APPROVED AT RSSB AGM: 21 NOVEMBER 2017

# Annual Report and Group Financial Statements

Year ended 31 March 2017

**Rail Safety and Standards Board Limited**

COMPANY NO. 04655675

# Contents

Chairman's Statement ..... 4

Chief Executive Officer's report ..... 5

Strategic Report ..... 6

Directors Report ..... 22

Corporate Governance Report ..... 26

Independent Auditors Report ..... 36

Group Financial Statements: ..... 37

Principal accounting policies ..... 35

Key accounting estimates and assumptions ..... 35

Consolidated statement of comprehensive income ..... 35

Group and Company statement of financial position ..... 35

Group statement of cash flows ..... 35

Statement of changes in reserves ..... 35

Notes to the financial statements ..... 35

# Chairman's Statement

RSSB has seen much change this year and we do not anticipate that pace of development slowing in 2017. The ORR review of our work gave us, our members and stakeholders, the opportunity to reflect on developments across the industry and consider how we might shape the company to build on our strengths and address future industry requirements. We have now a clear sense of direction and have clarified RSSB's role and its relationship with other industry bodies.

Importantly we have confirmed the important contribution that RSSB has played in supporting the industry by delivering continuous improvement in safety knowledge, risk management and the application of standards, over the past decade. But it is vital we never lose focus on safety and that is why the work that RSSB will do to support the industry in delivering its Strategy for Safety, Health and Wellbeing, is hugely important and has been welcomed by the industry. Going forward, we will need to develop new capabilities, particularly in relation to health and wellbeing.

In the coming year, the company has much work to do to deliver what our members have asked for in the recently concluded consultation. The board will be supporting and monitoring the executive as they deliver these changes, but we will also be paying particular attention to the medium- to long-term financial sustainability of the organisation. Defined benefit pension liabilities, a review of the funding formula for the organisation, and the changing shape of the organisation all need to be taken account of.

RSSB can achieve its purpose only because of its independence from any one part of the industry and the broad range of experience and expertise that exists on the board, on which we have also seen some change. I would like to thank Paul Kirk who completed a long term on the board, and who gave us considerable energy and commitment. I would also like to welcome Lee Jones and Phillip Hoare as industry non-executive members, and John Clarke as a non-industry, non-executive director. We also welcomed Mark Phillips to the board as an executive director and later also as CEO. Having laid the foundations for the future, Chris Fenton left in May 2016, and we are delighted that Mark has stepped up to lead RSSB on the next stage of our journey. Together we will continue to ensure RSSB delivers what the industry needs to help it deliver a safer, more efficient and sustainable railway.

Anna Bradley,
Chairman

# Chief Executive Officer's Report

During the year the board has refreshed RSSB's mission and our vision is now – **'To be a centre of excellence, valued by its members and stakeholders as an essential contributor to their success'**, and updated the strategic objectives. In the summer of 2016 the board invited the Office of Rail and Road (ORR) to carry out a five-yearly review of RSSB and its functions. This led to a report published in November 2016 with several important recommendations which RSSB's board accepted in full.

As a direct consequence of the review and feedback from our members and stakeholders, we have launched a transformation programme to make RSSB fit for the future. We have made engaging more effectively with our members our number one goal. We are also asking them to commit to working with us to develop our products and services to better meet their requirements and priorities.

A first important step to doing this was the launch of our annual business plan consultation in January, supported by four themed workshops. This has helped us to prioritise our work programme and understand the emphasis our members place on new areas including sustainability, health and wellbeing.

We recognise that some of our projects and programmes have taken longer to deliver than our members consider is necessary, and that the groups and committees that support our work could be run more efficiently and effectively. To address this we have created a single project delivery team, implementing good practice project management processes and reviewing the number and operation of the groups facilitated by RSSB. I am confident that over the next year we will transform RSSB into a highly effective business, better aligned to meeting the requirements of its members and stakeholders.

In the year, we implemented the new industry Safety Management Intelligence System (SMIS+). This enables us to more effectively monitor safety trends and provides reporting for the industry's safety strategy.

In the course of the year I was delighted to appoint Chris Lawrence, Technical Director, Paul Marchant, Head of Finance, Keith Hanlon-Smith, Head of Human Resources, Tom Lee, Director of Standards, and Luisa Moisio, Research and Development Programme Director to the Senior Leadership Team.

Mark Phillips,
Chief Executive Officer

# Strategic Report

## Business Model

### RSSB mission

Through research, standards, analysis and insight, RSSB supports our members and stakeholders in driving improvements in health and wellbeing and delivering a safer, more efficient and sustainable rail system.

### Vision

To be a centre of excellence, valued by its members and stakeholders as an essential contributor to their success.

### How we work

Being influential through our independent, evidence-based approach, built on strong technical capability, and the enabling of collaborative member and stakeholder engagement for the benefit of the whole rail system.

### Primary objective

Britain's rail industry comprises many different organisations, which together form a system with a common purpose of moving people and freight safely and efficiently by rail.

RSSB's primary objective is to support its members (the rail industry) to achieve their objectives of improving safety, performance and value for money across the industry, with a focus on:

- Reducing safety risk so far as is reasonably practicable
- Increasing capacity (where appropriate)
- Improving operating performance and customer satisfaction (where appropriate)

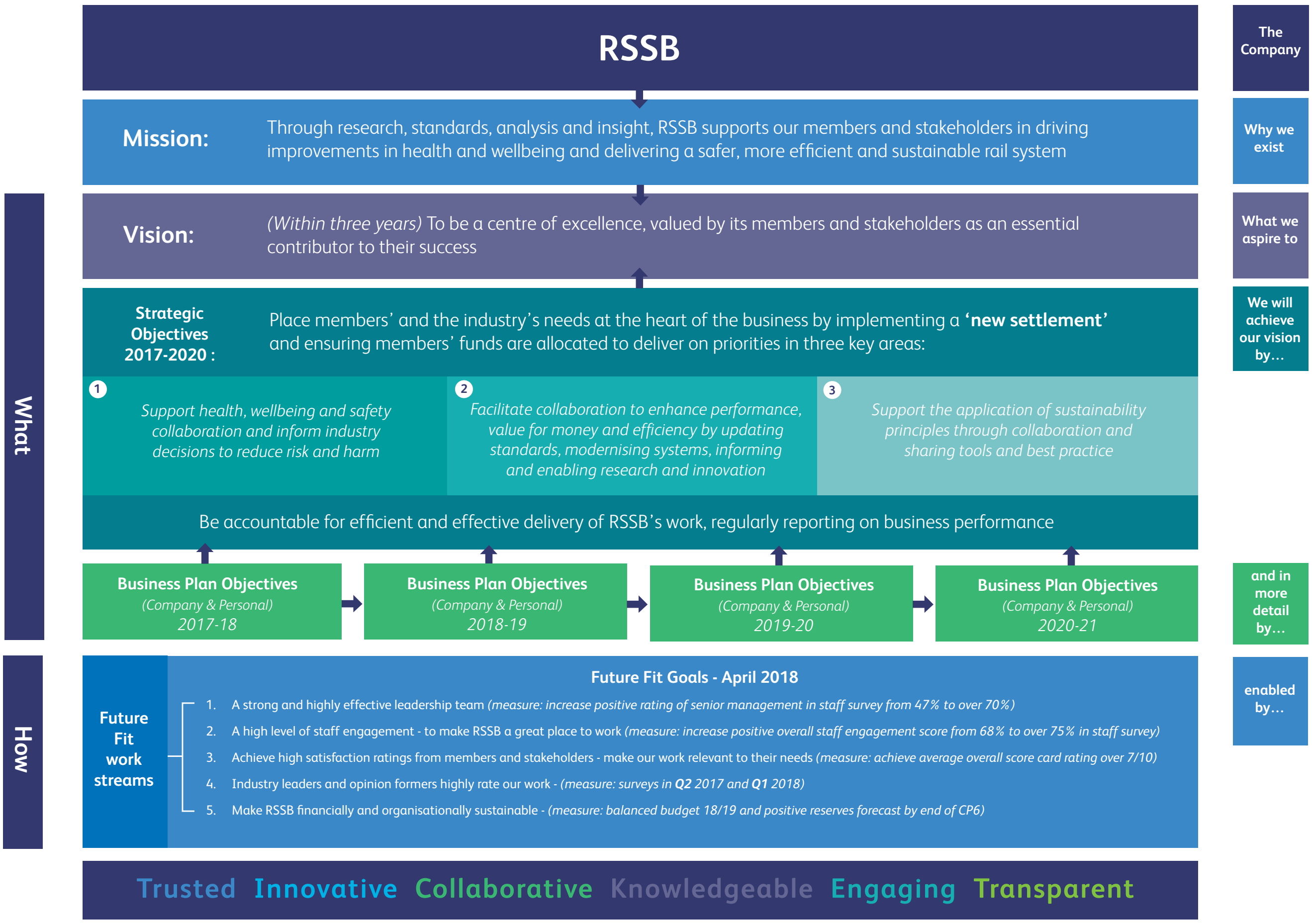
The company fulfils its primary objective through the delivery of functions and services in accordance with the principles of operation through both our strategic and company objectives.

APPROVED AT RSSB AGM: 21 NOVEMBER 2017

## Strategic objectives

Underpinning our work are our Strategic Plan Objectives 2017-2020:

1. Place members' and the industry's needs at the heart of the business by implementing a 'new settlement' and ensuring members' funds are allocated to deliver on priorities in three key areas:
   a. Support health, wellbeing and safety collaboration and inform industry decisions to reduce risk and harm
   b. Facilitate collaboration to enhance performance, value for money and efficiency by updating standards, modernising systems, informing and enabling research and innovation
   c. Support the application of sustainability principles through collaboration and sharing tools and best practice
2. Be accountable for efficient and effective delivery of RSSB's work, regularly reporting on business performance.



## Members

At RSSB we bring the industry together to make collective decisions.

As well as helping the industry in areas of safety, standards, knowledge, and innovation we also provide support across a wide range of cross-industry topics requiring our knowledge and independence. In summary we provide a constant point of reference in a changing environment.

Our work involves close collaboration, but as technical experts we are also able to step back and provide an informed view. And because we can see both the big picture and the detail, we are able to furnish the industry with the information and tools it needs to continuously improve.

We are an expert body with extensive technical knowledge, skills and experience. We work for the industry, are non-profit-making and independent of any commercial interests.

We span the entire rail system, including in our membership:

- Infrastructure companies
- Train and freight operators
- Rolling stock owners and
- Suppliers to the industry

## Funding

RSSB is a not-for-profit company which has two funding streams:

Member Funding: A fixed five-year membership levy paid by our members, set out at the start of any given control period and governed by the existing constitution. This accounts for circa £25m of funding per annum.

Non-Member Funding: We receive a series of discretionary, ring-fenced grants from the Department of Transport to fund activities beyond our core member-funded activities. Currently we receive grants for the following activities: Research, Innovation and the Rail Technical Strategy.

## RSSB's future development

During 2016/17, RSSB invited the Office of Rail and Road (ORR) to review our purpose and role within the industry to ensure the correct focus to support the industry. The review concluded that RSSB should develop a new settlement with its members and become a more responsive, member-centric organisation. As a result, an internal transformation change programme, Fit for the Future, commenced in 2016/17 to meet the challenges raised in the ORR review. The majority of this programme will be delivered in 2017/18.

## RDDS principal activity

The principal activity of the subsidiary company, Railways Documentation and Drawing Services Limited (RDDS), is to act as a custodian of the library of the British Railways Board's Traction and Rolling Stock drawings and documents and provide copies of such to persons and organisations entitled to receive them.

# Business review

## A snapshot of our year

Throughout 2016/17, RSSB has developed and delivered some significant programmes and projects to support the industry's transformation. In addition to working on individual programmes, we have also worked with the industry to develop several key strategies to guide future activity.

