



OFFICE OF RAIL AND ROAD

# Annual report and accounts 2016-17

June 2017



# Office of Rail and Road

## Annual report and accounts 2016-17

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Accounts presented to the House of Lords by Command of Her Majesty

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This is part of a series of departmental publications which, along with the Main Estimates 2017-18 and the document Public Expenditure: Statistical Analyses 2017 present the Government's outturn for 2016-17 and planned expenditure for 2017-18.



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Photo: HS1 QE2 Bridge 1 – Southeastern Javelin. Taken by Primary Image.

## **Section A: Performance Report**

## Overview

The purpose of the overview section is to give a user of the accounts a short summary that provides them with sufficient information to understand the Office of Rail and Road, its purpose, the key risks to the achievement of our objectives, and how we have performed in the year.

## Foreword

Our rail and road networks exist for the benefit of those who use them: rail passengers, freight customers and road users. In turn this benefit feeds through into wider society by contributing to productivity and economic growth. The rail and road networks are monopolies. Our role at the Office of Rail and Road (ORR) is to protect the interests of the users of these networks and their funders, including the health and safety of those who interact with, or work on the railway.

This year the safety record on our mainline railway network remains good when compared to others around the world. However, the fatal incident on the tram network at Croydon was the most serious that we have seen in many years. ORR inspectors are investigating, alongside counterparts from the Rail Accident Investigation Branch (RAIB) and the British Transport Police.

This type of investigation is one part of the work which our inspectors carry out. They are also out on the rail network proactively inspecting all year round, supporting the industry in its efforts to reduce risk. We continue to promote a risk-based approach, and our publication in January of goal-setting principles for health and safety reflects this.

We have continued to monitor and transparently report on the service which rail users receive from Network Rail (in our six monthly *Network Rail Monitor* publication) and train operators (in our annual *Measuring Up* publication). For some passengers the service they have received over the year has been poor and this has been reflected in declining passenger satisfaction.

Building on the core data which underpins our annual monitoring of train operators, we have carried out research in key areas that especially matter to passengers. This year that has included research into: Ticket Vending Machines; passenger satisfaction with the way their complaints are handled; and the ease with which passengers are able to claim compensation for delay. This research forms the evidence base which we use to report on train operator performance.

We also hold Network Rail to account more generally. Where we have identified concerns with Network Rail's delivery, for example, in relation to performance and asset management, we have sought credible plans from the company setting out how it is resolving these issues. Where concerns remain, we have and will take appropriate enforcement action.

We have made good progress on preparing for Network Rail's next 5-year funding period, from 2019 to 2024, through our PR18 programme. Network Rail is changing the way it operates, devolving responsibility to its route businesses together with an overarching network system operator. We strongly support this and are evolving the way we regulate so that the benefits that arise from the new structure can be passed on to customers and



funders. This year we have created virtual route teams within ORR, which will engage with Network Rail's routes throughout PR18 and beyond.

It is our second year as the independent monitor of Highways England. We published our initial assessment of its performance in June 2016 and an interim update in February 2017. Since then, we have continued to develop our approach to benchmarking and performance measurement and have set out our approach for contributing to the government's next Road Investment Strategy which will take effect in 2020.

Taken together with the many other activities that ORR carries out including the promotion of health in the workforce, the production of statistics, the approval of access to the network, the authorisation of new rail vehicles and infrastructure, and our regulatory role in relation to other rail networks such as HS1 and the Channel Tunnel, this represents a substantial body of work.

To carry this out we rely upon the capability, knowledge and integrity of our staff. Our commitment to their development is vital if we are to continue to protect the interests of rail and road users in a complex and changing environment. This year we launched a new Senior Leadership Programme to develop the leadership skills of our senior leaders, which builds on existing learning and development opportunities for the organisation as a whole.

In February, I was appointed as Chief Executive on a permanent basis, having carried out the role on an interim basis since January 2016. I have been, and continue to be, extremely well supported by my ORR colleagues. I am grateful for their support.

There is more for ORR to do in evolving its regulation to support a successful rail and road industry. As we do this we will make sure we continue to listen to rail passengers, freight customers, road users and their representatives, as well as the industries we regulate and governments.

A handwritten signature in black ink that reads "Joanna Whittington". The signature is written in a cursive, flowing style.

**Joanna Whittington**

Chief Executive and Accounting Officer

## Chair's Report

In the last annual report I noted that uncertainties about ORR's future had been resolved following a number of reviews. This report records a year of consolidation and progress, and one in which we have welcomed three Non-Executive Directors and two Executive Directors to the Board.

We now issue our main publications during an established period in early summer. This included our reports on performance of Network Rail and Highways England. That has been material in regularising our relationships with these bodies and with governments whilst preserving our independence and transparency to Parliament, to users, and the public.

The able and loyal ORR staff have been crucial in achieving these improved relationships and seeing us past a difficult period. The Board has every confidence in the staff and we are grateful.

The Board holds responsibility for ensuring that the ORR fulfils its overall function of protecting the interests of rail and road users. The role of the Board is to provide strategic direction to the Executive, operating within the context of a statutory framework, and to hold the Executive to account for its delivery.

In addition to having the right people, we need appropriate governance arrangements in place. We have a structure of sub-committees to advise the Board and benefit from Board members' expertise in detail. This year we have refreshed our governance. Further detail is set out in the Governance Statement on page 48.

Finally, it is important that the Board continually understands the broader industry context. To do this, we integrate a number of site visits and stakeholder events into our annual programme, as well as regularly inviting in industry leaders to address the Board and its committees. This year we included Scotland and Wales in this programme. External engagement overall will be particularly important as we progress the periodic review of Network Rail, and help to develop the second Road Investment Strategy.



**Stephen Glaister**

Chair

# OUR STRATEGIC OBJECTIVES

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**A SAFER  
RAILWAY**

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**BETTER  
CUSTOMER  
SERVICE**

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**VALUE FOR  
MONEY FROM  
THE RAILWAY**

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**BETTER  
HIGHWAYS**

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**PROMOTING A DYNAMIC  
AND COMMERCIALY  
SUSTAINABLE RAIL SECTOR**

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**HIGH PERFORMING  
REGULATION**

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# Principal risks and uncertainties

We protect the interests of train passengers, freight customers and road users. Our job is to monitor that the rail network delivers a safe and reliable service and that people are confident that they can enjoy predictable journeys on safe, good quality roads.

The table below highlights some of the key issues and risks that could affect ORR in delivering its strategic objectives. Further information about ORR's risk management strategy can be found on page 53.

## Strategic risks

### Strategic risk 1: A safer railway

Britain has one of the safest railway networks in Europe. However, there is an inherent risk that the industry may become complacent and that health and safety will be taken for granted leading to increasing incidence of poor health and safety practices. In addition, the growth in use of the network adds to the challenges of managing health and safety.

**Mitigation:** We continue to strive to ensure that health and safety excellence is culturally embedded in the industry and that there is appropriate identification and management of risk, aiming at zero harm to the workforce, passengers or others.

We continue to undertake inspections of the management systems that secure the safety of the track and train; to ensure compliance with regulations; and to promote good practice.

We continue to highlight the importance of occupational health to the industry and have published our occupational health programme for the industry, aligned with that of the Rail Safety and Standards Board (RSSB).

We use our health and safety assurance model (RM-3) to encourage improvement in health and safety management towards excellence.

### Strategic risk 2: Better customer service

There is a risk that the rail industry does not: deliver timely and accurate information to passengers; ensure that staff provide appropriate assistance to enable passengers with a disability to confidently complete their journey; enable appropriate and timely resolution of passengers complaints, or recognise and comply with relevant requirements in general consumer law.

**Mitigation:** We continue to strengthen our focus on outcomes for passengers through the collection of relevant data, consumer insight and bespoke research to provide evidence of where policy may not be working in practice.

We use a variety of tools to highlight and escalate concerns to Network Rail and train operators to ensure regulatory compliance and promote good practice across the industry.

We regularly engage the industry in discussion to ensure that regulatory requirements are clear; to highlight key areas where improvements in customer service are required; and to facilitate and encourage such improvements where these can be best delivered on a cross-industry basis.

### Strategic risk 3: Value for money from the railway

There is a risk that Network Rail does not sufficiently understand the work it needs to do to maintain and renew the railway, or is inefficient in delivering the work.

**Mitigation:** We monitor and hold Network Rail to account for:

- improving its data quality, to ensure it is fit for purpose and provides a robust evidence base for making decisions;
- improving its asset management capability, so that it plans and delivers the optimum work to sustain the network, and understands its costs and the drivers of cost; and
- its financial performance, taking into account how much of the work it planned to do has been delivered.

### Strategic risk 4: Better highways

There is a risk that Highways England does not have robust plans to deliver its performance and investment requirements.

**Mitigation:** We work with Highways England to ensure it delivers improved assurance for its reporting and delivery.

There is a risk that Highways England lacks data or has data of insufficient quality to manage its network and assure delivery of the Road Investment Strategy (RIS).

We will continue to assess Highways England's performance against the requirements set out in the first RIS. Our work with the company and the Department for Transport (DfT) to develop the second RIS will increase substantially over the next year as we assess whether the plans for the second five-year road period are sufficiently challenging and sustainable.

We will continue to champion transparency within the sector by publishing relevant data on a timely basis and encouraging Highways England to do the same.

## Strategic risk 5: Promoting a dynamic and commercially sustainable rail sector

There are risks that the existing network capacity is not used effectively and/or investment decisions are not based on the best information; and that there is relatively weak on-rail competition for passengers in many rail markets.

**Mitigation:** PR18 includes reforms to improve the regulation of the 'national system operator' and to support changes made by Network Rail to improve the effectiveness of these functions. This should improve the accuracy and effectiveness of Network Rail's timetabling, capacity analysis and planning functions.

ORR continues its work to reform the structure of charges and is working closely to support the DfT's work to implement a Public Service Obligation levy. This should mitigate some of the factors that reduce the role that open-access can play in delivering services. In addition, ORR continues to develop its competition oversight and ongoing monitoring of competition between larger incumbents and open access operators.

## Strategic risk 6: High performing regulation

In common with other public bodies there is an inherent risk that ORR is not seen to perform its required functions effectively, or demonstrate that it supports positive outcomes for customers, public and taxpayers.

**Mitigation:** We have focused on strong stakeholder engagement in the development of ORR's business plan priorities and in major pieces of work such as the development of PR18 and oversight of Highways England.

ORR has gathered broad support from stakeholders in industry and government in the development of its regulatory approach to the networks that it oversees, with a consensus that there continues to be a need for an effective independent regulator.

We continue to benchmark our approach against other regulated sectors, and seek to apply best practice in the use of risk-based regulation and impact assessments.

## Operational risks

### Operational risk 1: IT transition

ORR is undertaking an IT transition and transformation programme in the first half of 2017-18. We are transitioning our applications into cloud services wherever possible, in line with the Government Digital Service's direction. There are risks when carrying out any IT transition programme in respect of maintaining service levels and ensuring smooth continuity of service as migration happens.

**Mitigation:** We have enhanced our internal IT team, and brought in additional resources with specialist skillsets to support delivery. We are engaging with Crown Commercial Services to support our procurements and take advice and guidance from them. We have a staged migration plan for our applications to reduce any potential disruption to the business, and have representatives across the business supporting the transition.

### Operational risk 2: Staff retention and recruitment

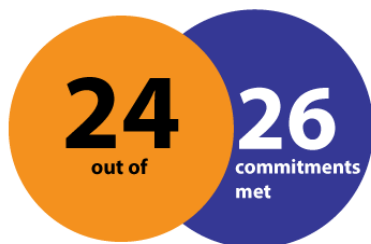
We require high-calibre staff, in many cases with scarce specialist skills, in order to carry out our functions effectively, and fulfil our strategic objectives. There is a risk that any difficulty retaining and recruiting the staff resources we need may impact on our ability to carry out our responsibilities in the most effective and efficient way. We currently face strong competition from other departments and companies in specialist areas.

**Mitigation:** During 2016-17 we introduced and embedded a new competency framework which identifies the capabilities we need and defines potential career paths for all staff. We continue to make the best use of pay flexibilities available, in consultation with our staff representatives, to engage and motivate staff. We are continuing to invest in and improve our technology to enable staff to work in the most effective and flexible manner. However, there are limits to how far this risk can be mitigated within the current parameters of public pay policy.

## **Performance analysis**



## Performance review



We started 2016-17 with 26 published commitments in our business plan. We have met 24 of them. The work we have done in the year to meet these commitments is set out in each of the 'strategic objective' chapters on pages 19 to 34.

Of the two commitments we have not met this year, one has been met since 31 March 2017 (in relation to improving our published strategic risk chapters), and the other (relating to following up our initial report on the roads supply chain) has been re-scheduled to 2017-18 as a result of external factors.

In addition to our published commitments we have delivered the following unplanned and re-prioritised work in 2016-17:

- An initial review of the regulatory and policy framework covering the tram sector, following the Croydon tram derailment.
- Developed a set of principles for continuous improvement for all train operators when driver controlled operation of passenger trains is in operation.
- Published an update report on Highways England's capital planning and asset management.
- Implemented a new structure of virtual route teams to facilitate route-based regulation.
- Facilitated trilateral discussions between Heathrow Airport Limited and Transport for London in relation to access conditions for the Heathrow Spur, with input from DfT and MTR Crossrail.
- Defended the judicial review application brought by Heathrow Airport Limited in relation to our charging framework decision made in May 2016.
- Provided support to Transport for Wales on refranchising.
- Carried out an investigation into Highways England's management of network condition.

## Delivery of service standards

Much of ORR's 'business as usual' involves providing services to those in the industry or others with an interest in our work.

As an organisation that is largely funded, directly or indirectly, by the public it is essential that we publish service standards as part of our commitment to transparency.

2016-17 was the third year in which we published a commitment to meet certain service standards levels.

Provision	Standard	%
Issue new or revised train driver licences	100% of applications processed within one month of receipt of all necessary documentation	98% <sup>1</sup>
ROGS safety certificates and authorisations	100% determined within four months of receiving completed application	100%
Report to Rail Accident Investigations Branch (RAIB) on the progress of its recommendations	100% response to RAIB recommendations within 1 year of associated RAIB reported being published	100%
Efficient processing of technical authorisations	100% of responses within 28 days of receiving complete submission	100%
Access and licensing casework	100% decided within 2 months of receipt of all relevant information	100%
Freedom of Information requests	90% of requests for information responded to within 20 working days of receipt	93%
General enquiries and complaints	95% of enquiries and complaints responded to within 20 working days of receipt	94% <sup>2</sup>
Prompt payment of suppliers' invoices to ORR	80% paid within 10 days of valid invoice	97%
	100% paid within 30 days of valid invoice	100%



**Our inspectors spent 51% of their time in the field (against 50% target)**

<sup>1</sup> This number reflects technical issues with the new train driver licence portal at the start of the year, and also an increased volume of applications coinciding with high staff turnover in the team responsible for processing applications towards the end of the year. Steps have been taken to reduce the risk of missing the target in 2017-18.

<sup>2</sup> This is due to the increasing complexity of enquiries, some of which take longer than 20 working days to resolve, in particular when information is required from a third party to answer the query.

# Our financial performance

## Expenditure compared to 2015-16 and 2016-17 budget

In 2016-17 we spent a total of £31.0m compared to £29.9m in 2015-16. Our overall gross budget for 2016-17 was £31.7m. We target an underspend of between 0% and 2% against budget. We finished the year 2% below budget and delivered the majority of our programme of work for the year.

By segment, our spend breaks down as follows:

- the same on economic regulation compared to last year, at £12.7m (£0.3m less than budget);
- the same on safety regulation compared to last year, at £15.8m (£0.3m less than budget); and
- £2.5m on our highways monitoring role, compared to £1.5m in 2015-16 (£0.1m less than budget).

An analysis of variances against 2015-16 is provided on page 40.

