OFFICE OF RAIL AND ROAD

Annual report and accounts 2015-16

July 2016

Office of Rail and Road

Annual report and accounts 2015-16

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This is part of a series of departmental publications which, along with the Main Estimates 2016-17 and the document Public Expenditure: Statistical Analyses 2016 present the Government's outturn for 2015-16 and planned expenditure for 2016-17.

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M1 photo: Taken from School Road (B6059), near Wales (Sheffield area), looking north between junctions 30 and 31. Taken by Primary Image.

Glasgow Central photo: ScotRail Class 380, unit 380 019, with a service arrived from Motherwell. Taken by Primary Image.

Section A: Performance Report

Foreword

Our role

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 is to protect the interests of the users of these networks and their funders, including the health and safety of those who interact or work on the railway. We do this through the promotion of our six strategic objectives:

- drive for a safer railway;
- support a better service for customers;
- secure value for money from the railway, for funders and users;
- promote an increasingly dynamic and commercially sustainable sector;
- secure improved performance and value for money from the strategic road network; and
- be a high-performing regulator.

Highlights from 2015-16

This year we have continued to support the railway industry in its efforts to improve safety on the railway – one of the safest and most intensively used railways in the world. In particular, we welcome the publication by the industry of a strategy to improve health and safety further, which in turn will contribute to improved efficiency and performance on the railways. ORR's inspectors continue to play their part – this year spending 60 per cent of their time in the field (against a target of 50 per cent). Better health management remains a priority for us and a highlight of this year was the publication of "Better Health is Happening" which seeks greater awareness among managers and supervisors about how they can protect workers from ill health in the future.

We have completed one year in our new role as monitor of Highways England, recruiting a directorate of fifteen staff with expertise in engineering, benchmarking and accountancy. We published our first mid-year review of Highways England's performance in delivering the Government's Road Investment Strategy and will be following this up shortly with a full year assessment.

To support a better service for railways passengers, we have recently published our first annual report of passenger train operating companies and Network Rail's delivery in key areas such as complaints handling, disabled persons protection and the information which

is provided during disruptions. This work will set a baseline against which we will be able to measure changes in performance over time.

The capability and knowledge of our staff is fundamental to our success. This year we have developed a new approach to retain and attract the talent we require. We have introduced new ORR-specific competence frameworks which will support clearer career planning and enable us to link this more explicitly to reward.

Changing environment

But with these successes have come a number of challenges. In particular overspends and delays to some major enhancements on the railway network led to a series of reviews being carried out by or on behalf of Government. ORR staff contributed to these reviews with professionalism, in order that as an industry and a regulator we can learn the lessons of the past and reflect this in the way we do business going forward.

I was appointed as Chief Executive on an interim basis in January 2016 together with Stephen Glaister, who took on the role of Chair of ORR also on an interim basis. There is more for ORR to do in understanding the implications of the reviews for how we regulate. In developing our thinking we will make sure we continue to listen to passengers, freight customers, road users, their representatives, the industries we regulate and funders.

Joanna Whittington

Chief Executive and Accounting Officer

Chair's Report

There can be no doubt that 2015-16 was a testing year for the ORR. By the end of the year we had successfully established the highways monitor as an entirely new part of the office, and we had achieved greater clarity for the future on our roles in relation to rail.

It had become apparent over the first few months from April 2015 that the rail industry risked missing targets for quality of service to passengers, and was falling behind on delivery of the ambitious enhancements the government was asking for, within the funds available. Network Rail's reclassification to the public sector had changed the regulatory environment, in particular, limiting its ability to borrow.

These events precipitated official reviews of the best way to regulate the railway and of the longer-term shape and financing of Network Rail. There was also a review of competition in the railway. Following wide consultation, these reviews concluded by re-affirming the need for the strong and independent regulation provided by the ORR.

So by the end of 2015-16 we had a solid basis on which to start the process of refreshing our relationships with the organisations we work with. An important aspect of that is responding constructively to a comment made in the reviews, that there has been lack of clarity about where responsibilities lie between ourselves and the Department for Transport. We are also working to further enhance our activities in protecting consumer interests.

Alongside the reviews ORR has successfully performed its core functions. We have resolved complaints on competition matters; dealt with complex issues on access to the rail network; monitored and reported on performance based on analysis of the evidence; responded to a 'super-complaint' on consumer matters and generally strengthened our focus on consumers.

Notably and fundamental to our role, we have continued to be regarded as an effective regulator of health and safety across the whole rail sector, driving continuous improvement, and playing a leading part in delivering a performance across the whole sector that stands in comparison with the world's best.

ORR is only as good as its people, and it is to their credit that they have worked diligently and effectively throughout a difficult period. The Board is grateful to all ORR staff.

ORR now stands equipped and ready to commence the next quinquennial Periodic Review and to play its essential role in facilitating the planned major investments in the quality and capacity of the nation's major rail and road infrastructures, and in a way which supports devolution and industry reform.

This will benefit the rapidly growing numbers of rail and road users for years to come.

Stephen Glaister

Chair

Six strategic objectives in 2015-16

1. Drive for a safer railway: Enforce the law and ensure that the industry delivers continuous improvement in the health and safety of passengers, the workforce and public, by achieving excellence in health and safety culture, management and risk control.

2. Support a better service for customers: Use our powers to hold the industry to account for performance and standards of service across the railway network, for passengers and freight. Promote ongoing improvement in the experience of passengers by encouraging the industry to work together, including to provide greater transparency of information.

3. Secure value for money from the railway, for users and funders: Strengthen incentives for the whole industry to work together to drive greater efficiency from the use and maintenance of existing railway capacity, and more cost-effective investment in the network.

4. Promote an increasingly dynamic and commercially sustainable sector: Support sustainable economic growth by promoting innovation and efficient long-term investment across the rail industry through the appropriate development of effective markets and regulatory intervention.

5. Secure improved performance and value for money from the strategic road network: Secure improved performance, including efficiency, safety and sustainability, from the strategic road network, for the benefit of road users and the public, through proportionate, risk-based monitoring, increased transparency, enforcement and robust advice on future performance requirements.

6. Be a high-performing regulator: Develop and apply proportionate and risk-based regulation and monitoring, taking a whole-sector approach. Make more effective use of our resources across all of our functions, maximise the value of our regulation while minimising the costs of compliance for the businesses we regulate.

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 52.

Strategic risks

Strategic risk 1: Drive for 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, so that there are no avoidable deaths or injury to the workforce, passengers or others.

We continue to undertake track and line side inspections to ensure compliance with regulations and promote good practice.

We have highlighted the importance of occupational health to the industry and published our 2014 review paper of occupational health within the rail industry.

We continue to refine our health and safety assurance model (RM-3) to ensure that it continues to represent industry best practice.

In October 2015 we hosted an industry seminar on the issues associated with crowding and to encourage the industry to do more to effectively manage this in an environment of continued industry growth.

Strategic risk 2: Support a better service for customers

There is an inherent risk that our policy interventions on passenger information during disruption, complaints handling procedures, disabled persons protection policies, ticket vending machines and passenger compensation for train delays are insufficient to deliver legal and licence compliance.

Mitigation: We have increased our focus on core data collection and publication.
We are undertaking clearer and more systematic industry engagement.
We have improved transparency on analysis and findings.

Strategic risk 3: Secure value for money from the railway, for users and funders

There is an inherent risk that our actions do not strengthen the rail industry's ability to work together, drive greater efficiency from the use and maintenance of existing railway capacity, or result in more cost-effective investment in the network.

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; and,
- improving its asset management capability, so that it plans and delivers the optimum work to sustain the network and understands its costs.

We monitor Network Rail's financial performance, taking into account how much of the work it planned to do has been delivered.

Strategic risk 4: Promote an increasingly dynamic and commercially sustainable sector

There is an inherent risk that on-rail competition, Network Rail's performance in terms of cost control and outputs delivery, and the development of a clear planning framework do not result in an increasingly dynamic and commercially sustainable sector.

Mitigation: We are working with the Competition and Markets Authority, Government and industry regarding on-rail competition reforms.

We are continuing to engage Network Rail on cost control and the delivery of its output obligations. We continue to prepare effectively for Periodic Review 2018 (PR18), and are developing a programme of work and strong working relations with key industry contacts and Governments.

Strategic risk 5: Secure improved performance and value for money from the strategic road network

The highways monitor function is still in its infancy. The establishment of any new function carries inherent risks such as the development of internal capability and uncertainty around our role and powers.

There is an inherent risk that our monitoring and enforcement actions do not achieve the expected improved performance of Highways England.

Mitigation: We have successfully recruited a high-calibre team with the right skills and experience.

We have defined and developed the highways monitoring function, including publication of our monitoring framework. We have also developed and published our enforcement policy. We will continue to assess Highways England's performance against its key metrics and the delivery of the investment plan.

We have worked with the Department for Transport and Highways England to agree

appropriate data sets in order for us to undertake evidence-based decisions. We frequently engage with Highways England to ensure it delivers the data we have requested, and accompanying explanations.
We will continue to champion increased transparency within the sector by publishing relevant data (including benchmarking data on comparative performance) and developing our stakeholder engagement plan.

Strategic risk 6: Be a high performing regulator

In common with other public bodies there is an inherent risk that ORR is not seen to add value to the running of Britain's railways and England's strategic road network.

Mitigation: We engaged fully in the Bowe review of the planning of Network Rail's enhancements programme; the Department for Transport review of ORR; and the Shaw review on the structure and funding of Network Rail.

The evidence that ORR supplied to the reviews and that the review teams gathered from stakeholders both demonstrated the value that ORR adds and that there continues to be a need for an effective independent regulator. We continue to work with the UK Regulators' Network on issues of common interest and to share best practice across the different regulated sectors.

We are also focusing on stakeholder engagement to help mitigate this risk.

Operational risks

Operational risk 1: ORR budget

The ORR Board has agreed with HM Treasury to deliver budget savings of 4% in real terms in 2016-17, with the budgets to 2019-20 still to be agreed. There is an inherent risk that achievement of the 2016-17 target, along with unplanned or unanticipated work, may undermine our ability to deliver our strategic objectives.

Mitigation: The Board of ORR has agreed a balanced budget for 2016-17 with some allowance for contingency. Tight financial control and regular scrutiny of the in-year position will be used to mitigate any risk of over-spend. Management information will be used to prompt in-year re-prioritisation if necessary.

We will work closely with HM Treasury to agree a settlement for later years which will enable ORR to deliver its strategic objectives.

Operational risk 2: Staff retention and recruitment

We require high-calibre, often specialist staff in order to fulfill our duties effectively. There is an inherent risk that any difficulty retaining and recruiting staff may impact on our ability to perform our duties in the most effective and efficient way. We currently face strong competition from other departments and companies in specialist areas.

Mitigation: We are introducing a new competency framework which will create defined career paths for all staff. We are also investing in technology to enable staff to work in a more flexible way. However, there are limits to how far this risk can be mitigated within the current parameters of public pay policy.

Performance analysis

We started 2015-16 with 32 published commitments in our business plan. We have met 25 of these commitments.

The seven commitments which we have not met this year have either been re-scheduled to 2016-17 to accommodate emerging issues and unplanned work (such as that set out below), or have been integrated into other activities.