## Safety

Safety remains central to our work and, in collaboration with the industry, we developed Leading Health and Safety on Britain's Railway, now adopted and published by the Rail Delivery Group (RDG). The strategy identifies 12 priority areas for the industry where, by working together, levels of risk can be reduced more effectively. These areas range from those not traditionally associated with the railway – such as fatigue and road driving risk – to better understood risk such as that emanating from level crossings. The strategy also identified nine capabilities the industry needs to develop further to address health and safety issues. The strategy, which was endorsed by all RSSB members, will now be led by RDG and monitored and driven through the Industry Health and Safety meeting. The Network Rail/ RSSB team responsible for developing the strategy won Rail Safety Team of the year at the Rail Staff Awards.

## Data and risk

It has been a decade since the last passenger fatality in a train accident on the GB mainline railway. That said, there is no room for complacency on safety. One of the key ways that RSSB has been supporting the industry in improving its safety record is by using data and intelligence to identify risks, trends and issues. This year we also published the cross-industry Data and Risk Strategy, and made a first step in delivering it by rebuilding the industry Safety Management Intelligence System (SMIS) as a platform for further enhancement. Based on member feedback further refinements to the system will be delivered this year.

RSSB's analysis of key issues also enabled us to provide an independent perspective on the ongoing debate around driver only operation in relation to door control and train dispatch. We also undertook key risk assessment projects for industry including work on the case for retro-fitting internal train doors, and on controls to prevent freight train derailments. Both of these assessments have helped to inform the railway's decision-making to reduce risk and harm.

Work continued to support industry's growing interest in improving the approach to health and wellbeing, one example being a quick-start guide for people and operational teams to procure cost-effective occupational health arrangements.

Our two supplier assurance schemes, RISAS and RISQS, and the confidential reporting service CIRAS, have also been supporting safe operations across the industry. RISAS benefited from new RSSB guidance for companies working through new human factors requirements in the assessments. The second phase of R2, the industry's rolling stock register, also went live during 2016/17.

## Improving standards

Our work in standards has also been supporting the industry. Industry's agreed strategy is designed to help with transition from domestic to European to International standards and clarifies how standards help rail companies in addressing their legal and other obligations. This includes reviewing and re-assigning standards to give organisations an efficient and consistent approach while offering appropriate flexibility. This has included removing requirements from Railway Group Standards (RGS) and moving them to Rail Industry Standards (RIS), allowing more flexibility in their application.

There have been several significant changes to standards over the last year, including the removal of the requirement for yellow front ends.

# 47%

Gender diversity of the headcount of staff which is almost **50/50** split, with **145** women and **168** men.

# 15%

Increase in **CIRAS** members, rising to **1860** paid members. **www.ciras.org.uk**

# 4006

Number of twitter followers on **www.twitter.com/rssb_rail**

National

# 27

Trade

# 22

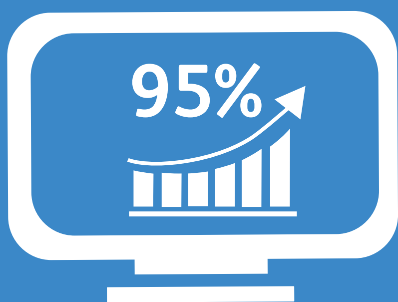

Number of media articles over the year

# 20

Industry engagement events over the year

# 6

New **RSSB** members




**587** users of the Carbon Tool in March 2017 compared to **301** in March 2016

In a successful collaboration with industry - including trades unions - we have updated the arrangements to apply when the industry train radio system (GSM-R) fails. A new Rail Industry Standard sets out the minimum requirements for Internet provision, including performance, security, and responsibilities for improving on-board Internet access. This work earned RSSB the Rail Exec's award for Most Interesting Approach to Train Operations.

In addition to individual standard changes, we have developed the Rail Industry Cyber Security Strategy – an industry first. The strategy has now been adopted and promoted by the Rail Delivery Group.

Making the Rule Book more user friendly and accessible has also been a priority. We have developed the Digital Rule Book, an app for mobile devices that contains all the modules and handbooks needed for specific roles on the railway. The Apple version has been well received in trials with train drivers and guards at one busy franchise. Following trials of the Android and Windows versions, the product will be made available to the industry towards the end of 2017.

## The rail industry of the future

Supporting the industry's vision of the future has been a key driver for RSSB. Building on the successful Rail Technical Strategy from 2012, RSSB developed and delivered the Capability Development Plan (CDP). The CDP is the detailed plan which sets out the steps needed to bring about a transformation of the railway to meet current and future demands for mobility; and to be flexible enough to respond to the changing expectations of passengers and freight customers. The CDP has now been adopted by the Rail Delivery Group to promote and deliver.

Research and innovation activity have played a valuable part in developing ideas and solutions to improve and enhance the industry performance in relation to efficiency and effectiveness. Partnership work between RSSB and Loughborough University developed a set of railway points, Repoint, to eliminate the risk of derailment. The Repoint work continues to receive positive support across the industry and was recognised with the prestigious 2016 Institute of Engineering and Technology award for transport. Our partnership working with academia via RRUKA, and the support of young people in the industry have continued to develop and our annual Next Generation Rail Conference attracted a large turnout from across the industry.

Funding for new ideas and innovations through our competitions has generated some interesting ideas on the rail industry's objectives regarding capacity, efficiency, and cost. The Tomorrow's Train Design Today competition delivered two seating solutions named Horizon and Island Bay to help maximise passenger capacity and comfort. Both designs can be installed on new or existing trains and trams, with the potential to boost capacity in carriages by up to 30%.

We also launched the Powertrain programme to develop alternative technologies for rail vehicles to power themselves. Potential fuel savings of around 30%, and similar reductions in carbon dioxide and nitrous oxide emissions, have been suggested by eight RSSB-funded feasibility studies which aim to find more efficient ways of powering trains.

Successful methods could also suggest new approaches to the electrification of the network. Two companies, Artemis Intelligent Power and Dynamic Boost Systems, were both awarded funding by RSSB to develop alternative ways of powering trains that could deliver improvements of up to 30% in fuel efficiency.

RSSB's innovations team has provided £1.6m to Transport Design International (TDI), to develop Very Light Rail (VLR) which will help industry to meet the increasing demand for transport connectivity between regional and rural areas. VLR can reduce carbon emissions and cost through lower levels of track damage. Facilitating low-cost use of VLR will provide integrated and sustainable short-range public transport systems. The bogie technology design, which was supported by the University of Warwick's WMG *(Warwick Manufacturing Group)* and Unipart Rail, was successfully demonstrated in the laboratory early in 2016, confirming the benefits of the hybrid drive propulsion system. The next stage is to develop and build the VLR vehicle body, and integrate it with the bogie technology. Existing regulations and safety standards relating to very light railcars have also been evaluated to support take-up.

## Innovation and efficiency

Research into enhancing train sanding processes, to improve adhesion during braking and acceleration, has been successful; and this will be followed up with more detailed practical application research in the year ahead. In addition, the research into the impact of climate change and how this will affect the industry has been completed. It provides the industry with a clear understanding of the issues and a set of priorities. RSSB also launched the Rail Sustainability Development Principles for the industry. Use of RSSB's Rail Carbon Tool has continued to increase, and it has now supported over 500 projects.

The £4m TOC 16 competition is designed to encourage greater collaboration between both train operators and suppliers, challenging them to work together to develop new and innovative ways to improve performance, reliability and safety on the railway while enhancing the customer experience. RSSB funding has enabled the winners to move their projects into the delivery phase. This year's winning projects include new ways to manage service disruption and station overcrowding as well as the use of wearable technology to understand customer wellbeing throughout their end-to-end journey.

## Putting members first

As well as delivering a range of programmes and projects to support the industry, 2016/17 saw RSSB accept the recommendations of the ORR review, including undertaking a member consultation to better understand their priorities and how we can refocus our relationship with the industry through a 'new settlement'.

We have also grown our membership from 69 members in 2015/16 to 75 members in 2016/17.

Our 'Future Fit' transformation programme is heralding significant improvements to internal office systems and processes, positioning RSSB for the challenges ahead. Board and internal governance and reporting have been strengthened, with better quality information on budgeting and forecasting. Revised procedures will ensure that our outputs are more targeted towards, and useable by, those people who have to implement findings or recommendations.

# Principal risks and uncertainties

Effective risk management is fundamental in helping us achieve our strategic and operational objectives. This is embedded in the Group governance framework.

The directors have judged that there are currently six key risks to RSSB.

| Principal Risk | Risk Movement | Key Mitigations |
|---|---|---|
| **Future financial viability of member funded activity** | Increasing | Fixed-term funding model secured until end of CP5 and plan being developed for CP6 model.<br>External advisors procured to review current financial model and provide advice on the re-alignment of future funding requirements.<br>Future-Fit work stream established to develop long-term strategy. |
| **Viability of defined benefit pensions scheme** | Increasing | Remuneration Committee oversight.<br>Independent report obtained regarding the long-term viability of the pensions scheme. |
| **Financial and business impact by the transfer of Innovation activity**<br>*(cause: During the year the DfT advised RSSB that the rail innovation grant would in future years be directed to Innovate UK. As a consequence of this policy decision, RSSB is in discussion with the DfT and Innovate UK about the completion and wind down of the current activity)* | Decreasing | Working with DfT and Innovate UK to ensure a smooth transition and obtain funding approval for residual activity to support delivering Rail Technical Strategy.<br>Legal advice received. |
| **Governance failure:**<br>**CIRAS/RISQS** | Decreasing | Deep-dive audits carried out.<br>Increased board oversight and governance arrangements strengthened. |
| **Interest rate risk** | Stable | The Group is exposed to fair value interest rate risk on its floating rate deposits. The objective of the Group in managing interest rate risk is to maximise interest income through placing excess cash resources into fixed-term deposits at a fixed-rate of return. |
| **Liquidity risk** | Stable | The objective of the group in managing liquidity risk is to ensure that it can meet its financial obligations as and when they fall due. The Group expects to meet its financial obligations through operating cash flows. In the event that the operating cash flows would not cover all the financial obligations, the Group will utilise its excess cash resources. Given the cash balance, the Group is in a position to meet its commitments and obligations as they fall due. |


4
5
Danger

# Financial review and year end position

RSSB's operating income arises from a mix of membership levies, grants from the Department for Transport and Network Rail and miscellaneous receipts from various goods and services.

Operating income grew by 14% during 2016/17 to £55.5m (2015/16 - £48.7m).

The increase in income was mainly due to the increased R2 membership levy received (which was for a full year whereas 2015/16 was a part year), and additional Innovation and Technical income recognised during this financial year. In accordance with section 24 of Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (FRS 102), grant funding for this activity is recognised in the Statement of Comprehensive Income when the corresponding expenditure is incurred.

Membership income increased by 1% to £22.5m (2015/16 - £22.1m) due to a combination of increases to existing levies as set out in RSSB's constitution and slightly increased membership.

Details on other sources of income are set out in Note 1.

## Expenditure

Operating expenditure increased by 12% to £55.1m (2015/16 - £49.1m); a breakdown of expenditure is provided in Note 1.

Innovation activities incurred expenditure approaching £17.9m (2015/16 - £13.4m).

Research and Development activities incurred expenditure of £9.6m (2015/16 - £9.5m).

Staff costs remained the most significant single element of RSSB's cost base with payroll and other staff costs totalling £25.9m (2015/16 - £25.3m), representing an increase of 2.4%.

## Profit on ordinary activities

The Group resulted operating profit of £0.4m (2015/16 - £0.4m loss) is offset by the net impact of non-operating income and expenditure such as bank interest and pension related adjustments. The Group profit before tax on ordinary activities was £0.3m (2015/16 - £0.57m loss).

The main driver for the reduction in the operating profit was the charge for the year relating to the employers share of the net interest and the additional service cost on the defined benefit liability of the pension scheme.

## Statement of Financial Position

The Group Statement of Financial Position showed a net liability position of £10.2m at 31/3/2017 compared to a net asset position of £0.2m at 31/3/2016. This variance was driven by a large increase in the pension liability (see note 14).

## Assets

The cost of fixed assets (tangible and intangible) rose to £16.3m (2015/16 was £13.1m) with nearly £5m incurred on software, principally for the Rolling Stock Library and Rail Vehicle Records system (R2), and the first phase of the new Safety Management Information System (SMIS+). The net book value of fixed assets rose to £8.8m (2016 £5.4m). Details are given in Note 6 and 7.

