



Office for  
Nuclear Regulation

# Office for Nuclear Regulation Annual Report and Accounts 2014/15

**HC 164**

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# Office for Nuclear Regulation Annual Report and Accounts 2014/15

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# Foreword

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## Nick Baldwin, Chair

Last year was the Office for Nuclear Regulation's (ONR) first year as an arm's-length Public Corporation. ONR was established under the Energy Act 2013 and its core function is to regulate nuclear safety and security. Considerable improvements were made in preparation for ONR's change of legal status including further improvements in the delivery of regulatory activity and to the underpinning business functions that enable the organisation to run smoothly.

One of the challenges for ONR in 2014/15 was to ensure that its establishment as a new organisation was seen as the start of ONR's journey and not an end in itself. It remains important for ONR to strive for continuous improvement in efficiency and effectiveness, particularly to have strong financial control to continually seek financial efficiencies, and improve control and accountability. The ONR Board has responsibility for ensuring that a proper system of internal control is established and working effectively in ONR. The Board acknowledged that in its first year of operations, internal controls and processes could have been improved but is satisfied that ONR has taken, and will continue to take, appropriate action to strengthen control where necessary.

To set the scene for further improvements and to meet the statutory requirements of the Energy Act 2013, the Board set a new ambitious vision for ONR to be **an exemplary regulator that inspires respect, trust and confidence**. This replaced the previous vision to be *'Universally respected for securing confidence in nuclear safety and security.'* The new vision is underpinned by [ONR Strategy 2015–2020](#), which clearly sets out how ONR wants to be recognised by the public, those whom we regulate, and by our staff.

The new strategy reaffirmed ONR's commitment to lead the way in improving openness and transparency in the nuclear sector, as we believe this is the only way to gain the trust and confidence of our stakeholders. As Chair, I have undertaken an extensive programme of engagement throughout the year, with a wide range of people and organisations, including the press, academia, professional bodies, and other regulators. I embarked on this programme to explain ONR's vision and purpose, and to learn from their experiences. I believe

that demonstrating the value of open engagement has had a positive impact on ONR's culture; the recent collaborative way of working with stakeholders that brought about the new strategic approach to hazard reduction and remediation at Sellafield being just one example.

As I hope you will see when you read this report, ONR is in a strong position, from which it can continue to be a positive influence on nuclear safety and security standards in the UK and internationally, and is fully capable of meeting the demands placed on it.

# Chief Executive's Report

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## Les Philpott, Acting Chief Executive

The ONR Annual Plan for 2014/15 highlighted the importance of having the right people with the right skills and experience required to deliver ONR's mission *to provide efficient and effective regulation of the nuclear industry, holding it to account on behalf of the public.*

During the year, we have made significant progress towards addressing the demographic issues that ONR has faced for several years. We recruited more staff in 2014/15 than we have ever done previously, including the first graduates to join ONR from the nuclear graduate recruitment scheme. They offer not only their talent, which we can develop to benefit ONR and the wider nuclear industry in the future, but also the energy and enthusiasm that a developing organisation needs to drive forward. Our recruitment success was achieved through new strategies including targeting recruitment into business critical posts, attracting secondees from industry and other regulators, and by harmonising terms and conditions across ONR's functions and locations to make ONR a more attractive employer.

Despite these achievements, the challenge to recruit nuclear specialist resource remains. Regulatory demand has the potential to continue to grow with the expansion of the UK's new nuclear programme, while at the same time, many of ONR's senior, experienced nuclear specialists approach retirement. It is therefore not only essential to recruit and retain the high calibre people that we need, but also to ensure that nuclear specialist resource is not diverted into activity that could be undertaken by non-nuclear specialists. We made several changes to guard against this, including creating new para-regulatory roles, which have enabled non-nuclear specialists to be trained to undertake some regulatory duties with oversight from their nuclear specialist colleagues. In addition, to underline the importance of making the best use of regulatory resource, ONR made 'maintaining focus on our core purpose' a strategic priority in its Annual Plan for 2015/16.

In addition, as Accounting Officer, I began to implement a comprehensive plan to drive forward improvements in financial control, accountability and transparency in ONR. Budgets were devolved to programme directors to place responsibility and accountability for delivering ONR's priorities where it belonged –

with the Senior Leadership Team. This sought to provide greater assurance to licensees, dutyholders and other stakeholders that ONR is striving to improve value for money. These improvements are set to continue in 2015/16; ONR has committed to deliver efficiency improvements equivalent to £4.5m through better planning and resource utilisation. We will take measures to secure the right balance between overhead costs and the absolute requirement to invest in nuclear specialist resource for our front line regulatory responsibilities.

During the forthcoming year, ONR will recruit a new Chief Executive to lead the organisation through the remaining period of our current strategy and beyond. Although there will undoubtedly be challenges, I intend to ensure that ONR is well equipped to meet them.

# Chief Nuclear Inspector's Report

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## **Dr Andy Hall, Chief Nuclear Inspector**

The Annual Plan 2014/15 sets out ONR's regulatory priorities. As Chief Nuclear Inspector, these were the areas that I judged would enable ONR to have the most impact in achieving sustained compliance with the high standards expected, and would influence improvement in health, safety and security across the nuclear industry. I am pleased to report that there were significant achievements against these key priorities, details of which can be found later in my Annual Statement (page 26).

ONR committed through its mission statement to regulate the nuclear industry efficiently and effectively, holding it to account on behalf of the public. To support this, we have built on, and fully embedded the Regulatory Assurance function established in 2013/14. The approach provides on-going assurance to the ONR Board and Executive and external stakeholders including Ministers, on compliance, quality and effectiveness of ONR's regulatory processes.

To ensure that ONR maintained the high standards of competence and expertise required from its regulatory staff, all of ONR's inspectors have been rewarranted under the Energy Act 2013 following a process of targeted training and assessment. In addition, our new regulatory recruits are required to undertake mandatory training, accrue appropriate experience, and finally demonstrate that they meet the required standard against 15 competencies, before they receive a full warrant. I now personally approve all warrants

In November 2014, ONR welcomed a team from the International Atomic Energy Agency (IAEA) to review progress against the 26 findings identified in previous IAEA Integrated Regulatory Review Service (IRRS) missions to the UK. This was the first time an IAEA member state had requested assessment within a year of a previous mission. The IAEA team acknowledged the substantial work ONR had done since the previous mission to update and improve regulatory processes and management. Consequently 21 of the findings were closed and work on the remaining five findings is on track for completion before the next IRRS mission in 2019.

I am proud to say that the IAEA recognised ONR’s “tenacity and commitment to deliver nuclear safety improvements.” These are qualities that I believe we must have to regulate the nuclear industry efficiently and effectively and to hold it to account on behalf of the public.

# The ONR Board

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ONR has a unitary board with a majority of non-executive members who have extensive experience of both private and public sector organisations.

## Non-executive board members



### **Nick Baldwin - ONR Chair**

Nick was appointed as Chair of the ONR Board on 1 April 2014 (he was interim Chair of ONR 2011 to 2014). He also represents ONR on the Health and Safety Executive (HSE) Board. Nick also serves as Vice Chair of Worcestershire Local Enterprise Partnership. Prior to that, until July 2002, he was the Chief Executive of Powergen. He was also a non-executive director of Scottish and Southern Energy and the Nuclear Decommissioning Authority. He is a Chartered Engineer, Chartered Director, a Fellow of the Institution of Mechanical Engineers and the Institution of Engineering and Technology, and a Member of the Institute of Energy.



### **Jonathan Baume**

Jonathan was appointed as a member of the ONR Board on 1 April 2014 (he was an interim Board member 10 to 31 March 2014). He is also a member of the HSE Board. He is currently a Civil Service Commissioner (who regulate recruitment to the civil service) and a non-executive director of the Criminal Cases Review Commission. Until autumn 2012, he was General Secretary and Chief Executive of the FDA, a trade union and professional organisation representing senior public sector managers. Originally a civil servant, he has held a number of representative posts in the trade union movement in a career spanning almost 40 years.



**Steve Bundred**

Steve was appointed as a member of the ONR Board on 1 April 2014 and as Chair of ONR's Audit and Risk Assurance Committee (he was an interim Board member from 2011 to 2014). His previous non-executive roles have included chairmanship of Monitor, the independent regulator of NHS Foundation Trusts, and of the Higher Education Regulation Review Group. He has also held several other public appointments and was Deputy Pro-Chancellor of City University until 2009. He has been Chief Executive of a number of bodies including the Audit Commission (from 2003 to 2010), the Improvement and Development Agency for Local Government, and the London Borough of Camden. He is an accountant by profession.



**John Crackett**

John was appointed as a member of the ONR Board on 1 April 2014 and Chair of ONR's Remuneration Committee (he was an interim Board member 2011 to 2014). Previously, John was Managing Director of Central Networks - and the board member of E.ON UK responsible for Safety, Health and Environment. His career has included power station design, project management, operational management, and running generation, IT, energy services, distribution businesses and other business services. His other interests include being a trustee of sustainable energy and social housing charities, and advising the Ministry of Defence (MOD) on electricity generation and distribution. John is a Chartered Engineer, and a Fellow of two professional institutions.



**Oona Muirhead**

Oona was appointed as a member of the Board on 1 October 2014 and Chair of ONR's Security Committee. She also chairs the Quality Management Board for Aegis Defence Services Ltd, and has served as both an interim director and now board member of the Security in Complex Environments Group. She began her career in the MOD, was Director of Communications during the Kosovo campaign of 1999, and then Director General responsible for Organisational Change across the MoD. After senior executive roles in the Department for Environment, Food and Rural Affairs and the Local Government Organisation, she became Chief Executive of the South East England Development Agency in 2011.

## Executive Board Members



### **Les Philpott - Acting Chief Executive**

The ONR Board appointed Les as Acting Chief Executive from 1 March 2015: as such he is in overall control of the management of ONR. He was also formally designated as ONR Accounting Officer from that date by the Department for Work and Pensions (DWP) Permanent Secretary and Principal Accounting Officer. Prior to this he was ONR's Deputy Chief Executive. Les has wide experience in public management and his previous career included senior management posts in central government. He is a Chartered Accountant (public finance).



### **Dr Andy Hall – Chief Nuclear Inspector**

Andy was appointed as Chief Nuclear Inspector on 1 December 2013 and is the authoritative regulatory head of ONR. In May 2014, he was elected Chair of the European Nuclear Safety Regulations Group (ENSREG). He joined ONR in its previous form as HSE's Nuclear Installations Inspectorate (NII) in 1988. He previously worked at the UK Atomic Energy Authority undertaking research and technical analysis (including analysis of the Chernobyl accident). He has a range of experience in technical assessment, site inspection and policy work on international harmonisation of nuclear safety standards. Andy is a Fellow of the Institute of Physics.



### **David Senior – Director of Regulatory Assurance**

David was appointed as Director of Regulatory Assurance on 1 July 2014, with responsibility for providing assurance of efficient and effective regulatory decision making and enforcement. He is a Deputy Chief Nuclear Inspector with extensive regulatory experience across the UK civil and defence nuclear sectors. David has considerable international experience, represents the UK at ENSREG, and was previously Deputy Director for Nuclear and Radioactive Waste Policy in the Department of Energy & Climate Change (DECC). David is a Chartered Mechanical Engineer.

## ONR's role

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ONR regulates the safety and security of nuclear licensed sites in the UK. These include the existing fleet of operating reactors, fuel cycle facilities, waste management and decommissioning sites and the defence nuclear sector. In addition, it regulates the design and construction of new nuclear facilities and the transport of nuclear and radioactive materials, and work with the international inspectorates to ensure that safeguards obligations for the UK are met. ONR also co-operates with international regulators on safety and security issues of common concern, including associated research.

The nuclear operators are responsible for the safety and security of their facilities. ONR's role, which is captured in our mission statement, is **to provide efficient and effective regulation of the nuclear industry, holding it to account on behalf of the public**. ONR uses a wide range of regulatory tools to positively influence those it regulates, and to encourage the achievement of sustained excellence and continuous improvement in safety and security performance across the nuclear sector. [The Annual Plan for 2014/15](#) set ONR's priorities in the context of this role.

To support the delivery of ONR's priorities, it is important to have the right people, in the right places, doing the right things. The internal focus for 2014/15 was therefore on implementing ONR's People Strategy. Specifically:

- Recruiting, developing and retaining skilled staff in an increasingly competitive market and with significant demographic challenges.
- Developing a pay and reward system that recognises personal contribution and supports continuous improvement across all levels.
- Harmonising the wide range of inherited terms and conditions and creating an employment offer that underpins a unified 'one ONR' approach suitable for a public sector organisation of our size.
- Improving leadership across the organisation.

- Creating a culture that is inclusive, consistent and fair, supporting openness and transparency in all that we do, where individuals feel empowered to challenge and work without fear of bullying or harassment.

Although ONR is an independent regulator, it remains fully accountable to the public through three Secretaries of State to Parliament. Full details of ONR's accountabilities are provided in Annual Governance Statement (page 47).

# Strategic Review

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## ONR's vision and priorities

ONR's vision during the majority of 2014/15 was to be **universally respected for securing confidence in nuclear safety and security**. This acknowledged that people want to feel protected from the hazards of the nuclear industry whether they stem from the physical operation of nuclear materials, safeguarding of nuclear material, transport of radioactive materials or the security of nuclear facilities. To this end, ONR sought the following outcomes from the nuclear industry:

- To control its hazards safely, securely and effectively.
- To have a culture of continuous improvement and sustained excellence in operations.
- Whenever possible, to share information about its activities with the public.

### ONR's priorities for 2014/15

- **Hazard reduction and remediation at Sellafield.**
- **Generic Design Assessment (GDA) and nuclear new build.**
- **Continuous improvement throughout ONR's regulatory interventions.**
- **Regulatory Assurance.**

## Key achievements

### Hazard reduction and remediation at Sellafield

#### *Key achievements in 2014/15:*

- The introduction of ONR's new Sellafield Strategy, to secure accelerated, safe and secure retrievals from Sellafield's Legacy Ponds and Silos facilities. ONR has influenced and provided leadership to key stakeholders to encourage new approaches which contributed positively to delivery, including:
  - The retrieval, repackaging and movement to safer storage of 150 packages of residue material, successfully completed in December 2014.
  - The commencement of the routine export of canned fuel from the Pile Fuel Storage Pond (PFSP) with completion expected in 2015.
  - Modification of Sellafield Ltd's plans to construct a plant to manage sludge from PFSP, with the consequent acceleration of the programme over the original plan.
  - Permission given to allow the first sludge to be pumped from the First Generation Magnox Storage Pond. All equipment has been installed and operations have commenced.
  - Improvements to electrical supplies: Sellafield Ltd has not had a major loss of power event since December 2013 compared to eight in the previous two years.
  - Taking tailored enforcement action to enable necessary safety improvements to be made while construction and commissioning of the Sludge Packaging Plant continued.

### GDA and nuclear new build

#### *Key achievements in 2014/15:*

- The GDA of Hitachi-GE's Advanced Boiling Water Reactor design concluded Step 2 of the GDA process in August 2014.
- The GDA of Westinghouse's AP1000 reactor design recommenced in September 2014 after a pause in the process.
- Published a progress report summarising the assessment intervention findings for the first project convergence point of the construction phase of the Hinkley Point C project for the design and safety case cornerstone theme. The report was a high level summary of 16 individual progress reports and one assessment report.