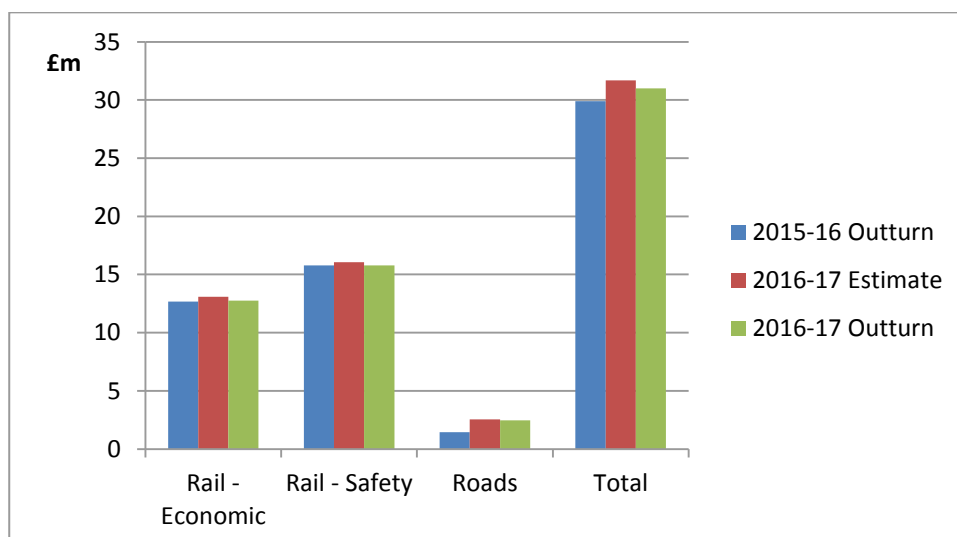
The most significant variances against budget for the rail side of the business were:

- staff costs were 3% below budget, due to a higher vacancy rate than budgeted;
- consultancy spend was 9% below budget.

On the roads side of the business:

- staff costs were 5% above budget, as we recruited more staff than originally planned; and
- we spent 30% less on consultancy than expected.

Consultancy expenditure on both rail and roads was slowed down during the year, in line with our planned approach to in-year budget management.





## Strategic objective 1: A safer railway

ORR is the health and safety regulator for all of Britain's rail industry. Our vision is zero industry caused fatalities to passengers, the workforce and the public. Safety by design on major projects and maintaining a safe and sustainable infrastructure have been two main areas of focus for us and,

together with the growth and change on the railways, we and the industry cannot and must not be complacent in the management of health and safety.

In 2016-17 we have:

### *Strategy, legislation and policy*

- Published new and revised strategic risk chapters on:
  - Health and safety management systems;
  - Industry staff competence and human failure;
  - Track;
  - Civil engineering assets;
  - Workforce safety; and
  - Leadership and culture.
  
- Proactively reviewed our published safety guidance removing several hundred pages of redundant guidance and reintroducing our Railway Safety Principles framework. In April, we supplemented this with six specific principles for dutyholders who are introducing or extending driver controlled operation (DCO) and reviewing the operation of existing DCO services.
  
- Commenced review of our processes for safety certification/authorisation, handling RAIB recommendations, and mandatory investigations. We are working with DfT on options for improving the regulatory regime around level crossings. We also consulted on potential changes to ORR's role in relation to the certification of entities in charge of maintenance.
  
- Published our revised guidance on developing and maintaining staff competence: Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013, and our policy on electrical clearances to standing surfaces for Overhead Line Equipment.
  
- Completed our quinquennial, independent review of the RSSB. The review took place in two phases, the first examining the delivery of recommendations made at the time of ORR's 2010 review, and the second looking at RSSB's strategy

and future direction. We published our final report with our findings and recommendations in November 2016.

- We have organised our input on High Speed 2 so that the three regulators: ORR, the Health and Safety Executive and the Environment Agency are working closely together to coordinate activity and provide a clear and efficient joint regulatory approach.

### *Regulation and certification*

- Received 3,019 train driver licence applications and issued 2,823 licences (including 42 applications carried over from the previous year).
- Delivered 43 level crossing orders, 12 variations, five Christmas directions, three traffic signs authorisations and six revocations.
- Issued 24 safety certificates and 12 safety authorisations. In addition, we also processed three exemptions (one issued and two declined).
- Reported to RAIB on a total of 115 recommendations with 42 being implemented, 30 reported as implementation ongoing, 32 as progressing, 9 as having an insufficient response, and two as being addressed to another public body.

### *Inspection and enforcement*

- Issued 17 formal enforcement notices and, where appropriate, prosecuted duty holders in the courts to ensure compliance with the law. As prevention is always better than addressing issues after an incident has occurred, we issued 16 improvement notices and one prohibition notice where we identified weaknesses in health and safety controls. Whilst the total number of enforcement notices stayed the same as previous year, we issued significantly less prohibition notices (six in 2015-16). We also withdrew one improvement notice.
- Concluded five<sup>1</sup> prosecutions over a variety of health and safety failures. The five prosecutions were as follows:
  - West Coast Railways – following a signal passed at danger near Wootton Bassett junction in Wiltshire;

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<sup>1</sup> There was an additional prosecution of Network Rail carried out by the Scottish Crown Office and Procurator Fiscal Service following the Ardrossan South Beach electric shock incident. This prosecution arose from an investigation carried out by ORR.

- Network Rail – following insufficient progress against two improvement notices relating to the management of electrical cabinets;
- Network Rail – following a fatality at Gipsy Lane crossing in Needham Market, Suffolk;
- London Underground – following an employee falling from a tower scaffold while cleaning a former lift shaft and suffering a number of injuries.
- Network Rail – following a train striking a track worker performing rail maintenance work near Redhill in Surrey, resulting in multiple serious and life-changing injuries.



## Strategic objective 2: Better customer service

Record rail passenger numbers have increased the importance of our role in protecting the interests of users. Our primary role in this area is to enforce consumer law and compliance with the conditions contained in Network Rail's and train operators' licences, to help ensure that all rail users get the service to which they are entitled. We use our powers to hold the rail industry to account for delivery of performance and service standards for passengers and freight across the railway.

In 2016-17 we have:

- Developed and commissioned an extensive programme of research to understand the experiences of passengers with disabilities; both those that choose to travel having booked assistance in advance, and those that choose to turn up and go. In addition, we have assessed how aware passengers are of the assistance that is available to them and also reviewed the technical accessibility of websites for people with, for example, visual impairments. The combined findings of this programme of research will enable our focus to move from the approval of train operating companies' policies and procedures to the identification and progress of more tangible action to improve actual experiences and outcomes for passengers.
- Carried out an audit of train company websites against the requirements of the Retail Information Code of Practice to understand to what extent these websites provide the information that passengers need to make informed decisions when planning their journey and purchasing tickets, and whether website information is provided in a way that is timely, prominent and clear.
- Completed our mystery shopping research to investigate the extent to which Ticket Vending Machines (TVMs) are meeting the needs and expectations of passengers, including examining whether TVM-based transactions lead to the purchase of a more (or less) expensive ticket than is required for their journey needs. This showed that overall one in five mystery shoppers selected a more expensive ticket than necessary for their journey or were at risk of a penalty fare when using a ticket machine. The research identified areas of good practice where all train operators need to take action. In particular, providing clear, usable and timely information on the product range, ticket restrictions and validity, and on/off peak sales. We have also recommended to train operators that they make a price guarantee commitment to refund the additional costs where the passenger finds that they could have bought a cheaper ticket for the

same journey. We have seen positive developments as a result of this work, with 11 train operators agreeing a price guarantee commitment.

- Worked with 19 train operators to survey over 23,000 passengers who have made a complaint, to monitor how satisfied passengers are with both the handling and outcome of their complaint. This work has enabled us to monitor how train operators are complying with their Complaints Handling Procedures and consequently where best practice can be identified or improvement may be required. It also improves the transparency of passengers' experiences and allows ORR to monitor industry performance over time. We are using this research to work with each company to identify specific changes they can make to benefit passengers.
- Continued to move forward the recommendations made in our response to the a super-complaint on how train operators make passengers aware of delay compensation schemes, and the ease with which claims for compensation can then be made. There has been good progress in implementing our recommendations, which we would expect to feed through into increased passenger awareness and an increase in claims. Our analysis shows many train operators have also responded positively to our recommendations and made improvements to the information they provide on claims and the process for claiming. However there are also specific gaps that still need to be addressed and some companies have made only minimal changes.
- Supported DfT, Rail Delivery Group, Which? and Transport Focus to identify actions that will improve fares and ticketing for passengers which are set out in their action plan for information on rail fares and ticketing. We are part of a working group that reviews progress against the action plan on a monthly basis and provides an interim report.
- We consulted with the rail industry – particularly freight – on route devolution; the system operator function; and charging, and received constructive engagement which has helped us further develop these proposals.





## Strategic objective 3: Value for money from the railway

Passengers, freight customers, governments, taxpayers and the general public rightly expect value for money from our railway. A large part of our work involves assessing the value of the work Network Rail undertakes, and how much it costs, as well as reporting this to the public. We also regulate other significant elements of the national rail infrastructure, including High Speed 1 (HS1) and the domestic portion of the Channel Tunnel.

### Holding Network Rail to account for performance

In July we published our conclusions on Network Rail's performance in 2015-16, which was followed by a more detailed publication on efficiency and financial performance. Network Rail had a good year on safety in 2015-16 and there has been good progress in improving its infrastructure, but this had cost more than expected and has yet to deliver improvements in performance across the network as a whole. In November, we published our half-year assessment of Network Rail identifying steady performance in its overall management of safety and of its assets, and an improving picture of delivery against its updated enhancements programme. However, we also reported on the challenges remaining in the delivery of network and financial performance.

### High Speed 1

We published our annual report on HS1 Ltd for 2015-16 in July. HS1 Ltd has a 30-year concession to operate and maintain the railway between St Pancras and the Channel Tunnel. We found that in general, HS1 Ltd has been meeting, and in some cases exceeding, their expected outcomes for the period.

We have also monitored HS1's progress in preparing for the second periodic review of HS1 (PR19) in 2019 in areas such as asset management, efficiency and benchmarking. Developing on the lessons learnt from the first periodic review of HS1, we have worked with HS1 and DfT to develop changes to the process for future periodic reviews.

### Channel Tunnel regulation

In June 2016 ORR adopted new statutory responsibilities for the economic regulation of the UK's half of the Channel Tunnel, operated by Eurotunnel under a 99 year concession agreement. ORR has agreed with the French regulator Arafer, who have adopted similar responsibilities for the French half of the tunnel, to work together in exercising these new functions. We have established a collaborative approach, underpinned by a co-operation

agreement between the two authorities, to ensure that we make consistent decisions across the UK and French halves of the network.

In January 2017 ORR and Arafer published their joint opinions on Eurotunnel's network statement for the first time. This drew on joint work by both authorities to encourage greater usage of the tunnel by passengers and freight by promoting greater transparency, competition and non-discriminatory access to the network. This work will carry on next year, and sets a good foundation to provide robust independent oversight of the tunnel.



## Strategic objective 4: Better highways

Highways England operates the strategic road network, managing the motorways and major roads in England. Our role is to monitor and enforce the performance and efficiency of the company.

We monitor Highways England's delivery and give assurance to funders, road users and wider stakeholders. Our role helps provide transparency to the sector encouraging Highways England to publish more information on its plans and performance. Importantly, improved transparency allows other stakeholders to play a more informed role in holding the company to account.

In the second year of performing this role, we focused on embedding our functions. Throughout the year we have refined our processes in both our monitoring approach and reporting.

Over the year we:

- Published our first annual assessment of Highways England's performance. The report showed the positive start that the company had made to delivery of the first Road Investment Strategy (RIS1). It highlighted that the company had met its performance targets and delivered its investment commitments in 2015-16 but had more work to do to set out plans for the rest of the Road Period.
- Consulted the industry to establish how we will monitor the capital programme. We have adopted a risk-based approach that includes in-depth reviews of a sample of projects, to identify programme-wide issues.
- Completed a study to understand the capacity constraints within Highways England's supply chain which could influence deliverability of RIS1.
- Published an update on Highways England's capital planning and asset management. This document set out Highways England's progress in developing a clear plan for capital works and its work to improve management and reporting of road condition.
- Completed an investigation into Highways England's missed key performance indicator which showed that the condition of the road across the network had fallen below its 95% target to 92.3%.
- Set out our approach to the second Road Investment Strategy (RIS2). The document explained how ORR intends to contribute to RIS2 and identified

issues that DfT and Highways England should consider when developing proposals for the Road Period.

- Completed a joint study with Transport Focus into road user perspectives on Highways England's performance measures.
- Published our first annual benchmarking report. This summarised some of our early benchmarking analysis and explained our approach for developing benchmarking to inform RIS2.

Monitoring Highways England's performance data is vital for our role. It is important that we understand what this actually means for those who use the network, those who live along side it, and those who work manage, maintain and develop the network. To do this we have engaged widely with stakeholders. We have also worked hard to develop an open, collaborative relationship with Highways England, DfT and Transport Focus.

We will continue to embed stakeholder views in our monitoring, and will focus on increasing transparency of Highways England's plans and performance, and providing adequate information.



## Strategic objective 5: Promoting a dynamic and commercially sustainable rail sector

Record passenger numbers mean that the railway is now carrying double the amount of people it did 20 years ago. We have a number of roles which enable us to secure the best deal for rail and road users. We monitor access and stimulate

best use of capacity, develop the market through our competition responsibilities, and set appropriate outputs and funding rules for infrastructure operators (both Network Rail and HS1). This year we also progressed our work for the next control period which will set the funding and outputs for Network Rail between 2019 and 2024.

### Access and capacity

Our work ensures that operators get access to the rail network in a fair and consistent manner, and users and funders are not put at a disadvantage by the monopoly ownership of the networks we oversee.

In 2016-17 we have:

- Approved several hundred new and amended access contracts for track, stations and depots.
- Completed our complex work assessing proposals from three operators to run services on the East Coast Main Line. We approved all of the proposals made by Virgin Trains East Coast and a limited number of new open access services between London and Edinburgh.
- Consented to 19 of Network Rail's land disposals following our review of its proposals.
- Issued 8 licences and exemptions to applicants wishing to operate railway assets.
- Worked with both Network Rail and DfT to understand and facilitate their plans for possible future asset divestment.
- Updated our published guidance to reflect the latest European rules governing access to rail networks and infrastructure management.
- Authorised 12 new fixed asset applications (e.g. stations) and 17 new vehicle applications (including the new Thameslink and Eurostar trains).

## Market development

### UK Competition Network (UKCN)

Consistent with both the concurrency arrangements and the strategic steer issued to the CMA by government<sup>2</sup>, the CMA and sector regulators have worked together effectively over the past year through the UKCN with the aim of encouraging stronger competition across the economy for the benefit of consumers and to prevent anti-competitive behaviour in the regulated industries.

ORR officials attend regular meetings of the UKCN which are held at various levels. Depending on the level of meeting, discussions consider major issues of strategy about competition in the regulated sectors, issues concerning the principles and practicalities of concurrency, and issues and know-how of common interest.

### Periodic Review 2018

This year we began our periodic review of Network Rail's funding and outputs for the five years from 2019 to 2024 (PR18). The periodic review is one of the main ways ORR holds Network Rail to account and helps secure value for money for rail users and funders.

