

# Main Estimates memorandum (2019-20) for the Office of Rail and Road

## 1 Overview

### 1.1 Objectives

The Office of Rail and Road (ORR) is a non-ministerial government department. Our core purpose is to protect the interests of rail and road users, improving the safety, value and performance of railways and roads today and in the future. Our four strategic objectives are:

- Health and safety
- Better rail customer service
- Value for money from the railway
- Better highways.

We work effectively with, but are independent of, government, the rail industry and other stakeholders within a legal framework determined by the UK government and the European Union.

### 1.2 Spending controls

ORR's net spending is broken down into several different spending totals, for which Parliament's approval is sought.

The spending totals which Parliament votes are:

- Resource Departmental Expenditure Limit ("**Resource DEL**") - a net limit comprising day-to-day running costs, less income mainly arising from the safety levy (charged to the rail industry), a licence fee (charged to Network Rail) and a grant provided by the Department for Transport for our highways monitor function. Our income covers our expenditure fully, therefore we have a token Vote.
- Capital Departmental Expenditure Limit ("**Capital DEL**"): - investment in capital equipment to support the running of our offices.

In addition, Parliament votes a net cash requirement, designed to cover the elements of the above budgets which require ORR to pay out cash in year.

### 1.3 Comparison of net spending totals sought

The table below shows how the net spending totals sought for ORR compare with last year:

Spending total Amounts sought this year (Main Estimate 2019-20)		Compared to final budget last year. (Supplementary Estimate 2018-19)		Compared to original budget last year (Main Estimate 2018-19)	
		£ m	%	£m	£ m
Resource DEL	£0.003m	£0.003m	0%	£0.003m	0%
Capital DEL	£6.320m	£0.720m	778%	£0.720m	778%

A breakdown of spending and income within the net total is shown in section 2.1.

#### 1.4 Key drivers of spending changes since last year

The net Resource DEL is unchanged from last year.

Within this, combined licence fee and safety levy income, and the gross expenditure this covers, are expected to rise by £3.6m from £30.3m to £33.9m (+12%). This is a result of one-off operating costs arising from relocating our London office in 2019-20 (£2.0m) and higher employer pension contributions effective from 1<sup>st</sup> April 2019 (£1.0m). Our relocation has been approved by the Government Property Agency and HM Treasury. The remaining £0.6m increase represents holding our core budget flat in real terms, as agreed in our spending settlement with HM Treasury. Further detail is given in section 2.1.

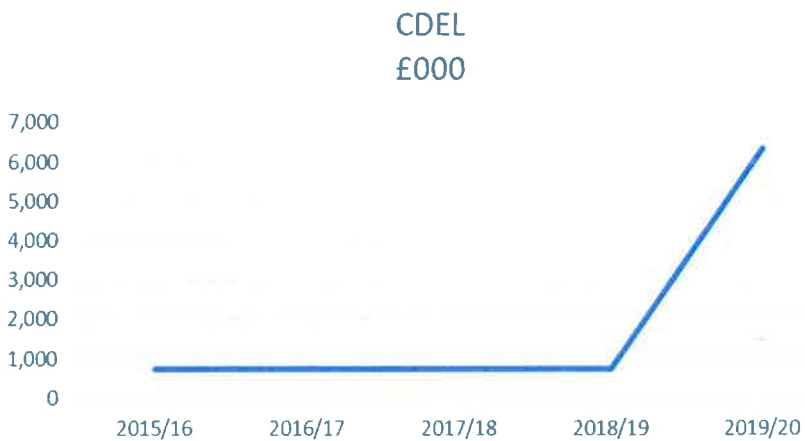
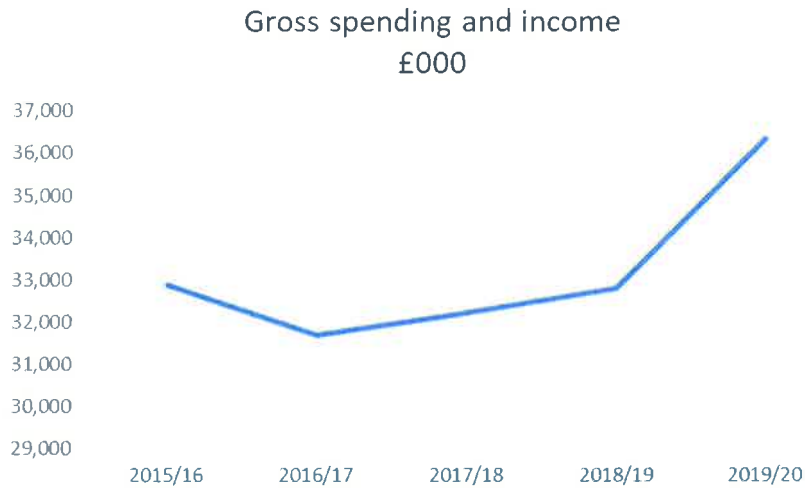
Capital DEL proposed is £5.6m (778%) more than last year. This increase is due to one-off fit out costs for our new London office.