## Continuous improvement throughout ONR's regulatory interventions

### *Key achievements in 2014/15*

- Comprehensive review of the civil nuclear security regulatory framework has resulted in substantial reconstruction of key guidance underpinning nuclear security including: issue of the second edition of our National Objectives Requirements and Model Standards (NORMS); a new classification policy in line with the Government Security Classification; and publication of Technical Assessment Guides (TAGs), improving levels of openness and transparency.
- The launch of further improvements for public protection in the unlikely event of a radiation emergency. The revised principles for determining REPPIR (Radiation (Emergency Preparedness and Public Information) Regulations 2001) off-site emergency planning and public information areas for all nuclear sites in Great Britain were instrumental in ONR's recent re-determination of these areas for the Sizewell, Bradwell, Chapelcross, Barrow, Sellafield and Trawsfynydd sites. Work on the re-determination of the majority of the remaining GB nuclear sites will continue during 2015.
- ONR has built its capability for conventional health and safety to drive forward risk management improvements in the industry using the full range of regulatory tools, including formal enforcement. To this end ONR is embarking on a proactive intervention programme, and is investigating a number of serious conventional health and safety incidents.
- Sustained engagement with the Euratom safeguards inspectorate and UK industry/dutyholders to develop safeguards approaches for UK material consolidation projects.
- Extensive assessment of EDF's safety case for the return to service of the Heysham 1 and Hartlepool Advanced Gas Cooled Reactors (AGR) at reduced power levels, following their prolonged shutdown as a result of a crack discovered in one of the boilers.
- The provision of regulatory oversight to enable completion of defueling of the Consort Reactor at Imperial College and the transfer of nuclear fuel to Sellafield. This involved all of ONR's regulatory functions and resulted in significant hazard and risk reduction.
- Closure of an Improvement Notice issued to the Atomic Weapons Establishment (AWE) following significant structural repairs being made to one of its ageing production facilities.
- Consent issued under the Nuclear Reactors (Environmental Impact Assessment for Decommissioning) Regulations 1999 (as amended in 2006), for the commencement of decommissioning of a number of redundant submarines at the Rosyth Dockyard.

## Regulatory Assurance

### *Key achievements in 2014/15:*

- Established the Regulatory Assurance function to provide Ministers, the ONR Board and external stakeholders with assurance on the quality and robustness of ONR's regulatory processes and decision making.
- The publication of ONR's revised Safety Assessment Principles in November 2014, which ONR's inspectors use, together with the supporting TAGs, to guide regulatory decision making in the nuclear permissioning process.
- Implementation of the System Based Inspection concept, a revised approach to compliance inspection focused on the critical safety systems and structures derived from the licensees' safety cases. These Systems Based Inspections have proven effective, providing ONR with additional evidence to support our regulatory judgements on the safety performance of our licensees.
- The success of the expert mission by the IAEA that reviewed ONR's progress towards addressing the findings from the IRRS missions, providing external accreditation of ONR. The report commended ONR for the approach taken towards improving regulatory processes, stating that the mission had demonstrated ONR's tenacity and commitment to deliver nuclear safety improvements.

## The future

ONR's Strategy 2015 to 2020 provides the strategic intent for taking forward ONR's mission and has informed our Annual Plan for 2015/16 and for subsequent plans to 2019/20.

In setting our strategy, we have considered the environment in which we operate and the main trends and factors likely to affect future development. The nuclear industry is a global one and consequently ONR is influenced by both international and domestic factors. These include:

- The UK Government's policy to have new low carbon energy generation, including building new nuclear power plants which may employ reactor designs that have not been used in the UK before.
- The importance of decommissioning, safe radioactive waste management and site remediation to address the legacy from the first generation of nuclear power plants.
- The reliability of the nuclear supply chain.
- A highly competitive nuclear skills market, which can affect ONR's ability to recruit appropriately qualified and experienced nuclear specialists.
- A range of modern threats to the security of nuclear facilities, including to their personnel and information systems.
- The economic climate which requires all public sector organisations to continually seek financial efficiencies, and to improve financial control and accountability.
- The demand for an efficient and effective regulator that will hold the nuclear industry to account on behalf of the public and be a reliable source of independent information about the hazards and risks the nuclear sector presents.

The Strategy is available at <http://www.onr.org.uk/documents/2014/onr-strategy-2015-2020.pdf>

**Les Philpott**  
Accounting Officer  
Acting Chief Executive  
Office for Nuclear Regulation  
10 June 2015

# Directors' Report

## Performance

The Annual Plan 2014/15 set out the key performance indicators (KPIs) against which ONR's performance would be measured. The Chief Nuclear Inspector's Annual Statement provides further details of ONR's regulatory performance during 2014/15.

## Key performance indicators

KPI	Target	Outturns
System inspections achieved to plan	100% of planned system inspections to be completed	100%
Other inspections achieved to plan	95% of planned inspections to be completed, with aim of exceeding this target	99%
Regulatory reports completed to specified deadlines	95% of regulatory reports to be completed to specified deadlines	97%
Planned objectives completed	*100%. This KPI reports on a wide range of regulatory interventions each with its own target	91%
Recruitment into business critical posts	100% of business critical posts to be filled	100%
Average working days lost due to sickness absence	Average of 5.5 days per employee per year	2.43
Average training days per person	**7 days per person	15
Cumulative outturn spend against budget	Outturn to be within +/-3% of approved budget	(0.7)%
Accounts receivable – invoices raised by ONR that remain unpaid after 30 days	Less than 5% outstanding	1.66%
Accounts payable – invoices received by ONR that remain unpaid after 30 days	Less than 5% unpaid	0.4%
Forward liquidity – time cash in bank and current outstanding invoices cover planned expenditure	***2 months	2.3 months
Efficiency savings	5% in year	5%

- \* Performance has fallen short of the 100% target for the completion of planned objectives due to a number of significant factors such as some delays by the licensees and pressures from other priorities where resource has had to be diverted. We are working to improve this in 2015/2016 by testing the mechanisms that support these processes.
- \*\* This target represents ONR in steady state. The first year of operations was one of change requiring additional training and development investment.
- \*\*\* ONR is content that forward liquidity within the two month target is under regular review to ensure the adequacy of such working capital.

## Finance

### Funding Sources

In 2014/15, ONR was funded through a combination of:

- A start-up loan of up to £10m, provided by DWP to ensure ONR had sufficient funding to meet spending commitments in advance of cost recovery from dutyholders.
- Cost-recovery from dutyholders in line with the statutory provisions contained in the Energy Act 2013.
- A grant from DWP to fund activity for which cost recovery provision is not in place.

ONR complies with the charging requirements stipulated in HM Treasury Guidance on ‘Managing Public Money’.

### ONR Budget 2014/15

At the beginning of the year, the ONR Board approved a budget of £63m. However, following a robust review of ONR’s expenditure at the mid-year stage, the ONR Board approved a revised budget of £60m. The table and chart below show ONR’s income by source and the total expenditure for 2014/15.

2014/15 Income Source	£M
From ONR Charges	56.5
Grant	2.8
Total Income	59.3
Total operating costs	59.3
Capital expenditure	0.3

## Sustainability

ONR satisfies the criteria for not reporting requirements against Greening Government commitments and sustainability. ONR is not the major occupier at its office locations in Bootle or London; the major occupiers are the Health and Safety Executive and the Crown

Prosecution Service respectively who have reporting responsibility. In addition, ONR is a minor tenant in a private sector building in Cheltenham.

ONR is committed to corporate sustainability. Staff are expected to make full use of electronic communication, in particular video conferencing facilities between ONR office locations. Where business travel is required, use of public transport is encouraged whenever practicable.

## ONR's People Strategy

ONR's achievements in relation to ONR's People Strategy included:

- The introduction of new recruitment strategies, including taking part in the nuclear graduate programme, from which seven graduates were recruited, with a view to ONR 'growing its own' nuclear specialists, and the introduction of para-regulatory roles to ensure specialist resources are used to best effect.
- The implementation of a three-year pay deal, for staff in grades below Senior Civil Servant equivalent, which included the introduction of performance related pay and the harmonisation of a number of disparate historic terms and conditions.
- Identifying potential future leaders of the organisation and providing them with an appropriate development programme.
- Changes to internal, administrative approval processes to remove arbitrary requirements based on job band and to encourage personal responsibility.

We have established an ONR Equality and Diversity Group to help identify and take forward the diversity agenda and ensure staff have access to range of diversity networks (including those focused on ethnicity, gender, disability and sexuality). We have also put in a programme of diversity and inclusion training for board members and staff as well a mentoring and support for women managers and supporting the work of Women in Nuclear UK through representation on the Executive Committee.

We recognise that people with disabilities are under-represented in the workplace and we are committed to work to increase their number. Candidates for all roles are offered support for any special access, communication or other requirements to enable them to apply. We also provide reasonable adjustments within the workplace and review our supporting processes, such as performance management and talent management, to ensure they do not have any adverse impact and facilitate staff to be able to contribute fully and have opportunity to reach their potential.

### Composition of ONR's Board

The names and biographies of the board members are reported on pages 10-12. As at 31 March 2015 the ONR Board comprised five non-executive members: four male and one female; and three executive members - all male.

### Managing conflict of interests

Details of the management of conflict of interests can be found within the Governance Statement on pages 47-60.

### Staffing

Total ONR staff in post full time equivalents (FTE) and occupational group

	1 April 2014	31 March 2015
Nuclear specialists (nuclear safety, nuclear security, radioactive materials transport)	274.81	296.40
Other technical specialists (conventional health & safety, fire safety, other specialist inspectors and scientific staff)	19.39	19.90
Other staff (programme delivery support, corporate services including apprentices)	149.16	174.32
<b>Total</b>	<b>443.36</b>	<b>490.62</b>

### Off-payroll appointments

As part of the *Review of Tax Arrangements of Public Sector Appointees* published by the Chief Secretary to HM Treasury on 23 May 2012, departments and their arm's-length bodies are required to publish information in relation to the number of off-payroll engagements. The table below indicates the number of off-payroll arrangements ONR had in place as at 31 March 2015.

### Number of existing engagements as at 31 March 2015

Number that have existed for less than one year at time of reporting	0
Number that have existed for between one and two years at time of reporting	0
Number that have existed for between two and three years at time of reporting	0
Number that have existed between three and four years at time of reporting	0
Number that have existed for four or more years at time of reporting	0

### Pension liabilities

Details of pension costs etc are contained in Note 3 (a) to the ONR Accounts and in the Remuneration Report.

### Employee engagement

ONR is committed to ensuring that staff at all levels can contribute to issues affecting the organisation, and encourages engagement through:

- Regular weekly online briefing notes to inform staff of developments in the organisation, the industry, new policies or changes to existing ones, and other business related matters, as well as 'Core Matters', a quarterly online magazine for staff.
- Seminars, global emails and auditorium sessions to provide knowledge and insight on issues such as the Annual Report and Corporate Plan and 'Learn a bit about...' sessions on various aspects of ONR's work.
- Prompt, online feedback from the ONR Board and its committee meetings and the Senior Leadership Team meetings.
- Regular communiqués from the Acting Chief Executive on key messages.
- Sessions to meet board members and executive members (formally and informally).

There are also two established forums through which staff can contribute to issues affecting the organisation:

- A joint consultative committee, with representatives from local and national trade union representatives and ONR management.
- A Health and Safety Committee, comprising management and staff representation (including trade unions).

### **External auditors**

ONR's financial statements have been audited by the Comptroller and Auditor General, whose certificate appears on page 70. The cost of audit work was £59,000, which related solely to audit services.

### **Directors' Statement**

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

#### **Les Philpott**

Accounting Officer  
Acting Chief Executive  
Office for Nuclear Regulation  
10 June 2015

# Chief Nuclear Inspector's Annual Statement – 2014/15

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## **Holding the nuclear industry to account on behalf of the public**

ONR is committed to taking enforcement action when dutyholders fail to meet the safety and security standards required by law. We have a wide range of enforcement powers, with which to hold dutyholders to account and secure sustained compliance with the law. During 2014/15, we undertook the following formal enforcement action in accordance with our Enforcement Policy Statement. Dutyholder progress toward compliance with Notices may be verified by reference to the ONR website.

- Formal Caution issued to two Sellafield Ltd employees following unauthorised work and direct violation of safety procedures. There was no evidence that Sellafield Ltd's systems were deficient.
- Improvement Notice issued to Sellafield Ltd to improve physical containment barriers and resilience of the ventilation systems of the Waste Vitrification Plant Line 3.
- Enforcement Notice served to Sellafield Ltd under the Regulatory Reform (Fire Safety) Order 2005 for inadequate means of escape in a newly constructed building.
- Improvement Notice issued to Sellafield Ltd for its arrangements for managing asbestos at the Calder Hall facility.
- Agreement to extend an Improvement Notice issued to Sellafield Ltd in November 2013 as a result of shortfalls in the level of protection provided during flask maintenance gamma gate operations.
- Improvement Notice on Jacobs E&C Ltd, in its capacity as a principal contractor at the Capenhurst nuclear licensed site of Urenco UK Ltd, requiring improvement of temporary works associated with the construction phase of the tails management facility.
- Improvement Notice served on Dounreay Site Restoration Ltd following a fire in the Prototype Fast Reactor sodium tank farm, requiring improvements in planning, implementation and control of work and to enhance organisational capability to ensure decommissioning activities are carried out safely.

- Improvement Notice issued to BAE Systems Marine Ltd at the Devonshire Dock Complex in Barrow for failure to demonstrate that only suitably qualified and experienced persons perform any duties which may affect safety of operations.
- Improvement Notice issued to Devonport Royal Dockyard Limited following a formal investigation into a loss of control of radioactive material, which resulted in a worker receiving an internal dose of radiation.
- Improvement Notice issued to EDF Nuclear Generation Ltd requiring improved arrangements for maintenance of the Carbon Dioxide Storage and Distribution plant at Heysham 1.

## **Fukushima: lessons learned**

In October 2012, ONR published a comprehensive report on the progress of all stakeholders in implementing the recommendations made by the Chief Nuclear Inspector and the outcomes from European Stress Tests.

Further updates on the UK's progress were provided in October 2013 and September 2014, and we are currently reviewing progress with the intention of publishing a further update on our website in late 2015. Steady progress has been made and a significant number of the recommendations and stress test outcomes have been completed to ONR's satisfaction.

## **Overview of Regulatory Attention in 2014/15**

The following table summarises the regulatory attention ONR applied to nuclear facilities and activities over the past year. There are areas that require attention above the routine level that ONR applies to all licensees. This judgement is dependent on the level of hazard and risk posed by the facility or activity, and is underpinned by indicators and qualitative measures which we use to analyse the information gathered through our regulatory activities. These include:

- The number and significance of regulatory issues related to each dutyholder, and their timely resolution.
- Reportable events and follow-up investigations carried out by our inspectors.
- Enforcement action taken.
- Evaluation and inspection of dutyholders' compliance with legal requirements.
- Progress made towards delivery of significant developments.

