

FINANCIAL STATEMENTS

**FOR THE RAIL SAFETY AND
STANDARDS BOARD LIMITED**

YEAR ENDED 31 MARCH 2005

COMPANY NO. 04655675

RAIL SAFETY AND STANDARDS BOARD LIMITED

FINANCIAL STATEMENTS

For the year ended 31 March 2005

Company registration number: 04655675

Registered office: Evergreen House
160 Euston Road
London NW1 2DX

Directors: Lord Tunnicliffe (non-executive chairman)
Len Porter (chief executive)
Robert Andrews (non-executive)
Iain Coucher (non-executive)
Professor Tom Cox (non-executive)
Sir Frank Davies (non-executive)
Tim Gilbert (non-executive)
Anson Jack (executive)
Allen Johnson (non-executive)
Aidan Nelson (executive)
Dr John Penney (non-executive)
Richard Profit (non-executive)
Adrian Shooter (non-executive)

Secretary: John Bradley

Bankers: HSBC
100 Old Broad Street
London EC2N 1BG

Solicitors: Winckworth Sherwood
35 Great Peter Street
London SW1P 3LR

Auditors: Grant Thornton UK LLP
Registered Auditors
Chartered Accountants
Grant Thornton House
Melton Street
Euston Square
London NW1 2EP

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CHAIRMAN'S STATEMENT

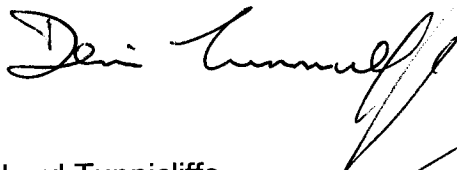
I am delighted to introduce Rail Safety and Standards Board (RSSB)'s Annual Report for the year to 31 March 2005.

It has been an important and transitional year for Britain's rail industry. The government's white paper, *The Future of Rail*, contained a range of measures designed to streamline industry structure and strengthen performance. Amongst other changes, this will see the Office of Rail Regulation (ORR) take on the additional role of safety regulation for the domestic mainline network, for all railways, not just those currently of interest to RSSB. At the same time, developments on the European stage have continued to pave the way towards greater harmonisation of railway systems (including safety requirements) across European Union (EU) member states.

Throughout this period of considerable change, RSSB has maintained its focus on 'business as usual', facilitating safety management at an industry level whilst providing services from which individual Members can draw to support their business activities. As this report will show, we have been involved in a range of diverse activities that underpin the operation of a safe, reliable, and affordable railway.

The importance of this work was recognised in the recent ORR-led review of our activities (published in February 2005), which endorsed RSSB's role at the heart of the industry's safety management process. We will continue to develop this role in line with Members' needs, a clear and close alignment that will be particularly important as we approach the transition to membership funding in April 2006.

We are also moving forward with the recommendations for change made by the ORR within its report, and we look forward to working with both the ORR and the Department for Transport (DfT) in their expanded industry roles. As ever, we could not fulfil our role without the ongoing support of our membership, which continues to grow. The way Members support us and take part in our activities contributes greatly to effective safety management across the industry.



Lord Tunnicliffe
15 June 2005

RAIL SAFETY AND STANDARDS BOARD LIMITED

REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements for the year ended 31 March 2005.

Principal activity

The principal activity of RSSB is to lead and facilitate the railway industry's work to achieve continuous improvement in the health and safety performance of the railways in Great Britain and thus to facilitate the reduction of risk to passengers, employees and the affected public so far as reasonably practicable, so aiding compliance by providers of railway services with their obligations under health and safety law.

It does this through a series of activities authorised by an agreement entered into with each of its Members. The main activities are set out under the business review heading below.

Business review

RSSB was incorporated on 4 February 2003 and became fully operational on 1 April 2003, implementing one of the core sets of recommendations from the second part of Lord Cullen's public inquiry into the Ladbroke Grove train accident.

The key elements of its remit are:

- To manage Railway Group Standards on behalf of the industry
- Lead UK rail industry formal inquiries to ensure safety lessons are learnt
- Lead the development of long-term safety strategy for the industry, and publication of an annual Strategic Safety Plan (SSP)
- Propose change through facilitation of the Research and Development programme (R&D)
- Measure, report and inform on health and safety performance, safety intelligence, trends, data and risk (via Safety Performance Report)
- Support cross-industry groups in national initiatives which address major areas of safety concern
- Facilitate the effective representation of the UK rail industry in the development of European legislation and standards that impact on the rail system
- Facilitate the running of System Interface Committees (SICs)

RSSB is a not-for-profit company and is not authorised to pay dividends. It is limited by guarantee and is governed by its Members, a Board (and committees thereof) and an Advisory Committee. It is independent of any single railway company and of their commercial interests.

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Until 2006 RSSB will be funded by the Strategic Rail Authority (SRA) through a route that involves train operators and Network Rail. From April 2006 RSSB will be funded by a levy on its Members. The budget for 2005/06 was approved by the Office of Rail Regulation (ORR) on 16 March 2005 at £37.7 million. (£24.7m for core operations including irrecoverable VAT and £13m for the R&D programme).

