arbiter in respect of services provided by ORR. The Office of PPP Arbiter was a related party until 15 October 2010).

## 23. Events after the reporting period

There have been no reportable events between the end of the reporting period and the date the accounts were certified, the authorised for issue date. The financial statements do not reflect events after this date.

# Appendix 1: regulatory activity

### Summary of enforcement notices issued 2004-5 to 2011-12

| | Improvement notices | Prohibition notices | Total |
|---|---|---|---|
| 2004-5 | **13** | **5** | **18** |
| 2005-6 | **16** | **6** | **22** |
| 2006-7 | **23** | **5** | **28** |
| 2007-8 | **16** | **6** | **22** |
| 2008-9 | **29** | **4** | **33** |
| 2009-10 | **25** | **13** | **38** |
| 2010-11 | **36** | **12** | **48** |
| 2011-12 | **35** | **12** | **47** |

### Summary of safety complaints received 2004-5 to 2011-12

| | |
|---|---|
| 2004-5 | **647** |
| 2005-6 | **593** |
| 2006-7 | **644** |
| 2007-8 | **510** |
| 2008-9 | **531** |
| 2009-10 | **375** |
| 2010-11 | **355** |
| 2011-12 | **278** |

## Summary of prosecutions heard 2004-5 to 2011-12

| | Prosecutions heard | Total fines | Total costs |
|---|---|---|---|
| 2004-5 | **20** | **£14,392,600** | **£866,441** |
| 2005-6 | **2** | **£23,000** | **£3,507** |
| 2006-7 | **6** | **£943,000** | **£132,770** |
| 2007-8 | **2** | **£35,000** | **£13,536** |
| 2008-9 | **11** | **£1,456,000** | **£131,543** |
| 2009-10 | **1** | **£70,000** | **£25,000** |
| 2010-11 | **8** | **£580,750** | **£149,990** |
| 2011-12 | **6** | **£4,205,000** | **£276,535** |

## Permissioning activity 2011-12

| | |
|---|---|
| Level Crossing Orders issued | **77** |
| **Mainline** | |
| Safety certificates issued – Part A | **18** |
| – Part B | **22** |
| Safety authorisations issued | **10** |
| Revocations | **0** |
| **Non-mainline** | |
| Safety certificates issued | **3** |
| Safety authorisations issued | **3** |
| Interoperability authorisations issued | **37*** |

[Note: 32 of these were issued under 2006 regulations and 5 under 2011 regulations]

### Licences granted 1 April 2011 to 31 March 2012

| Licence holder | Date | Passenger | Non-passenger | Station | Light maintenance depot | Network |
|---|---|---|---|---|---|---|
| Europorte Channel (SAS) | 13 October 2011 | | ◆ | | | |
| DB Schenker Rail (UK) Limited | 22 December 2011 | ◆ | | | | |
| Abellio Greater Anglia Ltd (plus a separate station licence for Stratford Regional) | 2 February 2012 | ◆ | | ✓ ✓ | ✓ | |

### Licence exemptions granted 1 April 2011 to 31 March 2012

| Exemption holder | Date | Passenger | Non-passenger | Station | Light maintenance depot | Network |
|---|---|---|---|---|---|---|
| Helston Railway Preservation Company Limited | 12 May 2011 | ✓ | ✓ | ✓ | ✓ | ✓ |
| Atkins Limited | 1 September 2011 | | ✓ | | | |
| Port of Boston Limited | 5 September 2011 | | ✓ | | | |
| Tower Regeneration Limited | 2 March 2012 | | | | | ✓ |
| West Somerset Railway Public Limited Company | 7 March 2012 | ✓ | ✓ | ✓ | | ✓ |

| | | | | | | |
|---|---|---|---|---|---|---|
| Network Rail (NDS-Plant) Limited | 8 March 2012 | | ✓ | | | |
| Abellio Greater Anglia Limited | 14 March 2012 | | | | | ✓ |
| Great Central Railway (Nottingham) Limited | 27 March 2012 | ✓ | ✓ | ✓ | ✓ | ✓ |

### Licences revoked

| Licence holder | Date | Passenger | Non-passenger | Station | Light maintenance depot | Network |
|---|---|---|---|---|---|---|
| Wrexham, Shropshire and Marylebone Railway Company Limited | 8 June 2011 | ◆ | | | | |
| Fastline Limited | 15 July 2011 | | | | | ✓ |
| Jarvis Rail Limited | 15 July 2011 | | | | | ✓ |
| Europorte SAS (formerly Europorte 2) | 27 October 2011 | | ◆ | | | |
| London Eastern Railway Limited (trading as NXEA) | 13 February 2012 | ◆ | ◆ ✓ | ✓ | ✓ | |
| South Eastern Trains | 29 February 2012 | ◆ | | | | |

### Licence exemptions revoked

| Exemption holder | Date | Passenger | Non-passenger | Station | Light maintenance depot | Network |
|---|---|---|---|---|---|---|
| Fountain Support Services Limited | 14 July 2011 | | ✓ | | | |
| Balfour Beatty Group Limited | 16 August 2011 | ✓ | ✓ | | | ✓ |
| Vale of Glamorgan Railway Company | 17 August 2011 | ✓ | ✓ | ✓ | ✓ | ✓ |
| Hydrex Equipment Limited | 3 February 2012 | | ✓ | | | |
| London Eastern Railway Limited (trading as NXEA) | 13 February 2012 | | | | | ✓ |
| Great Central Railway (Nottingham) Limited 1995 No.6 | 27 March 2012 | ✓ | ✓ | ✓ | ✓ | ✓ |
| Great Central Railway (Nottingham) Limited 2001 No.5 | 27 March 2012 | ✓ | ✓ | ✓ | ✓ | ✓ |

[Note: ◆ = European licence ✓= Railways Act licence/licence exemption]

### Access contracts

| | Track | Connection | Stations | Depot |
|---|---|---|---|---|
| New contracts directed under section 18 of the Railways Act 1993 | 6 | 15 | 1 | 12 |
| New contracts directed under section 17 of the Railways Act 1993 | 1 | 0 | 0 | 0 |
| New contracts entered into under general approval | 2 | 3 | 8 | 3 |
| Amendments to existing agreements approved under section 22 of the Railways Act 1993 | 98 | 0 | 54 | 3 |
| Amendments to existing agreements directed under section 22A of the Railways Act 1993 | 0 | 0 | 0 | 0 |
| Amendments to existing agreements approved by general approval | 39 | 0 | 164 | 3 |

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