



# ANNUAL REPORT AND ACCOUNTS 2018-19

JUNE 2019





# Office of Rail and Road Annual Report and Accounts 2018-19

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

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

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This is part of a series of departmental publications which, along with the Main Estimates 2019-20 and the document Public Expenditure: Statistical Analyses 2018, present the Government's outturn for 2018-19 and planned expenditure for 2019-20.



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**SECTION A:  
PERFORMANCE REPORT**

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## OVERVIEW

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This section gives a short summary of our purpose, our performance over the year, and the key risks to the achievement of our strategic objectives.

## FOREWORD

The Office of Rail and Road (ORR) exists to protect the interests of rail and road users, now and in the future.

We have achieved a great deal in 2018-19 across the full range of our activities.

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 inspecting on the rail network every day. We aim for our inspectors to spend at least half of their time out on the railway, and exceeded this target again this year.

The safety record across Great Britain's rail network remains amongst the best in Europe. However, we must remain vigilant.

This year it has been necessary to prosecute a number of times following safety breaches. The most notable of these was the successful prosecution of DB Cargo for failing in 2014 to ensure non-employees were not exposed to risks to their health and safety through its activities. This breach resulted in a 13-year-old boy sustaining very serious life-changing injuries. The fine imposed by the Court was £2.7 million.

Our work following the Croydon tram accident in November 2016, the most serious incident we have seen in many years, has continued. This year we moved our focus to delivery of the recommendations from the Rail Accident Investigation Branch and on facilitating the establishment of the Light Rail Safety Standards Board.

On the economic regulation front, we published our final determination for the regulatory settlement which will apply to Network Rail for the five years from 1 April 2019 – Control Period 6 (CP6). This will see it spending around £35 billion of public money across Great Britain.

Given this, and also Network Rail's poor efficiency record in Control Period 5, we have increased the stringency of our monitoring for CP6, introducing a more strict economic enforcement policy for Network Rail with the provision for formal hearings in specific cases.

We now have a much bigger focus on regulation at the route level, enabling us to make greater

use of comparisons between Network Rail's route management teams across the country.

A targeted approach to regulating Network Rail's System Operator also forms an important part of our approach. This requires customers and stakeholders to play a much more significant role in Network Rail's planning and in how it agrees priorities and challenges performance.

Meanwhile we have continued to report on the performance of Network Rail in England and Wales, and separately in Scotland, in our six-monthly Network Rail Monitor publications.

The debacle of the May 2018 timetable disruption had a significant impact on about 10% of passengers travelling across the mainline Great Britain system.

Our subsequent independent Inquiry, led by our then chair, Professor Stephen Glaister CBE, at the request of the UK Government, recommended that in future the interests of passengers are put at the heart of key decisions for new timetables. It also encouraged the industry to work better together to improve how information is provided to passengers.

Conscious of the increasing expectations for performance and service standards by rail passengers and freight users, we have continued to increase our consumer and competition activity this year and completed a number of projects to strengthen customer service and protection for rail customers.

For the first time, we published independent data on how train companies perform in compensating passengers and launched a market review on the role played by 'delay repay' companies in helping passengers claim.

Our six-month investigation into the lack of appropriate, timely and accurate information for passengers following the May 2018 network disruption resulted in us finding that Govia Thameslink failed passengers in this regard and were in breach of their operating licence. We proposed a penalty on them of £5 million.



Another area of continuing and increasing focus for us has been accessibility issues for those who need assistance to travel, whether through physical or mental impairment. Our proposed changes to the Disabled People's Protection Policy seek to improve reliability of the assistance service, awareness among passengers and training to staff. This is also an area we are intending to focus on more strongly in 2019-20.

Our competition activity has been very busy this year. In addition to our market review of rail compensation schemes, we launched work to develop a framework for monitoring the impact of open access operators; completed our market study into the supply of automatic ticket gates; and perhaps most notably, on behalf of the industry, engaged closely with the European Commission in opposition to the intended merger of Siemens and Alstom.

This merger would have resulted in the combined company commanding at least 75% of the British rail signalling market and a very significant slice of the market for new trains' manufacture. This loss of competition would have added significant costs, to the detriment of the travelling public, and we were therefore pleased when ours and others' representations persuaded the Commission to reject the merger.

This was just one example of what we do behind the scenes, much of it as our regular 'day job'. This includes the production of our statistical releases, which inform the public, governments and industry. Traffic to our data portal website continues to rise and continues to be an important source of independent analysis for the country.

This year we have also approved several hundred new and amended passenger and freight access contracts. And if you visit a new station for the first time or travel on a new train you may not realise that one of ORR's roles is to provide the final piece in these processes – the authorisation to put the finished product into service. Last year we authorised a record 38 new or upgraded stations, signalling systems and rolling stock.

We have engaged widely with passenger and freight operators and with our freight customer and customer advisory panels. We have continued our work as

economic regulator for rail in Northern Ireland, producing our annual summary in January 2019.

On the roads front, this year we completed our third annual assessment of Highways England's performance.

Our benchmarking report this year provided clear and transparent comparisons of Highway's England performance – not just across its regions, but in comparison to other countries and sectors.

We also began reviewing Highways England's plans for the next road period, which runs from 2020 to 2025 and will involve over £25 billion of funding. This level of public expenditure highlights the importance of our role in advising the Department for Transport on the levels of challenge, deliverability and efficiency in Highways England's plans.

Finally, we could not do any of the above without our staff; I am very grateful to them for their professionalism, dedication and engagement in what they do.

We are one of the smallest government departments, at just over 300 people, but this year we recruited our second cohort of apprentices across our business, with now over a dozen people in roles as varied as project management to communications and with a regulatory compliance apprenticeship in the pipeline.

We are equally committed to developing our current and future managers and leaders through our leadership and management development programmes and are proud of what they – and we – have achieved in this year.



**John Larkinson**  
Chief Executive and  
Accounting Officer

## CHAIR'S REPORT

The past year has been one of significant change and challenge.

In December, after nearly three years of work and stakeholder input, we concluded on our quinquennial 2018 periodic review (PR18). This has established a much stronger basis on which to regulate Network Rail in Control Period 6, reflecting its devolved structure and public sector status, as well as the lessons learnt from the past five years.

Our Inquiry into the May 2018 timetable changes, led by ORR's then chair, Professor Stephen Glaister, set out clear and cross-cutting recommendations for how the industry should improve delivery of future timetable changes, including how ORR itself needs to play its part in this.

The Inquiry prompted the Secretary of State for Transport to commission the Rail Review led by Keith Williams, which later this year will inform the future direction of the industry.

In particular, the Rail Review offers the prospect of radical industry reform to address the challenges and structural issues that have developed and to start to rebuild trust between users and the rail industry.

We welcome the key focus on the needs of passengers and other users and look forward to contributing to the Review and to providing the advice that it commissioned from us earlier in 2019 on passenger compensation and accessibility.

The provision of this and other advice is in line with our role as the independent rail regulator, accountable to Parliament. As an evidence-based trusted, impartial and expert voice, we will continue to seek to add value for consumers and taxpayers within a complex stakeholder landscape, working to engender more customer-focused behaviours across the industry.

As our work of the last year shows, ORR is evolving to reflect the changing business and regulatory context. We stand ready to do so again, to support the Williams Review's conclusions and to facilitate its desired outcomes.

Elsewhere, rail safety has continued on a positive trend. However, to continue that progress we will look for further opportunities to drive improvements in health and safety beyond just the key operational aspects.

Our relationship with Highways England has continued to develop. We expect this to continue as we review the company's plans for the second Road Investment Strategy (RIS2) and as we consider the focus of those plans. In particular, our work will look to ensure that the proposed investments continue to drive safe, sustainable and positive outcomes for users on the strategic roads network in England.

Within the ORR, this year has seen a change in Chief Executive and the Board, following the departure of Joanna Whittington and Tracey Barlow.

I would like to thank them both for their service on the Board. Tracey stepped down as a Non-Executive Director in April 2019 after ten years in the role. And Joanna stepped down as Chief Executive in October 2018 to take up a Director General role in the Department for Business, Energy and Industrial Strategy.

In the context of the CEO role, I am grateful that Railway Markets and Economics Director, John Larkinson, stepped in as interim CEO and is doing an excellent job in providing leadership and continuity at an important time.

I would also like to pay tribute to my predecessor, Professor Stephen Glaister CBE, who stood down as chair at the end of 2018. As well as chairing the Timetable Inquiry, he took ORR through a challenging period in Control Period 5, overseeing the shift in how ORR regulates, following Network Rail's reclassification. I am grateful he continues to serve as a Non-Executive Director, providing valuable continuity to the Board during this time of change.

And of course my thanks are due to ORR staff who have stepped up to accommodate a number of additional and complex challenges this year. The Board remains grateful for their dedication and support.



A handwritten signature in blue ink, which appears to be 'Declan Collier'. The signature is stylized and written in a cursive-like font.

**Declan Collier**  
Chair

## WHO WE ARE

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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.

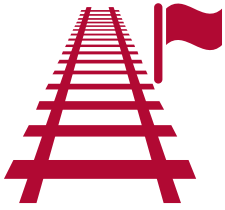
Since April 2015, we have been monitoring Highways England to hold the company to account on its commitments to improve the performance and efficiency of England's strategic road network.

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 our strategic objectives.

# OUR STRATEGIC OBJECTIVES



**HEALTH AND SAFETY**



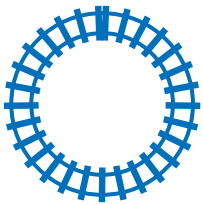
**BETTER RAIL CUSTOMER SERVICE**



**VALUE FOR MONEY FROM THE RAILWAY**



**BETTER HIGHWAYS**



**PROMOTING A DYNAMIC AND COMMERCIALY 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, passenger 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, HS1 and Northern Ireland by

charging the relevant organisations. 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 had a Capital Departmental Expenditure Limit (CDEL) of £720,000 for 2018-19 and 2017-18.

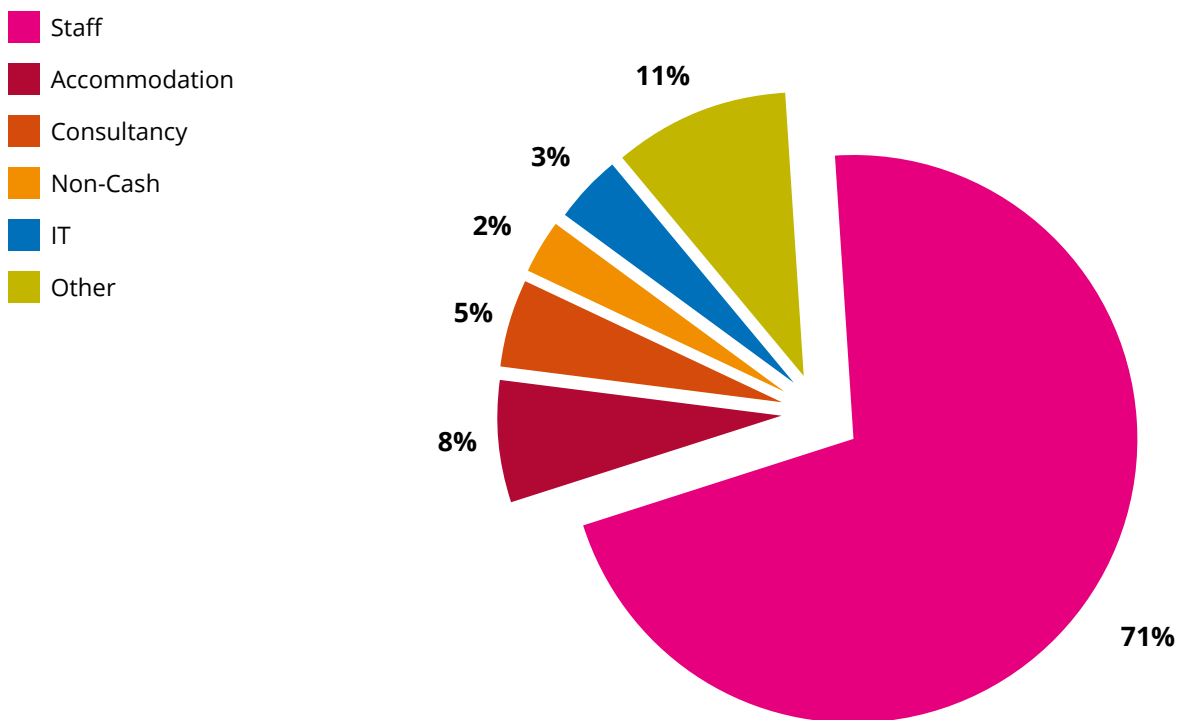
In the 2015 Spending Review, ORR agreed a resource cost cap, net of income raised from outside of the rail industry, for 2018-19 of £30.0m. Budgeted gross costs for rail were £30.3m. Budgeted income from sources outside the rail industry was £0.3m.

