Annual report and accounts 2012-13

Office of Rail Regulation

June 2013

HC4

Office of Rail Regulation

Annual report and Accounts 2012-13

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Any enquiries regarding this publication should be sent to us at 1 Kemble Street, London WC2B 4AN.

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Chair and Chief Executive's report

Overall rail performance

Despite continuing economic turbulence, the rail industry continues to show strong growth. For example, last year there were nearly 1.5 billion passenger journeys on the railways – an increase of more than 50% over the past decade. Between 2014 and 2019, it is expected that passenger traffic will grow by 10% and freight traffic by 16% in train km. At the same time the industry has become safer: industry caused injuries to passengers and workforce fatalities are at an all-time low and Britain's railways rank among the safest in Europe.

Services have also improved. The industry standard measure of punctuality, the public performance measure (PPM) sat at 78.0% in 2001/02; and has risen to 91.4% by 2012/13. Passenger satisfaction has also risen from 78% in 2002 to 85% in 2012 with no train operator scoring less than 80%.

However, there are still substantial challenges. Despite considerable progress, Network Rail has further to go to improve efficiency. Although above RPI price increases of regulated fares, have combined with the rise in passenger numbers to increase the share of railway costs borne by passengers, public subsidy remains high. Passenger satisfaction, although much improved, could be better still and varies considerably between the best and worst performing routes. Satisfaction is much lower on scores of value for money and the performance of train companies in dealing with passengers when things go wrong is patchy. ORR will be working with the industry to identify opportunities to improve performance.

Holding Network Rail to account

ORR's scrutiny of Network Rail's performance in our role as economic regulator is our primary role and for 2012/13 this reveals a mixed picture. The company's performance has shown considerable improvement in many areas. Network Rail coped well with the challenges of the 2012 London Olympics and the joint work with First ScotRail has made a real difference to train performance in Scotland. The recent European Rail Study notes good improvement and progress has been made over the last two control periods.

However, the company is likely to end this control period, with punctuality lower than target and being worse than last year. In particular, performance in the long distance sector has not recovered as quickly as forecast and has ended the year at a lower level than the company was funded to deliver. Performance in London and the South East has also been lower than target.

This contrasts with strong performance in Scotland where effective planning and coordination between Network Rail and train operators enabled the railways to withstand harsh weather conditions well. Freight performance has improved, but is still below target and continued co-operation will be required between Network Rail and freight customers if recovery targets on delays are to be met. Whilst ORR recognises the impact of poor weather, nonetheless, we need to see improvement in the management of issues which are within Network Rail's overall control and our analysis shows that the overall resilience of the railway could be stronger.

Asset management performance has been a long-term issue and although progress has been made in improving Network Rail's capability, it has not made the expected progress and we have formally raised a number of issues with the company. We continue to examine Network Rail's progress closely and we are addressing these matters as we undertake the periodic review of their funding and outputs for 2014-19.

Establishing and embedding good asset management practice is fundamental to a large infrastructure organisation as Network Rail. Our route visits have revealed varying degrees of capability across the network. Until plans to improve asset management are delivered substantially, reliability for train operators will continue to be an issue and asset-related safety issues will continue to arise.

Delivering ORR's Objectives

Safety regulation

ORR's last annual safety report showed that Britain retains its status as one of the safest in Europe, but also called for continued improvement in safety management and practice. Amongst the issues it highlighted were:

- A reduction in the level of passenger harm - with the number of passenger journeys taken into account, the overall rate of harm decreased by 12% over the past year, to the lowest level ever recorded.
- London Underground, Overground and Docklands Light Railway all achieved a year without any workforce and industry caused passenger fatalities.
- Level crossing safety improved, as levels of recorded harm reduced by 15% over the past year, maintaining historically low rates.

Despite the overall positive position on safety development, ORR has made use of its statutory enforcement powers and has taken a number of successful prosecutions in serious cases. Amongst the more significant prosecutions taken by ORR, were those against Network Rail for the Grayrigg derailment and for the Elsenham level crossing fatalities.

Our inspection work has identified significant resource issues in Network Rail's maintenance depots which has a potential impact on safety. Too much reliance is being placed on reactive maintenance with not enough resource available for proactive planned work. We have raised this issue formally with the company and are monitoring their performance.

Working for passengers

In the course of the year we have done some important work on areas of great significance for passengers. In doing so, we have worked closely with Passenger Focus. In addition to continuing to pressure Network Rail to improve its performance on punctuality, we have also published research into ticketing complexity and have called on the rail industry to do more to make fares and ticketing easier to understand. Train operators are now taking action which we believe will lead to real improvements for passengers in this area.

At the beginning of the year, train operators all signed up to licence changes which strengthened their obligations to provide timely and accurate information to passengers. Later in the year we published an assessment which showed that operators were taking the right steps to up their performance on customer information, but also said that the industry needed to do more in disruption incidents. We will continue to monitor and discuss this issue with the sector.

On 18 March 2013 the UK Government said that ORR would take over from the Department for Transport responsibility for the Disabled Persons Protection Provisions and overseeing the train operators' complaints handling policies. We welcome this additional responsibility for ORR. During this year we undertook preparatory work with the Department, and we look forward to developing our approach in the coming year.

Working for freight customers

During the last year we completed a review of access to freight facilities. These facilities are often owned by freight operators, and we looked at concerns that in some cases it was difficult for other operators to get fair access to these facilities. We have made progress in working with the freight operators towards a code of practice that will promote fair access to these facilities. This should ensure that the rail freight industry remains competitive, to the benefit of its customers.

Rail industry transparency

Our programme to assist the rail industry to achieve the highest level of transparency has made good progress. In July 2012, passengers were able to see for the first time, comprehensive information about how many trains arrived within a minute of their scheduled arrival times. We are also working on providing further information to ensure that the public understand which part of the railway is responsible for lateness.

We held a highly successful conference on rail transparency attended by a wide cross section of the industry and third party developers in December 2012. This was followed up by a review of best practice and a consultation with the industry on future approaches. ORR will be publishing a transparency statement and strategy in the summer and will also set out a programme of data release and publication at this point.

In the meantime, ORR has also published several reports aiming to clarify rail industry finances for the public and to more clearly set out operators' costs. We expect this programme to continue and intensify for the next five year control period and we intend to provide the public which much great information on how the industry is performing and how it is spending taxpayers and fare-paying passengers' money.

Conducting our periodic review

This has been an important year for ORR in conducting our periodic review of Network Rail, including our assessment of its strategic business plan. Taking account of our advice, the UK and Scottish Governments set out what they want the railway to deliver over the next five years (their 'High Level Output Specifications') and the funds they are prepared to make available to secure this (its Statement of Funds Available or SOFA) in July 2012. These were reflected in Network Rail's strategic business plan, which we received on January 7 and we will be publishing our draft determination on June 12 2013. During this year, extensive consultation with stakeholders on the overall financial and incentive framework took place, as well as consultation on numerous other aspects of our regulatory settlement for the next five years such as the framework by which we will hold Network Rail to account for performance and other outputs. ORR is making good progress with the substantial exercise of assessing the plan in the detail it merits and is on schedule for publication of its draft in June with the final determination due in October.

We worked with the industry's Rail Delivery Group to give the group formal status under operator and Network Rail licences, thus helping it develop its role as the key industry leadership forum.

Our people

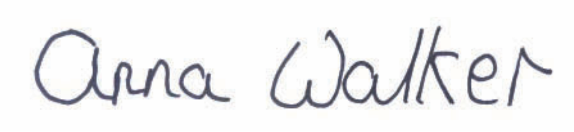
Our staff have continued to make substantial contributions to the organisation in the last 12 months and are united in the commitment which they show to helping to continue the success of the railway and also assisting ORR to do its regulatory job effectively. We are delighted to thank our people for the work which they have done.

We have also done a great deal to respond to the capability review of ORR which took place last year and have also made a number of improvements to our working practices and systems. These will continue into the next financial year and will make ORR both more efficient and cost effective, but also improve the working environment for our people.

We have made a number of changes to our senior team in the course of the year. Alan Price has joined as director of railway performance. He was previously at First Group, where he was infrastructure director for the rail division. He has brought a wealth of railway engineering and operational experience both from his role at FirstGroup and from former appointments at London Underground, Metronet, and Bechtel. Additionally, Alan has recently played a significant role supporting the work of the Rail Delivery Group. In addition, Richard Emmott has joined as interim director of external affairs and Dan Brown has arrived to become director of strategy.

Michael Beswick has indicated that he intends to retire as director of policy after nearly 19 years at ORR and a total of 37 in the rail industry. He has made an enormous contribution to ORR and rail as a whole and we both thank him for what he has done and wish him well for the future.

Anna Walker Chair



Richard Price Chief Executive

Vision for 2012/13

Our vision for the industry is a great deal from Britain's railways – safe, reliable and efficient. Our work in 2012/13 reflects that, using our existing levers and also developing the way we regulate in the following areas:

- Bearing down on monopoly performance and abuse, and taking a forward-looking approach to performance risk.
- Incentivising collaborative whole-system approaches between Network Rail, train operators, rolling-stock companies and the wider supply chain.
- Benchmarking performance standards and value for money; publishing and making more use of disaggregated data at route and service level.
- Greater transparency across the industry including at local level, particularly on costs, the provision of accurate, timely, transparent and meaningful data to funders and users to help them to make better-informed choices.
- Competition – in the supply chain, and in the provision of infrastructure services, as well as in train services.
- Focusing on key enablers which unlock future performance and efficiency.
- Improving passengers' experience in their use of the railways.

Our work programme during this year will develop these approaches with the aim of ratcheting up the industry's efficiency over time and raising customers' and funders' confidence that they will get a consistently good deal from the railway.

Our priorities for 12/13 were:

- Reducing the industry's costs.
- A sharper focus on customers.
- Excellence in safety culture and management across the industry.