Table 1- Regulatory attention for nuclear industry dutyholders:

ONR regulatory attention level	Dutyholder/Site/facility. (listed alphabetically within each attention level)	Judgement on whether performance at end of year (improving ↑; maintaining level ↔; declining ↓)
<b>1 - Significantly enhanced level of regulatory attention</b>	Sellafield decommissioning - Legacy Ponds and Silos (Sellafield Limited)	↑
<b>2 - Enhanced level of regulatory attention</b>	Atomic Weapons Establishment, Aldermaston (AWE plc)	↔
	Devonport (Devonport Royal Dockyard (Ltd))	↓
	Dounreay (Dounreay Site Restoration Ltd)	↓
	Dungeness B (EDF Energy Nuclear Generation Ltd)	↑
	Hartlepool (EDF Energy Nuclear Generation Ltd)	↔
	Heysham 1 (EDF Energy Nuclear Generation Ltd)	↓
	Sellafield – remainder of estate (Sellafield Ltd)	↔
<b>3 - Routine level of regulatory attention expected</b>	Atomic Weapons Establishment, Burghfield (AWE plc)	↓
	Barrow (BAE Systems Marine Ltd)	↓
	Berkeley (Magnox Ltd)	↔
	Bradwell (Magnox Ltd)	↔
	Capenhurst (URENCO UK Ltd)	↔
	Chapelcross (Magnox Ltd)	↔
	Consort Reactor (Imperial College of Science, Technology and Medicine)	↔
	Derby (Rolls Royce Marine Power Operations Ltd)	↔
	Dungeness A (Magnox Ltd)	↔
	GE Healthcare (2 sites) (GE Healthcare Ltd)	↔
	Harwell (Magnox Ltd)	↔
	Heysham 2 (EDF Energy Nuclear Generation Ltd)	↑
	Hinkley Point A (Magnox Limited)	↔
	Hinkley Point B (EDF Energy Nuclear Generation Ltd)	↑
	Hinkley Point C (NNB Genco Ltd)	↔

ONR regulatory attention level	Dutyholder/Site/facility. (listed alphabetically within each attention level)	Judgement on whether performance at end of year (improving ↑; maintaining level ↔; declining ↓)
<b>3 - Routine level of regulatory attention expected</b>	Hunterston A (Magnox Limited)	↔
	Hunterston B (EDF Energy Nuclear Generation Ltd)	↔
	Low Level Waste Repository (LLW Repository Ltd)	↔
	Metals Recycling Facility, Lillyhall (Studsvik UK Ltd)	↔
	Oldbury (Magnox Limited)	↔
	Rosyth (Rosyth Royal Dockyard Ltd)	↑
	Sizewell A (Magnox Limited)	↔
	Sizewell B (EDF Energy Nuclear Generation Ltd)	↔
	Springfields (Springfields Fuels Ltd)	↔
	Torness (EDF Energy Nuclear Generation Ltd)	↔
	Trawsfynydd (Magnox Limited)	↔
	Winfrith (Magnox Limited)	↔
	Wylfa (Magnox Limited)	↔

## Summary of regulatory activity in 2014/15

The following sections present our regulatory activity over the past 12 months against the priorities identified in the [ONR Annual Plan 2014/15](#):

- Hazard reduction and remediation at Sellafield.
- GDA and new build.
- Continuous improvement throughout ONR’s regulatory interventions.
- Regulatory Assurance.

## Hazard reduction and remediation at Sellafield

### Regulatory approach

The [ONR Annual Plan](#) for 2014/15 identified hazard reduction and remediation at Sellafield as our top priority. This focuses on securing

accelerated, safe, secure retrievals of nuclear materials from a group of facilities known as Legacy Ponds and Silos, which date from the beginning of the UK's nuclear programme. The age and fragility of these and other facilities make it a national priority to reduce hazard and risk at Sellafield in a timely manner.

A fundamental review of our regulatory approach at Sellafield was undertaken in early 2014, resulting in a new strategy for regulating the site. The strategy identified three key outcomes:

- Accelerating hazard and risk reduction in legacy facilities across the Sellafield site.
- Evidence-based confidence that the licensee is complying with its statutory obligations and that workers and the public are protected from the hazards of the site.
- Stakeholder confidence that ONR's regulatory approach is appropriately targeted, risk based, proportionate and effective.

The Legacy Ponds and Silos comprise four separate facilities: the Pile Fuel Storage Pond (PFSP), the First Generation Magnox Storage Pond (FGMSP), the Pile Fuel Cladding Silo and the Magnox Swarf Storage Silos. These facilities constitute the most significant risk and have been identified as requiring a substantially enhanced level of regulatory attention to achieve timely progress with hazard and risk reduction. There are, in addition, other facilities on the Sellafield site that do not meet modern engineering standards and which also require improvement to reduce the overall the risk on the site.

Our approach to securing accelerated hazard and risk reduction has been to work collaboratively with the key organisations with an interest in accelerating hazard and risk reduction: Sellafield Ltd, the Nuclear Decommissioning Authority (NDA), DECC, the Environment Agency and the Government Shareholder Executive. We have influenced these key stakeholders to think differently and contribute collectively to the delivery of safety improvements across the site by promoting open dialogue, removing barriers to progress and by applying fit for purpose solutions.

Implementation of the new strategy was supported by new organisational arrangements that provide two separate programmes of work. One programme of work is aimed at securing accelerated hazard reduction and remediation at Sellafield by working collaboratively with the licensee and other stakeholders. The second programme carries out routine compliance inspection, investigation of events, and where necessary, enforcement action. Both programmes of work operate across the whole site, thereby enabling risk and hazard reduction whilst maintaining adequate safety performance from the licensee. As a result, we may see significant achievements in hazard and risk reduction in some areas of the site while carrying out enforcement action in others.

## Improvements achieved in 2014/15

There is clear evidence to show that our new regulatory strategy is becoming effective and that progress is being made to improve the safety of the Legacy Ponds and Silos and other facilities on the site. Improvements in 2014/15 include:

- PFSP canned fuel export - Sellafield Ltd has now commenced the routine export of degraded canned fuel from this legacy pond. Twenty five flasks of fuel were removed up to 31 March 2015, and we expect that this work will be completed by July 2015.
- PFSP sludge removal - ONR has encouraged Sellafield Ltd to explore multiple avenues to accelerate the removal of this legacy material from the pond. Sellafield Ltd has responded positively and we now expect considerable programme acceleration compared to the original plan, with the first sludge removal anticipated to begin later in 2015. This is a critical enabler to allow de-watering in 2019, an activity previously planned for 2030.
- FGMSP sludge removal - following a breach of fire safety regulations last year, we tailored our enforcement action so that the necessary safety improvements were made whilst enabling the continued construction and commissioning of a new facility to provide modern containment of sludge removed from FGMSP. This course of action avoided potentially significant delays to the completion of the new facility. The first sludge has now been pumped from the pond into this new facility.
- Finishing Line 3 retrievals - the project to repackage and transport 150 packages containing fissile residue material to a more robust store was one of the site's most important safety and environmental improvements, achieving a significant risk reduction. Despite a number of significant, technical challenges along the way, the project was successfully completed in December 2014.

## Generic Design assessment and new build

### Regulatory milestones

We continue to work on assessment of two new reactor designs through our GDA process. Jointly with the Environment Agency, this year we completed GDA Step 2 of the Hitachi-GE UK Advanced Boiling Water Reactor ABWR design. We published 16 technical assessment reports and a summary report of our findings on our website in August 2014. We have not identified any fundamental safety issues at Step 2 that might prevent design acceptance in the UK. The project has moved to GDA Step 3, which involves assessment of the safety arguments. Step 3 is expected to be complete by August 2015.

The Westinghouse AP1000 reactor design recommenced the GDA process in September 2014 and following a period of remobilisation, technical assessment work commenced in January 2015. We have now received revised resolution plans from Westinghouse for the 51 outstanding issues, which are published on our website. These issues will need to be resolved before ONR can make a decision on whether to issue a Design Acceptance Confirmation for the AP1000 reactor design.

We have progressed pre-licensing engagement with Horizon Nuclear Power, who are intending to apply for a nuclear site licence to construct and operate an ABWR power station at Wylfa Newydd on Anglesey. Our focus was to ensure that regulatory expectations were incorporated into Horizon Nuclear Power's organisational development and management processes. We also commenced early interaction with NuGen who are intending to apply for a nuclear site licence to construct and operate three Westinghouse AP1000 Reactors at a new power station at Moorside in Cumbria.

Since issuing a nuclear site licence to Nuclear New Build Generation Company Limited (NNB GenCo) in December 2012, we have developed an inspection, assessment and hold point regime to regulate the construction and commissioning phases of the UK European Pressurised Reactor units at Hinkley Point C. The first regulatory milestone will be the first pour of nuclear safety related concrete.

## **Continuous improvement throughout ONR's regulatory interventions**

Through its interventions, ONR aims to secure continuous improvement to maintain the high standards of health, safety, security and safeguards required in the nuclear sector. ONR's inspectors undertake a variety of interventions and deploy a wide range of regulatory tools to promote sustained compliance. These activities include:

- Inspection to evaluate the performance and culture of our dutyholders, ensuring risks are well controlled.
- Delivering a permissioning regime, ensuring that dutyholder activities of principal significance to safety and security have been understood and properly controlled.
- Enforcing the law, in accordance with our Enforcement Management Policy.
- Influencing the sector through a variety of national and international forums, most notably through the UK Nuclear Industry Safety Directors' Forum.

ONR's work to secure continuous improvement on operational and decommissioning nuclear licensed sites and with our other dutyholders is discussed in the following sections:

- Operating Reactor sites.
- Sellafield (excluding the Legacy Ponds and Silos facilities).
- Defence Nuclear sites.
- Decommissioning, Fuel and Waste sites.
- Security of the Civil Nuclear sector.
- Our Cross ONR programme of work.

## Operating Reactor sites

### Safety performance

There are nine operating civil nuclear power stations in the UK. This section reports on the eight stations owned and operated by EDF Energy Nuclear Generation Ltd (EDF NGL). The performance of the remaining NDA-owned Magnox power station at Wylfa is reported in the Decommissioning Fuel and Waste section along with the other sites operated by Magnox Ltd.

Most of the EDF NGL operating reactor fleet has experienced a steady state in terms of safety and generation performance, with only a small number of unplanned shutdowns and reportable events.

ONR welcomed the conservative decision taken by EDF NGL to shut down two stations (Heysham 1 and Hartlepool) in August 2014 following confirmation of a crack in a key structural component of one of the boilers in Reactor 1 at Heysham 1. Following extensive inspections, three of the four unaffected reactors were returned to service at reduced power levels with the affected reactor returning to operations several weeks later in January 2015. Heysham 1 Reactor 1 returned at reduced power levels, and with the affected boiler isolated from service. Due to the enhanced level of attention at Heysham 1 and Hartlepool this year, both stations are assigned as Category 2 in our regulatory attention table.

Following an incident at Heysham 1 power station, which resulted in the release of a quantity of clean CO<sub>2</sub>, ONR issued an Improvement Notice requiring EDF NGL to improve its arrangements for the regular and systematic examination, inspection, maintenance and testing of its Carbon Dioxide storage and distribution plant at the power station. ONR's investigation of this incident continues.

The enhanced level of attention at Dungeness B reflects our regulatory approach, which requires EDF NGL to carry out regular inspections and surveillance of the graphite core of the reactor and

to analyse the results to determine the extent of cracking and weight loss within the graphite cores. The onset of key way root cracking at Hunterston B reinforces our increased focus on graphite ageing issues associated with AGRs.

For those stations where regulatory attention has increased, we have implemented enhanced monitoring and oversight of the licensee's improvement initiatives. Although regulatory attention has increased at some EDF NGL sites, ONR is content that EDF NGL's overall level of safety performance remains high.

### **Regulatory milestones**

ONR has completed all of its planned interventions for operating reactors, with additional reactive inspections being performed in response to reported events.

Following the shutdown of Heysham 1 and Hartlepool reactors, ONR maintained regular engagement with the licensee to assure that they were seeking to obtain positive confirmation of the condition of the boilers. We required an acceptable safety case and robust evidence of surveillance and inspection outcomes to demonstrate that the licensee had taken appropriate action in the interests of continued nuclear safety. We granted formal agreement for each reactor to return to service only when we were satisfied with the safety justification provided by EDF NGL.

### **Current and future challenges**

As operating reactors age beyond their original design intent (on average they have already operated for 30 years), there is a need for timely and systematic re-investment in systems to ensure continued safety and reliable operation. We are content with the licensees' current planned investment strategies, and are working with them to develop station improvement plans. In the last year, we have noted good progress on a number of projects, some of which are now close to completion.

The age of important reactor components and the ageing mechanisms of key structural items, including gradual degradation of the graphite cores, will be used to inform our future regulatory strategy, planned interventions and assessment priorities.

In the short term, we are expecting EDF NGL to propose modifications to enable Heysham 1 and Hartlepool reactors to return to full power. ONR will assess and if appropriate, permission these modifications to provide regulatory assurance that they are soundly based.

## Sellafield

### Safety performance

During 2014/15, we carried out a targeted programme of risk-informed inspections to determine Sellafield Ltd's legal compliance and the safety performance of key facilities and infrastructure systems across the site, based on assessments of the risk, hazard and importance of individual facilities and systems.

On this evidence, we consider that Sellafield Ltd has operated the site safely and has made adequate provisions to protect the health, safety and security of the public and its workforce. However, we do recognise that some of the older facilities do not meet current engineering standards and their safety cases cannot demonstrate the high standards expected of modern nuclear facilities. This does not mean that operations and activities on these facilities are unsafe, but it further highlights the importance of prompt hazard and risk reduction.

There were a number of events on the site during 2014/15 in which inadequate human performance and/or management supervision were significant factors. We are assessing the implications of this trend to inform development of our intervention plan for the site for the coming year.

We have taken enforcement action where Sellafield Ltd has failed to meet its legal obligations, this is summarised earlier in this statement. In addition, Sellafield Ltd has made a number of notable improvements in the past year, including improvement to maintenance activities to provide increased reliability of the electricity supply. Sellafield Ltd also demonstrated compliance with three Improvement Notices, on the Sellafield Ion Exchange Effluent Plant issued in the previous year, the Waste Vitrification Plant and the final on its arrangements for managing asbestos.

### Regulatory milestones

In addition to the significant milestones already discussed in the priority focus, we have also accepted a proposal by the licensee to replace the Highly Active Liquor (HAL) stocks specification with a new Operating Rule, which will ensure that Sellafield Ltd continue to reduce HAL stocks year on year.

ONR witnessed a demonstration of Sellafield Ltd's emergency arrangements which was judged to be adequate.

### Current and future challenges

The most significant current strategic issue affecting our regulation of Sellafield concerns the availability of evaporative capacity, which is required in order to concentrate waste (raffinate) arising from

reprocessing Magnox and oxide spent fuel. There are currently three evaporators (A, B & C) that are used to produce HAL for later conversion to a vitrified waste suitable for long term storage. Evaporator C is the only evaporator capable of handling oxide raffinate; however the heater coil and jacket of the evaporator are subject to progressive corrosion mechanisms and are approaching their limiting wall thicknesses. Although a new evaporator (D) is being constructed to replace Evaporator C, the plant may not be available when Evaporator C ceases operation. In the event of a total loss of evaporative capacity there would be a significant impact to operations on the rest of the site. This issue is likely to present Sellafield Ltd and ONR with challenging decisions in 2015.

## **Defence nuclear sites**

### **Safety performance**

ONR regulates safety across the MOD Defence Nuclear Programme (DNP), which encompasses facilities and activities mainly pursuant to supporting the UK's continuous at-sea deterrent. MOD's DNP includes seven licensed sites and a range of non-licensed sites and activities, recognising that there are some exemptions to the application of nuclear safety legislation to MOD's nuclear activities. ONR concluded a general agreement with MOD in January 2015 to re-establish our top level interface and our respective roles and responsibilities for safety regulation of the DNP. ONR works very closely with the Defence Nuclear Safety Regulator (DNSR) which regulates aspects of nuclear safety in accordance with MOD policy where there are legislative exemptions.

Overall we consider that the licensed defence sites demonstrated adequate control of the nuclear and radiological hazards and met the required safety standards in 2014/15. Where aspects of safety performance have been identified as declining, targeted improvement programmes are being implemented by licensees to address the identified areas for improvement. While ONR judges that safety on the sites is being maintained, the challenges have the potential to affect longer-term delivery.

Devonport Royal Dockyard Ltd continued to receive enhanced regulatory attention. This was due to the range of ageing facilities and the timeliness and quality of periodic safety reviews; a number of safety cases that do not meet expectations; required facility upgrades to cope with the increasing demands from submarine maintenance; new facility build to reinstate the ability to defuel submarines at the end of their service life; and stretched resources, particularly given the government decision to refuel HMS Vanguard. The licensee's board has developed and begun to implement a comprehensive site-wide nuclear safety improvement programme

which, with sustained commitment over the next three to five years, has the potential to move the site to a routine attention position. In December 2014, ONR issued an Improvement Notice following a formal investigation into a loss of control of radioactive material, where a worker received a very small internal dose of radiation. The safety of the public was not affected and the licensee is required to make the necessary improvements by January 2016. Progress has been made in decommissioning older facilities and a systematic approach to asset management has been developed, recognising however that investment will be needed in the longer term.