## Outturn – gross costs

	2018-19 Outturn gross costs £000	2018-19 Budgeted gross costs £000	2017-18 Outturn gross costs £000
Rail - Economic	13,284	13,672	12,680
Rail - Safety	15,813	16,637	15,248
Roads	2,297	2,474	2,270
<b>Total</b>	<b>31,394</b>	<b>32,783</b>	<b>30,198</b>

Variances against budget and 2017-18 are analysed on page 27.

## Analysis of 2018-19 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

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 26. We have either delivered or made good progress on all of these.

In addition to our published priorities we have delivered the following unplanned work in 2018-19:

- At the Secretary of State for Transport's request, we conducted an independent inquiry into the causes of disruption to the rail network in parts of the country following the introduction of the new timetable in May 2018. The inquiry published interim and final reports in September and December 2018 respectively. At the peak of its work, the inquiry involved up to 30 ORR staff from across the office. This necessarily required some other priorities to be re-planned during the year.
- Alongside the inquiry, we exercised our statutory powers in response to the May 2018 timetable disruption by investigating whether Network Rail and the relevant passenger train operators had properly complied with the terms of their operating licences in advance of and subsequent to the disruption. These investigations continued to the end of 2018-19 and further drew on staff from across the office.
- Following the publication of our interim inquiry report into the May timetable disruption, the Secretary of State for Transport commissioned a government review of the structure and organisation of the railway, chaired independently by Keith Williams. We have seconded a member of staff to the review team. In addition to this, we have engaged with the Review by making a formal submission to inform its work, and we have been commissioned by the Review to contribute expert advice on consumer issues regarding passenger compensation, and accessibility.
- Engaged with Network Rail on its planned new regional structure that it is introducing as part of its "Putting Passengers First" programme, including considering how we should revise our regulatory approach, and the Control Period 6 (CP6) settlements to reflect this; and
- Supported and advised Network Rail and Transport Scotland on drafting the CP6 network grant letter.

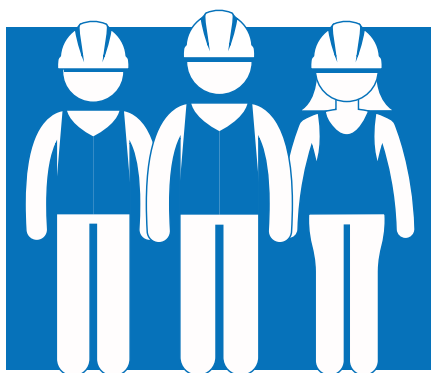
## Delivery of service standards

Much of ORR's 'business as usual' work 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 2018-19.

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 (Railway and Other Guided Transport Systems Regulations 2006)	100% determined within four months of receiving completed application	97% <sup>1</sup>
Report to Rail Accident Investigations Branch (RAIB) on the progress of its recommendations	100% response to RAIB recommendations within one year of associated RAIB reported being published	100%
Efficient processing of technical authorisations	100% of responses within 28 days of receiving complete submission	100%
Access and licensing casework	100% decided within two 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	94%
General enquiries and complaints	95% of enquiries and complaints responded to within 20 working days of receipt	88% <sup>2</sup>
Prompt payment of suppliers' invoices to ORR	80% paid within 10 days of valid invoice	94%
	100% paid within 30 days of valid invoice	100%



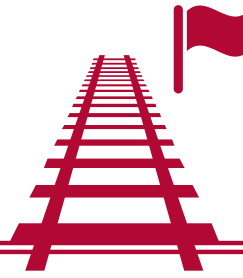
**Our inspectors spent 51% of their time in the field (against 50% target)**

<sup>1</sup> This target was missed due to an internal oversight. This was rectified by the new ROGS manager.

<sup>2</sup> This is largely due to the increasing complexity of enquiries, resulting in longer timescales, in particular when information is required from a third party to answer the query, or when the case is subject to an investigation.



# 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.

Sadly this was not achieved in 2018-19 as a result of two worker fatalities. This is why it is so important that we continue to strive for continuous improvement across the sector. 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.

**Our focus for the year, as set out in our annual Health and Safety report, was on three key challenges facing the rail industry:**

- Supporting our people
- Pressure on the system
- Technology

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 and safety regulator.

**In 2018-19 we have:**

- Continued work, in conjunction with the tram sector, to respond to the 15 recommendations in the Rail Accident Investigation Branch's (RAIB's) December 2017 report into the fatal tram overturn at Sandilands Junction, Croydon. During the year, we moved our focus to the delivery of the recommendations and monitoring how the tramway sector is fulfilling its commitments;

- 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 new 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;
- Continued our engagement with the Crossrail project;
- Published a consultation document seeking the views of tramway duty holders on our proposed approach to improving how the safety of Britain's tramways is regulated and supervised by ORR;
- Updated and published a new version of the Risk Management Maturity Model (RM3);
- 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 2018-19 we have:

- Issued 6,065 train driver licences;
- Delivered 45 level crossing orders;
- In relation to the mainline, issued 17 part A safety certificates, 19 part B safety certificates and 12 safety authorisations. For non-mainline, we have issued five safety certificates and two non-mainline safety authorisations;
- Assessed and issued two Entity in Charge of Maintenance (ECM) certificates; and
- Reported to RAIB on a total of 97 recommendations, with 39 being implemented; 23 reported as implementation ongoing; 20 as progressing; 15 as having an insufficient response, and none as being non-implementation.

As a result, the company was fined £2.7 million, with £188,874 costs, after being convicted of one offence under the Health and Safety at Work etc. Act 1974.

London Underground Limited and Balfour Beatty Rail Limited were also fined £100,000 and £333,000 respectively, after pleading guilty to breaking health and safety laws, which led to a worker suffering life-changing injuries at Whitechapel station in June 2016.

Additionally, Network Rail were fined £200,000 with £86,000 costs after being convicted of one offence under the Health and Safety at Work etc Act 1974 relating to an incident in which a signaller was seriously injured at East Farleigh Station in Kent in April 2015.

## Inspection and enforcement

During the year we issued 16 formal enforcement notices and, where appropriate, prosecuted duty holders in the courts to ensure compliance with the law. As prevention is always better than addressing issues after an incident has occurred, the 16 notices issued were "improvement notices" where we identified weaknesses in health and safety controls. This is an increase in the number of enforcement notices compared to 2017-18, when there were 12.

We also successfully concluded a prosecution against DB Cargo UK (Ltd) following an incident in June 2014 when a 13-year-old boy suffered life-changing injuries after receiving an electric shock from 25,000-volt overhead line equipment at Tyne Yard in Gateshead. Our investigation found that trespassers often visited a disused signal box at the yard as DB Cargo failed to ensure that non-employees were not exposed to risks to their health and safety through its activities.



## STRATEGIC OBJECTIVE 2: BETTER RAIL CUSTOMER SERVICE

We have a key role in protecting the interests of those who use our railways so that they get the service to which they are entitled. We undertake a range of work to improve the passenger experience in areas such as compensation, retailing of train tickets and accessibility for passengers who need assistance when travelling.

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 when there is 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.

In addition, we focus on improving innovation and driving value in supply chains for passenger-facing retail products and services by promoting competition.

### Collection of evidence and data

**In 2018-19 we have achieved the following:**

- Published recommendations, following a Market Study, into the supply of automatic ticket gates and vending machines. This revealed weaknesses in competition that, in turn, could have a negative impact on price, quality and innovation – and therefore a clear impact on passengers and taxpayers.

Following publication of the Study in March this year, we have recommended that the industry works together to improve compatibility between systems – particularly between those on the

mainline and those in the London metro area, simplify complex industry accreditation processes, and work together to identify future solutions for revenue protection.

- For the first time, we published data on how train companies perform in dealing with delay compensation claims, looking at the three million such claims made between April and October 2018. We followed this up with all train companies to review the current timescales for compensation claims, particularly where these were below target.
- To support work around embedding improvements to the National Rail Conditions of Travel, we commissioned research to explore passengers' awareness of terms and conditions. This found that though the majority of respondents were familiar with the basic terms and conditions that applied to their tickets, work was required to inform them of more specific terms and conditions.
- We launched a review into the role played by Delay Repay claims companies (third party intermediaries) in helping passengers claim compensation when journeys are delayed, and in helping train operators deal with claims more efficiently.
- We carried out a consultation on proposals to change the Disabled People's Protection Policy (DPPP) guidance for train and station operators on how to write their policies for helping disabled people to travel by rail, looking to improve reliability, passenger awareness of the assistance available, journey planning, staff training and information across the industry. This work was informed by an assisted travel advisory group, which met on three occasions.

- We ran a continuing complaints satisfaction survey using a range of indicators relating to both the complaints process and the outcome of the complaint. We have also worked with the Rail Delivery Group (RDG), Transport Focus and London TravelWatch on the development of the industry's voluntary Rail Ombudsman scheme, and consulted on proposals to make membership of it mandatory.
- In July, we published our annual rail consumer report, *Measuring Up*, which looks into how the rail industry is delivering for passengers, focusing on all the above areas. The purpose is to inform the rail industry, passenger organisations, governments and wider stakeholders of Network Rail's and train operators' performance.

## Inquiry into May 2018 network disruption

In May 2018, a new timetable was introduced for large parts of Britain's railway network. This caused major disruption to services for passengers, especially in the North of England and in the South East.

At the request of the UK Government, we established an Inquiry into the factors that contributed to the failure to produce and implement a satisfactory operational timetable.

The Inquiry was conducted in addition to and alongside our existing monitoring and investigation activity that began in February 2018, looking into the compliance of Network Rail and the train operators with the terms of their licences in relation to the timeliness of the provision of timetable information to operators and passengers.

Phase one of the report was published in September, where it was found that the difficulties endured by passengers were the result of poor communication within the industry; a perception that no one was in overall control of decision-making; and a failure to put passengers at the heart of decision-making.

It was found that the Department for Transport, Network Rail, Govia Thameslink Railway (GTR), Northern trains and ORR all made mistakes, which led to the collapse of services.

In the second and final report, published in December, we recommended that the interests of passengers are put at the heart of key decisions for major rail projects, and that the industry works together to improve how information is provided to passengers.