Group current assets decreased to £79.8m (2016 £84.6m) due to a decrease in debtor balances to £13.1m (2015/16 - £21.2m). This decrease is due to a large invoice raised to DfT during March 2016 resulting in a comparatively higher debtor balance in 2015/16.

## Liabilities

The decrease in creditors to £74.0m (2015/16 - £76.6m) was driven by a decrease in deferred income to £59.8m (2015/16 - £63.8m). Deferred income is partly made up of membership and R2 levies invoiced in advance and cash received chiefly for Innovation activity but not yet recognised as income which decreased to £51.3m (2015/16 - £56.8m). This was as a result of increased activity in the Innovation and Technical areas during the year.

The combination of these factors led to a decrease in net current assets to £5.9m (2015/16 - £8.0m).

The value of provisions decreased slightly to £0.16m (2015/16 - £0.20m). The two main items were the dilapidations provision on The Helicon and the RDDS library closure provision. Details are given in Note 11.

A major impact on the Group Statement of Financial Position arises from the annual valuation of RSSB's section of the Railway Pension Scheme carried out under FRS 102. This showed a net liability position of £24.7m (2015/16 - £13.1m). The main factor for the significant increase in the net liability was due to the decrease in the discount rate as a result of the large drop in corporate bond yields. The applicable discount rate, used to calculate the value of future liabilities has decreased from 3.40% to 2.45%.

By convention, RSSB only accounts for 60% of the net liability in line with the shared cost basis of the scheme which had a total net liability of £41.2m.

Note 14 provides greater detail and shows that whereas section assets have increased over the last five years from £58.7m to £87.0m, the liabilities have increased at a greater rate from £79.4m to £128.2m.

## Income and expenditure reserve

The Statement of Changes in Reserves breaks down the group income and expenditure reserve. Principally, it aims to show the recognised surpluses arising on the activities of both RDDS and the divisions of R&D, Innovation (bank interest only) and CIRAS. During the year, adjustments were made to reflect the proportion of non-cash employer pension service costs and the net interest expense in respect of the Non-Member divisions from previous years. The adjustments relate to the 2014/15, 2015/16 and 2016/17 years.

## Other items

The Statement of Other Comprehensive Income, which takes account of the net change in the pension liability, showed a total loss of £10.3m (2015/16 gain of £1.9m).

## Going concern

No material uncertainties about the ability of the company to continue as a going concern for the foreseeable future have been identified by the directors.

# Viability Statement

### Assessment of prospects

The Group considers the development of the business and the industry in which it operates over many time horizons:

- Departmental budgets and external audit operate on a one-year period
- The Group's strategic plan covers a three-year period that commenced on 01 April 2016 and is reviewed by the directors on an annual basis
- The industry operates on five-year control periods, with the current control period (CP5) expiring on 31 March 2019.

The directors have chosen to assess the Group's viability to the end of the three-year period to March 2019.

While there may be a reasonable expectation of securing work beyond that within the visible pipeline, there are a number of uncertainties arising in consideration of longer time periods. Consequently, there is a greater degree of certainty in the early years of the Group's strategic plan.

### Assessment of viability

In assessing the Group's viability, the directors have carried out a robust assessment of the principal risks in the business.

A number of scenarios have been considered, including the associated potential impact of each risk on the Group's profit and loss, balance sheet and cash flows.

The existing business model has been thoroughly reviewed and adequate reforms are in place to mitigate future risk during the assessment period stated. A long-term finance strategy has been developed to ensure the Group continues to be financially sustainable up to the end of the next control period (2024) and beyond.

### Confirmation

In the context of the inherent uncertainties of a multiple-year period of evaluation, the directors confirm that based on this analysis there is a reasonable expectation of the Group continuing in operation and meeting its liabilities as they fall due in the period to 31 March 2019.


"Through research, analysis, and insight RSSB supports our members and stakeholders to deliver a safer, more efficient and sustainable rail system


Knowledgeable
Engaging
Transparent

# Our People

## Head count

The Group headcount as at 31 March 2017 was 313 with **145 females** and **168 males.**

## Reward

The company operates a discretionary bonus scheme for all permanent and fixed-term employees. This is determined through the company meeting a series of stretching goals and individual performance against a set of personal performance objectives.

## Diversity and inclusion

RSSB is committed to equality and valuing diversity within its workforce. We embrace diversity and seek to provide an inclusive working environment. We provide equality of opportunity and will not tolerate discrimination on grounds of gender, marital status, sexual orientation, race, nationality, religion or belief, age, disability, or indeed any other criteria.

During the year we have appointed a diversity and inclusion champion from the Senior Leadership Team who has participated in the Inclusive Leadership program. The Wider Leadership Team will also be involved in raising awareness on diversity and inclusion and a company strategy will be developed in the coming year.

RSSB staff actively participate in the Women in Rail programme, including staff both mentoring and being mentored through the programme.

## Employee engagement

Ensuring our people feel valued and motivated at work underpins our ethos and supports our strategy. Striving for continuous improvement in this area, we ask our people to tell us what they think and involve them in our action plans for change.

Each year, we ask our people to complete an employee survey (Viewpoint). This survey comprises a series of themed questions, aligned to a pre-defined engagement model which measures our people's relationship with management and how they feel.

Results are shared with employees through briefings and team meetings, as well as being published on our internal intranet along with action plans to tackle the key themes. This is designed to assure our people that key issues will be addressed. The results are also discussed with the board.

We had an 88 % response rate and overall engagement was 68 % (up 21 % since October 2015).

## Employee involvement

The company recognises the importance of its people and is committed to effective two-way communication and consultation on matters impacting them directly. There is a single union agreement in place with the Transport Salaried Staffs' Association (TSSA) and the company recognises the rights of every employee to join a Trades Union and participate in its activities. We update our people about a wide range of subjects that affect the business, including progress on business projects, impact of regulatory issues, and wider financial and economic issues that may affect the company. Information is provided using a variety of internal communication channels including briefing sessions, staff newsletter, CEO blog and the company intranet.

The Company held its first Annual Staff Conference in 2016 and held its second successful event in May 2017. As part of the Terms and Conditions Review in 2016 Change Champions were involved in contributing to the delivery of the project acting as spokesmen, communications channels, advisors, and representative for a broad cross-section of the company.

Other staff champion initiatives have proved successful throughout the year, providing a platform for a good cross-representation of our people advocating initiatives and helping to disseminate information more effectively across the business.

# Our Responsibility

## Environmental impact

RSSB supports the railway industry in delivering the Rail Sustainable Development principles. We are fully committed to improving environmental performance across all of our business activities, and will encourage our stakeholders, suppliers and members to join us in this effort.

RSSB is committed to reducing the negative environmental impacts of our own activities, in particular those relating to:

- Our office: energy use, water use and waste;
- Our business travel and staff commuting: energy use;
- Our communications materials: use of resources (mainly paper and inks);
- Our events: energy use, water use, food, waste, transport and travel;
- The goods and services we choose for our offices: notably office supplies, meeting lunches, ICT and electronic equipment and furniture.

We are committed to understanding, measuring, improving and communicating our environmental performance and engaging management and employees in this process.

Through our Environmental Policy we strive to:

- Adopt the highest environmental standards in all areas of operation, meeting and exceeding all relevant legislative requirements.
- Minimise waste through careful and efficient use of all materials and energy.
- Purchase sustainable products wherever feasible (e.g. recycled, FSC or low environmental impact products and energy from renewable sources).
- Engage with employees in good environmental practice and encourage employee involvement in environmental action.
- Reduce risks from environmental, health or safety hazards for employees and others in the vicinity of our operations.
- Consider the risk of wider sustainability issues as climate change mitigation and adaptation, ethics and protection of biodiversity and ecosystems.

We are committed to working with our senior management, employees, suppliers, funders and our external stakeholders to ensure we continually improve the environmental management system to enhance environmental performance.

## Human trafficking and modern slavery

The Group has zero tolerance to human trafficking and slavery, and despite the low-level of risk that has been established by our internal review, we will be rigorous in ensuring compliance with both the letter and the spirit of the Modern Slavery Act 2015 in our own business, and when procuring goods and services from others.

During the year the board published its first Modern Slavery and Human Trafficking Statement, which is available on our website. We also updated recruitment, procurement, whistleblowing policies and terms and conditions of trade to reflect our commitment in addressing any such risks.

ON BEHALF OF THE BOARD

Mark Phillips

**Mark Phillips**
Chief Executive Officer

Date: 06 July 2017

# Directors Report

The directors present their report for the year ended 31 March 2017.

## Directors

The membership of the board is set out below. The following directors served during the year:

### Executive directors:

**Mark Phillips**

Chief Executive Officer

Appointed: Executive director in May 2016, Chief Executive Officer in November 2016

### Independent non-executive directors:

**Anna Bradley**

Chairman

Appointed: Independent non-executive director in December 2014, Chairman in March 2015

Committees: Appointments *(chairman)*

**Alan Emery**

Senior independent director

Appointed: April 2008

Committees: Renumeration *(chairman)*, Appointments

**Dolores Byrne**

Independent non-executive director

Appointed: April 2015

Committees: Audit and Risk *(chairman)*

### Industry nominated non-executive directors:

**Malcolm Brown**

Non-executive director

Representing: Rolling Stock Owner members

Appointed: Non-executive director in April 2011, Senior independent director on 1st June 2017

Committees: Audit and Risk

**Graham Hopkins**

Non-executive director

Representing: Network Rail and other Infrastructure Manager members

Appointed: June 2015

**Lee Jones**

Non-executive director

Representing: Infrastructure Contractor members

Appointed: July 2016

Committees: Audit and Risk

**Steve Murphy**

Non-executive director

Representing: Passenger Train Operator members

Appointed: November 2013

## Industry nominated non-executive directors:

### Phillip Hoare

Non-executive director

**Representing:** Supplier members

**Appointed:** April 2016

**Committees:** Audit and Risk

### Geoff Spencer

Non-executive director

**Representing:** Non-passenger Train Operator members

**Appointed:** March 2015

**Committees:** Remuneration

### Charles Horton

Non-executive director

**Representing:** Passenger Train Operator members

**Appointed:** December 2011

**Committees:** Remuneration

**Resignations:**

Paul Kirk, Non-executive director representing Infrastructure Contractors *(resigned 26 July 2016)*
Chris Fenton, Executive director *(resigned 20 May 2016)* Alan Emery, Independent non-executive director, Senior independent director *(resigned 31 May 2017)*

## Non-executive director length of tenure as at 31 March 2017

| | |
|---|---|
| 0-1 Year | 10% |
| 1-3 Years | 50% |
| 3-6 Years | 20% |
| 6+ Years | 20% |

# Results

The results for the year are set out on page 42.

### Treasury operations and financial instruments

The Group operates a treasury function which is responsible for managing the interest and liquidity risks associated with the Group's activities.

Details of these risks and how they are managed are set out in the Strategic Report under the heading 'Principal Risks and Uncertainties' on page 11.

The Group's financial instruments are comprised of various financial assets and financial liabilities such as trade debtors, cash, trade creditors and deferred income. The Group does not utilise derivative financial instruments.

### Future developments

The directors have no plans to significantly change the nature of the Group's activities.

## Directors' responsibilities for the financial statements

The directors are responsible for preparing the financial statements in accordance with applicable laws and regulations.

United Kingdom Company Law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the surplus or deficit of the company for that period. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Statement of disclosure to auditors

In so far as the directors are aware:

- There is no relevant audit information of which the company's auditors are unaware.
- The directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The maintenance and integrity of the Rail Safety and Standards Board Limited website is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

## Auditors

Following a competitive procurement exercise, UHY Hacker Young were reappointed as the auditors at the Annual General Meeting held on 03 November 2016, special notice pursuant to Section 485 having been given.

ON BEHALF OF THE BOARD

**Mark Phillips**
Chief Executive Officer

Date: 06 July 2017


MIND THE GAP

# Corporate Governance Report

The board considers that good corporate governance is central to achieving the company's objectives and safeguarding stakeholder interests. The company is also committed to the highest standards of business behaviour.