The AWE Aldermaston site has continued to receive enhanced attention from ONR. Essentially this is due to the challenges the licensee faces in constructing and introducing major new build nuclear facilities and facility upgrades, the need to extend use of ageing key facilities, and delays in undertaking periodic safety reviews. We have concluded our investigation into AWE's failure to meet a requirement to treat some radioactive wastes by February 2014. We will not seek prosecution given that we are satisfied with waste storage conditions in the short-term and that the safety of the public and the workforce has not been affected. However, we will consider further proportionate regulatory action to achieve the required hazard reduction in reasonably practicable timescales. The licensee has made progress in reducing risks by completing the transfer of legacy nuclear materials to a more suitable store on site. The Burghfield site is less complex and continues to receive routine attention. We recognise that the licensee has made safety improvements. Nevertheless, we judge that deteriorating programme performance has resulted in delays to new build assembly/disassembly facilities which has led to the need for extended use of current ageing facilities.

A review of our regulatory approach at AWE was undertaken in 2014 and building on lessons from other ONR programmes, a revised approach has been initiated. We are seeking to secure confidence in safety improvements, working collaboratively with key stakeholders with an interest in safe delivery: AWE, MOD, DNSR and the Environment Agency. Through the promotion of open dialogue and common and strategic understanding across all parties the intent is to contribute collectively to positively develop delivery of safety improvements.

At Barrow, ONR agreed to the launch of the third Astute class submarine in May 2014, and 2015 will see its commissioning on the licensed site. Compliance arrangements made under several licence conditions remain in need of improvement and in December 2014, ONR issued an Improvement Notice associated with the adequacy of demonstration of suitable qualifications and experience for staff undertaking safety related work. The necessary improvements are required by December 2015. The licensee has responded productively

to our findings and has embarked on a wider review and revision to its arrangements. Separately, progress on periodic safety review has been positive in accordance with the programme.

The Derby site is managing a challenging period delivering through a number of ageing facilities whilst introducing significant investment constructing new facilities to modern standards. ONR remains closely engaged on the continued safe operation of the current facilities and new build, and it is evident that the licensee remains actively committed to maintaining its safety standards, including adequately addressing shortcomings identified through periodic safety review.

### **Regulatory milestones**

AWE has completed significant structural repairs to one of its ageing production facilities and AWE complied with the associated Improvement Notice.

We have issued our consent, under the Nuclear Reactors (Environmental Impact Assessment for Decommissioning) Regulations 1999 (as amended in 2006), to the commencement of decommissioning of a number of redundant submarines at the Rosyth Dockyard.

### **Current and future challenges**

The MOD's DNP is busy and expanding, and faces a number of challenges, including shortages of suitably qualified and experienced personnel, ageing facilities and significant commitments to build new nuclear facilities. This is against the background of a government priority to maintain continuous at-sea deterrent, and significant organisational complexity with many interfaces to manage. The decision to refuel HMS Vanguard has added further challenge to an already demanding programme.

Our strategy will remain focused on regulating continued safe operation of the sites, ensuring licensees undertake thorough and timely periodic reviews of safety, regulation of the construction of new nuclear facilities, and adequate remediation of legacy facilities and wastes.

The Government is due to take a decision on the Successor Submarine Programme (successor to the Vanguard class) in 2016. In the next year, the Government is likely to complete a strategic defence and security review and this may influence ONR's plans and future activities.

## Decommissioning fuel and waste sites

### Safety performance

ONR's Decommissioning Fuel and Waste (DFW) Programme regulates defueling and decommissioning nuclear power reactors, fuel cycle and waste sites, and restoration sites, 20 licensed sites in total. The programme also regulates the last remaining operational Magnox reactor at Wylfa, and works with the NDA and the MOD to provide regulatory advice on matters relating to nuclear liabilities management, including radioactive waste and spent fuel management and future disposal routes in order to promote a coherent national policy in this area. To this end, we have continued our engagement with stakeholders to explain our role in regulation of any future geological disposal facility.

For 2014/15, we have evidence that overall, the licensees demonstrated adequate control of the nuclear and radiological hazards, met the required safety standards, made satisfactory progress towards their decommissioning objectives, and reduced the nuclear risk and hazard on their sites. The progress made in decommissioning and hazard-reduction led to ONR's determination that there is no longer a need to have detailed off-site emergency planning areas around the Bradwell, Chapelcross and Trawsfynydd sites.

Dounreay Site Restoration Ltd (DSRL) continues to receive enhanced attention from ONR. This is due to continued challenges that the site faces to achieve significant risk and hazard-reduction, as well as issues identified by ONR relating to control and supervision of work and organisational effectiveness. In October 2014, DSRL reported a small fire in the Prototype Fast Reactor sodium tank farm. The incident did not result in any harm to the workers or the public. However it reinforced issues with respect to organisational capability, control of work, risk assessment and safety culture on the site, some of which we had already identified to the licensee as needing to be addressed. Following our investigation into the circumstances surrounding the fire, ONR issued an Improvement Notice in November 2014. The licensee is required to make the necessary improvements by the end of June 2015. DSRL has initiated an improvement programme and ONR has engaged with the licensee to secure satisfactory implementation of the required improvements on the tank farm and to ensure the wider lessons are promulgated across the site. There are, however, notable successes on the site including the transfer of breeder fuel from Dounreay Fast Reactor to Sellafield and good progress made with decommissioning and hazard-reduction within the Fuel Cycle Area.

## Regulatory milestones

We concluded our assessment and gave permission to defuel the Consort Reactor at Imperial College in Ascot, with the nuclear fuel being safely transferred to Sellafield. This project involved an integrated effort from all of ONR's regulatory functions and has resulted in significant risk and hazard reduction for the site.

Following assessment, we issued our formal decision confirming the adequacy of Magnox Limited's periodic safety review for Wylfa. Wylfa is expected to continue to generate electricity until December 2015 when it will commence reactor defueling prior to decommissioning.

We completed our assessment of the fuel-free status at the decommissioning Magnox reactor at Sizewell A; the licensee is now able to prepare the site for entry into the Care and Maintenance stage of its lifecycle.

We completed a report, jointly with the Environment Agency, to advise the Government and NDA on the suitability of options for the management of the UK's Plutonium stockpile.

## Current and future challenges

Our focus remains on encouraging the licensees to maintain a strong safety culture and resilient organisational capability appropriate to their operations, and to continue with safe risk and hazard reduction and decommissioning activities. In regulating Wylfa, we will focus our efforts on regulating continued safe operation during the remaining period of generation and through subsequent defuelling.

We will maintain enhanced attention on DSRL to assess the effectiveness of the improvements made by the licensee to arrest and reverse its declining safety performance.

Magnox Limited is revising its decommissioning and radioactive waste management strategies that will put its sites into long-term Care and Maintenance. In engaging with the licensee, NDA and other stakeholders, our focus remains on securing a common understanding and agreement on expectations for entering the C&M stage and management of sites during this period; currently planned for longer than 60 years. The revised strategies will necessitate structural changes to the licensee's organisational capability and we will assess these to satisfy ourselves that they are adequately justified.

The new Parent Body Organisation of the twelve Magnox Limited and Research Sites Restoration Ltd (RSRL) sites aims to adopt a programmatic approach to decommissioning. To facilitate this approach, Magnox Limited requested that RSRL sites at Harwell and Winfrith be re-licensed to it. This work has completed successfully

and we will continue to engage with the licensee to assess any further organisational changes as appropriate post-relicensing.

The NDA is currently developing Strategy 3, NDA's third strategy in line with its duty under the Energy Act 2004. The main focus of this strategy is the development of the critical enablers for improved delivery of risk and hazard-reduction across the NDA estate. We are engaged with NDA on this to ensure that safety and security are given sufficient priority and remain a coherent feature of future work across the NDA estate.

## **Security of the civil nuclear sector**

Security regulation complements safety regulation to ensure safe and secure power generation and decommissioning within the civil nuclear sector. The key to effective and efficient security regulation is the continued embedding of the objective-based approach to security throughout the civil nuclear industry. To this end, all UK civil nuclear sites have a Nuclear Site Security Plan (NSSP) that details their security arrangements necessary to meet the objectives and requirements of the National Objectives, Requirements and Model Standards (NORMS) guidance.

### **Security performance**

Based on the regulatory evidence gathered, we judge that overall, the civil nuclear industry met its security obligations during 2014/15. This judgement is based on the analysis of mandatory reportable regulatory metrics as well as information gained through intervention activity such as inspections.

During 2014/15, 294 security events were reported by dutyholders as legally required. This is consistent with the number for 2013/14, and in line with our expectations. We encourage event reporting and consider this to be an indicator of sound security culture. An example of the value of this intelligence was demonstrated earlier this year when we identified a trend in access control issues. In response, we initiated a series of thematic interventions on this topic at sites, resulting in improvements and subsequent reduction in the number of these reportable events.

We have continued to promote and emphasise that an appropriate security culture underpins the effective delivery of security at sites. Whilst some dutyholders are further advanced than others, we are satisfied that progress has been made by all, and we worked collaboratively, with dutyholders and others, to assure sustained progress.

## Regulatory milestones

Analysis of intelligence assists in the determination of the level of regulatory attention given to dutyholders. Based on our assessment, the key regulatory priorities for interventions during 2014/15 were:

- Dutyholder compliance with their NSSP arrangements.
- The Sellafield Security Enhancement Programme.
- The Dounreay Security Enhancement Programme.
- The managed response solution of security arrangements at EDF sites.
- Reviewing civil nuclear industry security responses during exercises.
- Thematic interventions focusing on access control and supervision.

In delivering the effective and efficient regulation of these key topics, we conducted over 220 security inspections during the year. In addition, we attended and assessed all site counter-terrorist exercises and conducted a sector-wide review of dutyholders' security emergency arrangements and performance.

## Current and future challenges

With the exception of the detailed thematic topics, which will be determined from on-going analysis of regulatory intelligence, the priorities listed above will continue to be the focus of our regulatory activity and security interventions for 2015/16. This will encourage delivery of continuous improvement in these areas.

We will continue to meet the challenge of further embedding outcome-focused regulation in 2015/16. To this end, NORMS is being revised, providing clarity of purpose and eliminating ambiguity to make it more user-friendly. It will also include a set of security objectives aimed at implementing robust governance and assurance processes.

In addition, we are up-skilling staff to provide consistent and proportionate regulation of evolving cyber security threats, and will continue to concentrate regulatory efforts on areas of work on the basis of regulatory intelligence within the landscape of wider government and ONR priorities.

## Cross ONR programme of work

In addition to our site-facing programmes, we undertake a wide range of activities that span all areas that we regulate.

### Radioactive material transport

Our activities include inspection and enforcement of UN Class 7 (radioactive material) transport and issue of competent authority approvals for certain types of packages, materials and shipments. The scope of transport regulation is broad and covers the nuclear sector and a wide range of industrial, medical, and carrier organisations. In this respect, ONR regulates the safety and security of activities that take place in the public domain. ONR's activities affect not only the safety and security of radioactive transport with which many are familiar (such as nuclear fuel movements to and from operational and decommissioning reactors), but also facilitate societal benefits such as regulating the transport of radiopharmaceuticals for medical diagnostics and treatment.

This year, we completed 50 inspections of dutyholders, issued 40 competent authority assessments and assessed two major industry transport emergency exercises. Based on evidence gathered, we judge that:

- For permissioning - industry still struggles to produce 'right first time' safety cases. However the majority reach the required standard eventually.
- For safety and security compliance in the nuclear sector - industry is generally meeting its obligations.
- For safety and security in the non-nuclear sector - the situation is variable across the very high number of diverse dutyholders.

As a result of our regulatory activity, we have identified a number of generic learning points which have informed our intervention strategy for 2015/16. We will work to influence targeted and proportionate improvement in all sectors.

As part of our commitment to continuously improving our regulatory activities, we are currently reviewing our systems and procedures for transport inspection activities. Following our success this year in utilising technical support contracts to address the backlog of permissioning work, we are initiating improvements to our capacity for approving packages. We are increasing our regulatory focus on the non-nuclear sector (the majority of UK dutyholders) through a more strategic approach to its regulation.

## **Conventional health and safety**

ONR assumed responsibility for the regulation of conventional health and safety in the nuclear industry on 1 April 2014. ONR is committed to ensuring the industry has taken appropriate measures to control all risks arising from their undertaking, reducing those risks as low as is reasonably practicable. As a result, a proactive intervention plan for dealing with conventional safety risks on nuclear licensed sites will be rolled-out in 2015/16. Three serious incidents are currently under investigation.

A small number of fire incidents occurred over the last year, which were confined within the compartment of origin without causing a danger to workers or challenging the integrity of the nuclear inventory. ONR is satisfied that dutyholders have responded appropriately to these events, identifying relevant lessons learned, supporting continuous improvement in pursuit of reducing the risk of fire on nuclear licensed sites.

## **Safeguards**

ONR monitors safeguards performance in the UK, supporting and intervening as necessary with UK dutyholders and/or Euratom and the IAEA to ensure that safeguards obligations in the UK are met in a proportionate manner. Euratom and IAEA safeguards inspectorates undertook nearly 220 inspections throughout the UK during 2014. Each inspectorate concluded that there had been no diversion of safeguarded material in the UK.

We have continued to ensure co-operation between the IAEA and Euratom inspectorates and UK operators in developing safeguards approaches that support UK national strategies for materials consolidation. Acting in conjunction with safety, security and transport colleagues, safeguards provided a joined up approach to address all of the regulatory requirements, and ensure compliance with the UK obligations. The Euratom inspectorate publicly described its interaction with the UK as exemplary.

Over the next year, we will continue to make progress with safeguards performance at Sellafield and proactive engagement with the inspectorates and UK dutyholders to develop proportionate safeguard approaches and successful implementation e.g. for new reactor build, material consolidation projects and the proposed geological disposal facility.

## **Off-site emergency response**

We have continued to develop our processes for the assessment of the adequacy of off-site and on-site emergency plans to ensure a greater degree of consistency and transparency. This will provide

ONR with further confidence in the on-going adequacy of emergency plans as well as the capability of emergency planning functions for the nuclear industry.

In the past year, all applicable local authorities carried out tests of their off-site emergency plans as required under the Radiation (Emergency Preparedness and Public Information) Regulations 2001 (REPPPIR). There were six 'level 2' exercises testing local emergency response, one of which tested elements of the Scottish Government response. Exercise Eagle at Sizewell was the national 'level 3' exercise, which included activation of the Nuclear Emergency Briefing rooms and the Scientific Advisory Group for Emergencies in London.

In May 2014, we produced our annual report into the national lessons identified from level 2 and 3 emergency exercises in 2013/14, which demonstrated a year of significant improvement, including increased participation and the use of more challenging exercise scenarios.

Following the introduction of ONR's revised principles for determining the offsite emergency planning areas for all nuclear sites as required by REPPPIR, we have worked this year to complete determinations for Sizewell A and B, Bradwell, Chapelcross, Sellafield, Barrow and Trawsfynydd. This work will continue in 2015/16 as we work to re-determine the off-site emergency planning areas for the remainder of the nuclear estate. Each determination involves significant work to assess the specific potential radiation hazards on each site and the most appropriate corresponding off-site emergency planning areas.

We are also working with DECC and the Health and Safety Executive to inform the UK implementation of European Council Directive 2013/59/Euratom (BSSD), which outlines revised basic safety standards for protection against the dangers arising from exposure to ionising radiation. The revised BSSD must be implemented in the UK by February 2018 and we are providing significant technical input, helping to determine what revisions to the legislation may be required based on our regulatory experience of REPPPIR.