Alongside the Inquiry ORR executed its statutory responsibility to hold Network Rail to account, and found that the company had breached the terms of its licence. In December 2019 we issued a statutory order to the company to make changes, including to strengthen the capacity of its timetabling function and approach to risk management for future timetable changes.

## Investigation into GTR and Northern's provision of information to passengers

In October 2018, we opened two separate investigations to consider whether Govia Thameslink Railway (GTR) and Northern breached their licence condition around providing appropriate, accurate and timely information in both the run-up to the introduction of the May 2018 timetable and also during the disruption that followed.

### We concluded our investigations in March 2019 and found that:

- GTR breached condition 4 of its GB Statement of National Regulatory Provisions: Passenger (SNRP) in respect of the provision of appropriate, accurate and timely information to passengers following the implementation of the new timetable and during the subsequent disruption. As a result, we proposed GTR pays a £5 million financial penalty.
- Northern took reasonable practicable steps to provide appropriate, accurate and timely information and therefore was not in breach of its passenger information obligations.

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



One of our key objectives is ensuring value for money for passengers, freight customers, governments, taxpayers and the general public, and a large part of what we do 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.

### Holding Network Rail to account

- In July, we published our annual assessment of Network Rail's performance through two reports (one for England & Wales and one for Scotland), which highlighted the need for Network Rail to do more to prepare for its plan for the next five-year control period (CP6), which started in April 2019. We also found that safety on the railway remained good, but that there was a need for risk management best practice to be adopted across all routes to ensure consistency. Our assessment at the time also found that significant improvement was required to make it more efficient and to address the very poor levels of performance that many passengers were experiencing.
- Alongside this report, we published findings from an investigation into how Network Rail had contributed to the problems faced on South Western Railway, following unacceptable disruption faced by passengers. We found that the company needed to improve its planning, procedures and technology to keep pace with changes on the route.

- In March, we introduced a new regulatory policy for holding Network Rail to account, and which took effect on 1 April 2019 at the start of CP6.

We had previously consulted on the new policy between November 2018 and January 2019, under which we will now use a route-based system to make comparisons between routes across the country.

### Formal action against Network Rail

- Further to publication of the half year Network Rail Monitor in November, covering April to mid-October 2018, we took action against Network Rail in the form of an Order to require improvements in its capability to deliver better performance.

A review had found that punctuality and reliability were at their lowest levels since the five-year control period began in 2014, with factors such as extreme weather and problems implementing the May 2018 timetable playing a part.

Network Rail submitted a detailed response to the Order in February 2019, describing a number of new actions it will take to identify and address the underlying issues impacting on train performance that has led to a prolonged deterioration in punctuality and reliability. The performance action plan was approved at the beginning of April 2019.

## High Speed 1

### In 2018-19 we have:

- In July, published our annual report on HS1 Ltd, finding that performance had remained positive from the previous year.
- Continued our work on our second periodic review of HS1 Ltd (PR19), which will be concluded in 2019.

## Channel Tunnel regulation

We work 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 February, we published our opinion on Eurotunnel's 2020 Network Statement, which will come into force in December 2019.

## 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

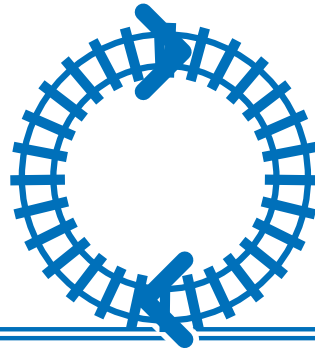
We report on Highways England's delivery, providing transparency to funders, road users and wider stakeholders. We encourage Highways England to publish more information on its plans and performance. Importantly, improved transparency allows other stakeholders to play a more informed role in holding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

Last year's business plan identified two areas of focus for 2018-19 – continued monitoring of Highways England's performance and work to inform the next road investment strategy (RIS2), which covers the next road period (RP2, from 2020 to 2025).

### In 2018-19 we have:

- Published our third annual assessment of Highways England's performance, which found that the company's progress remained steady, but that it needed to continue managing costs.
- Published our third benchmarking update report, which provided clear, transparent comparisons of how Highways England's performance varies across its regions, and how it compares to highway authorities in other countries or companies in other sectors.
- Carried out work to advise the Government on its emerging priorities for RIS2 and worked with Highways England to understand its plan for improving its management of assets and performance outcomes.
- Commissioned research jointly with Transport Focus to look at road users' views on measuring performance - which followed up on a first phase of research conducted in 2017.
- Commissioned a report to look at and compare how Highways England and other road authorities measure and report on the condition of their road surfaces.
- Published a review of Highways England's delegated expenditure controls for the Department for Transport, finding that investment decisions are clearly documented and adhered to.

## 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.

The main priority set out in last year's business plan concerned the culmination of our extensive work on the Periodic Review (PR18).

### Periodic Review 2018

The 2018 Periodic Review was the process through which we determined what Network Rail should deliver in respect of its role in operating, maintaining and renewing its network in Control Period 6 (CP6) and how the funding available should be best used to support this.

As part of PR18, we also developed our approach to how we will regulate Network Rail's delivery over CP6, including the incentives to encourage it and train operators to perform well and the financial framework for Network Rail.

In June, we published our draft determination, which reflected our review of Network Rail's February 2018 strategic business plan. We received 52 responses to the draft determination consultation.

We published our final determination in October, which sets out our overall decisions in these areas. It reflected our consideration of stakeholder views on our draft determination, on which we consulted in June 2018. It also takes account of further work done by Network Rail in response to our draft determination proposals regarding the routes in England & Wales and Scotland.

### Access and capacity

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

#### In 2018-19 we have:

- Approved several hundred new and amended access contracts for track, stations, depots, freight terminals, other service facilities and connecting networks.
- Completed 23 reviews of Network Rail's proposed land disposals, consenting to all.
- Issued 15 licences and exemptions to applicants wishing to operate railway assets.
- Continued in our role as economic regulator for rail in Northern Ireland.

### Promoting competition

In December, we launched a piece of work to develop a framework for monitoring the impact of, and response to, open access competition.

We have engaged with a wide range of stakeholders, including train operators, Network Rail, and other UK competition regulators. The evidence and feedback we gathered informed the design of our monitoring framework, and at the end of March we published an update which set out the metrics we intend to monitor on an ongoing basis, and how, from later in 2019.



During the year, we also consulted on implementing infrastructure cost charges for open access operators and the introduction of an 'Economic Equilibrium' test, to be used in our assessment of track access applications.

As detailed under strategic objective two, we also completed our market study into the supply of automatic ticket gates and ticket vending machines, with the final report published in March, and launched a market review into rail compensation claims companies (third party intermediaries).

We have made active and proportionate use of our powers throughout the year, including by issuing a number of warning letters where we have seen competition problems emerging. 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.

Additionally, we also engaged with the European Commission regarding the proposed merger of Siemens and Alstom, as we were concerned that the merger would lead to a significant lessening of competition in Great Britain's signalling and rolling stock markets. On 6 February 2019, the European Commission prohibited the proposed merger on the basis that it would have harmed competition in markets for signalling and very high-speed trains.

## Europe

The EU continued to have a substantial role in the development of railway regulation throughout the year, and 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 2018-19 we have:

- Supported the industry to understand how leaving the EU affects their business, especially where this involve cross-border services or supply chains, and to plan mitigations in risks as they arise.
- Advised government on its development of legislation to bring European competences into UK law, to ensure a stable regulatory environment after Brexit.
- 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. 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.
- Sought to influence, wherever possible, the development of European legislation to simplify any new rules and minimise the burden on UK rail industry stakeholders.



## STRATEGIC OBJECTIVE 6: HIGH PERFORMING REGULATION



We are committed to delivering proportionate and effective regulation of the rail sector, and monitoring of the strategic road network, for the benefit of current and future users and funders.

### Our priorities in 2018-19 were:

- Developing our approach to regulating multiple networks (rail and road) within the same organisation, to deliver greater benefits for current and future 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 continuous improvement, efficiency and value for money;
- Ensuring we remain open and transparent in our dealings with the industry, continuing to adopt a 'no surprises' approach.

### Our people

The capability, integrity and knowledge of ORR staff are fundamental to our success. As such, we place considerable importance on recruiting, retaining and developing our people so that we have the resources we need in place at the right time. We recognise the importance of good employee engagement for effective performance and delivery of our organisational objectives. We achieved an engagement score of 60% in the October 2018 Civil Service people survey – an increase of three per cent on the previous year.

We value the opportunity to independently benchmark the development of our organisation. Following a review between May and September 2018, we were delighted to retain our 'Silver' status for Investors in People, against this increasingly challenging standard.

We have continued to work to invest in developing our people throughout the year, with regular learning events focusing on leadership, management

and other skills. This included the continuation of our senior leadership and management development programmes, as well as the creation of a new senior leadership group to leverage the value of good leadership across the organisation.

Following comprehensive engagement with colleagues, we have refreshed our organisational values, which set out how we work together to make a difference. Also following extensive consultation, we have introduced a new performance management approach, supported by an online system. Lastly, we have engaged closely with staff in the planning and preparation for the relocation of our London office to Canary Wharf later this year.

### Efficiency

We have made savings of 23% in real terms since 2009-10 in respect of our cost to the rail industry. We continue to focus on efficiency and delivering value for money to our stakeholders and consumers.

- In 2018-19 core corporate operations costs were reduced, reflecting the savings made following the IT transition in the previous year. These savings were reinvested in delivering key projects and activities in 2018-19.
- We were able to fund the timetable inquiry within our budget by reallocating resources and rescheduling non-critical work.
- We have continued to identify opportunities for improvements in the way we work. These include enhancing our Skype capability so that colleagues can participate in meetings without having to travel; the introduction of a new, simple online expenses system and the rollout of new mobile phones with better functionality, enabling colleagues to do what they need to when out and about.

We have distinct lines of funding for the work we do: a safety levy, which pays for all of our health and safety work; an economic licence fee, which pays for our economic regulation; and a direct grant from the Department for Transport for the work we do as Highways Monitor.

These lines of funding are discrete with no cross-subsidy so, for instance, money earmarked for highways monitoring cannot be used for railway safety. However, we do make synergies in bringing these functions together wherever possible, for example by sharing office costs.

We are an organisation built around people; 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 an annual pay cap.

There are occasions when we use independent reporters to reinforce the work we do. They provide us with professional advice on the quality of Network Rail's service provision. Network Rail's network licence includes a condition providing for independent experts (reporters) to be appointed by the network operator (Network Rail), with our approval. The cost of this work is borne by Network Rail.

## Transparency

Transparency is central to what we do, delivering 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 2018-19 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;
- Seen an increase in the use of our data portal compared to the previous 12 months, meaning more users are looking at the statistics ORR regularly produces on topics like rail safety and passenger satisfaction.

## Better regulation

### In 2018-19 we have:

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

In June, we published our 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).

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 the Department for Transport and the Civil Aviation Authority to support joined-up regulation across economic and safety regulation affecting key transport sectors.

# OUR FINANCIAL PERFORMANCE

A summary of our income and expenditure is shown below:

	2018-19 £000	2017-18 £000
<b>Income</b>		
Economic regulation	(13,283)	(12,679)
Health and safety regulation	(15,812)	(15,247)
Highways monitoring	(2,296)	(2,269)
<b>Total income</b>	<b>(31,391)</b>	<b>(30,195)</b>
<b>Expenditure</b>		
Staff costs	22,435	21,331
Other costs	8,959	8,867
<b>Total costs</b>	<b>31,394</b>	<b>30,198</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 £13.3m income from economic regulation comprises income from the licence fee, HS1 and our monitoring of Northern Ireland. Health and safety regulation income of £15.8m includes income from railway service providers and from the Channel Tunnel. Income from highways monitoring was £2.3m.

