Department for Transport

Department for Transport

Annual Report and Accounts 2021–22

For the period 1 April 2021 to 31 March 2022

Accounts presented to the House of Commons pursuant to Section 6(4) of the Government Resources and Accounts Act 2000

Annual Report presented to the House of Commons by Command of Her Majesty

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Secretary of State foreword

The three years in which I've served as Transport Secretary have been among the most challenging in the Department's history. As we continued to deliver a packed policy agenda through a period of tremendous uncertainty, we had to protect the resilience of the transport network through pressures imposed by the Ukraine crises and COVID-19. That work carried on uninterrupted through 2021-22. Policy teams and agencies across the Department worked exceptionally hard to deliver an ambitious programme to modernise transport.

After leaving the EU, the Department also ensured that there was effective delivery of the UK-EU Trade and Cooperation Agreement which provides the legal basis for air, road freight and road passenger transport operations between the UK and EU.

Rail reform was one of the year's top priorities. Following the publication of the Williams-Shapps plan, I announced our full reform programme in June 2021. This included creating a new body, Great British Railways, to bring infrastructure, fares, timetables and network planning under one roof. In contrast with the fractured industry of the past, GBR will manage trains and tracks, and focus overwhelmingly on punctuality and passengers. And alongside these structural changes, we will continue to invest record sums upgrading the network. We have just opened the Elizabeth Line, and we're making fast progress building HS2. We're reversing the Beeching rail cuts to reconnect left-behind communities, and we're rolling out the £96 billion Integrated Rail Plan for the North and Midlands. After decades of underinvestment in the rail network, we are fortunate to be working for the Department at a time of historic renewal and growth.

We were one of the first countries to ban Russian planes and close our ports to Russian owned, registered, or operated ships following the shocking invasion of Ukraine. We are working with industry to monitor the impacts of the war on the supply of critical goods. And as I write, we are dealing with the national rail strike action.

Thanks to the success of the vaccination programme, we were at last able to restart international travel this year and get back to supporting key events that promote Britain and our interests globally. For example, we had a major presence at the delayed Expo 2020 in Dubai, and the Department made a significant contribution to COP26 in Glasgow, bringing together global transport leaders to take part in Transport Day. During London International Shipping Week, we held a Global Maritime Forum for senior industry figures. All these events were a great success, and highlighted UK leadership on the international transport stage.

Following the publication of our Transport Decarbonisation Plan last year, we now have a clear strategy to reduce and replace fossil fuels across transport and so play our part in reaching net zero. For example, we recently unveiled our Electric Vehicle Infrastructure Strategy, which will help transform road transport in this country within a generation. This work is already having a big impact on the market as buyers increasingly see electric cars as viable. Battery electric car sales rose by three quarters in 2021 and make up 15% of all new registrations so far this year. We continue to make vital progress on green aviation through our Jet Zero strategy. And our refreshed National Shipbuilding Strategy launched a new UK Shipping Office for Reducing Emissions, with £206 million investment for Maritime R&D.

One of the biggest impacts of the pandemic globally has been the disruption to supply chains, and this has particularly affected teams across DfT. The HGV driver shortage, for example, hampered distribution of food, manufacturing components and fuel. Truck drivers perform a critical role in our finely tuned supply chains, and the shortage threatened our economic recovery at the worst possible time. So, the Department and our motoring agencies worked extremely hard with industry and colleagues across government and the Department is putting in place 33 different measures to tackle the shortage, which include urgently increasing HGV driver testing, speeding up licence processing, investing over £50 million in lorry parking and driver welfare facilities. These actions have been critical to help key supply chains moving and in December 2021, industry reported that they were starting to see signs of recovery.

Other recent events also tested the Department's capabilities. We acted rapidly to close legal loopholes which allowed ferry operator P&O to undercut British workers and stepped-up enforcement of existing laws to penalise companies which fire and rehire. Our work with international partners to create minimum wage corridors will give maritime workers the rights they deserve.

Despite all these challenges, and I am sure that there will be more in 2022-23, I have no doubt that the DfT will meet them head on. I am proud to lead one of the most capable and resourceful departments in government today, and I'd like to thank all staff for their hard work and commitment over the past year.

Permanent Secretary foreword

April 2022 marked my five-year anniversary as Permanent Secretary at DfT. Each successive year has brought new and bigger challenges.

COVID-19 continued to stretch and challenge the Department and its public bodies like never before. I am immensely proud of the way they have worked with the wider transport sector to keep the country moving over the past two years. It has been a truly herculean effort. While the transport sector continues to recover, the effects of the pandemic on transport have been very significant and continuing challenges and uncertainty have impacted both on the Department's finances, and on the sector more widely

In parallel we have continued to deliver an ambitious programme of work to make journeys greener, improve transport for those who use the network and contribute to levelling up as we build new and renew infrastructure. We have published the Transport Decarbonisation Plan, the Integrated Rail Plan and the Union Connectivity Review;

progressed ambitious plans to restructure the railway; hosted London International Shipping Week; and continued to make progress in the delivery of our extensive portfolio of major projects including HS2 and Crossrail which opened for business as the Elizabeth Line on 24 May 2022.

We also successfully published our second Statutory Cycling and Walking Investment Strategy (CWIS2) and continued to take steps to improve the accessibility of transport – for example we have established Mobility Centres to provide advice on travel alternatives to those unable to drive due to disability or impairment. I am pleased that DfT has also played an active role in addressing issues such as on tackling loneliness and violence against women and girls on the transport system and made vital contributions to the Levelling Up White Paper and the COP26 conference in Glasgow.

Within the Department we continue to drive improvements in our organisation and capability. In January 2022, it was my pleasure to welcome Gareth Davies, as the new Second Permanent Secretary at DfT. His appointment is great news for the Department and reflects our ambitious delivery agenda.

After a year of changing COVID-19 restrictions, we have implemented new HR policies to support the Department's return to offices and hybrid working. We have rapidly grown our offices in Leeds and Birmingham, moved into new offices in Hastings, been listed as a

Times Top 50 Employer for Women and made it into the top 30 employers on the Social Mobility Index.

Looking ahead many challenges remain. Ensuring we have a safe and reliable network, managing the impact of inflation on our programmes, and continuing to manage the environmental impacts of transport are just some of these. Just as we have risen to the challenges of the past years, we will need to continue to adapt, innovate and improve how we work. The Department will continue to work hand-in-hand with our arms-length bodies, industry partners and other key stakeholders to ensure transport continues to deliver for the public and taxpayers. I am extremely grateful for the dedication and expertise shown by colleagues across the Department and its public bodies over the past year and look forward to continuing to make progress in 2022-23.

Performance Report

This Performance Report notes the Department's key successes and challenges against the workstreams it worked on within our Outcome Delivery Plan. Whilst delivering the Department's Priority Outcomes, it also had to respond to several challenges across the transport system, which are included in this report.

Overview: How we have performed

The purpose for this report

This Performance Report is based on the Priority Outcomes set out in Section A of the Department's Outcome Delivery Plan: 2021-22[1]. These Priority Outcomes were developed using the principle of the Public Value Framework, published by HM Treasury in 2019, which is a tool for maximising the value delivered from public spending and improving outcomes for citizens. The Priority Outcomes were confirmed as part of the Department's Spending Review Settlement (SR20), and they remain in place as part of the SR21 settlement. The Performance Report also includes the effects of COVID-19 on policy, delivery, and the subsequent programme for recovery.

1 DfT Outcome Delivery Plan: 2021 to 2022 – GOV.UK (www.gov.uk)

How we are organised

The Department for Transport (DfT) comprises the central Department (DfTc) and several public bodies. These are classified according to the level of ministerial control required for them to best perform their functions. Many of these organisations have their own governance structures and publish annual reports, with their accounts consolidated into the Department's Annual Report and Accounts. Executive agencies act as an arm of DfTc and typically carry out services or functions with a focus on delivering specific outputs, with policy set by ministers. Non-Departmental Public Bodies (NDPBs) and Non-Ministerial Departments (NMDs) are separate legal entities from DfTc. The Department usually sets their strategic framework, appoints the Chair of their boards, approves all non-executive board member appointments, and appoints their Accounting Officer. The wider Departmental family includes other public bodies helping to achieve our objectives but have more autonomy over their own policies and are not consolidated into the Group's financial statements.

Looking ahead: Our strategy

COVID-19 and the rise in cost of living has, and will continue to have, a profound impact on the transport sector. The last year has required significant government intervention, including financial support for rail and bus operators and TfL to maintain service levels, and in the management of port and border congestion.

The Department must now consider what the future looks like given the impact of the pandemic on travel habits. In some areas, both transport modes and geographic areas, there has been strong demand for return to public transport, in others the demand has been below pre-pandemic levels, although it is not certain that travel patterns have stabilised. The Department is continuing to work closely with transport operators, local government and our arm's length bodies (ALBs) to deliver a sustainable transport sector and where possible to support the public with the rising cost-of-living.

At this crucial time, our five Priority Outcomes are guiding the work of the Department to ensure we are delivering on the Government's agenda.

Our Priority Outcomes

The Priority Outcomes are interlinked and mutually support each other: delivery of one will often contribute to the delivery of the others, as in many cases workstreams offer benefits across more than one priority.

The reporting framework lends itself to a matrix style of reporting across the Priority Outcomes. This entails the Department reporting against both its business groups and travel modes that impact on the delivery of the Priority Outcome.

The Department's Priority Outcomes are:

- Grow and Level-up the Economy
- Improve Transport for the User
- Reduce Environmental Impacts
- Increase our Global Impact
- Be an Excellent Department

Priority outcome indicators

As part of the Outcome Delivery Plan (ODP) framework, the Department has identified a suite of metrics that will be used to monitor progress towards the Priority Outcomes. The metrics set out, against the Priority Outcomes, show the latest published position for each of the indicators.

Whilst a range of data is available to monitor progress, both within the Department and across the transport sector, these metrics are typically drawn from official and National Statistics sources. This is to ensure outcomes are measured using data of the highest quality, even if more timely sources exist.

These metrics are non-exhaustive; are to be considered as part of a suite of wider evidence; are designed to measure progress towards overall outcomes rather than individual DfTc programmes; are subject to reporting lags; and are not necessarily published to a consistent schedule.

Our governance

The Department's governance arrangements reflect best practice and the importance of giving Parliament confidence that we use our resources cost-effectively when delivering our Priority Outcomes. The full Governance Statement can be found in the Accountability Report, from page 144.

Our risks

Risk management is an integral part of the Department's work, from how we manage our programmes and our money, to how we develop our policies and work with the Departmental family. These risks represent the Department's view of its overall risk profile, taking into account the risk carried and managed by our public bodies. The Governance Statement contains a full report on our internal controls and risk management approach and sets out the principal risks faced by the Department. The report includes the actions the Department took or are taking to mitigate these risks.

Figure 1: Wider Departmental Family

Wider Departmental Family

Consolidated Departmental Group

Six directors general-led groups
Rail Strategy and Services Group, Rail Infrastructure Group, Corporate Delivery Group, High Speed Rail Group, Roads, Places and Environmental Group, Aviation, Maritime and Security, Decarbonisation, Technology and Strategy Group (report direct to the Second Permanent Secretary)

Other entities accounted for within DfTc:
Office for Zero Emission Vehicles, Centre for Connected and Autonomous Vehicles
Disabled Persons' Transport Advisory Committee, Cycling and Walking Investment Strategy Advisory Group, Advisory Group on Education in Transport, Air Insolvency Review, Rail Strategy Advisory Board, DfT Science Advisory Council; Independent Commission on Civil Aviation Noise

Executive agencies:
Driver and Vehicle Licencing Agency
Vehicle Certification Agency
Maritime and Coastguard Agency
Driver and Vehicle Standards Agency

Other Government owned companies:
National Highways, Network Rail (including its subsidiaries as listed in Note 26 to the Financial Statements), LCR Finance plc, CTRL Section 1 Finance plc, Train Fleet (2019) Ltd, Air Safety Support International Ltd

Executive Non-Departmental Public Bodies:
Transport Focus (including its subsidiaries Transport Focus Scotland Ltd and Transport Focus Wales Ltd), British Transport Police Authority, Trinity House Lighthouse Service, Northern Lighthouse Board, Commissioners for Irish Lights, High Speed 2 Ltd, Directly Operated Railways Ltd, East West Railway Company Ltd

Other consolidated entities:
Air Travel Trust Fund

Non-Ministerial Department and Regulator:
Office of Rail and Road

Other Public Corporations:
Trust Ports as listed in Note 25 to the financial statements

Public Corporation and Regulator:
Civil Aviation Authority

Public Corporation and Government owned company:
London and Continental Railways Ltd, Crossrail International Ltd; LNER Ltd; Northern Trains Ltd DfT OLR Holding Ltd
SE Trains Ltd

Figure 2: Our Governance

Parliament	▪ Checks and challenges the work of the Department through questioning ministers, debating and committee work. ▪ Checks and approves Departmental spending.
Secretary of State for Transport	▪ Appointed by the Prime Minister. ▪ Has overall responsibility for the Department and its delivery bodies. ▪ Makes policy decisions based on advice from officials, presents and accounts for policy publically and in Parliament.
Permanent Secretary and Principal Accounting Officer	▪ **Permanent Secretary:** is responsible for the effectiveness and efficiency of the Departments work to support ministerial polices and objectives. They are also responsible for the Departments leadership, management and staffing. ▪ **Principal Accounting Officer (PAO):** is responsible for the propriety and regularity of the Departmental group's expenditure.
DfTc's Board	▪ Advisory body that supports and challenges both the Department's ministers and the Principal Accounting Officer. ▪ Provides strategic focus by advising on the operational implications and effectiveness of policy proposals.
DfTc's Executive Team	▪ Consists of the Permanent Secretary and directors general. ▪ Supports the Permanent Secretary in the management of the Department's business in-line with ministerial priorities.
Internal and External Audit	▪ Reviews our processes and procedures to help us improve our risk management, control and governance. ▪ **Internal Audit:** provides independent assurance to the Permanent Secretary and Departmental Board. ▪ **External Audit:** undertakes a statutory audit of DfT's consolidated Annual Report and Accounts.

Our performance at-a-glance

Grow and Level Up the Economy. This year we have:

- Restored the railway flyover at Bletchley with minimal disruption. The new flyover is built to last 120 years
- Announced the largest ever government programme of investment in the railway - a £96 billion package to overhaul and modernise rail connections across the North and the Midlands
- Awarded a £2 billion contract (under budget) for the delivery and maintenance of HS2 trains for Phases 1 and 2a
- Upgraded Testo's junction which brings great benefits to the North East, providing swifter, more reliable free-flowing journeys and supporting economic growth in the region, enabling better journeys and connections to international gateways and the rest of the country
- Renewed traffic signals on the roundabout and its approaching roads and adding new traffic signals for the Tabley Hill Lane/Pickmere Lane junction
- Set out in the IRP, NPR services that will be delivered by the end of this decade, meaning people and businesses of the north will begin to benefit from NPR upgrades much sooner than previous proposals
- Completed the Thorpe Road, Norwich bus and cycle priority scheme, savings between 1 and 3 minutes, representing journey time savings of about 15% overall
- Completed a £130 million junction improvement in the North East that was fully open to traffic. Delivered after more than a million hours of work – around 60 per cent of that time coming from a local workforce
- Opened the Elizabeth Line central section (Paddington to Abbey Wood) which the Queen attended to open on 17 May and opened to the public on 24 May
- Built a two-way link across the junction to allow better connection between the M6 and A556, including a new bridge spanning the M6 motorway within the roundabout

Our performance at-a-glance

Improve Transport for the user. This year we have:

- Committed to funding the introduction of 2,500 new zero emission buses through the Zero Emission Bus Regional Areas (ZEBRA) scheme

- Made important announcements, including £1.5 million for Mobility Centres to provide advice on travel alternatives to those unable to drive due to disability and £1 million to enhance access to lifeline ferry services

- Took part in the G7 Leaders conference in Cornwall and COP26 in Glasgow

- Set out through the National Bus Strategy (NBS) how **£3 billion** of funding will be invested in new and improved services during the current Parliament.

- Launched new national flexible season tickets matching modern working habits post COVID-19 and providing commuters greater choice and flexibility

- Scaled up the RIS2 concrete roads renewal programme delivered through National Highways, with the replacement or renewal of more than 125 miles of lane

- Appointed two Women's Safety on Transport Champions, alongside the government's Violence Against Women and Girl's Strategy in July 2021

- Delivered the first tranche of NRC Direct Awards, including South Western and TPE and Essex Thameside

- Great British Railways Transition Team established and detailed planning for Great British Railways, stand-up is underway to test deliverability of the integrated programme plan, including options to de-risk

- Published revised and updated guidance on improving the accessibility of the public realm (January 2022)

- Implemented timetable changes to support the return to schools and more passengers returning to offices

Our performance at-a-glance

Reduce environmental impacts. This year we have:

Published the Transport Decarbonisation Plan

Government's 'Net Zero Strategy: Build Back Greener' confirmed the introduction of a zero-emission vehicle mandate on manufacturers of new cars and vans in the UK in 2024

Delivered Transport Day at COP26 which saw 30 countries and six of the world's largest car manufacturers agreeing to deliver 100% zero emission vehicle sales by 2035

Published the Electric Vehicle Charging Infrastructure Strategy

Published the 'Green Paper on a new Road Vehicle CO_2 Emissions Regulatory Framework' consultation, and in the Net Zero Strategy we announced the Department will introduce a zero-emission vehicle mandate that will set targets for a percentage of manufacturers' new car and van sales to be zero emission each year from 2024.

Introduced E10 petrol (petrol with up to 10% ethanol) as standard fuel in the UK

Awarded funding for 15 projects to undertake research into the requirements of airports and airfields to handle zero emission aircraft

Announced the winners of a £23 million Clean Maritime Demonstration Competition

Extended the plug-in truck grant to continue to encourage the uptake of zero-emission HGVs by reducing the purchase price of zero-emission commercial vehicles

Awarded £20 million funding for collaborative Research and Development projects that will advance innovative zero emission vehicle and infrastructure technologies in the UK

ZEBRA scheme competition launched, worth up to £270 million to help local transport authorities introduce zero-emission buses, cut carbon emissions from local public transport, and improve air quality

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Our performance at-a-glance

Increase our Global impact. This year we have:

Supported the government's regulatory reform agenda, including establishing the Brexit Opportunities Delivery Board to drive forward the Department's projects

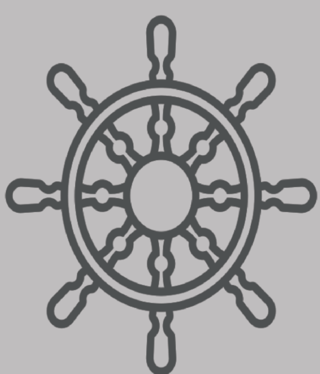
Supported the government's commitment to make the UK a science superpower by 2030 through our work on developing leading edge transport research and innovation

Participated at the world's biggest trade fair, the Dubai Expo, which enabled the Department to showcase UK leadership in transport decarbonisation and innovation to a global audience

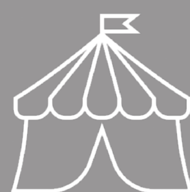
Successfully delivered a provisional GB vehicle approval scheme by the Vehicle Certification Agency

Hosted a ministerial roundtable with industry representatives from the UK Connected and Automated Mobility (CAM) sector to discuss barriers and opportunities to exports and inward investment, in a sector projected to be worth £42 billion for the UK by 2035

Assumed the Presidency of the International Transport Forum (ITF) Summit in Leipzig in June 2022



Delivered 15 separate events at the COP26 Transport Day



Participated in the Global Investment Summit held October 2021, aimed at galvanizing foreign investment in UK green industries

Worked on the Tel Aviv Metro with Crossrail International, a £33 billion underground network

Our performance at-a-glance

Be an Excellent Department. This year we have:

Increased remote working has led to significant reductions in paper use, water use and domestic flights, seeing us exceed our target trajectory in all three areas

Launched the Department's career development programme Ascend for BAME and/or those with disabilities to provide support with future career development and progression.

Matched over 200 SCS with a reverse mentor as part of the reverse mentoring scheme

Committed to 650 posts in Leeds and Birmingham by 2025. We have already moved 280 roles to Birmingham and Leeds, including nine Senior Civil Service roles

Continued our focus on improving digital and cyber security and enabled DfTc to become a 100% cloud-hosted organisation

Published the Operational Sustainability Strategy 2021-2025, which sets out the actions to improve sustainable performance and achieve Greening Government Commitments by 2025

Restructured the Department with the addition of a Second Permanent Secretary, enabling the Department to step up and accelerate the focus on de-carbonisation and Levelling Up

Developed the D&I Strategy and DfTc Inclusion and Wellbeing Action Plan with a focus on drawing from a range of backgrounds, experiences, and locations, engaging the communities we serve

Implemented a Crisis Response Cohort to provide immediate cover in the case of future crises and ensure the resilience of any future response activity

Participated in government internships, life chances and outreach initiatives, including hosting placements for the Summer Diversity Internship and Autism Exchange Programmes

Exceeded the Apprenticeships target of 2.3% target

Financial Overview from the Director General for the Corporate Delivery Group

Introduction

The Department's work and its financial position continued to be affected by the pandemic in 2021-22. With the support of HM Treasury, we responded to the challenges presented while ensuring a sustained focus on delivering the government's transport ambitions. Our annual capital expenditure continued to rise to record levels, reflecting existing plans to ramp up investment in local and national infrastructure. Emergency Covid-19 support to transport operators remained necessary during 2021-22, though expenditure is trending down as the UK emerges and recovers from the pandemic.

Our initial spending plans for 2021-22 were agreed with HM Treasury through Spending Review 2020, with statutory authority for final budgets granted by Parliament via the Estimates process. Budgets are set in accordance with HM Treasury's budgeting framework for central government bodies and our financial statements are prepared on an accruals basis in accordance with the Government Financial Reporting Manual (FReM).

This report provides a high-level overview of our financial performance, with Figure 3 summarising spend against the final control totals voted by Parliament at the Supplementary Estimate and Figure 3.1 showing a breakdown by mode.

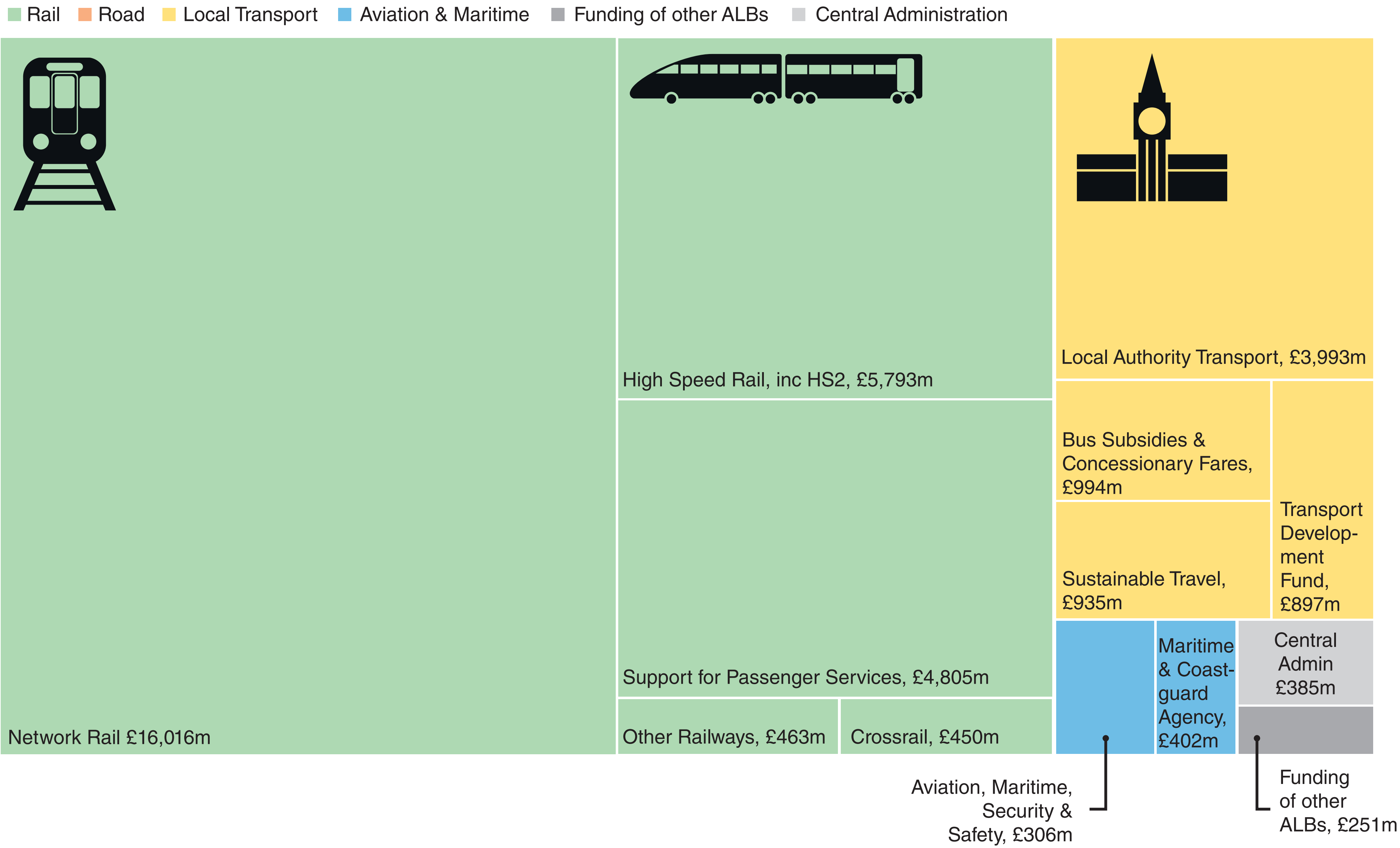
The final budgets for the year were authorised through the Supplementary Estimate: this was agreed between the Department and HM Treasury in December 2021, at which point the outlook for the final quarter of the financial year remained uncertain.

Figure 3: Outturn and Control totals authorised by Parliament

	Budget	Outturn	Variance	
	£m	£m	£m	%
Resource DEL	20,897	18,584	2,313	12%
Of which: Administration	360	329	31	9%
Capital DEL	19,421	19,151	270	1%
Resource AME	4,431	3,454	977	28%
Capital AME	350	78	272	349%
Net Cash Requirement	37,080	30,368	6,712	22%

This graph shows the total DEL and AME spending by Estimate line, with Estimate lines grouped by transport mode. Total DEL and AME spending includes both Resource and Capital cash spending in addition to non-cash Resource costs such as depreciation.

Figure 3.1: breakdown of spending by mode



Income and funding

Alongside the Supply funding received from HM Treasury described in Figure 3, the Departmental Group received £6.2bn in income from other sources. These are summarised in Figure 4, and more detail can be found in Note 4 to the Financial Statements.

Figure 4: Main sources of income received in year

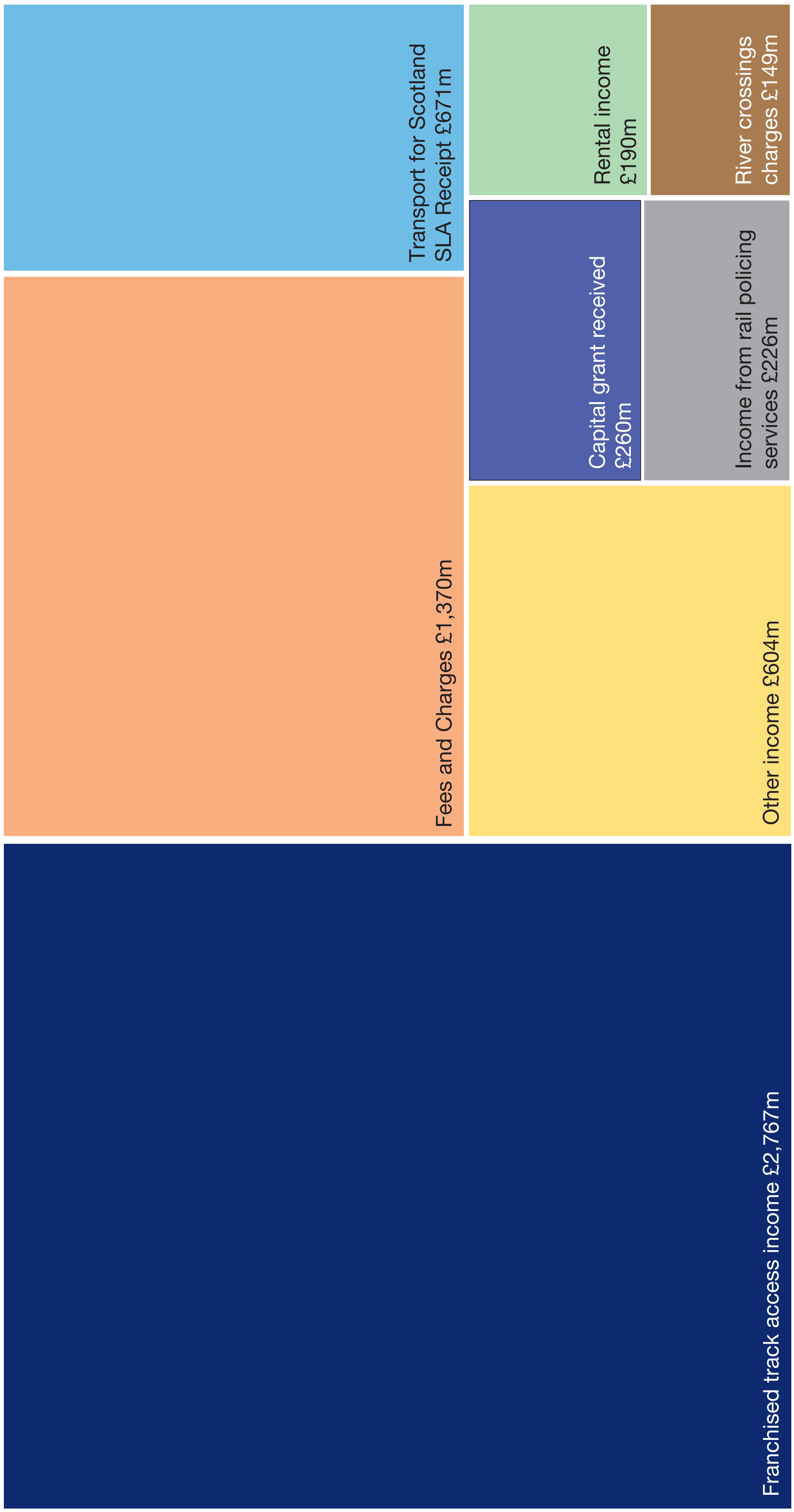
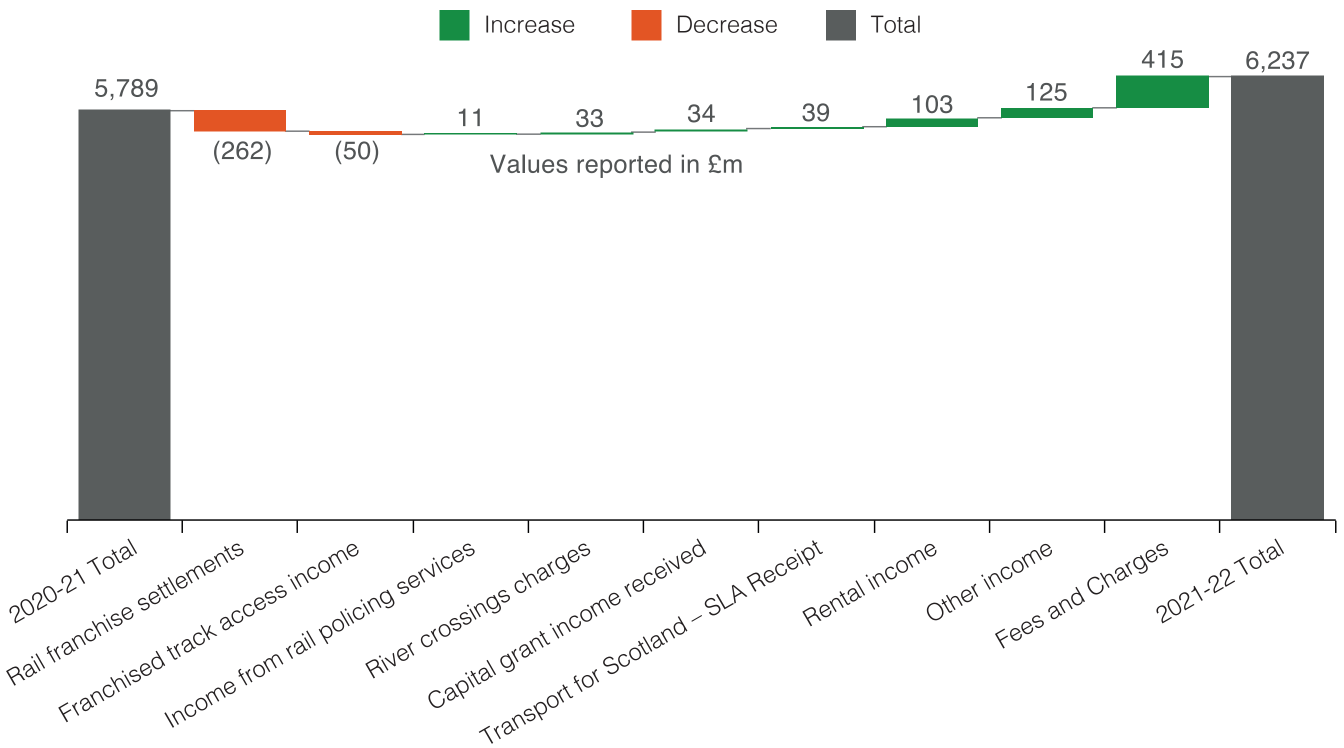


Figure 4.1 below shows the net movement in Income by revenue source in the year ended 31.03.2022. Key movements are discussed below:

Figure 4.1: Movement in revenue streams, £m



Source: Financial statements note 4, cash items.

Rail franchise settlements represent termination sums payable by some train operating companies at the end of their franchise agreements with the Department: these were recognised in full in 2020-21 and were therefore not repeated in 2021-22. Fees and charges have increased in 2021-22 as operational activity in the agencies recovered following the initial impact of the pandemic.

Expenditure

The Departmental Group incurred £32bn of expenditure in 2021-22 compared to £34bn in the previous year. Figure 5 shows the headline movements in expenditure during the year.

Figure 5: Movements in expenditure in 2021-22

Goods & services include the Department's contractual payments to train operating companies to sustain rail services. These costs reduced in 2021-22 as passenger numbers and fare income revenues recovered from the levels experienced in the previous year.

Grants include support payments to TfL, bus and light rail operators: these support costs reduced in 2021-22 during Covid-recovery. In addition, grants include amounts issued to Local Authorities for investment in local transport.

Depreciation is a non-cash cost reflecting operational usage of assets: this increased due to the higher valuation of assets.

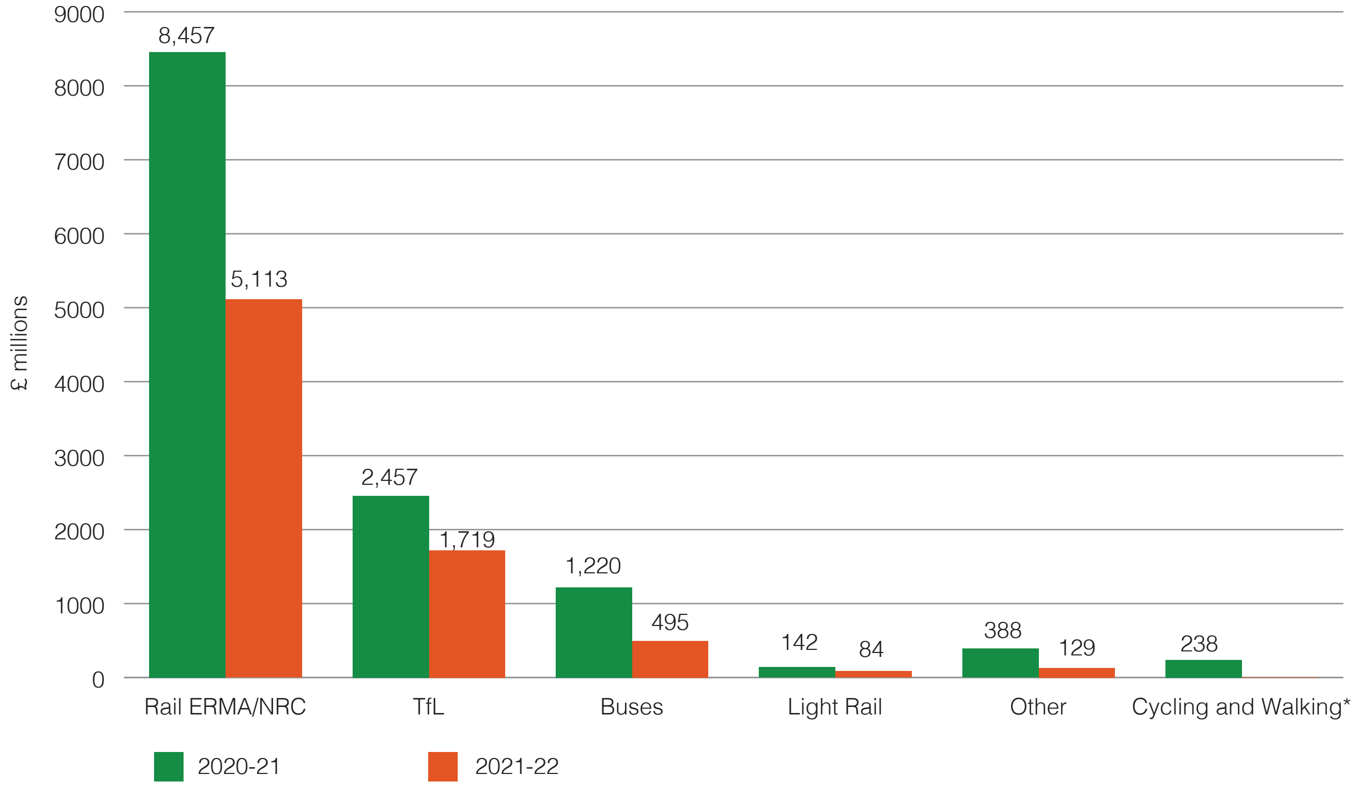
Finance costs primarily represent interest charges on legacy debt owed by the Group to bondholders: these increased due to inflation.

The increase in Other costs primarily reflects the one-off impact of the prospective change in corporation tax rate, which was substantively enacted for accounting purposes during the year.

Covid-19 spending:

The Department incurred £8bn of Covid-19-related costs in 2021-22. A breakdown of Covid-19 related spending is provided in Figure 6. While this is less than the equivalent £13bn spent in 2020-21, expenditure remained high as we continued to navigate uncertainty and respond to challenges that emerged, including those presented by the Omicron variant and the introduction of the associated "Plan B" measures.

Figure 6: Covid-19 spend



* Cycling and Walking grants were categorised as COVID support spending in 2020-21 but not in 2021-22.

Spending on Covid-19 interventions against the budgets authorised by HM Treasury in the Supplementary Estimate are described below.

	Rail	TfL	Buses	Light Rail	Other	TOTAL
	£m	£m	£m	£m	£m	£m
2021-22 Outturn	5,113[2]	1,719	495	84	129	7,540
2021-22 Budget	6,160	2,100	513	97	146	9,016
Under/(over) spend	**1,047**	**381**	**18**	**13**	**17**	**1,476**

The out performance on Rail and TfL arose from the improvement in passenger numbers and revenue in the final quarter of the year, compared with the set of assumptions agreed with HMT at the Supplementary

2 £5,113m Covid-19 spending on Rail exceeds the £4,805m Support for Passenger Rail Services in figure 3.1 because the costs recorded in figure 3.1 are net of other contractual adjustments which do not directly relate to the current year Covid subsidy.

Estimate at which point the impact of the Omicron variant and Plan B restrictions was uncertain. The Department's counter-fraud strategy and key financial controls are summarised in the Accountability Report: the Department is not aware of any instances of fraud or error relating to Covid-19 spending during the year.

Capital investment:

Capital investment included continued delivery of the Road Investment Strategy by National Highways, the Network Rail enhancements programme and High Speed 2 construction by HS2 Ltd. These are our three main areas of capital spending. Alongside these major infrastructure projects, we have continued to invest at a local level, including via grant funding to local authorities and Mayoral Combined Authorities, in line with our strategic priority of growing and levelling up the economy. Capital funding to TFL and the GLA for Crossrail reduced compared with the prior year, as the project approached completion during the financial year and opened in May 2022.

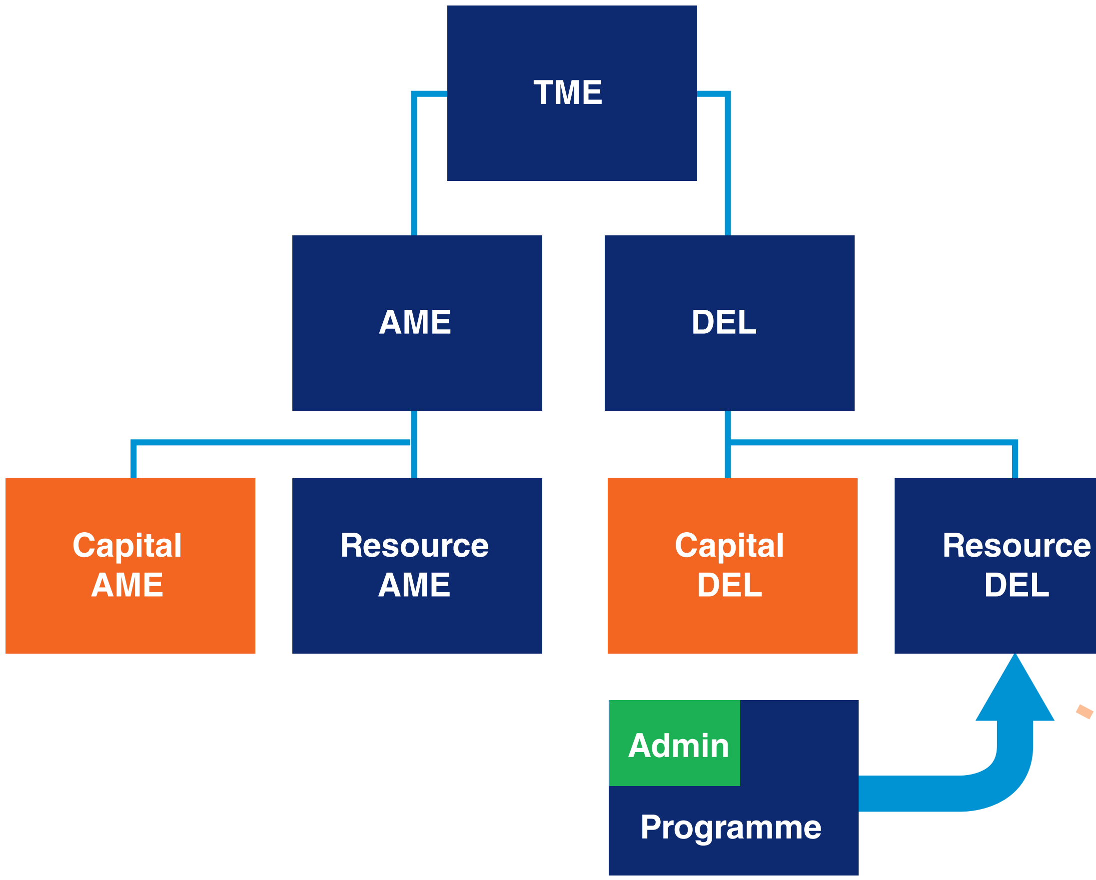
We have increased investment in projects to decarbonise the transport system – such as cycling and walking infrastructure, Zero Emission Buses and electric vehicle infrastructure.

Total Managed Expenditure:

Total Managed Expenditure (TME) represents the total funds spent by the Department against a series of different budget types, which are depicted in Figure 7. A comparison of TME in 2021-22 to recent years is shown in Figure 8, with 2021-22 values corresponding to the Statement of Outturn against Parliamentary Supply. Net Cash Requirement (NCR) is a separate Parliamentary control total which limits the cash funding departments can draw from the Exchequer to finance their TME spending for the year.

Figure 7: Our budgetary framework

HM Treasury sets the budgetary framework for government spending



The total amount the Department spends is referred to as Total Managed Expenditure (TME); which splits into:

Annually Managed Expenditure (AME) and

Departmental Expenditure Limited (DEL)

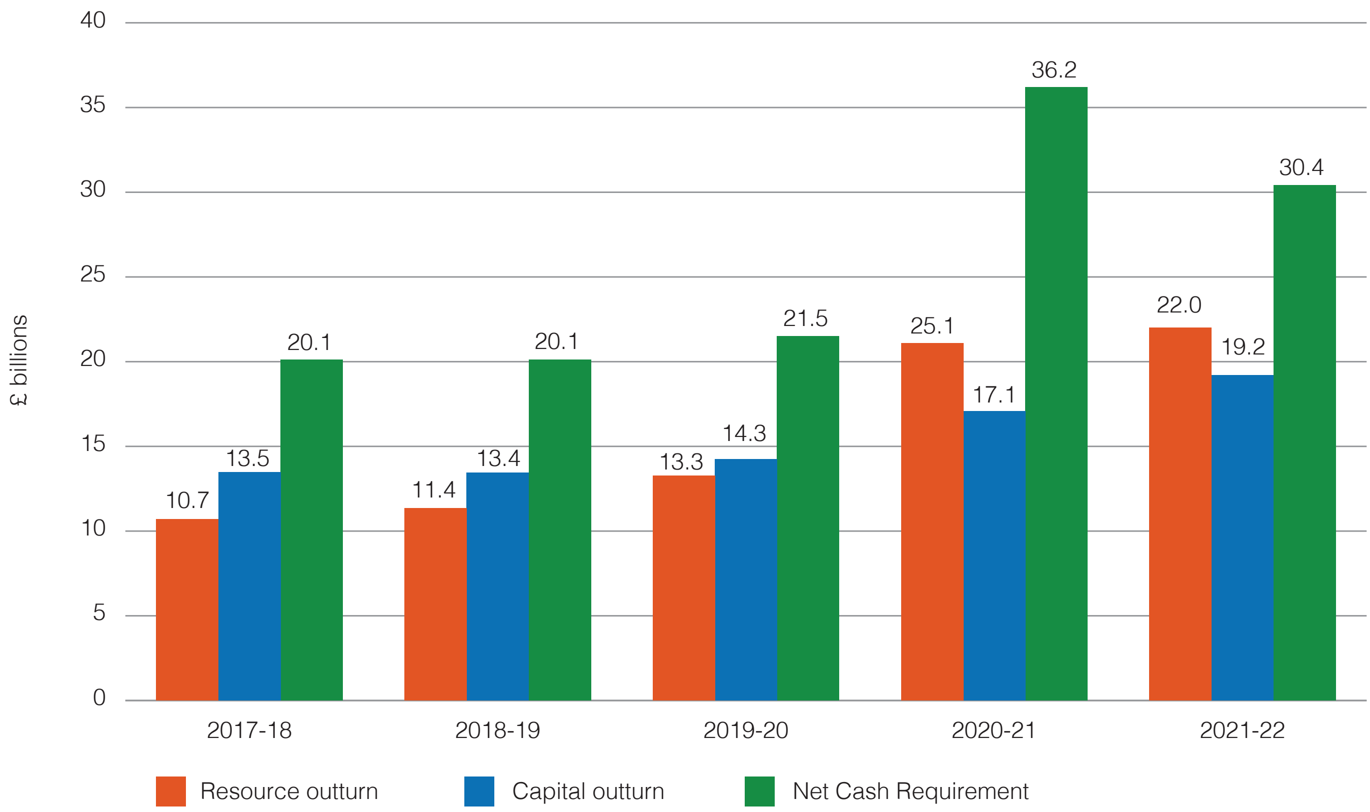
AME expenditure is typically volatile or demand-fed. AME budgets are agreed with HM Treasury on an annual basis. DEL expenditure reflects the cost of delivery front-line and back-office activitites. Long-term DEL budgets are set through Spending Reviews which usually occur every three to five years.

Budgets are also classified into Resource and Capital.

Resource DEL includes a further split into:

- Programme budgets for frontline service provision, and
- Admin budgets such as back office functions.

Figure 8: TME and NCR by year



The Covid-19-related expenditure described above is largely responsible for the sustained high level of spending in Resource DEL in 2021-22, when compared to pre-pandemic levels. Our Resource DEL also covers the expenditure associated with the day-to-day running of the Group, including the costs our Arm's Length Bodies incur to develop and deliver our major projects and to operate and maintain the elements of the transport network they are responsible for.

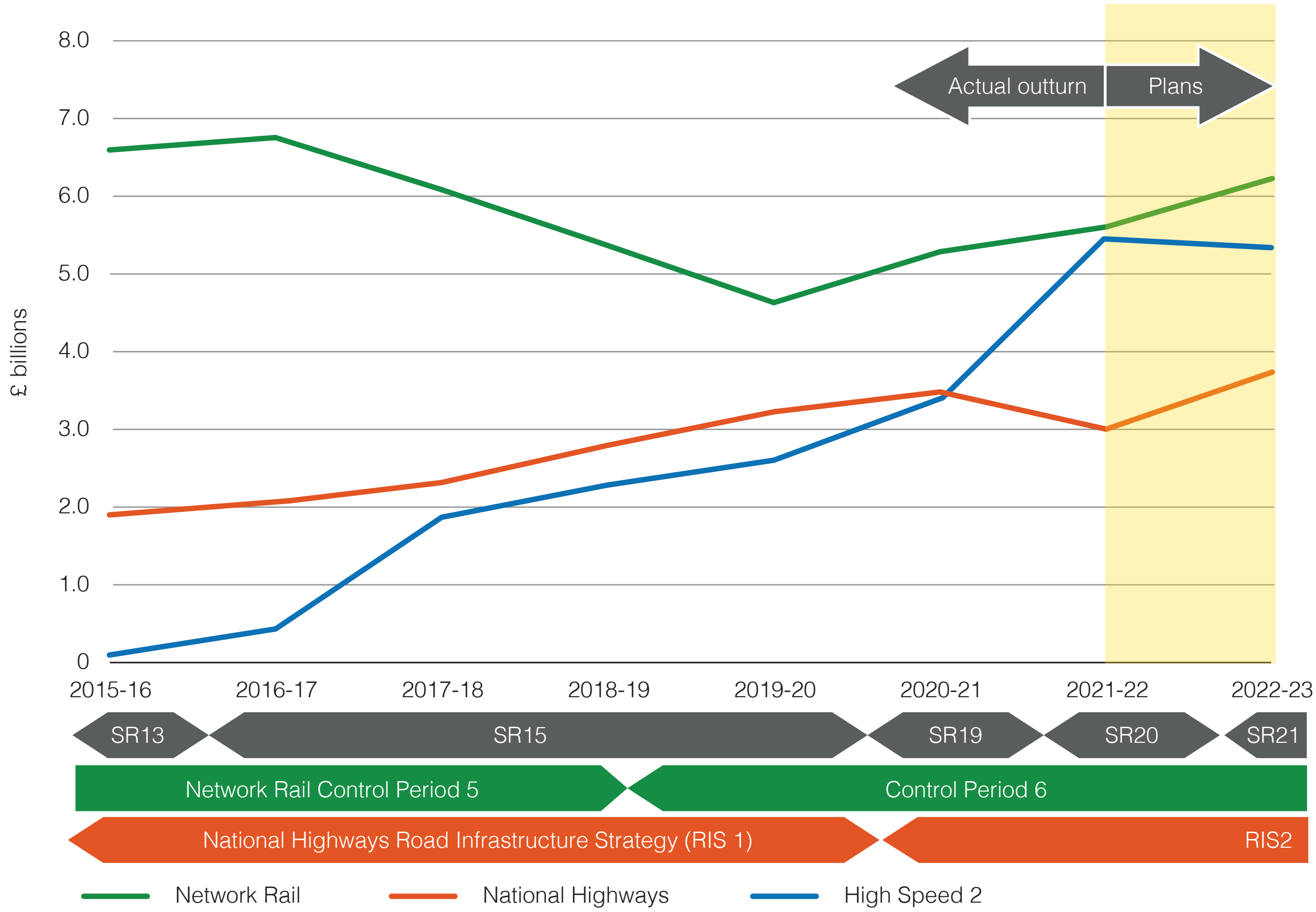
Our Capital DEL covers the major capital investments described above and other important spend that is intended to create future economic growth.

We spent £58m of Capital DEL to support the construction of inland border facilities, following the UK's exit from the European Union. This was supported by £59m of Resource DEL to enable effective operation of these sites as well as the operation of Information and Advice sites, bringing the Department's Total EU Exit spend in 2021-22 to £117m.

TME includes our non-cash budget requirements, such: as depreciation in Resource DEL; deferred tax and interest accretion charges in Resource AME; and capital provisions in Capital AME. Rising inflation increased the costs associated with servicing Network Rail's external debt, total accretion interest on Network Rail's debt was £1.5bn in 2021-22. 2021-22 also includes a one-off deferred tax charge of £0.9bn driven by the prospective increase in corporation tax rate. Figure 8 includes our Net Cash Requirement for the year, which represents the Department's total call on taxpayer funds from the Exchequer to finance its spending activities for the year.

Figure 8.1 shows how our biggest area of spend – HS2, Network Rail and National Highways evolved in recent years. Spending plans for 2022-23 reflect amounts authorised by Parliament in the Main Estimate for the year.

Figure 8.1: Key areas of capital spend



Assets and liabilities

	2021-22	2020-21	Increase / (Decrease)
	£m	£m	£m
ASSETS			
Property, plant & equipment, including leases & assets held for sale	534,891	489,454	45,437
Receivables	2,694	3,029	-335
Loans	2,522	2,172	350
Investments in equities & associate	1,096	1,092	4
Cash	1,191	1,037	154

	2021-22	2020-21	Increase / (Decrease)
	£m	£m	£m
Inventories	1,077	986	91
Derivatives	13	387	-374
Investment properties	211	213	-2
Intangible assets	406	286	120
TOTAL ASSETS	**544,101**	**498,656**	**45,445**
LIABILITIES			
Borrowings	30,325	29,301	1,024
Payables	8,601	8,696	-95
Pensions	4,007	5,180	-1,173
Deferred tax	5,120	3,350	1,770
Provisions	1,880	1,817	63
Derivatives	264	651	-387
TOTAL LIABILITIES	**50,197**	**48,995**	**1,202**
NET ASSETS	**493,904**	**449,661**	**44,243**

Assets: The Department had £544bn of assets at 31st March 2022, an overall increase of £45bn on the prior year. Notable changes are set out below.

The Department held £544bn of assets as at 31 March 2022, of which £373bn related to the Railway Network in Great Britain and £146bn related to the Strategic Road Network in England, which are the responsibility of Network Rail and National Highways respectively. The value of the Department’s asset base increased by £45bn between 31 March 2021 and 31 March 2022. This was driven largely by £15bn additions and £39bn of revaluation gains to property, plant & equipment assets, offset by £8bn of depreciation charges.

Additions to the Rail Network comprised £2bn of Enhancements and £4bn of Renewals. Major schemes included: Transpennine improvements, East West Rail, HS2-related projects, East Coast Main Line improvements; and in Scotland, improvements relating to the Inverness to Aberdeen and Edinburgh to Glasgow lines. Additions to the Strategic Road Network included: £2bn of capital enhancements including spending from the designated funds used to improve the surroundings of the network, supporting sustainability and protecting quality of life and the environment; and £0.8bn of asset renewals. Significant additions in 2021-22 included improvements to M6 junction 19 in Cheshire; completion of the A19 upgrade in Northumberland; and the A45/A6 Chowns Mill junction in the Midlands. These networked assets are valued using a Depreciated Replacement Cost valuation approach as required under HM Treasury financial reporting rules, representing the newbuild cost of a modern equivalent asset which is then depreciated to its current condition. The revaluation gains primarily represent inflationary increases in the estimated cost of building a modern equivalent infrastructure asset. The Department's approach to revaluing these assets and the sources of uncertainty are explained in Note 3.

Loans increased by £0.4bn, primarily driven by £0.5bn new loans for the Crossrail project made available to the Greater London Authority (GLA) and Transport for London (TfL) (2020-21: £0.7bn).

Trade & other receivables decreased by £0.4bn, largely driven by some significant one-off working capital items relating to the Department's COVID-19 response in 2021.

Derivative assets decreased by £0.4bn due to settlement of derivative instruments, following Network Rail's repayment of bonds during the year.

Further details can be found in Notes 5-9 and 11-18 to the Financial Statements.

Liabilities: The Department held £50bn of liabilities at 31 March 2022 (2021: 48bn). These comprise:

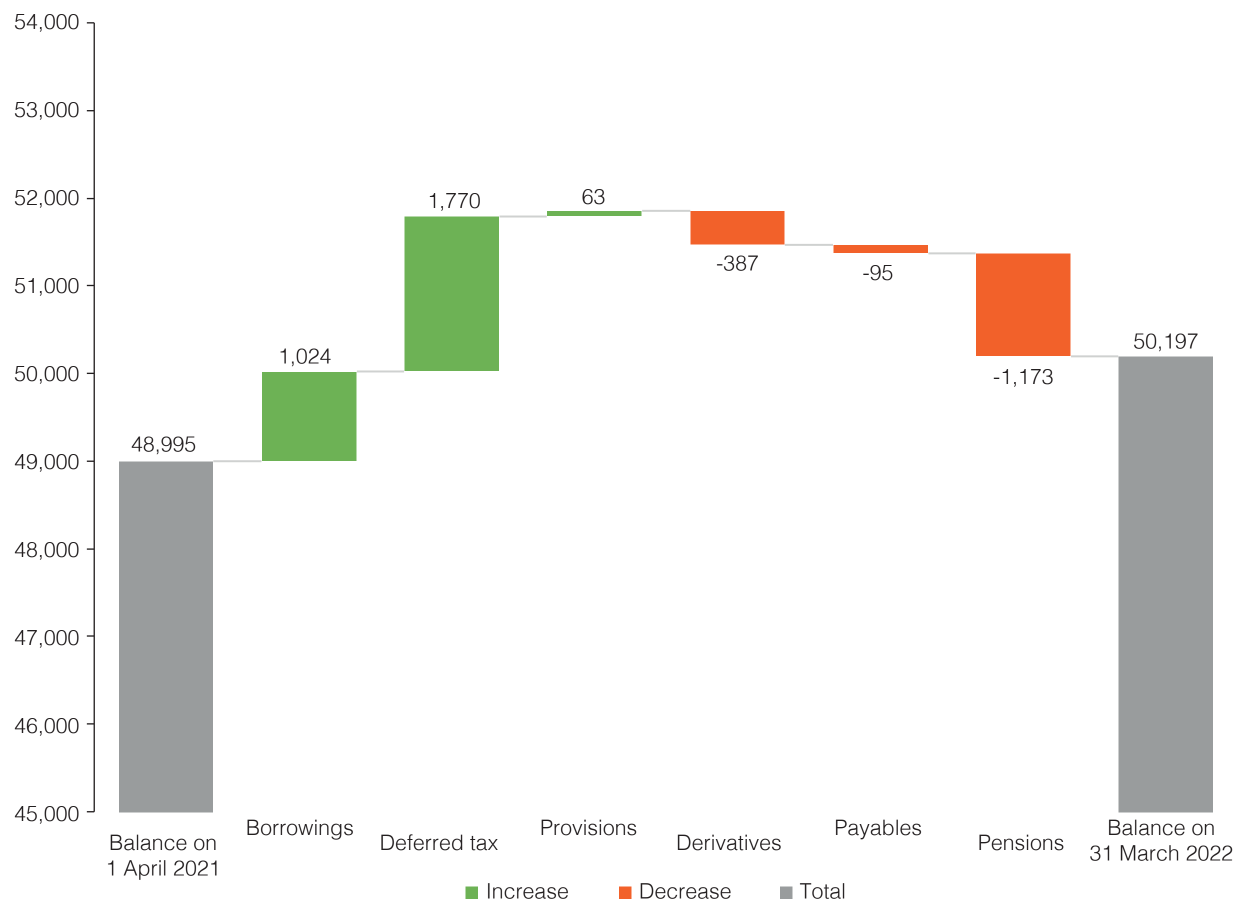
- Network Rail has £25bn (2020-21: £24bn) of debt payable to bondholders, reflecting third party borrowing entered into before the company joined the Departmental group. In addition, £4bn of debt (2020-21: 4bn) is payable to institutional investors holding bonds issued by the Department's finance companies, LCR Finance plc and CTRL Section 1 Finance plc. This stock of debt matures by 2052.
- £9bn of trade and other payables (2021: £8bn).
- Network Rail has a total deferred tax liability of £5bn. This has increased by £2bn since the prior year, comprising £1bn due to the prospective change in the tax rate and £1bn for temporary differences.

- £4bn of defined benefit pension liabilities relating to employees, which is £1bn lower than last year due to net effect of changes in key financial assumptions on assets and liabilities. The pension schemes accounted for within this liability are described in note 24 to the Accounts: this liability excludes civil servants in the PCSPS, for which accounting rules require that liabilities are recognised in-year as the employer contributions fall due.
- £2bn of provisions, of which £1bn is for land and property purchases along the HS2 route.
- £1bn of lease liabilities in respect of right-of-use assets.

Further details can be found in Notes 14, 19-23 and 25 to the Financial Statements.

The Department has £2bn of contingent liabilities and £12bn of remote contingent liabilities, many of which were designed to promote investment in transport assets by offering guarantees and indemnities to the supply chain in the event that assets do not produce the expected revenues. The value of contingent liabilities tends to decrease over time as many are based on the remaining value of underlying assets, such as rolling stock and depots. The Department also has several contingent liabilities that cannot be quantified.

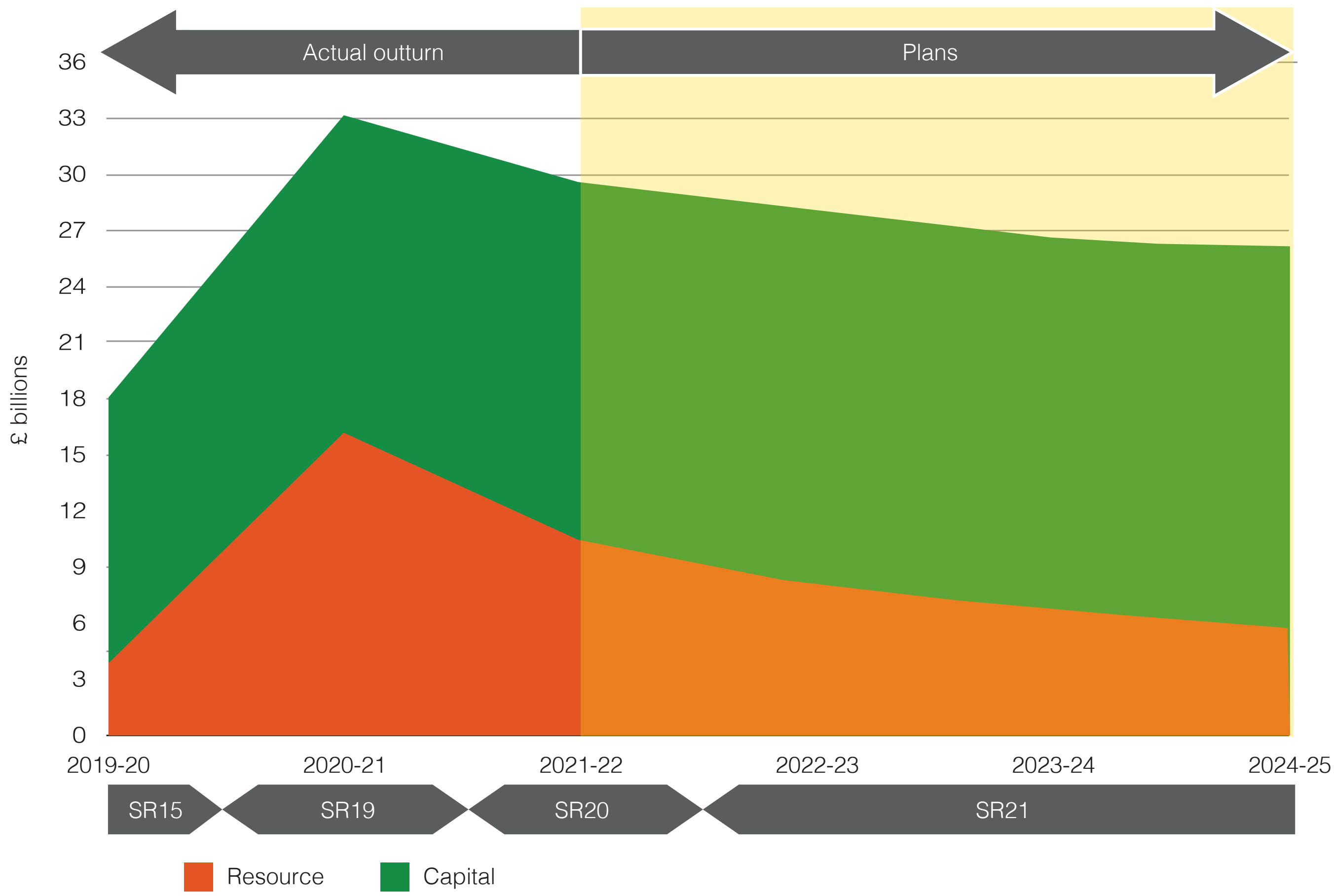
Figure 9: increase/(decrease) in liabilities during the year £m



Future outlook

HM Treasury's Spending Review 2021 was published in November and saw the conclusion of a major piece of work for the Department; setting future year budgets up to and including 2024-25 and demonstrating the government's commitment to continued transport investment. Capital DEL will increase as we continue to deliver through the lifecycle of our major programmes, while Resource DEL is forecast to reduce as we emerge and recover from the pandemic.

Figure 10: Total net expenditure (exc. Depreciation) split between capital and resource net expenditure



Despite the pandemic receding, the operating context remains challenging as we continue to learn about and adapt to transport users' changing demands. Inflation presents fresh challenges for the Department and the supply chains we depend on to deliver.

The performance report demonstrates the Department's success in delivering against our long-term strategic priorities, while simultaneously responding to the unprecedented challenges brought on by the pandemic. Despite the likely challenges the future will bring, I am confident in our ability to continue delivering the government's transport ambitions and creating value for money.

Nick Joyce

Director General, Corporate Delivery Group

Response work on the transport network

Over the last year, the Department has needed to respond to a number of crises or issues, from the COVID-19 pandemic to the response to the war in Ukraine, in order to ensure that people and goods can continue to travel:

Impact of COVID-19

COVID-19 continued to impact upon the delivery of Departmental priorities in 2021-22. Ensuring the safety of transport users and workers and the supply of goods and services continued to be the over-riding priority, alongside building confidence in the transport network to support the recovery from COVID-19 and minimising the operational impact of the pandemic on transport networks. The Department has provided £7.6 billon in financial support to the transport sector in 2021-22.

The Department also:

- Worked closely with the transport sector and wider government to develop and communicate the regulation and guidance changes associated with the Government's roadmap, to ensure that the transport sector was ready to support the reopening of the economy

- Took action to safeguard disproportionately impacted groups that used or worked on the transport networks, this included:
  - working hard to encourage disabled people to continue using public transport during the pandemic, including through the exemptions policy for face coverings, backed by a comprehensive communications campaign, and publishing more accessible formats for our Safer Transport Guidance (such as the Easy Read Safer Travel Guide)
  - updating our guidance for transport operators to reflect advice from the Health and Safety Executive, that operators as part of their risk assessment should have individual conversations with those deemed at-risk by Public Health England.
- Implemented the RAG rating system for international travel, so that the Department could continue to manage the borders safely
- Agreed and implemented a mitigation strategy with the sector that prevented the mass cancellation of services during a time of significant workforce absence
- Responded rapidly to the emergence of the Omicron variant, establishing travel restrictions for travellers from affected countries and supported the sector through the return of work from home guidance under ‘Plan B’.

- Provided financial support to the Civil Aviation Authority (CAA) in order to carry out additional activities at the border from the changing requirements of the pandemic i.e., managing Passenger Locator Forms at airports

As part of the lessons learnt from the pandemic, the Department is exploring how the transport sector can be made more resilient to future pandemics and has started embedding lessons learned from the response to COVID-19 in the planning for future scenarios. This will both strengthen the Department's resilience and support the transport sector to develop capabilities for dealing with future public health threats.

Financial settlement with Transport for London

The Department has continued to provide TfL with extraordinary funding with the aim of supporting them back to financial sustainability and are considering a longer-term settlement. Since the onset of the pandemic, the Government has provided TfL with over £5 billion of emergency funding support.

COVID-19 also had an impact on the Department's public bodies:

Driver & Vehicle Standards Agency

The Driver & Vehicle Standards Agency (DVSA) typically carry out around 1.8 million practical driver and rider tests per year, however during 2020-21, due to measures in response to COVID-19, only around 519,000 tests were completed. This led to DVSA beginning the year with a substantially increased waiting time for a test of around 17 weeks compared to the usual waiting time of six weeks. There was a backlog of around 420,000 candidates waiting for a practical driving test. Recovery plans are in place to address this, including introducing incentive schemes to increase the throughput of tests, working with the industry to ensure candidates are as well prepared as possible and recruiting more driving examiners.

Driver & Vehicle Licensing Agency

The Driver & Vehicle Licensing Agency (DVLA) cleared the backlog of ordinary paper driver applications processed and turnaround times are back to normal. DVLA has reduced the paper backlog from a peak of 1.2 million applications in September 2021 to 245,000 in June 2022. The current backlog consists of drivers' medical applications which are more complicated in nature and require further information to proceed. DVLA is reliant on the NHS for information in many of these cases and receipt of timely information was affected by the pandemic with response times remaining longer than pre-pandemic. Furthermore, this area was targeted for strike action, including a month-long strike in August 2021.

Despite challenges raised throughout the pandemic including high covid rates in the Swansea area, strike action and high levels of scrutiny, the DVLA is on track to return the service to normal levels by September 2022.

Crisis in Ukraine

The invasion of Ukraine by Russia is now both a geopolitical and humanitarian crisis, which will have long term implications.

The Government continues to take strong action against Russia in light of the invasion of Ukraine and the Department has worked with industry to monitor the impacts of this, including on critical goods. Most of the response work across Whitehall is with the Foreign, Commonwealth and Development Office (FCDO), Home Office, and Ministry of Defence. However, the Department has played its role right from the start. The UK was one of the first countries to ban Russian planes from UK airspace and closed ports to Russian owned, registered, or operated ships. The Department is also supporting the wider sanctions package.

The Government put in place legislation banning all ships that are Russian owned, operated, controlled, chartered, registered, or flagged from entering British ports, effective from 1 March 2022. These measures also included powers to detain Russian vessels already in port and to direct them out of British ports, as well as ensuring that anyone sanctioned by the UK can no longer register a vessel – and will have any existing registrations terminated – in the UK.

A Restriction of Flying order was implemented in February to ban all scheduled services owned, chartered, or operated by a person connected with Russia or registered in Russia from overflying, landing or taking-off from the UK. This was extended to include non-scheduled flights (private jets and cargo).

This has been intense and demanding work. This has particularly affected teams on supply chains, aviation, maritime, international and the security and response operations. The Department set up a new Ukraine Response Cell and will build on what worked for EU Exit and COVID-19 to ensure the Department continues to deliver at pace.

Inflation, cost of living and Critical Goods – Supply Chains

The Department continues to monitor the crisis in Ukraine and the impact that it is having on the rising fuel prices and critical supply chains. These increases affect transport operators, vehicle owners, and user demand. These higher rates of inflation have increased the operational costs of running transport services and will increase capital costs of delivering the Department's infrastructure portfolio.

The Department also continues to monitor secondary impacts from rising gas and oil prices. The UK imports 4% of its gas from Russia. However, a spike in demand for the North Sea and Middle East gas supplies and disruption to Germany's gas supply, increased prices that were already rising. For example, both Network Rail and manufacturers in the rail supply chain are heavy consumers of energy, so any rise in gas or electricity will be strongly felt.

These costs are also felt by consumers. The recent Great British Rail Sale, and revisions to insurance regulations to remove the Vnuk requirement have helped reduce anticipated increased costs for families with cars. In addition, at the Spring Statement the Chancellor announced a temporary, 12 months cut of five pence per litre to duty on petrol and diesel, further reducing costs for motorists. Further options for interventions to alleviate the increasing cost of living are being investigated across the Department's policy areas.

HGV Driver Shortage

The HGV driver shortage was a significant issue for transport over the last year. The drivers perform a critical role in the finely tuned supply chains. The disruption caused by the lack of drivers resulted in difficulty delivering some goods. To address this the Department worked hard across government, with industry, and motoring agencies to urgently increase HGV driver testing, to speed up HGV licencing processing and to increase the supply of drivers, securing the future driver workforce.

Since summer 2021, the Department has delivered 25 different measures to tackle the shortage. These broadly fall into the following categories:

- Support and training for new HGV drivers
- Increasing HGV driver testing capacity and improving licensing processes
- Attracting drivers back to industry and improving working conditions
- Supporting fuel deliveries

In the medium to long term, the Department is focused on supporting industry to address the root causes of the shortages.

Kent & Short Straits Resilience

In recent years, periods of high demand coupled with and changes to border controls, have led to some periods of freight and passenger traffic disruption on key routes to ports in Kent. It is expected that demand, will be high throughout the summer holiday period.