Delivery against our priorities for 2012/13

Reducing industry costs

Success measures for 12/13

- Network Rail delivers its CP4 efficiencies.
- Network Rail is driving towards best practice in asset management, including asset condition data; and delivers the agreed trajectories for excellence in asset management.
- An agreed and improved approach for calculating and reporting efficiencies is in place, providing stakeholders with greater transparency and confidence, and ensuring Network Rail is held to account.
- More partnership working and alliances between Network Rail and TOCs, with appropriate safeguards in particular on transparency and without discrimination.
- The PR13 programme plan is delivered, laying the foundations for CP5 cost reductions.

Examples of activities delivered by ORR

- The "Annual efficiency and finance assessment of Network Rail 2011-12" was published in November 2012. This included our assessment of efficient delivery of maintenance, renewals and enhancements.
- Work with Department for Transport/Transport Scotland and the industry on the development of the High Level Output Specifications (HLOSs) and Statement of Funds available (SoFAs) through to publication.
- PR13 plan on target and on budget.
- An annual financial performance and efficiency review was produced for 2011-12.
- A Train Operating Company cost efficiency benchmarking report was published.
- Monitor Network Rail's delivery of asset management trajectories.
- Monitor Network Rail's delivery of its Building and Civil Asset Management (BCAM) Improvement Programme.

Progress against plan

- Network Rail delivered its SBP on schedule but there were some omissions which required follow up work. The draft determination is on schedule for publication on June 12.
- The transparency programme continued to make effective progress with the preparation of a second GB Rail Industry Financials report.
- Periodic review process for HS1 has commenced.

A sharper focus on customers

Success measures include

- Network Rail must deliver its performance targets so that fewer trains are late, and in particular, fewer trains are very late (more than 30mins) or cancelled.
- Network Rail improves its working methods so that when engineering works take place more trains should run and there should be less reliance on buses. Fewer engineering jobs should overrun.
- Network Rail's work (as part of £8bn enhancements programme) to increase capacity and improve stations are delivered on time, so amongst other things longer trains can run.
- A more competitive freight market which benefits customers.
- Passengers will get better information to help them plan their journeys and make better choices, including when services are disrupted.
- Passenger and freight satisfaction scores will increase.

Examples of activities undertaken

- Established processes to monitor and enforce passenger information obligations and review progress of industry plans for delivering better passenger information.
- Reported on passengers' perceptions of ticket complexity – working with the industry in the design and implementation of solutions.
- Explored consumer awareness of current refund rights and compensation arrangements (and the extent to which consumers exercise their rights), to assess the incentive effect on the industry of the current regime.
- Network Rail Monitors published in June, September, December 2012 and February 2013 as planned.
- Undertaken a freight customer survey.
- Ensured that Network Rail implements a process for measuring its level of customer service maturity and that it clearly understands where it is now and what it can reasonably achieve in Control Period 5.
- Published our second report on whole industry costs.

Progress against plan

- Monitoring of NR performance shows that there is a significant risk that it will not meet CP4 outputs in long distance and London and South East public performance measure (PPM), which have been further impacted by flooding, possession over-runs and electrical issues over the Christmas period.
- Network Rail has met its possessions disruption target for both freight and passenger services.
- Report on ticket complexity published in June 12 with follow up work taken on board by ATOC retail group.
- Consultation on real time information concluded in February 2013. Recommendations flowing from the consultation are due to be taken to ORR board in 2013/14.
- Delivered a consultation on industry transparency.
- Issued a report on passenger information during disruption.

Excellence in safety culture and management across the industry

Success measures include:

Passenger safety

- A 5% reduction over the year in train accident risk to passengers in terms of fatalities and weighted injuries on the mainline railway as measured by the Precursor Indicator Model and 5% improvement in fatalities and weighted injuries per passenger journey on London Underground.
- Reduced passenger harm at the platform – train interface on the mainline railway as measured by the Fatality Weighted Injury (FWI) index per passenger journey.

Workforce safety

- Across the whole industry the workforce's safety improves by 5% as measured by FWI per 1,000,000 hours worked per year.

Public safety

- The risk to the public at level crossings is reduced by 7% as measured by the precursor indicator for fatalities and weighted injuries to the public.

Examples of activities undertaken

- Carried out an audit inspection on Network Rail's management of risk assessment and control of risk at level crossings.
- Undertaken an evaluation of health and safety management system maturity of key duty-holders by judging evidence obtained through all our planned and reactive activities.
- Monitored Network Rail's implementation of Grayrigg RAIB recommendation 1, which requires a new design of stretcher bar for use in switches and crossings. Monitored Network Rail's installation of overhead line and other electrical equipment to ensure it is designed and installed in accordance with legal requirements and best practice.
- Carried out inspection activity to secure legal compliance and promote excellence in the management of health by targeting: hand arm vibration, hazardous substances, especially silica in ballast dust; biohazards; and asbestos.
- Ensured that RAIB recommendations are processed and handled. Ensure assurance processes are managed and completed in accordance with ORR procedures and timescales.
- Ensured visits to depots with Network Rail inspection and maintenance staff and ensure track access arrangements are robust.

Progress against plan

- Network Rail is making good progress with its safety leadership programme, and continues work to reduce its standards to a smaller set of executive rules. RM3 has been widely adopted by the industry and inspectors are working to complete their 2012-13 inspection reports which will inform both duty holders and future assurance activities.
- The efforts of the industry appear well focused on making improvements in key areas. In terms of Autumn preparedness a number of planned assurance activities have been successfully completed. In March we successfully facilitated an industry workshop to discuss passenger train interface (PTI) issues which should lead to the production of additional guidance about how risks can be reduced.
- The industry has made improvements in workforce safety, although NR continues to lag behind London Underground Ltd in terms of performance and improvement. Our work plan for 2013-14 will focus on NR with particular attention on labour only suppliers, competency and RRVs. We have seen some positive outcomes from NR's continuing comprehensive programme to improve safety culture. For example, the route safety improvement Managers are now well established and starting to have an impact.
- We still have concerns over impact of bad weather on structures and earthworks - two improvement notices with national implications served - and assurance activities in this area form a key element of our 2013-14 plan. We also have concerns about the deteriorating quality of the track particularly in Sussex, Wessex and south end of LNE (which NR is addressing). However we have not found the track asset to be unsafe.
- We continue to assist Rail Safety Standards Board with its occupational health initiative; the industry has shown better engagement, but there is more to do. There is strong awareness that ORR is seeking improvement on the management of health risks, and we have provided advice and guidance to a range of duty holders and other industry bodies to promote improvement.

Managing the organisation

Engaging with our people

In October 2012 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. Despite this there were some clear areas for improvement, including leadership and management of change.

Engaging with our stakeholders

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

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

In addition we held an extensive consultation with stakeholders as part of developing new strategic objectives and in building the business plan for 2013/14. Stakeholder consultation has also formed an important part of our assessment of Network Rail's strategic business plan.

Better regulation

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

We are required by legislation to keep our functions under review and ensure that in exercising them that we do not impose or maintain unnecessary burdens. In the past year, we have reviewed a number of important policies and processes that have streamlined processes and decisions in a number of areas.

This included reviewing the industry's access contractual arrangements, including our associated internal procedures, to reduce timescales and regulatory requirements, simplify and clarify contracts and bring down overall costs incurred by the industry.

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

Equalities duties

In accordance with the Equality Act 2010, ORR has an obligation to give due regard to eliminating discrimination, promoting equality of opportunity, and fostering good relations for people sharing protected characteristics. We consulted on our equality objectives showing how ORR intends to fulfil this role towards the end of the business year. We will report annually on delivery against our objectives and will review them regularly to ensure that they remain relevant, realistic and challenging.

Complaints to the Parliamentary Ombudsman

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

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.

Diversity and equality

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

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

Business planning and finance

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

The resource accounts for the financial year 2012/13 have been prepared on an accruals basis, which means that expenditure and income have been accounted for in the periods in which they occurred, irrespective of when any cash was received or paid.

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

In 2012-13 we spent £29.79 million. This has progressively reduced from a level of around £37m in 2008/9. We levied £28.81million for safety licence fees and miscellaneous services and added £2.12 million income carried forward from the previous year. This left a balance of £1.14 million to carry as deferred income into next year. Most of our costs (64.4%) were salaries, £19.18 million in 2012-13. A further £2.4 million was spent on consultancy fees, including the purchase of legal services. The remainder of our expenditure, £8.22 million was spent on other non-pay related costs, including non-cash costs such as depreciation of our fixed assets and making provision for future years' expenditure. A summary of our expenditure and income over the past two years is shown below.

Income (£000)	2012-13	2011-12
Deferred income from prior year	(2,121)	(3,065)
Licence fees, safety levy and miscellaneous income received	(28,812)	(27,784)
Total income (£000)	(30,933)	(30,849)
Expenditure (£000)	**2012-13**	**2011-12**
Staff costs	19,180	19,307
Other costs	10,613	9,423
Less (add)income deferred/(accrued) to future years	1,142	2,121
Net operating deficit (as voted by Parliament) (£000)	2	2
Reconciliation between resource outturn and resource budget outturn (£000)	**2012-13**	**2011-12**
Net resource outturn	2	2
Net operating costs	2	2
Resource budget outturn	2	2

Expenditure by core function	2012 13				2011-12	
	Budget	Actual	Variance	% variance	Actual 2011-12	Variance 2011-12 to 2012-13
	£000	£000	£000	£000	£000	£000
Safety regulation	17,479	16,509	(969)	-6%	17,785	(1,276)
Economic regulation	13,250	13,284	33	0%	10,945	2,339
Total	30,729	29,793	(936)	-3%	28,730	1,063

Economy measures

We continue to monitor our economy and efficiency performance and also continue to meet with other regulators to compare data and share best practice in monitoring performance.

At 2012-13 prices, we spent £29.6m in 2011-12, and £29.8m in 2012-13. Our budget for 2013-14 is set at £29.96m.

Salaries form the largest part of our expenditure at 64% and this year we spent £19.1m, as opposed to £19.9m in 2011-12. Our average staff cost/head has fallen from £73.7k to £70.8k – permanent staff numbers having risen from 270 to 271.

We continue to monitor our support costs. Our total support costs have fallen by 2%, for example - and within those costs, accommodation costs have fallen by £134k (6%). Our accommodation costs per head have fallen from £8.9k to £8.4k.

