



OFFICE OF RAIL REGULATION

# Annual report and accounts 2013-14

June 2014



## Annual report and accounts 2013-14

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# Foreword

## Anna Walker, Chair

This has been an extremely stretching year for ORR as we reached not only the end of this reporting year, but also the end of the five-year Control Period 4 (CP4). It has presented us with a host of challenges in holding Network Rail accountable to its customers and taxpayers, as well as supporting the company in its drive for higher standards.



As the combined safety and economic rail regulator we have driven continuing improvement in rail safety, although more needs to be done. We have overseen efficiency savings, although this must improve further. We have increasingly focused on consumer interests, from disabled persons' protection policies to compensation and refund rights for all passengers. And we have enhanced industry transparency with landmark publications that shine a light on finances and value for money.

Network Rail has performed well in many areas against a backdrop of ever-higher demand. Passenger numbers grew by 5% and freight by 6% over the past 12 months. Enhancement projects continued to be delivered well, while extreme weather sometimes presented some very tough conditions for running the network effectively.

However, the company did not meet its performance targets for the punctuality and reliability of train services. This is an issue of particular importance to both train companies and passengers – and it needs to be addressed robustly. Satisfaction levels reported in Passenger Focus's six-monthly surveys have reflected a decline this year.

As the regulator, we have also delivered the periodic review (PR13) process successfully in preparation for Control Period 5 (CP5, 2014-2019).

Getting it right in CP5 is vital. We cannot allow lower than expected baselines to be used as a reason for performance to continue to deteriorate. The periodic review (PR13) set out stretching but achievable targets for Network Rail to meet by 2019 – and these targets were the result of

considerable consultation and consensus right across governments, the industry and passenger groups.

The future for ORR and the industry is a testing one indeed – and planning is a business that needs to look decades ahead, not just to the next five-year control period. This year, we launched our long term regulatory statement and hosted a number of industry workshops which tackled and stimulated debate on the key economic and operational issues facing our railways. As the regulator, we have a duty to encourage this, but the industry itself must develop solutions and own the responsibility.

Looking to the future, ORR faces a number of new challenges – and much work went on this year in scoping them. We will continue to lead the way in Europe on many aspects of rail regulation. We will take on responsibility for regulating the UK side of the Channel Tunnel, as well as work towards our new role of monitoring the Highways Agency's trunk road and motorway network. There may also be further work for us depending on decisions regarding High Speed Two (HS2).

Finally, the Board and I would like to thank the staff at ORR, who performed such an outstanding role on so many fronts this year.

A handwritten signature in blue ink that reads "Anna Walker". The script is cursive and fluid.

Anna Walker

Chair

## Richard Price, Chief executive

Before the year began, we asked our stakeholders whether we had the right priorities and took on board the industry's opinions. We identified and fulfilled the following five strategic objectives:



- Drive for a safer railway
- Support a better service for customers
- Secure value for money for the railway, users and funders
- Promote an increasingly dynamic and commercially sustainable sector
- Be a high-performing regulator.

The past 12 months have seen significant operational and developmental challenges for the rail regulator, focusing – and driven by – these core objectives. Our people have worked tirelessly throughout the year to close-out and learn the lessons from CP4 (Control Period 4, 2009-2014), while at the same time preparing the ground for the next five-year control period, CP5.

The PR13 review represented a huge and sustained effort, leaving no stone unturned in developing robust operational performance, health and safety, economic efficiency and network development targets for the industry.

In doing this, we focused on the need to put asset management, maintenance and operation on a sustainable basis; to deliver efficiently an enormous programme of network enhancements; and to make sure that rail users' priorities are reflected in what the industry delivers.

We consulted extensively at every stage with stakeholders to develop a fair, balanced and deliverable package. As the regulator, we learned valuable lessons from our own experience and that of others about what we could do more effectively in future and applying it to CP5.

Network Rail now needs to deliver what it has signed up to – and what customers and the taxpayer rightly expect of it. We will continue to watch closely and constructively to help make sure this happens.

Safety is our paramount concern and it is an issue over which there can be no complacency. Our inspection and audit regime is designed to ensure that duty holders comply with the law and



continuously improve their health and safety culture and risk control. This includes infrastructure managers, train operators and others working on the railway. There are still areas for further improvement, for example track worker safety, signals passed at danger and safety at level crossings.

We monitored progress closely across all of Network Rail's performance targets in the course of the year, meeting regularly with the company, making appropriate interventions and publishing our findings in the quarterly *Monitor*.

The long distance sector did not recover as we expected it to, while there were significant issues surrounding performance in the busy London and South East sector. We will scrutinise closely to see whether Network Rail did everything reasonably practicable to achieve its targets – and consider what enforcement action we will take.

We will continue to focus on Network Rail's progress in tackling network renewals and maintenance volumes. This means not allowing backlogs to build up and we will be looking closely in CP5 at making sure the work takes place when it should – and that the money earmarked to do it is not held back.

Learning the lessons from this year's winter storms, where the industry responded impressively to restore services, we need to see evidence that the network is becoming more resilient to climate change.

In 2013-14 we also published our periodic review of HS1, which was completed early in the new financial year, as well as ORR's preparation for taking on responsibility for regulating the Channel Tunnel from the Inter-Governmental Commission.

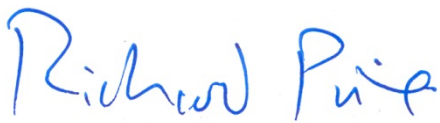
ORR itself has gone through considerable change this year, as we continue to develop an increasingly customer-focused approach to regulation. We continued to make better use of new technology and mobile working – and more efficient use of our buildings. Our new performance management and business planning systems were fully embedded this year and are now reaping rewards.

We played a major role in the formation of the UK Regulatory Network, which is helping us to learn lessons from the experience of other sectors and understand interdependencies on such issues as cross-sectoral investment and network resilience.

ORR is evolving constantly to meet the challenges of today and tomorrow.

I have every confidence that our people will continue to deliver what the rail industry, passengers and taxpayers demand of them in the months and years ahead.

My final thanks go to ORR's staff members, who have done an outstanding job during what has been a hugely challenging but satisfying working year.



Richard Price

CEO and Accounting Officer

## ORR's role

We:

- hold all duty holders in the British rail industry to account for their health and safety performance, driving both compliance with the law and improvement in performance. We are also the national safety authority in the context of the European Railway Safety Directive
- regulate Network Rail's stewardship of the national rail network
- licence operators of railway assets
- approve track, station and depot maintenance access
- hold High Speed 1 (London to the Channel Tunnel) to account for its operational and economic performance, as well as the UK side of the Channel Tunnel in the near future
- have concurrent competition jurisdiction with the Competition and Markets Authority (CMA) and are the designated enforcer of consumer law
- produce national statistics on various aspects of the rail industry's performance.

Our vision is that Britain's railways should deliver safety, performance and efficiency equivalent to the best comparable railways in the world.

We plan our annual activities in the context of our long-term vision for the railways, based on our strategic objectives as an independent regulator. These are set out in our [business plan](#) and are as follows:

- drive for a safer railway
- support a better service to rail customers
- secure value for money
- promote a dynamic and commercially sustainable rail sector
- be a high-performing regulator.

# Strategic Review

## Key achievements in 2013-14

### CP4

- We completed the CP4 control period and continued to hold Network Rail to account for its performance.

### CP5

- We completed the PR13 review and put in place the final determination for CP5.

### HS1

- We completed the periodic review of High Speed 1 (London-Channel Tunnel).

### Safety

- We conducted 92,000 hours of proactive and reactive safety inspection work, served 20 improvement notices and successfully prosecuted six breaches of health and safety law in the courts.
- We challenged Network Rail very robustly to achieve a 30.9% reduction in level crossing risk, mostly through the closure of passive level crossings – exceeding the 25% target for the end of CP4.

### Health

- We published our second five-year occupational health programme, setting out key priorities to drive improvements across the whole of the industry to manage health and wellbeing.

### Passengers/customers

- We took on responsibility for approving, monitoring and enforcing train operators' complaints handling procedures (CHPs) and disabled person's protection policies (DPPPs).
- The rail industry has published more detail than ever before on its costs and funding as part of ORR's GB rail industry financial information report.

### Europe

- Our Railway Management Maturity Model (RM3) has been influential in developing a monitoring tool to assess the safety regulatory regime in all European countries.

## **Economic**

- We approved over a hundred new or changed contracts for track access and three times that number for access to stations and depots.

## **Freight**

- Recognising the contribution made by the freight industry, ORR continued to play an active role in the Rail Delivery Group's Rail Freight Group.

## **Internal**

- We had the second highest score in the whole civil service on commitment to the work of the organisation – 84%.



## Strategic objective 1: Drive for a safer railway

ORR is the health and safety regulator for the rail industry. Our annual health and safety report for 2012-13, published in July 2013, recognised that Britain's railways rank among the safest in Europe.

In 2013-14, there were no train accident-caused passenger fatalities. However, there is no room for complacency. Train accidents are infrequent, yet as we saw in the tragic railway incidents across Europe and Canada last summer, their consequences are extremely serious. The risk of passenger-train accidents on Britain's rail network actually went up by 10% this year. Worker safety also needs to improve. We must not lower our guard.

Our 2013 report noted areas where improvements were required. These included:

- **Signals passed at danger (SPADs)** – In 2012-13 there was an increase across England and Wales in the underlying risk from SPADs compared to the previous year. This trend has continued into 2013-14 and ORR is continuing to work with the industry to reverse it. We have also focused inspection activity on driver

### Michelle Travers – Railway Safety Directorate, Level Crossing Project team



I am a Principal Inspector of Railways managing a team who have responsibility for ensuring Network Rail manages risks at level crossings. My work involves managing level crossing safety inspections and the level crossing order process. I regularly meet and liaise with Network Rail and other stakeholders to ensure risks are understood and managed. During the past year, with our support, Network Rail surpassed their CP4 targets by reducing risk at level crossings by 30.9% and closing over 800 crossings. Network Rail has successfully recruited and trained over 100 level crossing managers, responsible for inspecting and undertaking risk assessments at crossings. It is developing new technological solutions to manage risk including active warnings to alert users of approaching trains.

management, train protection systems and infrastructure related issues.

- **Protecting the safety of passengers** – We will at all times be vigilant in ensuring that duty holders protect the travelling public's safety and will take appropriate enforcement action whenever they do not. For example this year we prosecuted First Capital Connect for an incident involving passengers disembarking from a broken-down train, resulting in over £100,000 in fines and costs.
- **Level crossing risks** – Network Rail has achieved a 30.9% reduction in risk, mostly through the closure of passive level crossings – this exceeds the 25% target for the ends of control period 4 (CP4). For control period 5 (CP5), ORR has agreed dedicated funding of £109m to enable Network Rail to close around 500 level crossings and improve safety at other high risk crossings in Britain.
- **Track worker safety** – There was an 11% improvement in overall industry worker safety, but an 8% decline in track worker safety. This was primarily due to slips, trips and falls. ORR has approved £250m for Network Rail to invest in CP5 to help improve worker safety, to be invested in new equipment and safer working practices.
- **Track twist faults** – in particular repeat faults – were also a feature which raised safety concerns this year. We served an improvement notice requiring Network Rail to improve its management of this important issue.
- **Occupational health** – We identified a more co-ordinated approach to occupational health management, including worker fatigue. In April 2014, ORR published its second five-year Occupational Health programme, setting out key priorities to drive improvements across the whole of the industry to manage health and wellbeing.
- **Transport for London's (TfL) Underground** – The London tube is amongst the safest mass transport system in the world, with 1.229 billion passenger journeys in 2012-13. It maintains a strong focus on passenger and worker health and safety. However, while London Underground is a proactive and responsive duty holder, there is still room for improvement. In January 2014 we served two enforcement notices on TfL's rolling stock maintenance because of poorly designed, built and maintained paint spraying enclosures.
- **Heritage railways** – Following a significant level of enforcement action in 2011-12, we continue to focus robustly on the sector improving its safety standards and on heritage operators improving their safety management systems. Particularly with regard to staff competence and maintaining a good board-level corporate governance.

This winter saw significant disruption to the railway network due to severe weather, flooding and landslips. This raised concerns about the resilience of railway infrastructure in some areas. Network Rail and railway operators used a range of cautionary measures, such as reduced services and speed restrictions, to manage risk.

In CP5 we will monitor Network Rail's asset management very closely – particularly maintenance and renewals to make the network more resilient to climate change and adverse weather.

ORR uses a range of measures to address health and safety risks. These include issuing enforcement notices and, where appropriate, the prosecution of duty holders to ensure compliance with the law. Over the past year we successfully concluded six prosecutions over a variety of health and safety issues. These included falls from height, workforce safety, level crossings and passenger care following a broken-down train incident. But because prevention is always better than cure, we also issued 20 enforcement notices to predict and try to stop health and safety failures from occurring in future.

ORR's full annual health and safety assessment for 2013-14 will be published in July 2014.

## Strategic objective 2: Support a better service for customers

### Consumers

In 2013-14 we initiated and delivered work to improve rail passenger outcomes.

In October 2013 we assumed responsibility for approving, monitoring and enforcing train operators' complaints handling procedures (CHPs) and disabled person's protection policies (DPPPs). Effective complaints handling procedures ensure that passengers are protected and able to express their views to train operators through an established process. DPPPs set out the assistance available to disabled passengers and are designed to enable passengers to make empowered and confident journey choices. We will be publishing our approach to regulation and guidance in both these areas next year to ensure there is clarity and transparency of the industry's roles and responsibilities.

In November 2013 we re-launched our panel of consumer experts with a refreshed membership. The panel brings together a range of academic, advocacy, consumer research and commercial expertise to give added insight to our policy work and we look forward to drawing on its expertise to help inform our activity.

In February 2014, we published a report on passengers' awareness of their compensation and refund rights. This showed that passengers' awareness of their rights is low, with only one in five saying they were confident they had a reasonable understanding of their rights to compensation and refunds, while two in five said they

### Case study

#### Nick Wortley – Competition and Consumer team



I work in the consumer and competition policy team. Much of my work is aimed at improving information for passengers about fares and tickets, and their rights when travelling by train. For example, we published a report this year which showed a lack of awareness on the part of passengers about their compensation and refund rights, and we'll be following up on this to see how the measures the industry has adopted improve the situation. We also commissioned research to identify what information passengers need to know to help them choose and buy the best ticket for their journey, which will feed into the guidance we are preparing for ticket retailers on their obligations under consumer law

knew nothing at all about them. Individual train operating companies and the Association of Train Operating Companies (ATOC) are working to improve the situation. ATOC will be reviewing the impact of these measures later in the year and we will work with it during this review and decide on the next steps after it is complete.