The Kent Resilience Forum (KRF) is responsible for managing any disruption arising from traffic heading to the short straits, including activation of Operation Brock on the M20, to ensure continued flow of vehicles through Kent to the Port of Dover and Eurotunnel. The Department is continuing to work with the KRF to strengthen existing traffic management measures. This includes utilising additional capacity to queue freight vehicles off the strategic road network and measures to improve compliance with Operation Brock to keep local and passenger traffic flowing. In addition, the Department is working with its French counterparts and the portals to maximise the fluidity at the juxtaposed controls.

Delays at airports and disruption to scheduled flights

A steep increase in passenger demand, alongside a tight labour market has put considerable pressure on the aviation sector which resulted in some passengers experiencing unacceptable delays. However, the aviation industry operates in the private sector, so it is the responsibility of the industry to manage demand, recruit and roster staff and have appropriate mitigations in place. The Government is seeking to ensure that passengers can rely on airline schedules and travel through airports without unreasonable delays and disruption.

The aviation minister regularly meets with CEOs from the sector at a Strategic Risk Group. In partnership with the CAA, the Government has written to the industry setting out five expectations:

- Summer schedules must be reviewed to make sure they are deliverable
- Everyone from ground handlers to air traffic control must collaborate on resilience planning

- Passengers must be promptly informed of their consumer rights when things go wrong and – if necessary – compensated in good time
- Disabled and less mobile passengers must be given the assistance they require
- Safety and security must never be compromised

On 30 June, the Secretary of State set out various measures the Government is taking to support the aviation industry, including to help recruit and train staff, ensure the delivery of a realistic summer schedule, minimise disruption, and support passengers when delays and cancellations are unavoidable.
The Government recognises that while the issues were for industry to solve, a series of targeted measures could support their efforts.

Rail industrial action

In response to the unprecedented emergency funding and changes to travel behaviours experienced through COVID-19, the railway requires modernising, making it more productive and financially sustainable.

In this context, some of the rail Trade Unions balloted for strike action, related to a range of issues, including increases to pay, a guarantee of no compulsory redundancies and protection of terms and conditions.

The RMT union announced strike action that took place in June 2022. The rail industry and the Department worked together to ensure plans were in place to minimise disruption. This allowed freight and passenger services to remain operational where possible. This also included working with other government departments (OGDs) on mitigations for impacts on critical supply chains.

The Department will continue to work with the rail industry to prepare for and respond to any future industrial action.

Seafarer protections

In March 2022, P&O Ferries dismissed nearly 800 workers without notice or consultation.

These actions highlighted the need to make legislative changes to protect seafarers and ensure they are paid fairly.

In response, the Department implemented a Nine Point Plan for Seafarers which aims to:

- Introduce a new law (Harbours Act (Seafarers' Remuneration) Bill)[3] to:
  - improve protection for seafarers, announced by the Secretary of State for Transport on 30 March

3 Harbours (seafarers' remuneration) bill consultation (publishing.service.gov.uk)

  - ensure all ferry crews receive the equivalent to National Minimum Wage when operating regularly in UK ports. This will protect seafarers and ensure that if the industry wish to access UK ports, they will be expected to pay their seafarers at least the equivalent to National Minimum Wage

- Work with international partners to create minimum wage corridors, and work to encourage more ships to operate under the British flag – so that workers on board can benefit from more rights

The Insolvency Service also confirmed on 1 April 2022 that it had commenced formal civil and criminal investigations into the circumstances surrounding the redundancies.

Grow and Level Up the Economy:

Improve connectivity across the United Kingdom and grow the economy by enhancing the transport network on time and on budget

Priority Outcome Overview

Growing and levelling up the economy is at the heart of the Government's agenda to build back after the pandemic, ensuring every part of the UK has access to equal opportunities and reaches its productivity potential. While levelling up requires a cohesive cross-government approach, as outlined in the Levelling Up White Paper, investment in transport infrastructure is critical.

This report provides a detailed performance update on the workstreams and outcome metrics that support the delivery of the priority outcome and is interlinked and mutually supports the other priority outcomes.

Improvements to transport connectivity are an essential element in the creation of high-performing markets, and increased agglomeration and linkages between key sectors of the economy. The Union Connectivity Review looked to identify ways that the quality and availability of transport connectivity could be enhanced to support economic growth and quality of life across the UK The efficient delivery of major programmes such as the Integrated Rail Plan for the Midlands and the North, HS2 and the Roads Investment Strategy is fundamental to supporting job creation, driving economic growth and our recovery from COVID-19.

This report provides an update on the progress of these workstreams and outcome metrics that support the delivery of the priority outcome throughout 2021-22. As with all the priority outcomes it is interlinked and mutually supports the other priority outcomes.

Progress made by the Department in 2021-22 is summarised below

Integrated Rail Plan

The Government published the IRP on 18 November 2021. It set out the biggest ever government investment in the British rail network, outlining a £96 billion strategy of rail construction and upgrades for the North and Midlands to be delivered over the next 30 years. IRP will deliver faster, more frequent, and more reliable journeys across the North of England and the Midlands.

IRP redresses decades of underspend in the railways in those places outside of London and sits at the heart of the Government’s plans to level up the whole country by delivering three new high-speed rail lines – HS2 from Crewe to Manchester and West Midlands to East Midlands Parkway, with the other running between Warrington, Manchester and Yorkshire, forming part of Northern Powerhouse Rail – that will transform transport connections to, from and between the East and West

Midlands, the North West and North East of England, Yorkshire, Scotland and Wales.

The Government will also electrify and/or upgrade three crucial main lines – the Midlands Main Line, Trans-Pennine Route and East Coast Main Line. Places like Doncaster, Huddersfield, Newark, Wakefield, Market Harborough and Leicester would have seen little benefit, or even a worsening of their services under previous plans. Instead, these and other towns will see improved, electrified or faster services.

IRP Technical Annex and the Mott MacDonald report on Strategic Alternatives to the HS2 Eastern Leg (an independent report), both of which formed part of IRPs evidence base, were also published in January 2022.

Northern Powerhouse Rail

Northern Powerhouse Rail (NPR) is an intrinsic part of the Department's ambition to Grow and Level Up the UK economy through improvements of rail connectivity, capacity and journey times between cities in the north of England. In 2021-22, The Department continued to work with Transport for the North (TfN), Network Rail, HS2 Ltd and other delivery partners to continue the option development for NPR, leading to an enhanced rail network that will unify labour markets and foster agglomeration. The output of this development work feed into the IRP and contributed to the shaping of the long-term scope of the programme.

The IRP outlines the core NPR network and how it will integrate with HS2 Phase 2b, and HS2 East.

The core NPR network will comprise of 40 miles of new line, alongside the upgrade of existing railways, digitised signalling, gauge and track upgrades and full electrification between Liverpool and York and Bradford and Leeds. These changes across the NPR network will see journey times improve across the north with services between Leeds-Manchester reduced by 20 mins and Liverpool-Manchester by 15 mins, and capacity improvements with an increase of 300% seating on the Transpennine Route.

As the IRP sets out, some NPR services will also be delivered by the end of this decade, meaning people and businesses in the north will begin to benefit from NPR upgrades much sooner than previous proposals. Currently, the Department is in the process of finalising the revised Strategic Outline Business Case (SOBC) for NPR following the changes to project sponsorship set out in the IRP.

The publication of the IRP proved to be a pivotal point in the development of NPR. The IRP introduced two significant changes to NPR, these being:

- Transition from shared responsibility between the Department and for the delivery of NPR to single responsibility for delivery with the Department. The Department and TfN will continue to sponsor NPR, but

Network Rail, HS2 Ltd and other delivery partners will be managed by the Department

- Commitment to build NPR, between Liverpool and York, in line with 2019 Option 1 developed by TfN

The Department, working alongside key stakeholders, focused on designing the new governance arrangements to support sole responsibility for NPR delivery and co-sponsorship with both achieving ministerial and TfN Board approval in 2021-22. Additionally, the Department, with Network Rail and HS2 Ltd, led in re-baselining the NPR programme to align with the IRP and are working towards NPR achieving entry onto the Government's Major Projects Portfolio in 2022-23.

HS2

HS2 will free-up capacity on the traditional rail network that can then be used to allow more local and commuter services, while also ensuring these places have better access to new HS2 services.

HS2 is critical for a low carbon transport future and will have a transformative impact across the country adding much needed rail capacity. It will improve connectivity between major cities and is integral to rail projects in the North and Midlands – helping rebalance the UK economy.

The programme is at the heart of the Government's 'build back better', levelling up and net zero agendas. The Department is working closely with the Department for Levelling Up, Housing and Communities (DLUHC), to determine how central government can help local places make the most of HS2. Ministers from the Department and DLUHC are inviting local leaders from Phase 1 and 2a station places to present on their local growth strategies. Using these and working level engagement the Department's aim is to develop an HS2 Local Growth Action Plan.

Delivery highlights:

- **Supported over 24,000 jobs, with over 2,400 UK registered businesses having delivered work on HS2 over the course of the project**
- **HS2 has supported over 900 apprenticeships and at its peak, the programme will create at least 2,000 apprenticeships**
- **Planted over 700,000 trees on Phase 1 to date (240,000 of which were in the 2020-2021 planting season), the Department aims to plant seven million new trees across Phase 1 alone**
- **Marked the next phase of work at Old Oak Common by formally handing over the site from National Rail to HS2 Ltd.'s Station Team. This follows four years of work to relocate depots previously on the site**
- **Began the Invitation to Tender for a Design and Delivery Partner for Phase 2a (Birmingham to Crewe) route**

- **Deposited the Phase 2b Western Leg Hybrid Bill in the House of Commons**

Crossrail

Her Majesty Queen Elizabeth attended the ceremonial opening on 17 May of the Elizabeth Line (EL) central section (Paddington to Abbey Wood) and on 24 May the Elizabeth Line central section opened to the public. Bond Street station was not opened for passenger use as part of the EL opening but is available for emergency exit. Further work is required to complete the station for full passenger use and is expected in autumn 2022. The next phase of opening scheduled for autumn 2022 will provide direct services from Reading, Heathrow and Shenfield to connect into the central section. Services from Reading and Heathrow will operate through to Abbey Wood. Services from Shenfield will operate through to Paddington. The final timetable that will connect all parts of the Elizabeth line is scheduled to be introduced by May 2023.

There is a risk that Crossrail Limited (CRL) will breach the existing £825 million funding package (agreed late 2020) at the end of 2022. The Government has committed to finance Crossrail to completion, although funding will ultimately have to come from London in a way that is fair to UK taxpayers. The Department expect this to be resolved as part of a wider capital funding negotiation with TfL.

East-West Rail

East West Rail (EWR) is another multi-year rail project that will provide a direct rail link between Oxford and Cambridge and will join up key towns and cities across the Oxford to Cambridge Arc. The scheme will not only improve connectivity but support wider economic growth in the area. The project is split into several stages, structured around the phased introduction of passenger services:

- Connection Stage (CS) 1 will reinstate and upgrade railway lines between Bicester and Bletchley, to enable new train services to run between Oxford and Bletchley/Milton Keynes
- Further EWR services would be introduced from Oxford to Bedford, using an extensively upgraded Marston Vale Line, as part of CS2. This could include potential changes to station locations for better local connectivity
- The third stage, CS3, would involve building new railway between Bedford and Cambridge to complete the project, and will see services run from Oxford to Cambridge
- A possible CS2.5 would enable passenger services from Aylesbury to Milton Keynes. It would require upgrading an existing freight-only railway from Aylesbury Vale Parkway to Calvert Junction

Although certain challenges remain, CS1 is currently on track for completion to time and budget. Design work continues to determine the best value for money, scope, route, and delivery schedule for CS2 and CS3.

Delivery highlights:

- **In 2021 East West Railway Company ran a non-statutory public consultation on CS2 and CS3, seeking views on topics such as train service provisions for CS2 and route alignment options for CS3. Over 9,800 responses were received**
- **Restored the railway flyover at Bletchley with minimal disruption. The new flyover is built to last 120 years. Innovative construction approaches saved £70 million**

Intra-city connectivity – Transforming Cities Fund

The Department is committed to supporting cities to develop and promote local growth through the £2.45 billion Transforming Cities Fund (TCF). The fund is aimed at driving up connectivity and productivity through investments in public and sustainable transport infrastructure in 18 of England's city regions.

In 2021-22 a total of £815 million was paid to these 18 city regions, of which:

- £340 million was shared by eight Mayoral Combined Authorities
- £475 million was shared by the ten competitively bid city regions

Across all 18 city regions TCF has started to deliver benefits, and a range of measures are either being implemented on site or in some cases have already been completed. These include improvements to:

- Rail services
- Bus services
- Active travel
- Park & ride
- Smart ticketing
- Electric vehicle infrastructure

The financial year 2022-23 is the final planned year for TCF investment, although delivery challenges arising from COVID-19, including supply chain challenges and cost escalation, may result in delay to some TCF projects. Furthermore, the 2022-23 Mayoral Combined Authorities funding (£515 million) will be subsumed into the City Region Sustainable Transport Settlements (CRSTS) programme.

Delivery highlights:

- **Secured approvals for the £94 million of TCF investment in the Tyne & Wear Metroflow project to proceed which will help ensure:**
- **Economic growth – improved frequency, capacity, resilience, and connectivity will generate an additional 1.7 million passenger journeys, each contributing £8.50 to the regional economy**
- **Air quality improvements – improved frequency, capacity and resilience will encourage mode transfer from car to Metro. This removes 3 million car kms, 517,000 kg of CO_2, and 37,000 kg of NO_2**
- **Building for the Future – improved accessibility, connectivity and integration will encourage further investment in those areas served by the Metro, supporting regeneration and development, and support the development of future network expansion to areas currently not served by the Metro**

- **Completed the Thorpe Road, Norwich bus and cycle priority scheme, delivering bus journey time savings between 1 and 3 minutes, representing journey time savings of about 15% overall. Furthermore, this has enabled the previous 501 Park and Ride service 30-minute service frequency to be improved to a 20-minute service frequency**
- **Delivered 21 out of 27 new trams, 19 of which have already been brought into service in Greater Manchester, with the delivery of the remaining 6 trams on track for 2022-23**

Intra city connectivity – City Region Sustainable Transport Settlements

Building on the success of TCF, the Government is investing £5.7 billion through CRSTS to develop the transport networks of eight city regions in England starting in 2022-23. This funding will be delivered through five-year consolidated funding settlements based on the plans put forward by Mayors and will see upgrades to local tram, bus, cycling & walking and rail networks.

Indicative allocations for eligible Mayoral Combined Authorities were announced by the Chancellor in his Budget and Spending Review in October 2021 (SR21). Following the assessment of their business cases, the Government have now confirmed their final settlements. Further work to finalise the full range of schemes to be delivered through these settlements will now take place over the coming months.

City regions benefiting from confirmation of the multi-billion-pound transport investment are Greater Manchester (£1.07 billion), West Yorkshire (£830 million), South Yorkshire (£570 million), West Midlands (£1.05 billion), Tees Valley (£310 million), West of England (£540 million) and Liverpool City Region (£710 million). The North East will be eligible to access its share of the funding once appropriate governance is in place.

Mayoral Combined Authorities eligible for CRSTS

Union Connectivity

In 2020 the Government asked Sir Peter Hendy CBE to undertake an independent review of how the quality and availability of transport connectivity could be enhanced to support economic growth and quality of life across the UK. As a result, the Union Connectivity Review (UCR) was published in November 2021[4] and contained 19 recommendations for improving transport connectivity across the UK, including the creation of UKNET – a strategic transport network spanning the entire UK.

The Department is grateful to Sir Peter for his report and is working with the Devolved Administrations and stakeholders to identify solutions that work best for the people of the UK. The Government intends to publish the response to the UCR later this year.

Delivery highlights:

- **The Government made development funding available to take forward feasibility work for projects identified in the UCR in Scotland, Wales, and Northern Ireland.**
- **In May 2021 Network Rail and HS2 Ltd received £2 million development funding to identify options to improve capacity and journey times on rail services between England and Scotland.**
- **The Department worked with the DAs and delivery partners to consider Sir Peter's recommendations and identify further suitable development projects.**

4 https://www.gov.uk/government/publications/union-connectivity-review-final-report

Strategic Road Enhancements

The strategic road network (SRN) supports people and goods to travel up and down the country unlocking a host of social and economic benefits, including access to education, jobs, healthcare, retail, and leisure. It is essential that the network is safe and reliable throughout the year helping boost economic growth across the country.

The second Road Investment Strategy (RIS2) delivered by National Highways covers the period 2020-25. The budget for this portfolio at the start of this financial year was £27.5 billion with around three-quarters being spent on 69 enhancement schemes, however SR21 confirmed the reduction of RIS2 funding to £24.0 billion. The reduction in funding reflects public delays to major schemes such as the Lower Thames Crossing and A428 Black Cat to Caxton Gibbet.

Five schemes were completed and open to traffic in 2021-22, those being the A19 Testo’s Junction, A45/A6 Chowns Mill Roundabout Improvement, M6 Junction 19 Improvement, A19 Norton to Wynyard, and A34 Oxford to Newbury with the latter three opened ahead of committed schedule.

Delivery highlights:

A19 Testo's Junction

- In June 2021, after more than a million hours of work – around 60 per cent of that time coming from a local workforce – a £130 million junction improvement in the North East was complete and fully open to traffic
- The Testo's junction upgrade brings great benefits to the North East, providing swifter, more reliable free-flowing journeys and supporting economic growth in the region, enabling better journeys and connections to international gateways and the rest of the country

M6 Junction 19

The M6 junction 19 improvement schemes were completed, and the improvements are part of a wider collection of schemes to improve connections between Cheshire and South Manchester. As part of this project NH delivered:

- A two-way link across the junction to allow better connection between the M6 and A556, including a new bridge spanning the M6 motorway within the roundabout

- **Renewing traffic signals on the roundabout and its approach roads and adding new traffic signals for the Tabley Hill Lane/Pickmere Lane junction**
- **Additional new signs**
- **Improved local access for walkers and cyclists using the junction**

Grow and Level Up the Economy:

Priority Outcome Indicators

These indicators were agreed as part of the SR20 settlement to show performance against the priority outcome. Unless otherwise stated, metrics have been drawn from the sources referred to in the Department's 2021-22 Outcome Delivery Plan.

The Delivery Confidence Assessment gives an overall summary of how likely each project is to deliver its outcomes successfully and is reported via a traffic light system ranging from green (for the projects judged with the lowest risks to success) to red (for those projects facing the most serious challenges).

Transport infrastructure projects in the (GMPP) that the Department assesses as on track to delivery, based on Infrastructure and Project Authority assessments.[5]

Annually	Percentage
2020-2021	96%
2019-2020	82%

Travel time (in mins) to reach nearest large employment centre, by region

	2016	2017	2019
North East	31.4	31.6	30.82
North West	30.3	29.4	28.00
Yorkshire and the Humber	32.3	31.6	30.40
East Midlands	37.8	36.2	35.14
West Midlands	30.5	29.7	29.48
East of England	37.8	38.2	37.30
London	23.6	22.4	21.90
South East	35.0	34.2	33.23
South West	41.2	42.0	39.89

5 Projects are deemed to be on track to delivery if they are assessed as either amber red or above.

Improve Transport for the User:

Build confidence in the transport network as the country recovers from COVID-19 and improve transport users' experience, ensuring that the network is safe, reliable, and inclusive

Priority Outcome Overview

Improving Transport for the User is critical in ensuring the Department delivers and maintains a transport system that meets user need and expectations addressing what they care about most. It is about putting current and potential users (both passengers and freight customers) at the heart of the operation of the transport system. Ensuring that our infrastructure, and the services that use it, meet the varied needs of businesses and the public, and are attractive, affordable, safe and sustainable. Our approach focused on:

- building confidence and improving the public transport experience – this is especially important given the significant impact COVID-19 has had on both usage and perceptions of public transport
- improving the experience for road users
- building a transport network that works for everyone and continually improving the safety, security and resilience of the transport system

Progress made by the Department in 2021-22 is summarised below

Transport safety

A safe and secure transport system is vital for society, prosperity, and quality of life. It is therefore critical that the transport networks are resilient to a wide range of threats and hazards. The Department is responsible for managing critical risks as identified via the National Security Risk Assessment as well as playing an active role in delivering on cross-government strategies such as the Integrated Review, the National Cyber Strategy, and the forthcoming National Resilience Strategy.

This year has again seen the Department having to respond to a wide-ranging number of incidents and events including:

- Storm Eunice that led to large scale impacts across road and rail
- Fuel shortages in the autumn impacting industry and the public
- G7 Leaders conference in Cornwall and COP26 in Glasgow
- The cancellation of P&O Ferries services
- Withdrawal of coalition forces from Afghanistan

Alongside those events, the Russian invasion of Ukraine in February 2022 and the ongoing conflict there has had major implications for the security and resilience of global transport networks. The Department played a key role in the initial response, working alongside partners in government and industry to ensure the continued safety of aviation and shipping routes in the region, and in implementing sanctions to deter further aggression.

Road User Safety

Public concerns about the safety of smart motorways have been at the forefront over the past year. The SRN is critical to the smooth running of the economy, and the top priority is that the roads must be safe. Despite the continuing improvements to smart motorways as set out in the Stocktake and Action Plan, published in March 2020, the Department and National Highways remain determined to go further and do all that they can to help drivers feel safer and be safer on all the roads.

Following the Transport Select Committee report on the rollout and safety of Smart Motorways, the Department is taking forward all the Committee's recommendations, including the pause of the roll out of future All Lanes Running smart motorway schemes. This will help to gather further safety and economic data and to complete and evaluate the rollout of measures within the Stocktake and Action Plan. The pause will also enable evidence to be gathered to inform a robust assessment of options for future enhancements of capacity on the SRN as the Department prepares for the next Road Investment Strategy.

The National Highways Safety and Congestion fund delivers route and junction improvements to improve both safety and congestion on high-risk roads, accident-cluster locations, and potential suicide-cluster areas. The fund had a budget of £31.9 million in 2021-22 and £18.8 million was used delivering high value for money small-scale projects with specific interventions for safety including safety barriers, new or improved signage and measures to reduce road-work risk.

The Department also published an updated Highway Code to improve road safety for cyclists, pedestrians and horse riders and A THINK! campaign was launched to raise awareness.

Strategic Roads – maintenance and renewals

National Highways continues to deliver maintenance and renewals improvements to the SRN. The programme aims to secure a higher performing road network that meets road users' priorities, in particular on safety and journey reliability, but also one that has less an impact on places and communities by reducing noise and light pollution, improving air and water quality, and mitigating the severance effects that busy roads can have.

National Highways have scaled up the RIS2 concrete roads renewal programme, with the replacement or renewal of more than 125 lane miles of roads which are nearing the end of their life. They have also continued their programme to replace steel and concrete barriers with over 230 miles of barriers replaced or renewed.

Local highways maintenance and renewals

Local Authorities (LAs) have a statutory responsibility to help maintain their respective local highways network and are provided with capital grant funding each year using a sector-agreed needs-based formula. Funding for the highway network covers both the footway and cycleway as well as the carriageway.

The Department remains committed to ensuring that LAs have the resources available to carry out safe and effective maintenance of their respective highway network and associated assets (such as bridges, culverts, and lighting columns). This investment benefits all road users, not just motorists, and is critical for the successful delivery of both national transport strategies such as the National Bus Strategy (NBS), Gear Change and local transport plans.

In addition, the Government provides additional formula funding to ensure that small-scale renewals in and around their local transport network can be carried out, focusing on aspects such as public transport, accessibility, and road safety.

The main priority in 2021-22 for the Department was to agree a multi-year spending settlement for local highway maintenance at SR21. This was achieved by securing a three-year funding settlement between 2022-25 consistent with 2021-22 funding levels.

Bus Reform

The National Bus Strategy (NBS) for England was published in March 2021 and sets out the Department's vision on delivering better bus services for passengers across the country. The goal is to get bus use back to pre-pandemic levels, then to increase patronage and raise buses' mode share.

The strategy sets out how £3 billion of funding will be invested in new and improved services during the current Parliament.

This includes giving Local Transport Authorities (LTAs) the skills and people they need to deliver the strategy, including bus priority schemes to speed up bus journeys and accelerating the delivery of zero emission buses.

Delivery highlights:

- **The Department has worked with LTAs and provided £25 million in 2021-22 to support the delivery of Bus Service Improvement Plans (BSIPs). Funding is also supporting the ongoing development of Enhanced Partnerships, Franchising plans and a Bus Centre of Excellence. This is the first stage in delivering improved services for communities and helping to meet Net Zero and Levelling Up ambitions**
- **The Department is supporting by funding the introduction of 2,500 new zero emission buses through the Zero Emission Bus Regional Areas (ZEBRA) scheme**
- **The Department consulted on increasing metropolitan combined authorities' powers over key roads in their areas, where they are not already the highway authority**

Rail Transformation Programme

The Williams-Shapps Plan for Rail (WSPR) published on 20 May 2021 sets out the Government's ambitions for the future of the railway. The review outlined urgent and radical change is needed to help the railways become more customer focused and financially stable, working in the interest as a public service. The Government have a vision for Great Britain's railways that can be summarised in ten outcomes as outlined in Figure 11.

Since publishing the Williams-Shapps White Paper and establishing the Rail Transformation Programme, there has been significant progress on further policy development to support legislation; defining the overarching transformation strategy; and developing the delivery approach for the programme with key partners.

Delivery highlights:

- **Appointed Andrew Haines to lead Great British Railway Transition Team, a virtual team, to help drive forward reforms and build collaboration across the sector as we move towards a new guiding mind for the railway on behalf of the Government, with significant progress towards establishing GBRTT as a legal entity in spring 2022**
- **Launched new national flexible season tickets matching modern working habits post COVID-19 and providing commuters greater choice and flexibility. offering commuters travelling two to three days a week significant savings as they return to the railway**

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- **SR21 committed £360 million of funding to transform rail fares, ticketing and retailing (FTR). The programme will provide customers with a simpler, better experience delivered through incremental improvements developing the initial Sector Operating Target Model to provide a framework and enable change across the sector**

- Launched the Whole Industry Strategic Plan – Call for Evidence, to help shape a 30-year high-level plan shaped by a set of strategic objectives developed for the benefit of passengers, freight users, taxpayers and staff

- Appointed two Women's Safety on Transport Champions, alongside the Government's Violence Against Women and Girl's Strategy in July 2021. In March 2022, following extensive engagement and evidence-gathering, the Champions published 13 ambitious recommendations to make our transport networks safer

Rail Concession Contracts

National Rail Contracts (NRCs) are a steppingstone to the new way of working with the private sector. These new contracts will provide the necessary stability to customers and operators as the impact of the pandemic continues to be felt, in addition to providing the

Department with the necessary flexibility to direct change and accommodate reform measures.

NRCs prioritise cost efficiency, high quality services for customers and improved train performance to support the recovery from the COVID-19. They enable agile changes to train services to reflect changing requirements of the railway. The NRCs have been directly awarded to incumbent train operators and will be replaced by competed Passenger Service Contracts (PSCs) in due course.

Delivery highlights:

- **Delivered the first tranche of NRC Direct Awards, including South Western and TransPennine Express (both contracts started in May 2021) and Essex Thameside (contract commenced in July 2021)**
- **Delivered the second tranche of NRC Direct Awards, including Greater Anglia and West Midlands (contracts commenced in September 2021) and Chiltern (contract commenced in December 2021)**
- **Ongoing work on the third tranche of NRCs, which aims to deliver NRC contracts on Great Western, TSGN, West Coast and East Midlands during 2022**
- **Ongoing work to produce a schedule of PSCs projects, which will gradually replace the NRCs in due course**

Figure 11:increase/(decrease) in liabilities during the year

1. Modern passenger experience

Passengers must receive high-quality, consistent services day in, day out. This means accessible, reliable journeys that are well connected with other transport services and include new customer offers at stations and on trains.

2. Retail revolution

A new customer offer will be driven by clearer, easy-to-understand information, simpler travel with contactless and cashless payment and clearer prices. Compensation will be simpler to claim and journeys will become easier across transport services.

3. New way of working with the private sector

Passenger Service Contracts will replace franchising, bringing a new focus on reliability, performance and efficiency. New opportunities for innovators, suppliers (including small and local partners) and funders will be created through streamlined contracts and more contestability.

4. Economic recovery and financially sustainable railways

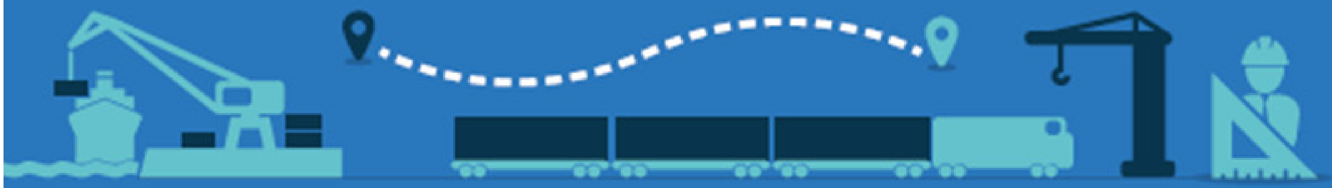
The railways are a public service, paid for by taxpayers and passengers to connect places and foster economic growth through levelling up across our towns, cities and regions. Bringing together responsibility for cost and revenue across the system will ensure the railways become more financially sustainable.

5. Greater control for local people and places

Railways will be more responsive to the needs of local communities and customers, whether from Woking, Wrexham or Wick. Empowered, locally-led teams will support levelling up and be accountable to the people and places they serve.

6. Cleaner, greener railways

Britain's railways can and will spearhead the nation's ambition to become a world leader in clean, green transport. Decarbonisation, greater biodiversity and improvements in air quality in towns and cities will ensure rail is the backbone of a cleaner, greener public transport network.



7. New offer for freight

The pandemic has highlighted the importance of freight to our country and economy. National co-ordination, greater opportunities for growth and strong safeguards will put rail freight on the front foot.

8. Increased speed of delivery and efficient enhancements

Restoring lost rail links and accelerating the delivery of critical upgrades to the network will help level up places across the country, spark new economic growth and improve public transport connectivity and prosperity across our nations and regions.

9. Skilled, innovative workforce

Enhancing skills, leadership and diversity across the sector will create new opportunities for the hundreds of thousands of people working on our railways. High-value jobs for the future will be created and make the most of data and technology to better support customers.

10. Simpler industry structure

Track and train will come together in a 'guiding mind' for the system, Great British Railways. It will be made up of regional railways that are locally rooted and accountable, with new culture and incentives focused on serving customers. A 30-year strategy will enable the sector to modernise efficiently.

Rail performance (passenger experience/focus/maintenance or renewals)

Through the different stages of the pandemic, the Department collaborated with the rail industry to ensure an adequate level of service could be maintained for passengers and key workers and that the level of service aligned with government measures to deal with the effect of the pandemic.

Delivery highlights:

- **Operators added more than 2,500 extra services to meet increasing passenger demand as the country progressed through the Roadmap out of lockdown**
- **Minor timetable changes were introduced to support the return to schools and more passengers returning to offices**
- **With the surge in Omicron cases and rising staff absences, the industry made plans to operate the maximum level of service it can run reliably within existing operational constraints**
- **Porterbrook Class 168 hybrid-flex successfully trialled on Chiltern which allows the train to enter and exit the station in battery mode improving air quality on the stations**

- **Porterbrook developed a trial hydrogen train proving the concept and operating for a short distance on the UK Network**
- **VIVARAIL produced a battery train which operated during the COP26 conference and is also being delivered into Wales**

Accessible Transport reform

The 2018 Inclusive Transport Strategy (ITS) remains integral to the Department's ambition of a fully accessible and inclusive transport system by 2030, with assistance if physical infrastructure remains a barrier.

The Department published a baseline evaluation report to help measure progress against the ITS in January 2022. Despite the impact of COVID-19, which has led to some activities being delayed, during 2021-22 progress was made on delivering commitments in the ITS, and on further policy initiatives to enhance accessible and inclusive travel.

Delivery highlights:

- **Published revised and updated guidance on improving the accessibility of the public realm (January 2022).**

- **Ran two rounds of the COVID-19 specific element (#WorldofDifference) of the It's Everyone's Journey[6] public awareness campaign to support disabled people using public transport in November 2021 and in March 2022, with more activity planned for 2022-23**
- **Invited and received Expressions of Interest to the Tackling Loneliness with Transport Fund, a £5.8 million fund for public sector organisations to pilot transport-related schemes to reduce loneliness, with a view to awarding funding early in 2022-23**
- **£1.5 million announced in March 2022 to support the 13 Mobility Centres across England to roll out a new 'Hubs Mobility Service,' offering advice to help disabled people travel more confidently**

COVID-19 impacts delayed delivery of some Changing Places Toilets at motorway service areas, with all 59 now expected to be installed by April 2023.

6 it's everyone's journey – Making transport more inclusive: championing equal access for all on public transport (everyonesjourney.campaign.gov.uk)

Improve Transport for the User:

Priority Outcome Indicators

These indicators were agreed as part of the SR20 settlement to show performance against the priority outcome. Unless otherwise stated, metrics have been drawn from the sources referred to in the Department's 2021-22 Outcome Delivery Plan.

Percentage of users satisfied with their most recent journey, England (Strategic Road network and bus)

	2019	2020	2021
Strategic Road Network[7]	81%	79%	67%
Bus[8]	89%	N/A	N/A

Percentage of non-frequent bus services running on time, England

2018-19	2019-20	2020-21
83%	82.8%	87.9%

Percentage of users very or fairly satisfied with their local roads, England

2018-19	2019-20	2020-21
38%	42%	43%

7 Due to a methodology change, results before March 2020 and result since April 2021 are not directly comparable. Between March 2020 and April 2021, the survey was paused, and moved from face-to-face interviews to an online survey.

8 Data from the Bus Passenger Survey is no longer available.

Percentage of users very or fairly satisfied with provision in their local area, England (cycling, walking)

	2018	2019	2020
Cycling	27%	29%	25%
Walking	67%	68%	78%

Average (mean) delay on strategic roads (seconds per vehicle mile), England[9]

2019	2020	2021
9.5	7.3	8.5

Average (mean) delay on local roads (seconds per vehicle mile), England[10]

2019	2020	2021
44.0	33.9	46.1

Percentage of rail journeys rated satisfactory, Great Britain

	2017	2018	2019
Overall satisfaction with journey	81%	79%	82%
Overall satisfaction with the station	81%	80%	80%
Overall satisfaction with the train	77%	76%	78%

This survey has not been run since the onset of the pandemic. However, weekly user experience surveys have been run by TransportFocus since September 2021, with overall satisfaction in the 85%-90% range.

9 Average delay is in seconds per vehicle per mile and is the difference between speed limit and recorded average journey times.

10 Average delay is in seconds per vehicle per mile and is the difference between speed limit and recorded average journey times.

Percentage of trains running on time, Great Britain[11]

Jun 21	Sep 21	Dec 21	Mar 22
78%	74%	68%	72%

Number of people killed or seriously injured in reported road traffic collisions, by road user, Great Britain[12]

	2019	2020	2021[13]
Pedestrians	6,980	4,710	5,356
Pedal cyclists	4,332	4,461	4,462
Motorcycle users	6,086	4,786	5,491
Car occupants	12,047	8,958	10,280
Bus and coach occupants	344	163	203
Goods vehicle occupants	816	838	838
Other vehicles	269	317	670
All road users	30,874	24,087	27,300

Percentage of local authority roads considered for maintenance, England

	2018-19	2019-20	2020-21
‘A’ roads and motorways	3%	4%	4%
‘B’ and ‘C’ roads	6%	6%	6%

11 This survey has not been run since the onset of the pandemic. However, weekly user experience surveys have been run by TransportFocus since September 2021, with overall satisfaction in the 85-88% range.

12 Metrics includes data from strategic roads, local roads, and Devolved Administrations.

13 Provisional results subject to change.

Number of trips per person per year, by main mode and disability status

	2018	2019	2020
Aged 16-64, with a disability	Not reported	854	628
Aged 16-64, without a disability	Not reported	1026	817
Aged 65+, with a disability	Not reported	642	519
Aged 65+, without a disability	Not reported	970	745

Reducing Environmental Impacts: Tackle climate change and improve air quality by decarbonising transport.

Priority Outcome Overview

Domestic transport generates the largest share of UK greenhouse gas emissions of any sector across the economy and stood at 23% in 2019. The Department must deliver a step change in the breadth and scale of our ambitions and, to this end, in July 2021 it published the Transport Decarbonisation Plan (TDP). In order to reach net zero and deliver against our carbon budgets, the Department will also continue to look internally at the whole life carbon impacts of our infrastructure projects.

Transport also has significant impacts on the natural environment. Sustainability is at the heart of levelling-up. People everywhere feel the benefits – villages, towns, cities and countryside will be cleaner, greener, healthier and more prosperous and pleasant environments in which to live and work. The 25 Year Environment Plan set out a vision to leave the environment in a better state than we found it. Achieving this will require significant action across all sectors of the UK economy, including transport.

The Department's progress towards a decarbonised transport system plays a vital role in delivering net zero across the wider economy by 2050. The Department continued to engage with colleagues across local and central government, including the net zero lead BEIS and nature lead Defra, to ensure decarbonisation and environmental strategies and policies are aligned.

Progress made by the Department in 2021-22 is summarised below

Transport Decarbonisation Plan

Work continues across the Department to decarbonise the transport sector and secure substantial co-benefits. Following several commitments on transport policy in the Prime Minister's Ten Point Plan for a Green Industrial Revolution, the most significant step this year was publication of the landmark TDP.

The TDP sets out a green print for the zero-emission transport future, identifying for the first time the clear steps and actions needed to clean up and decarbonise every form of transport.

In October 2021, BEIS published the 'Net Zero Strategy' (NZS) with new commitments on the introduction of a zero-emission vehicle mandate for manufacturers of new cars and vans in the UK in 2024 and targets for Sustainable Aviation Fuel (SAF).

Attention has now turned to delivery of the 78 commitments in the TDP to ensure the Department meets the economy wide carbon reduction targets set out in legislation and the Department's NZS sector goals.

Delivery highlights:

- **Transport Day at COP26 saw 30 countries and six of the world's largest car manufacturers agreeing to deliver 100% zero emission vehicle sales by 2035 in developed markets, and by 2040 globally by signing the Presidency declaration**

Cars and Vans Decarbonisation

The Government is committed to a successful transition of the UK fleet of road vehicles to fully zero emission vehicles, reducing emissions and improving air quality. The Department will deliver the 2035 Delivery Plan, as well as design and implement a new regulatory framework that will ensure the net zero ambitions for road transport are enforced through legislation.

Delivery highlights:

- **Published the 'Transitioning to Zero Emission Cars and Vans: 2035 Delivery Plan', which sets out investment and policy initiatives to deliver the end of sales dates for new non-zero emission cars and vans, including how the Department will monitor progress. More than 395,000 battery-electric cars were registered in 2021, showing a growth of 92% on 2020**
- **Published the 'Green Paper on a new Road Vehicle CO2 Emissions Regulatory Framework' consultation**
- **E10 petrol (petrol with up to 10% ethanol) introduced as standard fuel in the UK**

Aviation Decarbonisation

The Jet Zero Consultation set out the Government's vision for how the aviation sector can achieve net zero: by increasing the efficiency of the existing aviation system, developing a UK SAF industry, accelerating development of zero emission flight, developing and utilising carbon markets and greenhouse gas removal methods helping consumers to make sustainable travel choices.

It is clear that international action on aviation emissions is essential given the global nature of the sector. Alongside ambitious action domestically, the UK is fully committed to global action through international processes and will take a leading role in the work of International Civil Aviation Organization (ICAO) to reduce emissions from international aviation.

Delivery highlights:

- **Published the Jet Zero Consultation and SAF Mandate Consultation in July 2021**
- **Awarded £15 million to eight projects to support the development of SAF in the UK and announced a further £180 million of new funding for SAF in October 2021**
- **Awarded funding for 15 projects to undertake research into the requirements of airports and airfields to handle zero emission aircraft**
- **Launched a new International Aviation Climate Ambition Coalition of states at COP26, representing over half of global aviation emissions, to show support for ICAO adopting a 1.5°C long-term goal at the 41st Assembly in 2022**

Maritime Decarbonisation

The Government is committed to supporting decarbonisation in the domestic maritime sector, through the development and deployment of innovative zero emission technology and infrastructure solutions. This will enable significant fleet-wide emissions reduction in the 2030s and net zero shipping by 2050.

In September 2021, the Department announced the winners of a £23 million Clean Maritime Demonstration Competition, which will lay the foundations for a network of technology demonstrations and support a multi-year competition to be launched in 2022-23 as part of the Department's programme of investment under UK SHORE (UK Shipping Office for Reducing Emissions).

Delivery highlights:

- **Published a call for evidence on onshore power in February 2022, delivering the Department's TDP commitment to consult on how government can best support the uptake of shore power in the UK**
- **The Department secured a coalition of 22 state signatories to the COP26 Clydebank Declaration to work together to develop green shipping corridors and launched Operation Zero, an industry coalition, convened by the Department, to accelerate the decarbonisation of operation and maintenance vessels in the North Sea offshore wind sector**

Heavy Goods Vehicle Decarbonisation

The Government is committed to decarbonising road freight and transitioning to a net zero future. The Department is removing barriers to the uptake of zero emission HGVs by providing purchase incentives and designing new regulation to increase their uptake. These actions will ensure reductions in carbon emissions, improve air quality, and create new jobs across the UK.

The Department will support industry to meet the phase out dates for the end of sale of new non-zero emission HGVs by 2040 (HGVs under 26 tonnes by 2035), by undertaking at-scale trails of zero emission HGV technologies, developing an evidence base for future infrastructure decisions, and giving the confidence needed for investment in zero emission technologies.

Delivery highlights:

- **As part of the zero-emission road freight demonstrator programme the Department funded six feasibility studies for potential future years trials of hydrogen fuel cell and electric road systems and are committed to expand this work at scale on road demonstrations. The Department supported the deployment of UK-built 19t battery electric HGVs**
- **Confirmed end of sales dates for new, non-zero emission HGVs in the UK following public consultation and committed to consulting with industry in 2022 to identify suitable derogations for HGVs below 26 tonnes that need further time to transition**

- **The plug-in truck grant will continue to encourage the uptake of zero-emission HGVs by reducing the purchase price of zero-emission commercial vehicles**

Electric Vehicle Charging Infrastructure

The Government is committed to accelerating the rollout and improving access to convenient, affordable, and reliable charging infrastructure for cars and vans. Between 2020 and the end of 2021, close to 7,500 charge points were added to the UK network. The Department will continue to invest over £1.3 billion to accelerate the roll out of infrastructure, targeting support on rapid chargepoints on motorways and major roads, as well as on-street chargepoints near homes and workplaces to make charging reliable and easy.

To ensure the private sector can expand the charging network at pace in the 2020s, the Government will continue to invest a total of £950 million in future proofing grid capacity along the SRN for zero emission cars and vans ahead of need.

Delivery highlights:

- **Awarded £20 million funding for collaborative R&D projects that will advance innovative zero emission vehicle and infrastructure technologies in the UK**

- **In December 2021, the Government introduced legislation which requires new residential and non-residential buildings to have a changepoint or cable routes where there is associated parking. This will lead to the installation of up to 145,000 new changepoints across England every year**
- **Confirmed the introduction of new rules that will increase confidence in EV charging infrastructure by mandating new standards to ensure reliable charging for EV drivers, ensuring that consumers are able to find the chargepoints through open data, and that consumers will be able to easily compare costs across networks which will be in a recognisable format similar to pence per litre for fuel**
- **In November 2021 the Prime Minister announced that the Government will mandate a minimum payment method, such as contactless (***note the distinction not mandating the actual payment method***) at new chargepoints over 7.1 kW**

Green Public Transport, Cycling and Walking

The Government is committed to the green transformation of the bus and coach sectors, whilst maintaining a high standard of public service, supporting modal shift to active transport, increasing cycling and walking and making the roads safer for all vulnerable road users. The benefits of these measures will include delivering health benefits, reducing congestion on roads and improving air quality.

To deliver these benefits, the Department set out to deliver the ‘Bus Back Better: national bus strategy for England’, which sets out the vision and opportunity to deliver a green bus revolution, and the Zero Emission Buses Regional Area (ZEBRA) scheme, allowing LTAs to bid for funding to purchase zero-emission buses and associated infrastructure.

The Department has made good progress delivering commitments in the 2020 Gear Change strategy, including towards setting up Active Travel England (ATE) as a new Executive Agency. ATE will be responsible for driving up the standards of cycling and walking infrastructure and managing the national active travel budget, awarding funding for projects that meet the new national standards set out in 2020. It will also be a statutory consultee on major planning applications to ensure new developments properly cater for pedestrians and cyclists.

Delivery highlights:

- **“Gear Change: One Year On” document published in July 2021, setting out progress delivering the commitments in the Prime Minister’s plan**

- **ZEBRA scheme competition launched, worth up to £270 million to help LTAs introduce zero-emission buses, cut carbon emissions from local public transport, and improve air quality**
- **Five areas received funding from the fast-track ZEBRA round, standard track recipients were chosen at the end of March 2022**
- **First 130 ZEBs for 'Coventry: All Electric Bus City' have been ordered, out of the total c.300**
- **Initial consultation ran on 'Ending the sale of new diesel buses'; the Department will shortly launch a second consultation seeking views on the appropriate timescale**
- **Published BSIP guidance in May 2021 to ensure buses are attractive for passengers to support modal shift away from more carbon intensive forms of transport. 100% of LAs submitted BSIP by 31 October 2021 deadline**
- **Confirmation that ATE will be an executive agency**

Reduce Environmental Impacts:

Priority Outcome Indicators

These indicators were agreed as part of the SR20 settlement to show performance against the priority outcome. Unless otherwise stated, metrics have been drawn from the sources referred to in the Department's 2021-22 Outcome Delivery Plan.

Greenhouse gas emissions from domestic transport, including HGVs (million tonnes of CO_2 equivalent), UK

2019	2020	2021
122.2	98.80	107.50

New registrations of zero and ultra-low emission vehicles, proportion of new registrations, UK (per cent) – Zero Emission Vehicles

Mar 21	Jun 21	Sep 21	Dec 21	Mar 22
9%	6%	8%	11%	16%

New registrations of zero and ultra-low emission vehicles, proportion of new registrations, UK (per cent) – Ultra Low Emission Vehicles

Mar 21	Jun 21	Sep 21	Dec 21	Mar 22
14%	11%	13%	17%	23%

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Average (mean) number of cycling trips as proportion of total trips, England (per cent)

2018	2019	2020
2%	2%	3%

Total number of cycling stages, England

2018	2019	2020
1006	964	1196

Average (mean) number of walking trips as proportion of total trips, England (per cent)

2018	2019	2020
27%	26%	32%

Average (mean) annual number of walking stages per person, England

2018	2019	2020
347	332	281

Increasing our Global Impact:

Boosting our influence as a leading trading nation, and seizing the opportunities presented by Brexit to strengthen ties with countries around the world

Priority Outcome Overview

Increasing our Global Impact ensures that transport plays a key role in the Government's vision for a Global Britain, making the most of the UK's status as a fully sovereign, trading nation.

This new position on the world stage offers benefits and opportunities as well as risks. The priority assists the Department in maintaining and extending its influence with international partners, including ensuring high standards of transport safety, security, and environmental protection to boost UK trade, exports and inward investment.

This Priority Outcome aims to:

- Reinvigorate international transport cooperation by collaborating with others to address global challenges and support the UK's domestic transportation priorities through international engagement
- Maintaining the country's global supply chains

- Enable exports and inward investment to benefit the UK transport sector and to grow and level up the economy
- Enhance our global leadership in tackling transport's contribution to climate change by reducing carbon emissions
- Continue to lead the UK's international transport relationships, including efforts to liberalise air services with other countries, and ensure the highest levels of safety and security in aviation, maritime, and other international modes of transportation
- Enable UK innovators to be the best and engage fully with the international transport sector, building-in and adopting a risk appetite in our work and enabling and promoting innovation through our procurement approach and collaboration with international partners
- Support the UK's goal of becoming a science superpower by 2030, with transport serving as a hub for the development of internationally exportable science skills, research, and information

Increasing our global impact will also act as an enabler for the Department's other Strategic Priorities.

Progress made by the Department in 2021-22 is summarised below

Impact of the new relationship with the EU for 2021-22

The UK's relationship with the EU (its institutions and member states) continues to be important and is now governed by the Withdrawal Agreement (WA) and the UK-EU Trade and Cooperation Agreement (TCA).
The FCDO has overall responsibility for UK-EU relations.
The TCA provides the legal basis for air, road freight and road passenger transport operations between the UK and EU. Ensuring effective implementation of the Department's responsibilities under the TCA, as well as handling issues under the WA and completion of the Department's EU transition portfolio have been key elements of the Department's EU work during 2021-22.

Delivery highlights:

- **Providing effective governance of the Department's responsibilities under the TCA and the WA**
- **Co-Chairing three Specialised Committees under the TCA (Air Transport, Aviation Safety, and Road Transport)**
- **Publishing four transport-related Frameworks, setting out decision-making and dispute resolution mechanisms to manage the possibility of divergent approaches between the UK and Devolved Administrations where powers have returned from the EU**

- **Supporting the Government's regulatory reform agenda**
- **Successful delivery of a provisional GB vehicle approval scheme by the Vehicle Certification Agency (VCA), and the development of a full scheme**
- **Continued investment into future skills by VCA in the connected and autonomous vehicle area, to underpin the development of the GB CAVPASS scheme**

Ensuring policy decisions are taken with a full understanding of the Department's commitments under the TCA and WA, and the associated risks and opportunities, will remain a priority. Moving forward, the focus will be centred around action, diplomacy and outreach with European partners to deliver the Department's Priority Outcomes.

Policy- Diplomacy – Engagement: International Ministerial Engagement Plan

At key global events the Department had opportunities to exhibit soft power and promote UK transport leadership and innovation through participation in international events such as conferences and exhibitions. For example, at London International Shipping Week 2021, the leading maritime sector event, the ministers met with VIP delegates and high-level government and industry leaders across all sectors of the international shipping industry to promote HMG's work to a global audience and encourage global trade, exports, and investment.

Delivery highlights:

- **Minister Harrison's visit to Los Angeles, USA in November as part of her attendance at a major international conference on the future of mobility – CoMotion**
- **Overseas Territories Transport Day in January enabled the Department to engage with representatives from the UKs Overseas Territories on how the Department could support them, including in delivering their international obligations**
- **The Department prepared for the UK's 2022-23 presidency of the International Transport Forum (ITF), an OECD-hosted global think tank for transport policy. We assumed the Presidency at the ITF Summit in Leipzig in June 2022. The Secretary of State attended the Summit in person and took part in a series of engagements to promote the UK Presidency**

Prosperity: Free Trade Agreements, trade policy, and exports and investment work

The Department pursued a wide spectrum of ministerially approved prioritised objectives in FTA negotiations related to transport services. These directly supported the UK Government's economic growth objectives and also achieved wider political goals, for example influencing other countries' policies on climate change. The Department promoted trade opportunities for UK transport companies to export and encouraged foreign direct investment to support UK transport objectives.

Delivery highlights:

- **The Department participated in the Department for International Trade (DIT) led Global Investment Summit held on 18-20 October 2021. Aimed at galvanizing foreign investment in UK green industries, ministers met with global investors to discuss investment opportunities in the UK's net zero transport priorities**
- **In October 2021, the Department hosted a ministerial roundtable with industry representatives from the UK Connected and Automated Mobility (CAM) sector to discuss barriers and opportunities to exports and inward investment, in a sector projected to be worth £42 billion for the UK by 2035**

Crossrail International continues to create export opportunities for the UK supply chain. Crossrail International's current work on the Tel Aviv Metro, a £33 billion underground network, featured as a case study in the HMG Exports Strategy in November 2021. Crossrail International's role on the development of UK-Israeli relations in the infrastructure sector will lead to further opportunities for other UK suppliers to enter the market.

Capability: to support the International Trade Profession, raise international awareness and deliver DfT's International Capability Lighthouse Project

The Department aims to strengthen its capability through its people, systems, and processes to work effectively internationally. The Department defines international capability as being the skills and knowledge that the staff need to help them work effectively internationally. To support this, the Department developed a bespoke International Prospectus which outlines the International Trade Profession Standards and the Learning and Development offer available across government to support colleagues. The provision of wider international learning and developmental opportunities are supported by the Department's International Capability Fund, and the Department is working with OGDs to co-ordinate its international capability work and share best practice and resources.

Delivery highlights:

- **The Department has approved plans to develop the International Capability Lighthouse Project which aims to identify and address gaps in international capability across the Department**
- **The Department actively promoted the International Learning and Development Prospectus, which supports the capability workstream and is contributing to best practice across Whitehall**

Be an Excellent Department:

Being a well-run department that looks to improve how it operates and where people feel well supported and enjoy working

Priority Outcome Overview

Distinct from the other Priority Outcomes, ‘Be an Excellent Department’ is an area everyone within the organisation should be able to easily relate their work and activity to, and it sits at the centre of everything we do. It is about challenging ourselves to think about how we continue to be the best that we can be.

As well as doing our work in an efficient and effective way, it is also about how we can bring innovation into our work and continuously improve on the work that we do.

By delivering this Priority Outcome we can help to enable the delivery of the Department’s other Priority Outcomes.

The Department set the Vision for “Being a well-run Department that looks to improve how it operates and where people feel supported and enjoy working”,

Progress made by the Department in 2021-22 is summarised below

Great People: Workforce, Skills, and Location

At the heart of DfTc's priority to Be an Excellent Department is the ambition to have a highly professional, skilled, diverse, and motivated workforce. The Department has focussed on building skills and capability at all levels of the organisation. A 3-year Skills and Capability Plan is under development to ensure that DfTc can develop the skills it needs to deliver all its strategic priorities into the future. The plan will also demonstrate fulfilling development opportunities available to staff across the organisation to encourage our talented people to build their careers and achieve their potential. Throughout this, there is a strong focus on leadership and management of change, building core skills as well as developing professional capability including project delivery and commercial skills.

The Future DfTc Programme is driving the efforts to build a more flexible workforce, transforming both where and how we work, opening new permanent offices in Birmingham and Leeds and launching initiatives to drive recruitment outside of London and policies to support voluntary relocation of existing staff. The Department has committed to 681 roles in Leeds and Birmingham and 7 in Edinburgh by 2025, including 41 SCS roles. In 2021-22 DfTc added a further 180 roles to Birmingham and Leeds, meaning over 280 roles, including nine Senior Civil Service roles, were based there by the end of the year.

Ministers have spent time at and worked from both the Birmingham and Leeds offices.

In line with the Government's COVID-19 roadmap for England, and the Welsh Government's law and guidance for Wales, a rigorous Return to Office programme, focussed on a safe and positive return, was rolled out. A new Group HR Policy to support hybrid working across the Department is now in place supporting our Smarter Working agenda.

Building an inclusive and more diverse workforce continues to be a priority for the Department. Our 2022-25 Diversity, Inclusion and Wellbeing Strategy is in development and will be published in the autumn. The strategy will be supported by annual action plans for the central department and each Executive Agency. A new inclusion and wellbeing dashboard, accessible to all staff has been created to increase transparency and accountability by allowing everyone to see the current diversity profile of the department.

The DfTc's career development programme 'Ascend' launched three cohorts for staff from ethnic minority backgrounds and/or those with disabilities to provide support with future career development and progression.

The DfTc's People Survey engagement score in 2021 was 68% (2% above the Civil Service Benchmark) – an increase of 1%. 4 out of 5 engagement questions also saw an increase of between 1-3 percentage points.

New Ideas: Innovation, Technology and Data

The Department's continued focus on improving digital and cyber security has enabled the Department to become a 100% cloud-hosted organisation. This provides a step-change in our resilience, and the use of cloud technology has also enabled the Department to deliver digital services in-house, deploying them rapidly and to scale appropriately for use by users.

The Department has made significant progress on a number of key services to support the Department's strategic outcomes. For example, the rollout of a new digital service to facilitate application for financial support for bus service operators during the pandemic. Feedback shows the new service has made it simpler and easier for users, whilst also enhancing the assurance, audit, fraud, and error approach for the scheme.

As a provider of in-house digital technology, the Department has maintained a high score for the People Survey's workplace technology question across Whitehall, with 87% of staff saying they are provided with the technology to easily connect and collaborate with each other and to be effective in their role.

The Department's ongoing investment in Digital, Data and Technology services has continued to support effective working away from the office throughout 2021-22. The Department has been able to sustain its core business with ease, while securely accessing all the tools, applications and data required to carry out its roles efficiently and effectively. Equipping colleagues with digital tools to support hybrid working across multiple locations continues to be an important part of how we work. In 2021-22 that provision was extended to hundreds of new colleagues joining our new Birmingham and Leeds locations.

Sustainability

Sustainability underpins all our work across the Department; not only in setting national transport policy to tackle climate change, but also in how we operate as a Department. In November, we published the Department's Operational Sustainability Strategy 2021-25, which sets out the actions we will take as a Department to improve our sustainable performance and achieve our Greening Government Commitments (GGCs) by 2025.

The Department also undertook a number of key activities towards delivering this strategy:

- Setting a clear governance framework for internal reporting and accountability against the GGCs across our public bodies
- Replacing 137 diesel and petrol cars in 2021/22 with hybrid or electric alternatives, bringing our car fleet to 26% ULEV
- Undertaking Net Zero Carbon Benchmarking of 40% of our building estate, which has identified future

decarbonisation opportunities and will advise strategic property decisions

- Launching a Carbon Literacy Training Programme to increase staff awareness and capability on carbon

The Department's total emissions for 2021-22 have reduced by 10.7% from last year, which is 26.6% down from a 2017-18 baseline, putting us on track to meet the Department's carbon target for 2024-25. Full details of the Department's sustainability performance are provided in the Sustainability Report from page 133.

Better Outcomes – Shareholding and Corporate Sponsorship

As part of the Department's commitment to promoting good governance, it worked closely with its public bodies to oversee and drive performance against key departmental priorities; and to ensure effective governance, controls and risk management were in place.

Work with ministers to provide clear objectives for public bodies

The Department is prioritising reviews across its key delivery bodies as part of the Cabinet Office Public Bodies review programme. Framework Documents for two key delivery bodies are being updated, as part of a successful Cabinet Office pilot and roll-out, which provide greater clarity on accountabilities and relationships between the Department and those organisations.

Refreshed guidance for Chair letters and objective setting, aligned to the Department's key priorities has been rolled out.

Support robust ongoing relationships between ministers and the organisations

A new Sponsorship Code has been co-developed with Cabinet Office, alongside an enhanced set of Departmental Gold Standards for sponsorship, which clarifies the shareholder role and the relationships which underpin successful sponsorship. The Department will be assessing itself against these standards to ensure that it is supporting its public bodies to effectively and efficiently deliver services, functions and ministerial priorities.

Ensure public body boards are capable and diverse

There has been a continued focus on strengthening boards and leadership of public bodies, with key non-executive and executive appointments across the Department's delivery bodies. The HS2 Ltd Chair appointment process was not concluded within the planned timeframe, but the Department has robust interim arrangements to ensure the Board continues to function effectively until the position is filled.

Work with public bodies to ensure effective governance, controls, and risk management

The Department has worked internally to promote continuous improvement in shareholder sponsorship across the Department and worked with Cabinet Office and HM Treasury to shape emerging central guidance on good governance of public bodies. This will continue in 2022-23, alongside further work on the successful implementation of Great British Railways.

Science, Innovation and Technology

The Government is committed to growing the investment in, and impact of, science and technology in the UK, maintaining and enhancing the UK's position as a global 'science superpower'.

Science, Innovation and Technology are crucial to achieving the Department's Priority Outcomes. In 2021 a new chief scientific adviser joined the Department, who helped make the case for, and will steer the delivery of, the marked uplift in the Department's R&D budget: the 2021 Spending Review saw the R&D budget rise to £575 million over the next three years.

Delivery highlights

- **Delivered a series of pilots and trials as the foundation for the ongoing portfolio of decarbonisation research and development, notably the Zero Emission Road Freight Trials; Clean Maritime Demonstration Competition[14]; and the Tees Valley Hydrogen Transport Hub[15]**

14 Zero emission road freight trials funding winners – GOV.UK (www.gov.uk)

15 Competition winners to deliver UK's first hydrogen transport trials in Tees Valley – GOV.UK (www.gov.uk)

- **Continued to prioritise innovation, supporting a wide range of innovation initiatives, including: running the Transport Research and Innovation Board (TRIB), which brings together the UK's transport research and development funders; our largest ever Transport Research and Innovation Grant Competition[16]; parallel competitions focused on Drones and Accessibility; and another successful year of our First of a Kind[17] rail innovation competition**
- **Updated and refreshed the membership of our Science Advisory Council[18] to ensure we have access to the right skills, expertise and perspectives to meet our Priority Outcomes and the challenges ahead.**

Further information on Science, Engineering, Innovation and Technology in the Department can be found in the DfT Science Plan[19]. Our research priorities can be found in our Areas of Research Interest[20].

16 Transport Research Innovation Grant (TRIG): funding winners – GOV.UK (www.gov.uk)
17 Brand new rail tech to 'pandemic proof' train travel – GOV.UK (www.gov.uk)
18 DfT Science Advisory Council – GOV.UK (www.gov.uk)
19 Department for Transport: science plan – GOV.UK (www.gov.uk)
20 DfT areas of research interest – GOV.UK (www.gov.uk)

Sustainability Report

UN Sustainable Development Goals

The 2030 Agenda for Sustainable Development is a historic global agreement which aims to eradicate extreme poverty, fight inequality and injustice, and leave no one behind. It was agreed by world leaders at the UN in 2015.

The UK is committed to the delivery of the Sustainable Development Goals (SDGs) and the Department is working towards directly contributing to the achievement of the following Goals:

- SDG 3 – Good health and well-being – Ensure healthy lives and promote well-being for all at all ages
- SDG 4 – Quality education – Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
- SDG 8 – Decent work and economic growth – Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
- SDG 9 – Industry, innovation, and infrastructure – Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

- SDG 11 – Sustainable cities and communities – Make cities and human settlements inclusive, safe, resilient, and sustainable
- SDG 13 – Climate action – Take urgent action to combat climate change and its impacts

DfT activities to support the delivery of the SDGs

Good health and well-being

The Department published the TDP, which sets out the commitments and the actions needed to decarbonise the entire transport system in the UK. Alongside this, two consultation documents were published:

Transitioning to zero emission cars and vans: 2035 delivery plan, which sets out significant milestones towards the phase out dates for petrol and diesel cars and vans, and the Green Paper on a New Road Vehicle CO2 emissions Regulatory Framework for the UK to ensure that we have the legislation necessary to deliver the 2030 and 2035 phase out targets.

The Department has also published the transport chapter as part of BEIS Net Zero Strategy, which included our intention to introduce a new zero emission vehicle mandate, setting targets for a percentage of manufacturers' new car and van sales to be zero emission each year from 2024.

The Department also established the Jet Zero Council, bringing together industry and government. The council members include senior leaders in aviation, aerospace and academia and will consider new technologies and innovative ways to cut aviation emissions, with aim to deliver zero-emission flight across the Atlantic within a generation. The Jet Zero Consultation (JZC) was also published in July 2021.

The consultation focused on the rapid development of technologies in a way that maintains the benefits of air travel and maximises the opportunities that decarbonisation can bring to the UK.

Quality Education

As part of the Department's Carbon Management Programme, the Department is seeking to develop staff knowledge and understanding of decarbonisation and the environmental challenges. The Department is now supporting public bodies and other departments to develop and roll-out training.

Decent work and economic growth

Decarbonising transport should lead to the creation of green jobs across the automotive, public transport, cycling, and green aviation and maritime sectors. The Department expects to see progress in key areas – for example as supply chains for green buses and cycle gear and infrastructure develop. The Department continues to undertake a programme of work to better understand, define and monitor green jobs in transport, internally through the Transport Employment and Skills Taskforce, and supporting BEIS's green skills mapping. This workstream aims to standardise the defining and reporting of green jobs across the Department, in line with OGDs.

Build resilient infrastructure

The Department has focused on meeting this sustainable development goal in two ways: reducing the Whole Life Carbon (WLC) of infrastructure projects and delivering a resilient transport system in the future.

In reducing the WLC of infrastructure projects, the Department supports efforts in meeting carbon budgets and reducing the impact on the environment. By February 2022, the Department delivered a major milestone in ensuring that all tier 1 projects or projects with estimated WLC impact of 1 MtCO2e would include WLC impacts at all major business case stages, and monitor this against actual figures during construction and operation. The framework for managing WLC is being applied by the public bodies and any tier 1 project reaching a major business case stage will include WLC impacts.

Internally, the Department has improved focus on climate change resilience increased senior focus. Going forward, the Department will create a transport system resilient to the impacts of climate change.

Sustainable cities and communities

The Joint Air Quality Unit continued to support LAs to develop and implement measures to address their NO2 exceedances, which included introducing two new Clean Air Zones in Bath and Birmingham in June 2021. Also, in June 2021, the Department delivered a minimum viable product for a central digital infrastructure system, including vehicle checker and payments delivered, ready to be integrated with the local authority systems for launches.

The Department also continued to deliver the Zero Emission Bus Regional Areas (ZEBRA) scheme, announced by the Prime Minister in February 2020. In July 2021, the Department announced that a further 17 LTAs were selected under the standard process to progress to Phase 2 of the competition. The Department announced that funding worth almost £71 million was awarded to the first five LTAs selected under the fast-track process in October 2021. This scheme will provide support for LTAs, outside London, to introduce zero-emission buses, improving the air quality in our towns and cities.

Climate action

The Department continued to hold sessions for staff to improve the environmental capability in the Department.

The Department continued to monitor and support with the development of the Environment Bill (now the

Environment Act 2021), supporting with a write round from Defra on public authority biodiversity reporting duties, and remained informed to any stretching targets and their potential impact on the Department. Work began on addressing how the Department:

- Embedded the Environment Bill into the Department's work
- Ensured the Department could respond to the new governance
- Developed plans to meet new environmental targets and biodiversity requirements
- Prepared a Biodiversity Net Gain action-plan

Maintaining and enhancing biodiversity is a key consideration for the Department when designing and building new transport infrastructure. For example, in 2013 HS2 Ltd committed to achieving No Net Loss in Biodiversity across Phases 1 and 2a of the new railway, and in 2021committed, in the planning for Phase 2b, to aim for a biodiversity net gain.

Climate Change Adaptation

The Department continues its efforts in climate change adaptation, ensuring the transport system is responsive to the impacts of climate change, including those that it is already experiencing, and future impacts.

Actions in response to climate change risks are primarily taken by transport infrastructure operators, many of whom, including Network Rail, National Highways, airport and port operators, continue to build adaptation into their strategic planning. Network Rail and National Highways were assessed highly for their adaptation plans by the Climate Change Committee in the 2021 Report to Parliament, however it was noted that continued action was required to mitigate the risks. Both organisations assessed their business for climate risk and published reports under the third round of the Adaptation Reporting Power.

Sadly, extreme weather caused a fatal train derailment at Stonehaven (Carmont) in August 2020, leading to the deaths of three people. Following this, Network Rail commissioned two independent reports, by Lord Robert Mair and Dame Julia Slingo, into how the resilience of rail infrastructure to extreme weather conditions can be improved. Lord Mair's report on earthworks management and Dame Julia's report on weather advice, published in March 2021, jointly contained nearly 60 recommendations. Network Rail has developed a set of 19 action plans aimed at implementing all the recommendations. Progress of the action plans will be tracked through a national assurance database, which will feed into a high-level dashboard report.

Network Rail delivered its third Adaptation Reporting Power submission in December 2021 which outlines how it intends to develop its capability on resilience and the actions it will take to improve weather and climate resilience. Network Rail also developed a Weather Resilience and Climate Change Adaptation Strategy which has helped improve governance, knowledge, and practices. Looking to the longer-term, adaptation is now a core priority within Network Rail's Environmental Sustainability Strategy which outlines its adaptation roadmap, containing key adaptation milestones up until 2050 and how it plans to achieve them. Network Rail is a key stakeholder in the development of the 30-year Whole Industry Strategic Plan which will recognise that addressing weather resilience and adapting to the future climate is integral to the long-term sustainability of the railway.

The Department continues to work with partners and across government to fulfil the legal obligation to address the transport-related risks identified in the third Climate Change Risk Assessment and set out mitigating actions in the third National Adaption Plan, due to be published in 2023.

Acknowledging the risk that climate change poses to the transport network and building on the work of the infrastructure operators and our NAP3 contribution, the Department is developing an internal transport adaptation strategy. The strategy will bring together ongoing work with industry and operators, and will explore expectations, interdependencies, standards, and scenario planning.

Rural Proofing

The Department understands that the transport needs of communities in rural areas differ from those in urban environments for a variety of reasons, which include demographics, lower population density and greater distances to travel.

The Department's appraisal system is consistent with DEFRA's National Rural Proofing Guidelines, ensuring that policy makers address the needs of rural areas throughout the policy cycle.

Delivery Highlights

- **Demand Responsive Transport trials in Hertfordshire, Cheshire East and North Lincolnshire are among several to have launched, with funding through the Department's £20 million Rural Mobility Fund**
- **DEFRA will work with the Department on a new Co-Chaired Rural Roads working group on road safety. This will also include highways authorities with the aim to reduce road traffic collisions on rural roads**
- **The Department awarded over £850,000 to Cornwall Council in 2021-22 to deliver the Cornwall e-cycle pilot**

- **Cornwall Council was awarded £23.5 million to undertake a four-year bus fares pilot scheme to determine whether better value fares and a simplified fares structure would encourage more people to use the bus**
- **The Department provided Sustrans with £30 million in 2021-22 for the National Cycle Network to deliver a variety of improvements which will support a number of rural communities**
- **Development of the Future of Transport: Rural Strategy is underway with the aim to deliver the strategy in 2022. This will explore how transport innovation and interventions can tackle rural mobility issues, improve connectivity and accessibility, increase low carbon travel options and deliver more integrated transport services**
- **The Department's Tackling Loneliness with Transport project will award a total of £5 million in grant funds to local authorities and charities in 2022 to support innovative pilots to tackle loneliness through transport and increase the knowledge base in this area. Successful delivery partners will launch their pilots across England, including rural areas**

Sustainable Development

Alongside the Department's work to deliver a more sustainable transport system, it also recognises the environmental impact that our own estate and business operations can have, and we work to ensure these are managed in an equally sustainable way.

The Department is part of the Government Greening Commitments (GGCs), which provide the structure and standard of sustainability performance for all government departments to achieve. A new phase of GGC targets for 2021-25 were published by Defra. The Department reports its performance against the GGC targets quarterly to Defra, who produce a cross-government annual report. The data provided to Defra and outlined below covers the operations of the Department, it's four executive agencies and eight public bodies.

More detail on the activities of individual organisations to improve their own sustainable performance can be found in their individual Annual Report and Accounts.

In November, the Department published the Operational Sustainability Strategy 2021-25, setting out the actions the Department will take to meet the GGCs by 2025 and providing an indicative pathway to Net Zero by 2050.

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Information and Communications Technology (ICT)

The Department has taken steps to reduce its greenhouse gas emissions associated with digital services by transforming its data estate and moving its operations fully to the cloud. This has allowed us to benefit from the significant improvements in energy efficiency being achieved by the large cloud providers.

Prior to the pandemic, the Department had moved its user base to portable devices allowing them to work effectively from any location. The Department has a ‘hybrid’ working policy that blends the benefits of office-working with the efficiencies of homeworking, which we support by equipping our users and offices with the technology required to work effectively from any location.

The Department has worked to improve the management of ICT resources and waste to ensure that no ICT waste goes to landfill. All digital contracts that the Department signed in 2021-22 are Waste Electrical and Electronic Equipment regulations compliant. At the end of use, all ICT devices are sent back to suppliers for reuse, refurbishment, or recycling.

Summary of Performance

2021-22 performance shows the Department is on track to meet eight of our nine quantitative GGC targets (Table 1).

Table 1: Performance against the GGCs

Theme	Measure	2017-18 Baseline	2024-25 Target	2021-22 Target	2021-22 Actual Performance
Mitigating Climate Change	Total emissions (tCO2e)	412,459	156,734 (-62%)	266,331 (-35%)	265,132 (-36%)
	Direct emissions (tCO2e)	37,948	30,738 (-19%)	33,828 (-11%)	29,232 (-23%)
	ULEV cars (% car fleet)	Not available	25% (Dec 2022)	24%	26%
	Domestic Flights (tCO2e)	867	607 (-30%)	718 (-17%)	243 (-72%)
Minimising Waste	Total waste (tonnes)	795,249	675,962 (-15%)	727,085 (-9%)	1,007,326 (+27%)
	Waste to landfill (%)	7%	<5%	6%	0.01%
	Waste recycled (%)	91%	>70%	70%	99%
	Paper use (reams)	255,431	127,716 (-50%)	182,451 (-29%)	68,759 (-73%)
Reducing Water Use	Water use (m3)	2,219,366	2,041,817 (-8%)	2,117,910 (-5%)	1,349,664 (-39%)

The Department’s performance has continued to be impacted by the coronavirus pandemic and the resultant changes to working patterns across all organisations. Increased remote working has led to significant reductions in paper use, water use and domestic flights, seeing us exceed our target trajectory in all three areas. We hope to maintain these low levels to 2024-25 through sustained behaviour changes and staff awareness campaigns.

