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

Office of Rail Regulation

Resource Accounts 2005–06

LONDON: The Stationery Office
HC1414

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Annual Report

Introduction

These accounts cover the operation of the Office of Rail Regulation (ORR) for the period 1 April 2005 to 31 March 2006. They have been prepared on an accrual basis in accordance with the Government Resources and Accounts Act 2000 and HM Treasury's Financial Reporting Manual.

ORR's aims and objectives

The aim of ORR is as follows:

> *"ORR applies independent, fair and effective regulation to enable the railway to be safe, well-maintained and efficient and to ensure that it provides value for money for users and for its funders."*

The following objectives support this aim:

1. Holding Network Rail to Account

   - To monitor Network Rail's performance in the delivery of a safe and sustainable network with improving performance and to intervene where required taking enforcement action which is focused, timely, proportionate and effective.

2. Setting Railway outputs and funding requirements

   - To carry out a periodic review of Network Rail's track access charges, reaching a determination which achieves an optimal and fair outcome from a whole industry perspective, ensuring that Network Rail receives the right financial incentives for it to deliver on its obligations to customers and funders.

3. Incentives, contracts and markets

   - To facilitate industry relationships through the effective use of incentives, markets and contracts and to align the delivery of rail services with the public interest through rail operators and Network Rail working in partnership.
   - To exercise its competition powers so that rail users benefit from competition in the rail industry and rail markets work effectively.
   - To inform and influence the effective development and application of EU rail policy.

4. Accountability of train operators and franchising

   - To engage actively with the Government, Network Rail and other stakeholders to support effective franchising through the alignment of Network Rail's development of route utilisation strategies, the Government's future franchising programme and the consideration of track access agreements, and through the development of an effective franchise arbiter role.
   - To provide, through the effective discharge of its licence functions, an efficient and flexible mechanism to protect the interests of railway users by ensuring that appropriate common industry agreements and standards are entered into and maintained.

5. Safety and Economic Regulation

- To manage the transfer of responsibility, and discharge of obligations for rail health and safety regulation from the Health and Safety Commission (HSC) and Executive effectively and efficiently, without compromising effective safety regulation or the exercise of ORR's existing regulatory functions.

- To maintain and develop effective health and safety regulation of the railway following the transfer of responsibility.

6. Governance, organisation and resourcing

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

Nature of ORR's functions

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

ORR is independent of, but works closely with, the Department for Transport, the Health and Safety Executive and the Rail Safety and Standards Board.

Accounting Boundary

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

Suppliers

ORR aims to pay all bills in accordance with agreed contractual conditions, or where no such conditions exist, within 30 days of receipt of goods and services or the presentation of a valid invoice, whichever is the latter. During the year 95% (2004-05: 95%) of invoices were paid within the target period.

Employees

Training and Development

During the year ORR continued to give high priority to training and development of all staff to enhance their skills and expertise in pursuit of ORR's objectives. Staff have personal development plans which are updated as part of the Performance and Development Review process. These facilitate focused training and development in achievement of individual and ORR objectives.

Employee Involvement

ORR attaches great importance to managing, developing and training its staff in accordance with best practice and has a staff consultative committee, The Staff Forum.

Health and Safety

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

Equal Opportunities

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

Auditors

ORR's accounts are audited by the Comptroller and Auditor General. The audit opinion and report of the Comptroller and Auditor General are included with the Statement of Accounts. The notional cost of providing external audit services was £32,000 (2004-05: £30,000). There was no auditor remuneration (actual or notional) for non-audit work. The Audit and Risk Assurance unit of the Department for Transport (DfT) provides an internal audit service to ORR, this cost £23,312 (2004-05: £21,219).

In so far as the Accounting Officer is aware, there is no relevant audit information of which ORR's auditors are unaware, and 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 ORR's auditors are aware of that information.

Management Commentary

Review of ORR's Activities

The ORR Annual Report 2005-06, which was published in May 2006, contains a full breakdown of the Office's outputs and its achievement against its objectives.

Principal among the activities were:

- continuing work to ensure the seamless transfer of responsibility for health and safety regulation to ORR;
- the creation of a new Directorate of Industry Monitoring and Analysis, within which ORR created a new monitoring team to ensure that monitoring is comprehensive, focused and proportionate;
- the commissioning of a study by independent reporters on Network Rail's underspend and whether this was due to efficiency or to a failure to spend the necessary funds. The report is published on the ORR website;
- the analysis of Network Rail's 2004-05 regulatory accounts and the review of the regulatory accounting guidelines to ensure they remain fit for purpose;
- consultation on proposals for revising the existing arrangements for land disposal by Network Rail;
- consultation on ORR's draft enforcement policy and penalties statement, setting out the general approach to licence enforcement and the levying of financial penalties;
- publication of the process and timetable for undertaking the periodic review 2008 and how the high level railway output specifications will feed into the review;
- publication of ORR's strategy on the information network to facilitate better industry decision-making and increased public accountability;
- abolition of the role of International Rail Regulator, with ORR adopting the role of regulatory body for international services;

- publication of a draft decision on additional passenger services on the East Coast Main Line;
- continuation of work on the reform of the Network Code; and
- introduction of new, simplified model licences and the updating of published guidance.