Consultancy costs have risen this year, by £740k, however, this is to be expected given the additional resources required to carry out our PR13 work.

Resource management

During the year, our Directors Group (latterly Executive Committee) reviewed the management accounts each month, receiving information on key areas of spend, budgets and forecasts. A summary of the management accounts was presented each month to the Board. Meetings were held between budget holders and the finance team on a regular basis where the results were discussed at a more detailed level.

Prompt payment initiative

We are committed to the prompt payment of our suppliers and seek to pay all valid invoices within 30 days of receipt. During 2012-13 98.3% of invoices were paid within 30 days (2011-12 - 98.2%) and 39.3% paid within 10 days (2011-12 -36.6%).

Accommodation strategy

During the past year we completed a Workplace audit on all six of our offices. The findings of this audit are informing changes to the way in which we use our office space to make it better suit our needs.

Information management

We have implemented a new document and case management system across the organisation. The system supports our information management vision to manage our information efficiently and intelligently as a combined economic and safety regulator.

We have experienced no information risk incidents which we consider to be sufficiently significant for the Information Commissioner to be informed.

Information Systems

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 staff receive.

Facilities management

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

Sustainable development

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

ORR has 6 offices around the UK. It has an HQ in London which is space leased from the CAA. It also 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 (MOTO agreements with the lead department). ORR owns no property.

	2011-12	2012-13
Green house gas emissions (Tonnes C02)		
Electricity	315.6	244.8
Oil	16.6	74.6
Gas (Glasgow office - Estimated)	7.2	9.5
Travel; Car (personal vehicle)	81.3	72.5
Air	28.7	51.7

Train	152.3	99.7
Hired Car	8.8	10.6
Gross emissions total	**610.5**	**563.4**
Gross emissions of official business travel (Tonnes C02)	161	224.00
CRC Gross expenditure £k	52	50
Expenditure on official travel £k	686	607
Waste (tonnes)		
Total waste	12.3	43.2
hazardous waste	0.0	0.0
Non-hazardous to landfill	1.3	0.8
Non-hazardous recycled	11.0	25.2
Non-hazardous Incinerated/energy from waste	0.0	17.2
Water		
Water consumption (M3)	1,781	1,664

Water supply costs (£)	3,133	4,065
Finite Resources		
Electricity non-renewable (Kwh)	567,017	456,883
Electricity renewable (Kwh)	34,539	39,193
Gas (Kwh) – Glasgow - Estimated	39,485	51,350
Other (Kwh)	62,124	279,000
Total energy expenditure (£)	63,545	63,848

The following caveats apply to these figures.

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

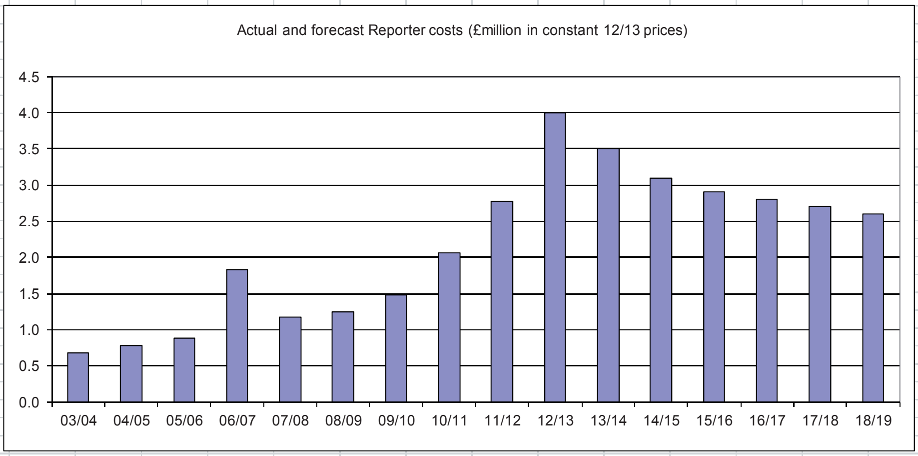
Independent Reporter Costs

Independent reporters are consultancy firms that provide independent expert advice and are used by us to review some aspects of Network Rail's performance, plans and activities, e.g. its financial reporting. They owe a duty of care to both the ORR and Network Rail but Network Rail pays for their costs.

Reporter spend reflects level of assurance we need from Network Rail (i.e. it goes up when we need to seek extra assurance). PR13 has driven changes in current expenditure.

History of Independent Reporter Costs

	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	*12/13*	*13/14*	*14/15*	*15/16*	*16/17*	*17/18*	*18/19*
	£m	£m	£m	£m	£m	£m	£m	£m	£m	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*
	actual	actual	actual	actual	actual	actual	actual	actual	actual	*forecast*	*SBP*	*SBP*	*SBP*	*SBP*	*SBP*	*SBP*
Reporter costs (cash prices)	0.5	0.6	0.7	1.5	1.0	1.1	1.3	1.9	2.7	*4.0*	*3.5*	*3.1*	*2.9*	*2.8*	*2.7*	*2.6*
Reporter costs (constant 12/13 prices)	**0.7**	**0.8**	**0.9**	**1.8**	**1.2**	**1.3**	**1.5**	**2.1**	**2.8**	*4.0*	*3.5*	*3.1*	*2.9*	*2.8*	*2.7*	*2.6*



Source: Network Rail

The figure for 2012-13 is a forecast and the figures for 13-14 and CP5 are as per the assumptions in Network Rail's Strategic Business Plan.

Reporter spend reflects level of assurance we need from Network Rail (i.e. it goes up when we need to seek extra assurance PR13 has driven changes in spend).

Resource accounts 2012-2013

These accounts cover the operation of the Office of Rail Regulation (ORR) for the period 1 April 2012 to 31 March 2013. They have been prepared on an accruals basis in accordance with International Financial Reporting Standards (IFRS), the Government Resources and Accounts Act 2000 and HM Treasury's 2012-13 Financial Reporting Manual.

Introduction

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

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

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 2012-13 these were Anna Walker (committee Chair), Stephen Nelson (joined December 2011), Peter Bucks (joined July 2004), and Tracey Barlow (joined May 2011).

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

The committee met five times during the year, and areas considered were, outcomes from the 2011-12 performance management process, pay and reward implementation for 2013, succession and workforce planning and SCS pay policy and non-consolidated performance related pay awards for 2011-12.

Service Contracts

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition, but also includes the circumstances when appointments may otherwise be made.

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

Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk.

Remuneration of senior civil servants is set out in their contracts and is subject to annual review taking into account the recommendations of the Senior Salaries Review Body, and subject to Government approval. The notice period for all senior members of ORR does not exceed six months.

The arrangements for early termination of contracts of senior civil servants are made in accordance with the service contract of the relevant individual. Each contract provides for a payment in lieu of notice depending upon the reason for the termination, based on the provisions of the Civil Service Compensation Scheme. Two executives received early termination payments totalling £251k in 2012-13 (2011-12: One executive £180k). A further provision has been made for a payment to another executive in 2013-14 for £156k.

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, with the exception of the Chair who is entitled to pension benefits.

Salary and pension entitlements

The following sections provide details of the remuneration and pension interests of the most senior managers of the ORR during 2012-13, and have been subject to external audit.

Remuneration

			2012-13			2011-12
	Salary £000	Bonus Payments £000	Benefits in kind (to nearest £100)	Salary £000	Bonus Payments £000	Benefits in kind (to nearest £100)
Bill Emery *Chief Executive* (Left ORR on 28 June 11)	-	-	-	45-50	-	100*
Richard Price *Chief Executive* (Joined ORR on 16 May 11)	135-140	-	-	120-125	-	-
Cathryn Ross *Director, Railway Markets and Economics* (Joined ORR on 8 August 11)	130-135	10	-	85-90	-	-
Juliet Lazarus ** *Director, Legal Services*	85-90	-	-	85-90	-	-
Ian Prosser *Director, Railway Safety*	120-125	-	-	120-125	-	-
Michael Beswick *Director, Rail Policy*	115-120	-	-	115-120	-	-
Ken Young***** *Director, External Affairs* (Left ORR on 31 March 13)	80-85	-	-	80-85	-	-
Michael Lee *Director, Railway Planning and Performance* (Left ORR on 21 February 12)	-	-	-	95-100	-	-
Lynda Rollason**** *Director, Corporate Services****** (Left ORR on 30 June 12)	25-30	-	100	105-110	-	300
John Larkinson**** *Director, Railway Planning and Performance* (On temporary promotion from 30 January 12)	90-95	10	600	15-20	-	100
Alastair Gilchrist**** *Director, Corporate Operations* (Joined ORR on 13 August 12)	65-70	-	400	-	-	-
Alan Price**** *Director, Railway Planning and Performance* (Joined ORR on 26 November 12)	55-60	-	-	-	-	-
Richard Emmott**** *Director, Communications* (Joined ORR on 7 January 13)	25-30	-	-	-	-	-
Daniel Brown*** *Director, Strategy & Policy* (Joined ORR on 17 September 12)	80-85	-	-	-	-	-
Band of Highest Paid Director's Total Remuneration £'000)	155-160			135-140		
Median Total Remuneration	54,189			53,974		
Ratio	2.9			2.5		

The variation in the ratio between 2011-12 and 2012-13 has been caused because of the appointment of a new director (Alan Price) in 2012-13 who has become the highest paid director while the median salary remained broadly the same.

Richard Price became Accounting Officer on 17 June 2011.

*Benefits in kind comprise subsidised gym membership.

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

*** Daniel Brown was Interim Director, Strategy and Policy between 8 May 2012 and 16 September 2012; he then became Director, Strategy and Policy on 17 September 2012. His full-year basic equivalent salary is in the range £115,000 to £120,000.

**** The full year equivalent salaries are as follows:

Lynda Rollason in the range of £105,000 - £110,000 (12-13)

Alastair Gilchrist in the range of £100,000 - £105,000 (12-13)

Alan Price in the range of £155,000 - £160,000 (12-13)

Richard Emmott in the range of £110,000 - £115,000 (12-13)

John Larkinson in the range of £90,000-£95,000 (11-12)

***** Ken Young former Director, External Affairs received a payment of £10,723 in lieu of untaken leave when he left ORR in March 2013.