The Department’s overall and direct emissions, however, have not seen as large a reduction as we have kept sites open throughout the year and have increased fleet travel due to staff being advised to travel separately rather than car sharing as would be usual practice. The Department hopes to return to usual practice and bring down fleet emissions in 2022-23 following the removal of social distancing guidance and with the ever-increasing electrification of our fleet.

Network Rail produces large volumes of industrial waste from maintenance of the railway. These volumes fluctuate depending on the scale of works required each year so is not within the Department's direct control and has increased from its baseline. Network Rail do, however, ensure waste is recycled and diverted from landfill wherever possible so the Department is exceeding targets in both these areas.

A full breakdown of the Department's sustainability metrics is provided in Tables 2-4.

The organisations in scope of sustainability reporting have been updated in line with the latest phase of GGCs (those included now are DfTc, DVSA, DVLA, British Transport Police, Vehicle Certification Agency, High Speed 2 Ltd, Maritime and Coastguard Agency, National Highways, Network Rail, East West Rail, Northern Lighthouse Board, Trinity House and Office of Rail & Road), therefore figures provided in the tables below will differ to those included in previous annual reports and accounts. Further information can be found in the public bodies own annual reports and accounts.

Table 2: Greenhouse gas emissions

Greenhouse Gas Emissions		2018-19	2019-20	2020-21	2021-22
Gross Emissions (tonnes CO_2e)25	Scope 1: direct emissions	109,005	103,720	110,046	98,791
	Scope 2: energy indirect emissions	217,178	183,186	168,476	146,225
	Scope 3: business travel emissions	35,042	29,994	18,256	20,116*
	Total emissions	361,224	316,900	296,778	265,132
Related Energy Consumption (kWh)	Office grid electricity	75,874,324	69,970,643	65,570,660	69,984,658*
	Non-office grid electricity	691,348,257	646,721,001	657,066,891	651,079,042
	Renewable electricity	30,608	30,867	28,226	30,103
	Gas	108,552,513	109,880,602	94,342,680	133,619,370*
	Other heating	36,857,576	36,260,045	36,984,860	27,157,129
Related business travel	Fleet road travel (litres of fuel)	9,351,575	6,049,015	6,193,811	20,711,353^
	Fleet road travel (km)	224,178,160	247,770,528	297,826,976	39,709,470^
	Non-fleet road travel (km)	54,077,381	47,090,685	19,303,054	35,016,912
	Public transport (km)	123,047,582	117,161,164	884,943	13,384,912*
	Domestic flights (km)	6,161,778	6,101,606	252,321	1,867,071*
Financial Indicators	Energy expenditure	£490,194,041	£543,237,838	£494,666,555	£558,404,402
	Business travel expenditure	£44,521,774	£44,777,322	£7,090,490	£19,278,238

*increases are due to more staff returning to offices and more face-to-face activities being undertaken.

^fluctuations as Network Rail have moved to reporting fuel use rather than kilometres travelled.

Table 3: Waste minimisation and management

	Waste	2017-18	2018-19	2019-20	2020-21
Non-Financial Indicators	Total waste generated	794,910	1,072,035	1,025,083	1,007,326
	Waste sent to landfill	57,154	8,043	3,330	103*
	Waste recycled	724,875	1,053,494	1,008,080	996,396
	Waste incinerated	12,882	10,498	13,672	10,827
Financial Indicators	Expenditure on waste	This is not available as waste services are provided as part of a total facilities management contract, so specific spend on waste only is not able to be separated out.			

*Waste to landfill reduction is as a result of Network Rail having undertaken a waste audit and diverted waste to other waste streams.

Table 4: Finite resource consumption

	Finite Resources	2017-18	2018-19	2019-20	2020-21
Non-Financial Indicators	Total water consumption (m3)	2,240,145	2,207,335	1,360,739	1,349,664
	Office-only water consumption (m^3)	311,511	275,675	190,709	234,496
	Office water use per head	11.12	9.73	6.73	8.11
	Paper use (reams A4 equivalent)	259,281	239,229	158,720	68,759
Financial Indicators	Expenditure on water	£5,352,588	£5,863,594	£4,052,419	£4,608,006
	Expenditure on paper	This is not available as paper is provided as part of a wider office supplies contract, so specific spend on paper only is not able to be separated out.			

Sustainable Procurement

The Department’s procurement function is managed through a collaborative operating model, which includes DfTc, the executive agencies, government owned companies and Non-Departmental Public Bodies, also known as the DfT Group. DfT Group organisations are predominantly responsible for conducting their own procurements but can draw on central support from DfTc and assurance for most projects is carried out by a central function within DfTc. Each organisation has their own delegated authority, but as a rule their major spend will go through the DfTc assurance function. They also must comply with central policy either produced by DfTc, or OGDs such as the Cabinet Office.

As a group, the Department recognise the significant impact procurement decisions have on sustainability outcomes, therefore the Department is committed to ensuring the supply chain supports sustainable development goals.

The Department is committed to embedding sustainability into the procurement processes, and developed several tools to support this, including through:

- The guidance is available to all procurement and contract management staff on the intranet and is regularly checked and updated when policy changes
- Training is given to all staff involved in procurement and have access to the Sustainable Development eLearning on Civil Service Learning and are actively encouraged to undertake it. Some executive agencies include sustainable procurement in their annual performance targets for procurement officers, and contract managers, while others provide general sustainable procurement training to all commercial staff. Staff with more responsibility for sustainable procurement have undertaken advanced training. The

Department has the CIPS kite mark, a statement of our commitment to ethical sourcing and supplier management

- The Commercial Lifecycle Assurance function team provide assurance of all major procurement processes in the Department, to provide confidence to Investment Boards that they are being managed effectively, efficiently, and compliantly. This includes consideration of the inclusion of relevant sustainability targets, by ensuring consultation with appropriate sustainability experts at appropriate points in the procurement phase
- The Department has fully implemented Procurement Policy Note 06/21 and is now requiring all suppliers bidding for contracts with a value of £5 million per annum to submit carbon reduction plans, or face being excluded from the procurement. Carbon reduction plans are challenging suppliers to change their behaviour and detail their own carbon reduction policies within their organisation, as well as providing their current and baseline emissions. This is a major initiative to reduce the carbon footprint of our supply chain
- The Department's major procurements (above public procurement thresholds) must now attribute a minimum 10% weighting to a social value outcome as part of the tender evaluation criteria, potentially including outcomes which focus on environmental concerns and decarbonisation with a significant factor

in winning government work linked to such an outcome, the aim is to drive supplier behaviour to supporting strong decarbonisation initiatives. Initiatives which may be assessed include supplier's ability to work towards net zero emissions, increased biodiversity, improved air quality, creation of green spaces, and a reduction in waste throughout the contract and down the supply chain

- Cabinet Office's Procuring for Growth Balanced Scorecard helps procurers consider criteria such as cost balanced against social, economic, and environmental considerations. It is mandated for construction and infrastructure contracts above £10 million as part of the Industrial Strategy. In the Department, the Balanced Scorecard is embedded within the commercial case guidance, and the ongoing Commercial Lifecycle Assurance process, thereby helping ensure it is considered at the earliest stages of projects

- The Department is committed to full implementation of the Construction Playbook by 2023, a best-practice principles framework published in 2020, aimed at getting construction projects right from the start as green as possible, through requirements for Net Zero 2050 strategies, whole life carbon cost assessments such as PAS2080 and an emphasis on Modern Methods of Construction and off-site construction where possible, which is much less carbon intensive than traditional construction

As well as these established policies, the Department is developing a sustainable procurement strategy. Where previous strategies have focused solely on how the Department can conduct procurement business in a sustainable way, this will look further at how specifically the Department can leverage its buying power to achieve sustainable outcomes most effectively, specifically in its supply chain. The Department are investigating the further use of:

- Carbon-focused KPIs for our contracts
- Setting Science-Based Targets for the organisation and our suppliers, as championed by Network Rail
- Model clauses with carbon considerations
- Carbon baselining and carbon incentivisation systems
- Incentivisation versus mandating low carbon materials, primarily steel and concrete

Disclosure and reporting systems able to track whole-life carbon through the contract lifecycle, in line with policies announced at COP26 requiring disclosure of embodied-carbon levels in projects by 2025.

Bernadette Kelly DCB

18 July 2022
Permanent Secretary and Principal

Accounting Officer
Department for Transport
Great Minster House
33 Horseferry Road London SW1P 4DR

The Accountability Report

Report from the Lead Non-Executive Board Member

During 2021-22, the Department has continued to deliver on its Priority Outcomes, with major emphasis on the effective and efficient delivery of its large-scale infrastructure projects and on the provision of safe and accessible services to the public and businesses. SR21 provides the Department with a continued challenging and ambitious agenda.

The priorities around reducing environmental impact, growing and levelling up the economy and improving transport for the user were agreed as Priority Outcomes by HM Treasury and No.10 and form the basis of departmental performance reporting. Delivery of one will in many cases contribute to the delivery of the others. The Priority Outcomes also support wider government priorities, including Build Back Better, Levelling Up and net zero greenhouse emissions by 2050.

Given the cross-cutting nature of these initiatives a second Permanent Secretary was appointed to drive these Priority Outcomes in January 2022.

The publication of the Transport Decarbonisation Plan, Integrated Rail Plan, delivery of the National Bus Strategy, as well as, the announcement of Great British

Railways, demonstrate the Department's commitment and progress towards achieving its Priority Outcomes.

The Non-Executive Board Members (NEBMs) are fully engaged across the Department, providing support, scrutiny, experience, and expertise. They are well represented on the key Department's committees such as the; DfT Board; Executive Non-Executive Meeting; Investment, Portfolio, Delivery Committee; as well as chairing the Group Audit, Risk & Assurance Committee; and Nominations Committee.

Each NEBM has also been allocated oversight of a specific Priority Outcome aligned to their area of expertise.

The NEBMs have engaged in cross Whitehall groups such as the Government Infrastructure Steering Group, the Cross-Government Union forum, and individual one-off reviews which utilised their existing knowledge and expertise. This included efficiency reviews for HM Treasury as well, providing support to another government department by conducting an Effectiveness Review of their Audit and the Executive Risk Committee.

Some of the key areas that have been considered in the Committees NEBMs sit on include:

- The Government and the Department's Priority Outcomes
- Decarbonisation and the impact of COP26

- Levelling Up and the Union Connectivity Review
- The impact of COVID-19 on the transport sector and emerging from the pandemic
- The future of the aviation sector
- Cyber security deep dive
- Diversity of public appointments
- Portfolio reviews within the key delivery bodies
- HS2 performance review

Richard Pennycook, Lead Non-Executive Director at the Department for Education undertook an independent Board Effectiveness Evaluation on behalf of the Department, to identify how well the Board and its sub-committees were performing and to identify any areas for improvement. The feedback from the independent evaluation was largely positive, with the Department's committee structure particularly noted as being robust and effective. The Department's NEBMs were also recognised for the positive contributions they played in delivering effective governance to the Department. Helpfully, the evaluation also raised a few areas, where the Department could make improvements to the quality and structure of its committees and their governance, as the Department transitions to a more business as usual stance. I will be working closely with the Department to take forward and implement these recommendations.

Over the past 12 months, the Department has driven forward an ambitious programme of work to make journeys cleaner, improve the experiences of those using the transport network, and support productivity and economic growth.

The portfolio of the Department is extensive, with its core Priority Outcomes central to government policy. As the Department emerges from the acute stage of the pandemic, transport will play a crucial role in supporting the Government's Levelling Up mission.

Ian King
Lead NEBM

The Corporate Governance Report

The Corporate Governance Report explains the composition and organisation of the Department's governance structures and shows how they support the achievement of the Department's objectives. It comprises three sections:

- Report from the Lead Non-Executive Board Member
- Statement of Principal Accounting Officer's responsibilities
- Directors' Report

Statement of Principal Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000 (the GRAA), HMT has directed me, Bernadette Kelly DCB, to prepare for each financial year, consolidated accounts detailing the resources acquired, used or disposed of, during the year by my Department, including its public bodies and other public bodies designated by order made under the GRAA by Statutory Instrument 2021 no 1441 (together known as the 'Departmental group', consisting of the Department and designated bodies listed in Note 25 to the Accounts).

The Accounts are prepared on an accruals basis and must give a true and fair view of the Department and the Departmental group and of the net resource outturn, application of resources, changes in taxpayers' equity and cash flows for the financial year.

In preparing the Accounts, I am required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

- Observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis.
- Ensure that the Department has in place appropriate and reliable systems and procedures to carry out the consolidation process.
- Make judgements and estimates on a reasonable basis, including those judgements involved in consolidating the accounting information provided by non-departmental and other delivery bodies.
- State whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed and disclosed and explained any material departures in the Accounts.
- Prepare the Accounts on a going concern basis.
- Confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements for determining that it is fair, balanced and understandable.

HMT has appointed me as the Principal Accounting Officer for DfT.

I have appointed the chief executive of each sponsored delivery body as the Accounting Officer for their delivery body.

As the Department's Principal Accounting Officer, I am responsible for ensuring that appropriate systems and controls are in place to ensure that any grants that the Department makes to its sponsored bodies are applied for the purposes intended and that such expenditure and the other income and expenditure of the sponsored bodies are properly accounted for, for the purposes of consolidation within the resource accounts. Under their terms of appointment, the accounting officers of the sponsored bodies are accountable for the use, including the regularity and propriety, of the grants received and the other income and expenditure of the sponsored bodies.

The general responsibilities of an Accounting Officer, which includes responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable; for keeping proper records; and for safeguarding the assets of the DfTc or non-Departmental and other delivery bodies for which the Principal Accounting Officer is responsible, are set out in full in section 3.3.3 of 'Managing Public Money' published by HMT.

As the Principal Accounting Officer, I have taken all necessary steps to make myself aware of any relevant audit information, and to establish that the National Audit Office has been made aware of all relevant information connected with its audit. Insofar as I know, there is no audit information of which the National Audit Office is not aware.

I confirm that the Annual Report and Accounts as a whole are fair, balanced and understandable. I take personal responsibility for the Annual Report and Account and the judgements required for determining that they are fair, balanced and understandable.

Directors' Report

The Secretary of State for Transport, appointed by the Prime Minister, has overall responsibility for the Department and its public bodies. The Permanent Secretaries are responsible for the effectiveness and efficiency of the Department's work to support ministerial policies and objectives. In 2021-22 Permanent Secretary Bernadette Kelly DCB was the Principal Accounting Officer, responsible for the propriety and regularity of the Department's group expenditure. Further information about the Principal Accounting Officer's responsibilities is set out on page 148.

The Department's funding sits in several categories, and HM Treasury holds the Department accountable to agreed funding limits for each category. Detail of outturn against these funding limits is shown in the Statement of Outturn Against Parliamentary Supply (from page 165). The Permanent Secretaries are also responsible for the Department’s leadership, management, and staffing.

Introduction

The Governance Statement describes how the DfT Board and its supporting governance structures work and how they have performed. It provides an assessment of how the Department is managed, including the effectiveness of the systems of internal control, risk management and accountability.

The Secretary of State is supported by the Permanent Secretaries, ministers, NEBMs, and directors general. The structure of these fora is set out in figure 13. The composition of the Board is set out on the next page.

Departmental Board members as of 31 March 2022

Rt Hon Grant Shapps MP Secretary of State

Chris Heaton-Harris MP (left 19 December 2021)

Andrew Stephenson MP (left 7 July 2022)

Rachel Maclean MP (left 16 September 2021)

Baroness Vere Parliamentary Under Secretary

Robert Courts MP

Trudy Harrison MP (appointed 16 September 2021)

Wendy Morton MP (appointed 19 December 2021)

Karl McCartney MP (appointed 8 July 2022)

Bernadette Kelly DCB Permanent Secretary

Gareth Davies DG Second Permanent Secretary (from January 2021)

Emma Ward DG Road Places and Environment

Clive Maxwell DG High Speed Rail Group

Nick Joyce DG Corporate Delivery

David Hughes DG Rail Infrastructure

Conrad Bailey DG Rail Strategy and Services (promoted 14 June 2021)

Rannia Leontaridi (interim DG, Aviation Maritime and Security)

Ian King
Lead NEBM

Richard Keys
NEBM

Tracy Westall
NEBM

Tony Poulter
NEBM

Ranjit Baxi
NEBM
(appointed 1 April 2021)

Dame Sara Storey
NEBM
(appointed 1 April 2021)

Register of interests

The register of ministers' interests is maintained by the Cabinet Office. NEBMs are asked to declare any personal or business interests that may cause a conflict of interest; influence or appear to influence their judgment in performing their obligations to the Department, and a central register is maintained by the Department. Details of relevant declared interests are outlined below:

Name	Name of Company or Organisation	Position Held in DfT	Type of Interest (e.g., pay, fees, shareholding)	Other Relevant Information
Richard Keys	NATS Holdings	DfT NEBM and GARAC Chair	Director of NATS Holdings	Registered interest in 2018 and recuses from any discussion relating NATS Holdings and all NATS Group matters.

Name	Name of Company or Organisation	Position Held in DfT	Type of Interest (e.g., pay, fees, shareholding)	Other Relevant Information
Tony Poulter	Pensions Infrastructure Platform Ltd (PIP	DfT NEBM	Non-Executive Chair of the Pensions Infrastructure Platform Ltd (PIP)	Registered interest in mid-2017 of a possible acquisition by PIP of a portfolio of assets that included minority stakes in two project companies that were each party to a local authority highways PFI contract. Mr Poulter recuses from discussions on all local authority PFI contracts at the Department's Investment, Portfolio and Delivery Committee (IPDC).

Name	Name of Company or Organisation	Position Held in DfT	Type of Interest (e.g., pay, fees, shareholding)	Other Relevant Information
Tony Poulter	London and Continental Railways Ltd	DfT NEBM	Special Director	Registered interest in April 2021 and recuses from any discussion on London Continental Railways Ltd.
Ian King	HS2 Ltd	HS2 Ltd	Special Director	Registered role in August 2021 as interim Special Director. This position ended in January 2022.
Mark Bayley	Network Rail	DfT NEBM	Non-Executive Director	
Kathryn Cearns	National Highways	DfT NEBM	National Highways NEBM and GARAC Chair	

Civil servants

The Department has existing procedures in place to implement the requirements of section 4.3 of the Civil Service Management Code. The standards of personal conduct expected of all civil servants are set out in Chapter 3.2 of the DfT Staff handbook with policies on business appointment rules (BAR), outside interests and activities and conflicts of interest. These require that:

- Where the BAR rules apply, any applications for Senior Civil Servants (SCS) will require approval from the Permanent Secretary and HR Director. Members of the SCS at Pay Bands 3 or 4 are required to submit their applications to the Advisory Committee on Business Appointments who will consider the application and publish their decision. The HR Director or Senior HR Business Partner on their behalf considers and approves applications made from staff below the SCS
- Departmental approval is required for any activity or position that would require attendance during working hours whether paid or unpaid. Where an approach is made by an outside employer offering employment outside normal working hours for which approval is required under the business appointment rules (or seems likely to lead to such an offer) members of the SCS must inform the Permanent Secretary. All other employees must inform their countersigning manager
- Any conflicts of interest must be declared, with SCS asked to declare conflicts as part of the recruitment process. During 2021-22 there were less than 5 conflicts of interest declared by the Department's SCS. Declarations for all other staff are handled by local management

- Employees may also not accept a directorship, except as a nominee of the Government, in any company holding a contract with the Department without the express permission of the Permanent Secretary. Where it is considered to be in the interests of the Department, employees may seek approval to take up a position, for example a non-executive directorship, with an outside organisation and take time off from to undertake duties in connection the position. Advice on the acceptance of such positions is provided by HR

Special advisers

In line with the current Declaration of Interests policy for special advisers, all special advisers have declared any relevant interests or confirmed they do not consider they have any relevant interests. The Permanent Secretary considered the returns, and the following relevant interests are set out in public:

In compliance with business appointment rules, the Department is transparent in the advice given to individual applications for senior staff, including special advisers. Advice regarding specific business appointments has been published on gov.uk.

Name	Interest
Neil Tweedie	Mr Tweedie holds a paid role as a Company Director of Edwin Street Media. Since taking up his role as a special adviser with the Department, Mr Tweedie has not been active in this capacity and has not undertaken any work on behalf of Edwin Street Media. The process to wind up the company is near to completion.

The Departmental family

The organisational structure, as set out in Figure 12, consists of DfTc and its public bodies which deliver, regulate, or advise on a broad portfolio of functions. The Cabinet Office and the Office for National Statistics (ONS) classify public bodies into three broad categories.

Central Government:

Executive agencies, Non-Departmental Public Bodies, and Non-Ministerial Departments (NMDs). These are collectively known as Arm Length Bodies (ALBs).

Public Corporations:

Market bodies controlled by either central government or local government. Market bodies are defined as entities that gain over 50% of their income from purely commercial activities.

Local Government:

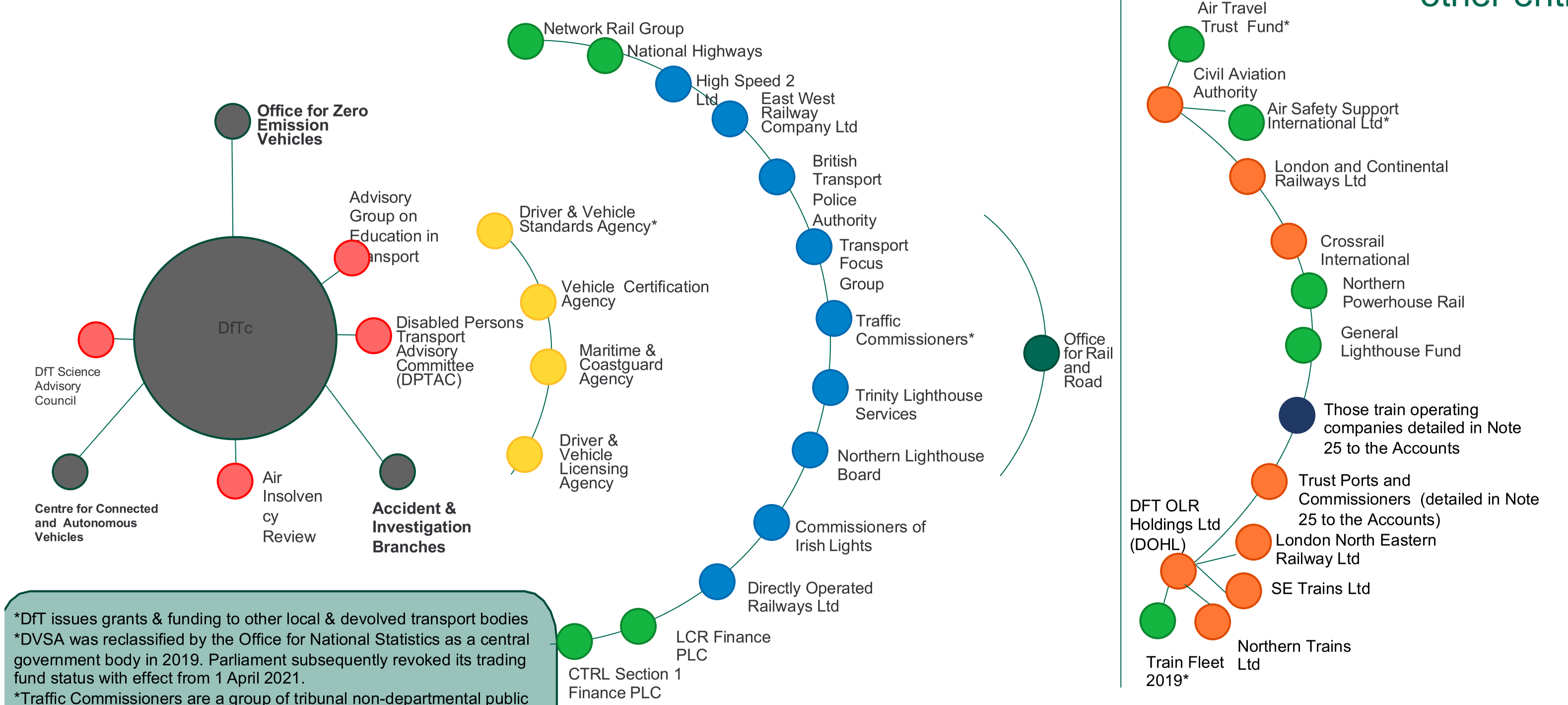
Public administrative bodies that cover a specific locality and any non-market bodies controlled and mainly financed by them.

The Department works in partnership with several other entities such as expert committees and advisory groups. These entities operate independently but are accountable to the Department.

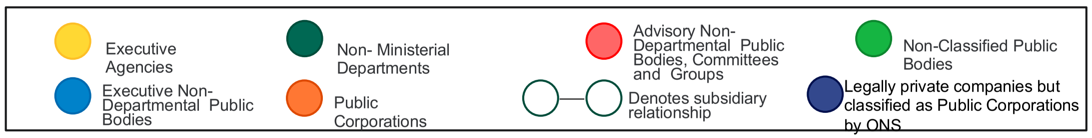
DfT Public Bodies Landscape

Central Government:
Arm's Length Bodies

Public Sector Organisations:
Public Corporations, Local Government and other entities*



*DfT issues grants & funding to other local & devolved transport bodies
*DVSA was reclassified by the Office for National Statistics as a central government body in 2019. Parliament subsequently revoked its trading fund status with effect from 1 April 2021.
*Traffic Commissioners are a group of tribunal non-departmental public bodies
*DOHL was reclassified as a public corporation, effective for accounting purposes from 01/04/2020
*Train Fleet 2019 Ltd is a central government body but has a subsidiary relationship with DOHL
*Air Travel Trust Fund and Air Safety Support International Ltd are central government bodies but has a subsidiary relationship with Civil Aviation Authority
This diagram is accurate as of June 2022.



Overview of the DfTc groups, as of 31 March 2022

The Department is organised into seven groups. The Decarbonisation, Technology and Strategy Group is led by the Second Permanent Secretary and the six other groups are each led by a director general. The main responsibilities for these groups are set out below.

Following the announcement of the Second Permanent Secretary, the Department restructured the Aviation, Maritime and International Security Group. From 1 January, the Group was split into two new groups (as noted in the table below): Aviation, Maritime and Security (AMS) and Decarbonisation, Technology and Strategy and Private Office (DTS). AMS is responsible for leading the response work including COVID-19 as well aviation and maritime and DTS hold responsibility for COP26, Environment and Future mobility as well as international and science.

Decarbonisation, Technology and Strategy	Rail Infrastructure Group
Leads on: • Transport Decarbonisation • Future Transports Systems and Environment • Science, Technology and Innovation • International • Analysis • Strategy and Private Office	Leads on: • Rail Infrastructure South • Rail Infrastructure North • Rail Infrastructure Central • Integrated Rail Plan and Northern Powerhouse Rail

High Speed Rail Group	Rail Strategy and Services Group
Leads on: • Euston Project • HS2 Phases 1, 2a, and2b • Programme Integration	Leads on: • Rail Strategy Analysis • Rail Workforce and Pensions • Integration and Security • Passenger Services • Rail Transformation Programme

Corporate Delivery Group	Aviation, Maritime and Security Group
Leads on: • Portfolio and Project Delivery • Corporate Finance and Property • Shareholding and Corporate Sponsorship • Group Finance • Group Commercial • Group Human Resources • Group Assurance and Digital • Group Communications • Acceleration Unit	Leads on: • International • Transport Security, Resilience and Response • Airports, Infrastructure and Commercial Interventions • Aviation • Maritime • Accident Investigation Branches • Maritime and Coastguard Agency

Roads, Places and Environment Group	Non – Group
Leads on: • Driving and Vehicle Standards Agency • Driver & Vehicle Licensing Agency • Vehicle Certification Agency • COP 26 • Environment and Future Mobility • Road Safety, Standards and Services • Local Transport • Regions, Cities and Devolution • Strategic Roads, Economics and Statistics • Domestic COVID–19 Directorate	Leads on: • Comprised of Legal

The system of corporate governance, management, and internal control

The Department is governed by:

- The Secretary of State's overall responsibility for the Department
- The Permanent Secretary's responsibilities, both to the Secretary of State and directly to Parliament, as the Principal Accounting Officer for the Department's expenditure and management
- The Departmental Board's collective responsibility for overseeing the work of the Department
- Providing layers of control, scrutiny, and assurance to ensure that the Department is achieving its aims and objectives with an appropriate level of control

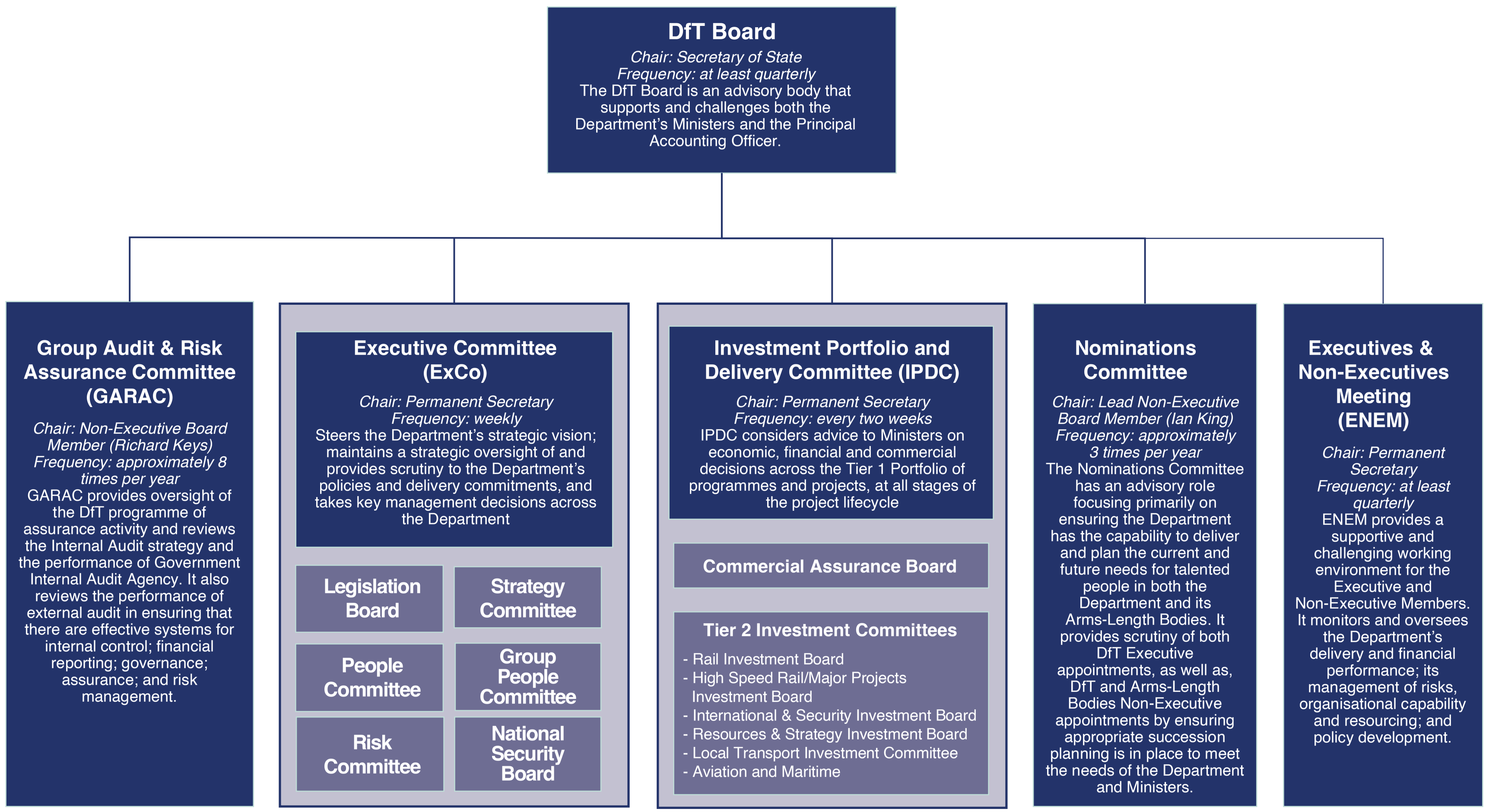
The system of control includes the DfT Board sub-committees, the Executive Committee and its sub-committees, and the Department's public bodies. These are governed by the control framework, which is supported by internal and external assurance processes. Figure 13 provides an illustration of the Board and the sub-committee structure in the Department and the Chair of each committee.

Figure 13: Governance bodies – board and sub-committee structure

DfT Board and sub-committees

Department for Transport

DfT Governance Structure



Departmental Board

The Secretary of State chairs the Departmental Board. The Board has oversight of five main areas, as outlined in table 5.

It advises and challenges the Department on its strategic direction, and on the operational implications and effectiveness, of its portfolio. It operates by delegating several of its responsibilities to sub-committees, and retains accountability for the Department's Public Bodies, from which it can request periodic updates. The Board achieves this by drawing on the commercial, operational and political expertise of its members, which comprises of ministers, Civil Service leaders and NEBMs.

During 2021-22, the Board met four times. A summary of the discussions during 2021- 22 is provided in table 6.

Responsibility of the Board

Overview of the Board's discussions.

Responsibility of the Board

Table 5: Overview of the Board's discussions

Responsibilities of the Board		Topics discussed 2021-2022
Performance	Scrutinising the performance of the Department and its public bodies Setting standards and values	Milestones and delivery were discussed at each meeting as part of the Management Information report
Strategy	Setting the priority outcomes and ensuring activities contribute towards them Advising on major policies, projects and programmes	The Department's COVID-19 response EU Transition Decarbonisation Growing the economy Union Connectivity
Resources	Ensuring sound financial management Considering the appropriate allocation of Departmental resources	The Board discussed resourcing and its allocation across the Department as part of the standing management information update to the Board
Capability	Ensuring the Department has the capability to deliver Ensuring the Department plans to meet current and future needs	The Management Information report provides an overview of the Department's resources and capabilities Business Planning 21-22

Responsibilities of the Board		Topics discussed 2021-2022
Risk	Setting the risk appetite Reviewing key Departmental risks Ensuring controls are in place to manage risk	Aspects delegated to ExCo and GARAC conducted a series of deep dives on key risks on behalf of the Board. These key risks included the risks the Department faces in meeting its commitments to address climate change by decarbonising transport, cyber and information risk, and transport recovery

Compliance with HM Treasury's Corporate Governance Code

The Department has assessed its compliance with the Corporate Governance Code for central government departments and is committed to the code and remained compliant with the spirit and principles of the Code.

Board Effectiveness Evaluation

As per the Department's obligations under the 'Code' the Department is required to carry out a Board Effectiveness Evaluation annually, with independent input at least once every three years.

Richard Pennycook, the lead NEBM for Department for Education was commissioned by Ian King to conduct the Department's independent evaluation. As part of the evaluation Richard observed committee meetings, reviewed meeting papers and met with members of the Board.

Feedback on the evaluation was largely positive, with the committee structure regarded as being robust and effective. There was also recognition that adaptations to remote working had been necessary and well handled.

Areas identified for improvement and review included:

- Strengthening of the DfT Board and engagement between ministers and NEBM
- Development of a competency framework to support NEBM rotation
- Review of meeting protocols

The Department is using these recommendations as areas of focus in improving corporate governance arrangements in 2022-23.

Table 6 – overview of sub-committee discussions

Executive Committee (ExCo)	Executive and Non-Executive Meeting (ENEM)
The Committee met 45 times between April 2021 and March 2022 and held regular discussions around key areas including: • Levelling up/growing the economy • Strategic Priorities • Management Information – including the Department's Principal Risks • COVID-19 • Security and Resilience • Local Authority Capacity and Capability • Annual Report and Accounts	Considered: • The Department's strategic priorities • Future Ways of Working • Efficiency Review and Spending Review • Winter Resilience 2020 review- Lessons Learned • Winter Resilience 2021 • Buses and Local Transport Strategy • Outcome Delivery Plan • People Survey 2021

• Rail Reform/Rail Transformation • Workforce Review • Spending Review • Race Action Plan • Land Use Planning and Consenting • Programme Phase 2 Progress Update • Winter Resilience • Train Operator Company Business • Internal Outcome Delivery Plan 2022-2025 • Acceleration of Places for Growth Commitments • Statutory Instruments • Inflation • Acceleration Unit Update • Transport Safety	• National Highway's Roads Investment Strategy, including major road schemes such as the Lower Thames Crossing, projects on the A358, A428, A303, A12, A14 and Smart Motorways. • Portfolio reporting for the Department's Tier 1 and Tier 2 investments, as well National Highway's Capital Portfolio and Delivery Framework and benefits management and evaluation

Nominations Committee	Group Audit and Risk Assurance Committee (GARAC)
The Committee provides assurance to the Board that the Department has the capability to deliver and plan to meet current and future needs for talented people. It has an advisory role in scrutinising and challenging processes for developing talent, succession planning for both the Department's executive appointments, as well as the Department and public bodies non-executive appointments, anchored in a broad understanding of the Department's overall people strategy.	Key areas the committee considered were: • Annual Report and Accounts • Executive Risk Committee update • The Department's Audit Plan (included updates from the Executive Risk Committee, and reviewing the Risk Management process) • Decarbonising transport/ Net Zero • Cyber and Information Security risks • Strategic Workforce Planning

Key areas the committee considered were: • Key public appointment activity, processes and succession planning across the Department and public bodies • Public appointment diversity strategy • Increased Non-Executive ALB engagement and the implementation of a new Shareholder/ Sponsorship directorate to deliver this • Directors General and Director talent and succession planning • DfT Board Effectiveness Evaluation results	• Supply Chain Management • HS2 Risks • GIAA and NAO findings and updates • Controls and counter-fraud • Raising a concern

Investment Portfolio and Delivery Committee (IPDC)	
The Committee increased the frequency with which it sat during the period of 2021-22, with 34 meetings held during this time. Meeting on a regular basis enabled the assurance and controls to be maintained on decisions for investments and other financial interventions. This also ensured that business cases were considered in a timely manner and that the review of procurement activity across several different areas was maintained regularly throughout the year. The Committee managed the Department's project portfolio and scrutinised projects during their	

delivery phase. Projects and programmes considered during 2021-22 included: • COVID-19 Bus and light Rail funding packages and COVID-19 trackers. • Rail infrastructure projects including Crossrail, Rail Decarbonisation, Midland Main Line, TransPennine Rail Upgrade and Thameslink Programme Closure.	

• The High-Speed Rail 2 portfolio – including scope options, market engagement, Euston, procurement strategy, rolling stock procurement interactions, lessons learned, project lifecycle and baseline approvals, and scrutiny on costs, schedule, affordability and HS2 Management Information quarterly reports.	

Table 7: Overview of Board and sub-committee attendance up to 31 March 2022

Board Member	DfT Board	Executive and Non-Executive Meeting (ENEM)	Executive Committee (ExCo)	Group Audit and Risk Assurance Committee (GARAC) – There were also deep dive sessions scheduled for select members for particular topics of interest.	Investment Portfolio Delivery Committee (IPDC)	Nominations and Governance Committee (NGC)
Rt Hon Grant Shapps	3/4					
Chris Heaton-Harris MP	0/3					
Andrew Stephenson MP	3/4					
Baroness Vere	4/4					
Rachel Maclean MP	0/1					
Wendy Morton MP	1/1					
Robert Courts MP	2/4					
Ian King	4/4	4/4			34/34	3/3
Tony Poulter	3/4	4/4			34/34	
Richard Keys	4/4	3/4		7/7		
Tracy Westall	4/4	4/4				3/3
Ranjit Baxi	4/4	4/4		6/7		
Dame Sarah Storey	4/4	4/4				
Bernadette Kelly DCB	4/4	4/4	42/45	3/7	24/34	3/3
Gareth Davies	2/4	3/4	42/45		24/34	1/1
Nick Joyce	4/4	4/4	43/45	7/7	23/34	3/3
Clive Maxwell	3/4	3/4	44/45		30/34	

Board Member	DfT Board	Executive and Non-Executive Meeting (ENEM)	Executive Committee (ExCo)	Group Audit and Risk Assurance Committee (GARAC) – There were also deep dive sessions scheduled for select members for particular topics of interest.	Investment Portfolio Delivery Committee (IPDC)	Nominations and Governance Committee (NGC)
Emma Ward	3/4	4/4	44/45		22/34	
David Hughes	4/4	2/4	35/45		31/34	
Conrad Bailey	3/4	4/4	44/45		31/34	
Rannia Leontaridi – interim	1/1	1/1	12/12		7/9	
Amarjit Atkar				7/7		
Kathryn Cearns				7/7		
Mark Bayley				7/7		

Governance of public bodies

Much of the Department's business is conducted with and through its public bodies. Within the Department a sponsor team – or separate client and shareholder teams in the case of government-owned companies – manages the relationship with a public body at working level by following the principles set out in a framework document.

Framework Documents

There is a framework document in place between the Department and each of its public bodies, in line with HMT's guidance set out in Managing Public Money.

Framework documents are developed in collaboration with each public body to set out respective responsibilities, accountabilities, governance arrangements and financial management, and include expectations for the relationship between each public body and the Department.

Additionally, relevant controls set out by the Department, HMT, and Cabinet Office that define the parameters within which the organisation must operate are detailed, including reporting requirements. As part of a 2021 update to Managing Public Money, HMT provided specimen templates for government-owned companies, non-departmental public bodies and non-ministerial departments.

Executive agency and public corporation specimen templates are expected to be published in 2022. HMT aims to promote consistency of governance arrangements for each classification of public body.

The Department supports sponsor and shareholder teams in ensuring that all framework documents are fit for purpose and compliant with Managing Public Money.

Public Body Review

Cabinet Office launched its new Public Bodies Review Programme in January 2022, including guidance for departments. The Department is working with its public bodies, Cabinet Office, and HMT to plan an ambitious programme of public body reviews over the next three financial years.

Non-Executive Board Appointments and diversity

Ministers appoint around 150 Non-Executive Board members including Chairs to the Department's public bodies each year. These roles provide a link between the Department and its public bodies, providing their Boards with the required expertise and experience to enable delivery of government objectives. NEBMs also provide constructive challenge to the public bodies Boards, to ensure good governance is in place. Most of the Department's public appointments are regulated by the Office of the Commissioner for Public Appointments, in compliance with the Government's Governance Code for Public Appointments.

The Government has set an aspiration that by 2022, 50% of all public appointees across government should be female and that 14% of appointments should be from BAME backgrounds. As of March 2022, 33% and 8% of the Department's public appointees were female and BAME respectively. This is an increase from the previous year in which 30% were female and 4% BAME.

To meet this challenge the Department has developed a strategy for diversity in public appointments aiming to improve data, attract more diverse talent, develop a more inclusive application processes, and provide more ongoing candidate support.

The Department also continued to build a talent pool of credible and diverse candidates, with a range of skills and experience; promoting the non-executive roles among diversity networks and participating in cross-government initiatives aimed at attracting candidates and raising awareness of public appointments.

These efforts have been reflected in increased diversity of applicants for roles; those progressing to the later stages of competitions and actual appointments. For example, a campaign for the Civil Aviation Authority had 11% BAME applicants and the campaign for East West Rail Chair had three BAME and two female candidates on the shortlist of six, with Neil Sachdev appointed. The Department's work on diversity is strengthened by its sponsorship of the Disabled Peoples Transport Advisory Committee, which has a majority disabled membership and a strong record of attracting disabled candidates. Accordingly, the Department has 11.3% of appointees declaring a disability, which is the highest proportional across Whitehall.

Ministerial Directions

There were no ministerial directions during 2021-22.

Our approach to risk

The Department's Risk Management Policy promotes a no surprises, no blame culture, where well managed risk taking is encouraged and managers are asked to lead by example. Risk management behaviours should be embedded into all Departmental activities. The Department's leadership understands that considered and well-managed risk taking is necessary to deliver business objectives. As a result, there is regular monthly reporting of the Groups top risks to ExCo, and additional reporting to ENEM and the DfT Board. The Executive Risk Committee to include a deep dive of a specific Principal Risk and also of a Group top risk each month.

During the year, the Department reviewed and developed a set of Principal Risks to replace the existing cross cutting risks for the Department. The purpose is to update, clarify and clearly identify the Department's top risks. These risks were managed and mitigated throughout the year and will continue to be updated to provide a forward look and will be managed and mitigated on an ongoing basis.

These Principal Risks are being used to support the risk management process by requiring directorates from across the Department to consider how their analysis of key risks support the effective management of the Principal Risks.

There is no Principal Risk around Legal, however we are mindful that we work in an environment and deliver projects and programmes that can attract legal challenge, and it is important that we operate within the law. Legal risks are assessed, monitored and mitigated project by project and programme by programme and we take appropriate measures to meet legal or regulatory requirements or to protect our assets.

The Department is fully engaged on cross-government improvement work to strengthen risk management – the Department's Principal Risks align closely to the Civil Service Principal Risks and are used to provide an update to the Civil Service Board.

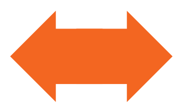
The Department recognises that many risks are carried by the public bodies and works with them to ensure that risks are widely understood, and opportunities are taken to collectively manage them, as part of the shareholder role. The risk escalation protocol promulgated in 2018 continues to give direction to the public bodies on what they need to escalate to the Department and when.

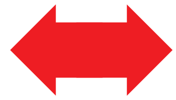
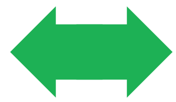
The reporting year has again brought many challenges and as a result, the Department took forward a Risk Action Plan to further address and strengthen risk management. This plan was agreed and supported by the Executive Risk Committee (incorporating Departmental Risk Champions) as well as by ExCo and GARAC. Key elements of the Plan included more consistency with how risks are managed by the top boards, strengthening the feedback loops across the whole Department, and renewing the commitment to build staff capability. Increased, dedicated, risk management training for all staff is to be taken forward during the coming year.

Principal Risks

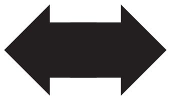
The next table sets out the principal risks that the Department managed during the year. These risk themes represent the Department's view on the overall risk profile, considering the risks carried and managed by the public bodies.

More information on the Department's response to COVID-19 can be found at the start of the Performance Report from page 8. As well as handling COVID-19 outbreak and lockdown restrictions, the Department has also worked hard to manage the risks around the UK's transition from the EU and how this has affected our freight, trade and passenger travel to the EU, particularly through our channel ports.

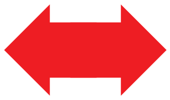
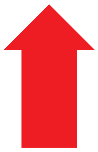
Principal Risk	Mitigating Activities taken during 2021 – 2022	Direction of risk trend at year end
The Department is not able to **afford to deliver all of its priorities in the medium to long-term, in particular due to inflationary pressures or cost of living crisis**	The Department: Secured the Spending Review 2021 settlement and undertook a business planning review to allocate funds across the Departments priorities, this allowed us to better understand residual pressures Made continued use of sound finance clearance processes to advise Ministers, ExCo and wider Department on future affordability risks until the SR was completed	

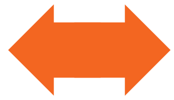
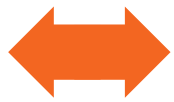
Principal Risk	Mitigating Activities taken during 2021 – 2022	Direction of risk trend at year end
The Department is **not able to deliver its major projects to time or cost or deliver the expected benefits**	The Department: Used quarterly IPDC Portfolio meetings to monitor, analyse and report on progress of Tier 1 projects, in particular project delivery capability via delivery confidence assessments and performance such as cost, schedule, benefits, resourcing and underpinning metrics Engaged with SROs and Portfolio risk owners to improve analysis and reporting, using their expertise to scrutinise project data and provide better assessment of project risk exposure and mitigations Improved mitigation actions by risk owners acting to drive awareness and co-ordination of actions across the Department	
There is a **significant loss of life** within the transport (or international) network due to system or infrastructure failure, accident, or security breach	The Department: Worked with the Office of Rail and Road (ORR), Rail Safety and Standards Board (RSSB) and Rail Accident Investigation Branch (RAIB) to maintain and improve safety regulation and culture Ensured that Network Rail were aware of their responsibilities and implemented recommendations made by the RAIB following any investigation e.g., derailment, and operational faults, and that ORR focus on areas identified as high risk, utilising a tracker to monitor progress of RAIB recommendations allocated to the Department, and ensured Network Rail set aside funds to facilitate numerous level crossing closures, upgrades and renewals over the period 2019-2024 Worked closely with Civil Aviation Authority to ensure safety risks and oversight are effective. Including regular State Safety Board meetings Established a new forum since leaving the EU (Air Safety Committee, Rule-Making board, and Industry engagement forum) and it continued oversight of overseas territories and crown dependencies through existing governance channels	

Principal Risk	Mitigating Activities taken during 2021 – 2022	Direction of risk trend at year end
The transport network is **forced to close due to a major incident or is unable to restart transport activities** after a major incident, pandemic, or natural catastrophe	The Department: Held regular planning meetings between TSOC and modes helped the Department prepare for major incidents. TSOC and modes also have plans in place to respond to no-notice incidents. These plans are regularly reviewed and exercised based on risk Regularly engaged with Transport Operators to ensure their preparedness for key risks and to ensure clear lines of communication and timely reporting. There was extensive engagement on winter risks, both traditional winter weather risks as well as supply chain and workforce issues which have the potential to exacerbate impacts over the winter period Set up a Departmental Response Cohort, a permanent resource of 160 response staff that can be called upon to respond to a disruptive event. Members received training in either a policy, operations, or senior management role, to ensure they have the right skills required to respond to any incident on behalf of the Department Continued to deliver internal capability training through the Training and Exercising Programme to upskill new staff and maintain skills of existing staff. Internal and cross-govt exercises continue to test plans and skills of both TSOC and modal teams Fully engaged in the refresh of the National Security Assessment which highlights the most critical risks facing the country in terms of likelihood and impact	

Principal Risk	Mitigating Activities taken during 2021 – 2022	Direction of risk trend at year end
The Department does **not deliver sufficient** action in the transport sector **to provide carbon savings, meet air quality and biodiversity targets,** and mitigate against climate change adaption, as required by law	The Department: Developed our EV Infrastructure Strategy, which sets out its long-term vision for zero emission vehicle infrastructure in the UK; its response to the consultation on future CO2 emissions regulations for new vehicles; and a ZEV mandate Worked with public bodies to ensure consistency in how it measured and reported carbon across the DfT Portfolio and integrating carbon into the five-case assessment model for project decision making Commissioned a feasibility study to assess the potential impacts on the DfT infrastructure pipeline of a proposed 30-50% emission reduction target in the embodied emissions of government projects by 2030, against a baseline set in 2023–24. Worked with HS2 Ltd on developing their Biodiversity Action Plan, which included a Phase 2b net gain delivery plan to support the Bill process. Provided support on Natural England’s formal assurance role in providing advice and assistance in identifying potential BNG partners, which includes stakeholder engagement and assuring HS2’s biodiversity metrics	
Key **transport corridors and workers** (e.g. HGV drivers) that are needed to maintain the transport of goods and people **become unavailable**	The Department: Completed 32 short, medium and long-term interventions and the development of long-term work programmes on lorry parking and driver terms and conditions Increased HGV testing capacity and cleared the backlog in processing provisional licences and renewals Funded two new apprenticeship routes and delivered 11,000 bootcamp places which significantly increased routes to entry along with initiatives targeted at HGV drivers Ensured clear accountabilities and consistent messaging with OGDs ahead of the border control changes following the EU exit Established a weekly check in with Maritime Operations Established an ongoing programme of weekly and monthly engagement with industry and OGDs to gather intelligence and identify potential issues Worked closely with Border Protocol Delivery Group on increasing the Department’s access to financial data and next steps Drafted the Roll On, Roll Off Passenger strategy which set out its objectives, risks/mitigations, and stakeholder management	

Principal Risk	Mitigating Activities taken during 2021 – 2022	Direction of risk trend at year end
The Department **does not** have the **capacity and/or capability** to deliver its priorities and objectives, with additional effect on the **wellbeing of Departmental staff**	The Department: Conducted Quarterly Workforce Reviews with good results which enabled timely decisions on workforce re-alignments and the management of workforce risks and issues. These reviews also resulted in a prioritisation framework being developed, which in turn will facilitate an ongoing re-alignment of the workforce to the highest priority work across the Department Worked with external partners to fully understand the size and nature of available talent in regional locations to inform the best resourcing strategies Adopted a volume recruitment strategy, using pre-emptive (rather than reactive) campaigns in its largest professions of Policy and Project Delivery to fill immediate vacancies whilst also stocking good quality Reserve Lists that were actively managed to provide an always on pipeline in between campaigns Launched work with an external employer brand partner to build awareness and the reputation of the Department as a great place to work, with particular focus on building presence in regional locations and across a more diverse market In line with the commitments set out in the Inclusion & Wellbeing and Race Action Plans, undertook significant activity to strengthen and diversify the pipeline into more senior leadership roles within the Department	

Principal Risk	Mitigating Activities taken during 2021 – 2022	Direction of risk trend at year end
Transport systems are unable to function due to a **critical market, supplier or supply failure** in key network and delivery tools	The Department: Undertook regular financial monitoring, business continuity and risk assessments of the Department’s group strategic & critical suppliers including the production of weekly intelligence across strategic suppliers and key markets Undertook strategic supplier engagement through a strategic partnering initiative, and industry body engagement through a supply chain working group to ensure strategic alignment and identification of risks and opportunities Produced a bi-annual UK construction market health dashboard and presentation to IPDC Worked with all ALBs to understand their pipelines and pinch points, analysing pipeline data to identify pinch points by category, commodity, or skill. Modelled worst case scenarios, e.g., if everyone ordered everything at the same time, could the market/current suppliers satisfy demand, if not how do we work with the market / suppliers to increase overall supply Set up a working group to work closely with ALBs to investigate commodities such as steel and cement and take a much wider view of overall demand for key/essential commodities	
DfT and transport digital systems become compromised due to a **hostile cyber environment** and increase in cyber-attacks	The Department: Created a Security Improvement Project to ensure awareness of and fixing of vulnerabilities, implementing improved monitoring and review how we conduct our monitoring/fixing capability Tendered for a Security Operations Centre System – 24/7 monitoring on our systems to mitigate risks further. The Department put in place extra support and capability to monitor its services out of hours and contracted with Deloitte to provide this extra resource Patched its cyber services regularly and used multiple layers of security to protect its estate. The Department met with suppliers who briefed it on threats that they were seeing as part of the wider online environment Issued extra communications out to the DfT staff reminding them to be ultra-cautious	

Principal Risk	Mitigating Activities taken during 2021 – 2022	Direction of risk trend at year end
DfT **does not adequately forecast / horizon scan** for future changes in the transport system, resulting in **ineffective decision making** (e.g., demand forecasting, scenarios, or future projects)	The Department: Engaged in a cross-departmental Futures programme to increase the resilience of policy, strategy and investment decisions by: Anticipating and understanding future risks and opportunities to the transport system, allowing the Department to be proactive rather than reactive in its response Supported and built capacity in making resilient decisions under uncertainty, utilising futures scenarios, and tools. Building agility into long term plan	
DfT does not adequately prepare to meet the challenges posed by **International Crises,** in particular economic instability, movement of people and supply chain issues	The Department: Engaged with stakeholders to identify threats to critical resources, examing alternative sources and routes of supply in order to inform intervention and mitigating opportunities. Engaged with OGDs to ensure that our and their solutions are not dependent upon the same suppliers/supply chain	

The direction of the risk trend indicates whether the probability of the aggregate likelihood and impact of the risk materialising increased, decreased, or remained the same over the period of this report. The colour code used indicates the severity of risk and increases using a five-point scale from green, yellow, orange, red, black.

The Department's principal risks were developed part way through the year and continuously reviewed thereafter to keep them live and relevant. Examples of this evolution can be seen in the first and last principal risk noted specifically references to 'inflation/cost of living crisis' and 'international conflict' respectively, as these inclusions were not added and mitigated against as part of the principal risk list until later in the year.

Framework of internal control

Robust control arrangements within the Department provide assurance to the Board, the Principal Accounting Officer and ministers that public money and resources are used properly and efficiently.

The Department continued to deal with COVID-19 interventions, ensuring clear governance and cross-stakeholder engagement were in place to support decision making. Controls were strengthened and implemented whilst the Department worked at pace.

Financial governance, management and control

The Department's business planning process allocates the budget voted by Parliament to all parts of the Department. Financial plans are agreed between the Department and HMT through the Spending Review process.

At the commencement of each financial year, Parliament provides statutory authority for the Department's budget through the Main Estimate. In parallel, the Principal Accounting Officer formally delegates budgets to Directors General and the Department's public bodies. The Department, through ExCo, reviews actual and forecast outturn each month to ensure that spending is managed in-line with approved budgets and takes any required action to enable and control this. This monitoring is designed to ensure that the Department does not breach any of the spending control limits approved by Parliament, while also providing advice on options to ensure the best use of available resources to ministers and the Board in order to deliver the Department's priority outcomes.

Requests for budget changes are agreed with HMT during the year alongside strategic decisions made by ministers and the Board. The Department seeks statutory authority from Parliament for changes to budgets in-year through the Supplementary Estimate. In parallel, final budget delegations for the year are issued to directors general and public bodies. Actual spending for the year is compared with the final budgets approved by Parliament in the Statement of Outturn against Parliamentary Supply (page 289).

Spending on COVID-19 interventions

The Department's spending requirements on interventions across the transport sector in response to COVID-19 were authorised by HMT and closely managed in 2021-22. ExCo monitored these costs monthly against forecasts which were updated throughout the year as the spending requirements arising from COVID-19 developed. Parliament formally approved any changes to these spending requirements on COVID-19 interventions through the Supplementary Estimate. Fraud Risk Assessments and additional due diligence was prioritised for COVID-19 schemes to help identify risks and any fraud and error loss to the Department.

Fraud risk assessments were undertaken for grant areas assessed as high risk and awareness raised across the Department to make sure control procedures were reviewed and assessed for continuing effectiveness.

Financial control, counter fraud and raising a concern

The Department has a 'zero-tolerance' attitude towards fraud, bribery and corruption. Any such acts are investigated and, where appropriate, disciplinary and/or legal actions are taken, in line with CO guidelines. The Department continued to deliver against the Counter Fraud, Bribery and Corruption strategy in countering fraud, reducing risk, and raising awareness across the Department. The Department participated in the International Fraud Awareness Week by working with internal and external stakeholders to help raise awareness of counter fraud, bribery, and corruption.

The Department participated in the National Fraud Initiative in 2021-22 as part of the wider detection activity and rolled out Spotlight, a due diligence tool to support identification of risk areas that may require further investigation and detection of fraud and error.

Quarterly meetings were held comprising of senior fraud officers, Government Internal Audit Agency and other representatives from the Department and its public bodies. It considered updates from group members on counter-fraud activity, advice and initiatives from the CO, information sharing, best practice and any areas of concern impacting on the Group's policies and procedures. This collaborative approach allowed the Department to raise awareness of counter fraud activity and better understand the risk landscape across the

Department. Significant progress has been made in meeting the requirements of the Government's Counter Fraud Functional Standard.

All staff in the Department are required to undertake annual online fraud awareness training.

The Department continues to implement Cabinet Office's cross-government internal fraud policy where employees dismissed for fraud, bribery or corruption are placed on to the Cabinet Office internal fraud database and are not able to gain re-employment across the Civil Service for a period of five years. During 2021-22, one case fell within scope and resulted in an addition to the database.

Where appropriate, any cases of reported fraud during the same period within the Department's public bodies are noted in their own Governance Statements.

The Department remains committed to building a culture where people feel safe to speak up about perceived wrongdoing and inappropriate behaviour and to report any concern in the knowledge that these will be heard, and concerns taken seriously.

To improve awareness of reporting routes, in September 2021 the Department participated in the Civil Service-wide "Speak Up – *it's just having a quiet word"* campaign. A series of events were delivered with a particular focus on unfair treatment, including bullying, harassment, and discrimination, reminding employees of the informal and formal reporting routes and support available to individuals.

The People Survey also provides the Department with useful information and insight on how employees feel about the organisation at a point in time. This data provides an opportunity to improve, develop and strengthen existing processes and practice going forward.

Some of the key findings from the 2021 People Survey results included:

- 65% of the Department respondents said they were aware of how to raise a concern under the Civil Service Code (below the Civil Service benchmark of 68%). This was a small decrease from 67% in 2020
- Confidence that a concern raised would be properly investigated remained stable at 77% (above the Civil Service benchmark of 76%)
- 73% of the Department respondents said they felt able to challenge inappropriate behaviour which was an improvement on the 2020 response of 70% (above the Civil Service benchmark of 70%)

The results indicate there is more to do to improve employee understanding and awareness of the Civil Service Code, routes to raise concerns and the protections available to them. Plans are in place to improve employee understanding and awareness going forward.

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Investigation into London & South Eastern Railway Ltd

On 9 May 2022, the Department issued a final penalty notice on London & South Eastern Railway Ltd (LSER), following investigation of alleged breaches by LSER of the Franchise Agreements entered between the Secretary of State and LSER in September 2014 and March 2020.

The Department concluded LSER had breached the "good faith obligation" in these Franchise Agreements. The investigation identified financial irregularities by LSER, including non-disclosure of overpayments of subsidy from the Department; deliberately reporting non-specific liabilities in LSER's financial records, in order to conceal the true financial position of amounts properly due to the Department; and deliberately mis-allocating liabilities between different historic franchise agreements in order to reduce LSER's profit-share payable to the Department. Full details of the alleged irregularities and the conclusions are set out in the final penalty notice21.

The Department recovered the sums and interest associated with the financial irregularities identified from LSER in-full: accordingly, the matters identified do not represent a financial loss to the Department or taxpayer. In addition, the Secretary of State issued a penalty of £23.5 million on LSER as a sanction for LSER's breach

21 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1079255/london-and-south-eastern-railway-limited-final-penalty-notice.pdf

of the Franchise Agreement: as required under Managing Public Money, this fine was remitted to the Exchequer upon receipt in May 2022.

LSER's latest Franchise Agreement with the Department expired in October 2021. The Secretary of State elected not to extend the contract with LSER. Consequently, since 17 October 2021 the Department has operated the contract directly under the Operator of Last Resort arrangement. Considering the issues identified, the Department has reviewed its contracts with other rail operators and strengthened its contract management controls. In addition, Government Internal Audit Agency (GIAA) was commissioned to review the Department's oversight and financial control over the Department's contracts with Train Operating Companies.

Management Assurance

The 2021-22 Management Assurance review of DfTc based on director level assessments resulted in an overall opinion judged to be within the Substantial range, with overall 22 of the 40 areas of internal control reported by business units as Substantial (with the remainder being reported overall as Moderate). There were two individual Unsatisfactory rating identified in two different categories for two different business units of DfTc in 2021-22. Year-on-year, the process is bringing greater visibility to the importance of controls and requirements. Results are reported to ExCo and GARAC focusing on the lower scoring categories, with action plans identifying improvements with a number of actions already undertaken. Noting that while these are the lowest scoring categories, they are in the Moderate range and therefore are not flagged as ‘urgent action required’:

- (Tier 2 & 3) Project Delivery (lowest scoring)
- IT of Third-Party Suppliers
- Business Continuity
- Knowledge and Information Management
- Directorate Performance Management (KPIs & Milestones)

The Department’s overall approach to Management Assurance is a two-stage review, consisting firstly of the director level assessments of the assurance they have over key control areas within their responsibility, and then secondly an independent view of assurance against those same control areas by Subject Matter Experts, which could result in adjustment to the overall judgments made. The 2021-22 assurance rating of Substantial is based solely on director level assessments. Subject Matter Expert opinions are due to be completed later in 2022.

Project assurance

Project Delivery Capability

Capable project delivery professionals are a critical component of successful project delivery. The

Department remains committed to supporting our people to ensure they have the project delivery capabilities they need to do their jobs to a high standard. Steered by the Head of Profession and supported by the Project Delivery Profession Board, the Department has continued to make ongoing investment in individuals continued professional development.

The Department invested in its experienced project delivery professionals through funding for 11 staff on the Major Projects Leadership Academy, 23 staff on the Project Leadership Programme and 16 through the Project Delivery Development Programme during 2021-22. The ongoing commitment to improving project delivery builds on the 'Lessons from Transport for the Sponsorship of Major Projects' report, with the Department committed to delivering the next phase of the Project Delivery Improvement Programme.

Project Assurance

The Department works closely with the Infrastructure and Projects Authority (IPA). The Department is a major contributor to cross-government workstreams, and actively supports the professionalisation of project delivery. This has included supporting the rollout of central initiatives such as the Government Project Delivery Framework and updating the Government Functional Standard for Project Delivery and associated guidance. The Department's Project Delivery Centre of Excellence provides a central source of advice, guidance, and support to our project delivery community. The Centre of Excellence also provides expert project assurance to support the monitoring of projects and inform the Department's investment decision making processes. This is supplemented by the Department's Lessons Team and though its established community of practice, which shared project delivery lessons, themed best practice and profession insights from across industry all through a series of events held over the year.

The Department operates a tiering system for projects and provides assurance through governance boards who monitor and make investment decisions at set points in a project's lifecycle. The scale or scope, level of strategic risk and expected costs determine the level of governance oversight a project requires. The Department's major projects portfolio (comprising 29 projects at the end of March 22) includes the largest, riskiest, and most costly projects. The Tier 1 Portfolio reports to the Department's topmost investment decision making board – IPDC. A sub-set of this portfolio of projects (23 projects) forms part of the Government Major Projects Portfolio and reports quarterly to the IPA. An overview of our tiering system is provided in Figure 14.

DfT group investment approval structure

Investment approvals are required whenever there is a contract award or investment, and approval must be gained from the appropriate investment board, as shown in Figure 14. All Tier 1 projects must undergo independent project assurance reviews at particular stages in their lifecycle aligned to these investment approvals, and those reviews carried out this year by IPA accredited reviewers are provided in Figure 15.

Figure 14: Investment Approvals – Structure

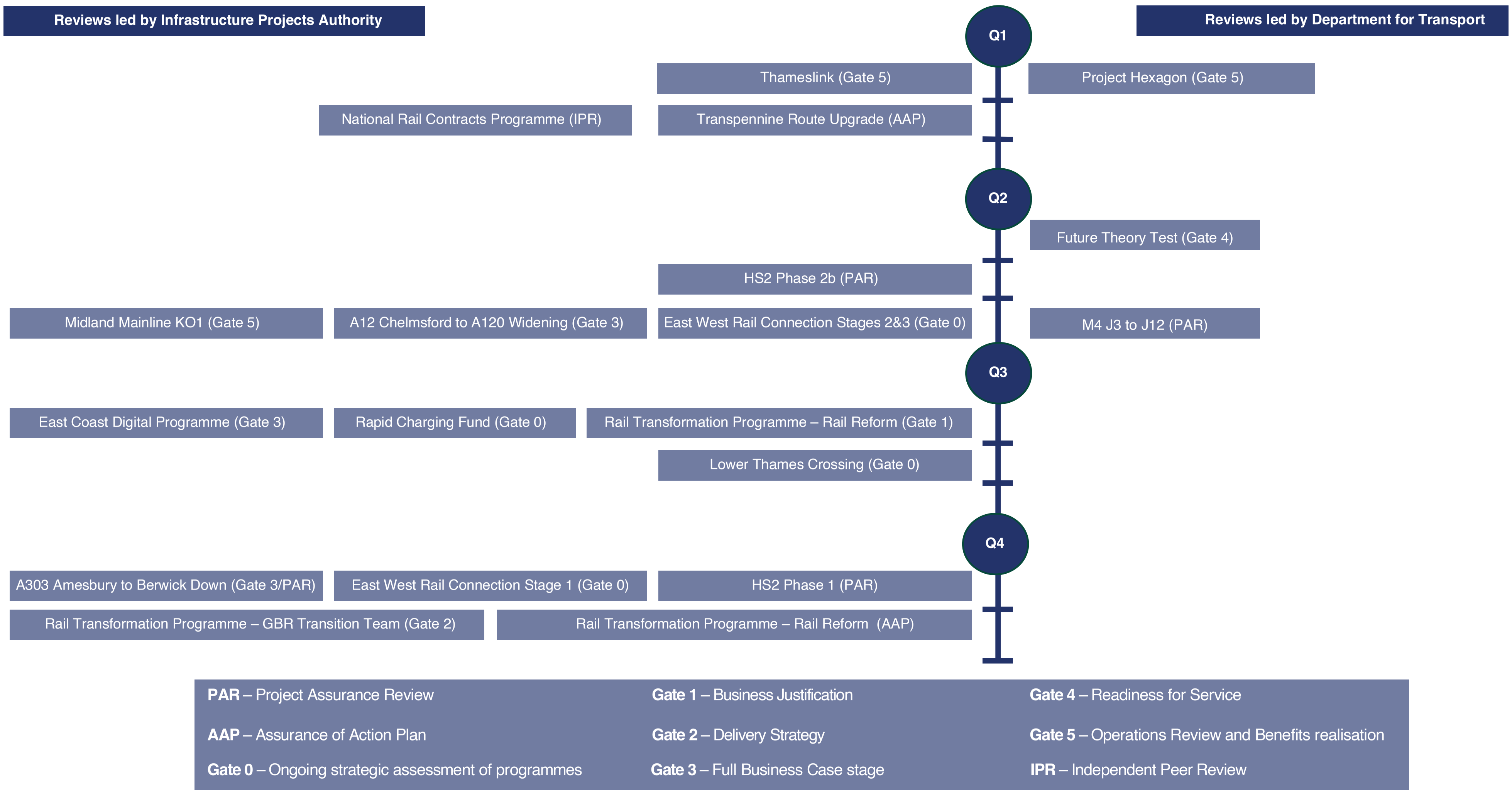
Department for Transport

		Thresholds
	DfTc BOARD	
Tier 1	**Investment, Portfolio, Delivery Committee (IPDC):** Maintains an overview of the Department's overall investment portfolio, makes recommendations to the Board for approval, and considers individual projects designated as Tier 1.	**Financial:** ▪ Highways England and Network Rail major projects over £500m. ▪ All other projects with a whole life cost of over £100m. ▪ All contracts which provide third party revenue or gross subsidy over £200m over the life of the project. ▪ GMPP projects. ▪ Other high risk, novel or contentious projects.
Tier 2	**DfT Group Investment Boards:** Scrutinise and approve Tier 2 projects for their respective areas Including: rail, roads, motoring services, high speed rail, international security and the environment and local.	**Financial:** ▪ Highways England and Network Rail projects £50m to £500m. ▪ Motoring Services projects: £10m to £100m. ▪ High Speed Rail projects £30m to £100m. ▪ All contracts which provide third party revenue or gross subsidy over of £100m to £200m over the life of the project. ▪ Other medium risk projects.
Tier 3	Individual Project Boards and Managers within delegated authority.	**All other projects**

DELEGATED APPROVAL

INFORM

Figure 15: Overview of Tier 1 project assurance reviews in 2021-22



Analytical assurance

Analytical Quality Assurance (AQA) involves the consideration and communication of the strengths, weaknesses and limitations of analysis. This allows decision makers to better understand the quality of the evidence base they use. The Department's Analytical Assurance Framework, Strength in Numbers, aims to strengthen the standard of analytical quality assurance in the Department. It is now well embedded within the Department and the executive agencies.

As part of the framework, the Department maintains and publishes a register of Business-Critical Models, each of which has an appointed Senior Model Owner responsible for ensuring appropriate governance and quality assurance of the model and its outputs throughout its lifecycle. Business Critical Models are used to drive essential decisions and have robust governance regimes in place to assure against errors which could cause serious financial, legal and/or reputational damage to the Department.

There are currently 98 Business Critical Models used across the Department and the executive agencies, 50 of which are based in the Department.

Where analysis is used to inform or underpin decision-making, papers must include an Analytical Assurance Statement. These statements highlight the strengths, limitations, and uncertainties in the analysis, ensuring decision-makers are fully informed. When included in submissions to ministers and Tier 1 and Tier 2 investment boards, they must be reviewed by an independent assurer to make sure all relevant information has been communicated, and the extent to which the analysis is considered reasonable and robust is clear.

There is good governance and assurance of analysis produced by public bodies to inform decisions taken by the Department, facilitated by strong working relationships between analysts across the organisations. Where responsibility for decision-making is delegated to public bodies, responsibility for AQA is also delegated. The Department's Community of Practice brings together colleagues responsible for AQA from the Department and the executive agencies to share good practice and ensure continuous improvement.

Independent assurance

DfT's internal audit service is provided by the GIAA, an Executive Agency of HM Treasury. GIAA operates to the public sector internal audit standards, confirmed through its last External Quality Assessment undertaken by the Institute of Internal Auditors between July and October 2020. The Group Head of Internal Audit (Group HIA) provides the Department's Accounting Officer with an independent opinion on the adequacy and effectiveness of the Department's systems of internal control and makes recommendations for improvement. The work of GIAA is based on its analysis of the Department's risks and its audit programme, which is approved by GARAC.

Regular reports are provided by GIAA to the Department's management, GARAC and to the Executive Committee.

The Group HIA has provided the Permanent Secretary with an annual report on internal audit activity in the Department and its ALBs over the course of 2021-22. This report summarises each of the individual Head of Internal Audit annual opinions for the Department and its ALBs; movement from 2020-21 and provides the Group HIA's independent opinion for 2021-22 on the level (i.e., Substantial, Moderate, Limited, Unsatisfactory) of assurance that can be placed on the adequacy and effectiveness of the Department and ALB's governance, risk management and internal control arrangements.

The report showed that across the Department and its ALBs, Internal Audit found evidence that the control environment established over recent years has broadly been sustained. All the HIAs of the DfT bodies reported a Moderate opinion or above. As a result, the Group Internal Audit Opinion for 2021-22 is **'Moderate'**.