## Expenditure

In 2018-19 we spent a total of £31.4m compared to £30.2m in 2017-18. Our overall gross budget for 2018-19 was £32.8m.

Our resource cost cap for rail for 2018-19, net of income raised from outside of the rail industry was £30.0m. We remained within this limit with net expenditure of £28.7m.

By segment, our spend breaks down as follows:

- £0.6m more on economic regulation than last year, at £13.3m (£0.4m less than budget);
- £0.6m more on safety regulation than last year, at £15.8m (£0.8m less than budget); and
- The same on our highways monitoring role compared to last year, at £2.3m (£0.2m less than budget).

Variances against budget for the rail side of the business break down as follows: staff costs 1% below budget; consultancy spend 40% below budget; and running costs 4% below budget. In some instances the variance is due to a difference between where the cost has been budgeted and where it has been recorded, for example some items have been budgeted in consultancy, but the actual spend has been recorded in pay or running costs. Removing these differences, underlying variances on the rail side of the business break down as follows:

- staff costs 2% below budget, due to higher vacancies throughout the year than budgeted;

- running costs 9% below budget, largely due to dual rent and rates on two London offices being budgeted from January 2019, but not being required in 2018-19;
- consultancy 11% below budget, due to budgeted spend not being required as other areas were prioritised.

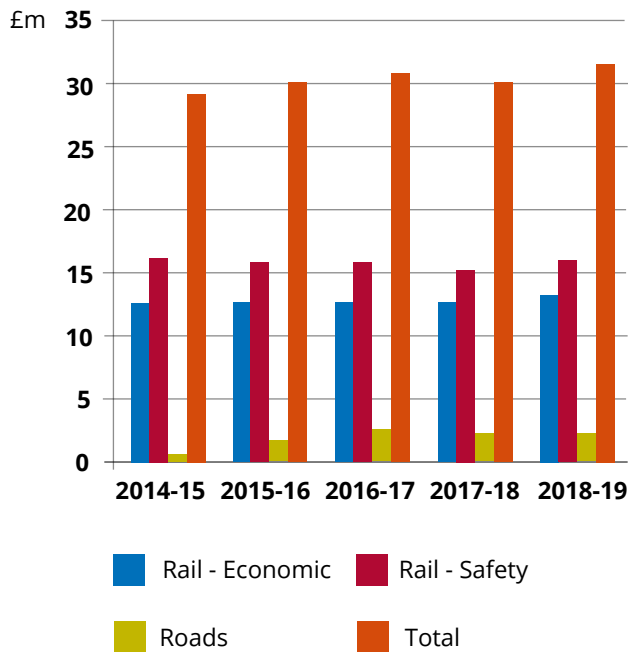
On the roads side of the business:

- staff costs were 8% below budget, due to time taken to fill vacancies;
- running costs were 12% below budget, as a result of lower overheads than budgeted.

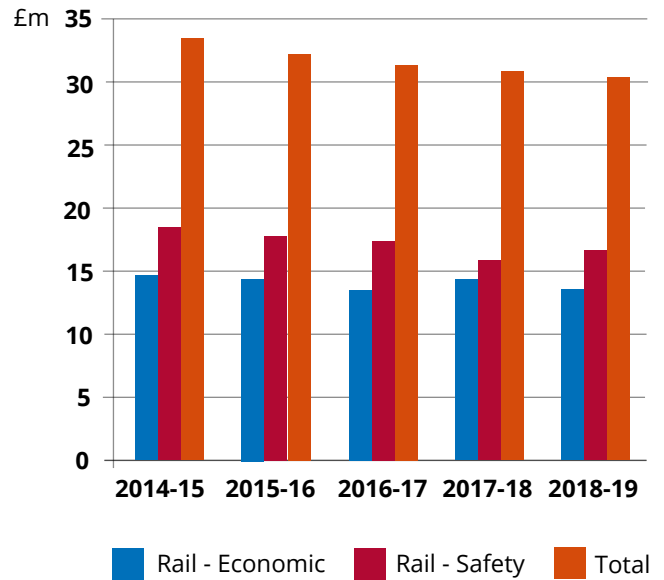
Staff costs accounted for £22.4m (71%) of total costs, compared to £21.3m (71%) in 2017-18. Our average staff cost per full-time equivalent in 2018-19 was £72,374 compared to £71,135 in 2017-18.

## 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.



**John Larkinson**  
Accounting Officer

4 June 2019

## EMPLOYEE MATTERS

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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, ORR has published specific equality objectives and regularly publishes diversity data in our capacity as an employer. 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 a diverse, open and inclusive workplace. ORR participates in the Civil Service people survey, which includes questions about employee wellbeing. In the 2018 survey, 67% of employees said that they were satisfied with their life nowadays, whilst 75% said that the things they do in their lives are worthwhile. Both outcomes were higher than the average departmental benchmark across the Civil Service.

## SUSTAINABILITY

We have continued to play an active role within the Infrastructure Operators Adaptation Forum, and have participated in the trial session of the Sustainability Capacity Building Programme, organised in partnership with the Railway Safety Standards Board (RSSB) and the University of Cambridge's Institute for Sustainability Leadership.

In addition this year we have taken up membership with the RSSB Sustainable Development Steering Group, whose role is to provide leadership and support to the wider industry sustainable rail programme.

In preparation for the next Control Period, we have worked with Network Rail and Transport Scotland to develop an enhanced set of environmental reporting measures that will be implemented in CP6. As part of our role of holding Network Rail to account in CP5, in the fourth quarter of the year we instructed Network Rail to engage the independent reporter to test reporting on their sustainable development KPIs, specifically how data is captured and calculated for reporting in Network Rail's annual return.

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 2017-18, we reported that:

- Highways England had mitigated 651 noise important areas, towards a target of 1,150 over the first road period, ending in 2020. Progress was significantly greater in 2017-18 than in previous years due to the company rolling out a programme to fit noise insulation to affected properties close to the network.
- Highways England continues to make progress in delivering its Biodiversity Action Plan. In 2017-18 the company approved 61 biodiversity schemes to be taken forward in 2018-19, and undertook testing of a new biodiversity metric. It put in place management plans for 15 sites of special scientific interest on its estate, bringing the total number of plans to 30 in this road period.

We continue to work with Highways England, the Department for Transport 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 2018-19 in our next annual assessment of Highways England, which is due to be published in July 2019.

## 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:

- issuing documentation for all tenders electronically and requiring all proposals to be submitted electronically;
- encouraging SME's participation in tenders through highlighting the suitability of tender opportunities on Contracts Finder and ensuring that liability and insurance limits were as low as practical within the contract; and
- using Crown Commercial Services' Project Management and Full Design Team Services framework for the procurement of design team services, which includes advising on energy conservation and BREEAM accreditation.

## ORR performance and policy

Our environmental performance in 2018-2019 is shown in the table on the following page. 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 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.

Based on Defra conversion factors

	2016-17	2017-18	2018-19
<b>Greenhouse gas emissions (tonnes CO<sup>2</sup>)</b>			
Electricity (scope 2)	192	210	215
Oil (scope 2)	47	67	59
Gas (scope 2)	n.a	n.a	n.a
Travel:			
Car (personal vehicle)	99	86	35
Air	93	60	43
Train	91	97	104
Hire car	3	13	4
<b>Gross emissions total</b>	<b>525</b>	<b>533</b>	<b>460</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>286</b>	<b>356</b>	<b>186</b>
<b>Expenditure (£)</b>			
Carbon Reduction Commitment (CRC) gross expenditure (£)	79,349	83,075	82,709
Expenditure on accredited offsets (£)	-	-	-
Expenditure on official travel (£)	580,993	629,267	651,810
<b>Waste (tonnes)</b>			
Total waste	17	21	19
Hazardous waste	-	-	-
Non-hazardous to landfill	-	-	-
Non-hazardous recycled	10	12	11
Non-hazardous incinerated/energy from waste	7	8	7
Cost of waste collection (£)	4,820	5,279	8,125
<b>Water</b>			
Water consumption (m <sup>3</sup> )	1,958	2,329	2,063
Water supply costs (£)	4,725	5,480	4,820
<b>Finite resources</b>			
Electricity non-renewable (Kwh)	430,929	440,157	480,562
Electricity renewable (Kwh)	-	32,261	33,342
Gas (Kwh) - Glasgow (estimated)	n.a	n.a	n.a
Oil (Kwh)	176,299	251,016	209,180
Total energy expenditure (£)	73,349	83,075	82,709
Paper consumption (A4 reams)	2,061	2,158	1,520

n.a - not available



# **SECTION B: ACCOUNTABILITY REPORT**

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# DIRECTORS' REPORT

ORR is a non-ministerial government department, which 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 2018-19, 100% of invoices were paid within 30 days (100% in 2017-18) and 94% paid within 10 days (95% in 2017-18).

## Better regulation

Our work on better regulation in 2018-19 is explained on page 26.

## 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 are concerns about the rail industry<sup>3</sup>. 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 2018-19 we received 1,638 complaints and general enquiries, of which 1,448 (88%) were cleared within the deadline. This is an increase of 204 (14%) on the previous year, mainly due to the concerns raised following the introduction of the May 2018 timetable.

In 2018-19 we received seven whistleblowing complaints raised by railway employees via the Employment Tribunal ET1 notification. We also received 207 enquiries relating to employee health, safety and welfare and four enquiries regarding employee employment matters. The 207 enquiries generated 243 concerns. The 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

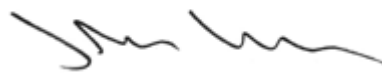
In 2018-19 we received 183 requests of which 172 (94%) were responded to within 20 working days following receipt. Further details are published by the Cabinet Office: <https://www.gov.uk/government/collections/government-foi-statistics>, including details of internal reviews and referrals to the Information Commissioner.

## 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 2018-19 two formal complaints against ORR were received. These were in regard to our investigation into the complainant's allegations of unsafe working conditions during construction activity on London Underground, and the outcome; and our investigation of a complaint against a heritage railway and the stability of a lineside wall. The first of these was escalated to PHSO, and the other was closed after an internal investigation and response to the complainant.

## 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 (2017-18: £36,000). No remuneration, actual or notional, was paid to the National Audit Office for non-audit work (2017-18: none).



**John Larkinson**  
Accounting Officer  
4 June 2019

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

# 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 accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of ORR and of its income and expenditure, Statement of Financial Position and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the 'Government Financial Reporting Manual' 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;
- prepare the financial statements on a going concern basis and
- confirm that the annual report and accounts as a whole is fair, balanced and understandable, and take personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

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

As the 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. So far as I am aware, there is no relevant audit information of which the auditors are unaware.

## 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 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 May's timetabling disruption;
- a confirmation hearing with the Transport Select Committee for incoming ORR Chair, Declan Collier; and
- a briefing session for the Scottish Parliament's Rural Affairs and Connectivity Committee on Periodic Review 2018 and Control Period 6 in Scotland.

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 2018-19 ORR held a number of one-to-one briefings as well as larger events, which included:

- a parliamentary event on rail accessibility hosted by Jack Brereton MP; and
- an update to the All Party Parliamentary Group on Rail about Control Period 6.

# 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>4</sup>. The Board's objectives are aligned to key business and risk management activities. The Board held 13 meetings in 2018-19.

