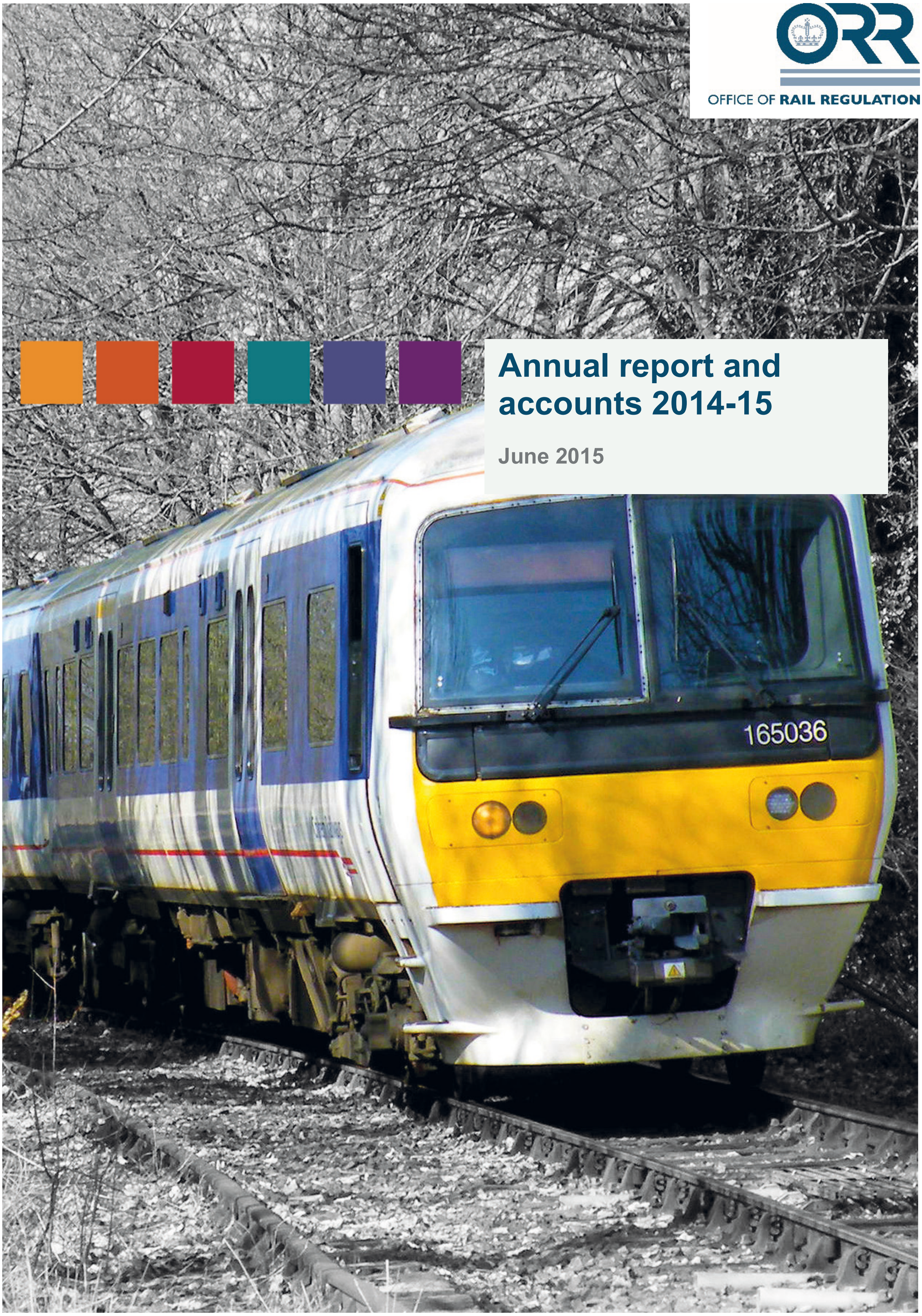
OFFICE OF RAIL REGULATION

Annual report and accounts 2014-15

June 2015



Office of Rail Regulation

Annual report and accounts 2014-15

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Contents

Front cover image: 165036 at signal ME 174, awaiting departure from the Thame branch siding, Princes Risborough, 5 March 2013. By R-P-M, Flickr. The image has been cropped and modified with a black and white treatment.

Foreword

We have come to the end of an important year for the Office of Rail Regulation (ORR). This has been a year of challenges and change: challenge in holding Network Rail to account for performance, delivery and efficiency; and change because ORR has been preparing to take on two major new functions – monitoring the strategic road network and the regulation of the UK end of the Channel Tunnel.

The year began with overseeing the start of a £38 billion enhancements, renewals and maintenance programme for the railways and ended with ORR taking on new functions as the joint economic regulator for the Channel Tunnel and the monitor for the strategic road network in England, also reflected in our new operating name of the Office of Rail and Road (ORR). Both of these are welcome developments and recognition of the depth and quality of the regulatory expertise we have to offer.

We are proud of ORR's contribution to an improving railway safety record. Over 80% of our stakeholders believe we are an effective health and safety regulator. Our inspectors have played a big part in making Britain's railways one of the safest in Europe. However, they would be the first to counsel caution as this can quickly change. The emerging risks from the rapid growth in passenger numbers and ambitious enhancements programme need close and continuous attention. Overall we have put the experience of rail users at the heart of the way we regulate, and are determined to build on the progress made this year to ensure that the needs and expectations of rail users are well understood and are centre stage in the development of our railways. Similarly we are putting road users at the heart of the way we develop our role in monitoring England's strategic road network.

In April 2014, Network Rail embarked on a significant programme to deliver plans for a safer, higher performing and more efficient railway between 2014 and 2019. Network Rail accepted the stretching targets in the programme. At the end of year 1 of the programme, Network Rail has made good progress in reducing safety risk by implementing new technology and better systems, and has delivered good performance for the freight sector. However, it has delivered less work than it planned to do, in both maintaining and renewing the network. Network Rail has also fallen short of many day-to-day performance measures and faced challenges on its enhancement programme.

ORR wants to see a railway that is run in the interests of its customers, both passengers and freight. Passengers meet over 60% of the annual running costs of UK railways and rightly expect value for money and good service. This year, we have agreed a code of practice on providing ticket purchasing information for customers and been instrumental in an industry action plan for providing better information during service disruptions. ORR has set up a freight customer panel in addition to its consumer panel. We continued to work with the rail industry and passenger groups to provide richer more accessible data by exploring new technologies and using social media and information graphics. We are agreeing standards for more effective passenger complaints handling, and improving services for disabled people.

We have worked with our European partners to influence EU policy proposals towards open markets, competition and inter-operability across the Continent in a way that is beneficial for the UK. Our health and safety model has been adopted by the European rail agency overseeing safety and our model for joint teams with the French regulator on Channel Tunnel regulation is the first of its kind in Europe.

The skills, capability and engagement of our people are fundamental to the effectiveness of our regulation. The annual benchmarking study across the civil service shows that we have made substantial and sustained improvements in a number of areas. We recorded the highest score in the civil service for commitment to our work and got close to our target of being in the top 25% for engagement. We are fortunate to have such dedicated colleagues and we are confident that we can meet our challenges and continue to develop and deliver excellence in regulation for the benefit of the UK economy and public.

This document gives a flavour of what our progress as a regulator means for a better railway and road network, in the interests of their users and taxpayers; and how we have gone about it. We are in a good position to address the changes and challenges we anticipate for 2015-16 and beyond.

Anna Walker
Chair

Richard Price
Chief Executive and Accounting Officer

Five strategic objectives in 2014-15

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

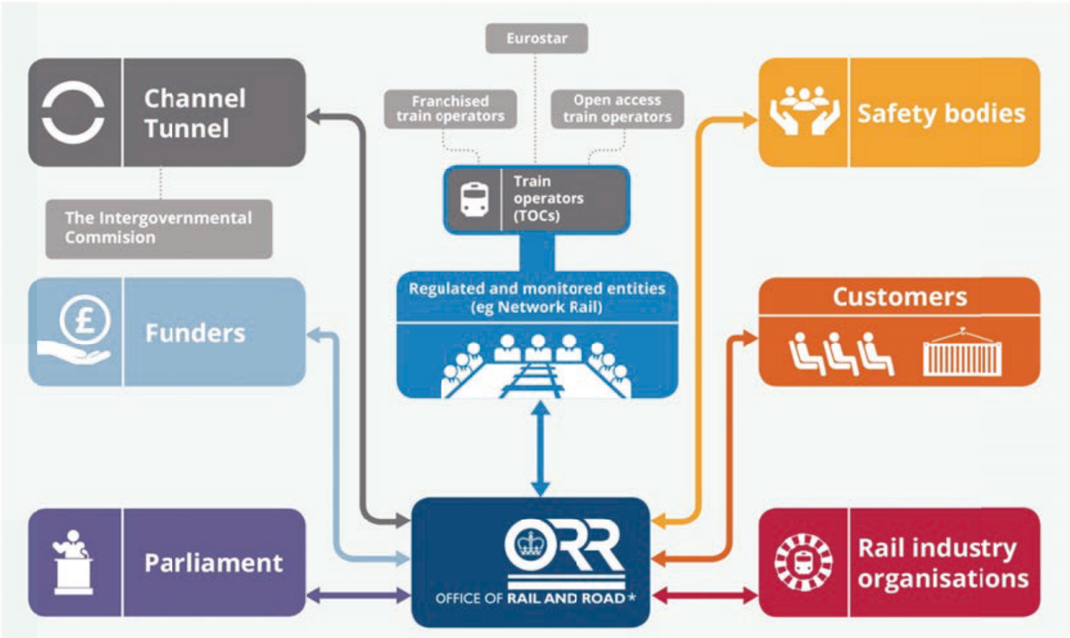
2. Support a better service for customers: Use our powers to hold the industry to account for performance and standards of service across the railway network, for passenger and freight. Promote on-going improvement in the experience of passengers by encouraging the industry to work together, including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

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

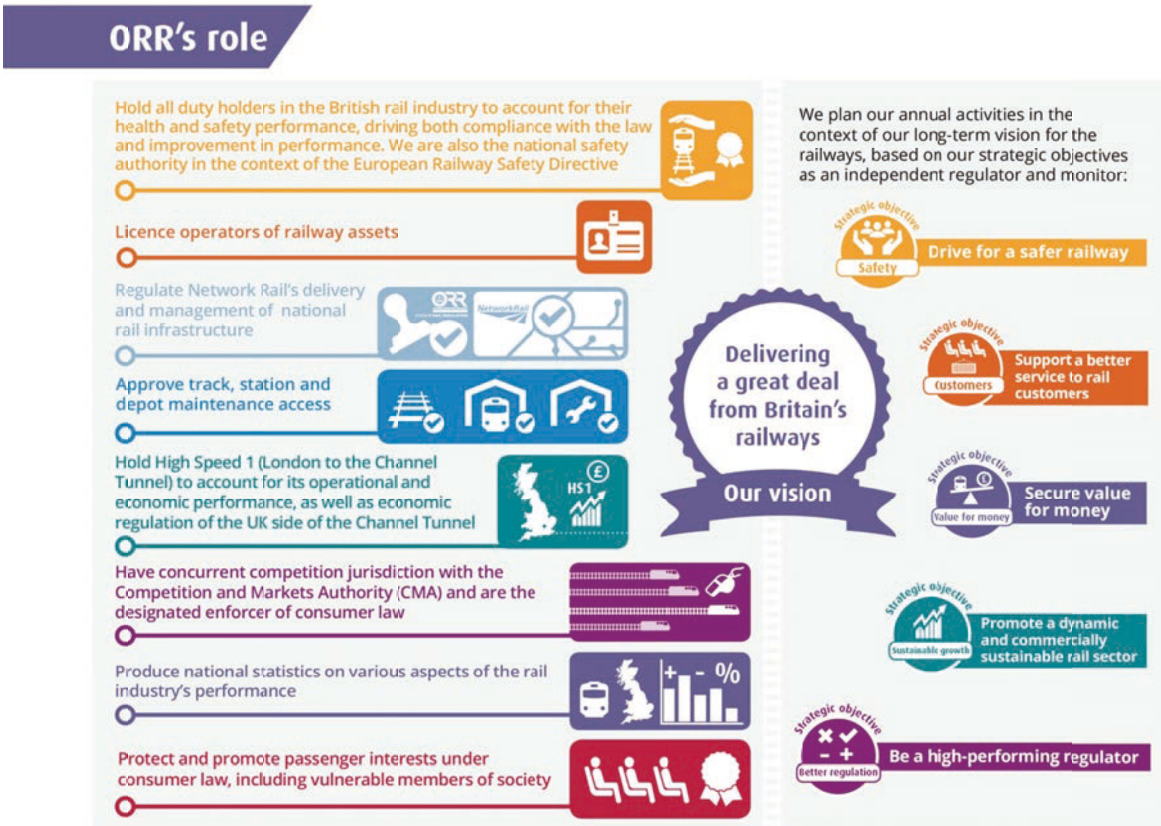
4. Promote an increasingly dynamic and commercially sustainable sector: Support sustainable economic growth by promoting innovation and efficient long-term investment across the rail industry through the appropriate development of effective markets and regulatory intervention.

5. Be a high-performing regulator: Develop and apply proportionate and risk-based regulation, taking a whole-sector approach. Make more effective use of our resources across safety and economic functions, maximise the value of our regulation while minimising the costs of compliance for the industry.

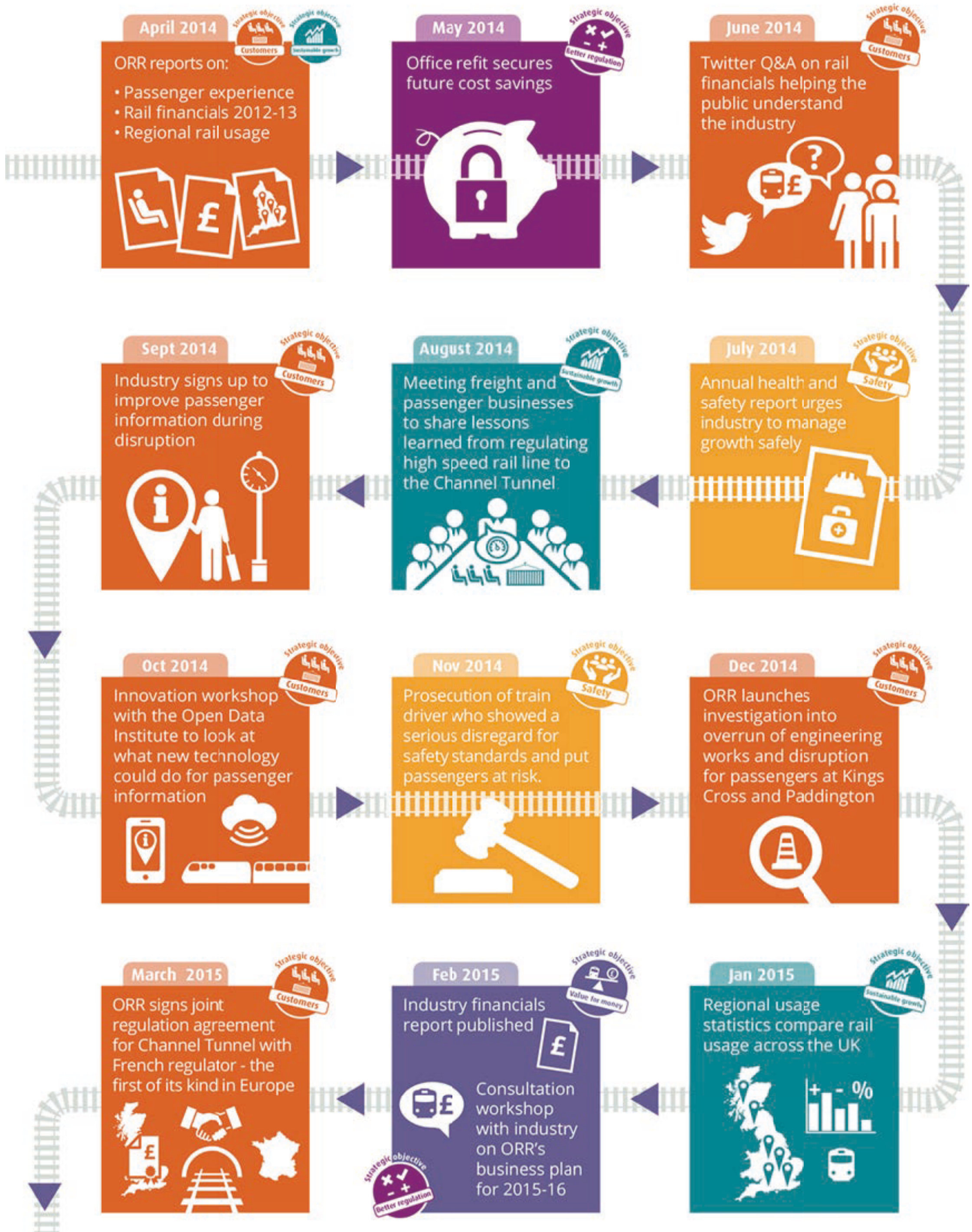
An overview of the British rail industry



* ORR will use the name Office of Rail and Road for operating purposes with effect from 1 April 2015. Legal force is expected to be given to this name from 1 October 2015.