#### 1.5 New policies and programmes; ambit changes

ORR has not been given any new responsibilities for 2019-20. There are no ambit changes.

#### 1.6 Spending and income trends

The charts below shows gross spending and income trends and CDEL as presented in Estimates for the last three years, plans presented in Estimates for 2018-19, and current future spending plans.



For gross spending, years 2015-16 to 2018-19 reflect our Spending Settlement agreed at SR15, which was to reduce our budget for rail by 4% in real terms in 2016-17, and hold it flat in real terms for the remaining spending review period. In 2019-20 spending increases as a result of our one-off office move costs (£2m) and increased employer pension contributions (£1m).

CDEL increases in 2019-20 to reflect the estimated £5.6m fit out costs for our new London office.

## 1.7 Administration costs and efficiency plans

All of ORR's costs are administration costs, which are set out at 1.6. ORR does not have an efficiency plan.

## 1.8 Funding: Spending Review and Budgets

ORR received no funding through the last Spending Review. Expenditure is funded largely from our three main income streams:

- a licence fee charged to Network Rail;
- a safety levy charged to the rail industry; and

- a grant from the Department for Transport to fund our highways monitor function.

Separately we cover our regulatory costs relating to Channel Tunnel, HS1 and Northern Ireland by charging Eurotunnel, HS1 Ltd and NIR Networks Ltd respectively.

## 1.9 Other funding announcements

No spending announcements relating to ORR were made during the year.

## 2 Spending and income detail

### 2.1 Explanations of changes in spending and income

#### Resource DEL

The table below shows how spending plans for Resource DEL compare with last year.

subhead	Resource	DEL		change from last year		is change significant? see explanation, note number
		<i>This year (2019-20 Main Estimates budget sought)</i>	<i>Last year (2018-19 Supp Estimates budget approved)</i>	£ million	%	
A	Economic regulation	9.5	8.9	0.6	6.7%	2
	Other admin costs	5.7	4.8	0.9	18.8%	1
	Gross expenditure	15.2	13.7	1.5	10.9%	
A	Economic-related income	-15.2	-13.7	1.5	10.9%	
A	Net expenditure	0.0	0.0	0.0	0.0%	
B	Safety regulation	11.8	10.8	1.0	9.3%	3
	Other admin costs	6.9	5.8	1.1	19.0%	1
	Gross expenditure	18.7	16.6	2.1	12.7%	
B	Safety-related income	-18.7	-16.6	2.1	12.7%	
B	Net expenditure	0.0	0.0	0.0	0.0%	
C	Other regulation	1.6	1.8	-0.2	-11.1%	
	Other admin costs	0.8	0.7	0.1	14.3%	1
	Gross expenditure	2.4	2.5	0.1	4.0%	
C	Income from other regulation	-2.4	-2.5	0.1	4.0%	
C	Net expenditure	0.0	0.0	0.0	0.0%	
	<b>Total gross expenditure</b>	<b>36.3</b>	<b>32.8</b>	<b>3.5</b>	<b>10.7%</b>	
	<b>Total gross income</b>	<b>-36.3</b>	<b>-32.8</b>	<b>3.5</b>	<b>10.7%</b>	
	<b>Total net expenditure</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0%</b>	

Note 1. Other administration costs are increasing mainly as a result of the one-off office move costs and increased pension costs for back office staff.

Note 2. Economic regulation costs are increasing partly as a result of higher pension costs for staff, and also because ORR is increasing resources devoted to Network Rail route monitoring and reporting.