We also initiated work on a Code of Practice (CoP) for ticket retailing, at the request of the DfT, and a review of the retail market for rail tickets. The CoP will bring together and clarify the existing obligations on ticket retailers to provide information to passengers to help them choose and buy the most appropriate ticket. The retail review will consider how current regulation and industry arrangements and practices are facilitating choice and, in particular, promoting investment and innovation in the best interest of passengers. We will report on both during 2014.

### **Passenger information**

We have continued our monitoring role to ensure that both train operators and Network Rail comply with the code of practice for providing passengers with information during periods of disruption to train services. Operators have continued to invest in new technology and staff training. We have asked Passenger Focus to help us with some research to discover how effective this has been and the results are due soon. We will consider whether the code of practice needs to be amended in light of these findings.



## Accountability to the parliaments

As the independent regulator, we have a duty to provide advice to the Secretary of State for Transport, Scottish and Welsh Ministers. It is critical that we do so from the perspective of what is in the interests of passengers and freight customers. However, while we are independent, that does not mean we are unaccountable. We take our formal accountability to Parliament equally seriously and in the past year have given evidence on key areas of work.

We gave formal oral evidence to the Transport Select Committee earlier in the year as part of its safety at level crossings inquiry. We provided a detailed account of our work in this important area, including ensuring £99m of funding was available specifically for level crossing safety improvements in England and Wales and an additional £10m in Scotland. In addition, we have also submitted formal written evidence to the Transport Select Committee's winter resilience inquiry and to the National Assembly for Wales as part of its Future of the Wales and Borders Franchise inquiry.

ORR has also provided informal briefings to support the Transport Select Committee in its Better Roads inquiry and gave an informal briefing on key aspects of our PR13 final determination. We believe that transparency and accountability go hand in hand and as such, ORR has done more this year to engage with parliamentarians to ensure our regulatory decisions are transparent and understood. As part of our extensive programme of

### Bethan Thomas – Senior Corporate and Government Relations Executive



I am the parliamentary and government relations lead in the stakeholder relations team at ORR. My job is to make parliamentary audiences aware of ORR's work and the value we add to rail customers and the economy. Over the past year, we have given evidence to Parliament's Transport Select Committee on winter resilience and safety at level crossings. In addition to providing formal evidence, we are also looking to improve our communication with elected representatives in the UK Parliament, Scottish Parliament and National Assembly for Wales. We want to improve parliamentarians' understanding and awareness of our role and how ORR adds value to ensure that they are better able to hold governments to account for use of public money, and can undertake more informed scrutiny of publicly funded service providers.

consultation on our final determination of funding for Network Rail over the next five year period, we held briefings with All Party Groups and held a joint briefing with the House of Commons Library, to engage with MPs, peers and their staff. In Scotland, we held briefings with the Scottish Parliament's infrastructure and capital investment committee on our PR13 determinations and what this means for Scotland. We will continue to engage with parliaments over the next business year to ensure that our regulatory decisions are better understood.

## Strategic objective 3: Secure value for money for the railway, users and funders

### Holding Network Rail to account for performance

This was a challenging year for Network Rail and the whole industry, as we came to the end of control period 4. We continued to report on the company's performance through our quarterly *Network Rail Monitor* publication.

There were several positives, but also a great number of areas where there needs to be urgent and sustained improvement. We have maintained a close vigil on this crucial activity and pushed for improvement across the board. The industry worked well to meet the challenges of some severe weather conditions, most notably a sequence of winter storms which affected large parts of the network. The unscheduled restoration work at Dawlish in Devon gained particular public attention.

Network Rail also achieved key planned enhancement milestones in over 300 projects during the festive period. Risk reduction targets at level crossings were exceeded this year by nearly six percentage points (30.9%), as were those for renewals work on key civil assets – including earthworks. There was also progress in other areas of asset management.

However, Network Rail did not meet its punctuality

### Nigel Fisher – Head of Operations and Network Regulation



I lead the operations and network regulation team at ORR. At the moment we are very focussed on performance issues and a core part of my work is looking at how Network Rail meets its targets for the punctuality and reliability of services. Network Rail did not achieve most of its regulated performance outputs in the last control period (CP4, which ended in March 2014). We need to decide whether Network Rail did everything reasonably practicable to achieve its targets. Clearly, the weather has had a significant impact this year and we need to assess how Network Rail would have done if conditions had not been as extreme. We are also thinking about the current five-year control period. Network Rail has some very tough performance targets and we need to review its plans and delivery to ensure that it remains on track.

and reliability targets for train services. The long distance sector ended the year with punctuality at 86.9% – 5.1 percentage points below PPM target. The regional sector achieved 91% punctuality, one percentage points below target. The extremely busy London and Southeast (LSE) sector achieved 89.6% punctuality, missing its PPM target by 3.4 percentage points.

There is already an enforcement order in place in the long distance sector, while performance in other sectors is now the subject of close scrutiny to establish whether Network Rail did everything reasonably practicable to achieve its targets.

Delays caused by Network Rail to passenger services in England and Wales totalled 7.66 million minutes in – well in excess of the 4.98 million minute target. In Scotland the 383,000-minute target was exceeded, with a total of 446,601 delay minutes.

We continued to monitor train operating companies' provision of information to passengers in periods of disruption.

The freight sector target for Network Rail-caused delays was also behind target by nearly 25% – and we will address this as a priority.

We need to see further progress towards a reliability-centred model for achieving better asset-management performance – and we

**Mark Morris – Deputy Director,  
Engineering and Asset Management  
team**



It's our job to hold Network Rail to account for its asset management policies and plans, and for delivering the work required on the railway. This is vital to ensuring they are managing and maintaining the network effectively and efficiently. The company is making good progress on asset management, but there is a lot more to do. Their asset knowledge is improving, which helped to focus the work in their delivery plan where it's most needed on the network, but further improvements in data quality are required to ensure money is spent efficiently. Not all the work planned for CP4 has been delivered, but Network Rail has responded to our challenge to understand and explain the shortfalls, and their implications for CP5. The real focus for the year ahead is on Network Rail delivering their planned work, and developing their maintenance strategy to move from "find and fix" to "plan and prevent", which will increase network reliability.

have told Network Rail that we want to see it move from a reactive 'find and fix' to a proactive 'predict and prevent' way of working. The volume of renewals work was significantly below target in some areas in 2013-14 (for example track), so this needs to be addressed. We also need to see improvements in the network's resilience to climate change, as well as faster recovery times following extreme weather events.

ORR has also gained some extremely valuable insights as a regulator on how we might work with Network Rail to improve train performance in CP5. Without 'micro-managing', we will be looking more closely at key areas that affect performance, for example asset management. We will make sure that the company provides the quality and consistency of information we need – and if we think that there may be problems developing, then we will intervene more quickly to prevent these developing.

### **Economic performance**

Britain's railway is funded each year by billions of pounds from government, taxpayers and fare-payers. ORR works to ensure that this money is spent as efficiently as possible and delivers the best value for money. We improve the efficiency of Britain's railways by setting and overseeing spending targets, closely monitoring investment projects and encouraging better ways of working.

This year, ORR has scrutinised Network Rail's economic and financial performance in the fourth year of its current funding period (CP4) and undertaken an extensive assessment of potential for further

### **Jonathan Hulme – Economist**



I work in the regulatory economics and finance team and have been involved in economic performance issues for CP4 and in setting Network Rail's efficiency challenge for the next five years. The key focus for our team over the past year has been completing our five-yearly review of Network Rail's outputs and funding (or 2013 periodic review). As part of our review, we have challenged Network Rail's plans across all areas of its business to ensure value for money, and, working with teams across ORR, we have set Network Rail an efficiency challenge to reduce the day-to-day cost of the railway by 19% over the next five years. Our job now is to monitor Network Rail's progress on delivering improved value for money for customers and funders. We have also started to think about our approach to our next periodic review.



efficiencies in the future as part of plans for the rail network between 2014 and 2019 (CP5).

ORR's annual efficiency and finance assessment of Network Rail (2012-13) examined the amount of money the company has spent and what it provided in return for the funds received from train operators and governments. The analysis showed that Network Rail implemented a number of initiatives – such as rationalising its signalling and control centres and reduced use of sub-contractors – to improve its operating maintenance and renewals expenditure.

However, the report highlighted that efficiency improvements slowed in 2012-13. ORR's assessment was that Network Rail is unlikely to deliver the potential 23.5% efficiencies identified for operations, renewals, maintenance and asset management by the end of CP4. ORR's analysis identified some key issues which have led to the company not meeting its efficiency targets, such as lack of knowledge of assets and poor maintenance planning.

Despite falling short of current efficiency targets, Network Rail is forecast to achieve efficiencies of 40% in running the railway from 2004 to 2014. As part of ORR's work in developing and finalising the plan for control period five, the regulator will require the company to bring down the cost of running the network by around a further 20%, bringing Britain's railway up to the standards of the most efficient in Europe. Savings will be achieved through the implementation of new technologies, better management of the railways, and more efficient ways of working.

### **PR13 – the periodic review**

This year saw the successful completion of our periodic review (PR13), an extensive consultation-based exercise with the industry and its stakeholders in England, Scotland and Wales to determine the performance, efficiency and enhancement targets required for Britain's rail network going into the next five-year control period (CP5). Our final determination was accepted by Network Rail in January and CP5 began on 1 April 2014.

### **CP5 final determination targets – how we will hold Network Rail to account**

Here are the main targets which we consulted on with stakeholders during PR13 and against which we hold Network Rail to account for its performance. These targets are stretching but achievable if the company continues to improve right up to the end of CP5 (31 March 2019):

- **reduce safety risks to passengers, workers and the wider public** – we have asked Network Rail to reduce the risk of train accidents by 50% and level crossing risks by 25%. The company will also invest £250m on improving track worker safety;
- **become more efficient and deliver better value for money** – we require Network Rail to improve efficiency by 19%;
- **deliver a set of improvement projects that will increase the network’s capacity and provide a better service to customers** – Network Rail will invest around £13bn on these and we will make sure the money is used on the kind of improvements that customers want to see;
- **improve reliability and punctuality across the sector** – passenger train services must achieve a national average of 92.5% for punctuality, with cancellations and significantly late-running trains accounting for no more than 2.2% of the total. We also want to see less of a gap between the best and worst-performing train operators. We also require 92.5% of freight trains to arrive no more than 15 minutes late;
- **keep disruption from engineering works to a minimum** – we require Network Rail to reduce the overall train delay time caused by engineering works by 8%;
- **manage upkeep of the infrastructure better** – Network Rail needs to significantly improve its management and maintenance of the rail network. We need it to move from a reactive ‘find and fix’ to a proactive ‘predict and prevent’ culture. We have therefore set tough targets for its asset management programme and want to see the network made more resilient to climate change. The company must keep up with the workload;
- **provide greater transparency on expenditure** – we have asked Network Rail to improve transparency on how much is invested in the network, broken down to route level, so that taxpayers have a much clearer idea of what’s being spent and what it achieves.

## High Speed One (HS1)

This year we took forward work on the periodic review of High Speed 1 (HS1), the first such review on the London-Channel Tunnel route. This assessed the regulatory framework on the HS1 network, HS1 Ltd's approach to asset management, its operating costs and track access charges for both passenger and freight operators.

Between October 2013 and February 2014 we reviewed HS1 Ltd's five-year asset management statement, which sets out the proposals for control period 2 (2015-2020). As at the end of March 2014, we were consulting on our proposal to approve HS1 Ltd's plans. These included a reduction in charges to run both passenger and freight services by more than 10%. We concluded the periodic review of High Speed 1 in May 2014.

## Scotland

The Scottish Government oversees the railway in Scotland and we worked closely with Transport Scotland during the PR13 process to ensure our determination and Network Rail's Delivery Plan delivers its requirements. As part of this process, we held a stakeholder conference in Glasgow and gave presentations to MSPs in the Scottish Parliament.

Over the year, we continued to work with stakeholders to improve our consideration of issues of concern in Scotland when developing policy and making decisions. Our cross-office team in Glasgow was involved in the early stages of transport planning for the Commonwealth Games.

Performance declined in the latter part of 2013, from the high levels seen earlier in the year. We were in regular contact with Network Rail to understand how it was assessing and addressing these performance problems. The company produced an improvement plan to tackle the issues and we are continuing to keep this under close scrutiny. Targeted infrastructure investment and timetable revisions by both Network Rail and First ScotRail reversed the decline in the early part of 2014. However, Network Rail Scotland Route will miss its overall performance target for the end of CP4.

Major investment in Scotland's railway infrastructure continued apace and ORR monitored project costs and progress proactively. The Paisley Canal and Cumbernauld lines were electrified ahead of the 2014 Commonwealth Games and civil engineering works for electrification of the main Edinburgh to Glasgow route progressed well. Network Rail is on course to reopen the Borders Railway in 2015, which is being engineered to allow for electrification now and in the future. We continue to maintain a close watch on all network enhancement projects in Scotland to ensure they do not fall behind schedule and continue to provide value for money to the taxpayer.

Recent infrastructure investment has yielded dividends in improved resilience, with improvements to track drainage ensuring that the railway coped well with record rainfall in December. Away from the main line we have also continued to monitor the modernisation of the Glasgow subway.

In Scotland there were no fatalities or serious injuries during the year, however ORR identified some areas for improvement regarding asset management.

Inspectors served safety enforcement notices to ensure that the railway addressed risks associated with track twist, slope management and plant and equipment, the latter after a maintenance vehicle with defective brakes ran away during engineering work at Glasgow Queen Street.

Network Rail has made good progress in reducing level crossing risk and have fitted barriers at almost all of the automatic open crossings in Scotland.

**Sue Johnston – Deputy Director  
Scotland and Railway Safety**



I am the Deputy Director for Scotland and Railway Safety. In my railway safety role, I lead ORR's national team ensuring that Network Rail complies with health and safety law, through a programme of proactive inspection and investigation work. In my Scotland role, I ensure that ORR's approach to economic regulation is consistent with the requirements of ministers as set out in the HLOS and Scottish Ministers Advice to the ORR, by leading a cross-office Scotland team, with a focus on value for money and service to customers.