Financial Commentary

The following is a summary of the main financial information:

Operating costs summary	**2005-06**	**2004-05**
	£000	£000
Income		
Deferred income from prior year	1,447	239
Licence fees and miscellaneous income received	15,060	14,217
	16,507	14,456
Expenditure		
Administration costs	(12,927)	(13,010)
Administration costs – transition (note)	(1,841)	–
	(14,768)	(13,010)
Income deferred to following period	3,581	1,447
Net Operating Deficit	**(1,842)**	**(1)**

Note: The costs disclosed below were incurred in achieving the transfer of HSE Rail regulation to ORR during 2005-06:

	£000
Finance	56
Accommodation	1,010
Facilities	67
Information Systems	215
Communications	155
Human Resources	41
Transition Policy Costs - Safety Policy Contracts	42
Additional Safety Costs	255
	1,841

In the year £16.507 million was levied as licence fee income. Out of this £12.926 million was recognised as income to offset the expenditure of ORR in 2005-06, with the balance of £3.581 million being retained as deferred income. This will be used to reduce the licence fee income of Network Rail in 2006-07 in respect of regulation, or refunded to other operators.

In addition to the licence fees, public funds of £2.5 million were provided to meet the costs incurred by ORR for the work required to carry out the transfer of health and safety for the rail industry.

In the year total gross operating costs amounted to £14.768 million. This expenditure was made up of staff costs (2005-06: 53%, 2004-05: 51%), consultancy costs and the purchase of legal services (2005-06: 15%, 2004-05: 21%) with other non-pay related running costs making up the balance (2005-06: 32%, 2004-05: 28%).

Net resource outturn for the year of £1.842 million was lower than anticipated in Parliamentary Supply Estimates, primarily due to a reduced level of transitional costs being incurred.

Capital expenditure in the year relating to safety transition totalled £4.203 million, out of total capital expenditure of £4.403 million. The initial voted capital requirement was £0.5 million, but an additional in year allocation was sought from the Department for Transport of £4.3 million to meet the additional requirement of merging with HSE Rail. This leaves an underspend of £0.397 million which can be combined with the prior years' underspend of £0.433 million resulting in £0.830 million and utilised in future years through Treasury's End Year Flexibility Scheme.

The amount of resource allocated to each of ORR's main objectives is shown on the Statement of Operating Costs by Departmental Aim and Objectives on page 23. Expenditure against ORR's objectives identified in ORR's Business Plan 2005-08 was as follows:

	Corporate Budget	Actual	Variance
	£000	£000	£000
Holding Network Rail to Account	1,370	1,121	(249)
Setting Railway outputs and funding requirements	3,500	2,870	(630)
Incentives, contracts and markets	3,210	2,630	(580)
Accountability of train operators and franchising	1,950	1,594	(356)
Safety and Economic Regulation	2,900	1,938	(962)
Governance, organisation and resourcing	5,630	4,615	(1,015)
Contingency	440	–	(440)
	19,000	14,768	(4,232)

Across ORR, staff costs, legal consultancy and other consultancy costs have been significantly below budget, contributing to the £4.232 million overall variance. ORR has been running at 7% below budgeted headcount, accounting for a saving of £1.3 million. There has been a review of working practices to improve efficiency and effectiveness, in particular the use of consultants and external legal resources, which has resulted in lower costs across ORR and eliminated the need to utilise the contingency element in the budget. Despite this, ORR has delivered on its main priorities set down in the corporate strategy and business plan for 2005-06.

Going Concern

The balance sheet at 31 March 2006 shows a negative Taxpayers' Equity of £2.903 million. This reflects the inclusion of liabilities falling due in future years, including the repayment of excess cash to Treasury's Consolidated Fund. Any liabilities in excess of cash receivable in year will be financed mainly by drawings from the UK Consolidated Fund. Such drawings will be from grants of Supply approved annually by Parliament, to meet ORR's Net Cash Requirement. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than required for the service of the specified year or retained in excess of that needed. All unspent monies, including those derived from ORR's income, are surrenderable to the Fund.

In common with other government departments, the future financing of ORR's liabilities is accordingly to be met by future grants of Supply and the application of future income, both to be approved annually by Parliament. Such approval for amounts required for 2006-07 has already been given. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Financing and the impact on ORR's risk profile

ORR is self-financing, however 2005-06 was an exception since the cost of transition was funded by Parliamentary vote, rather than the licence fee payer. Funding is raised through licence fee income received during the year from train operating companies and the network infrastructure provider, and as such ORR normally has no net cash-funding requirement. However, due to timing differences between the receipt of licence fee income and expenditure, short-term borrowings are obtained from HM Treasury's Contingencies Fund and repaid within the year. None of these monies are invested. Consequently, ORR is not exposed to financial instruments, interest rate or liquidity risks, and its method of financing has no significant impact on the organisation's risk profile.

Funding arrangements will be revised from 2006-07 onwards. Licence fee income will continue to be received, alongside a new safety levy which will fund the Health and Safety responsibilities taken on from 1 April 2006.

ORR Board

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

During 2005-06, the Board was chaired by Chris Bolt and comprised a further five non-executive directors and one executive director (the Chief Executive). An additional executive director was appointed to the board on 20 March 2006. Its members were:

		Period of appointment
Chairman	Chris Bolt	5 July 2004 to 4 July 2009
Non-Executive Directors	Peter Bucks	5 July 2004 to 4 July 2008
	Jeffery Jowell QC	5 July 2004 to 4 July 2008
	Jane May	5 July 2004 to 4 July 2009
	Jim O'Sullivan	1 April 2005 to 31 March 2010
	Chris Stokes	5 July 2004 to 4 July 2006
Chief Executive*	Bill Emery	19 September 2005 to 18 September 2008
Executive Director	Michael Beswick	20 March 2006 to 19 March 2011

*Keith Webb was acting Chief Executive prior to the appointment of Bill Emery.

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

ORR publishes a register of Board interests on its website. The rules around Board conflicts are included in the Board's rules of procedure and these were reviewed during the year with final changes agreed in March 2006. At the start of each meeting Board members identify any potential conflicts and on the rare occasions where there is a clear or potential conflict the relevant member withdraws from the meeting during discussion of the item and this is recorded in the minutes.