### **Occupational and public exposure to radiation from nuclear sites**

ONR routinely monitors licensee performance on restricting exposure to ionising radiations to both workers and the public, and is pleased to report that we consider performance in this area is satisfactory. The findings from inspections are positive and where areas for improvement have been identified, they are being addressed by the licensees.

It can be challenging to strike a balance between delivery of hazard and risk reduction activities with the need to control occupational exposures and we will continue to monitor licensees' performance against national standards. We will engage with the licensees where

challenging decommissioning activities could lead to enhanced occupational doses, and will encourage them to prepare for new radiological protection legislation, which may result in reduction in the annual dose limit to the lens of the eye.

## **Regulatory assurance**

Our Regulatory Assurance function completed a programme of independent audits and peer reviews of ONR's processes during 2014/15, thereby providing assurance to the ONR Board and Executive (and other key stakeholders including Ministers) on compliance, quality and effectiveness of ONR's regulatory decision-making and other key activities. The findings from the independent peer reviews have also been used to improve ONR's processes and share good practice across the organisation.

The function has produced Quarterly Assurance Reports for the ONR Board throughout the year, as well as routine papers for the ONR Audit and Risk Assurance Committee, to provide assurance on ONR's regulatory effectiveness and communicate issues and progress where necessary.

# Governance

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## Annual Governance Statement

This governance statement is provided by Les Philpott as ONR Accounting Officer. John Jenkins' term of office as Chief Executive and Accounting Officer ended on 28 February 2015. From 1 March 2015, I (Les Philpott) was appointed by the ONR Board, with the approval of the Minister, as Acting Chief Executive and designated as ONR Accounting Officer by the DWP Permanent Secretary and Principal Accounting Officer. Prior to this, I was Deputy Chief Executive and before that held the post of Director of Finance and Corporate Services. In both these earlier positions, I was an Executive member of the ONR Board. I have thus been a member of the key decision making framework at ONR and am therefore able to provide this statement setting out the effectiveness of ONR's organisational governance for 2014/15.

### ONR's role and purpose

ONR is a statutory body, established under the Energy Act 2013. It is in the public sector, classified as a Public Corporation by the independent Office for National Statistics. It is accountable to Parliament and the Secretary of State for discharging its functions, duties and powers effectively, efficiently and economically. It is subject to full observance of the provisions of HM Treasury's 'Managing Public Money', even though it is largely funded through charges to the nuclear industry.

ONR's role is to regulate nuclear safety and security. Its statutory purposes fall into the five categories of nuclear safety (at civil and defence nuclear sites), nuclear site health and safety, civil nuclear security, nuclear safeguards, and transport of radioactive materials. ONR's mission is: 'to provide efficient and effective regulation of the nuclear industry, holding it to account on behalf of the public.'

In November 2011, as an internal Agency of the Health and Safety Executive, ONR published a strategy for 2011-2014 setting out the strategic objective of being 'universally respected for securing confidence in nuclear safety and security'. This was superseded in December 2014 with a new five-year strategy for 2015-2020 setting

the new ONR strategic goal as being an 'exemplary regulator that inspires respect, trust and confidence.' This evolutionary approach to strategy reflects progressive change across ONR to secure continuous improvement in the way that ONR regulates the nuclear industry and holds it to account for high standards of nuclear safety and security. A key challenge has been to strengthen and improve the quality of governance in ONR, rapidly addressing governance weaknesses that were identified during this first year of ONR's new standalone status.

### **The ONR corporate governance framework and structures**

The ONR Board is responsible for ensuring effective arrangements for governance and internal control at ONR. In readiness for incorporation on 1 April 2014, the ONR Board adopted the document 'Office for Nuclear Regulation – Arrangements for Corporate Governance', which sets out the corporate governance framework for ONR and facilitates effective leadership, direction and control at ONR. This document reflects the principles of the Cabinet Office Code of Good Practice on Corporate Governance (leadership, effectiveness, accountability and sustainability), whilst also taking into account the particular requirements for independent nuclear regulation. ONR complies with this in its governance arrangements. It includes the Board's Standing Orders, a schedule of decisions reserved to the Board and the terms of reference for each committee.

Among a number of important governance matters, this document includes a description of matters reserved to the board, and important delegations below board level to the Chief Executive and Chief Nuclear Inspector.

All board members, including the co-opted member of the Audit and Risk Assurance Committee and the executive members have a duty to record their other interests and to update any changes to their register of interests. Board members interests are published on the ONR website [www.onr.org.uk/onr-board](http://www.onr.org.uk/onr-board).

All board members are asked to declare interests at the start of each board meeting and standing Committee meetings. If a disclosure is made, it is recorded in the minutes and the board member does not take part in any deliberation or decision about the relevant item. If the interest is considered to be prejudicial, the board member is asked to leave the meeting while the item is discussed. There were no reported conflicts of interest in 2014/15.

The framework has been in operation during 2014/15. During the course of the year, six main actions were taken to strengthen internal governance at ONR:

- In September 2014, the ONR Board debated and reaffirmed the framework for roles and responsibilities at board level to ensure clarity of understanding going forward.
- With the agreement of the Chief Nuclear Inspector, the acting Chief Executive on appointment from 1 March 2015 took decisive steps to remove any suggestion of a blurring of these two roles. It is clearly explained internally and externally that the Chief Executive's role is that of 'manager in charge' of ONR and not the head nuclear expert. That role correctly (and in law) resides with the Chief Nuclear Inspector as ONR's authoritative regulatory head.
- The Acting Chief Executive agreed with the Board an action plan of definitive measures for improving ONR's control framework and environment. The plan anticipated weaknesses in these arrangements subsequently identified in a report by Internal Audit (a service provided by DWP), in particular with reference to correct handling of novel, contentious or repercussive expenditure.
- An interim Finance Director was appointed at a more senior level to provide stronger, public sector-focused leadership at ONR.
- The Resource Review Panel role has been restated and revised terms of reference have been published.
- Definitive steps were taken to strengthen the role of the ONR Board's Standing Committee on Nuclear Security to provide full assurance to the Board that ONR is providing efficient and effective regulation of the nuclear industry with respect to risks from malicious intent.

An important element of the governance framework is ONR's accountability arrangements to its main sponsoring department, DWP. These are additional to, and work alongside, the ONR Accounting Officer's personal responsibilities to Parliament for the correct stewardship of ONR according to the requirements of HM Treasury's 'Managing Public Money'. The ONR/DWP Framework Document is designed to ensure effectiveness in ONR's sponsorship relationship with DWP. There is a need to consider revising the document in the light of experience in 2014/15 in order to increase transparency and clarity in the financial operating framework for ONR. This is part of the action plan referred to earlier.

The ONR Accounting Officer attended all the required periodic DWP sponsorship meetings across the year, providing information on ONR's performance and risk management. The meetings were also attended by senior representatives of DECC and MOD – the Secretaries of State in each Department also having responsibilities to Parliament for nuclear regulation.

## The ONR Board

The Energy Act 2013 established the ONR Board, which is responsible for setting and delivering ONR's strategic aims and objectives, and (as noted above) for ensuring that effective arrangements are in place at ONR to provide assurance on governance, risk management and internal control. Details on meetings of, and attendance at, the Board and its four Standing Committees are given in Annex 1.

The four Standing Committees of the Board are the Audit and Risk Assurance Committee, Remuneration Committee, Nominations Committee and Security Committee:

**Audit and Risk Assurance Committee:** This committee is responsible for ensuring the maintenance of appropriate and adequate audit processes, and for oversight of the internal and external audit programmes. Its membership includes an independent co-opted member thereby further reinforcing the independence of the committee from ONR management. The Audit and Risk Assurance Committee oversaw a significant programme of work during 2014/15 to provide assurance on sound systems of internal control both in respect of nuclear regulation and financial control, as more fully explained below. In its annual report to the ONR Board, the committee noted that ONR had a strong ethic to strive for improvements in its assurance culture and processes.

**Remuneration Committee:** This committee has oversight of the remuneration and performance of executive members of ONR. Drawing on an independent report, the committee set a remuneration framework for ONR's executive members from April 2015. No executive member may take part in the committee's deliberations about their own remuneration, thereby providing assurance on the independence of the committee's work and decisions.

**Nominations Committee:** This committee makes recommendations about new members of the board. During the year, it confirmed the appointment of a new non-executive member for security and considered the strategy for recruiting a new Chief Executive.

**Security Committee:** this committee is responsible for providing assurance to the board on the effectiveness of ONR's regulation of nuclear security. Under a new Chair, the committee has revised its terms of reference to enhance further its effectiveness as a source of assurance to the main ONR Board.

## Executive leadership of ONR

The responsibility for implementing the ONR Board's strategic aims and objectives belongs to the Chief Executive and his executive team. In turn, the executive team is supported in this by a wider leadership

team of senior ONR managers. The Executive team met sporadically during the year but against no set structure for its meetings, although it did routinely meet ahead of ONR Board meetings. The wider leadership team met regularly opposite a structured programme of meetings.

The Acting Chief Executive has reviewed the structure and purpose of these arrangements with ONR's senior managers resulting in the creation of a new, leaner Senior Leadership Team with a new remit focused on key corporate strategic leadership, including stronger collective input on ONR management issues including financial management and control. The new remit more closely aligns the business of the Senior Leadership Team with supporting the ONR Board, thereby strengthening ONR's corporate governance framework.

Added to this, a more structured approach has been adopted to meetings of the executive team commensurate with the priority being given to the Senior Leadership Team being the principal engine of leadership and management at ONR. In this connection, the Senior Leadership Team has already taken the initiative to underpin the long-term health and stability of ONR through developing a five-year Corporate Plan 2015-2020 for the Board's consideration in September 2015. The Corporate Plan aims to set a realistic resourcing strategy so that ONR has greater certainty of its readiness to respond to the UK Government's policy aspirations for the nuclear sector and can plan and equip itself for those challenges more systematically.

### **Governance processes**

Within the context of its forward strategy for nuclear regulation, the ONR Board sets an Annual Plan specifying its in-year priorities and budget. The Annual Plan is a requirement of ONR under the Energy Act 2013 and the Secretary of State for Work and Pensions may approve it. Delivery of the plan is the responsibility of the Chief Executive and the Senior Leadership Team. Focus on the Board's priorities throughout ONR is provided via the staff performance management system where in-year objectives for each employee show a 'line of sight' to those priorities. Drawing on experience of 2014/15, revisions have been made to the Performance Agreement to provide greater assurance on this key mechanism in the corporate governance framework.

Following an internal audit of ONR's budgetary governance, further improvements have been introduced to ensure that draft budgets, and revisions to budgets, presented to the Board for decision are properly assessed and fully justified on the basis of realistic, robust assumptions to assist decision taking. The Board has noted the improvements with approval. The new Finance Director is introducing

further improvements in this regard in order to determine realistic 'futures' for ONR's work to support future budget construction, notably in respect of a resourcing platform to support the proposed five year Corporate Plan 2015-2020.

The ONR Resource Review Panel terms of reference have been revised and reissued. Working in conjunction with the delegation of budget responsibilities to programme directors, its role is to provide a system of internal control to support the efficient and effective discharge of ONR's work by ensuring that the checks and balances of spending decisions operate in a proportionate way to provide assurance to the Accounting Officer that those decisions are correctly taken in a timely manner.

Performance against the ONR Board's priorities is reported quarterly to the Board by the ONR Finance Director opposite a suite of key performance indicators (KPIs), including finance and risk management performance. In turn, this report is then made to the DWP Sponsorship Board. Performance for 2014/15 is covered earlier in this Annual Report. Looking back on the year, the suite of KPIs demonstrates a very strong performance with most of the indicators being met or exceeded. The solid achievement of the budget KPI in ONR's first year is a welcome indicator of progress in the right direction on financial management when viewed opposite earlier weaknesses in budgetary governance. This demonstrates ONR's commitment to improving its systems for managing public money. Performance is strong in the operational indicators, which reflects well given ONR's core role of nuclear regulation.

Performance management is an evolutionary process at ONR. The focus of the current suite of KPIs is on inputs and outputs. Going forward, the performance management system will be reviewed and revised with a stronger focus on the outcomes ONR needs to achieve to demonstrate continuous improvement in nuclear regulation, and continuous improvements in ONR itself towards the Board's strategic goal of becoming an exemplary regulator. We will look again at the benefits of a holistic performance reporting framework based on the 'balanced scorecard' system.

### **Assurance of ONR as a regulator**

First and foremost, ONR is a regulator. It is also a public body. The discharge of ONR's nuclear regulatory functions in individual cases is firmly the province of the Chief Nuclear Inspector who has been given a specific delegation on this by the ONR Board. In turn, the Chief Nuclear Inspector may delegate further the exercise of regulatory functions to inspectors, which he has done. An important development agreed with the Chief Nuclear Inspector in 2014/15 is the annual publication of ONR's summary programme plans to improve

transparency in nuclear regulation. This will provide assurance to the public and beyond on how ONR will hold the nuclear industry to account on nuclear safety and security.

The Chief Nuclear Inspector and the ONR Board derived assurance on the effectiveness of nuclear regulation discharged by ONR through a new function. This was supplemented during 2014/15 by an important additional independent source, the IAEA expert mission. During the year, ONR introduced a new Regulatory Assurance function under the leadership of the Director of Regulatory Assurance. Flowing from this new function, the Board and Chief Nuclear Inspector received quarterly reports on the impact of ONR's regulatory work on the safety and security performance at nuclear sites, thereby providing a method of assurance that nuclear regulation was having a positive impact on this. The assurance reports in turn were presented to the Secretaries of State for DWP and DECC in order to provide the Government with assurance on ONR's effectiveness. The Annual Statement by the Chief Nuclear Inspector, which is at the core of this Annual Report, is his annual summation of the overall situation regarding safety and security at nuclear facilities. It provides an open and transparent national and international assurance vehicle for the public and other interested stakeholders.

Throughout the year, the Board and Chief Nuclear Inspector have been assured by these processes on the efficacy and adequacy of ONR's regulatory interventions. Going forward, the Regulatory Assurance function will be reviewed in the light of experience and anticipated future challenges for nuclear regulation. This will ensure its role is proportionate to its required contribution and that its impact maximises continuous improvement in terms of visible, tangible outcomes.

During the year, the Audit and Risk Assurance Committee received regular reports on the developing impact of ONR's Regulatory Assurance function, supplemented by periodic opinions of DWP Internal Audit that the function was discharging the function as intended and without bias.

An expert mission by the IAEA conducted an independent peer review of ONR with particular reference to its regulatory processes and work. This was a further thorough, independent scrutiny by the service which returned a strong, positive opinion of ONR, thereby providing an important wholly external validation of ONR's health as the UK's nuclear safety regulator. In the current year, ONR will prepare for similar scrutiny in 2016 of its nuclear security regulation.

## Assurance of ONR as a public body – risk management

More generally, as a regulator in the public sector, ONR must ensure a high bar is set in terms of governance, finance and performance, including clearly established roles, responsibilities and accountabilities. In relation to risk management, ONR entered 2014/15 after a period of unprecedented change to transform the organisation in readiness for its new status as a standalone regulator outside the civil service but in the public sector. There are many risks associated with such fundamental change and these need to be managed as part of a process to consolidate ONR going forward. In relation to risk management and assurance, transformational change has an impact on people, systems and processes, and an organisation's capacity to deliver them effectively.

That said, ONR has introduced and developed a meaningful system of risk management via the corporate risk register which has provided the ONR Board, on advice from the Audit and Risk Assurance Committee, with strong assurance that the correct strategic risks have been identified, and the appropriate risk management action plans are in place and are being applied. The risk register has supported and informed discussions among senior ONR managers about risk management at ONR. Most recently, the register had developed such that ONR published its risk register in the current Annual Plan, thereby enabling the public and other external stakeholders to be assured that ONR knows its key strategic risks, and is in control of them.