## Wales

The Welsh Government is co-signatory to the Wales and Border franchise and is responsible for determining the priorities for local and regional services and setting fares for them. We work with it and stakeholders to ensure that regulation is a successful part of achieving the Welsh Government's vision for Wales.

We worked closely with the government and stakeholders during the PR13 process to ensure our final determination and Network Rail's delivery plan focuses on what Wales needs. We held a stakeholder conference in Cardiff and have continued to monitor project costs and progress for investment in Wales such as the Cardiff area re-signalling, Barry-Cardiff capacity improvements and Cardiff Queen Street station improvements. We welcome being part of the Welsh Government's Wales Rail Industry Leaders Group.

As part of our transparency agenda, we published usage statistics which showed that journeys within Wales increased by 1.0% since 2011-12 to 19.2 million. The largest increase of 7.8% occurred on services to/from Merthyr Tydfil, continuing the increase demand for the town which has grown by over 60% in the past five years.

Network Rail's progress on delivering the Queen Street station improvements was delayed due to the discovery of asbestos. We concluded that this delay impacted some customers in terms of prolonging the passenger disruption around the station construction site, and we have made a negative adjustment accordingly when assessing Network Rail's overall performance in CP4.

Despite a promising start to the year, performance in Wales finished 2013-14 below target. Network Rail caused delay minutes was 11.9% worse than target and 1.3% worse than at the end of the previous year. We note that the majority of this variance was due to severe weather and track defects. Network management delays – mainly engineering overruns and operations caused delays were also worse than target over the last year.

The impact of adverse wet and windy weather between November 2013 and March 2014 caused significant damage to railway structures and infrastructure right across Wales and especially along the coastline. We acknowledge the impact that the closure of the Cambrian Coast line had to the communities that rely on it, and have been closely monitoring Network Rail's progress in re-opening this line.

There were no passenger or workforce fatalities or serious injuries during the year, but some on-going areas for attention include accidents at level crossings. There was also an increase in



signals passed at danger (SPAD) by trains, which was also seen in other parts of the national network. We continue to monitor the industry's Rail Safety and Standards Board's work to better understand the causes of the increase in the number of signals passed at danger (SPAD) seen across the network.

Although there was a gradual improvement in workforce reportable injuries and near-miss incidents over 2013-14, workers were injured during station improvement-related lifting operations at Tonypany and Lisvane & Thornhill. We continue to monitor health and safety performance closely on mainline and heritage railways through our 'Wales and Western' team.

## Europe

ORR is committed strongly to leading the way and improving rail standards across Europe, sharing best practice with our partners and learning from what they do better than us. Our Railway Management Maturity Model (RM3) has also been influential in the development of a monitoring tool to assess the safety regulatory regime in all European countries.

From 1 January to 31 December 2013, ORR led IRG-Rail – the forum of economic rail regulatory bodies. Anna Walker served as Chair before handing over to the Luxembourg regulator at the end of the calendar year.

During this time, ORR hosted two successful plenary meetings. The group adopted position papers on key European issues and welcomed three additional members (Bulgaria, Belgium and Kosovo). Our term in office was successful in promoting ORR's standards of regulation and developing further good working relationships with Members of the European Parliament, the European Commission, and European industry stakeholder groups. We received several requests for assistance in drafting and commenting on European legislation and policies. ORR will continue to play an active role in IRG-Rail, whose work during 2014 will be focused on developing regulatory best practice, common principles and influencing European legislation development.

We continued to influence the development of European rail policy, engaging with domestic stakeholders, and in particular DfT, to develop as far as possible single Great Britain rail positions on EU policies and legislative responses. We worked with EU institutions to exchange information and propose legislative re-drafting. The UK models of safety and market regulation have a good reputation in Europe, and we were frequently approached to discuss our experience and working practices with European stakeholders and other regulatory bodies. This served us well in promoting a risk-management approach to safety, and influencing the shape of EU market-focused reform.

## **Agnès Bonnet - Head of European Policy**



I lead the European policy team. We try to influence EU legislation to get the best result for UK customers and funders. During 2013-14 we have focused on the Fourth Rail Package. This is a comprehensive set of proposals on safety, interoperability, infrastructure governance and franchising, designed to open domestic European passenger rail markets. Although the EU's objectives are compatible with the liberalised market in Great Britain, we must strive to ensure that prescriptive detail does not restrict the flexibility that characterises GB rail. This involves responding quickly to hundreds of amendments put forward by MEPs, EU member states and the Commission as the package is negotiated.

Once EU legislation has been agreed, we also ensure that UK implements the law and meets any new legal requirements, but that's another story...

## **Strategic objective 4: Promote an increasingly dynamic and commercially sustainable sector**

### **Long term regulatory statement**

This year we published and consulted on our long term regulatory statement (LTRS), looking at the longer- term future of the rail industry and our regulation of it.

The focus of this is on developing a more dynamic and commercially sustainable rail sector and creating a vision which the industry can identify and own. It highlights the challenges and opportunities Britain's railways face over the coming decades and debates the ways in which future growth – and how it contributes to the economic and social prosperity of the UK – can be secured. ORR hosted a number of seminars involving high-profile guest speakers to explore the themes identified in the statement, including cross-industry working, competition and financial sustainability.

We will build on these LTRS themes, the ideas generated at the seminars and the wider industry's emerging thinking and use them as an evidence base for developing PR18. These activities include work in the areas of competition, capacity, charging structures and incentives. We will encourage the industry to work collaboratively in identifying and delivering the longer-term vision.

### **Track access**

One of our economic functions is to approve train operators' contracts for access to track, stations and depots on Network Rail infrastructure. Ultimately we are responsible for the fair and efficient allocation of network capacity. This is especially important when there are several possible uses for scarce capacity which cannot all be accommodated. In that situation we will consider issues such factors as the impact on passengers (including train performance) and the implications for funders when deciding the best overall use of the network. However, most of our work is straightforward and happens 'behind the scenes'. This year we approved over a hundred new or changed contracts for track access and three times that number for access to stations and depots, including the extension of ten track access contracts for franchised passenger operators. We also directed Network Rail to enter into a new track access contract with First Greater Western.

## Transparency

Rail is a complex industry and its finances and operations are difficult to understand. Although around 60% of rail finances come from fare-paying passengers, the industry still receives significant sums of public money. It provides a vital public service with significant social benefit. The people who pay for the railways have a legitimate interest in getting better information about how their money is spent and how the industry performs.

Data transparency is also an important part of our work as the economic and safety regulator and helps us to hold the industry to account. We are working to improve the quantity and quality of information which the industry releases, where this adds clear value to customers and taxpayers.

ORR's programme of work to improve transparency in the railways has three elements:

- maintaining and improving our own data release and reporting programme to ensure high-quality information is made public on rail finances, performance, usage and safety;
- promoting greater access to and use of ORR data by all stakeholders; and
- working with the industry to promote greater transparency across the sector.

Over the past year ORR's transparency programme has delivered significant improvements, including:

- ORR achieved UK Statistics Authority National Statistics accreditation across our

### Jay Lindop – Information and Analysis team



I am head of information and analysis at ORR and oversee ORR's statistical publications and a large portion of the analysis governing our regulatory role, including performance. During the past year our statistics gained National Statistics accreditation, which is recognition of our quality approach to providing statistics. This something that we have been aiming towards for a few years so it is a major breakthrough for the team and something we are very proud of. In the last couple of years, we have also continued to look at ways to improve how we disseminate data, for example improving the layout of online data – and we have plans to make it even better. During the next year we are also moving back to our core function of analysis. CP5 will produce more data than CP4 so the Business Intelligence and Analysis Research team will be busier than ever.

statistical releases. The 'National Statistics' Quality Mark indicates that the statistics the statistics are user friendly and have been produced, managed and disseminated to high professional standards. Data is published on our website under eight themes, including safety and performance. We also provide contextual commentary on the statistics which helps the user to interpretation of the data. The releases are published on a quarterly and annual basis.

- The rail industry has published more detail than ever before on its costs and funding as part of the regulator's GB rail industry financial information report. Now in its third year, the report provided more detail than ever before – with analysis of the latest financial data from train operators, Network Rail and governments. This included industry costs and fares income. The report also assessed financial trends over the past three years, since when passenger journeys have increased by 10.4% and the amount of freight carried on the network has risen by 29.7%.
- As part of PR13 we published extensive technical and financial information on Network Rail including route level data and the CP5 settlement significantly increases the level of disaggregation of information available, giving ORR enhanced information on which to hold Network Rail to account in the future.

## Competition

- This year we continued to work with the Office of Fair Trading (OFT), the shadow Competition and Markets Authority (CMA) and the Department for Business Innovation and Skills (BIS) to help establish the framework of statute and associated rules and guidance for the new enhanced competition regime. We agreed a Memorandum of Understanding with the CMA which sets out more detail on how these arrangements will work, as well as helping it to prepare its baseline report on concurrency – which was published on 1 April 2014. In November 2013, we launched a competition investigation into the carriage of freight by rail. The investigation was initiated by a site visit under section 27 of the Competition Act 1998 which was a joint exercise involving both the ORR and OFT officers.



## Strategic objective 5: Be a high-performing regulator

### Developing the organisation

Following the development of ORR's strategic priorities, a programme of work to introduce the necessary organisational change was put in place in 2012-13. The organisational development programme is a planned, systematic approach to improving our effectiveness – one that aligns strategy, people and processes. The programme has been informed throughout by workshops run to develop ORR's strategic priorities; by results from the civil service people surveys; and by other consultation forums.

In 2013-14, the majority of the milestones within the eight projects which make up the programme were met. The changes introduced are now part of the business as usual in performance management, business planning, programme and project management and communications.

- We have introduced a broader flexible working environment that we call 'smarter working'. This recognises that people perform best if they can decide when and where to work to achieve their objectives, subject to business need.
- We are developing our information and communication systems to support this approach. As well as increasing effectiveness, this also helps our people to achieve a good work-life balance.

### Miz Miah – Finance and Corporate Governance Executive



I work in the finance and governance team and am involved in providing a range of important financial information and support services to colleagues throughout ORR. A key focus for the team over the past year has been supporting colleagues to successfully use our new planning tool (the Business Management System) and to ensure the efficient production of our new management reports. The system and the reports help us to challenge and ensure the right resources are assigned to the right work areas and to assess progress and key risks in the delivery of agreed priorities and strategic objectives. Going forward, we are looking to review the effectiveness of our management reports and streamline where necessary.

- IT projects to upgrade systems and software whilst reducing costs will continue into 2014-15 as part of underpinning the business need for people to be able to work more flexibly.
- The accommodation refit of our London office is due to complete on budget and on schedule in early 2014-15. This will deliver a more modern and flexible working environment while also generating significant cost savings.

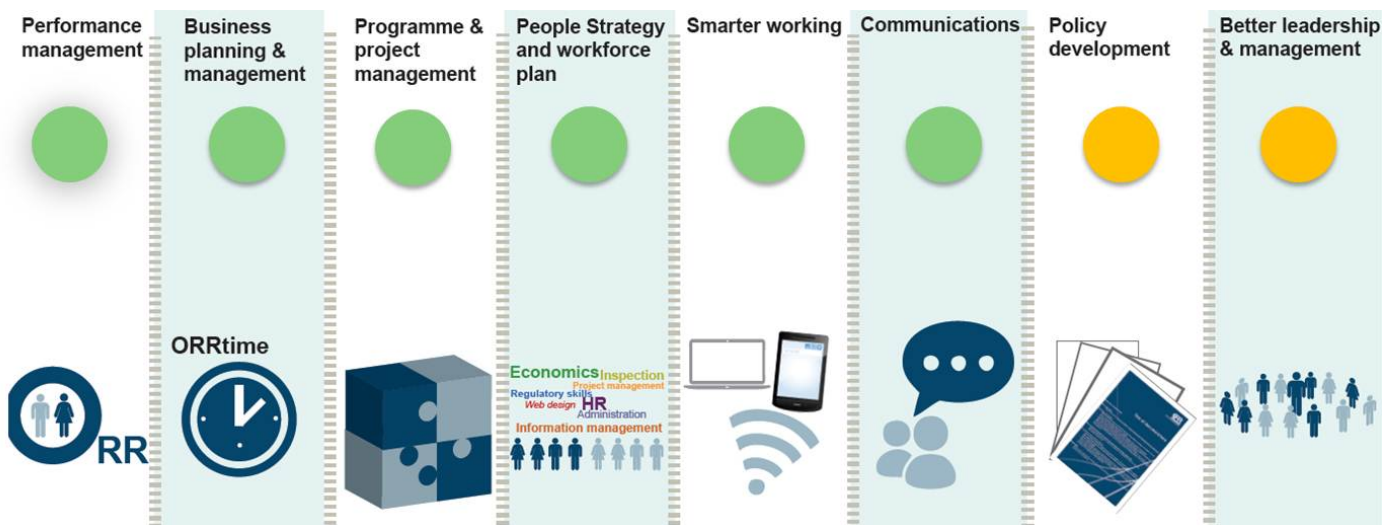
[The results from the 2013 people survey](#) showed marked improvements in the areas targeted for action within the programme – understanding of strategic priorities and linking through the business planning system to individual objectives, leadership and managing change and communication of a clear vision for the organisation. ORR had the second highest score in the whole civil service on commitment to the work of the organisation (84%). ORR's overall engagement score went up from 52% to 56%. Out of the 57 core questions only 10 showed reduced scores – the biggest falls being responses on pay and benefits.

As well as the evidence from the people survey on improving engagement, ORR's latest *Investors in People* assessment report also provides evidence of positive changes:

“There has been considerable improvement in the level and clarity of communication from the leadership of ORR; employees confirm that this has been enhanced by the coaching and nurturing behaviours exhibited by the majority of managers throughout the organisation.”

*Investors in People Office of Rail Regulation Report October 2013*

The ORR Board has noted that there is clearly more work to do on leadership and managing change and the longer term goal should be to match civil service high performing organisations.



## Enquiries, FOI requests and correspondence

ORR receives numerous enquiries and request for information from the general public (under the Freedom of Information Act, or FOI) and Members of Parliament. We are committed to meeting our targets for answering all of these as promptly and accurately. This year we handled 1,797 public enquiries, of which 1,536 (87%) were responded to within the 20 working-day target. We received 207 FOI requests, of which 183 (88%) were answered within the 20-day target, and responded to 48 letters from MPs, of which 41 (85%) were answered within the 20-working day target.