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;
- oversaw the Glaister review of the May 2018 railway timetable introduction and its impact on customers;
- developed our approach to, and implemented the next periodic review (PR18);
- consulted on ways to improve customers' experience of train operating companies including accessibility and complaint handling;
- discussed and reviewed applications for access to the network;
- developed our thinking on the Road Investment Strategy 2 (RIS2) and considered reports on the performance of Highways England; and
- assured ourselves on preparations the rail and road network were making to manage risks to customer service around the UK's exit from the EU.

<sup>4</sup> At <http://orr.gov.uk/about-orr/who-we-are/the-board>

Membership and appointment terms of ORR's Board as at 31 March 2019 was as follows:

## Non-Executive Directors

**Declan Collier**, Chair, since 1 January 2019, appointed until 31 December 2023

**Justin McCracken**, Deputy Chair, to 31 July 2019

**Stephen Glaister**, to 31 March 2020

**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

**John Larkinson**, Director, Railway Markets and Economics, to 27 March 2022. Interim Chief Executive from 8 October 2018

**Ian Prosser**, Director, Railway Safety, to 25 September 2023

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

## Changes to Board membership

Changes to Board membership in the year are listed below:

Declan Collier was appointed to the Board on 17 November 2018, and as Chair from 1 January 2019 to 31 December 2023.

Stephen Glaister's appointment as Chair concluded on 31 December 2018. He remains a board member.

Joanna Whittington, Chief Executive and Accounting Officer, resigned from 7 October 2018. John Larkinson was appointed as interim Chief Executive pending the recruitment of a permanent replacement and was still in post on 31 March 2019.

Declan Collier replaced Stephen Glaister on the Health and Safety Regulation Committee.

## Board Committees

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

### Audit and Risk Committee

The Audit and Risk Committee supports the Board in its responsibilities for issues of risk control and governance and associated assurance. Its role is to review whether assurances presented are sufficient and comprehensive enough to meet the Board and the Accounting Officer's needs, and to 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 and how they are managed;
- a review of risk management and reporting processes;
- the annual report and accounts and the Governance Statement; and
- the programme for the relocation of the London office during 2019.

## 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 three times during the year. Areas considered included:

- the performance of ORR's senior civil servants during 2017-18;
- 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;
- induction arrangements for the new Chair;
- ORR's people strategy; 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, including work to secure a new light rail standards board;
- 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 four 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
- Highways England's management of significant local disruption to the network and support for those affected.

## 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. 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. During 2018-19 an internal audit of the operation of the board procedures delivered substantial assurance.

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. No issues arose during the year.



## Compliance with the Code of Practice on Corporate Governance<sup>5</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 as ORR is not a spending department; 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, during this year the Periodic Review 2018 (PR18) programme board normally met monthly and carried out the executive oversight and scrutiny role in respect of the PR18 programme. As that work was completed the programme board was reconfigured to become the CP6 preparedness board. Programme boards are made up of a task-appropriate mix of Executive Board members, directors and staff.

## Business plan

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

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

## Whistleblowing

ORR's whistleblowing policy is designed to provide an avenue for staff to raise concerns about perceived wrongdoings, illegal conduct or fundamental misconduct that may endanger others. Our 'whistleblowing and raising a concern' policy is available to all staff on our intranet. There were no whistleblowing complaints during 2018-19.

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 34.

<sup>5</sup> <https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments>

## 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. On a quarterly basis the Board receives an update on risk from the Audit and Risk Committee, and the Executive's risk summary paper.

In 2018-19 strategic risks were aligned to our six strategic objectives. For each strategic objective risks were ranked in a grid. Each risk was 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, were documented. This was linked to our business management system, which helped us to ensure that the planned business activities for the year ahead addressed our key risks where possible. Our risk templates were updated quarterly by Deputy Directors, and were then reviewed by the Executive Committee where members provided challenge to the information contained in the templates. The templates were then reviewed quarterly by the Audit and Risk Committee.

During 2018-19 we initiated a project to review how we manage and report risk. This will be implemented at the start of 2019-20. Risks will be aligned to business activities in each directorate. These will be coordinated by risk champions who will act as the conduit between activity owners and deputy directors, as well as coming together as a group to discuss top and cross-cutting risks. Key risks will then be discussed and challenged by the Executive Committee before being presented to the Audit and Risk Committee. Risks will be categorised into external, strategic and operational to help define ORR's accountability in each risk and mitigate accordingly.

Our key risks for 2018-19 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 for 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 operate, maintain and renew the railway, or is inefficient in delivering the work.

**What we are doing:** Network Rail's efficiency fell during CP5, especially in delivering renewals. There were various reasons for this, including poor planning for renewals at the start of CP5, plans were not well founded, and securing the necessary access for work was challenging. Against this background, we reviewed and challenged Network Rail's plans to improve efficiency in CP6. Network Rail responded positively to our challenge and is now committed to delivering efficiencies of £3.1 billion over the five years of CP6. This corresponds to a 10% efficiency improvement (comparing spending in the last year of CP6 with the last year of CP5).

During the year we also investigated and reported twice on Network Rail's readiness to deliver these efficiencies. We found that Network Rail is better placed to deliver efficiency improvements than it was at the equivalent points before CP5 started, with routes developing and owning their own plans, a strengthening of central monitoring and oversight, and opportunities for route comparisons. However, there is a lack of assurance around the deliverability of the efficiency plans, which Network Rail has acknowledged and is addressing through an action plan that we will monitor.

### 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 assess Highways England's performance against the requirements set out in the first RIS, and we report on it publicly. Our work with the company and the Department for Transport (DfT) to develop the second RIS has increased substantially over the last year. In the coming year we will advise DfT on whether Highways England's plans for the second five-year road period are challenging and deliverable.

### 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:** We have approved additional funding for the system operator in CP6. This will support changes Network Rail plans to make to improve their timetable and capacity planning capabilities. We will be monitoring how the system operator is delivering these improvements during CP6.

A number of changes are being introduced for open access operators from 1 April 2019. From this date new open access operators that run certain services will pay additional track access charges. At the same time we are making changes to our access policy, which means these services will benefit from greater access to the network. In addition, we are also changing the way we assess applications from new open access operators in response to new legislation. We will also be implementing a framework for monitoring the impact of, and response to, open access. The aim of these changes is to ensure that open access operators are able to prosper and grow their businesses, so long as they produce sustainable benefits for passengers.

### 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 that we sufficiently demonstrates our delivery of outcomes required by our statutory duties on behalf of the country.

**What we are doing:** We have worked closely with the stakeholders, on whose behalf we deliver benefits for passengers, freight and taxpayers, in the development and delivery of our objectives throughout the year. Major pieces of work, such as the completion of PR18 and the inquiry into timetable disruption, have demonstrated ORR's regulatory independence and expertise, and the value that these can deliver for society.

Through these and other pieces of work, we have continued to change the way we works itself, to continually improve the way we protects the interests of railway and highways users and funders.

We are transforming our approach to regulating Network Rail in CP6, and are supporting the development of RIS2 for Highways England. We have been active in the advice and support that we have provided to the UK Government on the regulatory consequences of Brexit, and the protection of UK interests.

We continue to learn from best practice where it is developed by other regulators, including as an active member of the UK Regulators Network and through the OECD and other multilateral forums, to develop and apply innovative approaches to 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 face strong competition from other government departments and companies in our regulated sectors.

**What we are doing:** Our reward strategy continues to recognise high calibre people at all levels who contribute to the delivery of ORR's strategic objectives, and we make the best use of the flexibility 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, embracing smart working 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.

### **Operational risk: London office move**

There are a number of risks around the relocation of the London office to Canary Wharf. The key risks are: the delay to completion of the base build, which could cause delays to the IT set up and the relocation date for staff; delays to wayleave agreements which would prevent us installing building services; and lack of engagement of staff, which could result in staff choosing to leave ORR rather than to relocate.

**What we are doing:** Weekly meetings take place between the building contractor, our property specialists, the landlord, ORR and other stakeholders as necessary. These meetings focus on progress and delivery against the plan. ORR's property specialist regularly visits the site to monitor progress and to resolve any issues that arise. The project team actively tracks completion of milestones.

Wayleave agreements have been requested early and the project team is in regular contact with the supplier and the landlord.

A strong staff engagement approach has been adopted to keep staff up to date with all developments. Staff have been invited to visit the new site and have been asked to provide feedback on furniture and IT equipment, and travel packages and carer allowances have been proposed to financially assist staff.

### **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. Following the introduction of the General Data Protection Regulation, in accordance with the Information Commissioner's guidelines, we appointed a data protection officer; produced the documentation and policies; provided staff guidance and training; established a review framework to assess compliance; and updated our breach handling and subject access request procedures.

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 minimum security standards where they are appropriate to us, and submits a report on security and information assurance annually to Cabinet Office. Each year we carry out an assessment to evaluate whether the security regime is appropriate to the impact levels of the information we hold throughout the organisation. As a result of this work we have assurance that we have the appropriate security controls in place (both physical and electronic) to hold information at 'official' level. We are working to embed a good risk-appropriate security culture 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 2018-19 that we considered to be sufficiently significant for the Information Commissioner to be informed.

### **Internal audit**

We appointed Mazars as our internal auditor, with effect from 1 April 2018. During the year Mazars 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 our 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 2019, Mazars have provided reasonable assurance in respect of corporate governance, risk management and internal controls. Recommendations made by Mazars during the year have either been implemented already, rejected as we are comfortable with the current process, or will be implemented in 2019-20.

### **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.

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 undertaken several tender exercises to support the London office move and building fit out. We utilised the Crown Commercial Service framework agreements for the architect and mechanical, electrical and plumbing services, and the fit out requirement was subject to an open tender exercise to encourage small and medium enterprise participation and to obtain greater value for money.

## 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 2018-19 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. 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.



**John Larkinson**  
Accounting Officer  
4 June 2019

## BOARD MEMBER COMMITTEE ATTENDANCES

Member	Board	Audit & Risk Committee	Remuneration and Nominations Committee	Health and Safety Regulation Committee	Highways Committee
Tracey Barlow	12/13	-	-	-	3/4
Declan Collier	4/4	-	-	1/1	-
Stephen Glaister	13/13	-	-	4/4	4/4
Anne Heal	13/13	-	3/3	-	2/2
Bob Holland	12/13	5/5	-	5/5	-
John Larkinson	13/13	2/2	-	2/2	1/2
Michael Luger	12/13	5/5	3/3	-	-
Justin McCracken	12/13	-	3/3	5/5	-
Graham Mather	11/13	-	-	-	-
Ian Prosser	13/13	-	-	5/5	-
Graham Richards	13/13	-	-	5/5	4/4
Joanna Whittington	8/8	3/3	-	3/3	2/2
Melvyn Neate*	-	3/3	-	-	-
Rodney Norman*	-	2/2	-	-	-
Garrett Emmerson**	-	-	-	-	0/2
Terry Hill**	-	-	-	-	1/2

\*independent member of the Audit and Risk Committee

\*\*independent member of the Highways Committee



# REMUNERATION AND STAFF REPORT

## Remuneration Report

### Remuneration Committee

The Remuneration and Nominations 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 2018-19 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>6</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 pay guidance and the 'Performance management arrangements for the Senior Civil Service' (Cabinet Office, May 2018 edition).

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. One Non-Executive Board member has exercised an entitlement to pension benefits.