2014-15 highlights



Strategic objective 1: Drive for a safer railway

ORR is the health and safety regulator for all of Britain's rail industry. In our annual health and safety report for 2013-14, published in July 2014, we recognise that Britain's mainline railway continues to rank among the safest in Europe, particularly as passenger numbers continue to rise: up 6.7% to 429.8 million passenger journeys in Q3 2014-15 compared to Q3 2013-14. Our work this year shows that there needs to be improvement in the management of safety by companies to both sustain this position and reduce the number of adverse events. We will therefore continue to press the rail industry to achieve this and to meet the challenge of the anticipated continued growth in use of the railways.

While there were no train accident-caused passenger fatalities in 2014-15, and no passenger train derailments for the second year running, past performance is not necessarily a good indicator of future performance. ORR and the industry cannot become complacent, especially in a low frequency and high consequence sector such as railways. Over recent years serious train accidents in Britain have become much less frequent – the last incident involving a fatality to a passenger was at Grayrigg in 2007. The risk of passengers coming to harm on the rail network due to accidents were reduced further (by 12.8%) between the end of February 2014 and February 2015. However, as we saw in the tragic railway incidents across Europe and Canada in the summer of 2013, their consequences are extremely serious. Regrettably there were ten fatalities at level crossings, and four workforce fatalities in 2014-15. This indicates that management of safety risks can and must improve further in order to achieve our health and safety vision of zero workforce and industry-caused passenger fatalities, with an ever-decreasing overall safety risk. We cannot lower our guard.

In 2012 we published our strategy for regulation of health and safety risk. Since publication we have adopted a rolling programme of review and identified the need to add additional key areas of risk. In 2014-15 we revised and republished the following chapters:

- Management of change
- Infrastructure asset safety
- Workforce safety programme
- Occupational health

We have also published a new chapter on evolution of train control, and updated our risk scoring prioritisation. We continue to review our strategy to ensure it identifies and reflects emerging issues and what the industry is doing to address these. We can then adjust our regulatory approach to ensure that health and safety issues are addressed effectively and so far as is reasonably practicable.

Our inspectors have spent over half (53.8%) of their time carrying out proactive inspections targeted in line with our strategy on areas the industry needs to manage well. The amount of proactive inspection was temporarily reduced to deal with the submission of a larger number of level crossing order applications than anticipated, but we believe these will deliver medium to longer-term risk reduction benefits at the level crossings involved.

As well as our formal enforcement role in checking the industry is managing safety, we have also dealt with improvements recommended by inquiries into events by the Rail Accident Investigation Branch (RAIB) where harm resulted. In 2014-15, we received 22 RAIB reports containing 82 recommendations, and reported to RAIB on 158 recommendations: 44 implemented; 61 implementation ongoing; 52 in progress; none not implemented; and one for another public body.

In 2014-15, we have also:

- Launched our second occupational health programme, 'Making It Happen';
- Published position papers on musculoskeletal disorders, hand-arm vibration syndrome, asbestos risks and stress management;
- Supported the first national rail conference on occupational health;
- Dealt with 1,826 train driver licence applications and issued 1,574 licences;
- Authorised 104 level crossing orders, 18 variations, 1 direction, 6 Christmas directions, 3 traffic signs authorisations and 1 revocation;
- Introduced a comprehensive business management system that includes all our processes for excellent health and safety regulation, and clearly identifies a process owner and when each process should be reviewed;
- Published our health and safety regulatory strategy;
- Continued to use our Rail Management Maturity Model (RM3) to evaluate the health and safety management capability of companies in the industry and to press for improvements based on that evidence; and
- Supported the Red Tape Challenge by developing and consulting on simplified and improved railway safety regulations.

ORR uses a range of formal tools to address shortcomings in the management and control of health and safety risks. These include issuing 27 formal enforcement notices and, where appropriate, the prosecution of duty holders in the courts to ensure compliance with the law. Over the past year we successfully concluded four prosecutions over a variety of health and safety failures. These included workforce safety and a signal passed at danger. We also issued ten enforcement notices to stop an activity likely to pose a serious personal risk. As prevention is always better than addressing issues after an incident has occurred, we also issued 17 improvement notices where we identified weaknesses in health and safety controls.

We will publish our full annual health and safety assessment of Britain's railways for 2014-15 in July 2015. This will set out ORR's view of the most critical risks on the railway, the areas where the industry is doing well, and key areas that it must focus on to improve safety on Britain's railways further.

Closing the gap

Strategic objective Safety

Passengers face the biggest risk of injury or fatality when travelling by rail when they get on and off the train or get too close to the platform edge – the 'platform train interface' or PTI.

Reducing PTI risk had always been approached separately by operators and infrastructure owners. In 2013, ORR worked closely with the industry, bringing together operators and infrastructure owners to develop a strategy to cope with the pressures of growing passenger numbers and trains.

The PTI strategy launched in January 2015 begins by analysing all the accident data and drawing conclusions on the highest risk areas. Amongst other things it considers human behaviour; the design of platforms and trains – including accessibility; performance and efficiency; and crowd management through stations.

It provides an industry action plan for the key areas for improvement such as the optimum design for trains and platforms; agreed standards for train dispatch and station staff training; and promoting safe passenger behaviour with publicity and signage. Sharing what is done well in these and other areas is already making improvements.

ORR recognises that with a varied railway estate the optimum will not always be possible But through real collaboration and commitment the strategy has set the foundations to make things better.

Strategic objective 2: Supporting a better service for customers

During 2014-15 we continued with work that was initiated during the period of our last annual report to improve rail passenger outcomes.

Passengers are increasingly the main funder of the railways, and must be central to developing its plans for the future. They have contributed an increasing proportion of the rail industry's annual income relative to taxpayers over the past four years – up from 55.6% in 2010-11 to 61.5% in 2013-14. ORR is therefore working to put passengers at the heart of the railways – working with the industry to:

- Ensure passenger groups have a greater say in plans and delivery of new enhancements to the rail network;
- Review the quality of information provided to passengers during the recent disruptions; and
- Establish a code of practice on rail ticket selling.

Having taken on responsibility for operators' licence obligations relating to complaints handling procedures (CHPs) and disabled people's protection policies (DPPPs) in 2013, we continued to develop and set out our approach. We published regulatory statements on both areas in July 2014 and continue to engage with stakeholders in establishing arrangements. We have published a consultation on revising the current guidance on CHPs and will continue discussions with individual operators on reviewing DPPPs.

Our consumer panel, which brings together a range of academic, advocacy, consumer research and commercial expertise to give added insight to our policy work, met four times during the year. In March 2015 we also held the first meeting of our freight consumer panel.

We also continued with our work overseeing the development of a code of practice on retail information and with our retail review; two projects that came out of the Department for Transport's October 2013 report on fares and ticketing.

On the code of practice, we commissioned research to help understand what information is important to passengers and how its presentation impacts on their decisions. This informed the draft principles on which we consulted in September 2014. The code, which was published by the Rail Delivery Group in March 2015, provides clarity for retailers on their obligations and how they can meet these to ensure that passengers have the information they need when choosing, buying and using rail tickets.

ORR launched an investigation after more than 115,000 passengers were affected by overrunning engineering works when travelling into or out of King's Cross and Paddington stations between 27 and 28 December 2014. ORR's investigation was aimed at learning lessons with a view to preventing similar disruption happening again. It was informed by direct feedback from passengers, evidence from Passenger Focus, London TravelWatch, Network Rail, and all of the affected train operators.

We found that Network Rail had delivered more than 98% of the complex engineering works planned for the Christmas and New Year period on time. However, our detailed analysis showed that there were significant weaknesses in the planning and oversight of the King's Cross and Paddington works, and how communication was managed when overruns occurred. The plans failed to put the impact on passengers at the centre of decision making, and this meant the service passengers received during the course of disruption led to widespread confusion, frustration, discomfort and anxiety.

ORR is pressing Network Rail to work with train operators and develop clear contingency plans which help passengers if works overrun. Network Rail needs to continue undertaking large-scale engineering projects in order to renew and enhance Britain's railways. The effective planning, management and communication of this work is essential to the delivery of a safe and reliable railway. We carried out a pre-possession review on behalf of the Secretary of State for the Easter 2015 works, to ensure that our recommendations from the Christmas over-run investigation were being embedded.

Looking across all ORR's passenger facing responsibilities, including CHPs, DPPPs, PIDD (passenger information during disruption) and consumer law, we began to focus on the development of a compliance monitoring framework, writing to all operators in January 2015 and holding a workshop in February 2015, on our plans to establish a core data set for CHPs and DPPPs. As we move into the next financial year we will continue to progress this work and develop our compliance framework more generally across these important passenger-facing obligations, and will work closely with stakeholders in doing so.

Putting passengers first

In early 2015 ORR welcomed a major step forward in industry efforts to improve information for passengers when train services are disrupted. The Rail Delivery Group agreed 40 actions for train operators and Network Rail to implement following an ORR commissioned report by Passenger Focus in 2014. The importance of this to passengers was highlighted once again by ORR's investigation into Christmas engineering work overruns. The Association of Train Operating Companies (ATOC) told the investigation that, if implemented, 16 actions would have had a positive effect on the passenger experience during the incidents on 27 December 2014.

Train operators signed up to an industry code of practice for passenger information during disruption (PIDD) when ORR introduced the licence condition in 2012. In 2014, ORR-commissioned research by Passenger Focus concluded this had not resulted in sufficient improvement and was not meeting passenger expectations in a mobile communication age. ATOC accepted the recommendations from the report and in Autumn 2014 developed an industry action plan. In January 2015 it was signed off on behalf of the industry by the Rail Delivery Group and is now being implemented. This requires all train operating companies (TOCs) to incorporate the actions into their local plans which should then be published.

The company running London overground services (LOROL) is the first to do so[1].

All TOC plans will need to follow LOROL's lead in setting out the actions in ATOC's list and how and when these will be put in place locally. According to ATOC's timetable, TOCs should complete around three quarters of the actions by the end of 2015. Once these are in place it will mean a significant improvement in the quality of information available to passengers when services are disrupted.

[1] See http://www.lorol.co.uk/go/travel/passenger-information

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

Holding Network Rail to account for performance

The first year of the new control period 2014-15 to 2018-19 (CP5) has proven a challenging one. The overall picture of Network Rail's performance is that it did not meet the targets it was funded to deliver during the year. Network Rail did achieve notable successes: delivering significant enhancements to the network (notwithstanding poor handling of passengers over Christmas), improving freight sector performance and putting in place the foundations for improved health and safety.

Health and safety

The plan to improve management of health and safety risk is well thought through. Network Rail has implemented deep dives, corporate health and safety audits, and analysis of risks and control measures to provide a robust understanding of the effectiveness of their controls. A major change to risk control is underway through the business critical rules and planning and delivery of safe work programmes. Similarly, the management of risk at level crossings continues to improve. We also noted good progress on occupational health with the appointment of specialists to each route, improved data collection and management, and the initial implementation of the strategy on occupational health. However, this improving framework now needs to translate to consistent control of risks like ballast dust, asbestos and hand-arm vibration out on the network.

Asset management

We saw weaknesses in asset management which have led to formal safety enforcement on drainage, track quality and vegetation. This has not been helped by missing maintenance and renewals targets. As well as under delivery of both maintenance and renewals volumes, Network Rail admitted that it did not have sufficiently reliable data to monitor progress on asset management improvement. Richard Price wrote to Network Rail to highlight poor quality asset and management data generally.

Train performance

There were some positive performances in 2014-15 on specific routes, notably London North East. Performance for the freight sector was also above the target set in the CP5 final determination. However, punctuality as measured by the public performance measure (PPM) moving annual average (MAA) for England and Wales at the end of 2014-15 was 89.6%, 1.4 percentage points (pp) below target. Reliability as measured by cancellations and significant lateness (CaSL) was 2.9%, 0.5 pp above (i.e. worse than) target.

We were expecting performance shortfalls since Network Rail had already admitted it was unable to meet all performance targets for the first two years of CP5 as a direct consequence of where it finally exited CP4. It developed its CP5 performance plan to close this gap by the end of the control period. So far delivery of the milestones in the plan has been broadly met.

We are continuing to hold Network Rail to account for the commitments agreed with operators in the performance strategies which it agrees with each train operating company. Taken together these commitments add up to the trajectory in the performance plan. In the CP5 determination we set a threshold of 2.0pp for PPM and 0.2pp for CaSL. Provisional data indicates that some operators exceeded these thresholds. ORR is investigating whether any licence agreement breaches have occurred.

Investing in the railway

Despite the considerable challenges and difficulties in delivering major enhancements on one of the world's busiest networks, Network Rail has delivered schemes to bring tangible benefits to customers and passengers. These include:

- Upgrades to Reading and Edinburgh Haymarket stations
- Power supply upgrades and works to facilitate longer trains in Wessex
- Electrification projects in the North West of England and Scotland
- Capacity improvements on East Coast and Barry to Cardiff lines

However, there were shortcomings with the delivery of the enhancements programme. More than a third of completion outputs and regulated project developments were missed. Slippage in the project development programme contributed to delays in Network Rail's ECAM (enhancements cost adjustment mechanism) submission plan. There was also a general trend towards cost escalation. Network Rail put in place an improvement plan to address these issues but it had not had significant impact by year end.

Customer satisfaction

The National Rail Passenger Survey published in January 2015 showed that nationally the percentage of passengers satisfied with their journey overall was 81%. This is down two percentage points – a statistically significant decline – on a year ago. The proportion of passengers satisfied with punctuality/reliability and provision of information during the journey showed similar falls. Satisfaction amongst Network Rail's customers (the TOCs and FOCs) decreased from 58% in 2013 to 40% in the 2014 survey.

More positively, as far as the freight customers are concerned, satisfaction with Network Rail improved from 47% in the previous survey to 52%.

Economic performance

Britain's railway is funded each year by around £9 billion from fare-payers and £4 billion from Governments. ORR works to ensure that this money is spent as efficiently as possible and delivers the best value for money. We improve the efficiency of Britain's railways by setting and overseeing Network Rail's funding, closely monitoring investment projects and encouraging better ways of working.

In 2014-15 ORR scrutinised Network Rail's economic and financial performance for 2013-14, the final year of control period 4 (CP4). We examined the amount of money that Network Rail spent in CP4 and what it provided in return for the funds that it received from train operators and Governments. Our analysis showed that Network Rail implemented a number of initiatives – such as rationalising its signalling and control centres and reduced use of sub-contractors – to improve its operating, maintenance and renewals expenditure. However, the company did not make the level of efficiency gains that we thought were achievable and also fell short of its wider regulatory requirements in a number of areas such as train performance.

For the five year period 2014-15 to 2018-19 we have required Network Rail to bring down its cost of running the network by around a further 20%. In 2014-15 the company has found this challenging but we and Network Rail are working on how it can best deliver efficiency initiatives such as the implementation of new technologies, better management of the railways, and more efficient ways of working in the future.

High Speed 1 (HS1)

This year we concluded ORR's periodic review of High Speed 1 ('PR14'), the first such review of the London-Channel Tunnel route. This assessed the regulatory framework on the HS1 network, HS1 Ltd's approach to asset management, its operating costs, and track access charges for both passenger and freight operators.

In our approval document published in May 2014 we approved a reduction in regulated access charges to run passenger services by more than 10%, and a reduction of over 30% in regulated freight charges. These reduced charges came into effect at the start of HS1's second control period on 1 April 2015, and will last for five years.