In addition to our published commitments we have delivered the following unplanned work in 2015-16:

- Assessment and recommendations in response to a super-complaint on compensation claimed by rail passengers when they experienced service delays.
- Advice and contributions to a number of reviews into the structure and funding of the rail sector.[1]
- Contributions to the Competition and Markets Authority's report on on-rail competition.
- Assurance review for the Secretary of State for Transport on Network Rail's possession plans for Christmas 2015 and Easter 2016.
- Commissioned a study of Highways England's supply chain capability.
- Foundation work for taking on an economic regulator role in Northern Ireland.
- Assessment of payment allocations under schedule 8 of Network Rail and train operators' access contracts.
- Multi-stage review of Network Rail's business plan.

[1] Including the Shaw Review, the Bowe Review, and the Public Accounts Committee review into the structure and funding of the Network Rail enhancement programmes from 2014-19.

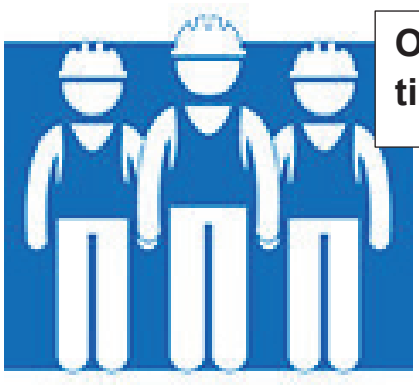
Delivery of service standards

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.

2015-16 was the second 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	91%[1]
ROGS safety certificates and authorisations	100% determined within four months of receiving completed application	100%
Report to Rail Accident Investigation 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 Enhancement Cost Adjustment Mechanism (ECAM) submissions	100% of responses within 21 days of receiving complete submission	78%[2]
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	92%
General enquiries and complaints	95% of enquiries and complaints responded to within 20 working days of receipt	94%[3]
Prompt payment of suppliers' invoices to ORR	80% paid within 10 days of valid invoice	94%
	100% paid within 30 days of valid invoice	100%



Our inspectors spent 60% of their time in the field (against 50% target)

1 Number reflects service disruption during the Holborn fire in Spring 2015.
2 Number reflects delayed processing of two applications where additional information was needed.
3 Deadline missed as team adjusted to new database introduced mid-December.

Our financial efficiency in 2015-16

Expenditure

In 2015-16 we spent a total of £29.9m compared to £29.3m in 2014-15.

By segment, this breaks down as follows:

- the same expenditure on economic regulation, at £12.7m;
- £0.4m less on safety regulation, at £15.8m; and
- £1.5m on our new highways monitoring role, compared to start-up costs of £446k last year.

An analysis of variances against 2014-15 is provided on page 40.

Budget

Our overall gross budget for 2015-16 was £32.9m. Compared to budget we spent £3.0m less than planned:

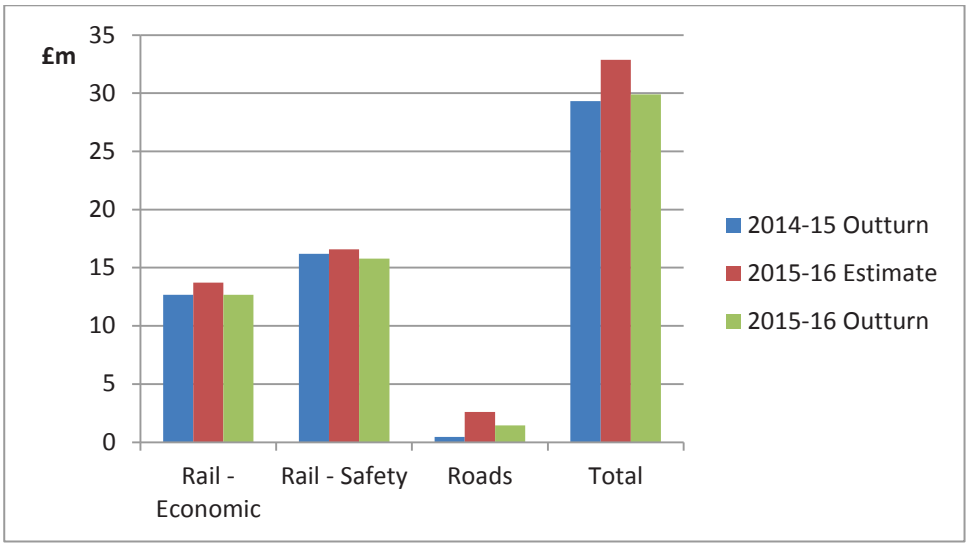
- £1.0m less on economic regulation;
- £0.8m less on safety regulation; and
- £1.2m less on roads monitoring.

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

- staff costs were 4% below budget, due to a higher vacancy rate than budgeted;
- consultancy spend was 39% below budget.

On the roads side of the business:

- staff costs were 10% below budget, as we recruited less staff than originally budgeted, and it took longer to recruit staff than originally envisaged; and
- we spent 75% less on consultancy than expected.



Strategic objective 1: Drive for a safer railway

ORR is the health and safety regulator for all of Britain's rail industry. Our vision of zero industry caused fatalities to passengers, the workforce and the public that we set seven years ago, seems for the first time ever to have been achieved across the whole rail sector. The industry that we regulate must take credit for this significant achievement. We and the industry cannot, however, be complacent and further improvements can be made to reduce further the level of harm to passengers, the workforce and the general public.

In 2015-16 we have:

Strategy, legislation and policy

- Published our updated baseline review on health management across the sector, building on the significant impact of our first four year programme, but identifying that there is still significant room for improvement. The results of the review have informed development of our new five year programme.
- Published "Better Health is Happening", a review of the costs and standing of the rail industry on managing health risks.
- Completed and signed an agency agreement with the Health and Safety Executive to take on enforcement activity for safety by design for new railway projects i.e. High Speed 2, and published a new strategic risk chapter on safety by design.
- Signed a collaboration agreement with the Health and Safety Laboratory to further develop and exploit our RM-3 model, which is now being seen as a world class tool accepted across the industry and overseas.
- While we have not seen the progress we would have liked on level crossings law reform, we have pressed DfT hard to make progress and recently received clearer assurances that important improvements to the regulatory framework will now be pursued.
- Continued to reduce the regulatory burden on the rail industry by concluding our review and consolidation of three sets of rail-specific safety regulations into a single set of Railway Safety Regulations, which Ministers plan to introduce in October 2016.
- Commenced a review, on behalf of Ministers, of the Railways & Other Guided Transport Systems Safety Regulations 2006 (ROGS), which has already

included an extensive consultation exercise supporting our view that the regulations are working well.

- In October 2015 we hosted an industry seminar on crowding, looking to encourage the industry to look at ways to improve the effectiveness of managing crowded situations especially with crowding becoming a more frequent occurrence with the continued increase in passenger numbers. We are now working closely with the industry and the Railway Safety and Standards Board as it reviews and revises its guidance on effective management of crowding.

- Following our hosting of an industry seminar in March 2015 to encourage the industry to identify a system-level solution to prevent the risk of freight container wagons derailments, of which there have been several over recent years, we have continued to monitor the cross-industry discussion on how best to mitigate the associated issues over 2015-16. The cause of these derailments was a mix of track geometry, wagon suspension dynamics and container loading asymmetry factors.

- Completed a full review of industry risks and how these feed into our strategic risk priorities/chapters and intervention plans. We have also completed reviews on two strategic risk chapters for rolling stock and level crossings.

Regulation and certification

- Received 2,040 train driver licence applications and issued 2,243 licences (including 248 applications carried over from the previous year).

- Delivered 82 level crossing orders, 1 variation, 1 direction, 5 Christmas directions, 1 traffic signs authorisation and 5 revocations.

- During the year we reported to the Railway Accident Investigation Branch (RAIB) on a total of 153 recommendations with 78 being implemented; 41 reported as implementation ongoing; 28 as being in progress or progressing; 3 reported as not to be implemented; 1 as having an insufficient response; and 2 as being addressed to another public body.

- We also finalised revisions to our RAIB recommendation handling process in January 2016 which, going forward, replaces ‘in progress’ with two new status descriptors: ‘progressing’, where we are satisfied that the end implementer is addressing the recommendation but no time bound plan can be provided, and ‘insufficient response’, where no response has been provided or we are not

satisfied that sufficient action is being taken to address the recommendation. A full list of current status descriptions can be found on the ORR website[2].

Inspection and enforcement

- Completed our planned inspection and audit work and from this needed to take enforcement action on fewer occasions this year - a positive development.
- During the year we found it necessary to issue 17 formal enforcement notices and, where appropriate, to prosecute duty holders in the courts to ensure compliance with the law. Over the year we successfully concluded 5 prosecutions over a variety of health and safety failures[3]. As prevention is always better than addressing issues after an incident has occurred, we also issued 11 improvement notices and 6 prohibition notices where we identified weaknesses in health and safety controls.
- Completed the investigation and have brought a prosecution against West Coast Railways (WCR) and the train driver following the very serious signal passed at danger at Wootton Bassett towards the end of last year. We have also worked with WCR over the last 12 months through reviewing its safety certificate and issuing improvement and prohibition notices to help it get to a better place, and on a continuous improvement path to improve its health and safety management arrangements.
- Served improvement notices on Eurotunnel, the operator of the Channel Tunnel. The notices were served as Eurotunnel's risk assessments did not adequately take account of the risks arising as a result of the activities of people attempting to gain unauthorised access to its lorry shuttles. Eurotunnel subsequently complied with our notices which led to improved risk controls being put in place.

[2] http://orr.gov.uk/__data/assets/pdf_file/0016/20383/raib-recommendation-status-category-descriptions.pdf

[3] Full details can be found at: http://orr.gov.uk/what-and-how-we-regulate/health-and-safety/health-and-safety-enforcement/enforcement-action-taken/prosecutions

Strategic objective 2: Supporting a better service for customers

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 2015-16 we have:

- Supported disabled passengers' ability to travel on the railways with confidence through our scrutiny and approval of train operating companies' disabled persons protection policies.
- Improved how train operators manage and learn from passenger complaints, including how they incorporate feedback from complaints into their policies and procedures so that they can improve the services that they deliver, and so increase trust and confidence amongst passengers.
- Completed a detailed review of retail practices identifying those areas which may be impacting on the pace of change and the range of services available to passengers.
- Completed our first review of the information provided on train operator websites. We have focused on the role of websites in delivering relevant information that can be easily located, is easy to understand, and enables passengers to take action (e.g. make a complaint or submit a claim for compensation) as quickly and as simply as possible. We have seen positive developments as a result of this work, with many train operators considering how and where they present information to passengers.
- Responded to 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. We have put together an ambitious plan to ensure that more passengers are aware that they can claim for compensation when delayed, and that the process for claiming is more accessible and user-friendly. We are working with the Department for Transport and the rail industry to ensure that this work will deliver benefits to passengers in the short-term.
- Continued to engage with consumer bodies and also our consumer panel to ensure that we remain aware of, and understand, key areas of passenger

concern. Working across different bodies we have been able to enhance our analysis and decision making with insight and experience from combined research, specific local knowledge and also cross-sector experience. This type of insight has been particularly useful in considering the recommendations made in our response to the super-complaint, and also the development and conclusion of our review into the market for ticket selling.

- Maintained our senior level engagement with passenger train operators to ensure the industry understands our plans for our consumer facing work. In particular we have hosted a number of workshops to ensure clarity, understanding and constructive dialogue on key issues such as how train operators manage and learn from passenger complaints; data collection to support the development of our new consumer report; and the significant evidence gathering that formed part of the super-complaint process.