*Richard Price*

**Richard Price**

Accounting Officer

22 May 2014

# Director's Report

## Financial commentary

ORR is an independent regulator funded almost entirely by the railway industry – broadly train and freight operating companies, plus Network Rail. We work within a defined budget, and charge the industry via a safety levy and economic licence fee. We also cover our regulatory costs relating to the Channel Tunnel and HS1 by charging Eurotunnel and Network Rail respectively. Our charges are based on a full economic cost model, therefore without profit. Our combined charges and other income meet our costs in full, bar a 'token' resource budget provided by the UK Parliament.

A summary of our expenditure and income over the past two years is shown below.

	2013-14	2012-13
<b>Income (£000)</b>		
Deferred income from prior year	(1,143)	(2,121)
Licence fees and safety levy income	(28,683)	(28,242)
Other income	(432)	(570)
Total income	(30,258)	(30,933)
Less income deferred to future years	1,474	1,142
Net income	(28,784)	(29,791)
<b>Expenditure (£000)</b>		
Staff costs	19,083	19,180
Other costs	9,704	10,613
Total costs	28,787	29,793
Net operating deficit (as voted by Parliament)	3	2
<b>Reconciliation between resource outturn and resource budget outturn (£000)</b>		
Net resource outturn	3	2
Net operating costs	3	2
Resource budget outturn	3	2

## Income

The total income in 2013-14 comprised £13.79m and £16.04m for licence fees and safety levy respectively which includes £1.14m deferred income carried forward from the previous year, HS1 and Channel Tunnel income. In addition £432k of other income consisted of recharges for the

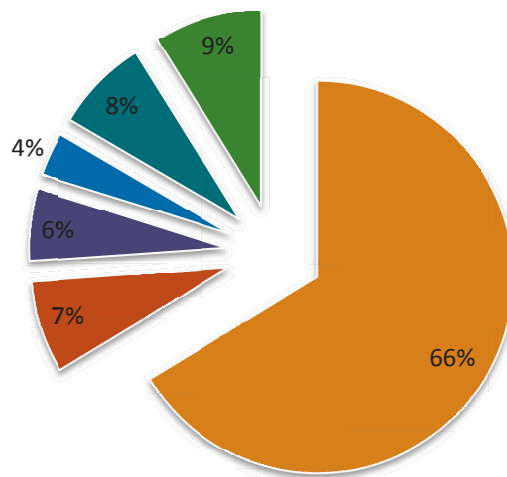
road monitoring preparatory work, sub-letting of the 3<sup>rd</sup> floor in our Kemble Street offices, seconded staff and other costs recovered from successful prosecutions and safety inspections.

## Expenditure

Total expenditure in 2013-14 was £28.78m, compared to £29.79m in 2012-13. This follows a pattern of progressive reductions in expenditure from a level of around £37m in 2008-09. Staff costs accounted for £19.08m (66.3%) of this total, compared to £19.18m (64.4%) in 2012-13. £1.7m of costs (6%) was consultancy fees, compared to £2.4m (8%) in 2012-13. The remainder of our expenditure remained broadly static as a proportion of total costs compared to 2012-13.

### 2013-14

■ Staff costs  
 ■ Accomodation costs  
 ■ Consultancy costs  
 ■ Non cash costs  
 ■ IT costs  
 ■ Other costs



## Expenditure Comparison with Estimate (Parliamentary Supply)

Expenditure by core function	2013-14			2012-13	
	Estimate	Actual	Variance	Actual	Change 2012-13 to 2013-14
	£000	£000	£000	£000	£000
Economic regulation, admin, and other expenditure	13,831	13,021	810	13,284	(262)
Safety regulation, admin and other expenditure	16,129	15,736	393	16,509	(773)
Other regulation, admin and other expenditure	100	30	70	-	29
<b>Total</b>	<b>30,060</b>	<b>28,787</b>	<b>1,273</b>	<b>29,793</b>	<b>(1,006)</b>

During the year, ORR undertook preparatory work for a potential role in monitoring the strategic roads authority. If Parliamentary approval is obtained then ORR will take over this function in

2015-16. The cost of the preparatory work was £30k and £29k was recharged to DfT, resulting in a token cost of £1k. The variance of £70k compared to the Estimate of £100k was caused by an overestimation of the costs required in 2013-14.

There was an underspend in both economic regulation and safety regulation compared to the Estimate, being £810k for the former and £393k for the latter. Overall underspends comprised £650k in staff costs, £335k in consultancy, and £130k in other running costs and £201k in non-take up of contingency provision. There was however an overspend in non-cash costs of £114k.

### **Prompt payment**

We are committed to the prompt payment of our suppliers and seek to pay all valid invoices as soon as possible. During 2013-14 99.1% of invoices were paid within 30 days (98.3% in 2012-13) and 59.0% paid within 10 days (39.3% in 2012-13). We have set more stretching targets for prompt payment in 2014-15, aiming to pay 100% within 30 days and 80% within 10 days.

### **Economy and value for money**

Our 'smarter working' programme has enabled us to economise on office space, allowing us to sublet part of our London office lease. Accommodation-related costs in 2013-14 fell by £49,000 (2%) compared to 2012-13; a reduction per head from £8,280 to £8,230 excluding the income from our tenant.

Our average staff cost per full-time equivalent in 2013-14 was £71,600 compared to £70,800 in 2012-13. This reflects a 1% pay increase across the civil service and a planned change in the composition of staff.

Consultancy costs in 2013-14 were £696,000 (29%) lower than in 2012-13.

### **Information systems and management**

Our information system continues to be managed by Capita Secure Information Solutions. We maintain a strong relationship with our service provider and have seen continuous improvements in the service that ORR receives. We have experienced no information risk incidents which would require the Information Commissioner to be informed.



## **Estates and facilities**

As a national organisation, ORR has six offices around the UK, with a headquarters in London in space leased from the Civil Aviation Authority. ORR holds the direct lease on an office in Glasgow whereas offices at Bristol, Birmingham, Manchester and York are in space in other government departments' buildings held under Memorandum of Terms of Occupation agreements with the lead department. ORR owns no property.

## **Sustainability Report**

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

### **Developments**

We carried out a comprehensive review of all sustainable development duties in summer 2013. On 19 September 2013, our Executive Committee decided to focus activities on monitoring how Network Rail embeds the rail industry's sustainable development principles, and increases resilience of rail infrastructure to climate change and extreme weather.

On 31 October 2013 we published our final determination for CP5 (2014-2019), which requires Network Rail to publish climate change and extreme weather resilience plans at route level by September 2014, and embed rail industry sustainable development principles in all asset policies, and project and programme documentation. We have also developed a CP5 monitoring plan that covers Network Rail's sustainable development KPIs, carbon emission targets and noise mitigation activities.

### **ORR performance and policy**

Following a recent review and publication of the final determination we are updating our sustainable development policy and will publish a revised statement in 2014-2015. We have already consulted the industry on our new approach and will continue to do so as we develop our new policy.

Our environmental performance in 2013-2014 is shown in the table below. We have presented the data as transparently as possible, and provided notes to explain where it has not been possible to obtain some information.

Our carbon footprint has been restated for all years in order to account for material changes to the conversion factors provided by DEFRA for company reporting purposes.

Emissions, waste, water and finite resources figures apply to London and Glasgow offices (where available). Travel applies to the whole organisation.

We have reduced our energy consumption over three years, believed to be caused by a number of factors, including more efficient computer resources and smarter working entailing less travel. In addition from 2013-14, all electricity is derived from renewable sources.

Much of our utilities are provided and controlled by our building landlords or lead tenants, and as such we have not set targets for the measures set out below. We are reviewing the merit of establishing targets and improving the robustness of data collection and will publish all such measures in our revised sustainable development policy.

<i>Based on 2013-14 DEFRA conversion factors</i>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>
<b>Greenhouse gas emissions (Tonnes CO2)</b>			
Electricity (scope2)	273	221	241
Oil (scope 2)	17	76	54
Gas (scope 2)	7	10	6
Travel: Car (personal vehicle)	81	73	63
Air	29	52	49
Train	152	100	83
Hired Car	9	11	11
Gross emissions total	568	543	507
Total net omissions	-	-	-
Gross emissions of official business travel (Tonnes CO2)	271	236	206
<b>Expenditure (£)</b>			
CRC Gross expenditure	52,016	49,895	53,485
Expenditure on accredited offsets	-	-	-
Expenditure on official travel	686,000	607,471	616,511
<b>Waste (tonnes)</b>			
Total waste	12	26	28
Hazardous waste	-	-	-
Non-hazardous to landfill	1	1	1
Non-hazardous recycled	11	8	8
Non-hazardous Incinerated/energy from waste	-	17	18
Cost of waste collection (£)	-	-	5,840
<b>Water</b>			
Water consumption (M3)	1,781	1,664	2,125
Water supply costs (£)	3,133	4,065	4,078

<b>Finite Resources</b>			
Electricity non-renewable (Kwh)	567,017	456,883	-
Electricity renewable (Kwh)	34,539	39,193	512,744
Gas (Kwh) – Glasgow (estimated)	39,485	51,350	33,088
Oil (Kwh)	62,124	279,000	198,127
Total energy expenditure (£)	63,545	63,848	73,439

## Stakeholder management

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 held a stakeholder event to seek feedback on our performance, and assess perceptions of our strengths and weaknesses. The findings showed that most stakeholders are satisfied with how we do our job, with 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.

Stakeholder consultation has also formed an important part of our assessment of Network Rail's strategic business plan.

### Register of interests

Details of company directorships and other significant interest held by the Board are maintained in a register at the following location: <http://orr.gov.uk/about-orr/who-we-are/the-board/register-of-interests>.

### 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,

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 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.

### **Complaints to the Parliamentary Ombudsman**

No formal complaints were made in the course of the year.

### **Our people**

In October 2013 we again participated in the civil service people survey. This was the fourth 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 of the current pay freeze and reforms to public sector pensions. Further information is provided in the organisational development section above.

In October 2013 we retained our recognition of the Investors in People standard and the report said we had made excellent progress against the standard.

### **Equality and Diversity**

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, gender and sexual orientation. We use the 'Two ticks' positive about disability accreditation to show we encourage applications from disabled people and support them when in employment.

We engage with our Staff Representatives Group on a regular basis to share information on the organisation and on all aspects concerning employment. The minutes of the bi-monthly meetings are shared with all staff, and twice yearly the meetings are open for staff to attend as observers.

## 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.

The annual working days lost per employee through sickness in 2013-14 were 3.2.

## Health & Wellbeing

This year we introduced a new health and wellbeing strategy to support the aims of ORR's people strategy. The aim of the strategy is to promote health and wellbeing at work in a variety of ways, having regard to our size and the nature of our operation. This year we have introduced an employee assistance service and new occupational health provider.



**Richard Price**

Accounting Officer

22 May 2014

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# RESOURCE ACCOUNTS 2013-14

These accounts cover the operation of the Office of Rail Regulation for the period 1 April 2013 to 31 March 2014. They have been prepared on an accruals basis in accordance with International Financial Reporting Standards, the Government Resources and Accounts Act 2000 and HM Treasury's 2013-14 Financial Reporting Manual.

The totals of expenditure and income have to be planned through the Treasury and accounted for to Parliament through the Estimates process. The Chief Executive is the Accounting Officer for these funds.

## Introduction

The Office of Rail Regulation (ORR) was established by the Railways and Transport and Safety Act 2003 to replace the Office of the Rail Regulator. It is a non-ministerial department, funded through licence fees and safety levies, the level of which are set by ORR. Its functions were broadened by the Railways Act 2005, which established ORR as the combined safety and economic regulator for the railway industry.

The ORR is independent of, but works closely with, the Department for Transport (including the Rail Accident Investigation Branch), the Health and Safety Executive and the Rail Safety and Standards Board.

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 2013-14 these were Stephen Nelson (committee Chair), Anna Walker, Peter Bucks, and Tracey Barlow.

The committee's role is to review the remuneration packages of ORR's SCS staff; 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 service pay strategy accords with parameters set by the Cabinet Office for the SCS following recommendations by the Senior Salaries Review Body.

## 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.

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.

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 Chair 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. The Chair is entitled to pension benefits but has not exercised that entitlement to date.

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 early termination payments totalling £156,000 in 2013-14 (2012-13: two executives totalling £251,000).

### **Salary and pension entitlements**

The following sections provide details of the remuneration and pension interests of the most senior managers of the ORR during 2013-14, and have been subject to external audit.

## Remuneration

	Salary (£'000)		Bonus payments (£'000)		Benefits in kind (to nearest £100)		Pension benefits (£'000)		Total (£'000)	
	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13
Richard Price <i>Chief Executive</i>	140-145	135-140	-	-	-	-	23	64	164	204
Cathryn Ross <i>Director, Railway Markets and Economics</i> (Left ORR 13 October 2013)	70-75	130-135	10-15	5-10	-	-	4	43	88	186
Juliet Lazarus <i>Director, Legal Services</i>	85-90	85-90	10-15	-	-	-	19	41	119	128
Ian Prosser <i>Director, Railway Safety</i>	120-125	120-125	-	-	-	-	46	44	169	166
Michael Beswick <i>Director, Rail Policy</i> (Left ORR 14 June 2013)	20-25	115-120	-	-	-	-	na	na	24	115
Ken Young <i>Director, External Affairs</i> (Left ORR 31 March 2013)	-	80-85	-	-	-	-	na	na	-	82
Lynda Rollason <i>Director, Corporate Services</i> (Left ORR 30 June 2012)	-	25-30	-	-	-	100	na	na	-	26
John Larkinson <i>Director, Railway Markets and Economics</i> (Permanent promotion 20 January 2014)	105-110	90-95	10-15	5-10	600	600	76	54	197	159
Alastair Gilchrist <i>Director, Corporate Operations</i> (Left ORR 31 October 2013)	60-65	65-70	-	-	400	400	25	18	87	85
Alan Price <i>Director, Railway Planning and Performance</i> (Joined ORR on 26 November 2012)	160-165	55-60	-	-	-	-	60	16	221	72
Richard Emmott <i>Director, Communications</i> (Permanent 31 October 2013)	120-125	25-30	-	-	-	-	-	-	122	27
Daniel Brown <i>Director, Strategy &amp; Policy</i> (Joined ORR 17 September 2012)	120-125	80-85	10-15	-	-	-	312	8	445	8
Tom Taylor <i>Director, Corporate Operations and Organisational Development</i> (Joined ORR 21 October 2013)	50-55	-	-	-	-	-	72	na	126	-
Joanna Whittington <i>Director, Railway Markets and Economics Chief Economist</i> (Joined ORR 3 March 2014)	5-10	-	-	-	-	-	4	na	12	-

na- pension information not available from MyCSP

'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.