Note 3. Safety regulation costs are increasing partly as a result of higher pension costs for staff, and also because ORR is increasing our asset management expertise and expertise in data analytics and cyber security.

		Capital		DEL		change from last year	is change significant? see explanation, note number
subhead		<i>This year (2019-20 Main Estimates budget sought)</i>	<i>Last year (2018-19 Supp Estimates budget approved)</i>	£ million	%		
A	Fit out costs	5.6	0.0	5.6	N/A	1	
	Capital for running of business	0.7	0.7	0.0	0.0%		
	Total capital expenditure	6.3	0.7	5.6	800%		

Note 1. Fit out costs for our London office move are expected to cost £5.6m.

## 2.2 Restructuring

Not applicable.

## 2.3 Ring fenced budgets

ORR does not have any ringfenced budgets. All of our costs are fully covered by income, so depreciation has no impact on RDEL.

## 2.4 Changes to contingent liabilities

There are no new contingent liabilities. There were no contingent liabilities in 2018-19.

### 3. Priorities and performance

#### 3.1 How spending relates to objectives

The table below shows how expenditure against each subhead contributes to corporate objectives:

Objective>>>>	1: health and safety	2: better rail customer service	3: value for money from the railway	4: better highways
Estimates subheads				
A Economic regulation		x	x	
B Safety regulation	x			
C Other regulation				x

#### 3.2 Measures of performance against each priority

Our strategic objectives and priorities are set out in our annual business plan (see [here](#)). In 2019-20 we are moving from six strategic objectives to four, following consultation with our Board. In the business plan we set out a number of key commitments under each of our strategic objectives. These are underpinned by a number of internal milestones, defined during the business planning round. These are reviewed on a monthly basis by the Executive. The Board reviews progress against business plan commitments quarterly. Our performance against each of our priorities is published in our annual report each year. Performance for 2017-18 is set out on pages 14 to 27 in our annual report [here](#). Information for 2018-19 will be published when the 2018-19 annual report is published.

#### 3.3 Commentary on steps being taken to address performance issues

No performance issues have been identified which require funding, however, we continue to invest in streamlining and simplifying our internal processes. In 2019-20 we will deliver a new online expenses system and an online performance management system, as well as continue to move IT services into the cloud. These have been funded from within our existing administration budget.

#### 3.4 Major projects

In Autumn 2019 we intend to relocate our London Office to 25 Cabot Square in Canary Wharf. The lease on our current premises ends in December 2019 and the landlord intends to redevelop the building. The annual running costs of our new building are expected to be close to those we pay for our current premises. HM Treasury has approved CDEL of £5.6m for the fit out in 2019-20, and an additional £2m of operating expenditure for the one off costs of the move such as dual rent (while the building is being fitted out) and relocation costs. The additional operating expenditure will be

funded by our usual industry funders via an increase to the safety levy and licence fee. CDEL will be funded initially by HM Treasury, but will be charged to our usual funders over time through depreciation. The fit out is due to start early in 2019-20.

## 4. Other information

### 4.1 Additional specific information required by the select committee

No additional information regarding ORR's spending has been requested by the Transport Select Committee.

## 5. Accounting Officer Approval

This memorandum has been prepared according to the requirements and guidance set out by HM Treasury and the House of Commons Scrutiny Unit, available on the Scrutiny Unit website.

The information in this Estimates Memorandum has been approved by myself as Accounting Officer.



John Larkinson

Accounting Officer

Office of Rail and Road

1 May 2019





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# Office of Rail and Road

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## Introduction

1. This Estimate provides for expenditure for the Office of Rail and Road (ORR).
2. ORR, as the combined economic and safety regulator, is responsible for railway health and safety matters and the regulation of access to railways and promotion of competition in the provision of rail services. It is also responsible for promoting efficiency and economy for those providing railway services and protecting the interests of railway service users.
3. ORR is responsible for monitoring Highways England's management and operation of the strategic road network.
4. ORR acts as the appeal body, controls the network statement, monitors the competitive situation of rail services, and oversees the efficient management and fair and non-discriminatory use of rail infrastructure for Northern Ireland.
5. Further details of expenditure contained in this Estimate can be found in ORR's Annual Report and Accounts 2018-19.