In 2016, the board adopted in-camera sessions both at the start and end of each board meeting. This provides directors with the opportunity to discuss particularly sensitive matters within the jurisdiction of the board (such as litigation, management performance, board governance matters and discussions with the auditors).

The first Senior Independent Director, Alan Emery, was appointed by the board during the course of the year. Having served as a non-executive director of the Group over a nine-year tenure, whereby he has retained his independence in character and judgement throughout, Alan took on this role with full support from the other directors. His experience and integrity has been invaluable in this role, providing a sounding board for the Chairman and serving as an intermediary for the other directors where necessary. As Alan steps down from the board in May 2017, the board have fully approved the appointment of Malcolm Brown to take on this role from June 2017.

In 2016, the board published the Group's first Modern Slavery and Human Trafficking Statement pursuant to section 54(1) of the Modern Slavery Act 2015 and constitutes our slavery and trafficking statement for the financial year ending 31 March 2017.

As part of the 2016 Review of RSSB by the ORR, two recommendations were directed at the board. Recognising the strengthening of governance arrangements in accepting these recommendations the board has taken both recommendations on board.

The first of these recommendations was for the board to update its objectives to reflect the overall recommendations from the review, in particular setting priority objectives to:

- Secure clarity and agreement on RSSB's role, especially in respect of: discretionary functions, requiring RSSB to prioritise activity tightly and aligning core funding with core functions over time.
- Drive a cultural shift so that RSSB becomes much more member and results-focused, putting members' needs at the heart of the business along with robust systems to measure and report publicly on performance.
- Set high expectations for rapidly reducing the time taken to complete projects without compromising unnecessarily on quality.
- Communicate widely RSSB's new role, responsibility and governance arrangements as part of its new settlement with its members and stakeholders.

The board has updated its objectives as set above. The various elements are underway as part of the delivery of the Future-Fit transformation programme which will be delivered by March 2018.

The second recommendation was for the board to carry out an annual self-assessment of its effectiveness and capability in delivering its objectives, representing members and setting strategic direction.

In November 2016, the board carried out its first Annual Effectiveness Assessment through a self-evaluation process. Further detail on the process is detailed below.

### Role of the board

The board as a whole are collectively responsible for ensuring the long-term success of the Group by directing the Group's affairs. They do this through the setting and on-going review of strategy, monitoring risk, delegating powers and holding executive to account and promotion of the company.

Each director must be able to devote sufficient time to the role to discharge their responsibilities effectively. Directors are contracted to spend up to 24 days a year on company business.

### Division of responsibilities between Chairman and CEO

Role profiles are in place for the Chairman and Chief Executive Officer which set out the duties of each role. The Chairman's priority is leadership of the board and ensuring its effectiveness; the Chief Executive Officer's priority is to work with the board to set strategy and oversee its implementation. The board has delegated the day-to-day running of the Group to the Chief Executive Officer within certain parameters set out in the Scheme of Delegated Authority. Matters reserved for the board to resolve and approve are set out in the company Constitution Agreement.

### Disqualifying interests of directors

Directors complete a disqualifying interest's declaration on commencement of their appointment. They are obligated to disclose any other changes to their potential or actual conflicts of interest. There were no conflicts of interest identified during 2016/17.

## Evaluation

### Evaluation of the board

The board recognises the need for continuous improved effectiveness. As a result, in line with recommendations outlined in the FRC Corporate Governance Code and recommendation following the ORR Review 2016, the board carried out its first Annual Self-Effectiveness Assessment in 2016. This was led by the Senior Independent Director.

The board accepted the recommendations set out in the assessment report which is published on our website. An action plan is in place, overseen by the Audit and Risk Committee on behalf of the board, to ensure governance arrangements are updated to address the recommendations. In 2017, the Effectiveness Assessment will be carried out by an external independent organisation in line with best practice recommendations set out in FRC Corporate Governance Code.

### Evaluation of the Chairman

The board assesses the performance of the Chairman annually. This is led by the Senior Independent Director.

### Evaluation of the Chief Executive Officer

The board assesses the performance of the Chief Executive Officer annually. This is led by the Chairman and includes an assessment against objectives (set by the board) and incorporates peer review.

## Induction, training and development

### Board training and development

The 2016 board evaluation recognised that the provision of training and development for directors was an area for improvement.

A training and development, competency matrix and succession plan will be developed in 2017/18 and training sessions will be built into the 2017/18 work plan for the board and its committees. The first of these has been scheduled: a tailored training course for members of the Audit and Risk Committee and relevant staff, on Audit and Risk Committee effectiveness.

Career path frameworks for staff were implemented in 2016 and capability review and succession for SLT members is reviewed by the Remuneration Committee on an annual basis.

### Induction programme

A comprehensive induction programme for directors, tailored to their needs is in place. This includes individual sessions with key members of senior management, the Chairman, Chief Executive and Senior Independent Director. If required, additional meetings are arranged, where a director requires a deeper understanding on a subject. All new directors also receive an induction pack which includes the current strategic objectives and Business Plan, recent board and committee papers and minutes, organisational structure charts, role profiles of the board, a history of the Group, and relevant policies, procedures and governance material.

## Director attendance at meetings

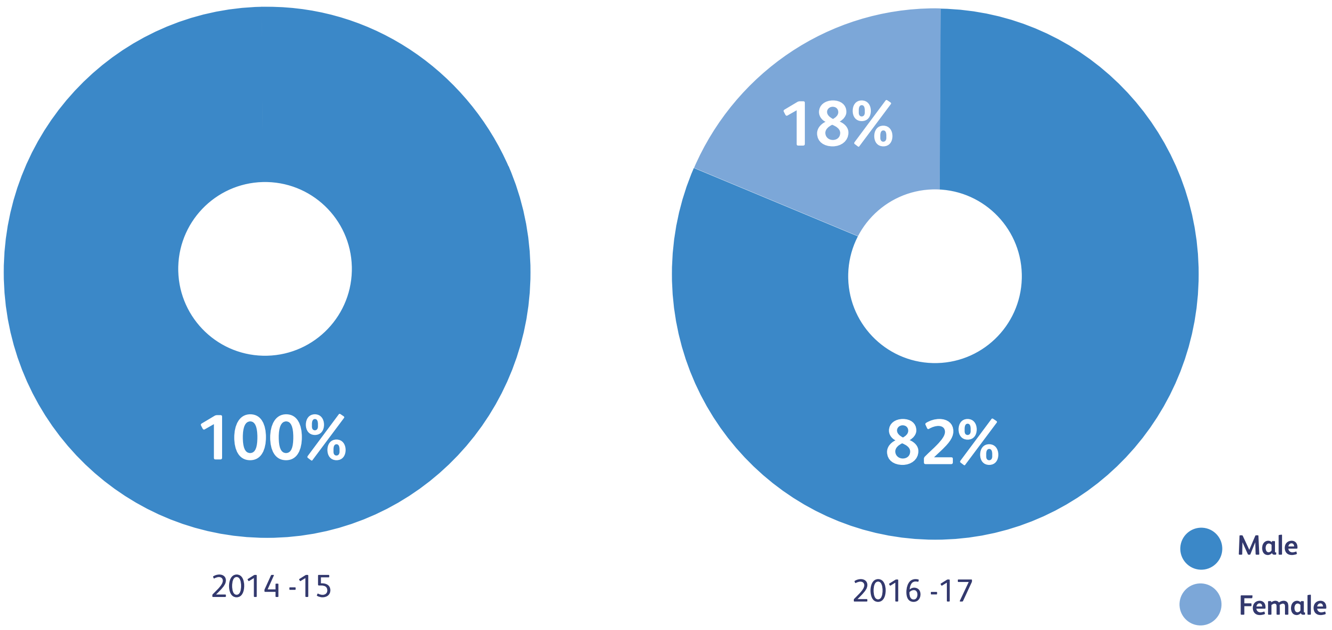
During the course of the year, the board held six board meetings, two strategy days, a regional engagement meeting and four board briefing sessions.

Number of board and committee meetings and attendance by director:

| Director | Board meeting | Audit and Risk Committee | Remuneration Committee | Appointments Committee |
|---|---|---|---|---|
| Anna Bradley | 6/6 | | 5/5 | 3/3 |
| Chris Fenton | 1/1 | | | |
| Alan Emery | 6/6 | | 5/5 | 3/3 |
| Mark Phillips | 6/6 | | | |
| Paul Kirk *(resigned on 26 July 2016)* | 2/2 | 4/4 | | |
| Dolores Byrne | 6/6 | 4/4 | | |
| Steve Murphy | 5/6 | 2/4 | | 1/1 |
| Malcolm Brown | 5/6 | 3/4 | | |
| Philip Hoare | 4/6 | 2/4 | | |
| Charles Horton | 4/6 | | 4/5 | |
| Geoff Spencer | 6/6 | | 5/5 | 3/3 |
| Graham Hopkins | 5/6 | | | 3/3 |
| Lee Jones *(appointed 26 July 2016)* | 5/5 | | | |

**Table 1.** Attendance by director

# Board Gender Diversity




## Appointment process for board directors

The board comprises directors who are industry representatives of their respective member categories and those who are independent non-industry directors.

Industry directors are nominated by the stakeholders in the member category for which they are to represent. They sit on the board for between two to three years per term for a maximum of three terms. However, directors representing passenger train operating companies and Infrastructure Managers shall at all times occupy a post with responsibility for operational activity within the railway industry.

Independent directors must be persons having extensive current knowledge or experience of the management of safety and, unless agreed otherwise by the ORR, must not be employed by a company falling within any of the member categories. Similarly to industry directors, independent directors are appointed for two or three-year terms with a maximum of three terms.

The process of appointing an independent director is overseen by the Appointments Committee. The process as set out in the Committee's Terms of Reference includes a competitive procurement process for identification of search firm, with a detailed brief provided to the successful search firm. The Appointments committee then review a candidate long-list and invite a short-list for interview. A series of interviews is held with short-listed candidates and a recommendation is put to the board for approval. The Remuneration Committee recommends a remuneration package for board recommendation. Once approved by the board, the candidate's appointment is then put to member vote at the following AGM.

## Board diversity

The board believes that diversity is an essential part of the future success of the Group and this must start from the top down. It recognises the need to broaden its diversity although no specific targets have been set to date.

Specific emphasis is placed on this when recruiting new directors through a detailed brief provided to search firms during the search firm tendering and recruitment process.

Gender diversity on the board has increased over the past three years when Anna Bradley (Chairman) and Dolores Byrne (Independent Non-Executive Director), were appointed in 2014 and 2015 respectively. During the year Dolores Byrne was also appointed as Chair of the RSSB and Risk Audit Committee.

## Key agenda items discussed by the board during the year:

| Theme | Agenda Items |
| --- | --- |
| Strategy | • Strategic objectives 16/17<br>• Cross Industry Groups Terms of Reference<br>• ASPR key messages<br>• Standards Strategy 2016/19<br>• Business Plan objectives 2016/17<br>• Brexit Implications<br>• Cross-Industry Cyber Security Strategy<br>• Programme Support to the Rail Technical Strategy<br>• Annual Sustainability Report<br>• Future Fit programme |
| Performance Reporting | • Approval of Statutory Accounts and Auditors Report<br>• Notice of AGM 2016<br>• CIRAS Annual Report<br>• Cross-Industry Committee report – various<br>• RAIB Review |
| Operations | • Industry Safety Performance Report<br>• Corporate Risk Register Review<br>• Significant project approval and reviews (inc SMIS+, CRM & ERP, Supplier Assurance) |
| Budget | • Budget and Business Plan 2017/18 |
| Business Presentations | • Staff show-case of current work<br>• Health and Wellbeing<br>• Risk |
| Governance | • ORR Review<br>• Appointment of the independent Auditors<br>• CIRAS<br>• Supplier Assurance |
| Stakeholder Engagement | • Annual membership review<br>• Improving customer service to RSSB members<br>• Member communications and engagement |
| Employees | • High-level results for employee survey |
| Board | • Board evaluation report 2016/17 |

## Activity of the board in 2016/17

In January 2017, the board held its first off-site board meeting coinciding with a board regional engagement event in Manchester. This provided an opportunity for members and stakeholders to meet the directors, discuss the devolved rail agenda key developments and understand how RSSB may be able to support further developments.