'Bonus payments' shown separately and not in gross salary above are based on performance levels attained and are made as part of the performance appraisal process. The bonuses reported in 2013-14 relate to performance in 2012-13 and the comparative bonuses reported for 2012-13 relate to the performance in 2011-12.

'Benefits in kind' comprise subsidised gym membership.

'Pension benefits' are shown on page 54. No senior managers exercised the option to take extra salary to invest in a pension scheme of their own choice rather than participate in a Civil Service pension.

The full year equivalent salaries of those senior managers in the above table who worked for part of 2013-14 are as follows.

Cathryn Ross in the range of £130,000 - £135,000

Michael Beswick in the range of £115,000 - £120,000

John Larkinson in the range of £120,000 - £125,000

Alistair Gilchrist in the range of £105,000 - £110,000

Richard Emmott in the range of £120,000 - £125,000

Tom Taylor in the range of £120,000 - £125,000

Joanna Whittington in the range of £135,000 - £140,000

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

Michael Beswick, former Director Rail Policy, received a payment of £156k when he left in June.

## Comparison of highest-paid director and median remuneration

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.

The banded remuneration of the highest-paid director in the Office of Rail Regulation in the financial year 2013-14 was £160,000 - £165,000 (2012-13: £155,000 - £160,000). This was 3.0 times (2012-13: 2.9) the median remuneration of the workforce, which was £54,486 (2012-13: £54,189). In 2013-14, nil (2012-13: nil) employees received remuneration in excess of the highest-paid director.

Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

## 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 salary-related and range between 1.5% and 6.25% of pensionable earnings for **classic** and 3.5% and 8.25% for **premium**, **classic plus** and **nuvos**. 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 although 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 or her 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**.

Further details about the Civil Service pension arrangements (and reforms to it) can be found at the website <http://www.civilservice.gov.uk/pensions>

Some employees 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](http://www.railwaypensions.co.uk)).

The former Rail Regulators' and former Chair's pensions are by analogy with the Principal Civil Service Pension Scheme. During 2013-14 there was no active member (2012-13: no active member). The accruing cost of providing for the members' 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 Chair'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

The following table has been subject to audit.

	Accrued pension at pension age as at 31/03/14 and related lump sum	Real increase in pension and related lump sum at pension age	CETV as 31/03/14	CETV as 31/03/13	Real Increase in CETV	Employer contribution to partnership pension account
	£'000	£'000	£'000	£'000	£'000	Nearest £100
Richard Price (a) <i>Chief Executive</i>	35-40 (pension) 110-115 (lump sum)	0-2.5 (pension) 5-10 (lump sum)	562	506	9	-
Cathryn Ross (a) <i>Director, Railway Markets and Economics</i> (Left ORR on 13 October 2013)	30-35 (pension) 95-100 (lump sum)	0-2.5 (pension) 0-2.5 (lump sum)	422	394	4	-
Juliet Lazarus (c) <i>Director, Legal services</i>	15-20 (pension)	0-2.5 (pension)	229	198	10	-
Ian Prosser (e) <i>Director, Railway Safety</i>	15-20 (pension)	2.5-5.0 (pension)	228	181	26	-
John Larkinson (a) <i>Director, Railway Markets and Economics</i> (Permanent promotion 20 January 2014)	25-30 (pension) 85-90 (lump sum)	2.5-5.0(pension) 10-15(lump sum)	518	425	53	-
Alastair Gilchrist (e) <i>Director, Corporate Operations</i> (Left ORR 31 October 2013)	0-5 (pension) - (lump sum)	0-2.5 (pension) - (lump sum)	28	11	12	-
Alan Price (e) <i>Director, Railway Planning and Performance</i> (Joined ORR 26 November 12)	0-5 (pension) - (lump sum)	2.5-5 (pension) - (lump sum)	56	11	28	-
Richard Emmott (f) <i>Director, Communications</i> (Permanent 31 October 2013)	- (pension) - (lump sum)	- (pension) - (lump sum)	-	-	-	1,600
Dan Brown (b) <i>Director, Strategy &amp; Policy</i>	0-5 (pension) - (lump sum)	0-2.5 (pension) - (lump sum)	167	5	149	-
Tom Taylor (a) <i>Director, Corporate Operations and Organisational Development</i> (Joined ORR on 21 October 2013)	25-30 (pension) 75-80 (lump sum)	2.5-5(pension) 5-10 (lump sum)	359	310	42	-
Joanna Whittington (a) <i>Director, Railway Markets and Economics</i> <i>Chief Economist</i> (Joined ORR on 3 March 2014)	15-20 (pension) 45-50 (lump sum)	0-2.5 (pension) 0-2.5 (lump sum)	243	239	3	-



Notes:

- (a) Classic
- (b) Classic plus
- (c) Premium
- (d) member of the Railway Pension Scheme from date of appointment
- (e) Nuvos
- (f) Partnership.

\*\*\*Richard Emmott is part of the Partnership Pension Scheme.

### Non-Executive Directors

The following table summarises the salaries of other non-executive directors and has been subject to audit.

	Period of Office	2013-14 £	2012-13 £
Anna Walker	5 July 2009 to 31 December 2015	120,000	120,000
Tracey Barlow	1 February 2010 to 31 January 2015	21,776	21,776
Steve Walker	1 February 2010 to 31 December 2013	16,332	21,776
Peter Bucks	1 February 2010 to 31 March 2014	21,776	21,776
Mike Lloyd	1 March 2010 to 31 October 2013	12,703	21,776
Mark Fairbairn	5 September 2011 to 4 September 2015	21,776	21,776
Stephen Nelson	5 September 2011 to 4 September 2015	21,776	21,776
Ray O'Toole	5 September 2011 to 4 September 2015	21,776	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 cost of the tax due on these taxable benefits. The liability is paid in the year following the benefit.

	2013-14 £	2012-13 £
Benefits paid or due	7,532	10,526
Tax Liability	6,753	9,438

**Richard Price**  
Accounting Officer

22 May 2014

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# 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.

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# Office of Rail Regulation (ORR) Governance Statement 2013-14

This statement explains the governance arrangements of ORR, including the management of risk and resources. 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.

## The Board

ORR is a non-ministerial government department led by a statutory Board currently consisting of non-executive directors (including the Chair) and executive directors (including the chief executive). The Secretary of State for Transport makes appointments to the Board for a fixed term of up to five years, which is renewable, 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 held 10 meetings in 2013-14. The following people served as Board members in 2013-14.

### Non-Executive Directors

Anna Walker (Chair), 5 July 2009 – reappointed until 31 December 2015

Peter Bucks, 5 July 2004 – reappointed until 30 June 2014

Tracey Barlow, 1 February 2010 to 31 January 2015

Stephen Nelson, 5 September 2011 to 4 September 2015

Ray O'Toole, 5 September 2011 to 4 September 2015

Mark Fairbairn, 5 September 2011 to 4 September 2015

#### *Left during the year:*

Mike Lloyd, 1 March 2010 to 31 October 2013

Steve Walker, 1 February 2010 to 31 December 2013

### Executive Directors

Richard Price (Chief Executive), 16 May 2011 to 15 May 2016

Ian Prosser (Railway Safety), 26 September 2008 – reappointed to 25 September 2018

Alan Price (Railway Planning and Performance), 26 November 2012 to 25 November 2016

Joanna Whittington (Railway Markets and Economics), 3 March 2014 to 3 March 2019

*Left during the year:*

Michael Beswick, (Rail Policy), 20 March 2006 to 14 June 2013

Cathryn Ross, (Railway Markets and Economics), 8 August 2011 to 13 October 2013

## **Standing committees of the Board**

The Board has had five standing committees during the year. The Audit and Risk Committee, Remuneration Committee, Safety Regulation Committee and Nominations Committee ran throughout the year. There was also a Periodic Review Committee, which met to oversee the delivery of Periodic Review 2013, the final meeting of which took place in September 2013.

### *Audit and Risk Committee*

The Audit and Risk 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 making and in discharging their accountability obligations (particularly in respect of financial reporting and risk management).

The Audit and Risk Committee comprises two non-executive directors (one of whom chairs the committee) and an independent member. Membership of the committee is reviewed every three years.

The committee met four times during the year and areas considered included the following.

- Progress made in delivering the planned audit 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 accounts.
- 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 the following:

- Outcomes from the 2012-13 performance management process.
- Pay and reward implementation for 2014.
- Succession and workforce planning.
- SCS pay policy and non-consolidated performance-related pay awards for 2012-13.

### *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 four times during the year and areas considered included the following:

- Safety challenges.
- Assessment of risk.
- Health and safety regulation of the Channel Tunnel.
- Planning for ORR's health and safety activity in 2014-15.
- Competence management.

### *Periodic Review Committee*

The role of the Periodic Review Committee was 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, (referred to hereafter as 'PR13'). The Committee was chaired by the Board Chair and consisted of non-executive and executive members.

The committee met four times during the year. It considered a number of specific aspects of the periodic review including the following:

- Efficiency expenditure and benchmarking.
- The Long Term Regulatory Statement.
- Innovation Discussion on outputs, Key Performance Indicators (KPIs) and enablers.
- Safety issues relating to PR13.

### *Nominations Committee*

During the year it was agreed by the Board that a Nominations Committee should be established. Notwithstanding the Secretary of State's responsibility for making appointments to the ORR Board and the Chair's role in leading the Board, the purpose of the committee is to assist the Chair in developing recommendations to the Secretary of State for the recruitment and appointment of non-executive directors, developing succession planning for Board committee's and advising the Chair on reappointments of Board members. The committee is chaired by the Board Chair.

The committee met for the first time during the year to discuss and agree the committee's terms of reference.

## **Performance of the Board**

The Board and its standing committees are governed by the Board's rules of procedure. The Board and standing committees also review their performance annually. A summary of the role of each committee, along with a review of the committee's activities during the year is set out below. There is formal reporting from committee Chairs to the Board and a formal appraisal system for all Board members. The Chair's performance is appraised by the non-executive directors, led by the Deputy Chair.

Board attendances are summarised on page 65.

## **Conflicts of interest**

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.

## 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' for ministerial departments, as follows:

- The Board does not include a finance director. Instead, key financial expertise is incorporated through the weekly Executive Committee meetings which are attended by the Associate Director of Corporate Operations (Finance and Governance) who is a qualified accountant.
- The Remuneration Committee has a role in deciding individual reward for Senior Civil Servants. This approach adds a useful element of independence and objectivity given the small size of the department.

These exceptions aside, the Board considers that ORR is compliant with the principles established in the Corporate Governance Code. The Board and senior team operates according to the recognised precepts of good corporate governance in business, namely: leadership; effectiveness; accountability; and sustainability.

## The Executive

The executive of ORR is headed by the Chief Executive, who is also the Accounting Officer. Executive governance arrangements are based around three committees. Each committee involves a sub-set of executive Directors as appropriate:

- The Executive Committee meets weekly and oversees among other things progress against the business plan and allocation of resource for business planning.
- The Policy Committee meets fortnightly and oversees the development and implementation of regulatory policy. The committee is concerned with policy substance and alignment with strategy.
- The Regulatory Interventions Committee meets fortnightly and oversees a range of enforcement issues across economic and safety functions.

## Business plan

ORR produces and publishes an annual business plan, setting out resource requirements and key outputs planned for the coming financial year. Monthly reports on 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. This is drawn from a business management system which requires the input of milestones against all activities contributing to ORR's strategic objectives.

### **Stewardship of resources**

The Accounting Officer 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. The system of internal control in place to support the Accounting Officer in this capacity accords with all relevant HM Treasury guidance.

The Accounting Officer sub-delegates budgets to directors as appropriate and holds them to account for their expenditure against these delegated budgets. Each director has a number of officers to whom s/he may sub-delegate financial and purchasing authority. Records of these authorities and associated signatures are maintained within the finance team and are refreshed annually.

### **Risk management**

ORR has a two-tier risk management structure comprising a strategic-level risk register plus activity/project risk registers as appropriate.

- The High Level Risk Register (HLRR) is a statement of the most significant strategic-level risks facing ORR. It identifies risk owners (at director level) and describes mitigating actions along with progress and next steps on these. During 2013-14 there were ten high level risks, covering a wide range of issues from industry safety and Network Rail performance to ORR's own capability.
- The assessment of operational-level risks and the identification of appropriate controls also form a key part of the business planning process. Each directorate considers these aspects and includes them in the working level planning documentation as appropriate. Risk owners have the opportunity at regular team and Executive Committee meetings, to escalate risk from project and activity to Directorate level and from Directorate level to the HLRR if necessary.

The Executive Committee updates and reviews these risks on a monthly basis. Also, non-executive scrutiny is given to the executive's risk management through Board reviews and through the Audit and Risk Committee's scrutiny programme. The Board considered papers on risk in July

2013 and October 2013. The Audit and Risk Committee continued to scrutinise the risk management framework and took papers on risk management at each of its quarterly meetings. The HLRR was considered at each Audit and Risk Committee meeting and HLRR risk owners have been invited to discuss the specific risks for which they are responsible.

ORR has successfully managed all high level risks throughout the year with risks either remaining static or reducing. In particular risks attached to PR13 and ORR capability have decreased following the final determination process on the PR13 programme and as a result of good progress on the organisational development programme. The UK rail network remains one of the safest in the world with no major reported incidents this year. In addition despite the challenging weather, Network Rail continued to deliver a substantive service across the UK. The profile and positive perception of ORR has also improved during the year.

### **Information assurance**

ORR maintains an information management strategy which sets out how we manage our information as a combined safety and economic regulator. We maintain a risk register on information risk and oversee our compliance with our government information assurance requirements through an information security forum chaired by our Senior Information Risk Owner. This forum meets quarterly (or by exception) to monitor breaches in information security and recommend follow-up actions, and to provide a central management point for matters relating to information assurance.