In 2014/15, the executive and wider senior team managed significant strategic risks flowing from ONR's incorporation and subsequent consolidation as a new regulator, and from its key interventions. These risks were kept under periodic review by the Audit and Risk Assurance Committee, which advised the ONR Board, providing the assurance that ONR's management of the risks was appropriate:

- Risk to ONR's reputation if ONR's regulatory strategy does not influence the licensee and other key stakeholders sufficiently to facilitate accelerated safe and secure improvements in hazard and risk reduction at the Sellafield legacy facilities.
- Risk that ONR's strategic networks are ineffective with confidence lost in ONR if we do not engage those relationships effectively.
- Risk of regulatory failure caused by a lack of clarity over ONR's strategic direction and purpose.
- Risk that ONR's regulatory decision making is inconsistent, disproportionate and insufficiently robust.
- Risk that ONR does not deliver its strategic vision of being an exemplary employer resulting in poor staff morale and low performance.

- Risk of reputational damage to ONR as a trusted regulator due to a failure in ONR's internal controls.
- Risk of non-compliance with HM Treasury's 'Managing Public Money' if ONR's financial management, including through the Operating Model, is insufficiently robust.
- Risk that ONR's internal systems and/or personnel are subject to a cyber-attack, resulting in the loss of highly sensitive material, thereby compromising national security and ONR's reputation.

These risks were kept under periodic review by the Audit and Risk Assurance Committee, which provided assurance to the Board that ONR's management of risks was appropriate.

Work will continue to refine ONR's management of risk, in particular to ensure that risk management is fully embedded and understood at all levels in ONR, and that the Board and external stakeholders are assured that ONR is on top of its key risks. In this regard, the Board has decided to examine its appetite for risk in September 2015 in the context of the proposed five-year strategic Corporate Plan.

### **Assurance of ONR as a public body – internal control**

Although ONR had prepared carefully for its incorporation resulting in many sound systems of internal control and assurance, control weaknesses emerged during the year in relation to certain spending decisions. This revealed a lack of transparency around the approval of several items of potentially novel, contentious or repercussive expenditure, and a failure to seek the relevant authorisations for this expenditure.

The ONR Board has subsequently authorised each expenditure item where necessary. A review of ONR's external contracting by Internal Audit highlighted these control weaknesses. An action plan of definitive measures for significantly improving ONR's financial control framework was agreed with the ONR Board in early March 2015. This not only addressed all of the recommendations in the resulting Internal Audit report but went further, including reviewing ONR's financial governance arrangements with its sponsor department, DWP. The ONR Board and the Principal Accounting Officer have accepted my assurance as ONR Accounting Officer that ONR's internal controls will continue to be improved to the highest standards expected of public bodies.

### **Other areas of compliance**

#### **Data/information security**

ONR aspires to comply with the requirements of the Government's Security Policy Framework. Although there is a strong culture of security awareness in ONR, specific risks have been identified in

relation to cyber security. A remedial action to address these risks has been agreed and is being implemented. This includes formally establishing an independent Senior Information Risk Owner role, and Information Technology Security Officer roles, and taking immediate steps to address infrastructure vulnerabilities.

ONR had received an unsatisfactory assurance following Internal Audit's review on cyber security. All of the recommendations made by Internal Audit had been accepted and some were already in the process of being implemented. This included a definition of the responsibilities of both ONR and HSE and clarification of roles for the Accounting Officer and Senior Information Risk Owner. Part of the review identified the need for external IT expert support and options would be produced for consideration. In addition, a governance structure had been produced to ensure there was adequate oversight.

### **Protected personal data related incidents**

There were no reported incidents of lost protected personal data that required formal reporting to the Information Commissioner's Office in 2014/15.

There were no other protected personal data related incidents centrally recorded by ONR and reported to our parent department DWP, but not notified to the Information Commissioner's Office.

### **Significant lapses of protective security**

There were no significant lapses recorded during 2014/15.

### **Fraud and bribery**

ONR's policy on fraud and bribery is included in the ONR Staff Handbook. To raise staff awareness of the policy, a section on fraud was added to the ONR intranet and publicised to ONR staff through the weekly staff briefing. No incidents of fraud or bribery (actual or suspected) were reported during 2014/15.

The Senior Leadership Team provided individual statements of assurance, which informed this Governance Statement. Where significant control challenges have been identified, an assurance has been given that these have been raised and work is in hand within the programme to ensure that they are managed effectively.

**Assurance provided in respect of accommodation, facilities management, Information Technology, communication: online, digital and print unit services, procurement and other call off services provided by HSE under a Service Management Agreement (SMA)**

HSE continues to deliver a number of support services to ONR as part of an SMA. Assurance regarding specific aspects of HSE's arrangements has been obtained through regular performance meetings and a series of key performance indicators that allow ONR to measure performance against the agreement. A letter of assurance in relation to the services provided has been issued by the HSE Chief Executive.

**Assurance provided in respect of financial, HR and procurement transactional services provided by Shared Services Connected Ltd (SSCL)**

SSCL continues to deliver transactional financial, HR and procurement services to ONR as part of a wider service to Government. Assurance regarding specific aspects of SSCL's arrangements (as described below) has been obtained from an Independent Service Auditor's Report (ISA) completed in April 2015 on SSCL's core services provided to government for the period 1 April 2014 to 31 March 2015. The ISA conducted its examination in accordance with the International Standard on Assurance Engagements 3402, 'Assurance Reports on Controls at a Service Organisation', issued by the International Auditing and Assurance Standards Board.

The ISA's Report examined SSCL's description of its core services to government and the suitability of the design and operating effectiveness of controls to achieve stated control objectives. In summary, the ISA's opinion was:

- The description provided by SSCL fairly represented the core services to government during 2014/15.
- The controls related to the specific control objectives reviewed were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout 2014/15. The five principal control areas considered were information technology, employee services, payroll, finance and accounting, procurement and change management.
- The controls tested operated effectively throughout 2014/15.

### **Internal audit and its overall assurance opinion**

More generally, ONR underwent a thorough programme of internal audits set by the Audit and Risk Assurance Committee. Further details are provided in Annex 2

Internal Audit returned an overall opinion of moderate assurance for 2014/15. They have stated that they are satisfied that where improvement measures are required, ONR management has taken, or has planned, appropriate and timely action to give effect to the necessary changes. The Audit and Risk Assurance Committee fully endorsed these conclusions and the ONR Board, on advice from the committee, has accepted an assurance to that end.

### **Accounting Officer conclusion**

In its first year as a new, standalone regulator, ONR has delivered its core function of nuclear regulation as required by Statute and to the right levels of competence for which there is valid assurance. However, there have been weaknesses in internal control that had potential to damage ONR's reputation and hence future standing and effectiveness as an exemplary regulator. Those weaknesses have been quickly addressed, and the internal control framework strengthened. Overall, therefore, I conclude that ONR's governance processes, though inevitably affected by a lack of internal transparency regarding the public spending disciplines, have adequately supported the discharge of the Accounting Officer role.

#### **Les Philpott**

Accounting Officer  
Acting Chief Executive  
Office for Nuclear Regulation  
10 June 2015

## Annex 1

### Attendance at Board and Committee meetings

#### *Non-Executive members*

Name	Board and Committees	Attendance
Nick Baldwin	Board	6 of 6
	Remuneration Committee	5 of 5
	Security Committee	3 of 3
Jonathan Baume	Board	4 of 6
	Remuneration Committee	4 of 5
	Audit and Risk Assurance Committee (appointed as a member of the committee in May 2014)	3 of 4
Steve Bundred	Board	6 of 6
	Audit and Risk Assurance Committee	5 of 5
John Crackett	Board	6 of 6
	Remuneration Committee	5 of 5
	Nominations Committee	2 of 2
	Audit and Risk Assurance Committee	5 of 5
Oona Muirhead (appointed 1 October 2014)	Board	3 of 3
	Remuneration Committee	4 of 4
	Security Committee	2 of 2
	Nominations Committee	1 of 1
Liz Siberry (contract expired with effect from 30 September 2014)	Board	2 of 3
	Remuneration Committee	1 of 1
	Security Committee	1 of 1
	Nominations Committee	1 of 1
Clifford Shanbury	Co-opted member of ONR's Audit and Risk Assurance Committee	5 of 5

## Annex 2

### List of audits undertaken

- Governance including budgetary governance and memoranda of understanding.
- HR, including internal processes on staff performance and evaluation and the people policies implemented as ONR became a new independent body.
- Regulatory strategy and oversight, including a deep dive into regulatory performance.
- Internal control, which covered financial systems and controls, delegated authorities and budgets, the operating model, international travel and the risk assurance framework.
- Information security.
- Ministerial tests.
- ONR contracts.
- Communications follow up.
- Income from radioactive materials transport.
- Cyber security.

# Remuneration Report

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## Appointments

The Secretary of State for Work and Pensions appoints the Chair. The Chair was appointed for a period of five years in April 2014 following the establishment of ONR as a Public Corporation. If the Chair leaves ONR other than on the expiry of his term of office, and it appears to the Secretary of State that there are special circumstances that justify the payment of compensation, a payment can be made as determined by the Secretary of State, with Treasury approval.

John Jenkins was appointed to the post of Chief Executive Officer in June 2013. As with other ONR senior officials above Band 1, John was a member of the Senior Civil Service and subject to standard Cabinet Office terms and conditions on 31 March 2014. He was transferred to ONR on 1 April 2014 with broadly similar terms and conditions and continued to be a member of the Principal Civil Service Pension Scheme (PCSPS).

The Secretary of State also appoints all non-executive board members with the exception of Jonathan Baume who is nominated to the ONR Board by the HSE Board, and receives no remuneration from ONR.

Senior officials are public servants and appointments for Chief Executive and Chief Nuclear Inspector are made by the ONR Board, with the approval of the Secretary of State. Appointments are made in accordance with the principles of open and fair competition as set out in the Civil Service Commissioners' Recruitment Code. Any compensation for termination of office is governed by the terms of the PCSPS.

## Remuneration policy

The Remuneration Committee has oversight of all matters relating to the remuneration and performance of the executive members of the ONR Board.

In reaching its recommendations, the ONR Remuneration Committee is to have regard to the following considerations:

- The need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities.
- Taking due account of public sector pay guidance including Accounting Officer delegations and Cabinet Office/HMT approval controls.
- Government policies for improving the public services.
- Ensuring implementation of a performance-related pay scheme as part of annual aggregate pay budget limits.

The Remuneration Committee may seek information as it requires and may employ or commission advisers to inform its activities within its pay remit.

The level of remuneration of non-executive board members is determined by the Secretary of State for Work and Pensions.

## **Service contracts**

ONR applies the principle that appointments should be made on merit on the basis of open and fair competition.

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

Details of the service contracts for board members who have served during the year are shown on page 63.

Service contracts (this information is subject to audit)

Name	Start date of contract	Unexpired term at 31 March 2015	Notes
<b>Non-executive board members</b>			
Nick Baldwin	1 April 2014	4 years	
Jonathan Baume	1 April 2014	1 year 6 months	
Steve Bundred	1 April 2014	6 months	
John Crackett	1 April 2014	6 months	
Oona Muirhead	1 October 2014	2 years 6 months	
Liz Siberry	1 April 2014	n/a	Contract expired with effect from 30 September 2014.
<b>Executive board members</b>			
John Jenkins	1 April 2012	n/a	Resigned with effect from 28 February 2015.
Les Philpott	1 April 2013	n/a	Deputy Chief Executive to 28 February 2015. Acting Chief Executive from 1 March 2015.
Andy Hall	1 December 2013	1 year 8 months	
David Senior	1 July 2014	n/a	
<b>Audit and Risk Assurance Committee member</b>			
Clifford Shanbury	19 March 2012	6 months	

## Remuneration (including salary) and pension entitlements

The following section provides details of the remuneration and pension interests of the board members.

Single total figure of remuneration (this information is subject to audit)

	Salary (and Full Year Equivalent (FYE) where applicable) £'000	Bonus payments £'000	Benefits in Kind and taxable expenses to nearest £100	Pension benefits <sup>1</sup> (to nearest £1000)	2014/15 Total (£'000)
<b>Board Chair</b> Nick Baldwin	35-40	-	9 200	-	45-50
<b>Non Executive</b> Steve Bundred	10-15	-	-	-	10-15
<b>Non Executive</b> John Crackett	10-15	-	2 200	-	15-20
<b>Non Executive</b> Liz Siberry (to 30.9.14)	5-10 (FYE 10-15)	-	200	-	5-10
<b>Non Executive</b> Oona Muirhead (from 1.10.14)	5-10 (FYE 10-15)	-	-	-	5-10
<b>Chief Executive*</b> John Jenkins	255-260 (FYE 175-180)	-	-	64 000	320-325
<b>Deputy Chief Executive/Acting Chief Executive**</b> Les Philpott	110-115	0-5	-	384 000	500-505
<b>Chief Nuclear Inspector</b> Andy Hall	115-120	0-5	-	296 000	415-420
<b>Deputy Chief Nuclear Inspector and Director of Regulatory Assurance</b> David Senior***	75-80 (FYE 100-105)	-	-	37 000	115-120

\* John Jenkins resigned from ONR with effect from 28 February 2015. The above includes payment in lieu of notice as per contractual entitlement.

\*\* Les Philpott was appointed Acting Chief Executive from 1 March 2015. His salary increased to £124,200 (FYE) from that date.

\*\*\* David Senior was appointed to the Board on 1 July 2014 and his remuneration details reflect his time in office only.

1 The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum), less (the contributions made by the individual). The real increases exclude increases due to inflation or any increases or decreases due to a transfer of pension rights.

## Salary

For executive directors, 'salary' may include the following in addition to gross salary: performance pay, overtime, reserved rights to London weighting or London allowances, and recruitment and retention allowances.

## Bonuses

Bonuses are based on performance levels attained and are made as part of the formal appraisal process. For executive members this is overseen by the Remuneration Committee. For other senior officers this is subject to moderation by the ONR Senior Staff Pay Committee. The value of bonus is dependent upon a number of factors and is subject to the total amount of available funds. Bonuses relate to the performance in the year in which they become payable to the individual. Bonuses reported in 2014/15 relate to performance in 2014/15.

## Allowances, taxable expenses and benefits in kind (this information is subject to audit)

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument. These benefits for Board members include travel and subsistence payments as appropriate. Any ensuing tax liability is met by ONR and included in these figures.

## Pay multiples

ONR is required to disclose the relationship between the remuneration of the highest paid director in their organisation and the median remuneration of the organisation's workforce.

The following details are based on staff who were in post on 31 March 2015.

	2014/15
Band of highest paid director's total remuneration £'000	120-125
Median Total Remuneration £	65 178
Ratio	1.89

In 2014/15, 0 employees received remuneration in excess of the highest paid director. Remuneration of all employees, other than the highest paid director, ranged from £18,000 to £118,000.

Total remuneration includes salary, non-consolidated performance related pay and benefits in kind. It does not include severance

payments, employer pension contributions and the cash equivalent transfer value of pensions.

Pension Benefits (This information is subject to audit)

	Accrued pension and lump sum as at 31.3.15 at pension age £'000	Real increase in pension and related lump sum at pension age £'000	CETV at 31 March 2015 £'000	CETV at 31 March 2014 £'000	Real increase in CETV <sup>2</sup> £'000
John Jenkins	5-10	2.5-5	114	62	35
Les Philpott	70-75	17.5-20	1 290	895	346
Andy Hall	70-75 plus 110-115 lump sum	12.5-15 plus 20-22.5 lump sum	1 491	1 198	290
David Senior	25-30 plus 85-90 lump sum	0-2.5 plus 5-7.5 lump sum	592	547	31

**Civil Service Pensions (CSP)**

Pension benefits are provided through the CSP arrangements. Although ONR staff were no longer civil servants from 1 April 2014, ONR is included in Schedule 1 of the Superannuation Act 1972 which allows for staff of a publicly funded body to be included in the CSP arrangements. Staff transferred into ONR, therefore, retained continuous membership of the relevant CSP scheme and new staff are eligible for inclusion in appropriate CSP arrangements.