Looking ahead, as the Country moves on from the pandemic, the Department is subject to high levels of challenge with Covid 19 decisions being reviewed, the ongoing rail restructure, including the creation of 'Great British Railways', the heightened focus on Decarbonisation, Industrial action, Ukraine war and the recent government objectives in headcount reduction across the civil service. With senior management attention directed to these it remains also important that there is adequate oversight and capability across the core areas, particularly digital to ensure the Department's wider objectives are supported on firm foundations of security, control, and risk management.

External review

The Department was the subject of four NAO reports during 2021-22. The Permanent Secretary and members of her leadership team attended five hearings at the Public Accounts Committee (PAC) to give evidence on recent developments. Further detail can be found in PAC[22] and NAO[23] websites.

Accounting Officer System Statement

The Department published the latest Accounting Officer System Statement in March 2022[24].

Correspondence

The Department aims to respond to correspondence from members of the public in 20 working days. In 2021-22 28,622 cases were received (a 34% increase on the previous financial year) and 88% of replies were sent on time. The target response time for correspondence from MPs, Peers and key stakeholders is seven working days. The Department received 16,094 cases in 2021-22 and 68% of replies were sent by the target deadline.

22 https://committees.parliament.uk/committee/127/public-accounts-com

23 https://www.nao.org.uk/

24 DfT accounting officer system statement 2022 – GOV.UK (www.gov.uk)

Information rights, including personal data related incidents

Information rights

The Department and its executive agencies received 2890 requests for information under either the Freedom of Information (FOI) Act or the Environmental Information Regulations (EIR). The Department met the 20-working day statutory response deadlines in 95% of these cases. The Department also answered 19,993 valid requests from individuals exercising their rights under data protection legislation. These consisted mainly of subject access requests, 97% of which were answered within the statutory deadline despite changes to our physical working arrangements necessitated by COVID-19. The Department publishes a list of FOIs and EIR responses where some or all the requested information has been disclosed25.

Personal data related incidents

The Department holds personal data on millions of the UK population, including drivers, vehicle keepers, those taking driving tests, driving instructors, and seafarers. Every year we process millions of transactions involving this and other personal data and take very seriously our responsibility to keep the data secure. The Department notified 12 separate breaches to the Information Commissioner's Office (ICO). The Department continues

25 Df T – Transparency and freedom of information releases – GOV.UK (www.gov.uk)

to take steps to reduce the number of all kinds of personal data related incidents.

Complaint’s handling PHSO investigations

The Parliamentary and Health Service Ombudsman (PHSO) investigates complaints about the Department and its delivery bodies when referred by a Member of Parliament on behalf of a complainant. Generally, the PHSO will expect the Independent Complaint Assessors to have reviewed the matter before they consider investigating.

Where the PHSO believes there is evidence that there has been maladministration, unfair treatment, or poor service, it will investigate the issues, review the remedy provided, and may recommend further actions to resolve the matter. All recommendations made by the PHSO were implemented in the year by the Department.

Table 8: Number of complaints investigated, upheld, and not upheld by PHSO

Organisation	Complaints accepted for detailed investigation			Investigations upheld or partly upheld			Investigations not upheld or discontinued		
	21/22	20/21	19/20	21/22	20/21	19/20	21/22	20/21	19/20
DfTc	0	0	0	0	0	0	0	0	0
DfT Independent Complaints Assessors	2	0	0	1	0	0	1	0	0
CAA	1	0	0	1	0	0	0	0	0
DVLA	4	12	10	5	4	3	2	8	8
DVSA	0	0	0	0	0	0	0	0	0
NH	0	0	1	0	0	0	0	0	1
HS2 Ltd	2	0	1	2	0	0	0	0	1
MCA	0	0	0	0	0	0	0	0	0
VCA	0	0	0	0	0	0	0	0	0
Total	9	12	12	9	4	3	3	8	10

When PHSO concludes an investigation, it may do so in the year(s) following when it was accepted. In addition, there can be several recommendations made to the Department or its public bodies to resolve a complaint, and the time between the conclusion of an investigation; issue of a report with recommendations, and when those recommendations are complied with or not can fall into a subsequent year. Table 9 includes the number of recommendations made by PHSO and those complied with in 2021-22.

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Table 9: Recommendations made by PHSO and compliance with them

DfTc or Public Body	No. of Cases with Recommendations			No. of Recommendations			Closed: Complied With			Open: In Compliance		
	2021-22	2020-21	2019-20	2021-22	2020-21	2019-20	2021-22	2020-21	2019-20	2021-22	2020-21	2019-20
DfT	1	0	0	1	0	0	1	0	0	0	0	0
DVLA	5	3	3	9	6	8	8	6	8	1	0	0
HS2	2	0	0	2	0	0	2	0	0	0	0	0
CAA	1	0	0	1	0	0	1	0	0	0	0	0

Better regulation

The Department has continued to ensure that regulation in the transport sector is proportionate and does not impose unwarranted burdens on business. The Department will continue to assess the proportionality of its regulations on an ongoing basis and seek opportunities for regulatory reform. The Government's Benefits of Brexit paper announced an ambition to cut £1 billion of regulation from business. This paper, included the Department's plans to reform its regulatory landscape, including where and how it will take advantage of new regulatory freedoms post-Brexit. This year has seen a number of urgent regulations made, relating to both the continued impacts of COVID-19 and the resulting HGV driver shortage. The Department has ensured this legislation has been informed by a proportionate level of evidence and been consistent with its duties under the Small Business, Enterprise and Employment Act 2015.

For all regulatory policies, resources have focused on measures with the highest impact to ensure that burdens are minimised. Small and micro business assessments are carried out for all regulatory measures to avoid those businesses being disproportionately affected by regulation where possible.

The Department has continued a rolling programme of post-implementation reviews to check regulations affecting business are working. The Department also makes use of alternatives to regulation where possible, for example through awareness campaigns about drink and drug driving and updating The Highway Code.

It is important that The Highway Code is updated regularly to keep account of changes to legislation and the introduction of new technologies or new road infrastructure. It is crucial that anyone using the road knows how to do so safely. Over the last reporting period The Highway Code was updated to improve road safety for cyclists, pedestrians and horse riders introducing a hierarchy of road users and strengthened priorities for those most at risk when using our roads. Other updates included amending guidance for drivers and riders using high speed roads and motorways and reflecting the changes in legislation on use of mobile phones when driving.

In response to strong feedback from business, the Better Regulation Unit works with the Department's public bodies and independent regulators to build capability and make sure the regulations are proportionate and do not impose unwarranted burdens on business in line with the Better Regulation Framework.

Auditor

This section sets out the costs of auditing the DfT Group accounts along with the costs of auditing the organisations which form part of the DfT Group. Audit fees are not included in this section for other entities who are outside the Department's consolidation boundary. The Comptroller and Auditor (C&AG) General carries out the audit of the consolidated accounts of the DfT Group, as well as the audits of the following executive agencies:

- Maritime and Coastguard Agency
- Driver and Vehicle Licensing Agency
- Driver and Vehicle Standards Agency
- Vehicle Certification Agency

These audits are conducted under the Government Resources and Accounts Act 2000 (GRAA), at an annual notional cost of £916,500 (2020-21: £761,000). Driver and Vehicle Standards Agency was audited in 2020-21 under the Government Trading Funds Act 1973 at a cost of £99.5k: it was reclassified to central government from 1st April 2021 and is therefore audited under GRAA.

The audits of the following entities are completed by the Comptroller and Auditor General, but incur a cash or real charge of £1,412,750 (2020-21: £1,327,500):

- Network Rail Ltd (and its substantial subsidiary bodies, Network Rail Infrastructure Ltd and Network Rail Infrastructure Finance plc)
- National Highways
- British Transport Police Authority
- HS2 Ltd
- Transport Focus
- CTRL Section 1 Finance PLC
- LCR Finance PLC
- East West Rail Ltd

Network Rail's audit fee of £615,250 includes £32,500 for other audit-related services including the audit of the Network Rail Regulatory accounts.

In addition to these entities, the C&AG audits the accounts of the General Lighthouse Fund (GLF), which consolidates the General Lighthouse Authorities (GLAs). While the GLAs are consolidated into the DfT group, the GLF is not consolidated. As such, the audit fee for the GLF is not included in this total. The audit fee for the GLF for 2021-22 is £102,500 (2020-21: £102,500).

PwC audits the following entities, providing audit assurance to the Comptroller and Auditor General as the group auditor. These audits incur a real cost charge of £208,086 (2020-21: £182,000):

Smaller Network Rail subsidiary bodies

- Train Fleet (2019) Ltd

Directly Operated Railways Limited is exempt from audit of its account by virtue of s479A of Companies Act 2010.

Deloitte audits the following entity, providing audit assurance to the Comptroller and Auditor General as the group auditor. This audit incurs a real cost charge of £90,535 (2020-21: £75,000):

- Air Travel Trust Fund

BDO LLP audits the following entity, providing audit assurance to the Comptroller and Auditor General as the group auditor. This audit incurred a real cost charge of £9,300 (2020-21 £8,400):

- Air Safety Support International Ltd

The National Audit Office (NAO) in its work to scrutinise public spending for Parliament also performs other work under statute, including Value-for-Money and assurance work.

Health and Safety

Health and Safety remain a top priority for the Department and its executive agencies. Health and Safety teams played an integral role during our response to COVID-19, by ensuring locations and frontline activities were assessed against government requirements. Making sure controls and arrangements were implemented for staff and visitor safety, so that activities and services continued wherever possible.

Table 10: Reporting of Injuries, Diseases and Dangerous Occurrences Regulations.

Organisation	2021-22	2020-21	2019-20	2018-19
DfTc	0	0	0	0
DVLA	1	4	8	9
DVSA)[26]	8 staff 12 non-staff	2 staff 1 non-staff	2 staff 4 non-staff	2 staff 7 non-staff
MCA[27]	1 staff 4 non-staff	1 staff 7 non-staff	8	7
VCA	0	0	0	0
TOTAL	Staff – 10 Non-staff – 16	Staff – 7 Non-staff – 8	Staff – 16 Non-staff – 4	Staff – 18 Non-staff – 7

Table 10 sets out the number of RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrence Regulations 1998) reports to the Health and Safety Executive for the year 2021-22 and previous years. The figures also include non-staff, including those involving a member of the public taking their Module 1 motorcycle riding test on a DVSA site and MCA volunteers, during their activities.

26 Non-staff includes those who have an injury on one of our sites, such as a visitor or contractor, a DVSA motorcycle test candidate, or an MCA volunteer. Under some circumstances, these become RIDDOR reportable.

27 Ibid.

Conclusion

As Principal Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. I am supported by the work of Internal Audit, by the management assurance reporting of the executive managers within the Department, who are responsible for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports. In addition, I am supported by the Accounting Officers at our Agencies and Arm’s Length Bodies who are responsible for their internal controls and delegated spending. Based on these assurances, I am content that the Department upheld a satisfactory level of internal control and corporate governance throughout the reporting period.

People and Remuneration Report

Introduction

To support the Department's Strategic Objectives, we agreed five priority themes for our 2021-22 People Strategy:

- Building a flexible workforce
- Learning for all
- Inspiring leaders and effective managers
- Inclusive and supportive workplace
- People centred systems and policies

Building a flexible workforce (Future DfT)

The DfTc Future DfT Programme was set up in 2020 to transform where and how we work: delivering the Department's commitment to the Places for Growth Programme and renewing our ways of working to support an increasingly dispersed organisation to operate in a hybrid manner. On 15 March 2021, the Secretary of State announced plans for growing our presence in Birmingham and Leeds, with an initial commitment of 650 roles across both locations by 2025, creating opportunities in the regions of the UK which previously did not exist, and embedding our staff closer to the cities and regions we serve. In the Levelling Up White Paper[28] this was revised to 688 roles, with a primary focus on Birmingham and Leeds, and (to a much smaller extent) in Edinburgh.

By the end of 21-22, we have already filled 288 roles in Birmingham and Leeds, including nine Senior Civil Service roles, through a combination of recruitment and voluntary relocation of existing staff, and begun building a small presence in the new Government Hub in Edinburgh. Ministerial visits have taken place to both Birmingham and Leeds including Minister Andrew Stephenson working from our Leeds office for a week in February. Ministerial office accommodation is being designed into our new workspace in Birmingham.

Furthermore, in line with HM Government's roadmap for England and the Welsh Government's law and guidance for Wales to remove Covid restrictions, the Department as a whole has been steadfast in its approach to enable and encourage colleagues to work from our offices once again as part of our new hybrid working model.

A key aspect of managing the return to workplaces has been to ensure colleagues had a safe and positive experience when working in the office. Rigorous health and safety risk assessments and Covid-mitigation measures were agreed with Trade Unions and the

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28 https://www.gov.uk/government/publications/levelling-up-the-united-kingdom

Accounting Officer in line with relevant government guidance at the time.

A comprehensive programme of communication and engagement across all channels and at all levels was undertaken to ensure staff were kept informed and had a clear understanding of the expectation on them.

New Group Workplace and location principles, supporting the hybrid working model, have been launched which affords staff more flexibility in how and where they work. Staff are expected to spend a minimum proportion of their working time in their principal workplace, supported by improvements to office accommodation and digital tools on offer to staff which enable new ways of working, with the flexibility to work remotely for the remainder if they choose to.

More widely, over the last year we have made further progress to build additional flexibility and resilience into our workforce. We stepped down our COVID-19 and EU Transition response teams, moving staff to new roles elsewhere in the Department and releasing secondments and contingent labour. We have now implemented a Crisis Response Cohort to provide immediate cover in the case of significant future crises and ensure the resilience of any future response activity. The Department has been re-structured with the addition of a second Permanent Secretary from 1 January 2022, to enable us to step up and accelerate the Department’s focus on de-carbonisation, the economy and levelling up.

The further strengthening of our workforce planning and insight capability across the employee lifecycle is allowing us to understand the scale and nature of our workforce risks better than ever before and to be proactive in taking mitigating action. This includes continuing with the quarterly cycles of workforce reviews; work to re-define our employer brand to ensure we are attracting the very best talent from across the UK, especially in those parts of the country where we are significantly growing our presence in support of the 'levelling-up' agenda and; moving us closer to 'always on' recruitment channels for our largest professions.

We continue to be an active participant of Government internships, life chances and outreach initiatives and have increased our ambition year-on-year in support of these schemes. In 2022, the Department hosted 46 Summer Diversity Interns, 4 Autism Exchange interns, 1 Care Leaver intern, 2 Digital T-Level students and 3 Prison Leavers to diversify and strengthen early talent pipelines. The Department has also committed to supporting eight interns through the pilot Summer Internship Programme which focuses on building employability skills and broadening entry routes into the Civil Service in a range of geographical locations, supporting Places for Growth. The Department have introduced a comprehensive wrap-around support offer to all interns who join the Department with a focus on building employability skills and raising awareness of Civil Service entry-routes alongside their core placement.

In addition, the Department continue to support the Movement to Work initiative which provides work experience opportunities to 18–30-year-old NEET candidates who are in receipt of Universal Credit. DfTc deliver this workshop-based initiative across the country with a strong focus on preparing candidates to apply for future Civil Service apprenticeship opportunities. To date, 75% of participants have secured gainful employment following completion of their placement.

Learning for all

Growing our skills and capability is vital to our development as an Excellent Department. We continue to make a significant investment in building the skills and capability of all our people, ensuring that our learning and development curriculum is closely aligned with the evolving Government Campus. We continue to work with the Government Skills and Curriculum Unit to help shape this work and the implementation of the new Government Curriculum.

Our learning priorities for the year have focused on:

- building core skills
- building leadership and management capability
- building professional capability (working closely with Heads of Professions across the Department to deliver with particular focus on Project Delivery and Commercial)

In 2020-21, due to the impact of the COVID-19 pandemic, all learning was delivered virtually, and we have built on this shift this year while also incorporating some face-to-face learning We have seen improvements in accessing learning opportunities (attendance rates rose to 91% in 2021-22, up from 70% in 2019-20) while maintaining a high-quality learning offer (94% of learners rated learning as good or excellent). This year we have also focused on streamlining our learning systems and processes (including the roll-out of a new Learning Management System) to better manage access to learning opportunities and putting in place a robust evaluation strategy to assess the impact of learning interventions.

The Government Campus Curriculum includes Project Delivery, from introductory e-learning courses such as ‘How Projects Run’ to professional qualifications like Agile Project Management (APM) and PRINCE2. These opportunities were advertised as part of the core learning offer and funded by the central Learning and Development team.

Longer term Project Delivery development programmes have built professional capability:

- Project Delivery Development Programme (PDDP) in-house - cohort of 15 HEO/SEOs (including 3 OGD candidates) completed the 12 month development programme, preparing people for leadership roles in project delivery.

- Project Leadership Programme (PLP) Cabinet Office led programme – cohort of 23 G6/G7s enrolled and graduated. This programme develops the skills and capability of project leaders, improving the way projects are led across Government.
- Major Projects Leadership Academy (MPLA) run in partnership with Oxford Said Business School – cohort of 10 SCS/G6/G7s enrolled and are on track to complete. This programme helps develop project leaders to become world-class at successfully leading major projects.

Apprenticeships

The Department remains fully committed to supporting the Government's pledge to increase the quantity and quality of apprenticeships to drive the development of a diverse, inclusive, and productive workforce that meets the capacity and capability needs of a modern Civil Service. Our Departmental apprenticeship offer continues to go from strength to strength. By March 2022, DfTc exceeded the annual 2.3% headcount target for apprenticeships; onboarding 83 apprentice starts against last years' 66 apprentice starts. We continue to adopt a cohort-based model of recruitment and engage in proactive outreach in close partnership with our apprenticeship communities and alumni, to enhance our employer brand and maximise the diversity and regional spread of our early talent pipelines.

The Department have also transitioned a pre-existing 3-year commercial graduate programme to now include a more inclusive apprenticeship offer; focusing on building Commercial and leadership capability and encouraging applicants from non-traditional routes as part of our aim to increase social mobility. The Department continue to utilise apprenticeships to support the development of existing staff; supporting career pathways and Professions skills-building within the organisation.

Inspiring leaders and effective managers

Leadership and management development remains a priority for us and forms a key strand of the Government Curriculum.

We continue to work closely with the Government Skills and Curriculum Unit to help shape the government-wide approach to leadership and management development, including the development of common management standards and the new leadership and management core curriculum. As well as helping to shape this work we will ensure that our leaders benefit from the development opportunities provided by the new Government Curriculum. This year we have delivered a significant programme of work to build line management capability, as well as continuing to review this as the requirements of line managers have evolved (especially in response to changes in workplace polices linked to COVID-19 and the evolution of hybrid working).

We launched a hybrid working development package for line managers earlier this year including a new ‘Managing Hybrid Working Teams’ module, which now forms part of our modular management development programme, and a range of online resources. We also launched a core SCS Leadership Development Offer with a particular focus on inducting senior leaders into the organisation. Our focus for 2022-23 will be on the implementation of a targeted Departmental offer for senior leaders.

We continue to offer accelerated development schemes at both a Departmental (Stepping into Leadership, Interdepartmental Talent Partnership) and cross-government level (Future Leaders Academy, Fast Stream, Future Leaders Scheme, Senior Leaders Scheme) to equip our high potential talent with the skills, tools, and professional networks to progress into future leadership roles and maximise their personal impact.

We have also put in place initiatives to help us to diversify the talent pipeline into more senior leadership roles and share experience across the Department. This includes the delivery of three cohorts of Ascend, a career and leadership development programme aimed at Ethnic Minority and disabled colleagues at all grades to provide support with future career development and progression. This year we have matched over 200 SCS with a reverse mentor as part of the Department’s reverse mentoring scheme, encouraging the sharing of knowledge and lived experience through all levels of the organisation.

To improve the joining and leaving experience, new line manager online checklists have been created, covering all corporate functions to ensure the right steps are followed at the right time to improve both employee/ manager experience and compliance.

Inclusive and supportive workplace

- The Department publishes its equality monitoring data annually on gov.uk[29]

Bernadette Kelly DCB, our Permanent Secretary, is the Inclusion Champion leading on Socioeconomic Diversity for the Civil Service and the Theme Lead for Locations. Within the Department, we have senior champions (at Director General/Director level) who take personal responsibility for leading and supporting their area. The champions in this period were:

- Social Mobility (Gareth Davies)
- Gender (Rannia Leontaridi)
- Age and carers (David Hughes)
- LGBT+ (Nick Joyce)
- Disability and Wellbeing (Clive Maxwell)
- Race (Emma Ward)

29 https://www.gov.uk/government/publications/dft-equality-monitoring-2020-to-2021

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- Faith and belief (Nick Bisson)

These champions are responsible for reinforcing and role modelling the Department's commitment to representing the communities we serve and to being an inclusive employer.

The work of these champions is supported and driven by a vibrant collection of Inclusion and Wellbeing employee networks.

The Department also has a dedicated professional Wellbeing and Workplace Adjustments Team, which provides tailored support for colleagues working in particularly pressured and challenging environments to enhance and protect their health and wellbeing.

The Department wants to create an environment where people belong, where they can bring their whole self to work and where they can thrive.

The new DfT Group Diversity, Inclusion and Wellbeing Strategy 2022-25 which is currently in development sets out a framework which, over the next 3 years, will help us achieve our business goals. It provides a high-level road map for effectively creating and sustaining a workplace culture where we can all work together in respectful and inclusive ways, without fear of bullying, harassment or discrimination.

This strategy comprises of four overarching priorities, which will enable delivery of targeted action plans at business unit level across the central department and agencies:

- **Representing the communities we serve** – recruiting from a diverse pool which is reflective of the various communities we serve and providing opportunities to progress locally
- **Being confidently inclusive** – fostering a healthy and supportive culture where colleagues feel confident bringing the full range of their background, experiences, and skills to work
- **Maximising potential for all** – creating an empowering environment where everyone feels a sense of connection with the Department and sees opportunities to thrive and develop their careers
- **Building a Transport Network that Works for Everyone** – making our transport system safer, more inclusive and better for all users

All our Diversity, Inclusion and Wellbeing actions sit underneath each of these four headings and contribute to the aims of the public sector equality duty under the Equality Act 2010.

Gender Pay Gap reporting

The Department's Gender Pay Gap (GPG) information is published as part of the Department's annual Gender Pay Gap Report. The 2021 median gender pay gap is 5.8% (2020: 13.8%) and the mean pay gap is 7.8% (2020:

15.2%). While we were pleased to see a reduction in our Gender Pay Gap this year, we are by no means complacent. Having undertaken extensive analysis of our data we know that the Department's GPG is affected by several contributory factors.

The GPG is largely driven by disproportionate gender representation across the SEO/G7/G6 grades. There are also fewer women in some of the specialist, technical roles, which attract additional allowances, and the external market from which we draw is male dominated. In 2021, we saw an improvement in part due to how bonuses were awarded and the increased representation of women in senior roles.

To continue narrowing the gap we are focused on ensuring the Department has an inclusive culture where women can thrive; removing barriers in attraction and recruitment; and supporting women to develop and progress with good quality talent development interventions and robust talent pipelining into senior roles.

Employee Engagement

The annual Civil Service People Survey looks at civil servants' attitudes to, and experience of working in government Departments. Every year, a Civil Service benchmark report is published along with a summary of main Department scores.

DfTc saw a 1pp increase to 68% and sits in the top five Departments across Whitehall for engagement. A positive result given the challenging backdrop DfTc had been operating against.

At DfT Group level the overall engagement score decreased by 6 percentage points (pp) to 58% in 2021.

This decrease was largely driven by lower engagement scores in comparison with the previous year, reflecting challenging operational and employee relations environments in both DVSA (9pp lower) and DVLA (10pp lower). MCA and VCA saw smaller falls in engagement by 2pp and 3pp, respectively. We have used the data from the survey to inform actions at both a local and Departmental level to address key themes.

Civil Service and DfT Group's People Survey engagement scores 2017 to 2021

Engagement Index (%)	2021	2020	2019	2018	2017
Civil Service	66	66	63	62	61
DfTc and agencies	58	64	61	59	59
DfTc	68	67	64	64	65
DVLA	53	63	63	61	62
DVSA	53	62	57	52	49
MCA	66	68	65	65	65
VCA	65	68	63	64	61

People Centred Systems and Policies

The Department is committed to providing people centred systems and policies for our people.

The current Future of Shared Services (FoSS) programme, aims to produce a 'Tell Us Once' suite of cohesive systems covering HR, Finances and Expenses, and Commercial for our people to use.

In 2020-21, the FoSS Programme delivered a new expenses system. This solution offers new functionality, is easier to use and can be used on mobile devices. This is a significant milestone with the first visible change for end users and enhanced user experience.

To continue to support the workforce through the COVID-19 pandemic response and during the lifting of restrictions and return to workplaces a series of new or revised policies were delivered during 2021-22. This includes:

- Covid policies and guidance were updated throughout to reflect the changes in Government guidance and to support employees and the business
- Workplace and location principles were developed to clarify arrangements around principal workplace (or workplaces if specified in contracts) and expectations of workplace attendance as a percentage of working time
- A change of principal workplace location policy was put in place to support our departmental location strategy focussed on growing our locations in Leeds and Birmingham

- Our flexible working policies and homeworking guidance were updated to include hybrid working arrangements and to clarify pay implications on becoming a contractual homeworker
- To support our employees who may be subject to media scrutiny as a result of their work or role a Media Attention: Duty of Care policy and guidance was implemented in the Department at the end of March 2022.

Trade Unions

The Trade Union Side in Department for Transport is made up of FDA, PCS, Prospect unions. In addition, drivers in the Government Car Service are represented by Unite.

In 2021-22 the Department engaged with its trade union representatives over a number of issues, the most important being the Department's response to the COVID-19 pandemic and the planning of the Department's return to workplaces following an extended period of lockdown.

The Department and its agencies held weekly briefing sessions with union representatives to keep them up to date and consult on such matters as how to manage ongoing dispute resolution and absence management while managers and their staff were unable to meet face to face. The unions were also invited to conduct health and safety inspections to confirm compliance with social distancing and other safety measures for those workplaces staff were required to attend during the pandemic, and made a valuable contribution by providing additional challenge and reassurance to this safety process.

Industrial action by PCS Union in DVLA over safety conditions resulted in the loss of 18,522 working days and an estimated 400,000 items added to the backlog. Attempts to resolve the dispute were unsuccessful but a second ballot held by the union failed to reach the threshold required to extend the mandate. No industrial action took place in other parts of DfT and the plan to reopen workplaces and implement hybrid working was successfully implemented in March 2022.

Due to a national Civil Service pay pause, pay negotiations were restricted and a pay award limited to staff earning less than £24,000 was imposed without agreement with the unions.

Facility time is granted to accredited representatives for trade union duties (TUD) and trade union activities (TUA) in line with legislation, the Cabinet Office framework on trade union facilities, and Departmental policy. Paid time off is permitted for TUD and unpaid time off for TUA. Trade union representatives must have a role in the Department that will normally take up at least 50% of their paid time.

Facility time usage is significantly down on previous years. The reduction of travel time through increased use of video-conferencing has been a factor in this. It is also noted that some members of staff spent periods on special leave through being unable to carry out duties during lockdown, and were not been required to record union time (TUA or TUD) during these absences.

Table 11: TU representation – The number of TU representatives employed by the Department and the cost of facility time

Number of employees who were relevant union officials during the relevant period	FTE employee number
135	127.3

Table 12: Percentage of time spent on facility time – How employees who were TU representatives' officials employed during the relevant period spent their time

Percentage of time	Number of employees
0%	41
1-50%	94
51%-99%	0
100%	0

Table 13: Percentage of pay bill spent on facility time

Total cost of facility time	£ 0.13m
Total pay bill	£737m[30]
Percentage of the total pay bill spent on facility time, calculated as: (total cost of facility time ÷ total pay bill) x 100	0.02%

Table 14: Paid TU activities – As a percentage of total paid facility time hours, how many hours were spent by employees who were TU representatives during the relevant period on paid TU activities.

Time spent on paid TU activities as a percentage of total paid facility time hours calculated as: (total hours spent on paid TU activities by TU representatives during the relevant period ÷ total paid facility time hours) x 100	0%

No paid time is given for Trade Union activities.

8.7 average working days were lost to sickness absence for the 12-month period ending

31 March 2022 for the central Department and its executive agencies. This is an increase of 2.9 days on the year to 31 March 2021. Absences caused by the COVID-19 pandemic have been included in average

30 Based on payroll data April 2021-March 2022 for DfT(core), DVLA, DVSA, MCA and VCA only.

working days lost reporting for the Department for 31 March 2022 but were not included in the 31 March 2021 figure.

The increase in average working days lost when compared to the previous year is attributed a numbers of causes; firstly the removal of COVID-19 restrictions meaning that all of the workforce have returned to work during this period, secondly the average working days lost figure includes absences as a result of COVID-19 where in particular front line staff were unable to work while following government guidelines if they tested positive for COVID-19 and finally the return of all staff to offices over the year is likely to have increased the incidence of absences from coughs, colds and flu.

All absence is reviewed to ensure that support is offered and occupational health reports, action plans and interventions are progressed as appropriate. Absences have continued to be actively managed during 2021-22 even where staff and their line manager have needed to do this remotely. The Department is focused on improving wellbeing, with a range of support in place that staff can access.

Our Staff Numbers

The tables on staff numbers and staff costs are subject to audit.

Details on the average number of whole-time equivalent persons employed during the year, the staff costs and gender composition are set out in the tables below.

Table 15: Staff numbers (Departmental Group including delivery bodies)

Table 15: Staff numbers (Departmental Group including delivery bodies).

Average number of staff	Permanently employed Staff	Others	Ministers	Special advisers[2]	2021-22 Total	2020-21 Total[1]
DfTc	3,535	47	6	4	3,592	3,145
Agencies[1]	11,179	355	0	0	11,534	11,400
Other delivery bodies	56,193	1,937	0	0	58,130	57,624
Total average number of persons employed	70,907	2,339	6	4	73,256	72,169

1 Restated to include DVSA which was outside the accounting boundary until 1 April 2021. This is to allow a direct comparison between 2020-21 and 2021-22.

2 Special adviser numbers are taken on a snapshot date of 31 March 2022 and are not an average.

Table 16: Staff costs (Departmental Group including public bodies).

	Permanently employed staff (£m)	Other staff (£m)	2021-22 total (£m)	2020-21 total (£m)
Wages and salaries	3,440	58	3,498	3,416
Social security costs	380	0	380	355
Other pension costs	351	1	352	331
Sub Total	4,171	59	4,230	4,102
Less: recoveries in respect of outward secondments	(2)	0	(2)	(2)
Less: staff costs capitalised	(1,239)	(19)	(1,258)	(1,243)

	Permanently employed staff (£m)	Other staff (£m)	2021-22 total (£m)	2020-21 total (£m)
Total staff costs recognised in the Group Financial Statements	2,302	40	2,970	2,857
Of which: Core Department & Agencies	713	24	737	705

Staff costs for 2020-21 restated to include DVSA which was outside the accounting boundary until 1 April 2021. This is to allow a direct comparison between 2020-21 and 2021-22

‘Other staff’ includes ministers and special advisers, who were paid £272k and £0k respectively (2020-21: £274k and £0k).

Special Advisers are temporary civil servants. In order to improve efficiency, the administration of staff costs for all Special Advisers across government was moved to the Cabinet Office in July 2019, with corresponding budget cover transfers. Therefore special adviser costs are now reported in the Cabinet Office Annual Report and Accounts. Special Advisers remain employed by the respective Departments of their appointing Minister.

No staff costs in 2021-22 were covered using the Coronavirus Job Retention Scheme.

Table 17: Number of persons of each sex who were employees of the Department and its executive agencies as at 31 March 2022

Table 17: Number of persons of each sex who were employees of the Department and its executive agencies as at 31 March 2022.

	Men at 31 March 2022	Women at 31 March 2022	Men at 31 March 2021	Women at 31 March 2021
Number of persons of each sex who were DfTc Permanent Secretary and Directors General	4	2	4	2
Number of persons of each sex who were senior managers of DfTc of the Senior Civil Service (excluding above)	113	104	121	96
Number of persons of each sex who were employees of DfTc	1,919	1,524	1,976	1,538
Number of persons of each sex who were employees of DfT agencies[31]	6,904	5,887	6,744	5,798

31 2020-21 figures have been restated to include DVSA which was outside the accounting boundary until 1 April 2021,
for 2021-22 DVSA figures are also included.

Staff Movement

This data refers to the central Department only.

The Departmental turnover rate at 31 March 2022 was 18.6%. This is an increase on turnover rate when compared to the 31 March 2021 rate of 11.6%. This increase in leavers from the Department is attributed to the buoyant UK labour market with UK job vacancies reaching a high of 1.25m in January 2022, along with cost-of-living rises causing staff to seek new roles with higher wages to maintain their standard of living. These two factors together are contributing to higher numbers leaving the Department than in previous years. More detailed analysis into the reasons for staff leaving has been started in 2022 to identify options to reduce future turnover.

Table 18: Staff loaned into DfT.

Staff Loaned in to DfT	Total loaned in	Loaned in short term (6 months or less)	Loaned in long term (more than 6 months)	Average loan in (months)
EO	1	1	0	2
HEO	6	2	4	11
SEO	5	2	3	10
Grade 7	17	8	9	8
Grade 6	8	2	6	12
SCS	3	3	0	3
Total	40	18	22	9

Loaned in are classed as an administration cost. The cost of staff on loan to the Department in 2021-22 is £714k (2020-21: £762k). There were 17 staff on loan to the Department where we did not pay their salary costs which will have been paid for by their home department.

During 2021-22, there was very slight decrease in the number of loans into the Department, but the total number has remained broadly consistent with the previous year. Loans have been used largely as a short term solution for resourcing priority areas. There are a number of longer term loans in place to fill key roles and support the career development of these individuals, this can be seen in an increase in the average duration of loans.

Table 19: Staff loaned out of DfT.

Staff Loaned out of DfT	Numbers of staff	Loaned in short term (6 months or less)	Loaned in long term (more than 6 months)	Average loan in (months)
EO	2	0	2	13
HEO	3	2	1	4
SEO	3	1	2	7
Grade 7	3	2	1	5
Grade 6	2	1	1	6
SCS	0	0	0	0
Total	13	7	6	6

Staff on loan from the Department will continue to be paid for by their home Department for loans under 6 months in duration, in line with the agreed government recharging agreements. This cost for short terms loans in 2021-22 is £229k, the cost of other loans out of the Department where DfT met the staff administration costs is £188k.

Resourcing

The Department and its executive agencies have control systems requiring recruitment to be approved by Departmental HR Directors and controlled from a single point. 3139 posts were recruited externally during 2021-22.

During the reporting year, there were 46 exceptions to the general recruitment principles in relation to fair and open competition. These were spread among the executive agencies in a manner consistent with recruitment volume, although the central Department did have a slightly higher trend of exceptions. Temporary appointments of up to two years accounts for just over a quarter of the total exceptions (13), this is down from just over half last year. The most common use of exception in this period was Secondment (16) closely followed by Reinstatement of formal Civil Servant (15).

Service contracts

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

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

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

Remuneration

Remuneration policy – Senior Civil Service

Senior Civil Service (SCS) pay and conditions are not delegated to individual departments. The SCS is a corporate resource, employed with a common framework of terms and conditions across Government departments.

Recommendations on SCS remuneration are provided by the Review Body on Senior Salaries (SSRB) in an annual report to the Prime Minister. Further information about its work and copies of its annual reports can be found on SSRB's website: https://www.gov.uk/government/organisations/review-body-on-senior-salaries

The Government's response to the recommendations of the SSRB is communicated to departments by the Cabinet Office, and the remuneration of the Department's senior civil servants is determined by the Department's Pay and Performance Committee in accordance with that central guidance.

Performance management – Senior Civil Service

Performance against Cabinet Office-determined core objectives, and relative to SCS peers, determines allocation to a performance group, to which non-consolidated variable pay is linked. There are three performance groups:

- top
- achieving
- low.

To be allocated to the top performance group, an individual must deliver to the highest standards in all objective categories.

The annual value of non-consolidated performance pay and base pay is set within the limits determined by the government's response to the recommendations of the Review Body on Senior Salaries. In 2020-21, base pay increases were not available for members of the SCS due to the pay pause, in line with SCS Pay Policy determined by the HMT public sector pay pause.

Number of Senior Civil Service staff by band

The number of SCS employed by the Department, including its executive agencies, as at 31 March 2022, is disaggregated in Table 20.

Table 20: Number of SCS within the Department and its agencies by salary range.

Salary Range[1]	Staff numbers[2]
£70,000-£74,999	78
£75,000-£79,999	55
£80,000-£84,999	23
£85,000-£89,999	13
£90,000-£94,999	25
£95,000-£99,999	9
£100,000-£104,999	7
£105,000-£109,999	11
£110,000-£114,999	6
£115,000-£119,999	8
£120,000-£124,999	4
£125,000-£129,999	5
£130,000-£134,999	2
£135,000-£139,999	0
£140,000-£144,999	2
£145,000-£149,999	2
£150,000-£154,999	2
£155,000-£159,999	0
£160,000-£164,999	0
£165,000-£169,999	0
£170,000-£174,999	1
£175,000-£179,999	0
£260,000-£264,999	1
Total SCS Staff Numbers	254

1 Information is for all SCS in the Department and its executive agencies as at 31 March 2022, including those on fixed-term contracts, and paid loans in (excluding outward loans and secondments). Salary is the basic annual full-time equivalent salary effective from 31 March 2022, and excludes non-consolidated performance related pay.

2 The minimum annual salary for SCS is £71,000.

3 Staff numbers are actual, not full-time equivalents, so a part-time member of staff counts as 1.

Pay and Performance Committee

This Committee comprises the Department's Permanent Secretary (as Chair), all Director Generals, and the Group HR Director. For the year to 31 March 2022, its members were:

Bernadette Kelly DCB	Permanent Secretary, Department for Transport
Gareth Davies	Director General, Aviation, Maritime, International and Security (to 31/12/2021) Second Permanent Secretary, Department for Transport (from 01/01/2022)
Clive Maxwell	Director General, High Speed Rail
Nick Joyce	Director General, Corporate Delivery
Emma Ward	Director General, Roads, Places & Environment
David Hughes	Director General, Rail Infrastructure
Conrad Bailey (from 23/02/2021)	Temporary Director General, Rail Strategy & Services (previously named Rail Group) (from 23/02/2021) Director General Rail Strategy & Services (permanent from 14/06/2021)
Marianthi Leontaridi (from 10/01/2022)	Temporary Director General Aviation, Maritime and Security
Christina Duncan (to 22/07/2021)	Group HR Director
Kate Caulkin (from 05/07/2021 to 08/10/2021)	Interim Group HR Director
James Norton (from 01/11/2021)	Group HR Director

The Committee's remit includes making pay and talent decisions for directors and deputy directors. The Permanent Secretary decides on pay for Directors General.

Remuneration (including salary) and pension entitlements

The following sections on executive Board members' remuneration and pension disclosures are subject to audit.

Executive members of the DfT Board

Salary

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

Bonus

Bonuses are based on performance levels attained, and are made as part of the appraisal process. Bonuses are paid in arrears, and relate to the performance in the previous year, in which it is payable to the individual. The bonuses reported in 2021-22 relate to performance in 2020-21 and the comparative bonuses reported for 2020-21 relate to the performance in 2019-20.

Benefit in kind

The monetary value of benefits in kind covers any benefits provided by the Department and treated by HM Revenue and Customs as a taxable emolument. There were no benefits in kind reported in 2021-22 or 2020-21 for executive board members.

Compensation payments

There were no compensation payments for executive members of the DfT board in 2021-22.

Table 21: Officials' remuneration.

Officials	2021-22 Salary (£000)	2021-22 Full Year Equivalent Salary (£000)	2021-22 Bonus Payments (£000)	2021-22 Pension Benefits (£000[7, 8, 9])	2021-22 Total Benefits (£000)	2020-21 Salary (£000)	2020-21 Full Year Equivalent Salary (£000)	2020-21 Bonus Payments (£000)	2020-21 Pension Benefits (£000)	2020-21 Total Benefits (£000)
Bernadette Kelly DCB [1] (Permanent Secretary)	170-175	*170-175*	15-20	25	215-220	170-175	*170-175*	0	67	240-245
Gareth Davies[2] (Director General) to 31 December 2021 (Permanent Secretary) From 1 January 2022	140-145	*140-145*	5-10	51	200-205	135-140	*135-140*	10-15	61	205-210
Nick Joyce (Director General)	140-145	*140-145*	5-10	42	190-195	140-145	*140-145*	5-10	63	210-215
Clive Maxwell (Director General)	150-155	*150-155*	0-5	28	180-185	150-155	*150-155*	10-15	74	235-240
Emma Ward (Director General)	125-130	*125-130*	10-15	34	175-180	125-130	*125-130*	0	100	225-230
David Hughes[3] (Director General) From 18 January 2021	145-150	*145-150*	0	22	165-170	30-35	*145-150*	0	12	40-45
Conrad Bailey[4] (Temporary Director General) From 23 February 21 (Director General) From 14 June 21	120-125	*120-125*	10-15	186	320-325	10-15	*120-125*	0	83	95-100
Marianthi Leontaridi[5] (Temporary Director General) from 10 January 2022	25-30	*120-125*	0	26	55-60	N/A	*N/A*	N/A	N/A	N/A

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or alpha, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: 3 providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with pensions increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 switched into alpha sometime between 1 June 2015 and 1 February 2022. Because the Government plans to remove discrimination identified by the courts in the way that the 2015 pension reforms were introduced for some members, it is expected that, in due course, eligible members with relevant service between 1 April 2015 and 31 March 2022 may be entitled to different pension benefits in relation to that period (and this may affect the Cash Equivalent Transfer Values shown in this report – see below). All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a defined contribution (money purchase) pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 4.6% and 8.05% for members of classic, premium, classic plus, nuvos and alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with pensions increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate in 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is an occupational defined contribution pension arrangement which is part of the Legal & General Mastertrust. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member). The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age.

Pension age is 60 for members of classic, premium and classic plus, 65 for members of nuvos, and the higher of 65 or State Pension Age for members of alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

Further details about the Civil Service pension arrangements can be found at the website www.civilservicepensionscheme.org.uk

Cash Equivalent Transfer Values

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

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

Real increase in 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.

Pay multiples for DfT and its executive agencies (including agency staff and secondees)

The following section on pay multiples is subject to audit.

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

Table 23: Percentage change in salary and bonuses for the highest paid Director and the staff average for 2021-22.

	Salary and allowances	Bonus payments
Staff average	2.2%	8.5%
Highest paid director	0%	n/a[32]

Table 24: Ratio between the highest paid directors' total remuneration and the lower quartile, median and upper quartile for staff pay.

	2021-22	2020-21
Band of highest paid board member's total remuneration (£000)	185 – 190	170 – 175
Median remuneration (£)	26,963	26,382
Ratio	7.0	6.5
25th percentile remuneration (£)	22,326	22,229
Ratio	8.4	7.8
75th percentile remuneration (£)	38,061	36,447
Ratio	4.9	4.7

32 Although a £17,500 bonus was received in 2021/22, no bonus was received in 2020/21 so a percentage difference cannot be calculated.

Table 25: Lower quartile, median and upper quartile for staff pay for salaries and total pay and benefits.

	Lower quartile		Median		Upper quartile	
	2021-22	2020-21	2021-22	2020-21	2021-22	2020-21
Salary	21,841	21,591	26,778	26,382	37,338	35,432
Total Pay and Benefits	**22,326**	**22,229**	**26,963**	**26,382**	**38,061**	**36,447**

The banded remuneration of the highest paid executive board member in the Department in the financial year 2021-22 was £185,000-£190,000 (2020-21: £170,000-£175,000). This increase in remuneration was due to a bonus payment that was received in 2021-22.

This was 7.0 times the median remuneration of the workforce, which was £26,963 (2020-21: 6.5 times and £26,382); 8.4 times the lower quartile remuneration of the workforce, which was £22,326; and 4.9 times the upper quartile remuneration of the workforce, which was £38,061. This increase in pay multiples was due to a bonus payment being awarded in 2021-22 to the highest paid executive board member.

The ratios are calculated by taking the mid-point of the banded remuneration of the highest paid executive board member and calculating the ratio between this and the lower quartile, median and upper quartile remuneration of the Department's staff. This ratio is based on the full-time equivalent staff of the Department at the end of March on an annualised basis. This calculation includes the central Department, DVLA, DVSA, MCA and VCA.

In 2021-22 one employee (2020-21: one employee) received remuneration more than the highest paid executive board member. Remuneration ranged from £17,273 to £264,000 (2020-21: £16,934 to £262,500).

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.

This section includes updated figures for 2020-21 as the Annual Report and Accounts 2020-21 was not required to include data from DVSA. By including DVSA in our figures for 2020-21 and 2021-22, we aim to provide a more accurate comparison between years.

Pension arrangements across the Departmental Group

Employees of entities included in these accounts benefit from a range of pension scheme arrangements. Some are members of employee-specific defined benefit schemes, set out in Note 24 to the Financial Statements. Others may be members of the Principal Civil Service Pension Scheme (PCSPS), or of defined contribution arrangements. The key schemes and associated costs for the Departmental group are disclosed below.

The PCSPS is an unfunded multi-employer defined benefit scheme, but the Department for Transport is unable to identify its share of the underlying liabilities.

A full actuarial valuation was carried out in 2016. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservicepensionscheme.org.uk).

For 2021-22, employers' contributions of £130.94 million were payable to the PCSPS (2020-21: £93 million) at one of four rates in the range 26.6% to 30.3% (2020-21: 26.6% to 30.3%) of pensionable pay, based on salary bands. The Scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2021-22 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account (a stakeholder pension with an employer contribution). For 2021-22, employers' contributions of £ 1.22 million (2020-21: £1.13 million) were paid to Legal and General. Employer contributions are age-related and range from 8% to 14.75% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay.

In addition, employer contributions of £41,857 0.5% (2020-21: £31,628, 0.5%) of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

The core Department and its executive agencies neither owed or had prepaid any contributions to partnership pension providers as at 31 March 2022, (2020-21 £21,000 due to the partnership pension).

To note all figures for contributions for 2021-22 now include DVSA and 2020-21 figures have been restated to now include DVSA.

There were 5 early retirements as a result of ill-health (2020-21: 21). Figures for 2021-22 and 2020-21 include any ill-health retirements from DVSA.

Network Rail has two defined pension schemes. The RPS and CARE schemes are both shared cost in nature, so the cost of benefits being earned and the cost of funding any shortfall in the schemes are normally split in the proportion 60:40 between the group and the members. In practice, the contributions are adjusted at each triennial valuation to reflect the funding position of the schemes at that time. For 2021-22, the current service cost was £378 million (2020-21: £266 million).

On 1 April 2004, a defined contribution pension scheme was introduced, the Network Rail Defined Contribution Pension Scheme (NRDCPS). This is an auto-enrolment scheme for all new employees of Network Rail, except those who have the legal right to join the Railway Pension Scheme (RPS), in compliance with regulations made under the Pensions Act 2008. Any employee who wishes to transfer from the Network Rail Section of the RPS to the NRDCPS is entitled to do so. For 2021-22 employers' contributions of £23 million were payable into this scheme (2020-21: £24 million).

The National Highways Pension Plan is a defined contribution Group Personal Pension Plan administered by a third-party provider. Highways England matches employee contributions to personal pension plans on a 2:1 basis, up to a maximum of 10% of gross salary. The default contributions are 5% (employee) and 10% (employer). In addition, life insurance cover is provided for members of the plan at an average cost of 0.55% of gross salary. This meets National Highways' statutory obligation to provide a workplace pension under current legislation.

As this is a defined contribution scheme, National Highways incurs no liability for future pension costs of members of the pension plan. For 2021-2022, employers' contributions of £14 million (2020-21: £13 million) were payable to the plan.

The Mercers Defined Benefits Master Trust is a master-trust defined benefit pension plan, administered by PAN Trustees. Employer contributions are set between 38.3% and 56.8% of pensionable earnings (dependent upon contractual employee contribution rates at the time of transfer). Employer's contributions of £0.4 million were paid during 2021-22 (2020-21: £0.6 million). The contribution rates were set based on an actuarial valuation of the scheme at inception in July 2016.

British Transport Police has two defined benefit pension schemes; the British Transport Police Force Superannuation Fund (“Police Officer scheme”) and the British Transport Police Shared Cost Section of the Railways Pension Scheme (“Staff scheme”). Both schemes registered pension schemes are intended to be a fully funded providing benefits on a “defined benefit” basis. For 2021-22, the current service cost for both schemes was £110 million (2020-21: £65 million).

Ministers

The following sections on ministerial remuneration and pension disclosures are subject to audit.

Salary

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

In respect of Ministers in the House of Commons, departments bear only the cost of the additional Ministerial remuneration; the salary for their services as an MP £81,932 (from 1 April 2020) and various allowances to which they are entitled are borne centrally.

However, the arrangement for Ministers in the House of Lords is different in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their Ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and is therefore shown in full in the figures below.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the Department, and treated by HM Revenue and Customs as a taxable emolument. There were no benefits in kind reported in 2021-22 for ministers.

Compensation for loss of office

There were no compensation payments for loss of office in 2021-22.

Table 26: Ministers' remuneration.

Ministers	2021-22 Salary (£)	2021-22 Full year equivalent salary (£)	2021-22 Pension benefits (to nearest £1000)	2021-22 Total benefits (to nearest £1000)	2020-21 Salary (£)	2020-21 Full year equivalent salary (£)	2020-21 Pension benefits (to nearest £1000)	2020-21 Total benefits (to nearest £1000)
Rt Hon Grant Shapps MP Secretary of State From 24 July 2019	67,505	*67,505*	17,000	85,000	67,505	*67,505*	17,000	85,000
Chris Heaton-Harris MP Minister of State From 25 July 2019 to 18 December 2021	23,760	*31,680*	6,000	30,000	31,680	*31,680*	8,000	40,000
Andrew Stephenson MP Minister of State From 13 February 2020	31,680	*31,680*	8,000	40,000	31,680	*31,680*	8,000	40,000
Baroness Vere[1] Parliamentary Under Secretary of State From 2 August 2019	74,729	*74,729*	18,000	93,000	74,729	*74,729*	17,000	92,000
Robert Courts MP Parliamentary Under Secretary of State From 8 September 2020	22,375	*22,375*	6,000	28,000	11,188	*22,375*	3,000	14,000
Rachel Maclean MP Parliamentary Under Secretary of State From 13 February 2020 to 16 September 2021	10,255	*22,375*	3,000	13,000	22,375	*22,375*	5,000	27,000
Trudy Harrison Parliamentary Under Secretary of State From 17 September 2021	12,120	*22,375*	3,000	15,000	N/A	*N/A*	N/A	N/A

Table 26: Ministers' remuneration.

Ministers	2021-22 Salary (£)	2021-22 Full year equivalent salary (£)	2021-22 Pension benefits (to nearest £1000)	2021-22 Total benefits (to nearest £1000)	2020-21 Salary (£)	2020-21 Full year equivalent salary (£)	2020-21 Pension benefits (to nearest £1000)	2020-21 Total benefits (to nearest £1000)
Wendy Morton[2] Parliamentary Under Secretary of State From 19 December 2021 Minister of State From 8 February 2022	3,429 5,087	*22,375* *31,680*	2,000	10,000	N/A	*N/A*	N/A	N/A
Kelly Tolhurst MP Parliamentary Under Secretary of State From 13 February 2020 to 8 September 2020	N/A	*N/A*	N/A	N/A	11,188	*22,375*	2,000	13,000

1 Baroness Vere is a Minister in the House of Lords. She receives £3,760 in respect of the Lords' Office Holders' Allowance, which is included in the Salary column. As a Lords Minister she is not entitled to claim her day rate for attendance.

2 Wendy Morton joined as Parliamentary Under Secretary of State from 19 December 2021 and was shortly after made Minister of State from 8 February 2022. The pension benefit disclosure for the full period is provided against the role as Minister of State.

3 The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) less (the contributions made by the individual). The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.

Ministerial Pensions

Pension benefits for Ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is made under statute and the rules are set out in the Ministers' etc. Pension Scheme 2015.[33]

Those Ministers who are Members of Parliament may also accrue an MP's pension under the PCPF (details of which are not included in this report). A new MP's pension scheme was introduced from May 2015, although members who were MPs and aged 55 or older on 1 April 2013 have transitional protection to remain in the previous MP's final salary pension scheme.

Benefits for Ministers are payable from State Pension age under the 2015 scheme. Pensions are re-valued annually in line with Pensions Increase legislation both before and after retirement. The contribution rate from May 2015 is 11.1% and the accrual rate is 1.775% of pensionable earnings.

The figure shown for pension value includes the total pension payable to the member under both the pre- and post-2015 Ministerial pension schemes.

33 http://qna.files.parliament.uk/wsattachments/170890/original/PCPF%20MINISTERIAL%20SCHEME%20FINAL%20RULES.doc.

Table 27: Ministerial pensions.

Ministers	Accrued pension at age 65 as at 31/3/2022 (£000)	Real increase in pension at age 65 (£000)	CETV at 31/03/2022 (£000)	CETV at 31/03/2021 (£000)	Real increase in CETV funded by taxpayer (£000)
Rt Hon Grant Shapps MP Secretary of State From 24 July 2019	5-10	0-2.5	90	70	9
Chris Heaton-Harris MP Minister of State From 25 July 2019 to 18 December 2021	0-5	0-2.5	33	26	3
Andrew Stephenson MP Minister of State From 13 February 2020	0-5	0-2.5	24	17	2
Baroness Vere Parliamentary Under Secretary of State From 2 August 2019	5-10	0-2.5	84	63	10
Robert Courts MP Parliamentary Under Secretary of State From 8 September 2020	0-5	0-2.5	7	2	2
Rachel Maclean MP Parliamentary Under Secretary of State From 13 February 2020 to 16 September 2021	0-5	0-2.5	10	7	2
Trudy Harrison Parliamentary Under Secretary of State From 17 September 2021	0-5	0-2.5	2	0	1
Wendy Morton Parliamentary Under Secretary of State From 19 December 2021 Minister of State From 8 February 2022	0-5	0-2.5	20	19	1

Cash equivalent transfer values

This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the 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 Ministerial service, not just their current appointment as a Minister. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in the value of the CETV

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

Non-Executive Board Members

The following section on Non-Executive Board Members' (NEBM) remuneration is subject to audit.

Each of the NEBMs, Ian King, Richard Keys, Tony Poulter, Tracy Westall, Ranjit Baxi and Dame Sarah Storey, is entitled to claim annual fees, currently £15,000 per annum, and reasonable expenses (including travel and subsistence in line with the Department's policy on such expenses). Ranjit Baxi and Dame Sarah Storey appointments commenced on 1 April 2021.

Ian King, as the lead NEBM, receives an additional £5,000 in recognition of this role. Similarly, Richard Keys, as Chair of the Department's Group Audit and Risk Assurance Committee (GARAC), receives an additional £5,000 per annum in recognition of this role. Richard Keys also receives emoluments as a non-executive director of NATS Holdings Ltd, which is an organisation that DfT has a 48.9% investment stake in (see page 477 of the financial statements for further information).

NEBMs are appointed on fixed terms. Their fees for 2021-22 are set out in the table below. In addition, the membership of the GARAC includes Amarjit Atkar, Kathryn Cearns and Mark Bayley, who receive a fee for attending and preparing for meetings. Ranjit Baxi also sits as a member of GARAC but receives no additional fee.

Table 28: Non-Execution Board Members' fees 2021-22.

Non-Executive Board Member Fees	2021-22 (£000)	2020-21 (£000)
Ian King	20-25	20-25
Richard Keys	20-25	20-25
Tracy Westall	15-20	15-20
Anthony Poulter	15-20	15-20
Ranjit Baxi (from 1 April 2021)	15-20	–
Dame Sarah Storey (from 1 April 2021)	15-20	–
Richard Aitken-Davies (to 31 March 2021)	–	15-20
Group Audit and Risk Assurance Committee Member Fees	2021-22 (£000)	2020-21 (£000)
Kathryn Cearns[1]	0-5	0-5
Amarjit Atkar	0-5	0-5
Mark Bayley (from 1 October 2020)	0-5	0-5
Bridget Rosewell (to 30 September 2020)	–	0-5

1 Kathryn Cearns is also remunerated by the department for her work as an Elizabeth Line Special Representative. This disclosure relates to her role on GARAC.

Off-payroll engagements

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 public bodies were asked to report on their off-payroll engagements.

Data on these appointments are set out in tables 29 to 32.

Table 29: Off-payroll engagements as at 31 March 2022, earning £245 per day or greater.

	DfTc	BTPa	DVSA	DVLA	National Highways	HS2 Ltd	MCA	Network Rail	VCA	East West Rail co	VCA
No. of existing engagements as of 31 March 2022*	29	8	18	12	11	179	21	1,070	9	28	1385
Of which:											
No. that have existed for less than one year at time of reporting	22	7	15	7	10	114	11	559	4	19	768
No. that have existed for between one and two years at time of reporting	6	1	3	5	1	33	6	363	1	8	427
No. that have existed for between two and three years at time of reporting	1	0	0	0	0	23	4	97	2	1	128
No. that have existed for between three and four years at time of reporting	0	0	0	0	0	3	0	36	0	0	39
No. that have existed for four or more years at time of reporting	0	0	0	0	0	6	0	15	2	0	23

* The above table reflects changes in HM Treasury guidance and scope of reporting. Organisations with a nil return are not included in this table.

The Department, its executive agencies, and public bodies have clearly defined governance and challenge processes in place to ensure they are compliant with the off-payroll (IR35) working rules. The Departmental Approvals Committee provides independent challenge and seeks assurance from the Core Department and the Executive Agencies that: every effort is being made to reduce its reliance on off-payroll resource; that a process is in place to transfer skills from off-payroll resource to permanent staff, and that alternative resourcing options have been considered. Similar governance arrangements exist within the arm's length bodies.

The Department undertakes a risk-based sampling exercise where a selection of engagements, which include those previously assessed as being out-of-scope, are reassessed for consistency to ensure that the status of the role has not changed, which would thus deem them to be in-scope of IR35 legislation. Table 29 shows the number of engagements that were reassessed for consistency purposes during the 2021-22 financial year.

The Department confirms that all the engagements reported in Table 29 and Table 32 have been considered using HMRC's IR35 assessment tool, apart from those in HS2 Ltd, where the default is that all roles are assessed as being in scope of the off-payroll working rules. The assessment tool is then only used when a role is identified to be out of scope, to assess its compliance against the legislation.

Table 30: All off-payroll engaged at any point between 1 April 2021 and 31 March 2022, earning £245 per day or greater.

	DfTc	BTPa	DVSA	DVLA	National Highways	HS2 Ltd	MCA	Network Rail	VCA	East West Rail co	VCA
No. of engagements between 1 April 2021 and 31 March 2022*	63	18	41	26	18	294	31	1,728	17	93	2,329
Of which:											
No. not subject to off-payoll legislation	51	7	33	24	16	0	0	1,472	3	93	1,699
No. assessed as in scope of IR35	10	11	8	1	1	274	14	222	0	0	541
No. assessed as out of scope of IR35	2	0	0	1	1	20	17	34	14	0	89
No. of engagements reassessed for consistency /assurance purposes during the year**	45	2	0	9	1	13	4	20	8	25	127
No. of engagements whose IR35 status changed following reassessment	0	0	0	0	0	0	1	8	0	0	9

Organisations with a nil return are not included in this table.

* The above table reflects changes in HM Treasury guidance and scope of reporting which has seen an increase in engagements not subject to IR35.

** These figures represent the number of engagements which were reassessed during the period to ensure compliance with IR35 legislation.

Core Department (DfTc): engagements deemed in-scope of the legislation are recruited through the Public-Sector Resourcing framework and placed on the payroll of the Department's chosen commercial framework supplier to ensure tax deductions are taken at source. Most off-payroll engagements were via umbrella companies and as a result, not subject to the IR35 legislation. Forty-five engagements were reassessed for consistency and compliance purposes, without resulting in a change to the initial status.

British Transport Police Authority (BTPa): a robust governance process is in place to challenge and control the use of off-payroll engagements and ensure compliance. Two engagements were reassessed for consistency and compliance without resulting in a change to initial status.

Driver and Vehicle Standards Agency (DVSA): majority of engagements were not subject to the IR35 legislation, which is due to recent changes in HM Treasury guidance and scope of reporting. No sample tests were undertaken to reassess for consistency and compliance.

Driver and Vehicle Licensing Agency (DVLA): all engagements are assessed for compliance prior to recruitment. Quarterly reviews were undertaken to assess engagements both in scope and out of scope of the IR35 legislation for consistency. Nine engagements were reassessed for consistency and assurance purposes, without resulting in a change to their initial status.

National Highways (NH): a robust governance process is in place to challenge and control the use of off-payroll engagements and ensure compliance. Majority of engagements were not subject to the IR35 legislation, which is due to recent changes in HM Treasury guidance and scope of reporting. One sample test was undertaken to reassess for consistency and compliance without resulting in a change to its initial status.

High Speed 2 Ltd (HS2): a central recruitment authorisation panel ensured governance and challenge for the recruitment off-payroll workers. A process is in place to provide independent assessment of engagements deemed out-of-scope of the IR35 legislation to ensure compliance. Changes have been implemented to strengthen the process for assessing off-payroll engagements. Thirteen engagements were reassessed for consistency and compliance without resulting in a change to their initial status.

Maritime and Coastguards Agency (MCA): a robust recruitment process is in place to challenge business on the use of off-payroll engagements. Hiring managers critically consider alternative resourcing options including looking at in-house capability before off-payroll engagements are approved. Four engagements were reassessed for consistency and compliance purposes, resulting in one change to their initial status.

Network Rail (NR): robust processes and procedures are in place to determine the status of off-payroll engagements against the IR35 legislation. Random reviews of determinations are carried out during the year to ensure accuracy. This provides assurance that all workers engaged in the business are being correctly paid and fulfilling all income tax and national insurance obligations. Due to recent changes in HM Treasury guidance and scope of reporting, a significant number of engagements with off-payroll workers were not subject to the IR35 legislation i.e., sole traders or workers engaged through an umbrella company. Twenty engagements were reassessed for consistency and compliance, resulting in eight changes to their initial status.

Vehicle Certification Agency (VCA): a process is in place to assess compliance with the IR35 legislation. Most off-payroll engagements were for ongoing Business Transformation, which required a varied and high-level skillset to meet the demand. Eight engagements were reassessed for consistency and compliance, without resulting in a change to their initial status.

East West Rail Company Limited (EWRco): a robust process is in place to manage compliance and recruitment of off-payroll engagements. All requests for, and extensions of, off-payroll engagements go through the Spend Approvals Committee, chaired by the CEO, for authorisation. Due to recent changes in HM Treasury guidance and scope of reporting, all engagements are outside the scope of IR35 legislation.

Table 31: Off-payroll engagements of board members, and / or, senior officials with significant financial responsibility, between 1 April 2021 and 31 March 2022.

	DfTc	BTPa	Directly Operated Railways Ltd	DVSA	DVLA	National Highways	HS2 Ltd	MCA	Northern Lighthouse Board	Network Rail	Transport Focus	Trinity House Lighthouse Services	VCA	East West Rail co	Total
No. of off-payroll engagements of board members, and/ or, senior officials with significant financial responsibility, during the financial year	0	0	0	0	0	0	2	0	0	0	0	0	0	0	2
Total no. of individuals that have been deemed 'board members, and/or, senior officials with significant financial responsibility', during the financial year. This figure should include both on payroll and off-payroll engagements	58	10	–*	5	9	12	35	12	3	17	12	4	5	6	188

* Directly Operated Railways Ltd does not have any officials; all financial decision making is undertaken by DfT officials.

Details of the exceptional circumstances that led to the above off-payroll engagements with significant financial responsibility, and the duration of the engagement is as follows:

High Speed 2 Ltd (HS2): – from 28 April 2021 – 21 October 2021, a Procurement & Supply Chain Director was engaged temporarily to enable the creation of the Chief Commercial Directorate prior to the role being filled permanently. Accounting Officer approval was obtained for the temporary engagement.

From 12 July 2021 – 10 December 2021 Phase 2b, a Development Director was engaged temporarily to work on the Phase 2 business case and development plans prior to the role being filled permanently. Accounting Officer approval was obtained for the temporary engagement.

Consultancy and temporary staff costs

During 2021-22, the Department and its delivery bodies employed a number of consultancy and temporary staff.

Consultancy is the provision of objective advice relating to strategy, structure, management or operations of an organisation in pursuit of its purposes and objectives. Such advice is provided outside the 'business-as-usual' environment when inhouse skills are not available and will be time-limited. Consultancy may include the identification of options with recommendations, or assistance with (but not the delivery of) the implementation of solutions.

Consultancy costs are incurred primarily on specialist transport-related activities across the Group, notably in Network Rail, East West Rail, High Speed 2 and the central department.

Temporary staff costs are incurred when staff are brought in to supplement the existing workforce, this could be due to a surge in demand, to address a short term resourcing need or in a temporary capacity for specialist skills. Temporary staff costs are incurred primarily in major infrastructure programme across the Group, notably in Network Rail, High Speed 2 and East West Rail and continue to be the most significant driver of these costs.

During 2021-22 the largest cost increases in consultancy and temporary staff were in High Speed 2, where significant construction is continuing and progress has been made on a number of key procurements and East West Rail, with the restoration of the railway flyover at Bletchley and continued progress on the rest of the route.

Table 32: Expenditure on consultancy and temporary staff.

	Consultancy	Temporary staff	Total
Network Rail	86,640,738	136,159,923	222,800,661
DfTC	87,503,961	8,585,503	96,089,464
High Speed 2	1,358,431	20,416,345	21,774,776
East West Rail	11,968,183	9,443,983	21,412,166
DVLA	2,544,014	4,298,892	6,842,906
DVSA	1,367,165	3,671,781	5,038,946
National Highways	3,900,000	1,600,000	5,500,000
BTP	845,518	1,104,637	1,950,155
MCA	1,706,088	2,632,042	4,338,130
VCA	45,908	384,197	430,105
Northern Lighthouse Board	0	669,847	669,847
Trinity House	0	402,984	402,984
Transport Focus	0	0	0
Commission for Irish Lights	0	66,120	66,120
ATTF	0	0	0
Directly Operated Railways Ltd	0	0	0

	Consultancy	Temporary staff	Total
LCR Finance Company	0	0	0
CTRL Finance Company	0	0	0
Air Safety Support International	91,434	38,350	129,784
Trainfleet	30,283	0	30,283
Department Total	198,001,723	189,474,604	387,476,327

Exit packages

The following section on exit packages is subject to audit

Exit packages Table 1 – Core Department and Agencies

Table 33: Reporting of Civil Service and other compensation schemes – exit packages.

Exit package cost band	2021-22 Compulsory redundancies	2020-21 Compulsory redundancies	2021-22 Other departures agreed	2020-21 Other departures agreed	2021-22 Total Exits	2020-21 Total Exits
<£10,000	0	0	8	12	8	12
£10,000–£25,000	0	0	7	12	7	12
£25,000–£50,000	0	0	7	11	7	11
£50,000–£100,000	0	0	2	6	2	6
£100,000–£150,000	0	0	0	2	0	2
£150,000–200,000	0	0	0	0	0	0
>£200,000	0	0	0	0	0	0
Total number of exit packages	0	0	24	43	24	43
Total Cost (£)	0	0	495,077	1,245,549	495,077	1,245,549

2020-21 figures have been restated to include DVSA who were outside of the accounting boundary until 1 April 2021. DVSA figures are also included for 2021-22

Exit packages Table 2 – Whole Departmental Group

Table 34: Reporting of Civil Service and other compensation schemes – exit packages.

Exit package cost band	2021-22 Compulsory redundancies	2020-21 Compulsory redundancies	2021-22 Other departures agreed	2020-21 Other departures agreed	2021-22 Total Exits	2020-21 Total Exits
<£10,000	46	99	31	15	77	114
£10,000–£25,000	81	81	299	21	378	102
£25,000–£50,000	160	141	347	22	508	163
£50,000–£100,000	41	36	226	9	268	45
£100,000–£150,000	11	3	33	3	44	6
£150,000–200,000	3	6	5	0	8	6
>£200,000	1	5	0	0	1	5
Total number of exit packages	343	371	941	70	1284	441
Total Cost (£)	11,916,618	11,745,056	38,245,263	2,122,233	50,161,881	13,867,289

2020-21 figures have been restated to include DVSA who were outside of the accounting boundary until 1 April 2021. DVSA figures are also included for 2021-22

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972 (with the exception of Network Rail, which is not governed by Cabinet Office controls and runs separate exit schemes). Exit costs are accounted for in full in the year of departure. Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil

Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

In line with the Constitutional Reform and Governance Act 2010 and the Model Contract for Special Advisers, a Special Adviser's appointment automatically ends when their appointing Minister leaves office. Special Advisers are not entitled to a notice period but receive contractual termination benefits to compensate for this. Termination benefits are based on length of service and capped at six months' salary. If a Special Adviser returns to work for HM Government following the receipt of a severance payment, the payment is required to be repaid, less a deduction in lieu of wages for the period until their return. Termination costs for special advisers are reported in the Cabinet Office Annual Report and Accounts.

Statement of Outturn against Parliamentary Supply

In addition to the primary statements prepared under IFRS, the Government Financial Reporting Manual (FReM) requires the Department to prepare a Statement of Outturn against Parliamentary Supply (SOPS) and supporting notes. The SOPS and supporting Notes are a key accountability statement that show, in detail, how an entity has spent against their Supply Estimate.

Supply is the monetary provision (for resource and capital purposes) and cash (drawn primarily from the Consolidated Fund) that Parliament gives statutory authority for entities to utilise. The Estimate details Supply and is voted on by Parliament at the start of the financial year through the Main Estimate and updated later in the financial year through the Supplementary Estimate. The format of the SOPS mirrors the Supply Estimates, published on gov.uk, to enable comparability between what Parliament approves and the final outturn.

The SOPS and related notes are subject to audit, as detailed in the Certificate and Report of the Comptroller and Auditor General to the House of Commons.

The SOPS contain a summary table, detailing performance against the control limits on which Parliament has voted on, cash spent (budgets are compiled on an accruals basis and so outturn will not exactly agree to cash spent) and administration.

Government departments are not authorised to exceed the values that Parliament authorises in the Supply Estimate. These voted totals, or budgetary control totals, are outlined in the tables below. Any breach of these control totals will result in a qualified audit opinion due to an Excess Vote.

The supporting notes detail the following:

- Outturn by Estimate line, providing a more detailed breakdown (SOPS 1);
- a reconciliation of outturn to net operating expenditure in the Statement of Comprehensive Net Expenditure, to tie the SOPS to the financial statements (SOPS 2);
- a reconciliation of outturn to net cash requirement (SOPS 3); and
- an analysis of income payable to the Consolidated Fund (SOPS 4).

The SOPS and Estimates are compiled against the budgeting framework, which is similar to, but different from, IFRS. An understanding of the budgeting framework and an explanation of key terms is provided in the Financial Overview on page 20. Further information on the Public Spending Framework and the reasons why budgeting rules are different from IFRS can also be found in chapter 1 of the Consolidated Budgeting Guidance, available on gov.uk. A glossary of these financial terms can also be found in Annex A.

In SOPS 1, spending is split into Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME), and within those categories spending is further split between resource and capital. These spending categories include: cash expenditure for transactions that require the transfer of money; and, non-cash expenditure relating to changes in the valuation of assets (depreciation, pensions etc.).

AME includes areas of spending that HM Treasury deems unpredictable, difficult to control and of a size that departments would have difficulty managing within DEL budgets.

DEL is usually set for the term of the Spending Review, whereas AME is forecast on a yearly basis. Departments are set annual budgets split between resource/capital and DEL/AME.

As required by the 2021-22 FReM, the SOPS is presented in £000s. The financial statements are presented in £m.

Summary of Resource and Capital Outturn 2021-22

								2021-22		2020-21
Type of spend	SoPS note			Outturn			Estimate	Outturn vs. Estimate saving/ (excess)	Outturn vs. Estimate saving/ (excess)	Prior Year Outturn Total 2020-21”
		Voted	Non-Voted	Total	Voted	Non-Voted	Total	Voted	Total	Total
		£’000	£’000	£’000	£’000	£’000	£’000	£’000	£’000	£’000
Departmental Expenditure Limit (DEL)										
Resource	1.1	18,569,577	14,488	18,584,065	20,881,682	15,036	20,896,718	2,312,105	2,312,653	23,670,861
Capital	1.2	19,151,091	–	19,151,091	19,420,864	–	19,420,864	269,773	269,773	17,032,402
Total		**37,720,668**	**14,488**	**37,735,156**	**40,302,546**	**15,036**	**40,317,582**	**2,581,878**	**2,582,426**	40,703,263
Annually Managed Expenditure (AME)										
Resource	1.1	3,449,396	4,874	3,454,270	4,425,677	4,874	4,430,551	976,281	976,281	1,439,671
Capital	1.2	78,337	–	78,337	350,245	–	350,245	271,908	271,908	53,950
Total		**3,527,733**	**4,874**	**3,532,607**	**4,775,922**	**4,874**	**4,780,796**	**1,248,189**	**1,248,189**	1,493,621
Total Budget										
Resource	1.1	22,018,973	19,362	22,038,335	25,307,359	19,910	25,327,269	3,288,386	3,288,934	25,110,532
Capital	1.2	19,229,428	–	19,229,428	19,771,109	–	19,771,109	541,681	541,681	17,086,352
Total Budget Expenditure		**41,248,401**	**19,362**	**41,267,763**	**45,078,468**	**19,910**	**45,098,378**	**3,830,067**	**3,830,615**	42,196,884

Figures in the columns labelled “Voted” cover the control limits voted by Parliament. Further information about the Supply process control limits voted by Parliament can be found in The Estimates Manual[34].

