



OFFICE OF RAIL AND ROAD

# ANNUAL REPORT AND ACCOUNTS 2017-18

JUNE 2018



HC1098

# Office of Rail and Road Annual Report and Accounts 2017-18

Report presented to Parliament pursuant to section 74(1) of the Railways Act 1993

Accounts presented to the House of Commons pursuant to section 6 of the Government  
Resources and Accounts Act 2000

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

Ordered by the House of Commons to be printed 20 June 2018

**HC1098**

This is part of a series of departmental publications which, along with the Main Estimates 2018-19 and the document Public Expenditure: Statistical Analyses 2018 present the Government's outturn for 2017-18 and planned expenditure for 2018-19.



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Any enquiries regarding this publication should be sent to us at One Kemble Street, London, WC2B 4AN.

**ISBN 978-1-5286-0415-4**

**CCS0518667070 06/18**

Printed on paper containing 75% recycled fibre content minimum.

Printed in the UK by the APS Group on behalf of the Controller of Her Majesty's Stationery Office.

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# **SECTION A: PERFORMANCE REPORT**

## OVERVIEW

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This section of the Annual Report gives a short summary of our performance over the year. It aims to help the reader understand the Office of Rail and Road, its purpose, the key risks to the achievement of our objectives, and how we have performed in the year.

## FOREWORD

Our role at the Office of Rail and Road (ORR) is to protect the interests of the users of the rail and road networks and their funders, now and in the future.

We have a vital role in relation to the health and safety of those who interact with or work on the railway. Our inspectors are proactive, out on the rail network inspecting every day. We aim for our inspectors to spend more than half of their time in the field, this year achieving 54% of inspectors' time out on the railway.

The safety record across the UK rail network remains amongst the best in Europe. However, the Croydon tram accident two years ago was the most serious we have seen in many years. The Rail Accident Investigation Branch reported on the accident in December 2017 and in conjunction with the tram sector we have begun responding to their recommendations. We are supporting the steering group to drive forward key recommendations, including the establishment of a tram sector safety body.

We made significant progress this year toward determining the regulatory settlement which will apply to Network Rail for the five years from 2019 to 2024. We are making changes to how we regulate Network Rail, with a greater focus on route-level regulation and a targeted approach to regulating the system operator.

Our vision is that, over time, customers and stakeholders can and should play a much more significant role in working closely with Network Rail's routes and the system operator to agree

priorities and challenge performance. To that end, we began scrutiny of Network Rail's strategic business plans for each of its eight geographical routes and the system operator, ahead of our Draft Determination in June 2018.

In addition to preparing for the next funding period of Network Rail, we have continued our scrutiny of Network Rail's performance in the current control period. We report on the performance of Network Rail in England and Wales and in Scotland in our six-monthly *Network Rail Monitor* publication.

We have this year completed a number of projects to bring clarity, gather evidence and develop proposals that strengthen customer service and protection for rail customers. In particular, we published an extensive programme of consumer research around passengers requiring additional support and assistance to travel. We have consulted on areas identified for improvement including awareness of assistance provision, the reliability of assistance, staff training and how we monitor the service.

We have also supported the ombudsman scheme currently being developed by the Rail Delivery Group (RDG). We consulted on changes required to complaints handling processes and set out our intention to require all rail companies to participate. This will provide assurance for all passengers that their complaint will always have independent scrutiny. We continue to work with RDG towards introduction of the ombudsman later in 2018.

A recent theme in rail has been attracting new and sustainable sources of third party investment in the railway network – money from any public or private organisation other than Network Rail and governments. This year we have completed a number of areas of work to support additional sources of investment in the network. This has included launching a new section on railway investment on our website, working with third-party promoters, updating our guidance on securing access rights and commissioning an independent review of Network Rail's Industry Risk and Network Rail Fee Fund.

This year we completed our second annual assessment of Highways England's performance. We have also started to look ahead to the Government's second Road Investment Strategy. We have delivered work to inform the strategy, including reviewing with Highways England their capability in areas we expect to be important in delivering efficiency. We have also published our second benchmarking update report, which examined how Highways England's performance varied across its regions, and compared to other countries.

Our business-as-usual activities support our role as an evidence-based organisation reporting transparently on the performance of the rail and road sectors. This relies on the production of our statistical releases which inform the public, governments and industry, and traffic to our website data portal continues to rise. This year we have authorised several hundred new and amended passenger and freight access contracts, as well as authorised new vehicles and infrastructure into service and continued to issue train driver licences.

We could not deliver our role of protecting the interests of rail and road users without our staff. We continue to develop our current and future managers and leaders through our leadership and management development programmes. We have also recruited our first cohort of apprentices across the business, achieving our target of seven appointments in 2017-18. This programme has been a success and we have set ourselves the target of recruiting further apprentices in the next year.



*Joanna Whittington.*

**Joanna Whittington**  
Chief Executive and  
Accounting Officer

## CHAIR'S REPORT

This Annual Report shows that the year has been particularly busy for the Office of Rail and Road as we prepare to deliver our periodic review of Network Rail in relation to the control period from March 2019.

The system of 5-yearly periodic reviews is crucial in facilitating planning across the rail industry as a whole, based on a clear strategic direction. We have made significant progress this year in providing the basis for delivering the periodic review in late 2018.

The Governments' High Level Output Specifications (HLOSs) and Statements of Funds Available (SoFAs) for 2019 to 2024 were announced by the Secretary of State and the Scottish Ministers this year. These acknowledged advice from the ORR that 'There needs to be a significant increase in the volume of renewals undertaken in CP6, to reverse the impact of the deferrals that have taken place in CP5, meet the pressures of growing traffic and address the condition of long-lived assets'.

The HLOSs and SoFAs set a secure foundation for Network Rail, with a strategic shift of focus onto maintenance and renewals. There has also been satisfactory progress this year on Network Rail's transition to a devolved organisation, with the creation of eight geographical routes, a cross-country and freight 'route' and a distinct system operator.

ORR's Board is fully supportive of route devolution. It should mean that over time, customers and stakeholders play a more direct role in working closely with Network Rail – both at route and system operator level – to agree priorities and challenge performance.

We have worked hard to support the transition and are making a number of changes to the way we regulate Network Rail reflecting this. Amongst other things, these will improve transparency and accountability and strengthen incentives to manage the businesses effectively and efficiently.

The progress this year will pave the way for a number of crucial decisions to be made by the Board in 2018 on the draft and final determinations of the periodic review. The Board could not make these decisions without the dedication and capability of ORR staff, for which we are grateful.

We are mindful of the national nature of the UK rail and strategic road networks. We have spent time this year travelling to different parts of the UK, holding Board meetings in Birmingham, Cambridge and Leeds and have taken the opportunity to meet stakeholders from across these regions. We launched our business plan in a number of locations across the country and will continue to keep this regional focus.

We have maintained continuity of most Board members this year, although David Franks has left the Board because he has taken a post overseas. This continuity will help ensure we can deliver the important decisions ahead of us in the next year.



*Stephen Glaister*

**Stephen Glaister**  
Chair

## OUR BUSINESS

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The Office of Road and Rail (ORR) exists to protect the interests of rail and road users, improving the safety, value and performance of railways and roads, today and in the future.

We are the independent economic and safety regulator for Britain's railways, and the monitor of performance and efficiency for England's strategic road network.

We regulate Network Rail, including setting the targets it has to achieve, and report regularly on its performance. We regulate health and safety standards and compliance across the whole rail industry. We oversee competition and consumer rights issues – driving a better deal for rail passengers and taxpayers. We also regulate the High Speed 1 link to the Channel Tunnel.

Since April 2015, we have been monitoring Highways England to hold the company to account on its commitments to improve the performance and efficiency of England's strategic road network.

As an independent regulator, we operate within the framework set by UK and EU legislation and are accountable through Parliament and the courts. We are an independent statutory body, with powers vested by Parliament in our governing board, which is responsible for setting our strategy and overseeing its delivery. Members are appointed by the Secretary of State for Transport for a fixed term of up to five years.

Our staff work from six offices across Britain, giving us the flexibility and coverage we need to perform our functions efficiently. Many of our people work away from the office, for example conducting on-site inspections across the rail network.

Our team of Executive Directors is responsible for delivering the business plan to meet the ORR's six strategic objectives.

# OUR STRATEGIC OBJECTIVES



**HEALTH AND SAFETY**



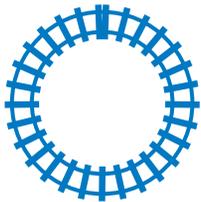
**BETTER RAIL CUSTOMER SERVICE**



**VALUE FOR MONEY FROM THE RAILWAY**



**BETTER HIGHWAYS**



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



**HIGH PERFORMING REGULATION**

## Key risks and uncertainties

Our risk management strategy and the key issues and risks that could affect us in delivering our strategic objectives are set out in the Governance Statement on page 41.

## Performance summary

### Funding

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 rail-related costs in full, bar a token resource budget of £3,000 provided by Parliament.

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

We have a Capital Departmental Expenditure Limit (CDEL) of £720,000.

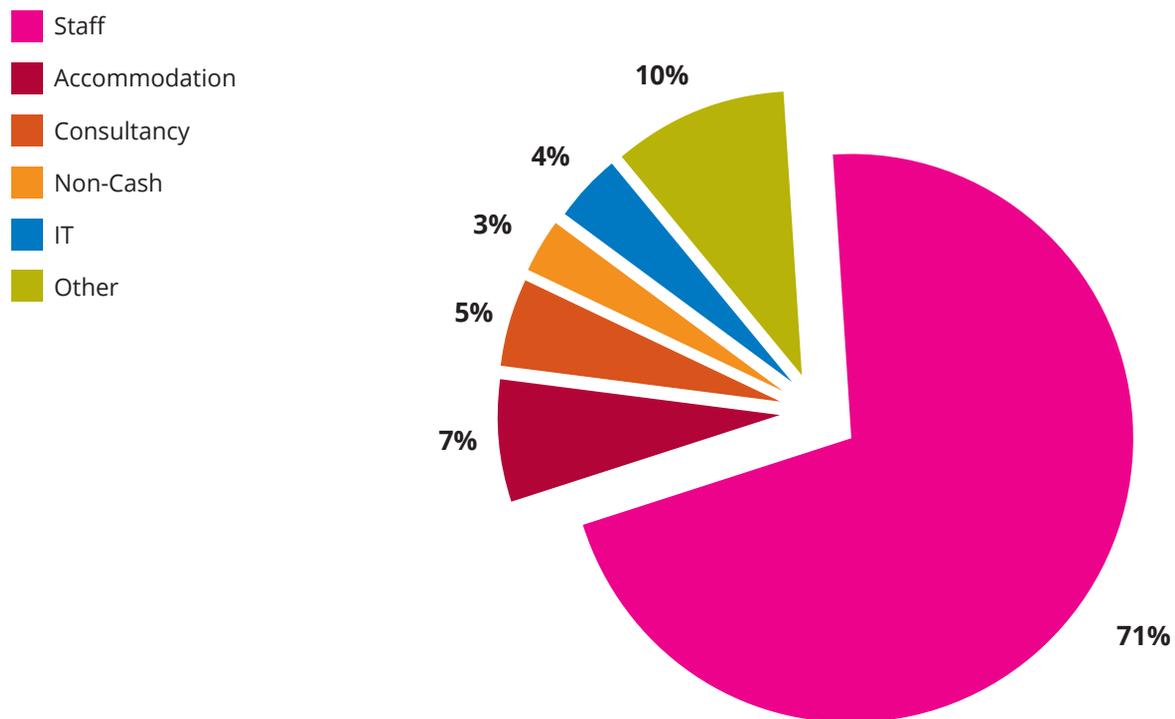
In the 2015 Spending Review, ORR agreed a resource cost cap, net of income raised from outside of the rail industry, for 2017-18 of £29.4m. Budgeted gross costs for rail were £29.7m. Budgeted income from sources outside the rail industry was £0.3m.

## Outturn – gross costs

	2017-18 Outturn gross costs £000	2017-18 Budgeted gross costs £000	2016-17 Outturn gross costs £000
Rail - Economic	12,680	13,684	12,746
Rail - Safety	15,248	16,033	15,792
Roads	2,270	2,501	2,462
<b>Total</b>	<b>30,198</b>	<b>32,218</b>	<b>31,000</b>

Variances against budget and 2016-17 are analysed on page 29.

## Analysis of 2017-18 costs



# PERFORMANCE ANALYSIS

## Measuring performance

Our strategic objectives are set out on page 12. Our priorities are set out in our annual business plan. In the business plan we set out a number of key commitments under each of our strategic objectives. These are underpinned by a number of internal milestones, defined during our annual business planning round.

We also publish a series of service standards in our business plan (set out on page 15). The Board reviews progress against business plan commitments and service standards on a quarterly basis. The Executive reviews progress against internal milestones monthly.

Risk reporting is aligned to our strategic objectives. For each strategic objective the activities and control actions which mitigate the risk to us not achieving our strategic objectives are documented. Our risk management strategy is set out on page 41.

## Our performance against the business plan

We set out in our business plan our intention to engage with funders, stakeholders, passengers and users across the rail and road sectors. We have achieved this in the past year, influencing key decisions including Governments' High Level Output Specifications (HLOSs) and Statements of Funds Available (SoFAs), contributing to parliamentary inquiries and supporting change to the benefit of passengers.

The work we have carried out in the year to meet our priorities is set out in each of the 'strategic objective' chapters on pages 16 to 27. We have either delivered or made good progress on all of these.

In addition to our published priorities we have delivered the following unplanned and re-prioritised work in 2017-18:

- Consulted on our view of the drivers of renewals efficiency, concluding with a conference to test and better understand these drivers. This has provided evidence for our ongoing review of Network Rail (PR18).
- Worked with the tram sector on a programme of work to address those recommendations in the Sandilands RAIB report that require a cross-sector collaborative approach in order to best implement them.
- Launched a project to consider whether to review Network Rail's licence obligations to better reflect the separation of its functions between its routes, the system operator and its other functions, and to ensure the licence is fit for purpose going forward. This work is closely linked to our ongoing review of Network Rail (PR18).
- Launched a market study under our competition powers into the supply of automatic ticket gates and ticket vending machines. The market study was prompted by a market review which highlighted possible concerns in these markets.