Additional board strategic workshops took place during the course of the year which provided the directors the opportunity to discuss the 2017/18 Strategy and the Recommendations from the ORR Review.

At the May 2017 meeting, the board discussed the following matters after the financial year ended 31 March 2017.

- Budget 17/18
- Employee survey results (full detail and action plan)
- SMIS+ project wrap-up report
- RISAS
- Financial sustainability (board strategic workshop)

## Committees of the board

The Constitution Agreement requires the board to appoint and maintain an Audit and Risk Committee, Remuneration Committee and an Appointments Committee, having the membership and duties as set out below. All three committees shall consist solely of non-executive directors of the company. The Audit and Risk Committee meets four times per annum and the Remuneration and Appointments Committees meet as required. All committees report to the board.

### Audit and Risk Committee

The Audit and Risk Committee reviews the accounting policies and procedures of the company; its internal control systems, including risk management; and its compliance with statutory requirements. It may also consider any matter raised by the external auditors.

Membership of the Audit and Risk Committee during the year was:

- Malcolm Brown
- Dolores Byrne (Chairman) (appointed as Chairman on 26 July 2016)
- Philip Hoare (appointed 03 November 2017)
- Paul Kirk (Chairman) (term completed26 July 2016)
- Steve Murphy

Membership of the Audit and Risk Committee consists of not less than three non-executive directors of the company. The composition of the Committee has been adequately reflected throughout the year with Dolores Byrne taking on the Chairman's role following Paul Kirk's end of term. This fulfils the independent non-executive director requirement as per the Constitution Agreement.

Whilst the directors are satisfied that the committee members hold the sufficient level of skill and experience to fulfil its role, this has been strengthened by the appointment of an Independent Advisor, Mark Wearden, in 2016. Mark has an extensive background in accounting and risk management, providing the committee with additional assurance on key matters.

Attendance of Audit and Risk Committee members is set out in Table 1 (page 28)

Following the first RSSB board Annual Self-Evaluation, the Audit and Risk Committee carried out an annual self-evaluation of its effectiveness in March 2017, as identified as best practice by the FRC in its Guidance for Audit and Risk Committees 2016.

The questionnaire used was the Deloitte Audit Committee Performance Evaluation form from January 2013 which is available publicly. Members of the committee, the CEO, RSSB Chairman, Head of Finance and Company Secretary were asked to complete the survey.

The results of the survey submissions were compiled and analysed by the Company Secretariat team and the resulting recommendations from the data will be implemented in 2017/18.

## Summary of work carried out by the Audit and Risk Committee in 2016/17

**January**

- Innovation governance
- Corporate governance code
- People with significant control

**March**

- CIRAS governance
- Annual audit evaluation
- Appointment of independent advisor
- Strategic report

**November**

- Supplier assurance update
- Audit and Risk committe training
- Audit and Risk committe governance

**June**

- Annual accounts
- Audit and Risk committe succession planning
- CRM/ERP business plan
- Corporate risk register

### Internal audit function

In reviewing the internal audit function of the company, it was decided to separate the functions of internal audit and business process management. The executive implemented this separation of functions and the appointment for the internal audit function is scheduled to take effect in 2017/18.

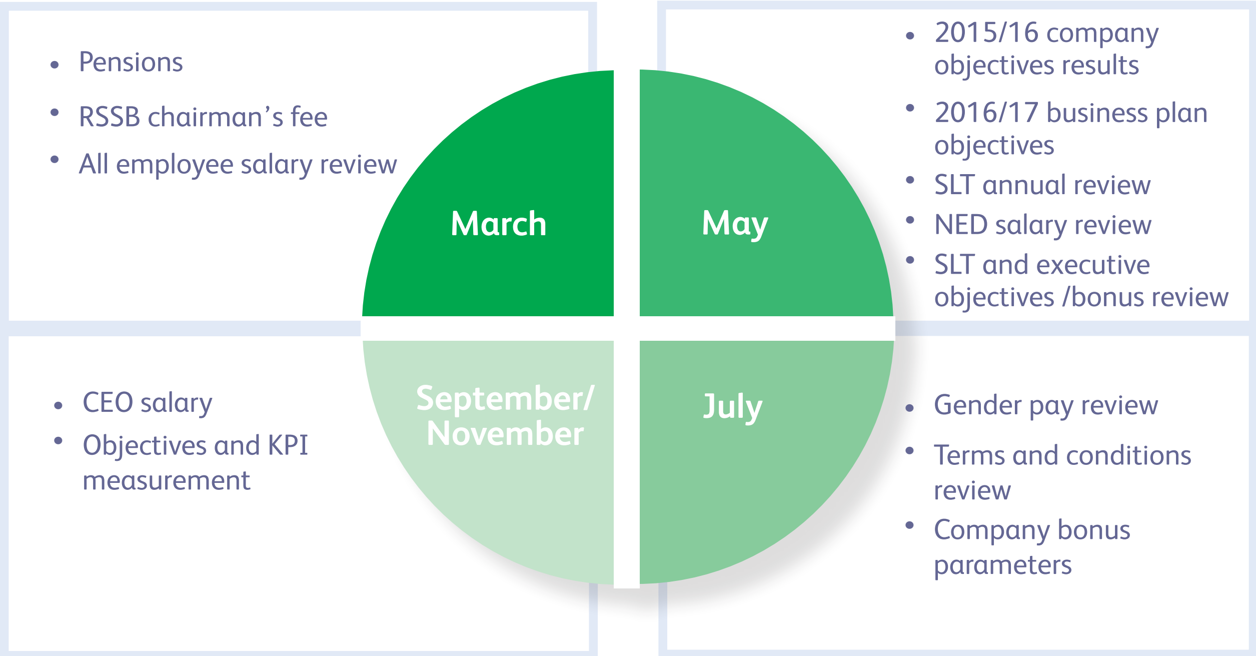
An update on the internal audit function is provided as a standing item on each Audit and Risk Committee meeting agenda. Additionally, a review of the Corporate Risk Register and Non-Conformity Report goes to each meeting as other standing items.

### External audit function

UHY Hacker Young are the auditors for the group and have been in place for seven years. Due to their length of tenure, the Audit and Risk Committee have reviewed their independence and are satisfied that they remain independent due to the rotation of the senior auditor.

A competitive tender process was carried out to ensure that we are compliant with the UK Procurement Regulations (2015) and can demonstrate best value and effectiveness of external audit function. Following evaluation of the tenders received against criteria set out in the tender specification our existing supplier UHY Hacker Young was selected as the provider of external audit services to RSSB.  This appointment was referred to member vote at the 2016 AGM. Members unanimously voted in favour of their appointment for a three-year period.  Members also approved for the determination of their remuneration to be delegated to the RSSB board.

## Summary of work carried out by the Remuneration Committee in 2016/17




### Remuneration Committee

The membership of the Remuneration Committee consists of not less than three non-executive directors of the company, a majority of whom shall be non-industry directors. The Remuneration Committee considers and makes recommendations to the board on the remuneration of all executive directors of the company and all senior employees of the company who are not directors and whose annual base salary (excluding employer pension contributions, bonuses, travel expenses, car allowances and other benefits in kind) is in excess of £120,000 per year increased annually from 2013 in line with published inflationary indicators or members of the senior management team and usually associated with the title of 'Director'.

Membership of the Remuneration Committee during the year was:

- Anna Bradley
- Alan Emery (Chairman)
- Charles Horton
- Geoff Spencer

* To comply with Terms of Reference for the Committee in the event of full attendance of the Committee the Industry NED's receive one vote for matters which are approved Charles Horton has the casting vote in these instances.

Attendance of Remuneration Committee members is set out in Table 1 (page 28).

### Appointments Committee

The membership of the Appointments Committee consists of not less than three non-executive directors of the company (at least two of whom shall be non-industry directors). The Appointments Committee considers and makes recommendations to the board on the appointment of all directors of the company (other than industry directors) and all senior employees of the company who will not be directors and whose annual base salary (excluding employer pension contributions, bonuses, travel expenses, car allowances and other benefits in kind) will be in excess of £120,000 increased annually from 2013 in line with published inflationary indicators.

Membership of the Appointments Committee during the year was:

- Anna Bradley (Chairman)
- Alan Emery
- Third non-executive director appointed ahead of each meeting

Attendance of Appointments Committee members is set out in Table 1 (page 28).

Over the course of the year, the Appointments Committee was remitted by the board to recruit the following senior positions in line with the process as per the Committees Terms of Reference:

- Mark Phillips as Chief Executive Officer
- John Clarke as Non-Industry Non-Executive Director
- David Howell as Non-Executive Director, Chair Designate CIRAS
- Tom Lee as Director of Standards
- Chris Lawrence as Technical Director
- Keith Hanlon-Smith as Head of Human Resources

Hanover Fox and Warren Partners were respectively involved in searches for the above appointments throughout the year.


SOUTHERN

# Independent auditors report to members of the Rail Safety and Standards Board Limited

We have audited the financial statements of Rail Safety and Standards Board Limited for the year ended 31 March 2017 which comprise the Consolidated Statement of Comprehensive Income, the Group and Company Statement of Financial Position, the Group Statement of Cash Flows, the Group and Company Statement of Changes in Reserves and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 22, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practice Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at **www.frc.org.uk/auditscopeukprivate.**

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the group's and of the parent company's affairs as at 31 March 2017 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of our audit:

- the information given in the Strategic Report and the Directors' Report for the financial year to which the financial statements are prepared is consistent with those financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

### Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Subarna Banerjee
*(Senior statutory auditor)*

for and on behalf of UHY Hacker Young,
Statutory Auditor

# Group Financial Statements
For the year end 31 March 2017

## Principal accounting policies

### Company information

Rail Safety and Standards Board Limited (RSSB) is a company limited by guarantee, domiciled and incorporated in England and Wales. The registered office is The Helicon, 4th Floor, 1 South Place, London, EC2M 2RB.

### Basis of preparation

The financial statements have been prepared under the historical cost convention in accordance with FRS 102 “The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland” (“FRS 102”) and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company and the group. Monetary amounts in these financial statements have been rounded to the nearest £’000.

The principal accounting policies adopted are set out below.

The group financial statements consolidate those of the company (RSSB) and of its subsidiary undertaking Railway Documentation and Drawing Services Limited (RDDS) and are drawn up to 31 March 2017.

The company has taken advantage of the exemption in section 408 of the Companies Act 2006 from disclosing its individual statement of comprehensive income.

### Going concern

At the time of approving the financial statements, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. Thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

### Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The cost of the business combination is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree plus costs directly attributable to the business combination.

Any excess of the cost of the business combination over the acquirer’s interest in the net fair value of the identifiable assets and liabilities is recognised as goodwill. If the net fair value of the identifiable assets and liabilities exceeds the cost of the business combination the excess is recognised separately on the face of the consolidated statement of financial position immediately below goodwill.

### Investments in subsidiaries

The consolidated financial statements incorporate the financial statements of the company and entities (including special purpose entities) controlled by the group (its subsidiaries). Control is achieved where the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in total comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate using accounting policies consistent with those of the parent. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. Investments in subsidiaries are accounted for at cost less impairment in the individual financial statements.

### Income

Income comprises members’ levies, grants from the Department for Transport, and various items of miscellaneous income.

The Constitution Agreement of the company sets out the funding arrangements for members and levies are recognised in the year to which they relate.

RSSB receives several grants from the Department for Transport and their treatment reflects the conditions relating to each grant. For example the Research and Development grant has been recognised fully in the year whereas all Innovation grants are treated as deferred income until the matching expenditure occurs.

The total amount receivable by the company for goods supplied and services provided, excludes VAT and trade discounts.

## Tangible fixed assets and depreciation

### Capitalisation

Expenditure on assets in excess of £500 is capitalised.