Audit Committee

The Audit Committee is currently chaired by an independent member and also comprises three non-executive directors. Meetings are held at least four times a year and are always attended by: ORR's Chief Executive as the Accounting Officer, the Director of Corporate Services, the Head of Resources, the Head of Finance and representatives from the National Audit Office and ORR's internal audit service. Other ORR management attend at the request of the Committee.

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

Remuneration Committee

The Committee's role relates to the pay and performance of ORR senior civil service staff. Full details of the Committee's membership, role and senior staff salary and pension entitlements are given in the Remuneration Report on page 8.

Future Developments

Key focus areas for 2006-07 will include:

- Health and Safety regulation responsibilities – The Railways Act 2005 provided, *inter alia*, for ORR to take on the rail safety functions previously falling to HSE Rail. Accordingly, ORR has become a combined economic and safety regulator, with the intention of streamlining the regulatory system, reducing bureaucracy and ensuring that important issues of safety performance and cost are considered as a whole and not in isolation from one another;

- Preparatory work for Periodic Review 2008 – ORR is currently preparing for the Periodic Review 2008 and expects to issue its formal access charges review notice in early 2007. Key elements of the preparation phase are: consultation on the overall incentives framework; a review of Network Rail's cost submission; and development of the analytical framework and information to inform the review;

- Developing Network Rail / Industry relationships – ORR will be working with the industry on further development of the Network Code; dealing with access approvals and directions; effectively engaging with the Route Utilisation Strategy process; following up the investment framework so it delivers results; and encouraging innovative ways of improving performance, quality and efficiency at stations and depots.

Other Developments:

- In May 2006, GNER issued proceedings for judicial review against ORR in relation to its decision to award access rights to Grand Central Railway Company Limited to operate passenger train services in direct competition with GNER on the East Coast Main Line.

Sustainability Report

Environmental Policy

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

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

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

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

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

Bill Emery
Accounting Officer
26 June 2006

Remuneration Report

Remuneration Committee

The Remuneration Committee consists of non-executive members of the Board. It met twice during the year 2005-06 and was chaired by the Chairman of ORR, Chris Bolt. For the first meeting the members were Chris Bolt, Jeffrey Jowell and Chris Stokes. For the second meeting Peter Bucks was also appointed as Chris Stokes was unable to attend. Later in the year Chris Bolt stood down from the Committee, though no further meetings were held.

The Committee's role is to review the remuneration packages of ORR's senior civil servants; to keep under review the criteria for allocating individuals to performance tranches and awarding bonuses; to make recommendations to the Board on pay decisions for senior civil servants; and to recommend to the Board broad pay policy in relation to all aspects of executive remuneration and to monitor the operation of the pay system. ORR's 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.

The appointment of Board members is approved by the Secretary of State for Transport.

Service Contracts

Remuneration of senior civil servants is set out in their contracts and is subject to annual review in line with awards recommended by the Senior Salaries Review Body. The notice period for all senior members of ORR does not exceed six months.

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

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

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

Salary and Pension entitlements

The salary and pension entitlements in kind of the most senior managers of ORR during 2005-06 were as follows:

Remuneration

	2005-06 Salary	2005-06 Pension entitlement/ allowances	2004-05 Salary	2004-05 Pension entitlement/ allowances
	£000	£000	£000	£000
Bill Emery *Chief Executive* *(from 19 September 2005)*	75-80 *(140-145 full year equivalent)*	–	–	–
Keith Webb *Chief Executive* *(until 26 July 2005)*	75-80*	–	65-70 *(from 18 October 2004)*	–
John Thomas *Director, Regulatory Economics* *(from 4 April 2005)*	80-85	–	–	–
Juliet Lazarus *Director, Legal Services*	90-95	–	35-40 *(from 19 July 2004)*	–
Linda Williams *Director, HM Rail Inspectorate* *(from 26 September 2005)*	45-50 *(90-95 full year equivalent)*	–	–	–
Michael Beswick *Director, Rail Policy*	105-110	–	100-105	–
Michael Lee *Director, Industry, Monitoring & Analysis* *(from 27 September 2005)*	45-50 *(90-95 full year equivalent)*	–	–	–
Tim Martin *Director* *(until 31 August 2005)*	55-60	–	130-135	–
Rob Andrews *Director, Rail Safety* *(from 15 July 2005)*	70-75 *(95-100 full year equivalent)*	–	–	–
Sarah Straight *Director, Rail, Markets, Performance & Freight*	90-95	–	30-35 *(from 2 November 2004)*	–
Lynda Rollason *Director, Corporate Services*	100-105	–	35-40 *(from 2 November 2004)*	–

No member of the senior management team received benefits-in-kind.
* a payment of £304,000 was made as part of an early retirement package.

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

'Pension entitlement/allowances' relates to an allowance paid to senior staff who have chosen to take extra salary to invest in a pension scheme of their own choice rather than participate in a Civil Service pension.