ORR follows the requirements of Government's Security Policy Framework, and submits a report on information assurance annually to Cabinet Office. This year, our focus has been on ensuring that we are applying the right impact levels to the information we hold throughout the organisation. As a result of this work we are able to ensure that we have the appropriate security controls in place (both physical and electronic). We also continue to ensure that a good risk-appropriate security culture is embedded at ORR. We have successfully reaccredited our network as 'Business Impact Level 3' (IL3) and been successful in our application for transfer to the Public Services Network code of connection.

We have experienced no information risk incidents in 2013-14 which we considered to be sufficiently significant for the Information Commissioner to be informed.

## Internal audit

Our current internal auditor, Deloitte, delivered a programme of audit reviews which was developed jointly with the executive and endorsed by the Audit and Risk 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. The most that the internal audit service can provide to ORR is reasonable assurance that there are no major weaknesses in those systems audited. In respect of the audits undertaken in the year to 31 March 2014, their opinion is that ORR has adequate and effective systems over governance, risk management and control which provide reasonable assurance regarding the effective achievement of ORR's objectives. There are no significant issues to report.



**Richard Price**  
Accounting Officer  
22 May 2014

## Committee attendance

### Board meeting attendance 2013-14

Board member	April	May	June	July	September	October PR13	October	November	January	February	March	Total/ possible
Tracey Barlow	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	10/11
Michael Beswick	✓	✓										2/3
Peter Bucks	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	11/11
Mark Fairbairn	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	11/11
Mike Lloyd	✓	✓	✓	✓		✓	✓					6/7
Stephen Nelson	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	10/11
Ray O'Toole	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	11/11
Richard Price	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	11/11
Alan Price	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	11/11
Ian Prosser	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	10/11
Cathryn Ross	✓	✓	✓	✓	✓	✓	✓	✓				8/8
Anna Walker	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	11/11
Joanna Whittington										✓	✓	2/2
Steve Walker	✓	✓	✓	✓	✓	✓	✓					7/7

[Notes:\*additional meeting]

### Audit Committee attendance 2013-14

Committee member	May	September	December	March	Total/ possible
Tracey Barlow	✓	✓	✓	✓	4/4
Mark Fairbairn	✓	✓	✓	✓	4/4
Melvyn Neate*	✓	✓	✓	✓	4/4

\*Independent Member of the Audit Committee

### Remuneration Committee attendance 2013-14

Committee member	March	April	May	October	January	Total/ possible
Tracey Barlow	✓	✓	✓	✓	✓	5/5
Peter Bucks	✓	✓	✓	✓	✓	5/5
Stephen Nelson	✓	✓	✓	✓	✓	5/5
Anna Walker	✓	✓	✓	✓	✓	5/5

## Safety Regulation Committee attendance 2013-14

Committee member	March	July	October	December	March	Total/ possible
Mark Fairbairn	✓	✓	✓	✓	✓	5/5
Mike Lloyd	✓	✓	✓			3/3
Ray O'Toole	✓	✓		✓	✓	4/5
Alan Price	✓		✓	✓	✓	4/5
Richard Price	✓	✓	✓		✓	4/5
Ian Prosser	✓	✓	✓	✓	✓	5/5
Anna Walker	✓	✓	✓		✓	4/5
Steve Walker	✓	✓	✓	✓		4/4

## Periodic Review Committee attendance 2013-14

Committee member	April	May	September 3rd	September 16 <sup>th</sup>	Total/ possible
Michael Beswick		✓			1/2
Tracey Barlow	✓	✓	✓	✓	4/4
Peter Bucks	✓	✓	✓	✓	4/4
Mark Fairbairn	✓	✓	✓	✓	4/4
Mike Lloyd	✓				1/4
Stephen Nelson	✓		✓		2/4
Ray O'Toole	✓	✓	✓	✓	4/4
Richard Price	✓	✓	✓	✓	4/4
Ian Prosser		✓	✓	✓	3/4
Alan Price		✓	✓	✓	3/4
Cathryn Ross	✓	✓	✓	✓	4/4
Anna Walker	✓	✓	✓	✓	4/4
Steve Walker	✓		✓	✓	3/4



## Nominations committee

Committee member	September	Total/ possible
Tracey Barlow	✓	1/1
Stephen Nelson	✓	1/1
Ray O'Toole	✓	1/1
Richard Price	✓	1/1
Anna Walker	✓	1/1

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

I certify that I have audited the financial statements of the Office of Rail Regulation for the year ended 31 March 2014 under the Government Resources and Accounts Act 2000. The financial statements comprise: the 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 and Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. 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 2014 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 2014 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

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

4 June 2014

# Statement of Parliamentary Supply

In addition to the primary statements prepared under IFRS, the Government Financial Reporting Manual (FRM) requires Office of Rail Regulation to prepare a Statement of Parliamentary Supply (SoPS) and supporting notes to show resource outturn against the Supply Estimate presented to Parliament, in respect of each budgetary control limit.

## Summary of Resource and Capital Outturn 2013-14

	SoPS Note	2013-14 £000			2012-13 £000				
		Estimate			Outturn			Voted Outturn compared with Estimate:s aving/ (excess)	
		Voted	Non-Voted	Total	Voted	Non-Voted	Total		Total
£000	£000	£000	£000	£000	£000	£000	£000		
<b>Departmental Expenditure Limit</b>									
- Resource	2.1	3	-	3	3	-	3	-	2
- Capital	2.2	800	-	800	798	-	798	2	584
<b>Annually Managed Expenditure</b>									
- Resource	2.1	-	-	-	-	-	-	-	-
- Capital	2.2	-	-	-	-	-	-	-	-
<b>Total Budget</b>		803	-	803	801	-	801	2	586
<b>Non-Budget</b>									
- Resource	2.1	-	-	-	-	-	-	-	-
<b>Total</b>		803	-	803	801	-	801	2	586
Total Resource		3	-	3	3	-	3	-	2
Total Capital		800	-	800	798	-	798	2	584
Total		803	-	803	801	-	801	2	586

<b>Net Cash Requirement 2013-14</b>			
SoPS Note	2013-14 £000 Estimate	2013-14 £000	
		Outturn	Outturn compared with Estimate: saving/ (excess)
4	2,000	11	1,989
		1,045	1,045
<b>Administration Costs 2013-14</b>			
	2013-14 £000 Estimate	2013-14 £000 Outturn	2012-13 £000 Outturn
	3	3	2

Figures in the areas outlined in bold are voted totals or other totals subject to Parliamentary control. Although not a separate voted limit, any breach of the administration budget will also result in an excess vote. Explanations of variances between Estimate and outturn are given in SoPS Note 2 and in the Management Commentary.

## Notes to the Departmental Resource Accounts (Statement of Parliamentary Supply)

### SOPS1. Statement of accounting policies

The Statement of Parliamentary Supply and supporting notes have been prepared in accordance with the 2013-14 Government Financial Reporting Manual (FReM) issued by HM Treasury. The Statement of Parliamentary Supply accounting policies contained in the FReM are consistent with the requirements set out in the 2013-14 Consolidated Budgeting Guidance and Supply Estimates Guidance Manual.

#### SOPS1.1 Accounting convention

The Statement of Parliamentary Supply and related notes are presented consistently with Treasury budget control and Supply Estimates. The aggregates across government are measured using National Accounts, prepared in



accordance with the internationally agreed framework 'European System of Accounts' (ESA95). ESA95 is in turn consistent with the System of National Accounts (SNA93), which is prepared under the auspices of the United Nations.

The budgeting system and the consequential presentation of Supply Estimates and the Statement of Parliamentary Supply and related notes, have different objectives to IFRS-based accounts. The system supports the achievement of macro-economic stability by ensuring that public expenditure is controlled, with relevant Parliamentary authority, in support of the Government's fiscal framework. The system provides incentives to departments to manage spending well so as to provide high quality public services that offer value for money to the taxpayer.

The Government's objectives for fiscal policy are set out in the Charter for Budget Responsibility. These are to:

- ensure sustainable public finances that support confidence in the economy, promote intergenerational fairness, and ensure the effectiveness of wider government policy; and
- support and improve the effectiveness of monetary policy in stabilising economic fluctuations.

### **SOPS1.2 Comparison with IFRS-based accounts**

Many transactions are treated in the same way in National Accounts and IFRS-based accounts, but there are a number of differences as detailed below. A reconciliation of the department's outturn as recorded in the SoPS compared to the IFRS-based SoCNE is provided in SoPS note 3.2

### **SOPS1.3 Receipts in excess of HM Treasury agreement**

This applies where HM Treasury has agreed a limit to income retainable by the department, with any excess income scoring outside of budgets, and consequently outside of the Statement of Parliamentary Supply. IFRS-based accounts will record all of the income, regardless of the budgetary limit. This situation may arise in the following areas: (i) profit on disposal of assets; (ii) income generation above department Spending Review settlements; and (iii) income received above netting-off agreements.

## SOPS1.3 Provisions - Administration and Programme expenditure

ORR reports provisions as DEL non cash expenditure when initially recognising or adjusting a provision and a cash transaction on releasing a provision. This is an exceptional arrangement agreed with HM Treasury and is in line with provisions recognised in IFRS-based accounts. ORR therefore does not recognise AME release of provision and does not require a reconciliation between the IFRS-based accounts and the Statement of Parliamentary Supply.

## SOPS2. Net outturn

### SOPS2.1 Analysis of net resource outturn

		2013-14 £000			2012-13 £000		
		Outturn		Estimate		Outturn	
		Administration		Total	Net Total	Net total compared to Estimates	Total
Gross	Income	Net					
<b>Spending in Departmental Expenditure Limit</b>							
Voted:							
A	13,021	(13,020)	1	1	1	-	1
B	15,736	(15,735)	1	1	1	-	1
C	30	(29)	1	1	1	-	-
<b>Total</b>	<b>28,787</b>	<b>(28,784)</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>-</b>	<b>2</b>

## SOPS2.2 Analysis of net capital outturn

					2013-14	2012-13
					£000	£000
	Outturn		Estimate		Outturn	
	Gross	Income	Net	Net	Net total compared to Estimates	Net
<b>Spending in Departmental Expenditure Limit</b>						
Voted:						
A	361	-	361	800	439	252
B	437	-	437	-	(437)	333
C	-	-	-	-	-	-
<b>Total</b>	<b>798</b>	<b>-</b>	<b>798</b>	<b>800</b>	<b>2</b>	<b>584</b>

Net resource outturn for 2013-14 was £3k, matching the estimate of £3k.

Net capital outturn was £798k, in line with the Estimate of £800k.

The Director's Report on page 38 provides further explanation.

## SOPS3. Reconciliation of outturn to net operating cost and against Administration Budget

### SOPS3.1 Reconciliation of net resource outturn to net operating cost

			2013-14	2012-13
			£000	£000
		SoPS Note	Outturn	Outturn
Total resource outturn in Statement of Parliamentary Supply	Budget	2.1	3	2
Net Operating Costs in Consolidated Statement of Comprehensive Net Expenditure			<u>3</u>	<u>2</u>

SOPS3.2 Outturn against final Administration Budget and Administration net operating cost

	2013-14 £000	2012-13 £000
	Outturn	Outturn
Gross Administration Costs	28,787	29,793
Gross Income relating to administration costs	(28,784)	(29,791)
Net Outturn - administration costs	3	2
Administration cost limit - Estimate	3	

The Parliamentary control on administration costs applies to departments, agencies and other designated bodies.

## SOPS4. Reconciliation of Net Resource Outturn to Net Cash

### Requirement

	SoPS Note	Estimate £000	Outturn £000	Net total outturn compared with Estimate: saving/(ex cess) £000
Resource Outturn	2.1	3	3	-
Capital Outturn	2.2	800	798	2
<b>Accruals to cash adjustments;</b>				
<i>Adjustments to remove non-cash items:</i>				
Depreciation		(700)	(849)	149
New provisions and adjustments to previous provisions		(106)	(140)	34
Other non-cash items		(60)	(59)	(1)
<b>Adjustments to reflect movements in working balances:</b>				
Increase/(decrease) in receivables		-	(331)	331
(Increase)/decrease in payables		1,933	305	1,628
Use of provisions		130	284	(154)
		1,197	(790)	1,987
Net cash requirement		2,000	11	1,989

## SOPS5. Excess Cash payable to the Consolidated Fund

### SOPS5.1 Analysis of amounts payable to the Consolidated Fund

*In addition to income retained by the department, the following income is payable to the Consolidated Fund (cash receipts being shown in italics)*

	<b>2013-14</b> £000	<b>2012-13</b> £000
Excess cash surrenderable to the Consolidated Fund	-	-
<b>Total</b>	<u>-</u>	<u>-</u>

### SOPS5.2 Consolidated Fund Income

	<b>2013-14</b> £000	<b>2012-13</b> £000
Balance of Intergovernmental Commission Levy due to be paid in 2013-14	1,127	1,164
<b>Total</b>	<u>1,127</u>	<u>1,164</u>

# Financial Statements

## Statement of Comprehensive Net Expenditure

For the year ended 31 March 2014

				2013-14	2012-13
	Note	Staff Costs	Other Costs	Income	
		£000	£000	£000	£000
<b>Administration costs</b>					
Staff costs	3	19,083			19,180
Other administration costs	4		9,704		10,613
Operating income	5			(28,784)	(29,791)
<b>Totals</b>		<b>19,083</b>	<b>9,704</b>	<b>(28,784)</b>	<b>2</b>
<b>Net Operating Cost</b>	4			<b>3</b>	<b>2</b>
Net (gain)/loss on:					
- Actuarial movement in year			45		27
<b>Total other comprehensive net expenditure</b>			<b>45</b>		<b>27</b>
<b>Total comprehensive expenditure for the year end 31 March</b>				<b>48</b>	<b>29</b>