# Part I

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	Voted	Non-Voted	Total
<b>Departmental Expenditure Limit</b>			
Resource	3,000	-	3,000
Capital	6,320,000	-	6,320,000
<b>Annually Managed Expenditure</b>			
Resource	-	-	-
Capital	-	-	-
<b>Total Net Budget</b>			
Resource	3,000	-	3,000
Capital	6,320,000	-	6,320,000
<b>Non-Budget Expenditure</b>	-		
<b>Net cash requirement</b>	<b>7,600,000</b>		

Amounts required in the year ending 31 March 2020 for expenditure by Office of Rail and Road on:

## Departmental Expenditure Limit:

### Expenditure arising from:

Administration of ORR, its support establishments, all associates of non-cash items and all activities as the combined economic and safety regulator including health and safety matters, the regulation of access to railways, the promotion of rail services, efficiencies and economy for those providing railway services, protecting the interests of railway services and railway users, payment of the apprenticeship levy.

All activities as highways monitor with responsibility for monitoring and enforcing the performance and efficiency of Highways England's delivery of the government's roads investment strategy and its management and operation of the strategic road network. Support for activities as highways monitor.

Acting as the appeal body, controlling the network statement, monitoring the competitive situation of rail services, and overseeing the efficient management and fair and non-discriminatory use of rail infrastructure for Northern Ireland.

### Income arising from:

Regulatory licences, concession agreements, levies, charges for courses and officers loaned to other organisations, income from publications and library services, travel costs from the European Community, income from High Speed 1 Limited; Channel Tunnel Intergovernmental Commission; Channel Tunnel Authority; NIR Networks Limited, government grants.

Income from recovery actions in connection with the successful legal cases. Charges for rental, administrative and other services, and other activities to other government departments, executive and non-executive non-departmental public bodies. Overhead recharges.

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## Part I (continued)

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Grant funding from the Department for Transport in respect of the monitoring and enforcing the performance of Highways England including its delivery of the government's road investment strategy and its management and operation of the strategic road network.

**Office of Rail and Road** will account for this Estimate.

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	Voted Total	Allocated in Vote on Account	Balance to complete or surrender
<b>Departmental Expenditure Limit</b>			
Resource	3,000	1,000	<b>2,000</b>
Capital	6,320,000	5,524,000	<b>796,000</b>
<b>Annually Managed Expenditure</b>			
Resource	-	-	-
Capital	-	-	-
<b>Non-Budget Expenditure</b>	-	-	-
<b>Net cash requirement</b>	<b>7,600,000</b>	<b>6,100,000</b>	<b>1,500,000</b>

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## Part II: Resource to cash reconciliation

£'000

	2019-20 Plans	2018-19 Provisions	2017-18 Outturn
<b>Net Resource Requirement</b>	<b>3</b>	<b>3</b>	<b>4</b>
<b>Net Capital Requirement</b>	<b>6,320</b>	<b>720</b>	<b>536</b>
<b>Accruals to cash adjustments</b>	<b>1,277</b>	<b>1,277</b>	<b>-930</b>
<i>Of which:</i>			
<i>Adjustment for ALBs:</i>			
Remove voted resource and capital	-	-	-
Add cash grant-in-aid	-	-	-
<i>Adjustments to remove non-cash items:</i>			
Depreciation	-1,213	-961	-867
New provisions and adjustments to previous provisions	-40	-40	-27
Departmental Unallocated Provision	-	-	-
Supported capital expenditure (revenue)	-	-	-
Prior Period Adjustments	-	-	-
Other non-cash items	-36	-38	-36
<i>Adjustments to reflect movements in working balances:</i>			
Increase (+) / Decrease (-) in stock	-	-	-
Increase (+) / Decrease (-) in debtors	-	-	-
Increase (-) / Decrease (+) in creditors	2,566	2,316	-
Use of provisions	-	-	-
<b>Removal of non-voted budget items</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>Of which:</i>			
Consolidated Fund Standing Services	-	-	-
Other adjustments	-	-	-
<b>Net Cash Requirement</b>	<b>7,600</b>	<b>2,000</b>	<b>-390</b>