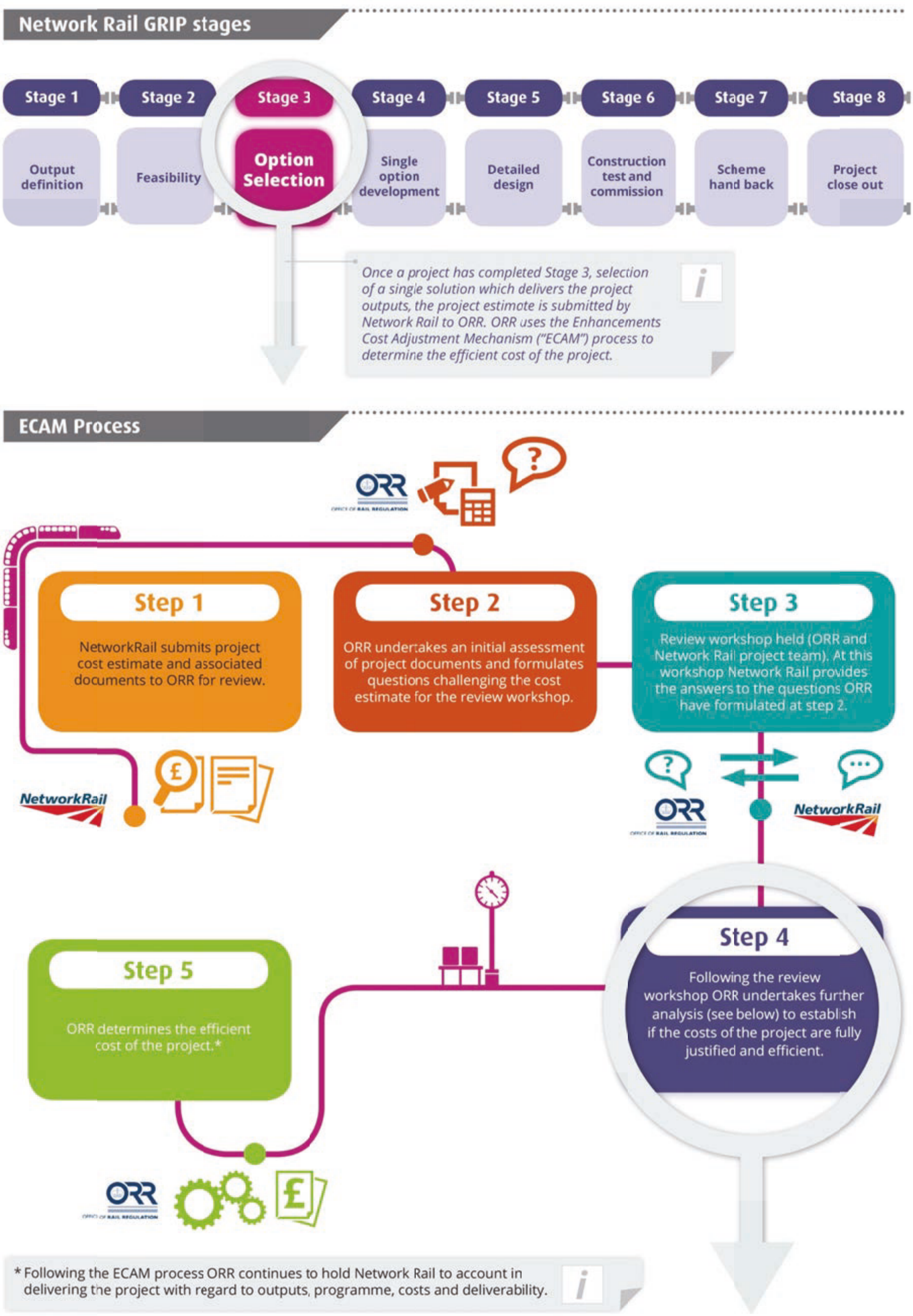
PR14 was novel in many ways, and not just because it was the first such review of HS1. The HS1 network comprises modern, high-speed infrastructure, and HS1 Ltd is a fully private infrastructure manager which receives no direct public subsidy. Further, the network is largely self-contained and has a limited number of customers. As such, our review of HS1 through PR14 is very different from our reviews of the classic Network Rail network. Following a number of robust discussions with HS1 Ltd, Network Rail (High Speed) Ltd, who carry out the operation and maintenance of the HS1 network, all of HS1 Ltd's customers and other stakeholders, we were able to approve HS1 Ltd's Five Year Asset Management Statement with only minor amendments.

Channel Tunnel regulation

ORR and the French rail regulator ARAF signed an agreement in March 2015 to work together to promote fair competition, full transparency and non-discriminatory access to the Channel Tunnel. ORR will take new responsibilities for regulating the UK half of the Channel Tunnel later in 2015. At the same time ARAF will become responsible for the French part of the link.

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

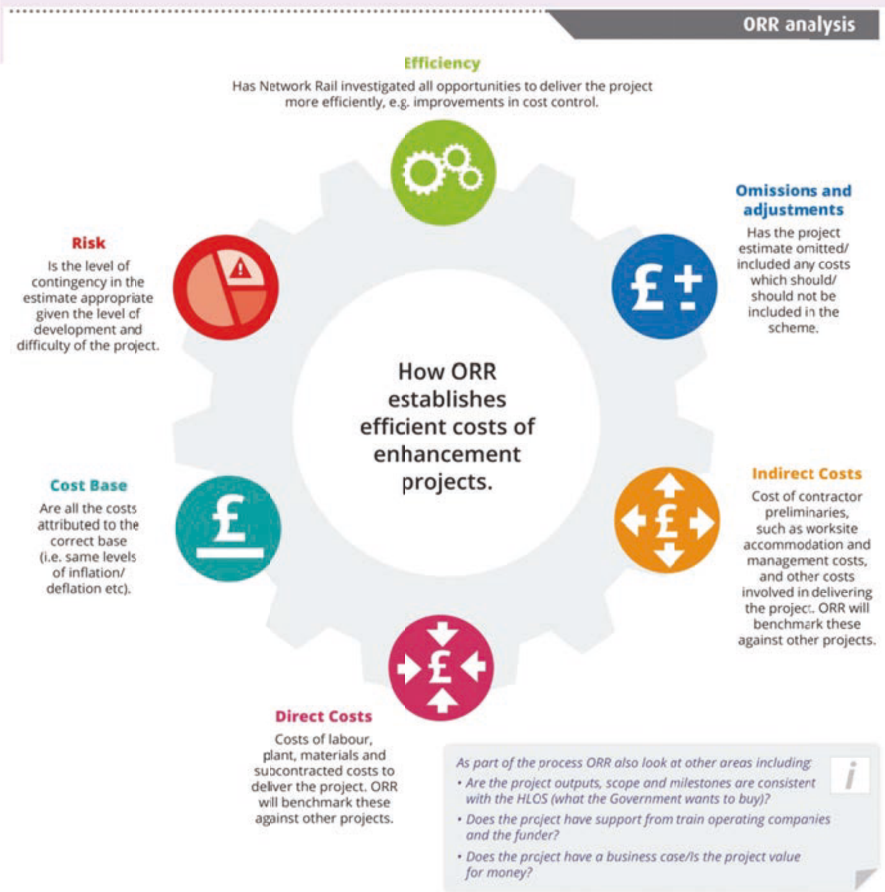
Establishing efficient costs of enhancement projects between 2014 and 2019



Establishing efficient costs of enhancements

It is ORR's job to make sure that Network Rail adds project costs to its asset base that are efficient, so that future grants from Governments and access charges from train operators are good value. A key to this is incentivising the company to continuously look for ways to eliminate unnecessary costs as projects are developed and delivered. We normally set this framework at a periodic review but this time around (PR13) many projects were at such an early stage of development we felt there was too much risk to taxpayers and customers; therefore we established the enhancements cost adjustment mechanism (ECAM).

This year we have assessed 13 projects and concluded £2,911m worth of CP5 costs, reducing Network Rail's estimates by £251m. Funding railway projects is complex and people are understandably confused about the industry's processes. We have set up a dedicated webpage http://goo.gl/fJU6Da to ECAM where we publish latest developments. The focus for the year ahead is to complete ECAM for the portfolio of CP5 projects so that Network Rail can push on and deliver the efficiency challenge that was set.



Scotland

Performance in Scotland started the year in a relatively strong position, with PPM MAA exceeding the levels specified in the ScotRail Performance Strategy during the first four periods. Whilst the Commonwealth Games caused a notable performance dip in period 5, we recognised that both Network Rail and ScotRail acted pragmatically during this time to ensure the successful movement of passengers. Performance was recovered well enough by the end of quarter 2 for Scotland's PPM MAA to be 0.1pp short of target. The latter half of 2014-15 however, saw a steady performance decline and by the end of period 13, PPM MAA in Scotland was 1.5pp below its regulatory performance target of 92%.

Enhancements

The Edinburgh to Glasgow Improvement Programme is making progress largely to schedule, with a cost of work done to date of £286m and all advanced route clearance works now complete. The project delivering the redevelopment of Buchanan Galleries has been given priority access to the Queen Street site, creating a key dependency for the NR project and leading to some increased programme risk. The possible cost implications are under review.

Borders Railway is due to commission in June with the first services running in September 2015. The project is currently on target to come in on time and to budget and is seen as a good success story for the industry with a relatively high media profile.

Following the decision to run high speed trains (HSTs) on the Aberdeen to Inverness route a timetabling exercise was undertaken in order to establish the infrastructure interventions required to deliver the capacity and journey time improvements. This process has now been completed with the desired outcomes and a scope of works agreed. Preliminaries and design work are currently underway, with the project being phased to complete the works at the west end of the line initially and the more complex east end second.

Highland Mainline underwent a similar timetabling exercise to determine the impact of HSTs on journey times. The results have been less conclusive and further planning work is currently underway to try and achieve the stated aim of a ten minute improvement. Discussions are also currently underway to explore synergies between the rail project and the A9 road dualling project that occupies a number of sites close to the railway.

Safety

During 2014-15 safety indicators in the Network Rail Scotland route showed improvement in some key areas. Compared to 2013-14 there were fewer near misses between trains and vehicles at level crossings, and fewer near misses with pedestrians. There were also fewer infrastructure wrong side failures and there was less route crime.

Following an ORR enforcement action in 2014, there has been a steady improvement in track quality, with an overall reducing trend in immediate action track geometry faults and repeat faults. We continue to engage with the Scotland team and to promote its application of a safety management system to the track asset which will ensure that risks are properly controlled.

The number of signals passed at danger (SPADs) in the most serious category has remained steady. However, the Scotland route has experienced an increase in overall numbers of SPADs. The route experienced a deteriorating trend in workforce and contractor safety and has introduced a number of initiatives to address this.

ORR continues to engage with the Scotland route team to secure credible arrangements which will deliver long term vegetation and boundary control measures. We particularly highlight the significant steps taken by the team to manage risks arising from extreme weather.

Wales

Performance in Wales has been steady in 2014-15 although slightly worse than at the end of 2013-14. Arriva Trains Wales (ATW) exited 2014-15 with a PPM MAA of 93% and a CaSL MAA of 2.6%, this was 0.5pp and 0.1pp worse than target respectively. Network Rail-caused delay minutes to ATW were 3.5% better than target, although we note that performance of non-track assets, in particular signalling, worsened during the year.

Enhancements

Electrification of the mainline from Bristol to Cardiff and Swansea has now been added to the main Great Western project, overseen by DfT rather than the Welsh Government. However, as for the project in England, the delivery will be later than planned. Cost escalation on the route is a problem and work is underway to consider savings that can be made in Wales.

The Cardiff area signalling renewals (CASR) project has continued to be affected by commissioning delays and in late 2014 the project was re-planned. The new phasing will see the delivery of the new platform at Cardiff Central delayed until 2017. The delivery plan needs to be updated to reflect the new dates. CASR will be followed by the re-signalling of Port Talbot West, a precursor to electrification, in 2018.

Following clarification of the funding arrangements in November 2014, the Valleys electrification project is currently under review. The Welsh Government is examining options but this will delay the delivery of the scheme which is currently on hold.

Safety

Headline safety indicators on Network Rail's Wales route were broadly favourable, with fewer significant infrastructure failures, fewer SPADs, fewer workforce serious accidents, and less route crime. There were fewer near misses between trains and vehicles at level crossings, though more near misses with pedestrians.

We note the route's local identity and sense of ownership of its railway, and its willingness to tackle safety issues innovatively. Good examples we have seen include:

- Off-track, where the route took up ORR's challenge to evaluate its workbank and resources, and identified management and staffing changes;
- Continued and effective focus on managing risks from adverse weather, following ORR intervention in previous years; and
- A holistic approach to drainage management.

Despite this good performance, three serious incidents took place in which minimal harm occurred but disaster was narrowly avoided. These served as a reminder of the need to manage closely the performance of assets and staff.

Europe

ORR has continued to influence the development of EU policy towards open markets, competition and inter-operability across the continent. Throughout the year, ORR has reviewed, analysed and contributed systematically to all emerging European legislative proposals, whilst ensuring it is beneficial for UK users, funders and industry. This included commenting and participating in the negotiations of several implementing Acts, freight corridor regulation and the Fourth Railway Package.

ORR engaged in particular in the discussions on the Fourth Railway Package that European institutions and member states are currently debating. This package of policies focuses on fully opening up the European rail market. ORR has engaged with Members of the European Parliament and European institutions to improve their understanding of rail issues in the UK. We promoted the UK rail sector model of cooperation between infrastructure owners and train operators with the regulator having oversight.

We have also been successful in getting the European Rail Agency Regulatory Monitoring Matrix to be based on ORR's regulatory maturity model (RM3) to monitor and benchmark the performance of national safety authorities. This has involved training agency officials in how we use RM3 in the UK. The EU Rail Agency (ERA), responsible for heading the safety and interoperability work in Europe, conducted pilot audits in a number of Member States and the UK was one of those selected. The findings of the audit largely endorsed ORR's regulatory approach. We are also taking the lead to prepare the new cooperation arrangements with ERA that will be needed with national safety authorities once the Fourth Railway Package is adopted.

ORR has continued to pursue actively its cooperation with other rail regulatory bodies in Europe through IRG-Rail, a unique platform for exchange of information, experience and best practice between national European railway regulators. IRG-Rail focuses on cooperation with a view to existing and upcoming regulatory challenges in European railways, and endorses a consistent application of the European regulatory framework. Alongside our work with stakeholders in Europe, we are also talking to domestic stakeholders, and in particular to the Department for Transport, to develop consistent rail positions on EU policies and legislative responses. Interest in the UK models of safety and market regulation continues to be growing and we are regularly engaged in briefing and advising European partners on how the UK system works. This learning works both ways – our new highways monitor role may well benefit from experience in France, Sweden and Italy who have different models of combining rail and road regulation.

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

Holding Network Rail to account

ORR has changed its approach to regulating train punctuality and the performance of the network – focusing on the indicators that will tell us more about Network Rail's likely performance trajectory. Our analysis also suggests that the quality of data that Network Rail relies upon to plan and manage works on Britain's railways is currently in places unreliable, and that this may be hindering its efforts to meet its funded targets. We wrote to Network Rail emphasising these concerns in November 2014 and the management at the company made it clear that it shares our concerns, and committed to address these issues.

We have worked proactively with Network Rail to ensure timely delivery of the Route Resilience Plans and the prioritisation of the London South East Resilience funds on projects that will improve future performance of the railway. We have developed our approach to analysing Network Rail's data at a route level, including specific reviews with the route managing directors, to inform our analysis of the company's performance.

ORR also pushed Network Rail to submit a clear programme of works to structures and assets such as tracks and drainage for the next few years.

In taking enforcement action for the funding period ending 2014, we adopted a fresh approach to the use of our powers to further the interests of the industry, funders and customers. So where we had little choice but to levy a large financial penalty, we put a lot of effort into discussions with the Department for Transport and HM Treasury to try to ensure the money from the penalty was to benefit rail users. We also accepted Network Rail's improved resilience plan instead of levying a penalty in relation to other licence breaches, to achieve a long-lasting improvement for funders, passengers and the industry as a whole.

Our investigation into the Christmas engineering overruns found that contingency planning did not fully consider the impact of potential overruns on passengers and that this needs to change. In future, plans will address the impact on passengers as well as engineering and train operation issues. Network Rail committed to ensuring all work undertaken over Easter had a robust contingency plan, and to implement all recommendations in time for engineering works planned over Christmas 2015.

Track access

One of our economic functions is to approve train operators' contracts for access to track, stations and depots on Network Rail infrastructure. Ultimately we are responsible for the fair and efficient allocation of network capacity. This is especially important when there are several possible uses for scarce capacity which cannot all be accommodated. We are currently considering proposals from several operators to run services on the East Coast Main Line. In these situations we consider such factors as the impact on current and prospective passengers (including train performance) and the implications for funders, when deciding the best overall use of the network.

This year we approved over a hundred amendments or extensions to existing contracts or new contracts for track access and over six times that number for access to stations and depots. Overall, 70% of respondents to a customer survey we conducted said that they were either satisfied or very satisfied with the way we dealt with access and licensing casework, with most others having a neutral opinion. Our work included a 3-year extension of Hull Trains' track access contract to December 2019 and a new 10-year contract for Grand Central from 2016 to 2026 (related to investment in rolling stock and station facilities). We rejected an application from Great North Western Railway to run services between London and Blackpool and Leeds on the West Coast Main Line. While we recognised the proposed new services would bring some passenger benefits, these were outweighed by concerns including whether the new services would generate sufficient new revenue, their impact on uncertain trans-Pennine infrastructure works and on the funds available to the Secretary of State.

Competition

We have continued our work to promote competition in the sector, including through the ongoing investigation into the carriage of freight by rail. We have reviewed how well the orders imposed by the Competition Commission have operated in the rolling-stock market and assessed a number of applications for new services. This led to new services being approved and benefits in terms of new destinations and greater competition on fares and on service.

We are also working to increase the role of competition in the rail sector. We are doing this by working closely with the Competition and Markets Authority on its study into on-rail competition. We are also exploring how our regulation of Network Rail might involve greater use of comparison between routes to help drive improvements in network performance and cost, and we are investigating how well the rail ticket market works in the interest of consumers.

Transparent and accessible information

Over the past year, ORR has made great strides in increasing access to rail industry information. We have encouraged train companies to be more transparent and proactive in providing information to passengers and customers. ORR has also worked hard to make its own work easily understandable to the wider public through the use of infographics, animations and digital media platforms.

ORR encouraged the rail industry to improve passenger information during disruption and develop a new action plan following concerns raised in a Passenger Focus report 'Passenger information when trains are disrupted,' which was commissioned by ORR to understand whether passengers receive timely, accurate and accessible information when they face delays to their journeys.

In 2012, ORR introduced a new condition on the provision of information for passengers into train operator and station licences. To ensure the code is delivering benefits for passengers, and to address issues highlighted in the report, ORR has worked with the rail industry throughout 2014-15 to develop a list of improvement actions to ensure passengers get the information they need when services are disrupted, at the right time, and through appropriate channels.

In October 2014 we hosted a cross-sector workshop at the Open Data Institute to explore with key stakeholders the opportunities that open data provides, to inform the development and provision of better disabled access to the UK rail network.