Other Non-executive Directors received the following fees:

	2005-06	**2004-05**
	£	£
Chris Bolt	102,800	81,750
Peter Bucks	15,420	11,250
Jeffery Jowell QC	15,420	15,000
Jane May	15,420	15,000
Jim O'Sullivan	25,700	–
Chris Stokes	15,420	15,000

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

Pension Benefits	Accrued pension at age 60 as at 31/3/06 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31/3/06	CETV at 31/3/05 *(or at start date)*	Real increase in CETV	Employer contribution to partnership pension account
	£000	£000	£000	£000	£000	£000
Bill Emery (a) *Chief Executive (from 19 September 2005)*	40-45 plus lump sum 125-130	7.5-10 plus lump sum 6-7.5	878	773	46	–
Keith Webb (a) *Chief Executive (until 26 July 2005)*	75-80 plus lump sum 220-225	10-12.5 plus lump sum 22.5-25	1,566	1,271	199	–
John Thomas (b/c) *Director, Regulatory Economics (from 4 April 2005)*	5-10	0-2.5	69	37	15	–
Juliet Lazarus (c) *Director, Legal Services*	0-5	0-2.5	29	8	14	–
Linda Williams (a) *Director, HM Rail Inspectorate (from 26 September 2005)*	30-35 plus lump sum 90-95	12.5-15 plus lump sum 10-12.5	750	623	90	–
Michael Beswick (d) *Director, Rail Policy*	40-45 plus lump sum 35-40	0-2.5 plus lump sum 0-2.5	865	725	140	–
Michael Lee (d) *Director, Industry, Monitoring & Analysis (from 27 September 2005)*	45-50 plus lump sum 35-40	0-2.5* plus lump sum 0-2.5	810	788	22	–
Tim Martin (a) *Director (until 31 August 2005)*	20-25 plus lump sum 15-20	0-2.5 plus lump sum 0-2.5	107	88	11	–
Rob Andrews (a) *Director, Rail Safety (from 15 July 2005)*	25-30 plus lump sum 75-80	2-2.5 plus lump sum 5-7.5	452	351	39	–
Sarah Straight (a) *Director, Rail, Markets, Performance & Freight*	30-35 plus lump sum 90-100	7-7.5 plus lump sum 20-22.5	594	355	137	–
Lynda Rollason (a) *Director, Corporate Services*	5-10 plus lump sum 20-25	0-2.5 plus lump sum 2.5-5	111	68	20	–

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

Civil Service Pensions

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

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

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

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

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

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

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is 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 CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the CS Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Please note that the factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary. The CETV figure for 31 March 2005 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2006.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Bill Emery
Accounting Officer
26 June 2006

Statement of Accounting Officer's Responsibilities

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

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

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

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

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

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

Statement on Internal Control

Scope of responsibility

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

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

The purpose of the system of internal control

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

The system of internal control is an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in ORR for the year ended 31 March 2006 up to the date of the approval of the annual reports and accounts, and accords with Treasury guidance.

Capacity to handle risk

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

The ORR Board reviewed risk in August 2005 and March 2006. The Audit Committee continued to scrutinise the risk management framework and took formal papers on risk management in June, September and December 2005 and March 2006.

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

The risk and control framework

The risk management framework has been further developed over the course of the reporting year.

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

The Operational Level Risk Register remains the principal working level risk management tool and it marshals the risks facing ORR into four categories:

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

The Operational Level Risk Register was reviewed and updated following a meeting of all Directors and Deputy Directors held in December 2005.

In August 2005 the ORR Board concluded that a strategic risk register would allow it to add more value to the risk management process by focusing on the dozen or so high level risks facing the organisation. Following that decision a draft High Level Risk Register was developed with input from the Executive Directors and Deputy Directors. The draft High Level Risk Register was reviewed by the Audit Committee on 6 March 2006 and by the ORR Board on 20 March 2006.

In the context of the introduction of the High Level Risk Register, ORR's risk register format was further refined. In particular:

- the distinction between inherent and residual risk was made explicit on the face of the documentation
- the descriptors and scoring metrics for probability and business impact were further refined (and again made explicit on the face of the documentation)
- an assessment of the current risk score was added along with an indication of the direction in which that score had moved following the previous review.

A common format for the High Level and Operational Level Risk Register is being introduced.

Over the reporting period ORR has been working with colleagues from HSE Rail to achieve a closer alignment between the two organisations in terms of risk management. Risk Registers and risk management processes are being merged as appropriate following the transfer of responsibility for health and safety matters to ORR.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place. Executive Directors have provided a statement of assurance for their areas of responsibility at the end of the 2005-06 financial year.

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

- monthly Board and weekly directors' meetings to review strategic plans and to manage policy, resource and operational requirements;

- regular Audit Committee meetings, which include members independent of the Executive as well as internal and external auditors. These meetings provided informed advice on the adequacy of internal controls, corporate governance; risk management and audit arrangements;

- independent internal audit, provided by the Audit and Risk Assurance Division of the Department for Transport, which operates to standards defined in the Government Internal Audit Manual and reports to, and agrees forward plans with the Audit Committee;

- a team within Corporate Services Directorate dedicated to the development and implementation of corporate governance within the Office of Rail Regulation;

- a Budget Manager Training Manual, Procurement Manual and a Financial Procedures Manual;

- comprehensive budgeting systems with an annual budget which is reviewed and agreed by the Board, and with regular monthly and annual accounts with actual performance compared to budget;

- a dedicated monthly session at Directors Management Group to monitor and control budgets and overall financial performance on a monthly basis;

- consultations with industry stakeholders on the contents of the Corporate Strategy and draft budget and licence fees; and

- individual accountability plans for each staff member which align with ORR's Business Plan objectives through each directorate and ensure that its affairs are conducted with efficiency, economy and effectiveness.

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

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

Bill Emery
Accounting Officer
26 June 2006

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 2006 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and Auditor

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the Financial Statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 14 to 16 reflects the Department's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Introduction, Sustainability Report , the unaudited part of the Remuneration Report, and the Management Commentary. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

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

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

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2006 and the net cash requirement, net resource outturn, resources applied to objectives, recognised gains and losses and cashflows for the year then ended;

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

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

I have no observations to make on these financial statements.