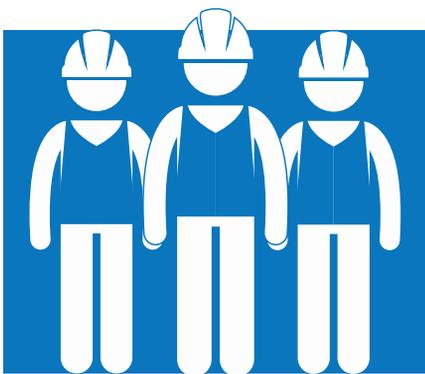
## Delivery of service standards

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.

The service standards below were published in our business plan for 2017-18.

Provision	Standard	% achieved
Issue new or revised train driver licences	100% of applications processed within one month of receipt of all necessary documentation	100%
ROGS safety certificates and authorisations	100% determined within four months of receiving completed application	100%
Report to Rail Accident Investigations Branch (RAIB) on the progress of its recommendations	100% response to RAIB recommendations within 1 year of associated RAIB reported being published	65% <sup>1</sup>
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	95%
General enquiries and complaints	95% of enquiries and complaints responded to within 20 working days of receipt	90% <sup>2</sup>
Prompt payment of suppliers' invoices to ORR	80% paid within 10 days of valid invoice	95%
	100% paid within 30 days of valid invoice	100%



**Our inspectors spent 54% of their time in the field (against 50% target)**

<sup>1</sup> 8 out of 23 responses were delayed past their due date. 5 of these were due to technical issues arising from ORR's IT in-source. 2 were due to disagreements with end implementers about what ORR was reporting to RAIB. 1 was due to comments made at the factual accuracy stage of the process that took longer to resolve than anticipated.

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

# STRATEGIC OBJECTIVE 1: A SAFER RAILWAY



ORR is the health and safety regulator for all of Britain's rail industry. Our vision is zero industry-caused fatalities to passengers, the workforce and the public with an ever-decreasing systems risk.

Safety by design on major projects and maintaining a safe and sustainable infrastructure remain two key areas of focus for us and, together with the growth and change on the railways, we and the industry cannot and must not be complacent in the management of health and safety.

## Last year's business plan set out the following priorities for 2017-18:

- Maintaining and further developing the Risk Management Maturity Model (RM3) model through an enhanced governance board;
- Publishing guidance on 'fitness for work' and respiratory mitigation measures;
- Further refining our strategic risk chapters and our risk ranking process to prioritise our regulatory interventions; and
- Refining our safety certification process to make it more risk-based and proportionate.

We have made good progress against these specific objectives, as well as matters that have arisen during the year and the day-to-day responsibilities we undertake as national health & safety regulator.

## In 2017-18 we have:

- Commenced work, in conjunction with the tram sector, to respond to the 15 recommendations in the Rail Accident Investigation Branch's (RAIB) December 2017 report into the fatal tram overturn at Sandilands Junction, including leading the establishment of a steering group to drive forward key recommendations;

- Continued to have regulatory oversight of Network Rail at both a central and route level, including scrutinising its central and route strategic plans in preparation for the next control period and carrying out inspections and investigations in the routes;
- Continued to focus attention on key areas of risk on the mainline network - track, civils and level crossings - through frequent challenge and inspection programmes;
- Carried out our programme of inspections of mainline operators looking at driver management, management of change, contractor management, rolling stock maintenance, occupational health, depot safety, and management of the platform-train interface;
- Through our freight team, undertaken surveillance visits to all of the Entities in Charge of Maintenance (ECM) certificate holders, inspected rolling stock maintenance and continued our oversight of the industry's Cross-Industry Freight Derailment Working Group, focusing on improving the management of the track/vehicle/load system risk;
- Engaged widely with Transport for London (TfL) as it undertakes its transformation programme (the largest ever review of its organisation) to provide the most efficient and effective transport service for Londoners and meet a savings target of £4.3 billion over five years;
- Increased our engagement with Crossrail as it enters the commissioning stages for operation later in 2018;
- Completed the transfer of ORR certification tasks, in relation to ECMs, to accredited bodies;
- Updated and published a new version of the Risk Management Maturity Model RM3;

- Completed a significant programme of work to review and revise our suite of strategic risk chapters, resulting in revised chapters on:
  - Management of change;
  - Interface system safety;
  - Occupational health;
  - Health and safety by design; and
  - Management of train movements and signalling;
- Completed two formal post-implementation review reports on The Health and Safety (Enforcing Authority for Railways and Guided Transport Systems) Regulations 2006, and the Train Driving Licences and Certificates Regulations 2010;
- Published new comprehensive guidance on fitness for work and occupational exposure to respirable crystalline silica;
- Completed reviews of, and revisions to, some of our key processes, for example safety certificates and authorisations; and
- Continued to chair the Railway Industry Health and Safety Committee which brings together representatives of employers, employees, passengers, and government bodies to discuss and contribute to health and safety matters.

## Regulation and certification

### In 2017-18 we have:

- Received 5,385 train driver licence applications and issued 5,035 licences;
- Delivered 27 level crossing orders;
- In relation to the mainline, issued 12 part A safety certificates, 15 part B safety certificates and 7 safety authorisations. For non-mainline, we have issued 6 safety certificates and 5 non-mainline safety authorisations;
- Assessed and issued 9 ECM certificates; and
- During the year we reported to RAIB on a total of 110 recommendations, with 50 being implemented; 19 reported as implementation ongoing; 31 as progressing; 8 as having an insufficient response, and 2 as being non-implementation.

## Inspection and enforcement

During the year we found it necessary to issue 12 formal enforcement notices and, where appropriate, to prosecute duty holders in the courts to ensure compliance with the law. As prevention is always better than addressing issues after an incident has occurred, the 12 notices issued were “improvement notices” where we identified weaknesses in health and safety controls. This is a reduction in the number of enforcement notices compared to 2016-17, when there were 17.

Over the year we successfully concluded two prosecutions following the incident of 24 May 2014 when a cleaner working for Wettons Cleaning Services was electrocuted after coming into contact with a 750-volt live rail during his shift at West Marina Depot, East Sussex. Wettons were employed by London and South Eastern Railway (LSER) to clean its trains and the West Marina depot was leased from Network Rail for that purpose. ORR’s investigation revealed health and safety failures by both Wettons and LSER, in contravention of the Health and Safety at Work Act 1974. As a result:

- LSER was fined £2.5m; and
- Wettons Cleaning Services were fined £1.1m.

We also concluded a prosecution against Network Rail Infrastructure Limited, which was fined £733,000 for failing to undertake adequate maintenance to prevent the derailment of a freight train near Gloucester in October.

## STRATEGIC OBJECTIVE 2: BETTER RAIL CUSTOMER SERVICE



An important part of our role is protecting the interests of rail passengers. This work derives from our statutory responsibilities around consumer and competition law, and from the provisions made in train companies' and Network Rail's licences.

These responsibilities require us to focus on four important aspects of the customer experience that feed into our strategic objective of better rail customer service:

- Ticket retailing, specifically the ease with which passengers can buy tickets;
- The provision of passenger information, including at times of disruption;
- The provision of assistance to passengers who require additional support to make their journey; and
- The provision of an accessible, effective and efficient complaints handling service, including providing compensation where passengers are subject to delay.

### Last year's business plan set out the following priorities for 2017-18:

- Producing our second annual 'Measuring Up' report;
- Publishing a significant suite of reports on the experiences of disabled users;
- Following up this year's research, including on customer complaints and ticket machines; and
- Reporting on compliance with the Ticketing Code of Practice.

We have performed well on our specific objectives, as well as our overall responsibilities to bring clarity, gather evidence and develop proposals that strengthen customer service and, where necessary, offer protection for rail customers.

### Collection of evidence and data

#### In 2017-18 we have:

Collected new evidence and data on industry performance in a number of key areas, both to highlight areas of good practice as an example for others and to identify poor practice and areas where we can actively work to raise standards. We have prioritised areas where information has not previously been available or where existing information is limited in scope, out-dated or does not provide sufficiently robust evidence at an individual company level. These were:

- An audit of **train company websites** against the retail information Code of Practice to help understand the extent to which these websites provide the information that passengers need to make informed decisions when buying a train ticket and whether the information they give is suitably prominent, clear and timely. This enabled us to focus operator attention on improvement on three issues that warranted immediate action: the provision of information about, and application of, GroupSave discounts; the provision of live journey information; and the provision of information about key terms and conditions;
- A mystery shopping exercise to investigate the extent to which **ticket vending machines** are meeting the needs and expectations of passengers; and to examine whether transactions at such machines lead to a more (or less) expensive ticket than is required for their journey. We have shown that new and easier-to-use machines and clearer language have helped increasing numbers of passengers buy the right ticket and we have also secured agreement from all train operators to our Ticket Vending Machine Price Guarantee, under which passengers who bought a more expensive ticket than necessary are refunded the difference;

- An extensive programme of consumer research around **passengers with disabilities, and those requiring additional support and assistance to travel** to demonstrate the level of service that such passengers receive and to identify where this can be strengthened. We have published an initial public consultation to discuss areas of improvement, looking at passenger awareness of assistance provision, the reliability of the assistance, staff training and future monitoring of the service;
- A comprehensive and continuing **complaints satisfaction survey** using a range of indicators relating to both the complaints process and the outcome of the complaint, which has shown that there is general dissatisfaction among many passengers with how complaints are handled. For some time we have worked with train companies to ensure that they tell customers about the organisations to which they can appeal (Transport Focus and London TravelWatch) when they are dissatisfied with the outcome of their complaint. While neither body has the power to force companies to act, it is clear that the way a train company handles complaints affects customer attitudes and the company's reputation; and
- Publication in July 2017 of **'Measuring Up'**, ORR's annual rail consumer report, showing how the rail industry is delivering for passengers and focusing on all the above areas. The purpose is to inform the rail industry, passenger organisations, government and wider stakeholders of Network Rail's and train operators' performance.

We held meetings with Managing Directors of train operators to discuss and explain our priorities on consumer issues and to understand their views and experiences in this area.

## Licence and consumer law compliance

In the past year, we have focused on ensuring that operators continue to understand and comply with their obligations in their operating licences and with the broader requirements of consumer law. For example, we engaged extensively with one train operator to ensure that it considered in detail what changes and clarifications were required to ensure passengers with disabilities could still access its services when the service was operating with no second member of staff on board.

We have also worked extensively with the Rail Delivery Group and the Competition and Markets Authority to rewrite the National Rail Conditions of Travel (NRCoT) to make it clearer that passengers may have rights under consumer law, in addition to industry arrangements, when they are subject to a train delay.

## Rail Ombudsman

Earlier this year we were asked to shape how a rail ombudsman could be developed, joining a task force set up by the Rail Minister. We used this opportunity to share our vision of an ombudsman that is free and independent, able to make binding decisions, and that encourages the industry to improve. We have recently set out our intention to modify the licences of rail operators to require them to participate in the ombudsman scheme.

## STRATEGIC OBJECTIVE 3: VALUE FOR MONEY FROM THE RAILWAY



Ensuring value for money for passengers, freight customers, governments, taxpayers and the general public is a key strategic objective for ORR.

Much of this work is concerned with assessing the cost and value of the work Network Rail undertakes, and reporting on this. We also regulate other significant elements of the national rail infrastructure, including High Speed 1 (HS1) and the UK portion of the Channel Tunnel.

### **Last year's business plan set out the following priorities for 2017-18:**

- Producing our six-monthly monitor of Network Rail;
- Our Annual Efficiency Assessment of Network Rail; and
- Assessing the scope for efficiency in the next control period.

### **Holding Network Rail to account**

#### **In 2017-18 we have:**

- Published our annual reports (in July) on Network Rail (one for Scotland and one for the rest of Great Britain). We found that the railway continued to be safe and the reliability of some assets had increased. However, these benefits had been overshadowed by continued inefficiency and poor train performance. In Scotland we found that Network Rail had worked well with ScotRail to improve punctuality in the latter part of the year. While passengers have started to see benefits from a new station at Edinburgh Gateway, Network Rail's poor planning and delivery on some major projects, such as the electrification of Edinburgh to Glasgow, had let passengers down; and
- Alongside this report, we published conclusions from a deeper investigation into Network Rail's performance for Southeastern services. We singled out Network Rail's South East route because of its track record over the previous two years, coupled with a sharp increase in delays it had caused in 2016-17. We found evidence that it had a sustained focus on getting the basics right, from planning to day-to-day operations. We also found that the different parts of Network Rail, those that upgrade the infrastructure (such as installing new points at London Bridge) and those that run the railway in real time, are now working more closely together.

## High Speed 1

### In 2017-18 we have:

- Published our annual report on HS1 Ltd (in July), noting HS1 Ltd's improved performance from the previous year, as well as improving asset management capability; and
- Published our initial consultation (in September) on ORR's second periodic review of HS1 Ltd (PR19), which will cover areas such as asset management, efficiency and benchmarking. Following consultation, we were able to publish our approach to PR19 in January.

## Channel Tunnel regulation

ORR works with the French rail and road regulator, Arafer, to jointly exercise our statutory responsibilities for the economic regulation of the Channel Tunnel. Although our powers are independent of one another, ORR and Arafer have agreed to work together under a mutual cooperation agreement to ensure that we make consistent decisions across the UK and French halves of the network. Our overall objective is to maximise the benefits of using the tunnel for passengers and freight customers in both countries.

### In 2017-18 we have:

- Pursued a joint working programme with Arafer to support increased use of the Channel Tunnel network through the development of new services and greater competition. The tunnel, operated by Eurotunnel under a 99-year concession agreement, has significant unused capacity. We have therefore focused on promoting greater clarity and fairness in the terms under which different operators use the tunnel, and the encouragement of new services such as the new passenger route between London and Amsterdam; and
- Worked on issues of shared interest with the Anglo-French Intergovernmental Commission, which oversees the two governments' operational interests (including safety, security and performance) under the concession agreement. This is long-term work that will continue in future years; ORR does not anticipate that the UK's separation from the European Union will materially affect its ability to conduct this work in the future.

## STRATEGIC OBJECTIVE 4: BETTER HIGHWAYS



Highways England operates the strategic road network, managing motorways and major roads in England. Our role is to monitor and hold it to account for its performance and delivery.

We report on Highways England's delivery, providing transparency to funders, road users and wider stakeholders. We encourage Highways England to publish more information on its plans and performance. Importantly, improved transparency allows other stakeholders to play a more informed role in holding the company to account.