The workshop aimed to:

- Identify the challenges faced by disabled people when travelling by rail;
- Identify which datasets would need to be open to improve disabled access, and understand what is required for them to be published;
- Examine the delivery of information provided by Network Rail and train operators and how it can be improved, particularly in times of disruption; and
- Examine how datasets can be better integrated for maximum (re)use, such as Passenger Assist and Darwin.

In the past year, ORR has built an engaged following on LinkedIn and Twitter, by using these platforms to amplify our messages. Our team responsible for ORR statistical releases has helped develop infographics to accompany our major statistical releases. We have also engaged passengers through Twitter Q&As, particularly on subjects such as station usage and regional usage of the rail network. Publications such as the GB Rail Industry Financials Information Report, and Network Rail monitors have benefited from infographics to explain what are otherwise dense reports.

In order to make passengers aware of their rights and aid transparency in the rail industry, ORR also produced helpful animations to explain to passengers the things they could consider when they buy rail tickets and provide them with information on ticket types.

Reviewing the ticket retail market

ORR launched a project in February 2014 o consider the ticketing market, focusing on how well it is working for the benefit of passengers. We gathered evidence from a broad range of organisations with a potential interest in tackling the problem or potentially taking advantage of the opportunity. This included web companies, third party retailers, mobile application developers and passenger groups as well as train operating companies (TOCs). We also undertook our own analysis and research that ncluded primary research on what passengers think and want from ticketing.

Our findings – which we're currently consulting on – suggest that although it is working well in some respects, the retail market could be doing more to bring about increased choice of retailer, sales channel, ticket format, and product (e.g. part-time season ticket), which passengers have indicated an appetite for. To help address this, we are proposing some nearer-term remedies to improve transparency over the ticket selling regime, and where necessary, to provide more oversight. We are seeking stakeholders' views on the extent to which this could encourage more competition and innovation. We are also seeking views on the possible longer term options such as allowing retailers to compete on the retail element of the price. We are also discussing with stakeholders whether we should focus on these options for remedies in the short term.

We have already seen some signs of progress, with TOCs agreeing in 2014 to a pilot for third-party retailers to sell season tickets, for example.

Strategic objective 5: Be a high performing regulator

Developing the organisation

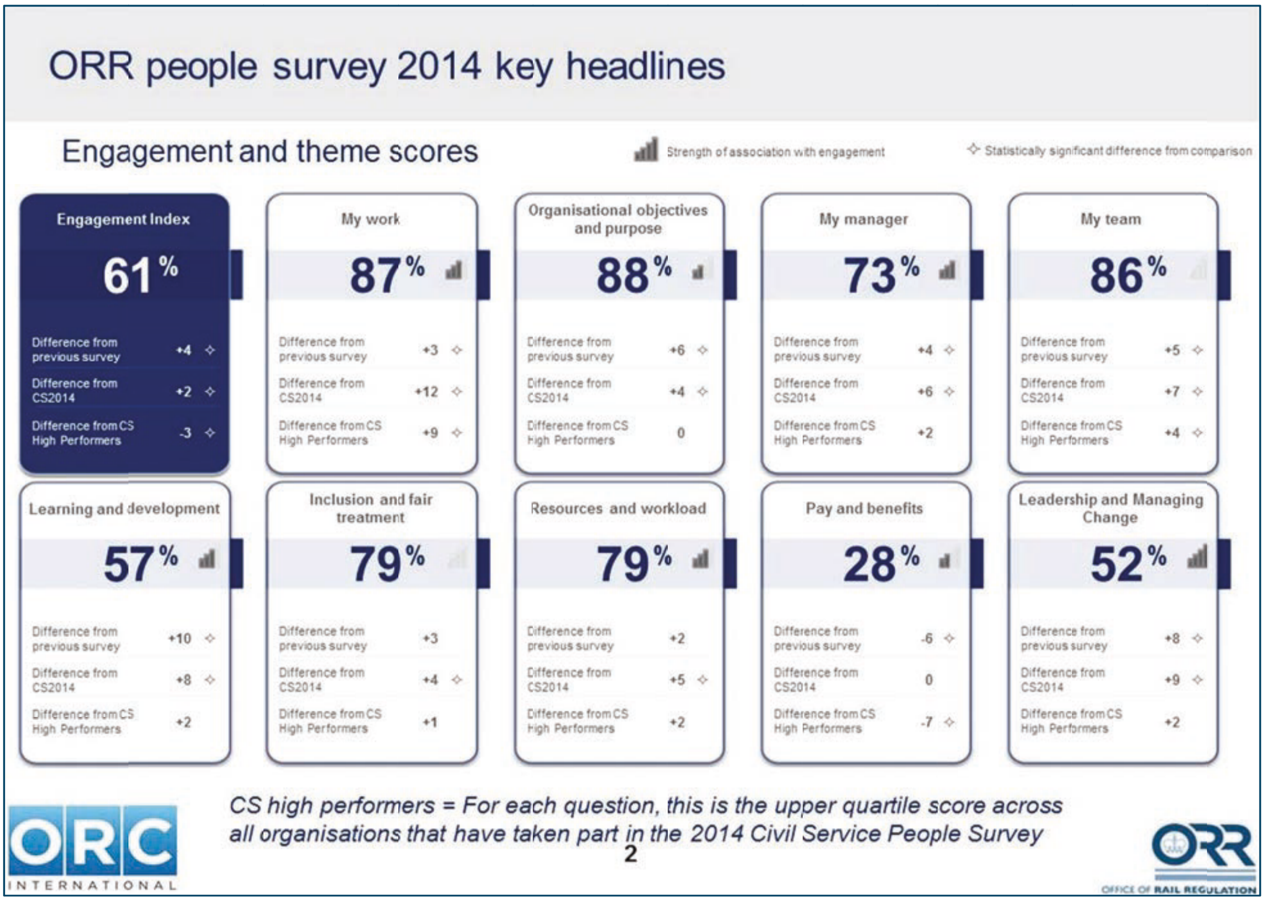
Following the development of ORR's strategic priorities, a programme of work to introduce the necessary organisational change was put in place in 2012-13. The organisational development programme is a planned, systematic approach to improving our effectiveness – one that aligns strategy, people and processes. The programme has been informed throughout by ORR's staff representation group, with union and non-union representatives, and by consultation groups on individual elements of the programme.

In 2014-15, the majority of the changes introduced are now part of the business as usual and the focus has been on finalising our smarter working programme and starting work on a new structure for roles and remuneration based around what we are calling 'career families'. This is part of wider work on how we reward and recognise the skills and experience of our staff more effectively within Government pay constraints. We need to be able to recruit and retain skilled professionals, especially to deliver new areas of work like our highways monitor function. We also continued to extend our programme of leadership development and training this year.

This year's major milestones included:

- Our smarter working programme, completed on time and on budget, has helped us meet our cost reduction targets. ORR's head office refit has been promoted by the Government Property Unit as an exemplar of the benefits of smarter working.
- We have re-launched our intranet to improve our connections for mobile working and for involving employees. This is based on a platform which will be common to other ORR applications and services to save on support costs. We have re-tendered our mobile phone contract to realise further savings as well as taking advantage of new technologies that link us better to the industry we regulate.
- The results from the 2014 people survey continued to show improvements in the areas targeted for action within the programme – understanding of strategic priorities, leadership and managing change and learning and development. ORR had the highest score in the whole civil service on commitment to the work of the organisation (87% positive). ORR's overall engagement score went up from 56% to 61% bringing us close to our target of being in the top quartile of the civil service. Out of the 57 core questions only 5 showed reduced scores – the biggest falls being responses on pay and benefits. Following publication of the results, one of our teams has been used as a case study by the Cabinet Office because it

demonstrated how good management practice had a dramatic impact on wellbeing



At 31 March 2015, our total headcount comprised the following staff:

	Male FTE	Female FTE
Directors	7	2
Senior managers	7	3
Employees	168	102
	182	107

Enquiries FOI requests, correspondence

ORR receives numerous enquiries and request for information from the general public (under the Freedom of Information Act, or FoI) and Members of Parliament. We are committed to meeting our targets for answering all of these promptly and accurately. This year we handled 1,444 public enquiries, of which 1,313 (91%) were responded to within the 20 working day target. We received 168 FoI requests, of which 148 (88%) were answered within the 20 day statutory target, responded to 47 letters from MPs, of which 36 (77%) were answered within the 20 working day target.

Developing our strategic thinking

Better regulation

We have continued with our commitment to making our regulation of Britain's railways both focused and effective and to benchmark ourselves against regulatory best practice and better regulation principles. We are required by legislation to keep our functions under review and ensure that in exercising them we do not impose or maintain unnecessary regulatory burdens.

Over the past year, we have reviewed a number of our policies and processes to ensure that the principles of better regulation are embedded in our decisions and processes. For example, as part of the Government's Red Tape Challenge to reduce unnecessary secondary legislation, we consulted (on behalf of the Secretary of State) on our review of three existing railway safety regulations and the proposal to replace these with one new set. The effect of this will be to reduce the burden of compliance by retaining and updating key provisions that are important to the control of risk on the railway, while removing those that are out of date or have served their purpose. The regulations will be made later in 2015, subject to ministerial clearance. In May 2014, acting on our advice, the Department for Transport (DfT) updated the 'general authority' given to us by the Secretary of State in 1994, which governs our licensing of railway operators under the Railways Act. The update simplifies the arrangements, reduces the constraints on us and brings greater consistency with our licensing of operators under EU legislation. It is published in the licensing section of our website.

To further the principles of economic regulation and ensure that the decisions we make are evidence-based, transparent, proportionate and accountable, we have worked with the Department for Business, Innovation and Skills, DfT and the UK Regulators Network (UKRN) to further develop the principles of good regulatory practices. Our work with UKRN supports the Government's interest in encouraging collaboration and shared approach between regulators, to benefit consumers and the economy.

UK Regulators Network (UKRN)

We took a leading role in collaborating with other economic regulators to successfully establish the UKRN in March 2014. UKRN ensures effective cooperation and strengthens work across sectors without cutting across the independence of each regulator and their ability to make the best judgments for the sectors they regulate. Membership has now gone up to eleven originally from nine and the first year has seen a new level of collaboration between the members.

Richard Price, Chief Executive of ORR, as the inaugural chair of the network has led the Chief Executives' group to set the overall strategic direction of the network and the delivery of the UKRN's programme of work for 2014-2015 supported by the senior representatives group. This work programme included projects on cross-sector infrastructure, consumer engagement and switching, affordability, resilience and security, cost of capital, organisational development and regulating for quality. ORR has actively participated in most of these - particularly benefits of economic regulation, cross-sector infrastructure, regulating for quality and cross-sector resilience. Initial objectives have been delivered with the publication of the Infrastructure Investors Guide in November 2014 and phase 1 reports into affordability, cost of capital, innovation and cross-sector investment. Most of these workstreams are planned to move into phase 2 in the UKRN's 2015-2016 programme of work which was consulted on in January 2015.

UK Competition Network

The CMA, ORR and the other sector regulators have put the new UK Competition Network on a firm footing. The network aims to encourage stronger competition across the economy for the benefit of consumers and to prevent anti-competitive behaviour in the regulated industries.

We are working closely with the CMA and the other regulators to ensure consistent application of competition law, enhance our capabilities and share best practice. To this effect, ORR officials attend regular meetings of the UK Competition Network which are held at various levels. Depending on the level of meeting, discussions consider major issues of strategy about competition in the regulated sectors, issues concerning the principles and practicalities of concurrency, and issues and know-how of common interest.

Accountability to Parliaments

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

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

Formal contributions to the parliamentary process at Westminster in this reporting period have included senior ORR officials giving oral and written evidence to the Transport Select Committee inquiries, including, ‘Investing in the Railway’ and ‘Rail Network Disruption over Christmas 2014’ as well as to the Parliamentary Advisory Council for Transport Safety on safety in the railways. ORR also provided support to Parliament in reaching its decision to confer new duties on it through the Infrastructure Act 2015. This included submitting evidence to the ‘Better Road’ inquiries and providing various briefings to parliamentarians.

ORR has contributed expertise to parliamentary debate. We have pursued an active programme of engagement to promote better understanding and greater transparency of the railways amongst members and Parliament and their staff. This has included an open briefing session held jointly with the Royal Statistical Society and the House of Commons Library. We have also participated in All Party Parliamentary Group discussions on occupational health and rail.

There has also been a regular programme of briefings and meetings between ORR and ministers and officials from the Scottish Government and Welsh Government.

Looking to the future

ORR and the Rail Delivery Group (RDG) are starting early to think about how future access charges could be improved to better align industry incentives from April 2019. ORR and RDG are independently posing some fundamental questions about the behaviours which the pricing structure for access to the network should be driving. An emerging theme is that we need a more detailed picture of what the true costs of using the network are in order to improve the structure of charges in a way which will ultimately benefit rail users and funders.

ORR has welcomed the industry taking the lead in forming its own views on the future charging structure because its experience and understanding of the business realities is essential to arriving at a proportionate, practical and workable proposal for the future charging structure. The big step forward is that ORR and the industry are engaged on this issue from the start. Whilst ORR has to retain independence and is the ultimate decision-maker on the framework of the future charging structure, we will do the job far better if we have understood the options in the context of real industry views and experience.

Shared aspirations for the future charging structure are already emerging, along with understandable differences of emphasis as well. ORR will have to use its independent judgement to assess any differences and to determine how these differences should be recognised. An important consideration will be how best to protect new entrants to the network in the interests of fair competition. ORR is the guardian of public, taxpayer and customer interests and wants to increase transparency and value in the system as far as possible. Ultimately ORR wants the new charging structure to give industry decision-makers the information they need to make the best decisions and to achieve the best outcomes for rail users and funders. Working with the industry well in advance of determining and implementing a new charging structure is proving a good way to start.

Developing the highways monitor

In 2014-15 we carried out a significant amount of work to develop and prepare for new responsibilities with respect to monitoring Highways England (previously the Highways Agency) and its management of the strategic road network – the motorways and main ‘A’ roads in England. Our new responsibilities, which we took on from April 2015, represent a hugely important national role and allow us to apply our expertise in monitoring monopoly infrastructure suppliers for the benefit of the road sector.

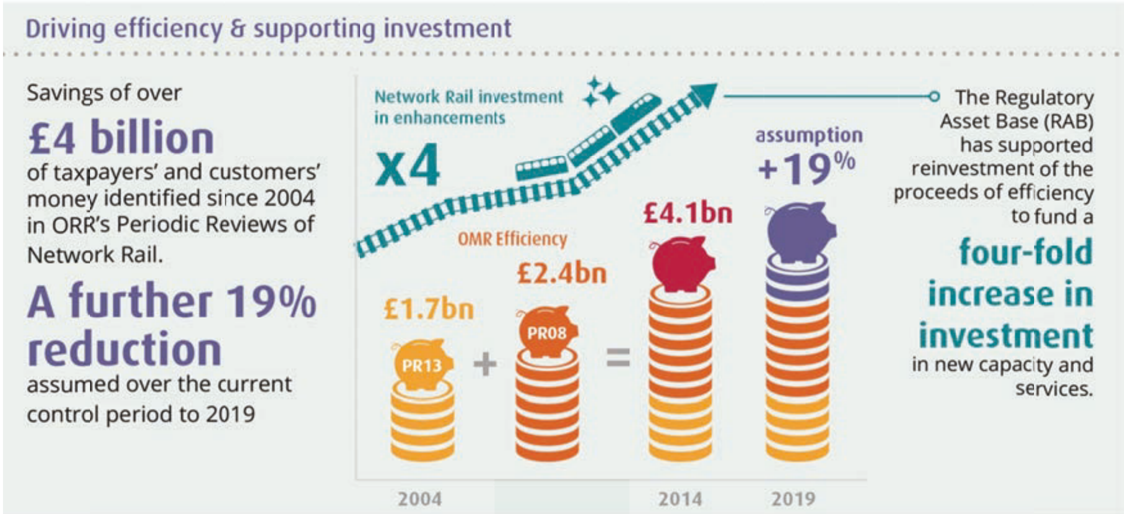
During the year we extensively engaged DfT, Highways England, Transport Focus and wider stakeholders to develop the emerging framework, including legislation, DfT’s road investment strategy and statutory directions and guidance (the ‘licence’), and Highways England’s strategic business plan and delivery plan.