Detailed explanations of significant variances between Estimate and Net Resource Outturn and are shown after SOPS Note 1.2.

Net Cash Requirement

The Net Cash Requirement is the limit voted by Parliament reflecting the maximum amount of cash that can be released from the Consolidated Fund to the Department in support of expenditure in its Estimate.

		2021-22	2020-21
	Note	£’000	£’000
Estimate		37,079,601	40,264,204
Outturn	SOPS 3	30,367,987	36,228,707
Under/(over) spend against Estimate		**6,711,614**	**4,035,497**

Administration Costs

The Administration Budget is a Treasury control on resources consumed by the Department and forms part of the Departmental Expenditure Limit (DEL).
The administration budget is not a separate voted limit, but any breach of this limit will also result in an Excess

34 https://www.gov.uk/government/publications/supply-estimates-guidance-manual

Vote. Administration costs include items not directly associated with frontline service delivery.

		2021-22	2020-21
	Note	£'000	£'000
Estimate		360,242	311,587
Outturn	SOPS 1.1	329,144	293,510
Under/(over) spend against Estimate		**31,098**	18,077

The SOPS Notes on pages 471 to to 307 form part of these financial statements.

The total Estimate columns include virements. Virements are the reallocation of provision in the Estimates that do not require Parliamentary authority (as Parliament does not vote to that level of detail and delegates this power to HM Treasury). Further information on virements can be found in The Estimates Manual[35].

The "Outturn vs Estimate" column is based on the total including virements. The Estimate total prior to virements is included to provide comparison to the Estimates as laid before Parliament.

35 https://www.gov.uk/government/publications/supply-estimates-guidance-manual

SOPS 1. Net outturn by Estimate line

SOPS 1.1 Analysis of net resource outturn by Estimate line

		2021-22											2020-21
		Resource Outturn							Estimate			Outturn vs. Estimate, saving/ (excess)	Prior year Outturn Total 2020-21
		Administration			Programme								
		Gross	Income	Net	Gross	Income	Net	Net Total	Total	Virements	Total inc. virements		
		£'000	£'000	£'000		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Spending in Departmental Expenditure Limit (DEL):													
	Voted:												
A:	Tolled Crossings	–	–	–	39,410	(146,184)	(106,774)	(106,774)	(101,641)	–	(101,641)	5,133	(77,560)
B:	Local Authority Transport	–	–	–	460,539	(22)	460,517	460,517	476,653	–	476,653	16,136	519,395
C:	Highways England (net)	45,292	–	45,292	2,347,998	–	2,347,998	2,393,290	2,595,725	–	2,595,725	202,435	2,291,640
D:	Funding of other ALBs (net)	996	–	996	(16,838)	–	(16,838)	(15,842)	(1,465)	–	(1,465)	14,377	15,619
E:	Other Railways	–	–	–	333,164	(193,170)	139,994	139,994	161,204	–	161,204	21,210	86,679
F:	Sustainable Travel	–	–	–	148,322	(2,719)	145,603	145,603	159,150	(2,832)	156,318	10,715	183,175
G:	Bus Subsidies & Concessionary Fares	–	–	–	762,701	(7,616)	755,085	755,085	811,401	–	811,401	56,316	1,531,819
H:	GLA Transport Grants	–	–	–	1,719,404	–	1,719,404	1,719,404	2,106,465	–	2,106,465	387,061	2,459,882
I:	Crossrail	–	–	–	1,863	(29,701)	(27,838)	(27,838)	(27,587)	–	(27,587)	251	(899)
J:	Aviation, Maritime, Security and Safety	–	–	–	284,387	(67,022)	217,365	217,365	242,602	–	242,602	25,237	259,831
K:	Maritime and Coastguard Agency	7,922	(459)	7,463	377,754	(15,918)	361,836	369,299	389,891	–	389,891	20,592	371,753
L:	Motoring Agencies	–	–	–	1,164,221	(1,134,883)	29,338	29,338	154,033	–	154,033	124,695	193,379
M:	Science, Research and Support Functions	–	–	–	25,515	(369)	25,146	25,146	28,369	–	28,369	3,223	23,096
N:	Central Administration	285,198	(11,844)	273,354	72,972	(26,878)	46,094	319,448	460,376	–	460,376	140,928	287,903

		2021-22												2020-21
		Resource Outturn							Estimate				Outturn vs. Estimate, saving/ (excess)	Prior year Outturn Total 2020-21
		Administration			Programme									
		Gross	Income	Net	Gross	Income	Net	Net Total	Total	Virements	Total inc. virements			
		£'000	£'000	£'000		£'000	£'000	£'000	£'000	£'000	£'000		£'000	£'000
O:	Support For Passenger Rail Services	–	–	–	4,509,724	–	4,509,724	4,509,724	5,670,835	–	5,670,835		1,161,111	8,459,067
P:	High Speed Rail	–	–	–	(5,064)	–	(5,064)	(5,064)	18,497	–	18,497		23,561	67,168
Q:	Transport Development Fund	–	–	–	47,556	–	47,556	47,556	44,724	2,832	47,556		–	300
R:	High Speed Two Limited (net)	1,834	–	1,834	217,412	–	217,412	219,246	279,875	–	279,875		60,629	106,785
S:	East West Rail Company Limited (net)	171	–	171	74,187	–	74,187	74,358	82,526	–	82,526		8,168	36,293
T:	T: Network Rail (net)	–	–	–	7,299,722	–	7,299,722	7,299,722	7,330,049	–	7,330,049		30,327	6,841,392
Total Voted Resource DEL		**341,413**	**(12,303)**	**329,110**	**19,864,949**	**(1,624,482)**	**18,240,467**	**18,569,577**	**20,881,682**	**–**	**20,881,682**		**2,312,105**	23,656,717
Non-Voted:														
U:	Funding of ALBs (net)	34	–	34	14,454	–	14,454	14,488	15,036	–	15,036		548	14,144
Total Resource DEL		**341,447**	**(12,303)**	**329,144**	**19,879,403**	**(1,624,482)**	**18,254,921**	**18,584,065**	**20,896,718**	**–**	**20,896,718**		**2,312,653**	23,670,861
Spending in Annually Managed Expenditure (AME):														
	Voted:													
V:	Highways England (net)	–	–	–	9,380	–	9,380	9,380	2,897	6,483	9,380		–	22,113
W:	Network Rail (net)	–	–	–	3,136,601	–	3,136,601	3,136,601	3,983,416	–	3,983,416		846,815	1,234,751
X:	Funding of other ALBs (net)	–	–	–	87,277	–	87,277	87,277	101,645	–	101,645		14,368	29,808

		2021-22											2020-21
		Resource Outturn							Estimate			Outturn vs. Estimate, saving/ (excess)	Prior year Outturn Total 2020-21
		Administration			Programme								
		Gross	Income	Net	Gross	Income	Net	Net Total	Total	Virements	Total inc. virements		
		£'000	£'000	£'000		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Y:	Other Railways	–	–	–	409,092	(209,434)	199,658	199,658	230,752	–	230,752	31,094	132,247
Z:	Aviation, Maritime, Security and Safety	–	–	–	–	(1,421)	(1,421)	(1,421)	(1,421)	–	(1,421)	–	(1,726)
AA:	Maritime and Coastguard Agency	–	–	–	1,212	–	1,212	1,212	13,510	–	13,510	12,298	613
AB:	Motoring Agencies	–	–	–	(5,476)	–	(5,476)	(5,476)	(2,310)	–	(2,310)	3,166	(1,569)
AC:	Central Administration	–	–	–	17,888	–	17,888	17,888	96,106	(16,112)	79,994	62,106	21,705
AD:	High Speed Rail	–	–	–	13	–	13	13	1,446	–	1,446	1,433	(1,188)
AE:	High Speed Two Limited (net)	–	–	–	4,264	–	4,264	4,264	–	4,264	4,264	–	2,906
AF:	East West Rail Company Limited (net)	–	–	–	–	–	–	–	5,001	–	5,001	5,001	11
Total Voted Resource AME		**–**	**–**	**–**	**3,660,251**	**(210,855)**	**3,449,396**	**3,449,396**	**4,431,042**	**(5,365)**	**4,425,677**	**976,281**	1,439,671
	Non-Voted:												
AG:	Funding of ALBs (net)	–	–	–	4,874	–	4,874	4,874	(491)	5,365	4,874	–	
Total Resource AME		**–**	**–**	**–**	**3,665,125**	**(210,855)**	**3,454,270**	**3,454,270**	**4,430,551**	**–**	**4,430,551**	**976,281**	1,439,671
Total Resource Outturn		**341,447**	**(12,303)**	**329,144**	**23,544,528**	**(1,835,337)**	**21,709,191**	**22,038,335**	**25,327,269**	**–**	**25,327,269**	**3,288,934**	25,110,532

DVSA is consolidated for the first time in 2021-22: its resource outturn is reported within “L: Motoring Agencies” and “AB: Motoring Agencies”.

SOPS 1.2 Analysis of net capital outturn by Estimate line

		2021-22							2020-21
		Outturn			Estimate			Outturn vs. Estimate, saving/ (excess)	Prior year outturn Total 2020-21
		Gross	Income	Net total	Total	Virements	Total inc. virements		
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Spending in Departmental Expenditure Limit (DEL):									
Voted:									
A:	Tolled Crossings	459	–	459	568	–	568	109	255
B:	Local Authority Transport	1,810,158	–	1,810,158	1,662,491	147,667	1,810,158	–	2,411,593
C:	Highways England (net)	3,184,289	–	3,184,289	3,045,722	138,567	3,184,289	–	3,295,075
D:	Funding of other ALBs (net)	36,397	–	36,397	30,643	5,754	36,397	–	119,368
E:	Other Railways	132,955	(10,000)	122,955	113,814	9,141	122,955	–	13,959
F:	Sustainable Travel	790,261	(1,327)	788,934	987,192	(198,258)	788,934	–	711,455
G:	Bus Subsidies & Concessionary Fares	238,829	–	238,829	289,534	(50,705)	238,829	–	81,535
H:	GLA Transport Grants	3,211	–	3,211	5,000	–	5,000	1,789	–
I:	Crossrail	627,132	(149,145)	477,987	547,100	(69,113)	477,987	–	722,349
J:	Aviation, Maritime, Security and Safety	303,068	–	303,068	303,109	–	303,109	41	67,784
K:	Maritime and Coastguard Agency	31,848	–	31,848	61,184	(29,336)	31,848	–	23,069
L:	Motoring Agencies	106,389	(6,860)	99,529	123,363	(23,834)	99,529	–	214,495
M:	Science, Research and Support Functions	26,978	–	26,978	22,334	4,644	26,978	–	8,113
N:	Central Administration	53,023	(5,840)	47,183	44,254	2,929	47,183	–	45,448
O:	Support For Passenger Rail Services	296,649	–	296,649	464,182	(31,243)	432,939	136,290	84,686
P:	High Speed Rail	251,947	–	251,947	254,469	–	254,469	2,522	264,619
Q:	Transport Development Fund	849,338	–	849,338	850,000	–	850,000	662	436,070

		2021-22							2020-21
		Outturn			Estimate			Outturn vs. Estimate, saving/ (excess)	Prior year outturn Total 2020-21
		Gross	Income	Net total	Total	Virements	Total inc. virements		
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
R:	High Speed Two Limited (net)	5,001,680	–	5,001,680	4,907,893	93,787	5,001,680	–	3,250,079
S:	East West Rail Company Limited (net)	315	–	315	316	–	316	1	1,640
T:	Network Rail (net)	5,579,337	–	5,579,337	5,707,696	–	5,707,696	128,359	5,280,812
Total Voted DEL		**19,324,263**	**(173,172)**	**19,151,091**	**19,420,864**	**–**	**19,420,864**	**269,773**	17,032,404
Non-Voted:									
U:	Funding of ALBs (net)	–	–	–	–	–	–	–	(2)
Total Capital DEL		**19,324,263**	**(173,172)**	**19,151,091**	**19,420,864**	**–**	**19,420,864**	**269,773**	17,032,402
Spending in Annually Managed Expenditure (AME):									
Voted:									
V:	Highways England (net)	(156,443)	–	(156,443)	89,025	–	89,025	245,468	171,294
Y:	Other Railways	–	(12)	(12)	–	–	–	12	(11)
Z:	Aviation, Maritime, Security and Safety	–	(11,667)	(11,667)	(11,667)	–	(11,667)	–	(20,000)
AD:	High Speed Rail	237,724	–	237,724	267,887	(3,735)	264,152	26,428	(99,331)
AE:	High Speed Two Limited (net)	8,735	–	8,735	5,000	3,735	8,735	–	1,998
Total Voted AME		**90,016**	**(11,679)**	**78,337**	**350,245**	**–**	**350,245**	**271,908**	53,950
Total Capital AME		**90,016**	**(11,679)**	**78,337**	**350,245**	**–**	**350,245**	**271,908**	53,950
Total Capital Outturn		**19,414,279**	**(184,851)**	**19,229,428**	**19,771,109**	**–**	**19,771,109**	**541,681**	17,086,352

DVSA is consolidated for the first time in 2021-22: its resource outturn is reported within “L: Motoring Agencies” and “AB: Motoring Agencies”.

National Highways is still referred to as Highways England in the estimates process.

Variances

The Department estimates the costs for each budget type and monitors these throughout the year. Final budgets for the year are authorised through the Supplementary Estimate. Significant variances between Outturn and Estimates before virements are set out in the table below.

Expenditure Line	Outturn	Estimate	Variance (over)/ under	Explanation of variance
	£'000	£'000		
Resource DEL				
Highways England	2,393,290	2,595,725	202,435	Depreciation on the Strategic Road Network was lower than forecast, arising from changes in the methodology used to calculate structure conditions and improved survey data.
GLA Transport Grants	1,719,404	2,106,465	387,061	The Estimate was based on a scenario of reduced passenger volumes for the last Quarter of the year due to prolonged impacts of Omicron, which did not materialise.
Motoring Agencies	29,338	154,033	124,695	There is a net underspend for this estimate line due to various factors including both higher incomes and lower expenditures: Motoring Agencies underspent by £50m on operational expenditure and realised better than planned income (£20m) for Sale of Marks. Additionally, £44m less than planned was spent on Information and Advice sites for EU Transition as the number of live sites reduced.
Central Administration	319,448	460,376	140,928	The non-cash impairment expense for the adjustment of Land & Property inventory assets to net realisable value was lower than the maximum authorised under the Estimate.
Support for Passenger Rail Services	4,509,724	5,670,835	1,161,111	The Estimate was based on a scenario of reduced passenger volumes for the last Quarter of the year due to prolonged impacts of Omicron, which did not materialise.

Expenditure Line	Outturn	Estimate	Variance (over)/ under	Explanation of variance
	£'000	£'000		
Resource AME				
Network Rail	3,136,601	3,983,416	846,815	Derivatives and interest outturn were lower than allowed for in the Estimate.
Capital DEL				
Local Authority Transport	1,810,158	1,662,491	(147,667)	Increased approved expenditure on Local Maintenance compared to planned levels through the Estimate.
Highways England	3,184,289	3,045,722	(138,567)	Delivery ahead of schedule on renewals and Major Projects in the final quarter of the year due to better weather conditions and fewer delays due to Omicron than anticipated.
Sustainable Travel	788,934	987,192	198,258	Delayed spend on areas, such as Clean Air Zones, because implementation dates shifted post Estimate.
Support for Passenger Rail Services	296,649	464,182	167,533	Operators' capital requirements were lower than authorised at the Estimate.
Capital AME				
Highways England	(156,443)	89,025	245,468	National Highways experienced delays to some new CPO acquisitions for road schemes compared with forecasts submitted for the Estimate.

SOPS 2. Reconciliation of outturn to net operating expenditure

As noted in the introduction to the SOPS above, outturn and the Estimates are compiled against the budgeting framework, which is related to the IFRS-based FReM accounting framework. Therefore, this reconciliation bridges the gap between the resource outturn and net operating expenditure, linking the SOPS to the financial statements.

			2021-22	2020-21 (restated)
		Note	£'000	£'000
Total resource outturn		SOPS 1.1	22,038,335	25,110,532
Add:	Capital Grants	3.3	3,933,944	3,783,359
	Research and development	3.2	105,126	56,697
	Research and development grants	3.3	18,546	13,618
	EU Grants	3.3	1,427	1,155
	Capital subsidies for Rail Operators		321,519	135,519
	Share of loss in associates		2,865	46,607
less:	Capital income		(481,862)	(526,394)
	Non-budget CFER income		(179,129)	(436,696)
	Other adjustments		–	90,520
Net expenditure in the Statement of Comprehensive Expenditure		SOCNE	25,760,771	28,274,917

Capital Grants, Research and development and EU Capital Grants are budgeted for as Capital DEL but accounted for as expenditure in the SOCNE, and therefore function as a reconciling item between Resource and Net Operating Expenditure. The increase in capital subsidies to Rail Operators reflects the

Department's capital payments towards fixed assets at the end of some ERMA contracts.

Capital Income is budgeted for as Capital DEL but accounted for as income in the SOCNE, and therefore functions as a reconciling item between Resource and Net Operating Expenditure. Network Rail and National Highways received material levels of capital income: these relate to contributions from other bodies towards capital projects.

Other adjustments of £91m in the restated 2020-21 comparatives reflects the prior-year restatement for the first time consolidation of DVSA, as described in accounting policy note 1.26. The Department confirmed with HM Treasury that this additional expenditure in the prior period does not comprise a non-budget outturn in 2021-22, because the restatement arises in respect of a statistical reclassification of DVSA by ONS.

The Non-Budget CFER income of £179m in 2021-22 comprises £192m of CFERs recognised in-year (as shown on the face of the SOCTE) less £12m of General Lighthouse Fund loan repayments credited to the balance sheet (see Note 11) and £1m of loan interest that is classified as RAME.

Share of profit and loss in associates is not included in budgets and has no impact on Outturn.

SOPS 3. Reconciliation of Net Outturn to Net Cash Requirement

As noted in the introduction to the SOPS above, outturn and the Estimates are compiled against the budgeting framework, not on a cash basis. Therefore, this reconciliation bridges the gap between the resource and capital outturn and the net cash requirement.

		Net Outturn	Estimate	Net Outturn vs Estimate
	Note	£'000	£'000	£'000
Resource outturn	SOPS 1.1	22,038,335	25,327,269	3,288,934
Capital outturn	SOPS 1.2	19,229,428	19,771,109	541,681
Total outturn		**41,267,763**	**45,098,378**	**3,830,615**
Accruals to cash adjustments for Core Department & Agencies				
Depreciation, amortisation and impairments	3.4	(219,327)	(328,538)	(109,211)
Provisions (non-cash movements)	23	(489,958)	(139,561)	350,397
Other non-cash items	3, 4	3,777	(54,935)	(58,712)
Adjustments to reflect movements in working capital balances in Core Department & Agencies				
Increase/(decrease) in receivables	17	(414,814)	635,000	1,049,814
(Increase)/decrease in payables	19, 20	407,724	1,544,555	1,136,831
Utilisation of provisions	23	259,408	256,123	(3,285)
Adjustments for arm's length bodies:				
Remove: voted resource and capital		(27,075,353)	(28,163,512)	(1,088,159)
Add: Grant-in-Aid, grants and loans to ALBs	3.3, 11	24,889,646	18,246,636	(6,643,010)
Less: repayments from ALBs to DfT	11	(8,254,604)		8,254,604
Removal of non-voted budget items				
Remove non-voted spending		(19,363)	(14,545)	4,818
CFER income included in budgets		13,088		(13,088)
Net Cash Requirement		**30,367,987**	**37,079,601**	**6,711,614**

SOPS 4. Income payable to the Consolidated Fund

SOPS 4.1 Analysis of income payable to the Consolidated Fund

In addition to income retained by the Department, the following income is payable to the Consolidated Fund (cash receipts being shown in italics):

	2021-22		2020-21	
	Income accrued	Cash received	Income accrued	Cash received
	£’000	£’000	£’000	£’000
Operating income outside the ambit of the Estimate – Resource	180,549	*419,028*	438,421	*178,368*
Operating income outside the ambit of the Estimate – Capital	11,667	*11,667*	20,000	*20,000*
Total income payable to the Consolidated Fund	192,216	430,695	458,421	*198,368*

The income above includes:

- £150m of fees relating to the sale and transfer of personalised registration marks by the Driver and Vehicle Licensing Agency (2020-21: £150m). Amounts earned by DVLA above £150m are retained by the Department and are reinvested in transport activities;

- £13m in loan repayments and interest payments made to the Department from the General Lighthouse Fund (2020-21: £22m).
- £23.5m penalty income levied following the termination of the Department's rail contract with London and South Eastern Railway Ltd.

SOPS 4.2 Consolidated Fund income

The Consolidated Fund income shown in SOPS 4.1 above does not include any amounts collected by the Department where it was acting as agent for the Consolidated Fund rather than as principal. The amounts collected as agent for the Consolidated Fund (which are otherwise excluded from these financial statements) were:

	2021-22	2020-21
	£'000	£'000
Licence fees, penalties and fines	214,400	80,922
Costs of collection – where deductible	(42,184)	(17,460)
Amounts payable to the Consolidated Fund	172,215	63,462
Balance held at the start of the year	6,618	5,141
Payments into the Consolidated Fund	(172,096)	(61,985)
Balance held on trust at the end of the year	6,737	6,618

The amount payable to the Consolidated Fund (net income) above includes:

- £120m levied under the Renewable Transport Fuel Obligation (2020-21 £43m);

- £45m of late licensing penalties and enforcement activities (net of cost of collection) relating to the Vehicle Excise Duty collected by the DVLA (2020-21: £16m);
- £5m of graduated fixed penalties and deposits income in DVSA (2020-21: £4m); and
- £3m of COVID-19 related-fines levied on air passengers by the Civil Aviation Authority, which were surrendered to HM Treasury via the Department (20-21: £nil).

In addition to the values above, the DVLA collects Vehicle Excise Duty and pays it directly to the Consolidated Fund. Further details are given in the Trust Statement within the DVLA financial statements.

Parliamentary accountability disclosures

In addition to the Statement of Outturn against Parliamentary Supply, all of the following sections are subject to audit, i.e. losses and special payments, fees and charges, and remote contingent liabilities.

Losses and special payments

This section reports the total number of cases and value of losses and special payments, and details of any losses or special payments that exceed £300,000.

Losses statement

Losses may relate to cash and store losses, bookkeeping losses, losses arising from a failure to make adequate charge for the use of public property or services, fruitless payments, claims abandoned and frauds. The increase in the total amount of losses is largely driven by non-recurring amounts relating to the HS2 and railway network assets, as described below.

	2021-22		2020-21 (restated)	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
Total number of cases	8,934	44,442	10,952	41,846
Total amount £000	**54,642**	**397,158**	41,833	112,796

Dartford-Thurrock River Crossing Charging Scheme

The Department suffers losses due to motorists' failure to pay amounts due on the Dartford-Thurrock River Crossing Charging Scheme following the introduction of a free-flowing scheme from 1 December 2014 to reduce congestion. Until 30 November 2014, drivers using the Dartford-Thurrock River Crossing had to stop at barriers to pay the road-user charge, which resulted in significant levels of congestion. From 1 December 2014, a new scheme was introduced. The scheme introduced a barrier-less, free-flowing charging operation (Dart Charge) which requires drivers to pay for their crossing during chargeable hours, either in advance or by midnight the day after using the crossing. Road users have access to a variety of methods to pay the charge including payments online; via phone; at retail outlets, or by registered customer accounts. If a payment is not made in the allotted time, the scheme operator will issue a Penalty Charge Notice (PCN). If required, penalty and recovery processes are employed to enforce the charging scheme and collection of charges.

After a period of time, when the scheme operator considers that it is no longer able to collect against the PCN, it then regards the charge as being irrecoverable and writes off the amount that was due.

The 2021-22 losses include £41,933,000 in relation to 2020-21 Dartford Crossing charges (2020-21:

£34,954,000 in relation to 2019-20). Of this, £40,333,000 relates to the write-off of receivables for both road user charges and PCNs that became irrecoverable, and an estimated amount of up to £1,600,000 relates to PCNs that were not issued (2020-21: £32,754,000 & £2,200,000 respectively in relation to 2019-20). There are several circumstances in which PCNs are not issued, including: vehicle keeper details not being available; poor images; mis-read number plates; system errors and illegal activity/evasion (e.g. cloned vehicles).

The increase in write offs is largely due to limitations on enforcement activity due to Covid 19 restrictions in 2020-21.

EU exit – contingency planning

From 2019-20, contingency measures were put in place to handle potential for disruption to haulage following the UK's departure from the EU. These included rental, security and staffing of additional lorry parking facilities near Ashford. As this border readiness measure was not operationally required for most of the year, the associated costs during that period of £2,907,740 (2020-21: £5,405,400) are recognised as constructive losses in the table above.

HS1 domestic underpinnings

HS1 Ltd is the current concession holder for the Channel Tunnel Rail Link, which carries high speed domestic and international rail services between London and the Channel Tunnel. Under the Domestic Underpinning

Agreement between HS1 Ltd and the Secretary of State for Transport, HS1 Ltd receives income from DfT if the minimum number of domestic high speed rail paths is not met by rail operators in a timetable period. Due to the impact of COVID-19 on passenger demand, the domestic high speed operating timetable was below this threshold during financial year 2021-22. As required through this arrangement, the Department paid HS1 Ltd £8,954,570.06 during the year. Accordingly, this amount is recorded as a constructive loss in the table above.

Network Rail

Network Rail incurred a total of £190 million costs on development and design options for the Transpennine Route Upgrade that were not taken forward in the final programme design. These amounts are included as a constructive loss in the table above. Of this £190 million:

- £50 million was expenditure on the design and project management of upgrades that are no longer relevant; and
- £140m was expenditure on developing programme options between 2016-17 and 2019-20 that became obsolete following changes in scope.

Network Rail incurred two additional losses above £300,000. One loss for £730,313 relates to a fine in April 2021, following an investigation by the Office of Rail and Road into a safety incident at Godinton substation in Kent at the end of 2018. Network Rail also incurred one store loss of goods valued at £300,000.

HS2

There was one case above £300,000 during the reporting period under Losses. There is a non-cash impairment charge of £105.6 million including VAT, which relates to the design change for Euston Station that was formally instructed by the DfT on 3rd September 2021 in order to provide an alternate and more efficient option after a study led by the Senior Responsible Owner (SRO). The assessment for the value is based on expert opinions of the Design Team and consultations with the HS2 Design Engineers.

National Highways Ltd

There was one book-keeping loss greater than £300,000 in the period to 31 March 2022. The book-keeping loss for £9.6m relates to aged unreconciled VAT balances.

Special Payments

Special payments include extra-contractual, special severance, ex gratia and compensation payments.

	2021-22		2020-21 (restated)	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
Total number of cases	5,350	5,517	5,338	5,498
Total amount £000	8,204	23,851	16,000	19,058

Core Department – Industrial disease and injury claims

A total of £7,566,252.41 was paid to settle 148 industrial disease and injury claims from former British Rail employees (2020-21: 194 cases totalling £13,000,996), of which 3 cases exceeded £300,000. Note 22 of the financial statements provides further information about these claims.

National Highways Ltd

There were two special payments with a value greater than £300,000 which related to early reservation of a land fill site as part of the Lower Thames Crossing project (£2.4 m) and for the impact on a housing development at the A27 Arundel bypass (11.7m).

Fees and charges information

The majority of the Departmental Group's income, described at Note 4, arises either under contract or resulting from railway industry regulation. The table below describes the subset of the Departmental Group's income relating to fees and charges made directly to public service users, which are within the scope of Managing Public Money, and describes both the income relating to those services, along with the full cost of providing them. It does not constitute an IFRS 8 (Operating Segment Reporting) disclosure.

	2021-22			2020-21 (restated)		
	Income	Full Cost	Surplus/ (Deficit)	Income	Full Cost	Surplus/ (Deficit)
	£m	£m	£m	£m	£m	£m
Maritime and Coastguard Agency						
Fees and charges	7	8	(1)	5	5	–
Vehicle Certification Agency						
Product certification	20	22	(2)	20	22	(2)
Driver and Vehicle Licensing Agency						
Fees and charges	441	307	134	365	285	80
Driver and Vehicle Standards Agency						
Fees and charges	380	365	15	169	360	(191)
	848	**702**	**146**	559	672	(113)

MCA and VCA fees and charges are set in line with a full cost recovery objective. DVLA is required to target full cost recovery of its fees and charges on a pooled basis for core service delivered. As described in Note 2 of DVLA's Annual Report and Accounts, the fees received for cherished transfers (personalised registrations) are payable to HM Treasury and the core Department.

Driver and Vehicle Standards Agency (DVSA) levies fees & charges in respect of driving tests and HGV testing. DVSA's deficit in 2020-21 was due to slowdown of activity during the COVID-19 pandemic. Activity increased during 2021-22.

Additional information regarding these fees and charges (including the financial objective and performance against this) can be found in the published financial statements for each of the Agencies.

Remote contingent liabilities

Contingent liabilities are presented here where the likelihood of a transfer of economic benefit in settlement is judged remote. They do not meet the IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) criteria for disclosure in the financial statements but are presented here for transparency purposes. These predominantly relate to situations where guarantees or indemnities have been entered into by the Department, but where there are no significant indications that these will be drawn upon. Contingent liabilities for which the probability of crystallisation is rated as greater than remote are disclosed in Note 23 in the Financial Statements.

Quantifiable remote contingent liabilities

This table summarises quantifiable remote contingent liabilities by their nature and purpose, with the amounts disclosed reflecting the highest reasonable estimate of the possible liability.

	31 March 2022	31 March 2021
	£m	£m
Inter City Express Rolling Stock In 2012 the Secretary of State agreed to quantifiable (disclosed) and unquantifiable assurances, warranties, indemnities and potential losses under the Inter City Express Rolling Stock contracts with Agility Consortium and previously with Network Rail, covering the termination of the contract due to force majeure events and unavailability of commercial insurance. They expire in 2044.	5,900	5,900
HS1 The HS1 Concession Agreement between the Secretary of State and HS1 Ltd specifies that the Secretary of State would be liable to pay compensation if the contract were terminated due to legal changes, either in the UK or Europe (‘Change in Circumstances’) or a change directed by another part of the Government (‘Government Change’). The amount payable is formalised in the Agreement, but depends on the cause of the termination, and includes capital expenditure, increases in operating costs and losses of revenue.	4,112	4,037

	31 March 2022	31 March 2021
	£m	£m
Passenger Rail Franchise Agreements – Rolling Stock The Railways Act 1993 and Transport Act 2000 permit the Secretary of State to give guarantees to promote investments in railway assets, which include undertakings within passenger rail franchise agreements and guarantees to leasing companies. The value of this liability is based on the remaining value of rolling stock and depots covered by these guarantees, which tend to decrease over time. This liability could increase if new rolling stock or depots are introduced, where these are covered by guarantees.	488	907
Thameslink To support the Thameslink programme, in 2013 the Secretary of State agreed to quantifiable (disclosed) and unquantifiable assurances, warranties, indemnities and potential losses with the major stakeholders: Siemens, Network Rail and Cross London Trains. This reflects assurances, warranties and indemnities covering ongoing contracts between the stakeholders.	702	724
Passenger Rail Franchise Agreements – Legacy Guarantees were given by the Strategic Rail Authority (and previously by the Director of Passenger Rail Franchising), and novated to the Department, in relation to new, replacement and extended passenger rail franchise agreements.	141	149

	31 March 2022	31 March 2021
	£m	£m
Channel Tunnel Restoration The Department has a statutory liability under the Channel Tunnel Act 1987 that if, after termination of the Channel Tunnel concession, it appears to the Secretary of State that the operation of the Tunnel will not be resumed in the near future, he shall take the necessary steps to ensure that the land is left in a suitable condition in accordance with the scheme.	100	100
Premises for the International Maritime Organization (IMO) The Department provides premises in London for the IMO, a United Nations agency. In view of the fact that government departments generally self-insure, a guarantee has been given to the IMO that should the building be partially or completely destroyed, the Department would be obliged to reconstruct the building, or suspend or reduce the rent for a period of three years and fund alternative accommodation.	90	91
Network Rail Guarantees issued by Network Rail to its affiliate entities which are not consolidated in these accounts. These obligations primarily relate to banking facilities. Further information about the entities can be found in Note 25.	50	51
Business indemnities Indemnities issued to businesses at rail privatisation by the British Rail Board (Residuary) Ltd, which were transferred to the Department when the Board closed in 2013.	10	10

	31 March 2022	31 March 2021
	£m	£m
Transport disaster indemnities Letters of comfort have been issued, providing an indemnity in relation to legal action taken against the judge, counsel, solicitors and secretariat to the Thames Safety Inquiry and the Victim Identification Inquiry, which reported in 2000 and 2001 respectively, following major transport disasters.	6	6
Non-executive member indemnities Indemnities have been issued to non-executive members of the departmental board, and to civil servants appointed to represent the Department on the boards of other organisations.	2	2
Other contingent liabilities, including legal claims	15	15
Total	**11,616**	11,992

Unquantifiable remote contingent liabilities

The Department has obligations under agreements entered into by the Office of Passenger Rail Franchising (also known as the Director of Passenger Rail Franchising) prior to privatisation which indemnified rolling stock companies for the costs of industrial disease claims, personal injury claims and property damage claims. On abolition of the Office of Passenger Rail Franchising in 2001, the obligation novated to the Strategic Rail Authority. On abolition of the Strategic Rail Authority in 2006, the obligation novated to the Department.

National Highways, formerly Highways England, holds indemnities embedded within some procurement contracts. These indemnities are a promise by the company to compensate another for losses (such as asset damage, contamination or loss of income) suffered as a consequence of works undertaken on the strategic road network. The most significant indemnities relate to construction that occurs near to gas and electricity infrastructure, or requires infrastructure to be moved. The approximate value of these indemnities is dependent upon the outcome of uncertain events and as such they cannot be accurately estimated. There have been no claims made against National Highways since its formation (as Highways England) in 2015.

The Department is party to a NATO agreement relating to indemnification of civil aircraft in respect of their use on NATO tasks in times of crisis and war.

Marine and Aviation Insurance Act 1952, s1: Government war risk reinsurance for British ship owners insuring their vessels with the British Mutual War Risks Associations (Clubs). Under the current agreement with Clubs, the Government provides 95% reinsurance for Queen's Enemy Risks (QER). A contingent liability arises from the continuous QER cover for the hull and machinery value of British flag vessels entered with the Clubs.

The Department has statutory responsibility for the maintenance of all railway structures. The contingent liability for this responsibility applies to legacy structures that have been sold to, and are controlled by, external parties. There have been no claims and there is no reasonable basis under which to quantify this risk.

The Department has a potential constructive obligation to cover the costs of managing the SS Richard Montgomery, which ran aground off Sheerness in 1944, with a cargo of munitions. The Department has funded the costs of marking, guarding, inspections and mitigation works, indicating that it would fund other works as required. The potential cost is considered to be unquantifiable.

Bernadette Kelly DCB 18 July 2022

Permanent Secretary and Principal Accounting Officer

Department for Transport
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THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

Opinion on financial statements

I certify that I have audited the financial statements of the Department for Transport (the Department) and of its Departmental Group for the year ended 31 March 2022 under the Government Resources and Accounts Act 2000. The Department comprises the core Department and its agencies. The Departmental Group consists of the Department and the bodies designated for inclusion under the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2021, as listed in Note 25 to the accounts. The financial statements comprise the Department's and the Departmental Group's:

- Statements of Financial Position as at 31 March 2022;
- Statements of Comprehensive Net Expenditure, Statements of Cash Flows and Statements of Changes in Taxpayers' Equity for the year then ended; and
- the related notes including the significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and UK adopted international accounting standards.

In my opinion, the financial statements:

- give a true and fair view of the state of the Department and the Departmental Group's affairs as at 31 March 2022 and of the Department's net expenditure and Departmental Group's net operating expenditure for the year then ended; and
- have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Outturn Against Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2022 and shows that those totals have not been exceeded; and
- the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (UK) (ISAs UK), applicable law and Practice Note 10 *Audit of Financial Statements and Regularity of Public Sector Entities in the United Kingdom*. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of my certificate.

Those standards require me and my staff to comply with the Financial Reporting Council's *Revised Ethical Standard 2019*. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the Department and its Group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

The framework of authorities described in the table below has been considered in the context of my opinion on regularity.

Framework of authorities	
Authorising legislation	Government Resources and Accounts Act 2000
Parliamentary authorities	Supply and Appropriations (Main Estimates) Act 2021
HM Treasury and related authorities	Managing Public Money

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the Department and its Group's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Department and its Group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for the Department and its Group is adopted in consideration of the requirements set out in HM Treasury's *Government Financial Reporting Manual*, which requires entities to adopt the going concern basis of accounting in the preparation of the financial statements where it is anticipated that the services which they provide will continue into the future.

Overview of my audit approach

Key audit matters

Key audit matters are those matters that, in my professional judgment, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditor, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon. I do not provide a separate opinion on these matters.

I consider the following areas to represent the key audit matters for my audit this year. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

This is not a complete list of all risks identified through the course of my audit but only those areas that had the greatest effect on my overall audit strategy, allocation of resources and direction of effort. I have not, for example, included information relating to the work I have performed around the mandatory audit risk on the potential for management override of controls, nor in respect of Parliamentary control totals; in both areas my work has not identified any matters to report.

The areas of focus were discussed with the Group Audit and Risk Assurance Committee, and are consistent with those I raised in 2020-21.

1. Infrastructure asset valuations

Description of risk

The Departmental Group directly owns significant operational transport infrastructure, including the Strategic Road Network (England) and national Rail Network (Great Britain). These do not include infrastructure networks owned by other authorities (e.g. local authority roads, London Underground, the Core Valley Lines) or dealt with separately under infrastructure-inclusive concession arrangements (HS1). The Strategic Road Network (SRN) includes in these accounts the Severn River Crossing and M6 Toll, as well as those assets reported on the same basis in the accounts of National Highways.

The infrastructure networks on the Departmental group's Statement of Financial Position are – as described in notes 1.4.3 and 5 – valued in these financial statements using Depreciated Replacement Cost (DRC). This provides a proxy for their fair value in the absence of income or market-based sources. At 31 March 2022, the Department valued the SRN at £146.0 billion and the Rail Network at £365.5 billion.

The valuations are significant estimates of the replacement cost of the current network functionality on a modern equivalent basis, adjusted using a measurement of their actual condition. Management discusses the nature and extent of estimation uncertainty, which is a continuing feature of these accounts, in notes 1.4.3 and 5. Uncertainty arises principally in respect of the appropriateness of costing rates and the condition adjustment, since the quantities of assets required in the replacement are based on the known configuration of the network.

A full revaluation of costing rates is performed every five years. For the Rail Network, the last such valuation was in 2018-19. This exercise is performed for the Strategic Road Network on a rolling basis for each category of asset (e.g. structures); this was not a full revaluation year for any category. Recognising the effect of construction cost inflation on the costing rates suited to a year-end replacement cost, management use price indices to revalue the network assets between full revaluation years. The upward revaluation of the infrastructure assets by £39 billion reflects the impact of relevant cost indices described in Note 5.

How the scope of my audit responded to the risk

My procedures on both valuations are geared towards evaluating the reasonableness of management's estimate of its value, to assess:

- the quality of source data in the underlying databases;
- the reasonableness of costing rates and cost indexation factors applied in-year;
- the adjustments made in respect of the network's condition based on the available evidence from asset management activities, amongst other key assumptions; and
- whether there are any indications of management bias.

Strategic Road Network – specific items

I engaged an expert to review the condition-based depreciation methodology supporting structures and road assets, which included the evaluation of a sample of assets to confirm that the methodology had been consistently and correctly applied. I also engaged my expert to evaluate the reasonableness of the National Highways Cost Enhancement Cost Index (NHCECI).

Rail network – specific items

A full revaluation of costing rates for the Rail Network was last performed as at 31 March 2019, at which point I performed enhanced audit work supported by an auditor's expert. My team continues to rely on this work and has evaluated the Department's assertions on the continued appropriateness of underlying assumptions – including on the nature of a modern equivalent.

I also evaluated the reasonableness of the asset condition assessment for key network components based on Network Rail's own data drawn from operational systems.

Key observations

On the SRN, while my expert has confirmed that the National Highways Capital Enhancements Costing Index (NHCECI) provides a reasonable basis for indexation of the asset between full revaluations, I noted that an element of the 31 March 2022 index was based on inflation data forecasts for February and March. I was aware of the unanticipated shocks to inflation in this period, and asked my expert to evaluate the impact on inflation as well as performing my own analysis based on ONS producer price indices suitable as proxies for the NHCECI basket of goods. Future updates of the NHCECI will provide the most reliable information, but management did not expect these for some months, and agreed with me that other evidence clearly demonstrated significant inflation which had not been factored in, which it was necessary to adjust for to achieve a more relevant year-end estimate. This adjustment increased the value of the SRN by £1.6bn.

On the Rail Network, I noted with management some issues in how operational system information had been analysed into asset quantities informing the DRC valuation, principally in respect of the extent of earthworks in the DRC model. These issues have been corrected based on an updated analysis, which has led to a decrease in the Rail Network valuation of £7.4 billion compared to the initial draft of the model presented for audit.

Both of these adjustments are reflected in the financial statements. I did not identify any other material misstatements in the course of completing this work.

2. Defined Benefit Pension Schemes – valuation of deficit

The Group has obligations under several defined benefit pension schemes described in Note 24. These are funded schemes with significant assets under management. The pension schemes of the Train Operating Companies, which are not consolidated in the Department's accounts, are not included here but the most recent published information on their financial position, including pension deficits, is provided at note 27. Based on risk and value, I focused my audit work principally on the Network Rail section of the Railway Pensions Scheme ('RPS'), and British Transport Police Force Superannuation Fund, although I also placed secondary focus on the ex-British Rail 1994 Section.

The valuation of the defined benefit obligation (£14,061 million at 31 March 2022 for all Group schemes) is highly sensitive to movements in financial assumptions.

Valuation risk in assets is most significant for Level 3 financial instruments, meaning those which cannot be valued based on transaction data from active markets. As well as directly held property, these include unquoted equity instruments for which there is a risk of unrecognised fair value differences where the valuations used are for a period before the year end (typically, the end of the previous quarter) because of the time taken for these to be prepared by fund managers. At 31 March 2022, Level 3 instruments represented £2,660 million out of total group assets (excluding members' share) of £10,054 million.

How the scope of my audit responded to the risk

Scheme liabilities

I contacted relevant actuaries to obtain an up to date understanding of the methodology used to calculate the main financial assumptions, and to understand the methodology and level of uncertainty involved in the roll-forward calculation. I performed my initial assessment of the independence and expertise of these actuaries and engaged an actuarially qualified auditor's expert to examine the assumptions, methodology and source data used to value the obligations, including both financial assumptions and the roll-forward procedures used to update membership data. I assessed financial assumptions against ranges for reasonableness. I note that changes in financial assumptions – particularly on discount rate – have been the primary cause of the in-year decrease for pension obligations.

Scheme assets

My work on scheme assets is informed by the results of the statutory audit of the RPS financial statements, which is independently performed by another firm based on a year end of 31 December 2021, but my primary assurance comes from substantive procedures I perform directly to evaluate asset values at 31 March 2022. These included sample testing on distinct asset classes within the Funds in which Group entities are invested.

- For quoted and actively traded assets, I independently agreed valuations to observable market prices.
- For pooled investment assets, I agreed valuations to the investment manager valuation report and reviewed relevant observable active market data to evaluate its reliability, as well as considering potential indicators of impairment.
- For directly held property investments, I have reviewed the independent third-party property valuation performed for the scheme asset manager and reviewed the valuation movements against those in similar property sectors to confirm that the movements are in line with the wider market.

evaluation of the reliability of the fund manager's valuation through procedures including:

- a review of the most recent audited accounts;
- work to understand the nature of the investment; and
- an additional consideration of impairment indicators.

These additional procedures also included, in respect of the timing risk described above, a review (including sample test) of 31 March 2022 asset valuations received post year-end to judge the effect of time lags in the valuation presented for audit, both in respect of known movements, and projections of likely movement in the minority of funds which had not received March valuations.

Key observations

In the course of completing this work, I did not identify any material misstatements.

3. Train Operating Company subsidies

Description of risk

The Department contracts with Train Operating Companies (TOCs) for the provision of passenger rail services. From March 2020, following the onset of the coronavirus pandemic, these contracts have placed all revenue risk and substantially all cost risk with the Department. The Department reported total expenditure in respect of TOCs of £4,810m in 2021-22 (£8,570m in 2020-21). A significant part of this decrease is driven by a partial recovery of TOC revenue as passengers returned to the network.

In 2020-21, the Department moved to Emergency Recovery Measures Agreements (ERMA) which set in motion the end of existing franchise agreements. This year, a number of TOCs have moved from ERMAs to National Rail Contracts (NRCs). While the balance of risk remains similar to the ERMAs, I noted the risk that new terms in the contracts might impact the accounting treatment.

Given the significant expenditure by rail operators funded by the Department on a pass-through basis, I also assessed a risk in respect of the regularity of the related expenditure recognised by the Department, focused on whether disallowable costs would be properly identified.

Finally, I noted the potential impact on the financial statements – including the valuation of accruals – should there be any commercial disputes between the Department and TOCs.

How the scope of my audit responded to the risk

I considered the Department's accounting treatment for NRCs to be reasonable, noting significant similarities to the ERMA contracts which I assessed last year.

I reviewed the design and implementation of the Department's controls established to identify and monitor disallowable costs; the process for payment; and the governance in place under both the ERMA and NRC agreements. Having gained an understanding of the contracts and controls, I also:

- reviewed TOC outturns against agreed budget, testing a sample of significant changes;

- performed an analytical procedure which allowed me to compare my own prediction of expenditure, based on contractually relevant evidence, against the expenditure recognised in the accounts; and
- evaluated evidence on commercial relations between the Department and TOCs to inform my assessment of the valuation of related accruals, including those relating to management fees.
- I also tested a sample of expenditure related to passenger transport executives to address the risk of irregular transactions.

Key observations

In the course of completing this work, I did not identify any material misstatements.

4. Valuation of HS2 CPO land and property

Description of risk

Until February 2022, the Department had powers to acquire land permanently by compulsory purchase for Phase 1 (London – West Midlands) of the High Speed 2 route. A smaller programme of compulsory acquisitions for Phase 2a (West Midlands – Crewe) has also begun but represents a lesser area of focus for my audit. While HS2 Limited carry out much of the relevant activity for these programmes, the Secretary of State is the acquiring authority, and the related balances are recognised by the Core Department.

These balances include provisions for compulsory purchases which the Department has committed to through General Vesting Declarations (GVDs), but whose final settlement value remains uncertain. In complex cases, estimation uncertainty can be significant, for example because of subjectivity on the development value of the land. The Department determines a best estimate for the amount required to settle each provision based on the most recent Property Cost Estimate or – where available – a more detailed surveyor's estimate. The estimation uncertainty described affects both provisions (note 22) and the related asset under construction (note 5.3). At 31 March 2022, the Department valued HS2 Land and Property provisions at £1,177 million (31 March 2021: £940 million).

In addition to the compulsory purchase programme, the Department also acquires HS2 land and property through other routes including discretionary schemes which give rise to inventory (note 15) measured at the lower of cost and net realisable value. While I covered these items in the course of my audit, they are outside the scope of this key audit matter because of the reduced estimation uncertainty arising from their measurement basis, and the fact that they relate to completed transactions rather than ongoing negotiations with counterparties.

How the scope of my audit responded to the risk	In addition to assessing the Department and HS2 Limited's controls and processes around valuation, I performed substantive procedures including: • a review of valuation evidence for a sample of compulsory purchase orders where final settlement had not been reached, including a selection of high value cases which provided significant coverage by value of the population;

• commissioned an auditor's expert to assess a sub-sample of detailed valuation reports, as well as assess whether the most recent Property Cost Estimate remained a reasonable basis for estimation; and

• evaluated management's retrospective review comparing the cost of fully settling claims to the assessment made in the previous Property Cost Estimate.

Key observations

In the course of completing this work, I did not identify any material misstatements.

Application of materiality

Materiality

I applied the concept of materiality in both planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. A matter is material if its omission or misstatement would, in the judgement of the auditor, reasonably influence the decisions of users of the financial statements.

Based on my professional judgement, I determined overall materiality for the Department and Departmental Group's financial statements as a whole as follows.

	Departmental Group materiality	Additional group threshold	Department (Parent) materiality
Materiality	£5,000m	£350m	£280m
Basis for determining materiality	Approx. 1% of net book value of the infrastructure assets (note 5)	Approx. 0.9% of group gross expenditure excluding depreciation and impairment, but including capital additions	Approx. 0.9% of parent gross expenditure
Rationale for the benchmark applied	The infrastructure assets are the largest item in the Departmental Group Statement of Financial Position. Significant economic activity relies on the road and rail networks, and there is significant user interest in the extent and condition of those networks.	To reflect the sensitivity of financial statement users to transactions and balances reflecting taxpayer-backed financial activity. Capital additions are included since these reflect cash spending, and depreciation is excluded to avoid double-counting.	Aside from intra-Departmental loan balances, expenditure is the most significant financial statements element for the parent and is a fair proxy for user sensitivity given DfT's role as a spending Department. This materiality relates to the transactions and balances reported in the Core & Agencies columns.

While my overall scheme of materiality thresholds is unchanged on 2020-21, the 0.9% percentage I apply to the bases described for the additional Group threshold and Parent materiality are an increase from 0.75% in the prior year. This reflects my unwinding of a temporary decrease I put in place last year to recognise that the effect of additional pandemic-driven expenditure was likely to be temporary, taking a prudent view of user interest in respect of longer-term spending patterns as well as the Department's annual outturn. I have been content to use a higher percentage this year as the extent of temporary interventions has lessened.

Performance Materiality

I set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 75% of Group materiality for the 2021-22 audit (2020-21: 75%). In determining performance materiality, I also considered the uncorrected misstatements identified in the previous period.

Other Materiality Considerations

As well as quantitative materiality there are certain matters that, by their very nature, would if not corrected influence the decisions of users, for example, any errors reported in the Accountability Report. Assessment of such matters would need to have regard to the nature of the misstatement and the applicable legal and reporting framework, as well as the size of the misstatement.

I applied the same concept of materiality to my audit of regularity. In planning and performing audit work in support of my opinion on regularity and evaluating the impact of any irregular transactions, I took into account both quantitative and qualitative aspects that I consider would reasonably influence the decisions of users of the financial statements.

Error Reporting Threshold

I agreed with the Group Audit and Risk Assurance Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £300,000, as well as differences below this threshold that in my view warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements

Total unadjusted audit differences reported to the Audit Committee would, for the Departmental Group:

- increase net assets by £1,323 million in respect of items assessed against our overall materiality; and
- increase net assets by £92 million in respect of items assessed against our additional threshold.

Audit scope

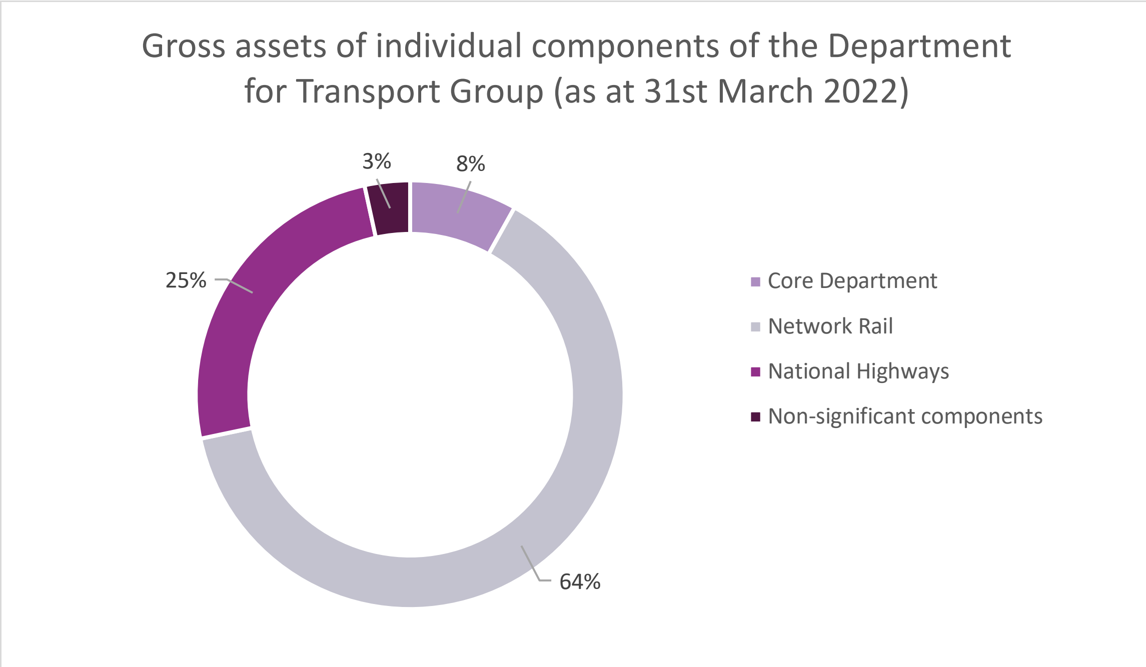
The scope of my Group audit was determined by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

The Department for Transport Group has total assets of £544bn. The group's largest components are the Network Rail Limited group (excluding Network Rail Insurance Limited which in accordance with the FReM is not consolidated) and National Highways Limited. These components hold the two key infrastructure assets.

I have audited the full financial information of the Core Department, as well as the group consolidation. The audits of all significant components, which are overseen by the same engagement director, were complete at the time of my completion of the group audit. As group auditor, I have gained assurance from the auditors of the significant and material components and engaged regularly on the group significant risks such as valuation of the infrastructure assets and the pension schemes.

I covered 95.7% of the group's gross expenditure and 96.6% of the group's gross assets through audit work on significant components, with the remainder covered by analytical procedures performed on non-significant components. For most of these non-significant components, audit of the financial information was complete or well progressed at the point of my analytical procedures. Together with my audit work on consolidation adjustments, for example on the transformation of the rail network valuation from the separate basis used in

Network Rail's statutory accounts, this work gave me the evidence I needed for my opinion on the group financial statements as a whole.



Other Information

The other information comprises information included in the annual report, but does not include the financial statements and my auditor's certificate and report. The directors are responsible for the other information.

My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my certificate, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated.

If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Opinion on other matters

In my opinion the part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000.

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

- the parts of the Accountability Report subject to audit have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- the information given in the Performance and Accountability Reports for the financial year for which the financial statements are prepared is consistent with the financial statements and is in accordance with the applicable legal requirements.

Matters on which I report by exception

In the light of the knowledge and understanding of the Department and the Departmental Group and its environment obtained in the course of the audit, I have not identified material misstatements in the Performance and Accountability Reports.

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

- I have not received all of the information and explanations I require for my audit; or
- adequate accounting records have not been kept by the Department or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Accountability Report subject to audit are not in agreement with the accounting records and returns; or
- certain disclosures of remuneration specified by HM Treasury's Government Financial Reporting Manual have not been made or parts of the Remuneration and Staff Report to be audited are not in agreement with the accounting records and returns; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for:

- maintaining proper accounting records; and
- the preparation of the financial statements and Annual Report in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view; and
- ensuring that the Annual Report and accounts as a whole is fair, balanced and understandable; and
- internal controls as the Accounting Officer determines is necessary to enable the preparation of financial statements to be free from material misstatement, whether due to fraud or error; and
- assessing the Department and Departmental Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer anticipates that the services provided by the Department and Departmental Group will not continue to be provided in the future.

Auditor's responsibilities for the audit of the financial statements

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

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, we considered the following:

- the nature of the sector, control environment and operational performance including the design of the Department for Transport Group's accounting policies and strategic objective indicators.
- Inquiring of management, the Department for Transport Group's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the Department for Transport Group's policies and procedures relating to
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance,
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud, and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Department for Transport Group's controls relating to compliance with Managing Public Money, Government Resources and Accounts Act 2000, and the relevant Supply and Appropriation Acts; and
- discussing among the engagement team including significant component audit teams and involving relevant internal and external specialists, including actuaries and land valuation experts, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, I considered the opportunities and incentives that may exist within the Department for Transport Group for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, posting of unusual journals, complex transactions, and bias in management estimates. In common with all audits under ISAs (UK), I am also required to perform specific procedures to respond to the risk of management override.

I also obtained an understanding of the Department for Transport Group's framework of authorities, as well as other legal and regulatory frameworks in which the Group operates, focusing on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of the Department for Transport Group. The key laws and regulations I considered in this context included Managing Public Money, the Supply and Appropriation (Main Estimates) Act 2021, Government Resources and Accounts Act 2000, transport legislation relevant to fees and charges, Health & Safety legislation, and relevant employment and tax law.

In addition, I performed specific risk assessments in respect of significant risks relating to non-compliance with laws and regulations and fraud, including reviewing the Department's approach to material estimates presented within the accounts including the assumptions used in the pension scheme liability valuations, valuations of infrastructure assets and of HS2 land and property.

Audit response to identified risk

As a result of performing the above, the procedures I implemented to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;
- enquiring of management, the Group Audit and Risk Assurance Committee and in-house legal counsel concerning actual and potential litigation and claims;
- reading and reviewing minutes of meetings of those charged with governance and the Board and internal audit reports;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business;
- reviewing the processes, verifying the data used and the appropriateness of the assumptions and judgements applied for material estimates presented within the accounts, including those described in my key audit matters above;
- confirming that relevant approvals required under Managing Public Money have been obtained by management, and that the disclosures required by Managing Public Money are complete and have been appropriately included within the financial statements; and
- confirming that the Department for Transport Group has complied with the Parliamentary control totals set out in the Supply and Appropriations (Main Estimates) Act 2021 by confirming that the outturn is within the limits approved by Parliament, that the allocation of amounts to those control totals is appropriate and that management have not vired amounts inappropriately between control totals.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal and external specialists and significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my certificate.

Other auditor's responsibilities

I am required to obtain appropriate evidence sufficient to give reasonable assurance that the Statement of Outturn against Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement.

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

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

Report

I have no observations to make on these financial statements.

Gareth Davies **19 July 2022**

Comptroller and Auditor General

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

Financial Statements

Group Statement of Comprehensive Net Expenditure

for the year ended 31 March 2022

This Statement summarises the expenditure and income generated and consumed on an accruals basis. It also includes other comprehensive income and expenditure, which include changes to the values of non-current assets and other financial instruments that cannot yet be recognised as income or expenditure.

		2021-22		2020-21 (re-stated)	
		Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	Note	£m	£m	£m	£m
Income from sale of goods and services	4	(151)	(3,160)	(115)	(3,065)
Other operating income	4	(1,735)	(3,131)	(1,555)	(2,779)
Total Operating Income		**(1,886)**	**(6,291)**	(1,670)	(5,844)
Staff costs	3.1	737	2,970	705	2,857
Purchase of goods and services	3.2	6,121	10,229	9,711	13,734
Grants	3.3	24,281	7,280	24,134	8,708
Depreciation and impairment charges	3.4	219	7,982	223	7,234
Provision expense	3.5	14	23	(44)	13
Other operating expenditure	3.6	41	1,305	81	476
Total Operating Expenditure		**31,413**	**29,789**	34,810	33,022
Net Operating Expenditure		**29,527**	**23,498**	33,140	27,178

		2021-22		2020-21 (re-stated)	
		Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	Note	£m	£m	£m	£m
Share of (profit)/loss of associate	4, 14	15	3	56	47
Finance income	4	(679)	(34)	(695)	(58)
Finance expense	3.7	1,407	2,293	267	1,108
Net expenditure		**30,270**	**25,760**	32,768	28,275
Other Comprehensive Net Expenditure					
Items that will not be reclassified to net operating costs:					
Net (gain)/loss on revaluation of property, plant & equipment	5	(164)	(38,991)	95	(8,552)
Net (gain)/loss on revaluation of intangibles	6	(1)	(20)		20
Share of other comprehensive net (income)/expenditure for investments measured using equity accounting	14	(133)	(133)	(15)	(15)
Actuarial (gain)/loss on pension schemes	24	(428)	(1,628)	(205)	820
Deferred tax movement	21		856		(462)
Reversionary interest on M6 toll road	SoCTE	(18)	(18)	(18)	(18)
Items that will or may subsequently be reclassified to net operating costs:					
Financial assets – net change in fair values	SoCTE	134	115	(54)	(48)
Cash flow hedge – effective portion of fair value change	SoCTE				(3)
Total comprehensive net expenditure		**29,660**	**(14,059)**	32,571	20,017

The Notes on pages 351 to 557 form part of these financial statements.

Note 1.26 describes why the 2020-21 values have been re-stated and the impact of the change.

Group Statement of Financial Position

as at 31 March 2022

This statement presents the financial position of the Department. It comprises three main components: assets owned or controlled; liabilities owed to other bodies; and equity, the remaining value of the Department.

		2021-22		2020-21 (re-stated)	
		Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	Note	£m	£m	£m	£m
Property, plant and equipment	5	10,344	533,932	9,814	488,390
Investment properties	8		211		213
Right of use assets	7	359	907	416	924
Intangible assets	6	242	406	162	286
Loans	11	33,214	2,522	32,595	2,172
Investment in equities	12	424	450	559	578
Derivatives	13		9		191
Investments measured using equity accounting	14	417	646	297	514
Trade and other receivables	16	272	33	289	40
Inventories	15	742	742	655	655
Total non-current assets		**46,014**	**539,858**	44,787	493,963
Assets held for sale	9	5	52	10	140
Inventories	15		335		331
Derivatives	13		4		196
Trade and other receivables	16	1,166	2,661	1,564	2,989
Cash and cash equivalents	17	767	1,191	522	1,037
Total current assets		**1,938**	**4,243**	2,096	4,693
Total Assets		**47,952**	**544,101**	46,883	498,656

		2021-22			2020-21 (re-stated)
		Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	Note	£m	£m	£m	£m
Trade and other payables	18	(2,361)	(6,306)	(2,463)	(6,203)
Borrowings	19	(120)	(287)	(113)	(693)
Derivatives	13		(57)		(85)
Provisions	22	(463)	(715)	(528)	(900)
Total current liabilities		**(2,944)**	**(7,365)**	(3,104)	(7,881)
Total Assets less net current liabilities		**45,008**	**536,736**	43,779	490,775
Provisions	22	(968)	(1,165)	(672)	(917)
Other payables	18	(1,044)	(2,295)	(1,100)	(2,493)
Borrowings	19	(4,262)	(30,038)	(4,298)	(28,608)
Financial guarantee contracts	20	(4,649)		(3,736)	
Derivatives	13		(207)		(566)
Deferred tax liabilities	21		(5,120)		(3,350)
Total non-current liabilities		**(10,923)**	**(38,825)**	(9,806)	(35,934)
Assets less liabilities excl pension liabilities		**34,085**	**497,911**	33,973	454,841
Pension liability	24	(836)	(4,007)	(1,242)	(5,180)
Assets less liabilities		**33,249**	**493,904**	32,731	449,661
Taxpayers' equity and other reserves:					
General fund		(30,152)	(95,690)	(29,650)	(89,784)
Revaluation reserve		(2,689)	(397,653)	(2,539)	(359,201)
Hedging reserve					
Financial assets at fair value through OCI reserve		(408)	(561)	(542)	(676)
Total equity and other reserves		**(33,249)**	**(493,904)**	(32,731)	(449,661)

The Notes on pages 351 to 557 form part of these financial statements.

Note 1.26 describes why the 31 March 2021 values have been re-stated and the impact of the change.

Bernadette Kelly DCB 18 July 2022
Permanent Secretary and Principal Accounting Officer

Department for Transport
Great Minster House
33 Horseferry Road
London
SW1P 4DR

Group Statement of Cash Flows

for the period ended 31 March 2022

The Statement of Cash Flows shows the changes in cash and cash equivalents of the Department during the reporting period. The statement shows how the Department generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of service costs and the extent to which these operations are funded by way of income from the recipients of services provided by the Department. Investing activities represent the extent to which cash inflows and outflows have been made for resources which are intended to contribute to the Department's future public service delivery.

		2021-22		2020-21 (re-stated)	
		Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	Note	£m	£m	£m	£m
Cash flows from operating activities					
Net expenditure for year		(30,270)	(25,760)	(32,768)	(28,275)
Adjustments for non-cash transacitons	3, 4	1,103	10,711	15	7,885
(Increase)/decrease in inventories, before impairment	15	(66)	(70)	(69)	(85)
(Increase)/decrease in trade and other receivables	16	414	337	(1,061)	(1,022)

		2021-22			2020-21 (re-stated)
		Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	Note	£m	£m	£m	£m
less movements in receivables relating to items not passing through the Statement of Comprehensive Net Expenditure		2	3	1	(25)
Increase/(decrease) in trade and other payables and borrowings	18, 19	(130)	955	111	(519)
less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure		45	(1,023)	10	800
Use of provisions	22	(259)	(368)	(282)	(388)
Adjustment for capital and interest element of PFI payments		3	89	3	84
Net cash outflow from operating activities		**(29,158)**	**(15,126)**	(34,040)	(21,545)
Cash flows from investing activities					
Purchase of property, plant and equipment – additions	5	(554)	(14,551)	(379)	(12,778)
Purchase of property, plant and equipment – non-cash additions		18	18	18	18
Adjustments for movement in capital accruals relating to additions		14	14	3	26
Purchase of intangible assets – cash additions	6	(76)	(82)	(39)	(44)
Proceeds of disposal of assets and assets held for sale	9	42	187	1	36
Purchase of Other Investments				(1)	(1)
Purchase of Investment Properties	8				(6)
Proceeds on disposal of investments and Public Dividend Capital			37		12

			2021-22		2020-21 (re-stated)
		Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	Note	£m	£m	£m	£m
Capital element of lands provision		476	405	159	400
Loans to other bodies	11	(8,514)	(628)	(11,562)	(722)
Repayments from other bodies	11	7,895	278	9,931	90
Net cash outflow from investing activities		**(699)**	**(14,322)**	(1,869)	(12,969)
Cash flows from financing activities					
From the Consolidated Fund (Supply) – current year		30,544	30,544	36,144	36,144
Advances from the Contingencies Fund				16,808	16,808
Repayments to the Contingencies Fund				(16,808)	(16,808)
Repayments of principal on external borrowings		(12)	(444)	(74)	(1,077)
Repayments of principal on leases		(64)	(208)	(71)	(208)
Capital element of payments in respect of on-balance sheet PFI contracts		(3)	(89)	(3)	(84)
Cash flow on settled derivatives			162		
Net financing		**30,465**	**29,965**	35,996	34,775
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**608**	**517**	87	261
Payments of amounts due to the Consolidated Fund		(363)	(363)	(224)	(224)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		**245**	**154**	(137)	37

			2021-22		2020-21 (re-stated)
		Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	Note	£m	£m	£m	£m
Cash and cash equivalents at the beginning of the period		**522**	**1,037**	659	1,000
Cash and cash equivalents at the end of the period		**767**	**1,191**	522	1,037

The Notes on pages 351 to557 form part of these financial statements.

Note 1.26 describes why the 2020-21 values have been re-stated and the impact of the change. Repayments of principal on borrowings are now presented under financing activities.

Group Statement of Changes in Taxpayers' Equity

as at 31 March 2022

		General Fund	Revaluation Reserve	Hedging Reserve	Financial assets at fair value through OCI reserve	Total Reserves
	Note	£m	£m	£m	£m	£m
Balance at 31 March 2020 (restated)		(82,681)	(350,578)	3	(628)	(433,884)
Net (gain) / loss on revaluation of property, plant and equipment	5		(8,552)			(8,552)
Net (gain) / loss on revaluation of intangible assets	6		20			20
Change in fair value of derivatives	13			(3)		(3)
Net (gain) / loss on revaluation of investments	12				(48)	(48)
Non-cash charges – auditor's remuneration	3.2	(1)				(1)
Transfers between reserves		(249)	249			
Net expenditure for the year		28,275				28,275
Reversionary interest on M6 toll road		(18)				(18)
Deferred tax movements	21	(118)	(344)			(462)
Actuarial (gain) / loss recognised in pension scheme	24	820				820
Impairments through Revaluation Reserve			4			4
Share of other comprehensive net (income) / expenditure for investments measured using equity accounting	14	(15)				(15)
Other movements		(2)				(2)
Balance as adjusted by income and expense for 2020-21		(53,989)	(359,201)	–	(676)	(413,866)
Net Parliamentary Funding – drawn down		(36,144)				(36,144)

	Note	General Fund £m	Revaluation Reserve £m	Hedging Reserve £m	Financial assets at fair value through OCI reserve £m	Total Reserves £m
Net Parliamentary Funding – deemed		(631)				(631)
Advances from the Contingencies Fund		(16,808)				(16,808)
Advances repayable to the Contingencies Fund		16,808				16,808
Supply (payable) / receivable adjustment		522				522
CFERs payable to the Consolidated Fund		458				458
Balance at 31 March 2021 (Restated)		(89,784)	(359,201)	–	(676)	(449,661)
Balance at 1 April 2021		(89,784)	(359,201)		(676)	(449,661)
Net (gain) / loss on revaluation of property, plant and equipment	5		(38,991)			(38,991)
Net (gain) / loss on revaluation of intangible assets			(20)			(20)
Net (gain) / loss on revaluation of investments	12				115	115
Non-cash charges – auditor's remuneration	3.2	(1)				(1)
Transfers between reserves		(98)	98			
Net expenditure for the year		25,760				25,760
Reversionary interest on M6 toll road		(18)				(18)
Deferred tax movements	21	395	461			856
Actuarial (gain) / loss recognised in pension scheme	24	(1,628)				(1,628)
Share of other comprehensive net (income) / expenditure for investments measured using equity accounting	14	(133)				(133)
Other movements		(8)				(8)
Balance as adjusted by income and expense for 2021-22		**(65,515)**	**(397,653)**	**–**	**(561)**	**(463,729)**
Net Parliamentary Funding – drawn down		(30,544)				(30,544)

		General Fund	Revaluation Reserve	Hedging Reserve	Financial assets at fair value through OCI reserve	Total Reserves
	Note	£m	£m	£m	£m	£m
Net Parliamentary Funding – deemed		(522)				(522)
Supply payable adjustment		699				699
CFERs payable to the Consolidated Fund		192				192
Balance at 31 March 2022		**(95,690)**	**(397,653)**	**–**	**(561)**	**(493,904)**

The Notes on pages 351 to 557 form part of these financial statements.

Note 1.26 describes why the 2020-21 values have been re-stated and the impact of the change.

Statement of Changes in Taxpayers' Equity

Core Department and Agencies as at 31 March 2022

	Note	General Fund	Revaluation Reserve	Hedging Reserve	Financial assets at fair value through OCI reserve	Total Reserves
		£m	£m	£m	£m	£m
Balance at 31 March 2020 (restated)		(26,382)	(2,640)	–	(488)	(29,510)
Net (gain) / loss on revaluation of property, plant and equipment	5		95			95
Net (gain) / loss on revaluation of investments	12				(54)	(54)
Non-cash charges – auditor's remuneration	3.2	(1)				(1)
Transfers between reserves for excess depreciation		(2)	2			
Net expenditure for the year		32,768				32,768
Reversionary interest on M6 toll road		(18)				(18)
Actuarial (gain) / loss recognised in pension scheme	24	(205)				(205)
Impairments through Revaluation Reserve			4			4
Share of other comprehensive net (income) / expenditure for investments measured using equity accounting	14	(15)				(15)
Balance as adjusted by income and expense for 2020-21		6,145	(2,539)	–	(542)	3,064
Net Parliamentary Funding – drawn down		(36,144)				(36,144)
Net Parliamentary Funding – deemed		(631)				(631)
Advances from the Contingencies Fund		16,808				16,808

	Note	General Fund £m	Revaluation Reserve £m	Hedging Reserve £m	Financial assets at fair value through OCI reserve £m	Total Reserves £m
Advances repayable to the Contingencies Fund		(16,808)				(16,808)
Supply payable / (receivable) adjustment		522				522
CFERs payable to the Consolidated Fund		458				458
Balance at 31 March 2021 (restated)		(29,650)	(2,539)	–	(542)	(32,731)
Balance at 1 April 2021		(29,650)	(2,539)	–	(542)	(32,731)
Net (gain) / loss on revaluation of property, plant and equipment	5		(164)			(164)
Net (gain) / loss on revaluation of intangible assets	6		(1)			(1)
Net (gain) / loss on revaluation of investments	12				134	134
Non-cash charges – auditor’s remuneration	3.2	(1)				(1)
Transfers between reserves		(15)	15			
Net expenditure for the year		30,270				30,270
Reversionary interest on M6 toll road		(18)				(18)
Actuarial (gain) / loss recognised in pension scheme	24	(428)				(428)
Share of other comprehensive net (income) / expenditure for investments measured using equity accounting	14	(133)				(133)
Other movements		(2)				(2)
Balance as adjusted by income and expense for 2021-22		**23**	**(2,689)**	**–**	**(408)**	**(3,074)**
Net Parliamentary Funding – drawn down		(30,544)				(30,544)
Net Parliamentary Funding – deemed		(522)				(522)
Supply payable / (receivable) adjustment		699				699

	Note	General Fund £m	Revaluation Reserve £m	Hedging Reserve £m	Financial assets at fair value through OCI reserve £m	Total Reserves £m
CFERs payable to the Consolidated Fund		192				192
Balance at 31 March 2022		**(30,152)**	**(2,689)**	**–**	**(408)**	**(33,249)**

The General Fund serves as the chief operating fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund.