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 2018-19 (2017-18: 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>6</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)	
	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18
<b>John Larkinson</b> Interim Chief Executive (from 8/10/18) Director, Railway Markets and Economics (to 7/10/18)	140-145	135-140	10-15	10-15	600	600	79	9	230-235	155-160
<b>Joanna Whittington</b> Chief Executive (to 7/10/18)	80-85	155-160	10-15	10-15	-	-	36	85	130-135	250-255
<b>Dan Brown</b> Director, Strategy and Policy	125-130	125-130	5-10	-	-	-	48	41	175-180	165-170
<b>Russell Grossman</b> Director, Communications	130-135	130-135	-	-	-	-	43	17	170-175	145-150
<b>Freya Guinness</b> Director, Corporate Operations and Organisational Development (from 26/6/17)	110-115	85-90	-	-	-	-	45	38	155-160	120-125
<b>Juliet Lazarus</b> General Counsel and Director of Competition (from 1/1/19), Director, Legal Services (to 31/12/18)	85-90	90-95	-	10-15	-	-	36	28	120-125	125-130
<b>Ian Prosser</b> Director, Railway Safety	140-145	130-135	-	-	-	-	51	50	195-200	180-185
<b>Graham Richards</b> Director, Railway Planning and Performance	125-130	115-120	-	-	-	-	71	70	195-200	185-190
<b>Peter Antolik</b> Director, Highways Monitor (to 20/9/17)	-	60-65	-	-	-	-	-	24	-	85-90

**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 2018-19 relate to performance in 2017-18 and comparative bonuses reported for 2017-18 relate to performance in 2016-17.

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

**Pension benefits** are shown on page 50. The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) less (the contributions made by the individual). The real increase excludes increases due to inflation or any increase or decrease due to the transfer of a pension right. No senior manager 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.

John Larkinson was appointed interim Chief Executive on 8 October 2018.

Joanna Whittington left ORR on 7 October 2018. Her full-year equivalent salary was in the range £155,000 - £160,000 in 2018-19.

The full-year basic equivalent salary for Juliet Lazarus (who works part-time hours) is in the range £130,000 - £135,000 (2017-18: £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 (2017-18: £125,000 - £130,000).

## Pay multiples

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

The banded remuneration of the highest-paid Director in ORR in the financial year 2018-19 was £160,000 - £165,000 (2017-18: £165,000 - £170,000). This was 3.0 times (2017-18: 3.2) the median remuneration of the workforce, which was £53,260 (2017-18: £52,743). This ratio is lower than 2017-18 as the salary of the highest-paid Director is lower in 2018-19.

In 2018-19, no employees (2017-18: none) received remuneration in excess of the highest-paid Director. Remuneration ranged from £22,355 to £153,850 (2017-18: £21,050 to £169,095).

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 31/03/19 and related lump sum	Real increase in pension and related lump sum at pension age	CETV as 31/03/19	CETV as 31/03/18	Real Increase in CETV
	£000	£000	£000	£000	£000
<b>John Larkinson</b> Interim Chief Executive (from 8/10/18) Director, Railway Markets and Economics (to 7/10/18)	50-55 plus 140-145 lump sum	2.5-5 plus 2.5-5 lump sum	1,069	909	59
<b>Joanna Whittington</b> Chief Executive (to 7/10/18)	35-40 plus 70-75 lump sum	0-2.5 plus 0-2.5 lump sum	594	562	18
<b>Dan Brown</b> Director, Strategy and Policy	30-35	2.5-5	390	307	18
<b>Freya Guinness</b> Director, Corporate Operations and Organisational Development	35-40	2.5-5	500	417	25
<b>Russell Grossman</b> Director, Communications	50-55	2.5-5	1,049	904	42
<b>Juliet Lazarus</b> General Counsel and Director of Competition	25-30	0-2.5	456	385	21
<b>Ian Prosser</b> Director, Railway Safety	30-35	2.5-5	545	450	37
<b>Graham Richards</b> Director, Railway Planning and Performance	30-35	2.5-5	440	340	42

## Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a 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 <https://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 (<https://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 2018-19 there were no active members (2017-18: 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 former Chair's pension scheme is disclosed as a liability on the Statement of Financial Position.

### Cash Equivalent Transfer Values

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

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

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

No compensation payments were made to past Directors on early retirement or for loss of office (2017-18: none).

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

	Fee range		Benefits in kind		Pension benefits		Total	
	(£000)		(to nearest £100)		(£000)		(£000)	
	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18
Declan Collier (Chair from 1/1/19, Non-Executive Director from 17/11/18)	20-25	-	-	-	-	-	20-25	-
Stephen Glaister (Chair to 31/12/18, Non Executive Director from 1/1/19)	95-100	120-125	-	-	-	-	95-100	120-125
Bob Holland	20-25	20-25	2,100	400	-	-	20-25	20-25
Tracey Barlow	20-25	20-25	3,700	2,700	-	-	25-30	20-25
Justin McCracken	20-25	20-25	2,200	2,500	9	9	30-35	30-35
Michael Luger	20-25	20-25	1,000	1,800	-	-	20-25	20-25
Anne Heal	20-25	20-25	300	500	-	-	20-25	20-25
David Franks (to 31/1/18)	-	15-20	-	-	-	-	-	15-20
Graham Mather	20-25	20-25	-	-	-	-	20-25	20-25
Melvyn Neate* (to 30/9/18)	0-5	0-5	100	200	-	-	0-5	0-5
Rodney Norman* (from 1/10/18)	0-5	-	-	-	-	-	0-5	-
Garrett Emmerson** (to 31/8/18)	0-5	0-5	-	-	-	-	0-5	0-5
Terry Hill** (to 31/8/18)	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. One Non-Executive Board member has exercised an entitlement to pension benefits.



# STAFF REPORT

## Staff numbers and related costs

Staff costs comprise:

	Permanently employed staff £000	Others £000	2018-19 £000 Total £000	2017-18 £000 Total £000
Wages and salaries	16,252	844	17,096	16,228
Social security costs	1,931	26	1,957	1,854
Other pension costs	3,365	17	3,382	3,249
<b>Total costs</b>	<b>21,548</b>	<b>887</b>	<b>22,435</b>	<b>21,331</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 2016.

Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation<sup>7</sup>.

For 2018-19, employers' contributions of £3,299,816 were payable to Civil Service pension schemes (2017-18: £3,160,380) at one of four rates in the range 20.0% to 24.5% of pensionable earnings, based on salary bands. The schemes' actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2018-19 to be paid when the member retires, and not the benefits paid during this period to existing pensioners. From 1 April 2019 employer pension contributions to this scheme have been increased, and are now at one of four rates in the range 26.6% to 30.3%.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £55,273 were paid to one or more of a panel of two appointed stakeholder pension providers (2017-18: £50,082). Employer contributions are age-related and range from 8.0% to 14.75% of pensionable earnings.

Employers also match employee contributions up to 3% of pensionable earnings. In 2018-19 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 (2017-18: £nil).

No contributions were due to the partnership pension providers at 31 March 2019 (31 March 2018: £nil).

No persons retired early on ill-health grounds (2017-18: nil). There were no additional accrued pension liabilities (2017-18: £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 £16,756 were paid to the trustees of the RPS in 2018-19 at a rate of 1.5 times the individual members' contributions, on the basis of actuarial valuations (2017-18: £28,650, 1.5 times). ORR matches some of the BRASS2 contributions (an AVC scheme) made by the members. In 2018-19, matching contributions of £2,608 were made (2017-18: £2,608).

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 (2017-18: £nil). The liability at 31 March 2019 is estimated at £837,000 (31 March 2018: £859,000).

<sup>7</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	Permanent Staff	Others	2018-19	2017-18
			Number	Number
1. Economic Regulation	128	4	<b>132</b>	125
2. Safety Regulation	164	4	<b>168</b>	161
3. Roads Monitoring	18	-	<b>18</b>	19
<b>Total</b>	<b>310</b>	<b>8</b>	<b>318</b>	<b>305</b>

Included in "Others" are:

Others	Number	Cost (£000)
Agency staff	6.5	
Specialist contractor	1.0	
Consultant	0.0	
<b>Total</b>	<b>7.5</b>	<b>590</b>

Non-Executive Directors are included within permanent staff. The average number in 2018-19 was 7.2, with a cost of £297k.

### Staff composition

At 31 March 2019, our total headcount comprised the following staff:

	Male FTE	Female FTE	Total FTE
Directors	5.0	1.4	6.4
SCS1	5.3	3.8	9.1
Employees	171.2	107.4	278.6
	<b>181.5</b>	<b>112.6</b>	<b>294.1</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 in 2017-18 were 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. Figures in brackets above relate to 2017-18.

In 2018-19 an additional £5k was paid to a member of staff who received an exit package in 2017-18, resulting from a miscalculation in previous service. No other exit packages were paid in 2018-19.

### Sickness absence data

The average annual working days lost per employee through sickness in 2018-19 was 3.9 (2017-18: 4.7).

## Staff policies applied during the year

### Diversity and inclusion

We are committed to the principles of equality, diversity and inclusion, 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. During 2018-19 we achieved 'Level 2: Disability Confident Employer' status to encourage applications from people with disabilities, offering them a guaranteed interview if they meet the minimum requirements for the role, and adjustments through the recruitment process. There is support for staff with disabilities when in employment, making workplace

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 and all managers have completed 'Leading Inclusive Teams' training to increase their awareness of how to manage a diverse team.

Following the results of our People Survey, we have run a diversity and inclusion programme this year, that included publishing a statement of intent, recruiting and training more anti-bullying and harassment volunteers, creating a staff diversity network, and carrying out an equal pay audit. We have continued our membership 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 wellbeing

Following the Stevenson/Farmer review of mental health and employers, 'Thriving at Work', we evaluated our mental health support with Directors and worked on our action plan for 2018-19. Actions have included training mental health first aiders, promoting 'Time to Talk' day and the Samaritans' 'Million Hours Challenge', and our Wellbeing

Champion shared his lived experience of mental health with staff. Part of our work included surveying all staff for their views of the support we offer for their mental wellbeing at work. The staff survey was part of Mind's Workplace Wellbeing Index, which was completed by 106 organisations and included an employer assessment. We were awarded Bronze – Achieving Change. We are still at the start of our journey to improving mental health in the workplace and have more actions in place for 2019-20.

We continue to offer staff occupational health support via Health Management Limited and an Employer Assistance Programme, with free face-to-face counselling sessions and a dedicated management support line. 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.

### 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 offices, who undertake workstation assessments for staff, with staff receiving an annual reminder to complete an assessment.

### Career management

We have continued to develop current and future leaders through our Leadership Development Programme, and have run three cohorts of our Management Development Programme for new and experienced managers to strengthen management capability across the organisation. We have also recruited six 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 2018-19.

### Facility time publication requirements

Annex B contains disclosures required under Statutory Instrument 328: The Trade Union (Facility Time Publication Requirements) Regulations 2017.