# Statement of Financial Position

As at 31 March 2014

		2014 £000	2013 £000
	<b>Note</b>		
<b>Non-current assets:</b>			
Property, plant and equipment	6	1,963	1,832
Intangible assets	7	951	1,134
<b>Total non-current assets</b>		<b>2,914</b>	<b>2,966</b>
<b>Current assets:</b>			
Trade and other receivables	8	909	2,285
Cash & cash equivalents	9	3,116	119
<b>Total current assets</b>		<b>4,025</b>	<b>2,404</b>
<b>Total assets</b>		<b>6,939</b>	<b>5,370</b>
<b>Current liabilities:</b>			
Trade and other payables	10	(8,340)	(6,652)
Provisions (amounts falling due within one year)	11	(228)	(263)
<b>Total current liabilities</b>		<b>(8,568)</b>	<b>(6,914)</b>
<b>Non-current assets plus/less net current assets/liabilities</b>		<b>(1,629)</b>	<b>(1,544)</b>
<b>Non-current liabilities:</b>			
Provisions	11	(609)	(718)
Other payables >1 year	10	(6)	(35)
Pension Liabilities	11	(528)	(479)
<b>Total non-current liabilities</b>		<b>(1,143)</b>	<b>(1,231)</b>
<b>Assets less liabilities</b>		<b>(2,772)</b>	<b>(2,775)</b>
<b>Taxpayers' Equity:</b>			
General Fund		(2,938)	(2,963)
Revaluation reserve		166	188
<b>Total taxpayers' equity</b>		<b>(2,772)</b>	<b>(2,775)</b>

Richard Price  
Accounting Officer  
22 May 2014

## Statement of Cash Flows

For the year ended 31 March 2014

		2013-14 £000	2012-13 £000
	Note	Office of Rail Regulation	Office of Rail Regulation
<b>Cash flows from operating activities</b>			
Net Operating Cost	2	(3)	(2)
Adjustments for non-cash transactions	4	1,048	992
(Increase)/Decrease in trade and other receivables	8	1,376	(1,118)
less movement in receivables relating to items not passing through Statement of Comprehensive Net Expenditure	8	(1,045)	1,045
Increase/(Decrease) in trade and other payables	10	1,659	(1,225)
less movements in payables relating to items not passing through Statement of Comprehensive Net Expenditure	10	(1,898)	249
Use of provisions	11	(284)	(397)
Use of provisions - by analogy pension		(15)	(15)
<b>Net cash outflow from operating activities</b>		<b>838</b>	<b>(471)</b>
<b>Cash flows from investing activities</b>			
Property plant and equipment additions	6	(497)	(171)
Intangible non-current assets additions	7	(352)	(403)
<b>Net cash outflow from investing activities</b>		<b>(849)</b>	<b>(574)</b>
<b>Cash flows from financing activities</b>			
From the Consolidated Fund (Supply) - current year		2,000	-
From the Consolidated Fund (Supply) - prior year		1,045	-
Advances from the Contingencies Fund		10,000	10,000
Repayments to the Contingencies Fund		(10,000)	(10,000)
<b>Net financing</b>		<b>3,045</b>	<b>-</b>
<b>Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund</b>			
		<b>3,034</b>	<b>(1,045)</b>
Payments of amounts due to the Consolidated Fund		(1,164)	(1,424)
Amounts due to the Consolidated Fund - and not paid over		1,127	1,164
<b>Payments of amounts due to the Consolidated Fund</b>		<b>(37)</b>	<b>(260)</b>
<b>Net increase/(decrease) in cash and cash equivalents after adjustments for receipts and payments to the Consolidated Fund</b>			
		2,997	(1,305)
<b>Cash and cash equivalents at the beginning of the period</b>	9	119	1,424
<b>Cash and cash equivalents at the end of the period</b>	9	3,116	119



## Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2014

		General Fund	Revaluation Reserve	Total Reserves
	Note	£000	£000	£000
<b>Balance as at 1 April 2012</b>		<b>(4,067)</b>	<b>236</b>	<b>(3,831)</b>
Changes in accounting policy		-	-	-
<b>Restated balance at 1 April 2012</b>		<b>(4,067)</b>	<b>236</b>	<b>(3,831)</b>
Net Parliamentary Funding - drawn down		1,045	-	1,045
Amounts issued from the Consolidated Fund for Supply but not spent at year end		-	-	-
Comprehensive Net Expenditure for the year	2	(2)	-	(2)
Actuarial loss relating to pension provision	11	(27)	-	(27)
Auditors remuneration	4	40	-	40
Additional depreciation charged for revaluation on assets	6	48	(48)	-
<b>Balance as at 31 March 2013</b>		<b>(2,963)</b>	<b>188</b>	<b>(2,775)</b>
Net Parliamentary Funding - drawn down		2,000	-	2,000
Amounts issued from the Consolidated Fund for Supply but not spent at year end	10	(1,989)	-	(1,989)
Comprehensive Net Expenditure for the year	2	(3)	-	(3)
Actuarial loss relating to pension provision	11	(45)	-	(45)
Auditors remuneration	4	40	-	40
Additional depreciation charged for revaluation on assets	6	22	(22)	-
<b>Balance as at 31 March 2014</b>		<b>(2,938)</b>	<b>166</b>	<b>(2,772)</b>

Note 1.12 describes the accounting treatments within the General Fund and the Revaluation Reserve.

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# Notes to the Departmental Resource Accounts

## 1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2013-14 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 the 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 the Department to prepare two additional primary statements. The Statement of Parliamentary Supply and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement.

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

### 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 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 (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

Depreciated 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. Depreciation is provided in the month after purchase or on bringing the asset into use.

### 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. Amortised 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), road monitoring recharges, 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 IAS19, 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 11.

## **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 12, "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 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 short term (-1.9%), medium term (-0.65%) and long term (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 Treasury general provisions discount rate. The provisions for past Rail Regulators' pension commitments have been assessed using a discount rate of 4.35% nominal or 1.80% net of price inflation (2012-13: 2.35%).

The provision for early retirement was established to provide for future retirement benefits of employees who have retired early or may be required to retire early or be made redundant.

The provision for accommodation has been established in order to satisfy the obligation to return leased offices to their original condition.

### **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.

### **1.12 Reserves**

The revaluation reserve was created to record historic increases in the value of certain fixed assets (fixtures and fittings and fitting out costs). When these assets are depreciated, the reserve is reduced by the amount of depreciation that relates to that part of the asset that was previously revalued.

The general fund records elements of the accounts which are not charged to the industry, and therefore do not pass through our income and expenditure account. These include, the effect of changes in accounting policy, actuarial gains and losses relating to our pension provision, auditors remuneration, cash to be returned to the Consolidated Fund and our token annual £3k operating cost for the year voted by Parliament.

### **1.13 Going Concern**

The statement of financial position at 31 March 2014 shows a negative Taxpayers' Equity of £2.772 million. This reflects the inclusion of liabilities falling due in 2013-14, including the repayment of surplus supply 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 surrendered 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 2014-15 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. Statement of Operating Costs by Operating Segment

	2013-14				2012-13		
	Economic Regulation £000	Safety Regulation £000	Roads Monitoring £000	Total £000	Economic Regulation £000	Safety Regulation £000	Total £000
Gross Expenditure	13,021	15,736	30	<b>28,787</b>	13,284	16,509	<b>29,793</b>
Gross Income	13,020	15,735	29	<b>28,784</b>	13,283	16,508	<b>29,791</b>
Net Expenditure	1	1	1	3	1	1	2

### Short 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.

ORR is a combined safety and economic regulator for the rail industry. The segments above have been established by reference to the cost of work carried out in respect of these two functions, plus corporate activities allocated to safety and economic regulation on the basis of their direct costs.

No individual train operating company contributes more than 10% of ORR income. However Network Rail paid £4.05 million in safety levy in 2013-14 (£4.7 million in 2012-13).

**Roads Monitoring** – in 2013-14 ORR was asked to undertake preparatory work on behalf of the Department for Transport (DfT), to assess the feasibility of cost and efficiency monitoring for a possible new strategic roads authority. ORR recharge DfT on a full cost recovery basis for this work, less £1k which is the token amount voted by Parliament for this activity.

### 3. Staff numbers and related costs

Staff costs comprise:

			2013-14	2012-13
			£000	£000
	Permanently Employed Staff	Others	Total	Total
Wages and Salaries	14,515	591	15,106	15,265
Social Security costs	1,431	28	1,459	1,466
Other pension costs	2,912		2,912	2,853
<b>Sub Total</b>	<b>18,858</b>	<b>619</b>	<b>19,477</b>	<b>19,584</b>
Less recoveries in respect of outward secondments	(394)	-	(394)	(404)
<b>Total</b>	<b>18,464</b>	<b>619</b>	<b>19,083</b>	<b>19,180</b>
Non cash items: By analogy pension current services costs	-	-	-	
<b>Total net costs*</b>	<b>18,464</b>	<b>619</b>	<b>19,083</b>	<b>19,180</b>

\*2013- 14 £43k staff costs not included above have been capitalised and appear in Note 7  
\*2012- 13 £75k staff costs not included above have been capitalised and appear in Note 7

All of ORR staff and related costs are charged to Administration budgets.

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 former Scheme Actuary (Hewitt Bacon Woodrow) valued the scheme as at 31 March 2007. Details can be found in the Annual Accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

Included in the net figure for other pension costs are employer's contributions of £2,820,565 payable to the PCSPS (2012-13: £2,797,970) at one of four rates in the range 16.7% to 24.3% (2012-13: 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 2012-13 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. Employers' contributions of £23,162.11 were paid to one or more of the panel of two appointed stakeholder pension providers (2012-13: £7,420). 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 £1,802.52 (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 (2012-13: £645.62). Contributions due to the partnership pension providers at the date of the Statement of Financial Position were £8,310.54 (2012-13: £2,560.15).

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 ([www.railwaypensions.co.uk](http://www.railwaypensions.co.uk)). Employer contributions of £77,307 were paid to the trustees of the RPS in 2013-14 at a rate of 2.374 times the individual member's contributions, on the basis of actuarial valuations (2012-13: £79,027). ORR matches some of the BRASS2 contributions (an AVC scheme) made by the members. In 2013-14, matching contributions of £2,405 were made (2012-13: £4,908).

With regard to the accrued pension costs for former Chair and past Rail Regulators, no notional contributions (as advised by the Government Actuary) have been charged to the Operating Cost Statement, (2012-13: nil). The liability at 31 March 2014 is estimated at £528,000 (31 March 2013: £478,000).

## Average number of persons employed

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

Segment	Permanent Staff	Others	2013-14 Number		2012-13 Number	
			Total	Total		
1. Economic Regulation	112	7	119		117	
2. Safety Regulation	153	5	158		165	
3. Roads Monitoring	-	-	-		-	
Staff engaged in capital projects	1	-	1		2	
<b>Total</b>	<b>266</b>	<b>12</b>	<b>278</b>		<b>284</b>	

Others	Number	Cost (£000)
Non-Executive Directors (NEDs) (taking into account NEDS who did not work a full year)	8.0	290
Agency Staff	3.2	
Specialist Contractor	0.2	
Consultant	0.0	
Total (Excluding NEDs)	3.4	329
<b>Total</b>	<b>11.4</b>	<b>619</b>

### 3.1 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 (0)	0 (0)	0 (0)
5	£50,000 - £100,000	0 (0)	0 (0)	0 (0)
6	£100,000 - £150,000	0 (0)	0 (2)	0 (2)
7	£150,000 - £200,000	0 (0)	0 (1)	0 (1)
8	<b>Total number of exit packages by type (total cost)</b>	<b>0 (0)</b>	<b>0 (3)</b>	<b>0 (3)</b>
9	<b>Total resource exit cost/£</b>	<b>0 (0)</b>	<b>0 (406,564)</b>	<b>0 (406,564)</b>

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.

The arrangements for early termination of contracts of senior civil servants are made in accordance with the employment contract of the relevant individual and the Civil Service Compensation Scheme, and include a payment in lieu of notice, depending upon the reason for the termination.

In 2013-14, ORR paid one individual £155,647.21 as compensation for loss of office. The provision for this liability had been raised in the previous year. ORR has no continuing liability in respect of the pensions of the individual.

## 4. Other Administrative costs

	2013-14	2012-13
	£000	£000
<b>Rental under operating leases:</b>		
Hire of office equipment	1	1
Other operating leases	912	912
	<b>913</b>	<b>913</b>
<b>Non-cash items:</b>		
Depreciation	419	373
Amortisation	430	319
Loss/(Gain) on disposal of fixed assets	-	-
Employers Pension past service costs	-	-
Interest charges in respect of by analogy pension scheme	19	21
Auditors' remuneration and expenses*	40	40
	<b>908</b>	<b>753</b>
<b>Provisions:</b>		
Provision for redundancy costs/(Provision no longer required)	24	86
Provision for dilapidations and other leasehold liabilities	116	153
	<b>140</b>	<b>239</b>
<b>Other:</b>		
Travel and subsistence	858	845
Hospitality	82	77
Consultancies	1,700	2,396
IT & Telecoms	2,214	2,350
Landlord service charges & rates	996	1,022
Printing & stationery	154	203
Recruitment & training	522	583
Staff-related (including staff restaurant)	259	205
Building-related	284	307
External services - internal audit, payroll, banking and finance	228	248
External services - other	431	457
Other costs	15	17
	<b>7,743</b>	<b>8,708</b>
	<b>9,704</b>	<b>10,613</b>

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

## 5. Income

		2013-14	2012-13
	Note	£000	£000
Licence Fees		13,790	13,163
(Less): Income deferred to future year	10	(809)	119
Safety Levy and related safety income		16,036	17,201
(Less): Income deferred to future year	10	(665)	(1,262)
Road monitoring income		29	-
Miscellaneous income*		403	570
		<b>28,784</b>	<b>29,791</b>

\*Miscellaneous income consists mainly of:

- a) costs awarded to ORR arising from successful safety prosecutions; and
- b) costs recovered from other organisations resulting from ORR safety inspectors being engaged to work on their behalf.