The Revaluation Reserve reflects the unrealised element of the cumulative balance of the revaluation adjustments to property, plant and equipment and intangible assets.

The Hedging Reserve records the cumulative fair value gains and losses on certain derivative instruments (to the extent that the hedge is effective). The cumulative gains and losses are recycled to income and expenditure when the hedged transaction affects income and expenditure.

The Financial Assets through Other Comprehensive Income (OCI) Reserve records the cumulative gains and losses on financial assets held at fair value through OCI respectively.

There are no Charitable Fund reserves in the Group.

The Notes on pages 351 to 557 form part of these financial statements.

Note 1.26 describes why the 2020-21 values have been re-stated and the impact of the change.

Notes to the financial statements

Notes to the financial statements provide additional information required by statute and accounting standards to explain a particular feature of the financial statements. The Notes which follow will also provide explanations and additional disclosure to assist readers' understanding and interpretation of the financial statements and expand upon the accounting policies in Note 1.

1. Statement of significant accounting policies

This Note sets out the accounting policies determining the recognition and valuation of material assets, liabilities, income and expenditure. Critical judgements, accounting estimates and sources of estimation uncertainty are disclosed within each accounting policy note.

As the Statement of Financial Position and Note 5 indicate, the Departmental Group's most material assets are the Strategic Road Network and the Railway Network. The related depreciation and maintenance costs, disclosed in Note 4, are also material. These assets are specialised and complex, so their valuation requires significant use of judgement and estimation. Estimation uncertainties may therefore cause material adjustments in future accounting periods to the assets' values and the amount of depreciation recognised. These issues are discussed further in Note 1.4 and in Note 5.

Other items that are materially exposed to estimation uncertainties include: investments in equities; provisions; and defined benefit pension deficits (and the related actuarial movements). These uncertainties are discussed in Note 1 (at 1.4.3, 1.4.4, 1.19.2 and 1.20.2) where their potential impact is significant; sensitivity analyses reflecting the bounds of estimation uncertainty are presented in Notes 5 and 24.

1.1 Basis of preparation

These financial statements have been prepared in accordance with the 2021-22 Government Financial Reporting Manual (FReM) issued by HM Treasury, to give a true and fair view on that basis. The accounting policies in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector. The Group adopted IFRS 16 from 2019-20 rather than 2022-23 using an option given in the FReM because material group components prepare their own accounts in accordance with IFRS rather than the FReM.

Where the FReM permits a choice of accounting policies, the Department has selected those judged most appropriate to give a true and fair view of the Group's circumstances. They have been applied consistently to items considered material to the financial statements.

In addition to the primary statements prepared under IFRS, the FReM requires a Statement of Outturn against Parliamentary Supply and supporting Notes, showing the outturn against Estimates for the net resource requirement and the net cash requirement. These are included within the Parliamentary Accountability section in this document.

The presentation and functional currency is pounds sterling.

1.2 Accounting convention

These financial statements have been prepared on a going concern basis under the historical cost convention modified by the revaluation of certain non-current assets and financial instruments categories.

Valuation bases

Property, plant and equipment and intangible assets are revalued, to produce comparable and current values for assets and their components that have been accumulated over many decades or, sometimes, centuries, whose costs would be materially affected by inflation. Revaluation incentivises good asset management and enables the reader to assess the leadership team's performance against this objective.

Under IFRS 13, assets and liabilities are fair-valued using a market-based approach, an income approach or a cost approach, determined by which approach maximises the use of relevant observable inputs. The consequences are:

> Assets held for their service potential are valued on an existing use basis. For specialised assets this requires the use of depreciated replacement cost ("DRC"). The most significant examples are the Strategic Road Network and the Railway Network, as discussed in Note 1.4. DRC is a cost approach, representing the maximum amount that an acquirer would pay. It addresses the issue that specialised

assets are rarely sold on an arm's length basis or acquired and held to generate income. This is consistent with the FReM and is applied by all government departments for inclusion in the Whole of Government Accounts. It reflects the basis on which public services are funded.

Certain balances and transactions are underpinned by surveyors' valuations of land and buildings, including the Department's significant land and buildings (Note 5), and part of its investment in LCR Ltd (Notes 12.2 and 26.1), and pension assets (Note 24).

The Group evaluates the valuation inputs and outcomes to categorise the valuation within the three-level fair value hierarchy, depending on the lowest-level significant input.

- A level 1 input is a quoted price in an active market for an identical asset or liability (for example, the price of a bond).
- A level 2 input is not a quoted price, but is still observable, directly or indirectly (for example, bond yield curves).
- A level 3 input is unobservable (for example, internally-generated forecast cash flows, or technical specifications).

Note 30 discloses valuations by their category in this hierarchy.

Going concern basis

Repayment of the Department's liabilities is met from Supply funding voted by Parliament and income, which are approved annually by the passing of the Supply and Appropriation (Main Estimates) Act. Parliament approved the Act for 2022-23 which received Royal Assent in July 2022. The Department considers there is no reason to believe that future approvals will not be forthcoming. Hence, the going concern basis is considered appropriate.

1.3 Basis of consolidation

In accordance with the FReM, these financial statements comprise a consolidation of the core Department, its agencies (the "Core Department and Agencies") and those other entities falling within the Departmental boundary defined by Statutory Instrument 2021 No. 265 made under the Government Resources and Accounts Act 2000 (the "Departmental Group"). The Departmental boundary typically covers bodies classified to the central government sector by the Office for National Statistics ("ONS"), because the Department controls them and because they are not market bodies. Note 25 lists the entities within the boundary, and separately lists entities that are sponsored by the Department but not consolidated, including public corporations. Appropriate disclosures are given in Notes 26 and 27 in respect of entities that are controlled but not consolidated.

Public corporations are bodies that the ONS considers are controlled by the Department, but are market bodies. They are not designated for consolidation. The Department has invested in some, of these bodies, for example, by purchasing equity shares. These are accounted for using the policies described in Note 1.12. The disclosures required by IFRS 12 for entities that are controlled but not consolidated are given in Notes 26 and 27.

ONS reclassified the Driver and Vehicle Standards Agency (DVSA) to the central government sector in October 2019. The DVSA was a trading fund, previously classified as a public corporation. Its trading fund status was revoked with effect from 1 April 2021, so it becomes an executive agency, to be consolidated on that basis. This has been reflected retrospectively in these financial statements. The impact of this change on the comparative data is disclosed in Note 1.26.

Transfer by absorption accounting is applied to all transfers of functions (and entities) with local government, with public corporations and within a departmental group. The values of assets and liabilities are not adjusted to fair value, and no goodwill is recognised. The impact of this change on the comparative data is explained and disclosed in Note 1.26

Where the notes present two columns, the first contains amounts for the core Department and its Agencies and the second contains amounts for the Departmental Group (the Group). Accounting policies are harmonised across the Group and material intra-group transactions are eliminated on consolidation. Within this Note, the terms “the Department” and “the Group” are used to refer to balances, transactions and policies applicable to the core Department and its Agencies and to the Group respectively.

1.4 Property, plant and equipment

Property, plant and equipment is described and analysed in Note 5.

1.4.1 Recognition

Assets are recognised initially at cost, comprising purchase price or construction cost and any costs directly attributable to bringing them to the location and condition necessary for them to be capable of operating in the manner intended by the Group.

For infrastructure projects, costs are expensed until the project becomes reasonably certain to proceed; thereafter, capitalisation commences. Further information is given in Notes 1.4.2 and 5.3, Assets Under Construction.

Land and property required to construct infrastructure assets is acquired through several legal processes and is recognised as an asset when the Group has an obligation to purchase it. The timing depends on the process used and context of the relevant scheme, as described in note 1.20.2.

Where access to adjacent land is required for construction, the cost is capitalised. Access is typically obtained through Temporary Possession, which entitles the landowner to compensation for any losses suffered.

Land and properties on the infrastructure's route are included in the asset under construction. Those outside this boundary, or acquired in HS2 Phase 2B under discretionary purchase schemes or Statutory Blight, are classified as inventory.

1.4.2 Classification

The Group categorises property, plant and equipment into Infrastructure Assets, Assets Under Construction, Land and Buildings, and Other Assets. Brief descriptions are given below, with fuller disclosures in Note 5.

Infrastructure Assets (including renewal and enhancement works in progress)

This category comprises the Railway Network, the Strategic Road Network and the HS1 concession. They are networked assets, which are integrated networks serving a significant geographical area. They display some or all of the following characteristics:

- Of specialised nature, with no alternative uses;
- Immovable; and
- Potentially subject to constraints on disposal.

Given these assets' integrated nature, renewal and enhancement works in progress on the Strategic Road

Network and the Railway Network are recorded against the strategic road network asset and the railway network asset respectively from the works' commencement. The reversionary interest in the M6 Toll is also included in the Strategic Road Network.

The Strategic Road Network (SRN) comprises England's motorways and all-purpose trunk roads. It consists of: carriageways, including earthworks; tunnelling and road pavements; roadside communications; bridges and other structures, and land and buildings within the highway's perimeter. Other roads are typically controlled by local authorities.

The Railway Network comprises the infrastructure supporting the operation of Great Britain's national rail system. It consists of: track; earthworks; signalling; power; plant; telecommunications; bridges; fencing; coastal defences; stations and operational property and land. It includes only those assets controlled by Network Rail. Others, including the Core Valley Lines; London Underground and other regional systems; and heritage lines are recorded in the financial statements of the organisations that control them.

Further information about capitalisation and valuation policies can be found in Notes 1.4.1, 1.4.3 and 5.1 – 5.3.

Assets under Construction

This category represents discrete items or projects, outside the networked infrastructures. The most significant element is the HS2 asset under construction.

Land and Buildings

This includes properties outside the networks' perimeters and lighthouses recognised by the General Lighthouse Authorities.

Other Assets

This includes Plant and Machinery; Fixtures and Fittings; and IT Hardware.

1.4.3 Valuation

The valuation approach used for specific assets depends on their function and materiality.

Infrastructure assets – Networked assets (including renewals and enhancements)

The Group's main networked assets (the Strategic Road Network and the Railway Network, but not HS1) are valued at DRC, which aims to reflect the cost in today's money of constructing a new network capable of delivering the same service capacity as the existing asset. This involves three significant sets of judgements:

1. the type of asset that would be constructed;
2. the cost of constructing that asset; and
3. the existing asset's service capacity.

The DRC is calculated by determining a gross replacement cost for the network (reflecting the first two sets of judgements) which is then adjusted (or "depreciated") to reflect the network's condition and capacity (reflecting the third set of judgements), as described below. The gross replacement cost is determined according to RICS guidelines. These guidelines require certain assumptions, including: a modern equivalent asset, which the Group considers to be a network identical in function, scale and connectivity, but constructed using modern specifications and methods; and instantaneous build on a greenfield site. The adjustment to DRC reflects management's best estimate of the network's condition and capacity. A full valuation is commissioned every five years at least; in interim years, this is updated by applying input indices selected specifically for each network and described in the relevant section to a standard price list of network components.

Renewals and enhancements are recognised initially at cost. However, to value the relevant network at DRC, the difference between the cost and DRC of works in progress is reflected in the valuation at each year-end. This typically produces a downwards revaluation, due to DRC costing assumptions and the inherent challenge of adding value to a complex, integrated live asset, because it is more expensive to upgrade infrastructure whilst maintaining normal service levels than to close routes temporarily or build from scratch on a greenfield site. The reduction is recognised in Other Comprehensive Net Expenditure to the extent that a revaluation surplus is available and presented as "Adjustment of renewal and enhancement works in progress to DRC" in Note 5.

The Railway Network (including renewal and enhancement works in progress)

Differences in accounting framework relating to the Railway Network

Network Rail's own financial statements hold the Railway Network at fair value using an income approach, which differs significantly from the DRC of the Railway Network included here. The differing treatments are considered reasonable because the nature of Network Rail's interest in the Railway Network varies from that of the Group's interest, for the following reasons.

Network Rail uses an income approach because it performs a regulated activity and prepares financial statements under un-adapted IFRS, in accordance with the Companies Act. From rail privatisation until the commencement of the current 5 year control period on 1 April 2019, the income levels for the rail infrastructure operator (previously Railtrack and now Network Rail) were calculated in reference to the Regulatory Asset Base ("RAB"). This is a valuation of the infrastructure, which is derived from the initial market capitalisation of Railtrack plus subsequent qualifying capital expenditure. RAB-based income setting is widely used in regulated industries; it was applied to Network Rail while it was classified as a private-sector operator and thereafter up to 1 April 2019. Reflecting Network Rail's current public sector status, its income determination since 1st April 2019 is no longer RAB-based; however, ORR has advised the RAB would be applied to any future private-sector operator. Network Rail has elected to measure the Railway Network on a revaluation basis, so must determine the Network's fair value in accordance with IFRS 13. The RAB-based income approach is considered most appropriate because it reflects the position of a theoretical private-sector entity holding a railway network licence and is therefore the exit value. It represents the discounted future cash flows that the rail network would be expected to generate, including an assessment of under- and outperformance against the current 5-year regulatory determination. There is insufficient observable data for a market approach, and a replacement cost approach would produce a higher valuation.

The higher DRC valuation includes the cost of significant elements funded before the RAB was introduced and not wholly reflected in Railtrack's initial market capitalisation, such as earthworks, long-life structures, and operational land. Together, they comprise much of the DRC and are essential to the railway network's operation. This cost approach therefore measures the significant economic benefits of the entire network to Great Britain, which exceed the monetary returns accruing under the railway network licence.

Defining the modern equivalent asset for the Railway Network

A modern equivalent asset – a network identical in function, scale and connectivity to the actual network – is deemed to contain the same quantity of track and termini as the actual network. It is also assumed to use standardised assets, systems and technologies wherever possible. Alternative designs are assumed only where qualified engineers advise that standardisation is impossible. These standardised assets, systems and technologies constitute repeatable components, or “building blocks”, which are aggregated to form the network. Finally, the modern equivalent network reflects technological advances only where they represent value for money. For example, electrification is assumed only where the benefits would exceed the costs under current conditions, which in practice, is only for lines that have been or are currently being electrified. This is reflected by defining categories for different technologies then allocating the modern equivalent network’s components into those categories.

Costing the modern equivalent asset for the Railway Network

Costings are taken from various sources, involving estimation. The sources include: final costs of recent projects; contractors’ Framework Rates; Project Cost plans; first-principle estimation techniques; and actual costs from other UK contracts. Indirect construction costs come from benchmarking studies; ORR has reviewed and endorsed the principles and ranges. Costs have been benchmarked against actual costs of recent projects where possible; however, this is less feasible for components that are routinely maintained rather than fully replaced. In 2018-19, the cost data inputs were comprehensively reviewed by professional experts and will form the baseline cost data, adjusted for changes in inflation indices such as the Retail Price Index until the next full valuation.

Estimates are adjusted to reflect a risk allowance consistent with project maturity and contingencies for costs that vary between projects. The risk allowance assumes a high initial understanding of the project scope. In some cases, a modern equivalent component costs no more than the actual component.

Accounting estimates in the valuation of the Railway Network

The accounting estimates described below are discussed more fully in Note 5.1.

Land compensation

The land valuation includes an assessment of land purchase compensation costs, reflecting the higher cost of actual land acquisitions, compared with the cost of a theoretical greenfield site. As Network Rail rarely purchases large parcels of land, this estimate of minus 69% is based on National Highways' experience.

Greenfield assumption

Where comparative costs for constructions on greenfield sites are not available, the Group uses a comparative cost for construction in a live operational environment, which is more expensive, and reduces it to a greenfield cost by an estimate of 32%. The basis for selecting this estimated reduction is given in Note 5.1.

Cost risk factor

After allowing for known construction costs, unknown and localised costs remain. These are captured using a risk factor of 22.7%. This assumption is subject to a sensitivity analysis based on the range of potential adjustments. The basis for selecting this risk factor is given in Note 5.1, scenario 4.

Sensitivity to estimation uncertainty in the valuation of the Railway Network

These accounting estimates are subject to material estimation uncertainty. The following boundaries indicate the range of reasonably possible outcomes and are used in the Sensitivity Analysis in Note 5.1 to indicate the potential impact of the given level of uncertainty:

Accounting estimate	Boundary (+/-)	Comment
Land compensation adjustment (normally -69%)	10%	Maximum and minimum compensation adjustments of -79% and -59%
Greenfield assumption adjustment (normally -32%)	10%	Maximum and minimum adjustments of -42% and -22%
Cost risk factor, currently +22.7%	10%	Maximum and minimum risk factors of +32.7% and +12.7%

The Strategic Road Network (including renewal and enhancement works in progress)

Defining the modern equivalent asset for the Strategic Road Network

Judgement is required to adjust the gross replacement cost of a modern equivalent road network that includes some use of "smart" technologies, to DRC. This is done by categorisation: the road pavement's composition is a standardised design; a "smart" motorway is categorised as a standard pavement, supplemented by traffic management systems, which are categorised as separate components.

Costing the modern equivalent asset for the Strategic Road Network

The Group considers that the best costing approach is to use rates derived from actual construction costs, for schemes completed recently. At each full revaluation, costing rates for specific asset types are derived, for example, bridges classified by width and length according to their function. Using this data requires judgements on its relevance and contemporaneity, considering the type of scheme, its location, and the amount of time subsequently elapsed. If there is no recent data for a specific road type, it is produced by extrapolating data for other road types, based on known costing relationships.

Full and interim valuations of the Strategic Road Network

The most recent quinquennial review covering special structures was completed in 2020-21; the next quinquennial reviews, covering structures, technology and pavements and lands are due in March 2023, March 2024 and March 2025 respectively.

Between revaluations, values are adjusted using indices. Several construction-related indices are applied to the costing rates for various elements of the SRN, both in full revaluation exercises to update actual scheme information to current cost and in interim valuations to revalue overall SRN components. The Group chooses the indices which, in its view, are most relevant to the components' replacement costs and to the extrapolation of data to produce an estimated standard cost valuation. These include regional land and building indices calculated by National Highways' engineering consultants, using the Royal Agricultural University rural land indices and the Land Registry Office House Price Survey urban land indices, and the National Highways Capital Enhancement Cost Index, which is produced biannually by RICS.) It is difficult to obtain costing data for special structures, which are unique to the network. The valuation approach adopted from 2020-21 uses a bottom-up method which develops costing rates for each class of special structures. Further amendments may then be made to reflect an individual structure's complexities, based on professional judgement.

Sensitivity to estimation uncertainty in the valuation of the Strategic Road Network

These accounting estimates are subject to material estimation uncertainty. The following boundaries indicate the range of reasonably possible outcomes and are used in the sensitivity analysis in Note 5.2 to indicate the potential impact of the given level of uncertainty:

Accounting estimate	Boundary (+/-)	Comment
Costing rates	10%	Sensitivity to extrapolations is limited since recent actual costs are usually available for the most commonly used asset types, which represent a large proportion of the asset value.
Cost index	10 points	The valuation is sensitive to other indices, but this is the most significant because it is used for roads and structures.

Infrastructure assets – HS1

The HS1 rail link infrastructure was originally constructed by HS1 Ltd (then a subsidiary of London and Continental Railways Limited) under a 99-year Private Finance Initiative concession. The Secretary of State acquired London and Continental Railways Ltd in June 2009 to restructure the business and renegotiate the concession. HS1 Ltd was sold to infrastructure investors in November 2010 as the concession holder. It is classified to the private sector by ONS.

Under the renegotiated concession, now ending in 2040, HS1 Ltd operates and maintains the infrastructure and generates track access charges from domestic and international train operating companies with no further public subsidy. HS1 Ltd currently contracts the maintenance of the HS1 asset to Network Rail (High Speed) Ltd, a subsidiary in the Network Rail group. At the end of the concession, the infrastructure reverts to the Group, with the expectation that a further concession will then be granted.

The infrastructure is held to maximise returns to the Group, so is valued on an income basis. The gross book value is the sum of:

- £1,686m for the current concession period, based on the impaired value-in-use of the asset, reported in London and Continental Railways Limited's financial statements as at 31 December 2009. This value reflects the net present value of future cash flows up to 2040. A corresponding liability was recognised in deferred income. This follows the policy set out in note 1.7.
- £1,860m for the infrastructure's estimated remaining life (to 2086): reflecting the estimated present value of proceeds from subsequent concessions, based on the price paid by Borealis and the Ontario Teachers' Pension Plan for HS1 Ltd and the concession, which remains the best estimate of the income the Group will receive in 2040 and beyond.

This asset has not been revalued, as no subsequent changes have occurred that would increase the benefits that the Group can control. For the current concession period, while HS1 Ltd subsequently reversed part of the 2009 impairment, this reflected a reduction in the company's borrowing costs which produces no benefits to the Group. For the remainder of the asset's life, the Department considers it premature to review the valuation, given the limited market information available to date.

The asset is depreciated on a straight-line basis over its remaining useful economic life, judged to be the length of the original concession ending in 2086.

Assets under Construction (other than carried as part of a network asset)

Assets under construction are typically held at cost until completion. HS2 is held at cost until its future operating model becomes sufficiently clear to adopt an alternative basis. Some components of these costs represent best estimates pending the conclusion of commercial negotiations. The classification of the related liabilities is discussed in Note 1.20 and Note 1.20.2. The approach for testing these assets for impairment is described in Note 1.5.

Other assets, including Land and Buildings

Non-networked assets are held either at fair value or DRC through regular formal valuation or the application of indices and estimated asset lives. The approach used for specific assets depends on their function and value.

If the carrying value has increased, the gain is recognised in Other Comprehensive Net Expenditure and accumulated in equity in the Revaluation Reserve. If the net asset value has decreased, the causes of the decrease are analysed to determine whether it arises from a clear consumption of economic benefits, which includes cases of physical damage, or a policy decision to use the asset for a less specialised purpose. The latter is the central government equivalent of a reduction in the asset's value-in-use. Decreases caused by a clear consumption of economic benefits, or which reduce the asset's value below its historic cost, are treated as impairments recognised in Net Operating Expenditure, then transferred from the General Fund to the Revaluation Reserve, within Taxpayers' Equity. Other decreases are recognised in Other Comprehensive Net Expenditure.

1.4.4 Depreciation

Assets or definable components with determinable useful economic lives are depreciated on a straight-line basis at rates calculated to write off their value over their expected lives. Freehold land is not depreciated. Note 5 provides further information on the weighted-average asset lives used to depreciate components of the major networked assets. The lives of non-networked assets vary from 60 years or more (for some freehold structures), to three years (for some IT assets). Where material, lives are reviewed annually to reflect current engineering trends.

The calculation of depreciation for the networked assets is described below.

The Railway Network: Determining the remaining lives and condition of asset components

Given the complexity of the Network's structures, the estimated remaining useful economic lives in the table below are typically weighted averages, based on management judgements of the remaining lives for detailed categorisations of the underlying components.

Type	Remaining Life (Years)
Earthworks	99
Structures	60
Electrification, plant & signals	32
Operational property	34
Track	18
Telecoms	10
Land	–

This is a critical judgement based on the available data, including that used for Network Rail's whole-life costing assessments. However, careful judgement is sometimes required, especially for components that are rarely replaced, such as structures and earthworks. Some are capable of very long lives; however, for this valuation, lives are capped at 100 years due to inherent uncertainty beyond that period.

Sensitivity to estimation uncertainty

The condition of asset components is assessed using several methods, including physical inspection and data from electronic sensors. However, for some component types, the available data is limited, thus requiring the use of judgement and estimation. This causes a degree of estimation uncertainty. The following boundaries are used in the Sensitivity Analysis in Note 5.1 to indicate the potential impact of the given level of uncertainty:

Accounting estimate	Boundary (+/-)	Comment
Asset lives of the components of the modern equivalent railway network	10%	Assets lives are provided in Note 5.1

The Strategic Road Network: Determining the remaining lives and conditions of significant asset components

The road pavement comprises a surface layer (‘black top’) and supporting sub-layers. Experience shows that if the surface layer remains in good condition, the sub-layers do not deteriorate.

Where the sub-layers do not deteriorate this leads to the condition remaining constant and the remaining life being maintained.

The Strategic Road Network: Calculating the depreciation charge

The Group considers that the depreciation method that best reflects the expected pattern of consumption of the SRN’s future economic benefits is to expense an amount equal to the value of renewals performed during the year, adjusted to reflect changes in the asset's condition.

The depreciable element of roads is calculated as 17.55% of the total value, based on the proportion of cost related to the elements regularly renewed, including the surface layer; drainage; road marking and studs; and rigid concrete roads. The remainder relates to elements (including sublayers) that have useful lives long enough, subject to regular renewal of the surface layer, that the depreciation charge and accumulated depreciation would be immaterial. The in-year depreciation charge is based on measurements of the deterioration of the road's wearable element, reflecting four factors: rutting, texture, fretting and longitudinal profile metrics obtained from Traffic Speed Road Assessment Condition Surveys (TRACS) performed by WDM Limited and assured by TRL Limited. The road's actual condition is compared to its carrying value (after adjusting for renewals) and any movement is taken to depreciation as a charge or credit depending on whether the condition has deteriorated or improved.

The depreciable element of structures is calculated as 69.89% of the gross replacement cost, and includes the substructure and superstructures, rails, fences and surface preparation such as waterproofing. Structures are depreciated using a depreciation factor, calculated based on the condition of each element of the structure using the Element Condition Score (ECS) obtained from structure inspections. The ECS for each element is applied to a deterioration curve and averaged using a calculated replacement cost for that element. This results in a weighted average proportion of service life consumed which is applied to the asset's depreciable element.

Other components are depreciated over a useful economic life, determined using assumptions about the period during which they will provide service potential. As shown in Note 5.2, estimates are made of their useful economic lives, based on historic trends and expert knowledge.

1.5 Impairment of non-current assets

The Group tests all non-current assets for impairment annually, including assets under construction. Their carrying value is compared with their recoverable amount. For specialised assets held to deliver a service to the public, this is deemed to be the cost of replacing the service capacity currently used. For other assets, it is the higher of the value in use and the fair value, less selling costs. Where appropriate, losses are charged to the relevant revaluation reserve to the extent permitted for that asset type; any subsequent reversal of the impairment would be credited either against operating expenditure or to the relevant revaluation reserve.

In assessing the recoverable amount of the HS2 asset under construction the Group determines its fair value as permitted by IFRS 13 as the cost that the potential purchaser would consider itself to have avoided by purchasing rather than building the asset. Recognising that design work on major projects is by nature iterative, the Group judges that a potential purchaser would consider impairment indicators to include only significant changes in the planned location, nature or capability of major asset components.

1.6 Leases

1.6.1 Scope and classification

Government bodies typically lease properties used for administrative purposes, to maximise efficiency and flexibility. The Group also benefits from leases of land which it could not have purchased, under arrangements with peppercorn or no consideration. Other types of asset may be leased if the Group determines this represents value for money; this typically depends on whether the underlying asset is required for its entire life or a more limited period, and on the markets for specific asset types: a significant example is helicopters, where there is an active leasing market.

The Group classifies contracts as leases based on their substance. This requires the analysis of contracts or parts of contracts, including those described as contracts for services to determine whether they convey the right to control the use of an identified asset, through rights both to obtain substantially all the economic benefits from that asset and to direct its use. Areas of particular focus include construction contracts using specialist equipment. The FReM expands the scope of IFRS 16 to include arrangements with nil consideration. The Group also applies the standard to accommodation-sharing arrangements with other government departments.

The Group excludes contracts:

- for low-value items costing less than £5,000 when new, provided they are not highly dependent on or integrated with other items; and
- with a term shorter than twelve months (comprising the non-cancellable period plus any extension options that the Group is reasonably certain to exercise and any termination options that the Group is reasonably certain not to exercise).

1.6.2 Initial recognition

At the commencement of a lease (or the IFRS 16 transition date, if later), the Group recognises a right-of-use asset and a lease liability.

The lease liability is measured at the payments for the remaining lease term (as defined above), excluding value added tax, discounted either by the rate implicit in the lease, or, where this cannot be determined, the Group's incremental cost of borrowing. The liability includes payments that are fixed or in-substance fixed, excluding, for example, changes arising from future rent reviews or movements in an index. For most Group members, the incremental cost of borrowing is the rate advised by HM Treasury for that calendar year (1.27% for 2020, 0.91% for 2021 and 0.95% for 2022); however, Network Rail undertakes external borrowing independently of the Exchequer and its incremental cost of borrowing is calculated to reflect this. The lease liability is presented within Note 19.

The right-of-use asset is measured at the value of the liability, adjusted for: any payments made or amounts accrued before the commencement date; lease incentives received; incremental costs of obtaining the lease; and any disposal costs at the end of the lease. However, for peppercorn or nil consideration leases, the asset is measured at its existing use value.

1.6.3 Subsequent measurement

The asset is subsequently measured using the fair value model. The Group considers the cost model to be a reasonable proxy except for leases of land and property without regular rent reviews. For these leases, the asset is carried at a revalued amount. In these financial statements, right-of-use assets held under index-linked leases have been adjusted for changes in the relevant index, while assets held under peppercorn or nil consideration leases have been valued using market prices or rentals for equivalent land and properties.

The liability is adjusted for the accrual of interest, repayments, and reassessments and modifications. These are measured by re-discounting the revised cash flows; the impact is reflected in the liability and either in the asset valuation or expenditure as follows:

Scenario	Discount rate	Asset or expenditure
Reassessment		
The Group becomes or ceases to be reasonably certain to exercise an extension or termination option, due to a significant event or change in circumstances	Revised	Asset*
The non-cancellable period changes	Revised	Asset*
The amount payable under a residual value guarantee changes	Original	Asset*
There is a movement in an index or rate that will alter the cash flows (except for floating-rate arrangements)	Original	Asset* (with an adjustment to any revaluation surplus where a change in the liability has already been reflected in the asset value)
There is a change in the variable lease payments, that was not included in the measurement of the lease payments during the period in which the triggering event occurred	Original	Expenditure
Modification		
Other leased assets are included, priced on a standalone basis	New	Asset (presented as the creation of new right-of-use assets and lease liabilities, discounted by a new rate)
The scope is decreased	Revised	Asset and Expenditure (the asset is remeasured proportionately to the reduction in scope; any difference between the change in the value of the asset and liability is recognised as a gain or loss)
The lease term is increased	Revised	Asset*
The consideration is changed	Revised	Asset*

* Where the amount of a reduction to the asset exceeds its carrying value, the excess amount is expensed.

1.6.4 Lease expenditure

Expenditure includes interest, straight-line depreciation, any asset impairments and changes in variable lease payments not included in the measurement of the liability during the period in which the triggering event occurred. Lease payments are debited against the liability. Rentals for leases of low-value items or shorter than twelve months are expensed.

1.6.5 The Group as lessor

The Group assesses whether the leases are finance or operating leases. For finance leases, it derecognises the asset and recognises a receivable. Interest is accrued throughout the financial year and recognised in income. For operating leases, rental income is recognised on a systematic basis, usually straight-line, over the lease term.

1.6.6 Estimates and judgements

The Group determines the amounts to be recognised as the right-of-use asset and lease liability for embedded leases based on the stand-alone price of the lease and non-lease component or components. This determination reflects prices for leases of the underlying asset, where these are observable; otherwise, it maximises the use of other observable data, including the fair values of similar assets, or prices of contracts for similar non-lease components.

Some contracts cover both a lease of land which the lessee controls and access rights through adjacent land which the lessee does not control. In more remote locations, where stand-alone prices are not readily observable, the Group treats the entire contract as a lease as a practical expedient.

The Group's "peppercorn" leases include historic, long-term leases as well as more recent arrangements. To ensure the assets are correctly valued, the Group has distinguished between nominal consideration and consideration that is low, but proportionate to the asset's value (for example, the lease of a small area of land with few alternative uses). This distinction reflects, so far as possible, recent, observable market arrangements for comparable assets (for example, current rentals); otherwise, based on the Group's own arrangements.

Existing use values are calculated to reflect the term of the arrangement: for example, the value of assets under long-term leases will reflect purchase price, while the value of assets under shorter-term leases will reflect the present value of market rentals for comparable assets, where data is available.

1.7 Service concessions

The Group has contracts under which private-sector suppliers develop, finance, operate and maintain infrastructure used to deliver services to the public, directly or indirectly. The accounting treatment is determined by the extent of the Group's control over the infrastructure, and the basis on which the supplier recovers its investment.

If the Group controls or regulates the service (including the price) and controls any significant residual interest in the infrastructure, the Group recognises the infrastructure as an asset, with a matching liability, in accordance with IFRIC 12. The asset is classified as property, plant and equipment. The liability is presented on one of the following bases:

- Where the supplier has a right to receive consideration from the Group (usually as unitary charges) the Group recognises a financial liability in respect of the element relating to the cost of the asset. Interest on the liability and expenditure on services provided under the concession are recognised in Net Operating Expenditure as they accrue. Payments are apportioned between three elements: payments for services; payments of interest on the liability; and repayments of the initial liability.
- Where the supplier has a right to charge the public, (for example, the HS1 concession) the Group recognises a deferred income balance, which is amortised to Net Operating Expenditure over the concession term.

The Group neither controls nor regulates the M6 Toll Motorway, so the concession is outside the scope of IFRIC 12. However, the Group controls a significant residual interest in it, because it reverts to the Group at the concession's end for no consideration. The infrastructure was not recognised as an asset from the concession's inception, instead its expected fair value is recognised incrementally through Other Comprehensive Net Expenditure over the concession term, as an increase in the value of the Strategic Road Network in Note 5. This ensures the proper allocation of the contractual payments between the cost of services and acquisition of the residual interest.

1.7.1 Estimating the allocation of cash payments

The contractual payments must be apportioned between capital, interest and (for most service concessions) services provided by the supplier. If the contract or other information provided by the supplier does not delineate the apportionment, by specifying the interest rate and the values of the asset and services, the apportionment is estimated, making full use of the information that the supplier provides, supplemented with inputs including determinations of the fair values of the asset and any services, using the Treasury investment appraisal discount rate.

1.8 Inventories

The most significant inventory type is land and properties, comprising: assets acquired – typically under discretionary schemes – for the construction of infrastructure but which are not reflected in the asset under construction, because:

- They are not required for construction (as they fall outside the route boundary) and will be sold post-completion; or
- Construction cannot proceed, pending further progress of legislation, for example, properties acquired due to HS2 Phase 2B Statutory Blight. The Group considers that land and properties should not be classified as an asset under construction until the Second Reading for the enabling legislation has successfully completed, when the legislation is substantively enacted. Until then, the Group classifies them as inventory because, if the legislation did not receive Royal Assent, they would be sold.

After initial recognition at cost , land and property inventories are valued by the Valuation Office Agency.

The most significant assumptions by value underpinning the valuation of inventories are as follows:

- For land and properties outside the route boundary, the net realisable value assumes that at the point of sale, they will be close to transport infrastructure; and
- For land and properties that may fall within the route boundary but are recognised as inventory pending further progress of the legislation, the net realisable value assumes that they will be sold in their current form and condition, so is usually no lower than cost.

For other inventories, the cost is determined using the weighted average cost method.

1.8.1 Use of estimation in the measurement of land inventories

Land inventories comprise individual properties held over a dispersed area. Their net realisable value is determined by a desk-top review supplemented by a full revaluation of a rolling 20% sample.

1.9 Investment properties and assets held for sale

Properties are classified as investment properties where they are held for capital appreciation, to earn rentals, or both. They are held at fair value, with changes recognised in Net Operating Expenditure.

Non-current assets are reclassified as held for sale when they are available for immediate sale in their present condition and are being actively marketed. They are held at the lower of their carrying amount at the point of transfer or fair value less material selling costs and are not depreciated.

They are derecognised on disposal, when the recipient obtains control of them.

1.9.1 Valuation

The fair values of the Group's investment properties at 31 March 2022 are determined from a valuation performed as at that date by Jones Lang LaSalle.

The valuation, conforming to International Valuation Standards, was performed by splitting the portfolio between one-off properties, which are valued individually (15 properties, representing 47% of the total value; 2021: 11 properties, representing 48% of the total value) and the remainder, which are valued under the Beacon method, which stratifies them by type and location, then applies appropriate yields to the rental incomes specified by existing leases (assumed to reflect market rents).

1.10 Investments measured using equity accounting

The FReM adapts the IAS 28 and IFRS 11 requirements for the use of equity accounting as follows: investments in entities classified to the private sector and the rest of the world sector are measured using equity accounting where the Group has significant influence, joint control or control over the investee.

The investment is recognised initially at cost, then adjusted for the Group's share of the profits or losses and other comprehensive income, which are reflected in the Statement of Comprehensive Net Expenditure, and any distributions. The carrying values of investments are reviewed annually for impairment. Where the investee is loss-making, the Group recognises its share of the losses until the investment's carrying value is reduced to nil, but does not recognise any further loss or liability unless it has a legal or constructive obligation to honour the investee's liabilities. If the investee subsequently becomes profitable, the Group recognises its share of profits only after they cover the unrecognised losses.

During the year, the Group confirmed with HM Treasury that it should apply equity accounting to its controlling interests in entities classified to the rest of the world sector, in accordance with the FReM. Consequently, these statements include a prior period adjustment to reflect the retrospective application to its investments in Network Rail Insurance Limited. Further disclosure of the impact is given in Note 1.26.

1.11 Loans, and current and non-current receivables

Loans (Note 11) and receivables (Note 16) are recognised initially at fair value (usually the contractual value), plus transaction costs.

They are subsequently held at amortised cost where the cash flows are solely payments of principal and interest on the outstanding principal, because the Group's business model is to hold them to collect the cash flows. The amortised cost is calculated by discounting the contractual cash flows by the effective interest rate. This is the rate that, at origination, discounts contractual cash flows back to the initial fair value. Issue costs are typically amortised on a straight-line basis, which is materially consistent with amortised cost measurement.

Balances are derecognised when the rights to the cash flows expire; on the transfer of control over the assets and of exposure to the risk and rewards of ownership; or when they have been written off because there is no reasonable expectation of recovery. A significant modification to the contractual terms and conditions may necessitate the derecognition of one asset and, potentially, the recognition of another.

Impairment is reflected on the following bases:

- Credit loss allowances are not recognised for balances with other Group members, where the core Department ultimately controls the entity and would prevent losses from arising in practice, by enforcing repayment. Those group members with loan balances due to the Department have adequate revenues to prevent a default.
- Credit loss allowances for trade receivables and similar arrangements are measured at the lifetime expected credit loss.
- For loans to external borrowers, credit loss allowances are initially assessed as the 12-month expected credit loss, because the loans are not originated as credit-impaired. Thereafter, credit risk is reassessed, taking into account reasonable and supportable information, including forward-looking information. Where the loan has experienced a significant increase in credit risk or become credit-impaired, the credit loss allowance is assessed as the lifetime expected credit loss.

Credit loss allowances are recognised where material.

1.12 Investments in equities

In accordance with the FReM, the Group's equity investments in non-consolidated public sector investees and investments that do not convey significant influence or joint control over entities classified to other sectors, are financial instruments. Investees include LCR Ltd, DOHL (including its subsidiaries SE Trains Ltd, LNER Ltd and Northern Trains Ltd), and deadlocked joint ventures.

They are recognised initially at the transaction price, which is regarded as indicating the fair value at that point, plus any transaction costs.

Thereafter, they are held at fair value, as the cash flows are not solely payments of principal and interest. For all equity investments, the Group has made an irrevocable election to recognise changes in fair value through other comprehensive income, because they are held for strategic purposes in delivering the Group's policy objectives rather than the generation of investment gains. Therefore, the valuation changes do not reflect the Group's performance during the year. Fair values are classified using the hierarchy set out in Note 1.2. On disposal, any cumulative balance is transferred directly to the General Fund and not reclassified through the Statement of Comprehensive Net Expenditure. This is further described in Note 12.3.

To value instruments for which there is no active market, the Group uses estimation techniques which reflect, so far as practicable, those that market participants would use, maximising the use of observable inputs. The investees operate in many sectors; therefore, various techniques are used, which are described more fully in Note 12, accompanied by sensitivity disclosures. The use of accounting estimates gives rise to estimation uncertainty. While a change in assumptions could affect the value recognised, the impact is considered immaterial.

The Group derecognises these assets when its rights to receive cash flows expire or have been transferred, provided that substantially all the risks and rewards of ownership and control of asset have also been transferred.

As disclosed in Note 1.10, the Group's investment in Network Rail Insurance Limited have been retrospectively presented as assets measured using equity accounting. Further disclosure is given in Note 1.26.

1.13 Derivatives and other financial instruments held at fair value through profit or loss (net operating expenditure)

The Group's financial instruments held at fair value through profit or loss comprise:

- those required to be held on this basis because they are classified as held for trading (predominantly derivatives not designated and effective as hedging instruments), or

- those designated to be held on this basis to prevent an accounting mismatch (for example, bond liabilities that share a risk with derivatives held, that gives rise to changes in fair value that tend to offset each other).

They are initially recognised at fair value. The transaction amount is deemed to be the best evidence of fair value at initial recognition. Any transaction costs are expensed.

They are remeasured at fair value at the end of each reporting period. The change is typically recognised in Net Operating Expenditure, except for derivatives used in a hedge of cash flows, covered in Note 1.15. Where they are not actively traded, valuations are constructed from predicted cash flows, reflecting forecast interest rates, exchange rates or inflation rates. This entails some sensitivity to estimation uncertainty. Note 29.3 includes a sensitivity analysis of the impact of changes in foreign exchange rates, interest rates and inflation rates of ±1 percentage point, which is considered to be reasonably possible.

These instruments are derecognised when all rights to cash flows expire (for assets); or when all obligations are settled (for liabilities); or when control or the risks and rewards of ownership are transferred.

In 2020-21, HS2 Ltd commenced a foreign exchange forward contracts purchasing programme to manage foreign exchange risk along its supply chain. It was intended to transfer the risk to the party able to manage it at the lowest cost, and was not designed to qualify for hedge accounting. The programme continued during 2021-22.

1.14 Borrowings

The Group has long-term borrowings in the forms of bonds and notes, issued mainly by Network Rail Infrastructure Finance plc within the Network Rail group, but also by LCR Finance plc and CTRL Section 1 Finance plc. All have ceased new external borrowing. Prior to Network Rail's reclassification to the central government sector, so before it was part of the Group, it issued bonds under the Debt Issuance Programme. Some are held at fair value to prevent an accounting mismatch; their accounting treatment is described in Note 1.13.

They were recognised initially at fair value at that date, usually the transaction amount, plus transaction costs. Those not held at fair value are measured at amortised cost. Issue costs may be amortised on a straight-line basis, where this is materially approximate to the effective interest method. Finance costs are disclosed in Note 3.7 as cash interest; for index-linked debt, accretion on the outstanding principal is disclosed as a non-cash cost.

Borrowings are derecognised when all obligations are satisfied.

1.15 Hedge accounting

The Group's hedging arrangements originate from Network Rail. Its legacy borrowings expose it to interest rate risk and foreign exchange risk and, until the end of Control Period 5 on 31 March 2019, it was subject to a capital management target set by ORR. To manage those risks and meet its capital management target, Network Rail purchased derivatives to cover debt to be raised during that Control Period. This portfolio of derivatives is being allowed to unwind. However, Network Rail may purchase derivatives to manage the risks on other less material transactions, mostly purchases of equipment in foreign currencies.

Some of these arrangements, including loans from the Department, qualify for hedge accounting in Network Rail's financial statements. As loans from the Department are eliminated in these statements, hedge accounting cannot be applied to the derivatives, so they are held at fair value through profit or loss. Therefore, at a Group level, hedge accounting primarily covers Network Rail's external debt.

An arrangement qualifies for hedge accounting if, at inception, the Group formally designates and documents the hedging relationship, including: the risk management objective and strategy for undertaking the hedge; identification of the hedging instrument; the hedged item; the nature of the risk being hedged and how the hedge's effectiveness will be assessed. To continue to qualify, it must remain highly effective in offsetting changes in the fair value or cash flows of the hedged item. The Group has previously issued cash flow hedges. Their accounting treatment is described below.

If the arrangement is not highly effective, it does not qualify for hedge accounting. If the intended hedged item is a financial instrument, such as a bond liability, it may be designated as held at fair value through profit and loss, where this treatment will provide more relevant information. Both the derivative and the financial instrument will be fair-valued, potentially achieving a degree of offsetting.

Disclosures of financial risks and how they are managed are presented in Note 29, with fair value disclosures provided in Note 30.

1.15.1 Cash flow hedges

Under a cash flow hedge, the hedging instrument is held at fair value. The change in its fair value is compared with the change in the fair value of the hedged item and the effective part is recognised in Other Comprehensive Net Expenditure. The remainder is recognised immediately in Net Operating Expenditure. The material hedged events for Network Rail have now occurred and no further debt hedging programmes are envisaged. The cumulative gain or loss on the hedging instrument held in equity is reclassified to Net Expenditure over the period in which the hedged transaction affects Net Expenditure.

Cash flow hedge accounting ceases when the hedging instrument expires, is sold, terminated, exercised or no longer meets the criteria for hedge accounting. The accounting treatment depends on the reason for cessation:

- Where the hedging instrument no longer meets the criteria for hedge accounting, the cumulative gain or loss on the hedging instrument that was recognised directly in equity while the hedge was effective is retained in equity until the forecast transaction occurs;
- Where the forecast transaction is no longer expected to occur, the cumulative gain or loss on the hedging instrument that was recognised directly in equity while the hedge was effective is reclassified immediately to Net Expenditure.

1.16 Financial guarantee contracts

Financial guarantee contracts require the issuer to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment when due according to the terms of a debt instrument. The Department considers and accounts for them as financial instruments rather than insurance contracts. The Department's only material financial guarantee contract is the Financial Indemnity Mechanism (FIM), a non-cancellable arrangement covering both fixed-rate and index-linked debt instruments issued under Network Rail's Debt Issuance Programme, maturing in October 2052.

Recognised initially at fair value, they are subsequently measured at the higher of the initial amount less, when appropriate, cumulative income recognised in accordance with the principles of IFRS 15, or the credit loss allowance. As the FIM covers debt issued by a Group member, the Department considers the value of the credit loss allowance to be nil. The carrying amount is therefore measured at the initial fair value less cumulative income.

The Department provides a service of credit enhancement to Network Rail, allowing it to obtain a lower cost of borrowing, and to its lenders, which is performed over time. The service is priced at the credit spread between the yields on the guaranteed debt instruments and those on comparable non-guaranteed instruments. The initial fair value was calculated as the present value of that credit spread over the instruments' remaining terms, discounted by the rate prescribed by HM Treasury for financial instruments. The remaining balance at the end of the year reflects the performance obligation to be satisfied in future periods. It is calculated as the latest forecast of outstanding debt over the remaining term of the Debt Issuance Programme, multiplied by the credit spread. This produces a fixed income stream for fixed-rate debt instruments and an income stream that moves in line with inflation for index-linked debt instruments. The forecast income is then discounted by a nominal rate to reflect the materiality of the time value of money.

The amount of income recognised in each period is measured to reflect progress towards satisfaction of the performance obligation, which is to support the debt outstanding during each year, and is therefore calculated as the average amount of debt multiplied by the credit spread. The impact of financing is presented separately as an interest cost.

The amount charged or released during the year is explained in Note 3.7.

Estimates and judgements

The credit spread reflects ORR's assessment at the point when Network Rail ceased new external borrowing; in July 2014. The discount rate is updated for any changes in the rate prescribed by HM Treasury. The carrying value of the liability is also influenced by differences between actual and forecast borrowings, particularly in respect of index-linked debt.

1.17 Other payables

These are financial liabilities other than financial guarantee contracts and those held at fair value through profit or loss (Net Operating Expenditure), mostly comprising trade payables and accruals.

They are recognised initially at fair value, typically the transaction price. Thereafter, where the time value of money is material, they are held at amortised cost, and derecognised on settlement.

1.18 Cash and cash equivalents

Cash and cash equivalents comprise: bank balances held; commercial paper and money market deposits at varying rates. Their carrying amount approximates to their fair value.

1.19 Pensions and other employee benefits

1.19.1 Defined benefit plans provided by the Principal Civil Service Pension Scheme

Past and present employees of the core Department and its agencies are generally members of the Principal Civil Service Pension Scheme (PCSPS), which is an unfunded multi-employer defined benefit scheme. It is treated as a defined contribution arrangement because there is insufficient information to identify the Group's share of the scheme liabilities and costs.

The core Department and its agencies expense the contributions payable as incurred. The PCSPS pays pension benefits and accounts for the liability.

Ministerial pension benefits are provided by the Parliamentary Contributory Pension Fund.

The People and Remuneration Report in the Accountability section provides further details for both schemes.

1.19.2 Other defined benefit plans

Past and present employees of Network Rail and British Transport Police, and pre-privatisation employees of British Rail may be members of one of 8 defined benefit arrangements, as shown in Note 24. The core Department is treated as the employer for schemes covering historic British Rail employees. These arrangements are provided through funded schemes that are legally separate from the Group. Members' pensions are paid from these funds. The Group makes cash contributions to the funds in advance of members' retirement. Some are "shared cost" arrangements, where contributions are typically shared between the employer and the members on a basis specified in the scheme rules.

Full actuarial funding valuations are performed for each scheme triennially using the projected unit method reflecting assumptions that the employer and the actuary agree to be appropriate. Separate valuations are prepared for the financial statements as at the reporting date in accordance with IAS 19: assets are measured at fair value, using current market bid values; liabilities are measured using the projected unit method reflecting neutral assumptions. The projected unit method estimates the ultimate cost of the pension benefits earned in the current and prior years. This requires: determining how much pension benefit is attributable to the current and prior years; estimating (making actuarial assumptions) demographic variables (such as mortality) and financial variables (including changes in earnings and inflation) that will affect the cost of pension benefits. The obligations are discounted using the current yield on a high-quality corporate bond of equivalent term and currency to the obligations. The assumptions that materially affect this valuation are:

- inflation (for pensions linked to RPI or CPI);
- discount rates (selected to match the liabilities' weighted average duration and therefore influenced by mortality assumptions);
- mortality assumptions (which affect the total amount and timing of payments); and
- earnings assumptions (reflecting linkages to final or average salaries).

The scheme actuaries advise the reasonable bounds for uncertainty; those for the most significant schemes are presented in Note 24, with a sensitivity analysis. The assumptions vary between the schemes, reflecting differences between the benefits offered (some are linked to CPI; others to RPI) and between the ages and life-expectancies of scheme members.

The difference between the value of the scheme assets and liabilities represents either a surplus or a deficit. A surplus is recognised as an asset to the extent that it is recoverable, and a deficit is recognised in full as a liability. Under a "shared cost" arrangement, the Group's liability may be calculated as the part of the deficit equivalent to the employer's share of the contributions, subject to the scheme rules.

Changes in the surplus or deficit are categorised between:

(a) service cost (including current service cost, past service cost (resulting either from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the entity in the number of employees covered by a plan)) and any gain or loss on settlement (a transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions);

(b) net interest expense or income, which is the change during the period in the net defined benefit liability that arises from the passage of time, and

(c) re-measurement.

The Group presents the first two components in Net Expenditure. Past service costs are recognised in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net surplus or deficit.

Re-measurements, comprising actuarial gains and losses and the return on plan assets (excluding interest), are reflected immediately in the balance sheet with a charge or credit recognised in Other Comprehensive Net Expenditure, which is not reclassified to Net Operating Expenditure.

1.19.3 Early retirement

If employees retire early, other than on approved medical grounds, the Group is required to pay (as termination benefits) the cost of benefits, beyond the normal PCSPS pensions. The Group provides for them (including pensions payable up to the normal retirement age and lump sums) in full when it becomes demonstrably committed to providing them.

1.19.4 Defined contribution plans

Some employees are members of defined contribution plans, including the Network Rail Defined Contribution Scheme. These are post-employment benefit plans under which the employer pays fixed contributions into a separate entity and has no further legal or constructive obligation. Contributions are recognised as an employee benefit expense in Net Operating Expenditure in the periods when services are rendered by employees.

1.20 Provisions and contingent liabilities

In accordance with IAS 37, the Group recognises provisions where, at the reporting date, it considers it more likely than not that it has, a legal or constructive obligation to transfer resources, arising from a past event and where a reliable estimate of the amount can be made. If a reliable estimate cannot be made, the obligation is disclosed as a contingent liability.

Descriptions of the significant provision balances, including compensation for industrial diseases and purchases of land and property for the High Speed 2 programme, are given in Note 22, with their specific recognition points. Estimates and assumptions made in quantification are discussed below. Land and properties purchased for the HS2 project are owned by the Secretary of State; consequently, liabilities arising from these purchases are disclosed under the Core and Agencies classification. HS2 Ltd is a non-departmental public body, so liabilities arising from its activities are disclosed under the Group classification.

The Group discloses potential future obligations arising from past obligating events as contingent liabilities, where their existence remains uncertain pending the outcome of future events outside of its control. The Group's material classes of contingent liabilities include contractual mechanisms transferring risk to the Department. They are typically used to maximise value for money in managing the risk of non-performance for rail improvement projects involving multiple stakeholders, who rely on the others fulfilling their obligations, to avoid stakeholders reflecting the risk in their prices.

Contingent liabilities whose likelihood is greater than remote are disclosed in Note 23 as required by IAS 37. Remote contingent liabilities are disclosed in the

Accountability Report so that Parliament remains aware of all arrangements that may require funding. They include guarantees, indemnities and letters of comfort reported to Parliament as required by Managing Public Money.

1.20.1 Classification of contractual mechanisms transferring risk

The Group accepts financial risk through some of its contracts. Where the risk relates to the price of future services, this is reflected when those services are received, unless the contract is onerous. However, mechanisms that compensate the contractor for the adverse impact of third-party actions have the substance of guarantees or indemnities, and are classified as contingent liabilities.

1.20.2 Obligations to purchase land and property: recognition, measurement and classification

Full provisions for compulsory purchase of land and property are recognised at different points, based on an IAS 37 analysis of the relevant scheme and process.

- For many schemes, especially road constructions, enabling powers for specific acquisition areas are provided by the Secretary of State confirming a Compulsory Purchase Order (CPO) or granting a Development Consent Order (DCO). The Group treats that CPO/DCO as creating a constructive obligation on issue for these schemes, because they form part of a significant portfolio with a high evidence base that a General Vesting Declaration or Notice to Treat and Notice of Entry will be made, leading to the acquisition of the land. This reflects the valid expectations of the identified land's owners, given the extent of available precedent. This principle is applied on the majority of National Highways schemes.

- For schemes of unusual scale or complexity or which are relatively stand-alone, this precedent-based approach is inappropriate. The recognition point occurs when the Group is legally unable to withdraw from the obligation. This is the principle applied for HS2 land and property acquisitions. The legal obligation is generally assessed as being at the point a General Vesting Declaration is executed.

Before an obligation arises for full compulsory purchase, the Group may be required to compensate some categories of owners for statutory planning blight. This occurs when the value of a property is, in specific legal circumstances, substantially reduced by a detailed proposal to perform works, leaving the owner unable to sell the property at a scheme-unaffected price. Obligations for blight are recognised (subject to existence and measurement uncertainty) from the event which legally gives rise to eligible claims, such as the safeguarding or announcement of a preferred route, but specifically when the Secretary of State confirms that the property owner is eligible for compensation.

The amount typically represents surveyors' estimates of the land and property values at the point of deemed acquisition. However, provisions for specific agreements are measured at the minimum value to which the Group is exposed if the scheme was cancelled. The actual amounts required to settle the obligation are uncertain, due to inherent valuation factors (such as the judgemental assessment of a property's development potential). Property owners may submit their own surveyors' estimates, and ultimately proceed to the Lands Tribunal.

Different estimation approaches are used for active and inactive cases. Active cases are those where a claim is live or HS2 Ltd has commenced valuation in anticipation of a claim. The remainder are inactive.

For active cases, detailed out-turn forecasts are created, and for inactive cases, the Property Cost Estimates ("PCEs") adjusted to reflect market conditions, are used. Claims for both types of case could ultimately settle for an amount other than the provision balance. The Group manages this risk at a portfolio level, and undertakes a quantified cost risk assessment (QCRA) at each baseline. This QCRA allowance (10% of the PCE, including irrecoverable VAT, according to the latest approved baseline) forms part of the HS2 funding envelope and values the contingency required for Phase 1 property acquisitions. While the provision is valued at the Group's best estimate of the consequences of its obligations at the reporting date, including the outcome of detailed valuations for active cases, this QCRA value indicates the extent of estimation uncertainty affecting both existing and planned Phase 1 obligations.

Obligations are reclassified as accruals when the timing and amount of the payment become materially, rather than absolutely, certain. Consequently, part of the consideration for a specific property may be reclassified, leaving the remainder as a provision. The Group judges that the amount becomes materially certain when its valuation reaches a high degree of cost maturity, which occurs when the Group approves an advance payment request or makes a time-limited offer.

The Group also has obligations to the owners of land under temporary possession. The amount payable includes compensation for losses and the costs of restoring the land to an agreed condition.

Sensitivity to estimation of uncertainty of HS2 land and property provisions

Valuing land and property provisions connected with Compulsory Purchase powers, which represents the majority of the HS2 provision included in Note 22, requires significant use of estimation.

Under Compulsory Purchase, owners are entitled to receive market value for their interest; for the small number of specialised properties that have no market value, compensation is assessed on a re-instatement basis. Other statutory entitlements may arise, including: compensation for business loss or damage; relocation costs; professional fees; and statutory loss. These are estimated using agreed assumptions which provide a consistent approach across high volumes of cases, enabling risk to be measured and contingencies carried until knowledge of individual cases improves. These assumptions are based on specific legislative requirements; for example, that market value assessment excludes the effect of the scheme for which the compulsory purchase is made.

Uncertainties in the estimation of the quantum and timing of compensation claims include: the extent to which the Group will bear irrecoverable VAT because of elections made by the previous owner; the timing and extent of construction requirements; the acquisition method; the underlying land use; and any proposals for development. Inherent uncertainty is also higher in cases where a CPO has been issued, but no claim has been received, or the claim provides insufficient supporting detail; in either situation, the Group must rely on its own valuation and risk assessment, in the absence of a robust counterparty position.

The Group assesses risk and bases provisions on its view of a most likely settlement value, informed by professional valuations.

For active cases, this reflects detailed valuation work performed after a CPO on the relevant case, following the principles above. Key assumptions, including VAT treatment and development value, reflect the valuers' advice on a case-by-case basis.

For inactive cases, the Group relies on desktop valuations prepared to inform the PCE. PCE valuations are produced for the entire expected population of acquisitions for Phase 1, and are regularly updated. The valuations assume that a property's market value reflects its existing use, unless it is known that development value is appropriate. HS2 Ltd staff review the PCE line-by-line to contribute to development-value assessments and to ensure that appropriate adjustments are made. The PCE is prepared on an interest by-interest basis, enabling values to be used to measure provisions for interests on which a notice has been served, but where a claim or detailed valuation is not yet available.

Certain valuation assumptions for inactive cases are set at a portfolio level, including the proportion of counterparties who will opt to tax. Based on the rate of election for VAT observed in the 2020-21 actuals for commercial cases, the Group estimates that 14.5% of the inactive cases by value will opt to tax (2020-21: 14.5%). Additionally, because the PCE for inactive cases is based on 3Q2019 prices, the Group uplifts them to reflect market movements, by applying a blended rate of indexation to reflect the mix of property prices and locations.

For temporary possession claims, quantifying compensation for losses requires estimation of the revenues and expenditure that the landowner would otherwise have experienced. The cost of restoration depends on the scope of the works, which is negotiated with landowners, but ultimately determined by the Secretary of State.

1.20.3 Legal claims: classification

Legal claims are classified as contingent liabilities or provisions, valued, and presented as current or non-current provisions based on legal and other professional advice.

1.20.4 Measurement of industrial diseases provision

Obligations to compensate former British Rail employees for industrial diseases contracted during that employment are valued using a model developed by independent actuaries, based on the average cost of previous settlements over recent years and assumptions about the diseases' incidence and impact across different industries over time. Actuarial forecasts reflect a bell curve of claims arising over time; given the ages of those at risk and the differing latency periods of specific diseases, the incidence of claims should peak over different timescales. Therefore, judgement is required in assessing how many years of past claims should be reflected in the average, to avoid an over- or under-estimate. During 2020-21, the Department reviewed the numbers of claims received over time and adjusted the number of years of past claims reflected in its estimates.

1.21 Grants payable

Grants payable are recognised when the event or activity that gives entitlement occurs. Where the recipient must provide a specified form of verification, to evidence compliance with the terms and conditions, any subsequent adjustments are recognised in the period when these conditions are fulfilled.

1.22 Taxation

1.22.1 Corporation Tax

Some Group members, most significantly, Network Rail make profits liable to corporation tax. The tax expense comprises current and deferred tax. The current tax liability is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes where these will result in adverse or favourable tax effects on the realisation of assets or settlement of liabilities.

Deferred tax is calculated using the tax rates expected to be applied to temporary differences when they reverse, based on legislation that has been enacted or substantively enacted by the reporting date. Assets are recognised on all deductible temporary differences to the extent that it is probable that there will be taxable profits available against which the temporary timing differences can be utilised. Liabilities are recognised for all taxable temporary differences. Revaluing the Railway Network to DRC is not considered to create a taxable temporary difference, because it does not reflect conditions which are expected to produce taxable amounts when determining future years' taxable profits.

Deferred tax is charged or credited in Operating Expenditure unless it relates to items charged or credited directly to Other Comprehensive Net Expenditure, when the deferred tax is also recognised in Other Comprehensive Net Expenditure.

1.22.2 Value Added Tax

The VAT rules for central government bodies differ from those for companies. Government bodies may recover VAT on specified goods and services only. Irrecoverable VAT is classified as a levy within the scope of IFRIC 21 and is recognised at the point specified in legislation, typically when the goods or services are received.

It is presented as follows:

- Where the recognition point specified in legislation is the point when the goods or services are received, it is charged to the relevant expenditure category and accruals balance;
- Where another standard requires it to be included in the cost of an asset, such as inventories or property, plant and equipment, it is recognised on that basis;

- Otherwise, it is presented as separate expenditure line and accruals balance. This predominantly relates to VAT on leases.

Income and expenditure is otherwise shown net of VAT.

Other types of income and expenditure, including grants or rail passenger service contracts, are outside the scope of VAT.

1.23 Rail passenger services contracts

During the two years reflected in these statements, three different contractual mechanisms have been used to deliver rail passenger services:

- Rail Emergency Measures Agreements (“EMAs”) (from the beginning of March 2020 until September 2020);
- Rail Emergency Recovery Measures Agreements (“ERMAs”) (from September 2020) and
- National Rail Contracts (“NRCs”) (starting from May 2021 but with different start dates for each operator), which respond to the recommendations in the Williams Shapps Review.

This note also summarises the franchising model, which ceased in March 2020 and will not resume, to provide context for the termination of the franchise agreements effected by the emergency recovery measures agreements.

Some passenger rail service contracts are fulfilled by subsidiaries of DOHL, as operators of last resort. The contractual basis for these services has not been formally amended.

1.23.1 Franchising

Under franchising agreements, train operating companies (also described as "franchisees") received the right to deliver passenger services on part of the Railway Network for a period of time. Franchisees collected revenues, predominantly from passenger ticketing, which offset their costs. As some contracts were more profitable than others, the Department and the franchisee negotiated either a subsidy (received from the Group) or a premium (paid to the Group) through the procurement process. All franchisees therefore had the opportunity to generate profits.

The amount of premium or subsidy for a financial year was adjusted to reflect the franchisee's performance and agreed events during that year, using mechanisms set out in the franchise agreement: for example, to reflect cancellations or delays. There were also lower-value adjustments to reflect changes in indices such as Gross Domestic Product, underlying costs, and profit-sharing mechanisms. Cash transactions between the Department and the franchisee were made on a net basis. A net premium franchise could become a net subsidy franchise, and vice versa. As franchisees were exposed to commercial risk, an individual franchisee could suffer losses potentially leading to financial default and termination.

Premia and subsidies were recognised in the financial statements on the same pattern as the cash transactions. This was considered to best reflect the Department's performance in transferring to the franchisees the rights to operate the franchise. As the cash transactions reflected the franchisees' performance, it aligned with the value of the service received and consumed. The impact of linkages to franchisee profits, or to Gross Domestic Product was deemed immaterial.

The franchise premium or subsidy method of funding passenger services was suspended on 1 March 2020 through the implementation of EMAs and terminated under the ERMAs. This will be described more fully in Note 1.23.2 and 1.23.3.

1.23.2 Rail Emergency Measures Agreements

The Rail Emergency Measures Agreements ("EMAs") were implemented from 1 March to 20 September 2020. They responded to the change in operating requirements necessitated by COVID-19. They amended the pre-existing rail franchise agreements (described in Note 1.23.1) and were structured to prevent any financial overlap between the EMAs and those franchise agreements. Train operating companies ran train services in accordance with the contract where prudent, to permit social distancing, and provided additional services, such as more frequent cleaning to protect service users, balanced by a duty to control costs. In return, the Department covered their net costs, with additional payments or repayments to enable them to maintain adequate cash balances, until the end of the EMAs and, at that point, paid a management fee. A performance fee was implemented to reflect the quality of services delivered from 1 April 2020.

As the services provided under the EMAs were distinct from those provided under the franchising agreements, and were priced on a stand-alone basis, EMAs were accounted for as separate contracts These financial statements reflect expenditure for the prior year consisting of six months' net costs and management fees, and the performance fee April to September 2020.

1.23.3 Rail Emergency Recovery Measures Agreements

The Rail Emergency Measures Recovery Agreements ("ERMAs") were implemented in September 2020. Train operating companies had the alternative of resuming the franchise agreement, albeit with the expectation of lower passenger revenues. Companies accepting the ERMA would potentially be required to make a termination payment, which is discussed below.

Under the ERMA, payments continue to be calculated on a reimbursement basis, so the Department retains revenue and expenditure risks. ERMAs also include a management fee and performance fee. However, performance criteria are more closely defined, and the total management fee and performance fee will not exceed 1.5% of the cost base. The ERMAs are priced on a stand-alone basis from the EMAs and the franchise agreements, and so are accounted for as separate contracts. Given the pricing structure, the calculation of expenditure under the Agreements is not considered to be subject to material estimation uncertainty.

Franchise termination payments

The ERMAs also contain a mechanism for terminating the previous franchise on an equitable basis. Some companies are required to make a termination payment to the Department. The payment reflects losses that, but for the EMA and ERMA, they would have made had the pre-existing franchise run its course without the COVID-19 outbreak. It ensures that, by the end of rail franchising, these companies will not receive unapproved State Aid. Transition to the ERMA was therefore conditional on both the Department and the company agreeing the amount of any termination payment; due to financial support measures provided by the companies' shareholders, this amount will be substantially recoverable even if the ERMA is subsequently terminated.

The Department became contractually entitled to receive these amounts when the ERMA was agreed and had no further performance obligations. It therefore recognised financial assets, measured initially at fair value and thereafter at fair value through profit or loss (operating expenditure) because the cash amounts do not consist solely of principal and interest.

1.23.4 National Rail Contracts

ERMAs end when the Department and the train operating company agree a successor National Rail Contract (NRC). The train operating company receives a fee that includes reimbursement of net costs, plus fixed and performance-based elements. The operator is potentially exposed to financial loss if it operates inefficiently.

The NRCs operated initially under COVID conditions, and performance targets were adjusted to reflect the emergence from lockdown. Operators are incentivised to minimise cancellations, delays and short formations, and to co-operate with other stakeholders, including other operators, to increase passenger satisfaction. The business plan can be amended as conditions change.

NRCs are priced on a stand-alone basis from the preceding agreements, and so are accounted for as separate contracts. Given the pricing structure, the calculation of expenditure is not considered to be subject to material estimation uncertainty.

1.24 Recognition of revenues from contracts with customers

The Group earns material revenues from providing services, including access to the railway network and river crossings, policing services, and the UK's participation in Eurocontrol.

IFRS 15 (as interpreted by the FReM) also covers revenues arising from; legislation and regulations which enable the Group to obtain revenue that is not classified as taxation by the ONS; and taxation, fines and penalties that the Group is permitted to retain by statute or Treasury consent.

Franchised network access and freight revenue is recognised each period in the financial year. Performance obligations are based upon fixed and variable volume access to the railway during the relevant year. Performance obligations are satisfied by providing track access over time under agreements with the train operating companies. No significant judgments are required to determine whether performance obligations have been satisfied. The input method is applied based on time lapsed.

River crossings charges comprise two types: charges for using the crossing and penalties for non-payment. The former are recognised when the vehicle uses the crossing; the latter when the payment deadline passes, when the penalty notice is raised. Measurement reflects the probability that the consideration will be collected, based on experience of non-payment.

Fees for driver services, such as practical and theory tests, and vehicle services, such as heavy vehicle testing, are recognised on completion of the tests. MOT revenues are recognised when authorised examiners purchase test “slots”, being the opportunity to deliver the test, issue the certificate and book the results, because DVSA has no further obligation, even if the slot is not used.

Income from the sale of registration marks is recognised on receipt for fixed-price sales and on the fall of the auctioneer's hammer for auction sales. Payment is immediate for online transactions and within five days of auction. Uncompleted sales are provided for after 90 days and written off after twelve months, when the related marks become available for resale. Fee income from the assignment, transfer and retention of cherished marks and from statutory services is recognised on receipt, when the transaction is processed, which is the point when the customer obtains control of the right to display the mark.

1.24.1 Accounting estimates and sources of estimation uncertainty

Track access contracts specify targets for railway network availability, and mechanisms for compensating train operators (including open access operators) when those targets are not met. This may result in variable consideration.

1.25 Operating segments

Note 2 discloses the Group's net expenditure by operating segments. The reportable segments are the Director General-led groups, reflecting the organisation structure, because financial information is reported to the Executive Committee and the Board on this basis.

1.26 Prior period adjustments

Items are restated retrospectively to:

- correct a material prior year error;
- apply a material change in accounting policy; or
- reflect some types of change in consolidation boundaries.

If it is impracticable to determine the period-specific or cumulative effects of a policy change or error, re-statements are made to the earliest practical period. The following two scenarios have been reflected in these accounts.

Where a material prior year error is identified, it is corrected by restating the comparative amounts for the prior years presented in which the error occurred, or, where the error occurred before the earliest period presented, by restating the opening balances for the earliest prior year presented.

Changes in consolidation boundaries include: transfers of functions between government departments and retrospective reclassifications by the ONS (reclassifying a body to, or from, central government with effect from a date before the start of the reporting period). Transfers of functions are reflected by recognising or derecognising the related assets and liabilities from the start of the comparative period. Retrospective reclassifications will result in changes to the Statutory Instrument list of entities required to be consolidated for a year, subject to HM Treasury's agreement. The Group will start or cease consolidating the entity in that year's financial statements, but the effective date of consolidation will be that specified by ONS.

These financial statements contain two sets of prior period adjustments. The first reflects the reclassification of the Driver and Vehicle Standards Agency as an Executive Agency. The second presents the Department's investments in entities classified to the rest of the world sector using equity accounting, following HM Treasury confirmation of the most suitable interpretation of the FREM adaptation of IAS 28. In this case the impact on the balance sheet as at 31 March 2021 is immaterial, but the restatement has been made to ensure comparability.

DVSA's balances and transactions have been consolidated with effect from 1 April 2020. The Group's investment in DVSA's public dividend capital, which was redeemed on 1 April 2021, has been derecognised.

The investments have been reclassified and their carrying values adjusted. Changes in valuation, recognised in the Financial Assets at Fair Value through Other comprehensive income reserve, have been replaced by the investee's profit or loss for the year, its other comprehensive income and other changes (such as additional investments and dividends received). The profit or loss is presented in Note 4.

1.27 Adoption of new and revised standards

IFRS 17 Insurance Contracts becomes effective for accounting periods commencing on, or after, 1 January 2023 and should be included in the 2023-24 FReM. It requires a discounted cash flow approach to measuring insurance liabilities. The Group is monitoring its contingent liabilities and similar arrangements to identify any that meet the definition of insurance contracts. It will continue to treat financial guarantee contracts as financial instruments rather than insurance contracts.

The Group does not expect any other new, or revised standard, or interpretation to have a material impact.

2. Statement of Operating Costs by Operating Segment

The core Department reports to the Board in accordance with its organisational structure and this is reflected in the segmental analysis. The core Department's operations are organised into Director General-led groups, with some functions reporting directly to the Permanent Secretaries. The main reportable segments combine outturn information of the core Department and its arm's length bodies for each segment. No operating segments have been aggregated. The groups and associated delivery bodies are described in more detail in the Directors' Report.

The reconfiguration of the Rail Group and the High Speed and Major Projects Group into the Rail Strategy and Services Group, the Rail Infrastructure Group and the High Speed Rail Group formally came into effect for accountability purposes from April 2021. In addition, the Decarbonisation, Technology and Strategy Group was created during the year. Accordingly, the revised departmental structure is reflected in this disclosure of Operating Segments, with re-statement of the comparative information.

Rail Strategy and Services

The key activities of this group are: support for passenger rail services; developing the strategy and policy for rail; workforce and pensions and the rail transformation programme.

High Speed

This group supports the development of the HS2 programme, including Euston, rolling stock and programme integration.

Rail Infrastructure

This group is responsible for oversight of Network Rail's enhancement portfolio; the Northern Powerhouse Rail project , including the Trans-Pennine Route upgrade; the Department's joint work with Transport for London on the development of Crossrail 2; oversight of the East West Rail Company that plans to reinstate a direct rail link between Oxford and Cambridge; InterCity and the Integrated Rail Plan that scopes and phases major rail projects in the Midlands and the North.