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

3 July 2006

Statement of Parliamentary Supply

Summary of Resource Outturn 2005-06

Request for Resources	Estimate			Outturn			2005-06	2004-05 Outturn
	Gross Expenditure	A in A	Net Total	Gross Expenditure	A in A	Net Total	Net Total outturn compared with Estimate: saving/(excess)	Net Total
	£000	£000	£000	£000	£000	£000	£000	£000
To create a better railway for passengers and freight, and better value for public funding authorities, through independent, fair and effective regulation (Note 2)	16,501	(16,500)	1	12,927	(12,926)	1	–	1
Rail Safety Transition (Note 2)	2,500	–	2,500	1,841	–	1,841	659	–
Total resources (Note 3)	**19,001**	**(16,500)**	**2,501**	**14,768**	**(12,926)**	**1,842**	**659**	**1**
Non-operating cost A in A	–	–	–	–	–	–	–	–

Net cash requirement 2005-06

	Note	Estimate	Outturn	2005-06 £000 Net total outturn compared with estimate: saving/(excess)	2004-05 £000 Outturn
Net cash requirement	4	6,097	6,097	–	–

Summary of income payable to the Consolidated Fund.

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

	Note	Forecast 2005-06 £000 Income	Forecast 2005-06 £000 Receipts	Outturn 2005-06 £000 Income	Outturn 2005-06 £000 Receipts
Total	5	–	*204*	5,333	*5,333*

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

The notes on pages 24 to 38 form part of these accounts

Operating Cost Statement
for the year ended 31 March 2006

				2005-06	2004-05
		Staff Costs	Other Costs	Income	
	Note	£000	£000	£000	£000
Administration Costs:					
Staff Costs	7	7,909			6,611
Other administration costs	8		6,859		6,399
Operating income	9			(12,926)	(13,009)
Totals		7,909	6,859	(12,926)	1
Net Operating Cost	3			**1,842**	**1**

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

	2005-06	2004-05
	£000	£000
Net Operating Cost	(1,842)	(1)
Net gain on revaluation of tangible fixed assets	171	23
Actuarial gain/(loss) on by-analogy pension scheme	1	(1)
Overnight change in pension liability	(27)	–
Recognised gains and losses for the financial year	**(1,697)**	**21**

The notes on pages 24 to 38 form part of these accounts

Balance Sheet
as at 31 March 2006

	Note	2006 £000	2006 £000	2005 £000	2005 £000
Fixed assets:					
Tangible assets	10	4,199		785	
Intangible assets	11	110		22	
			4,309		**807**
Current assets:					
Debtors	12	444		739	
Cash at bank and in hand	13	5,333		1,930	
		5,777		2,669	
Creditors (amounts falling due within one year)	14	(11,994)		(4,295)	
Net current liabilities			**(6,217)**		**(1,626)**
Total assets less current liabilities			**(1,908)**		**(819)**
Provisions for liabilities and charges	15		(730)		(896)
Total net liabilities before pension provision			**(2,638)**		**(1,715)**
Pension liabilities	15		(265)		(196)
Total net liabilities			**(2,903)**		**(1,911)**
Taxpayers' equity:					
General fund	16		(3,087)		(1,934)
Revaluation reserve	17		184		23
			(2,903)		**(1,911)**

Bill Emery
Accounting Officer
26 June 2006

The notes on pages 24 to 38 form part of these accounts

Cash Flow Statement
for year ended 31 March 2006

		2005-06	2004-05
	Note	£000	£000
Net cash outflow from operating activities	18a	2,068	2,156
Capital expenditure and financial investment	18b	(2,832)	(226)
Payments of amounts due to the Consolidated Fund	18e	(1,930)	–
Financing	18d	6,097	(1,123)
Increase in cash in the period	18e	**3,403**	**807**

The notes on pages 24 to 38 form part of these accounts

Statement of Operating Costs by Departmental Aim and Objectives

for the year ended 31 March 2006

	2005-06			2004-05		
	£000	£000	£000	£000	£000	£000
	Gross	Income	Net	Gross	Income	Net
Aim: ORR applies independent, fair and effective regulation to enable the railway to be safe, well maintained and efficient and to ensure that it provides value for money for users and for its funders						
Objective 1 – Holding Network Rail to account	1,121	(1,121)	–	1,137	(1,137)	–
Objective 2 – Setting railway outputs and funding requirements	2,870	(2,870)	–	2,910	(2,910)	–
Objective 3 – Incentives, contracts and markets	2,630	(2,630)	–	2,667	(2,667)	–
Objective 4 – Accountability of train operators and franchising	1,594	(1,594)	–	1,616	(1,616)	–
Objective 5 – Safety and Economic regulation	1,938	(97)	1,841	–	–	–
Objective 6 – Governance, organisation and resourcing	4,615	(4,614)	1	4,680	(4,679)	1
Net operating costs	**14,768**	**(12,926)**	**1,842**	**13,010**	**(13,009)**	**1**

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

The notes on pages 24 to 38 form part of these accounts

Notes to the departmental resource accounts

1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2005-06 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

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

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

1.1 Accounting convention

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

1.2 Tangible Fixed Assets

These comprise fitting out costs; furniture, office and telecommunications equipments and computers. The minimum level for capitalisation of a tangible fixed asset is £500.

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

1.3 Depreciation

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

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

1.4 Intangible fixed assets

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

1.5 Operating income

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

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

1.6 Administration expenditure

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

1.7 Capital charge

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

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

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

1.8 Foreign exchange

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

1.9 Pensions

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

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

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

1.10 Operating Leases

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

1.11 Provisions

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

1.12 Value Added Tax (VAT)

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

1.13 Comparative amounts

Comparative amounts are restated where necessary to conform to current presentation.