## 6. Property, Plant and Equipment

	Fitting Out Costs £000	Furniture, Office Equipment & Telecoms £000	Information Technology £000	Total £000
<b>Cost or valuation</b>				
At 1 April 2013	3,425	1,152	116	4,693
Prior year adjustment	-	-	-	-
Additions	322	107	122	551
Disposals	-	-	-	-
At 31 March 2014	<b>3,747</b>	<b>1,259</b>	<b>238</b>	<b>5,244</b>
<b>Depreciation</b>				
At 1 April 2013	1,788	1,049	25	2,862
Charged in year	302	54	41	397
Disposals	-	-	-	-
Revaluations	22	-	-	22
At 31 March 2014	<b>2,112</b>	<b>1,103</b>	<b>66</b>	<b>3,281</b>
<b>Carrying amount at 31 March 2014</b>	<b>1,635</b>	<b>156</b>	<b>172</b>	<b>1,963</b>
<b>Carrying amount at 31 March 2013</b>	<b>1,637</b>	<b>103</b>	<b>91</b>	<b>1,831</b>
<b>Asset financing</b>				
Owned	1,635	126	172	1,933
Finance lease	-	30	-	30
<b>Carrying amount at 31 March 2014</b>	<b>1,635</b>	<b>156</b>	<b>172</b>	<b>1,963</b>
	Fitting Out Costs £000	Furniture, Office Equipment & Telecoms £000	Information Technology £000	Total £000
<b>Cost or valuation</b>				
At 1 April 2012	3,371	1,057	14	4,442
Prior year adjustment	-	-	-	-
Additions	54	96	102	252
Disposals	-	-	-	-
At 31 March 2013	<b>3,425</b>	<b>1,153</b>	<b>116</b>	<b>4,694</b>
<b>Depreciation</b>				
At 1 April 2012	1,503	984	2	2,489
Charged in year	262	40	23	325
Disposals	-	-	-	-
Revaluations	23	25	-	48
At 31 March 2013	<b>1,788</b>	<b>1,049</b>	<b>25</b>	<b>2,862</b>
<b>Carrying amount at 31 March 2013</b>	<b>1,637</b>	<b>104</b>	<b>91</b>	<b>1,832</b>
<b>Carrying amount at 31 March 2012</b>	<b>1,868</b>	<b>73</b>	<b>12</b>	<b>1,953</b>
<b>Asset financing</b>				
Owned	1,637	39	91	1,767
Finance lease	-	65	-	65
<b>Carrying amount at 31 March 2013</b>	<b>1,637</b>	<b>104</b>	<b>91</b>	<b>1,832</b>

## 7. Intangible Assets

Intangible assets comprise software licences, systems and website development costs.

<b>Cost or valuation</b>				
	<b>System developments</b>	<b>Software licences</b>	<b>Website</b>	<b>Total £000</b>
At 1 April 2013	1,739	382	-	2,121
Additions	60	36	151	247
Disposals: actual cost	-	-	-	-
Revaluation	-	-	-	-
<b>At 31 March 2014</b>	<b>1,799</b>	<b>418</b>	<b>151</b>	<b>2,368</b>
<b>Amortisation</b>				
At 1 April 2013	721	266	-	987
Charged in year	337	91	2	430
Disposals: depreciation on cost	-	-	-	-
Revaluation	-	-	-	-
<b>At 31 March 2014</b>	<b>1,058</b>	<b>357</b>	<b>2</b>	<b>1,417</b>
<b>Carrying amount at 31 March 2014</b>	<b>741</b>	<b>61</b>	<b>149</b>	<b>951</b>
<b>Carrying amount at 31 March 2013</b>	<b>1,018</b>	<b>116</b>	<b>-</b>	<b>1,134</b>
<b>Asset financing:</b>				
Ow ned	741	61	149	951
<b>Carrying amount as at 31 March 2014</b>	<b>741</b>	<b>61</b>	<b>149</b>	<b>951</b>

<b>Cost or valuation</b>				
	<b>System developments</b>	<b>Software licences</b>	<b>Website</b>	<b>Total £000</b>
At 1 April 2012	1,450	339	-	1,789
Additions	289	43	-	332
Disposals: actual cost	-	-	-	-
Revaluation	-	-	-	-
<b>At 31 March 2013</b>	<b>1,739</b>	<b>382</b>	<b>-</b>	<b>2,121</b>
<b>Amortisation</b>				
At 1 April 2012	439	229	-	668
Charged in year	282	37	-	319
Disposals: depreciation on cost	-	-	-	-
Revaluation	-	-	-	-
<b>At 31 March 2013</b>	<b>721</b>	<b>266</b>	<b>-</b>	<b>987</b>
<b>Carrying amount at 31 March 2013</b>	<b>1,018</b>	<b>116</b>	<b>-</b>	<b>1,134</b>
<b>Carrying amount at 31 March 2012</b>	<b>1,011</b>	<b>110</b>	<b>-</b>	<b>1,121</b>
<b>Asset financing:</b>				
Ow ned	1,018	116	-	1,134
<b>Carrying amount as at 31 March 2013</b>	<b>1,018</b>	<b>116</b>	<b>-</b>	<b>1,134</b>

Systems developments include: 'Mosaic' document management system; 'ORRTime' staff time recording system; 'Snowdrop' HR management system and the 'Business Management System'.

Staff costs have been capitalised in accordance to IAS38; only work and related costs that are directly attributable to design, development & implementation has been capitalised.

## 8. Trade Receivables and other Current Assets

### 8(a) Analysis by type

	31 March 2014 £000	31 March 2013 £000
<b>Amounts falling due within one year</b>		
Trade receivables	355	580
Staff receivables	84	93
Prepayments and accrued income	355	434
HM Revenue and Customs (VAT)	105	110
HM Treasury (Supply)	-	1,045
<b>Amounts falling due after more than one year</b>		
Staff receivables	-	6
Prepayments and accrued income	10	17
<b>Total at 31 March</b>	<b>909</b>	<b>2,285</b>

Included in staff receivables are travel season ticket loans for 51 employees totalling £76,842 (2012-13: £91,059 for 61 employees) and £7,474 relating to other advances made to 32 employees (2012-13: £7,956).

### 8(b) Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2013-14	2012-13	2013-14	2012-13
	£000		£000	
Balances with other central government bodies	493	1,293	-	-
Balances with Local Authorities	11	-	-	-
Balances with bodies external to government	395	969	10	23
<b>Total receivable at 31 March</b>	<b>899</b>	<b>2,262</b>	<b>10</b>	<b>23</b>

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



## 9. Cash and Cash Equivalents

	2013-14	2012-13
	£000	£000
Balance at 1 April	119	1,424
Net change in cash balances	2,997	(1,305)
<b>Balance at 31 March</b>	<b>3,116</b>	<b>119</b>
The following balances at 31 March were held at:		
Government Banking Service	3,102	103
Commercial banks and cash in hand	14	16
<b>Balance at 31 March</b>	<b>3,116</b>	<b>119</b>

## 10. Trade Payables and Other Current Liabilities

### 10(a) Analysis by type

	31 March 2014	31 March 2013
	£000	£000
<b>Amounts falling due within one year</b>		
Other taxation and social security	7	10
Trade payables	350	449
Other payables	740	782
Accruals	2,579	2,954
Deferred income	1,524	1,262
Current part of finance leases	24	30
Balance of Intergovernmental Commission levy payable to the Consolidated Fund	1,127	1,164
Excess cash surrenderable to the Consolidated Fund Received	-	-
Amounts issued from the Consolidated Fund for supply but not spent at year end	1,989	-
<b>Total current liabilities at 31 March</b>	<b>8,340</b>	<b>6,652</b>
<b>Amounts falling due after more than one year</b>	<b>6</b>	<b>35</b>
<b>Total trade payables and other current liabilities</b>	<b>8,346</b>	<b>6,687</b>

## 10(b) Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	£000	£000	£000	£000
	2013-14	2012-13	2013-14	2012-13
Balances with other central government bodies	3,166	1,197	-	-
Balances with Local Authorities	-	-	-	-
Balances with bodies external to government	5,174	5,455	6	35
<b>Total payable at 31 March</b>	<b>8,340</b>	<b>6,652</b>	<b>6</b>	<b>35</b>

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

## 11. Provisions for liabilities and charges

The provision for early retirement was established to provide for future retirement benefits of employees who have retired early or may be required to retire early or be made redundant. 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	Accommodation	Other	Total	2012-13 Total
	£000	£000	£000	£000	£000
Balances at 1 April 2013	408	573	-	981	1,138
(No longer required)/provided for in year	21	77	45	143	223
Provisions utilised in the year	(284)	-	-	(284)	(397)
Borrowing costs (unwinding of discounts)	3	(6)	-	(3)	16
<b>Balance at 31 March 2014</b>	<b>148</b>	<b>644</b>	<b>45</b>	<b>837</b>	<b>981</b>

## Analysis of expected timing of discounted flows

	Early			Total	2012-13
	Retirement	Accommodation	Other		Total
	£000	£000	£000	£000	£000
Not later than one year	144	39	45	228	263
Later than one year and not later than five years	4	32	-	36	214
Later than five years	-	573	-	573	504
<b>Balance at 31 March 2014</b>	<b>148</b>	<b>644</b>	<b>45</b>	<b>837</b>	<b>981</b>

Following a review by professional surveyors, GAA, the dilapidations provisions was increased for the London office by £69k. Following an HMRC inspection a provision of £45k was raised for a potential VAT liability. There are now only 3 individuals remaining as part of the early retirement scheme which is expected to be fully utilised by 2015-16.

## Details for by-analogy defined benefit pension schemes

Class	As at	As at
	31 March 2014	31 March 2013
	£000	£000
Actives	-	-
Deferred	217	189
Pensioners	311	290
<b>Total Present Value for the Scheme Liabilities</b>	<b>528</b>	<b>479</b>

Liability calculation	As at	As at
	March	March
	2014	2013
	£000	£000
Present value of scheme at 1 April	479	446
Current service cost (net of employee contribution)	-	-
Employee Contribution	-	-
Interest costs	19	21
Actuarial (gains)/losses	45	27
Benefits paid	(15)	(15)
Past service cost	-	-
<b>Balance at 31 March</b>	<b>528</b>	<b>479</b>

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 2014. In 2013-14 ORR contributed £19k in respect of interest costs. The current Chair 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 2014	As at 31 March 2013
	% per annum	% per annum
RPI Inflation assumption	-	-
CPI Inflation assumption	2.50	1.70
Rate of increase in salaries	4.50	3.95
Rate of increase for pensions in payment and deferred pensions	2.50	1.7
Rate used to discount scheme liabilities	4.35	4.10

## History of experience losses/(gains)

	Year Ending 31/03/2014	Year Ending 31/03/2013	Year Ending 31/03/2012	Year Ending 31/03/2011	Year Ending 31/03/2010
<b>Experience loss/(gain) arising on the scheme liabilities</b>					
Amount (£'000)	5	1	12	11	(30)
Percentage of scheme liabilities at end of year	0.9%	0.2%	2.7%	2.5%	-6.1%

As there are no active members in the scheme the estimated contributions for 2014-2015 are nil.

Under IAS 19 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 2014		As at 31 March 2013	
	Men (years)	Women (years)	Men (years)	Women (years)
Exact Age				
60	29.0	31.2	28.6	30.7
65	24.1	26.2	23.9	25.8
<b>Future pensioners</b>	<b>As at 31 March 2014</b>		<b>As at 31 March 2013</b>	
Exact Age	Men (years)	Women (years)	Men (years)	Women (years)
60	31.3	33.5	31.1	33.0
65	26.8	28.9	26.7	28.5

Illustrative life expectancies at ages 60 and 65 for future pensioners as at 31 March 2013, and 31 March 2014 are based upon members aged 40 at these dates.

## Cumulative amount of actuarial gains and losses

The cumulative actuarial loss for the year 31 March 2014 amounts to £216,000 (31 March 2013: £171,000).

### Present value of scheme liabilities

	Value at 31/03/2014 £000	Value at 31/03/2013 £000	Value at 31/03/2012 £000	Value at 31/03/2011 £000	Value at 31/03/2010 £000
Liability in respect of					
Active member	-	-	-	-	-
Deferred pensioners	217	189	168	152	185
Current pensioners	311	290	278	269	302
<b>Total present value of scheme liabilities</b>	<b>528</b>	<b>479</b>	<b>446</b>	<b>421</b>	<b>487</b>

## 12. Financial and Capital Commitments

### 12.1 Capital Commitments

The project to refurbish the office space in the London office leased by ORR is expected to complete by May 2014. There are approximately £379,586 contracted capital commitments to run against this project.

### 12.2 Operating leases

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

	31 March 2014 £000	31 March 2013 £000
<b>Obligations under operating leases comprise:</b>		
Buildings		
Not Later than one year	1,054	1,174
Later than one year and not later than five years	4,039	4,580
Later than five years	1,127	2,308
	<b>6,220</b>	<b>8,062</b>

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 had a contract from July 2011 to June 2015 for the provision of a fully managed service for a complete range of information technology services. The contract has recently been renegotiated and extended for an additional two years. ORR pays 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 £1.768m per annum until July 2014. From then, the contract has been extended at an estimated annual cost of £1.261m per annum.

### **12.3 Finance leases**

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

## Obligations under finance leases

	31 March 2014 £000	31 March 2013 £000
Leases other than buildings		
Not Later than one year	27	36
Later than one year and not later than five years	7	44
Later than five years	-	-
Less interest element	(4)	(13)
	<u>30</u>	<u>67</u>

In 2013-14 ORR had two finance leases. Interest of £3,656.06 and £256.16 was paid in respect of these finance leases (2012-13: £2,122.71 and £1,462.42 for two leases).

### 12.4 Other financial commitments

Apart from the capital commitments mentioned above ORR has not entered into any non-cancellable contracts (which are not finance leases) for any new expenditure as at 31 March 2014 (31 March 2013: nil).

## 13. Losses and Special Payments

There were no special payments in excess of £300,000, either individually or in aggregate, in 2013-14 or 2012-13.

## 14. 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 8) and Current liabilities (Note 10) 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 2014.

## **15. Contingent liabilities disclosed under IAS 37**

At 31 March 2014 ORR recognise a commitment to staff related payments, but is unable to reliably assess the timing or quantum of payment as it is dependent upon the realisation of uncertain events in the future. There were no contingent liabilities at 31 March 2013.

## **16. Related Party Transactions**

In addition to balances due to the Consolidated Fund (see note 10) regarding excess cash and Intergovernmental Commissionaire levy, there have been a small number of transactions with other government departments and other central government bodies.

## **17. International Financial Reporting Standards issued but not yet effective**

Certain new standards, amendments and interpretations to existing standards have been published but are not effective on ORR's accounting period.

The following new standards, amendments and interpretations to existing standards are not yet effective and have not been adopted early by ORR.

- IFRS9: Financial Instrument (New), effective 1 January 2015.
- IFRS10: Consolidated Financial Statements, effective 1 January 2014.
- IFRS11: Joint Arrangements, effective 1 January 2014.



- IFRS12: Disclosure of Interest in other entities (New), effective 1 January 2014.

It is anticipated that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of ORR.

## **18. 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.

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