**John Larkinson**  
Accounting Officer  
4 June 2019

# 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 2018-19

	2018-19 £000								2017-18 £000
	Estimate				Outturn			Voted Outturn compared with Estimate: saving/ (excess)	Outturn  Total
	SoPS Note	Voted	Non- Voted	Total	Voted Voted	Non- Voted	Total		
		£000	£000	£000	£000	£000	£000	£000	£000
<b>Departmental Expenditure Limit</b>									
- Resource	1.1	3	-	3	3	-	3	-	3
- Capital	1.2	720	-	720	483	-	483	237	537
<b>Annually Managed Expenditure</b>									
- Resource	1.1	-	-	-	-	-	-	-	-
- Capital	1.2	-	-	-	-	-	-	-	-
<b>Total Budget</b>		723	-	723	486	-	486	237	540
<b>Non-Budget</b>									
- Resource	1.1	-	-	-	-	-	-	-	-
<b>Total</b>		723	-	723	486	-	486	237	540
<b>Total Resource</b>		3	-	3	3	-	3	-	3
<b>Total Capital</b>		720	-	720	483	-	483	237	537
<b>Total</b>		723	-	723	486	-	486	237	540

<b>Net cash requirement 2018-19</b>			
SoPS note	2018-19 £000 Estimate	2018-19 £000	2017-18 £000
		Outturn	Outturn
		Outturn compared with Estimate: saving/ (excess)	
3	2,000	(297)	2,297
			(433)

<b>Administration costs 2018-19</b>			
	2018-19 £000 Estimate	2018-19 £000 Outturn	2017-18 £000 Outturn
	3	3	3

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

	Outturn £000				Estimate £000	Outturn £000
	Administration					
	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	13,284	(13,283)	1	1	1	-
B Safety regulation, admin and other expenditure	15,813	(15,812)	1	1	1	-
C Other regulation, admin and other expenditure	2,297	(2,296)	1	1	1	-
<b>Total</b>	<b>31,394</b>	<b>(31,391)</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>-</b>

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

	2018-19 £000					2017-18 £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	221	-	221	720	499	243
B Safety regulation, admin and other expenditure	262	-	262	-	(262)	294
C Other regulation, admin and other expenditure	-	-	-	-	-	-
<b>Total</b>	<b>483</b>	<b>-</b>	<b>483</b>	<b>720</b>	<b>237</b>	<b>537</b>

Net capital outturn is £237k lower than the capital budget as some planned capital expenditure was deferred into 2019-20 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	3	3	-
Capital outturn	1.2	720	483	237
<b>Accruals to cash adjustments:</b>				
<i>Adjustments to remove non-cash items:</i>				
Depreciation		(961)	(713)	(248)
New provisions and adjustments to previous provisions		(40)	67	(107)
Other non-cash items		(38)	(57)	19
<b>Adjustments to reflect movements in working balances:</b>				
Increase/(decrease) in receivables		-	(1,013)	1,013
Decrease in payables		2,316	899	1,417
Use of pension provisions		-	34	(34)
		1,277	(783)	2,060
<b>Net Cash Requirement</b>		<b>2,000</b>	<b>(297)</b>	<b>2,297</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>2018-19 Receipts</i> £000	Income £000	<i>2017-18 Receipts</i> £000
Excess cash surrenderable to the Consolidated Fund	297	<i>297</i>	432	<i>432</i>
<b>Total</b>	<b>297</b>	<b><i>297</i></b>	<b>432</b>	<b><i>432</i></b>

### SOPS4.2 Consolidated Fund income

	2018-19 £000	2017-18 £000
Balance of Intergovernmental Commission levy due to be paid	46	293
Balance of DfT roads funding due to be paid	441	-
<b>Total</b>	<b>487</b>	<b>293</b>

ORR receives funding from Eurotunnel to meet the UK's share of the expenses of the Intergovernmental Commission and Safety Authority pertaining to the Channel Tunnel. This fee is calculated annually in line with a settlement agreement. ORR is allowed to cover its costs only, therefore any excess funding is paid over to the Consolidated Fund.

ORR receives a grant from DfT for funding of our highways monitoring function. Any excess funding is paid over to the Consolidated Fund.

### 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.



**John Larkinson**  
Accounting Officer  
4 June 2019



# 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 2019 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 2019 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 2019 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.

## Conclusions relating to going concern

I am required to 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 for a period of at least twelve months from the date of approval of the financial statements. 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. I have nothing to report in these respects.

## 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.
- evaluate the overall presentation, structure and content of the financial statements, 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 Accountability Report 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 Accountability Report 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.

### Gareth Davies

Comptroller and Auditor General

National Audit Office

157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

7 June 2019

# **SECTION C: FINANCIAL STATEMENTS**

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# STATEMENT OF COMPREHENSIVE NET EXPENDITURE

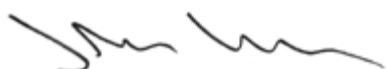
For the year ended 31 March 2019

	Note	2018-19 £000	2017-18 £000
<b>Total income</b>	<b>5 &amp; 6</b>	<b>(31,391)</b>	<b>(30,195)</b>
Staff costs	3	22,435	21,331
Other administration costs	4	8,959	8,867
<b>Total operating expenditure</b>		<b>31,394</b>	<b>30,198</b>
<b>Net operating expenditure</b>		<b>3</b>	<b>3</b>
<b>Other comprehensive net expenditure</b>			
Actuarial gain on pension scheme liabilities	14	(9)	(39)
<b>Total comprehensive net income for the year</b>		<b>(6)</b>	<b>(36)</b>

# STATEMENT OF FINANCIAL POSITION

As at 31 March 2019

	Note	2018-19 £000	2017-18 £000
<b>Non-current assets</b>			
Property, plant and equipment	7	985	1,143
Intangible assets	8	243	315
<b>Total non-current assets</b>		<b>1,228</b>	<b>1,458</b>
<b>Current assets</b>			
Trade and other receivables	9	2,729	3,696
Cash and cash equivalents	10	2,150	2,091
<b>Total current assets</b>		<b>4,879</b>	<b>5,787</b>
<b>Total assets</b>		<b>6,107</b>	<b>7,245</b>
<b>Current liabilities</b>			
Trade and other payables	12	(9,137)	(9,931)
Provisions	13	(590)	(45)
<b>Total current liabilities</b>		<b>(9,727)</b>	<b>(9,976)</b>
<b>Non-current assets less net current liabilities</b>		<b>(3,620)</b>	<b>(2,731)</b>
<b>Non-current liabilities</b>			
Provisions	13	(78)	(690)
Pension liabilities	14	(837)	(859)
<b>Total non-current liabilities</b>		<b>(915)</b>	<b>(1,549)</b>
<b>Total assets less total liabilities</b>		<b>(4,535)</b>	<b>(4,280)</b>
<b>Taxpayers' equity</b>			
General fund		(4,554)	(4,317)
Revaluation reserve		19	37
<b>Total taxpayers' equity</b>		<b>(4,535)</b>	<b>(4,280)</b>



**John Larkinson**  
Accounting Officer  
4 June 2019

# STATEMENT OF CASH FLOWS

For the year ended 31 March 2019

	Note	2018-19 £000	2017-18 £000
<b>Cash flows from operating activities</b>			
Net operating cost	2	(3)	(3)
Adjustments for non-cash transactions	4	703	959
Increase in trade and other receivables	9	967	(1,030)
Less movement in receivables relating to items not passing through statement of comprehensive net expenditure		46	292
Increase/(decrease) in trade and other receivables	12	(794)	1,416
Less movements in payables relating to items not passing through statement of comprehensive net expenditure		(297)	(536)
Use of provisions	13	-	(65)
Use of provisions - by analogy pension	14	(34)	(72)
<b>Net cash outflow from operating activities</b>		<b>588</b>	<b>961</b>
<b>Cash flows from investing activities</b>			
Property plant and equipment additions	7	(209)	(399)
Intangible non-current assets additions	8	(82)	(138)
Adjustment - non-cash	8	-	8
<b>Net cash outflow from investing activities</b>		<b>(291)</b>	<b>(529)</b>
<b>Cash flows from financing activities</b>			
From the Consolidated Fund (Supply) - current year		-	-
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>-</b>
<b>Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund</b>			
		<b>297</b>	<b>432</b>
Payments of amounts due to the Consolidated Fund		(725)	(481)
Amounts due to the Consolidated Fund - and not paid over		487	293
<b>Payments of amounts due to the Consolidated Fund</b>		<b>(238)</b>	<b>(188)</b>
<b>Net increase/(decrease) in cash and cash equivalents after adjustments for receipts and payments to the Consolidated Fund</b>			
		<b>59</b>	<b>244</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>10</b>	<b>2,091</b>	<b>1,847</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>10</b>	<b>2,150</b>	<b>2,091</b>

# STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

For the year ended 31 March 2019

	Note	General fund £000	Revaluation reserve £000	Total reserves £000
<b>Balance as at 1 April 2017</b>		<b>(4,020)</b>	<b>100</b>	<b>(3,920)</b>
Excess cash surrenderable to the Consolidated Fund	12	(432)	-	(432)
Net operating expenditure for the year	2	(3)	-	(3)
Actuarial gain relating to pension provision	14	39	-	39
Auditors remuneration	4	36	-	36
Additional depreciation charged for revaluation on assets	7	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>
Excess cash surrenderable to the Consolidated Fund	12	(297)	-	(297)
Net operating expenditure for the year	2	(3)	-	(3)
Actuarial gain relating to pension provision	14	9	-	9
Auditors remuneration	4	36	-	36
Additional depreciation charged for revaluation on assets	7	18	(18)	-
<b>Balance as at 31 March 2019</b>		<b>(4,554)</b>	<b>19</b>	<b>(4,535)</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 2018-19 'Government Financial Reporting Manual' (FRm) issued by HM Treasury. Where the FRm 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 to 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 Revenue from contracts with customers and other operating income

The FRm's definition of a contract under IFRS 15 Revenue from *Contracts with Customers* includes legislation and regulations which enable an entity to obtain revenue that is not classified as a tax by the Office of National Statistics. This definition captures the majority of ORR's income streams.

Revenue from contracts with customers relates directly to ORR's operating activities. It comprises: licence fees; concession fees (HS1); safety levies; safety related income and grant funding for highways monitoring. ORR does not have one specific performance obligation for each contract. Instead the performance obligation represents ORR carrying out its duties throughout the year. Revenue is therefore accounted for systematically over the period that the related costs are expensed.

Other operating income comprises rental income, government grant funding in respect of the apprenticeship levy and costs awarded to ORR arising from successful prosecutions, and is also accounted for systematically over the period that the related costs are expensed.

Since all rail-related costs are recovered via licence fees or the safety levy, which are invoiced based on estimated costs, any over-recovery is treated as deferred income within current liabilities, and any under-recovery is treated as accrued income within current assets. Revenue is stated net of VAT. Roads-related costs are funded by grant provided by the Department for Transport. Any unspent grant is paid over to the Consolidated Fund.

### 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 71. 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 (2017-18: two) 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 15.2, 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 cash flows are discounted using the combined rate set by HM Treasury.

The discount rate applied to provisions for past rail regulators' pension commitments is the Treasury's post-employment benefits rate.

### 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 £3,000 operating cost for the year voted by Parliament.

### 1.12 Going concern

The Statement of Financial Position at 31 March 2019 shows a negative taxpayers' equity of £4.5 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 2019-20 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 is 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 80.

### 1.14 New and amended standards and interpretations

ORR applied *IFRS 15 Revenue* from contracts with customers and *IFRS 9 Financial Instruments* for the first time. Neither standard has had an impact on our financial statements.

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

*IFRS 16 Leases* was issued in January 2016, effective for periods beginning on or after 1 January 2019. The standard will be implemented in the FReM from 1 April 2020. The new standard requires all leases with a term of 12 months or more to be recognised on the balance sheet as a 'right of use' asset and lease liability, unless the underlying asset is of low value. The financial impact of adopting the standard is still being assessed. We expect that the adoption of IFRS 16 will result in an increase in reported assets and reported liabilities. Where the underlying asset has low value, or the lease term is 12 months or less, payments will be expensed as they are made.