****** Lynda Rollason former Director, Corporate Services received a payment of £147,547 when she left office in June 2012.

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

Bonuses shown separately and not in gross salary above are based on performance levels attained and are made as part of the appraisal process. The bonuses reported in 2012-13 relate to performance in 2011-12 and the comparative bonuses reported for 2011-12 relate to the performance in 2010-11.

'Pension entitlement/allowances' relates to an allowance paid to senior staff who have chosen to take extra salary to invest in a pension scheme of their own choice rather than participate in a Civil Service pension. No senior managers exercised this option. Pension benefits are shown on page 27.

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 3.9% of pensionable earnings for classic and 3.5% and 5.9% for premium, classic plus and nuvos. Increases to employee contributions will apply from 1 April 2013. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

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

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

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

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

The former Rail Regulators' and former Chair's pensions are by analogy with the Principal Civil Service Pension Scheme. During 2012-13 there was no active member (2011-12 – 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

	Accrued pension at age 60 as at 31/03/13 and related lump sum	Real increase/(decrease) in pension and related lump sum at age 60	CETV as 31/03/13	CETV as 31/03/12*	Real Increase (decrease) in CETV
	£000	£000	£000	£000	£000
Richard Price (a)** *Chief Executive* *(Joined ORR 16 May 11)*	30-35 (pension) 100-105 (lumpsum)	2.5-5.0 (pension) 5-10 (lumpsum)	506	442	41
Cathryn Ross (a) Director, Railway Markets and Economics *(Joined ORR 8 August 11)*	20-25 (pension) 60-65 (lumpsum)	0-2.5 (pension) 5.0-10.0 (lumpsum)	276	240	18
Juliet Lazarus (c) *Director, Legal services*	10-15 (pension)	0-2.5 (pension)	198	158	26
Ian Prosser (e) *Director, Railway Safety*	10-15 (pension)	2.5-5.0 (pension)	181	137	25
Michael Beswick (d) *Director, Rail Policy*	60-65 (pension) 55-60 (lump sum)	1.5 -2.0 (pension) 2.5-5.0 (lump sum)	1,527	1,396	131
Ken Young (e) *Director, External Affairs* *(Left ORR 31 March 13)*	5-10 (pension)	0-2.5 (pension)	95	69	16
Lynda Rollason (a) *Director, Corporate Services* *(Left ORR 30 June 12)*	15-20 (pension) 45-50 (lumpsum)	0-2.5 (pension) 0-2.5 (lumpsum)	295	290	4
John Larkinson (a) *Director, Railway Planning and Performance* *(On temporary Promotion from 30 January 12)*	25-30 (pension) 75-80 (lumpsum)	2.5-5.0(pension) 5-10(lumpsum)	425	364	38
Alastair Gilchrist (e) *Director, Corporate Operations* *(Joined ORR 13 August 12)*	0-5 (pension) - (lumpsum)	0-2.5 (pension) - (lumpsum)	11	-	8
Alan Price (e) *Director, Railway Planning and Performance* *(Joined ORR 26 November 12)*	0-5 (pension) - (lumpsum)	0-2.5 (pension) - (lumpsum)	11	-	8
Richard Emmott (f)*** *Director, Communications* *(Joined ORR 7 January 12)*	- (pension) - (lumpsum)	- (pension) - (lumpsum)	-	-	-
Dan Brown (b) *Director, Stragey & Policy* *(Joined ORR on 17 September 12)*	0-5 (pension) - (lumpsum)	0-2.5 (pension) - (lumpsum)	5	-	3

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

*The actuarial factors used to calculate CETVs were changed during 2012. The CETV at the 31/3/12 and 31/3/13 have both been calculated using the new factors, for consistency. The CETV at 31/3/12 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.

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

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

Non-Executive Directors

Other non-executive directors received the following salaries:

	Period of Office	2012-13 £	2011-12 £
Anna Walker	5 July 2009 to 4 July 2014	120,000	120,000
Peter Bucks	5 July 2004 to 31 March 2014	21,776	21,776
Tracey Barlow	1 February 2010 to 31 January 2015	21,776	21,776
Steve Walker	1 February 2010 to 31 January 2015	21,776	21,776
Mike Lloyd	1 March 2010 to 28 February 2015	21,776	21,776
Mark Fairbairn	5 September 2011 to 4 September 2015	21,776	12,461
Stephen Nelson	5 September 2011 to 4 September 2015	21,776	12,461
Ray O'Toole	5 September 2011 to 4 September 2015	21,776	12,461

Notes:

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.

	2012-13 £	2011-12 £
Benefits paid or due	10,526	12,233
Tax Liability	9,438	10,876

The liability is paid in the year following the benefit.

Richard Price

Accounting Officer

22 May 2013

Statement of Accounting Officer's responsibilities

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

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

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

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

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

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

Governance statement

The ORR Board

Non-Executive Directors

Anna Walker, *Chair from 5 July 2009 to 4 July 2014*

Peter Bucks, *Non-Executive Director 5 July 2004 – 31 March 2010 and reappointed until 31 March 2014*

Tracey Barlow, *Non-Executive Director, 1 February 2010 to 31 January 2015*

Steve Walker, *Non-Executive Director, 1 February 2010 to 31 January 2015*

Mike Lloyd, *Non-Executive Director, 1 March 2010 to 28 February 2015*

Stephen Nelson, *Non-Executive Director, 5 September 2011 to 4 September 2015*

Ray O'Toole, *Non-Executive Director, 5 September 2011 to 4 September 2015*

Mark Fairbairn, *Non-Executive Director, 5 September 2011 to 4 September 2015*

Executive Directors

Richard Price, *Chief Executive, 16 May 2011 to 15 May 2016*

Michael Beswick, *Executive Director Rail Policy, 20 March 2006 to 19 March 2011 and reappointed until 14 June 2014*

Ian Prosser, *Executive Director Railway Safety, 26 September 2008 to 25 September 2013*

Cathryn Ross, *Executive Director Railway Markets and Economics, 8 August 2011 to 7 August 2016*

Alan Price, *Executive Director, Railway Planning and Performance, 26 November 2012 to 25 November 2016*

ORR is the independent safety and economic regulator for Britain's railways, established on 5 July 2004 under the Railways and Transport Safety Act 2003. We are a non-ministerial government department led by a Board consisting of eight non-executive directors (including the Chair) and five executive directors (including the chief executive). The Board held 11 meetings in 2012-13 (including a meeting in York and a meeting in Edinburgh) and two away days.

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

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

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

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

Changes to Senior staff during the year

2012-13 has seen the departure of two directors – Lynda Rollason (Director, Corporate Services) in June 2012, and Ken Young (Director, External Affairs) in March 2013. John Larkinson acted as Director, Railway Planning and Performance from January 2012, pending the permanent appointment of the new Director, Alan Price in November 2012. Alastair Gilchrist and Richard Emmott have been appointed interim directors of Corporate Operations and Communications respectively, for one year, pending permanent replacements.

ORR has taken the opportunity to strengthen the railway engineering capability and industry knowledge of its leadership team and the Board in the appointment of the new Director, Railway Planning and Performance, as well as appointing two professionals in managing change in its appointment of the interim directors of Corporate Operations and Communications.

Board Committees

Audit Committee

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

The Audit Committee comprises two non-executive directors (one of whom chairs the committee) and an independent member who is a qualified accountant. Membership of the committee is reviewed every three years. One non-executive director, Peter Bucks, a former Chair of the committee left the committee at its September meeting and was replaced at the December meeting by Mark Fairbairn. During the year the committee reviewed:

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

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 four non-executive directors – including the ORR Chair.

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

- Outcomes from the 2011-12 performance management process;
- Pay and reward implementation for 2013;
- Succession and workforce planning; and
- SCS pay policy and non-consolidated performance-related pay awards for 2011-12.

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 covering a range of topics. These included:

- Strategic issues arising from the proposals to run driverless or unstaffed trains in deep tube lines in London and Scotland;
- Safety challenges;
- Command control and signalling – telecoms and human factors;
- Planning for ORR's health and safety activity in 2013-14;

- Maintenance management; and
- Organisational change management in Network Rail.

Periodic Review Committee

The role of the Periodic Review Committee is to oversee and provide guidance on the delivery of the programme of work associated with ORR's periodic review of Network Rail's revenue requirement for the next five-year control period, (referred to hereafter as 'PR13'). It is chaired by the Board Chair and consists of non-executive and executive members.

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

- Efficiency expenditure and benchmarking;
- Open access policy;
- Network Rail's delivery plan for Control Period 5;
- Freight-specific charges;
- Discussion on outputs, Key Performance Indicators (KPI's) and enablers;
- Performance and possessions; and
- Safety issues relating to PR13.

All of the three committees review their effectiveness of their meetings at the end of each meeting. This is in addition to the work of the Committee Review Group (see below).

Board performance

The Board took into account the findings of ORR's Capability Review in developing its objectives for 2012-13 which included a more strategic role for the Board. It reviewed progress against all its objectives each quarter. ORR also developed a comprehensive action plan to respond to the capability review and the Board took ownership of a section of these actions, reporting against progress quarterly. An outcome of the review was the introduction of a Deputy Chair role in April 2012 and this has proved valuable during the year in making the Board more effective.

Each committee Chair leads an annual effectiveness review of its work which is considered by the Board. During the year we introduced formal reporting from committee Chairs to the Board and this is now in place.

There is a formal appraisal system for all Board members – and the Chair's performance is appraised by the non-executive directors led by the Deputy Chair.

Additionally, the Board commissioned a review of committee effectiveness and this is due to report early in 2013-14. (see below).

The Committee Review Group

The Committee Review Group is a sub-committee of the Board set up to carry out an in-depth review of Board Committee structures and remits. It consists of the Chair and five Board members plus a legal advisor.

The Review Group took feedback from the annual Board and committee performance reviews (a requirement under the Board's rules of procedure) and the Capability Review team's challenge that what the Board does and how it conducts ORR business needs to evolve. In particular the group wanted to follow up the recommendation that 'the use of formal sub-committees to delegate responsibilities and explore areas in depth, reporting back to the Board, should be explored'.