1.14 Going Concern

The balance sheet at 31 March 2006 shows a negative Taxpayers' Equity of £2,903,000. This reflects the inclusion of liabilities falling due in 2006-07, including the repayment of excess cash to Treasury's Consolidated Fund. Any liabilities in excess of cash receivable in year are financed mainly by drawings from the UK Consolidated Fund. Such drawings are from grants of Supply approved annually by Parliament, to meet ORR's Net Cash Requirement. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than required for the service of the specified year or retained in excess of that needed. All unspent monies, including those derived from ORR's income, are surrenderable to the Fund.

In common with other government departments, the future financing of ORR's liabilities is accordingly to be met by future grants of Supply and the application of future income, both to be approved annually by Parliament. Such approval for amounts required for 2006-07 has already been given. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

1.15 Contingent Liabilities

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

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

1.16 Statement of Operating Costs by Departmental Aim and Objectives

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

2. Analysis of net resource outturn by function

	2005-06						2004-05
	Outturn				Estimate		
	Admin	Gross resource Expenditure	A in A	Net Total	Net Total	Net Total outturn compared with Estimate	Prior-year outturn
	£000	£000	£000	£000	£000	£000	£000
Request for resources 1: To create a better railway for passengers and freight, and better value for public funding authorities, through independent, fair and effective regulation	12,927	12,927	(12,926)	1	1	–	1
Rail Safety Transition	1,841	1,841	–	1,841	2,500	659	–
Resource Outturn	**14,768**	**14,768**	**(12,926)**	**1,842**	**2,501**	**659**	**1**

Explanations of variances between Estimate and outturn are given in the management commentary.

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

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

		2005-06			2004-05
		Outturn	Supply Estimate	Outturn compared with Estimate	Outturn
	Note	£000	£000	£000	£000
Net Resource Outturn	2	1,842	2,501	659	1
Net operating cost		1,842	2,501	659	1

3(b) Outturn against final Administration Budget

	2005-06		2004-05	
	Budget	Outturn	Budget	Outturn
	£000	£000	£000	£000
Gross Administration Budget	19,001	14,768	14,798	13,010
Income allowable against the Administration Budget	(16,500)	(12,926)	(14,797)	(13,009)
Net outturn against final Administration Budget	**2,501**	**1,842**	**1**	**1**

4. Reconciliation of resources to cash requirement

	Note	Estimate	Outturn	Net total outturn compared with estimate: saving/(excess)
		£000	£000	£000
Resource Outturn	2	2,501	1,842	659
Capital				
Acquisition of fixed assets	10, 11	4,800	4,403	397
Accruals adjustments				
Non-cash items (staff costs)	7	–	(32)	32
Non-cash items (other administration costs)	8	(1,210)	(1,173)	(37)
Changes in working capital other than cash		–	(4,588)	4,588
Use of provision	15	6	312	(306)
Excess cash receipts surrenderable to the Consolidated Fund	5	–	5,333	(5,333)
Net cash requirement		**6,097**	**6,097**	**–**

5. Analysis of income payable to the Consolidated Fund

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

	Forecast 2005-06		Outturn 2005-06	
	Income	Receipts	Income	Receipts
	£000	£000	£000	£000
Excess cash surrenderable to the Consolidated Fund	–	*204*	5,333	*5,333*
Total income payable to the Consolidated Fund	–	***204***	**5,333**	***5,333***

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

	Note	2005-06	2004-05
		£000	£000
Operating income	9	12,926	13,009
Income authorised to be appropriated-in-aid		12,926	13,009
Operating income payable to the Consolidated Fund		–	–

7. Staff numbers and related costs

Staff costs comprise:

	2005-06 Total	2005-06 Permanently employed staff	2005-06 Others	2004-05 Total
	£000	£000	£000	£000
Wages and salaries	**6,194**	5,776	418	5,312
Social security costs	**549**	536	13	488
Other pension costs	**1,134**	1,115	19	815
Sub Total	**7,877**	7,427	450	6,615
Less recoveries in respect of outward secondments	–	–	–	–
Total	**7,877**	7,427	450	6,615
Non cash items: By analogy pension current service costs	**32**	32	–	12
Total net costs*	**7,909**	**7,459**	**450**	**6,627**

*of the total no charge has been made to capital

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

Included in the figure for other pension costs are employers' contributions of £965,921 payable to the PCSPS (2004-05: £685,341) at one of four rates in the range 16.2 to 24.6 per cent (2004-05: 12 to 18.5 per cent) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The salary bands and contribution rates were revised for 2005-06 and will remain unchanged until 2008-09. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

The Railway Pension Scheme (RPS) is a funded multi-employer defined benefit scheme administered by Railway Pensions Management Limited. Details of the RPS pensions statements can be found in the Annual Report and Accounts of the RPS at (www.railwaypensions.co.uk). Employer contributions of £160,515 were paid to the trustees of the RPS in 2005-06 at a rate of 2.2825 times the individual member's contributions, on the basis of actuarial valuations (2004-05: £127,844). ORR matches some of the BRASS2 contributions (an AVC scheme) made by the members. In 2005-06, matching contributions of £2,300 were made (2004-05: £2,300). Notional contributions of £32,000 as advised by the Government Actuary have been charged to the Operating Cost Statement in 2005-06 in respect of the accrued pension costs for the current and past Rail Regulators. The liability at 31 March 2006 is estimated at £265,000.