### Last year's business plan set out the following priorities for 2017-18:

- Publishing our annual assessment of Highways England's performance and efficiency;
- Publishing our benchmarking annual progress report;
- Reviewing our approach to enforcement in light of our experience to date; and
- The government's second Road Investment Strategy, including engaging with Highways England on its Strategic Road Network Initial Report.

We have made good progress against these specific objectives, as well as other initiatives and the day-to-day responsibilities we undertake on highways.

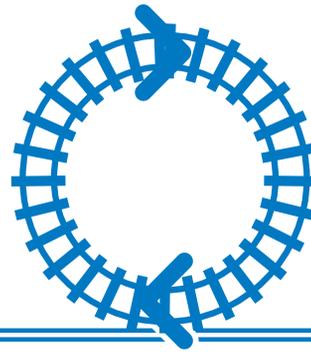
### In 2017-18 we have:

- Published our second annual assessment of Highways England's performance, which showed that, despite facing challenges from record levels of traffic on the network, Highways England had performed well and largely met its requirements;
- Published our second benchmarking update report, which provided clear, transparent comparisons of how Highways England's performance varies across its regions, and compares to highway authorities in other countries or companies in other sectors;

- Completed a review of our enforcement policy, concluding that it remains fit for purpose in this road period;
- Delivered work to inform the second Road Investment Strategy. This included carrying out, jointly with Highways England, reviews of its capability in areas that we expect to be important for delivering efficiency in the second Road Period;
- Responded to DfT's consultation on Highways England's Strategic Road Network Initial Report, setting out our views on the company's initial plans for the next Road Period;
- Carried out a review of Highways England's ringfenced funds to understand how they are being managed and what has been delivered; and
- Conducted work to benchmark Highways England's management of roadworks. Highways England has now incorporated the findings into its plans for roadworks improvements.

Over the year, we have worked closely with Highways England as it has made improvements to its reporting assurance processes. We have continued to develop strong relationships in the sector, such as increasing our engagement with stakeholders as we develop our business plans.

# STRATEGIC OBJECTIVE 5: PROMOTING A DYNAMIC AND COMMERCIALY SUSTAINABLE RAIL SECTOR



ORR has a number of roles that enable us to secure the best deal for rail and road users now and in the future.

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.

## Last year's business plan set out the following priorities for 2017-18:

- Consultation within PR18 on how route-based regulation will work, including the role of route scorecards;
- Our first consultation on the 2019 periodic review of HS1 (PR19);
- Providing advice to the Department for Transport on access and other issues relating to HS2; and
- Focusing on how to identify competitive and anti-competitive responses to train operations.

Our achievement against these objectives has been strong, as well as in the day-to-day responsibilities we have in promoting a dynamic and commercially sustainable rail sector.

## Access and capacity

Our work ensures that operators get fair access to the rail network, and users and funders are not disadvantaged by the monopoly power of the networks we oversee.

### In 2017-18 we have:

- Approved several hundred new and amended access contracts for track, stations, depots, freight terminals, other service facilities and connecting networks;

- Met several prospective open access operators to discuss their proposals and progressed applications for new services between London Euston and Blackpool, and London Waterloo and Southampton;
- Determined two appeals made under the industry's network code relating to the timetable planning rules and the criteria Network Rail uses when compiling the railway timetable;
- Completed 10 reviews of Network Rail's proposed land disposals, consenting eight;
- Issued 15 licences and exemptions to applicants wishing to operate railway assets, including to the future operator of the new Crossrail infrastructure;
- Took on a new role as economic regulator for rail in Northern Ireland, publishing guidance to explain this new role and quickly establishing effective working relationships with our new stakeholder; and
- Updated our published access and licensing guidance, including how we support investment in the railway.

## Promoting competition

In 2017-18 we have carried out our role as a competition authority by continuing our rolling programme of market reviews, and by integrating competition thinking into key work of the office, such as the periodic review and assessing access applications.

Using our powers as a competition authority, we launched a market study into the supply of automatic ticket gates and ticket vending machines. A market study is an examination into the causes of why markets may not be working well, in which ORR may use formal information gathering powers. Our market study was prompted by a preceding market review into ticketing equipment and systems which highlighted possible concerns in these markets, including a lack of rivalry potentially causing high prices and stifled innovation. An interim report, which will set out whether or not we intend to make a market investigation reference to the Competition and Markets Authority (CMA) will be published by September 2018, with a final report due by February 2019.

We have continued to be an active member of the UK Competition Network, working alongside other regulators to encourage competition across the economy and particularly in the regulated sectors. Notably, ORR has worked with the CMA in relation to its merger work in the rail sector by:

- Providing advice and assistance to the CMA on the possible competitive impacts of mergers within the railway sector. This advice drew on data available to ORR via its market intelligence function and the advice of ORR's operational experts;
- Responding to the CMA's consultation on its guidance for the evaluation of competition issues in rail franchise awards. ORR welcomed the CMA's encouragement of close engagement with franchisees and its greater understanding and use of standard rail industry demand forecasting techniques when modelling its market and competition analysis. ORR signalled its continued interest in this area and a desire to continue to work closely with the CMA in its franchise review process; and
- Continuing our structured programme to raise awareness of competition within the organisation. This programme has included online training, talks and seminars. In October 2017, ORR ran a seminar on "Barriers to Entry" with speakers from the Payment Systems Regulator and OFWAT. In November 2017, ORR invited the CMA to present on its competition impact assessment guidance and invited other regulators to attend.

## Periodic Review 2018

Ensuring that we deliver a successful periodic review of Network Rail was a major part of our work in 2017-18. In particular, we carried out significant development work in preparation for the overall decisions that we will make in 2018-19 in our draft and final determinations.

### In 2017-18 we have:

- Consulted and engaged on a range of areas, including the more detailed framework for regulating Network Rail in CP6, infrastructure cost charges and the financial framework;
- Published conclusions to our consultations on the overall framework for regulating Network Rail in CP6 (which included the role of route scorecards) and on charges and incentives. We also issued updates on the financial framework and charges;
- Commissioned several independent studies to inform our evidence base and decision making, including on passengers' awareness of planned disruption; and
- Carried out our assessment of Network Rail's CP6 strategic business plans.

## Europe

The EU continued to have a substantial role in the development of railway regulation throughout 2017-18. We helped to influence and implement European rail law in a number of areas, in line with the UK government's approach of continued full engagement while we remain a member of the EU.

Our objective is the same as for domestic regulation: ensuring maximum benefit for the users and funders of UK rail, and delivering a safe, efficient and developing railway. In the process we aim to foster an increasingly open, competitive, safe and interoperable rail sector throughout Europe.

### In 2017-18 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 rail freight corridors and evolving regulation on international timetabling and service facilities;
- 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 safety and interoperability proposals;
- Taken the lead in influencing the European Rail Agency (ERA) and the NSAs in Europe by providing secretarial support for the working group set up to ensure that future processes of co-operation can work efficiently. Until summer 2017 ORR chaired this forum. This group works on developing model cooperation arrangements between ERA and NSAs to ensure clear lines of responsibility for safety certification and vehicle authorisations once new regulations become active in 2019;
- Played an important role in the implementation of European law in the UK. For instance, we engaged with sector organisations and industry to develop an information template for service facilities required under EU legislation;
- Sought to influence, wherever possible, the development of European legislation to simplify any new rules and minimise the burden on UK rail industry stakeholders, such as in the collection of new market-monitoring data; and
- Started to engage with industry and government to prepare for the UK's exit from the European Union, undertaking an analysis of Brexit that looks at the existing European framework and the opportunities and drawbacks of compliance.

## STRATEGIC OBJECTIVE 6: HIGH PERFORMING REGULATION



ORR is committed to delivering proportionate and effective regulation of the rail sector and monitoring of the strategic road network for the benefit of users and funders.

### Last year's business plan set out the following priorities for 2017-18:

- Considering how ORR can develop its approach to regulating multiple networks within the same organisation, to deliver greater benefits for both users and funders of rail and highways;
- Continuing to focus on developing our people to build organisational capability and effectiveness as a regulator;
- Continuing to drive for greater efficiency and value for money; and
- Ensuring we remain open and transparent in our dealings with the industry, continuing to adopt a 'no surprises' approach.

Our work on these specific objectives has been successful. In addition we continue to carry out business-as-usual activities necessary for ORR to perform effectively.

### Our people

The capability, integrity and knowledge of ORR staff are fundamental to our success. We recognise the importance of good employee engagement for effective performance and delivery of our organisational objectives. ORR achieved an engagement score of 57% in the October 2017 Civil Service people survey. ORR is an accredited Investor in People with 'silver' status.

We have continued to work to develop our people throughout the year, with regular training events focusing on leadership, management and other skills. We are continuing to develop a talented core of current and future leaders through our leadership development programme, and have introduced

a new management development programme to strengthen management capability across the organisation. We have also reinforced our Deputy Director cohort during the year with four key appointments (in highways, engineering and asset management, railway performance and planning, and rail markets and economics). We have also recruited our first apprentices in several different areas of the business, and have been able to convert some existing roles to apprenticeships to provide our staff with new challenges and qualifications, achieving our target of seven appointments during 2017-18.

### Efficiency

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

In June 2017 we successfully migrated our IT support and infrastructure environment from a managed service to a fully in-house service desk and support model following the ITIL framework. This incorporated the design and implementation as well as the creation of new support process and documentation, along with IS staff completing certification in ITIL. We also migrated core services 'to the cloud' implementing a fully resilient environment. This has resulted in a reduction in ongoing operating costs for IT.

We have distinct lines of funding for the work we do: a safety levy, which pays for all of our health and safety work; an economic licence fee, which pays for our economic regulation; and a direct grant from DfT for the work we do as highways monitor. These lines of funding are discrete with no cross-subsidy

so, for instance, money earmarked for highways monitoring cannot be used for railway safety. However, we do make synergies in bringing these functions together wherever possible, for example by sharing office costs.

We are an organisation built around people; 71% 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.

## Transparency

Transparency is integral to ORR's operation. When we conduct our business openly we deliver clear benefits to consumers, users, train operators, the supply chain, governments, system operators and taxpayers, as well as demonstrating the benefits of transparency to the rail and road sectors. Greater openness improves the quality of our data releases, and promotes greater access to our data, and use of our reports.

### In 2017-18 we have:

- Published comparative information on some elements of the financial performance, expenditure, income and asset management of Network Rail's routes in our annual efficiency and financial assessment of the company. This work helps build a comparative picture of how different areas are working to improve future performance for passengers and taxpayers;
- Published an interim report on Highways England's performance;
- Published a rail consumer report showing how the rail industry is delivering for passengers, focused on ticket retailing, passenger information, passenger assistance, and complaints and compensation;
- Published our research into passengers' experience of ticket vending machines;
- Produced regular updates on occupational health;
- Seen the number of data portal users in 2017-18 go up 9.4% compared to the previous year, meaning more users are looking at the statistics ORR regularly produces on topics like rail safety and passenger satisfaction; and
- Authorised three new stations and 24 items of rolling stock.

## Better regulation

### In 2017-18 we have:

- Ensured our statutory requirements for better regulation are met;
- Worked closely with regulators across sectors to share expertise and best practice; and
- Strengthened our internal guidance to develop proportionate regulatory interventions.

In June 2017 ORR published its compliance reports against the Government's Business Impact Target (BIT), as required under section 24A of the Small Business, Enterprise and Employment Act (as amended). ORR reviewed 11 regulatory provisions that qualified for a BIT score, each with no material cost to business, with business costs independently verified by the Regulatory Policy Committee. We have integrated requirements under the Growth Duty and Regulators' Code into our enforcement guidance and internal procedures as necessary.

We have continued to work jointly wherever appropriate with other safety and economic regulators, principally through the UK Regulators Network (UKRN). This has included work with UKRN networks on cost of capital, strategy and Brexit, Infrastructure and Resilience and with the UKRN's young professionals network. We meet regularly with DfT and the Civil Aviation Authority to support joined-up regulation across economic and safety regulation affecting key transport sectors.

Over the course of the year, we continued to develop advice and support for ORR staff on policy development and impact assessments. We held our second annual policy profession conference in October 2017, leading to refreshed internal guidance to strengthen our decision-making, supporting a proportionate and evidence-based approach to regulation. This was supported by targeted training policy skills and, in partnership with DfT, on impact assessments.

# ACCOUNTABILITY TO PARLIAMENTS AND THE DEVOLVED ASSEMBLIES

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

Its Parliamentary accountability manifests itself practically in several ways, including the appointment of its Chair being subject to scrutiny by the Transport Select Committee<sup>1</sup> and ORR senior officials regularly contributing to Parliamentary and Assembly committee inquiries. ORR's contribution to the Parliamentary process at Westminster in this reporting period has included senior ORR officials giving oral and written evidence to the Transport Select Committee's inquiry on rail investment and providing briefings to the Scottish Parliament's Rural Affairs and Connectivity Committee ahead of scrutiny sessions of Network Rail managers.

We offer expert and impartial information and advice to governments and Parliamentarians, including members of the Devolved Assemblies, to inform their scrutiny of rail and road issues. We also

provide independent assessment of delivery across key transport strands. ORR actively engages with Parliamentarians on issues which are of interest to them and their constituents, through briefings, correspondence and proactive engagement. In 2017-18 ORR held a number of one-to-one briefings as well as larger events which included:

- a parliamentary consultation event on rail accessibility hosted by Baroness Grey-Thompson;
- an update to the All Party Parliamentary Group (APPG) on Rail about rail competition;
- an update to the APPG Rail in the North on the impact of PR18 for the region; and
- a joint event with the House of Commons Library for MPs' researchers to understand and make the most of ORR's statistical resource.

<sup>1</sup>Stephen Glaister's reappointment by the Secretary of State during this reporting year did not trigger this process.

# OUR FINANCIAL PERFORMANCE

A summary of our income and expenditure is shown below:

	2017-18 £000	2016-17 £000
<b>Income</b>		
Economic regulation	(12,679)	(12,745)
Safety regulation	(15,247)	(15,791)
Highways monitoring	(2,269)	(2,461)
<b>Total income</b>	<b>(30,195)</b>	<b>(30,997)</b>
<b>Expenditure</b>		
Staff costs	21,331	21,172
Other costs	8,867	9,828
<b>Total costs</b>	<b>30,198</b>	<b>31,000</b>
<b>Reconciliation between resource outturn and resource budget outturn</b>		
<b>Net resource outturn</b>	<b>3</b>	<b>3</b>

## Income

All rail-related costs are recovered via licence fees or the safety levy which are invoiced based on estimated costs. Therefore any over-recovery is treated as deferred income and any under-recovery as accrued income, as set out in note 5 to the accounts. All highways-related costs are recovered in full from the Department for Transport.