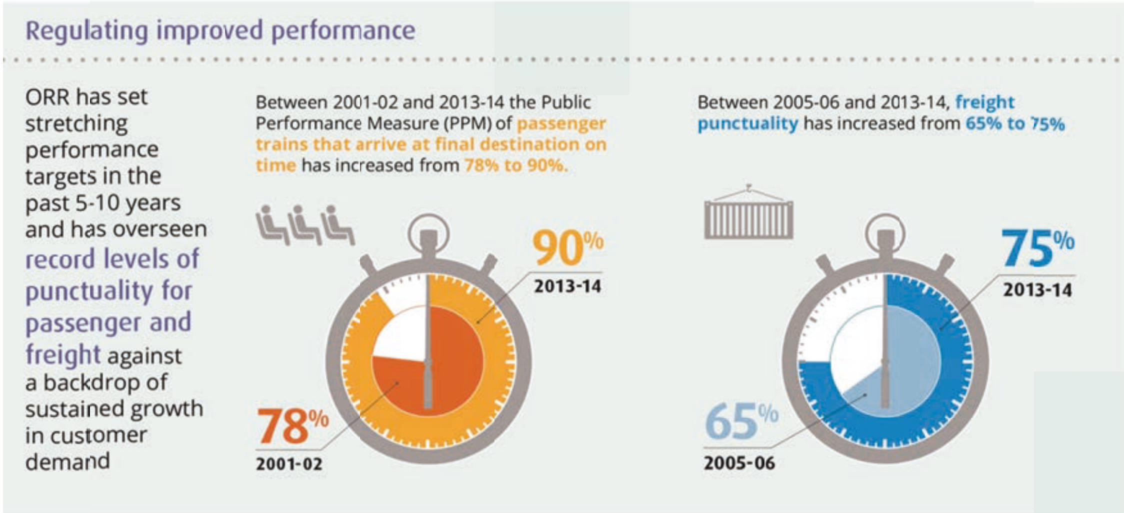
We also engaged stakeholders to start the process of developing our monitoring, intervention and enforcement policies. In January 2015 we held a stakeholder workshop to discuss our highways role and how we might implement it. The workshop was attended by a wide range of interested parties and proved extremely useful in developing our thinking. In March 2015 we published our first highways consultation document, 'Monitoring Highways England' which sets out our new role, our strategic objective, our proposed approach to monitoring and enforcement, and the next steps in developing the role. The consultation runs until 19 June 2015.

Richard Price
Accounting Officer

28 May 2015

What ORR has achieved as an independent regulator





Directors' report

Financial commentary

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

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

	2014-15	2013-14
	£000	£000
Income		
Deferred income from prior year	(1,474)	(1,143)
Licence fees and safety levy income	(28,156)	(28,683)
Roads preparatory work recharge	(446)	(29)
Other income	(413)	(403)
Total income	**(30,489)**	**(30,258)**
Less income deferred to future years	1,166	1,474
Net income	**(29,323)**	**(28,784)**
Expenditure		
Staff costs	19,763	19,083
Other costs	9,563	9,704
Total costs	**29,326**	**28,787**
Net operating deficit (as voted by Parliament)	**3**	**3**
Reconciliation between resource outturn and resource budget outturn (£000)		
Net resource outturn	**3**	**3**
Net operating costs	**3**	**3**
Resource budget outturn	**3**	**3**

Income

Income comprises mainly licence fees, safety levy, income from HS1 and Channel Tunnel, and recharges for roads monitoring preparatory work.

Licence fee income was £13.4m (2013-14: £13.8m), including £0.8m carried forward from 2013-14. £0.9m has been deferred into 2015-16. This includes income from HS1. Safety levy income was £16.2m (2013-14: £16.0m) including £0.7m carried forward from 2013-

14. £0.3m has been deferred into 2015-16. This includes Channel Tunnel income. We recharged £446k in 2014-15 to the Department for Transport (DfT) for preparatory work for our new role as highways monitor (2013-14: £29k).

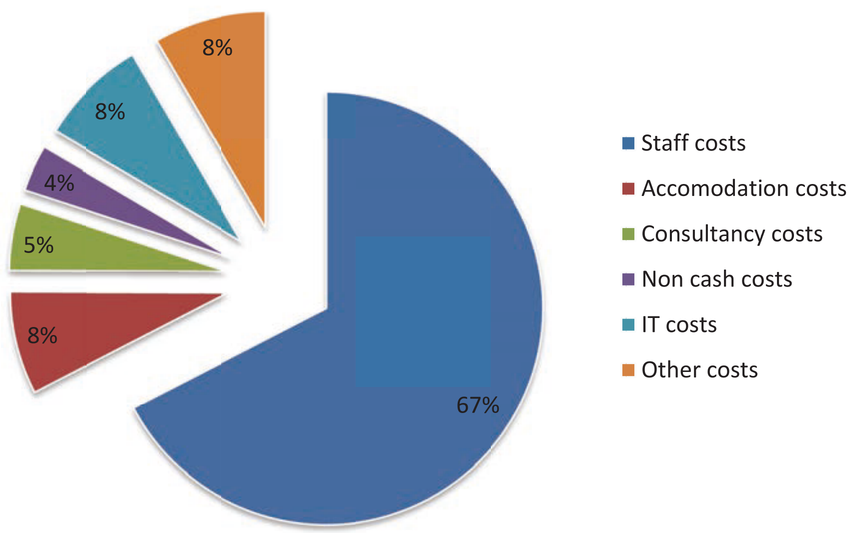
In addition £413k (2013-14: £403k) of other income arose mainly from sub-letting of the 3rd floor in our Kemble Street offices, fees for seconded staff and other costs recovered from successful prosecutions and safety inspections.

Expenditure

Total expenditure in 2014-15 was £29.3m, compared to £28.8m in 2013-14. Excluding the effect of roads monitoring expenditure, total expenditure was comparable, in nominal terms, to 2013-14 at £28.9m (2013-14: £28.8m). Staff costs accounted for £19.8m (67.4%) of this total, compared to £19.1m (66.3%) in 2013-14. Our average staff cost per full-time equivalent in 2014-15 was £71,440 compared to £71,600 in 2013-14. This reflects a slight change in the composition of staff.

The consultancy spend in 2014-15 was £228k (13%) lower than in 2013-14 at £1.5m compared to £1.7m. This was offset by £110k higher IT provider costs and £78k higher depreciation. The remainder of our expenditure remained broadly in line with 2013-14.

Analysis of 2014-15 costs



Expenditure comparison with Estimate (Parliamentary Supply)

Expenditure by core function	2014-15			2013-14	
	Estimate	Actual	Variance	Actual	Year on year variance
	£000	£000	£000	£000	£000
Economic regulation, admin, and other expenditure	13,413	12,681	732	13,021	(340)
Safety regulation, admin and other expenditure	16,557	16,199	358	15,736	463
Other regulation, admin and other expenditure	2,750	446	2,304	30	416
Total	**32,720**	**29,326**	**3,394**	**28,787**	**539**

During the year, ORR continued to undertake preparatory work for our new role as highways monitor from 1 April 2015. During 2014-15 the cost of the preparatory work was £446k and £445k was recharged to DfT, resulting in a token cost of £1k. The variance of £2,304k compared to the Estimate of £2,750k was caused by an overestimation of the costs required in 2014-15.

There was an underspend in both economic regulation and safety regulation compared to the Estimate, being £732k for the former and £358k for the latter. Compared to budget, there were underspends in staff costs of £479k and unspent contingency of £376k. We were also able to charge £147k of overhead costs to DfT for roads monitoring preparatory work.

Prompt payment

We are committed to the prompt payment of our suppliers and seek to pay all valid invoices as soon as possible. During 2014-15 100% of invoices were paid within 30 days (99.1% in 2013-14) and 93.8% paid within 10 days (59.0% in 2013-14). This improvement reflects the fact that we set ourselves more stretching internal targets for prompt payment in 2014-15, aiming to pay 100% within 30 days and 80% within 10 days.

Information systems and management

Our information system continues to be managed by Capita Secure Information Solutions. We maintain a strong relationship with our service provider and work with them to make continuous improvements to the service that ORR receives. We have experienced one information risk incident which may need to be reported to the Information Commissioner in 2015-16, as set out in the governance statement on pages 63-64.

Estates and facilities

As a national organisation, ORR has six offices around the UK, with a headquarters in London in space leased from the Civil Aviation Authority. ORR holds the direct lease on an office in Glasgow whereas offices at Bristol, Birmingham, Manchester and York are in space in other Government departments' buildings held under Memorandum of Terms of Occupation (MOTO) agreements with the lead department. ORR owns no property. Average accommodation costs in 2014-15 were comparable with 2013-14 at £8,140 per head.

Sustainability report

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

Developments

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

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

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

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

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

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

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

  Update: these are due to be published in Network Rail's annual report in 2015.

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. Examples over the last twelve months include:

- utilising Crown Commercial Services frameworks that have sustainability as a key criterion for the provision of multi-functional print devices, office supplies and print services;
- issuing documentation for all tenders electronically and requiring all proposals to be submitted electronically; and
- encouraging small and medium-sized enterprises participation in tenders through highlighting the suitability of tender opportunities on contracts finder.

ORR performance and policy

Our environmental performance in 2014-2015 is shown in the table below. We have presented the data as transparently as possible, and provided notes to explain where it has not been possible to obtain some information.

Our carbon footprint was restated last year in accordance with guidelines. The same conversion factors have been applied to 2014-15.

Emissions, waste, water and finite resources figures apply to London and Glasgow offices only (where available). Our other offices, held on MOTO agreements as explained above, 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 2014-15 Defra conversion factors	**2012-13**	**2013-14**	**2014-15**
Greenhouse gas emissions (tonnes CO_2)			
Electricity (scope 2)	221	241	210
Oil (scope 2)	76	54	42
Gas (scope 2)	10	6	n.a
Travel:			
Car (personal vehicle)	73	63	73
Air	52	49	50
Train	100	83	100
Hire car	11	11	5
Gross emissions total	543	507	480
Total net emissions	-	-	-
Gross emissions of official business travel (tonnes CO_2)	236	206	228
Expenditure (£)			
CRC gross expenditure (£)	49,895	53,485	71,316
Expenditure on accredited offsets (£)	-	-	-
Expenditure on official travel (£)	607,471	616,511	571,994
Waste (tonnes)			
Total waste	26	28	34
Hazardous waste	-	-	-
Non-hazardous to landfill	1	1	2
Non-hazardous recycled	8	8	8
Non-hazardous incinerated/energy from waste	17	18	24
Cost of waste collection (£)	-	5,840	4,852
Water			
Water consumption (m^3)	1,664	2,125	2,228
Water supply costs (£)	4,065	4,078	4,639
Finite resources			
Electricity non-renewable (Kwh)	39,193	28,117	29,127
Electricity renewable (Kwh)	456,883	512,744	410,303
Gas (KwH) - Glasgow (estimated)	51,350	33,088	n.a
Oil (Kwh)	279,000	198,127	169,919
Total energy expenditure (£)	63,848	73,439	71,316

n.a – not available

Stakeholder management

We strive for collaborative reciprocal relationships with stakeholders through which we discuss key issues, seek views and explain our approach. Through our engagement and communication activities we proactively support public scrutiny of railways and roads.

In addition to extensive day-to-day working level contacts we hold regular formal meetings with Network Rail and Highways England, train operators, the supply industry, passenger bodies, funders and other stakeholders with an interest in the sectors we regulate. We run regular workshops and briefings on core issues, speak at industry conferences and engage with the Parliaments in London, Edinburgh and Cardiff.

To complement our programme of face-to-face engagement we make broad use of contemporary digital approaches to extend the scope and reach of our conversations to include wider audiences and issues. This better ensures that we are providing opportunities for stakeholders to engage with us on issues which matter to them. For instance the use of Twitter has brought wider insight into the experiences of passengers and has solicited views which we have considered as part of key work strands such as disabled peoples' protection policies (DPPPs) and train operator complaints handling.

As we have prepared to take on responsibility for regulating Highways England's management and development of the strategic road network from 1 April 2015 we have ensured broad engagement with those who have an interest in our new role, speaking with key players across the roads landscape.

We regularly assess the effectiveness of our engagement activities through independent review to further refine our approach and improve our professional dialogue with our broad stakeholder base. For instance in 2014 we commissioned the Penny Boys report into the effectiveness of our stakeholder engagement during PR13. This independent assessment provided valuable insight into where our engagement was most effective and identified opportunities for improvement in the 2018 Periodic Review including further use of new technologies to facilitate participation and restructuring the way we organise complex consultations.

Register of interests

Details of company directorships and other significant interest held by the board are available on request.

Better regulation

Our work on better regulation in 2014-15 is explained on page 32.

Complaints to the Parliamentary Ombudsman

No formal complaints were made in the course of the year.

Our people

Equality and diversity

We are committed to the principles of equality and diversity and aim to ensure that nobody receives less favourable treatment particularly on the basis of age, disability, gender re-assignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation. We use the ‘two ticks’ positive about disability accreditation to show we encourage applications from disabled people and support them when in employment.

We engage with our Staff Representatives Group on a regular basis to share information on the organisation and on all aspects concerning employment. The minutes of the bi-monthly meetings are shared with all staff, and twice yearly the meetings are open for staff to attend as observers.

Health and safety

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

We are committed to the positive promotion of accident prevention and the elimination of incidents involving personal injury, illness or damage. We actively monitor and manage our staff attendance, ensuring that staff receive the support and advice they need from an occupational health professional when appropriate.

The annual working days lost per employee through sickness in 2014-15 were 3.3 (2013-14: 3.2).

Health and wellbeing

During 2014-15 we have continued to implement our health and wellbeing strategy and to work with our new partners: our occupational health provider and employee assistance service. One third of employees have taken up the offer of an annual health assessment and flu vaccination. In addition, we held workshops for staff on building personal resilience. We promoted health campaigns in our fortnightly staff e-newsletter and introduced an online wellness assessment for staff. We are committed to the ‘public health responsibility deal pledges’ which are a Government initiative to improve employees’ health and wellbeing and promoted by the Department of Health.

Richard Price

Richard Price
Accounting Officer
28 May 2015

Resource accounts 2014-15

These accounts cover the operation of the Office of Rail Regulation for the period 1 April 2014 to 31 March 2015. They have been prepared on an accruals basis in accordance with International Financial Reporting Standards, the Government Resources and Accounts Act 2000 and HM Treasury's 2014-15 'Financial Reporting Manual'.

The totals of expenditure and income have to be planned through the Treasury and accounted for to Parliament through the Estimates process. The Chief Executive is the Accounting Officer for these funds.

Introduction

The Office of Rail Regulation (ORR) was established by the Railways and Transport Safety Act 2003 to replace the Office of the Rail Regulator. It is a non-ministerial department, funded predominantly through licence fees and safety levies, the level of which are set by ORR. Its functions were broadened by the Railways Act 2005, which established ORR as the combined safety and economic regulator for the railway industry.

ORR is independent of, but works closely with, the Department for Transport (including the Rail Accident Investigation Branch), the Health and Safety Executive and the Rail Safety and Standards Board.

From 1 April 2015 ORR took on a new responsibility for the monitoring the development of the strategic road network. During 2014-15 we undertook preparatory work for this role, funded by DfT.

In so far as the Accounting Officer is aware, there is no relevant audit information of which our auditors are unaware. The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that our auditors are aware of that information.

Remuneration report

Remuneration Committee

The Remuneration Committee's role relates to the pay and performance of ORR senior civil service (SCS) staff, and, since 20 October 2009, it also has a strategic oversight of the approach to remuneration, performance, reward and other terms and conditions of all staff. It consists of non-executive members of the Board. For 2014-15 these were Stephen Nelson (committee chair until 30 September 2014), Michael Luger (committee chair 1 October 2014 to present), Peter Bucks (member until 30 June 2014), Anna Walker and Tracey Barlow.

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

Service contracts

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

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

Further information about the work of the Civil Service Commission can be found at www.civilservicecommission.org.uk.

Remuneration policy

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

Each senior civil servant participated in a bonus scheme (using the annual Cabinet Office guidance 'Managing performance within the senior civil service'), which takes into account the recommendations of the Senior Salaries Review Body and is subject to Government approval.

The bonus is based on the individual's performance. Bonus payments are non-consolidated and non-pensionable.

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

The arrangements for early termination of contracts of senior civil servants are made in accordance with the service contract of the relevant individual. Each contract provides for a payment in lieu of notice depending upon the reason for the termination, based on the provisions of the Civil Service Compensation Scheme. No early termination payments were made to senior civil servants in 2014-15 (2013-14: one executive totalling £156,000).

Salary and pension entitlements

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

Remuneration (salary, benefits in kind and pensions)

	Salary (£000)		Bonus payments (£000)		Benefits in kind (to nearest £100)		Restated Pension benefits (£000)		Restated Total (£000)	
	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14
Richard Price Chief executive	140-145	140-145	5-10	-	-	-	27	31	178	172
Cathryn Ross Director, railway markets and economics (to 13/10/13)	-	70-75	-	10-15	-	-	-	4	-	88
Juliet Lazarus Director, legal services	85-90	85-90	-	10-15	-	-	28	37	117	137
Ian Prosser Director, railway safety	120-125	120-125	-	-	-	-	46	47	171	170
Michael Beswick Director, rail policy (to 14/6/13)	-	20-25	-	-	-	-	-	na	-	24
John Larkinson Director, railway markets and economics (permanent promotion 20/1/14)	120-125	105-110	10-15	10-15	600	600	96	90	231	211
Alastair Gilchrist Director, corporate operations (to 31/10/13)	-	60-65	-	-	-	400	-	25	-	87
Alan Price Director, railway planning and performance	160-165	160-165	-	-	-	-	60	61	222	222
Richard Emmott Director, communications (to 31/1/15)	100-105	120-125	-	-	-	-	39	-	143	122
Daniel Brown Director, strategy & policy	120-125	120-125	-	10-15	-	-	27	314	149	448
Tom Taylor Director, corporate operations and organisational development (from 21/10/13)	120-125	50-55	5-10	-	-	-	95	72	223	126
Joanna Whittington Director, railway markets and economics - chief economist (from 3/3/14)	100-105	5-10	-	-	-	-	120	9	224	17
Peter Antolik Director, highways monitor (from 16/3/15)	5-10	-	-	-	-	-	2	-	7	-

na – pension information not available from MyCSP

The 2013-14 pension benefits figures have been restated as incorrect data was included last year.