- Our initial consultation in May 2016 sought views on our proposed areas of focus and approach for PR18. In particular, this discussed how PR18 should best take account of the significant differences from the last review, concluded in 2013 (PR13). This included Network Rail's reclassification as a public body and Network Rail's shift to an increasingly devolved structure.
- In our conclusions to this consultation, we confirmed that our main focus in PR18 would be on route-level regulation and improving how we regulate Network Rail's system operator function. We think this will be fundamental to supporting improvements in how Network Rail operates, enabling the delivery of a more efficient and better used railway in Control Period 6 (CP6) and beyond.
- Alongside these changes, we also confirmed our previous commitment to reform fixed track access charges so that open access operators (OAOs) make an appropriate contribution to fixed costs, alongside the DfT's work to consult on introducing a public service obligation (PSO) levy for OAOs. This will support

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<sup>2</sup> In December 2015, the government issued a revised non-binding 'strategic steer' to the CMA setting out the government's view that, in relation to the regulated sectors, the CMA should continue to focus on "playing a leadership role with regulators that have competition powers, especially those that are new to the concurrency regime. The CMA should encourage those regulators to make greater use of their competition powers and to tackle anti-competitive actions in regulated markets". It also confirmed that the CMA should build: "a strong dialogue with sectoral regulators using the UK Competition Network to ensure that the overall competition regime is co-ordinated and regulatory practices complement each other".

the development of on-rail competition, which should provide benefits to passengers.

- We also engaged in more flexible and collaborative ways to develop policy, including through the use of working papers on particular topics and RDG's PR18 working groups. This supported the production of our more detailed consultations, including on our guidance to Network Rail on its strategic business plans and on charges and incentives. We will continue to engage in this way as we develop and consult on the more detailed framework for CP6 in 2017-18. This is particularly important for our final decisions on charges and incentives, where continued engagement with freight and passenger operators is important to ensuring that we have a full understanding of the impacts of our proposals on operators.

## Europe

The EU's role in railway regulation has been growing, and throughout 2016-17 we have helped to develop and implement European rail law in a number of areas, in line with the UK government's approach of continued full engagement while we remain a member of EU following the referendum. Our objective is the same as for domestic regulation: ensuring maximum benefit for the users and funders of UK rail. In the process we have also helped to foster an increasingly open, competitive, safe and interoperable rail sector throughout Europe.

In 2016-17 we have:

- Collaborated with other European regulatory bodies via IRG-Rail, the network of independent rail regulatory bodies. We have developed best practice and harmonised regulatory processes in a number of areas, including freight corridors and evolving regulation on essential passenger and freight services across Europe.
- Acted as Secretariat for the International Liaison Group of Government Railway Inspectors which facilitates liaison between national safety authorities (NSAs) on the practical implications of European safety and interoperability proposals.
- Taken the lead in influencing the European Rail Agency (ERA) and the NSAs in Europe by chairing the liaison group set up to ensure that future processes of co-operation can work efficiently. This group works on developing model co-operation arrangements between ERA and NSAs to ensure clear lines of responsibility for safety certification and vehicle authorisations.
- Played an important role in the implementation of European law in the UK. We consulted with the rail industry and published guidance on the Railways

(Access, Management and Licensing) Regulations 2016 which implements the Recast Directive.

- Wherever possible we have sought to simplify any new rules and minimise the burden on UK rail industry stakeholders – for example, in the collection of new market-monitoring data.
- Started engaging with industry to prepare for the UK exit from the European Union. We undertook an initial analysis on Brexit looking at the existing European framework and the opportunities and drawbacks of compliance.





## Strategic objective 6: High performing regulation

We have continued to work to create a regulatory and monitoring environment which is in the interests of customers, users and society, only intervening proportionately where necessary.

### Efficiency

ORR has made savings of 30% in real terms since 2009-10 in respect of our cost to the rail industry. This focus on our own value for money is an imperative as both taxpayers and consumers rightly expect value for money from the services they use.

We have distinct lines of funding for the work we do: a safety levy, which pays for all of our health and safety work; an economic licence fee, which pays for our economic regulation; and a direct grant from DfT for the work we do as highways monitor. These lines of funding are discrete with no cross-subsidy so, for instance, money earmarked for highways monitoring cannot be used for railway safety. However, we do make synergies in bringing these functions together wherever possible, for example by sharing office costs.

We are an organisation built around people; 70% of our outgoings are pay and we are striving for efficiency like all public sector organisations. As part of the civil service we are subject to the 1% annual pay cap.

### Our people

The capability, integrity and knowledge of ORR staff are fundamental to our success. We recognise the importance of good employee engagement to effective performance and delivery of our organisational objectives. ORR achieved an engagement score of 61% in the October 2016 Civil Service People Survey. ORR is an accredited Investor in People with 'silver' status.

### Talent management

Following the introduction of new 'career family' competence frameworks early in 2016-17, reflecting the main characteristics of roles at ORR, all staff undertook an assessment against these frameworks during October 2016. This enabled us to assess the overall level of competence across the organisation and to identify development needs. We also introduced a new reward framework linked to competence.

We have continued to work to develop our people throughout the year, with regular training events focusing on management and other skills. Towards the end of 2016-17 we

introduced a new Senior Leadership Programme to develop the leadership skills of our senior team leaders and deputy directors. The programme will involve around 30 senior leaders over a period of 18 months.

## Transparency

Transparency lies at the heart of our operation. Openness delivers tangible benefits to consumers, users, train operators, the supply chain, governments, system operators and taxpayers.

Our commitment to transparency aims to improve the quality of our data releases, promote greater access to our data and reports and their use, and to demonstrate the benefits of openness across the rail and road industries.

In 2016-17 we have:

- Published comparative information on some elements of the financial performance, expenditure, income and asset management of Network Rail's routes in our annual efficiency and financial assessment of the company. This work helps build a comparative picture of how different areas are working to improve future performance for passengers and taxpayers.
- Published an interim report on Highways England's performance.
- Published a detailed analysis of train operator costs and revenues, highlighting trends and giving funders and the industry greater information to help draft robust plans for the future.
- Seen a 12.1% rise in the number of people registered to use our data portal (over 6,500) in the past year and have published more data about train operators.

## Better regulation

We have applied principles of better regulation across all our activities and continued our commitment to proportionate and effective regulation of the rail sector and monitoring of the highways.

To assess the impact of our work on passengers, rail industry and road sector we have continued our approach to Impact Assessments as part of our policy development framework. Amongst other things, we held our first policy profession conference in October 2016 for ORR's policymakers and other colleagues.

We have worked with DfT and Department for Business, Energy and Industrial Strategy in our preparation to meet the government requirements on ORR to have regard to Business Impact Target (BIT), Growth Duty and Regulators' Code. In particular, we have work

collaboratively with the DfT in the BIT verification process by the Regulatory Policy Committee.

We have continued actively to seek opportunities to improve the efficiency and effectiveness of our safety regulatory activities, including:

- Introducing a web-based system for managing applications for train driving licences, which is delivering efficiencies for the Train Operating Companies (TOCs) currently participating;
- Reviewing our processes and criteria for investigating incidents and responding to Rail Accident Investigation Branch (RAIB) recommendations to ensure they are fully risk-based and proportionate; and
- Streamlining our approach to renewing the safety certification of existing passenger and freight operators.

We have our participation in the UK Regulators Network (UKRN) and shared best practice and worked co-operatively with regulators across sectors on issues affecting rail and road. For example, over 2016-17 we have engaged with UKRN members in the cost of capital expert working group and on the consumer engagement project.

In 2016-17 we have continued to chair the Health and Safety Regulators Network, to bring all health and safety regulators together to identify areas where we can add value by working together. The network has met twice over 2016-17 covering a varied agenda of shared interest.

Alongside this, we have organised our input on High Speed 2 so that the three regulators ORR, HSE and the Environment Agency are working closely together to co-ordinate activity and provide a clear and efficient joint regulatory approach.

## Accountability to Parliaments and the Devolved Assemblies

ORR is accountable through Parliament and the Courts for its role as an independent health and safety and economic regulator of the railways and monitor of the strategic road network.

We offer expert and impartial information and advice to governments and parliamentarians, including members of devolved assemblies, so they can make informed decisions about a wide array of transport issues. We also provide independent assessment of delivery across key transport strands. ORR also actively engages with parliamentarians on issues which are of interest to them and their constituents, through briefings, correspondence and proactive engagement.

Formal contributions to parliamentary process at Westminster in this reporting period have included senior ORR officials giving oral and/or written evidence to the Transport Select Committee's inquiries into 'Digital Railways', 'Improving the Passenger Experience', 'Rail Franchising', 'Rail Safety', and 'Rail Passenger Compensation'. We have also provided evidence to the Scottish Parliament's Justice Committee's scrutiny of the Railways Policing (Scotland) Bill.

# Sustainability

We continue to work with Network Rail, and now with Highways England on their environmental sustainability requirements, and, wherever possible, ORR will adhere to government guidelines.

We continue to monitor Network Rail's performance against their environmental commitments. This has included reviewing their performance against three Key Performance Indicators (KPIs):

- CO<sub>2</sub> emissions associated with its own operations (traction, non-traction and total);
- carbon embedded in new infrastructure via ten trial projects; and
- their development of sustainable KPIs.

We have inputted into RSSB's 'Tomorrow's Railway and Climate Change Adaptation' research programme which explores how to increase the resilience of the Great Britain (GB) railway in response to anticipated changes in key climate variables. This programme produced a knowledge base, assessing the likely impact of climate change and increased frequency of extreme weather events on the UK railway. The system-wide approach will inform investment priorities from CP6 onwards, by increasing knowledge of climate change vulnerabilities and development of support tools to increase resilience of the GB railway.

Highways England has a commitment to deliver better environmental outcomes on the strategic road network. Our monitoring of this has included reviewing the company's performance against two KPIs, covering biodiversity and noise.

- We have reviewed Highways England's delivery against its Biodiversity Action Plan, which was published in June 2015. In the past year the company has proposed a new metric for measuring biodiversity on the strategic road network ahead of schedule. It has also successfully progressed work to produce management plans for the sites of special scientific interest on its estate. We will continue to monitor delivery against the Biodiversity Action Plan throughout the remainder of the Road Period.
- We have monitored performance against Highways England's target to mitigate at least 1,150 noise important areas over Road Period 1. We are continuing to work closely with the company to understand how its plans will ensure that the target is met in 2020.

In the past year we have also met with environmental stakeholder groups to understand their priorities and views on Highways England's performance. These discussions have covered other areas where we monitor Highways England's environmental performance, including carbon emissions, air quality, flooding and water quality.

## Procurement

Sustainable procurement involves the management of internal demand to ensure that only appropriate goods and services are obtained from third parties, selecting suppliers that have appropriate sustainability credentials where relevant to the contract, utilising eTendering and opening up procurements to small and medium enterprises (SMEs).

Examples over the last twelve months include:

- continuing to use services for the provision of multi-functional print devices, office supplies and printing which were procured through Crown Commercial Services' (CCS) frameworks, which had sustainability as a key evaluation criteria;
- issuing documentation for all tenders electronically and requiring all proposals to be submitted electronically;
- encouraging SME's participation in tenders through highlighting the suitability of tender opportunities on Contracts Finder and ensuring that liability and insurance limits were as low as practical within the contract;
- breaking down the provision of IT services into a number of discrete lower value contracts which are more appropriate to SMEs;
- using CCS's Network Services framework for the procurements of managed network services and telephony; and
- using CCS's G-Cloud frameworks for IT services (which have a high percentage of SME providers) for the procurement of cloud storage and management services.

## ORR performance and policy

Our environmental performance in 2016-2017 is shown in the table below. We have presented the data as transparently as possible, and provided notes to explain where it has not been possible to obtain some information.

Our carbon footprint has been restated for all years to account for changes to Defra conversion factors in accordance with guidelines.

Emissions, waste, water and finite resources figures apply to the London office only for 2016-17 (where available). Data was not available for our Glasgow office. Our other offices, occupied as sub-tenants of other government departments' premises, should be reported by the lead department. Much of our utilities are provided and controlled by our building landlords or lead tenants, therefore we do not set targets for the measures set out below. Paper data is for the London and Manchester offices only.

The data on travel applies to the whole organisation.

<i>Based on Defra conversion factors</i>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>
<b>Greenhouse gas emissions (tonnes CO<sub>2</sub>)</b>			
Electricity (scope 2)	196	182	192
Oil (scope 2)	45	42	47
Gas (scope 2)	n.a	n.a	n.a
Travel:			
Car (personal vehicle)	73	91	99
Air	50	93	93
Train	100	87	91
Hire car	5	n.a	3.4
<b>Gross emissions total</b>	<b>469</b>	<b>496</b>	<b>525</b>
<b>Total net emissions</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Gross emissions of official business travel (tonnes CO<sub>2</sub>)</b>	<b>228</b>	<b>266</b>	<b>286</b>
<b>Expenditure (£)</b>			
CRC gross expenditure (£)	71,316	62,085	79,349
Expenditure on accredited offsets (£)	-	-	-
Expenditure on official travel (£)	571,994	636,669	580,993
<b>Waste (tonnes)</b>			
Total waste	34	23	17
Hazardous waste	-	-	-
Non-hazardous to landfill	2	-	-
Non-hazardous recycled	8	13	10
Non-hazardous incinerated/energy from waste	24	11	7
Cost of waste collection (£)	4,852	5,586	4,820
<b>Water</b>			
Water consumption (m <sup>3</sup> )	2,228	2,151	1,958
Water supply costs (£)	4,639	4,980	4,725
<b>Finite resources</b>			
Electricity non-renewable (Kwh)	29,127	28,909	430,929
Electricity renewable (Kwh)	410,303	379,297	-
Gas (Kwh) - Glasgow (estimated)	n.a	n.a	n.a
Oil (Kwh)	169,919	160,488	176,299
Total energy expenditure (£)	71,316	71,531	73,349
Paper consumption (A4 reams)	1,765	1,655	2,061

n.a – not available

In 2016-17 the landlord for the London office changed from a green supply tariff for electricity to a standard tariff.

## Financial Review

ORR's rail functions are funded almost entirely by the railway industry – broadly train and freight operating companies, plus Network Rail. We work within a defined budget, and charge the industry via a safety levy and an economic licence fee. We also cover our regulatory costs relating to the Channel Tunnel and HS1 by charging Eurotunnel and HS1 Ltd respectively. Our charges are based on a full economic cost model, therefore without profit. Our combined charges and other income meet our costs in full by the rail industry, bar a token resource budget of £3,000 provided by Parliament.

We receive grant funding from DfT for our highways function, and also have a token resource budget of £1,000 provided by Parliament.

A summary of our income and expenditure over the past two years is shown below.

	2016-17	2015-16
	£000	£000
<b>Income</b>		
Licence fee	(12,614)	(12,548)
Safety levy	(15,346)	(15,520)
Highways monitoring	(2,446)	(1,449)
Other income	(591)	(392)
<b>Total income</b>	<b>(30,997)</b>	<b>(29,909)</b>
<b>Expenditure</b>		
Staff costs	21,172	20,635
Other costs	9,828	9,277
<b>Total costs</b>	<b>31,000</b>	<b>29,912</b>
<b>Reconciliation between resource outturn and resource budget outturn (£000)</b>		
<b>Net resource outturn</b>	<b>3</b>	<b>3</b>

### Income

Licence fee income was £12.6m (2015-16: £12.5m). This includes income from HS1, and is net of £0.3m which has been deferred into 2017-18 (2015-16: £1.1m). Safety levy income was £15.3m (2015-16: £15.5m). This includes Channel Tunnel income, and is net of £0.6m which has been deferred into 2017-18 (2014-15: £1.0m). We received a grant of £2.55m from DfT to fund our highways monitor function (2015-16: £2.60m). We spent £2.45m of this (2015-16: £1.45m).

In addition, £591k (2015-16: £392k) of other income arose mainly from sub-letting of the third floor in our Kemble Street offices, fees for seconded staff and other costs recovered from successful prosecutions and safety inspections. In 2016-17 we received £181k higher court costs than in 2015-16.