We have recently published our first annual report looking across all of our consumer work. It showed how Network Rail and passenger train operating companies are fulfilling regulatory and consumer law obligations that are designed to protect and empower passengers. It focuses on key passenger areas such as passenger information during disruption, complaints handling procedures, disabled persons protection policies and the code of practice on ticket selling.

This report will increase transparency and will enable us to identify areas where best practice can be highlighted, and also where companies may not be delivering the level of service that we expect. We will use this information to drive forward improvements for passengers.

Strategic objective 3: Secure value for money from the railway, for users and funders

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 and the domestic portion of the Channel Tunnel.

Holding Network Rail to account for performance

In June and December we published our Network Rail Monitor in which we set out our views on Network Rail's performance on delivering its commitments. There were some positive conclusions such as strong performance on freight services, which were 1.8 percentage points above target; and how Network Rail has continued to improve safety by meeting its level crossings closure targets and plans, with over 140 closed since April 2014. However, we also concluded that plans for improving passenger services were yet to deliver expected benefits, noting the challenge for Network Rail to identify why, despite the measures it has taken, performance was not improving quickly enough, and then to tackle the root causes.

Enforcement action taken against Network Rail

At the start of the year we looked into issues affecting performance during the first year of control period 5 (2014-19) in Scotland and Southern and Govia Thameslink Railway (GTR). In August we found Network Rail to have breached its licence in relation to Scotland, and Southern and GTR. Having considered representations in response to our draft notice we accepted Network Rail's offer of a reparation fund in lieu of the proposed penalty. For Scotland we decided not to impose a penalty given the actions that Network Rail is undertaking to address the timetable issues identified.

We also looked into the delivery of Network Rail's enhancements programme and in October we found Network Rail to be in breach of its licence with regard to its failure to adequately plan and deliver its enhancements works. We agreed not to impose an enforcement order as we were satisfied Network Rail was taking steps to rectify this through an improvement programme.

High Speed 1 (HS1)

This year we have monitored HS1's delivery against its plans in the first year of a new five year control 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 been working with HS1 and the Department for Transport to develop suggestions for changes to the process for future periodic reviews, including the handover of responsibility for the review of HS1 stations from the Department for Transport to ORR.

Channel Tunnel regulation

ORR and the French rail regulator ARAFER signed an agreement in March 2015 designed to ensure a co-ordinated approach to the regulation of the Channel Tunnel. The two authorities agreed to work together to promote fair competition, full transparency and non-discriminatory access to the network. Once new legislation is implemented, ORR will take on additional responsibilities for regulating the UK half of the Channel Tunnel, whilst ARAFER will have similar responsibility for the French side.

ORR and ARAFER have set up a collaborative regulatory approach that will lead to robust and consistent independent regulation across the entire Channel Tunnel network. The two bodies will work together to promote competition in the rail services market in the tunnel; ensure that charging is compliant with the legislation; investigate and determine appeals; and ensure compliance with their decisions.

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Strategic objective 4: Promote an increasingly dynamic and commercially sustainable 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 value for money for passengers, train operators and freight companies and their customers. 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 High Speed 1). This year we also began preparatory work for the next Network Rail control period which will set the funding and outputs Network Rail must deliver 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 2015-16 we have:

- Approved over 100 new and amended track access contracts and over 300 applications to access stations and depots.
- Consented to 13 of Network Rail's proposed land disposals with another two being withdrawn as a result of our enquiries.
- Issued 9 licences and exemptions to applicants wishing to operate railway assets.
- Authorised 12 new fixed asset applications (e.g. stations) and 17 new vehicle applications (including the new Thameslink and Eurostar trains).
- Approved new 10-year contracts for most freight operators that will help them plan ahead.
- Approved open access rights for direct services between London and Blackpool.
- Rejected two significant appeals to us under the Railways Act and European access regulations after a thorough evaluation of the evidence presented.

- Made progress assessing proposals from three operators to run services on the East Coast Main Line, commissioning and discussing a detailed economic appraisal of the proposals which was independently audited.
- Worked with both Network Rail and the Department for Transport to understand and facilitate their plans for possible future asset divestment.

Market development

UK Competition Network (UKCN)

The Competition and Markets Authority (CMA), ORR and the other sector regulators have continued to work through the UKCN to establish a firm footing. The network aims to encourage stronger competition across the economy for the benefit of consumers and to prevent anti-competitive behaviour in the regulated industries.

We are working closely with the CMA and the other regulators to ensure consistent application of competition law, enhance our capabilities and share best practice. To this effect, 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.

Competition Investigation

In December 2015 ORR accepted commitments offered by Freightliner relating to its arrangements with its customers for the provision of deep sea container rail transport services between certain ports and key inland destinations in Great Britain. These commitments should create a more level playing field for freight train operators. The acceptance of the final commitments followed an investigation opened by ORR in November 2013 under the Competition Act 1998 and two public consultations which took place in 2015. We will continue to monitor developments in the deep sea container rail transport sector.

Periodic Review 2018

This year we completed preparatory work for the upcoming review of Network Rail's funding and outputs for the five years from 2019-24 ('PR18'). The periodic review is one of the main ways ORR holds Network Rail to account and makes sure that rail users and funders receive value for money.

Our enabling work has been looking at three key areas: the structure of charges for passenger and freight operators; how route based regulation could look; and how to ensure a system-operator perspective is maintained.

The PR18 document published in Spring 2016 set out some potential options for consultation, on changes to the funding and operation of the network, and outlined how we will assess their implications to protect the public interest. It includes analysis of potentially different approaches for England, Scotland and Wales.

The forthcoming review will contain important differences from the last review, published in 2013 ('PR13'). Since then, Network Rail's reclassification as a public body means it is subject to a fixed borrowing limit. Network Rail has increasingly devolved responsibility to the routes, and funders are looking for different outcomes. The changes will inevitably shape our work going forward.

Europe

European competence in the field of railway regulation is growing, and throughout 2015-16 we have helped to develop and implement European rail law in a number of areas. 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 inter-operable rail sector throughout Europe.

In 2015-16 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 services across Europe.
- Acted as Secretariat for the International Liaison Group of Government Railway Inspectors (ILGGRI) which facilitates liaison between national safety authorities (NSAs) on the practical implications of European proposals.
- Signed a collaboration arrangement with the European Rail Agency (ERA). This voluntary agreement formalises cooperation in preparing for implementation of the technical pillar of the 4th Railway Package. The arrangement allows for cooperation in two main areas: examination of applications for safety certificates and vehicle authorisation; and the exchange of information required for the exercise of respective tasks of the NSAs and of ERA.
- Taken the lead in influencing the ERA and the NSAs in Europe by chairing the liaison group set up to ensure that future processes of cooperation can work efficiently. This group will develop model cooperation 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 have provided assistance to the Department for Transport in the transposition of the Recast Directive, and have engaged with the rail industry in the revision of our own guidance.
- 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.

Strategic objective 5: Secure improved performance and value for money from the strategic road network

On 1 April 2015 we assumed a new role of helping improve journeys on the strategic road network in England and overseeing the Government's road investment programme through our monitoring of Highways England, the body which operates, maintains and improves the strategic road network.

While the strategic road network accounts for just 2% of roads in England, it carries 33% of traffic. The network carries four million road users every day and two thirds of all lorry traffic. Our critical role is to hold Highways England to account on the road investment programme – which includes 112 major road schemes to be undertaken by 2021 and £5 billion of maintenance and renewals.

The highways monitor function was established to provide expert scrutiny of Highways England's delivery, and to give assurance to funders, road users and wider stakeholders. The role provides a step-change in the transparency of the sector establishing a monitoring framework which requires Highways England to publish far more information on its plans and performance. Importantly, improved transparency will allow other stakeholders to play a more informed role in holding the company to account to complement our work.

In establishing our new role we have worked closely with colleagues throughout ORR using skills, expertise and experience gained through both our rail and road roles to improve our delivery across both functions.

In 2015-16 we have:

- Developed and published our enforcement policy and monitoring framework, which set out the clear principles we will adopt in delivering our role, including proportionality, transparency, consistency, accountability and being targeted.
- Delivered our ongoing monitoring of Highways England's performance, including producing quarterly reviews for the Department for Transport.
- Published our first public assessment of Highways England's progress in December 2015 which looked back over the first six months of roads reform.
- Developed and published our draft monitoring reporting templates and guidelines setting out our annual reporting requirements.

- Developed our plans for benchmarking Highways England's efficiency to feed into future Road Investment Strategies.
- Worked with Highways England to review its capability and set out priority areas of focus for delivering the requirements of the current Road Investment Strategy.
- Built a skilled cross-disciplinary team to deliver our responsibilities under the Infrastructure Act 2015.

Strategic objective 6: Be a high performing regulator

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. 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 the Department for Transport 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.

We have scaled back our London offices and have taken a tenant on a floor of the building. We are committed to making further savings across the business and to driving efficiency through the rail and road sectors.

Our people

The capability, integrity and knowledge of ORR staff are fundamental to our success. We recognise the importance of solid employee engagement to effective delivery of our responsibilities. In the October 2015 Civil Service People Survey ORR's engagement score increased to 63%, two percentage points higher than last year. When benchmarked across all Government organisations that participated, we are now in the top quartile.

Career families

This year we have reformed our approach to recruitment, performance and reward. The specialist nature of many roles in ORR means that the conventional civil service

competence structure is not always helpful in attracting, developing and retaining the right talent for the organisation. To help attract the talent that we need we have developed a series of ‘career families’ competence frameworks reflecting the main characteristics of roles at ORR. These were introduced on 1 April 2016.

The main benefits of the career family structure are:

- clearer career pathways;
- a consistent framework for personal development;
- an enhanced reward offer, linked to competence, to support recruitment and retention; and
- an opportunity to address historical anomalies between remuneration.

ORR remains a civil service employer and its links to the civil service jobs market will continue to be important. Therefore the implementation of career families in ORR will maintain a clear link to traditional civil service grading terminology.

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 2015-16 we have:

- Published for the first time 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 independent report on Highways England’s performance and agreed data templates which Highways England will use to publish annual data in the future.
- 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 16% rise in the number of people registered to use our data portal in the past year and hve published more data about train operators.

Better regulation

We have continued our commitment to proportionate and effective regulation of the rail sector and monitoring of Highways England. We lead and learn from regulatory best practice across the UK and internationally, and apply the principles of better regulation across all of our activities.

In 2015-16 we have:

- Begun a post-implementation review of regulations governing safety certification and safety management systems on behalf of the Secretary of State for Transport. This review has so far confirmed that the regulations are meeting their objectives and are not creating costs on regulated business. However we are preparing a report for Ministers about how they could be made clearer and more user-friendly.

- Worked closely with the Department for Transport to explore ways of simplifying and modernising the regulatory regime at level crossings. There will be a consultation on proposals for reform in 2016.

- Consulted on our approach to enable innovation by industry in the rail and road sectors, as well as in our approach to regulation. This includes a number of initiatives already underway or planned on technical and passenger-focused innovation, or with ORR's regulatory practice.

- Formalised our approach to Impact Assessments to enable us to effectively assess the impact of our work on passengers, rail industry and road sector. Among other things, this has supported our preparations to meet new Government requirements on ORR to have regard to the economic growth duty, Regulators' Code and the Business Impact Target (BIT).[4]

- Kept our regulations, policies and processes under review to ensure that the principles of better regulation are embedded in our decisions and activities. For example, we expect the consolidation of three existing railway safety regulations with one new statutory instrument to be implemented in 2016, subject to ministerial clearance. This will reduce the impact of compliance by retaining and updating key provisions that are important to the control of risk on the railway, while removing out of date provisions.