The ORR has approved funding of £32.9 million against this budget (£22.9m for core and £10m for Research) and RSSB will use £4.8m of the underspend for the balance (£3m for R&D and £1.8m for core). An additional £3m of the underspend will be used to set up a reserve for R&D.

White Paper: The Future of Rail

On 19 January 2004, the Secretary of State for Transport announced that his Department was to undertake a fundamental review of the rail industry. The review would consider the structural and organisational changes needed to enable the rail industry to deliver for its customers, as well as looking at the regulation of safety and the progress being made by the industry in improving performance and controlling costs.

The White Paper was published on 15 July 2004 and as a result RSSB and its industry members requested that the ORR should lead a review of the role and functions of RSSB.

The review involved a high level steering group chaired by the chairman of ORR, and a working group also chaired by ORR. Its aim was to address the concerns raised by the Government in "The Future of Rail" about industry safety leadership, and to ensure the arrangements were fit for purpose in the light of the changes in the rail industry environment.

It also reflected the other changes to the industry structure and working arrangements including: establishment of the Rail Accident Investigation Branch (RAIB); Network Rail replacing Railtrack and taking infrastructure maintenance activity "in-house"; the White Paper ("The Future of Rail") and subsequent legislative proposals; and implementation of the second EU railway package including the Railway Safety Directive (RSD).

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The review was published by the ORR in February 2005. The main conclusions were:

- 1 There remains a need for an industry body to carry out certain safety and standards related functions;
- 2 This body should be independent of any individual industry company or grouping;
- 3 The body's functions should include those activities
 - Which can only sensibly be done at the industry level;
 - Where there are significant benefits in having an industry body; and
 - Where industry or public credibility require a body independent of individual industry interests;
- 4 Whilst individual industry organisations must provide safety leadership within their own organisations, RSSB, through its role as an integral part of the industry's safety management processes, has a role in encouraging and facilitating effective safety leadership. Similarly, whilst most of the risks arising from railway activities, along with appropriate precautions, are generally well understood by duty holders, RSSB can assist them in continually reviewing risk, especially that arising at interfaces between duty holders, to ensure effective control and mitigation measures are in place;
- 5 It is now for the RSSB Board to review its activities against the principles set out in this report and produce a business plan to deliver them in an efficient way. This can build on the work already being done by RSSB but requires some further refocusing of RSSB's activities; and
- 6 The governance arrangements for RSSB should be reviewed by the RSSB Board, to ensure they are fit for the purpose of securing that RSSB is an organisation of the industry, but independent of any part of it, and credible with wider stakeholders and the public.

The Board has begun the process of reviewing the activities of the company and the governance arrangements and once this work is completed a three-year business plan will be produced and recommendations for changes to the governance arrangements will be consulted with the ORR and the company membership.

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The future of the R&D function

RSSB manages, on behalf of industry and government, a programme of industry-wide R&D. This programme was originally established for five years from 2001 to 2006.

Purpose and content of R&D

In addition to delivering, over the last few years, substantial value-adding research for use by industry and government, RSSB has recently conducted a review of the likely requirements for R&D in future. They are focused on the key deliverables that Government expects of the railway such as:

- Improving safety performance, reliability and punctuality
- Increasing the availability and capacity of the system
- Reducing costs
- Integrating all of these to compete effectively with other transport modes and deliver a sustainable future for the railway.

R&D will continue to make an essential contribution, by:

- Identifying problems and creating solutions
- Challenging current ways of doing things
- Identifying and spreading good practice
- Developing better processes and technology (modernisation)
- Prioritising initiatives by assessing costs and benefits
- Reducing the risks to delivery.

On the basis of this analysis, RSSB is working to broaden and deepen the content of the R&D programme in line with the needs of both industry and government.

Funding and governance of R&D

The R&D programme is funded by the Government for research into industry-wide and strategic issues.

The constitution of RSSB assumes that funding for most of its functions will be provided after 31 March 2006 through its Members. However it assumes that the R&D programme will continue to be funded centrally by government. The 'Review of RSSB' report published recently by ORR confirmed the need for R&D to be carried out by RSSB, with Government funding, and with Government and regulator as well as industry having a strong role in the client and governance arrangements.

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Securing the future of R&D

RSSB is in discussion with Government regarding the future content of the R&D programme, governance arrangements, and funding. It is particularly important, in terms of both efficiency and effectiveness of delivering R&D, that arrangements for continued funding of the programme beyond 31 March 2006 are put in place before the summer of 2005. The Board of RSSB is working with DfT and ORR, as well as SRA and HSE, to ensure that this happens.

The company has received assurance from the Department for Transport that it will fund the R&D programme through to March 2007.

Railway Group Standards

Leading standards for the industry

During 2004/05, RSSB continued to manage the Railway Group Standards (RGSs) that underpin safe working between Railway Group Members (RGMs) across the domestic rail network. In parallel, however, it worked with the industry to confirm and revise the future range and scope of those RGSs, to enable Members to take on more direct responsibility for standards and to facilitate convergence with the Technical Specifications for Interoperability (TSIs) emerging from Europe.