Average number of persons employed

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

Objective	2005-06 Total	2005-06 Permanent staff	2005-06 Others	2004-05 Total
	Number	Number	Number	Number
Objective 1 – Holding Network Rail to account	**13**	13	–	**13**
Objective 2 – Setting railway outputs and funding requirements	**22**	22	–	**21**
Objective 3 – Incentives, contracts and markets	**27**	27	–	**26**
Objective 4 – Accountability of train operators and franchising	**25**	24	1	**23**
Objective 5 – Safety and Economic regulation	**7**	7	–	**–**
Objective 6 – Governance, organisation and resourcing	**47**	46	1	**45**
Total	**141**	139	2	**128**

8. Other Administration Costs

	2005-06	2004-05
	£000	£000
Rentals under operating leases		
Hire of Office Equipment	36	34
Other Operating Leases	994	713
	1,030	**747**
Non-cash items		
Depreciation	385	373
Amortisation	22	28
Loss on disposal of fixed assets	–	95
Cost of Capital Credits	(90)	(33)
Interest charges in respect of by-analogy pension scheme	13	11
Diminution in value of fixed assets	240	56
Impairment of fixed assets	425	–
Auditors' remuneration and expenses*	32	30
	1,027	**560**
Provisions:		
Provision for redundancy costs	–	513
Provision for dilapidations and other leasehold liabilities	138	192
Provision for rent increase	–	(75)
Provision for tax on benefits in kind	8	8
	146	**638**
Other		
Travel and subsistence	63	54
Hospitality	10	11
Consultancies	2,379	2,697
IT and Telecommunications	180	150
Landlord service charges and rates	629	396
Printing and stationery	178	259
Recruitment and training	365	259
Other	852	628
	4,656	**4,454**
	6,859	**6,399**

*There was no auditor remuneration for non-audit work

9. Income

		Note	2005-06	2004-05
			£000	£000
Licence fees	RfR1		15,012	14,208
Less: Deferred income	RfR1	14a	(2,134)	(1,208)
Miscellaneous income	RfR1		48	9
			12,926	**13,009**

10. Tangible fixed assets

	Fitting out costs	Furniture, Office Equipment and Telecoms	Information Technology	Assets under Construction	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 April 2005	869	657	731	21	2,278
Additions	2,634	614	1,023	–	4,271
Reclassifications	–	–	21	(21)	–
Revaluations	193	10	(218)	–	(15)
At 31 March 2006	**3,696**	**1,281**	**1,557**	**–**	**6,534**
Depreciation					
At 1 April 2005	547	463	483	–	1,493
Charged in year	195	61	129	–	385
Impairments	267	158	–	–	425
Revaluations	30	2	–	–	32
At 31 March 2006	**1,039**	**684**	**612**	**–**	**2,335**
Net book value at 31 March 2006	**2,657**	**597**	**945**	**–**	**4,199**
Net book value at 31 March 2005	**322**	**194**	**248**	**21**	**785**

11. Intangible fixed assets

Intangible fixed assets comprise software licences

	2005-06
	£000
Cost or valuation	
At 1 April 2005	245
Additions	132
Disposals: actual cost	–
Revaluation	(22)
At 31 March 2006	**355**
Amortisation	
At 1 April 2005	223
Charged in year	22
Disposals: depreciation on cost	–
At 31 March 2006	**245**
Net book value at 31 March 2006	**110**
Net book value at 31 March 2005	**22**

12. Debtors

12(a) Analysis by type

	2005-06	2004-05
	£000	£000
Amounts falling due within one year:		
Other debtors	55	–
Staff Debtors	59	53
Prepayments and accrued income	234	554
HM Revenue and Customs (VAT)	81	117
Payroll deposit account	15	15
Total debtors at 31 March	**444**	**739**

Staff debtors represent loans outstanding, of which £55,132 relates to season ticket loans for 49 employees (2004-05: £53,071 for 57 employees) and £500 relates to advances made to one employee (2004-05: £264 for three employees).

12(b) Intra-Government Balances

	Amounts falling due within one year	
	2005-06	2004-05
	£000	£000
Balances with other central government bodies	96	136
Balances with bodies external to government	348	603
Total debtors at 31 March	**444**	**739**

13. Cash at bank and in hand

	2005-06	2004-05
	£000	£000
Balance at 1 April	1,930	1,123
Net change in cash balances	3,403	807
Balance at 31 March	**5,333**	**1,930**
The following balances at 31 March were held at:		
Office of HM Paymaster General	5,266	1,829
Commercial banks and cash in hand	67	101
Balance at 31 March	**5,333**	**1,930**
The balance at 31 March comprises excess cash surrenderable to the Consolidated Fund	**5,333**	**1,930**

14. Creditors

14(a) Analysis by type

	2005-06		2004-05	
	£000	£000	£000	£000
Amounts falling due within one year				
Trade creditors		1,010		9
Other creditors		9		5
Receipt paid to ORR but due to SRA		–		84
Accruals		2,061		820
Deferred income – current year	2,134		1,208	
Deferred income – prior year	1,447		239	
		3,581		1,447
Excess cash surrenderable to the Consolidated Fund				
Received		5,333		1,930
Total creditors at 31 March		**11,994**		**4,295**

14(b) Intra-Government Balances

	Amounts falling due within one year	
	2005-06	**2004-05**
	£000	£000
Balances with other central government bodies	5,333	1,982
Balances with bodies external to government	6,661	2,313
Total creditors at 31 March	**11,994**	**4,295**

15. Provisions for liabilities and charges

	Early retirement	Dilapidations and redecoration on rented offices	Taxable benefits in kind	Total
	£000	£000	£000	£000
Balance at 1 April 2005	513	375	8	896
Provided in the year	–	138	8	146
Provisions not required written back	–	–	–	–
Provisions utilised in the year	(304)	–	(8)	(312)
Balance at 31 March 2006	**209**	**513**	**8**	**730**

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

ORR moved to new offices in March 2006 and assignment of the lease for the former head office was negotiated, with a completion date in 2006. This has resulted in the need for an increase in the provision of £138,000.

