

Main Estimates memorandum (2020-21) 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 2020-21)		Compared to final budget last year. (Supplementary Estimate 2019-20)		Compared to original budget last year (Main Estimate 2019-20)	
		£ m	%	£m	£ m
Resource DEL	£0.003m	£0.004m	-25%	£0.003m	0%
Capital DEL	£0.720m	£6.320m	-89%	£6.320m	-89%

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's main Estimate.

Within this, our total income, comprising mainly licence fee and safety levy income and grant funding from the Department of Transport, will stay the same as 2019-20 at £36.6m, as will the gross expenditure this covers. In 2019-20 we budgeted for £2.0m of one-off operating costs to fund our London office move. In 2020-21 we will continue to invest in economic and safety regulation generally, with specific focus on consumer and route-based regulation, and also in improving the quality of our IT service to the business and modernising end of life systems. The costs to do this are offset by the reduction in operating costs incurred on our office move in 2019-20.

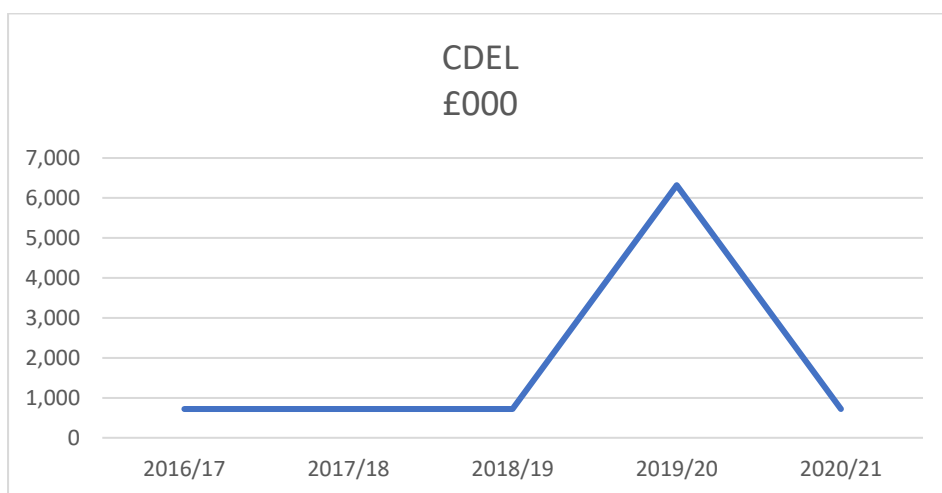
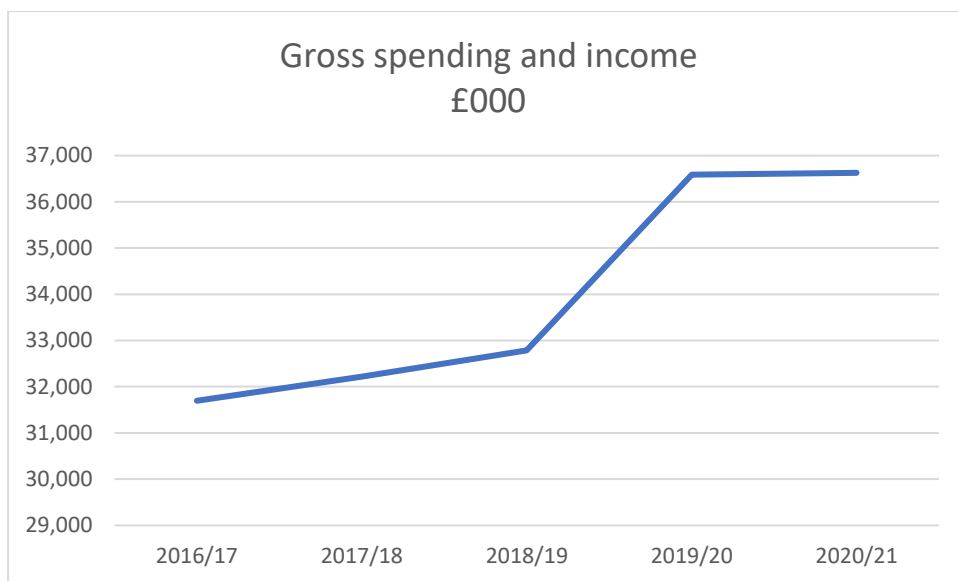
Capital DEL proposed is £5.6m (89%) less than last year. The higher figure in 2019-20 was due to one-off fit out costs for our new London office.