[4] The Enterprise Bill will extend the Small Business Enterprise and Employment (SBEE) Act 2015 to statutory regulators. This will extend the scope of the BIT to include the non-legislative activities (except where excluded) of statutory regulators, in addition to implementing the growth duty and regulators code.

UK Regulators Network (UKRN)

We have shared best practice and worked co-operatively with regulators across sectors on issues affecting rail and road.

Over 2015-16 we have participated in a project to share expertise and improve stakeholders' understanding of how cost of capital is calculated, and played a leading part in proposals to reduce the cost of installing new infrastructure across existing utility or transport sector assets. This work promotes greater consistency and peer review amongst regulators of these critically important decisions, whilst also ensuring we explain the reasons for differences between regulated sectors more clearly to investors and other key stakeholders.

The costs and benefits of regulation itself have also been under scrutiny. Working with UKRN members, and in partnership with the Whitehall and Industry Group, we have brought regulatory and legal specialists together with business to consider how regulation should evolve to secure value for consumers whilst remaining proportionate and risk-based.

Health and Safety Regulators Network

In 2014 ORR proposed the establishment of a 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 first meeting was in August 2015 where it was agreed that ORR would chair a working level meeting and provide secretarial support and CEOs would meet once per year. The priority of the working group is to identify how health and safety regulators measure success.

Developments in Government policy

Over the past year we have participated in a number of Government-sponsored reviews of rail policy, including the Shaw Report and the Department for Transport's call for evidence on rail regulation, which concluded with a strong confirmation of the value of independent regulation in rail.

Nicola Shaw's report into the future structure and financing of Network Rail makes significant recommendations around our role in supporting the ongoing process of greater devolution to routes within Network Rail. We have welcomed her report and await the UK Government's detailed response to it later in 2016.

As part of UKRN, we have agreed to establish whether there is a business case for the sharing of common services and for co-location of our London offices. This work is expected to be completed by Summer 2016.

Accountability to Parliaments

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 Government and Parliamentarians, including those in devolved institutions, so they can make informed decisions about a wide array of transport choices. 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 and proactive engagement.

Formal contributions to the Parliamentary process at Westminster in this reporting period have included senior ORR officials giving oral and written evidence to the Public Accounts Committee's 'Network Rail: 2014-2019 rail investment programme' inquiry and the Transport Select Committee's 'All Lane Running' and 'Operation Stack' inquiries. We have also provided evidence to the Welsh Assembly's Business and Enterprise Committee inquiry into 'Priorities for the future of Welsh Rail Infrastructure', and briefing to the Scottish Parliament's Business and Capital Investment Committee on rail performance in Scotland. There has also been a regular programme of meetings and informal briefings on regulatory matters with the Westminster and Scottish Parliaments and Welsh Assembly.

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 carried out a comprehensive review of all sustainable development duties in summer 2013. In September 2013, our Executive Committee decided to focus activities on monitoring how Network Rail embeds the rail industry's sustainable development principles and increases resilience of rail infrastructure to climate change and extreme weather.

On 31 October 2013 we published our final determination for control period 5 (2014-2019). In this document, we said:

- We would review the plans Network Rail was making to enable resilience against climate change and extreme weather.

  Update: these plans are now complete, and we are monitoring how Network Rail delivers these plans over the remainder of the control period.

- We would monitor the development and use of a suitable carbon accounting methodology.

  Update: a carbon tool has been developed and Network Rail is taking steps to implement it.

- That there would be indicators in the following areas:
  - scope 1 and 3 CO_2 emissions associated with Network Rail's own operations (traction, non-traction and total);
  - carbon embedded in new infrastructure; and
  - sustainable development key performance indicators.

  Update: these were published in Network Rail's annual report in 2015.

We have monitored Highways England's performance against the environmental commitments that it must deliver in Road Period 1. This has included the company's performance against two Key Performance Indicators (KPIs), where we have:

- reviewed the Biodiversity Action Plan that Highways England published in June 2015. We will now monitor how it is delivering against this plan; and
- monitored performance against its target to mitigate at least 1,150 noise important areas over Road Period 1. The company has reported progress in its first year, and we will continue to review the plans for how it will deliver this KPI over the next four years.

We have also reviewed Highways England's strategies covering sustainable development, environment and air quality, which are due to be published in Summer 2016. Additional work we have undertaken to monitor environmental performance has included:

- working with the company to understand how it is using designated funds to deliver six air quality pilot studies; and
- monitoring other performance indicators on carbon emissions and mitigating areas at high risk of flooding and water-borne pollution, where we have seen an improvement in the robustness of Highways England's reporting.

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 print services which were procured through Crown Commercial Services' 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; and
- encouraging the use of Crown Commercial Services' G-Cloud frameworks for IT services, which have a high percentage of SME providers.

ORR performance and policy

Our environmental performance in 2015-2016 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.

Emissions, waste, water and finite resources figures apply to London and Glasgow offices only (where available). 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.

The data on travel applies to the whole organisation.

There have been an increased number of journeys undertaken by air in 2015-16, largely as a result of a shift in the distribution of our workforce. This has led to an increase in our share of CO_2 emissions derived from this source.

Based on Defra conversion factors	**2013-14**	**2014-15**	**2015-16**
Greenhouse gas emissions (tonnes CO_2)			
Electricity (scope 2)	241	210	202
Oil (scope 2)	54	42	39
Gas (scope 2)	6	n.a	n.a
Travel:			
Car (personal vehicle)	63	73	91
Air	49	50	93
Train	83	100	87
Hire car	11	5	n.a
Gross emissions total	507	480	512
Total net emissions	-	-	-
Gross emissions of official business travel (tonnes CO_2)	206	228	266
Expenditure (£)			
CRC gross expenditure (£)	53,485	71,316	62,085
Expenditure on accredited offsets (£)	-	-	-
Expenditure on official travel (£)	616,511	571,994	636,669
Waste (tonnes)			
Total waste	28	34	23
Hazardous waste	-	-	-
Non-hazardous to landfill	1	2	-
Non-hazardous recycled	8	8	13
Non-hazardous incinerated/energy from waste	18	24	11
Cost of waste collection (£)	5,840	4,852	5,586
Water			
Water consumption (m^3)	2,125	2,228	2,151
Water supply costs (£)	4,078	4,639	4,980
Finite resources			
Electricity non-renewable (Kwh)	28,117	29,127	28,909
Electricity renewable (Kwh)	512,744	410,303	379,297
Gas (KwH) - Glasgow (estimated)	33,088	n.a	n.a
Oil (Kwh)	198,127	169,919	160,488
Total energy expenditure (£)	73,439	71,316	71,531

n.a – not available

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.

In 2015-16 we took on responsibility for the monitoring of Highways England, and therefore added a new income stream. We receive grant funding from the Department for Transport (DfT) for our strategic network monitor 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.

	2015-16 £000	2014-15 £000
Income		
Licence fee	(12,548)	(12,558)
Safety levy	(15,520)	(15,906)
Highways monitoring	(1,449)	(446)
Other income	(392)	(413)
Total income	**(29,909)**	**(29,323)**
Expenditure		
Staff costs	20,635	19,763
Other costs	9,277	9,563
Total costs	**29,912**	**29,326**
Reconciliation between resource outturn and resource budget outturn (£000)		
Net resource outturn	**3**	**3**

Income

Licence fee income was £12.5m (2014-15: £12.6m). This includes income from HS1. £1.1m has been deferred into 2016-17 (2014-15: £0.9m). Safety levy income was £15.5m (2014-15: £15.9m). This includes Channel Tunnel income. £1.0m has been deferred into 2016-17 (2014-15: £0.3m). We received a grant of £2.6m from DfT to fund our highways monitor function (2014-15: £445k recharged to DfT). We spent £1.5m of this.

In addition, £392k (2014-15: £413k) 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.

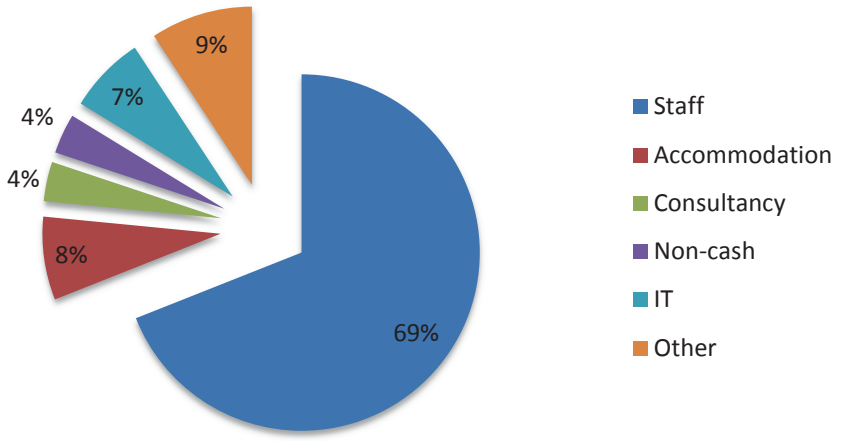
Expenditure

Total expenditure in 2015-16 was £29.9m, compared to £29.3m in 2014-15. Excluding the effect of roads monitoring expenditure, total expenditure was lower than 2014-15 at £28.5m (2014-15: £28.9m). Staff costs accounted for £20.6m (68.9%) of total costs, compared to £19.8m (67.6%) in 2014-15. Our average staff cost per full-time equivalent in 2015-16 was £71,649 compared to £71,440 in 2014-15; this reflects a slight change in the composition of staff, plus a 1% pay award.

Other administration costs were £0.3m lower than in 2014-15. The most significant year-on-year variances were:

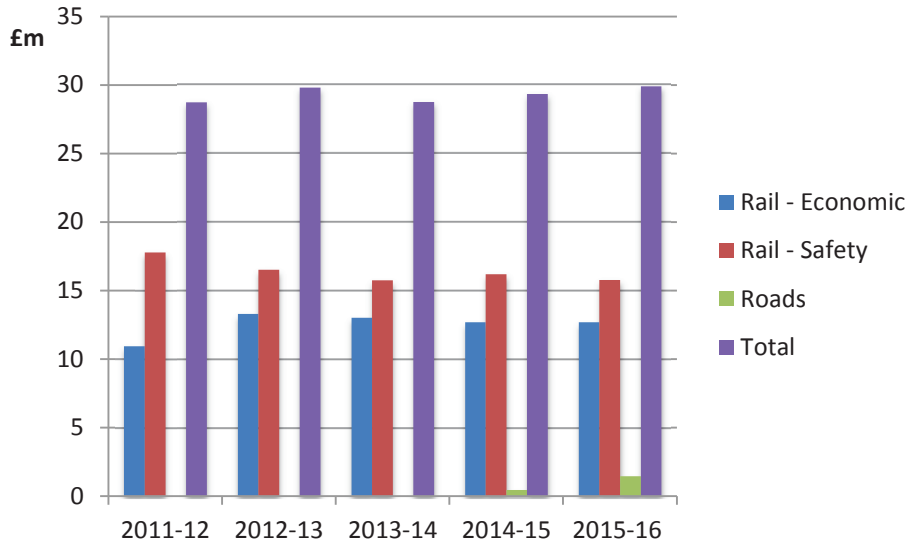
- £180k higher rent for our London office, following a rent review backdated to December 2014;
- £401k less spent on consultancy;
- £274k lower IT and telecoms charges, mainly due to a re-negotiation of the contract with our IT service provider;
- £240k lower landlord service charges, mainly due to the reversal of an over-accrual from previous years; and
- other smaller increases in depreciation and amortisation (£107k), external services (£131k), and building-related costs (£92k).