## 2. Statement of operating costs by operating segment

	2018-19				2017-18			
	Economic regulation £000	Safety regulation £000	Roads monitoring £000	Total £000	Economic regulation £000	Safety regulation £000	Highways monitor £000	Total £000
Gross expenditure	13,284	15,813	2,297	<b>31,394</b>	12,680	15,248	2,270	<b>30,198</b>
Gross income	13,283	15,812	2,296	<b>31,391</b>	12,679	15,247	2,269	<b>30,195</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 £4.0 million in safety levy in 2018-19 (£3.9 million in 2017-18).

**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	2018-19 Total £000	2017-18 Total £000
Wages and salaries	16,252	844	17,096	16,228
Social security costs	1,931	26	1,957	1,854
Other pension costs	3,365	17	3,382	3,249
<b>Total costs</b>	<b>21,548</b>	<b>887</b>	<b>22,435</b>	<b>21,331</b>

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

## 4. Other administration costs

	2018-19 £000	2017-18 £000
<b>Rental under operating leases:</b>		
Hire of office equipment	27	28
Other operating leases	1,068	1,039
	<b>1,095</b>	<b>1,067</b>
<b>Non-cash items:</b>		
Depreciation	559	647
Amortisation	154	219
Loss on disposal	-	29
Interest charges in respect of by analogy pension scheme	21	25
Auditors' remuneration and expenses	36	36
	<b>770</b>	<b>956</b>
<b>Provisions:</b>		
Provision for redundancy costs	(137)	3
Provision for dilapidations	70	-
	<b>(67)</b>	<b>3</b>
<b>Other:</b>		
Travel and subsistence	1,054	920
Hospitality	67	59
Consultancies	1,511	1,511
IT & telecoms	889	1,302
Landlord service charges & rates	1,162	813
Printing & stationery	206	155
Recruitment & training	781	861
Staff-related (including staff restaurant)	170	155
Building-related	232	180
External services - internal audit, payroll, banking and finance	247	248
External services - other	839	631
Other costs	3	6
	<b>7,161</b>	<b>6,841</b>
	<b>8,959</b>	<b>8,867</b>

## 5. Revenue from contracts with customers

	Note	2018-19 £000	2017-18 £000
Licence fees		13,430	13,575
Less income deferred to future year	12	(368)	(1,209)
Safety levy and related safety income		16,441	15,766
Less income deferred to future year	12	(1,187)	(1,077)
Income from roads monitoring		2,253	2,256
		<b>30,569</b>	<b>29,311</b>

All revenue from contracts with customers relates to ORR's operating activities carried out throughout the year.

## 6. Other operating income

	2018-19 £000	2017-18 £000
Other operating income	<b>822</b>	<b>884</b>

Other operating 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.

## 7. 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 2018	4,034	852	903	-	5,789
Additions	-	1	43	357	401
Disposals	-	(41)	-	-	(41)
<b>At 31 March 2019</b>	<b>4,034</b>	<b>812</b>	<b>946</b>	<b>357</b>	<b>6,149</b>
<b>Depreciation</b>					
At 1 April 2018	3,412	811	423	-	4,646
Charged in year	329	15	197	-	541
Disposals	-	(41)	-	-	(41)
Revaluations	18	-	-	-	18
<b>At 31 March 2019</b>	<b>3,759</b>	<b>785</b>	<b>620</b>	<b>-</b>	<b>5,164</b>
<b>Carrying amount at 31 March 2019</b>	<b>275</b>	<b>27</b>	<b>326</b>	<b>357</b>	<b>985</b>
<b>Carrying amount at 31 March 2018</b>	<b>622</b>	<b>41</b>	<b>480</b>	<b>-</b>	<b>1,143</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 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>

All tangible assets are owned by ORR.



## 8. Intangible assets

	System developments £000	Software licences £000	Website £000	Assets under construction £000	Total £000
<b>Cost or valuation</b>					
At 1 April 2018	1,805	448	231	-	2,484
Additions	24	-	-	58	82
Disposals	(120)	-	-	-	(120)
<b>At 31 March 2019</b>	<b>1,709</b>	<b>448</b>	<b>231</b>	<b>58</b>	<b>2,446</b>
<b>Amortisation</b>					
At 1 April 2018	1,639	390	140	-	2,169
Charged in year	49	47	58	-	154
Disposals	(120)	-	-	-	(120)
<b>At 31 March 2019</b>	<b>1,568</b>	<b>437</b>	<b>198</b>	<b>-</b>	<b>2,203</b>
<b>Carrying amount at 31 March 2019</b>	<b>141</b>	<b>11</b>	<b>33</b>	<b>58</b>	<b>243</b>
<b>Carrying amount at 31 March 2018</b>	<b>166</b>	<b>58</b>	<b>91</b>	<b>-</b>	<b>315</b>

	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>

## 9. Trade receivables and other current assets

	31 March 2019 £000	31 March 2018 £000
<b>Amounts falling due within one year</b>		
Trade receivables	2,012	2,841
Other receivables	79	-
Staff receivables	77	66
Prepayments and accrued income	438	614
HM Revenue and Customs (VAT)	123	175
<b>Total trade receivables and other current assets at 31 March</b>	<b>2,729</b>	<b>3,696</b>

Included in staff receivables are travel season ticket loans for 39 employees totalling £70,971 (2017-18: £62,749 for 41 employees) and £6,535 relating to other advances made to 17 employees (2017-18: £4,048 to 21 employees).

## 10. Cash and cash equivalents

	2018-19 £000	2017-18 £000
Balance at 1 April	2,091	1,847
Net change in cash balances	59	244
<b>Balance at 31 March</b>	<b>2,150</b>	<b>2,091</b>

The following balances at 31 March were held at:

Government Banking Service	2,107	2,089
Commercial banks and cash in hand	43	2
<b>Balance at 31 March</b>	<b>2,150</b>	<b>2,091</b>

## 11. Reconciliation of liabilities arising from financing activities

	1 April 2018 £000	Financing cash flows £000	31 March 2019 £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>

## 12. Trade payables and other current liabilities

	31 March 2019 £000	31 March 2018 £000
<b>Amounts falling due within one year</b>		
Other taxation and social security	8	7
Trade payables	513	675
Other payables	2,480	2,726
Accruals	2,431	2,146
Deferred income	1,555	2,286
Balance of Intergovernmental Commission levy payable to the Consolidated Fund	46	293
Balance of DfT roads funding payable to the Consolidated Fund	441	-
Excess cash surrenderable to the Consolidated Fund	297	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>9,137</b>	<b>9,931</b>

There were no amounts falling due after more than one year as at 31 March 2019 (31 March 2018: none).

## 13. 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. The 'other' provision is for a potential VAT liability (£45k) and for stamp duty payable on the new London office lease (£70k).

	Accommodation £000	Other £000	Total £000	2017-18 £000
Balances at 1 April 2018	690	45	735	798
Provided for in year	1	70	71	21
Provisions no longer required	(121)	-	(121)	-
Provisions utilised in the year	-	-	-	(65)
Borrowing costs (unwinding of discounts)	(17)	-	(17)	(19)
<b>Balance at 31 March 2019</b>	<b>553</b>	<b>115</b>	<b>668</b>	<b>735</b>

### Analysis of expected timing of discounted flows

	Accommodation £000	Other £000	Total £000	2017-18 Total £000
Not later than one year	475	115	<b>590</b>	45
Later than one year and not later than five years	78	-	<b>78</b>	690
Later than five years	-	-	-	-
<b>Balance at 31 March 2019</b>	<b>553</b>	<b>115</b>	<b>668</b>	<b>735</b>

## 14. Pension liabilities

### Details for by-analogy defined benefit pension schemes

	As at 31 March 2019 £000	As at 31 March 2018 £000
Liability in respect of:		
Active members	-	-
Deferred pensioners	-	-
Current pensioners	837	859
<b>Total present value of scheme liabilities</b>	<b>837</b>	<b>859</b>

	As at 31 March 2019 £000	As at 31 March 2018 £000
<b>Liability calculation</b>		
Present value of scheme at 1 April	859	945
Current service cost (net of employee contributions)	-	-
Employee contributions	-	-
Interest cost	21	25
Actuarial (gain)/loss	(9)	(39)
Benefits paid	(34)	(72)
Past service cost	-	-
<b>Balance at 31 March</b>	<b>837</b>	<b>859</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 2019. 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 2019 % per annum	At 31 March 2018 % per annum
Discount rate	2.90%	2.55%
Rate of increase of pensions in payment	2.60%	2.45%
CPI inflation	2.60%	2.45%

## Life expectancy at retirement

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

There were no future pensioners in the scheme at 31 March 2018 or 2019.

Current Pensioners	As at 31 March 2019		As at 31 March 2018	
	Men (years)	Women (years)	Men (years)	Women (years)
Exact Age				
60	27.6	29.3	27.5	29.2
65	22.7	24.3	22.6	24.2

## Cumulative amount of actuarial gains and losses

The cumulative actuarial loss for the year to 31 March 2019 amounts to £370,000 (31 March 2018: £379,000).

## Present value of scheme liabilities

	Value at 31/03/19 £000	Value at 31/03/18 £000	Value at 31/03/17 £000	Value at 31/03/16 £000	Value at 31/03/15 £000
Liability in respect of:					
Deferred pensioners	-	-	593	483	244
Current pensioners	837	859	352	310	329
<b>Total present value of scheme liabilities</b>	<b>837</b>	<b>859</b>	<b>945</b>	<b>793</b>	<b>573</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%
Rate of increase in CPI	+0.5% a year	8%
Life expectancy: each pensioner member assumed one year younger than their actual age		2%
		(63)
		64
		20

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

## 15. Financial and capital commitments

### 15.1 Capital commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	31 March 2019 £000	31 March 2018 £000
Property, plant and equipment	3,751	-

Capital commitments are for construction costs, IT and professional fees associated with the fit out of our new London office.

### 15.2 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 2019 £000	31 March 2018 £000
<b>Obligations under operating leases comprise:</b>		
<b>Buildings</b>		
Not later than one year	958	1,279
Later than one year and not later than five years	433	1,279
Later than five years	93	159
	<b>1,484</b>	<b>2,716</b>
<b>Other</b>		
Not later than one year	4	2
	<b>4</b>	<b>2</b>

### 15.3 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 2019 (31 March 2018: £nil).

## 16. 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 9) and current liabilities (Note 12) approximate to their fair value due to their short term nature.

## 17. Contingent liabilities disclosed under IAS 37

There were no contingent liabilities as at 31 March 2018 or 2019.

## 18. 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.

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

## 19. Events after the reporting period

On 16 May 2019 ORR signed a 10-year lease agreement for premises at 25 Cabot Square, London. Total rentals payable over the term of the lease amount to £7.1m.

The Accounting Officer authorised the issue of these financial statements on the date of the Comptroller and Auditor General's audit certificate. The financial statements do not reflect events after this date.



## ANNEX A

### Off-payroll engagements

**Table 1: For all off-payroll engagements as of 31 March 2019, 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 2018 and 31 March 2019, for more than £245 per day and that last for longer than six months**

<b>Number of new engagements, or those that reached six months in duration, between 1 April 2018 and 31 March 2019</b>	<b>0</b>
Of which:	0
Number assessed as caught by IR35	0
Number assessed as not caught by IR35	
Number engaged directly (via PSC contracted to department) and are on departmental payroll	0
Number of engagements reassessed for consistency/assurance purposes during the year	0
Number of engagements that saw a change to IR35 status following the consistency review	0

**Table 3: For any off-payroll engagements of Board members, and/or, senior officials with significant financial responsibility, between 1 April 2018 and 31 March 2019**

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	8

## ANNEX B

### Trade Union facility time publication requirements

**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	£6,691
Total pay bill	£21,840,443
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	25%
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