The £12.7m income from economic regulation comprises income from the licence fee, HS1 and our monitoring of Northern Ireland. Safety regulation income of £15.2m includes income from railway service providers and from the Channel Tunnel. Income from highways monitoring was £2.3m.

## Expenditure

In 2017-18 we spent a total of £30.2m compared to £31.0m in 2016-17. Our overall gross budget for 2017-18 was £32.2m.

By segment, our spend breaks down as follows:

- the same on economic regulation compared to last year, at £12.7m (£1.0m less than budget);
- £0.5m less on safety regulation compared to last year, at £15.2m (£0.8m less than budget); and
- £0.2m less on our highways monitoring role compared to last year, at £2.3m (£0.2m less than budget).

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

- staff costs 4% below budget, due to a high staff turnover and time taken to fill vacancies;
- consultancy spend 32% below budget, due to some work starting towards the end of the year not being completed in 2017-18;
- running costs 7% below budget, largely due to a £265k rates rebate received at the end of the year.

On the roads side of the business:

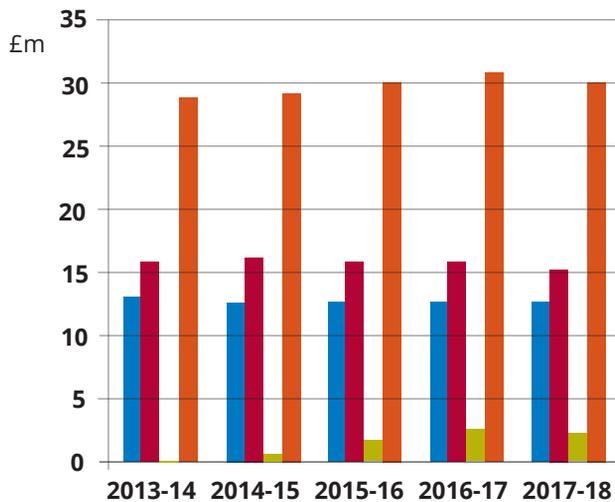
- staff costs were 11% below budget, due to a change in the structure of the leadership of the highways directorate in the year.

Staff costs accounted for £21.3m (71%) of total costs, compared to £21.2m (68%) in 2016-17. Our average staff cost per full-time equivalent in 2017-18 was £71,135 compared to £71,115 in 2016-17.

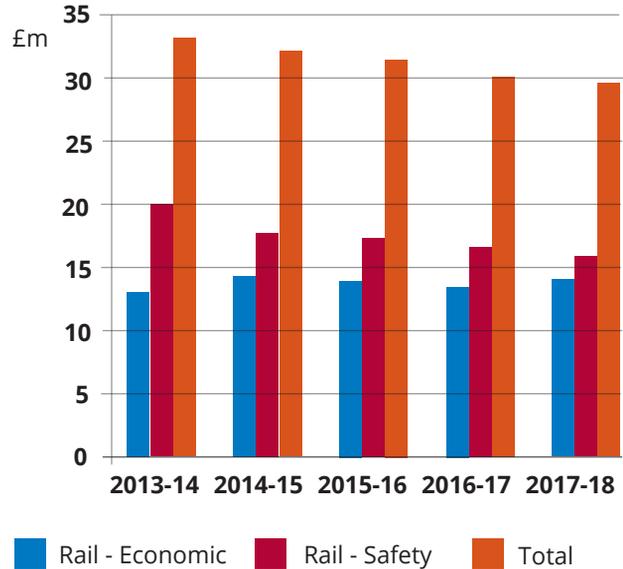
Operating cost variances against 2016-17 are analysed further in note 4 to the accounts.

### Long-term expenditure trends

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



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



*Joanna Whittington.*

**Joanna Whittington**  
Accounting Officer

11 June 2018

## EMPLOYEE MATTERS

All employees at ORR are required to comply with the terms of the Civil Service code, including the core values of integrity, honesty, objectivity and impartiality.

The Code also sets out what an employee must do if they believe they are being required to act in a way that conflicts with the Code, or if they become aware of actions of others which they believe are in conflict with the core values. To date, no such concerns have been raised within ORR.

ORR also has a fraud prevention policy that ensures all employees understand how to prevent fraud and what to do if they suspect that fraud may be occurring. The policy sets out employees' responsibilities under the Fraud Act 2006, the Bribery Act 2010 and the Public Interest Disclosure Act 1998, as well as under Managing Public Money. No incidents of fraud or bribery have been raised since the policy was implemented. The policy is reinforced through ORR's conduct and discipline policies.

At ORR, we are committed to the principles of equality and diversity, both as an employer and as a safety and economic regulator. In accordance with the Equality Act 2010, we have drafted specific and measurable targets that we work towards. We:

- eliminate unlawful discrimination, harassment and victimisation;
- promote equality of opportunity between people who share a 'protected characteristic' (such as age, disability or race) and those who do not; and
- foster good relations between people who share a protected characteristic.

Our diverse backgrounds, experience and talents are critical in securing our success as a regulator. We make every effort to ensure that our people practices reflect the true value of every individual, and that we continually foster an open and inclusive workplace. ORR participates in the Civil Service people survey which includes questions about employee wellbeing. In the 2017 survey, 72% of employees said that they were satisfied with their life nowadays, whilst 76% said that the things they do in their lives are worthwhile. Both outcomes were higher than the high performing departmental benchmark across the Civil Service.

# SUSTAINABILITY

We continued to play an active role within the Infrastructure Operators Adaptation Forum (IOAF). The IOAF is coordinated by the Environment Agency, enabling forum members to learn from each other and work together to reduce vulnerability and realise opportunities presented by points of dependency between infrastructure systems with a focus on climate change and the factors that drive it.

Members are drawn from infrastructure operators, regulators, government, trade associations, professional bodies and academia.

In the latter half of 2017-18 our focus on environmental sustainability has been on reviewing Network Rail's Strategic Business Plans for CP6 and the sustainability targets contained within them. We are currently in discussion with Network Rail to jointly commission an independent reporter in the summer of 2018 to test reporting on their Sustainable Development KPIs, specifically how data is captured and calculated for reporting in Network Rail's annual return for the following areas:

- scope 1 and 2 CO2 emissions;
- carbon footprint reduction;
- carbon intensity of electricity, traction and non-traction;
- waste diverted from landfill;
- waste sent to landfill;
- environmental incidents and close calls;
- the percentage of sites in England in favourable or recovering condition;
- the number of impactable features within Sites of Special Scientific Interest (SSSIs) in Scotland that Network Rail manages; and
- the percentage of impactable features within SSSIs in Scotland that Network Rail manages in favourable or recovering condition.

Accurate reporting is essential in establishing a robust baseline against which we and Network Rail can monitor future performance.

We monitor Highways England's progress against its commitment to deliver better environmental outcomes on the strategic road network. This includes holding the company to account for its performance against two key performance indicators on biodiversity and noise. We also monitor progress against a number of environmental performance indicators, covering carbon emissions, air quality, flooding and water quality.

In our annual assessment of Highways England's performance in 2016-17, we reported that:

- Highways England had made progress in delivering its Biodiversity Action Plan plan. In 2016-17 the company proposed a new metric for measuring biodiversity on the strategic road network ahead of schedule. It also put in place management plans for 15 sites of special scientific interest on its estate and approved around 300 schemes to improve biodiversity on and around the network.
- Highways England had mitigated 73 noise important areas, towards a target of 1,150 over the first road period. We continue to work closely with the company to understand how its plans will ensure that the target is met in 2020.

In the past year we have also worked with Highways England, DfT and other stakeholders to develop environmental metrics which will be used to monitor Highways England's performance in the second road period, which will run from 2020 to 2025. We will report on performance during 2017-18 in our annual assessment of Highways England, which is due to be published in July 2018.

## 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 12 months include:

- continuing to use services for the provision of multi-functional print devices, office supplies and printing which were procured through Crown Commercial Services' (CCS) frameworks, which had sustainability as part of the suppliers' Continuous Improvement Plans;
- 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;
- using CCS's Network Services framework for the procurements of managed network services and telephony; and
- using CCS's G-Cloud frameworks for IT services (which have a high percentage of SME providers) for the procurement of cloud storage and management services.

## ORR performance and policy

Our environmental performance in 2017-2018 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.

All data is for the London and Glasgow offices except for that on non-hazardous waste, water, oil and paper which was unavailable for Glasgow. 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. Electricity supplied to the Glasgow office is now from a renewable source. Oil usage is higher in 2017-18 as a result of the cold weather.

Based on Defra conversion factors

	2015-16	2016-17	2017-18
<b>Greenhouse gas emissions (tonnes CO<sub>2</sub>)</b>			
Electricity (scope 2)	182	192	210
Oil (scope 2)	42	47	67
Gas (scope 2)	n.a	n.a	n.a
Travel:			
Car (personal vehicle)	91	99	130
Air	93	93	60
Train	87	91	97
Hire car	n.a	3	13
<b>Gross emissions total</b>	<b>495</b>	<b>525</b>	<b>577</b>
<b>Total net emissions</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Gross emissions of official business travel (tonnes CO<sub>2</sub>)</b>	<b>266</b>	<b>286</b>	<b>300</b>
<b>Expenditure (£)</b>			
CRC gross expenditure (£)	62,085	79,349	83,075
Expenditure on accredited offsets (£)	-	-	-
Expenditure on official travel (£)	636,669	580,993	629,267
<b>Waste (tonnes)</b>			
Total waste	23	17	21
Hazardous waste	-	-	-
Non-hazardous to landfill	-	-	-
Non-hazardous recycled	13	10	12
Non-hazardous incinerated/energy from waste	11	7	8
Cost of waste collection (£)	5,586	4,820	5,279
<b>Water</b>			
Water consumption (m <sup>3</sup> )	2,151	1,958	2,329
Water supply costs (£)	4,980	4,725	5,480
<b>Finite resources</b>			
Electricity non-renewable (Kwh)	28,909	430,929	440,157
Electricity renewable (Kwh)	379,297	-	32,261
Gas (Kwh) - Glasgow (estimated)	n.a	n.a	n.a
Oil (Kwh)	160,488	176,299	251,016
Total energy expenditure (£)	71,531	73,349	83,075
Paper consumption (A4 reams)	1,655	2,061	2,158

n.a - not available

**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 page 38.

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 2017-18 100% of invoices were paid within 30 days (100% in 2016-17) and 95% paid within 10 days (95% in 2016-17).

## Better regulation

Our work on better regulation in 2017-18 is explained on page 27.

## Personal data related incidents

Personal data related incidents are covered in the Governance Statement on page 44.

## Complaints

Our customer correspondence team handles all complaints and general enquiries received by ORR. The majority of correspondence received from members of the public and stakeholders concerns the rail industry<sup>2</sup> and covers a wide range of topics, for example safety concerns, railway engineering work, and punctuality of services. ORR is represented at the cross-government complaint handlers' forum and the Department for Transport complaint handlers' working group.

We aim to respond to 95% of all such enquiries within 20 working days of receipt. In 2017-18 we received 1,433 complaints and general enquiries, of which 1,286 (90%) were cleared within the deadline.

In 2017-18 we received one whistleblowing concern raised by railway employees via the Employment Tribunal ET1 notification. The issues raised are subject to an ongoing police investigation. We also received 149 enquiries relating to employee health, safety and welfare and three enquiries regarding employee employment matters. These 152 enquires generated 188 concerns. The 149 enquiries relating to health, safety and welfare concerns were looked into by ORR's Railway Safety

Directorate in accordance with our published guidance: [http://orr.gov.uk/\\_data/assets/pdf\\_file/0016/6442/safety-complaints-policy-and-guidance-web.pdf](http://orr.gov.uk/_data/assets/pdf_file/0016/6442/safety-complaints-policy-and-guidance-web.pdf)

As well as raising issues through safety representatives and their trade union, railway employees can raise concerns through CIRAS, a confidential report line: <http://www.ciras.org.uk/>.

## Freedom of Information

In 2017/18 we received 140 requests of which 137 (98%) were responded to within 20 working days following receipt. Further details are published by the Cabinet Office: <https://www.gov.uk/government/collections/government-foi-statistics>

## Formal complaints received about ORR

If someone is unhappy with the service they have received from ORR, they can raise a formal complaint in writing with the head of the customer correspondence team. Their complaint will be acknowledged and passed to the relevant Director to respond. If the complainant remains unhappy they can escalate their concern to the Parliamentary and Health Services Ombudsman (PHSO). In 2017-18 two formal complaints against ORR were received. These were in regard to our response and handling of a cancelled steam train tour involving the Flying Scotsman, and an allegation of poor passenger information leading to passengers having to run for their train at London Victoria. The latter has been referred to the PHSO.

## Auditors

The Comptroller and Auditor General carries out the audit of ORR's financial statements. The notional cost of auditing the financial statements was £36,000 (2016-17: £40,000). No remuneration, actual or notional, was paid to the National Audit Office for non-audit work (2016-17: none).



**Joanna Whittington**  
Accounting Officer

11 June 2018

# STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

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

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

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

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

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

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

The Accounting Officer is required to confirm that, as far as she is aware, there is no relevant information of which the entity's auditors are unaware, and that she has taken all the steps that she ought to have taken to make herself aware of any relevant audit information, and to establish that the entity's auditors are aware of that information.

The Accounting Officer is required to confirm that the annual report and accounts as a whole is fair, balanced and understandable and that she takes personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

# GOVERNANCE STATEMENT

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

## The Board

ORR is a non-ministerial government department led by a statutory Board consisting of Non-Executive Directors (including the Chair) and Executive Directors (including the Chief Executive). The Secretary of State for Transport makes appointments to the Board for a fixed term of up to five years, which is renewable, but can only remove individual members for grounds specified under section 1(3) of the Railways Act 1993. The Board provides support and challenge on the effective running and long term strategy of ORR as well as on the department's performance and risk management, and progress against delivery of our objectives and priorities. Members' duties and responsibilities are set out in a code of conduct included in the Board's rules of procedure<sup>3</sup>. The Board's objectives are aligned to key business and risk management activities. The Board held 11 meetings in 2017-18.