Analysis of 2015-16 costs

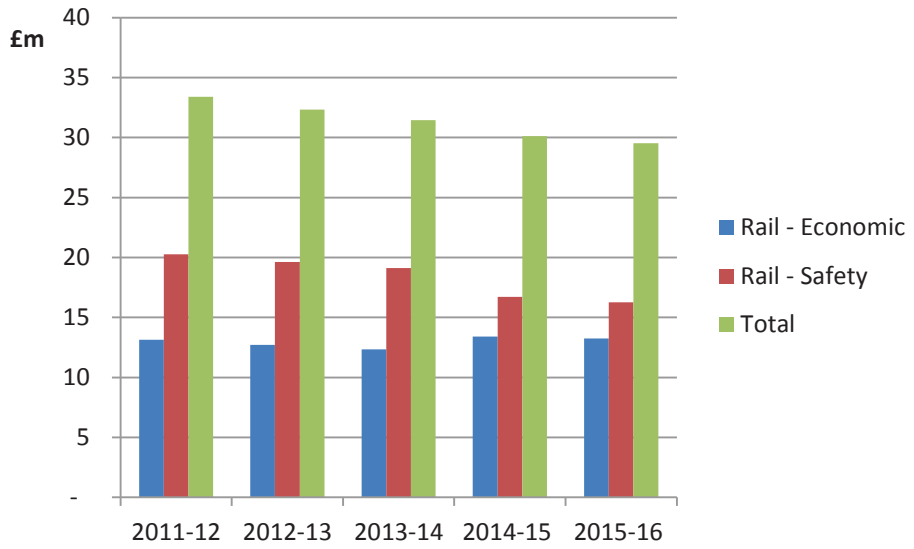


Long-term expenditure trends

The chart below shows our spending pattern 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
7 June 2016

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 46-47.

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 2015-16 100% of invoices were paid within 30 days (100% in 2014-15) and 92.5% paid within 10 days (93.8% in 2014-15).

Better regulation

Our work on better regulation in 2015-16 is explained on page 33.

Personal data related incidents

Personal data related incidents are covered in the Governance Statement on page 53.

Complaints to the Parliamentary Ombudsman

Complaints and general enquiries to ORR are handled by our customer correspondence team. We aim to respond to 95% of all such enquiries within 20 working days of receipt. In 2015-16 we received 1,472 complaints and general enquiries, of which 1,382 (94%) were cleared within the deadline.

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 ORR will be adopting the DfT charter – Principles for Remedying Complaints. This includes the use of an Independent Complaint Assessor (ICA). This will add a third stage to the formal complaint process, with the complaint being referred to the ICA if the complainant remains unhappy with our response to their formal complaint.

If they remain unhappy with the ICA intervention, the final stage will be to escalate to the PHSO.

In 2015-16 we received two formal complaints; the allegations were not upheld.

The PHSO produces an annual report on complaints about UK Government departments[5]. A summary for ORR for 2014-15 is provided below. This is the latest report available.

Number of complaints selected for investigation	1
Number of investigations reported on	1
Investigation upheld	0
Investigation partly upheld	0
Investigation not upheld	1

Auditors

The Comptroller and Auditor General carries out the audit of ORR's financial statements. The notional cost of auditing the financial statements was £42,500 (2014-15: £40,000). No remuneration, actual or notional, was paid to the National Audit Office for non-audit work (2014-15: none).

Joanna Whittington
Accounting Officer
7 June 2016

[5] http://www.ombudsman.org.uk/reports-and-consultations/reports/parliamentary/complaints-about-uk-government-departments-and-agencies,-and-some-uk-public-organisations-2014-15

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 judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the 'Government Financial Reporting Manual', have been followed, and disclose and explain any material departures in the accounts; and
- prepare the financial statements on a going concern basis.

The relevant responsibilities of the Accounting Officer (including her responsibility for the propriety and regularity of public finances for which an Accounting Officer is answerable, for the keeping of proper records and for safeguarding ORR's assets) are set out in '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[6]. The Board's objectives are aligned to key business and risk management activities. The Board held 11 meetings in 2015-16.

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;
- began to develop our thinking for the next periodic review (PR18);
- discussed and determined applications for access to the network; and
- took a close interest in our new function in relation to Highways England.

Membership of ORR's Board as at 31 March 2016 was as follows:

Non-Executive Directors

Stephen Glaister - Interim Chair from 1 January 2016 to 31 December 2016. Stephen is already a Non-Executive Board member with a term fixed to 31 March 2020.
Tracey Barlow – Deputy Chair, to 30 April 2019
Bob Holland, to 31 December 2019
Michael Luger, to 31 July 2019
Justin McCracken, to 31 July 2019

[6] At http://orr.gov.uk/about-orr/who-we-are/the-board

Executive Directors

Joanna Whittington - Interim Chief Executive and Accounting Officer from 16 January 2016. Joanna is a Board member in her capacity of Director, Railway Markets and Economics to 3 March 2019
Ian Prosser - Director, Railway Safety, to 25 September 2018

Changes to Board membership

The Board membership reduced from twelve to seven in the last quarter of the year due to members' terms coming to an end and some members leaving ORR. Permanent appointments were not made for the Chair and Chief Executive as the Secretary of State (for the Chair position) and the ORR Board (for the Chief Executive position) did not feel that this was appropriate once it became clear that the Bowe review of the Rail Enhancements Programme and the Shaw Review might make recommendations that could change ORR's role. The Board considered the temporary reduction in its own size was manageable and committee memberships changed to better balance the workload across the remaining Non-Executive members.

Changes to Board membership in the year are listed below:

Anna Walker's term as Non-Executive Board member and Chair came to an end on 31 December 2015.

Ray O'Toole's and Mark Fairbairn's terms as Non-Executive Board members came to an end on 31 December 2015 (extended from 4 September 2015).

Richard Price, Chief Executive, moved on from his role and ceased to be a Board member on 15 January 2016.

Alan Price, Director, Railway Planning and Performance, moved on from his role and ceased to be a Board member on 26 February 2016.

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 one of the executive committees 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 five 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, and progress on implementing a new risk management process;
- the Annual Report and Accounts and the Governance Statement; and
- business continuity and IT resilience.

Remuneration Committee

The Remuneration Committee maintains a strategic oversight of the approach to remuneration, performance and reward, as well as other terms and conditions for all staff. It also has a specific role in reviewing the remuneration packages of ORR's senior civil servants including the Chief Executive. The Committee comprises three Non-Executive Directors.

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

- the performance of ORR's senior civil servants during 2014-15;
- ORR Directors' personal objectives for 2015-16;
- ORR's pay policy and non-consolidated performance-related pay awards for its senior civil servants; and
- the grading and reward strategy for employees below SCS level.

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
- planning for ORR's health and safety activity in 2016-17.

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 eight times in the year and considered:

- progress as an appropriate and effective monitoring framework for Highways England was developed;
- our internal decision making framework for highways;
- outputs from the emerging monitoring framework; and
- opportunities for any synergy with ORR's rail functions.

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 re-appointments of Board members. The Committee consists of Non-Executive members only and is chaired by the Board Chair.

The Committee did not need to convene formally in 2015-16 as there were no new appointments within its remit to consider. The appointment of a new Chair is a matter reserved to the Secretary of State. The appointment of a new Chief Executive is a matter reserved to the Board. There were no new Non-Executive appointments in 2015-16. The members of the Committee met informally during the year to discuss risks around the planned transition to a new Chair, the implications of changes to the Board, and to support the interim leadership in planning for the future.

Board effectiveness

The Board and its standing committees are governed by the Board's rules of procedure. Committee chairs report to the Board after each meeting. There is a formal appraisal system for all Board members. 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.

In June 2015 the Board reviewed its own effectiveness as part of a wider meeting looking at future strategy. The review helped the Board to prepare for the changes in personnel that have since occurred, and to identify areas of focus for activity, particularly around stakeholder engagement and responding to external change. Internal processes continue to develop to support effective decision making at Board level. A wider review will be carried out in Summer of 2016.

Board attendances are summarised on page 55.

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 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 Corporate Governance Code

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;
- the Board does not include a Finance Director; and
- the Remuneration Committee 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 Corporate Governance 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 resource 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 Board and 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 all activities contributing to ORR's strategic objectives.

I delegate budgets to Directors as appropriate and hold regular meetings with each Director to hold them to account for their expenditure against these delegated budgets, and their progress against business milestones. 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 available to all staff on our intranet. There were no whistleblowing complaints during 2015-16. ORR is a prescribed person under the Public Interest Disclosure Act 1998.

Risk management strategy

The Board considers the key risks facing ORR twice-yearly. 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.

ORR adopted a new approach to identifying and managing strategic risk in 2015-16, as it was felt that a more dynamic and holistic approach was required. Risks are now aligned to our six strategic objectives. 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. Our risk templates are updated quarterly by risk owners, and are then reviewed by the Executive Committee, where members provide challenge to the information contained in the templates, and then by the Audit and Risk Committee.

The assessment of operational-level risks and the identification of appropriate controls also inform the business planning process. Directorates are asked to consider these aspects and include them in the working level planning documentation as appropriate. Risk 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.

We will review any implications arising from the result of the EU referendum as part of the Board's review of strategic risk.

Information assurance

ORR maintains an information management strategy which sets out how we manage our information as a combined safety and economic regulator. 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. We also continue to ensure that a good risk-appropriate security culture is embedded at ORR. We have recently reaccredited ourselves with the public service network (PSN) code of connection, which has involved independent assurance that our network meets PSN standards.

Following the incident affecting our document management system in 2014-15, which was reported in last year's Governance Statement, an investigation was carried out into the data corruption. It was concluded that there had been no disclosure of official or personal information, so it was not necessary to submit a report to the Information Commissioner.

Personal data related incidents

We have experienced no information risk incidents in 2015-16 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 2016, 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 2016-17.

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 2015-16 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 2015-16.

Joanna Whittington
Accounting Officer

7 June 2016

Board member committee attendances

Member	Board	Audit & Risk Committee	Remuneration Committee	Health and Safety Regulation Committee	Highways Committee	Nominations Committee
Tracey Barlow	11/11	2/2	5/5	N/A	8/8	N/A
Mark Fairbairn	8/8	4/4	N/A	1/1	5/5	N/A
Stephen Glaister	11/11	1/1	N/A	1/1	8/8	N/A
Bob Holland	11/11	4/4	N/A	1/2	N/A	N/A
Michael Luger	11/11	1/1	5/5	N/A	N/A	N/A
Justin McCracken	10/11	N/A	2/2	4/4	N/A	N/A
Ray O'Toole	6/8	N/A	N/A	1/3	N/A	N/A
Alan Price	9/10	N/A	N/A	2/3	N/A	N/A
Richard Price	8/8	4/4	4/4	1/3	4/5	N/A
Ian Prosser	11/11	N/A	N/A	4/4	N/A	N/A
Anna Walker	8/8	N/A	4/4	3/3	N/A	N/A
Joanna Whittington	11/11	1/1	1/1	1/1	3/3	N/A
Melvyn Neate*	N/A	5/5	N/A	N/A	N/A	N/A
Garrett Emmerson**	N/A	N/A	N/A	N/A	2/4	N/A
Terry Hill**	N/A	N/A	N/A	N/A	5/5	N/A

*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 2015-16 these were Michael Luger (Committee Chair), Anna Walker (member until 31 December 2015), Tracey Barlow and Justin McCracken.