### Depreciation

Depreciation is calculated to write down the cost less estimated residual value of all fixed assets over their expected useful economic lives. A straight line method of depreciation is used for all assets. The useful economic lives generally applicable are:

**Servers** - *Five years on a straight-line basis*

**Desktop and laptop computers** - *Three years on a straight line basis*

**Fixtures and fittings plant and machinery** - *Five years on a straight-line basis*

**Leasehold improvements** - *Over the life of the lease on a straight-line basis*

## Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated, using the straight-line method, to allocate the depreciable amount of the assets to their estimated useful lives, as follows.

**Software applications** - *Between four and ten years on a straight-line basis*

**Safety Management Information System (SMIS) (Software)** - *Ten years on a straight-line basis*

Where factors, such as technological advancement or changes in market price, indicate the residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances.

The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

Costs associated with maintaining computer software are recognised as an expense as incurred. Expenditure on software is expensed except for major items over £10k which may be capitalised.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when the following criteria are met:

- *it is technically feasible to complete the software so that it will be available for use;*
- *management intends to complete the software and use or sell it;*
- *there is an ability to use or sell the software;*
- *it can be demonstrated how the software wil l generate probable future economic benefits;*
- *adequate technical, financial and other resources to complete the development and to use or sell the software are available; and*
- *the expenditure attributable to the software during its development can be reliably measured.*

The internal costs, when measurable, are taken into account in assessing the cost of software assets.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

During the year, an assessment of the useful life of the SMIS software was carried out. The existing SMIS software had been in place since 2003. Consequently, it was deemed to be prudent to adjust the accounting policy for the useful life of the new SMIS software to 10 years.

## Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

## Leased assets

All leases are regarded as operating leases and the payments made under them are charged to the income and expenditure account on a straight-line basis over the lease term.

## Lease incentives

Incentives received to enter into an operating lease are credited to the profit and loss account, to reduce the lease expense, on a straight-line basis over the period of the lease.

## Taxation

The tax expense represents the sum of the tax currently payable and deferred tax..

### Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of total comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

### Deferred tax

Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted.

## Provisions

Provisions are recognised when the group has a present obligation arising from a past event, and it is probable that the group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the statement of financial position date, and are discounted to present value where the effect is material.

## Employee benefits

The group provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined benefit pension plans.

## Short-term benefits

Short-term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

## Annual bonus plan

The group operates a bonus plan for employees. An expense is recognised in the profit and loss account when the group has a legal or constructive obligation to make payments under the plan as a result of past events and a reliable estimate of the obligation can be made.

## Defined Benefit Scheme

Scheme assets are measured at 'fair value'. Scheme liabilities are measured on an actuarial basis using the 'projected unit' method and are discounted at appropriate high quality corporate bond rates. The net surplus or deficit is presented separately from other net assets on the balance sheet. A net surplus is recognised only to the extent that it is recoverable by the company.

The current service cost and costs from settlements and curtailments are charged against operating profit. Interest on the scheme liabilities and the expected return on scheme assets are included in other finance income. Actuarial gains and losses are reported in the statement of comprehensive income.

## Financial Instruments

The group has adopted Sections 11 and 12 of FRS 102 in respect of financial instruments.

### Financial Assets

Basic financial assets, including trade and other receivables, cash and bank balances and investments in commercial paper, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest rate method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price.

Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publically traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party, or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

### Financial liabilities

Basic financial liabilities, including trade and other payables, bank loans, loans from fellow group companies, and deferred income on grants received, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless they are included in a hedging arrangement.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

## Reserve

RSSB's reserve arises from prior surpluses. The funding of these surpluses has different sources which would affect the way the reserve would be allocated if a decision was taken to run it down.

The RSSB Board decided in 2005 that part of the reserve would be clearly linked to Research and Development. Also surpluses arising from DfT grants and CIRAS are restricted in use.

The group separates the income and expenditure reserve into the following activities:

- *"Member funded" relates to activities funded by RSSB members.*
- *"R&D" is a reserve created by the RSSB board in case of a shortfall in funding for R&D activities.*
- *"R&D grant" consists of surpluses arising on funds provided by the Department for Transport for R&D activities.*
- *"Innovation" consists of the interest on cash balances held by RSSB for Innovation activities.*
- *"CIRAS" consists of surpluses arising on CIRAS member funded activities.*
- *"General" consists of items of a RSSB-wide nature which cannot be allocated to a particular business area chiefly the liability on the pension scheme (see Note 14).*

# Critical accounting judgements and estimation uncertainty

## Key accounting estimates and assumptions

In the application of the group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

## Key sources of estimation uncertainty

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are outlined below.

### Impairment of intangible assets (Note 6)

The Group considers whether intangible assets are impaired. Where an indication of impairment is identified the estimation of recoverable value requires estimation of the recoverable value of the cash generating units (CGUs). This requires estimation of the future cash flows from the CGUs and also selection of appropriate discount rates in order to calculate the net present value of those cash flows.

### Provisions (Note 11)

Provision is made for asset retirement obligations, dilapidations and contingencies.

These provisions require management's best estimate of the costs that will be incurred based on legislative and contractual requirements. In addition, the timing of the cash flows and the discount rates used to establish net present value of the obligations require management's judgement.

### Defined Benefit Pension Scheme (Note 14)

The group has obligations to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, salary increases, pension increases (CPI measure), increases to deferred pensions (CPI measure), price inflation (RPI measure), asset valuations and the discount rate. Management estimates these factors in determining the net pension obligation in the statement of financial position. The assumptions reflect historical experience and current trends.

## RAIL SAFETY AND STANDARDS BOARD LIMITED
## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 31 MARCH 2017

| | Note | Group<br>Year ended 31 March 2017<br>£'000 | Group<br>Year ended 31 March 2016<br>£'000 |
|---|---|---|---|
| **Operating income** | 1 | 55,520 | 48,735 |
| **Operating expenses** | 1 | (55,111) | (49,123) |
| **Operating profit/(loss) attributable to ordinary activities** | | **409** | **(388)** |
| Interest receivable | | 305 | 273 |
| Other finance expenses | 2/14 | (420) | (450) |
| **Profit/(Loss) on ordinary activities before taxation** | | **294** | **(565)** |
| Tax | 4 | (49) | (60) |
| **Profit/(Loss) for the year** | 5 | **245** | **(625)** |
| **Other comprehensive income** | | | |
| Remeasurement of net defined benefit scheme | 14 | (10,590) | 2,540 |
| **Other comprehensive (expense)/income for the year** | | **(10,590)** | **2,540** |
| **Total comprehensive (expense)/income for the year** | | **(10,345)** | **1,915** |

RAIL SAFETY AND STANDARDS BOARD LIMITED
GROUP AND COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2017

| | Note | Group 31 March 2017 £'000 | Company 31 March 2017 £'000 | Group 31 March 2016 £'000 | Company 31 March 2016 £'000 |
|---|---|---|---|---|---|
| Fixed Assets | | | | | |
| Intangible assets | 6 | 6,620 | 6,620 | 2,905 | 2,905 |
| Tangible fixed assets | 7 | 2,194 | 2,194 | 2,532 | 2,532 |
| | | **8,814** | **8,814** | **5,437** | **5,437** |
| **Current assets** | | | | | |
| Debtors | 9 | 13,127 | 13,114 | 21,195 | 21,182 |
| Cash at bank | 13 | 66,682 | 66,620 | 63,395 | 63,293 |
| | | **79,809** | **79,734** | **84,590** | **84,475** |
| Creditors: amounts falling due within one year | 10 | (73,958) | (73,998) | (76,583) | (76,589) |
| **Net current assets** | | **5,851** | **5,736** | **8,007** | **7,886** |
| **Total asset less current liabilities** | | **14,665** | **14,550** | **13,444** | **13,323** |
| Provision for liabilities and charges | 11 | (161) | (101) | (205) | (149) |
| Retirement benefit schemes | 14 | (24,690) | (24,690) | (13,080) | (13,080) |
| **Net (liabilities)/assets** | | **(10,186)** | **(10,241)** | **159** | **94** |
| **Reserve** | | | | | |
| Income & expenditure reserve | | (10,186) | (10,241) | 159 | 94 |
| | | **(10,186)** | **(10,241)** | **159** | **94** |

The financial statements were approved and authorised for issue by the board of directors on 6 July 2017.

Mark Phillips — Chief Executive Officer

Anna Bradley — Chairman

Company registration number 04655675

RAIL SAFETY AND STANDARDS BOARD LIMITED
GROUP STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2017

| | Note | Group<br>31 March 2017<br>£'000 | Group<br>31 March 2016<br>£'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 12 | 8,154 | 12,346 |
| Taxation paid | | (60) | (55) |
| **Net cash inflow from operating activities** | | 8,094 | 12,291 |
| **Investing activities** | | | |
| Interest received | | 197 | 162 |
| Purchase of intangible fixed assets | 6 | (4,929) | (1,246) |
| Purchase of tangible fixed assets | 7 | (75) | (2,149) |
| **Net cash outflow from investing activities** | | (4,807) | (3,233) |
| **Net increase in cash and cash equivalents** | | 3,287 | 9,058 |
| Cash and equivalents at the beginning of the year | | 63,395 | 54,337 |
| **Cash and cash equivalents at the end of the year** | | **66,682** | **63,395** |
| **Cash and cash equivalents consists of** | | | |
| Cash at bank and in hand | | 66,682 | 63,395 |
| **Cash and cash equivalents** | | **66,682** | **63,395** |

RAIL SAFETY AND STANDARDS BOARD LIMITED
STATEMENT OF CHANGES IN RESERVES
FOR THE YEAR ENDED 31 MARCH 2017

| Group | Member funded | R&D | R&D Grant | Innovation | CIRAS | RDDS | General | Total |
|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **At 1 April 2015** | **2,404** | **3,000** | **5,069** | **293** | **468** | **28** | **(13,018)** | **(1,756)** |
| Profit/(loss) for the year | (679) | - | (117) | 153 | 22 | (4) | - | (625) |
| Decrease in pension liability | - | - | - | - | - | - | 2,540 | 2,540 |
| Transfer of reserve | 1,000 | (1,000) | - | - | - | - | - | - |
| **At 1 April 2016** | **2,725** | **2,000** | **4,952** | **446** | **490** | **24** | **(10,478)** | **159** |
| Profit/(loss) for the year | 44 | - | 144 | 276 | (210) | (9) | - | 245 |
| Adj. in respect of pension costs | 310 | - | (158) | (126) | (26) | - | - | - |
| Increase in pension liability | - | - | - | - | - | - | (10,590) | (10,590) |
| Transfer of reserve | 1,699 | - | (1,699) | - | - | - | - | - |
| **Retained reserves carried forward at 31 March 2017** | **4,778** | **2,000** | **3,239** | **596** | **254** | **15** | **(21,068)** | **(10,186)** |

RAIL SAFETY AND STANDARDS BOARD LIMITED
STATEMENT OF CHANGES IN RESERVES
FOR THE YEAR ENDED 31 MARCH 2017

| **Company** | **Member funded** | **R&D** | **R&D Grant** | **Innovation** | **CIRAS** | **General** | **Total Company** |
|---|---|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| **At 1 April 2015 (restated)** | **2,363** | **3,000** | **5,069** | **293** | **468** | **(13,018)** | **(1,825)** |
| Profit/(loss) for the year | (679) | - | (117) | 153 | 22 | - | (621) |
| Decrease in pension liability | - | - | - | - | - | 2,540 | 2,540 |
| Transfer of reserve | 1,000 | (1,000) | - | - | - | - | - |
| **At 1 April 2016** | **2,684** | **2,000** | **4,952** | **446** | **490** | **(10,478)** | **94** |
| Profit/(loss) for the year | 45 | - | 144 | 276 | (210) | - | 255 |
| Adj. in respect of pension costs | 310 | - | (158) | (126) | (26) | - | - |
| Increase in pension liability | - | - | - | - | - | (10,590) | (10,590) |
| Transfer of reserve | 1,699 | - | (1,699) | - | - | - | - |
| **Retained reserves carried forward at 31 March 2017** | **4,738** | **2,000** | **3,239** | **596** | **254** | **(21,068)** | **(10,241)** |

## 1 INCOME AND EXPENDITURE ON OPERATING ACTIVITIES

| **Income** | **Year ended 31 March 2017 £'000** | **Year ended 31 March 2016 £'000** |
|---|---|---|
| Membership Levy | 22,464 | 22,138 |
| R2 Subscription Levy | 1,999 | 1,089 |
| Department for Transport grant for R&D | 9,557 | 9,300 |
| Department for Transport grant for Innovation and Innovation in Franchising | 18,134 | 13,368 |
| Department for Transport grant for Technical | 856 | - |
| CIRAS membership levy | 1,363 | 1,310 |
| RDDS activities | 100 | 170 |
| Close call safety system funding | 195 | 198 |
| RGS Online/Rulebook | 83 | 113 |
| Supplier assurance services | 153 | 117 |
| Miscellaneous income | 616 | 932 |
| Total income from operating activities | **55,520** | **48,735** |

Miscellaneous income comprises income arising from running training courses, conferences and other ad hoc activities. Some £138k (2016: £122k) of miscellaneous income is attributable to Research and Development.