Details for by-analogy defined benefit pension schemes

	As at 31 March 2006	As at 31 March 2005
Class	£000	£000
Actives	51	11
Deferreds	108	88
Pensioners	106	97
Total Present Value of the Scheme Liabilities	265	196

	2005-06	2004-05
Liability calculation	£000	£000
Present value of scheme at 1 April	196	175
Current service cost (net of employee contribution)	32	12
Employee contribution	4	3
Interest costs	13	11
Actuarial (gains)/losses	(1)	1
Overnight increase in liabilities	27	–
Less: benefits paid	(6)	(6)
Balance at 31 March 2006	**265**	**196**

Former Rail Regulators and the current Chairman benefit from a defined benefit pension scheme by-analogy with the PCSPS. An actuarial valuation was carried out on the scheme by the Government Actuary's Department (GAD) at 31 March 2005. In 2005/06 ORR contributed £12,000 in respect of the active member, and £12,000 in respect of interest costs. GAD have advised that ORR contribution for 2006/07 should be estimated at 10.7% of gross salary of the active member.

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

	As at 31 March 2006	As at 31 March 2005
Relevant financial assumptions made by the actuary are as follows:	% per annum	% per annum
Inflation	2.5%	2.5%
Rate of increase in salaries	4.0%	4.0%
Rate of increase for pensions in payment and deferred pensions	2.5%	2.5%
Rate used to discount scheme liabilities	5.4%	6.1%

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

16. General Fund

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

	2005-06	2004-05
	£000	£000
Balance at 1 April	(1,934)	(19)
Net Parliamentary Funding		
Drawn Down	6,097	–
Year end adjustment		
Excess Vote – prior year	–	(3)
Net Transfer from Operating Activities		
Net Operating Cost	(1,842)	(1)
Excess cash surrenderable to the Consolidated Fund	(5,333)	(1,928)
Non Cash Charges		
Cost of Capital	(90)	(33)
Auditors' remuneration	32	30
Transfer from Revaluation Reserve	9	23
Gain/(Loss) relating to pension liabilities	1	(1)
Overnight increase in pension liabilities	(27)	–
Non operating income not appropriated in aid payable to the consolidated fund	–	(2)
Balance at 31 March	**(3,087)**	**(1,934)**

17. Revaluation Reserve

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

	2005-06	2004-05
	£000	£000
Balance at 1 April	23	23
Arising on revaluation during the year (net)	202	45
Transferred to General Fund in respect of realised element of the revaluation reserve	(9)	(6)
Transferred to General Fund in respect of realised element on disposals	–	(17)
Backlog depreciation	(32)	(22)
Balance at 31 March	**184**	**23**

18. Notes to the Cash Flow Statement

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

	Note	2005-06 £000	2004-05 £000
Net operating cost	3	1,842	1
Adjustments for non-cash transactions	7,8	(1,205)	(1,210)
Decrease in Debtors		(295)	(226)
Increase in Creditors		(2,722)	(735)
Use of provisions	15	312	14
Net cash outflow from operating activities		**(2,068)**	**(2,156)**

18(b) Analysis of capital expenditure and financial investment

	Note	2005-06 £000	2004-05 £000
Tangible fixed asset additions		2,700	218
Intangible fixed asset additions	11	132	10
Proceeds of disposal of fixed assets		–	(2)
Net cash outflow from investing activities		**2,832**	**226**

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

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

18(d) Analysis of financing

	Note	2005-06 £000	2004-05 £000
From the Consolidated Fund (Supply) - current year	16	6,097	–
Advances from the Contingencies Fund		8,000	8,000
Repayments to the Contingencies Fund		(8,000)	(8,000)
Net financing		**6,097**	**–**

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

	Note	2005-06 £000	2004-05 £000
Net cash requirement	4	(6,097)	–
From the Consolidated Fund (Supply) - current year	18(d)	6,097	–
Amounts due to the Consolidated Fund - received in a prior year and paid over		(1,930)	(1,123)
Amounts due to the Consolidated Fund received and not paid over		5,333	1,930
Increase in cash		**3,403**	**807**

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

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

	2005-06	2004-05
	£000	£000
		restated
Objective 1 – Holding Network Rail to account	1,121	1,137
Objective 2 – Setting railway outputs and funding requirements	2,870	2,910
Objective 3 – Incentives, contracts and markets	2,630	2,667
Objective 4 – Accountability of train operators and franchising	1,594	1,616
Objective 5 – Safety and Economic regulation	1,938	–
Objective 6 – Governance, organisation and resourcing	4,615	4,680
Total	**14,768**	**13,010**

ORR's objectives were revised for 2005-06 to reflect the changes described in the management commentary. Prior year figures have been restated and expenditure allocated in proportion to the number of staff working on each objective.

ORR's capital is employed exclusively for administrative purposes.

20. Capital commitments

There are no contracted commitments at 31 March 2006 and therefore no provision has been made (31 March 2005: nil).

21. Commitments under leases

21.1 Operating leases

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

	2005-06	2004-05
	£000	£000
Obligations under operating leases comprise:		
Land and buildings:		
Expiry within 1 year	177	–
Expiry after 1 year but not more than 5 years	–	713
Expiry thereafter	749	–
	926	713
Other:		
Expiry within one year	7	5
Expiry after 1 year but not more than 5 years	39	29
Expiry thereafter	–	–
	46	34

22. Other financial commitments

The department had not entered into any non-cancellable contracts (which are not operating leases) for any new capital expenditure as at 31 March 2006 (31 March 2005: nil).

23. Financial Instruments

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

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

Liquidity risk

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

Interest rates and foreign currency risks

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

Fair values

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

24. Contingent liabilities disclosed under FRS 12

There were no reportable contingent liabilities at 31 March 2006 (31 March 2005:nil).

25. Related Party Transactions

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

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

26. Post Balance Sheet Events

There have been no reportable post balance sheet events.

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