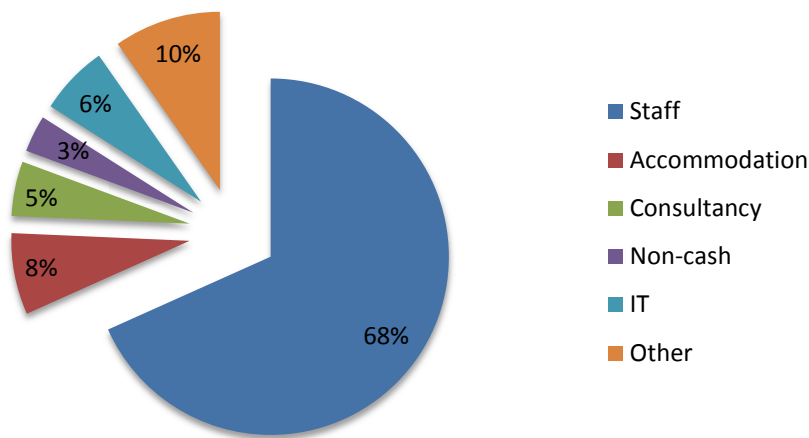
## Expenditure

Total expenditure in 2016-17 was £31.0m, compared to £29.9m in 2015-16. Excluding the effect of roads monitoring expenditure, total expenditure was the same as 2015-16 expenditure at £28.5m. Staff costs accounted for £21.2m (68.3%) of total costs, compared to £20.6m (68.9%) in 2015-16. Our average staff cost per full-time equivalent in 2016-17 was £71,115 compared to £71,649 in 2015-16.

Other administration costs were £0.6m higher than in 2015-16. The most significant year-on-year variances were:

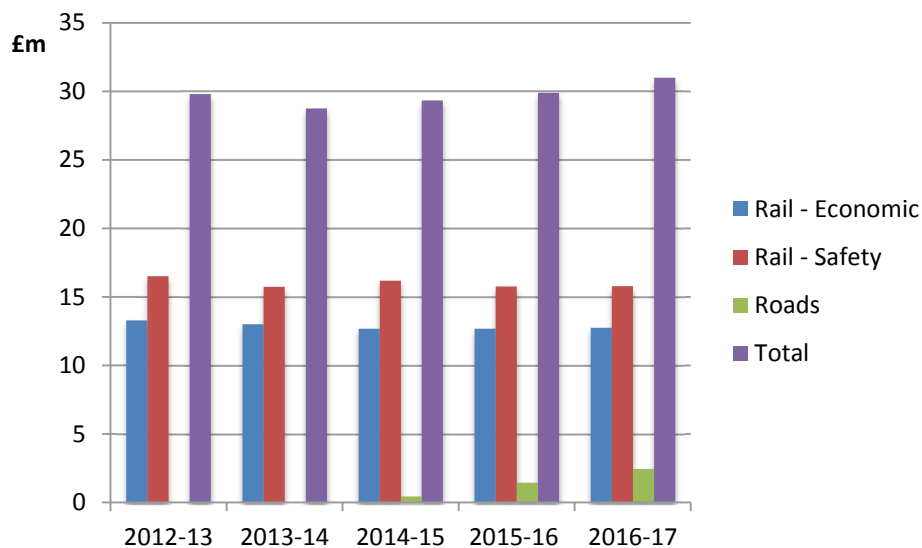
- £467k more spent on consultancy in 2016-17 due to work starting on PR18, more consultancy for our roads monitoring work and consultancy for our IT re-tender;
- £456k paid as ORR's share of the deficit arising on the 2013 valuation of the British Rail section of the Railway Pension Scheme;
- £179k more on landlord service charges due to the reversal of an over-accrual in 2015-16;
- £141k lower IT and telecoms charges, mainly due to a reduction in the cost of our IT service provision.
- a decrease in amortisation of £250k as a number of intangible assets became fully depreciated at the end of 2015-16.
- £108k more depreciation, as a results of more assets being depreciated over a shorter period.
- £108k lower building-related costs, mainly as a result of ORR previously being invoiced incorrectly for rent for the York office.
- other smaller decreases in recruitment and training, external services, staff-related costs, printing and stationery, hospitality and travel and subsistence totalling £224k.
- a £65k provision for redundancy costs included in 2016-17.

## Analysis of 2016-17 costs

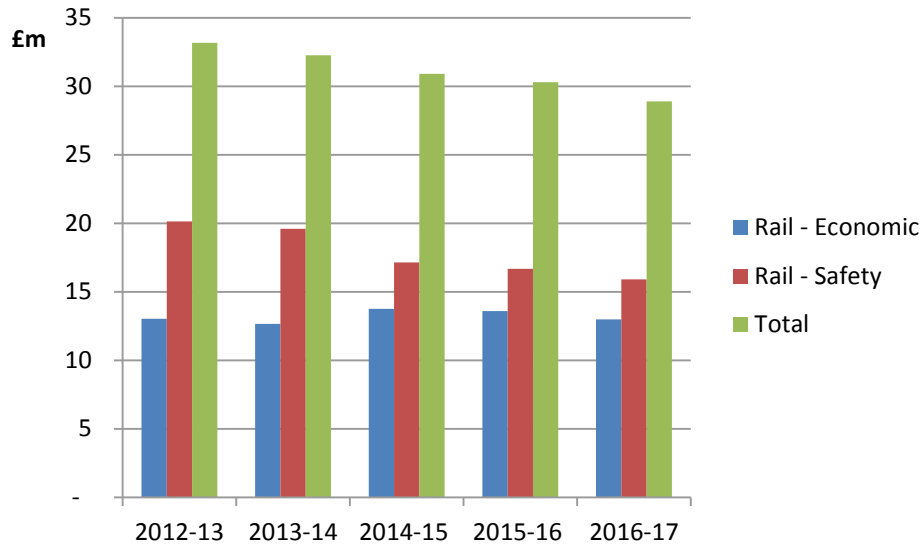


## Long-term expenditure trends

The chart below shows our spending pattern, in cash terms, over the last five years, split by key resource area.



In real terms (using the Retail Prices Index), our maximum statutory charges to the rail industry have decreased steadily over the past five years, as demonstrated by the chart below.



**Joanna Whittington**  
Accounting Officer  
12 June 2017

**Section B:  
Accountability Report**

# Directors' Report

ORR is a non-ministerial government department. ORR is independent of, but works closely with, the Department for Transport (DfT).

Executive and Non-Executive members of the ORR Board are listed on pages 47-48.

Details of company directorships and other significant interests held by the Board are available on request.

## Prompt payment

We are committed to the prompt payment of our suppliers and seek to pay all valid invoices as soon as possible. During 2016-17 100% of invoices were paid within 30 days (100% in 2015-16) and 94.7% paid within 10 days (92.5% in 2015-16).

## Better regulation

Our work on better regulation in 2016-17 is explained on page 33.

## Personal data related incidents

Personal data related incidents are covered in the Governance Statement on page 54.

## Complaints

Complaints and general enquiries to ORR are handled by our customer correspondence team. The majority of correspondence received concerns the rail industry<sup>3</sup>, from members of public and stakeholders, and covers a wide range of topics e.g. safety concerns, railway engineering work, and punctuality of services. We aim to respond to 95% of all such enquiries within 20 working days of receipt. In 2016-17 we received 1,514 complaints and general enquiries, of which 1,417 (94%) were cleared within the deadline. This includes 11 whistleblowing concerns raised by railway employees via the Employment Tribunal ET1 notification.

## Formal complaints received about ORR

If someone is unhappy with the service they have received from ORR, they can raise a formal complaint in writing with the head of the customer correspondence team. Their complaint will be acknowledged and passed to the relevant Director to respond. If the complainant remains unhappy they can escalate their concern to the Parliamentary and Health Services Ombudsman (PHSO). In 2016-17 no formal complaints against ORR were received.

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<sup>3</sup> complaints about the strategic road network are handled by Highways England.

The PHSO produces an annual report on complaints about UK government departments<sup>4</sup>. The latest report covers 2015-16. The Ombudsman received one formal complaint against ORR and decided not to investigate.

Last year's report mentioned that we planned to adopt the use of Independent Complaint Assessors (ICAs), championed by the Department for Transport. ORR's Executive Committee decided not to adopt the use of ICAs, due to the low volume of formal complaints we receive (typically between one and three a year).

## Auditors

The Comptroller and Auditor General carries out the audit of ORR's financial statements. The notional cost of auditing the financial statements was £40,000 (2015-16: £42,500). No remuneration, actual or notional, was paid to the National Audit Office for non-audit work (2015-16: none).



**Joanna Whittington**

Accounting Officer

12 June 2017

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<sup>4</sup> <https://www.ombudsman.org.uk/publications/complaints-about-uk-government-departments-and-agencies-and-some-uk-public-0>

## Statement of Accounting Officer's responsibilities

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

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

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

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

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

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

# Governance Statement

This statement explains the governance arrangements of ORR, including the management of risk and resources. ORR is the independent safety and economic regulator for Britain's railways, established on 5 July 2004 under the Railways and Transport Safety Act 2003. Since 1 April 2015, ORR has also been the independent monitor for Highways England.

## The Board

ORR is a non-ministerial government department led by a statutory Board consisting of Non-Executive Directors (including the Chair) and Executive Directors (including the Chief Executive). The Secretary of State for Transport makes appointments to the Board for a fixed term of up to five years, which is renewable, but can only remove individual members for grounds specified under section 1(3) of the Railways Act 1993. The Board provides support and challenge on the effective running and long term strategy of ORR as well as on the department's performance and risk management, and progress against delivery of our objectives and priorities. Members' duties and responsibilities are set out in a code of conduct included in the Board's rules of procedure<sup>5</sup>. The Board's objectives are aligned to key business and risk management activities. The Board held 11 meetings in 2016-17.

As part of a wide-ranging agenda during the year, the Board:

- considered regular reports on health and safety risks across the industry;
- monitored the performance of Network Rail;
- developed our thinking for the next periodic review (PR18);
- discussed and determined applications for access to the network; and
- considered reports on the performance of Highways England.

Membership of ORR's Board as at 31 March 2017 was as follows:

### Non-Executive Directors

Stephen Glaister - Chair from 1 January 2016 to 31 December 2017. Stephen is already a Non-Executive Board member with a term fixed to 31 March 2020.

Justin McCracken, to 31 July 2019, and Deputy Chair to 31 December 2018

Tracey Barlow, to 30 April 2019

Bob Holland, to 31 December 2019

Michael Luger, to 31 July 2019

David Franks, to 30 September 2021

Anne Heal, to 30 September 2021

Graham Mather, to 30 September 2021

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<sup>5</sup> At <http://orr.gov.uk/about-orr/who-we-are/the-board>



## Executive Directors

Joanna Whittington - Chief Executive and Accounting Officer, to 20 February 2022

Ian Prosser - Director, Railway Safety, to 25 September 2018

Graham Richards - Director, Railway Planning and Performance, to 30 November 2021

John Larkinson – Director, Railway Markets and Economics, to 27 March 2022

## Changes to Board membership

After confirmation from the Shaw and Bowe reviews that ORR's role would not need to change, the Board membership gradually returned to its 2015 size in 2016-17. The Secretary of State added three new Non-Executive members in September 2016 to restore the Board to eight Non-Executives. Two Executive Director roles which had been vacant at the end of 2015-16 were filled, and board appointments made for the successful candidates. At the end of 2016-17 there were four Executive members of the board. Changes to Board membership in the year are listed below:

Stephen Glaister's one-year appointment as Chair was extended to 31 December 2017.

David Franks, Anne Heal and Graham Mather were appointed Non-Executive members of the Board on 1 October 2016.

Tracey Barlow stepped down as Deputy Chair on 31 December 2016. She continues in her role as a Non-Executive member of the Board.

Justin McCracken was appointed Deputy Chair from 1 January 2017.

Joanna Whittington was appointed Board member in her capacity as Chief Executive on 20 February 2017. Her previous Board appointment, linked to her role as Director, Railway Markets and Economics, was terminated immediately prior to this new appointment.

Graham Richards, Director, Planning and Performance was appointed Executive member of the Board on 1 December 2016.

John Larkinson, Director, Railway Markets and Economics was appointed Executive member of the Board on 28 March 2017.

Board committee memberships were altered from 1 January 2017 to take advantage of some of the skills and experience brought by new Non-Executive appointees, and to spread the workload between Non-Executives members:

David Franks replaced Bob Holland on the Health and Safety Regulation Committee.

Anne Heal replaced Tracey Barlow on the Remuneration Committee.

## Board Committees

The Board's work is informed by a number of advisory committees with clearly defined terms of reference. The activities and functions of these committees are described below. Papers submitted to the Board are normally scrutinised by a relevant Executive Committee first. Minutes of our Board meetings are published on our website.

### Audit and Risk Committee

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

The Audit and Risk Committee comprises two Non-Executive Directors (one of whom chairs the Committee) and an independent member. Membership of the Committee is reviewed every three years.

The Committee met four times during the year and areas considered included:

- internal and external audit plans and progress against those plans, including progress made in implementing audit recommendations;
- key strategic risks for ORR;
- the annual report and accounts and the Governance Statement; and
- business continuity and IT resilience.

### Remuneration Committee

The Remuneration Committee has a specific role in reviewing the performance and remuneration of ORR's senior civil servants including the Chief Executive. It also maintains strategic oversight of the employment terms and conditions for all staff, including the remuneration strategy.

The Committee, which comprises three Non-Executive Directors, met four times during the year and areas considered included:

- the performance of ORR's senior civil servants during 2015-16;
- ORR's pay policy and non-consolidated performance-related pay awards for its senior civil servants;

- Directors' objectives for 2016-17;
- the strategy for recruiting the Chief Executive Officer; and
- the succession and talent management arrangements for staff covering critical roles at ORR.

## Health and Safety Regulation Committee

The Health and Safety Regulation Committee's role is to develop, maintain, review and update ORR's health and safety regulatory strategy and the overall adequacy of arrangements to meet ORR's statutory duties. It consists of a mix of Non-Executive and Executive members.

The Committee met four times during the year and areas considered included:

- ORR's strategic approach to health and safety regulation;
- emerging technical trends and safety challenges;
- review of tools and processes for health and safety regulation; and
- dutyholders' health and safety performance.

## Highways Committee

The purpose of the Highways Committee is to oversee the work of the highways monitor team, advise the ORR Board and act as a forum for policy development with senior staff. It consists of a mix of Non-Executive, Executive and independent members. The Committee met six times in the year and considered:

- reports from our monitoring framework for Highways England;
- Highways England's capital planning and asset management;
- ORR's approach to the second Road Investment Strategy; and
- the investigation into Highways England's management of network condition.

## Nominations Committee

The purpose of the Nominations Committee is to assist the Chair in developing recommendations to the Secretary of State for the recruitment and appointment of Non-Executive Directors, developing succession planning for Board Committees, and advising the Chair on reappointments of Board members. The Committee consists of Non-Executive members only and is chaired by the Board Chair.

The Committee considered the arrangements for induction of our new Non-Executive members by correspondence. The members of the Committee met informally during 2016-

17 to discuss the process for appointing board members and to advise the Chair on the balance of skills needed.

This Committee has been combined with the Remuneration Committee from 1 April 2017, following a review of board effectiveness.

## **Board effectiveness**

The Board and its standing committees are governed by the Board's rules of procedure. There is a formal appraisal system for all Board members, including Executive members, undertaken by the Chair. The Chair's performance is appraised by the Non-Executive Directors, led by the Deputy Chair. The Board and standing committees are required to review their own performance annually. Committee chairs report to the Board after each meeting.

In summer 2016 ORR undertook a review of its Board's effectiveness, which included reviewing the purpose and effectiveness of its committees and its own procedures. As a result of this review, the Board agreed to combine the Nominations Committee with the Remuneration Committee in a combined Remuneration and Nominations Committee. New board procedures will be adopted from 1 April 2017.

Board attendances are summarised on page 57.

## **Conflicts of interest**

The Board's rules of procedure include strict guidelines on conflicts of interest. A register of Board members' interests is available on request, and members declare interests on agenda items at the start of every Board and Committee meeting. On the rare occasion where there is a risk of a conflict of interest, the Board must decide whether or not the relevant member must withdraw from the meeting during discussion of the relevant item and this is recorded in the minutes.