1.5 New policies and programmes; ambit changes

ORR has taken on new responsibilities for the economic and safety regulation of Core Valley's Lines for 2020-21. These responsibilities are reflected in the ambit.

1.6 Spending and income trends

The charts below show gross spending and income trends and CDEL as presented in Estimates for the last three years, plans presented in the Supplementary Estimates for 2019-20, and current future spending plans.



For gross spending, years 2016-17 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 increased as a result of our one-off office move costs (£2m) and increased employer pension contributions (£1m). In 2020-21 the £2m will instead be invested in economic and safety regulation and IT system improvements.

CDEL increased in 2019-20 to reflect the estimated £5.6m fit out costs for our new London office and has reverted back to £0.72m in 2020-21.

1.7 Administration costs and efficiency plans

All of ORR's costs are administration costs, which are set out at 1.6. ORR is not required to produce an efficiency plan. We are always looking for opportunities to improve the efficiency of our ways of working and operations. Generally any savings identified are reinvested elsewhere in the business to ensure that ORR has the greatest possible impact as a regulator.

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, Northern Ireland and Core Valley Lines by charging Eurotunnel, HS1 Ltd, NIR Networks Ltd and Amey Keolis Infrastructure/Selwaith Amey Keolis Limited, 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.

		Resource DEL				
		<i>This year (2020-21 Main Estimates budget sought)</i>	<i>Last year (2019-20 Supp Estimates budget approved)</i>	change from last year		is change significant?
subhead		£ million			%	see explanation, note number
A	Economic regulation	10.9	9.5	1.4	14.7%	1
	Other admin costs	4.8	5.7	-0.9	-15.8%	2
	Gross expenditure	15.7	15.2	0.5	3.3%	
A	Economic-related income	-15.7	-15.2	-0.5	3.3%	
A	Net expenditure	0.0	0.0	0.0	0.0%	
B	Safety regulation	12.8	11.9	0.9	7.6%	3
	Other admin costs	5.6	6.9	-1.3	-18.8%	2
	Gross expenditure	18.4	18.8	-0.4	-2.1%	
B	Safety-related income	-18.4	-18.8	0.4	-2.1%	

B	Net expenditure	0.0	0.0	0.0	0.0%	
C	Other regulation	1.7	1.8	-0.1	-0.6%	
	Other admin costs	0.8	0.8	0.0	0.0%	
	Gross expenditure	2.5	2.6	-0.1	-3.8%	
C	Income from other regulation	-2.5	-2.6	0.1	-3.8%	
C	Net expenditure	0.0	0.0	0.0	0.0%	
	Total gross expenditure	36.6	36.6	0.0	0.0%	
	Total gross income	-36.6	-36.6	0.0	0.0%	
	Total net expenditure	0.0	0.0	0.0	0.0%	

Note 1. Economic regulation costs are increasing due to more consultancy work planned for 2020-21, and also due to a restructuring of teams mentioned below in Note 2.

Note 2. Other administration costs are decreasing overall by £2.4m. £2.0m was included in 2019-20 for one-off office move costs in 2019-20. A restructuring of teams at the start of 2020-21 has meant that less costs are now classified within other administration costs and more in economic regulation (£1.0m). This is partly offset by higher investment in ORR's technology and systems in 2020-21 (£0.6m).

Note 3. Safety regulation costs are increasing due to more consultancy work planned in 2020-21 and more legal costs expected to be incurred.

		Capital					DEL	
		<i>This year (2020-21 Main Estimates budget sought)</i>	<i>Last year (2019-20 Supp Estimates budget approved)</i>	change from last year		is change significant?		
subhead		£ million			%	see explanation, note number		
A	Fit out costs	0.0	5.6	-5.6	N/A	1		
	Capital for running of business	0.7	0.7	0.0	0.0%			
	Total capital expenditure	0.7	6.3	-5.6	-88.9%			

Note 1. We incurred one-off fit out costs for our London office move in 2019-20.

2.2 Restructuring

Not applicable.

2.3 Ringfenced 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 2019-20.

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 will be set out in our annual business plan. Normally this is published in April, but ORR is reviewing priorities in light of the coronavirus pandemic, and this will be published later in the year. 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 2018-19 is set out on pages 14 to 28 in our annual report [here](#). Information for 2019-20 will be published when the 2019-20 annual report is published.

3.3 Commentary on steps being taken to address performance issues

No performance issues have been identified which require funding.

3.4 Major projects

We continue to invest in streamlining and simplifying our internal processes. In 2020-21 we will deliver a new integrated HR and finance system and will start to implement our technology strategy. These will be funded from within our existing administration budget.

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

21 April 2020