Aviation, Maritime and Security

Key activities of this group are aviation policy including airports, environment, consumer protection and security and safety; maritime policy including infrastructure, environment, security and trade; security and safety of the transport network; Accident Investigation Branches; and sponsorship of relevant arm's-length bodies including the CAA, Air Travel Trust Fund, Maritime and Coastguard Agency and the General Lighthouse Authorities.

Roads, Places and Environment

This group is responsible for the Department's support towards local transport, driving and roads related activities and leads on our environment strategy and future mobility. It oversees the agencies that deliver services relating to driving and vehicles. The group also includes sponsorship of National Highways and sub-national transport bodies, as well as providing COVID-19 support funding for bus and light rail operators and for Transport for London.

Corporate Delivery

This group supports the activities of the other groups. It leads on: finance; human resources; procurement; communications; corporate finance; property; assurance; digital, sponsorship of the Department's legal advisors and the Secretary of State's shareholding interests in arm's length bodies.

Decarbonisation, Technology and Strategy

The Decarbonisation, Technology & Strategy Group was established during the year. It covers cross-cutting themes including reducing environmental impact, growing and levelling up the economy and increasing our global impact.

								2021-22
	Rail Strategy and Services	**Rail Infra-structure**	**Roads, Places and Environ-ment**	**Decarb-onisation, Technology and Strategy**	**Aviation, Maritime, Security**	**Corporate Delivery**	**High Speed**	**Total**
	£m	£m	£m	£m	£m	£m	£m	£m
Gross	6,954	13,168	9,751	624	920	434	233	32,084
Income	(454)	(4,333)	(1,353)	(4)	(136)	(44)	0	(6,324)
Net Expenditure	6,500	8,835	8,398	620	784	**390**	**233**	**25,760**

								2020-21 (restated)
	Rail Strategy and Services	Rail Infra-structure	Roads, Places and Environ-ment	Decarb-onisation, Technology and Strategy	Aviation, Maritime, Security	Corporate Delivery	High Speed	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Gross	9,333	11,780	11,086	587	861	353	129	34,129
Income	(658)	(4,123)	(903)	(5)	(118)	(47)	–	(5,854)
Net Expenditure	8,675	7,657	10,183	582	743	306	129	28,275

The Board considers capital spending and liabilities by monitoring outturn against the budgetary control totals shown in the Statement of Outturn against Parliamentary Supply. Consequently, the Department does not report asset and liability balances on an IFRS-basis to the Board.

3. Expenditure

3.1 Staff costs

Information on staff numbers, exit packages and other relevant disclosures (including Ministers) is included in the People and Remuneration Report in the Accountability Report.

			2021-22	2020-21 (re-stated)
	Permanently employed staff	Other Staff	Total	Total
	£m	£m	£m	£m
Wages and salaries	3,440	58	3,498	3,416
Social security costs	380		380	355
Other pension costs	351	1	352	331
Sub Total	**4,171**	**59**	**4,230**	4,102
Less recoveries in respect of outward secondments	(2)		(2)	(2)
Less capitalised staff costs	(1,239)	(19)	(1,258)	(1,243)
Total Net Costs	**2,930**	**40**	**2,970**	2,857
Of the total:				
Core Department & Agencies	713	24	737	705
Departmental Group	2,930	40	2,970	2,857

Other staff includes Ministers, who were paid £272k (2020-21: £274k), as well as contractors.

3.2 Purchase of goods and services

	2021-22		2020-21 (re-stated)	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Cash items:				
Support for passenger rail services	4,810	4,810	8,570	8,570
Rail network maintenance		1,408		1,347
Accommodation	87	557	84	616
Road network current maintenance		545		542
Professional services	121	400	58	301
Support services	214	391	181	356
PFI service charges	20	335	21	344
Eurotunnel payments	140	140	114	114
Information & communications technology	195	454	144	401
Consultancy	92	195	86	176
Search & rescue helicopters	167	167	162	162
PFI interest charges	1	96	1	102
Research and development expenditure	90	105	44	57
Travel and subsistence	15	32	7	20
Publicity	13	34	34	47
Auditors' remuneration and expenses		4		4
Rental costs	9	19	4	14
Other costs	146	536	200	560
Non-cash items:				
Auditors' remuneration and expenses	1	1	1	1
	6,121	**10,229**	9,711	13,734

The continued high level of spending in Support for Passenger Rail Services is driven by the Department's support of rail operators in England following the onset of the pandemic. For the twelve rail franchise operators, this support took the form of Emergency Measures Agreements (EMAs) between March 2020 and September 2020, and Emergency Recovery Measures Agreements (ERMAs) since September 2020. Some operators have now entered into National Rail Contracts at the end of their ERMAs. Rail services in England operated by the Secretary of State were not within the scope of these EMA contracts, but their costs are included in the figure above. Subsidies to rail operators in 2021-22 included £141m management and performance fees payable to the operators. Other costs within Support for passenger rail services include funding paid to devolved rail bodies.

Auditors remuneration is disclosed in the accountability report.

3.3 Grants

	2021-22		2020-21 (re-stated)	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Local roads	1,936	1,936	2,690	2,690
Subsidies for Transport for London	1,720	1,720	2,457	2,457
Other local transport	1,377	1,377	532	532
Subsidies to the bus sector	750	750	1,598	1,598
Low emission motoring	583	583	534	534
Cycling and walking	285	285	314	314
Local and regional rail initiatives	201	203	196	196
Maritime	147	147	66	66
Aviation	135	135	134	134
Subsidies to the light rail sector	84	84	143	143
Road safety, standards and services	35	35	23	23
Other	25	25	18	21
Grant in Aid and other grants to ALBs	17,003	–	15,429	–
Total	**24,281**	**7,280**	24,134	8,708
of which:				
Capital	5,485	3,956	5,211	3,798
Current	4,681	3,324	6,382	4,910
Grant in Aid	14,115	–	12,541	–
Total	**24,281**	**7,280**	24,134	8,708

The reduction in grants towards Local Roads is due to the one-off fiscal stimulus award to Local Authorities for potholes and other local road improvements in 2020-21.

The reduction in grants to Transport for London is driven by the improvement in TfL's farebox revenues during 2021-22, requiring lower exceptional funding from the Department to support essential transport services.

The reduction in grants to bus operators is due to the improvement in bus usage during 2021-22, requiring lower funding from the Department to support essential bus services.

The increase in Other Local Transport is due to the increase in grant spending from the Transforming Cities Fund.

The increase in Grant in Aid is driven primarily by grants to HS2 Ltd towards the company's construction costs, due to increased activity on Phase 1.

3.4 Depreciation and impairment charges

			2021-22		2020-21 (re-stated)
		Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	Note	£m	£m	£m	£m
Non-cash items:					
Depreciation	5	131	7,471	119	6,917
Depreciation on right-of-use assets	7.1	66	195	73	195
Amortisation	6	26	40	21	32
Impairment of PPE and assets held for sale		1	311	17	92
Downward/(upward) revaluation of PPE & Investment Properties		(5)	(35)	(7)	(2)
		219	**7,982**	223	7,234

3.5 Provision expenses

		2021-22		2020-21	
		Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	Note	£m	£m	£m	£m
Non-cash items:					
Provisions (released)/provided in year	22	10	21	(49)	(17)
Unwinding of discount on provisions	22	4	4	5	5
Credit loss allowance			(2)		25
		14	**23**	(44)	13

3.6 Other operating expenditure

	2021-22		2020-21 (re-stated)	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Cash items:				
Eurocontrol payments	46	46	42	42
Non-cash items:				
Fair value loss/(gain) on fair value hedges				4
Net increase/(decrease) in fair value of non-hedge accounted debt				(30)
Loss/(gain) on derivatives not hedge accounted		(157)		(128)
Net ineffectiveness arising from cash flow hedge accounting				(20)
Loss/(gain) on disposal of PPE	(8)	55		28
Pension scheme costs	22	458	30	295
Corporation tax (credit)/charge		925		276
Impairment/(reversal in impairment) of inventory	(20)	(20)	9	9
Loss/(gain) on remeasurement of right of use assets	1	(2)		
	41	**1,305**	81	476

The increase in the non-cash corporation tax charge reflects the impact on the deferred tax liability of the prospective change in corporation tax rate, which has been substantially enacted, see note 21.

3.7 Finance expenses

Finance expenses include interest accruing on borrowings, leases and the Financial Indemnity Mechanism (FIM).

			2021-22		2020-21 (re-stated)
		Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
		£m	£m	£m	£m
Cash items:					
Finance expense		225	797	204	852
Non-cash items:					
Finance expense		1,182	1,496	63	256
		1,407	**2,293**	267	1,108

Non-cash interest expense for the Group increased by £1,246m. This reflects RPI accretion on Network Rail’s index-linked debt at c.7.3% compared to the opening balance, compared to c.1.38% in 2020-21. Note 29 describes the Group’s exposure to inflation risk.

The core Department incurred a £1,182m non-cash interest charge in 2021-22 (2020-21: £63m). The greater part of the increase reflects changes in the value of the Financial Guarantee Contract in Note 20. The increase in finance expense (non-cash) is driven by a reduction in the discount rate specified by HMT from 3.7% to 1.9%, which produced a net increase of £787m and a further net increase of £332m driven by RPI accretion on the index-linked portion of the debt covered by the FIM described above. As these amounts are intragroup, they are eliminated in the Departmental Group.

4. Income

			2021-22		2020-21 (re-stated)
		Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	Note	£m	£m	£m	£m
Cash Items					
Sale of good and services					
Franchised track access income			(2,767)		(2,817)
Rental income		(2)	(190)		(87)
River crossings charges		(149)	(149)	(115)	(116)
Freight income			(54)		(45)
Other Income					
Income from Train Operating Companies		(24)	(24)		
Rail franchise settlements				(262)	(262)
Income from rail policing services			(226)		(215)
Fees & charges to external customers		(1,036)	(1,229)	(777)	(921)
Transport for Scotland – SLA Receipt			(671)		(632)
Eurotunnel Recharge		(124)	(124)	(74)	(74)
Capital grant income received			(260)		(226)
Eurocontrol Receipts		(42)	(42)	(24)	(24)
Fees & charges to other public bodies		(140)	(141)	(34)	(34)
Claims for damages to road network			(19)		(15)
EU income		(1)	(1)	(2)	(2)
Grant income received		(3)	(3)	(32)	(33)
Other income		(42)	(337)	(30)	(286)
Sub Total – Cash items		**(1,563)**	**(6,237)**	(1,350)	(5,789)

		2021-22			2020-21 (re-stated)
		Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	Note	£m	£m	£m	£m
Non cash items					
Amortisation of deferred income		(323)	(54)	(320)	(55)
Share of (profit) / loss of investments measured using equity accounting	14	14	2	56	47
Sub Total – Non cash items		**(309)**	**(52)**	(264)	(8)
Operating Income		**(1,872)**	**(6,289)**	(1,614)	(5,797)
Share of non-operating (profit) / loss of investments measured using equity accounting	14	1	1		
Interest receivable		(648)	(30)	(677)	(40)
Dividends receivable		(31)	(4)	(18)	(18)
Total income		**(2,550)**	**(6,322)**	(2,309)	(5,855)

Income from Train Operating Companies reduced to £nil in 2020-21, as they were subsidised by the Department under the EMAs and ERMAs since March 2020. £24m recognised in 2021-22 represents a one-off fine, as disclosed in SOPS note 4.1.

Rail franchise settlements represent amounts payable by train operating companies to terminate their franchise agreements with the Department.

5. Property, Plant and Equipment

							2021-22
	Infrastructure assets			Assets under Construction	Land, buildings & other		
	Rail Network	Strategic Road Network	HS1	AUC including HS2	Land and buildings	Other assets	Total
	£m	£m	£m	£m	£m	£m	£m
Cost or valuation							
At 1 April 2021	506,009	151,683	3,547	12,560	1,428	683	675,910
Detrunkings							
Additions	5,896	2,877		5,719	30	29	14,551
Adjustment of renewal and enhancement works in progress to Depreciated Replacement Cost	(1,887)	(1,426)					(3,313)
Write-down of capital additions							
Disposals	(28)	(86)			(40)	(49)	(203)
Impairments	(94)			(209)	(2)	(1)	(306)
Transfers							
Reclassifications	(11)	(16)		(262)	45	158	(86)
Revaluations (cost)	40,749	11,395		3	65	52	52,264
At 31 March 2022	**550,634**	**164,427**	**3,547**	**17,811**	**1,526**	**872**	**738,817**
Depreciation							
At 1 April 2021	(169,203)	(17,102)	(538)		(279)	(398)	(187,520)

							2021-22
	Infrastructure assets			Assets under Construction	Land, buildings & other		
	Rail Network	Strategic Road Network	HS1	AUC including HS2	Land and buildings	Other assets	Total
	£m	£m	£m	£m	£m	£m	£m
Prior year adjustments							
Charged in year	(6,307)	(1,026)	(45)		(30)	(63)	(7,471)
Disposals		16			8	47	71
Impairments							
Transfers							
Reclassifications							
Revaluations (depreciation)	(9,580)	(358)			1	(28)	(9,965)
At 31 March 2022	**(185,090)**	**(18,470)**	**(583)**		**(300)**	**(442)**	**(204,885)**
Carrying amount at 31 March 2022	**365,544**	**145,957**	**2,964**	**17,811**	**1,226**	**430**	**533,932**
Carrying amount at 31 March 2021	336,806	134,581	3,009	12,560	1,149	285	488,390
Asset financing:							
Owned	365,544	115,241	2,964	17,811	1,204	429	503,193
PFI & other service concession arrangements		30,716			22	1	30,739
Carrying amount at 31 March 2022	**365,544**	**145,957**	**2,964**	**17,811**	**1,226**	**430**	**533,932**
Ownership:							
Core Department		2,905	2,964	3,592	449	107	10,017
Agencies				32	226	69	327
Other designated bodies	365,544	143,052		14,187	551	254	523,588
Carrying amount at 31 March 2022	**365,544**	**145,957**	**2,964**	**17,811**	**1,226**	**430**	**533,932**

“Infrastructure assets” comprise the railway in Great Britain and the strategic road network in England. These are each treated as single assets for accounting purposes, due to the integrated nature of these networks. High Speed 1 is accounted for as a distinct asset, reflecting the service concession agreement between the Department and HS1 Ltd.

“Assets under construction” comprise assets which are not yet operationally live. This category includes: construction works undertaken to-date by HS2 Ltd, land and property acquired by the Core Department in support of HS2 construction, and other routine assets in the course of construction which are not yet complete. See Note 5.3.

“Land, buildings and other” comprise other items of Property, Plant and Equipment. These chiefly comprise operational land and buildings held by the Group in support of its activities.

							2020-21 (re-stated)
	Infrastructure assets			Assets under Construction	Land, buildings & other		
	Rail Network	Strategic Road Network	HS1 Infrastructure Asset	AUC including HS2	Land and buildings	Other assets	Total
	£m	£m	£m	£m	£m	£m	£m
Cost or valuation (restated)							
At 1 April 2020	497,218	146,401	3,547	8,975	1,394	686	658,221
Detrunkings							
Prior year adjustments							
Additions	5,670	3,327		3,690	61	30	12,778
Adjustment of renewal and enhancement works in progress to Depreciated Replacement Cost	(1,815)	(2,317)					(4,132)
Write-down of capital additions							
Disposals	(30)	(27)			(20)	(15)	(92)
Impairments				(71)	(85)	(1)	(157)
Transfers							
Reclassifications		(62)		(36)		(19)	(117)
Revaluations (cost)	4,966	4,361		2	78	2	9,409
At 31 March 2021	**506,009**	**151,683**	**3,547**	**12,560**	**1,428**	**683**	**675,910**
Depreciation (restated)							
At 1 April 2020	(164,940)	(17,852)	(492)		(343)	(373)	(184,000)
Detrunkings							
Prior year adjustments							
Charged in year	(5,772)	(1,014)	(46)		(36)	(49)	(6,917)
Disposals		9			9	14	32
Impairments					76		76

	2020-21 (re-stated)						
	Infrastructure assets			Assets under Construction	Land, buildings & other		
	Rail Network	Strategic Road Network	HS1 Infrastructure Asset	AUC including HS2	Land and buildings	Other assets	Total
	£m	£m	£m	£m	£m	£m	£m
Transfers							
Reclassifications					4	7	11
Revaluations (depreciation)	1,509	1,755			11	3	3,278
At 31 March 2021	**(169,203)**	**(17,102)**	**(538)**		**(279)**	**(398)**	**(187,520)**
Carrying amount at 31 March 2021	**336,806**	**134,581**	**3,009**	**12,560**	**1,149**	**285**	**488,390**
Carrying amount at 31 March 2020	332,278	128,549	3,055	8,975	1,051	313	474,221
Asset financing:							
Owned	336,806	109,296	3,009	12,560	1,127	284	463,082
Finance Leased							
PFI & other service concession arrangements		25,285			22	1	25,308
Carrying amount at 31 March 2021	**336,806**	**134,581**	**3,009**	**12,560**	**1,149**	**285**	**488,390**
Of the total:							
Core Department		2,799	3,009	3,271	428	15	9,522
Agencies				32	211	49	292
Other designated bodies	336,806	131,782		9,257	510	221	478,576
Carrying amount at 31 March 2021	**336,806**	**134,581**	**3,009**	**12,560**	**1,149**	**285**	**488,390**

5.1 Rail Network

In 2021-22 the overall increase in the value of the Railway Network by £36.0bn reflected in these accounts is driven by the following factors. Capital additions were £5.9bn. This was broadly offset by £6.4bn depreciation expense on the rail network. The total revaluation movement for 2021-22 was £36.5bn. The increase in valuation is primarily driven by the impact of inflation on replacement costs. This is partially offset by the downwards adjustment to depreciated replacement cost, which reflects the higher cost of building on a live network compared with a theoretical greenfield newbuild.

Details of the valuation adopted by the Department

The Railway Network was valued by Network Rail and Turner and Townsend (professional valuers) using data provided by Network Rail.

The key components of this valuation, associated remaining lives and depreciation charges are shown in the table below:

			2021-22
Type	Depreciated Replacement Cost	Remaining Life	Depreciation Charge
	£m	Years	£m
Asset Under Construction	2,174		
Structures	60,586	60	926
Earthworks	81,712	99	818
Telecoms	2,332	10	259
Operational property	28,500	34	868
Electrification, plant and signals	49,430	32	1,859

			2021-22
Type	Depreciated Replacement Cost	Remaining Life	Depreciation Charge
	£m	Years	£m
Track	33,112	18	1,577
Land	107,698		
TOTAL	**365,544**		**6,307**

Sensitivity analysis

The following sensitivity analysis reflects the sources of estimation uncertainty disclosed in Note 1.4.3, showing the impact of changes in assumptions at the reasonable boundaries of uncertainty. This analysis demonstrates that the valuation of the rail network is materially sensitive to these assumptions. As these assumptions function independently within the overall valuation, the scenarios described below are not mutually exclusive and so more than one of these scenarios could arise simultaneously.

Scenario 1

Shows the impact of increasing or decreasing the remaining asset lives of the components of the modern equivalent railway network by 10%.

Scenario 2

Shows the impact if the land compensation adjustment (normally 69%) were to increase or decrease by 10%; i.e. a compensation adjustment of 79% or 59% respectively.

Scenario 3

Shows the impact if the adjustment for building on a greenfield site rather than in an operational environment (normally 32%) were to increase or decrease by 10%, showing the impact of an adjustment at 42% and 22%. This adjustment applies only to costing rates built up using a methodology not already reflecting greenfield build.

Scenario 4

Shows the impact of an adjustment to the risk factor applied to the overall DRC valuations, currently 22%, by an increase or decrease of 10%, effectively showing risk factors of 32% and 12%.

Depreciated Replacement Cost

			2021-22
Type	Depreciated Replacement Cost (-)	Depreciated Replacement Cost	Depreciated Replacement Cost (+)
	£m	£m	£m
Base Case inc 22% risk		365,544	
Scenario 1	339,977		391,111
Scenario 2	359,179		371,909
Scenario 3	369,811		361,276
Scenario 4	344,707		386,381

Depreciation Charge

			2021-22
Type	Depreciation Charge (-)	Depreciation Charge	Depreciation Charge (+)
	£m	£m	£m
Base Case inc 22% risk		6,307	
Scenario 1	6,224		6,403
Scenario 2	6,307		6,307
Scenario 3	6,483		6,131
Scenario 4	5,793		6,821

5.2 Strategic Road Network (SRN)

The depreciation charge for the roads has two elements. The first is the value of renewals performed during the year, which is a proxy for the reduction in depreciated replacement cost. The second is that the condition of the road is compared to its carrying value (after adjusting for renewals) and any movement is taken to depreciation as a charge or credit depending on whether the condition has deteriorated or improved.

In 2021-22 the overall increase in the value of the Strategic Road Network by £11.4bn was driven by the following factors. National Highways invested in additions into the Strategic Road Network of £2.9bn in line with their capital investment program, offset by £1.0bn of depreciation reflecting the latest condition of the network. The overall revaluation movement on the network was £9.6bn, which included a 6.7% uplift in the National Highways Capital Enhancement Costs Index and an additional estimate based on ONS indices of unforecast movements on inflation for February and March 2022.

Valuation approach

The Strategic Road Network (SRN) is valued using a DRC approach. The valuation is principally built up using: an understanding of the extent of the network and its component parts on a modern equivalent basis; the application of a number of costing rates for those component parts, by type; and the condition of the network. Key components of the SRN, their valuations, asset lives and associated depreciation charges are included in the table below:

			2021-22
Type	**Depreciated Replacement Cost**	**Asset Life**	**Depreciation Charge**
	£m	**Years**	**£m**
Assets Under Construction	2,728	N/A	
Roads	86,942	N/A	562
Structures	39,849	20-120 years	327
Technology	1,505	15-20	137
Land	14,933	N/A	
	145,957		**1,026**

The Road Network is valued by Atkins (professional valuers) using data provided by National Highways.

Sensitivity analysis

The valuation relies on the accounting estimates and estimation uncertainties described in Note 1.4.3. The following analysis shows the impact on the balance recognised for the SRN (including the part under construction) of alternative estimates, at the boundary levels of estimation uncertainty.

- The impact of increasing or decreasing the costing rates by 10%, would increase or decrease the DRC valuation by £13,900m.
- The impact of increasing the National Highways Capital Enhancement Cost Index by 10 points would increase the DRC valuation by £11,500m.

5.3 Assets under Construction

Assets under construction are recorded in Note 5. The material balances included in assets under construction were:

	31 March 2022	31 March 2021 (restated)
	£m	£m
Preparatory work for construction of HS2 (core Department & HS2 Ltd elements)	17,454	12,134
Highways England (non SRN)	225	193
Sites in support of EU Transition	73	116
Other	59	117
Total	**17,811**	12,560

The material additions to assets under construction were:

	31 March 2022	31 March 2021 (restated)
	£m	£m
Preparatory work for construction of HS2 (core Department & HS2 Ltd elements)	5,426	3,341
Highways England (non SRN)	207	152
Sites in support of EU Transition	47	116
Other	39	81
Total	**5,719**	3,690

In 2020-21 the Department commenced acquisition and development of new sites in Kent to support the Government's EU Transition Plan and subsequent arrangements. Some of these sites went live in 2021-22 and were transferred to "Other Assets".

6. Intangible Assets

				2021-22
	Software Licences	Development Expenditure	Assets under Construction	Total
	£m	£m	£m	£m
Cost or valuation				
At 1 April 2021	302	433	41	776
Additions	19	16	47	82
Disposals	(11)		(3)	(14)
Impairments			(1)	(1)
Reclassifications	96	(32)	1	65
Revaluations (cost)		21		21
At 31 March 2022	**406**	**438**	**85**	**929**
Amortisation				
At 1 April 2021	(183)	(307)		(490)
Charged in year	(30)	(10)		(40)
Disposals	7			7
Transfers				
Reclassifications	(40)	40		
Revaluations (depreciation)				
At 31 March 2022	**(246)**	**(277)**		**(523)**
Carrying amount at 31 March 2022	**160**	**161**	**85**	**406**
Carrying amount at 31 March 2021	119	126	41	286
Asset financing:				
Owned	160	161	85	406
PFI & other service concession arrangements				
Carrying amount at 31 March 2022	**160**	**161**	**85**	**406**
Of the total:				
Core Department	9		60	69
Agencies	93	61	19	173
Other designated bodies	58	100	6	164
Carrying amount at 31 March 2022	**160**	**161**	**85**	**406**

Development costs for the Department's new ERP system have been reclassified from Property, Plant & Equipment to Intangible Assets.

	2020-21 (re-stated)			
	Software Licences	**Development Expenditure**	**Assets under Construction**	**Total**
	£m	£m	£m	£m
Cost or valuation				
At 1 April 2020	265	441	64	770
Additions	12		32	44
Disposals	(7)	(1)		(8)
Impairments	(2)		(14)	(16)
Transfers				
Reclassifications	33	13	(41)	5
Revaluations (cost)	1	(20)		(19)
At 31 March 2020	302	433	41	776
Amortisation				
At 1 April 2020	(165)	(300)		(465)
Charged in year	(24)	(8)		(32)
Disposals	7	1		8
Transfers				
Reclassifications				
Revaluations (depreciation)	(1)			(1)
At 31 March 2021	(183)	(307)		(490)
Carrying amount at 31 March 2021	119	126	41	286
Carrying amount at 31 March 2020	100	141	64	305
Asset financing:				
Owned	119	126	41	286
Finance Leased				
On Balance Sheet (SoFP) PFI & other service concession arrangements				
Carrying amount at 31 March 2021	**119**	**126**	**41**	**286**
Of the total:				
Core Department	12			12
Agencies	74	40	36	150
Other designated bodies	33	86	5	124
Carrying amount at 31 March 2021	**119**	**126**	**41**	**286**

7. Leases

The Group's lease contracts comprise leases of operational land and buildings, plant and machinery and motor vehicles. Most are individually insignificant. Three elements, however, are significant in their own right:

- The Core Department's most significant lease relates to its London headquarters building: this lease commenced in December 2018 for a term of twenty-five years with no extension options. Rentals increase annually in line with the consumer price index, subject to a cap and floor. The value of the asset as at 31 March 2022 was £69m (2021: £73m).
- MCA provides UK-wide services from ten bases operating under the UK Search and Rescue Helicopter Service contract. This contract also includes non-lease components. The value of the right of use asset as at 31 March 2022 was £148m (2021: £196m).
- Network Rail holds £216m of property leases and £208m of other leases (2021: £204m and £177m respectively).

7.1 Right-of-use lease assets

						2021-22
	Land and buildings	Other assets	Core & Agencies Total	Land and buildings	Other assets	Group Total
	£m	£m	£m	£m	£m	£m
Cost or valuation						
At 1 April 2021	246	299	545	421	309	1,275
Additions	12	4	16	48	91	155
Impairments	(1)		(1)		(1)	(2)
Transfers						
Reclassifications	(2)		(2)	1		(1)
Revaluations (cost)	6		6		(3)	3
Derecognition		(14)	(14)	1		(13)
Remeasurement	(6)	3	(3)	28	2	27
At 31 March 2022	255	292	547	499	398	1,444
Depreciation						
At 1 April 2021	(34)	(95)	(129)	(119)	(103)	(351)
Recognition						
Charged in year	(19)	(47)	(66)	(65)	(64)	(195)
Transfers						
Reclassifications						
Revaluations (depreciation)					2	2
De-recognition		7	7			7
At 31 March 2022	(53)	(135)	(188)	(184)	(165)	(537)
Carrying amount at 31 March 2022	202	157	359	315	233	907

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						2020-21
	Land and buildings	Other assets	Core & Agencies Total	Land and buildings	Other assets	Group Total
	£m	£m	£m	£m	£m	£m
Cost or valuation (restated)						
At 1 April 2020	246	296	542	410	257	1,209
Reclassifications						
Additions	3	4	7	39	59	105
Impairments					(1)	(1)
Revaluations (cost)	2		2		(3)	(1)
Derecognition	(7)	(1)	(8)	(8)		(16)
Remeasurement	2		2	(20)	(3)	(21)
At 31 March 2021	246	299	545	421	309	1,275
Depreciation (restated)						
At 1 April 2020	(13)	(46)	(59)	(56)	(46)	(161)
Charged in year	(23)	(49)	(72)	(63)	(60)	(195)
Revaluations (depreciation)					3	3
De-recognition	2		2			2
At 31 March 2021	(34)	(95)	(129)	(119)	(103)	(351)
Carrying amount at 31 March 2021	212	204	416	302	206	924

7.2 Lease liabilities

Leases are recognised within Note 19, Borrowings.

A maturity analysis of contractual undiscounted cash flows relating to lease liabilities is given below. The cash flows and balances are presented net of irrecoverable VAT.

			2021-22		2020-21 (restated)
		Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
		£m	£m	£m	£m
Amounts falling due:					
Not later than one year		(76)	(217)	(80)	(209)
Later than one year and not later than five years		(217)	(492)	(267)	(541)
Later than five years		(339)	(505)	(356)	(503)
		(632)	(1,214)	(703)	(1,253)
Less: Unaccrued interest		211	288	224	300
Balance as at 31 March		**(421)**	**(926)**	(479)	(953)
Current		(70)	(216)	(71)	(195)
Non-current		(351)	(710)	(408)	(758)
		(421)	**(926)**	(479)	(953)

Amounts recognised in the Statement of Comprehensive Net Expenditure

			2021-22		2020-21 (restated)
		Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
		£m	£m	£m	£m
Depreciation		66	195	72	194
Interest expense		15	28	23	36
Low value and short term leases		1	6	1	5
		82	**229**	96	235

Amounts recognised in the Statement of Cash Flows

			2021-22		2020-21 (restated)
		Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
		£m	£m	£m	£m
Interest expense		15	28	23	36
Repayments of principal on leases		64	208	70	207
		79	**236**	93	243

Group as a lessor

Network Rail has material amounts receivable under leases which are disclosed in the table below. Other amounts receivable are not material to the Group and therefore not included.

	31 March 2022	31 March 2021
	£m	£m
Within 1 year	429	426
Between 1 and 2 years	346	342
Between 2 and 5 years	678	685
After 5 years	1,681	2,027
Total	**3,134**	**3,480**

8. Investment Properties

		£m
Balance at 1 April 2020		227
Additions		6
Disposals		(11)
Reclassifications		(4)
Revaluations (cost)		(5)
Balance at 31 March 2021		213
Balance at 1 April 2021		213
Disposals		(37)
Reclassifications		3
Revaluations (cost)		32
Balance at 31 March 2022		**211**

All material investment properties are controlled by Network Rail. The rental income earned from investment properties amounted to £13m (2020-21: £10m). Direct operating expenses incurred on the properties during the year amounted to £3m (2020-21: £3m). The properties are let on a tenant repairing basis. The maintenance obligations are limited to common areas and vacant property units.

9. Assets Held for Sale

	Core Department & Agencies	Departmental Group
	£m	£m
Cost or Valuation		
Balance at 1 April 2020	3	39
Additions		
Disposals		(4)
Impairments		(1)
Reclassifications	7	106
Revaluations (cost)		
Balance at 31 March 2021 (Restated)	10	140
Balance at 1 April 2021	**10**	**140**
Additions	1	2
Disposals	(7)	(103)
Impairments		(4)
Reclassifications		16
Revaluations (cost)	1	1
Balance at 31 March 2022	**5**	**52**

Disposals include Train Fleet (2019) Ltd's sale of rolling stock during the year (93m).

10. Commitments

		2021-22		2020-21	
		Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
Commitment Type	Note	£m	£m	£m	£m
Capital commitments	10.1	34	6,709	56	6,175
Capital element of PFI commitments	10.2	10	1,275	12	1,363
Other financial commitments	10.3	17,346	535	23,796	962
Total		**17,390**	**8,519**	23,864	8,500

10.1 Capital commitments

Contracted and approved commitments at 31 March not otherwise included in these financial statements are nil.

		2021-22		2020-21	
		Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
		£m	£m	£m	£m
Property, plant and equipment		27	6,702	55	6,173
Intangible assets		7	7	1	2
		34	**6,709**	56	6,175

10.2 Commitments under PFI and other service concession arrangements

National Highways and DVLA have obligations under 'on balance sheet' PFI contracts. These arrangements fall within the scope of IFRIC 12 Service Concession Arrangements. Consequently, a PFI liability has been created to reflect the work capitalised. This liability is reduced over the life of the contract as payments are made. In accordance with FReM requirements, the interest element of the unitary charge relating to the assets capitalised has been calculated using the actuarial method.

National Highways has 11 PFI contracts for the design, build, financing and operation of sections of the strategic road network. The 'on balance sheet' capital element as at 31 March 2022 was £1,266m (2021: £1,352m). Lease charge commitments under these contracts comprise this capital element, future interest charges of £820m (2021:

£915m) and future service charges of £6,699m (2021: £7,248m).

The most significant PFI contract is the 30-year M25 London Orbital Motorway contract that commenced in 2010, which requires the contractor to: operate, maintain; renew, reconstruct, repair and reinstate the road facilities within the designated area. For the M25 contract specifically, the 'on balance sheet' capital element as at 31 March 2022 was £781m (2021: £803m). Commitments under this contract comprise this capital element; future interest charges of £670m (2021: £733m); and future service charges of £5,557m (2021: £5,990m).

Barring legal changes, government sequester or force majeure, all National Highways PFI contracts will terminate automatically at the end of the contractual term. Upon cessation PFI contract assets will be returned to National Highways in an as new condition, ensuring no cost to company in returning the road to a serviceable standard.

PFI commitments in the Core Department & Agencies column relate to DVLA. DVLA entered into a 20-year service concession agreement with Telereal Trillium in 2005, to provide property outsourcing solutions, including: buildings management, maintenance and services. Revenue expenditure is recorded as a service charge in the Statement of Comprehensive Net Expenditure. The liability as at 31 March 2022 was £9.6m (2021: £12.5m).

The future total imputed charges under 'on balance sheet' PFIs to which the Department is committed are given in the table below, analysed according to the period in which the commitment expires.

Imputed obligations under 'on balance sheet' PFI contracts comprise:

		2021-22		2020-21	
		Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
		£m	£m	£m	£m
Rentals due:					
Not later than one year		3	186	3	185
Later than one year and not later than five years		8	672	10	738
Later than five years			1,238		1,357
		11	2,096	13	2,280
Less: interest element		(1)	(821)	(1)	(917)
		10	**1,275**	12	1,363

The capital element under on balance sheet PFI contracts comprises:

		2021-22		2020-21	
		Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
		£m	£m	£m	£m
Not later than one year		3	95	3	89
Later than one year and not later than five years		7	375	9	414
Later than five years			805		860
		10	**1,275**	12	1,363

The interest element under on balance sheet PFI contracts comprises:

		2021-22		2020-21	
		Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
		£m	£m	£m	£m
Not later than one year			91	1	96
Later than one year and not later than five years		1	297	1	324
Later than five years			433		497
		1	**821**	2	917

Future charges to the Statement of Comprehensive Net Expenditure

		2021-22		2020-21	
		Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
		£m	£m	£m	£m
Not later than one year		23	396	22	377
Later than one year and not later than five years		50	1,695	67	1,752
Later than five years			4,680		5,207
		73	**6,771**	89	7,336

10.3 Other financial commitments

The Departmental Group has entered into non-cancellable contracts (which are not leases, PFI contracts or other service concession arrangements). The payments to which the Group is committed and which have not been provided for in these accounts, are as follows:

		31 March 2022			31 March 2021
		Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
		£m	£m	£m	£m
Not later than one year		9,930	469	7,830	860
Later than one year and not later than five years		7,416	66	15,966	102
		17,346	**535**	23,796	962

Of which:

Train Operating Companies for the term of their ERMA contract	Unquantified (see narrative below)			
Transport for London to 24 June 2022 (2020-21: 18 May 2021)	200	200	485	485
Bus operators to October 2022 (2020-21 : 26 May 2021)	146	146	216	216
Light rail operators to October 2022 (2020-21: 21 June 2021)	38	38	33	33
Civil Aviation Authority to 31 March 2023 (2020-21: 31 March 2022)	25	25	25	25
Airport and ground operations support scheme (2020-21: 30 September 2021)	–	–	44	44
COVID-19 support measures sub-total	409	409	803	803
Grants to Network Rail for remainder of Control Period 6	16,817	-	22,846	-
Other	120	126	147	159
	17,346	535	23,796	962

Core Departmental commitment to Train Operating Companies (TOCs)

The Secretary of State has statutory responsibilities under the Railways Act for provision of passenger rail services. During the pandemic, the Department implemented EMA and ERMA contracts with the TOCs to ensure that services continued to operate. These contracts were phased to end in tranches, and succeeded by National Rail Contracts. Under these arrangements, the Department assesses the validity of the TOCs' costs against the contractual provisions of the contracts. The Department then subsidises the TOCs' allowable costs, net of operating revenues. The value of the Department's commitment is considered to be unquantifiable, because the level of subsidy is dependent upon uncertain future passenger volumes and revenues. Further details on these contracts and on TOCs' revenues and costs are provided in Note 27.

COVID-19 support measures

The COVID-19 support measures comprise estimated costs of future funding packages formally agreed as at 31 March 2022. Those payments support essential transport operations during the period of demand recovery from the pandemic. Additional funding packages agreed after the end of the financial year are described in Note 31: Events after the reporting period.

Core Departmental commitment to Network Rail

In October 2018, the Office of Rail and Road announced how much the Department would fund Network Rail in each year of Control Period 6. This funding is excluded from the Group total as it is intra-group.

11. Loans

The Department has provided interest-bearing loans when the borrower is expected to be able to service and repay the debt and where the borrower's customers should cover the full cost (including financing).

The first table shows loans external to the Group whilst the second table shows all loans external to the Core Department and Agencies. The second table shows that there is significant intra-group lending.

In December 2018, the Department agreed a funding package for the Crossrail project, comprising loans of £1.3bn to the Greater London Authority (GLA) and £750m to be made available to Transport for London (TfL). The GLA received its loan funding between February 2019 and April 2020, whilst TfL drew down its loans between April 2020 and April 2021. The Department agreed an additional £825m loan facility for the GLA, of which £554m was drawn down by 31 March 2022 and the remaining £271m will be drawn down next year. Following a thorough evaluation of the probability of default and losses given default, the Department considers there is no material impairment of the balance or the remaining loan commitment as at 31 March 2022, because both entities retain strong sub-sovereign credit ratings, and the GLA has the power to levy taxation for the purposes of funding the project.

In 2021-22, the Department provided grant funding of £1,720m (2020-21: £2,457m) to TfL, to maintain key transport services through the pandemic as result of reduced passenger volumes. The Department has formally committed to provide a further £200m grant funding until 24 June 2022, to be adjusted for any exceptional costs and to enable TfL to maintain adequate cash balances, as set-out in the February 2022 settlement letter and intends to provide additional funding to the end of 2022-23 subject to TfL's delivery of the conditions attached to the February settlement. Considering the financial sustainability plan options for TfL and GLA's tax raising abilities, whilst acknowledging the protective impact on TfL's near-term financial position of the Department's emergency grant funding, the Department considers the Crossrail loan to be of low credit risk at the reporting date under IFRS 9.

The Department has no plans to write off or forgive this debt and has stress tested TfL's revenue forecasts to confirm its confidence in recoverability through the financial sustainability plan.

	General Lighthouse Fund	Crossrail	DOHL	Other loans	Departmental Group
	£m	£m	£m	£m	£m
Balance at 1 April 2020	90	1,254	172	25	1,541
Impairments				(1)	(1)
Reclassifications					
Advances		722			722
Repayments	(20)		(70)		(90)
Balance at 31 March 2021 (re-stated)	70	1,976	102	24	2,172
Impairments					
Reclassifications					
Advances		628			628
Repayments	(12)	(143)	(102)	(21)	(278)
Balance at 31 March 2022	**58**	**2,461**		**3**	**2,522**

	Core Department external loans	Network Rail	Core Department & Agencies
	£m	£m	£m
Balance at 1 April 2020	1,541	29,423	30,964
Impairments			
Reclassifications			
Advances	722	10,840	11,562
Repayments	(90)	(9,841)	(9,931)
Balance at 31 March 2021 (re-stated)	2,173	30,422	32,595
Impairments			
Reclassifications			
Advances	628	7,886	8,514
Repayments	(279)	(7,616)	(7,895)
Balance at 31 March 2022	**2,522**	**30,692**	**33,214**

The Departmental Group total reflects all external loans issued by the Group. The Core Department external loans column reflects external loans issued by the Core Department, excluding loans issued by Arm's Length Bodies.

The Group considers that none of its loans has experienced a significant increase in credit risk since origination or become credit-impaired in 2020-21 or 2021-22 and that the 12-month expected credit loss is immaterial.

12. Equity Investments

	LCR Ltd	DOHL	Direct Subsidiaries	Core Department & Agencies Total	Interests in Jointly Controlled Entities	Group Total
	£m	£m	£m	£m	£m	£m
Balance at 1 April 2020	362	127	14	**503**	26	529
Additions			1	**1**		1
Revaluations (cost)	(67)	122		**55**	(7)	48
Balance at 31 March 2021 (re-stated)	295	249	15	**559**	19	578
Balance at 1 April 2021	295	249	15	**559**	19	578
Additions						
Disposals						
Impairments			(1)	**(1)**		(1)
Revaluations (cost)	3	(137)		**(134)**	7	(127)
Profit/(Loss) share						
Balance at 31 March 2022	**298**	**112**	**14**	**424**	**26**	**450**

12.1 Valuation methodologies and techniques

The Department’s 100% interests in LCR Ltd and DOHL are equity investments held at fair value. They have been measured using valuation techniques because the instruments are not regularly traded on an active market.

12.2 London & Continental Railways Limited (LCR Ltd)

LCR is recognised at fair value as at 31 March 2022 and 31 March 2021. The valuation is based on four components: investment properties; cash and working capital; property development around Stratford (through its joint venture, Stratford City Business District Ltd); and property development of the Manchester Mayfield site. The disclosures in Note 26.1 indicate the carrying values of these components in LCR Ltd's annual report and accounts. On the implementation of IFRS 9, the Department made an irrevocable election to hold it at fair value through other comprehensive income.

The valuation was performed by selecting, for each component, the valuation techniques that a knowledgeable investor would use. For the most part, particularly for the investment property portfolio, these reflect surveyors' valuations of properties. In performing these valuations, surveyors make estimates and assumptions around rental yields, voids, occupancy rates and rent-free periods. Changes in these assumptions could increase or decrease the reported valuations. It is considered that all properties and developments are currently being held or developed for their highest and best use. Given the valuation approach, the resulting valuation is considered to be at level 3 in the IFRS 13 hierarchy.

The valuation identified the following increases / (decreases) in value, which have been recognised through the other comprehensive income:

2021-22: £3m
2020-21: £(67)m

The increase in fair value between 31 March 2021 and 31 March 2022 of £3m reflects profits on the sale of investment properties, offset by adverse valuation movements on the investment property portfolio.

12.3 DFT OLR Holdings Limited (DOHL)

DOHL is treated as a portfolio of investments in London North Eastern Railway Ltd, Northern Trains Ltd and SE Trains Ltd. Each of these component companies has been measured at its net assets, which is considered to approximate to fair value. These net assets chiefly comprise working capital balances and IFRS 16 balances. The assets and liabilities held directly by DOHL are included at their book value. This is based on DOHL's draft accounts for the year. During the year, SE Trains Ltd acquired the net assets relating to passenger services in London & South Eastern Railway Limited.

We consider that the resulting valuation is level 3 in the IFRS 13 hierarchy.

The valuation identified the following increases / (decreases) in value, which have been recognised in other comprehensive net expenditure:

2021-22: £(137)m
2020-21: £122m

Further information on DOHL is provided in Note 26.2.

12.4 Interests in Jointly Controlled Entities

Network Rail's joint venture investments in the Station Office Network, West Hampstead Square, and Solum were valued at an aggregated amount of £26m at 31 March 2022 (2021: £19m) reflecting changes in their net assets. Most of the net assets comprise properties that are revalued annually. This resulted in a revaluation of £7m in 2021-22 (2020-21: (£7m)) that has been recognised in other comprehensive net expenditure.

This is considered to be a level 3 valuation.

13. Derivatives

Materially, all of the Group's derivatives are held by Network Rail. Before Network Rail was reclassified to the central government sector in 2014, it raised debt finance principally through the sale of bonds. To manage the associated risks, such as foreign currency exchange risk and interest-rate risk, it purchased derivatives which fix the exchange rate or interest rate. The significant majority of remaining derivatives from this risk management programme are forward-starting interest rate swaps under which Network Rail fixed its cash flows relating to interest ahead of its debt drawdowns. The net effect of this arrangement was to give the company certainty over its cost of debt ahead of the point of drawdown. Hedge accounting is not used at Departmental Group level as a result of the relevant drawdowns having been made from the Department, following Network Rail's reclassification. Network Rail has no active derivatives purchase programme. Note 29.2 shows when derivatives mature.

The fair value of derivatives is estimated by discounting the future contractual cash flows using appropriate yield curves based on quoted market rates as at the current financial year end. These are considered to be level 2 valuations.

Interest rate risk is described in Note 30.

Financial assets held at fair value through the SOCNE

		2021-22		2020-21
	Departmental Group		Departmental Group	
	Fair Value	Notional amounts	Fair Value	Notional amounts
	£m	£m	£m	£m
Cash flow hedges				
Cross-currency swaps to hedge debt issued under the debt issuance programme			109	128
Non-hedge accounted derivatives				
Cross-currency swaps to hedge debt issued under the debt issuance programme	5	56	67	198
Interest rate swaps	7	2,010	211	9,140
Forward foreign exchange contracts	1	30		
	13	2,096	387	9,466
Included in non-current assets	9	511	191	6,716
Included in current assets	4	1,585	196	2,750
	13	2,096	387	9,466

Financial liabilities held at fair value through the SOCNE

	2021-22		2020-2021	
	Departmental Group		Departmental Group	
	Fair Value	Notional amounts	Fair Value	Notional amounts
	£m	£m	£m	£m
Derivative financial instrument liabilities				
Cash flow hedges				
Interest rate swaps			(6)	(130)
Non-hedge accounted				
Interest rate swaps to hedge debt issued under the Debt Issurance Programme	(261)	(11,310)	(641)	(9,140)
Forward foreign exchange contracts	(3)	88	(4)	49
	(264)	**(11,222)**	(651)	(9,221)
Included in non-current liability	(207)	(7,641)	(566)	(6,660)
Included in current liability	(57)	(3,581)	(85)	(2,561)
	(264)	**(11,222)**	(651)	(9,221)

14. Investments measured using equity accounting

The Group has the following material investments measured using equity accounting, in accordance with the policy described in Note 1.10. This note reflects the impact of a prior period adjustment, described in Note 1.26 to reflect the re-classification of the investment in Network Rail Insurance Ltd.

	Core Department & Agencies	Departmental Group
	£m	£m
Balance at 1 April 2020	338	546
Share of profits/(loss)	(56)	(47)
Share of other comprehensive net income / (expenditure)	15	15
Balance at 31 March 2021	297	514
Balance at 1 April 2021	297	514
Share of profits/(loss)	(13)	(1)
Share of other comprehensive net income/(expenditure)	133	133
Balance at 31 March 2022	**417**	**646**

14.1 NATS Holdings Ltd (NATS)

The Department holds an investment in NATS, which is the sole provider of en-route air traffic control services to flights within the UK Flight Information Regions and the Shanwick Oceanic Control Area and provides air traffic control services to thirteen UK airports. NATS is accounted for as an associate as the Department holds minority voting rights in NATS (31 March 2021 and 2022: 48.9%).

	Investment in NATS
	£m
Balance at 1 April 2020	338
Share of profits / (loss)	(56)
Share of other comprehensive net income / (expenditure)	15
Balance at 31 March 2021	**297**
Balance at 1 April 2021	297
Share of profits / (loss)	(13)
Share of other comprehensive net income / (expenditure)	133
Balance at 31 March 2022	**417**

Carrying value as at 31 March 2021 and 31 March 2022

The value recognised on the Statement of Financial Position represents the Department's share of NATS' net assets as presented in NATS' audited financial statements for the years to 31 March 2021 and 2022.

Movement recognised during 2020-21

The Group's financial statements for 2019-20 were published before NATS' financial statements for that period. The value recognised in the Group's Statement of Financial Position as at 31 March 2020 reflected NATS' unaudited interim financial statement for the six months to 30 September 2019, adjusted for a subsequent dividend receipt. The movements recognised in the comparative period in these financial statements comprise two components: (1) the difference between amounts previously recognised for the year ended 31 March 2020 and amounts based on NATS' audited financial statements for that year; and (2) amounts based on NATS' audited financial statements for 2020-21. The difference in the share of other comprehensive net income / (expenditure) was driven by larger than expected actuarial gains, and the difference in the share of profits / (loss) was driven by an impairment to goodwill. Full details of these movements are provided in the Department's published accounts for 2020-21.

Financial results of associate

	2021-22	2020-21 (full year)
	£m	£m
Balance at 31 March		
Non current assets	2,256	1,662
Current assets	360	403
Current liabilities	(230)	(340)
Non current liabilities	(1,534)	(1,116)
Net assets	**852**	609
Total revenue and regulatory allowances	750	823
Profit/(loss) for the year	(28)	(51)
Other comprehensive income/(expenditure) for the year	271	(250)
Dividends paid during the year	–	–

The increase in NATS' net assets presented in its own financial statements for the year ended 31 March 2022 and reflected in the carrying value of the Department's investment largely comprises an actuarial gain of £355m (before deferred tax) on the defined benefit pension scheme, which is recognised in other comprehensive net income. This is partly offset by an after tax loss of £28m for the year, including one-off refinancing costs, an increase in the deferred tax liability arising from the increase in tax rates and adverse movements on derivatives.

Following the requirements of IAS 28, the Department is required to assess whether the carrying value of this investment asset, calculated using the equity method, exceeds its recoverable amount. NATS' revenues are economically regulated by the Civil Aviation Authority (the CAA) under a Regulatory Asset Base (RAB) framework. The regulatory settlement is intended to cover efficient costs and to permit a return on the RAB that reflects a market-consistent cost of debt and equity. The Department expects this principle will be upheld in the CAA's future regulatory determinations. The CAA is consulting now on the next price control for the 5 year period 2023 to 2027, as well as it's retrospective review of 2020 to 2022 for the impact of Covid.

14.2 Network Rail Insurance Limited

Network Rail Insurance Ltd was established by Network Rail to act as a "captive" insurance company, to have direct access to reinsurance markets, minimising the volatility of insurance premia and retaining profits within the Network Rail Group. It is a wholly owned subsidiary of the Network Rail Group and is consolidated in Network Rail's financial statements.

Investment in Network Rail Insurance Ltd.

	£m
Balance at 1 April 2020	208
Share of profits / (loss)	9
Share of other comprehensive net income / (expenditure)	-
Balance at 31 March 2021	**217**
Balance at 1 April 2021	217
Share of profits / (loss)	12
Share of other comprehensive net income / (expenditure)	-
Balance at 31 March 2022	**229**

Network Rail Insurance Ltd is a body classified to the "rest of the world" sector, because it is managed from Guernsey and therefore cannot be designated for consolidation in these financial statements. In accordance with the FReM, it is measured here using equity accounting. The values recognised as at 31 March 2022 and 31 March 2021 reflect its net assets in its financial statements as at those dates.

Financial results of associate

	2021-22	2020-21
	£m	£m
Balance at 31 March		
Non current assets	–	–
Current assets	313	299
Current liabilities	(4)	(5)
Non current liabilities	(80)	(77)
Net assets	**229**	217
Total revenue and regulatory allowances	12	26
Profit/(loss) for the year	12	9
Other comprehensive income/(expenditure) for the year	–	–
Dividends paid during the year	–	–

15. Inventories

		2021-22		2020-21
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Raw materials, consumables & work-in-progress		335		331
Current assets		**335**		331
Properties acquired under the HS2 exceptional hardship and related schemes	736	736	650	650
Raw materials, consumables & work-in-progress	6	6	5	5
Non-current assets	**742**	**742**	655	655

The inventories disclosed under Core Department & Agencies for HS2 relate to land and properties acquired during the construction of High Speed 2. Inventories are classified as non-current assets because: there is no intention to sell the land and properties in the short-term, or they relate to Phase 2b of the programme and will be reclassified to AUC when the criteria for presentation as property, plant and equipment have been met and legislation has progressed sufficiently.

16. Trade and other receivables

	2021-22		2020-21 (restated)	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Amounts falling due within one year:				
Trade receivables	63	80	74	48
Trade receivables – contracts with customers		451		370
Deposits and advances		98		68
VAT receivables	20	459	12	439
Other receivables	133	69	646	607
Collateral placed with banking counterparties		255		369
Prepayments and accrued income	950	1,249	832	1,088
Total current	**1,166**	**2,661**	1,564	2,989
Amounts falling due after more than one year:				
Trade receivables	20	20	20	21
Other receivables	2	1	9	8
Network Rail Collateral Facility	250		260	
Prepayments and accrued income		12		11
Total non-current	**272**	**33**	289	40
Total current and non-current	**1,438**	**2,694**	1,853	3,029

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17. Cash and cash equivalents

	2021-22		2020-21 (restated)	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
At 1 April	522	1,037	659	1,000
Net change in cash and cash equivalents	245	154	(137)	37
At 31 March	**767**	**1,191**	522	1,037
The following balances were held at:				
Government Banking Service	762	862	516	656
Commercial banks and cash in hand	5	329	6	381
At 31 March	**767**	**1,191**	522	1,037

18. Trade and other payables

	2021-22		2020-21 (re–stated)	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Amounts falling due within one year:				
Trade payables	(24)	(869)	(57)	(789)
Other payables	(36)	(436)	(36)	(415)
VAT, other taxation and social security	(10)	(99)	(11)	(99)
Accruals	(1,342)	(3,767)	(1,446)	(3,663)
Deferred income	(88)	(109)	(62)	(84)
Deferred income – contracts from customers	(68)	(140)	(64)	(175)
PFI and other service concession arrangements	(3)	(96)	(3)	(89)
Collateral received from banking counterparties				(105)

	2021-22			2020-21 (re–stated)
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Amounts issued from the Consolidated Fund for supply but not spent at year end	(699)	(699)	(522)	(522)
Consolidated Fund Extra Receipts due to the Consolidated Fund	(91)	(91)	(262)	(262)
Total current	**(2,361)**	**(6,306)**	(2,463)	(6,203)
Amounts falling due after more than one year:				
Other payables	(34)	(38)	(33)	(92)
Deferred income	(990)	(1,063)	(1,045)	(1,113)
Deferred income – contracts from customers	(14)	(14)	(13)	(13)
PFI and other service concession arrangements	(6)	(1,180)	(9)	(1,275)
National Loan Fund loans				
Total non-current	**(1,044)**	**(2,295)**	(1,100)	(2,493)
Total current and non-current	**(3,405)**	**(8,601)**	(3,563)	(8,696)

Deferred income includes £88m for contract balances in respect of deferred revenue from contracts under IFRS 15 (2021: £257m). £257m of this contract liability balance at the beginning of the year was recognised as revenue in 2021-22.

£24m of Consolidated Fund Extra Receipts due to the Consolidated Fund are recognised in 2021-22 and included within the £91m total shown above but will be received in cash in the following year (2020-21: £262m).

19. Borrowings

Financial liabilities

Balances in the Core Department and Agencies column relate to the core Department's obligations to CTRL Section 1 Finance plc and LCR Finance plc for their external borrowings. These obligations are eliminated on consolidation.

Departmental Group borrowings are instruments issued by Network Rail, CTRL Section 1 Finance plc and LCR Finance plc. Further information of the movement of borrowings is available in the financial statements of Network Rail, CTRL Section 1 Finance plc and LCR Finance plc.

Lease liabilities

The majority of the Group's leases are recognised on-balance sheet as right-of-use assets (Note 7) and lease liabilities. Lease liabilities are presented under borrowings, because they have similar characteristics: they are interest-bearing and have long-term maturities. However, they are not financial instruments within the scope of IFRS 9, and therefore are not subject to all of the disclosure requirements.

Interest costs are disclosed in Note 3.7.

		2021-22			2020-21 (restated)
		Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	Note	£m	£m	£m	£m
1.085% sterling index linked bond due 2052			(154)		(143)
0% sterling index linked bond due 2052			(171)		(157)
2.334% Asset Backed Index Linked Notes due 2051		(858)	(858)	(817)	(823)
5.1% sterling bond due 2051		(1,101)	(1,101)	(1,101)	(1,101)
1.003% sterling index linked bond due 2051			(29)		(27)
0.53% sterling index linked bond due 2051			(149)		(138)
0.517% sterling index linked bond due 2051			(149)		(138)
0% sterling index linked bond due 2051			(172)		(158)
0.678% sterling index linked bond due 2048			(146)		(136)
1.125% sterling index linked bond due 2047			(6,319)		(5,887)
0% sterling index linked bond due 2047			(111)		(101)
1.1335% sterling index linked bond due 2045			(60)		(55)
1.5646% sterling index linked bond due 2044			(325)		(313)
1.1565% sterling index linked bond due 2043			(67)		(62)
1.1795% sterling index linked bond due 2041			(82)		(76)
1.2219% sterling index linked bond due 2040			(319)		(307)
1.2025% sterling index linked bond due 2039			(89)		(83)
4.5% sterling bond due 2038		(429)	(429)	(429)	(429)
4.6535% sterling bond due 2038			(100)		(100)
1.375% sterling index linked bond due 2037			(6,230)		(5,789)
5.234% Asset Backed Fixed Rate Notes due 2035		(336)	(351)	(349)	(363)

		2021-22			2020-21 (restated)
		Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	Note	£m	£m	£m	£m
4.75% sterling bond due 2035			(1,236)		(1,235)
1.6492% sterling index linked bond due 2035			(485)		(467)
4.375% sterling bond due 2030			(873)		(872)
4.5% sterling bond due 2028		(1,237)	(1,237)	(1,236)	(1,236)
1.75% sterling index linked bond due 2027			(6,000)		(5,599)
4.615% Norwegian krone bond due 2026			(45)		(49)
4.57% Norwegian krone bond due 2026			(13)		(14)
1.9618% sterling index linked bond due 2025			(411)		(395)
4.75% sterling bond due 2024			(747)		(745)
3% sterling bond due 2023			(399)		(399)
2.76% Swiss franc bond due 2021					(231)
2.315% Japanese yen bond due 2021					(66)
2.28% Japanese yen bond due 2021					(66)
2.15% Japanese yen bond due 2021					(66)
4.625% sterling bond due 2020					
Index-linked European Investment Bank due 2036 (£243m) and 2037 (£241m)			(542)		(522)
Financial liabilities		**(3,961)**	**(29,399)**	(3,932)	(28,348)
Lease liabilities	7	**(421)**	**(926)**	(479)	(953)
Total borrowings		**(4,382)**	**(30,325)**	(4,411)	(29,301)
Of which;					
Current		(120)	(287)	(113)	(693)
Non-current		(4,262)	(30,038)	(4,298)	(28,608)
		(4,382)	**(30,325)**	(4,411)	(29,301)

Current borrowings include bonds maturing in the next 12 months plus stage repayments of other bonds, and lease liabilities due within the next 12 months.

The following table analyses the Department's exposure to interest and inflation risk on the financial liabilities above. Note 30 analyses the financial liabilities by IFRS 9 treatment and the fair value hierarchy.

		2021-22		2020-2021
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Analysis by interest rate and inflation risk exposure				
Nominal	(3,103)	(6,530)	(3,115)	(6,972)
Index-linked	(858)	(22,869)	(817)	(21,376)
	(3,961)	**(29,399)**	(3,932)	(28,348)

Movement in borrowings	£m
At 1 April 2020 (restated)	(30,271)
Net cash payments	1,077
Non-cash movements	
Capital accretion	(291)
Exchange differences	20
Fair value and other movements	63
Change in lease liabilities	101
At 31 March 2021	(29,301)
Net cash payments	443
Non-cash movements	
Capital accretion	(1,532)
Exchange differences	-
Fair value and other movements	38
Change in lease liabilities	27

Movement in borrowings	£m
At 31 March 2022	**(30,325)**

20. Financial guarantee contracts

The Department has given an indemnity to Network Rail's debt holders covering the total outstanding debt as at 31 March 2022 of £25,422m (2021: £24,396). The indemnity expires in 2052 and is recognised as a financial guarantee contract. The indemnity reduces the cost of borrowing for Network Rail. The table below shows the carrying value calculated in accordance with the accounting policies in Note 1.16. The amount amortised to income reflects the amount of debt supported, multiplied by the credit spread. The impact of financing is presented separately as an interest cost. The amount charged or released during the year is explained in Note 3.7.

	Core Department & Agencies
	£m
Balance at 1 April 2020	(3,938)
Release in year	80
Amortised to income	265
Unwinding of discount	(143)
Balance at 31 March 2021	(3,736)
Charge in year	(1,090)
Amortised to income	268
Unwinding of discount	(91)
Balance at 31 March 2022	(4,649)

21. Deferred taxation

Deferred tax relates to the activities of Network Rail only. The liability balance relates principally to taxable temporary differences arising because accelerated capital allowances that affect the tax base exceed accounting depreciation. No adjustment is made in respect of the revaluation of the Railway Network to DRC in these financial statements. The Department considers that the valuation of the Railway Network in Network Rail's financial statements (on which the deferred tax workings are based) provides the best basis for assessing temporary differences that would affect the future assessment of tax if the relevant assets were realised.

No other deferred tax is recognised as the majority of the Departmental Group's activities are classified as non-business.

UK corporation tax is calculated at 19% (2021: 19%). In Budget 2021 it was announced the corporation tax rate will increase to 25% with effect from 1 April 2023. Accordingly, deferred tax at 31 March 2022 is calculated at a rate of 25 per cent (2021: 19 per cent) based on the tax rate expected to prevail based on legislative enactments at the point temporary differences resolve. The amount at which temporary differences crystallise is sensitive to the decisions on future tax laws to be taken by Parliament.

	2021-22	2020-21
	Departmental Group	Departmental Group
	£m	£m
At 1 April	(3,350)	(3,580)
Prior year adjustments		
Operating gain/(loss)	(914)	(232)
Other comprehensive income/ (expenditure)	(856)	462
At 31 March	**(5,120)**	(3,350)
Some deferred tax assets and liabilities have been offset. The following is the analysis of the gross deferred tax balances.		
Deferred tax liabilities	(5,159)	(3,524)
Deferred tax assets	39	174
	(5,120)	(3,350)

The change in corporation tax rates, to 25% from 19% (effective from April 2023), was substantively enacted in the Finance Act 2021 and has increased the deferred tax liability by £1,035m, comprising £882m operating cost and £153m movement in equity. The additional movements in the deferred tax liability in-year arise primarily from temporary differences relating to revaluation of the railway network and defined benefit pension obligations.

Deferred tax assets of £39m (31 March 2021: £174m) recognised in the Table above relate to: short-term timing differences including retirement benefit obligations, and derivatives. Under IAS12 deferred tax assets can only be recognised where it is probable that taxable profits will be available against which the deferred tax asset can be utilised. As in 2021, it remains improbable that Network Rail will produce a level of taxable profits that will allow for recognition of a deferred tax asset relating to the trading losses carried forward. Network Rail uses all its profits to fund capital expenditure. Following the Budget in March 2021, Network Rail will be able to claim the “super allowance” deduction on certain capital expenditure. Management’s current assessment is that it is likely that these capital allowances will mean there is no significant taxable income for the year to 31 March 2023. In this year, capital allowances will cover the taxable profit and mean that there is no expected need for use of losses. Beyond the current funding regime, there is no certainty over the funding mechanism of Network Rail and hence the use of any losses. The deferred tax asset on tax losses of £2,305m (2020-21: £2,736m) has not been recognised. The deferred tax asset for surplus ACT was fully utilised in 2020-21.

22. Provisions for liabilities and charges

	High Speed 2 Land & Property	Industrial disease claims	National Freight Company Pension	Others	Core Department & Agencies	Highways England Land & Property	VAT	ATTF	Others	Departmental Group
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 April 2020 (restated)	(1,041)	(241)	(43)	(42)	**(1,367)**	(238)	(44)	(53)	(116)	**(1,818)**
Provided in year	(194)			(8)	**(202)**	(332)	(27)	(17)	(73)	**(651)**
Provision written back	35	45	3	9	**92**	124		27	26	**269**
Provision utilised	260	13	3	6	**282**	65		16	25	**388**
Unwinding of discount		(5)			**(5)**					**(5)**
Transfers										
Reclassifications										
Balance at 31 March 2021 (restated)	(940)	(188)	(37)	(35)	**(1,200)**	(381)	(71)	(27)	(138)	**(1,817)**
Provided in year	(476)	(3)	(3)	(5)	**(487)**	(241)		(3)	(80)	**(811)**
Provision written back				1	**1**	253	71	18	42	**385**
Provision utilised	239	8	3	9	**259**	73		5	30	**367**
Unwinding of discount		(4)			**(4)**					**(4)**
Transfers										
Reclassifications										
Balance at 31 March 2022	**(1,177)**	**(187)**	**(37)**	**(30)**	**(1,431)**	**(296)**		**(7)**	**(146)**	**(1,880)**
Of which:										
Later than five years		(135)	(22)	(7)	**(164)**				(2)	**(166)**
Between one and five years	(746)	(39)	(11)	(8)	**(804)**	(178)			(17)	**(999)**
Non-current	(746)	(174)	(33)	(15)	**(968)**	(178)			(19)	**(1,165)**
Current / within one year	(431)	(13)	(4)	(15)	**(463)**	(118)		(7)	(127)	**(715)**

Industrial Disease Claims

The British Railways Board was a major employer for some 50 years (with up to three-quarters of a million employees at one time) and was responsible for industrial injuries, and other employment- and environment-related claims resulting from its activities. Some industrial diseases are slow to develop, and therefore the claims do not arise until many years after the relevant employment ceases. In 2001, following privatisation, the responsibility and liability for these claims transferred to British Railways Board (Residuary) Ltd (BRBR), and when BRBR was abolished in 2013, they passed to the DfT.

During 2021-22, the value of this provision has decreased from £188m to £187m (2020-21: reduced from £241m to £188m). £8m was paid out in settlement of such claims during the year (2021: £13m).

National Freight Company Pension

The National Freight Company (NFC) was created by the Transport Act 1980 to be a successor to the nationalised transport company, the National Freight Corporation, in anticipation of privatisation. The Government agreed to fund some benefits already granted to employees. This provision includes two elements:

- Pension trustee (31 March 2022: £30m; 2021: £30m) – reimbursement to NFC pension trustees in respect of payments covering unfunded pension service with NFC before 1 April 1975 (Part III, Transport Act 1980); and

- Travel concession (31 March 2022: £7m; 2021: £7m) – reimbursements to NFC and its subsidiaries for providing travel concessions to staff previously employed by the road transport division of British Rail (s21, Transport Act 1978 and Schedule 6 to the Transport Act 1980).

HS2 Land & Property

The Department holds various provisions to cover the purchase of land and properties acquired under different HS2 schemes and processes (31 March 2022: £1,177m; 2021: £940m). These include: compulsory purchase orders £990m statutory blight legislation (£67m); the Need to Sell scheme (£20m); Rural Support Zone Scheme (£4m) and specific agreements with various corporate entities (£97m). The HS2 project will be delivered in three phases. The provision for compulsory purchases currently relates to the first phase, whereas the provisions for statutory blight, the Need to Sell scheme and Rural Support Zone cover all three phases. Note 1.20.2 describes the key estimation factors affecting the valuation of land and property provisions connected with compulsory purchase orders, which represent the majority of this balance. The provision for compulsory purchases mainly reflects the first phase, where CPO powers lapsed on 23rd February. In addition to this £34m relates to CPOs in respect of phase 2a where powers were granted from 11 February 2021.

VAT

Prior year provisions related to an outstanding judgement surrounding VAT recovery rates on the construction phase of National Highways Hybrid schemes. These provisions were reclassified to accruals in 2021-22.

National Highways Land and Property

Land and property acquisition provisions relate principally to the estimated cost of: planning blight; discretionary and compulsory acquisition of property; and compensation for property owners arising from physical construction of a road scheme. It may take several years from the announcement of a scheme to completion of the road and the final settlement of all liabilities (31 March 2022: £296m; 2021: £381m). Note 1.20.2 explains the points at which provisions for compulsory purchase of land and property are recognised. The first bullet point within this accounting policy applies to the majority of National Highways schemes.

Air Travel Trust Fund (ATTF)

These financial statements disclose as a separate category the balances and movements on the ATTF's obligations to the customers of failed tour operators. The ATTF's purpose, set out in its trust deed, is to compensate customers who have purchased package holidays from a tour operator that holds an ATOL (air travel organiser's licence) issued by the Civil Aviation Authority. These customers pay an ATOL Protection Contribution to the ATTF, which entitles them to complete their holiday and then be repatriated (if their holiday has commenced) or to be refunded (if it has not commenced); these costs are met from monies held by the ATTF. When a tour operator fails, the ATTF recognises a provision of the expected costs, as the timing and amount of payments are uncertain.

On 23 September 2019, Thomas Cook went into liquidation. The Trust provided £489m for the estimated costs of repatriation and refunds, of which £52m remained as at 31 March 2020. £16m was paid in 2020-21; £27m of the provision that was no longer required was released in 2020-21. The remaining balance as at 31 March 2021 related to claims and fees arising from Thomas Cook (£10m) and other tour operators. The settlement was delayed during 2020-21 due to the impact of the pandemic on the tourism industry. £18m of the provision that was no longer required was released in 2021-22, which left a remaining balance of £7m as at 31 March 2022.

Other

These headings cover a range of smaller provisions, including:

- British Railways Board's (BRB) ex employees' pensions (31 March 2022: £6m; 2021: £7m) – reimbursement from the core Department to trustees of the British Transport Police Force Superannuation Fund in respect of unfunded proportions of pensions deriving from service with the BRB before 1 January 1975 (Part III, Transport Act 1980).

- Other material balances included under 'Other' include: £78m in respect of Network Rail (2020-21: £94m), £23m in respect of National Highways (2020-21: £13m) and £20m in respect of High Speed 2 (2020-21: £10m). Those entities own accounts provide further details.

23. Contingent liabilities

Contingent liabilities may result in an obligation to transfer cash in the future depending on future developments outside the Group's control. They are not recognised in the Statement for Financial Position unless it becomes probable that the group will need to transfer cash. This Note discloses contingent liabilities for which the risk of crystallisation is higher than remote but not probable in accordance with IAS 37. Where these can be quantified they are disclosed in the table below; where they cannot be quantified with any degree of accuracy, they are disclosed in the paragraphs after the table below. Amounts disclosed reflect the highest reasonable estimate of the possible liability. These are summarised by the nature and purpose of the contingent liability:

Quantifiable contingent liabilities disclosed under IAS 37

	31 March 2022	31 March 2021
	£m	£m
Mersey Gateway Commitment by the Department to fund any shortfall of toll revenue from the Mersey Gateway Bridge to meet Halton Council's financial obligations under the Demand Management Participation Agreement.	1,247	1,306
HS2 HS2 Ltd has given a number of undertakings and assurances where there is an uncertainty over whether a 'present obligation' (as defined by IAS37) exists at year end that could lead to expenditure by HS2 Ltd.	355	382
HS1 The HS1 Concession Agreement between the Secretary of State and HS1 Ltd specifies that the Secretary of State would be liable to pay compensation following potential changes to the Railways (Interoperability) Regulations.	150	150
Network Rail Guarantees issued by Network Rail to financial institutions in respect of its own activities and the activities of businesses it wholly or partially owns.	113	120
Legal claims From time to time, the Departmental Group experiences legal claims and challenges which it defends wherever appropriate. The change in exposure reflects changes in the volume and values of active cases during the year.	153	131
Guarantees to promote investment in railway assets Under the Railways Act 1993, the Transport Act 2000 and the Channel Tunnel Rail Link Act 1996, the Secretary of State has provided quantifiable (disclosed) and unquantifiable guarantees to promote investment in the rail sector.	10	17
Business indemnities Indemnities issued to businesses at rail privatisation by the British Rail Board (Residuary) Ltd, which were transferred to the Department when the Board closed in 2013. These indemnities have different expiry dates and cover risks such as industrial diseases and environmental issues.	3	3
Total	2,031	2,109

Unquantifiable contingent liabilities

The following guarantees, indemnities, statutory obligations and letters of comfort cannot be quantified with any degree of accuracy:

- In furtherance of transport infrastructure projects, the Secretary of State has incurred potential liabilities for statutory blight. This includes obligations in respect of Crossrail 2 and Heathrow expansion. Property owners within the affected areas may be eligible to serve a Blight Notice asking the Secretary of State to buy their property. As this is unquantifiable, it is presented as a contingent liability.
- Under the HS1 Concession Agreement, the Secretary of State would be liable for compensation in the event of changes in law or other events equivalent to increases in operating costs or loss of revenues. It is considered impracticable to provide a reliable single-point estimate. However, the maximum potential exposure during the remaining term of the current Control Period is considered not to exceed £100m.
- The Department issued safeguarding orders in 2013 and 2017 for the proposed route of HS2. This creates an obligation on the Department to purchase properties which have been blighted. A provision has been recognised for the cost of properties the Department has accepted as blighted, and where the purchase price has been substantially agreed. Any remaining liability is classed as a contingent liability.
- As part of the normal course of business, HS2 Ltd has given indemnities to individuals and companies who could be impacted by the construction of HS2. A number of Protective Provision Agreements have

been made with either special status or utility companies that include indemnities in relation to HS2 Ltd's work as Nominated Undertaker for constructing HS2. These agreements go no further than the provisions made in the Phase 1 Hybrid Act and the Phase 2A Hybrid Bill that provide for protection, repair, compensation and indemnification from third party claims.