From 30 July 2007, civil servants may be in one of four defined benefit schemes: either a 'final salary' scheme (classic, premium, and classic plus) or a 'whole career' scheme (nuvos). These statutory arrangements are unfunded, with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with legislation. Members joining from 1 October 2002 may opt for either the appropriate defined benefit arrangement or a good-quality 'money purchase' stakeholder pension with a significant employer contribution (partnership pension account).

Employee contributions are salary-related and range between 1.5% and 6.85% of pensionable earnings for classic and 3.5% and 8.85% for premium, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' initial pension is

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

payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid, with benefits in respect of service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 calculated as in premium. In nuvos, a member builds up a pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases, members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute but, where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of risk benefit cover (death in service and ill-health retirement).

The accrued pension quoted above is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to become an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

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

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

### **The Cash Equivalent Transfer Value (CETV)**

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the members' accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their

former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

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

**The real increase in the value of the CETV**

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

**Co-opted non-executive Audit and Risk Assurance Committee audit committee member (this information is subject to audit)**

Fees and expenses amounting to £3,059 were paid to the independent (co-opted) member of the Audit and Risk Assurance Committee as shown in the table below.

	2014/15 Total fees and expenses £'000
Clifford Shanbury	0-5

**Les Philpott**  
Accounting Officer  
Acting Chief Executive  
Office for Nuclear Regulation  
10 June 2015

# Statement of the ONR's and the Chief Executive's responsibilities

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Under paragraph 21(1) b of Schedule 7 of the Energy Act 2013, ONR is required to prepare a statement of accounts for each financial year in the form and on the basis determined by the Secretary of State for Work and Pensions, with the consent of HM Treasury. The accounts are prepared on an accruals basis and must give a true and fair view of ONR's state of affairs at the year-end and of its net income and expenditure, changes in taxpayer's equity and cash flows for the financial year.

In preparing its accounts, ONR is required to comply with the requirements of the Government Financial Reporting Manual issued by HM Treasury (the FReM) and in particular to:

- Observe the Accounts Directions issued by DWP, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis;
- State whether applicable accounting standards, as set out in the Government Financial Reporting Manual, have been followed, and disclose and explain any material departures in the accounts; and
- Prepare the accounts on a going concern basis, unless it is inappropriate to presume that the ONR will continue in operation.

The Accounting Officer for the Department for Work and Pensions has designated the Chief Executive (between 1 April 2014 and 28 February 2015) and the Acting Chief Executive (between 1 March 2015 and 31 March 2015) of the Office for Nuclear Regulation as Accounting Officer for ONR with responsibilities for the propriety and regularity of the public finances for which he is answerable, for keeping proper records and for safeguarding assets as set out in 'Managing Public Money' published by HM Treasury.

John Jenkins was Accounting Officer to 28 February 2015 and Les Philpott was appointed as Accounting Officer from 1 March 2015.

# The certificate and report of the Comptroller and Auditor General to the Houses of Parliament

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I certify that I have audited the financial statements of the Office for Nuclear Regulation for the year ended 31 March 2015 under the Energy Act 2013. The financial statements comprise: the Statements of Comprehensive Net Income, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

## **Respective responsibilities of the Board, Acting Chief Executive and Auditor**

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Board and the Acting Chief Executive, as Accounting Officer, are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Energy Act 2013. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Office for Nuclear Regulation's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Office for Nuclear Regulation; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report and Annual Governance Statement to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I

consider the implications for my certificate.

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

## **Opinion on regularity**

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## **Opinion on financial statements**

In my opinion:

- the financial statements give a true and fair view of the state of the Office for Nuclear Regulation's affairs as at 31 March 2015 and of the net income for the year then ended; and
- the financial statements have been properly prepared in accordance with the Energy Act 2013 and Secretary of State directions issued thereunder.

## **Opinion on other matters**

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with Secretary of State directions made under the Energy Act 2013; and
- the information given in "Chief Nuclear Inspector's Annual Statement" and the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which I report by exception**

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or

- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

## Report

I have no observations to make on these financial statements.

**Sir Amyas C E Morse**

15 June 2015

Comptroller and Auditor General

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

# Statement of Accounts

## Statement of Comprehensive Net Income for the year ended 31 March 2015

	Notes	2014/15 £'000
<b>Expenditure</b>		
Staff costs	3	37 621
Other expenditure	4	21 667
<b>Operating costs</b>		<b>59 288</b>
<b>Income</b>	5	<b>(59 288)</b>
<b>Net operating cost for year ended 31 March 2015</b>		<b>0</b>
<b>Other comprehensive expenditure</b>		
Gain on the Office for Nuclear Regulation transfer from HSE on 1 April 2014	2	(11 281)
<b>Total comprehensive net income for the year ended 31 March 2015</b>		<b>(11 281)</b>

ONR was established as a statutory Public Corporation from 1 April 2014 under Schedule 7 of the Energy Act 2013. Up until that date ONR was an in-house agency of HSE and the functions carried out by ONR transferred from HSE to the new Public Corporation on that date. Full disclosure of the impact of the transfer on these accounts is provided at note 2.

Net operating costs are zero because ONR's costs not recoverable from industry are covered by grant income from DWP (see note 5).

All income and expenditure is derived from continuing operations.

The notes on pages 77 to 96 form part of these accounts.

## Statement of Financial Position as at 31 March 2015

	Notes	31 March 2015 £'000	Assets/liabilities transferred from HSE on 1 April 2014 (see note 2) £'000
<b>Non-Current Assets</b>			
Property, plant and equipment	2 & 6a	837	843
Intangible assets	6b	11	-
Total non-current assets		848	843
<b>Current assets</b>			
Trade and other receivables	2 & 7	13 713	14 465
Cash and cash equivalents	8	10 184	-
Total current assets		23 897	14 465
Total assets		24 745	15 308
<b>Current Liabilities</b>			
Trade and other payables	2 & 9	(7 564)	(4 027)
Total current liabilities		(7 564)	(4 027)
Non-current assets plus/less net current assets/liabilities		17 181	11 281
<b>Non-current liabilities</b>			
Loan from DWP	9c	(5 900)	-
Total non-current liabilities		(5 900)	-
Assets less liabilities		11 281	11 281
<b>Equity</b>			
General fund	2	11 281	11 281
Total equity		11 281	11 281

The Notes on pages 77 to 96 form part of these accounts

**Les Philpott**  
Accounting Officer  
Acting Chief Executive  
Office for Nuclear Regulation  
10 June 2015

## Statement of Cash Flows for the year ended 31 March 2015

	Note	2014/15 £'000
<b>Cash flows from operating activities</b>		
Net operating cost		0
Adjustments for non-cash transactions	4	166
(Increase)/decrease in trade and other receivables	7	(13 713)
Less movements in receivables relating to items not passing through the Statement Of Comprehensive Net Income		-
Increase/(decrease) in trade payables	9	7 564
Less movements in payables relating to items not passing through the Statement Of Comprehensive Net Income	6a	(9)
Add net payables and receivables balances transferred from HSE for no cash consideration on 1 April 2014	2	10 438
<b>Net cash outflow from operating activities</b>		<b>4 446</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	6a	(263)
Purchase of intangibles	6b	(12)
Proceeds of disposal of property, plant and equipment		113
<b>Net cash outflow from investing activities</b>		<b>(162)</b>
<b>Cash flows from financing activities</b>		
Loan drawn down from DWP	9c	8 000
Loan repayments to DWP in year	9c	(2 100)
Net financing		5 900
Net increase/(decrease) in cash and cash equivalents in the period		10 184
Cash and cash equivalents at the beginning of the period	8	0
Cash and cash equivalents at the end of the period	8	10 184

The Notes on pages 77 to 96 form part of these accounts.

## Statement of Changes in Taxpayers' Equity for the year ended 31 March 2015

	Note	General Fund £'000
Balance at 1 April 2014		0
Gain on the Office for Nuclear Regulation transfer from HSE	2	11 281
Comprehensive net income for the year		-
Balance at 31 March 2015		11 281

The General Fund represents the total assets less liabilities of ONR to the extent that the total is not represented by other reserves and financing items.

The Notes on pages 77 to 96 form part of these accounts.

# Notes to the Accounts

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## **1 Statement of accounting policies**

### **1.1 Basis of preparation and statement of compliance**

These financial statements have been prepared on a going concern basis and in accordance with the 2014/15 Government Financial Reporting Manual (FReM) ([www.financial-reporting.gov.uk](http://www.financial-reporting.gov.uk)) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of ONR, for the purposes of giving a true and fair view, has been selected. The particular accounting policies adopted by ONR are set out below. They have been applied consistently in dealing with the items that are considered material in relation to the accounts.

All amounts included in the financial statements have been rounded to the nearest thousand pounds unless stated otherwise.

### **1.2 Accounts Direction**

In accordance with the Energy Act 2013 and the Accounts Direction issued by the Secretary of State for Work and Pensions with approval from HM Treasury, ONR is required to prepare its first set of accounts for the 12 month period ending 31 March 2015 in compliance with the requirements of the FReM.

### **1.3 Accounting standards, interpretations and amendments**

#### **1.3(a) *Adopted in these financial statements***

All IFRS, Interpretations and Amendments to published standards, effective at 31 March 2015, have been adopted in these financial statements, taking into account the specific interpretations and adaptations included within the FReM.

**1.3(b) *Impending application of newly issued accounting standards not yet effective***

The following IFRSs, IFRIC Interpretations and Amendments have been issued but are not yet effective and have not been adopted early by ONR.

- IFRS 9 Financial Instruments.
- IFRS 13 Fair Value Measurement.

An assessment will be undertaken to consider the impact of these standards on ONR's 2015/16 financial statements.

**1.4 Accounting convention**

These financial statements have been prepared under the historical cost convention modified to account for the revaluation of certain assets and liabilities at fair value, as determined by the relevant IFRS.

**1.5 Areas of judgement**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenditure. These are based on historic and other factors that are believed to be reasonable, the results of which form the basis for making judgements. The estimates and underlying assumptions are reviewed on an on-going basis. Specific areas of judgement include depreciation and amortisation periods.

**1.6 Government grants**

ONR has been partly financed by a grant from DWP which covers ONR's costs which are not recoverable from industry. The grant is credited to the Statement of Comprehensive Net Income in the year in which it is receivable from DWP. Due to this grant, ONR's net operating costs in the Statement of Comprehensive net income are zero.

The total grant receivable from DWP for the 2014/15 financial year is £2,840,105.

**1.7 Employee benefits**

In accordance with International Accounting Standards (IAS) 19 Employee benefits, short-term employee benefits, such as salaries and paid absences, are accounted for on an accruals basis over the period for which employees have provided services in the year. General staff bonuses are recognised to the extent that ONR has a present obligation to pay this amount as a result of past service and

the obligation can be measured reliably. Bonuses in relation to senior management are accrued to the extent that the total value of the bonuses can be measured reliably. If payable, general staff bonuses and bonuses relating to senior management are accrued in the year to which the performance relates and paid in the following financial year. The policy in relation to employee pensions is disclosed at Note 3.

IAS19 requires ONR to determine true short term employee benefit liability for employee leave. ONR calculates annual leave balances using an estimate of the amount of annual and flexi leave that staff have accumulated at year end.

## **1.8 Value added tax**

Most of ONR's activities are outside the scope of VAT and, in general, output tax does not apply and input tax on purchases is not recoverable.

Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of non-current assets. Where output tax is charged or input tax is recoverable, the amounts are stated net of VAT.

## **1.9 Insurance**

Under the Energy Act 2013 ONR is not permitted to receive cover under Crown immunity and has therefore purchased the following commercial insurances:

- Employers Liability Compulsory insurance.
- Public Liability insurance.
- Motor vehicle insurance for Private User Scheme (PUS) and hire car users.
- Overseas travel insurance.

## **1.10 Revenue recognition**

ONR income principally comprises fees and charges for services provided on a full-cost recovery basis to external customers and DWP (Note 5).

ONR complies with IAS18 for all material income streams and recognises revenue when earned. Earned income is assessed using time recording information and reliable estimates of recoverable costs. ONR takes a proportionate approach to revenue recognition and accounts for low value income in the period of receipt where immaterial to the accounts.

## 1.11 Non-current and intangible assets policy

Assets are capitalised where they have an expected useful life of more than one year and where the original cost of the item exceeds the capitalisation threshold. Items are pooled where a number of lower value assets in the same category (IT and furniture) are purchased.

### 1.11(a) *Intangible assets*

Intangible assets are initially measured at cost, with subsequent measurement at valuation. IT software is capitalised when the value exceeds £5,000 and is amortised over a period of five years or over the licence period if shorter.

### 1.11(b) *Property, plant and equipment*

Property, plant and equipment are stated at fair value. However, as permitted by the FReM, ONR has elected to adopt a depreciated historical cost basis as a proxy for fair value where non-property assets have a short useful economic life and are of relatively low value. This therefore applies to most IT hardware, motor vehicles and furniture.

On initial recognition, assets are measured at cost, including any costs, such as installation, which are directly attributable to bringing them into working condition and any associated decommissioning costs. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to ONR and the cost of the item can be measured reliably.

All expenditure on repairs and maintenance is charged to the Statement of Comprehensive Net Income during the financial period in which it is incurred.

### 1.11(b) (i) *Capitalisation and depreciation policy*

Depreciation is charged on property, plant and equipment using the straight-line method, as this reflects the expected pattern of consumption of economic benefits. The rates used are calculated to write assets down to their estimated residual value over their expected useful lives.

Asset category	Capitalisation threshold	Depreciation/ amortisation useful life
Leasehold improvements	£100,000	Up to 20 years (over the period remaining on lease)
IT assets	£5,000	3 to 7 years
Furniture and fittings	£5,000	2 to 15 years
Motor vehicles	£5,000	3 to 5 years

1.11(b) *(ii) Leasehold improvements*

Expenditure in respect of major capital refurbishment and improvement of properties occupied but not owned by ONR is capitalised because the expenditure provides a long-term continuing benefit for ONR.

1.11(b) *(iii) Revaluation and impairment of non-current assets*

For the reasons of materiality, ONR does not revalue its non-property assets and therefore does not have a revaluation reserve.

All non-current assets are reviewed for impairment if circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Impairment losses that result from a clear consumption of economic benefit are taken directly to the Statement of Comprehensive Net Income.

## 1.12 Financial assets and liabilities

Financial assets and liabilities are recognised when ONR becomes party to the contracts that give rise to them. It is ONR policy that no trading in financial instruments is undertaken.

### *Loans and receivables*

The fair value of trade and other receivables is usually the original invoiced amount. Any changes in value are recognised in the Statement of Comprehensive Net Income.

Cash and cash equivalents comprise current balances with banks and similar institutions, which are readily convertible to known amounts of cash and which are subject to insignificant changes in value. ONR does not currently hold and petty cash balances.

### *Financial liabilities*

Financial liabilities within trade payables and accruals are non-interest bearing and are recognised at fair value, which is usually the original invoiced amount.

### *Impairment of financial assets*

ONR assesses, at the end of the reporting period, whether there is objective evidence that financial assets are impaired as a result of events that occurred after the initial recognition of the asset and prior to the end of the reporting period. If such events have had an adverse impact on the estimated future cash flows of the financial instruments they are impaired and the value within the Statement of Financial Position is reduced by the amount of any impairment. Impairment losses are recognised in the Statement of Comprehensive Net Income.