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

Bonus payments are based on performance levels attained and are made as part of the performance appraisal process. Bonuses reported in 2014-15 relate to performance in 2013-14 and comparative bonuses reported for 2013-14 relate to performance in 2012-13.

Benefits in kind comprise subsidised gym membership.

Pension benefits are shown on page 53. No senior managers exercised the option to take extra salary to invest in a pension scheme of their own choice rather than participate in a civil service pension.

Richard Emmott left ORR on 31 January 2015. His full year equivalent salary was in the range of £125,000 - £130,000.

Peter Antolik joined ORR on 16 March 2015. His full year equivalent salary was in the range of £120,000 - £125,000.

The full-year basic equivalent salary for Joanna Whittington (who works part-time hours) is in the range £135,000 to £140,000 (2013-14: £135,000 to £140,000).

The full-year basic equivalent salary for Juliet Lazarus (who works part-time hours) is in the range £125,000 to £130,000 (2013-14: £120,000 to £125,000).

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 2014-15 was £160,000 - £165,000 (2013-14: £160,000 - £165,000). This was 3.2 times (2013-14: 3.0) the median remuneration of the workforce, which was £50,601 (2013-14: £54,486).

In 2014-15, nil (2013-14: nil) employees received remuneration in excess of the highest-paid director.

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.

Civil service pensions

Pension benefits are provided through the civil service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes: either a final salary scheme (classic, premium or classic plus); or a whole career scheme (nuvos). 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 and nuvos are increased annually in line with pensions increase legislation. 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 1.5% and 6.85% of pensionable earnings for classic and 3.5% and 8.85% for premium, classic plus and nuvos. 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 although 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. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary 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, based on reckonable service to date. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos. Further details about the civil service pension arrangements (and reforms to it) can be found at the website http://www.civilservicepensionscheme.org.uk

New career average pension arrangements will be introduced from 1 April 2015 and the majority of classic, premium, classic plus and nuvos members will join the new scheme. Further details of the new scheme are available at http://www.civilservicepensionscheme.org.uk/members/the-new-pension-scheme-alpha/

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

The former rail regulators' and former Chair's pensions are by analogy with the Principal Civil Service Pension Scheme. During 2014-15 there was no active member (2013-14: no active member). The accruing cost of providing for the members' future benefits, which is based on actuarial advice, is charged to the Statement of Comprehensive Net Expenditure. A provision for the expected future liabilities for the former rail regulators' and Chair's pension scheme is disclosed as a liability on the Statement of Financial Position.

Cash Equivalent Transfer Values

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

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the civil service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from lifetime allowance tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Senior management pension benefits

	Accrued pension at pension age as at 31/03/15 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV as 31/03/15 £000	Restated CETV as 31/03/14 £000	Real Increase in CETV £000
Richard Price Chief executive	35-40 lump sum 115-120	0-2.5 lump sum 2.5-5	611	562	16
Juliet Lazarus Director, legal services	15-20	0-2.5	264	229	18
Ian Prosser Director, railway safety	20-25	2.5-5	274	222	27
John Larkinson Director, railway markets and economics (permanent promotion 20/1/14)	35-40 lump sum 105-110	2.5-5 lump sum 12.5-15	624	525	70
Alan Price Director, railway planning and performance	5-10	2.5-5	102	54	30
Richard Emmott Director, communications (to 31/1/15)	0-5	0-2.5	29	-	20
Daniel Brown Director, strategy & policy	15-20	0-2.5	194	167	7
Tom Taylor Director, corporate operations and organisational development (from 21/10/13)	30-35 lump sum 90-95	2.5-5 lump sum 12.5-15	437	359	55
Joanna Whittington Director, railway markets and economics - chief economist (from 3/3/14)	20-25 lump sum 60-65	5-7.5 lump sum 15-17.5	347	246	83
Peter Antolik Director, highways monitor (from 16/3/15)	0-5	0-2.5	1	-	1

The 2013-14 CETV figures have been restated as incorrect data was included last year.

Fees of non-executive board members

	2014-15 £	2013-14 £
Anna Walker	121,200	120,000
Bob Holland (from 1/1/15)	5,444	-
Justin McCracken (from 1/8/14)	14,517	-
Michael Luger (from 1/8/14)	14,517	-
Mark Fairbairn	21,776	21,776
Mike Lloyd (to 31/10/13)	-	12,703
Peter Bucks (to 30/6/14)	5,444	21,776
Ray O'Toole	21,776	21,776
Stephen Nelson (to 30/9/14)	10,888	21,776
Steve Walker (to 31/12/13)	-	16,332
Tracey Barlow	21,776	21,776
Melvyn Neate*	4,000	4,000

*independent Audit and Risk Committee member

In addition to the amounts shown above, non-executive directors are also 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 liability is paid in the year following the benefit.

	2014-15 £	2013-14 £
Benefits paid or due	7,608	7,532
Tax liability	6,822	6,753

Richard Price

Richard Price
Accounting Officer

28 May 2015

Statement of Accounting Officer's responsibilities

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

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

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

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

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

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

Governance statement

This statement explains the governance arrangements of ORR, including the management of risk and resources. ORR is the independent safety and economic regulator for Britain's railways, established on 5 July 2004 under the Railways and Transport Safety Act 2003.

The board

ORR is a non-ministerial Government department led by a statutory board currently 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[2]. The board objectives are aligned to key business and risk management activities. The board held ten meetings in 2014-15.

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

- considered regular reports on health and safety risks across the industry;
- monitored the performance of Network Rail;
- began to develop our thinking for the next periodic review (PR18);
- discussed and determined applications for access to the network; and
- took a close interest in development of a new function in relation to highways.

Membership of ORR's board as at 31 March 2015 was as follows:

Non-executive directors

Anna Walker (Chair), 5 July 2009 – reappointed until 31 December 2015
Tracey Barlow, 1 February 2010 – reappointed to 30 April 2019
Ray O'Toole, 5 September 2011 to 4 September 2015
Mark Fairbairn, 5 September 2011 to 4 September 2015
Michael Luger, 1 August 2014 to 31 July 2019
Justin McCracken, 1 August 2014 to 31 July 2019
Bob Holland, 1 January 2015 to 31 December 2019

Left during the year:
Peter Bucks, 5 July 2004 to 30 June 2014

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

Stephen Nelson, 5 September 2011 to 30 September 2014

Executive directors

Richard Price (Chief Executive), 16 May 2011 to 15 May 2016
Ian Prosser (railway safety), 26 September 2008 to 25 September 2018
Alan Price (railway planning and performance), 26 November 2012 to 25 November 2016
Joanna Whittington (railway markets and economics), 3 March 2014 to 3 March 2019

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

Audit and Risk Committee

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

The Audit and Risk Committee comprises two non-executive directors (one of whom chairs the committee) and an independent member. Membership of the committee is reviewed every three years.

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

- internal and external audit plans and progress against those plans, including progress made in implementing audit recommendations;
- the robustness of ORR's current risk management and control processes, and a proposed new risk management process for 2015-16;
- the annual report and accounts and the governance statement; and
- business critical processes and internal health and safety arrangements.

Remuneration Committee

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

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

- the performance of ORR's senior civil servants during 2013-14;
- ORR directors' personal objectives for 2014-15;
- ORR's pay policy and non-consolidated performance-related pay awards for its senior civil servants; and
- potential changes to the reward and grading arrangements for employees below SCS level.

Safety Regulation Committee

The 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 five times during the year and areas considered included:

- ORR's strategic approach to health and safety regulation;
- emerging technical trends and safety challenges;
- review of tools and processes for health and safety regulation; and
- planning for ORR's health and safety activity in 2015-16.

Nominations Committee

Notwithstanding the Secretary of State's responsibility for making appointments to the ORR board and the Chair's role in leading the board, the purpose of the committee is to assist the Chair in developing recommendations to the Secretary of State for the recruitment and appointment of non-executive directors, developing succession planning for board committees and advising the Chair on reappointments of board members. The committee consists of non-executive members only and is chaired by the board chair.

The committee met twice during the year to discuss:

- induction arrangements for new non-executive directors;
- membership of committees;
- preliminary advice to the Department for Transport on recruitment of a new Chair; and
- senior executive team succession planning.

Board effectiveness

The board and its standing committees are governed by the board's rules of procedure. Committee chairs report formally to the board on their effectiveness and there is a formal appraisal system for all board members. The Chair's performance is appraised by the non-executive directors, led by the deputy Chair. The board and standing committees are required to review their own performance annually, and in June 2014 the board secretariat carried out an effectiveness review of the board to meet this. The report was considered by the board in October and covered four areas, namely:

- decision-making and focus;
- meetings management;
- preparation, planning and agendas; and
- membership and members.

The review highlighted a wide-ranging, complex workload, and significant changes in personnel over the last two years, as key challenges to address. Work has also been undertaken during the year to improve internal processes to support more effective decision making at board level. A further review will be carried out in spring 2015. Board attendances are summarised on page 65.

Conflicts of interest

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

Compliance with the corporate governance code

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

- the board reserves to itself any changes in its governance and scrutiny thereof, so there is no committee with responsibility for governance. The board reviews its governance and effectiveness annually.
- the board does not include a finance director.

- the Remuneration Committee has a role in deciding individual reward for senior civil servants. This approach adds a useful element of independence and objectivity given the small size of the department.

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

The executive

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

- The Executive Committee meets weekly and oversees operational issues such as progress against the business plan and allocation of resource for business planning.
- The Policy Committee meets fortnightly and oversees the development and implementation of regulatory 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 and safety functions.

Business plan

ORR produces and publishes an annual business plan, setting out resource requirements and key outputs planned for the coming financial year. Monthly internal reports on delivery of planned outputs form an important part of the assurance process, allowing the board and the executive to monitor the delivery of ORR's objectives. This is drawn from a business management system which requires the input of milestones against all activities contributing to ORR's strategic objectives.

I sub-delegate budgets to directors as appropriate and hold quarterly meetings with each director to hold them to account for their expenditure against these delegated budgets, and their progress against business milestones. Each director has a number of officers to whom s/he may sub-delegate financial and purchasing authority. Records of these authorities and associated signatures are maintained within the finance team and are refreshed as required.

New roads function

During 2014-15 legislation was passed to add a new function of strategic road network monitor to the ORR's existing rail responsibilities. Necessary preparatory work during this process was undertaken by ORR staff, funded by the Department for Transport under the provisions of the Ministry of Transport Act 1919. Other than the funding treatment, the work was undertaken in line with all ORR's existing controls and processes.

Whistleblowing

ORR's whistleblowing policy is available to all staff on the intranet. There have been no whistleblowing complaints during 2014-15. In 2015-16 we intend to increase awareness of both the Civil Service Code and the whistleblowing policy, as good practice. ORR is a prescribed person under the Public Interest Disclosure Act 1998.

Risk management strategy

The board considers the key risks facing ORR annually as part of the business planning process. Management of these risks is delegated to the Executive Committee. The Audit and Risk Committee is responsible for assuring the Accounting Officer and the board on the adequacy of risk management processes. The board receives quarterly updates from the Audit and Risk Committee, which cover risk management.

Strategic risks are recorded in a high level risk register (HLRR). This identifies risk owners (at director level) and describes mitigating actions along with progress and next steps on these. The HLRR is reviewed monthly by the Executive Committee and quarterly by the Audit and Risk Committee. HLRR risk owners are regularly invited to the Audit and Risk Committee to discuss the specific risks for which they are responsible.

The assessment of operational-level risks and the identification of appropriate controls also form a key part of the business planning process. Each directorate considers these aspects and includes them in the working level planning documentation as appropriate. Risk owners have the opportunity at regular team and Executive Committee meetings, to escalate risk from project and activity to directorate level and from directorate level to the HLRR if necessary.

During 2014-15 nine high level risks were identified, covering a wide range of issues from industry safety and Network Rail performance to ORR's own capability.

On safety, there has been no significant change in the risk landscape across both the mainline railway and London Underground. There has been a slight reduction in overall system risk and a notable, planned, reduction in level crossing risk. The UK rail network remains one of the safest in the world with no major reported incidents this year, although there is never room for complacency. A number of tragic incidents on the railways in other countries in 2014-15 remind us that maintaining safety requires constant vigilance.

There have been some concerns over train service performance and the reliability of data used by Network Rail during the year. Network Rail has also made less progress than expected on maintenance, renewals and enhancements. We continue to monitor these risks closely, taking appropriate action where necessary. In 2014-15 this has included formal safety enforcement on drainage, track quality and vegetation. We also launched a formal investigation into Network Rail's enhancement delivery, and another into train performance, specifically for Southern and Govia Thameslink Railway, as well as Scotland.

The reclassification of Network Rail to the public sector in September 2014 has created a new risk to ORR in terms of the public perception of the value of our role as the independent regulator of a public sector body.

We have made good progress on our new skills and capability project in 2014-15, which will inform our workforce planning going forwards.

Information assurance

ORR maintains an information management strategy which sets out how we manage our information as a combined safety and economic regulator. We maintain a risk register on information risk and oversee our compliance with our Government information assurance requirements through an information security forum chaired by our senior information risk owner. This forum meets quarterly (or by exception) to monitor breaches in information security, recommend follow-up actions as appropriate, and to provide a central management point for matters relating to information assurance.

ORR follows the requirements of Government's security policy framework, and submits a report on information assurance annually to Cabinet Office. This year, our focus has been on ensuring that we are applying the right impact levels to the information we hold throughout the organisation. As a result of this work we are able to ensure that we have the appropriate security controls in place (both physical and electronic). We also continue to ensure that a good risk-appropriate security culture is embedded at ORR. With the removal of the business impact levels by the Cabinet Office we now hold information categorised as 'official' and have recently reaccredited ourselves with the public service network code of connection.

On 28 March 2015 our electronic document management system, Mosaic, was seriously affected following some routine technical work, which led to users experiencing problems accessing files created before this date. Up to 10% of our documents were affected, but only 5% of these are current documents. We continue to work with our partners to remedy the situation and restore documents where possible. However it is likely that a small proportion of the 5% of documents will be irretrievable. We will consider whether we need to report this incident to the Information Commissioner in 2015/16 once we have assessed the full extent of the problem.

Personal data incidents

We have experienced no information risk incidents in 2014-15 which we considered to be sufficiently significant for the Information Commissioner to be informed. We may need to report the Mosaic incident above once the full extent of the problem has been established.

Internal audit

Our internal auditor, Grant Thornton, delivered a programme of audit reviews which was developed jointly with the executive and endorsed by the Audit and Risk Committee. The plan was designed to address the key risks facing the organisation and to provide assurance that ORR's key business processes are fit for purpose. The most that the internal audit service can provide to ORR is reasonable assurance that there are no major weaknesses in those systems audited. In respect of the audits undertaken in the year to 31 March 2015, their opinion is that ORR has adequate and effective systems over governance, risk management and control which provide moderate assurance regarding the effective achievement of ORR's objectives. There are no significant issues to report. Recommendations made by Grant Thornton during the year have either been implemented already, or will be implemented in 2015-16.

London fire incident

On 1 April 2015 a serious fire, caused by an electrical fault, took hold in the service tunnels underneath a road close to our London office. Extensive structural damage was caused to the tunnels such that all power, telephony and data cables for the nearby area were destroyed. Our business continuity procedures were successfully invoked, and staff were able to work remotely, either from home or from our contingency site. Staff were unable to return to the London office until 14 April 2015, but disruption to business delivery was minimal as a result of our contingency plans. We have incurred a small cost as a result of the incident but do not expect there to be any significant costs.

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 2014-15 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.

I have considered the evidence that supports this governance statement and am assured that ORR has a strong system of internal control in place to support the achievement of its strategic objectives. I have no disclosure of control weaknesses to make for 2014-15, other than the Mosaic document storage issue disclosed above.

Richard Price
Accounting Officer

28 May 2015

Board member committee attendances

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

*independent member of the Audit and Risk Committee

The certificate and report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Office of Rail Regulation for the year ended 31 March 2015 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. I have also audited the Statement of Parliamentary Supply and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the remuneration report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

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

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

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

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted parliamentary control totals for the year ended 31 March 2015 and shows that those totals have not been exceeded; and

- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the department's affairs as at 31 March 2015 and of its net operating cost for the year then ended; and

- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the remuneration report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and

- the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the remuneration report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the governance statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General

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

3 June 2015

Statement of Parliamentary Supply

In addition to the primary statements prepared under IFRS, the 'Government Financial Reporting Manual' (FReM) requires the Office of Rail Regulation 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.