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

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

Membership and appointment terms of ORR's Board as at 31 March 2018 was as follows:

## Non-Executive Directors

**Stephen Glaister**, Chair, from 1 January 2016 to 31 December 2018. Stephen is already a Non-Executive Board member with a term fixed to 31 March 2020.

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

**Tracey Barlow**, to 30 April 2019

**Bob Holland**, to 31 December 2019

**Michael Luger**, to 31 July 2019

**Anne Heal**, to 30 September 2021

**Graham Mather**, to 30 September 2021

## Executive Directors

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

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

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

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

## Changes to Board membership

Changes to Board membership in the year are listed below:

Stephen Glaister's appointment as Chair was extended to 31 December 2018.

David Franks resigned from the ORR Board when he was appointed as Chief Executive for a Keolis Group company in Australia. His resignation was effective from 1 February 2018.

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

<sup>3</sup> At <http://orr.gov.uk/about-orr/who-we-are/the-board>

## Board Committees

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

### Audit and Risk Committee

The Audit and Risk Committee supports the Board in its responsibilities for issues of risk control and governance and associated assurance. Its role is to review whether assurances presented are sufficient and comprehensive enough to meet the Board and the Accounting Officer's needs, and assess 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. Areas considered included:

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

### Remuneration and Nominations Committee

The Remuneration and Nominations Committee has a specific role in reviewing the performance and remuneration of ORR's senior civil servants including the Chief Executive. It also maintains oversight of our people strategy, including our reward strategy for employees below the Senior Civil Service. It also advises the Chair on non-executive recruitment and induction.

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

- the performance of ORR's senior civil servants during 2016-17;
- ORR's pay policy and non-consolidated performance-related pay awards for its senior civil servants, ensuring that this is consistent with the annual guidance produced by Cabinet Office for the Senior Civil Service as a whole;
- the annual staff survey and executive plans for addressing any issues arising; and
- the succession and talent management arrangements for senior civil servants covering critical roles at ORR.

### Health and Safety Regulation Committee

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

The Committee met four times during the year. Areas considered included:

- ORR's strategic approach to health and safety regulation;
- ORR's response to the major tram incident at Sandilands;
- emerging technical trends and safety challenges;
- review of tools and processes for health and safety regulation; and
- duty holders' health and safety performance.

### Highways Committee

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

- reports from our monitoring framework for Highways England;
- Highways England's capital planning and asset management;

- development of ORR's advice on the second Road Investment Strategy; and
- the investigation into Highways England's management of network condition.

### Board effectiveness

The Board and its standing committees are governed by the Board's rules of procedure. There is a formal appraisal system for all Board members, including Executive members, undertaken by the Chair. The Chair's performance is appraised by the Non-Executive Directors, led by the Deputy Chair. Following a review of its own effectiveness in 2016-17, the Board adopted updated procedures, including new terms of reference for its committees, on 1 April 2017. Committees will consider the effective delivery of their new terms of reference after the first year of operation. Committee chairs report to the Board after each meeting and minutes are circulated to board members. The Board is required to review its own performance, including that of the committees, at least every two years.

Board attendances are summarised on page 46.

### 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 ORR's website, and members declare interests on agenda items at the start of every Board and Committee meeting. On the rare occasion where there is a risk of a conflict of interest, the Board must decide whether or not the relevant member must withdraw from the meeting during discussion of the relevant item and this is recorded in the minutes. David Franks' offer of employment by a Keolis Group company resulted in conflicts of interest which were not considered manageable under the rules of procedure. He immediately recused himself from all ORR business and resigned as soon as the appointment was confirmed.

### Compliance with the Code of Practice on Corporate Governance<sup>4</sup>

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

- the Board reserves to itself any changes in its governance and scrutiny thereof, so there is no committee with responsibility for governance;
- the Board does not include a Finance Director; and
- the Board has a role in deciding individual reward for senior civil servants. This approach adds a useful element of independence and objectivity given the small size of the department.

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

## The Executive

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

- The Executive Committee meets weekly and oversees operational issues such as progress against the business plan and allocation of resources for business planning.
- The Policy Committee meets fortnightly and advises on 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

<sup>4</sup><https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments>

process, allowing the Executive to monitor the delivery of ORR's objectives. This is drawn from a business management system which requires the input of milestones against activities contributing to ORR's strategic objectives. The Board receives quarterly reports on: progress against business plan commitments; service standards, which we use to monitor the performance of some of our public-facing 'business as usual' work; and unplanned or re-prioritised work.

I delegate budgets to Directors as appropriate and review their expenditure against these delegated budgets, and their progress against business milestones, on a monthly basis. Each Director has a number of officers to whom s/he may sub-delegate financial and purchasing authority. Records of these authorities and associated signatures are maintained within the finance team and are refreshed as required.

## Whistleblowing

ORR's whistleblowing policy is designed to provide an avenue for staff to raise concerns about perceived wrongdoing, illegal conduct or fundamental misconduct that may endanger others. Our 'whistleblowing and raising a concern' policy is available to all staff on our intranet. There were no whistleblowing complaints during 2017-18.

ORR is a prescribed person under the Public Interest Disclosure Act 1998. Prescribed persons are people and bodies you can blow the whistle to rather than your employer. People are able to contact ORR regarding concerns over the provision and supply of railway services and any other activities in relation to our functions. Information on whistleblowing concerns raised by railway employees is included on page 36.

## Risk management

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

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

As part of the business planning process, directorates are asked to consider the key risks to their planned activities and to ensure that these are documented in the business management system risk registers; a directorate level risk register; a project risk register; or the strategic risk register. This ensures that risks are captured at an operational level as well as at a strategic level. Activity owners have the opportunity, at regular team and Executive Committee meetings, to escalate risks from project and activity to directorate level and from directorate level to the strategic risk register if necessary.

Our key risks are grouped into strategic risks by strategic objective and operational risks.

### Strategic risk 1: A safer railway

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

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

We monitor compliance with the law and take enforcement action against duty holders that fail in their legal obligations.

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

We continue to highlight the importance of occupational health to the industry and use our health and safety assurance model (RM3) to encourage improvement in health and safety management towards excellence.

### Strategic risk 2: Better rail customer service

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

**What we are doing:** we collect relevant data, consumer insight and bespoke research to provide evidence of where policy may not be working in practice.

We use a variety of tools to highlight and escalate concerns to Network Rail and train operators to ensure regulatory compliance and promote good practice across the industry. In some cases our monitoring of such issues can lead to consideration of whether there has been, or is likely to be, a breach of licence obligation. In such cases we follow the approach set out in our economic enforcement policy and penalties statement.

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

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

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

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

In July we consulted widely to seek views on what Network Rail, ORR and the wider industry needed to do differently to improve renewals efficiency in CP6. We drew on an analysis of the experience of CP5 and wider planned changes for CP6. The outcome of the consultation has helped inform our approach to scrutinising Network Rail's plans for CP6. These plans will make use of Network Rail's transformation to a route-based business to compare route performance and identify and share examples of best practice.

We have started to adapt how we monitor Network Rail's routes and are exploring opportunities for how data can be collected and presented that accurately compares the performance of each route.

### Strategic risk 4: Better highways

There is a risk that Highways England does not have robust plans to deliver its performance and investment requirements. There is also a risk that Highways England lacks data or has data of insufficient quality to manage its network and assure delivery of the Road Investment Strategy (RIS).

**What we are doing:** We work with Highways England to ensure it delivers improved assurance for its reporting and delivery.

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

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

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

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

ORR continues its work to reform the structure of charges. This should mitigate some of the factors that reduce the role that open-access can play in delivering services. In addition, ORR continues to develop its competition oversight and ongoing monitoring of competition between larger incumbents and open access operators.

### Strategic risk 6: High performing regulation

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

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

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

ORR has reviewed the tools and processes that it uses when making decisions, ensuring that its approach to assessing the impacts of its decisions are proportionate and risk-based

We continue to work with regulators in other sectors, including as an active member of the UK Regulators Network, to develop and apply best practice in the use of risk-based regulation and policy making.

### Operational risk: Staff retention and recruitment

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

**What we are doing:** We continue to make the best use of pay flexibilities available, in consultation with our staff representatives, to engage and motivate staff. However we recognise that pay is not the only reason why excellent people would choose to work at ORR. In addition to pay, we offer support for personal and career development, and continue to invest in and improve our technology to enable staff to work in the most effective and flexible manner. It is essential that we recruit and retain the best people to carry out the important work that we do, and we are therefore committed to ensuring that we have a strong, diverse and inclusive organisation that provides all employees with equal opportunity to deliver, develop and progress.

## Information assurance

ORR maintains an information management strategy which sets out how we manage our information as a combined safety and economic regulator. ORR is registered as a data controller with the Information Commissioner and adheres to the provisions of the Data Protection Act 2018. We maintain a risk register on information risk and oversee our compliance with our government information assurance requirements through a security forum chaired by our senior information risk owner. This forum meets quarterly (or by exception) to monitor breaches in general security and 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 the Cabinet Office's security policy framework, and submits a report on information assurance annually to Cabinet Office. Each year we carry out an assessment to ensure that the security regime is appropriate to the impact levels of the information we hold throughout the organisation. As a result of this work we have assurance that we have the appropriate security controls in place (both physical and electronic) to hold information at 'official' level. Through continuous service development we also ensure that a good risk-appropriate security culture is embedded at ORR through directorate information asset owners who manage the information on a day-to-day basis. An annual assurance review is carried out with them directly.

## Personal data related incidents

We have experienced no information risk incidents in 2017-18 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. Based on the reviews undertaken and specific testing and evaluation performed during the year to 31 March 2018, Grant Thornton have provided moderate assurance in respect of corporate governance, risk management and internal controls, excluding two areas where critical findings were raised in respect of cyber security and staff expense approvals. Recommendations made by Grant Thornton during the year have either been implemented already, or will be implemented in 2018-19.

## Value for money from major contracts

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

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

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

We have recently retendered our IT provision, following a 'cloud first' approach. We utilised Crown Commercial Services framework agreements where possible. To achieve value for money we broke down IT requirements into smaller units to attract participation from small and medium enterprises, who can often offer innovative, cost effective solutions.

## Accounting Officer's statement

As Accounting Officer, I am personally responsible and accountable to Parliament for the organisation and quality of management in the department, including its use of public money and stewardship of its assets.

The system of internal control in place to support me in this capacity accords with all relevant HM Treasury guidance.

My review of the effectiveness of the system of internal control for 2017-18 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 identified that ORR must continue to develop and strengthen the documentation of its IT and cyber security processes, and must review its staff expense claims approvals hierarchy. We will work on these actions in 2018-19. I have no other disclosure of control weaknesses to make for 2017-18. During the year our internal auditors have made a number of recommendations to management to enhance governance, risk management and control. Action plans are in place for all of the recommendations we have accepted.

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



**Joanna Whittington**  
Accounting Officer

11 June 2018

## BOARD MEMBER COMMITTEE ATTENDANCES

Member	Board	Audit & Risk Committee	Remuneration Committee	Health and Safety Regulation Committee	Highways Committee
Tracey Barlow	11/11	N/A	N/A	N/A	5/5
David Franks	8/9	N/A	N/A	2/3	N/A
Stephen Glaister	11/11	N/A	N/A	4/4	5/5
Anne Heal	11/11	N/A	4/4	N/A	N/A
Bob Holland	11/11	5/5	N/A	1/1	N/A
John Larkinson	11/11	N/A	N/A	N/A	N/A
Michael Luger	10/11	5/5	4/4	N/A	N/A
Justin McCracken	10/11	N/A	4/4	4/4	N/A
Graham Mather	10/11	N/A	N/A	N/A	N/A
Ian Prosser	11/11	N/A	N/A	4/4	N/A
Graham Richards	11/11	N/A	N/A	4/4	5/5
Joanna Whittington	11/11	5/5	N/A	4/4	4/5
Melvyn Neate*	N/A	4/5	N/A	N/A	N/A
Garrett Emmerson**	N/A	N/A	N/A	N/A	4/5
Terry Hill**	N/A	N/A	N/A	N/A	5/5

\*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 2017-18 these were Michael Luger (Committee Chair), Justin McCracken and Anne Heal.

The Committee's role is set out in the Board's rules of procedures<sup>5</sup>. Our Civil Service pay strategy accords with parameters set by the Cabinet Office for the SCS following recommendations by the Senior Salaries Review Body.

### Service contracts

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

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

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

### Remuneration policy

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

Each senior civil servant participated in performance management arrangements under which top performers have the opportunity to be awarded a performance-related payment, following the annual Cabinet Office guidance 'Managing performance within the Senior Civil Service'.

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

The remuneration of the Chair and Non-Executive Directors is set by the Secretary of State for Transport. Remuneration of Non-Executive Board members is by payment of salaries and they have no entitlement to performance-related pay.

The arrangements for early termination of contracts of senior civil servants are made in accordance with the employment contract of the relevant individual subject to the provisions of the Civil Service Compensation Scheme. No early termination payments were made to senior civil servants in 2017-18 (2016-17: 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.

<sup>5</sup> [http://orr.gov.uk/\\_\\_data/assets/pdf\\_file/0013/2902/board\\_rules\\_of\\_procedures.pdf](http://orr.gov.uk/__data/assets/pdf_file/0013/2902/board_rules_of_procedures.pdf)

## Single total figure of remuneration

	Salary (£000)		Bonus payments (£000)		Benefits in kind (to nearest £100)		Pension benefits (£000)		Total (£000)	
	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17
<b>Richard Price</b> Chief Executive (to 15/1/16)	-	15-20	-	-	-	-	-	5	-	23
<b>Joanna Whittington</b> Chief Executive	155-160	140-145	10-15	-	-	-	85	71	254	212
<b>Peter Antolik</b> Director Highways Monitor (to 20 September 2017)	60-65	120-125	-	-	-	-	24	45	86	166
<b>Dan Brown</b> Director Strategy and Policy	125-130	120-125	-	-	-	-	41	49	167	173
<b>Russell Grossman</b> Director Communications	130-135	125-130	-	-	-	-	17	26	147	155
<b>Freya Guinness</b> Director Corporate Operations and Organisational Development (from 26 June 2017)	85-90	-	-	-	-	-	38	-	125	-
<b>John Larkinson</b> Director Railway Markets and Economics	135-140	130-135	10-15	10-15	600	600	9	97	156	244
<b>Juliet Lazarus</b> Director Legal Services	90-95	90-95	10-15	-	-	-	28	32	130	122
<b>Ian Prosser</b> Director Railway Safety	130-135	125-130	-	10-15	-	-	50	49	181	188
<b>Graham Richards</b> Director, Railway Planning and Performance (from 27/2/16)	115-120	95-100	-	-	-	-	89	88	205	187
<b>Tom Taylor</b> Director Corporate Operations and Organisational Development (to 29/1/17)	-	100-105	-	-	-	-	-	41	-	142

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

**Bonus payments** are based on performance levels attained and are made as part of the performance appraisal process. Bonuses reported in 2017-18 relate to performance in 2016-17 and comparative bonuses reported for 2016-17 relate to performance in 2015-16.