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.

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 a bonus scheme (using 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.

The bonus is based on the individual's performance. Bonus 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 service contract of the relevant individual. Each contract provides for a payment in lieu of notice depending upon the reason for the termination, based on the provisions of the Civil Service Compensation Scheme. No early termination payments were made to senior civil servants in 2015-16 (2014-15: 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)	
	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
Richard Price Chief Executive (to 15/1/16)	140-145	140-145	-	5-10	-	-	65	27	208	178
Joanna Whittington Chief Executive (from 16/1/16), Director, railway markets and economics (to 15/1/16)	110-115	100-105	5-10	-	-	-	52	120	175	224
Peter Antolik Director, highways monitor (from 16/3/15)	120-125	5-10	-	-	-	-	45	2	166	7
Dan Brown Director, strategy and policy	120-125	120-125	-	-		-	52	27	175	149
Richard Emmott Director, communications (to 31/1/15)	-	100-105	-	-	-	-	-	39	-	143
Russell Grossman Director, communications (from 23/11/15)	40-45	-	-	-	-	-	15	-	58	-
John Larkinson Director, railway markets and economics	120-125	120-125	10-15	10-15	600	600	52	96	191	231
Juliet Lazarus Director, legal services	85-90	85-90	5-10	-	-	-	34	28	133	117
Alan Price Director, railway planning and performance (to 26/2/16)	145-150	160-165	10-15	-	-	-	57	60	215	222
Ian Prosser Director, railway safety	125-130	120-125		-	-	-	49	46	174	171
Graham Richards Director, railway planning and performance (on temporary promotion from 27/2/16)	5-10	-	-	-	-	-	8	-	16	-
Tom Taylor Director, corporate operations and organisational development	120-125	120-125	-	5-10		-	54	95	176	223

Salary includes gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances; and any other

allowance to the extent that it is subject to UK taxation. 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 2015-16 relate to performance in 2014-15 and comparative bonuses reported for 2014-15 relate to performance in 2013-14.

Benefits in kind comprise subsidised gym membership.

Pension benefits are shown on page 61. 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.

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

Alan Price left ORR on 26 February 2016. His full year equivalent salary was in the range of £160,000 to £165,000 (2014-15: £160,000 to £165,000).

Russell Grossman joined ORR on 23 November 2015. His full year equivalent salary was in the range of £125,000 to £130,000.

Graham Richards became Director, railway planning and performance on temporary promotion on 27 February 2016. His full year equivalent salary was in the range of £90,000 - £95,000.

The full-year basic equivalent salary for Joanna Whittington (who works part-time hours) is in the range £135,000 to £140,000 (2014-15: £135,000 to £140,000).

The full-year basic equivalent salary for Juliet Lazarus (who works part-time hours) is in the range £125,000 to £130,000 (2014-15: £125,000 to £130,000).

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 2015-16 was £145,000 - £150,000 (2014-15: £160,000 - £165,000). This was 2.8 times (2014-15: 3.2) the median remuneration of the workforce, which was £54,154 (2014-15: £50,601).

In 2015-16, no employees (2014-15: none) received remuneration in excess of the highest-paid Director. Remuneration ranged from £21,425 to £150,000 (2014-15: £19,494 to £162,000).

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 31/03/16 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV as 31/03/16 £000	CETV as 31/03/15 £000	Real Increase in CETV £000
Richard Price Chief Executive (to 15/1/16)	40-45 lump sum 115-120	2.5-5 lump sum 0-2.5	718	611	31
Joanna Whittington Chief Executive (from 16/1/16)	20-25 lump sum 60-65	2.5-5 lump sum 0-2.5	411	347	26
Peter Antolik Director, highw ays monitor	0-5	2.5-5	35	1	22
Dan Brown Director, strategy and policy	20-25	2.5-5	241	194	16
Richard Emmott Director, communications (to 31/1/15)	-	-	-	29	-
Russell Grossman Director, communications (from 23/11/15)	40-45	0-2.5	771	-	13
John Larkinson Director, railw ay markets and economics	35-40 lump sum 110-115	2.5-5 lump sum 7.5-10	724	624	42
Juliet Lazarus Director, legal services	20-25	0-2.5	314	264	22
Alan Price Director, railw ay planning and performance (to 26/2/16)	10-15	2.5-5	145	102	24
Ian Prosser Director, railw ay safety	20-25	2.5-5	340	274	27
Graham Richards Director, railw ay planning and performance (on temporary promotion from 27/2/16)	10-15	0-2.5	131	-	4
Tom Taylor Director, corporate operations and organisational development	30-35 lump sum 90-95	2.5-5 lump sum 0-2.5	512	437	23

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 3% and 12.5% up to 30 September 2015 and 8% and 14.75% from 1 October 2015 (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 0.8% of pensionable salary up to 30 September 2015 and 0.5% of pensionable salary from 1 October 2015 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).

The former rail regulators' and former Chairs' pensions are by analogy with the Principal Civil Service Pension Scheme. During 2015-16 there were no active members (2014-15: 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.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the civil service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out 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 reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

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 (2014-15: none). No compensation payments were made on early retirement or for loss of office (2014-15: none).

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

	Fee range (£000)		Benefits in kind (to nearest £100)		Total (£000)	
	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
Stephen Glaister (from 1/4/15)	45-50	-	-	-	45-50	-
Anna Walker (to 31/12/15)	90-95	120-125	-	-	90-95	120-125
Bob Holland (from 1/1/15)	20-25	5-10	2,500	100	20-25	5-10
Tracey Barlow	20-25	20-25	5,600	2,900	25-30	20-25
Justin McCracken (from 1/8/14)	20-25	10-15	2,400	1,500	20-25	15-20
Michael Luger (from 1/8/14)	20-25	10-15	2,300	600	20-25	15-20
Mark Fairbairn (to 31/12/15)	15-20	20-25	1,000	1,200	15-20	20-25
Ray O'Toole (to 31/12/15)	15-20	20-25	200	-	15-20	20-25
Peter Bucks (to 30/6/14)	-	5-10	-	1,200	-	5-10
Stephen Nelson (to 30/9/14)	-	10-15	-	-	-	10-15
Melvyn Neate*	0-5	0-5	300	100	0-5	0-5
Garrett Emmerson** (from 1/11/15)	0-5	-	-	-	0-5	-
Terry Hill** (from 1/9/15)	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 Anna Walker was in the range of £120,000 to £125,000.

The full-year equivalent fee for Stephen Glaister was in the range of £20,000 to £25,000 until 31 December 2015, and then £120,000 to £125,000 on his appointment as Chair from 1 January 2016.

The full-year equivalent fee for Mark Fairbairn and Ray O'Toole 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	2015-16 £000 Total £000	2014-15 £000 Total £000
Wages and salaries	15,375	557	15,932	15,504
Social security costs	1,501	27	1,528	1,411
Other pension costs	3,231	-	3,231	2,962
Sub Total	20,107	584	**20,691**	19,877
Less recoveries in respect of outward secondments	(56)	-	(56)	(114)
Total net costs	**20,051**	**584**	**20,635**	**19,763**

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. The scheme actuary (Hewitt Bacon & Woodrow) valued the scheme as at 31 March 2012. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation[7].

For 2015-16, employers' contributions of £3,150,485 were payable to civil service pension schemes (2014-15: £2,850,532) at one of four rates in the range 20.0% to 24.5% (2014-15: 16.7% to 24.3%) of pensionable pay, based on salary bands. The schemes' actuaries review 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.

The partnership pension account is a stakeholder pension with an employer contribution. Employers' contributions of £14,114 were paid to one or more of a panel of two appointed stakeholder pension providers (2014-15: £11,984). In addition, employer contributions of £433 (0.5%) of pensionable pay were payable to cover the cost of centrally-provided risk benefit cover (death in service or ill health retirement) for these employees (2014-15: £521, 0.8%). Contributions of £3,241 were due to the partnership pension providers at 31 March 2016 (31 March 2015: none).

[7] http://www.civilservicepensionscheme.org.uk/about-us/resource-accounts/

Two people (2014-15: one person) retired early on ill-health grounds. There were no additional accrued pension liabilities (2014-15: £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). Employer contributions of £54,174 were paid to the trustees of the RPS in 2015-16 at a rate of 1.525 times the individual members' contributions, on the basis of actuarial valuations (2014-15: £57,631, 1.525 times). ORR matches some of the BRASS2 contributions (an AVC scheme) made by the members. In 2015-16, matching contributions of £2,608 were made (2014-15: £2,608).

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, (2014-15: £nil). During the year 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 2015 is estimated at £793,000 (31 March 2015: £573,000).

Average number of persons employed

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

			2015-16 Number	2014-15 Number
	Permanent Staff	Others	Total	Total
Segment				
1. Economic Regulation	119	1	**120**	116
2. Safety Regulation	158	1	**159**	158
3. Roads Monitoring	8	1	**9**	3
Total	**285**	**3**	**288**	**277**

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Others	Number	Cost (£000)
Agency staff	2.5	
Specialist contractor	0.0	
Consultant	0.1	
Total	**2.6**	**316**

Non-Executive Directors are included within permanent staff. The average number in 2015-16 was 8.0, with a cost of £288k.

Staff composition

At 31 March 2016, our total headcount comprised the following staff:

	Male FTE	Female FTE	Total FTE
Directors	7.0	1.7	8.7
SCS1	7.3	1.4	8.7
Employees	172.6	109.6	282.2
	186.9	112.7	299.6

Sickness absence data

The annual working days lost per employee through sickness in 2015-16 was 3.2 (2014-15: 3.3).

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 use the 'two ticks' positive about disability accreditation to show we encourage applications from disabled people and support them when in employment, making reasonable adjustments to the working environment where appropriate and providing additional training and support.

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 attendance, ensuring that staff receive the support and advice they need from an occupational health professional when appropriate.

Health and wellbeing

During 2015-16 we have continued to implement our health and wellbeing strategy and to work with our new partners: our occupational health provider and employee assistance service. One third of employees have taken up the offer of an annual health assessment and flu vaccination. In addition, we held workshops for staff on building personal resilience. We promoted health campaigns in our fortnightly staff e-newsletter and offer an online wellness assessment for staff. We are committed to the 'public health responsibility deal pledges' which are a Government initiative to improve employees' health and wellbeing, as promoted by the Department of Health.

Off-payroll engagements

Annex A contains details of off-payroll engagements during 2015-16.