The Review Group will report in Spring 2013 and some of the proposals identified as being good practice, such as a more formal report to the Board on committee work, have already been implemented.

Executive Committee Structure

A new committee structure was introduced during 2013, in order to reduce duplication and channel decision making in a faster and more focused way. It was felt that the previous Directors Group had become too big and that new governance arrangements were needed to make sure that leadership discussions were more efficient, focused and expert.

Each committee involves a sub-set of our Directors.

- 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.

Compliance with the Corporate Governance Code

ORR is a non-ministerial government department with its functions vested in a statutory Board. On that basis, there are some departures from the model envisaged in the enhanced departmental board protocol. Specifically, ORR's Board does not include a finance director: rather the key financial expertise is incorporated through the weekly Executive Committee meetings which are attended by the Associate Director of Corporate Operations (Finance and Governance) who is a qualified accountant. Also, ORR's Remuneration Committee does have 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.

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

- Leadership
- Effectiveness
- Accountability
- Sustainability

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

Business plan

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

Monthly reports on progress with the delivery of planned outputs form an important part of the assurance process allowing the Board and the Executive to monitor the delivery of ORR's objectives. The new business management system introduced towards the end of 2012-13, requires the input of milestones against all activities contributing to ORR's strategic objectives. In 2013-14 directors and project managers will be measured against the achievement of these milestones.

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

Risk management strategy

ORR has a two-tier risk management structure comprising:

- a high level risk register; and
- Activity/Project risk registers.

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

The high level risk register is a concise statement of the most significant risks facing ORR. It identifies risk owners (at director or deputy director level) and describes mitigating actions along with progress and next steps on these. During 2012-13 there were10 high level risks, covering industry safety, Network Rail performance, PR13, industry change and changes to the regulatory framework, as well as ORR's own capability. The high level risks in order of inherent risk score were:

- Lack of understanding of ORR role externally
- ORR capability
- Significant failure in industry safety performance
- Industry change
- Failure of enforcement action
- Multiple NR delivery failures
- ORR vision
- PR13
- Data integrity and reliability
- Change of regulatory framework

The high level risk register is submitted to the Audit Committee every quarter and a director is required to attend the meeting to account for the effectiveness of the review processes for those risks for which s/he is responsible.

The assessment of 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.

From 2013-14, these risks will be captured in the new business management system, which requires directors to allocate risks to each of their activities, and thus to each of ORR's strategic objectives. The business management system will thus enable directors to see where there are any gaps in ORR's high level risk register which are not being addressed.

A number of work programmes and processes (for example, information systems support services) are delivered through third party suppliers. In these cases contracts and risks are managed by the commissioning Directorate or manager with lead responsibility for ensuring the required outcomes.

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

Risk owners have the opportunity at regular team and Executive Committee meetings, to escalate risk from project and programme to Directorate level and from directorate level to high level.

In the business management system risks are attached to activities which contribute to ORR's strategic objectives, thus it is possible to identify those activities which either mitigate against ORR's high level risks, or which have their own risks attached.

Risk management

At a senior level, leadership is given to the risk management process through Board reviews and through the Audit Committee's scrutiny programme. The Board considered papers on risk in July 2012 and October 2012. A risk workshop took place in July 2012. The Audit Committee continued to scrutinise the risk management framework and took papers on risk management at each of its quarterly meetings. The High Level Risk Register (HLRR) is considered at each Audit Committee meeting. Since September 2012 HLRR risk owners have been invited to discuss the specific risks for which they are responsible. The Audit Committee discussed the PR13 risk register in May 2012.

Budget delegations

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

Information assurance

ORR maintains an information management strategy which sets out how we manage our information as a combined safety and economic regulator. The implementation of this strategy is managed through the Information Management Board, which includes a consideration of information assurance.

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.

We follow the requirements of Government's Security Policy Framework, and submit a report on information assurance annually to Cabinet Office. This year, our focus has been on continuing to comply with the security policy framework as well as ensuring we have the correct procedures in place for handling information security incidents. We also continue to ensure that a good yet risk-appropriate security culture is embedded at ORR. We have applied for compliance with the Public Services Network code of connection and will be reaccrediting our network as IL3*. The ORR will then undertake a review of our current information assurance requirements with a potential change scheduled for February 2014. This change will accommodate our on-going requirements under IL3 and a more appropriate strategy where required.

We have experienced no information risk incidents in 2012-13 which we considered to be sufficiently significant for the Information Commissioner to be informed.

* IL3 (Business Impact Level 3) is our assessment of the level of risk that a compromise of the information on our network would present. Business impact levels range from 1 to 6.

Internal audit

Our current internal auditor, Deloitte, delivered a programme of audit reviews which was developed jointly with the Executive and the Audit Committee. The plan was designed to address the key risks facing the organisation and to provide assurance that ORR's key business processes are fit for purpose.

Deloitte provide the Accounting Officer with an independent report on internal audit activity for ORR at least once a year. They provide ORR with an assessment of the overall adequacy and effectiveness of our framework of governance, risk management and control. 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 year to 31 March 2013, based on the internal audits completed as part of the internal audit plan covering the year, as approved by the Audit Committee and limited to the internal audit scopes as agreed by the Audit Sponsor, with the exception of the control weaknesses identified in the detailed reports, in their opinion, ORR has adequate and effective systems over governance, risk management and control which provide reasonable assurance regarding the effective and efficient achievement of ORR's objectives.

Richard Price

Accounting Officer

22 May 2013

Annex A

Board meeting attendance 2012-13

Board member	April	May	June	July	September	October	November	December*	January	February	March	Total/ possible
Tracey Barlow	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	11/11
Michael Beswick	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	11/11
Peter Bucks	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	11/11
Mark Fairbairn	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	10/11
Mike Lloyd	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	11/11
Stephen Nelson		✓	✓	✓	✓	✓	✓		✓	✓		8/11
Ray O'Toole	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	10/11
Richard Price	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	11/11
Alan Price							✓	✓	✓	✓	✓	5/5
Ian Prosser	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	11/11
Cathryn Ross	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	10/11
Anna Walker	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	11/11
Steve Walker	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	11/11

[Notes:*additional meeting]

Audit Committee attendance 2012-13

Committee member	May	September	December	March	Total/ possible
Tracey Barlow	✓	✓	✓	✓	4/4
Peter Bucks	✓	✓			2/2
Mark Fairbairn		✓	✓	✓	3/3
Melvyn Neate*	✓	✓	✓	✓	4/4

*Independent Member of the Audit Committee

Remuneration Committee attendance 2012-13

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

Safety Regulation Committee attendance 2012-13

Committee member	July	October	December	March	Total/ possible
Michael Beswick	✓	✓	✓	✓	4/4
Mark Fairbairn	✓		✓	✓	3/4
Mike Lloyd	✓		✓	✓	3/4
Ray O'Toole	✓		✓	✓	3/4
Juliet Lazarus		✓	✓	✓	3/4
Alan Price			✓	✓	2/2
Richard Price	✓	✓		✓	3/4
Ian Prosser	✓	✓	✓	✓	4/4
Anna Walker	✓	✓	✓	✓	4/4
Steve Walker	✓	✓	✓	✓	4/4

Periodic Review Committee attendance 2012-13

Committee member	April	May	June	July	September	November	December	February	March	Total/ possible
Michael Beswick	✓	✓	✓	✓	✓	✓	✓	✓	✓	9/9
Tracey Barlow			✓		✓	✓	✓	✓	✓	6/9
Peter Bucks	✓	✓	✓		✓	✓	✓	✓	✓	8/9
Mark Fairbairn			✓	✓	✓	✓	✓	✓	✓	7/9
Juliet Lazarus	✓	✓	✓	✓	✓	✓	✓	✓	✓	9/9
Mike Lloyd		✓		✓		✓	✓	✓	✓	6/9
Stephen Nelson		✓	✓	✓	✓	✓		✓	✓	7/9
Ray O'Toole		✓	✓	✓	✓	✓	✓		✓	7/9
Richard Price	✓	✓	✓	✓	✓	✓	✓	✓	✓	9/9
Ian Prosser					✓	✓	✓	✓	✓	5/5
Alan Price						✓	✓		✓	3/4
Cathryn Ross	✓	✓	✓	✓	✓	✓	✓	✓		8/9
Anna Walker	✓	✓	✓	✓	✓	✓	✓		✓	8/9
Steve Walker						✓		✓		2/4

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 2013 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. 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 2013 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 2013 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 **Date 23 May 2013**

Comptroller and Auditor General

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

Statement of Parliamentary Supply

Summary of Resource and Capital Outturn 2012-13

								2012-13	2011-12
				Estimate			Outturn		Outturn
	Note	Voted	Non-Voted	Total	Voted	Non-Voted	Total	Voted Outturn compared with Estimate:/ saving (excess)	Total
		£000	£000	£000	£000	£000	£000	£000	£000
Departmental Expenditure Limit									
- Resource		2	-	2	2	-	2	-	2
- Capital		800	-	800	584	-	584	216	641
Annually Managed Expenditure									
- Resource		-	-	-	-	-	-	-	-
- Capital		-	-	-	-	-	-	-	-
Total Budget		802	-	802	586	-	586	216	643
Non-Budget									
- Resource		-	-	-	-	-	-	-	-
Total		802	-	802	586	-	586	216	643
Total Resource		2	-	2	2	-	2	-	2
Total Capital		800	-	800	584	-	584	216	641
Total		802	-	802	586	-	586	216	643

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

Net Cash Requirement 2012-13

£000	Note	2012-13 Estimate	2012-13 Outturn	2012-13 Outturn compared with Estimate: saving/(excess)	2011-12 Outturn
	4	2,000	1,045	955	1,542