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

**Pension benefits** are shown on page 50. No senior managers exercised the option to take extra salary to invest in a pension scheme of their own choice rather than participate in a Civil Service pension.

Joanna Whittington was appointed Chief Executive on 20 February 2017. She was interim Chief Executive from 16 January 2016 until her permanent appointment into this role. She worked part-time hours until 31 May 2016.

Graham Richards was appointed Director, Railway Planning and Performance on 1 December 2016. His full year equivalent salary in 2016-17 was in the range of £115,000 - £120,000.

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

The full-year basic equivalent salary for Juliet Lazarus (who works part-time hours) is in the range £125,000 - £130,000 (2016-17: £125,000 to £130,000).

The full-year basic equivalent salary for Freya Guinness (who works part-time hours) is in the range £125,000 - £130,000.

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

## Pay multiples

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

The banded remuneration of the highest-paid Director in ORR in the financial year 2017-18 was £165,000 - £170,000 (2016-17: £140,000 - £145,000). This was 3.2 times (2016-17: 2.6) the median remuneration of the workforce, which was £52,743 (2016-17: £53,431). This ratio is higher than 2016-17 as the salary of the highest-paid Director is higher in 2017-18.

In 2017-18, no employees (2016-17: none) received remuneration in excess of the highest-paid Director. Remuneration ranged from £21,050 to £169,095 (2016-17: £20,050 to £140,600).

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 31/03/18 and related lump sum	Real increase in pension and related lump sum at pension age	CETV as 31/03/18	CETV as 31/03/17	Real Increase in CETV
	£000	£000	£000	£000	£000
<b>Richard Price</b> Chief Executive (to 15/1/16)	n/a	n/a	n/a	715	n/a
<b>Joanna Whittington</b> Chief Executive	30-35 plus 70-75 lump sum	2.5-5 plus 2.5-5 lump sum	562	474	49
<b>Peter Antolik</b> Director Highways Monitor (to 20 September 2017)	n/a	n/a	n/a	23	n/a
<b>Dan Brown</b> Director Strategy and Policy	25-30	2.5-5	307	273	11
<b>Russell Grossman</b> Director Communications	45-50	0-2.5	904	831	14
<b>Freya Guinness</b> Director Corporate Operations and Organisational Development (from 26 June 2017)	30-35	0-2.5	417	392	19
<b>John Larkinson</b> Director Railway Markets and Economics	40-45 plus 130-135 lump sum	0-2.5 plus 2.5-5 lump sum	909	843	7
<b>Juliet Lazarus</b> Director Legal Services	20-25	0-2.5	385	347	12
<b>Ian Prosser</b> Director Railway Safety	25-30	2.5-5	451	390	35
<b>Graham Richards</b> Director, Railway Planning and Performance (from 27/2/16)	25-30	2.5-5	354	280	51
<b>Tom Taylor</b> Director Corporate Operations and Organisational Development (to 29/1/17)	n/a	n/a	n/a	553	n/a

## 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 4.6% and 8.05% of pensionable earnings for members of classic, premium, classic plus, nuvos and alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for

service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his or her pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

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

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

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

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

The former rail regulators' and a former Chair's pensions are by analogy with the Principal Civil Service Pension Scheme. During 2017-18 there were no active members (2016-17: no active members). The accruing cost of providing for the members' future benefits, which is based on actuarial advice, is charged to the Statement of Comprehensive Net Expenditure. A provision for the expected future liabilities for the former rail regulators' and Chair's pension scheme is disclosed as a liability on the Statement of Financial Position.

### Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a

senior capacity to which disclosure applies. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

### Real increase in CETV

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

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

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. 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 compensation payments were made on early retirement or for loss of office (2016-17: none).

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

	Fee range		Benefits in kind		Total	
	(£000)		(to nearest £100)		(£000)	
	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17
Stephen Glaister	120-125	120-125	-	-	120-125	120-125
Bob Holland	20-25	20-25	400	1,600	20-25	20-25
Tracey Barlow	20-25	20-25	2,700	1,700	20-25	20-25
Justin McCracken	20-25	20-25	2,500	1,800	20-25	20-25
Michael Luger	20-25	20-25	1,800	900	20-25	20-25
Anne Heal (from 1/10/16)	20-25	10-15	500	-	20-25	10-15
David Franks (from 1/10/16 to 31/1/18)	15-20	10-15	-	100	15-20	10-15
Graham Mather (from 1/10/16)	20-25	10-15	-	-	20-25	10-15
Melvyn Neate*	0-5	0-5	200	-	0-5	0-5
Garrett Emmerson**	0-5	0-5	-	-	0-5	0-5
Terry Hill**	0-5	0-5	-	-	0-5	0-5

\*independent Audit and Risk Committee member    \*\*independent Highways Committee member

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

# STAFF REPORT

## Staff numbers and related costs

Staff costs comprise:

	Permanently employed staff £000	Others £000	2017-18 £000 Total £000	2016-17 £000 Total £000
Wages and salaries	15,335	893	16,228	16,075
Social security costs	1,826	28	1,854	1,829
Other pension costs	3,249	-	3,249	3,268
<b>Total costs</b>	<b>20,410</b>	<b>921</b>	<b>21,331</b>	<b>21,172</b>

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

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme in which ORR is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2015. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation<sup>6</sup>.

For 2017-18, employers' contributions of £3,160,380 were payable to Civil Service pension schemes (2016-17: £3,205,377) at one of four rates in the range 20.0% to 24.5% (2016-17: 20.0% to 24.5%) of pensionable pay, based on salary bands. The schemes' actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £50,082 were paid to one or more of a panel of two appointed stakeholder pension providers (2016-17: £35,187). Employer contributions are age-related and range from 8.0% to 14.75% (2016-17: 8.0% to 14.75%) of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay if employees decide to pay in money at a later stage. In 2017-18 no employer contributions of pensionable pay were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees (2016-17: £nil). No contributions were due to the partnership pension providers at 31 March 2018 (31 March 2017: £nil).

No persons retired early on ill-health grounds (2016-17: nil). There were no additional accrued pension liabilities (2016-17: £nil).

The Railway Pension Scheme (RPS) is a funded multi-employer defined benefit scheme administered by Railway Pensions Trustee Company Limited. This is a defined benefit scheme which prepares its own scheme statements. Details of the RPS pension statements can be found in the annual report and accounts of the RPS ([www.railwaypensions.co.uk](http://www.railwaypensions.co.uk)). Employer contributions of £28,650 were paid to the trustees of the RPS in 2016-17 at a rate of 1.5 times the individual members' contributions, on the basis of actuarial valuations (2016-17: £34,603, 1.5 times). ORR matches some of the BRASS2 contributions (an AVC scheme) made by the members. In 2017-18, matching contributions of £2,608 were made (2016-17: £2,608).

In 2016-17 ORR agreed to pay a share of the deficit arising on the 2013 valuation of the British Rail section of the Railway Pension Scheme. This totalled £456,237 and was recognised within 'Other administration costs'. No such costs were payable in 2017-18.

With regard to the accrued pension costs for a former Chair and past rail regulators, no notional contributions (as advised by the Government Actuary) have been charged to the Statement of Comprehensive Net Expenditure (2016-17: £nil). The liability at 31 March 2018 is estimated at £859,000 (31 March 2016: £945,000).

<sup>6</sup><http://www.civilservicepensionscheme.org.uk/about-us/resource-accounts/>

## Average number of persons employed

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

Segment			2017-18 Number	2016-17 Number
	Permanent Staff	Others	Total	Total
1. Economic Regulation	122	3	<b>125</b>	120
2. Safety Regulation	158	3	<b>161</b>	163
3. Roads Monitoring	19	-	<b>19</b>	20
<b>Total</b>	<b>299</b>	<b>6</b>	<b>305</b>	<b>303</b>

Included in "Others" are:

Others	Number	Cost (£000)
Agency staff	5.3	
Specialist contractor	1.2	
Consultant	0.0	
<b>Total</b>	<b>6.5</b>	<b>620</b>

Non-Executive Directors are included within permanent staff. The average number in 2017-18 was 7.8, with a cost of £301k.

## Staff composition

At 31 March 2018, our total headcount comprised the following staff:

	Male FTE	Female FTE	Total FTE
Directors	5.0	2.6	7.6
SCS1	5.3	3.9	9.2
Employees	166.4	109.8	276.2
	<b>176.7</b>	<b>116.3</b>	<b>293.0</b>

## Exit packages

Exit package cost bands	Number of compulsory redundancies	Number of other departures	Total number of exit packages by cost band
<£10,000	-	-	-
£10,000-£25,000	-	-	-
£25,000-£50,000	-	2	2
£50,000-£100,000	-	1	1
£100,000-£150,000	-	-	-
£150,000-£200,000	-	-	-
<b>Total number of exit packages</b>	-	3	3
<b>Total cost/£000</b>	-	125	125

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, or otherwise approved by HM Treasury. Exit costs are accounted for in full in the year of departure or when there is a constructive obligation to make the payment.

### Sickness absence data

The average annual working days lost per employee through sickness in 2017-18 was 4.7 (2016-17: 4.0).

## 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 or sexual orientation. We follow the 'Positive about Disability' scheme to encourage applications from disabled people, offering them a guaranteed interview if they meet the minimum requirements for the role. There is support for staff with disabilities when in employment, making reasonable adjustments to their working environment and providing additional training and support, utilising 'Access to Work' resources. We have encouraged our managers to complete e-learning unconscious bias training or attend a half-day workshop, to improve their awareness of diversity issues.

This year we conducted a short pulse survey designed to tell us a little more about staff's perception of bullying and harassment in ORR. Following the results of the survey ACAS supported us by providing training for Directors and we are looking at other ways to improve our support to staff, such as mandatory face-to-face training for all managers. We have also become members of the Business Disability Forum, who we will work with to help us become more disability-smart.

We engage with our Staff Representatives Group (which includes representatives from trade unions as well as non-union staff representatives) on a regular basis to share information on the organisation and on all aspects concerning employment. The minutes of the bi-monthly meetings are shared with all staff, and twice yearly the meetings are open for staff to attend as observers.

### Health and safety

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

We are committed to the positive promotion of accident prevention and the elimination of incidents involving personal injury, illness or damage. We actively monitor and manage our staff absence, ensuring that staff receive the support and advice they need from occupational health and/or our employee assistance service, to remain in work or return to work. The Executive Committee reviews

our absence data on a quarterly basis for trends and changes, and discusses how we can improve the wellbeing of our staff. We have trained internal Display Screen Equipment assessors in each of our office, who undertake work station assessments for staff when required.

### **Health and wellbeing**

During 2017-18 ORR tendered for a new occupational health service and employee assistance programme. These contracts were awarded to Health Management Limited and were launched to staff emphasising the free face-to-face counselling sessions and the new dedicated management support line. We also continued to participate in the Civil Service Workplace Challenge, providing team and individual activity challenges using an online portal and an ORR sports day for all staff in July. We supported the 'Time to Talk' day, to increase awareness of mental health issues, providing resources for managers to use in team meetings.

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

Following the Stevenson/Farmer review of mental health and employers 'Thriving at Work', we have evaluated our mental health support with Directors and are developing an action plan for 2018-19.

### **Career management**

We have continued to develop current and future leaders through our Leadership Development Programme, and have introduced a new Management Development Programme for new and experienced managers to strengthen management capability across the organisation. We have also recruited our first apprentices in several different areas of the business, and have been able to convert some existing roles to apprenticeships to provide our staff with new challenges and qualifications.

### **Off-payroll engagements**

Annex A contains details of off-payroll engagements during 2017-18.



**Joanna Whittington**  
Accounting Officer

11 June 2018

# PARLIAMENTARY ACCOUNTABILITY AND AUDIT REPORT

## Statement of Parliamentary Supply

In addition to the primary statements prepared under IFRS, the Government Financial Reporting Manual (FRM) 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 2017-18

	2017-18 £000							2016-17 £000	
	Estimate				Outturn			Voted Outturn compared with Estimate: saving/ (excess)	Outturn Total
	SoPS Note	Voted	Non-Voted	Total	Voted	Non-Voted	Total		
		£000	£000	£000	£000	£000	£000	£000	
<b>Departmental Expenditure Limit</b>									
- Resource	1.1	4	-	4	3	-	3	1	3
- Capital	1.2	720	-	720	537	-	537	183	582
<b>Annually Managed Expenditure</b>									
- Resource	1.1	-	-	-	-	-	-	-	-
- Capital	1.2	-	-	-	-	-	-	-	-
<b>Total Budget</b>		724	-	724	540	-	540	184	585
<b>Non-Budget</b>									
- Resource	1.1	-	-	-	-	-	-	-	-
<b>Total</b>		724	-	724	540	-	540	184	585
<b>Total Resource</b>		4	-	4	3	-	3	1	3
<b>Total Capital</b>		720	-	720	537	-	537	183	582
<b>Total</b>		724	-	724	540	-	540	184	585

<b>Net cash requirement 2017-18</b>						
SoPS note	2017-18 £000 Estimate	2017-18 £000		2016-17 £000		
		Outturn	Outturn compared with Estimate: saving/ (excess)	Outturn	Outturn	
3	<b>2,001</b>	<b>(432)</b>	2,433	<b>(1,126)</b>		
<b>Administration costs 2017-18</b>						
	2017-18 £000 Estimate	2017-18 £000 Outturn		2016-17 £000 Outturn		
	<b>4</b>	<b>3</b>		<b>3</b>		

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

## Notes to the Statement of Parliamentary Supply

### SOPS1 Net outturn

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

	2017-18 £000				2016-17 £000		
	Outturn		Estimate	Outturn	Estimate	Outturn	
<b>Administration</b>							
	Gross	Income	Net	Total	Net Total	Net total compared to Estimates	Total
<b>Spending in Departmental Expenditure Limit</b>							
Voted:							
A Economic regulation, admin, associated capital and other expenditure	12,680	(12,679)	1	1	2	(1)	1
B Safety regulation, admin and other expenditure	15,248	(15,247)	1	1	1	-	1
C Other regulation, admin and other expenditure	2,270	(2,269)	1	1	1	-	1
<b>Total</b>	<b>30,198</b>	<b>(30,195)</b>	<b>3</b>	<b>3</b>	<b>4</b>	<b>(1)</b>	<b>3</b>

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

	2017-18 £000					2016-17 £000
	Outturn		Estimate			Outturn
	Gross	Income	Net	Net	Net total compared to Estimates	Net
<b>Spending in Departmental Expenditure Limit Voted:</b>						
A Economic regulation, admin, associated capital and other expenditure	243	-	243	720	477	260
B Safety regulation, admin and other expenditure	294	-	294	-	(294)	322
C Other regulation, admin and other expenditure	-	-	-	-	-	-
<b>Total</b>	<b>537</b>	<b>-</b>	<b>537</b>	<b>720</b>	<b>183</b>	<b>582</b>

Net capital outturn is £183k lower than the capital budget as some planned capital expenditure was deferred into 2018-19 in line with business needs.