Summary of resource and capital outturn 2014-15

								2014-15 £000	2013-14 £000
		Estimate			Outturn			Voted Outturn compared with Estimate: saving/ (excess)	Outturn
	SoPS Note	Voted	Non-Voted	Total	Voted	Non-Voted	Total		Total
		£000	£000	£000	£000	£000	£000	£000	£000
Departmental Expenditure Limit									
- Resource	2.1	3	-	3	3	-	3	-	3
- Capital	2.2	760	-	760	631	-	631	129	798
Annually Managed Expenditure									
- Resource	2.1	-	-	-	-	-	-	-	-
- Capital	2.2	-	-	-	-	-	-	-	-
Total Budget		763	-	763	634	-	634	129	801
Non-Budget									
- Resource	2.1	-	-	-	-	-	-	-	-
Total		763	-	763	634	-	634	129	801

Total Resource		3	-	3	3	-	3	-	3
Total Capital		760	-	760	631	-	631	129	798
Total		763	-	763	634	-	634	129	801

Net cash requirement 2014-15

SoPS note	2014-15 £000 Estimate	2014-15 £000 Outturn	2014-15 £000 Outturn compared with Estimate: saving/ (excess)	2013-14 £000 Outturn
4	2,000	(568)	2,568	1,989

Administration costs 2014-15

2014-15 £000 Estimate	2014-15 £000 Outturn	2013-14 £000 Outturn
3	3	3

Figures in the areas outlined in bold are voted totals or other totals subject to parliamentary control. Although not a separate voted limit, any breach of the administration budget will also result in an excess vote. Explanations of variances between Estimate and outturn are given in SOPS note 2 and in the management commentary.

Notes to the departmental resource accounts (Statement of Parliamentary Supply)

SOPS1. Statement of accounting policies

The Statement of Parliamentary Supply and supporting notes have been prepared in accordance with the 2014-15 'Government Financial Reporting Manual' (FReM) issued by HM Treasury. The Statement of Parliamentary Supply accounting policies contained in the FReM are consistent with the requirements set out in the 2014-15 'Consolidated Budgeting Guidance and Supply Estimates Guidance Manual'.

SOPS1.1 Accounting convention

The Statement of Parliamentary Supply and related notes are presented consistently with Treasury budget control and Supply Estimates. The aggregates across Government are measured using national accounts, prepared in accordance with the internationally agreed framework 'European System of Accounts' (ESA95). ESA95 is in turn consistent with the system of national accounts (SNA93), which is prepared under the auspices of the United Nations.

The budgeting system and the consequential presentation of Supply Estimates and the Statement of Parliamentary Supply and related notes, have different objectives to IFRS-based accounts. The system supports the achievement of macro-economic stability by ensuring that public expenditure is controlled, with relevant parliamentary authority, in support of the Government's fiscal framework. The system provides incentives to departments to manage spending well so as to provide high quality public services that offer value for money to the taxpayer.

The Government's objectives for fiscal policy are set out in the charter for budget responsibility. These are to:

- ensure sustainable public finances that support confidence in the economy, promote intergenerational fairness, and ensure the effectiveness of wider Government policy; and
- support and improve the effectiveness of monetary policy in stabilising economic fluctuations.

SOPS1.2 Comparison with IFRS-based accounts

Many transactions are treated in the same way in national accounts and IFRS-based accounts, but there are a number of differences as detailed below. A reconciliation of the department's outturn as recorded in the SOPS compared to the IFRS-based SoCNE is provided in SOPS note 3.2.

SOPS1.2.1 Receipts in excess of HM Treasury agreement

This applies where HM Treasury has agreed a limit to income retainable by the department, with any excess income scoring outside of budgets, and consequently outside of the Statement of Parliamentary Supply. IFRS-based accounts will record all of the income, regardless of the budgetary limit. This situation may arise in the following areas: (i) profit on disposal of assets; (ii) income generation above department spending review settlements; and (iii) income received above netting-off agreements.

SOPS1.2.2 Provisions - administration and programme expenditure

ORR reports provisions as DEL non-cash expenditure when initially recognising or adjusting a provision and a cash transaction on releasing a provision. This is an exceptional arrangement agreed with HM Treasury and is in line with provisions recognised in IFRS-based accounts. ORR therefore does not recognise AME release of provision and does not require a reconciliation between the IFRS-based accounts and the Statement of Parliamentary Supply.

SOPS2. Net outturn

SOPS2.1 Analysis of net resource outturn

							2014-15 £000	2013-14 £000
	Outturn				Estimate			Outturn
	Administration							
	Gross	Income	Net	Total	Net Total	Net total compared to Estimate	Net total compared to Estimate, adjusted for virements	Total
Spending in Departmental Expenditure Limit								
Voted:								
A	12,681	(12,680)	1	1	1	-	-	1
B	16,199	(16,198)	1	1	1	-	-	1
C	446	(445)	1	1	1	-	-	1
Total	29,326	(29,323)	3	3	3	-	-	3

SOPS2.2 Analysis of net capital outturn

						2014-15 £000	2013-14 £000
	Outturn			Estimate			Outturn
	Gross	Income	Net	Net	Net total compared to Estimates	Net total compared to Estimates, adjusted for virements	Net
Spending in Departmental Expenditure Limit							
Voted:							
A	277	-	277	760	483	-	361
B	354	-	354	-	(354)	-	437
C	-	-	-	-	-	-	-
Total	631	-	631	760	129	-	798

Net resource outturn for 2014-15 was £3k, matching the Estimate of £3k. Net capital outturn was £631k.

SOPS3. Reconciliation of outturn to net operating cost and against administration budget

SOPS3.1 Reconciliation of SOPS net resource outturn to SCNE net expenditure

		SoPS Note	2014-15 £000 Outturn	2013-14 £000 Outturn
Total resource outturn in statement of parliamentary supply	Budget	**2.1**	3	3
Net operating costs in Statement of Comprehensive Net Expenditure			3	3

SOPS3.2 Outturn against SOPS final administration budget to SCNE administration expenditure

	2014-15 £000 Outturn	2013-14 £000 Outturn
Gross administration costs	29,326	28,787
Gross income relating to administration costs	(29,323)	(28,784)
Net outturn - administration costs	3	3
Administration cost limit - Estimate	3	

The parliamentary control on administration costs applies to departments, agencies and other designated bodies.

SOPS4. 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	2.1	**3**	**3**	**-**
Capital outturn	2.2	**760**	**631**	**129**
Accruals to cash adjustments;				
Adjustments to remove non-cash items:				
Depreciation		(882)	(912)	30
New provisions and adjustments to previous provisions		-	(36)	36
Other non-cash items		(67)	(63)	(4)
Adjustments to reflect movements in working balances:				
Increase/(decrease) in receivables		-	(306)	306
Decrease in payables		2,066	-	2,066
Use of provisions		120	115	5
		1,237	(1,202)	2,439
Net Cash Requirement		2,000	(568)	2,568

SOPS5. Excess cash payable to the Consolidated Fund

SOPS5.1 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).

	2014-15 Income £000	2014-15 *Receipts* £000	2013-14 Income £000	2013-14 *Receipts* £000
Excess cash surrenderable to the Consolidated Fund	568	*568*	-	-
Total	**568**	***568***	**-**	**-**

SOPS5.2 Consolidated Fund income

	2014-15 £000	2013-14 £000
Balance of Intergovernmental Commission levy due to be paid	1,274	1,127
Total	**1,274**	**1,127**

Financial statements

Statement of Comprehensive Net Expenditure

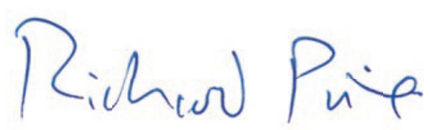
For the year ended 31 March 2015

	Note	2014-15 £000	2013-14 £000
Administration costs			
Staff costs	3	19,763	19,083
Other administration costs	4	9,563	9,704
Operating income	5	(29,323)	(28,784)
Total		3	3
Net operating cost		**3**	**3**
Net loss on:			
- Actuarial movement in year		38	45
Total other comprehensive net expenditure		**38**	**45**
Total comprehensive expenditure for the year ended 31 March		**41**	**48**

Statement of Financial Position

As at 31 March 2015

	Note	2015 £000	2014 £000
Non-current assets:			
Property, plant and equipment	6	1,870	1,963
Intangible assets	7	763	951
Total non-current assets		**2,633**	**2,914**
Current assets:			
Trade and other receivables	8	603	909
Cash & cash equivalents	9	1,842	3,116
Total current assets		**2,445**	**4,025**
Total assets		**5,078**	**6,939**
Current liabilities:			
Trade and other payables	10	(7,072)	(8,340)
Provisions	11	(104)	(228)
Total current liabilities		**(7,176)**	**(8,568)**
Non-current assets less net current liabilities		**(2,098)**	**(1,629)**
Non-current liabilities			
Provisions	11	(670)	(609)
Other payables >1 year	10	-	(6)
Pension liabilities	11	(573)	(528)
		(1,243)	**(1,143)**
Assets less liabilities		**(3,341)**	**(2,772)**
Taxpayers' equity:			
General fund		(3,485)	(2,938)
Revaluation reserve		144	166
Total taxpayers' equity		**(3,341)**	**(2,772)**



Richard Price
Accounting Officer

28 May 2015

Statement of Cash Flows

For the year ended 31 March 2015

	Note	2014-15 £000	2013-14 £000
Cash flows from operating activities			
Net operating cost	2	(3)	(3)
Adjustments for non-cash transactions	4	1,011	1,048
Decrease in trade and other receivables	8	306	1,376
less movement in receivables relating to items not passing through statement of comprehensive net expenditure	8	-	(1,045)
Increase/(Decrease) in trade and other payables	10	(1,274)	1,659
less movements in payables relating to items not passing through statement of comprehensive net expenditure	10	1,355	(1,898)
Use of provisions	11	(99)	(284)
Use of provisions - by analogy pension		(16)	(15)
Net cash outflow from operating activities		**1,280**	**838**
Cash flows from investing activities			
Property plant and equipment additions	6	(507)	(497)
Intangible non-current assets additions	7	(205)	(352)
Net cash outflow from investing activities		**(712)**	**(849)**
Cash flows from financing activities			
From the Consolidated Fund (Supply) - current year		-	2,000
From the Consolidated Fund (Supply) - prior year		-	1,045
Advances from the Contingencies Fund		10,000	10,000
Repayments to the Contingencies Fund		(10,000)	(10,000)
Net financing		**-**	**3,045**
Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**568**	**3,034**
Payments of amounts due to the Consolidated Fund		(3,116)	(1,164)
Amounts due to the Consolidated Fund - and not paid over		1,274	1,127
Payments of amounts due to the Consolidated Fund		**(1,842)**	**(37)**
Net increase/(decrease) in cash and cash equivalents after adjustments for receipts and payments to the Consolidated Fund		(1,274)	2,997
Cash and cash equivalents at the beginning of the period	9	3,116	119
Cash and cash equivalents at the end of the period	9	1,842	3,116

Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2015

	Note	General fund £000	Revaluation reserve £000	Total reserves £000
Balance as at 1 April 2013		**(2,963)**	**188**	**(2,775)**
Net parliamentary funding - drawn down		2,000	-	2,000
Amounts issued from the Consolidated Fund for supply but not spent at year end		(1,989)	-	(1,989)
Comprehensive net expenditure for the year	2	(3)	-	(3)
Actuarial loss relating to pension provision	11	(45)	-	(45)
Auditors remuneration	4	40	-	40
Additional depreciation charged for revaluation on assets	6	22	(22)	-
Balance as at 31 March 2014		**(2,938)**	**166**	**(2,772)**
Net parliamentary funding - drawn down		-	-	-
Excess cash surrenderable to the Consolidated Fund	10	(568)	-	(568)
Comprehensive net expenditure for the year	2	(3)	-	(3)
Actuarial loss relating to pension provision	11	(38)	-	(38)
Auditors remuneration	4	40	-	40
Additional depreciation charged for revaluation on assets	6	22	(22)	-
Balance as at 31 March 2015		**(3,485)**	**144**	**(3,341)**

Note 1.15 describes the accounting treatments within the general fund and the revaluation reserve.

Notes to the departmental resource accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2014-15 'Government Financial Reporting Manual' (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the ORR for the purpose of giving a true and fair view has been selected. The particular policies adopted by the ORR are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

In addition to the primary statements prepared under IFRS, the FReM also requires the department to prepare an additional primary statement. The Statement of Parliamentary Supply and supporting notes show outturn against Estimate in terms of the Net Resource Requirement and the Net Cash Requirement.

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 Applicable accounting standards and interpretations issued but not yet adopted

The final version of IFRS 9 'Financial Instruments' was issued in July 2014. This replaces IAS 39 'Financial Instruments: Recognition and Measurement'. The effective date is 1 January 2018. Endorsement by the EU is expected in the second half of 2015. It is expected that the application of IFRS 9 will have no significant impact on ORR's financial statements.

IFRS 13 'Fair Value Measurement' has been endorsed by the EU and will be adopted by the FReM from 1 April 2015. IFRS 13 defines fair value and provides guidance on fair value measurement techniques and disclosure requirements. It is not expected to have a significant impact on ORR’s financial statements.

1.4 Tangible non-current assets

Tangible non-current assets comprise fitting out costs, furniture, office and telecommunications equipment and computers, and are initially recognised at cost. The minimum level for capitalisation of a tangible non-current asset is £5,000. The grouping of assets below the threshold has been restricted to IT and fit-out costs.

Tangible non-current assets are carried at fair value. Depreciated historic cost is used as a proxy for fair value as annual revaluations would not create a material difference to the carrying value of the assets.

1.5 Depreciation

Depreciation is provided at rates calculated to write off the valuation of tangible non-current assets 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 & telecom equipment	5 - 10 years
Information technology & purchased software licences	3 - 5 years

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

1.6 Intangible assets

Purchased computer software licences and software development costs are capitalised as intangible non-current assets where expenditure of £5,000 or more is incurred. Software licences are amortised over the shorter of the term of the licence and the useful economic life. Software development costs are amortised over 5 years or the life of the asset, whichever is shorter. The useful economic life for software is normally 3 - 5 years. Website costs are amortised over 5 years. Amortised historic cost is used as a proxy for fair value as annual revaluations would not create a material difference to the carrying value of the assets.

1.7 Cash and cash equivalents

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.

1.8 Operating income

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

Since all costs are recovered via licence fees, the safety levy or from the Department for Transport, 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.

1.9 Administration costs

Administration costs reflect the costs of running ORR. This includes both administration costs and associated operating income.

1.10 Foreign exchange

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

1.11 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The defined benefit schemes are unfunded. ORR recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of defined contribution schemes, ORR recognises the contributions payable for the year.

In addition, five present employees (2013-14: six) 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. Like the PCSPS, the pension arrangements are defined benefits and unfunded schemes. A provision to meet ORR's liability for future payment is included in these accounts. The provision is based on actuarial valuations carried out by the Government Actuary's Department. The amounts paid and provided under these pension arrangements are included in the Statement of Comprehensive Net Expenditure and shown in note 11.

1.12 Leases

Operating leases

Rentals due under operating leases are charged to the Statement of Comprehensive Net Expenditure over the lease term on a straight-line basis, or on the basis of actual rentals payable which fairly reflects the usage. Future payments, disclosed at note 12, ‘commitments under leases’, are not discounted.

Finance leases

A finance lease is one that transfers substantially all the risks and rewards incidental to ownership of an asset. Interest charges due under finance leases are charged to the Statement of Comprehensive Net Expenditure. Future payments, disclosed at note 12, ‘commitments under leases’, are discounted at the rate specified in the lease.

1.13 Provisions

ORR provides for legal or constructive obligations which are of uncertain timing or amount at the balance sheet date of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the real rate set by HM Treasury; currently short term (-1.5%), medium term (-1.05%) and long term (2.2%).

The discount rate applied to provisions for voluntary early retirement and for past rail regulators' pension commitments is the Treasury’s post-employment benefits rate, which is 1.30% net of price inflation (2013-14: 1.80%).

1.14 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.

1.15 Reserves

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

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

1.16 Going concern

The Statement of Financial Position at 31 March 2015 shows a negative taxpayers' equity of £3.341 million. This reflects the inclusion of liabilities falling due in 2014-15, including the repayment of surplus cash to the Treasury's Consolidated Fund. Any liabilities in excess of cash receivable in year are financed mainly by drawings from the Contingencies Fund. Drawings from the Consolidated Fund are from grants of supply approved annually by Parliament, to meet ORR's Net Cash Requirement. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than required for the service of the specified year or retained in excess of that needed. All unspent cash, including that derived from ORR's income is surrendered to the Fund.

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. Such approval for amounts required for 2015-16 has already been given. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these accounts.

1.17 Contingent liabilities

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

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

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

2. Statement of operating costs by operating segment

	Economic regulation £000	Safety regulation £000	Roads monitoring £000	2014-15 Total £000	Economic regulation £000	Safety regulation £000	Roads monitoring £000	2013-14 Total £000
Gross expenditure	12,681	16,199	446	**29,326**	13,021	15,736	30	**28,787**
Gross income	12,680	16,198	445	**29,323**	13,020	15,735	29	**28,784**
Net expenditure	1	1	1	3	1	1	1	3

Short description of segments

Economic regulation – as the economic regulator of the mainline railway, ORR sets Network Rail's funding to enable it to carry out its work efficiently, ensuring that it delivers the agreed outputs whilst improving its own efficiency.

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

ORR is a combined safety and economic regulator for the rail industry. The segments above have been established by reference to the cost of work carried out in respect of these two functions, plus corporate activities allocated to safety and economic regulation on the basis of their direct costs.

No individual train operating company contributes more than 10% of ORR income. However Network Rail paid £4.1 million in safety levy in 2014-15 (£4.1 million in 2013-14).

Roads monitoring – in 2014-15 ORR continued to undertake preparatory work on behalf of the Department for Transport (DfT), to assess the feasibility of cost and efficiency monitoring for a possible new strategic roads authority. ORR has recharged DfT on a full cost recovery basis for this work, less £1k which is the token amount voted by Parliament for this activity.