## **Compliance with the Code of Practice on Corporate Governance<sup>6</sup>**

ORR is a non-ministerial government department with its functions vested in a statutory Board appointed by the Secretary of State. On that basis, there are some departures from the model envisaged in the 'Enhanced Departmental Board Protocol' for ministerial departments, as follows:

- the Board reserves to itself any changes in its governance and scrutiny thereof, so there is no committee with responsibility for governance;

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<sup>6</sup> <https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments>

- the Board does not include a Finance Director; and
- the Board has a role in deciding individual reward for Senior Civil Servants. This approach adds a useful element of independence and objectivity given the small size of the department.

These exceptions aside, the Board considers that ORR is compliant with the principles established in the Code. The Board and senior team operates according to the recognised precepts of good corporate governance in business, namely leadership; effectiveness; accountability; and sustainability.

## The Executive

As Chief Executive, I head ORR, and am also the Accounting Officer. Executive governance arrangements are based around three committees. Each committee involves a sub-set of Executive Directors as appropriate.

- The Executive Committee meets weekly and oversees operational issues such as progress against the business plan and allocation of resources for business planning.
- The Policy Committee meets fortnightly and oversees the development and implementation of policy. The Committee is concerned with policy substance and alignment with strategy.
- The Regulatory Interventions Committee meets fortnightly and oversees a range of enforcement issues across economic, safety and monitoring functions.

In addition, certain major workstreams have their own programme board. For example, the PR18 programme board normally meets monthly and carries out the executive oversight and scrutiny role in respect of the PR18 programme. The programme board consists of a mix of Executive Board members, Directors and senior staff.

## Business plan

ORR produces and publishes an annual business plan, setting out resource requirements and key outputs planned for the coming financial year. Monthly internal reports on delivery of planned outputs form an important part of the assurance process, allowing the Executive to monitor the delivery of ORR's objectives. This is drawn from a business management system which requires the input of milestones against activities contributing to ORR's strategic objectives. The Board receives quarterly reports on: progress against business plan commitments; service standards, which we use to monitor the performance of some of our public-facing "business as usual" work; and unplanned or re-prioritised work.

I delegate budgets to Directors as appropriate and review their expenditure against these delegated budgets, and their progress against business milestones on a monthly basis.

Each Director has a number of officers to whom s/he may sub-delegate financial and purchasing authority. Records of these authorities and associated signatures are maintained within the finance team and are refreshed as required.

## Whistleblowing

ORR's whistleblowing policy is designed to provide an avenue for staff to raise concerns about perceived wrongdoings, illegal conduct or fundamental misconduct that may endanger others. Our 'whistleblowing and raising a concern' policy is available to all staff on our intranet. There were no whistleblowing complaints during 2016-17.

ORR is a prescribed person under the Public Interest Disclosure Act 1998. Prescribed persons are people and bodies you can blow the whistle to rather than your employer. People are able to contact ORR regarding concerns over the provision and supply of railway services and any other activities in relation to our functions. Information on whistleblowing concerns raised is included on page 44.

## Risk management strategy

The Board formally considers the key risks facing ORR annually, as part of a yearly discussion on strategy. Management of these risks is delegated to the Executive Committee. The Audit and Risk Committee is responsible for assuring the Accounting Officer and the Board on the adequacy of risk management processes. The Board receives quarterly updates from the Audit and Risk Committee, which cover risk management; and also from the Executive as part of the quarterly business review.

Strategic risks are aligned to our six strategic objectives. For each strategic objective risks are ranked in a grid. Each risk is assigned an owner (at Director level), and for each strategic objective the activities and control actions which mitigate the risk to us not achieving our objectives are documented. This is linked to our business management system, which helps us to ensure that the planned business activities for the year ahead address our key risks where possible. Our risk templates are updated quarterly by deputy directors, and are then reviewed by the Executive Committee where members provide challenge to the information contained in the templates. The templates are then reviewed quarterly by the Audit and Risk Committee.

As part of the business planning process, directorates are asked to consider the key risks to their planned activities and to ensure that these are documented, either in: the business management system risk registers; a directorate level risk register; a project risk register; or the strategic risk register. This ensures that risks are captured at an operational level as well as at a strategic level. Activity owners have the opportunity, at regular team and Executive Committee meetings, to escalate risks from project and activity to directorate level and from directorate level to the strategic risk register if necessary. The table on pages 11-14 highlights some of the key risks being managed by the organisation.

## Information assurance

ORR maintains an information management strategy which sets out how we manage our information as a combined safety and economic regulator. ORR is registered as a data controller with the Information Commissioner and adheres to the provisions of the Data Protection Act 1998. We maintain a risk register on information risk and oversee our compliance with our government information assurance requirements through an information security forum chaired by our senior information risk owner. This forum meets quarterly (or by exception) to monitor breaches in information security, recommend follow-up actions as appropriate, and to provide a central management point for matters relating to information assurance.

ORR follows the requirements of government's security policy framework, and submits a report on information assurance annually to Cabinet Office. Each year we carry out an assessment to ensure that the security regime is appropriate to the impact levels of the information we hold throughout the organisation. As a result of this work we have assurance that we have the appropriate security controls in place (both physical and electronic) to hold information at 'official' level. Through continuous service development we also ensure that a good risk-appropriate security culture is embedded at ORR through directorate information assurance coordinators, and an annual assurance review with them directly.

## Personal data related incidents

We have experienced no information risk incidents in 2016-17 which we considered to be sufficiently significant for the Information Commissioner to be informed.

## Internal audit

Our internal auditor, Grant Thornton, delivered a programme of audit reviews which was developed jointly with the Executive and endorsed by the Audit and Risk Committee. The plan was designed to address the key risks facing the organisation and to provide assurance that ORR's key business processes are fit for purpose. The most that the internal audit service can provide to ORR is reasonable assurance that there are no major weaknesses in those systems audited. In respect of the audits undertaken in the year to 31 March 2017, their opinion is that ORR has adequate and effective systems over governance, risk management and control which provide moderate assurance regarding the effective achievement of ORR's objectives. There are no significant issues to report. Recommendations made by Grant Thornton during the year have either been implemented already, or will be implemented in 2017-18.

## Value for money from major contracts

It is ORR's policy to utilise competitive tendering when seeking goods and services from third party suppliers, when practical to do so. On the occasions where a single source approach is taken, robust justification must be provided, which is signed off by a senior member of staff.

For high value contracts, ORR has three main routes to access the market, depending on the requirement of the tender; Crown Commercial Service frameworks; specialist frameworks; and open tenders. Our main tendering strategy is and will continue to be to utilise Crown Commercial Services framework agreements using mini-competitions or through direct award where it can be demonstrated that the supplier provides value for money. A benefit of using such frameworks is that they often allow for the inclusion of benchmarking provisions which can be used to ensure the contract remains value for money. This is especially relevant for longer term IT contracts.

For tendering consultancy we either run mini competitions through specialist framework agreements that have been competitively let using price/whole life costs as one of the main evaluation criteria, or we opt for open competitions, publicising the requirement through ContractsFinder, once again using price/whole life costs as one of the main criteria.

We are currently in the process of retendering our IT provision, following a 'cloud first' approach. We are utilising Crown Commercial Services framework agreements where possible. To achieve value for money we have broken down IT requirements into smaller units to attract participation from small and medium enterprises, who can often offer innovative, cost effective solutions.

## Accounting Officer's statement

As Accounting Officer, I am personally responsible and accountable to Parliament for the organisation and quality of management in the department, including its use of public money and stewardship of its assets. The system of internal control in place to support me in this capacity accords with all relevant HM Treasury guidance.


My review of the effectiveness of the system of internal control for 2016-17 was informed by assurance statements from Directors across the organisation, and from the Audit and Risk Committee. This is further supported by independent assurances from internal and external audit.

As Accounting Officer, I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that ORR's auditors are aware of that information. I am not aware of any relevant audit information which has not been disclosed to the auditors.



I have considered the evidence that supports this Governance Statement and am assured that ORR has a strong system of internal control in place to support the achievement of its strategic objectives. I have no disclosure of control weaknesses to make for 2016-17. During the year our internal auditors have made a number of recommendations to management to enhance governance, risk management and control. Action plans are in place for all of the recommendations we have accepted.

The annual report and accounts are fair, balanced and understandable. I am personally responsible for them, and for the judgments required to determine this.

A handwritten signature in black ink that reads "Joanna Whittington." The signature is written in a cursive style with a large initial 'J'.

**Joanna Whittington**  
Accounting Officer

12 June 2017

## Board member committee attendances

Member	Board	Audit & Risk Committee	Remuneration Committee	Health and Safety Regulation Committee	Highways Committee
Tracey Barlow	10/11	N/A	3/3	N/A	4/6
David Franks	5/5	N/A	N/A	1/1	N/A
Stephen Glaister	11/11	N/A	N/A	4/4	6/6
Anne Heal	5/5	N/A	1/1	N/A	N/A
Bob Holland	11/11	4/4	N/A	3/3	N/A
John Larkinson	1/1	N/A	N/A	N/A	N/A
Michael Luger	9/11	4/4	4/4	N/A	N/A
Graham Mather	5/5	N/A	N/A	N/A	N/A
Justin McCracken	11/11	N/A	4/4	4/4	N/A
Ian Prosser	11/11	N/A	N/A	4/4	N/A
Graham Richards	4/4	N/A	N/A	1/1	2/2
Joanna Whittington	11/11	4/4	N/A	4/4	6/6
Melvyn Neate*	N/A	4/4	N/A	N/A	N/A
Garrett Emmerson**	N/A	N/A	N/A	N/A	6/6
Terry Hill**	N/A	N/A	N/A	N/A	4/6

\*independent member of the Audit and Risk Committee.

\*\*independent member of the Highways Committee.

# Remuneration and Staff Report

## Remuneration Report

### Remuneration Committee

The Remuneration Committee maintains strategic oversight of the approach to remuneration, performance, reward, as well as other terms and conditions of all staff. It also has a specific role in reviewing the remuneration packages of ORR's senior civil servants (SCS) including the Chief Executive. It comprises three Non-Executive members of the Board. For 2016-17 these were Michael Luger (Committee Chair), Justin McCracken, Tracey Barlow (member until 31 December 2016), and Anne Heal (member from 1 January 2017).

The Committee's role is to review the remuneration packages of ORR's SCS staff; to keep under review the criteria for allocating individuals to performance tranches and awarding bonuses; to make recommendations to the Board on pay decisions for senior civil servants; to recommend to the Board broad pay policy in relation to all aspects of Executive remuneration; and to monitor the operation of the pay system. Our civil service pay strategy accords with parameters set by the Cabinet Office for the SCS following recommendations by the Senior Salaries Review Body.

### Service contracts

The Constitutional Reform and Governance Act 2010 requires civil service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

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

Further information about the work of the Civil Service Commission can be found at [www.civilservicecommission.org.uk](http://www.civilservicecommission.org.uk).

### Remuneration policy

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

Each senior civil servant participated in performance management arrangements under which top performers have the opportunity to be awarded a performance-related payment,

(following the annual Cabinet Office guidance 'Managing performance within the senior civil service', which takes into account the recommendations of the Senior Salaries Review Body and is subject to government approval).

These performance payments are non-consolidated and non-pensionable.

The remuneration of the Chair and Non-Executive Directors is set by the Secretary of State for Transport. Remuneration of Non-Executive Board members is by payment of salaries and they have no entitlement to performance related pay or pension benefits. The Chair is entitled to pension benefits but has not exercised that entitlement to date.

The arrangements for early termination of contracts of senior civil servants are made in accordance with the employment contract of the relevant individual subject to the provisions of the Civil Service Compensation Scheme. No early termination payments were made to senior civil servants in 2016-17 (2015-16: none).

## **Salary and pension entitlements**

The following sections provide details of the remuneration and pension interests of the Executive Directors of ORR, and have been subject to external audit.

## Single total figure of remuneration

	Salary (£000)		Bonus payments (£000)		Benefits in kind (to nearest £100)		Pension benefits (£000)		Total (£000)	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
<b>Richard Price</b> Chief Executive (to 15/1/16)	15-20	140-145	-	-	-	-	5	58	23	202
<b>Joanna Whittington</b> Chief Executive (from 16/1/16), Director, railway markets and economics (to 15/1/16)	140-145	110-115	-	5-10	-	-	71	52	212	175
<b>Peter Antolik</b> Director, highways monitor	120-125	120-125	-	-	-	-	45	45	166	166
<b>Dan Brown</b> Director, strategy and policy	120-125	120-125	-	-	-	-	49	52	173	175
<b>Russell Grossman</b> Director, communications (from 23/11/15)	125-130	40-45	-	-	-	-	26	15	155	58
<b>John Larkinson</b> Director, railway markets and economics	130-135	120-125	10-15	10-15	600	600	97	52	244	191
<b>Juliet Lazarus</b> Director, legal services	90-95	85-90	-	5-10	-	-	32	34	122	133
<b>Alan Price</b> Director, railway planning and performance (to 26/2/16)	-	145-150	-	10-15	-	-	-	57	-	215
<b>Ian Prosser</b> Director, railway safety	125-130	125-130	10-15	-	-	-	49	49	188	174
<b>Graham Richards</b> Director, railway planning and performance (from 27/2/16)	95-100	5-10	-	-	-	-	88	14	187	21
<b>Tom Taylor</b> Director, corporate operations and organisational development (to 29/1/17)	100-105	120-125	-	-	-	-	41	54	142	176

**Salary** includes gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by ORR and thus recorded in these accounts.

**Bonus payments** are based on performance levels attained and are made as part of the performance appraisal process. Bonuses reported in 2016-17 relate to performance in 2015-16 and comparative bonuses reported for 2015-16 relate to performance in 2014-15.

**Benefits in kind** comprise subsidised gym membership.

**Pension benefits** are shown on page 63. No senior managers exercised the option to take extra salary to invest in a pension scheme of their own choice rather than participate in a civil service pension.

Joanna Whittington was appointed Chief Executive on 20 February 2017. She was interim Chief Executive from 16 January 2016 until her permanent appointment into this role. She worked part-time hours until 31 May 2016. Her full-year basic equivalent salary in her current position is in the range £155,000 - £160,000.

Graham Richards was appointed Director, Railway Planning and Performance on 1 December 2016. His full year equivalent salary was in the range of £115,000 - £120,000.

Tom Taylor left ORR on 29 January 2017. His full-year basic equivalent salary was £120,000 - £125,000.

The full-year basic equivalent salary for Juliet Lazarus (who works part-time hours) is in the range £125,000 - £130,000 (2015-16: £125,000 to £130,000).

Richard Price moved on from his role as Chief Executive and ceased to be a Board member on 15 January 2016. However, he remained on ORR's payroll under a secondment agreement between ORR and the Department for Environment, Food and Rural Affairs until 15 May 2016.

## Pay multiples

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.

The banded remuneration of the highest-paid Director in ORR in the financial year 2016-17 was £140,000 - £145,000 (2015-16: £145,000 - £150,000). This was 2.6 times (2015-16: 2.8) the median remuneration of the workforce, which was £53,431 (2015-16: £54,154). This ratio is lower than 2015-16 as the salary of the highest-paid Director is lower in 2016-17.

In 2016-17, no employees (2015-16: none) received remuneration in excess of the highest-paid Director. Remuneration ranged from £20,050 to £140,600 (2015-16: £21,425 to £150,000).