Administration Costs 2012-13

£000	2012-13 Estimate	2012-13 Outturn	2011-12 Outturn
	2	2	2

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

Statement of Comprehensive Net Expenditure

For the year ended 31 March 2013

	Note	Staff Costs	Other Costs	Income	
				2012-13	2011-12
		£000	£000	£000	£000
Administration Costs:					
Staff Costs	7	19,180	-	-	19,307
Other administration costs	8	-	10,613	-	9,423
Operating Income	9	-	-	(29,791)	(28,728)
Totals		19,180	10,613	(29,791)	2
Net Operating Cost for the year ended 31 March 2013				**2**	**2**
Other Comprehensive Net Expenditure					
Net (gain)/loss on:					
- Actuarial movement in year		-	27	-	17
Total other comprehensive net expenditure		-	**27**	-	**17**

Total comprehensive expenditure for the year end 31 March 2013	**29**	**19**

Statement of Financial Position

As at 31 March 2013

		31 March 2013		31 March 2012	
	Note	£000	£000	£000	£000
Non-current assets:					
Property, plant and equipment	10	1,832		1,953	
Intangible assets	11	1,134		1,121	
Total non-current assets			**2,966**		**3,074**
Current assets:					
Trade and other receivables	12	2,285		1,167	
Cash	13	119		1,424	
Total current assets			2,404		2,591
Total assets			**5,370**		**5,665**
Current liabilities:					
Trade and other payables	14	(6,652)		(7,912)	
Provisions	15	(263)		(137)	
(amounts falling due within one year)					
Total current liabilities			(6,914)		(8,049)
Total assets less current liabilities			(1,544)		(2,384)
Non-current liabilities					
Provisions	15	(718)		(1,001)	
Other payables >1 year	14	(35)		-	
Pension Liabilities	15	(479)		(446)	
Total non-current liabilities			(1,231)		(1,447)
Assets less liabilities			**(2,775)**		**(3,831)**
Taxpayers' Equity:					
General Fund			(2,963)		(4,067)
Revaluation reserve			188		236
Total taxpayers' equity			**(2,775)**		**(3,831)**

Richard Price

Accounting Officer

22 May 2013

Statement of Cash Flows

For year ended 31 March 2013

Cash flows from operating activities	Note	2012-13	2011-12
		£000	£000
Net Operating Cost	3	(2)	(2)
Adjustments for non-cash transactions	7,8	992	589
(Increase)/Decrease in trade and other receivables		(1,118)	511
Decrease in trade and other payables		(1,225)	(1,208)
Decrease in payables not passing through Statement of Comprehensive Net Expenditure		249	281
Increase in receivables not passing through Statement of Comprehensive Net Expenditure		1,045	-
Use of provisions	15	(397)	(199)
Use of provisions - by analogy pension		(15)	(15)
Net cash outflow from operating activities		**(471)**	**(43)**

Cash flows from investing activties	2012-13	2011-12
	£000	£000
Property plant and equipment additions	(171)	(24)
Intangible non-current assets additions	(403)	(607)
Net cash outflow from investing activities	**(574)**	**(631)**

Cashflows from financing activities	2012-13	2011-12
	£000	£000
From the Consolidated Fund (Supply) - current year	0	2,000
Advances from the Contingencies Fund	10,000	10,000
Repayments to the Contingencies Fund	(10,000)	(10,000)
Net financing	0	**2,000**

	Note	2012-13	2011-12
Net increase/(decrease) in cash and cash equivalents in the period before		**£000**	**£000**
adjustment for receipts and payments to the Consolidated Fund		**(1,045)**	**1,326**
Payments of amounts due to the Consolidated Fund		(1,424)	(2,699)
Amounts due to the Consolidated Fund - and not paid over		1,164	966
Payments of amounts due to the Consolidated Fund		**(260)**	**(1,733)**
Net increase/(decrease) in cash and cash equivalents after adjustments for receipts and payments to the Consolidated Fund		(1,305)	(407)
Cash and cash equivalents at the beginning of the period	13	1,424	1,831
Cash and cash equivalents at the end of the period	13	119	1,424

Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2013

	Note	General Fund	Revaluation Reserve	Total Reserves
		£000	£000	£000
Balance as at 1 April 2011		**(5,632)**	**308**	**(5,324)**
Changes in taxpayers equity for 2011-12				
Actuarial gain relating to pension provision		(17)	-	(17)
Non cash charges				
Auditors remuneration		42	-	42
Operating cost for the year		(2)	-	(2)
Additional depreciation charged for revaluation on assets		-	(72)	(72)
Total recognised income and expenditure for 2011-12		**23**	**(72)**	**(49)**
Net Parliamentary Funding - drawn down		2,000	-	2,000
Excess cash surrenderable to the Consolidated Fund		(458)	-	(458)
Balance as at 31 March 2012		**(4,067)**	**236**	**(3,831)**
Changes in taxpayers equity for 2012-13				
Actuarial loss relating to pension provision	15	(27)	-	(27)
Non cash charges				
Auditors remuneration		40	-	40
Operating cost for the year		(2)	-	(2)
Additional depreciation charged for revaluation on assets		48	(48)	-
Total recognised income and expenditure for 2012-13		**59**	**(48)**	**11**
Net Parliamentary Funding - drawn down		1,045	-	1,045
Amounts issued from the Consolidated Fund for Supply but not spent at year end		-	-	-
Balance as at 31 March 2013		**(2,963)**	**188**	**(2,775)**

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 £2k operating cost for the year.

Office of Rail Regulation Resource Accounts 2012-2013 – notes to the Departmental Resource Accounts

Statement of Accounting Policies

These financial statements have been prepared in accordance with the 2012-13 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.

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

1.1 Accounting convention

These accounts have been prepared under the historical cost convention.

1.2 Tangible non-current assets

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

Tangible non-current assets are carried at valuation in existing use. Depreciated 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	up to 15 years
(limited to period of remaining lease)	
Furniture, Office & Telecom Equipment	5 - 10 years
Information Technology & Purchased software licences	3 - 5 years

1.4 Intangible assets

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

1.5 Operating income

Operating income is income which relates directly to ORR's operating activities. It comprises licence fees, concession fees (HS1), safety levies and safety related income which in accordance with FReM is treated as operating income. The operating income is stated net of VAT.

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

1.6 Administration expenditure

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

1.7 Foreign exchange

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

1.8 Pensions

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

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

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

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

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

1.9 Leases

Operating leases

Rentals due under operating leases are charged to the Operating Cost Statement over the lease term on a straight-line basis, or on the basis of actual rentals payable which fairly reflects the usage. Future payments, disclosed at Note 17, "Commitments under leases", are not discounted.

Finance leases

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

1.10 Provisions

ORR provides for legal or constructive obligations which are of uncertain timing or amount at the balance sheet date 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 (-1.8%), medium term (-1%) 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 also been assessed using a discount rate of 4.1% nominal discount rate or 2.35% net of price inflation (2011-12: 2.8%).

The provision for early retirement was established to provide for future retirement benefits of staff who have retired early or may be required to retire early or be made redundant. The provision for accommodation has been established in order to satisfy the obligation to return our 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 £2k operating cost for the year.

1.13 Going Concern

The statement of financial position at 31 March 2013 shows a negative Taxpayers’ Equity of £2.775 million. This reflects the inclusion of liabilities falling due in 2012-13, including the repayment of excess cash to the

Treasury's Consolidated Fund. Any liabilities in excess of cash receivable in year are financed mainly by drawings from the UK Contingencies Fund. Drawings from the Consolidated Fund are from grants of Supply approved annually by Parliament, to meet ORR's Net Cash Requirement. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than required for the service of the specified year or retained in excess of that needed. All unspent cash, including those derived from ORR's income are surrenderable to the Fund.

In common with other government departments, the future financing of ORR's liabilities is accordingly to be met by future grants of Supply and the application of future income, both to be approved annually by Parliament. Such approval for amounts required for 2013-14 has already been given. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these accounts.

1.14 Contingent Liabilities

In addition to contingent liabilities disclosed in accordance with IAS37, the department discloses for parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of Managing Public Money.

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

2. Net Outturn

2.1. Analysis of net resource outturn by section

2012-2013							2011 -2012 Outturn Total
Outturn Administration					Estimate		
	Gross	Income	Net	Total	Net Total	Net total compared to Estimate	
	£000	£000	£000	£000	£000	£000	£000
Spending in Departmental Expenditure Limit							
Voted:							
A. Economic regulation, administration, associated capital, other expenditure	13,284	(13,283)	1	1	1	-	1
B. Safety Regulation, administration and other expenditure	16,509	(16,508)	1	1	1	-	1
Total	29,793	(29,791)	2	2	2	-	2

ORR's £907k underspend against the Estimate comprises an underspend against the Safety Regulation budget of £2,148k and an overspend against the Economic budget of £1,241k. Overall, underspends were recorded against: Running costs (£350k), non-use of contingency (£325k), Staff costs (£420k) and an overspend in non-cash items (£190k). Consultancy expenditure was almost on budget.

2.2 Analysis of net capital outturn by section

	2012-2013					2011-12 Outturn
	Outturn			Estimate		
Spending in Departmental Expenditure Limit	Gross	Income	Net	Net	Net total compared to Estimate	
	£000	£000	£000	£000	£000	£000
Voted:						
A. Economic regulation, administration, associated capital, other expenditure	252	-	252	800	549	249
B. Safety Regulation, admin and other expenditure	333	-	333	-	(333)	392
Total	584	0	584	800	216	641

The variance between the Estimate and the Outturn is due to the Web project being deferred to 2013-14.

The vast majority of ORR capital expenditure is corporate and so the ORR capital expenditure budget is not allocated between economic and safety, as very few capital projects are identifiable by these categories. At the end of the year an apportionment of actual spend is made based on the overall economic and safety split.

Capital expenditure is recovered from the industry through depreciation which is split between economic and safety, based on the ratio between direct economic and direct safety expenditure budgets for a financial year.