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

3. Staff numbers and related costs

Staff costs comprise:

	Permanently employed staff	Others	2014-15 £000 Total	2013-14 £000 Total
Wages and salaries	14,835	669	15,504	15,106
Social security costs	1,385	26	1,411	1,459
Other pension costs	2,962	-	2,962	2,912
Sub Total	19,182	695	**19,877**	19,477
Less recoveries in respect of outward secondments	(114)	-	(114)	(394)
Total net costs*	**19,068**	**695**	**19,763**	**19,083**

*2014-15 no staff costs have been capitalised in 2014-15
*2013-14 £43k staff costs not included above have been capitalised and appear in Note 7

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

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme in which ORR is unable to identify its share of the underlying assets and liabilities. The scheme actuary (Hewitt Bacon & Woodrow) valued the scheme as at 31 March 2012. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation[3].

In 2014-15, employers' contributions of £2,850,532 were payable to the PCSPS (2013-14: £2,820,565) at one of four rates in the range 16.7% to 24.3% (2013-14: 16.7% to 24.3%) of pensionable pay, based on salary bands. The scheme's actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £11,984 were paid to one or more of a panel of two appointed stakeholder pension providers (2013-14: £23,162). Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £521 (0.8%) of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees (2013-14: £1,803, 0.8%). There were no contributions due to the partnership pension providers at 31 March 2015 (31 March 2014: £8,311).

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

One person (2013-14: no persons) retired early on ill-health grounds. There were no additional accrued pension liabilities (2013-14: £nil).

The Railway Pension Scheme (RPS) is a funded multi-employer defined benefit scheme administered by Railway Pensions Trustee Company Limited. This is a defined benefit scheme which prepares its own scheme statements. Details of the RPS pension statements can be found in the annual report and accounts of the RPS (www.railwaypensions.co.uk). Employer contributions of £57,631 were paid to the trustees of the RPS in 2014-15 at a rate of 1.525 times the individual member's contributions, on the basis of actuarial valuations (2013-14: £77,307, 2.374 times). ORR matches some of the BRASS2 contributions (an AVC scheme) made by the members. In 2014-15, matching contributions of £2,608 were made (2013-14: £2,405).

With regard to the accrued pension costs for former Chairs and past rail regulators, no notional contributions (as advised by the Government Actuary) have been charged to the Statement of Comprehensive Net Expenditure, (2013-14: £nil). The liability at 31 March 2015 is estimated at £573,000 (31 March 2014: £528,000).

Average number of persons employed

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

			2014-15 Number	2013-14 Number
	Permanent Staff	Others	Total	Total
Segment				
1. Economic Regulation	113	3	**116**	119
2. Safety Regulation	156	2	**158**	158
3. Roads Monitoring	2	1	**3**	-
Staff engaged in capital projects	-	-	-	1
Total	**271**	**6**	**277**	**278**

Included in "Others" are:

Others	Number	Cost (£000)
Non-executive directors (NEDs) (taking into account NEDS who did not work a full year)	9.0	267
Agency staff	3.6	
Specialist contractor	1.8	
Consultant	0.7	
Total (excluding NEDs)	6.1	540
Total	**15.1**	**807**

3.1 Reporting of civil service and other compensation schemes – exit packages

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

			2014-15			2013-14
Exit package cost band	**Number of compulsory redundancies**	**Number of other departures agreed**	**Total number of exit packages by cost band (total cost)**	**Number of compulsory redundancies**	**Number of other departures agreed**	**Total number of exit packages by cost band (total cost)**
<£10,000	-	-	-	-	-	-
£10,000 - £25,000	-	-	-	-	-	-
£25,001 - £50,000	-	-	-	-	-	-
£50,001 - £100,000	-	-	-	-	-	-
£100,001 - £150,000	-	2	2	-	-	-
£150,001 - £200,000	-	-	-	-	-	-
Total number of exit packages	**-**	**2**	**2**	**-**	**-**	**-**
Total resource cost £000	**-**	**271**	**271**	**-**	**-**	**-**

One of the above redundancies elected to take early retirement, using their redundancy payment to buy out the actuarial reduction of their pension. Under the Civil Service Compensation Scheme, if the compensation payment is insufficient to buy out the actuarial reduction, the employer must cover the shortfall. As a result, ORR incurred an additional cost of £44,355. This is included in the £271k above.

4. Other administrative costs

	2014-15 £000	2013-14 £000
Rental under operating leases:		
Hire of office equipment	9	1
Other operating leases	912	912
	921	**913**
Non-cash items:		
Depreciation	497	419
Amortisation	415	430
Interest charges in respect of by analogy pension scheme	23	19
Auditors' remuneration and expenses	40	40
	975	**908**
Provisions:		
Provision for redundancy costs	10	24
Provision for dilapidations	26	116
	36	**140**
Other:		
Travel and subsistence	882	858
Hospitality	81	82
Consultancies	1,471	1,700
IT & Telecoms	2,368	2,214
Landlord service charges & rates	1,105	996
Printing & stationery	118	154
Recruitment & training	455	522
Staff-related (including staff restaurant)	152	259
Building-related	225	284
External services - internal audit, payroll, banking and finance	262	228
External services - other	489	431
Other costs	23	15
	7,631	**7,743**
	9,563	**9,704**

5. Income

	Note	2014-15 £000	2013-14 £000
Licence fees		13,419	13,790
Less: income deferred to future year	10	(862)	(809)
Safety levy and related safety income		16,211	16,036
Less: income deferred to future year	10	(304)	(665)
Income from roads monitoring preparatory work		446	29
Miscellaneous income*		413	403
		29,323	**28,784**

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

6. Property, plant and equipment

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

	Fitting out costs £000	Furniture, office equipment & telecoms £000	Information technology £000	Total £000
Cost or valuation				
At 1 April 2013	3,425	1,152	116	4,693
Additions	322	107	122	551
Disposals	-	-	-	-
At 31 March 2014	**3,747**	**1,259**	**238**	**5,244**
Depreciation				
At 1 April 2013	1,788	1,049	25	2,862
Charged in year	302	54	41	397
Disposals	-	-	-	-
Revaluations	22	-	-	22
At 31 March 2013	**2,112**	**1,103**	**66**	**3,281**
Carrying amount at 31 March 2014	**1,635**	**156**	**172**	**1,963**
Carrying amount at 31 March 2013	**1,637**	**103**	**91**	**1,831**
Asset financing				
Owned	1,635	126	172	**1,933**
Finance lease	-	30	-	**30**
Carrying amount at 31 March 2014	**1,635**	**156**	**172**	**1,963**

7. Intangible assets

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

	System developments	Software licences	Website	Assets under construction	Total £000
Cost or valuation					
At 1 April 2013	1,739	382	-	-	2,121
Additions	60	36	151	-	247
At 31 March 2014	1,799	418	151	-	**2,368**
Amortisation					
At 1 April 2013	721	266	-	-	987
Charged in year	337	91	2	-	430
At 31 March 2014	1,058	357	2	-	**1,417**
Carrying amount at 31 March 2014	741	61	149	-	**951**
Carrying amount at 31 March 2013	1,018	116	-	-	**1,134**
Asset financing:					
Owned	741	61	149	-	951
Carrying amount as at 31 March 2014	**741**	**61**	**149**	**-**	**951**

£136k of costs have been included within ‘assets under construction’, for ongoing development of our ‘Sharepoint’ operating system. This will be brought into use in 2015-16.

8. Trade receivables and other current assets

8(a) Analysis by type

	31 March 2015 £000	31 March 2014 £000
Amounts falling due within one year		
Trade receivables	1	355
Staff receivables	89	84
Prepayments and accrued income	393	355
HM Revenue and Customs (VAT)	119	105
Amounts falling due after more than one year		
Prepayments and accrued income	1	10
Total at 31 March	**603**	**909**

Included in staff receivables are travel season ticket loans for 58 employees totalling £80,095 (2013-14: £76,842 for 51 employees) and £8,449 relating to other advances made to 28 employees (2013-14: £7,474 to 32 employees).

8(b) Intra-government balances

		Amounts falling due within one year £000		Amounts falling due after more than one year £000
	2014-15	**2013-14**	**2014-15**	**2013-14**
Balances with other central government bodies	276	493	-	-
Balances with local authorities	23	11	-	-
Balances with bodies external to government	303	395	1	10
Total receivable at 31 March	**602**	**899**	**1**	**10**

9. Cash and cash equivalents

	2014-15	2013-14
	£000	£000
Balance at 1 April	3,116	119
Net change in cash balances	(1,274)	2,997
Balance at 31 March	**1,842**	**3,116**
The following balances at 31 March were held at:		
Government Banking Service	1,807	3,102
Commercial banks and cash in hand	35	14
Balance at 31 March	**1,842**	**3,116**

10. Trade payables and other current liabilities

10(a) Analysis by type

	31 March 2015 £000	31 March 2014 £000
Amounts falling due within one year		
Other taxation and social security	7	7
Trade payables	396	350
Other payables	759	740
Accruals	2,896	2,579
Deferred income	1,166	1,524
Finance leases	6	24
Balance of Intergovernmental Commission levy payable to the Consolidated Fund	1,274	1,127
Excess cash surrenderable to the Consolidated Fund	568	-
Amounts issued from the Consolidated Fund for supply but not spent at year end	-	1,989
Total current liabilities at 31 March	**7,072**	**8,340**
Amounts falling due after more than one year		
Finance leases	-	6
	-	**6**
Total trade payables and other current liabilities	**7,072**	**8,346**

10(b) Intra-government balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	£000	£000	£000	£000
	2014-15	2013-14	2014-15	2013-14
Balances with other central government bodies	1,849	3,166	-	-
Balances with bodies external to government	5,223	5,174	-	6
Total payable at 31 March	**7,072**	**8,340**	**-**	**6**

11. Provisions for liabilities and charges

The provision for early retirement was established to provide for future retirement benefits of employees who have retired early. The provision for accommodation has been established in order to satisfy the obligation to return our offices to their original condition. The provision has been calculated on a cost per square foot basis and discounted from the end of the lease date. The 'other' provision is for a potential VAT liability.

	Early retirement	Accommodation	Other	Total	2013-14 Total
	£000	£000	£000	£000	£000
Balances at 1 April 2014	148	644	45	837	981
(No longer required)/provided for in year	9	31	-	40	143
Provisions utilised in the year	(99)	-	-	(99)	(284)
Borrowing costs (unwinding of discounts)	1	(5)	-	(4)	(3)
Balance at 31 March 2015	**59**	**670**	**45**	**774**	**837**

Analysis of expected timing of discounted flows

	Early Retirement	Accommodation	Other	Total	2013-14 Total
	£000	£000	£000	£000	£000
Not later than one year	59	-	45	**104**	228
Later than one year and not later than five years	-	670	-	**670**	36
Later than five years	-	-	-	**-**	573
Balance at 31 March 2015	**59**	**670**	**45**	**774**	**837**

Only two individuals remaining as part of the early retirement scheme, which is expected to be fully utilised in 2015-16.

Details for by-analogy defined benefit pension schemes

	As at 31 March 2015	As at 31 March 2014
Liability in respect of:	£000	£000
Active members	-	-
Deferred pensioners	244	217
Current pensioners	329	311
Total present value of scheme liabilities	**573**	**528**

	As at March 2015	As at March 2014
Liability calculation	**£000**	**£000**
Present value of scheme at 1 April	528	479
Current service cost (net of employee contribution)	-	-
Employee contribution	-	-
Interest cost	23	19
Actuarial (gain)/loss	38	45
Benefits paid	(16)	(15)
Past service cost	-	-
Balance at 31 March	**573**	**528**

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 2015. In 2014-2015 ORR contributed £23k (2013-14: £19k) in respect of interest costs. 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.

As there are no active members in the scheme the estimated contributions for 2014-2015 are nil.

History of experience losses/(gains)

	Year Ending 31/03/2015	Year Ending 31/03/2014	Year Ending 31/03/2013	Year Ending 31/03/2012	Year Ending 31/03/2011
Experience losses/(gains) arising on the scheme liabilities					
Amount (£000)	(4)	5	1	12	11
Percentage of scheme liabilities at end of year	-0.7%	0.9%	0.2%	2.7%	2.5%

Life expectancy at retirement

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

Illustrative life expectancies at ages 60 and 65 for future pensioners as at 31 March 2014 and 2015 are based upon members aged 40 at these dates.

Current Pensioners	**As at 31 March 2015**		**As at 31 March 2014**	
Exact Age	Men (years)	Women (years)	Men (years)	Women (years)
60	29.1	31.3	29.0	31.2
65	24.2	26.4	24.1	26.2
Future pensioners	**As at 31 March 2015**		**As at 31 March 2014**	
Exact Age	Men (years)	Women (years)	Men (years)	Women (years)
60	31.4	33.6	31.3	33.5
65	26.9	29.0	26.8	28.9

Cumulative amount of actuarial gains and losses

The cumulative actuarial loss for the year to 31 March 2015 amounts to £254,000 (31 March 2014: £216,000).

Present value of scheme liabilities

	Value at 31/03/2015 £000	Value at 31/03/2014 £000	Value at 31/03/2013 £000	Value at 31/03/2012 £000	Value at 31/03/2011 £000
Liability in respect of:					
Active members	-	-	-	-	-
Deferred pensioners	244	217	189	168	152
Current pensioners	329	311	290	278	269
Total present value of scheme liabilities	**573**	**528**	**479**	**446**	**421**

12. Financial and capital commitments

12.1 Capital commitments

At 31 March 2015 ORR had capital commitments of £14k in relation to furniture and telecommunications.

12.2 Commitments under leases

12.2.1 Operating leases

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

	31 March 2015 £000	Restated 31 March 2014 £000
Obligations under operating leases comprise:		
Buildings		
Not later than one year	1,149	1,163
Later than one year and not later than five years	4,237	4,471
Later than five years	372	1,208
	5,758	**6,842**
Other		
Not later than one year	14	-
Later than one year and not later than five years	34	-
Later than five years	-	-
	48	-

The 2013-14 operating leases figures have been restated to include irrecoverable VAT of £622k which had been incorrectly excluded. Obligations under operating leases had previously been reported as £6,220k.

During 2014-15 we entered into an operating lease for the supply of printers, starting in May 2015.

There is an implied operating lease in part of the contractual arrangements we have in place for the provision of information technology managed services to the organisation. ORR had a contract from July 2011 to June 2015 for the provision of a fully managed service for a complete range of information technology services. The contract has been extended for an additional two years. ORR pays an amount based on the number of users with a service charge per user depending on whether a desktop or laptop unit is used. However, the price per unit includes all other information services such as the provision of an offsite data centre (which is not exclusively used by ORR); the staffing of service desk support; TUPE arrangements for eight transferred staff; server infrastructure; local area network infrastructure; wide area network infrastructure; data and file storage; installation and support of ORR software; office relocation and decommissioning work; security network compliance to 'official' (previously IL3) standard; the Government's secure intranet; video conferencing and remote access arrangements; contract management and support. As a result, it is impracticable to separate the lease payments for the various items of hardware, from all other IS services paid under the contract.

The estimated value of our information technology managed services (based on current levels of service delivery) is £1.808 million per annum.

12.2.2 Finance leases

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

	31 March 2015 £000	31 March 2014 £000
Leases other than buildings		
Not later than one year	7	27
Later than one year and not later than five years	-	7
Later than five years	-	-
Less interest element	(1)	(4)
	6	**30**

The total amount charged in the Statement of Comprehensive Net Expenditure in respect of the service element of finance leases was £2,925 (2013-14: £3,912).

12.4 Other financial commitments

Apart from the capital commitments and lease commitments mentioned above ORR has not entered into any non-cancellable contracts for any new expenditure as at 31 March 2015 (31 March 2014: £nil).

13. Losses and special payments

There were no losses or special payments in excess of £300,000, either individually or in aggregate, in 2014-15 or 2013-14.

14. Financial instruments

Because of the largely non-trading nature of its activities and its licence fee and safety levy financing structure, ORR does not face significant medium to long-term financial risks.

As the cash requirements of the department are mainly met through the licence fee and safety levy, with advances from the Contingencies Fund to cover timing differences between income and expenditure, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body of a similar size.

The majority of financial instruments relate to contracts for non-financial items in line with the department's expected purchase and usage requirements and the department is therefore exposed to little credit, liquidity or market risk.

Interest rates and foreign currency risks

ORR is not exposed to any significant interest rate or foreign currency risks.

Fair values

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

There is no material difference between the book values and fair values of ORR's financial assets and liabilities as at 31 March 2015.

15. Contingent liabilities disclosed under IAS 37

Under the terms of the lease on our One Kemble Street building, we are subject to a rent review, which can be backdated to 25 December 2014. Headlease negotiations have opened between the lead tenant of the building and the building owner. The outcome of the negotiations is likely to result in an increase to the rent paid by ORR. We are unable to reliably assess the quantum of the rent increase as it is dependent upon uncertain events in the future.

We have been informed by an external consultant that there were errors in schedule 8 payment rates that they calculated as part of the 2013 periodic review. We have informed the rail industry of the error and are working with the Department for Transport, Network Rail and the consultant to identify the scale of the problem, and to resolve this matter. We are currently unable to reliably assess the timing or quantum of any potential payments that may need to be made between the parties.

16. Related party transactions

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

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

17. Events after the reporting period

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

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