### **1.13 Provisions**

Provisions are recognised, in accordance with IAS 37, when ONR has a present legal or constructive obligation arising as a consequence of past events and where it is probable that a transfer of economic benefit will be necessary to settle the obligation.

There are no provisions recorded in ONR's accounts at 31 March 2015.

### **1.14 Early departure costs**

All redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme and are accounted for in full in the year of departure (See note 3.1).

### **1.15 Pensions**

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which is an unfunded, defined benefit, contributory, public service occupational pension scheme made under the Superannuation Act 1972. ONR recognises the expected cost of future pension liabilities, on a systematic and rational basis over the period during which it benefits from employees' services, by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, ONR recognises the contributions payable for the year.

The appointment of non-executive board members is non-pensionable.

### **1.16 Leases**

Leases where the lessor retains a significant portion of the risks and rewards of ownerships are classified as operating leases and the rentals are charged to the Statement of Comprehensive Net Income on a straight line basis over the term of the lease.

ONR holds operating leases in respect of leasehold buildings in Bootle, London and Cheltenham.

### **1.17 Contingent liabilities**

Contingent liabilities are disclosed in accordance with IAS 37.

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

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

ONR does not have any contingent liabilities at 31 March 2015.

## 2 Transfer of function at 1 April 2014

ONR was formed on 1 April 2011 as an in-house agency of HSE and is responsible for all nuclear sector regulation across the UK. The Energy Act 2013 established ONR as an independent statutory corporation from 1 April 2014.

All staff, assets and liabilities which relate to the functions carried out by ONR transferred from HSE on 1 April 2014.

The transfer of function has been treated as a transfer by absorption in both ONR and HSE accounts in 2014/15, in accordance with the Government FReM. This means that ONR, as the transferee, accounts for the function by recognising the assets and liabilities received from the point of transfer as follows:

### 2(a) Statement of Comprehensive Net Income (SoCNI)

The £11.281 million balance (see note 2(b) of net assets transferred has been accounted for as a non-operating gain in the SoCNI in 2014/15.

ONR net operating costs for 2013/14, when operating as an in-house agency of HSE were:

	2013/14 £'000
Fees and Charges	(51 427)
Other operating income	(254)
EU income	(8)
<b>Total income</b>	<b>(51 689)</b>
Staff costs	35 859
Other operating costs	8 749
Notional expenditure*	9 974
<b>Total operating expenditure</b>	<b>54 582</b>
<b>Net operating cost for the year ended 31 March 2014</b>	<b>2 893</b>

\* Notional expenditure relates to the provision of accommodation, corporate services and science by HSE.

## 2(b) Statement of Financial Position (SoFP)

An additional column to show the asset and liability balances transferred from HSE at 1 April 2014 is included within the SoFP. The table below states the balances transferred on that date.

	1 April 2014 £'000
<b>Non-current assets</b>	
Property, plant and equipment	843
<b>Total non-current assets</b>	<b>843</b>
<b>Current assets</b>	
Trade and other receivables	14 465
<b>Total current assets</b>	<b>14 465</b>
<b>Total assets</b>	<b>15 308</b>
<b>Current liabilities</b>	
Trade and other payables	(4 027)
<b>Total current liabilities</b>	<b>(4 027)</b>
Non-current assets plus/less net current assets/liabilities	11 281
<b>Assets less liabilities</b>	<b>11 281</b>
<b>Equity</b>	
General fund	11 281
<b>Total equity</b>	<b>11 281</b>

### 3 Staff numbers and costs

#### 3(a) Staff costs

Staff costs comprise:

	Permanently employed staff	Others	2014/15 Total
	£'000	£'000	£'000
Wages and salaries	27 725	386	28 111
Social security costs	2 936	-	2 936
Pension costs	6 258	-	6 258
Lump sum exit costs	316	-	316
<b>Total per Statement of Comprehensive Net Income</b>	<b>37 235</b>	<b>386</b>	<b>37 621</b>

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but ONR is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2012. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice.gov.uk/pensions](http://www.civilservice.gov.uk/pensions)).

For 2014/15 employer's contributions of £6.2 million were payable by ONR to the PCSPS, at one of the four rates in the range 16.7% to 24.3% of pensionable pay based on salary bands. The Scheme Actuary reviews employee contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2014/15 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Outstanding contributions amounting to £724,000 were payable to the Civil Superannuation Vote at 31 March 2015 and are included in payables (note 9). Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £33 661 were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £2 217, 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum payments on death in service and ill-health retirement of these employees. Contributions due to the partnership pension providers at the Statement of Financial Position date were £6 296.

Contributions prepaid at that date were £0.

In 2014/15 no people retired early on ill-health grounds from ONR; the total additional accrued pension liabilities in the year amounted to £0. These liabilities are not the responsibility of ONR but are to be paid by the PCSPS.

### 3(b) Average number of persons employed

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

			2014/15
Permanent staff	Other	Total	
475	4	479	

### 3.1 Reporting of civil service and other compensation schemes - exit packages 2014/15

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
< £10,000	-	-	-
£10,000 - £25,000	-	-	-
£25,000 - £50,000	-	4	4
£50,000 - £100,000	-	2	2
£100,000 - £150,000	-	-	-
£150,000 - £200,000	-	-	-
<b>Total number of exit packages</b>	-	<b>6</b>	<b>6</b>
Total Resource cost £	-	316 172	316 172

Redundancy and other compensation costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Ill health retirement costs are met by the pension scheme and are not included in the table.

## 4 Other expenditure

	2014/15
	£'000
Service Management Agreement with HSE*	7 512
Shared Services costs	657
Rents payable under operating leases	160
Accommodation costs	244
Auditors remuneration	59
Interest payable on loan from DWP	270
Travel and subsistence	2 813
Staff development and training	330
Technical support	4 801
Research	542
Industry security vetting	1 779
Non-cash items	
Depreciation and amortisation	169
Profit on disposal	(3)
Legal costs	330
Consultants fees	219
Personnel related costs	770
IT costs	290
Other expenditure	725
<b>Total</b>	<b>21 667</b>

- \* The Service Management Agreement with HSE includes:
- Accommodation costs - £3.7m (of which £3m relates to the operating lease for Redgrave Court)
  - IT/telecommunications costs - £1.9m
  - Communications services costs - £0.5m
  - Other corporate services - £1.4m

## 5 Income

The activities of ONR include certain chargeable services, each of which is subject to a financial objective of full cost recovery. Memorandum Trading Accounts are prepared where the cost of a particular service exceeds £1,000,000. The charges for these activities include provision for the recovery of notional insurance and cost of capital.

Information is supplied to satisfy HM Treasury's Fees and Charges purposes, not for IFRS purposes.

Income	2014/15 £'000
Fees and charges (see below)	56 383
Grant from DWP	2 840
Other sales/income	65
<b>Total income</b>	<b>59 288</b>

Breakdown of fees and charges	2014/15		
	Income £'000	Cost £'000	Surplus/(deficit) £'000
Licensing of nuclear installations	40 164	40 164	-
Civil Nuclear Security	7 133	7 133	-
Generic Design Assessment	8 024	8 024	-
Radioactive Materials Transport	823	823	-
<b>Sub Total</b>	<b>56 144</b>	<b>56 144</b>	<b>-</b>
Other fees and charges	239	239	-
<b>Total fees and charges</b>	<b>56 383</b>	<b>56 383</b>	<b>-</b>

Analysis of revenue by major customer (>10% of revenue)

Revenue	2014/15 £'000
Customer 1	17 636
Customer 2	11 974
Customer 3	6 609

Customers are not named for reasons of commercial confidentiality.

## 6 Property, plant and equipment

### 6(a) Property, plant and equipment by category

2014/15	Leasehold improvements	Information technology	Motor vehicles	Furniture and fittings	Total
	£'000	£'000	£'000	£'000	£'000
Cost or valuation at 1 April 2014	-	-	-	-	-
Transfers from HSE	266	2	471	104	843
Additions in year	-	-	269	3	272
Disposals during year	-	-	(121)	-	(121)
Balance at 31 March 2015	266	2	619	107	994
Depreciation at 1 April 2014	-	-	-	-	-
Charge in year	52	2	100	14	168
Disposals during year	-	-	(11)	-	(11)
Accumulated depreciation at 31 March 2015	52	2	89	14	157
Net book value at 31 March 2015	214	-	530	93	837
Asset-financing					
Owned	214	-	530	93	837

- In 2014/15, ONR occupied three buildings in Bootle, Cheltenham and London under operating leases. As part of its Service Management Agreement with HSE, ONR has use of IT equipment and furniture at its head office in Bootle and therefore holds few IT assets.
- Leasehold improvements refer to the capitalisation of property refurbishments at the Cheltenham office.
- Motor vehicles are held by operational staff across ONR under the Private User Scheme (PUS). The PUS was an arrangement where ONR provided officers with a lease vehicle for a period of 3-5 years. Officers must meet certain qualifying conditions (job role, business usage, mileage etc.) to be eligible for the scheme. Access to the scheme ended on 30 September 2014 for new applications and no new scheme is planned.

6(a) (i) Reconciliation of capital additions to the Statement of Cash Flows

	Note	2014/15 £000
Capital payables and accruals at 1 April		-
Capital additions		272
Capital payables and accruals at 31 March 2015	9	(9)
<b>Purchases of property, plant and equipment as per Statement of Cash Flows</b>		<b>263</b>

6(b) Intangible assets

Internally developed software

	2014/15
Cost or valuation at 1 April 2014	-
Transfers from HSE	-
Additions in year	12
Disposals during year	-
<b>Balance at 31 March 2015</b>	<b>12</b>
Depreciation at 1 April 2014	-
Charge in year	1
Disposals during year	-
<b>Accumulated depreciation at 31 March 2015</b>	<b>1</b>
<b>Net book value at 31 March 2015</b>	<b>11</b>
<b>Asset-financing</b>	
Owned	11

6 (b) (i) Reconciliation of capital additions to the Statement of Cash Flows

	Note	2014/15 £000
Capital payables and accruals at 1 April		-
Capital additions		12
Capital payables and accruals at 31 March 2015		-
<b>Purchases of property, plant and equipment as per Statement of Cash Flows</b>		<b>12</b>

7 Trade receivables and other current assets

7(a) Analysis by type

Administration receivables

	31 March 2015 £'000
<b>Amounts falling due within one year</b>	
Trade receivables	3 769
Deposits and advances	36
Prepayments and accrued income	9 365
DWP grant accrual	537
Other receivables	6
<b>Total</b>	<b>13 713</b>

## 7(b) Intra-government balances

The following tables analyse total trade and other receivable balances across the categories shown:

	31 March 2015 Amounts falling due within one year £'000
Balances with other central government bodies	3 957
Balances with NHS trusts	13
Balances with public corporations and trading funds	85
<b>Subtotal: intra-government balances</b>	<b>4 055</b>
Balances with bodies external to government	9 658
<b>Total receivables at 31 March 2015</b>	<b>13 713</b>

## 8 Cash and cash equivalents

	2014/15 £'000
Balance at 1 April	-
Net change in cash and cash equivalent balances	10 184
<b>Balance at 31 March 2015</b>	<b>10 184</b>
The following balances at 31 March 2015 were held at:	
Government Banking Service	10 184
Commercial banks and cash in hand	-
<b>Balance at 31 March 2015</b>	<b>10 184</b>

## 9 Trade and other payables

### 9(a) Analysis by type

	31 March 2015 £'000
<b>Amounts falling due within one year</b>	
Taxation and social security	911
Superannuation *	730
VAT	51
Trade payables: non-capital	486
Capital payables and accruals	9
Other payables	8
Accruals and deferred income	5 369
<b>Amounts falling due after more than one year</b>	
Loan with DWP	5 900
<b>Total</b>	<b>13 464</b>

\* The figure of £730,000 Superannuation comprises £724,000 payable to PCSPS and £6,000 payable to partnership pension providers.

### 9(b) Intra-government balances

	31 March 2015 Amounts falling due within one year £'000	31 March 2015 Amounts falling due after one year £'000
Balances with other central government bodies	4 719	5 900
Balances with NHS trusts	21	-
Balances with public corporations and trading funds	60	-
<b>Subtotal: intra-government balances</b>	<b>4 800</b>	<b>5 900</b>
Balances with bodies external to government	2 764	-
<b>Total trade and other payables at 31 March 2015</b>	<b>7 564</b>	<b>5 900</b>

### 9(c) Non-current liabilities

DWP Loan	£'000
Balance at 1 April 2014	-
Additions in year	8 000
Repayments in year	(2 100)
<b>Balance outstanding at 31 March 2015</b>	<b>5 900</b>

The loan facility from DWP is provided to meet ONR initial running costs. The facility established is up to £10m.

Interest is payable at a rate of 3.5% of the loan balance.

Interest paid during 2014/15 was £270 190.

## 10 Capital commitments

There were no capital commitments at 31 March 2015.

## 11 Commitments under non-PFI operating leases

Total future minimum lease payments under operating leases relating to ONR's offices in Bootle, London and Cheltenham are given in the table below, for each of the following periods

Obligations under operating leases	As at 31 March 2015		
	Land	Buildings	Other
	£'000	£'000	£'000
Not later than 1 year	-	3 215	-
Later than 1 year and not later than 5 years	-	10 346	-
Later than 5 years	-	-	-
<b>Total Committed</b>	<b>-</b>	<b>13 561</b>	<b>-</b>

## 12 Other financial commitments

ONR has entered into non-cancellable contracts which are not leases or PFI contracts.

These commitments relate to the Service Management Agreement with HSE, Shared Services costs and other costs relating to building operating leases.

The total payments to which ONR is committed are as follows:	£'000
Not later than 1 year	5 229
Later than 1 year and not later than 5 years	2 590
Later than 5 years	350
<b>Total committed</b>	<b>8 169</b>

## 13 Related party transactions

ONR is a statutory body accountable to the Secretary of State for Work and Pensions and is classified as a public corporation. DWP is ONR's sponsoring Department and the two bodies are regarded as related parties. During 2014/15, ONR had material transactions with DWP (see Note 9c).

ONR was previously an in-house agency of HSE and occupies its head office under a Service Management Agreement. Details of charges under this agreement in 2014/15 are set out in note 4.

In addition, ONR had a number of material transactions with the following other government departments and other central government bodies:

- Department of Energy and Climate Change.
- Environment Agency.
- Ministry of Defence.
- Government Legal Department.

No board members or senior managers have undertaken any material transactions with ONR or received benefits from ONR suppliers other than declared hospitality during the year.

## **14 Financial instruments**

As the cash requirements of ONR are met through grant provided by DWP, and a loan facility of up to £10 million (see note 9c), financial instruments play a much more limited role in creating and managing risk than would apply to a non-public sector body. The majority of financial instruments relate to contracts to buy non-financial items in line with ONR's expected purchase and usage requirements and ONR is therefore exposed to little credit, liquidity or market risk.

## **15 Going concern**

The financing of ONR is met through a combination of charges to the nuclear industry and loan and grant funding through DWP. Consequently the going concern basis has been adopted for the preparation of these accounts.

## **16 Events after the reporting period**

IAS 10 requires ONR to disclose the date on which the accounts are authorised for issue. This is the date of the Certificate and Report of the Comptroller and Auditor General.

The Accounting Officer authorised these financial statements for issue on 10 June 2015.





## Office for Nuclear Regulation

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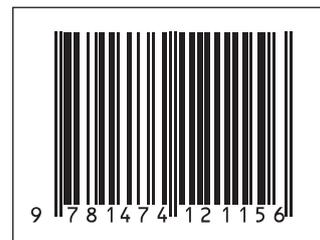
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Further information about ONR is available at [www.onr.org.uk](http://www.onr.org.uk)