Exit packages

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full either prior to the year of departure or in the year of departure. Where ORR has agreed early retirements, the additional costs are met by the department and not by the Civil Service Pension Scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

	2015-16			2014-15		
Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band (total cost)	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band (total cost)
<£10,000	-	-	-	-	-	-
£10,000 - £25,000	-	-	-	-	-	-
£25,001 - £50,000	-	-	-	-	-	-
£50,001 - £100,000	-	-	-	-	-	-
£100,001 - £150,000	-	-	-	-	2	2
£150,001 - £200,000	-	-	-	-	-	-
Total number of exit packages	**-**	**-**	**-**	**-**	**2**	**2**
Total resource cost £000	**-**	**-**	**-**	**-**	**271**	**271**

One of the above departures in 2014-15 elected to take early retirement, using their compensation payment to buy out the actuarial reduction of their pension. Under the Civil Service Compensation Scheme, if the compensation payment is insufficient to buy out the

actuarial reduction, the employer must cover the shortfall. As a result, ORR incurred an additional cost of £44,355. This is included in the £271k above.

Joanna Whittington
Accounting Officer

7 June 2016

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 2015-16

								2015-16 £000	2014-15 £000
		Estimate			Outturn			Voted Outturn compared with Estimate: saving/ (excess)	Outturn
	SoPS Note	Voted	Non-Voted	Total	Voted	Non-Voted	Total		Total
		£000	£000	£000	£000	£000	£000	£000	£000
Departmental Expenditure Limit									
- Resource	1.1	4	-	4	3	-	3	1	3
- Capital	1.2	720	-	720	506	-	506	214	631
Annually Managed Expenditure									
- Resource	1.1	-	-	-	-	-	-	-	-
- Capital	1.2	-	-	-	-	-	-	-	-
Total Budget		724	-	724	509	-	509	215	634
Non-Budget									
- Resource	1.1	-	-	-	-	-	-	-	-
Total		724	-	724	509	-	509	215	634

Total Resource		4	-	4	3	-	3	-	3
Total Capital		720	-	720	506	-	506	215	631
Total		724	-	724	509	-	509	215	634

Net cash requirement 2015-16

SoPS note	2015-16 £000 Estimate	2015-16 £000 Outturn	2015-16 £000 Outturn compared with Estimate: saving/ (excess)	2014-15 £000 Outturn
3	2,001	(1,126)	3,127	(568)

Administration costs 2015-16

2015-16 £000 Estimate	2015-16 £000 Outturn	2014-15 £000 Outturn
4	3	3

Figures in the areas outlined in bold are voted totals or other totals subject to Parliamentary control. 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

	Gross	Income	Net	Total	Net Total	Net total compared to Estimate	Total
Spending in Departmental Expenditure Limit							
Voted:							
A Economic regulation, admin, associated capital and other expenditure	12,682	(12,681)	1	1	2	(1)	1
B Safety regulation, admin and other expenditure	15,780	(15,779)	1	1	1	-	1
C Other regulation, admin and other expenditure	1,450	(1,449)	1	1	1	-	1
Total	29,912	(29,909)	3	3	4	(1)	3

SOPS1.2 Analysis of net capital outturn by section

	2015-16 £000					2014-15 £000
	Outturn			Estimate		Outturn
	Gross	Income	Net	Net	Net total compared to Estimates	Net
Spending in Departmental Expenditure Limit						
Voted:						
A Economic regulation, admin, associated capital and other expenditure	225	-	225	720	495	277
B Safety regulation, admin and other expenditure	281	-	281	-	(281)	354
C Other regulation, admin and other expenditure	-	-	-	-	-	-
Total	506	-	506	720	214	631

Net capital outturn is £214k lower than the capital budget as several projects planned to take place in 2015-16 did not go ahead.

SOPS3. Reconciliation of net resource outturn to net cash requirement

	SoPS Note	Estimate	Outturn	Net total outturn compared with Estimate: saving/ (excess)
		£000	£000	£000
Resource outturn	1.1	**4**	**3**	**1**
Capital outturn	1.2	**720**	**506**	**214**
Accruals to cash adjustments:				
Adjustments to remove non-cash items:				
Depreciation		(980)	(1,019)	39
New provisions and adjustments to previous provisions		-	(191)	191
Other non-cash items		(60)	(67)	7
Adjustments to reflect movements in working balances:				
Increase/(decrease) in receivables		-	192	(192)
Decrease in payables		2,177	(635)	2,812
Use of provisions		140	85	55
		1,277	(1,635)	2,912
Net Cash Requirement		2,001	(1,126)	3,127

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).

	2015-16		2014-15	
	Income	*Receipts*	Income	*Receipts*
	£000	£000	£000	£000
Excess cash surrenderable to the Consolidated Fund	1,126	*1,126*	568	568
Total	**1,126**	***1,126***	**568**	**568**

SOPS4.2 Consolidated Fund income

	2015-16 £000	2014-15 £000
Balance of Intergovernmental Commission levy due to be paid	94	1,274
Balance of DfT roads funding due to be paid	1,161	-
Total	**1,255**	**1,274**

Losses and special payments

There were no losses or special payments in excess of £300,000, either individually or in aggregate, in 2015-16 or 2014-15.

Remote contingent liabilities

In addition to contingent liabilities reported within the meaning of IAS 37 (see note 14), ORR also reports liabilities for which likelihood of a transfer of economic benefit in settlement is too remote to meet the definition of contingent liability.

There is a remote possibility that the service charge of our IT contract may be increased and backdated to January 2015. This might arise under a certain interpretation of the terms of our contract relating to the mix of desktop and laptop devices used by ORR. This is outside the scope of IAS 37 since we believe that the possibility of an outflow of economic resources is remote. The potential maximum liability is estimated at £360k.

Joanna Whittington
Accounting Officer

7 June 2016

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 2016 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 and report.

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 2016 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 2016 and of its 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

28 June 2016

Section C:

Financial Statements

Statement of Comprehensive Net Expenditure

For the year ended 31 March 2016

	Note	2015-16 £000	2014-15 £000
Total operating income	5	(29,909)	(29,323)
Staff costs	3	20,635	19,763
Other administration costs	4	9,277	9,563
Total operating expenditure		**29,912**	**29,326**
Net operating expenditure		**3**	**3**
Other comprehensive net expenditure			
Actuarial loss on pension scheme liabilities		24	38
Total comprehensive net expenditure for the year		**27**	**41**

Statement of Financial Position

As at 31 March 2016

	Note	2015-16 £000	2014-15 £000
Non-current assets			
Property, plant and equipment	6	1,683	1,870
Intangible assets	7	437	763
Total non-current assets		**2,120**	**2,633**
Current assets			
Trade and other receivables	8	1,574	603
Cash and cash equivalents	9	2,381	1,842
Total current assets		**3,955**	**2,445**
Total assets		**6,075**	**5,078**
Current liabilities			
Trade and other payables	10	(9,025)	(7,072)
Provisions	11	(45)	(104)
Total current liabilities		**(9,070)**	**(7,176)**
Non-current assets less net current liabilities		**(2,995)**	**(2,098)**
Non-current liabilities			
Provisions	11	(663)	(670)
Pension liabilities	11	(793)	(573)
Total non-current liabilities		**(1,456)**	**(1,243)**
Total assets less total liabilities		**(4,451)**	**(3,341)**
Taxpayers' equity			
General fund		(4,573)	(3,485)
Revaluation reserve		122	144
Total taxpayers' equity		**(4,451)**	**(3,341)**

Joanna Whittington
Accounting Officer

7 June 2016

Statement of Cash Flows

For the year ended 31 March 2016

	Note	2015-16 £000	2014-15 £000
Cash flows from operating activities			
Net operating cost	2	(3)	(3)
Adjustments for non-cash transactions	4	1,089	1,011
Decrease/(increase) in trade and other receivables	8	(971)	306
less movement in receivables relating to items not passing through statement of comprehensive net expenditure		779	-
Increase/(Decrease) in trade and other payables	10	1,953	(1,274)
less movements in payables relating to items not passing through statement of comprehensive net expenditure		(1,329)	1,355
Use of provisions	11	(69)	(99)
Use of provisions - by analogy pension	11	(16)	(16)
Increase in pension provision - transfers in	11	188	-
Net cash outflow from operating activities		**1,621**	**1,280**
Cash flows from investing activities			
Property plant and equipment additions	6	(342)	(507)
Intangible non-current assets additions	7	(153)	(205)
Net cash outflow from investing activities		**(495)**	**(712)**
Cash flows from financing activities			
From the Consolidated Fund (Supply) - current year		-	-
From the Consolidated Fund (Supply) - prior year		-	-
Advances from the Contingencies Fund		10,000	10,000
Repayments to the Contingencies Fund		(10,000)	(10,000)
Net financing		**-**	**-**
Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**1,126**	**568**
Payments of amounts due to the Consolidated Fund		(1,842)	(3,116)
Amounts due to the Consolidated Fund - and not paid over		1,255	1,274
Payments of amounts due to the Consolidated Fund		**(587)**	**(1,842)**
Net increase/(decrease) in cash and cash equivalents after adjustments for receipts and payments to the Consolidated Fund		539	(1,274)
Cash and cash equivalents at the beginning of the period	9	1,842	3,116
Cash and cash equivalents at the end of the period	9	2,381	1,842

Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2016

	Note	General fund £000	Revaluation reserve £000	Total reserves £000
Balance as at 1 April 2014		**(2,938)**	**166**	**(2,772)**
Net parliamentary funding - drawn down		-	-	-
Excess cash surrenderable to the Consolidated Fund		(568)	-	(568)
Comprehensive net expenditure for the year	2	(3)	-	(3)
Actuarial loss relating to pension provision	11	(38)	-	(38)
Auditors remuneration		40	-	40
Additional depreciation charged for revaluation on assets	6	22	(22)	-
Balance as at 31 March 2015		**(3,485)**	**144**	**(3,341)**
Net parliamentary funding - drawn down		-	-	-
Excess cash surrenderable to the Consolidated Fund		(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)	-
Balance as at 31 March 2016		**(4,573)**	**122**	**(4,451)**

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 the 2015-16 'Government Financial Reporting Manual' (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. 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 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 & purchased software licences	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 3 - 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 62. 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, five present employees (2014-15: 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 Leases

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 12.2.1, are not discounted.

Finance leases

A finance lease is one that transfers substantially all the risks and rewards incidental to ownership of an asset. Interest charges due under finance leases are charged to the Statement of Comprehensive Net Expenditure. Future payments, disclosed at note 12.2.2, are discounted at the rate specified in the lease. All finance leases expired in 2014-15.

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 (-1.55%), medium term (-1.00%) 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 1.37% net of price inflation (2014-15: 1.30%).

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 2016 shows a negative taxpayers' equity of £4.451 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 2016-17 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

A contingent liability is a possible obligation arising from past events whose existence will be confirmed only by uncertain future events, or it is a present obligation arising from past events that are not recognised because either an outflow of economic benefit is not probable or the amount of the obligation cannot be reliably estimated.

In addition to contingent liabilities disclosed in accordance with IAS 37, 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.

2. Statement of operating costs by operating segment

	Economic regulation £000	Safety regulation £000	Roads monitoring £000	2015-16 Total £000	Economic regulation £000	Safety regulation £000	Highways monitor £000	2014-15 Total £000
Gross expenditure	12,682	15,780	1,450	**29,912**	12,681	16,199	446	**29,326**
Gross income	12,681	15,779	1,449	**29,909**	12,680	16,198	445	**29,323**
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 £4.3 million in safety levy in 2015-16 (£4.1 million in 2014-15).