Total remuneration includes salary non-consolidated performance-related pay and

benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

## Pension entitlements for Directors

	Accrued pension at pension age as at 31/03/17 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV as 31/03/17 £000	CETV as 31/03/16 £000	Real Increase in CETV £000
<b>Richard Price</b> Chief Executive (to 15/1/16)	40-45 lump sum 115-120	0-2.5 lump sum 0	715	713	1
<b>Joanna Whittington</b> Chief Executive (from 16/1/16), Director railway markets and economics (to 15/1/16)	25-30 lump sum 65-70	2.5-5 lump sum 0-2.5	474	411	39
<b>Peter Antolik</b> Director, highways monitor	5-10	2.5-5	69	33	23
<b>Dan Brown</b> Director, strategy and policy	25-30	2.5-5	273	241	15
<b>Russell Grossman</b> Director, communications (from 23/11/15)	45-50	0-2.5	831	771	22
<b>John Larkinson</b> Director, railway markets and economics	40-45 lump sum 125-130	2.5-5 lump sum 12.5-15	843	724	81
<b>Juliet Lazarus</b> Director, legal services	20-25	0-2.5	347	314	14
<b>Alan Price</b> Director, railway planning and performance (to 26/2/16)	-	-	-	145	-
<b>Ian Prosser</b> Director, railway safety	25-30	2.5-5	390	340	34
<b>Graham Richards</b> Director, railway planning and performance (from 27/2/16)	20-25	2.5-5	280	214	50
<b>Tom Taylor</b> Director, corporate operations and organisational development (to 29/1/17)	35-40 lump sum 90-95	0-2.5 lump sum 0-2.5	553	512	16



## Civil service pensions

Pension benefits are provided through the civil service pension arrangements. From 1 April 2015 new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or **alpha**, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: three providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within ten years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 3.0% and 8.05% of pensionable earnings for members of classic (and members of alpha who were members of classic immediately before joining alpha) and between 4.6% and 8.05% for members of premium, classic plus, nuvos and all other members of alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his or her pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate is 2.32%. In all cases

members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill-health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos, and the higher of 65 or State Pension Age for members of alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages).

Further details about the civil service pension arrangements can be found at the website <http://www.civilservicepensionscheme.org.uk>

Some employees are covered by the provisions of the Railway Pension Scheme (RPS), which is contributory and funded. The scheme is a defined benefit scheme with obligations met by the RPS trustees. Details of the RPS scheme statements and other financial information can be found in the annual report and accounts of Railway Pensions Trustee Company Limited ([www.railwaypensions.co.uk](http://www.railwaypensions.co.uk)).

The former rail regulators' and former Chairs' pensions are by analogy with the Principal Civil Service Pension Scheme. During 2016-17 there were no active members (2015-16: no active members). The accruing cost of providing for the members' future benefits, which is based on actuarial advice, is charged to the Statement of Comprehensive Net Expenditure. A provision for the expected future liabilities for the former rail regulators' and Chair's pension scheme is disclosed as a liability on the Statement of Financial Position.

## Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former

scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

### **Real increase in CETV**

This is the element of the increase in accrued pension funded by the employer. It excludes increases due to inflation and contributions paid by the employee. It is worked out using common market valuation factors for the start and end of the period.

### **Payments to past Directors and compensation for loss of office**

Richard Price remained on ORR's payroll under the terms of a secondment agreement between ORR and the Department for Environment, Food and Rural Affairs until 15 May 2016. No other payments were made to any person who was not a Director at the time the payment was made, but who had been a Director previously (2015-16: none). No compensation payments were made on early retirement or for loss of office (2015-16: none).

## Fees of Non-Executive Board members and independent members of the Audit and Risk Committee and Highways Committee

	Fee range		Benefits in kind		Total	
	(£000)		(to nearest £100)		(£000)	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
Stephen Glaister (from 1/4/15)	120-125	45-50	-	-	120-125	45-50
Anna Walker (to 31/12/15)	-	90-95	-	-	-	90-95
Bob Holland	20-25	20-25	1,600	2,500	20-25	20-25
Tracey Barlow	20-25	20-25	1,700	5,600	20-25	25-30
Justin McCracken	20-25	20-25	1,800	2,400	20-25	20-25
Michael Luger	20-25	20-25	900	2,300	20-25	20-25
Anne Heal (from 1/10/16)	10-15	-	-	-	10-15	-
David Franks (from 1/10/16)	10-15	-	100	-	10-15	-
Graham Mather (from 1/10/16)	10-15	-	-	-	10-15	-
Mark Fairbairn (to 31/12/15)	-	15-20	-	1,000	-	15-20
Ray O'Toole (to 31/12/15)	-	15-20	-	200	-	15-20
Melvyn Neate*	0-5	0-5	-	300	0-5	0-5
Garrett Emmerson** (from 1/11/15)	0-5	0-5	-	-	0-5	0-5
Terry Hill** (from 1/9/15)	0-5	0-5	-	-	0-5	0-5

\*independent Audit and Risk Committee member

\*\*independent Highways Committee member

Non-Executive Directors and independent members of the Audit and Risk Committee and Highways Committee are entitled to receive reimbursement of expenses incurred in relation to their duties. ORR meets the cost of the tax due on these taxable benefits. The only benefits in kind for Non-Executive Directors and independent Committee members are travel arrangements.

The full-year equivalent fee for David Franks, Anne Heal and Graham Mather was in the range of £20,000 to £25,000.

The full-year equivalent fee for Stephen Glaister and Anna Walker in 2015-16 was in the range of £120,000 to £125,000.

The full-year equivalent fee for Mark Fairbairn and Ray O'Toole in 2015-16 was in the range of £20,000 to £25,000.

## Staff report

### Staff numbers and related costs

Staff costs comprise:

	Permanently employed staff £000	Others £000	2016-17 £000 Total £000	2015-16 £000 Total £000
Wages and salaries	15,511	564	16,075	15,932
Social security costs	1,803	26	1,829	1,528
Other pension costs	3,268	-	3,268	3,231
<b>Sub Total</b>	<b>20,582</b>	<b>590</b>	<b>21,172</b>	<b>20,691</b>
Less recoveries in respect of outward secondments	-	-	-	(56)
<b>Total net costs</b>	<b>20,582</b>	<b>590</b>	<b>21,172</b>	<b>20,635</b>

All ORR staff and related costs are charged to administration budgets.

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme in which ORR is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2012. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation<sup>7</sup>.

For 2016-17, employers' contributions of £3,205,377 were payable to civil service pension schemes (2015-16: £3,150,485) at one of four rates in the range 20.0% to 24.5% (2015-16: 20.0% to 24.5%) of pensionable pay, based on salary bands. The schemes' actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £35,187 were paid to one or more of a panel of two appointed stakeholder pension providers (2015-16: £14,114). Employer contributions are age-related and range from 8.0% to 14.75% (2015-16: 8.0% to 14.75%) of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay if employees decide to pay in money at a later stage. In 2016-17 no employer contributions of pensionable pay were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of

<sup>7</sup> <http://www.civilservicepensionscheme.org.uk/about-us/resource-accounts/>

these employees (2015-16: £433, 0.5%). No contributions were due to the partnership pension providers at 31 March 2017 (31 March 2016: £3,241).

No persons (2015-16: two persons) retired early on ill-health grounds. There were no additional accrued pension liabilities (2015-16: £nil).

The Railway Pension Scheme (RPS) is a funded multi-employer defined benefit scheme administered by Railway Pensions Trustee Company Limited. This is a defined benefit scheme which prepares its own scheme statements. Details of the RPS pension statements can be found in the annual report and accounts of the RPS ([www.railwaypensions.co.uk](http://www.railwaypensions.co.uk)). Employer contributions of £34,603 were paid to the trustees of the RPS in 2016-17 at a rate of 1.5 times the individual members' contributions, on the basis of actuarial valuations (2015-16: £54,174, 1.525 times). ORR matches some of the BRASS2 contributions (an AVC scheme) made by the members. In 2016-17, matching contributions of £2,608 were made (2015-16: £2,608).

In 2016-17 ORR agreed to pay a fair share of the deficit arising on the 2013 valuation of the British Rail section of the Railway Pension Scheme. This totalled £456,237 and has been recognised within 'Other administration costs'.

With regard to the accrued pension costs for former Chairs and past rail regulators, no notional contributions (as advised by the Government Actuary) have been charged to the Statement of Comprehensive Net Expenditure, (2015-16: £nil). During 2015-16 a former rail regulator transferred a previous pension into the ORR scheme, and was credited with five years additional service. The total transfer-in was £188,000. The liability at 31 March 2017 is estimated at £945,000 (31 March 2016: £793,000).

## Average number of persons employed

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

Segment	2016-17 Number		2015-16 Number
	Permanent Staff	Others	Total
1. Economic Regulation	118	2	120
2. Safety Regulation	161	2	159
3. Roads Monitoring	20	-	9
<b>Total</b>	<b>299</b>	<b>4</b>	<b>303</b>

Included in "Others" are:

Others	Number	Cost (£000)
Agency staff	3.4	
Specialist contractor	0.3	
Consultant	0.0	
<b>Total</b>	<b>3.7</b>	<b>320</b>

Non-Executive Directors are included within permanent staff. The average number in 2016-17 was 6.5, with a cost of £270k.

## Staff composition

At 31 March 2017, our total headcount comprised the following staff:

	Male	Female	Total
	FTE	FTE	FTE
Directors	6.0	1.7	7.7
SCS1	6.3	2.4	8.7
Employees	159.4	109.8	269.2
	171.7	113.9	285.6

## Sickness absence data

The annual working days lost per employee through sickness in 2016-17 was 4.0 (2015-16: 3.2).

## Staff policies applied during the year

### Equality and diversity

We are committed to the principles of equality and diversity and aim to ensure that nobody receives less favourable treatment particularly on the basis of age, disability, gender re-assignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation. We follow the 'Positive about Disability' scheme to encourage applications from disabled people, offering them a guaranteed interview if they meet the minimum requirements for the role. There is support for staff with disabilities when in employment, making reasonable adjustments to their working environment and providing additional training and support, utilising 'Access to Work' resources. We have encouraged our managers to complete the new e-learning unconscious bias training or attend the half day workshop, to improve their awareness of diversity issues.

We engage with our Staff Representatives Group on a regular basis to share information on the organisation and on all aspects concerning employment. The minutes of the bi-

monthly meetings are shared with all staff, and twice yearly the meetings are open for staff to attend as observers.

### **Health and safety**

We fully recognise and accept our legal responsibility in relation to the health, safety and welfare of our employees and for all people using our premises. We comply with the Health & Safety at Work Act 1974 and all other relevant legislation as appropriate.

We are committed to the positive promotion of accident prevention and the elimination of incidents involving personal injury, illness or damage. We actively monitor and manage our staff absence, ensuring that staff receive the support and advice they need from occupational health and/or our employee assistance service, to remain in work or returning to work. The Executive Committee reviews our absence data on a quarterly basis for trends and changes, and discuss how we can improve the wellbeing of our staff. We have trained internal Display Screen Equipment assessors in each of our office, who undertake work station assessments for staff periodically.

### **Health and wellbeing**

During 2016-17 ORR participated in the Public Health England 'One You' campaign, to promote a healthier lifestyle to staff, by encouraging them to make small changes to their diet or exercise routine. We also joined the Civil Service Workplace Challenge, providing active lunchtime sessions, team and individual activity challenges and an ORR sports day for all staff in July. We supported the 'Time to Talk' day, to increase awareness of mental health issues; providing resources for managers to use in team meetings.

A third of our employees took up the offer of an annual health assessment with an occupational health nurse and had a free flu vaccination. We promoted health campaigns in our weekly staff e-newsletter and offer an online wellness assessment for staff.

### **Off-payroll engagements**

Annex A contains details of off-payroll engagements during 2016-17.

### **Exit packages**

There were no redundancies made during in either 2016-17 or 2015-16. A provision of £65k has been included in 2016-17 for redundancies expected to take place in 2017-18.



**Joanna Whittington**

Accounting Officer

12 June 2017



# Parliamentary accountability and audit report

## Statement of Parliamentary Supply

In addition to the primary statements prepared under IFRS, the Government Financial Reporting Manual (FReM) requires ORR to prepare a Statement of Parliamentary Supply (SoPS) and supporting notes to show resource outturn against the Supply Estimate presented to Parliament, in respect of each budgetary control limit. The SoPS and related notes are subject to audit.

### Summary of resource and capital outturn 2016-17

	SoPS Note	Estimate			Outturn			2016-17 £000	2015-16 £000
		Voted	Non-Voted	Total	Voted	Non-Voted	Total	Voted Outturn compared with Estimate: saving/ (excess)	Outturn
								Total	Total
		£000	£000	£000	£000	£000	£000	£000	£000
<b>Departmental Expenditure Limit</b>									
- Resource	1.1	4	-	4	3	-	3	1	3
- Capital	1.2	720	-	720	582	-	582	138	506
<b>Annually Managed Expenditure</b>									
- Resource	1.1	-	-	-	-	-	-	-	-
- Capital	1.2	-	-	-	-	-	-	-	-
<b>Total Budget</b>		724	-	724	585	-	585	139	509
<b>Non-Budget</b>									
- Resource	1.1	-	-	-	-	-	-	-	-
<b>Total</b>		724	-	724	585	-	585	139	509
Total Resource		4	-	4	3	-	3	1	3
Total Capital		720	-	720	582	-	582	138	506
Total		724	-	724	585	-	585	139	509

Net cash requirement 2016-17				
SoPS note	2016-17 £000 Estimate	2016-17 £000		2015-16 £000
		Outturn	Outturn compared with Estimate: saving/ (excess)	Outturn
3	<b>2,001</b>	634	1,367	<b>(1,126)</b>
Administration costs 2016-17				
	2016-17 £000 Estimate	2016-17 £000 Outturn	2015-16 £000 Outturn	
	<b>4</b>	<b>3</b>	<b>3</b>	

Figures in the areas outlined in bold are voted totals subject to Parliamentary control. IN addition, although not a separate voted limit, any breach of the administration budget will also result in an excess vote.

## Notes to the Statement of Parliamentary Supply

### SOPS1. Net outturn

#### SOPS1.1 Analysis of net resource outturn by section

	2016-17 £000					2015-16 £000	
	Outturn			Total	Estimate		Outturn
	Administration				Net Total	Net total compared to Estimate	
	Gross	Income	Net				Total
<b>Spending in Departmental Expenditure Limit</b>							
Voted:							
A Economic regulation, admin, associated capital and other expenditure	12,746	(12,745)	1	1	2	(1)	1
B Safety regulation, admin and other expenditure	15,792	(15,791)	1	1	1	-	1
C Other regulation, admin and other expenditure	2,462	(2,461)	1	1	1	-	1
<b>Total</b>	<b>31,000</b>	<b>(30,997)</b>	<b>3</b>	<b>3</b>	<b>4</b>	<b>(1)</b>	<b>3</b>

## SOPS1.2 Analysis of net capital outturn by section

	2016-17 £000					2015-16 £000
	Outturn			Estimate		Outturn
	Gross	Income	Net	Net	Net total compared to Estimates	Net
<b>Spending in Departmental Expenditure Limit</b>						
Voted:						
A Economic regulation, admin, associated capital and other expenditure	260	-	260	720	460	225
B Safety regulation, admin and other expenditure	322	-	322	-	(322)	281
C Other regulation, admin and other expenditure	-	-	-	-	-	-
<b>Total</b>	<b>582</b>	<b>-</b>	<b>582</b>	<b>720</b>	<b>138</b>	<b>506</b>

Net capital outturn is £138k lower than the capital budget as more costs were expensed than anticipated, and some planned capital expenditure was deferred into 2017-18 in line with business needs.

## SOPS3. Reconciliation of net resource outturn to net cash requirement

	SoPS Note	Estimate £000	Outturn £000	Net total outturn compared with Estimate: saving/ (excess) £000
Resource outturn	1.1	4	3	1
Capital outturn	1.2	720	582	138
<b>Accruals to cash adjustments:</b>				
<i>Adjustments to remove non-cash items:</i>				
Depreciation		(883)	(876)	(7)
New provisions and adjustments to previous provisions		(9)	(90)	81
Other non-cash items		(76)	(69)	(7)
<b><i>Adjustments to reflect movements in working balances:</i></b>				
Increase/(decrease) in receivables		-	715	(715)
Decrease in payables		2,245	353	1,892
Use of provisions		-	16	(16)
		1,277	49	1,228
Net Cash Requirement		2,001	634	1,367

## SOPS4. Income payable to the Consolidated Fund

### SOPS4.1 Analysis of income payable to the Consolidated Fund

In addition to income retained by the department, the following income is payable to the Consolidated Fund (cash receipts being shown in italics).