**SOPS3 Reconciliation of net resource outturn to net cash requirement**

	SoPS Note	Estimate £000	Outturn £000	Net total outturn compared with Estimate: saving/(excess) £000
Resource outturn	1.1	4	3	1
Capital outturn	1.2	720	537	183
<b>Accruals to cash adjustments:</b>				
<i>Adjustments to remove non-cash items:</i>				
Depreciation		(960)	(866)	(94)
New provisions and adjustments to previous provisions		-	(3)	3
Other non-cash items		(40)	(98)	58
<b>Adjustments to reflect movements in working balances:</b>				
Increase/(decrease) in receivables		-	738	(738)
Decrease in payables		2,277	(880)	3,157
Use of provisions		-	137	(137)
		1,277	(972)	2,249
<b>Net Cash Requirement</b>		<b>2,001</b>	<b>(432)</b>	<b>2,433</b>

## 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).

	Income £000	<i>2017-18 Receipts</i> £000	Income £000	<i>2016-17 Receipts</i> £000
Excess cash surrenderable to the Consolidated Fund	432	<i>432</i>	-	-
<b>Total</b>	<b>432</b>	<b><i>432</i></b>	-	-

### SOPS4.2 Consolidated Fund income

	<i>2017-18 £000</i>	<i>2016-17 £000</i>
Balance of Intergovernmental Commission levy due to be paid	293	377
Balance of DfT roads funding due to be paid	-	104
<b>Total</b>	<b>293</b>	<b>481</b>

### Other areas of Parliamentary accountability

ORR has nothing to report in respect of:

- losses or special payments in excess of £300,000, either individually or in aggregate; and
- remote contingent liabilities.

Fees and charges are as set out in the note 2 to the accounts.



**Joanna Whittington**  
Accounting Officer

11 June 2018

# THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

## Opinion on financial statements

I certify that I have audited the financial statements of the Office of Rail and Road for the year ended 31 March 2018 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, including the significant accounting policies. 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 are described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2018 and of the Department's net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

## Opinion on 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 2018 and shows that those totals have not been exceeded; and
- the income and expenditure 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.

## Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Office of Rail and Road in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

## Responsibilities of the Accounting Officer for the financial statements

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.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered

material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Office of Rail and Road's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Office of Rail and Road's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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.

### Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Remuneration and Staff Report and Parliamentary Accountability disclosures described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

## Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report and Parliamentary Accountability disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- in the light of the knowledge and understanding of the Office of Rail and Road and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and
- the information given in the Performance and Accountability Reports 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 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

13 June 2018

**SECTION C:  
FINANCIAL STATEMENTS**

# STATEMENT OF COMPREHENSIVE NET EXPENDITURE

For the year ended 31 March 2018

	Note	2017-18 £000	2016-17 £000
<b>Total operating income</b>	<b>5</b>	<b>(30,195)</b>	<b>(30,997)</b>
Staff costs	<b>3</b>	21,331	21,172
Other administration costs	<b>4</b>	8,867	9,828
<b>Total operating expenditure</b>		<b>30,198</b>	<b>31,000</b>
<b>Net operating expenditure</b>		<b>3</b>	<b>3</b>
<b>Other comprehensive net expenditure</b>			
Actuarial (gain)/loss on pension scheme liabilities	<b>12</b>	<b>(39)</b>	140
<b>Total comprehensive net (income)/expenditure for the year</b>		<b>(36)</b>	<b>143</b>

## STATEMENT OF FINANCIAL POSITION

As at 31 March 2018

	Note	2017-18 £000	2016-17 £000
<b>Non-current assets</b>			
Property, plant and equipment	6	1,143	1,398
Intangible assets	7	315	427
<b>Total non-current assets</b>		<b>1,458</b>	<b>1,825</b>
<b>Current assets</b>			
Trade and other receivables	8	3,696	2,666
Cash and cash equivalents	9	2,091	1,847
<b>Total current assets</b>		<b>5,787</b>	<b>4,513</b>
<b>Total assets</b>		<b>7,245</b>	<b>6,338</b>
<b>Current liabilities</b>			
Trade and other payables	11	(9,931)	(8,515)
Provisions	12	(45)	(110)
<b>Total current liabilities</b>		<b>(9,976)</b>	<b>(8,625)</b>
<b>Non-current assets less net current liabilities</b>		<b>(2,731)</b>	<b>(2,287)</b>
<b>Non-current liabilities</b>			
Provisions	12	(690)	(688)
Pension liabilities	12	(859)	(945)
<b>Total non-current liabilities</b>		<b>(1,549)</b>	<b>(1,633)</b>
<b>Total assets less total liabilities</b>		<b>(4,280)</b>	<b>(3,920)</b>
<b>Taxpayers' equity</b>			
General fund		(4,317)	(4,020)
Revaluation reserve		37	100
<b>Total taxpayers' equity</b>		<b>(4,280)</b>	<b>(3,920)</b>



**Joanna Whittington**  
Accounting Officer

11 June 2018

# STATEMENT OF CASH FLOWS

For the year ended 31 March 2018

Note	2017-18 £000	2016-17 £000
<b>Cash flows from operating activities</b>		
Net operating cost	2 (3)	(3)
Adjustments for non-cash transactions	4 959	1,035
Increase in trade and other receivables	8 (1,030)	(1,092)
Less movement in receivables relating to items not passing through statement of comprehensive net expenditure	292	377
Increase/(Decrease) in trade and other payables	11 1,416	(510)
Less movements in payables relating to items not passing through statement of comprehensive net expenditure	(536)	209
Use of provisions	12 (65)	-
Use of provisions - by analogy pension	12 (72)	(16)
<b>Net cash outflow from operating activities</b>	<b>961</b>	<b>-</b>
<b>Cash flows from investing activities</b>		
Property plant and equipment additions	6 (399)	(395)
Intangible non-current assets additions	7 (138)	(239)
Adjustment - non-cash	7 8	-
<b>Net cash outflow from investing activities</b>	<b>(529)</b>	<b>(634)</b>
<b>Cash flows from financing activities</b>		
From the Consolidated Fund (Supply) - current year	-	2,000
From the Consolidated Fund (Supply) - prior year	-	-
Advances from the Contingencies Fund	25,000	25,000
Repayments to the Contingencies Fund	(25,000)	(25,000)
<b>Net financing</b>	<b>-</b>	<b>2,000</b>
<b>Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund</b>		
	<b>432</b>	<b>1,366</b>
Payments of amounts due to the Consolidated Fund	(481)	(2,381)
Amounts due to the Consolidated Fund - and not paid over	293	481
<b>Payments of amounts due to the Consolidated Fund</b>	<b>(188)</b>	<b>(1,900)</b>
<b>Net increase/(decrease) in cash and cash equivalents after adjustments for receipts and payments to the Consolidated Fund</b>		
	<b>244</b>	<b>(534)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>9 1,847</b>	<b>2,381</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>9 2,091</b>	<b>1,847</b>

# STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

For the year ended 31 March 2018

	Note	General fund £000	Revaluation reserve £000	Total reserves £000
<b>Balance as at 1 April 2016</b>		<b>(4,573)</b>	<b>122</b>	<b>(4,451)</b>
Net parliamentary funding - drawn down		2,000	-	2,000
Excess cash surrenderable to the Consolidated Fund	11	(1,366)	-	(1,366)
Comprehensive net expenditure for the year	2	(3)	-	(3)
Actuarial loss relating to pension provision	12	(140)	-	(140)
Auditors remuneration		40	-	40
Additional depreciation charged for revaluation on assets	6	22	(22)	-
<b>Balance as at 31 March 2017</b>		<b>(4,020)</b>	<b>100</b>	<b>(3,920)</b>
Net parliamentary funding - drawn down		1,366	-	1,366
Excess cash surrenderable to the Consolidated Fund	11	(1,798)	-	(1,798)
Comprehensive net expenditure for the year	2	(3)	-	(3)
Actuarial loss relating to pension provision	12	39	-	39
Auditors remuneration		36	-	36
Additional depreciation charged for revaluation on assets	6	21	(21)	-
Transfer from revaluation reserve		42	(42)	-
<b>Balance as at 31 March 2018</b>		<b>(4,317)</b>	<b>37</b>	<b>(4,280)</b>

Note 1.11 describes the accounting treatments within the general fund and the revaluation reserve. In 2017-18 a transfer of £42k was made from the revaluation reserve to the general fund to remove historic differences arising between the revaluation reserve and revalued assets held on the Statement of Financial Position.

# NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS

## 1. Statement of accounting policies

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context by the 2017-18 'Government Financial Reporting Manual' (FRoM) issued by HM Treasury. Where the FRoM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the ORR for the purpose of giving a true and fair view has been selected. The particular policies adopted by the ORR are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

ORR does not exercise in-year budgetary control over any other public or private body. ORR is a single entity department whose entire operations are within the accounting boundary reflected in these accounts.

### 1.1 Accounting convention

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

### 1.2 Basis of preparation

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

### 1.3 Property, plant and equipment and depreciation

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

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

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

Fitting out costs (limited to period of remaining lease) up to 15 years

Furniture, office & telecoms equipment 5 - 10 years

Information technology 3 - 5 years

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

### 1.4 Intangible assets

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

### 1.5 Cash

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

### 1.6 Operating income

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

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

## 1.7 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 51. 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, two present employees (2016-17: three) 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.

## 1.8 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 13.2, are not discounted.

## 1.9 Provisions

ORR provides for legal or constructive obligations where it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the real rate set by HM Treasury; currently short term (-2.42%), medium term (-1.85%) and long term (-1.56%).

The discount rate applied to provisions for voluntary early retirement and for past rail regulators' pension commitments is the Treasury's post-employment benefits rate, which is 0.10% net of price inflation (2016-17: 0.24%).

## 1.10 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.

## 1.11 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.

### 1.12 Going concern

The Statement of Financial Position at 31 March 2018 shows a negative taxpayers' equity of £4.3 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 2018-19 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.

### 1.13 Contingent liabilities

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

Where the time value of money is material, contingent liabilities which are required to be disclosed under IAS 37 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Parliament. These are noted in the Accountability Report on page 60.

### 1.14 Application of new and revised IFRSs

Amendments to IAS 7 *Disclosure Initiative* are effective in the FReM from 2018-19, with early adoption permitted in 2017-18. We have applied these amendments in 2017-18. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. This disclosure is provided in note 10. Apart from this, the application of these amendments has had no impact on the financial statements.

### 1.15 New and revised IFRSs in issue but not yet effective

*IFRS 9 Financial Instruments* was issued in July 2014, effective for periods beginning on or after 1 January 2018. The standard will be implemented in the FReM from 2018-19. It is not expected to have a material impact on the financial statements. ORR's financial instruments are limited to cash and trade receivables. We are exposed to little credit, liquidity or market risk, and would not anticipate needing to impair financial assets for expected credit losses.

*IFRS 15 Revenue from Contracts with Customers* was issued in May 2014, effective for periods beginning on or after 1 January 2018. The standard will be implemented in the FReM from 2018-19. ORR's income streams are captured by the public sector adaptation published by HM Treasury. We consider that our existing method of income recognition is appropriate under the new standard, therefore do not expect it to have a material impact on the financial statements.

*IFRS 16 Leases* was issued in January 2016, effective for periods beginning on or after 1 January 2019. This is subject to guidance to be issued by HM Treasury. This is not expected to have a material impact on the financial statements.

## 2. Statement of operating costs by operating segment

	2017-18				2016-17			
	Economic regulation £000	Safety regulation £000	Roads monitoring £000	Total £000	Economic regulation £000	Safety regulation £000	Highways monitor £000	Total £000
Gross expenditure	12,680	15,248	2,270	<b>30,198</b>	12,746	15,792	2,462	<b>31,000</b>
Gross income	12,679	15,247	2,269	<b>30,195</b>	12,745	15,791	2,461	<b>30,997</b>
<b>Net expenditure</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>3</b>

### 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 the heritage sector.

No individual train operating company contributes more than 10% of ORR income. However Network Rail paid £3.9 million in safety levy in 2017-18 (£3.8 million in 2016-17).

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

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

## 3. Staff costs

Staff costs comprise:

	Permanently employed staff £000	Others £000	2017-18 Total £000	2016-17 Total £000
Wages and salaries	15,335	893	16,228	16,075
Social security costs	1,826	28	1,854	1,829
Other pension costs	3,249	-	3,249	3,268
<b>Total costs</b>	<b>20,410</b>	<b>921</b>	<b>21,331</b>	<b>21,172</b>

Further information is provided in the Staff Report, on page 53.