2.3 Variance in net cash requirement

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

3. Reconciliation of Outturn to Net Operating Cost and against Administration Budget

3.1 Reconciliation of Net Resource Outturn to Net Operating Cost

		Note	2012-13 £000 Outturn	2011-12 £000 Outturn
Total resource outturn in Statement of Parliamentary Supply	Budget	2	2	2
Net Operating Cost in Consolidated Statement of Comprehensive Net Expenditure			2	2

3.2 Outturn against final Administration Budget

	2012-13 Outturn £000	2011-12 Outturn £000
Gross Administration Costs	29,793	28,730
Gross Income relating to administration costs	(29,791)	(28,728)
Net Outturn - administration costs	2	2
Administration costs limit - Estimate	2	

4. Reconciliation of Net Resource Outturn to Net Cash Requirement

	Note	Estimate £000	Outturn £000	Net total outturn compared with Estimate: saving/(excess) £000
Resource Outturn	2.1	**2**	**2**	-
Capital Outturn	2.2	**800**	**584**	216
Accruals to cash adjustments:				
Adjustments to remove non-cash items:				
Depreciation		(640)	(692)	52
New provisions and adjustments to previous provisions		(273)	(239)	(34)
Other non-cash items		(48)	(61)	13
Adjustments to reflect movements in working balances:				
Increase/(decrease) in debtors		1,931	73	1,858
(Increase)/decrease in creditors		228	966	(738)
Use of provision		-	412	(412)
		1,198	459	739
Net cash requirement		**2,000**	**1,045**	**955**

5. Excess Cash Payable to the Consolidated Fund

5.1 Analysis of amounts payable to the Consolidated Fund

	Outturn 2012-13 £000	Outturn 2011-12 £000
Excess cash surrenderable to the Consolidated Fund	-	-
Total	**-**	**-**

5.2 Consolidated Fund

	2012-13 £000	2011-12 £000
Balance of Intergovernmental Commission Levy due to be paid in 2013-14	1,164	966
Total	**1,164**	**966**

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

6. Statement of Operating Cost by Operating Segment

			2012-13			2011-12
	Economic Regulation £000	Safety Regulation £000	Total £000	Economic Regulation £000	Safety Regulation £000	Total £000
Gross Expenditure	13,284	16,509	**29,793**	10,945	17,785	**28,730**
Gross Income	13,283	16,508	**29,791**	10,944	17,784	**28,728**
Net Expenditure	1	1	2	1	1	2

Description of segments

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

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

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

No individual train operating company contributes more than 10% of our income. However Network Rail paid £4.7 million in safety levy in 2012-13 (£4.8 million in 2011-12).

7. Staff numbers and related costs

Staff costs comprise:

			2012-13	2011-12
	£000	£000	£000	£000
		Permanently Employed		
	Total	Staff	Others	Total
Wages and Salaries	15,265	14,589	676	15,162
Social Security costs	1,466	1,437	29	1,451
Other pension costs	2,853	2,853	-	2,919
Sub Total	**19,584**	18,879	705	19,532
Less recoveries in respect of outward secondments	(404)	(404)	-	(225)
Total	**19,180**	**18,475**	**705**	**19,307**
Non cash items: By analogy pension current services costs	-	-	-	
Total net costs*	**19,180**	**18,475**	**705**	**19,307**

*£75k staff costs not incuded above have been capitalised and appear in Note 11

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

Included in the net figure for other pension costs are employer's contributions of £2,797,970 payable to the PCSPS (2011-12: £2,822,493) at one of four rates in the range 16.7% to 24.3% (2011-12: 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 £7,420 were paid to one or more of the panel of three appointed stakeholder pension providers (2011-12: £10,585). 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 £645.62, 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 (2011-12: £713.06). Contributions due to the partnership pension providers at the date of the Statement of Financial Position were £2,560.15 (2011-12: £735.04).

The Railway Pension Scheme (RPS) is a funded multi-employer defined benefit scheme administered by Railway Pensions Trustee Company Limited. This is a defined benefit scheme which prepares its own scheme statements. Details of the RPS pension statements can be found in the Annual Report and Accounts of the RPS at (www.railwaypensions.co.uk). Employer contributions of £79,027 were paid to the trustees of the RPS in 2012-13 at a rate of 2.374 times the individual member's contributions, on the basis of actuarial valuations (2011-12: £93,521). ORR matches some of the BRASS2 contributions (an AVC scheme) made by the members. In 2012-13, matching contributions of £4,908 were made (2011-12: £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, (2011-12: nil). The liability at 31 March 2013 is estimated at £478,000 (31 March 2012: £ 446,000).

Average number of persons employed

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

			2012-13 Number	2011-12 Number
Segment	Total	Permanent Staff	Others	Total
1. Economic Regulation	**118**	111	7	103
2. Safety Regulation	**166**	160	6	180
Total	**284**	**271 ***	**13**	**283**

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

Included in "Others" are:

Others	Number	Amount (£000)
Non-Executive Directors (NEDS's) (taking into account NEDS who did not work a full year)	8.0	305
Agency Staff	3.3	
Specialist Contractor	1.3	
Consultant	0.5	
Total (Excluding NED's)	5.1	400
Total	**13.1**	**705**

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

Comparatives shown (in brackets) for previous year:

1	Exit Package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band (total cost)
2	<£10,000	0 (0)	0 (0)	0 (0)
3	£10,000 - £25,000	0 (0)	0 (0)	0 (0)
4	£25,000 - £50,000	0 (0)	0 (1)	0 (1)
5	£50,000 - £100,000	0 (0)	0 (1)	0 (1)
6	£100,000 - £150,000	0 (0)	2 (0)	2 (0)
7	£150,000 - £200,000	0 (0)	1 (0)	1 (0)
8	**Total number of exit packages by type (total cost)**	**0 (0)**	**3 (2)**	**3 (2)**
9	**Total resource exit cost/£**	**0 (0)**	**406,564 (118,557)**	**406,564 (118,557)**

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

ORR has no continuing liability in respect of the pensions of the two members of staff who received voluntary exit payments in 2012-13.

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. During 2012-13 ORR made early termination payments to two individuals, with total exit packages as follows:

(1) Total payment of £147,546.52 comprising:

- £31,313.66 as compensation in lieu of notice of termination of employment
- £107,732.86 as compensation for termination of employment
- £1,613.48 in respect of accrued annual leave
- An ex-gratia payment of £6,886.52 in respect of additional negotiated compensation

(2) Total payment of £103,370.21 comprising:

- £15,414.48 as compensation in lieu of notice of termination of employment
- £81,840.00 as compensation for termination of employment
- £6,115.73 in respect of accrued annual leave

ORR agreed an early termination to one individual, with total exit package as follows:

(3) Total payment of £155,647.21 as compensation for loss of office.

8. Other administrative costs

	2012-13 £000	2011-12 £000
Rental under operating leases:		
Hire of office equipment	1	1
Other operating leases	912	912
	913	**913**
Non-cash items:		
Depreciation	373	347
Amortisation	319	225
Loss/(Gain) on disposal of fixed assets	-	19
Employers Pension past service costs	-	-
Interest charges in respect of by analogy pension scheme	21	23
Auditors' remuneration and expenses*	40	42
	753	**656**
Provisions:		
Provision for redundancy costs/(Provision no longer required)	86	(88)
Provision for dilapidations and other leasehold liabilities	153	20
	239	**(68)**
Other:		
Travel and subsistence	845	875
Hospitality	77	78
Consultancies	2,396	1,606
IT & Telecoms	2,350	2,096
Landlord service charges & rates	1,022	867
Printing & stationery	203	213
Recruitment & training	583	521
Staff-related (including staff restaurant)	205	327
Building-related	307	504
External services - internal audit, payroll, banking and finance	248	252
External services - other	457	549
Other costs	17	34
	8,708	**7,922**
	10,613	**9,423**

*There was no auditor remuneration for non-audit work

IT & Telecoms includes contractual costs for redundancy payments of £169,550 to former ORR employees transferred to CAPITA Secure Information Systems.

9. Income

	Note	2012-13 £000	2011-12 £000
Licence Fees		13,163	11,852
Plus: Income accrued to future year	12(a)	119	(910)
Safety Levy and related safety income		17,201	18,628
(Less): Income deferred to future year	14(a)	(1,262)	(1,211)
Miscellaneous income*		570	369
		29,791	**28,728**

*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.

10. Property, plant and equipment

	Fitting Out Costs £000		Furniture, Office Equipment & Telecoms £000	Information Technology £000	Total £000
Cost or valuation					
At 1 April 2012	3,371		1,057	14	4,442
Prior year adjustment	-		-	-	-
Additions	54	*	96	102	252
Disposals	-		-	-	-
At 31 March 2013	**3,425**		**1,152**	**116**	**4,694**
Depreciation					
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	**1,788**		**1,049**	**25**	**2,862**
Carrying amount at 31 March 2012	**1,868**		**73**	**12**	**1,953**
Carrying amount at 31 March 2013	**1,637**		**104**	**91**	**1,832**
Asset financing					
Owned	1,637		39	91	**1,767**
Finance lease	-		65	-	**65**
Carrying amount at 31 March 2013	**1,637**		**104**	**91**	**1,832**

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

*Included in this figure is £7k (Assets under Construction) for planning works for refurbishment at Kemble Street due to take place in 2013-14.

11. Intangible Assets

Cost or valuation	Data Warehouse	Document Management (DM) System	HR Database	Capitalised Staff Costs (on DM system)	Software licences	Total £000
At 1 April 2012	480	516	218	236	339	1,789
Additions	96	118	-	75	43	332
Disposals: actual cost	-	-	-	-	-	0
Revaluation	-	-	-	-	-	0
At 31 March 2013	576	634	218	311	382	**2,121**
Amortisation						
At 1 April 2012	180	38	174	47	228	668
Charged in year	17	181	28	56	37	319
Disposals: depreciation on cost	-	-	-	-	-	0
Revaluation	-	-	-	-	-	0
At 31 March 2013	197	219	202	103	265	**987**
Carrying amount at 31 March 2012	300	478	44	189	110	**1,121**
Carrying amount at 31 March 2013	379	415	16	208	116	**1,134**
Asset financing:						
Owned	379	415	16	208	116	1,134
Carrying amount as at 31 March 2013	**379**	**415**	**16**	**208**	**116**	**1,134**

Cost or valuation	Data Warehouse	Document Management (DM) System	HR Database	Capitalised Staff Costs (on DM system)	Software licences	Total £000
At 1 April 2011	456	10	218	132	632	1,448
Additions	24	506	-	104	21	655
Disposals: actual cost	-	-	-	-	(314)	(314)
Revaluation	-	-	-	-	-	-
At 31 March 2012	480	516	218	236	339	**1,789**
Amortisation						
At 1 April 2011	90	-	144	12	510	756
Charged in year	90	38	30	35	32	225
Disposals: depreciation on cost	-	-	-	-	(314)	(314)
Revaluation	-	-	-	-	-	-
At 31 March 2012	180	38	174	47	228	**668**
Carrying amount at 31 March 2011	366	-	74	120	122	**692**
Carrying amount at 31 March 2012	300	478	44	189	110	**1,121**
Asset financing:						
Owned	300	478	44	189	110	1121
Carrying amount as at 31 March 2012	**300**	**478**	**44**	**189**	**110**	**1,121**

The Document Management (DM) System had a net book value of £415k at the 31 March 2013 and there are 42 months remaining amortisation from that date.