	2016-17		2015-16	
	Income £000	<i>Receipts</i> £000	Income £000	<i>Receipts</i> £000
Excess cash surrenderable to the Consolidated Fund	-	-	1,126	1,126
<b>Total</b>	-	-	<b>1,126</b>	<b>1,126</b>

## SOPS4.2 Consolidated Fund income

	2016-17 £000	2015-16 £000
Balance of Intergovernmental Commission levy due to be paid	377	94
Balance of DfT roads funding due to be paid	104	1,161
<b>Total</b>	<b>481</b>	<b>1,255</b>

### Losses and special payments

There were no losses or special payments in excess of £300,000, either individually or in aggregate, in 2016-17 or 2015-16.

### Remote contingent liabilities

In addition to contingent liabilities reported within the meaning of IAS 37 – Provisions, contingent liabilities and contingent assets (see note 14), ORR also reports to Parliament liabilities for which likelihood of a transfer of economic benefit in settlement is too remote to meet the definition of contingent liability. There are no such liabilities to report for 2016-17.



**Joanna Whittington**  
Accounting Officer

12 June 2017

# 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 and Road for the year ended 31 March 2017 under the Government Resources and Accounts Act 2000. The financial statements comprise: the department's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Remuneration and Staff Report and the Parliamentary Accountability disclosures that is described in those reports and disclosures as having been audited.

## Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the department's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted parliamentary control totals and that those totals have not been exceeded. The voted parliamentary control totals are Departmental Expenditure Limits (resource and capital), Annually Managed Expenditure (resource and capital), Non-Budget (resource) and Net

Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### **Opinion on regularity**

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted parliamentary control totals for the year ended 31 March 2017 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### **Opinion on financial statements**

In my opinion:

- the financial statements give a true and fair view of the state of the department's affairs as at 31 March 2017 and of the department's net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

### **Opinion on other matters**

In my opinion:

- the part of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which I report by exception**

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

## Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse  
Comptroller and Auditor General

National Audit Office  
157-197 Buckingham Palace Road Victoria  
London SW1W 9SP

14 June 2017



**Section C:**  
**Financial Statements**

# Statement of Comprehensive Net Expenditure

For the year ended 31 March 2017

	Note	2016-17 £000	2015-16 £000
<b>Total operating income</b>	5	<b>(30,997)</b>	<b>(29,909)</b>
Staff costs	3	21,172	20,635
Other administration costs	4	9,828	9,277
<b>Total operating expenditure</b>		<b>31,000</b>	<b>29,912</b>
<b>Net operating expenditure</b>		<b>3</b>	<b>3</b>
<b>Other comprehensive net expenditure</b>			
Actuarial loss on pension scheme liabilities	11	140	24
<b>Total comprehensive net expenditure for the year</b>		<b>143</b>	<b>27</b>

# Statement of Financial Position

As at 31 March 2017

	Note	2016-17 £000	2015-16 £000
<b>Non-current assets</b>			
Property, plant and equipment	6	1,398	1,683
Intangible assets	7	427	437
<b>Total non-current assets</b>		<b>1,825</b>	<b>2,120</b>
<b>Current assets</b>			
Trade and other receivables	8	2,666	1,574
Cash and cash equivalents	9	1,847	2,381
<b>Total current assets</b>		<b>4,513</b>	<b>3,955</b>
<b>Total assets</b>		<b>6,338</b>	<b>6,075</b>
<b>Current liabilities</b>			
Trade and other payables	10	(8,515)	(9,025)
Provisions	11	(110)	(45)
<b>Total current liabilities</b>		<b>(8,625)</b>	<b>(9,070)</b>
<b>Non-current assets less net current liabilities</b>		<b>(2,287)</b>	<b>(2,995)</b>
<b>Non-current liabilities</b>			
Provisions	11	(688)	(663)
Pension liabilities	11	(945)	(793)
<b>Total non-current liabilities</b>		<b>(1,633)</b>	<b>(1,456)</b>
<b>Total assets less total liabilities</b>		<b>(3,920)</b>	<b>(4,451)</b>
<b>Taxpayers' equity</b>			
General fund		(4,020)	(4,573)
Revaluation reserve		100	122
<b>Total taxpayers' equity</b>		<b>(3,920)</b>	<b>(4,451)</b>



**Joanna Whittington**  
Accounting Officer

12 June 2017

# Statement of Cash Flows

For the year ended 31 March 2017

Note	2016-17 £000	2015-16 £000		
<b>Cash flows from operating activities</b>				
	Net operating cost	2	(3)	(3)
	Adjustments for non-cash transactions	4	1,035	1,089
	Increase in trade and other receivables	8	(1,092)	(971)
	less movement in receivables relating to items not passing through statement of comprehensive net expenditure		377	779
	Increase/(Decrease) in trade and other payables	10	(510)	1,953
	less movements in payables relating to items not passing through statement of comprehensive net expenditure		209	(1,329)
	Use of provisions	11	-	(69)
	Use of provisions - by analogy pension	11	(16)	(16)
	Increase in pension provision - transfers in	11	-	188
	<b>Net cash outflow from operating activities</b>		-	<b>1,621</b>
<b>Cash flows from investing activities</b>				
	Property plant and equipment additions	6	(395)	(342)
	Intangible non-current assets additions	7	(239)	(153)
	<b>Net cash outflow from investing activities</b>		<b>(634)</b>	<b>(495)</b>
<b>Cash flows from financing activities</b>				
	From the Consolidated Fund (Supply) - current year		2,000	-
	From the Consolidated Fund (Supply) - prior year		-	-
	Advances from the Contingencies Fund		25,000	10,000
	Repayments to the Contingencies Fund		(25,000)	(10,000)
	<b>Net financing</b>		<b>2,000</b>	<b>-</b>
<b>Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund</b>				
			<b>1,366</b>	<b>1,126</b>
	Payments of amounts due to the Consolidated Fund		(2,381)	(1,842)
	Amounts due to the Consolidated Fund - and not paid over		481	1,255
	<b>Payments of amounts due to the Consolidated Fund</b>		<b>(1,900)</b>	<b>(587)</b>
<b>Net increase/(decrease) in cash and cash equivalents after adjustments for receipts and payments to the Consolidated Fund</b>				
			<b>(534)</b>	<b>539</b>
	<b>Cash and cash equivalents at the beginning of the period</b>	9	<b>2,381</b>	<b>1,842</b>
	<b>Cash and cash equivalents at the end of the period</b>	9	<b>1,847</b>	<b>2,381</b>

# Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2017

	Note	General fund £000	Revaluation reserve £000	Total reserves £000
<b>Balance as at 1 April 2015</b>		<b>(3,485)</b>	<b>144</b>	<b>(3,341)</b>
Net parliamentary funding - drawn down		-	-	-
Excess cash surrenderable to the Consolidated Fund	10	(1,126)	-	(1,126)
Comprehensive net expenditure for the year	2	(3)	-	(3)
Actuarial loss relating to pension provision	11	(24)	-	(24)
Auditors remuneration		43	-	43
Additional depreciation charged for revaluation on assets	6	22	(22)	-
<b>Balance as at 31 March 2016</b>		<b>(4,573)</b>	<b>122</b>	<b>(4,451)</b>
Net parliamentary funding - drawn down		2,000	-	2,000
Amounts issued from the Consolidated Fund for supply but not spent at year end	10	(1,366)	-	(1,366)
Comprehensive net expenditure for the year	2	(3)	-	(3)
Actuarial loss relating to pension provision	11	(140)	-	(140)
Auditors remuneration		40	-	40
Additional depreciation charged for revaluation on assets	6	22	(22)	-
<b>Balance as at 31 March 2017</b>		<b>(4,020)</b>	<b>100</b>	<b>(3,920)</b>

Note 1.12 describes the accounting treatments within the general fund and the revaluation reserve.

# Notes to the departmental resource accounts

## 1. Statement of accounting policies

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context by with the 2016-17 'Government Financial Reporting Manual' (FReM) issued by HM Treasury. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the ORR for the purpose of giving a true and fair view has been selected. The particular policies adopted by the ORR are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

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.

### 1.1 Accounting convention

These accounts have been prepared under the historical cost convention, modified to account for the revaluation of property, plant and equipment.

### 1.2 Basis of preparation

The presentational and functional currency of ORR is pounds sterling. The financial statements are presented in thousands of pounds sterling (£000).

### 1.3 Property, plant and equipment and depreciation

Property, plant and equipment are initially recognised at cost. The minimum level for capitalisation is £5,000. The grouping of assets below the threshold has been restricted to IT and fit-out costs.

Depreciated historical cost is used as a proxy for current value as this realistically reflects consumption of the asset. Annual revaluations would not create a material difference to the carrying value of the assets.

Depreciation is provided at rates calculated to write off property, plant and equipment by equal instalments over their estimated useful lives. Lives are normally in the following ranges:

Fitting out costs (limited to period of remaining lease)	up to 15 years
Furniture, office & telecoms equipment	5 - 10 years
Information technology	3 - 5 years

Depreciation is provided in the month after purchase or on bringing the asset into use.

## 1.4 Intangible assets

Purchased computer software licences and software development costs are capitalised as intangible assets where expenditure of £5,000 or more is incurred. Software licences are amortised over the shorter of the term of the licence and the useful economic life. Software development costs are amortised over 5 years or the life of the asset, whichever is shorter. The useful economic life for software is normally 2 - 5 years. Website costs are amortised over 5 years. Amortised historic cost is used as a proxy for current value as annual revaluations would not create a material difference to the carrying value of the assets.

## 1.5 Cash

Cash and cash equivalents comprise cash in hand and current balances with banks. These are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value, and have an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

## 1.6 Operating income

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

Since all rail-related costs are recovered via licence fees or the safety levy which are invoiced based on estimated costs, any over-recovery is treated as deferred income within current liabilities, and any under-recovery is treated as accrued income within current assets. All highways-related costs are recovered in full from the Department for Transport.

## 1.7 Foreign exchange

Transactions which are denominated in a foreign currency are translated into sterling at the rate of exchange ruling on the date of the transaction. Monetary assets and liabilities which are denominated in a foreign currency are translated at the closing rate of exchange at the year end date.

## 1.8 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), described in the staff report on page 64. The defined benefit schemes are unfunded. ORR recognises the expected cost of these elements 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 defined contribution schemes, ORR recognises the contributions payable for the year.

In addition, three present employees (2015-16: five) are covered by the provisions of the Railways Pension Scheme (RPS) which is contributory and funded. The scheme is a defined benefit scheme with the obligations met by the trustees. The benefits of the RPS are ultimately guaranteed by the Secretary of State. The amount paid in respect of these pensions is shown under staff costs in the Statement of Comprehensive Net Expenditure.

Past rail regulators have separate pension arrangements that are broadly analogous with the PCSPS. The arrangements provide for an unfunded defined benefit scheme. However, unlike the PCSPS, a pension liability is included in the accounts provision to meet ORR's liability for future payment.

## **1.9 Operating leases**

Rentals due under operating leases are charged to the Statement of Comprehensive Net Expenditure 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 12.2, are not discounted.

## **1.10 Provisions**

ORR provides for legal or constructive obligations where it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the real rate set by HM Treasury; currently short term (-2.70%), medium term (-1.95%) and long term (-0.80%).

The discount rate applied to provisions for voluntary early retirement and for past rail regulators' pension commitments is the Treasury's post-employment benefits rate, which is 0.24% net of price inflation (2015-16: 1.37%).

## **1.11 Value added tax (VAT)**

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

## **1.12 Reserves**

The revaluation reserve was created to record historic increases in the value of certain fixed assets (fixtures and fittings and fitting out costs). When these assets are depreciated, the reserve is reduced by the amount of depreciation that relates to that part of the asset that was previously revalued.



The general fund records elements of the accounts which are not charged to the industry, and therefore do not pass through our income and expenditure account. These include, the effect of changes in accounting policy, actuarial gains and losses relating to our pension provision, auditors' remuneration, cash to be returned to the Consolidated Fund and our token annual £3k operating cost for the year voted by Parliament.

### **1.13 Going concern**

The Statement of Financial Position at 31 March 2017 shows a negative taxpayers' equity of £3.92 million. 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. Approval for amounts required for 2017-18 has already been given, and there is no reason to believe that future approvals will not be granted. It has therefore been considered appropriate to adopt a going concern basis for the preparation of these accounts.

### **1.14 Contingent liabilities**

In addition to contingent liabilities disclosed in accordance with IAS 37 – Provisions, contingent liabilities and contingent assets, the department discloses for parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of 'Managing Public Money'.

Where the time value of money is material, contingent liabilities which are required to be disclosed under IAS 37 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Parliament. These are noted in the Accountability Report on page 76.

## 2. Statement of operating costs by operating segment

	2016-17			2015-16				
	Economic regulation £000	Safety regulation £000	Roads monitoring £000	Total £000	Economic regulation £000	Safety regulation £000	Highways monitor £000	Total £000
Gross expenditure	12,746	15,792	2,462	31,000	12,682	15,780	1,450	29,912
Gross income	12,745	15,791	2,461	30,997	12,681	15,779	1,449	29,909
Net expenditure	1	1	1	3	1	1	1	3

### Short description of segments

**Economic regulation** – as the economic regulator of the mainline railway, ORR sets the outputs which Network Rail must achieve.

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

No individual train operating company contributes more than 10% of ORR income. However Network Rail paid £3.8 million in safety levy in 2016-17 (£4.3 million in 2015-16).

**Highways monitor** – ORR is responsible for monitoring and enforcing the performance and efficiency of Highways England.

The analysis of services for which a fee is charged is provided for fees and charges purposes, not IFRS 8 purposes.

## 3. Staff costs

Staff costs comprise:

	Permanently employed staff £000	Others £000	2016-17 £000 Total £000	2015-16 £000 Total £000
	Wages and salaries	15,511	564	16,075
Social security costs	1,803	26	1,829	1,528
Other pension costs	3,268	-	3,268	3,231
<b>Sub Total</b>	20,582	590	21,172	20,691
Less recoveries in respect of outward secondments	-	-	-	(56)
<b>Total net costs</b>	<b>20,582</b>	<b>590</b>	<b>21,172</b>	<b>20,635</b>

Further information is provided in the Staff Report on page 68.

## 4. Other administration costs

	2016-17 £000	2015-16 £000
<b>Rental under operating leases:</b>		
Hire of office equipment	37	25
Other operating leases	1,039	1,075
	<b>1,076</b>	<b>1,100</b>
<b>Non-cash items:</b>		
Depreciation	648	541
Amortisation	228	478
Loss on disposal	1	-
Interest charges in respect of by analogy pension scheme	28	24
Auditors' remuneration and expenses	40	43
	<b>945</b>	<b>1,086</b>
<b>Provisions:</b>		
Provision for redundancy costs	65	10
Provision for dilapidations	25	(7)
	<b>90</b>	<b>3</b>
<b>Other:</b>		
Travel and subsistence	884	893
Hospitality	56	86
Consultancies	1,537	1,070
IT & Telecoms	1,953	2,094
Landlord service charges & rates	1,044	865
Printing & stationery	121	148
Recruitment & training	482	532
Staff-related (including staff restaurant)	146	186
Building-related	209	317
External services - internal audit, payroll, banking and finance	240	279
External services - other	578	603
Pension deficit funding	456	-
Other costs	11	15
	<b>7,717</b>	<b>7,088</b>
	<b>9,828</b>	<b>9,277</b>

In 2016-17 ORR agreed to pay a fair share of the deficit arising on the 2013 valuation of the British Rail section of the Railway Pension Scheme. This totalled £456k and has been recognised above.