## Part III: Note A - Statement of Comprehensive Net Expenditure & Reconciliation Table

	£'000		
	2019-20 Plans	2018-19 Provisions	2017-18 Outturn
Gross Administration Costs	36,334	32,783	30,202
<i>Less:</i>			
Administration DEL Income	-36,331	-32,780	-30,198
<b>Net Administration Costs</b>	<b>3</b>	<b>3</b>	<b>4</b>
Gross Programme Costs	-	-	-
<i>Less:</i>			
Programme DEL Income	-	-	-
Programme AME Income	-	-	-
Non-budget income	-	-	-
<b>Net Programme Costs</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Net Operating Costs</b>	<b>3</b>	<b>3</b>	<b>4</b>
<i>Of which:</i>			
Resource DEL	3	3	4
Capital DEL	-	-	-
Resource AME	-	-	-
Capital AME	-	-	-
Non-budget	-	-	-
<i>Adjustments to include:</i>			
Departmental Unallocated Provision (resource)	-	-	-
Consolidated Fund Extra Receipts in the budget but not in the SoCNE	-	-	-
<i>Adjustments to remove:</i>			
Capital in the SoCNE	-	-	-
Grants to devolved administrations	-	-	-
Non-Budget Consolidated Fund Extra Receipts in the SoCNE	-	-	-
Other adjustments	-	-	-
<b>Total Resource Budget</b>	<b>3</b>	<b>3</b>	<b>4</b>
<i>Of which:</i>			
Resource DEL	3	3	4
Resource AME	-	-	-
<i>Adjustments to include:</i>			
Grants to devolved administrations	-	-	-
Prior period adjustments	-	-	-
<i>Adjustments to remove:</i>			
Consolidated Fund Extra Receipts in the resource budget	-	-	-
Other adjustments	-	-	-
<b>Total Resource (Estimate)</b>	<b>3</b>	<b>3</b>	<b>4</b>

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## Part III: Note B - Analysis of Departmental Income

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£'000

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	2019-20 Plans	2018-19 Provision	2017-18 Outturn
<b>Voted Resource DEL</b>	<b>-36,331</b>	<b>-32,780</b>	<b>-30,198</b>
<i>Of which:</i>			
Administration			
Other Income	-2,741	-2,782	-2,559
<i>Of which:</i>			
A Economic regulation, admin, associated capital and other expenditure	-176	-172	-163
B Safety Regulation, admin and other expenditure	-145	-137	-126
C Other Regulation, admin and other expenditure	-2,420	-2,473	-2,270
Taxation	-33,590	-29,998	-27,639
<i>Of which:</i>			
A Economic regulation, admin, associated capital and other expenditure	-15,041	-13,499	-12,514
B Safety Regulation, admin and other expenditure	-18,549	-16,499	-15,125
Total Administration	-36,331	-32,780	-30,198
<b>Total Voted Resource Income</b>	<b>-36,331</b>	<b>-32,780</b>	<b>-30,198</b>

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### **Part III: Note C - Analysis of Consolidated Fund Extra Receipts**

No CFER income or receipts are expected in 2019-20 or 2018-19. No CFER income or receipts were received in 2017-18.



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## Part III: Note D - Explanation of Accounting Officer responsibilities

The Accounting Officer prepares resource accounts for each financial year.

The following individuals are responsible for the expenditure within this Estimate:

**Accounting Officer:** John Larkinson

John Larkinson has personal responsibility for the proper presentation of the department's resource accounts and their transmission to the Comptroller & Auditor General, and is also responsible for the use of public money and stewardship of assets.

In discharging these responsibilities, particular regard is given to:

- observing any accounting and disclosure requirements (including any Accounts Direction) and applying suitable accounting policies on a consistent basis;
- making judgements and estimates on a reasonable basis;
- stating whether applicable accounting standards, as set out in the Financial Reporting Manual (FRM), or an organisation's version of it, have been followed, and explain any material departures in the accounts; and
- preparing the accounts on a going concern basis.

The responsibilities of an Accounting Officer, including responsibility for regularity and propriety of the public finances for which an Accounting Officer is answerable, for keeping proper records and safeguarding assets, are also set out in Chapter 3 of Managing Public Money.

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## Part III: Note L - International Subscriptions

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Section in Part II: Subhead Detail	Body	£'000
A, DEL	Lutherpendragon	6