Staff Costs have been capitalised in accordance to IAS 38; only work and related costs that are directly attributable to phase 2/3 of the DM System project i.e. the design, development & implementation of Mosaic has been capitalised and not day to day operational, support or maintenance work.

12. Trade Receivables and other Current Assets

12 (a) Analysis by type

	31 March 2013 £000	31 March 2012 £000
Amounts falling due within one year		
Trade receivables	580	298
Staff receivables	93	104
Prepayments and accrued income	434	665
HM Revenue and Customs (VAT)	110	98
HM Treasury (Supply)	1,045	-
Amounts falling due after more than one year		
Staff receivables	6	-
Prepayments and accrued income	17	2
Total at 31 March 2012	**2,285**	**1,167**

Included in staff receivables are travel season ticket loans for 61 employees totalling £91,059 (2011-12 £95,024 for 67 employees) and £7,956 relating to other advances made to 38 employees (2011-12: £6,514).

12 (b) Intra-Government Balances

		Amounts falling due within one year £000		Amounts falling due after more than one year £000
	2012-13	**2011-12**	**2012-13**	**2011-12**
Balances with other central government bodies	1293	696		-
Balances with Local Authorities		10		-
Balances with bodies external to government	969	459	23	2
Total receivable at 31 March	**2,262**	**1,165**	**23**	**2**

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

13. Cash and Cash Equivalents

	2012-13	2011-12
	£000	**£000**
Balance at 1 April	1,424	1,831
Net change in cash balances	(1,305)	(407)
Balance at 31 March	**119**	**1,424**
The following balances at 31 March were held at:		
Government Banking Service	103	1,395
Commercial banks and cash in hand	16	29
Balance at 31 March	**119**	**1,424**

14. Trade Payables and other Current Liabilities

14 (a) Analysis by type

	31 March 2013 £000	31 March 2012 £000
Amounts falling due within one year		
Other taxation and social security	10	11
Trade payables	449	300
Other payables	782	727
Accruals	2,954	3,309
Deferred income	1,262	2,121
Current part of finance leases	30	20
Balance of Intergovernmental Commission levy payable to the Consolidated Fund	1,164	966
Excess cash surrenderable to the Consolidated Fund Received		-
Amounts issued from the Consolidated Fund for supply but not spent at year end	-	458
Total current liabilities at 31 March	**6,652**	**7,912**
Amounts falling due after more than one year	**35**	-
Total trade payables and other current liabilities	**6,687**	**7,912**

14 (b) Intra-Government Balances

		Amounts falling due within one year £000		Amounts falling due after more than one year £000
	2012-13	**2011-12**	**2012-13**	**2011-12**
Balances with other central government bodies	1,197	1,704	-	-
Balances with Local Authorities	-	-	-	-
Balances with bodies external to government	5,490	6,208	-	-
Total payable at 31 March	**6,687**	**7,912**	**-**	**-**

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

15. Provisions for liabilities and charges

The provision for early retirement was established to provide for future retirement benefits of staff who have retired early or may be required to retire early or be made redundant. Included in the provision is an amount of £155,647 in respect of the 'Smarter Government Proposals' for reducing the number of Senior Civil Servant posts. The provision for accommodation has been established in order to satisfy the obligation to return our offices to their original condition. The provision has been calculated on a cost/square foot basis and discounted from the end of the lease date.

	Early retirement/ restructuring	Accommodation	Total	2011-12 Total
	£000	£000	£000	£000
Balances at 1 April 2012	719	420	1,138	1,405
(No longer required)/provided for in year	79	144	223	(68)
Provisions utilised in the year	(397)	-	(397)	(218)
Borrowing costs (unwinding of discounts)	7	9	16	19
Balance at 31 March 2013	**408**	**573**	**981**	**1,138**

Analysis of expected timing of discounted flows

	Early Retirement	Accommodation	Total	2011-12 Total
Not later than one year	263	-	**263**	**137**
Later than one year and not later than five years	145	69	**214**	**611**
Later than five years	-	504	**504**	**390**
Balance at 31 March 2013	**408**	**573**	**981**	**1,138**

There was a change in the discount rate during 2012-13, which resulted in an additional £96k being added to the dilapidations provision. The new discount rate applied was negative (-0.99% for medium-term cash flows between 5 and 10 years). However, since the discount rate is negative, the effect of unwinding in 2013-14 will be a credit to the Income and Expenditure account.

Details for by-analogy defined benefit pension schemes

Class	As at 31 March 2013 £000	As at 31 March 2012 £000
Actives	-	-
Deferred	189	168
Pensioners	290	278
Total Present Value for the Scheme Liabilities	**479**	**446**

Liability calculation	As at March 2013 £000	As at March 2012 £000
Present value of scheme at 1 April	446	421
Current service cost (net of employee contribution)	-	-
Employee Contribution	-	-
Interest costs	21	23
Actuarial (gains)/losses	27	17
Benefits paid	(15)	(15)
Past service cost	-	-
Balance at 31 March	**479**	**446**

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 2013. (In 2011-12 ORR contributed £23k 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 2013 % per annum	As at 31 March 2012 % per annum
RPI Inflation assumption	-	-
CPI Inflation assumption	1.70	2.00
Rate of increase in salaries	3.95	4.25
Rate of increase for pensions in payment and deferred pensions	1.70	2
Rate used to discount scheme liabilities	4.10	4.85

History of experience losses/(gains)

	Year Ending 31/03/2013	Year Ending 31/03/2012	Year Ending 31/03/2011	Year Ending 31/03/2010	Year Ending 31/03/2009
Experience loss/(gain) arising on the scheme liabilities					
Amount (£'000)	1	12	11	(30)	2
Percentage of scheme liabilities at end of year	0.2%	2.7%	2.5%	-6.1%	0.5%

Estimate of contributions expected to be paid into the scheme over the year 1 April 2013 to 31 March 2014.

As there are no active members in the scheme the estimated contributions for 2013-2014 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 2013**		**As at 31 March 2012**	
Exact Age	Men (years)	Women (years)	Men (years)	Women (years)
60	28.6	30.7	29.0	32.4
65	23.9	25.8	24.0	27.3

Future pensioners	**As at 31 March 2013**		**As at 31 March 2012**	
Exact Age	Men (years)	Women (years)	Men (years)	Women (years)
60	31.1	33.0	31.5	35.0
65	26.7	28.5	26.9	30.4

Cumulative amount of actuarial gains and losses

The cumulative actuarial loss for the year to date amounts to £171,000 (31 March 2012: £144,000)

Present value of scheme liabilities

	Value at 31/03/2013 £000	Value at 31/03/2012 £000	Value at 31/03/2011 £000	Value at 31/03/2010 £000	Value at 31/03/2009 £000
Liability in repect of					
Active member	-	-	-	-	186
Deferred pensioners	189	168	152	185	127
Current pensioners	290	278	269	302	115
Total present value of scheme liabilities	**479**	**446**	**421**	**487**	**428**

16. Capital Commitments

The project to redesign the office space on floor two is scheduled to commence in 2013-14. There are approximately £57,774 contracted capital commitments to run against this project. (31 March 2012: £42,000).

17. Commitments under Leases

17.1 Operating leases

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

	31 March 2013 £000	31 March 2012 £000
Obligations under operating leases comprise:		
Buildings		
Not Later than one year	1,174	941
Later than one year and not later than five years	4,580	3,598
Later than five years	2,308	2,466
	8,062	**7,005**

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

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

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

17.2 Finance leases

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

Obligations under finance leases comprise

	31 March 2013 £000	31 March 2012 £000
Leases other than buildings		
Not Later than one year	36	20
Later than one year and not later than five years	44	-
Later than five years	-	-
Less interest element	(13)	(1)
	67	**19**

In 2012-13 ORR had two finance leases. Interest of £2,122.71 and £1,462.42 was paid in respect of these finance leases (2011-12: £1,253 for one lease).

18. Other financial commitments

Apart from the capital commitments mentioned in Note 16 the department has not entered into any non-cancellable contracts (which are not finance leases) for any new capital expenditure as at 31 March 2013 (31 March 2012: nil).

19. Losses and Special Payments

There were no special payments in excess of £250,000 in either 2012-13 or 2011-12.

20. Financial Instruments

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

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

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

Interest rates and foreign currency risks

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

Fair values

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

There is no material difference between the book values and fair values of ORR's financial assets and liabilities as at 31 March 2013.

21. Contingent Liabilities Disclosed Under IAS 37

There were no reportable contingent liabilities at 31 March 2013 (31 March 2012: nil).

22. Related Party Transactions

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

23. 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 early adopted by ORR:

- IFRS 7 Financial Instruments (Amendment): Disclosures effective 1 January 2013
- IFRS 9 Financial Instrument (New) effective 1 January 2015
- IFRS 10 Consolidated Financial Statements (New) effective 1 January 2013
- IFRS 12 Disclosure of Interest in other entities (New) effective 1 January 2013
- IFRS 13 Fair Value Measurement (New) effective 1 January 2013
- IAS 1 Presentation of Financial Statements (Amendment) effective 1 July 2012
- IAS 19 Employee Benefits (Amendment) effective 1 January 2013
- IAS 27 Consolidated and Separate Financial Statements (Amendment) effective 1 January 2013
- IAS 32 Financial Instruments: Presentation (Amendment) 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.

24. 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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