## 5. Income

	Note	2016-17 £000	2015-16 £000
Licence fees		12,958	13,695
Less: income deferred to future year	10	(344)	(1,147)
Safety levy and related safety income		15,915	16,561
Less: income deferred to future year	10	(569)	(1,041)
Income from roads monitoring		2,446	1,449
Miscellaneous income*		591	392
		<b>30,997</b>	<b>29,909</b>

\*Miscellaneous income consists mainly of costs awarded to ORR arising from successful safety prosecutions, costs recovered from other organisations resulting from ORR safety inspectors being engaged to work on their behalf, and rental income.

## 6. Property, plant and equipment

	Fitting out costs £000	Furniture, office equipment & telecoms £000	Information technology £000	Assets under construction £000	Total £000
<b>Cost or valuation</b>					
At 1 April 2016	4,017	1,206	599	-	5,822
Additions	28	29	138	169	364
Disposals	(11)	(176)	(116)	-	(303)
At 31 March 2017	<b>4,034</b>	<b>1,059</b>	<b>621</b>	<b>169</b>	<b>5,883</b>
<b>Depreciation</b>					
At 1 April 2016	2,767	1,112	260	-	4,139
Charged in year	306	58	262	-	626
Disposals	(10)	(176)	(116)	-	(302)
Revaluations	22	-	-	-	22
At 31 March 2017	<b>3,085</b>	<b>994</b>	<b>406</b>	<b>-</b>	<b>4,485</b>
<b>Carrying amount at 31 March 2017</b>	<b>949</b>	<b>65</b>	<b>215</b>	<b>169</b>	<b>1,398</b>
<b>Carrying amount at 31 March 2016</b>	<b>1,250</b>	<b>94</b>	<b>339</b>	<b>-</b>	<b>1,683</b>

	Fitting out costs £000	Furniture, office equipment & telecoms £000	Information technology £000	Assets under construction £000	Total £000
<b>Cost or valuation</b>					
At 1 April 2015	3,973	1,342	333	-	5,648
Additions	44	44	266	-	354
Disposals	-	(180)	-	-	(180)
At 31 March 2016	<b>4,017</b>	<b>1,206</b>	<b>599</b>	<b>-</b>	<b>5,822</b>
<b>Depreciation</b>					
At 1 April 2015	2,439	1,206	133	-	3,778
Charged in year	306	86	127	-	519
Disposals	-	(180)	-	-	(180)
Revaluations	22	-	-	-	22
At 31 March 2016	<b>2,767</b>	<b>1,112</b>	<b>260</b>	<b>-</b>	<b>4,139</b>
<b>Carrying amount at 31 March 2016</b>	<b>1,250</b>	<b>94</b>	<b>339</b>	<b>-</b>	<b>1,683</b>
<b>Carrying amount at 31 March 2015</b>	<b>1,534</b>	<b>136</b>	<b>200</b>	<b>-</b>	<b>1,870</b>

All tangible assets are owned by ORR. During the year laptops costing £169k were purchased. These are included within 'assets under construction'. It is expected that they will be brought into use in 2017-18. Assets with a net book value of £1k were disposed of during the year. A loss on disposal of £1k was incurred.

## 7. Intangible assets

	System developments	Software licences	Website	Assets under construction	Total £000
<b>Cost or valuation</b>					
At 1 April 2016	1,879	679	175	14	2,747
Additions	112	73	9	24	218
Disposals	(192)	(183)	-	-	(375)
Transfers	14	-	-	(14)	-
<b>At 31 March 2017</b>	<b>1,813</b>	<b>569</b>	<b>184</b>	<b>24</b>	<b>2,590</b>
<b>Amortisation</b>					
At 1 April 2016	1,742	503	65	-	2,310
Charged in year	51	141	36	-	228
Disposals	(192)	(183)	-	-	(375)
<b>At 31 March 2017</b>	<b>1,601</b>	<b>461</b>	<b>101</b>	<b>-</b>	<b>2,163</b>
<b>Carrying amount at 31 March 2017</b>	<b>212</b>	<b>108</b>	<b>83</b>	<b>24</b>	<b>427</b>
<b>Carrying amount at 31 March 2016</b>	<b>137</b>	<b>176</b>	<b>110</b>	<b>14</b>	<b>437</b>

	System developments	Software licences	Website	Assets under construction	Total £000
<b>Cost or valuation</b>					
At 1 April 2015	1,877	425	157	136	2,595
Additions	2	118	18	14	152
Transfers	-	136	-	(136)	-
<b>At 31 March 2016</b>	<b>1,879</b>	<b>679</b>	<b>175</b>	<b>14</b>	<b>2,747</b>
<b>Amortisation</b>					
At 1 April 2015	1,419	380	33	-	1,832
Charged in year	323	123	32	-	478
<b>At 31 March 2016</b>	<b>1,742</b>	<b>503</b>	<b>65</b>	<b>-</b>	<b>2,310</b>
<b>Carrying amount at 31 March 2016</b>	<b>137</b>	<b>176</b>	<b>110</b>	<b>14</b>	<b>437</b>
<b>Carrying amount at 31 March 2015</b>	<b>458</b>	<b>45</b>	<b>124</b>	<b>136</b>	<b>763</b>

All intangible assets are owned by ORR. During the year £14k of assets relating to the Sharepoint operating system were brought into use, and transferred from 'assets under construction' to 'software licences'.

## 8. Trade receivables and other current assets

	31 March 2017 £000	31 March 2016 £000
<b>Amounts falling due within one year</b>		
Trade receivables	2,041	971
Other receivables	-	15
Staff receivables	81	91
Prepayments and accrued income	375	334
HM Revenue and Customs (VAT)	169	163
<b>Total trade receivables and other current assets at 31 March</b>	<b>2,666</b>	<b>1,574</b>

Included in staff receivables are travel season ticket loans for 46 employees totalling £75,437 (2015-16: £83,687 for 56 employees) and £5,771 relating to other advances made to 25 employees (2015-16: £6,887 to 26 employees).

## 9. Cash and cash equivalents

	2016-17 £000	2015-16 £000
Balance at 1 April	2,381	1,842
Net change in cash balances	(534)	539
<b>Balance at 31 March</b>	<b>1,847</b>	<b>2,381</b>
The following balances at 31 March were held at:		
Government Banking Service	1,825	2,358
Commercial banks and cash in hand	22	23
<b>Balance at 31 March</b>	<b>1,847</b>	<b>2,381</b>

## 10. Trade payables and other current liabilities

	31 March 2017 £000	31 March 2016 £000
<b>Amounts falling due within one year</b>		
Other taxation and social security	5	13
Trade payables	599	326
Other payables	2,774	1,621
Accruals	2,377	2,496
Deferred income	913	2,188
Balance of Intergovernmental Commission levy payable to the Consolidated Fund	377	94
Balance of DfT roads funding payable to the Consolidated Fund	104	1,161
Excess cash surrenderable to the Consolidated Fund	-	1,126
Amounts issued from the Consolidated Fund for supply but not spent at year end	1,366	-
<b>Total trade payables and other current liabilities at 31 March</b>	<b>8,515</b>	<b>9,025</b>

There were no amounts falling due after more than one year as at 31 March 2017 (31 March 2016: none).

## 11. Provisions for liabilities and charges

The provision for accommodation has been established in order to satisfy the obligation to return our offices to their original condition; calculated on a cost per square foot basis and discounted from the end of the lease date. A provision has been included for redundancies in relation to restructuring within ORR. The 'other' provision is for a potential VAT liability.

	Restructuring £000	Accommodation £000	Other £000	Total £000	2015-16 £000
Balances at 1 April 2016	-	663	45	708	774
Provided for in year	65	35	-	100	14
Provisions utilised in the year	-	-	-	-	(69)
Borrowing costs (unwinding of discounts)	-	(10)	-	(10)	(11)
<b>Balance at 31 March 2017</b>	<b>65</b>	<b>688</b>	<b>45</b>	<b>798</b>	<b>708</b>

## Analysis of expected timing of discounted flows

	Restructuring	Accommodation	Other	Total	2015-16 Total
	£000	£000	£000	£000	£000
Not later than one year	65	-	45	110	45
Later than one year and not later than five years	-	688	-	688	663
Later than five years	-	-	-	-	-
<b>Balance at 31 March 2017</b>	<b>65</b>	<b>688</b>	<b>45</b>	<b>798</b>	<b>708</b>

## Details for by-analogy defined benefit pension schemes

	As at 31 March 2017	As at 31 March 2016
	£000	£000
Liability in respect of:		
Active members	-	-
Deferred pensioners	593	483
Current pensioners	352	310
<b>Total present value of scheme liabilities</b>	<b>945</b>	<b>793</b>

	As at March 2017	As at March 2016
	£000	£000
<b>Liability calculation</b>		
Present value of scheme at 1 April	793	573
Current service cost (net of employee contributions)	-	-
Employee contributions	-	-
Interest cost	28	24
Actuarial loss	140	24
Benefits paid	(16)	(16)
Past service cost	-	-
Net individual pension transfer-in	-	188
<b>Balance at 31 March</b>	<b>945</b>	<b>793</b>

Former rail regulators benefit from a defined benefit pension scheme by-analogy with the PCSPS. An actuarial assessment was carried out on the scheme by the Government Actuary's Department (GAD) as at 31 March 2017. The current Chair has no pension arrangements with ORR.

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



ORR has recognised all actuarial gains and losses immediately through the general fund.

## History of experience losses/(gains)

	Year Ending 31/03/2017	Year Ending 31/03/2016	Year Ending 31/03/2015	Year Ending 31/03/2014	Year Ending 31/03/2013
<b>Experience losses/(gains) arising on the scheme liabilities</b>					
Amount (£000)	(6)	45	(4)	5	1
Percentage of scheme liabilities at end of year	-0.6%	5.7%	-0.7%	0.9%	0.2%

## Life expectancy at retirement

Under IAS 19 employers are required to disclose any other material actuarial assumptions used for the assessment. Accordingly the life expectancies shown below illustrate the longevity assumption used for the assessment.

Illustrative life expectancies for future pensioners as at 31 March 2016 and 2017 are based upon members aged 40 at these dates.

Current Pensioners	As at 31 March 2017		As at 31 March 2016	
	Men (years)	Women (years)	Men (years)	Women (years)
Exact Age				
60	29.0	30.8	28.9	30.7
65	24.0	25.8	23.9	25.7
75	14.8	16.4	14.7	16.3
<b>Future pensioners</b>	<b>As at 31 March 2017</b>		<b>As at 31 March 2016</b>	
Exact Age	Men (years)	Women (years)	Men (years)	Women (years)
60	31.2	33.0	31.1	32.8
65	26.6	28.4	26.5	28.3

## Cumulative amount of actuarial gains and losses

The cumulative actuarial loss for the year to 31 March 2017 amounts to £418,000 (31 March 2016: £278,000).

## Present value of scheme liabilities

	Value at 31/03/2017 £000	Value at 31/03/2016 £000	Value at 31/03/2015 £000	Value at 31/03/2014 £000	Value at 31/03/2013 £000
Liability in respect of:					
Active members	-	-	-	-	-
Deferred pensioners	593	483	244	217	189
Current pensioners	352	310	329	311	290
<b>Total present value of scheme liabilities</b>	<b>945</b>	<b>793</b>	<b>573</b>	<b>528</b>	<b>479</b>

## 12. Financial and capital commitments

### 12.1 Capital commitments

At 31 March 2017 ORR had capital commitments of £198k in relation to laptops and the set up of IT services.

### 12.2 Commitments under operating leases

Total future minimum lease payments under operating leases are given in the table below, analysed according to the period in which the lease expires.

	31 March 2017 £000	31 March 2016 £000
<b>Obligations under operating leases comprise:</b>		
<b>Buildings</b>		
Not later than one year	1,297	1,293
Later than one year and not later than five years	2,328	3,554
Later than five years	230	301
	<b>3,855</b>	<b>5,148</b>
<b>Other</b>		
Not later than one year	19	19
Later than one year and not later than five years	2	22
Later than five years	-	-
	<b>21</b>	<b>41</b>

There is an implied operating lease in part of the contractual arrangements we have in place for the provision of information technology managed services to the organisation. ORR has a contract for the provision of a fully managed service for a complete range of information technology services. The contract ends in June 2017. ORR pays an amount based on the number of users with a service charge per user depending on whether a desktop or laptop unit is used.

However, the price per unit includes all other information services such as the provision of an offsite data centre (which is not exclusively used by ORR); the staffing of service desk support; TUPE arrangements for those staff affected; server infrastructure; local area network infrastructure; wide area network infrastructure; data and file storage; installation and support of ORR software; office relocation and decommissioning work; security network compliance to 'official' (previously IL3) standard; the government's secure intranet; video conferencing and remote access arrangements; contract management; and support. As a result, it is impracticable to separate the lease payments for the various items of hardware, from all other IS services paid under the contract.

The value of our core information technology managed service in 2016-17 was £1.32 million.

### **12.3 Other financial commitments**

Apart from the capital commitments and lease commitments mentioned above, ORR has not entered into any non-cancellable contracts for any new expenditure as at 31 March 2017 (31 March 2016: £nil).

## **13. Financial instruments**

As the cash requirements of the department are mainly met through the licence fee, safety levy and grant, with advances from the Contingencies Fund to cover timing differences between income and expenditure, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body of a similar size. We are therefore exposed to little credit, liquidity or market risk. ORR is also not exposed to any significant interest rate or foreign currency risks.

### **Fair values**

The carrying amounts for current assets (Note 8) and current liabilities (Note 10) approximate to their fair value due to their short term nature.

## **14. Contingent liabilities disclosed under IAS 37**

An actuarial valuation of the British Rail section of the Railway Pension Scheme as at 31 December 2016 is in progress. ORR has three employees in this scheme. Once the results are published, the participating employers in the scheme will need to agree if any action needs to be taken. This may result in a liability for ORR. We are currently unable to reliably assess the timing or quantum of any potential payment.

ORR has a contingent liability in respect of an employment issue. It is possible that ORR may be required to make a payment to settle this issue. We expect this matter to be resolved in the first half of 2017-18. We are unable to reliably assess the quantum of any potential payment.

## **15. Related party transactions**

In addition to balances due to the Consolidated Fund (see note 10) regarding excess cash and Intergovernmental Commissionaire levy, there have been a small number of transactions with other government departments and other central government bodies.

No Board member, key manager or other related parties has undertaken any material transactions with ORR during the year.

## **16. Events after the reporting period**

There have been no reportable events between the end of the reporting period and the date the accounts were certified, the 'authorised for issue' date.

The Accounting Officer authorised the issue of these financial statements on the date of the Comptroller and Auditor General's audit certificate.

# Annex A

## Off-payroll engagements

**Table 1: For all off-payroll engagements as of 31 March 2017, for more than £220 per day and that last for longer than six months**

<b>Number of existing engagements as of 31 March 2017</b>	<b>0</b>
Of which:	
Number that have existed for less than one year at time of reporting	0
Number that have existed for between one and two years at time of reporting	0
Number that have existed for between two and three years at time of reporting	0
Number that have existed for between three and four years at time of reporting	0
Number that have existed for four or more years at time of reporting	0

**Table 2: For all new off-payroll engagements, or those that reached six months in duration, between 1 April 2016 and 31 March 2017, for more than £220 per day and that last for longer than six months**

Number of new engagements, or those that reached six months in duration, between 1 April 2016 and 31 March 2017	<b>0</b>
Number of the above which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations	0
Number for whom assurance has been requested	0
Of which:	
Number for whom assurance has been received	0
Number for whom assurance has not been received	0
Number that has been terminated as a result of assurance not being received	0

**Table 3: For any off-payroll engagements of Board members, and/or, senior officials with significant financial responsibility, between 1 April 2016 and 31 March 2017**

Number of off-payroll engagements of board members, and/or, senior officials with significant responsibility, during the financial year	<b>0</b>
Total number of individuals on payroll and off-payroll that have been deemed "board members, and/or, senior officials with significant financial responsibility", during the financial year. This figure includes both on payroll and off-payroll engagements	9

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