## 4. Other administration costs

	2017-18 £000	2016-17 £000
<b>Rental under operating leases:</b>		
Hire of office equipment	28	37
Other operating leases	1,039	1,039
	<b>1,067</b>	<b>1,076</b>
<b>Non-cash items:</b>		
Depreciation	647	648
Amortisation	219	228
Loss on disposal	29	1
Interest charges in respect of by analogy pension scheme	25	28
Auditors' remuneration and expenses	36	40
	<b>956</b>	<b>945</b>
<b>Provisions:</b>		
Provision for redundancy costs	-	65
Provision for dilapidations	3	25
	<b>3</b>	<b>90</b>
<b>Other:</b>		
Travel and subsistence	920	884
Hospitality	59	56
Consultancies	1,511	1,537
IT & telecoms	1,302	1,953
Landlord service charges & rates	813	1,044
Printing & stationery	155	121
Recruitment & training	861	482
Staff-related (including staff restaurant)	155	146
Building-related	180	209
External services - internal audit, payroll, banking and finance	248	240
External services - other	631	578
Pension deficit funding	-	456
Other costs	6	11
	<b>6,841</b>	<b>7,717</b>
	<b>8,867</b>	<b>9,828</b>

The most significant variances from 2017-18 are: £651k less spent on IT and telecoms as a result of our IT insource; £231k less spent on landlord service charges and rates, largely as a result of a £265k rates rebate received; an increase in recruitment and training costs of £379k, made up of £120k higher recruitment costs, £57k higher conferences and events costs, and £202k higher training costs; and pension deficit funding of £456k in 2016-17 which did not arise in 2018-19.

## 5. Income

	Note	2017-18 £000	2016-17 £000
Licence fees		13,575	12,958
Less income deferred to future year	11	(1,209)	(344)
Safety levy and related safety income		15,766	15,915
Less income deferred to future year	11	(1,077)	(569)
Income from roads monitoring		2,256	2,446
Miscellaneous income*		884	591
		<b>30,195</b>	<b>30,997</b>

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

## 6. Property, plant and equipment

	Fitting out costs £000	Furniture, office equipment & telecoms £000	Information technology £000	Assets under construction £000	Total £000
<b>Cost or valuation</b>					
At 1 April 2017	4,034	1,059	621	169	5,883
Additions	6	18	375	-	399
Disposals	(6)	(225)	(262)	-	(493)
Transfers	-	-	169	(169)	-
<b>At 31 March 2018</b>	<b>4,034</b>	<b>852</b>	<b>903</b>	<b>-</b>	<b>5,789</b>
<b>Depreciation</b>					
At 1 April 2017	3,085	994	406	-	4,485
Charged in year	312	42	272	-	626
Disposals	(6)	(225)	(255)	-	(486)
Revaluations	21	-	-	-	21
<b>At 31 March 2018</b>	<b>3,412</b>	<b>811</b>	<b>423</b>	<b>-</b>	<b>4,646</b>
<b>Carrying amount at 31 March 2018</b>	<b>622</b>	<b>41</b>	<b>480</b>	<b>-</b>	<b>1,143</b>
<b>Carrying amount at 31 March 2017</b>	<b>949</b>	<b>65</b>	<b>215</b>	<b>169</b>	<b>1,398</b>

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

All tangible assets are owned by ORR. During the year laptops costing £169k were brought into use and were transferred from 'assets under construction' to 'information technology'. Assets with a net book value of £6k were disposed of during the year. A loss on disposal of £6k was incurred.

## 7. Intangible assets

	System developments £000	Software licences £000	Website £000	Assets under construction £000	Total £000
<b>Cost or valuation</b>					
At 1 April 2017	1,813	569	184	24	2,590
Additions	39	52	47	-	138
Disposals	(71)	(173)	-	-	(244)
Transfers	24	-	-	(24)	-
<b>At 31 March 2018</b>	<b>1,805</b>	<b>448</b>	<b>231</b>	<b>-</b>	<b>2,484</b>
<b>Amortisation</b>					
At 1 April 2017	1,601	461	101	-	2,163
Charged in year	80	100	39	-	219
Disposals	(42)	(171)	-	-	(213)
<b>At 31 March 2018</b>	<b>1,639</b>	<b>390</b>	<b>140</b>	<b>-</b>	<b>2,169</b>
<b>Carrying amount at 31 March 2018</b>	<b>166</b>	<b>58</b>	<b>91</b>	<b>-</b>	<b>315</b>
<b>Carrying amount at 31 March 2017</b>	<b>212</b>	<b>108</b>	<b>83</b>	<b>24</b>	<b>427</b>

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

All intangible assets are owned by ORR. During the year £24k of assets were brought into use, and transferred from 'assets under construction' to 'system developments'. Assets with a net book value of £31k were disposed of during the year. A loss on disposal of £23k was incurred. An item costing £8k was capitalised in 2017-18 but it was subsequently determined that this was a non-capital item. It was moved to the SOCNE in 2018-19

## 8. Trade receivables and other current assets

	31 March 2018 £000	31 March 2017 £000
<b>Amounts falling due within one year</b>		
Trade receivables	2,841	2,041
Staff receivables	66	81
Prepayments and accrued income	614	375
HM Revenue and Customs (VAT)	175	169
<b>Total trade receivables and other current assets at 31 March</b>	<b>3,696</b>	<b>2,666</b>

Included in staff receivables are travel season ticket loans for 41 employees totalling £62,749 (2016-17: £75,437 for 46 employees) and £4,048 relating to other advances made to 21 employees (2016-17: £5,771 to 25 employees).

## 9. Cash and cash equivalents

	2017-18 £000	2016-17 £000
Balance at 1 April	1,847	2,381
Net change in cash balances	244	(534)
<b>Balance at 31 March</b>	<b>2,091</b>	<b>1,847</b>

The following balances at 31 March were held at:

Government Banking Service	2,089	1,825
Commercial banks and cash in hand	2	22
<b>Balance at 31 March</b>	<b>2,091</b>	<b>1,847</b>

## 10. Reconciliation of liabilities arising from financing activities

	1 April 2017 £000	Financing cash flows £000	31 March 2018 £000
Amounts issued from the Consolidated Fund for supply but not spent at year end	1,366	-	1,366
	<b>1,366</b>	<b>-</b>	<b>1,366</b>

## 11. Trade payables and other current liabilities

	31 March 2018 £000	31 March 2017 £000
<b>Amounts falling due within one year</b>		
Other taxation and social security	7	5
Trade payables	675	599
Other payables	2,726	2,774
Accruals	2,146	2,377
Deferred income	2,286	913
Balance of Intergovernmental Commission levy payable to the Consolidated Fund	293	377
Balance of DfT roads funding payable to the Consolidated Fund	-	104
Excess cash surrenderable to the Consolidated Fund	432	-
Amounts issued from the Consolidated Fund for supply but not spent at year end	1,366	1,366
<b>Total trade payables and other current liabilities at 31 March</b>	<b>9,931</b>	<b>8,515</b>

There were no amounts falling due after more than one year as at 31 March 2018 (31 March 2017: none).

## 12. Provisions for liabilities and charges

The provision for accommodation has been established in order to satisfy the obligation to return our offices to their original condition, calculated on a cost per square foot basis and discounted from the end of the lease date. In 2017-18 a provision was included for redundancies in relation to restructuring within ORR. The 'other' provision is for a potential VAT liability.

	Restructuring £000	Accommodation £000	Other £000	Total £000	2016-17 £000
Balances at 1 April 2017	65	688	45	798	708
Provided for in year	-	21	-	21	100
Provisions utilised in the year	(65)	-	-	(65)	-
Borrowing costs (unwinding of discounts)	-	(19)	-	(19)	(10)
<b>Balance at 31 March 2018</b>	<b>-</b>	<b>690</b>	<b>45</b>	<b>735</b>	<b>798</b>

### Analysis of expected timing of discounted flows

	Restructuring £000	Accommodation £000	Other £000	Total £000	2016-17 Total £000
Not later than one year	-	-	45	45	110
Later than one year and not later than five years	-	690	-	690	688
Later than five years	-	-	-	-	-
<b>Balance at 31 March 2018</b>	<b>-</b>	<b>690</b>	<b>45</b>	<b>735</b>	<b>798</b>

## Details for by-analogy defined benefit pension schemes

	As at 31 March 2018 £000	As at 31 March 2017 £000
Liability in respect of:		
Active members	-	-
Deferred pensioners	-	593
Current pensioners	859	352
<b>Total present value of scheme liabilities</b>	<b>859</b>	<b>945</b>

	As at 31 March 2018 £000	As at 31 March 2017 £000
<b>Liability calculation</b>		
Present value of scheme at 1 April	945	793
Current service cost (net of employee contributions)	-	-
Employee contributions	-	-
Interest cost	25	28
Actuarial (gain)/loss	(39)	140
Benefits paid	(72)	(16)
Past service cost	-	-
<b>Balance at 31 March</b>	<b>859</b>	<b>945</b>

Former rail regulators benefit from a defined benefit pension scheme by-analogy with the PCSPS. An actuarial assessment was carried out on the scheme by the Government Actuary's Department (GAD) as at 31 March 2018. 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

## Actuarial assumptions

Under IAS 19 employers are required to disclose any other material actuarial assumptions used for the assessment. The main actuarial assumptions used by the actuary are shown below:

	At 31 March 2018 % per annum	At 31 March 2017 % per annum
Discount rate	2.55%	2.80%
Rate of increase of pensions in payment	2.45%	2.55%
CPI inflation	2.45%	2.55%

## Life expectancy at retirement

The life expectancies shown below illustrate the longevity assumption used for the assessment.

Illustrative life expectancies for future pensioners as at 31 March 2017 and 2018 are based upon members aged 40 at these dates.

Current Pensioners	As at 31 March 2018		As at 31 March 2017		
	Exact Age	Men (years)	Women (years)	Men (years)	Women (years)
	60	27.5	29.2	29.0	30.8
	65	22.6	24.2	24.0	25.8

Future pensioners	As at 31 March 2018		As at 31 March 2017		
	Exact Age	Men (years)	Women (years)	Men (years)	Women (years)
	60	N/A*	N/A	31.2	33.0
	65	N/A	N/A	26.6	28.4

\* at 31 March 2018 there are no future pensioners in the scheme.

## Cumulative amount of actuarial gains and losses

The cumulative actuarial loss for the year to 31 March 2018 amounts to £379,000 (31 March 2017: £418,000).

## Present value of scheme liabilities

	Value at 31/03/18 £000	Value at 31/03/17 £000	Value at 31/03/16 £000	Value at 31/03/15 £000	Value at 31/03/14 £000
Liability in respect of:					
Active members	-	-	-	-	-
Deferred pensioners	-	593	483	244	217
Current pensioners	859	352	310	329	311
<b>Total present value of scheme liabilities</b>	<b>859</b>	<b>945</b>	<b>793</b>	<b>573</b>	<b>528</b>

## Sensitivity of the defined benefit obligation (DBO) to changes in the significant actuarial obligations

Change in assumption*		Impact on DBO	
		%	£000
Rate of discounting scheme liabilities	+0.5% a year	-8%	-65
Rate of increase in CPI	+0.5% a year	8%	67
Life expectancy: each pensioner member assumed one year younger than their actual age		3%	21

\*Opposite changes in the assumptions will produce approximately equal and opposite changes in the DBO.

## 13. Financial and capital commitments

### 13.1 Capital commitments

At 31 March 2018 ORR did not have any capital commitments.

### 13.2 Commitments under operating leases

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

	31 March 2018 £000	31 March 2017 £000
<b>Obligations under operating leases comprise:</b>		
<b>Buildings</b>		
Not later than one year	1,279	1,297
Later than one year and not later than five years	1,279	2,328
Later than five years	159	230
	2,716	3,855
<b>Other</b>		
Not later than one year	2	19
Later than one year and not later than five years	-	2
Later than five years	-	-
	2	21

### 13.3 Other financial commitments

Apart from the lease commitments mentioned above, ORR has not entered into any non-cancellable contracts for any new expenditure as at 31 March 2018 (31 March 2017: £nil).

## 14. Financial instruments

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

### Fair values

The carrying amounts for current assets (Note 8) and current liabilities (Note 11) approximate to their fair value due to their short term nature.

## 15. Contingent liabilities disclosed under IAS 37

There were no contingent liabilities as at 31 March 2018 (31 March 2017: two, not quantifiable).

## 16. Related party transactions

In addition to balances due to the Consolidated Fund (see note 11) regarding excess cash and Intergovernmental Commissionaire levy, and grant funding from the Department for Transport there have been a small number of transactions with other government departments and other central government bodies. We received a rates rebate from the Government Legal Department of £308k in 2017-18. We passed £42k of this onto our sub-tenant.

No Board member, key manager or other related parties has undertaken any material transactions with ORR during the year, other than remuneration, as disclosed on pages 48, 50 and 52.

## 17. Events after the reporting period

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

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

## ANNEX A

### Off-payroll engagements

**Table 1: For all off-payroll engagements as of 31 March 2018, for more than £245 per day and that last for longer than six months**

<b>Number of existing engagements as of 31 March 2018</b>	<b>0</b>
Of which:	
Number that have existed for less than one year at time of reporting	0
Number that have existed for between one and two years at time of reporting	0
Number that have existed for between two and three years at time of reporting	0
Number that have existed for between three and four years at time of reporting	0
Number that have existed for four or more years at time of reporting	0

**Table 2: For all new off-payroll engagements, or those that reached six months in duration, between 1 April 2017 and 31 March 2018, for more than £245 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 2017 and 31 March 2018	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 that has been terminated as a result of assurance not being received	0

**Table 3: For any off-payroll engagements of Board members, and/or, senior officials with significant financial responsibility, between 1 April 2017 and 31 March 2018**

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	9

## ANNEX B

### Trade Union facility time

**Table 1: Relevant union officials**

Number of employees who were relevant union officials during the relevant period	Full-time equivalent employee number
5	4.8

**Table 2: Percentage of time spent on facility time**

Percentage of time	Number of employees
0%	-
1-50%	5
51%-99%	-
100%	-

**Table 3: Percentage of pay bill spent on facility time**

Total cost of facility time	£6,999
Total pay bill	£20,681,572
Percentage of total pay bill spent on facility time	0.03%

**Table 4: Paid trade union activities**

Time spent on paid trade union activities as a percentage of total paid facility time	33%
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**Office of Rail and Road**

One Kemble Street  
London  
WC2B 4AN

For general enquiries, please email: [contact.cct@orr.gsi.gov.uk](mailto:contact.cct@orr.gsi.gov.uk)  
Or call: **020 7282 2018**

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**ISBN 978-1-5286-0415-4**  
**CCS0518667070**