All income arose from UK operations.

| **Expenses by activity** | **Year ended 31 March 2017 £'000** | **Year ended 31 March 2016 £'000** |
|---|---|---|
| Member funded activities | 24,834 | 24,053 |
| Research and Development | 9,619 | 9,539 |
| Future Railway programme | 17,888 | 13,368 |
| Technical | 856 | - |
| Other Innovation | 230 | 700 |
| CIRAS | 1,573 | 1,289 |
| RDDS | 111 | 174 |
| Total expenses from operating activities | **55,111** | **49,123** |

## INCOME AND EXPENDITURE ON OPERATING ACTIVITIES (CONTINUED)

| Expenditure by function | Year ended 31 March 2017 £'000 | Year ended 31 March 2016 £'000 |
|---|---|---|
| Staff payroll costs (Note 3) | 23,166 | 22,564 |
| Other staff costs and staff travel | 2,719 | 2,707 |
| Technical support (non-Innovation/R&D) | 1,132 | 1,790 |
| Technical support (Innovation) | 491 | 1,185 |
| Investments and Grants (Innovation) | 14,548 | 8,416 |
| Technical services (R&D) | 4,126 | 4,767 |
| Property costs including rent | 2,067 | 2,221 |
| Loss on write off of fixed assets | 131 | - |
| IT external expenditure (includes cost of Safety Management Information System and R2) | 3,638 | 2,845 |
| Professional fees including insurance/legal/accountancy/tax | 390 | 403 |
| Publications/events/other media | 937 | 737 |
| Miscellaneous goods and services | 144 | 233 |
| Non-property lease rentals | 15 | 15 |
| Amortisation | 1,083 | 697 |
| Depreciation | 413 | 369 |
| RDDS | 111 | 174 |
| Total | **55,111** | **49,123** |

| | | |
|---|---|---|
| Auditors' remuneration included above: | | |
| Fees payable for the audit of the group's annual accounts | 28 | 31 |
| Other audit related services including taxation service | 14 | 5 |
| | **42** | **36** |

## 2 OTHER FINANCE EXPENSES

Analysis of the amount charged to other finance expenses

| | Year ended 31 March 2017 £'000 | Year ended 31 March 2016 £'000 |
|---|---|---|
| Net interest on net defined benefit liability | (420) | (450) |
| | **(420)** | **(450)** |

## 3 DIRECTORS AND EMPLOYEES

Staff payroll costs during the year were:

| | Year ended 31 March 2017 £'000 | Year ended 31 March 2016 £'000 |
|---|---|---|
| Salaries | 17,597 | 16,849 |
| Social security | 2,093 | 1,737 |
| Pension contributions | 3,476 | 3,978 |
| | **23,166** | **22,564** |

| | 2017 Number | 2016 Number |
|---|---|---|
| Staff employed | 295 | 280 |

The average number of staff employed is calculated using the actual numbers of employees at the end of each period and using the total number of periods as the base for calculating the year's average.

## DIRECTORS AND EMPLOYEES (CONTINUED)

Remuneration in respect of directors was as follows:

| | Year ended 31 March 2017 | Year ended 31 March 2016 |
|---|---|---|
| | **£'000** | **£'000** |
| Emoluments | 687 | 467 |
| Amounts paid to third parties in respect of Directors' services | 254 | 161 |
| Pension contributions | 14 | 34 |
| | **955** | **662** |

One director participated in the defined benefit pension scheme during the year.

The amounts above include remuneration in respect of the highest paid director set out below. This included an ex gratia payment due to a change of director. The directors do not anticipate this level of remuneration to continue for the 2017/18 reporting period.

| | Year ended 31 March 2017 | Year ended 31 March 2016 |
|---|---|---|
| | **£'000** | **£'000** |
| Emoluments | 411 | 385 |
| Pension contributions | 14 | 34 |
| | **425** | **419** |

## 4 TAX ON SURPLUS ON ORDINARY ACTIVITIES

The tax charge is based on the surplus for the period and represents:

| | Year ended 31 March 2017 £'000 | Year ended 31 March 2016 £'000 |
|---|---|---|
| UK corporation tax at 20% (2016: 20%) | 60 | 60 |
| Adjustments in respect of prior years | (11) | - |
| Total current tax charge | **49** | **60** |

**The tax assessed for the year is different from the standard rate of corporation tax in the UK of 20% (2016: 20%). The differences are explained as follows:**

| | | |
|---|---|---|
| Profit/(loss) on ordinary activities before tax | 294 | (565) |
| Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 20% (2016: 20%) | 59 | (113) |
| Effect of: | | |
| Adjustment for results from not-for-profit activities | (8) | 174 |
| Tax losses utilised | (2) | (1) |
| **Current tax charge for period** | **49** | **60** |

## 5 HOLDING COMPANY PROFIT/(LOSS)

Of the £245k group profit for the financial year (2016: group loss of £625k), £254k profit is dealt with in the accounts of the company itself (2016: loss of £621k).

RDDS made a loss of £9k for the financial year (2016: loss of £4k).

The Directors have taken advantage of the exemption available under section 408 of the Companies Act 2006 and not presented an income statement for the company alone.

## 6 INTANGIBLE FIXED ASSETS

| Group and company | Software | Total |
|---|---|---|
| **Cost** | **£'000** | **£'000** |
| At 1 April 2016 | **7,481** | **7,481** |
| Additions | 4,929 | 4,929 |
| Disposals | (620) | (620) |
| **Total as at 31 March 2017** | **11,790** | **11,790** |
| | | |
| **Amortisation** | | |
| At 1 April 2016 | **(4,576)** | **(4,576)** |
| Amortisation expense for the year | (1,083) | (1,083) |
| Disposals | 489 | 489 |
| **Total as at 31 March 2017** | **(5,170)** | **(5,170)** |
| | | |
| **Net Book value at 31 March 2017** | **6,620** | **6,620** |
| **Net Book value at 31 March 2016** | **2,905** | **2,905** |

Software additions relate to work on SMIS+ (upgrade of the Safety Management Information System) and R2.

Software disposals relate to the existing SPARK and SMIS assets which were decommissioned during December 2016 and March 2017 respectively.

## 7 TANGIBLE FIXED ASSETS

| Group and company | Servers | Leasehold Improvement | Desktops & Laptops | Plant & Machinery | Fixtures & Fittings | Total |
|---|---|---|---|---|---|---|
| **Cost** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| At 1 April 2016 | **1,354** | **3,039** | **562** | **7** | **656** | **5,618** |
| Additions | - | - | 28 | - | 47 | 75 |
| Disposals | - | (1,217)* | - | - | - | (1,217) |
| **Total as at 31 March 2017** | **1,354** | **1,822** | **590** | **7** | **703** | **4,476** |
| | | | | | | |
| **Depreciation** | | | | | | |
| At 1 April 2016 | **(985)** | **(1,337)** | **(381)** | **(3)** | **(380)** | **(3,086)** |
| Depreciation expense for the year | (103) | (136) | (106) | (1) | (67) | (413) |
| Disposals | - | 1,217 | - | - | - | 1,217 |
| **Total as at 31 March 2017** | **(1,088)** | **(256)** | **(487)** | **(4)** | **(447)** | **(2,282)** |
| | | | | | | |
| **Net Book value at 31 March 2017** | **266** | **1,566** | **103** | **3** | **256** | **2,194** |
| **Net Book value at 31 March 2016** | **369** | **1,702** | **181** | **4** | **276** | **2,532** |

* Leasehold Improvement disposals relate to the previous Angel Square premises.

## 8 FINANCIAL INSTRUMENTS

| | Group | Company | Group | Company |
|---|---|---|---|---|
| | 31 March 2017 | 31 March 2017 | 31 March 2016 | 31 March 2016 |
| | £'000 | £'000 | £'000 | £'000 |
| **Carrying amount of financial assets** | | | | |
| Debt instruments measured at amortised cost | 78,927 | 78,852 | 83,223 | 83,113 |
| **Carrying amount of financial liabilities** | | | | |
| Measured at amortised cost | 63,336 | 63,387 | 66,706 | 66,727 |

### FINANCIAL RISK MANAGEMENT

The group is exposed two main areas of risk – interest rate risk and liquidity risk. The group utilises a treasury function in order to manage these risks. The group's financial instruments are comprised of various financial assets and financial liabilities such as trade debtors, cash, trade creditors and deferred income. The group does not utilise derivative financial instruments.

*Interest rate risk*

The group is exposed to fair value interest rate risk on its floating rate deposits. The objective of the group in managing interest rate risk is to maximise interest income by placing excess cash resources into fixed term deposits at a fixed rate of return.

*Liquidity risk*

The objective of the group in managing liquidity risk is to ensure that it can meet its financial obligations as and when they fall due. The group expects to meet its financial obligations through operating cash flows. In the event that the operating cash flows would not cover all the financial obligations the group will utilise its excess cash resources.

## 9 DEBTORS

| | Group 31 March 2017 £'000 | Company 31 March 2017 £'000 | Group 31 March 2016 £'000 | Company 31 March 2016 £'000 |
|---|---|---|---|---|
| Trade debtors | 10,912 | 10,899 | 18,640 | 18,632 |
| Other debtors and accrued income | 1,333 | 1,333 | 1,188 | 1,188 |
| Prepayments | 882 | 882 | 1,367 | 1,362 |
| | **13,127** | **13,114** | **21,195** | **21,182** |

Trade debtors include £7.4m of invoiced RSSB member levies relating to 2017/18 (2016/17: £6.0m). Trade debtors have decreased due to an £8m invoice raised to the Department for Transport in March 2016.

## 10 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | Group 31 March 2017 £'000 | Company 31 March 2017 £'000 | Group 31 March 2016 £'000 | Company 31 March 2016 £'000 |
|---|---|---|---|---|
| Trade creditors | 2,396 | 2,396 | 2,304 | 2,289 |
| Corporation tax | 60 | 60 | 71 | 71 |
| Other taxation and social security costs | 1,159 | 1,159 | 563 | 563 |
| Inter-company creditor | - | 51 | - | 36 |
| Accruals | 10,562 | 10,551 | 9,806 | 9,791 |
| Deferred income | 59,781 | 59,781 | 63,839 | 63,839 |
| | **73,958** | **73,998** | **76,583** | **76,589** |

Accruals and deferred income comprises:

- Accruals for cost of work done but not yet invoiced £5,890k (2016: £6,482k); and
- Staff pay and holiday pay £3,286k (2016: £2,183k).
- Cash held on behalf of third parties £252k (2016: £224k) and deferred income £59,529k (2016: £63,615k).

Deferred income relates to member funding and R2 subscription levies for 2017/18 that has already been invoiced (£8.2m). This arises because member funding and R2 levies are payable quarterly (or annually) in advance so invoices relating to 2017/18 were invoiced in the last quarter of 2016/17.

Deferred income also includes £51.3m (2016: £56.8m) of DfT grant funding for Innovation and R&D received but not yet recognised as the corresponding expenditure, though planned, has yet to occur.