Developing the industry strategy for standards

The industry strategy for standards, published in November 2004, forms the blueprint for the future of standards across the domestic network. It followed a major review, which was led and project-managed by RSSB but driven at all stages by cross-industry steering and working groups.

The strategy represents a significant shift in the way that standards are to be managed, as it outlines plans to give Members much more direct control over their own activities. Mandatory standards will only apply to activities in which two or more duty holders are involved, and that other safety measures (those that fall within the day-to-day responsibility of individual duty holders) should be addressed within company safety plans. This new approach is expected broadly to reduce the number of RGSs by up to 50%, with other measures transferring to the responsibility of duty holders, becoming voluntary standards or being withdrawn altogether.

The remaining RGSs will focus only on the interfaces between duty holders. They will also be grouped together in single documents aligned with TSI categories: Operations, Rolling Stock, Infrastructure, Energy, Command Control and Signalling and Telematics. These common European standards will eventually govern the main railway interfaces in all EU member states. However, there will always be a number of interface standards

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that remain, such as those interfaces associated with DC Electrification, and the foreseeable future standards for these will continue to be produced on a national basis.

These changes in the strategy are designed to simplify the domestic standards regime. They also mean that, over time, the role that RGSs play in the management of safety across the domestic network will be reduced, which much of their scope being passed to individual duty holders or replaced by TSIs.

RSSB is currently managing the implementation of the strategy in line with Members' needs.

Aligning Subject Committees with TSIs

Subject Committees, the groups of industry representatives that make decisions on RGSs, have also been reviewed and aligned with the core categories of TSI. With effect from 1 February 2005, they have been renamed as follows:

- Infrastructure (INS) (previously the 'Track and Structures' committee) – addressing all measures within the scope of Infrastructure, Safety in Rail Tunnels and Reduced Mobility TSIs
- Traffic Operations and Management (TOM) (previously the 'Operations Standards' committee) – addressing all measures within the scope of Traffic Operations and Management TSIs
- Control Command and Signalling (CCS) (previously the 'Train Control and Communications' committee) – addressing all measures within the scope of Control Command and Signalling, and Telematics, TSIs
- Energy (ENE) (previously the 'Electrification' committee) – addressing all measures within the scope of Energy TSIs
- Rolling Stock (RST) (previously the 'Traction and Rolling Stock' committee) – addressing all measures within the scope of Rolling Stock TSIs
- Plant (PLT) (name retained and scope unchanged)

Subject Committees are currently involved in assessing the changes outlined in the industry strategy for standards, considering which measures should be retained as RGSs, transferred to duty holder responsibility or withdrawn altogether. The Standards Co-ordination Committee (SCC) is overseeing this process.

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Re-structuring RSSB's Standards Directorate

To help support the delivery of the industry strategy for standards, and to facilitate further integration between the domestic and European standards regimes, RSSB also reviewed the structure of its Standard Directorate during the year.

It has subsequently reorganised and aligned its activities with the core categories of TSI. The directorate's new structure, which came into effect on 4 April 2005, will also facilitate closer working relationships between Subject Committees, System Interface Committees (SICs) and Mirror Groups for TSIs, as the same RSSB personnel will provide support for each of these groups.

Challenges to current domestic standards

Industry stakeholders can propose changes to standards in a number of ways, and appeals against decisions taken by RSSB can be made through the procedure laid out in the Railway Group Standards Code (RGSC).

For the year 2004/05, there were 92 proposals for standards change, of which 67 came from outside RSSB.

Other items arising during the year

Charitable donations made by RSSB during the period totalled £2,360 through the matched fundraising scheme, which allows money raised by staff for a registered charity through sponsored or fundraising events and activities to be matched by the company. This scheme aims to support staff in their charitable work and is subject to funds being available from a designated budget.

Result for the year

The directors consider both the result for the year and the year-end financial position to be satisfactory.

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Directors

The membership of the Board is set out below.

Lord Tunncliffe is RSSB's non-executive chairman.

The executive directors are:

- Len Porter, chief executive
- Aidan Nelson, director, Policy & Strategic Initiatives
- Anson Jack, director, Standards (appointed 14 July 2004)

RSSB's industry nominated non-executive directors are:

- Tim Gilbert, engineering director of Porterbrook Leasing Company Limited *
- Allen Johnson, chief operating officer of English, Welsh and Scottish Railway Limited *
- Iain Coucher, deputy chief executive of Network Rail (appointed 30 November 2004)
- Dr John Penney, independent railway consultant *
- Adrian Shooter, chairman of Chiltern Railways Company Limited *
- Robert Andrews, director of safety development, Strategic Rail Authority (appointed 4 April 2005)

RSSB's independent non-executive directors are:

- Professor Tom Cox, professor of organisational psychology at the University of Nottingham (current appointment expires 31 March 2007)
- Sir Frank Davies, former chairman, Health and Safety Commission (appointment expired 31 March 2005, reappointed until 31 March 2006)
- Richard Profit, former group director of Safety Regulation for the Civil Aviation Authority (current appointment expires 31 March 2007)

* First industry directors whose current term of appointment will expire under the articles of association after three years, on 31 March 2006.