Highways monitor – in 2015-16 ORR took on responsibility for monitoring 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	2015-16 £000 Total £000	2014-15 £000 Total £000
Wages and salaries	15,375	557	15,932	15,504
Social security costs	1,501	27	1,528	1,411
Other pension costs	3,231	-	3,231	2,962
Sub Total	20,107	584	**20,691**	19,877
Less recoveries in respect of outward secondments	(56)	-	(56)	(114)
Total net costs	**20,051**	**584**	**20,635**	**19,763**

Further information is provided in the Staff Report on page 66.

4. Other administration costs

	2015-16 £000	2014-15 £000
Rental under operating leases:		
Hire of office equipment	25	9
Other operating leases	1,075	912
	1,100	**921**
Non-cash items:		
Depreciation	541	497
Amortisation	478	415
Interest charges in respect of by analogy pension scheme	24	23
Auditors' remuneration and expenses	43	40
	1,086	**975**
Provisions:		
Provision for redundancy costs	10	10
Provision for dilapidations	(7)	26
	3	**36**
Other:		
Travel and subsistence	893	882
Hospitality	86	81
Consultancies	1,070	1,471
IT & Telecoms	2,094	2,368
Landlord service charges & rates	865	1,105
Printing & stationery	148	118
Recruitment & training	532	455
Staff-related (including staff restaurant)	186	152
Building-related	317	225
External services - internal audit, payroll, banking and finance	279	262
External services - other	603	489
Other costs	15	23
	7,088	**7,631**
	9,277	**9,563**

5. Income

	Note	2015-16 £000	2014-15 £000
Licence fees		13,695	13,419
Less: income deferred to future year	9	(1,147)	(862)
Safety levy and related safety income		16,561	16,211
Less: income deferred to future year	9	(1,041)	(304)
Income from roads monitoring		1,449	446
Miscellaneous income*		392	413
		29,909	**29,323**

*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	Total £000
Cost or valuation				
At 1 April 2015	3,973	1,342	333	5,648
Additions	44	44	266	354
Disposals	-	(180)	-	(180)
At 31 March 2016	**4,017**	**1,206**	**599**	**5,822**
Depreciation				
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	**2,767**	**1,112**	**260**	**4,139**
Carrying amount at 31 March 2016	**1,250**	**94**	**339**	**1,683**
Carrying amount at 31 March 2015	**1,534**	**136**	**200**	**1,870**
Asset financing				
Owned	1,250	94	339	**1,683**
Carrying amount at 31 March 2016	**1,250**	**94**	**339**	**1,683**

	Fitting out costs £000	Furniture, office equipment & telecoms £000	Information technology £000	Total £000
Cost or valuation				
At 1 April 2014	3,747	1,259	238	5,244
Additions	226	83	95	404
Disposals	-	-	-	-
At 31 March 2015	**3,973**	**1,342**	**333**	**5,648**
Depreciation				
At 1 April 2014	2,112	1,103	66	3,281
Charged in year	305	103	67	475
Disposals	-	-	-	-
Revaluations	22	-	-	22
At 31 March 2015	**2,439**	**1,206**	**133**	**3,778**
Carrying amount at 31 March 2015	**1,534**	**136**	**200**	**1,870**
Carrying amount at 31 March 2014	**1,635**	**156**	**172**	**1,963**
Asset financing				
Owned	1,534	132	200	**1,866**
Finance lease	-	4	-	**4**
Carrying amount at 31 March 2015	**1,534**	**136**	**200**	**1,870**

7. Intangible assets

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

	System developments	Software licences	Website	Assets under construction	Total £000
Cost or valuation					
At 1 April 2014	1,799	418	151	-	2,368
Additions	78	7	6	136	227
At 31 March 2015	1,877	425	157	136	**2,595**
Amortisation					
At 1 April 2014	1,058	357	2	-	1,417
Charged in year	361	23	31	-	415
At 31 March 2015	1,419	380	33	-	**1,832**
Carrying amount at 31 March 2015	458	45	124	136	**763**
Carrying amount at 31 March 2014	741	61	149	-	**951**
Asset financing:					
Owned	458	45	124	136	763
Carrying amount as at 31 March 2015	**458**	**45**	**124**	**136**	**763**

During the year £136k of development costs were transferred from ‘assets under construction’ to ‘software licences’ when the ‘Sharepoint’ operating system was brought into use. £14k of development costs remain in ‘assets under construction’. It is expected that these assets, also relating to Sharepoint, will be brought into use in 2016-17.

8. Trade receivables and other current assets

	31 March 2016 £000	31 March 2015 £000
Amounts falling due within one year		
Trade receivables	971	1
Other receivables	15	-
Staff receivables	91	89
Prepayments and accrued income	334	393
HM Revenue and Customs (VAT)	163	119
Amounts falling due after more than one year		
Prepayments and accrued income	-	1
Total at 31 March	**1,574**	**603**

Included in staff receivables are travel season ticket loans for 56 employees totalling £83,687 (2014-15: £80,095 for 58 employees) and £6,887 relating to other advances made to 26 employees (2014-15: £8,449 to 28 employees).

9. Cash and cash equivalents

	2015-16 £000	2014-15 £000
Balance at 1 April	1,842	3,116
Net change in cash balances	539	(1,274)
Balance at 31 March	**2,381**	**1,842**
The following balances at 31 March were held at:		
Government Banking Service	2,358	1,807
Commercial banks and cash in hand	23	35
Balance at 31 March	**2,381**	**1,842**

10. Trade payables and other current liabilities

	31 March 2016 £000	31 March 2015 £000
Amounts falling due within one year		
Other taxation and social security	13	7
Trade payables	326	396
Other payables	1,621	759
Accruals	2,496	2,896
Deferred income	2,188	1,166
Finance leases	-	6
Balance of Intergovernmental Commission levy payable to the Consolidated Fund	94	1,274
Balance of DfT roads funding payable to the Consolidated Fund	1,161	-
Excess cash surrenderable to the Consolidated Fund	1,126	568
Amounts issued from the Consolidated Fund for supply but not spent at year end	-	-
Total trade payables and other current liabilities at 31 March	**9,025**	**7,072**

There were no amounts falling due after more than one year as at 31 March 2016 (31 March 2015: none).

11. Provisions for liabilities and charges

The provision for early retirement was established to provide for future retirement benefits of employees who have retired early. 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. The 'other' provision is for a potential VAT liability.

	Early retirement £000	Accommodation £000	Other £000	Total £000	2014-15 £000
Balances at 1 April 2015	59	670	45	774	837
(No longer required)/provided for in year	11	3	-	14	40
Provisions utilised in the year	(69)	-	-	(69)	(99)
Borrowing costs (unwinding of discounts)	(1)	(10)	-	(11)	(4)
Balance at 31 March 2016	**-**	**663**	**45**	**708**	**774**

Analysis of expected timing of discounted flows

	Early Retirement	Accommodation	Other	Total	2014-15 Total
	£000	£000	£000	£000	£000
Not later than one year	-	-	45	**45**	104
Later than one year and not later than five years	-	663	-	**663**	670
Later than five years	-	-	-	**-**	-
Balance at 31 March 2016	**-**	**663**	**45**	**708**	**774**

The provision for the early retirement scheme was fully utilised in 2015-16.

Details for by-analogy defined benefit pension schemes

Liability in respect of:	As at 31 March 2016 £000	As at 31 March 2015 £000
Active members	-	-
Deferred pensioners	483	244
Current pensioners	310	329
Total present value of scheme liabilities	**793**	**573**

Liability calculation	As at March 2016 £000	As at March 2015 £000
Present value of scheme at 1 April	573	528
Current service cost (net of employee contributions)	-	-
Employee contributions	-	-
Interest cost	24	23
Actuarial loss	24	38
Benefits paid	(16)	(16)
Past service cost	-	-
Net individual pension transfer-in	188	-
Balance at 31 March	**793**	**573**

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 2016. 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 31/03/2016	Year Ending 31/03/2015	Year Ending 31/03/2014	Year Ending 31/03/2013	Year Ending 31/03/2012
Experience losses/(gains) arising on the scheme liabilities					
Amount (£000)	45	(4)	5	1	12
Percentage of scheme liabilities at end of year	5.7%	-0.7%	0.9%	0.2%	2.7%

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 at ages 60 and 65 for future pensioners as at 31 March 2015 and 2016 are based upon members aged 40 at these dates.

Current Pensioners	**As at 31 March 2016**		**As at 31 March 2015**	
Exact Age	Men (years)	Women (years)	Men (years)	Women (years)
60	28.9	30.7	29.1	31.3
65	23.9	25.7	24.2	26.4
Future pensioners	**As at 31 March 2016**		**As at 31 March 2015**	
Exact Age	Men (years)	Women (years)	Men (years)	Women (years)
60	31.1	32.8	31.4	33.6
65	26.5	28.3	26.9	29.0

Cumulative amount of actuarial gains and losses

The cumulative actuarial loss for the year to 31 March 2016 amounts to £278,000 (31 March 2015: £254,000).

Present value of scheme liabilities

	Value at 31/03/2016 £000	Value at 31/03/2015 £000	Value at 31/03/2014 £000	Value at 31/03/2013 £000	Value at 31/03/2012 £000
Liability in respect of:					
Active members	-	-	-	-	-
Deferred pensioners	483	244	217	189	168
Current pensioners	310	329	311	290	278
Total present value of scheme liabilities	**793**	**573**	**528**	**479**	**446**

12. Financial and capital commitments

12.1 Capital commitments

At 31 March 2016 ORR had capital commitments of £36k in relation to IT and telecommunications.

12.2 Commitments under leases

12.2.1 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 2016 £000	31 March 2015 £000
Obligations under operating leases comprise:		
Buildings		
Not later than one year	1,293	1,149
Later than one year and not later than five years	3,554	4,237
Later than five years	301	372
	5,148	**5,758**
Other		
Not later than one year	19	**14**
Later than one year and not later than five years	22	**34**
Later than five years	-	**-**
	41	**48**

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 had a contract from July 2011 to June 2015 for the provision of a fully managed service for a complete range of information technology services. The contract was

extended for an additional two years. 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 eight transferred staff; 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 estimated value of our information technology managed services (based on current levels of service delivery) is £1.32 million per annum.

12.2.2 Finance leases

Total future minimum lease payments under finance leases are given in the table below for each of the following periods.

	31 March 2016 £000	31 March 2015 £000
Leases other than buildings		
Not later than one year	-	7
Later than one year and not later than five years	-	-
Later than five years	-	-
Less interest element	-	(1)
	-	**6**

The total amount charged in the Statement of Comprehensive Net Expenditure in respect of the service element of finance leases was £731 (2014-15: £2,925). All finance leases expired in 2014-15.

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 2016 (31 March 2015: £nil).

13. Financial instruments

As the cash requirements of the department are mainly met through the licence fee and safety levy, 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

We were informed in 2015 by an external consultant that there were errors in schedule 8 payment rates that they calculated as part of the 2013 Periodic Review. We informed the rail industry and, working with the Department for Transport, Network Rail and the train operating companies, set out how to take account of these errors in access agreements and resolve this matter. We are currently unable to reliably assess the timing or quantum of any potential payments that may need to be made between the parties.

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.

We will review any implications arising from the result of the EU referendum as part of the Board’s review of strategic risk.

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 2016, for more than £220 per day and that last for longer than six months

Number of existing engagements as of 31 March 2016	**0**
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 2015 and 31 March 2016, 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 2015 and 31 March 2016	**0**
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 thas 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 2015 and 31 March 2016

Number of off-payroll engagements of board members, and/or, senior officials with significant responsibility, during the financial year	**0**
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	12

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