## 11 PROVISIONS FOR LIABILITIES AND CHARGES

| | Company £000 | RDDS Library £000 | Group £000 |
|---|---|---|---|
| **At 1 April 2016** | **149** | **56** | **205** |
| Provision in the year | 45 | 4 | 49 |
| Settled in the year | (93) | - | (93) |
| **As at 31 March 2017** | **101** | **60** | **161** |

### DILAPIDATIONS

RSSB has a lease in The Helicon until the start of 2025. The estimated liability arising from the make good requirement in the lease for The Helicon is £450k. RSSB has started to provide for the potential cost of the make good requirement in the lease of the new office premises and this is spread over the life of the lease.

### RDDS LIBRARY

The provision raised represents the RDDS directors' best estimate of the costs of closing the RDDS library which is expected to include the proper packaging and orderly transportation of the drawings and documents to a third party and/or their destruction.

## 12 NET CASH INFLOW FROM OPERATING ACTIVITIES

| | Group 31 March 2017 £'000 | Group 31 March 2016 £'000 |
|---|---|---|
| Operating profit/(loss) | 409 | (388) |
| Depreciation and amortisation | 1,496 | 1,066 |
| Loss on write off of fixed assets | 131 | - |
| Decrease/(Increase) in debtors | 8,176 | (12,406) |
| (Decrease)/Increase in creditors | (2,614) | 23,753 |
| Difference between pension charge and cash contributions | 600 | 990 |
| (Decrease)/Increase in provisions | (44) | (669) |
| **Net cash inflow from operating activities** | **8,154** | **12,346** |

## 13 CASH AT BANK AND IN HAND

Group cash balances of £66.7m (2016: £63.4m) include Innovation and R&D cash received in advance of £51.3m (2016: £56.2m).

## 14 RETIREMENT BENEFIT SCHEMES

Information about the Scheme:

- The Rail Safety and Standards Board Section is part of the Railways Pension Scheme, but its assets and liabilities are identified separately from the remainder of the Scheme.
- The Scheme is a defined benefit final salary scheme and is open to new members.
- The Scheme is a shared cost arrangement whereby the company is only responsible for a share of the cost (60%).
- Employer contributions are 13.07% (2015/16: 15%) of Section Pay (60% of the long-term future service joint contribution rate determined at the 31 December 2013 valuation).

The draft results of the triennial valuation at 31 December 2016 showed a technical provisions deficit of £1.3m. This was lower than the indicative result of £1.9m. This improvement was mainly due to a change in the mortality assumption from the Actuary profession.

The most significant factor contributing to the large increase in the Net Defined Benefit liability, has been due to changes in the assumptions. The change in the discount rate from 3.40% to 2.45% resulted in an approximate £11.0m increase in the liability and the increase in the RPI inflation from 2.90% to 3.20% has resulted in an approximate £3.5m increase in the liability. This was offset by a higher asset return than the discount rate, which reduced the liability by approximately £5.0m

## RETIREMENT BENEFIT SCHEMES (CONTINUED)

### FINANCIAL ASSUMPTIONS

The assumptions provided and used by the actuary are set out in the table below.

| | **31 March 2017 % pa** | **31 March 2016 % pa** |
|---|---|---|
| Discount rate | 2.45 | 3.40 |
| Price inflation (RPI measure) | 3.20 | 2.90 |
| Increases to deferred pensions (CPI measure) | 2.20 | 1.90 |
| Pension increases (CPI measure) | 2.20 | 1.90 |
| Salary increases * | 2.20 | 1.90 |

* plus 0.40% pa promotional salary scale at 31 March 2017 and 0.40% at 31 March 2016

### FAIR VALUE OF SECTION ASSETS

| | **At 31 March 2017 Fair value £'000** | **At 31 March 2016 Fair value £'000** |
|---|---|---|
| Equities | 69,860 | 60,270 |
| Government Bonds | 16,170 | 15,810 |
| Non-Government Bond | 960 | - |
| Other assets | 30 | 280 |
| **Total** | **87,020** | **76,360** |

## RETIREMENT BENEFIT SCHEMES (CONTINUED)

### PENSION SCHEME LIABILITY AT THE END OF THE YEAR

| | Year ended 31 March 2017 £'000 | Year ended 31 March 2016 £'000 |
|---|---|---|
| Actuarial valuation of pension liabilities | (128,170) | (98,160) |
| Members' share of deficit | 16,460 | 8,720 |
| **Adjusted value of section liabilities** | **(111,710)** | **(89,440)** |
| Closing value of section assets | **87,020** | **76,360** |
| **Pension scheme liability to be recognised in the statement of financial position** | **(24,690)** | **(13,080)** |

### RECONCILIATION OF PENSION SCHEME LIABILITY

| | Year ended 31 March 2017 £'000 | Year ended 31 March 2016 £'000 |
|---|---|---|
| Opening pension scheme liability | (13,080) | (14,180) |
| Employer contributions | 1,660 | 1,810 |
| Employer's share of service cost and admin costs | (2,260) | (2,800) |
| Employer's share of net interest cost on net Defined Benefit Liability | (420) | (450) |
| Actuarial (loss)/gain recognised in the Other Comprehensive Income | (10,590) | 2,540 |
| **Closing liability** | **(24,690)** | **(13,080)** |

## RETIREMENT BENEFIT SCHEMES (CONTINUED)

### COMPONENTS OF DEFINED BENEFIT COST

| | Year ended 31 March 2017 £'000 | Year ended 31 March 2016 £'000 |
|---|---|---|
| Current service cost | 2,160 | 2,710 |
| Employers share of administration costs | 100 | 90 |
| **Total charged to operating profit** | **2,260** | **2,800** |
| **Analysis of the amount charged to other finance charge:** | | |
| Employer's share of net interest on net defined benefit asset | (420) | (450) |
| **Net debit to other finance charge** | **(420)** | **(450)** |

The following two tables show the movement in the assets and the liability of the Section as a whole. Some of the figures therefore differ from those in the other disclosures, which reflect the company's share of the costs and liabilities associated with the Section.

| **Reconciliation of Section liabilities** | Year ended 31 March 2017 £'000 | Year ended 31 March 2016 £'000 |
|---|---|---|
| Opening Section liabilities | 98,160 | 96,900 |
| Service cost | 3,580 | 4,490 |
| Interest cost | 3,290 | 3,210 |
| Loss/(gain) on Section liabilities | 25,930 | (3,980) |
| Actual benefit payments | (2,790) | (2,460) |
| **Closing Section liabilities** | **128,170** | **98,160** |

## RETIREMENT BENEFIT SCHEMES (CONTINUED)

| **Reconciliation of value of assets** | **Year ended 31 March 2017 £'000** | **Year ended 31 March 2016 £'000** |
|---|---|---|
| Opening value of Section assets | 76,360 | 73,260 |
| Interest income on assets | 2,590 | 2,460 |
| Return on plan assets greater/(less) than discount rate | 8,320 | 260 |
| Employer contributions | 1,660 | 1,810 |
| Employee contributions | 1,040 | 1,180 |
| Actual benefit payments | (2,790) | (2,460) |
| Administration costs | (160) | (150) |
| **Closing value of Section assets** | **87,020** | **76,360** |

| **Analysis of the amounts recognised in the Statement of Other Comprehensive Income** | **Year ended 31 March 2017 £'000** | **Year ended 31 March 2016 £'000** |
|---|---|---|
| Gain on pension assets | 4,990 | 150 |
| (Loss)/gain on pension liabilities | (15,580) | 2,390 |
| **Total (loss)/gain recognised in OCI** | **(10,590)** | **2,540** |

## RETIREMENT BENEFIT SCHEMES (CONTINUED)

### HISTORIC INFORMATION

| | Year ended 31 March 2017 £'000 | Year ended 31 March 2016 £'000 | Year ended 31 March 2015 £'000 | Year ended 31 March 2014 £'000 | Year ended 31 March 2013 £'000 |
|---|---|---|---|---|---|
| **Section liabilities** | (128,170) | (98,160) | (96,900) | (81,100) | (79,410) |
| **Section assets** | 87,020 | 76,360 | 73,260 | 62,680 | 58,740 |
| **Deficit** | (41,150) | (21,800) | (23,640) | (18,420) | (20,670) |
| **Experience loss/(gain) on Section liabilities** | 15,580 | (2,390) | 6,290 | (280) | (100) |
| **Experience (gain)/loss on Section assets** | (4,990) | (150) | (4,440) | 710 | (690) |

## 16 LEASING COMMITMENTS

The total cost of operating leases classified by expiry date is:

| | Year ended 31 March 2017 | | Year ended 31 March 2016 | |
|---|---|---|---|---|
| | Other £'000 | Land and buildings £'000 | Other £'000 | Land and buildings £'000 |
| In one year or less | 24 | 907 | 14 | 907 |
| Between one and five years | 18 | 3,627 | - | 3,627 |
| More than five years | - | 2,493 | - | 3,400 |
| | **42** | **7,027** | **14** | **7,934** |

## 17 TRANSACTIONS WITH DIRECTORS AND OTHER RELATED PARTIES

RSSB is a member owned company set up to provide services to the GB rail industry. Many of RSSB's transactions are with its members, particularly with Network Rail. Most board members are appointed from within the industry and hence work for companies with which RSSB transacts again, particularly Network Rail. However, our board members from member companies play no role in selecting suppliers in the award of contracts to particular parties.

The Directors are confident that sufficient governance is in place to ensure an objective process in the selection of suppliers.

Directors are also asked to declare their interests at board meetings and to keep the Company Secretary informed of any likely interests which may affect their legal duty to act in the best interests of RSSB.

## 18 CAPITAL COMMITMENTS

As at 31 March 2017, RSSB had entered into capital commitments of approximately £0.7m relating to the SMIS+ project (upgrade of the Safety Management Information System).

## 19 POST BALANCE SHEET EVENTS

There have been no post balance sheet events to report.

## 20 SUBSIDIARIES

Details of the company's subsidiary at 31 March 2017 are as follows:

| Name of undertaking | Country of incorporation | Holding (per share class) | Type of shares held | Nature of business |
|---|---|---|---|---|
| Railway Documentation and Drawing Services Limited | England and Wales | 100% | Ordinary shares | Custodian of the Traction and Rolling Stock library |
| Confidential Incident Reporting and Analysis Service Limited | England and Wales | 100% | Principal guarantor | Dormant |
| Railway Industry Supplier Qualification Scheme Limited | England and Wales | 100% | Ordinary shares | Dormant |

## 21 CONTROL

The company is not under the control of any one entity or individual.

**Company registration number:**
04655675

**Registered office:**
The Helicon, 4th Floor 1 South Place, London, EC2M 2RB

**Directors:**
Anna Bradley *(Chairman)*
Chris Fenton *(Chief Executive)* resigned 20 May 2016
Mark Phillips *(Executive Director)* appointed 05 May 2016, *(Chief Executive Officer)* appointed 14 November 2016
Paul Kirk *(Non-executive)* resigned 26 July 2016
Malcolm Brown *(Non-executive)*
Alan Emery *(Non-executive & Senior Independent Director) (resigned 31 May 2017)*
Charles Horton *(Non-executive)*
Steve Murphy *(Non-executive)*
Geoff Spencer (Non-executive)
Dolores Byrne (Non-executive)
Graham Hopkins *(Non-executive)*
Philip Hoare *(Non-executive)* appointed 08 April 2016
Lee Jones *(Non-executive)* appointed 26 July 2016
John Clarke *(appointed 01 July 2017)*

**Secretary:**
Helen Hasse

**Bankers:**
HSBC, 100 Old Broad Street, London. EC2N 1BG

**Solicitors:**
Winckworth Sherwood, Solicitors and Parliamentary Agents,
Minerva House, 5 Montague Close, London. SE1 9BB

The directors present their annual report and the audited financial statements of Rail Safety and Standards Board Limited (RSSB or the Company) for the year ended 31 March 2017.

**Email:** enquirydesk@rssb.co.uk
**Tel:** +44 (0) 20 3142 5300
**Twitter:** @RSSB_rail
**Web:** www.rssb.co.uk