- From time to time, the Departmental Group experiences legal claims and challenges which it defends wherever appropriate. Some claims may have a sufficiently broad range of potential outcomes as to be unquantifiable for practical purposes.

The Core Department has provided the following guarantees and letters of comfort to and for other Group members:

- A guarantee of National Highways' obligations under its PFI contracts and to the Civil Service Pension Scheme;
- A letter of comfort to the British Transport Police to evidence its status as a going concern;
- Guarantees given between 1999 and 2002 to the holders of Government Guaranteed Bonds issued by LCR Finance plc. In 2009, the Department became the primary obligor to LCR Finance plc, but the guarantees remain;

- A letter of comfort to the ATTF, to expire in September 2022, indicating the Department's preparedness to advance a loan at National Loans Fund rates, to ensure the ATTF remains a going concern while maintaining the ring-fenced basis of its operations;
- A parent company guarantee in respect of some of Network Rail's insurance arrangements.
- Members of the Network Rail Group have provided cross-guarantees in respect of other members' banking arrangements.
- In Note 22, we disclose the ATTF's purpose in compensating customers of failed tour operators, the basis on which provisions are recognised and the movements on the provisions during the current and comparative year. Within this note, we disclose the Department's approach to ensuring that the ATTF remains a going concern and that its operations continue to be ring-fenced. As the ATTF has received APCs for holidays that have not completed, there is a risk of further calls on the ATTF if the operator were to fail before that point. The amount of any provision would depend on the size of the operator and therefore cannot meaningfully be quantified. While the Trustees of the ATTF have discretion to decline claims for compensation should the Fund be exhausted, the Department has the discretion and, as described above, the current intention until September 2022 to provide additional short-term funding to ensure

those obligations can be met in full. No provision is recognised in respect of potential operator failures. The Department considers that no obligation or risk exists in respect of holidays that have not been booked and for which, therefore, no APC has been received.

24. Pension schemes

Past and present employees of the core Department and its agencies are generally covered by the provisions of the Principal Civil Service Pension Scheme. The Principal Civil Service Pension Scheme and defined contribution retirement benefit schemes are described in the People and Remuneration Report in the Accountability Report.

Overview of the schemes

This Note provides disclosures on the Departmental Group's obligations in respect of the defined benefit pension arrangements for which it is the designated employer.

The Department applies IAS 19 to all these schemes; consequently, the share of any deficits or recoverable surplus in the pension funds is recognised in the Statement of Financial Position.

Network Rail and the British Transport Police Authority are the designated employers for their own defined benefit pension schemes, and the Secretary of State for

Transport acts as designated employer for the other four schemes listed below.

Key data				
Scheme	**Open/closed**	**Basis**	**Accrual Rate**	**Normal retirement age**
Network Rail (RPS) (includes RPS 60 and RPS 65)*	Open to employees with five years' service (RPS 60 closed to new joiners from 1 July 2012).	Shared cost (employer's share: 60%) final salary-based (subject to capping); linked to CPI.	1/60 (RPS 60 and RPS 65) average final pensionable salary minus 150% final basic state pension (RPS 60) or 75% final basic state pension.	Either 60 (for RPS 60) or 65 (for RPS 65) (reflected in contribution rate).
Network Rail (CARE)*	Open to all employees.	Shared cost (employer's share: 60%) career average revalued earnings, linked to RPI up to 31 March 2016 and CPI thereafter.	1/60 average pensionable salary.	65
1994 Section (RPS)	Closed to new members and accruals: members are those who were pensioners and preserved pensioners of BR at the time of privatisation.	Final salary-based, linked to CPI.	Not applicable, as scheme is closed to new accruals.	60
British Railways Superannuation Fund (BRSF)	Closed to new members and accruals.		Not applicable, as scheme is closed to new accruals.	60
British Railways Shared Cost Section (RPS)	Open to eligible members.	Shared cost (employer's share: 60%), final-salary based, linked to CPI.	1/60 final salary	60
British Railways (1974) Pension Fund	Closed to new members and accruals.	Supplementary to other RPS schemes.	Not applicable, as scheme is closed to new accruals.	60

Key data				
Scheme	**Open/closed**	**Basis**	**Accrual Rate**	**Normal retirement age**
British Transport Police Force Superannuation Fund (BTPFSF)*	Pre-2007 and 2007-2015 schemes: closed to new members. Post-2015 scheme: open to eligible members.	Pre-2007 *scheme*: final salary-based. 2007-2015 scheme: final salary-based. Post-2015 *scheme*: career average revalued earnings, linked to CPI.	Pre-2007 scheme: 1/45 less 1/30 the basic state pension). 2007-2015 scheme: 1/70 final salary. Post-2015 scheme: 1/55.3.	Pre-2007 scheme: 55. 2007-2015 scheme: 55 or 65 depending on circumstances. Post-2015 scheme: 60 or 65 depending on circumstances.
British Transport Police Section of the Railways Pension Scheme (RPS)*	Open to new members.	Shared cost (employer's share: 60%), final-salary based, linked to CPI.	1/60 final average salary less 1/40 of the basic state pension.	60

*More details about these schemes can be found in the accounts of Network Rail and the British Transport Police.

Formal actuarial valuations

Scheme	Actuary	Effective date of funding valuation	Valuation report date	Effective date of next funding valuation
1994 Section	WTW & GAD	31-Dec-19	12-Feb-21	31-Dec-22
BR Shared Cost Section	WTW & GAD	31-Dec-19	8-Oct-21	31-Dec-22
British Railways Superannuation Fund	WTW & GAD	31-Dec-19	28-May-21	31-Dec-22
Network Rail schemes	WTW	31-Dec-19	23-Dec-20	31-Dec-22
British Transport Police Force Superannuation Fund	XPS	31-Dec-18	Not yet agreed	31-Dec-21
British Transport Police Railways Pension Scheme	WTW & XPS	31-Dec-19	07-Apr-21	31-Dec-22

GAD: Government Actuaries Department. WTW: Willis Towers Watson

All valuations were undertaken using the projected unit method.

The 2019 actuarial valuation of the BTP section of the RPS scheme reported a shortfall of £6.3m. BTP agreed to meet the shortfall through lump sum payments of £1.27m on or before each 1 July from 2021 to 2026 inclusive. Contribution rates increased to the future service joint contribution rate; with the share of this increase having been met by the Authority until 01 April 2022. All other material schemes within the Group were in surplus at the date of their most recent valuations and so no additional funding contributions were required.

The 2018 actuarial valuation of the BTPFSF has not yet been finalised. Discussions continue between BTP, the Department and The Pensions Regulator regarding assumptions made by the Trustee.

The net pension liability by scheme

The deficit comprises the following balances:

	2021-22		2020–21	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
NR (RPS and CARE)	–	(2,259)	–	(2,899)
1994 Section	(796)	(796)	(1,173)	(1,173)
BR Shared Cost Section	(60)	(60)	(65)	(65)
British Railways Superannuation Fund (BRSF)	22	22	(1)	(1)
BR (1974) Pension Fund	(2)	(2)	(3)	(3)
BTP Force Superannuation Fund (BTPFSF)	–	(727)	–	(846)
BTP Section of the Railways Pension Scheme (RPS)	–	(185)	–	(193)
Total deficit at the end of the period	**(836)**	**(4,007)**	(1,242)	(5,180)

The weighted average scheme duration for each of the Group's material defined benefit schemes, is:

- 1994 Section: 8 years
- Network Rail schemes: 22 years
- British Transport Police Force Superannuation Fund: 20 years
- British Transport Police Railway Pensions Scheme: 29 years

Across the Group, expected employer contributions in 2022-23 are 168m.

Network Rail's RPS and CARE schemes, in addition to the BR Shared Cost Section, are shared cost in nature.

The cost of benefits earned and of funding any shortfall in the schemes are normally split in the proportion 60:40 between the employer and the members. The deficit recognised in these statements is the proportion relating to the employer only.

Reconciliation of net pension liability

	Core Department & Agencies	Departmental Group		
	Deficit	Asset	Liabilities	Deficit
	£m	£m	£m	£m
As at 31 March 2020	(1,416)	8,144	(12,210)	(4,066)
Current service cost including members' share	(1)	–	(346)	(346)
Past service costs	–	–	–	–
Interest on pension deficit	(32)	178	(267)	(89)
Administration expenses	–	(12)	–	(12)
Return on plan assets greater than the discount rate	483	1,645	–	1,645
Section amendment	–	–	–	–
Actuarial gain/(loss) arising from changes in financial assumption	(291)	–	(2,569)	(2,569)
Actuarial gain/(loss) on defined benefit obligation due to demographic assumptions	–	–	15	15
Actuarial gain/(loss) arising from experience adjustments	13	–	89	89
Regular contributions by employer	2	153	–	153
Contributions by employees	–	17	(17)	–
Benefits paid	–	(512)	512	–
As at 31 March 2021	(1,242)	9,613	(14,793)	(5,180)
Current service cost including members' share	(3)	–	(503)	(503)
Past service costs	–	–	–	–
Interest on pension deficit	(21)	185	(286)	(101)
Administration expenses	–	(16)	–	(16)
Return on plan assets greater than the discount rate	152	585	–	585
Section amendment	–	–	–	–
Actuarial gain/(loss) arising from changes in financial assumption	91	–	600	600
Actuarial gain/(loss) on defined benefit obligation due to demographic assumptions	–	–	45	45

	Core Department & Agencies	Departmental Group		
	Deficit	Asset	Liabilities	Deficit
	£m	£m	£m	£m
Actuarial gain/(loss) arising from experience adjustments	185	–	401	401
Regular contributions by employer	2	162	–	162
Contributions by employees	–	17	(17)	–
Benefits paid	–	(492)	492	–
As at 31 March 2022	**(836)**	**10,054**	**(14,061)**	**(4,007)**

The “return on plan assets” represents the interest and gains or losses generated by the assets that the scheme invests in.

Past service costs or credits arise when an employer undertakes to provide a different level of benefits than previously promised. Following the Lloyds judgement in October 2018, pension schemes are required to equalise in respect of Guaranteed Minimum Pensions (GMP) accrued after 17 May 1990. Analyses of the scheme memberships in the Group found that only a low number of members are within the scope of this initiative, therefore, the schemes initially made allowances of up to 1% of the total liabilities in 2018-19 for the cost of GMP equalisation, which were revised down to 0.4% in 2019-20; analysis of recent benefit payments including interest indicate that these allowances remain appropriate.

Net interest costs reflect the increase in the present value of the pension liability during the year because the benefits are one period closer to settlement. The financing cost is based on the discount rate (including inflation) at the start of the year and is calculated on the gross liability of unfunded schemes and the net liability of funded schemes. The expense from unwinding the discount rate is recognised against net expenditure.

Analysis of scheme assets

The asset values disclosed reflect the Departmental Group's exposure to underlying asset classes through holdings of units of the pooled funds in which the underlying assets are held. Underlying assets are managed by the pension administrator, Railpen, and the control over economic benefits for Departmental entities is established through the unitisation of those funds. The table below illustrates the underlying assets proportional to the Departmental entities' unit holdings in various pooled funds, and their position in the fair value hierarchy as defined by IFRS 13 of the underlying assets.

Level 1 and 2 assets include diversified exchange-traded funds valued at open trading prices. Level 3 includes property, private equity and equity in non-exchange traded pooled investment vehicles, which are measured using valuation techniques that include inputs based on unobservable market data (unobservable inputs) and therefore are inherently more subjective than Level 1 and 2 assets.

Analysis of assets in significant schemes, £m					
				2021-22	2020-21
	Level 1	Level 2	Level 3	Total	Total
Cash and current assets	777	–	–	777	1,062
Derivatives – Futures	–	–	–	–	7
Derivatives – FX Contracts	–	–	–	–	–
Equities	4,353	–	103	4,456	3,815
Fixed Interest Securities	415	29	12	456	463
Index Linked Securities	230	1	–	231	223
Pooled Investment Vehicles	–	776	–	776	676
UK Property	–	–	638	638	562
Private equity and non-exchange traded pooled investment vehicles		232	1,907	2,139	2,250
Other	–	–		–	7
Total	**5,775**	**1,038**	**2,660**	**9,473**	9,065
Assets in minor schemes:					
Other – DFT Core, minor schemes				345	345
Other – NR CARE				236	203
Fair value of plan assets (departmental Group)				10,054	9,613

Pension scheme assets classified as Level 3 have an inherently greater level of estimation uncertainty than those classified as Level 1 or Level 2. A movement of 5% in the value of these Level 3 assets would increase or decrease the Group's defined pension deficit by £133m. In 2021-22, pension scheme assets in the major schemes included level 3 investments of £2,660m. These comprised: £1,907m private equity and non-exchange traded Pooled Investment Vehicles; £103m in equities; £12m fixed interest securities; and £638m in Property. The value of these level 3 investments accounted for 28% of total pension assets held. In 2020-21, the following amounts were recorded as Level 3 investments: private equity £2,250m; property £562m, equities £64m; and fixed interest securities £14m.

Amounts charged to operating costs

	2021-22		2020-21	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Current service cost	3	503	1	346
Past service cost	–	–	–	–
Net interest expense/(income)	21	101	32	89
Administrative costs and taxes	–	16	–	12
Total	**24**	**620**	33	447
Of which:				
Employer contributions included in Note 3.1	2	162	3	152
Pension scheme costs per Note 3.6	22	458	30	295

The current service cost is the expected cost of benefits accrued in the year following the valuation date. This is calculated using the expected benefits accrued over the year, and considering the expected payments made in relation to this benefit. This takes account of any expected salary and pension increases. The cost is the amount needed at the valuation date, such that after receiving expected interest, the payments are covered.

Amounts recognised in other comprehensive expenditure

	2021-22		2020-21	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Return on plan assets greater than the discount rate	(152)	(585)	(483)	(1,645)
Actuarial loss/(gain) arising from changes in assumptions	(91)	(642)	291	2,554
Actuarial loss/(gain) arising from experience adjustments	(185)	(401)	(13)	(89)
Total (gain)/loss	**(428)**	**(1,628)**	(205)	820

The key assumptions used in the calculation of the pension deficit are shown in the table below. The discount rate is based on market yields on high quality corporate bonds at the end of the reporting period. Inflation represents the projected increases to pensions in payment. At present, CPI is the government's inflation measure for increases under the Pension (Increase) 1971. CPI is calculated in reference to market rates. The net gain or loss in OCI is mainly driven by the balance of the movement in net discount rate assumption (net of CPI) and the return on assets in excess of the discount rate at the beginning of the year.

Principal actuarial assumptions at the reporting date (expressed as weighted average):

	NR (RPS)	NR (CARE)	1994 Section	BTP Force Superannuation Fund (BTPFSF)
2020-21				
Discount rate	2.10%	2.10%	1.70%	1.95%
Future pension increases	2.80%	2.80%	2.40%	2.75%
Future prices increase (CPI unless otherwise stated)	2.80%	2.80%*	2.40%	2.75%
Rate of increase in salaries	3.20%	3.20%	3.20%	2.70%
2021-22				
Discount rate	2.70%	2.70%	2.60%	2.60%
Future pension increases	3.20%	3.20%	3.35%	3.15%
Future prices increase (CPI unless otherwise stated)	3.20%	3.2%*	3.35%	3.15%
Rate of increase in salaries	3.60%	3.60%	3.35%	3.15%

The majority of the Group's pension obligation are linked to inflation, where higher inflation will lead to higher value being placed on the obligation. Some of the scheme assets are either unaffected by inflation or loosely correlated with inflation (e.g. growth assets), however an increase in inflation will generally increase the pension scheme deficit. On 4 September 2019, the Government and UK Statistics Authority (UKSA) published correspondence relating to the future of RPI. Following the consultation, in November 2020, UKSA noted their intention that from 2030 RPI will be aligned with CPIH. CPIH reflects CPI including owner occupiers' housing costs and Council Tax: it has historically been closely aligned with CPI. The implications of these developments during the current and prior years are reflected in the assessment of the most suitable CPI assumptions for each scheme at 31 March 2021 and 2022.

* The detailed arrangements for CPI/RPI indexation of this scheme are set out on page 542.

Scheme	Average life expectancy on retirement			
	Members aged 45		Members aged 65	
	Males	Females	Males	Females
1994 Section	n/a	n/a	21.3	23.4
Network Rail (RPS and CARE)	22.7	24.9	21.0	23.0
BTPFSF	23.6	26.1	22.3	24.7

At this stage, the impact of the COVID-19 pandemic on life expectancy is not known and will remain uncertain until the effects on underlying population health are known. There is a lag for mortality data to be processed to revise the models on which future mortality expectations are based. As yet, there are no firm conclusions on the impact on mortality, but this is expected to emerge as more data is collected. Please see the section below for the sensitivity of the results to changes in mortality assumptions.

Correction of prior period census data error

During the year, the Department was advised that the pension scheme deficit as at 31 March 2021 for the Core Department of £1,242m was over-stated by c. £300m. The over-statement arose from an over-count of the scheme members. The scheme actuary based their calculation of the scheme liabilities on membership data provided by the scheme administrators, which was benchmarked against the previous year's membership assumptions adjusted for predicted mortality during the year. However, it was subsequently found that the membership data included some deceased member records. Although the value of the error exceeds the published quantitative materiality benchmark identified in the 2020-21 audit certificate, the error is judged on a qualitative basis not to be material to a user's understanding of these accounts and therefore is corrected prospectively in the current year's financial statements. The following factors informed this materiality assessment:

- User interest in these financial statements is considered to focus primarily on income & expenditure, and the associated use of taxpayer funds in discharging the Department's functions. The error does not affect the calculation of the Group's expenditure for 2020-21, as it relates to amounts that were reflected in other comprehensive net expenditure. Such amounts, particularly those relating to defined benefit pensions, are expected to be volatile by nature and therefore to be of limited predictive value. In addition, the error does not affect the Group's performance against the expenditure controls for 2020-21 as reported in the Statement of Outturn against Parliamentary Supply. There is no impact of the error on outturn against any of the budget categories.

- The pension scheme deficit is an accounting estimate which is inherently sensitive to a number of key accounting assumptions, as indicated in the tables below. Within an acceptable range, the assumptions selected are considered to be materially reasonable. While the value of the census data error in isolation is quantitatively greater than the published materiality benchmark, the impact is not material when assessed against the estimation boundaries which would have been considered materially acceptable in the prior period, if reasonable alternative assumptions had been selected. This indicates that the error identified does not have a material impact on a user's understanding of these accounts.

Sensitivity Analysis

The table below shows the impact of changes to assumptions on the net deficit of schemes where economic and actuarial assumptions have a material impact on the financial statements. Increases to the deficit are presented as positive numbers. Decreases to the deficit are shown in brackets as negative numbers.

	31 March 2022			31 March 2021		
	NR (RPS & CARE)	1994 Section	BTPFSF	NR (RPS & CARE)	1994 Section	BTPFSF
	£m	£m	£m	£m	£m	£m
Discount rate						
+0.25%	(683)	(80)	(126)	(721)	(90)	(130)
-0.25%	737	80	137	780	90	141
Life expectancy						
+1 year	504	170	89	534	190	96
-1 year	(501)	(160)	(89)	(534)	(200)	(96)

	31 March 2022			31 March 2021		
	NR (RPS & CARE)	1994 Section	BTPFSF	NR (RPS & CARE)	1994 Section	BTPFSF
	£m	£m	£m	£m	£m	£m
Earnings increase						
+0.25%	204	n/a	n/a	217	n/a	n/a
-0.25%	(197)	n/a	n/a	(209)	n/a	n/a
Price inflation						
+0.25%	491	50	121	541	70	112
-0.25%	(454)	(50)	(107)	(484)	(70)	(100)
+0.50%	981	100	242	1,082	140	224
-0.50%	(908)	(100)	(214)	(968)	(140)	(200)

Risk analysis

Defined benefit scheme liabilities expose the Departmental Group to material financial uncertainty, arising from factors such as changes in life expectancy and in the amount of pensions payable. Some scheme investments, such as equities, should offer long-term growth more than inflation, but are typically more volatile in the shorter term than government bonds.

The cost of financing defined benefit pension deficits is borne by a number of parties. For shared cost schemes, such as the RPS shared cost sections, any increase in contributions will be met in part by the employees and this element of the deficit is not recorded as a liability on the balance sheet. In the case of the employer's contributions to both the NR and BTP schemes, any deficits will be met by increased contributions by all of the employer participants in the schemes. Shared cost arrangements result in a restriction of net deficit recognition to the employer's share, unless there is a pattern of evidence of the employer accepting responsibility, on a discretionary basis, for deficits arising beyond their nominal share.

Potential obligation to Merchant Navy Officers' Pension Fund

As participating employers in the MNOPF the GLAs are liable for any deficit contributions should the fund not be able to meet its future liabilities. The GLAs have paid the deficit contributions which were due for payment on 30 June 2013 in respect of the 2012 valuation. Further actuarial valuations were carried out as at 31 March 2015, 31 March 2018 and 31 March 2021 which resulted in no further calls for deficit contributions. Any further liability will be restricted to additional contributions sought if 2012 contributions cannot be recovered from other employers (e.g. liquidated companies). Additional liability may arise as a result of new actuarial valuations in the future. The next valuation is due as at 31 March 2024.

25. Entities within and outside the departmental boundary

Within the Departmental Accounting boundary

The following entities were within the Departmental boundary during 2021-22 and are reported as part of the Department's financial statements. All these entities publish their own annual report and accounts.

Executive Agencies

Maritime and Coastguard Agency
Driver and Vehicle Licensing Agency
Vehicle Certification Agency
Driver and Vehicle Standards Agency

Arm's Length Bodies (Executive Non-Departmental Public Bodies)

British Transport Police Authority
Directly Operated Railways Limited (*This company (06950819) is exempt from audit of its account by virtue of s479A of Companies Act 2006*)
East West Railway Company Limited
High Speed Two (HS2) Limited
The Commissioners of Irish Lights
The Commissioners of Northern Lighthouses
Trinity House Lighthouse Service
Transport Focus

Arm's Length Bodies (Other than Non-Departmental Public Bodies)

Network Rail Group (Network Rail Limited and its UK subsidiaries)
National Highways Company Limited
CTRL Section 1 Finance plc
LCR Finance plc
Air Safety Support International Limited
Air Travel Trust Fund
Train Fleet (2019) Limited

Transport Focus Wales Limited
Transport Focus Scotland Limited

Not reported within the Departmental Accounting boundary

Financial information for the following entities can be obtained from their separately published annual reports and accounts.

Public Corporations

DFT OLR Holdings Limited
London North Eastern Railway Limited
Northern Trains Limited
SE Trains Limited (from 17 October 2021)

As described in Note 27 the remaining Train Operating Companies not controlled by DOHL were reclassified as Public Corporations with effect from 1 April 2020.

London and Continental Railways Limited (see Notes 12.2 and 26.1 for further information)
Crossrail International Limited
Civil Aviation Authority
Dover Harbour Board
Milford Haven Port Authority
Port of London Authority
Port of Tyne Authority
Shoreham Port Authority
Blyth Harbour Commissioners
Harwich Haven Commissioners
Poole Harbour Commissioners

Staithes Harbour Commissioners
Chichester Harbour Conservancy
Hope Cove Harbour Commissioners
Langstone Harbour Board
Littlehampton Harbour Board
River Yealm Harbour Commissioners
Sandwich Port and Haven Commissioners
Saundersfoot Harbour Commissioners

Non-Ministerial Department and Regulator

Office of Rail and Road

Other Entities

Network Rail Insurance Limited (Guernsey) (see Notes 14.2 and 26.3 for further information)
NATS Holdings Limited (see Note 14.1 for further information)
Marine and Aviation Insurance (War Risks) Fund
Crossrail Complaints Commissioner
General Lighthouse Fund
VCA Southern Europe Srl.

26. Investments in controlled entities that are not consolidated

IFRS 10 requires the consolidation of all investees controlled by the entity. Control gives the entity the ability to deploy assets and liabilities and allocate financial risks and benefits between investees, to maximise the success of the Group as a whole. Consolidation ensures that the financial statements reflect this process transparently. Control is commonly evidenced by ownership of the majority of voting shares in the investee. However, for central government departments, consolidation boundaries are defined by ONS sector classifications, which are reflected in the Statutory Instrument that dictates which entities are consolidated. This departure from IFRSs 3 (Business Combinations) and 10 (Consolidated Financial Statements) is in accordance with the FReM; see Note 1.3 for more details.

In some cases, the Department holds controlling shareholdings in entities that are not consolidated in its financial statements, typically because the ONS has classified them to sectors other than central government. This Note provides a disclosure of these entities' strategic role, their financial performance and position, and their transactions with the consolidated group.

26.1 London & Continental Railways Limited (LCR Ltd)

Strategic role

LCR Ltd was established by a consortium of investors to deliver the Channel Tunnel Rail Link (HS1) project. It was brought into the public sector in 2009 because the Department had taken the majority of the project risk. The company now manages and develops properties with historic associations with the rail sector (HS1 and former British Rail sites) to maximise the commercial benefits to the taxpayer.

LCR Ltd's most significant assets are investments in property development partnerships, investment properties and cash realised from property sales. These in turn drive the most material components of its profits. The data below comes from the company's financial statements for the year ending 31 March 2022. These are prepared in accordance with IFRS, and all items are measured on the same basis as applied by the Department.

Financial performance and position

	2021-22	2020-21
	£m	£m
Stratford City	8	10
Investment properties and PPE	195	218
Non-current receivables from related parties	19	20
Current assets	126	90
Current liabilities	(19)	(15)
Non-current liabilities	(39)	(36)
Net assets	**290**	287
Revenue	83	37
Cost of sales	(38)	(11)
Administrative expenses	(8)	(8)
Gain/(loss) on revaluation of investment properties	(20)	(71)
Net finance expense	(1)	(1)
Share of loss of associates and joint venture	(2)	(1)
Profit/(loss) before tax	**14**	(55)
Tax	(7)	5
Profit/(loss) for the year and Total comprehensive income	**7**	(50)

The figures above are book values and will not agree to fair value figures included in other Notes to these financial statements.

Transactions with the consolidated group

During 2021-22 LCR Ltd paid a dividend of £4m to the Department (2020-21: £10m). There were no other material transactions with the group in 2021-22 and 2020-21. The company does not benefit from any guarantees from the Department, and there are no material financial commitments with the Department.

Carrying value of the Group's investment in LCR Ltd

The Group's investment in LCR Ltd is held at fair value (see Note 12.2), with a carrying value of £298m as at 31 March 2022 (2021: £295m).

26.2 DFT OLR Holdings Limited (DOHL)

Strategic role

DOHL was set up by the Department to act as an immediate parent to any active companies performing operator of last resort (OLR) roles in the rail sector. Its active OLR subsidiaries during the year comprise LNER Ltd, Northern Trains Ltd and SE Trains Limited. DOHL also acts as a parent to Train Fleet (2019) Ltd, however Train Fleet (2019) Ltd is consolidated in these financial statements and is therefore not reflected in the valuation of the investment in Note 12. DOHL performs an oversight role for these companies, making investments of debt and equity in them and thus setting performance criteria for them. On 17 October 2021, the Government took back responsibility for operating passenger services in London and the South East, and SE Trains Limited was activated for that purpose.

Financial performance and position

DOHL's draft consolidated accounts, which also include Train Fleet (2019) Ltd. DOHL's final accounts for the year will be published and filed at Companies House in summer 2022. These are prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006 and therefore all material items are measured on the same basis as applied by the Department.

	2021-22	2020-21 (restated)
	£m	£m
Non current assets and assets held for sale	1,111	768
Current trade and other receivables	285	68
Cash and cash equivalents	303	201
Other current assets	14	8
Current trade and other payables	(888)	(571)
Non-current liabilities	(713)	(384)
Net assets	**112**	90
Revenue	2,195	1,635
Other operating costs	(2,141)	(1,544)
Net finance income/(charge)	(30)	(38)
Profit before tax	**24**	53
Tax	(1)	(11)
Profit for the year	**23**	42

Material amounts of revenue were amounts receivable from the Department. Subsidies paid by the Department were £1,130m.

The amounts related to Trainfleet (2019) Limited in the table above were immaterial to the group position. On 17 October 2021, SE Trains Ltd acquired the net assets of London and South Eastern Railway Ltd.

Transactions with the consolidated group

During the year, the Department had the following balances and transactions with members of the DOHL group:

- DOHL made repayments on a loan from the Department, disclosed in Note 11;
- The Department paid subsidies to LNER Ltd, Northern Trains Ltd and SE Trains Ltd, as disclosed in Note 27.

Carrying value of the Group's investment in DOHL

The Group's investment in DOHL is held at fair value (see Note 12.3), with a carrying value of £112m as at 31 March 2022 (2021: £249m).

In its financial statements for the year ended 31 March 2022, DOHL changed its approach to accounting for defined benefit arrangements, to adjust the pension asset to nil. As a result, the DOHL group net assets have reduced, with a consequent effect on the carrying value of the Department's investment.

26.3 Joint ventures

Network Rail has joint control over several entities, including the Station Office Network and West Hampstead Square, which are also presented in the available-for-sale financial assets disclosure. Network Rail's investment in these entities does not give rise to material financial risk to the group.

No other investees give rise to material financial risks or benefits to the group as a whole.

27. Entities controlled but not consolidated: Train Operating Companies for which no investment is recognised in the Statement of Financial Position

Train operating companies

On 31 July 2020, the Office for National Statistics (ONS) reclassified the twelve train operating companies which were contracted to the Department under franchise agreements. They were reclassified to the public sector as Public Corporations, with effect from 1 April 2020, following the commencement of the Emergency Measures Agreements (EMAs). This reflected ONS' view that the EMAs gave the Department control over the companies, as defined under the ESA 10 National Accounts framework. In particular, the ONS noted that the EMAs imposed constraints on the TOCs' ability to raise funds, set ticket prices and workforce levels, and required them to maintain service levels when open access operators, which were more exposed to market forces, suspended operations. The ONS concluded that almost all of the financial risks were borne by government. In parallel, the Department had evaluated the nature of the powers it had obtained under the EMAs against the criteria set out in IFRS 10, and similarly concluded that it had obtained control for accounting purposes over those companies. EMAs did not provide the Department with legal control over these companies, and the legal arrangements for those companies remained unchanged by the EMAs. The Department has no other powers or basis for control over the companies, for example, it does not hold any equity instruments or other voting rights. Each of these companies is a special purpose vehicle owned by its respective owner group.

In September 2020, the EMAs were succeeded by the Emergency Recovery Measures Agreements (ERMAs). Under the ERMAs, the Department continued to hold the same powers that led to the reclassification of the TOCs by the ONS. During 2021-22, the companies started to transition to NRCs, which again leave the Department with similar powers. Ordinarily, an investor consolidates those investees that it controls. However, in accordance with the FReM, government departments consolidate only those bodies that have been classified to the central government sector and have been included on the

Designation Order for the relevant year. As this is not the case for 2021-22 or 2020-21, the companies have not been consolidated in these accounts. As noted above, the Department does not hold any equity instruments in the companies; while the contracts expose the Department to the costs and revenues of the companies' operations, they do not give us a residual interest in the companies' net assets, such as a right to a distribution on liquidation. Accordingly, the Department does not recognise any investment in these entities in its Statement of Financial Position. This treatment of these contracts differs from the accounting requirements for the Department's shareholdings in LNER, Northern Trains Ltd (NTL) and SE Trains Ltd (SETL), for which the Department has a 100% equity interest and full rights to any dividends or capital appreciation: accordingly, our interests in LNER, NTL and SETL are recorded as investment assets measured at fair value. Within these financial statements, the NRC, ERMA and EMA costs have been recognised as expenditure, following the accounting policy disclosed in Note 1.23.3.

In order to meet the transparency requirements of IFRS 12, the Department presents the disclosures required by IFRS 12 for unconsolidated structured entities, which it considers to be the best fit for these circumstances.

Transactions and balances between the Department and the Train Operating Companies

The table below gives a list of the companies affected by the NRCs, ERMAs and EMAs and the contacts they operate. The table sets out the Department's balances and transactions with the companies under both types of agreement since 1 March 2020 as the mechanism that transferred control for accounting purposes to the Department. Although LNER, SETL and NTL operate under different agreements with the Department, the transactions between the Department and these companies have been significantly impacted by COVID-19. Transactions with LNER, NTL and SETL are therefore included in the table for reference. This table provides an overview the costs incurred by the Department to support the passenger services rail sector during the contract period of the NRCs, EMAs and ERMAs to 31 March 2022.

Given the similarity of the NRCs, EMAs and ERMAs, the amounts paid under the different agreements for 2020-21 and 2021-22 are not separated. Total subsidies paid to operators in 2021-22 exceed the cost of Support for Passenger Rail Services as shown in note 3.2: this is because the costs recorded in note 3.2 are net of other contractual adjustments which do not directly relate to the current year subsidy.

Transactions and balances between the Department and TOCs under the NRCs, EMAs and ERMAs

Company name	Contract types with DFT in 2021-22	Departmental expenditure on ERMA/ NRC for 2021-22 (£m)	Department's prepayment/ accrual balance as at 31 March 2022 (£m)	Departmental expenditure on EMA/ ERMA for 2020-21 (£m)	Department's prepayment/ accrual balance as at 31 March 2021 (£m)
The Chiltern Railway Company Limited	Chiltern: franchise (March 2002 – December 2027)	48	(29)	171	18
XC Trains Limited	Cross Country: franchise (October 2016 – October 2023)	292	1	443	37
Abellio East Anglia Limited	East Anglia: franchise (October 2016 – September 2021); National Rail Contract (September 2021 – September 2026)	227	4	428	109
Abellio East Midlands Limited	East Midlands: franchise (August 2019 – October 2022); Direct award (October 2022 – October 2030)	185	43	341	36
Trenitalia c2c Limited	Essex Thameside: Franchise (November 2014 – July 2021); National Rail Contract (July 2021 – July 2023)	86	(30)	115	9

Company name	Contract types with DFT in 2021-22	Departmental expenditure on ERMA/ NRC for 2021-22 (£m)	Department's prepayment/ accrual balance as at 31 March 2022 (£m)	Departmental expenditure on EMA/ ERMA for 2020-21 (£m)	Department's prepayment/ accrual balance as at 31 March 2021 (£m)
First Greater Western Limited	Great Western: franchise (April 2006 – March 2023)	730	95	1,100	138
London and South Eastern Railway Limited	South Eastern: franchise (October 2014 – October 2021)	359	(5)	873	72
First MTR South Western Trains Limited	South Western: franchise (August 2017 – May 2021); NRC (May 2021 – May 2025)	394	47	804	20
Govia Thameslink Railway Limited	Thameslink, Southern and Great Northern: Franchise (September 2014 – April 2022); National Rail Contract (April 2022 – April 2025)	753	(90)	1,306	61
First TransPennine Express Limited	TransPennine Express: franchise (April 2016 – May 2023) Direct award (April 2023 – April 2031 (PIN))	205	31	335	44
First Trenitalia West Coast Rail Limited	West Coast Partnership: Franchise (December 2019 – March 2031)	361	0	742	30

Company name	Contract types with DFT in 2021-22	Departmental expenditure on ERMA/ NRC for 2021-22 (£m)	Department's prepayment/ accrual balance as at 31 March 2022 (£m)	Departmental expenditure on EMA/ ERMA for 2020-21 (£m)	Department's prepayment/ accrual balance as at 31 March 2021 (£m)
West Midlands Trains Limited	West Midlands: Franchise (December 2017 – September 2021); National Rail Contract (September 2021 – September 2026)	343	22	449	44
Sub-total, companies under ERMAs/ EMAs		**3,983**	**89**	**7,107**	**618**
Northern Trains Limited	Northern: franchise (March 2020 – March 2027)	649	72	772	95
SE Trains Limited	South Eastern: franchise (October 2021 – October 2027)	228	53	0	0
LNER Limited	East Coast Mainline: franchise (June 2018 – June 2025)	253	53	578	40
Grand total, ERMAs/ EMAs and State-owned rail companies		**5,113**	**267**	**8,457**	**753**

Historic information on Train Operating Companies' financial position and financial performance

The table on the next page provides relevant data from the TOCs' most recent published, audited accounts. Most TOCs have not yet published their accounts for 2021-22, and many TOCs do not have a 31 March year-end for their own statutory accounts. As such, the period for which the most recent published accounts are available differs by TOC: details of the most recent relevant period and the financial year-end is included for each company in the table on the next page.

TOC employees are typically members of a section of the Railways Pension Scheme (RPS), which are defined benefit, shared-cost arrangements. Defined benefit arrangements are usually accounted for by recognising the net surplus/(deficit) on balance sheet, and recognising the cost of the additional benefits earned during the year and net interest income/(expenditure) on the surplus/(deficit). Given the finite term of the TOC's contract with the Department, they make a "franchise adjustment", so that only the employer's contributions over the contract term are recognised in the primary statements. The net surplus/(deficit) disclosed in the table on the next page reflects the employer's 60% share of the full deficit, before the franchise adjustment, which reflects the basis set out in the trust deed on which a deficit/surplus is shared between the employer and scheme members. The deficit is the amount calculated for accounting purposes rather than the funding valuation as assessed by the scheme's trustee and actuary.

Company name	Contract details (e.g. region, start to end dates)	Reporting basis	Year ended	Net assets/ (liabilities) (£m)	Employer's share of pension scheme surplus/ (deficit) before franchising adjustment (£m)	Employer's share of pension scheme assets before franchising adjustment	Employer's share of pension scheme liabilities before franchising adjustment	Gross revenues: turnover and other operating income (£m)	Gross expenditures: cost of sales and other operating costs (£m)	Operating profits/ (losses)* (£m)	Employer's share of pension scheme costs before franchising adjustment (current service cost, interest etc) (£m)
2021-22											
Current companies participating in ERMAs and NRCS											
The Chiltern Railway Company Limited	Chiltern: franchise (March 2002 – December 2027)	FRS 101	31-Dec-20	24	(130)	125	(255)	213	(217)	(4)	11
XC Trains Limited	Cross Country: franchise (October 2016 – October 2023)	FRS 101	31-Dec-20	30	(299)	289	(588)	516	(506)	10	22
Abellio East Anglia Limited	East Anglia: franchise (October 2016 – September 2021); National Rail Contract (September 2021 – September 2026)	FRS 101	31-Mar-21	(2)	(158)	326	(484)	624	(323)	301**	17
Abellio East Midlands Limited	East Midlands: franchise (August 2019 – October 2022); Direct award (October 2022 – October 2030)	FRS 101	31-Mar-21	19	(160)	272	(432)	437	(428)	9	17

Company name	Contract details (e.g. region, start to end dates)	Reporting basis	Year ended	Net assets/ (liabilities) (£m)	Employer's share of pension scheme surplus/ (deficit) before franchising adjustment (£m)	Employer's share of pension scheme assets before franchising adjustment	Employer's share of pension scheme liabilities before franchising adjustment	Gross revenues: turnover and other operating income (£m)	Gross expenditures: cost of sales and other operating costs (£m)	Operating profits/ (losses)* (£m)	Employer's share of pension scheme costs before franchising adjustment (current service cost, interest etc) (£m)
Trenitalia c2c Limited	Essex Thameside: Franchise (November 2014 – July 2021); National Rail Contract (July 2021 – July 2023)	FRS 101	31-Dec-20	(128)	(81)	84	(165)	83	(81)	2	8
First Greater Western Limited	Great Western: franchise (April 2006 – March 2023)	FRS 102	31-Mar-21	33	(439)	730	(1,169)	1,350	(1,310)	40	54
London and South Eastern Railway Limited	South Eastern: franchise (October 2014 – October 2021)	FRS 101	27-Jun-20	83	(760)	533	(1,293)	1,057	(1,029)	28	47
First MTR South Western Trains Limited	South Western: franchise (August 2017 – May 2021); NRC (May 2021 – May 2025)	FRS 102	31-Mar-21	(104)	(339)	661	(1,000)	968	(938)	30	38
Govia Thameslink Railway Limited	Thameslink, Southern and Great Northern: Franchise (September 2014 – April 2022); National Rail Contract (April 2022 – April 2025)	FRS 101	3-Jul-21	69	(1,280)	918	(2,198)	1,758	(1,703)	55	102
First TransPennine Express Limited	TransPennine Express: franchise (April 2016 – May 2023) Direct award (April 2023 – April 2031 (PIN))	FRS 102	31-Mar-21	(43)	(96)	126	(222)	438	(365)	73	13

Company name	Contract details (e.g. region, start to end dates)	Reporting basis	Year ended	Net assets/ (liabilities) (£m)	Employer's share of pension scheme surplus/ (deficit) before franchising adjustment (£m)	Employer's share of pension scheme assets before franchising adjustment	Employer's share of pension scheme liabilities before franchising adjustment	Gross revenues: turnover and other operating income (£m)	Gross expenditures: cost of sales and other operating costs (£m)	Operating profits/ (losses)* (£m)	Employer's share of pension scheme costs before franchising adjustment (current service cost, interest etc) (£m)
First Trenitalia West Coast Rail Limited	West Coast Partnership: Franchise (December 2019 – March 2031)	FRS 102	31-Mar-21	14	(296)	504	(800)	895	(879)	16	28
West Midlands Trains Limited	West Midlands: Franchise (December 2017 – September 2021); National Rail Contract (September 2021 – September 2026)	FRS 101	31-Mar-21	(35)	(195)	372	(567)	573	(561)	12	24
				(40)	**(4,233)**	**4,940**	**(9,173)**	**(8,912)**	**(8,340)**	**572**	**381**
DfT-owned companies											
These companies operate the their contracts under Operator of Last Resort arrangements. These results are based on DOHL's draft accounts. DOHL will publish its final results in summer 2022.											
London North Eastern Railway Limited	East Coast Mainline: franchise (June 2018 – June 2025)	FRS 101	31-Mar-22	32	(156)	458	(614)	759	(729)	30	34
SE Trains Limited	South Eastern: franchise (October 2021 – October 2027)	FRS 101	31-Mar-22	4	(271)	659	(930)	489	(483)	6	28
Northern Trains Limited	Northern: franchise (March 2020 – March 2027)	FRS 101	31-Mar-22	27	(320)	853	(1,173)	942	(929)	13	79
				63	**(747)**	**1,970**	**(2,717)**	**2,190**	**(2,141)**	**49**	**141**
Grand Total				**23**	**(4,980)**	**6,910**	**(11,890)**	**11,102**	**(10,481)**	**621**	**522**

* Statutory profits can, in part, be a function of technical accounting adjustments and therefore may not represent profits arising from fees payable by DfT under contractual agreements.

** The £301m profit in Abellio East Anglia Ltd is driven by £213m credit for reversal of prior year onerous contract liability and £73m for reversal of prior year impairment charges. These are technical accounting adjustments and do not represent profits arising from DFT or taxpayer subsidy.

28. Related-party transactions

The DfT is a parent of the Executive Agencies listed at Note 25 and a sponsor of the non-departmental public bodies and other central government organisations listed there.

These bodies are regarded as related parties with which the Department has had various material transactions during the year. Ian King was appointed as Special Director of HS2 Ltd in August 2021: the position ended in January 2022.

In addition, the DfT has had various material transactions with other public sector bodies. Most transactions have been with the Greater London Authority, Transport for London, HMRC, Transport Scotland and HM Treasury.

As disclosed in Note 25, the Department is the sponsor of various bodies that it is deemed to control which are classified as public corporations because they are market bodies, typically covering at least half of their costs through external revenues. The Department's material routine transactions with these bodies are disclosed in Notes 26 and 27. During 2021-22, the Department also provided the following grants, to address COVID-19-related shortfalls in the recipients' external revenues:

- The Civil Aviation Authority: £47m

During the year, no Minister, board member, key manager or other related party has undertaken any material transactions with the DfT except for the item reported below.

Richard Keys serves as a non-executive member at the DfT and was also appointed by the Secretary of State for Transport as a non-executive director of NATS Holdings Ltd, in which the Department owns a minority shareholding, as shown in Note 14.1. The Department undertook the following transactions with NATS Holdings Ltd and its subsidiaries.

	2021-22	2020-21
	£m	£m
Investment held by the Department in NATS Holdings Ltd	417	298
Dividends received by the Department from NATS Holdings Ltd		–
Amounts paid by the Department to NATS Holdings Ltd	0.5	0.5
Amounts paid from Eurocontrol to NATS via the Department	156	244

On 1 April 2021, Tony Poulter was appointed non-executive director of LCR Ltd, a company owned by the Department. Transactions between the Department and LCR Ltd are disclosed in Note 26.

Kathryn Cearns is a non-executive member of the Group Audit and Risk Assurance Committee (GARAC), a sub-committee of the Departmental Executive Committee. She is also the government's representative on the Elizabeth Line Committee, a special purpose committee of TfL. As these committees are both advisory in nature, these roles are not assessed to create a related party relationship between the Department and TfL under IAS 24.

29. Financial Risks

This Note describes the nature and extent of risks arising from financial instruments to which the Departmental Group was exposed during the period and at the end of the reporting period, and how those risks were managed. The specific financial risks borne by the Departmental Group are: Credit risk (described in Note 29.1); Liquidity risk (described in Note 29.2) and Market risk (including interest rate risk) (described in Note 29.3).

This table summarises the material sources of financial risk in the Group.

Entity	Funding mechanism	Risk	Downside Impact	Residual Risk
Core Department	Supply and cash drawn down from Consolidated Fund (voted by Parliament) with further access to the Contingencies Fund	Liquidity risk.	When entities experience any shortfall in income or financing, they need to consider reducing their costs where appropriate before seeking additional funding from the Exchequer; were such funding not available from Voted budgets, this could lead to an excess vote and receiving a qualified audit opinion over the Statement of Outturn against Parliamentary Supply.	Low
Network Rail, Vehicle Certification Authority, Driver and Vehicle Licensing Agency, Driver and Vehicle Standards Agency, British Transport Police Authority	Income from delivery of services, and grants from the core Department.	Liquidity risk; credit risk.		
Air Travel Trust Fund and the general lighthouse authorities	Taxation and levies	Liquidity risk		
Network Rail	Debt financing (from core Department and external lenders); use of derivatives for hedging.	Liquidity risk; credit risk; market risk on index-linked borrowings; market risk on ineffectual hedges; foreign exchange risk; counterparty risk.		
LCR Finance plc; CTRL Section 1 Finance plc.	Interest income from core Department to cover interest expenditure.	Liquidity risk; credit risk; market risk on index-linked borrowings.		

29.1 Credit risk

Credit risk arises from financial assets; specifically, the possibility that counterparties may fail to pay amounts owing to the Departmental Group.

The Departmental Group is exposed to credit risk through the loan balances disclosed in Note 11 and trade and other receivables disclosed in Note 16. Most of these balances are with other public sector bodies and the risk is considered to be low. None of the loans disclosed in Note 11 are past due and there has been no significant deterioration of credit quality. Consequently, no credit loss allowance or other adjustment is recognised in respect of these balances.

The Departmental Group is also exposed to credit risk through the derivative arrangements disclosed above in Note 13. These derivatives were acquired by Network Rail to manage interest rate risk, inflation risk and foreign exchange risk on their borrowings; they are discussed in more detail in Note 29.3. Network Rail may apply hedge accounting to these arrangements in its financial statements, where they are judged to be highly effective in accordance with IFRS 9. However, hedge accounting cannot be applied on consolidation to derivatives used to hedge loans from the Department, so they are held at fair value through profit or loss.

For Network Rail's derivatives, the credit risk with regard to all classes of derivative financial instruments entered into before 1 January 2013 is limited because Network Rail has arrangements in place which limit each bank to a threshold (based on credit ratings), which if breached requires the bank to post collateral in cash or eligible securities. The members of the banking group are required to post collateral on positive mark to market swaps above the threshold. In December 2012 the group entered into new collateral agreements in respect of derivative trades entered into after 1 January 2013.

Under the terms of the new agreements Network Rail posts collateral on adverse net derivative positions with its counterparties. The new agreements do not contain a provision for thresholds; as such Network Rail or its counterparties are required to post collateral for the full fair value of net out of the money positions. At 31 March 2022 the fair value of collateral held was £nil (2021: £105m). The group is the beneficial owner of this collateral. The group is free to invest or otherwise utilise the collateral at its discretion, subject to acting within the authority sanctioned by the treasury committee. The balance of collateral posted by the group at 31 March 2022 was £255m (2021: £369m).

The Departmental Group's debt instruments held at fair value through profit or loss (FVTPL) were repaid during the year, and no fair value change was recognised. For 2020-21, the entire movement in Note 3 (£30m) was attributable to changes in market risk rather than the Departmental Group's credit risk.

The group considers its maximum exposure to credit risk to be the sum of its financial assets, as set out in Notes 11 and 16, together with the undrawn loan commitment to the GLA of £271m disclosed in Note 11.

29.2 Liquidity Risk

Liquidity risk is the possibility that the Departmental Group may be unable to meet its obligations from financial and lease liabilities to be settled with cash. The Department is exposed to this risk through its trade and other payables balances, leases, borrowings and requirements to place collateral under derivative arrangements.

Many central government bodies hold relatively small cash balances compared to their forecast cash outflows, to maximise efficient cash management across government as a whole; any restrictions on the use of cash are disclosed in Note 17.

In accordance with normal government practice, most Group members do not hold commercial insurance, because it does not offer value for money, however, Network Rail and HS2 Ltd hold commercial insurance where it is legally required or to avoid taxpayer subsidy of costs that should be borne by the private sector. As the Department can draw down cash from the Consolidated Fund and Contingencies Fund, its liquidity risk is low. The table above outlines the extent to which this is true for other Group members: some are, under normal conditions, expected to be self-financing through income from third parties over the medium to longer-term; others will be funded from Supply on a routine basis.

A demonstration of this approach to managing liquidity risk occurred in 2020-21. The Department called on additional funding from the Contingencies Fund, with Parliamentary approval, three times when Departmental spending exceeded the limits set in the Vote on Account and Main Estimates, because at the time the Vote on Account and Main Estimates were finalised, the full cost of responding to the pandemic was unknown. The Department was therefore able to meet its obligations as they fell due.

Liquidity risk within Network Rail is managed on a standalone basis for historical reasons to ensure that the price of delivering the Railway Network is allocated in accordance with ORR expectations. Network Rail employs an appropriate liquidity risk management framework covering its short, medium and long-term funding and liquidity management requirements. Their treasury committee establishes policies and provides oversight designed to ensure liquidity is managed to meet Network Rail's needs, while reducing financial risks and prudently maximising interest receivable and minimising credit risk on surplus cash. Network Rail manages liquidity risk by maintaining sufficient cash and borrowing facilities to cover at least one year's working capital requirement by continuously monitoring forecast and actual cash flows.

As noted above, Network Rail is required to post collateral on adverse net derivative positions at the full fair value of net "out-of-the-money" positions. Collateral placed is disclosed in Note 16 and collateral held is disclosed in Note 18. As this leads to uncertainty in short-term cash requirements, the treasury function is managed at a departmental group level.

The following table details the Departmental Group's remaining contractual maturity for its financial liabilities.

The values reflect the undiscounted cash flows of financial liabilities, based on the earliest date on which the Group can be required to pay and therefore differs from both the carrying value and the fair value. The table includes both interest and principal cash flows.

	31 March 2022				
	Within one year	1–2 years	2–5 years	5+ years	Total
Group	£m	£m	£m	£m	£m
Non-derivative financial liabilities					
Bank loans and overdrafts	(7)	(7)	(20)	(641)	(675)
Bonds issued under the NR Debt Issuance Programme					
– Sterling denominated bonds	(150)	(1,300)	(307)	(2,966)	(4,723)
– Sterling denominated index-linked bonds	(295)	(295)	(1,295)	(23,888)	(25,773)
– Foreign currency denominated bonds	(2)	(2)	(61)		(65)
Bonds issued by LCR Finance plc and CTRL Section 1 Finance plc					
– Sterling denominated bonds	(177)	(186)	(436)	(4,789)	(5,588)
– Sterling denominated index-linked bonds	(21)	(21)	(63)	(1,246)	(1,351)
Derivative financial liabilities					
Net settled derivative contracts	(120)	(67)	(69)	(4)	(260)
Gross settled derivative contracts – receipts	29	29	88		146
Gross settled derivative contracts – payments					
Total	**(743)**	**(1,849)**	**(2,163)**	**(33,534)**	**(38,289)**

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	31 March 2021 (restated)				
	Within one year	1–2 years	2–5 years	5+ years	Total
Group	£m	£m	£m	£m	£m
Non-derivative financial liabilities					
Bank loans and overdrafts	(6)	(6)	(19)	(595)	(626)
Bonds issued under the NR Debt Issuance Programme					
– Sterling denominated bonds	(150)	(150)	(1,505)	(3,068)	(4,873)
– Sterling denominated index-linked bonds	(268)	(268)	(1,204)	(22,189)	(23,929)
– Foreign currency denominated bonds	(441)	(3)	(8)	(57)	(509)
Bonds issued by LCR Finance plc and CTRL Section 1 Finance plc					
– Sterling denominated bonds	(160)	(177)	(477)	(4,933)	(5,747)
– Sterling denominated index-linked bonds	(19)	(19)	(58)	(1,156)	(1,252)
– Trade and other payables					
Derivative financial liabilities					
Net settled derivative contracts	(177)	(120)	(126)	(14)	(437)
Gross settled derivative contracts – receipts	712	29	88	29	858
Gross settled derivative contracts – payments	(1)			(1)	(2)
Total	(510)	(714)	(3,309)	(31,984)	(36,517)

Cash flows for 2020-21 for Sterling denominated index-linked bonds issued under the DIP and Bank loans and overdrafts have been restated to align treatment of RPI across the Group.

29.3 Market risk

29.3.1 Foreign exchange risk

The most material exposure to foreign exchange risk comes from Network Rail, through its investing, financing and operating activities. This risk is managed using forward exchange contracts and currency swaps to limit

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the effects of movements in exchange rates on foreign currency denominated liabilities.

As this risk arises from arrangements with external counterparties, the position remains hedged on consolidation. It is estimated that a general increase of up to ten percentage points in the value of any currency against sterling would have no material effect on Network Rail's profit before tax or equity, due to all currency positions being 100% hedged so no sensitivity analysis is produced.

In addition, HS2 Ltd commenced a programme of purchasing forward contracts during 2020-21 to manage foreign exchange risk in its supply chain. These do not qualify for hedge accounting.

29.3.2 Interest rate and inflation risk

Network Rail is exposed to changes in interest rates from funds borrowed at both fixed and floating interest rates. The hedging strategy approved by the treasury committee defines the appropriate mix between fixed and floating borrowings. Cross-currency and interest rate swap contracts are used to manage the fixed/floating ratio. On consolidation, debt issued by the Department is eliminated, producing a different fixed/floating ratio at Departmental Group level.

Network Rail has arranged or swapped debt with a carrying value of £13,320m (2021: £18,410m) into fixed interest rates. Other borrowings (£198m) were arranged at or swapped into floating rates, thus exposing the group to cash flow interest rate risk.

Network Rail and CTRL Section 1 Finance plc have some debt issuances that are index-linked, so are exposed to movements in inflation rates. Neither company enters into any derivative arrangements to hedge its exposure to inflation in relation to its index-linked debt.

In November 2020, HM Treasury and the UK Statistics Authority published their response to the “Consultation on the Reform to Retail Prices Index (RPI) Methodology”, concluding that changes in the RPI should be calculated using the methods and data sources used to calculate the Consumer Prices Index including owner occupiers’ housing costs (CPIH)) from 2030 onwards which should result in lower rates of change in the RPI. However, the transaction documents for index-linked debt instruments may include provisions that protect the anticipated investor returns.

Sensitivity analysis

This sensitivity analysis has been determined based on the exposure to interest rates and inflation for both derivative and non-derivative financial instruments at the reporting date. A one percentage point (pp) increase or decrease represents management’s assessment of the reasonably possible changes in average interest rates and inflation.

A one pp decrease in the above rates would have an equal and opposite effect.

Interest rate sensitivities have been calculated by comparing the average rates of the derivative financial instruments to the market rate for similar instruments.

The impact of a change in GBP RPI has been calculated by applying a change of one pp to the RPI at the reporting date to the carrying value of the index linked bonds issued by both Network Rail and CTRL Section 1 Finance plc.

	31 March 2022	31 March 2021
	Impact on net expenditure	Impact on net expenditure
	£m	£m
1pp increase in the interest rate	196	213
1pp increase in GBP RPI on index linked bonds	(203)	(194)

There is no additional impact on reserves of the scenario presented above.

29.3.3 Other market risk

The Departmental Group has material investments in entities involved in the property sector. As discussed in Note 12, and particularly Note 12.2, the carrying amounts of these investments are based on expert valuations of their property assets, which will be influenced at least in part by changes in the performance of the UK property market. The level of estimation uncertainty in these valuations at 31 March 2021 and 31 March 2022 can be assessed from the disclosed valuation method discussed in Note 12.2 and the carrying values disclosed in Note 26.1.

29.3.4 Offsetting financial assets and liabilities

Financial assets

The following financial assets are subject to offsetting, enforceable master netting arrangements and similar agreements. The balances have not been presented on a net basis in the financial statements.

	Gross amounts of financial assets	Gross amounts of recognised financial liabilities set off in the SoFP	Net amount of financial assets in the SoFP	Related amounts not set off in the SoFP		Net amount
				Financial instruments	Cash collateral received	
	£m	£m	£m	£m	£m	£m
31 March 2022	12		12	(12)	95	95
31 March 2021	387		387	(283)	235	339

Financial liabilities

The following financial liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements. The balances have not been presented on a net basis in the financial statements.

	Gross amounts of financial liabilities	Gross amounts of recognised financial assets set off in the SoFP	Net amount of financial liabilities in the SoFP	Related amounts not set off in the SoFP		Net amount
				Financial instruments	Cash collateral paid	
	£m	£m	£m	£m	£m	£m
31 March 2022	(261)		(261)	12	160	(89)
31 March 2021	(649)		(649)	283	28	(338)

Cash flow hedges

The significant majority of derivatives relate to forward-starting interest rate swaps which are designated by Network Rail as cash flow hedges, but not hedge accounted at Departmental Group level for the reasons described in Note 13. These will have matured by 2027.

Borrowings

Details of the group's undrawn committed facilities and types of debt instrument used can be found in Note 19.

30. Fair value disclosures

These financial statements include assets and liabilities which are measured at fair value, and others which are measured on an alternative basis, but whose fair value is disclosed to enable the reader to assess historic and future financial performance of the entity and its management.

This Note summarises the fair values disclosed or recognised in these financial statements, their classification in the fair value hierarchy, providing comparability with carrying values where these are measured on a different basis. Since the Group's bonds and notes are traded with varying frequency, valuations are derived with reference to both directly observed activity on the instruments themselves and to observations of frequently traded reference gilts which have similar characteristics. The instruments' values are therefore classified as Level 2. A review of the categorisation of financial instruments into the three levels is made at each reporting date. There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements in the current or prior years.

Note a: These instruments are designated as fair value through profit and loss upon initial recognition.

Note b: These instruments either meet the IFRS 9 definition of held for trading or are designated and effective hedging instruments. The fair values are disaggregated in Note 13.

							31 March 2022
		Recognised at Basis	Carrying Amount	Fair Value Total	Level 1	Level 2	Level 3
Group	Note		£m	£m	£m	£m	£m
Assets							
Property, plant and equipment	5	Fair value	533,932	533,932			533,932
Investment properties	8	Fair value	211	211			211
Intangible assets	6	Fair value	406	406			406
Financial assets							
Loans and non-current receivables	11,16	Amortised cost	2,555	2,555		2,555	
Investments in equities	12	Fair value	450	450			450
Derivatives (note b)	13	Fair value	13	13		13	
Financial liabilities							
Borrowings	19	Amortised cost	(29,342)	(46,846)	(34,650)	(12,196)	
Borrowings (note a)	19	Fair value	(57)	(57)		(57)	
Derivatives (note b)	13	Fair value	(264)	(264)		(264)	

		31 March 2021 (re-stated)					
		Recognised at Basis	Carrying Amount	Fair Value Total	Level 1	Level 2	Level 3
	Note		£m	£m	£m	£m	£m
Assets							
Property, plant and equipment	5	Fair value	488,390	488,390			488,390
Investment properties	8	Fair value	213	213			213
Intangible assets	6	Fair value	286	286			286
Financial assets							
Loans and non-current receivables	11,16	Amortised cost	2,212	2,212		2,212	
Investments in equities	12	Fair value	578	578			578
Derivatives (note b)	13	Fair value	387	387		387	
Rail termination settlements receivable	16		262	262			262
Financial liabilities							
Borrowings	19	Amortised cost	(28,087)	(46,689)	(14,222)	(32,467)	
Borrowings (note a)	19	Fair value	(261)	(261)		(261)	
Derivatives (note b)	13	Fair value	(651)	(651)		(651)	

31. Events after the reporting period

Post-Balance Sheet Events

There have been no adjusting events between 31 March 2022 and the date the financial statements were authorised for issue requiring an adjustment to the financial statements.

After the year-end, the Department’s Covid-support funding arrangement with TFL was extended to 28th July 2022. Amounts payable are dependent on TFL’s commercial revenues during the period.

The MCA has been engaged in discussions to arrange that the ownership of the MCA's headquarters property in Southampton should be transferred to the Government Property Agency. The transfer took place on 1 April 2022. The MCA has paid rent to occupy the building since that date.

Authorised for issue

These financial statements are laid before the Houses of Parliament by HM Treasury. The Accounting Officer has authorised these financial statements to be issued on the same day as the Comptroller and Auditor General signs the audit certificate.

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Annex A: Glossary of financial terms (not subject to audit)

Accounting Officer		A person appointed by HM Treasury or designated by a department to be accountable for the operations of an organisation and the preparation of its accounts. The appointee is, by convention, usually the head of a department or other organisation, or the Chief Executive of a non-departmental public body.
Administration budget		A Treasury budgetary control that forms part of the resource Departmental Expenditure Limit. It is normally spent on the running costs of the Department and its agencies, including back office staff, accommodation and ICT.
Annually Managed Expenditure	AME	A Treasury budgetary control. AME is spending included in Total Managed Expenditure, which does not fall within Departmental Expenditure Limits (DEL). Expenditure in AME is generally less predictable and controllable than expenditure in DEL.

Arm's length body	ALB	An NDPB, company in which the department has a significant shareholding, or other sponsored body.
Budgetary controls		The means by which government plans and controls expenditure to meet its objectives.
Capital		Capital is for spending on assets and investment. By having a separate total for Capital DEL, funding for capital investment is both protected and controlled.
Consolidated Fund		The Government's current account, operated by HM Treasury, through which pass most government payments and receipts.
Consolidated Fund Extra Receip	CFER	Income, or related cash, received by a department that it is not authorised to retain and which are surrendered/paid over to the Consolidated Fund.

Departmental Expenditure Limit	DEL	A Treasury budgetary control. DEL spending forms part of Total Managed Expenditure and includes that expenditure which is generally within the departments control and can be managed with fixed multi-year limits. Some elements may be largely demand led.

Estimate	Supply Estimates are the means by which Parliament gives approval to (and grants resources for) Departmental Spending Plans. The amount approved by Parliament is often termed the Vote. The resources granted in the Vote are specifically for the set of Departmental operations covered under the ambits. The Vote also includes the Net Cash Requirement. Budgets may be amended via the Supplementary Estimate. This allows the Department to make various changes, including: taking account of new internal allocations; increasing or decreasing the net cash requirement; and Reserve claims to increase funding. Most departmental net spending needs to be voted annually by Parliament but some spending has separate standing legislative authority and does not need to be voted; this is referred to as 'non-voted'.

Executive Agency		A body established to undertake the executive functions of government, as distinct from policy advice. They are within central government and can be departments in their own right or a part of a department.
Financial Reporting Manual	FReM	A technical guide for producing the accounts of public bodies[36].
General Lighthouse Fund	GLF	The GLF was created by statute in 1898 to provide funding for the three General Lighthouse Authorities (GLAs): Trinity House (TH), the Commissioners of Northern Lighthouses (known as the Northern Lighthouse Board or NLB) and the Commissioners of Irish Lights (known as Irish Lights or IL).

36 https://www.gov.uk/government/collections/government-financial-reporting-manual-frem

Government Actuaries Department	GAD	The Government department responsible for providing actuarial valuations and advice for public sector pension schemes; advice to the Government on occupational pension schemes, social security and on private pensions policy; and advice on insurance, contingent liabilities and on the pricing and management of risk.
Greater London Authority	GLA	The GLA is the devolved regional governance body of London with powers over transport, policing, economic development and fire and emergency planning. TfL reports to the GLA.
Grant		Payment made by a department, or other public body, to outside bodies to reimburse expenditure on agreed items or functions, and often paid only on statutory conditions being met. May be made for resource or for capital purposes.
Grant in Aid	GiA	Financing payment made by a department to an NDPB or other arm's length body.

Hybrid Bills		These are public bills that have a significant impact on the private interests of a particular person, group or organisation. They are a hybrid of: public bills that involve the general interests of the people at large or of the whole community; and private bills that involve the private interests of a particular person, group or organisation.
Managing Public Money	MPM	A publication produced by HM Treasury which is concerned with regularity and propriety and sets out the main principles for dealing with resources used by public sector bodies[37].
National Audit Office	NAO	Office of the Comptroller and Auditor General, which audits accounts of government bodies and carries out value for money inspections within the bodies it audits[38].
National Loans Fund	NLF	The fund through which passes most of the government's borrowing transactions and some domestic lending transactions.

37 https://www.gov.uk/government/publications/managing-public-money

38 https://www.nao.org.uk/

Net Cash Requirement	NCR	The limit voted by Parliament reflecting the maximum amount of cash that can be released from the Consolidated Fund to a department in support of expenditure in its Estimate. It is not ring-fenced between any of the other voted limits.
Non-Cash		Expenditure where there is no directly related cash transaction but which reflects resources used. Examples include depreciation and provisions.
Non-Departmental Public Body	NDPB	A body that has a role in the process of government but is not a government department or part of one (though NDPBs fall inside the budgetary, Estimates and accounting boundary of government departments). NDPB’s operate, to a greater or lesser extent, at arm’s length from Ministers.
Non-Voted		Spending which has separate legal authority from the Supply and Appropriation Act.

Public Corporation	Publicly controlled trading bodies with substantial financial day to day operating independence.
Programme budget/ expenditure	A form of resource expenditure which is normally spent on the delivery of the Department's frontline objectives, including funding for many agencies and arm's length bodies.
Regularity	The principle that all consumption of resources should be made in accordance with the legislation authorising them, any applicable delegated authority and Managing Public Money.
Resource income or expenditure	Reflecting the consumption of resources (and the income so generated) in that year. Examples include, pay, current grants and depreciation.
Spending Review	A cross-government review of departmental aims and objectives and analysis of spending programmes. Results in the allocation of multi-year budgetary limits.

Supply		The funds paid to the Department by HM Treasury are known as Supply; the amount paid in the year is shown in the Statement of Changes in Taxpayers' Equity.
Total Managed Expenditure	TME	A measure defined by HM Treasury to cover all public expenditure.
Transport for London	TfL	Transport for London is a local government body responsible for the transport system in Greater London, England. TfL has responsibility for London's network of principal road routes, for various rail networks including the London Underground, London Overground, Docklands Light Railway and TfL Rail. TfL is also responsible, jointly with the national DfT, for commissioning the construction of the new Crossrail line.
Trading Fund		Public sector organisation that has a financing framework allowing it to meet outgoings from commercial revenues.
Voted Budget		That which has been authorised by Parliament in response to Supply Estimates. See Estimates above.

Annex B: DFT's Financial Reporting Landscape

- The Department's financial reporting landscape is summarised below. This comprises publications by key government authorities including: HM Treasury, Cabinet Office, National Audit Office and Parliament.

Category	Product	Description	Produced by	Link
Government financial reporting	Government Financial Reporting manual (FReM)	The government financial reporting manual is the technical accounting guide for the preparation of departmental financial statements.	HMT, Dec 2021	https://www.gov.uk/government/publications/government-financial-reporting-manual-2021-22
	The government's planning and performance framework	A description of how the government sets priorities, plans activity, allocates money and monitors progress and performance using a collective set of processes.	HMT & CO, June 2021	https://www.gov.uk/government/publications/planning-and-performance-framework/the-governments-planning-and-performance-framework#Spending-reviews
Medium term Planning	Spending Review	The Treasury carries out Spending Reviews to determine how to spend public money – usually over a multiyear period – in line with the government's priorities.	HMT, Dec 2021	https://www.gov.uk/government/publications/autumn-budget-and-spending-review-2021-documents
	Department For Transport Outcome Delivery plan	The outcome delivery plan sets out the Department's priority outcomes and strategic enablers and how we will achieve them.	DFT, July 2021	https://www.gov.uk/government/ publications/department-fortransport-outcome-delivery-plan

Category	Product	Description	Produced by	Link
Annual Planning	Budget	The Budget is a statement the Chancellor of the Exchequer makes to the House of Commons on the nation's finances and the government's proposals for changes to taxation and spending. The Budget also includes forecasts for the economy by the Office for Budget Responsibility.	HMT, Dec 2021	https://www.gov.uk/government/publications/autumn-budget-and-spending-review-2021-documents#full-publication-update-history
	OBR Reports	Economic & fiscal outlook: Five-year forecasts for the UK economy and public finances and an assessment of whether the Government is likely to achieve its fiscal targets. Fiscal sustainability report: Long-term projections of the UK public finances and public sector balance sheet analysis.	OBR	https://obr.uk/
	Estimates	Supply Estimates are the bi-annual process by which the Treasury presents the government's spending plans, based on departmental settlements allocated at the Spending Review, to Parliament for approval. This covers 'Main Estimates' and 'Supplementary Estimates'.	HMT, May 2022 for 2022-2023 HMT, Feb 2022 for 2021-22.	https://www.gov.uk/government/collections/hmt-main-estimates https://www.gov.uk/government/collections/hmt-supplementary-estimates
	Estimates Memorandum	Government departments are required to produce an Estimates Memorandum for the relevant select committee to explain what is proposed in their Main Estimate and how proposals compare to past spending plans.	DFT, May 2022,	https://committees.parliament.uk/committee/153/transport-committee/publications/10/estimate-memoranda/

Category	Product	Description	Produced by	Link
	Parliamentary Scrutiny Unit Visualisations	The visualisations show spending trends, changes since last year and how current plans for 2021-22 compared to original proposals in previous Spending Reviews, together with some context. Also, an interactive spending chart showing all government spend.	PSU	https://www.parliament.uk/mps-lords-and-offices/offices/commons/scrutinyunit/reports-and-publications/
	Accounting Officer System Statements	Accounting Officer System Statements set out to Parliament all of the accountability relationships and processes within a department.	HMT, Mar 2022	https://www.gov.uk/government/collections/accounting-officer-system-statements
	Government Transparency Data	Wide range of transparency data published by individual departments including Central government spending over £25k, contracts over £10k and Gender Pay Gap information. Cabinet Office also produce cross-government data on Civil Service sickness and absence data, Ministers' interest declarations, Ministers' salary data, Senior civil servants' names, grades, job titles and annual pay rates, Special advisers' names, grades and annual pay. GOV.UK registers provide structured datasets of government information.	DFT + CO	https://www.gov.uk/search/advanced?group=transparency&topic=%2Ftransport https://www.gov.uk/government/collections/dft-spending-over-500 https://www.gov.uk/government/publications/dft-gender-pay-gap-report-and-data-2021 https://www.gov.uk/government/collections/dft-ministerial-gifts-hospitality-travel-and-meetings https://www.gov.uk/government/collections/dft-workforce-management-information

Category	Product	Description	Produced by	Link
In-year Reporting	OSCAR data	The dataset provides quarterly updates to monthly outturn data. The outturn information is taken from OSCAR data submitted by departments. The public will be able to see monthly patterns in spend by organisations reporting data on OSCAR. At the same time, users will be able to drill down beneath previously released high-level aggregates.	DFT via HMT	https://www.gov.uk/government/collections/hmt-oscar-publishing-from-the-database
	Public Sector Finances Bulletin	The public sector finances statistical bulletin is published jointly by the Office for National Statistics and the Treasury on a monthly basis and provides the latest available estimates for key public sector finance statistics, such as public sector net borrowing, public sector net debt and public sector current budget deficit/surplus.	ONS + HMT	https://www.gov.uk/government/statistics/public-sector-finances-bulletin
In-year Reporting	Public Sector Spending Statistics	Treasury Public Spending Statistics provide a range of information about public spending, showing central government spending by department on a budgetary basis over 5 years, public sector spending by service over 5 years, and public sector spending by function and economic category over 21 years.	HMT	https://www.gov.uk/government/collections/national-statistics-release

Category	Product	Description	Produced by	Link
Outturn Reporting	Public Expenditure Statistical Analyses	Public Expenditure Statistical Analyses is the yearly publication of information on government spending. It brings together recent outturn data, estimates for the latest year, and spending plans for the rest of the current spending review period. It also shows spending by region.	HMT	https://www.gov.uk/government/collections/public-expenditure-statistical-analyses-pesa
	ONS Civil Service Statistics	Employment statistics for the Civil Service population, providing regional analyses, diversity and earnings data.	ONS	https://www.gov.uk/government/collections/civil-service-statistics
	Infrastructure and Projects Authority Major Projects Report	The Infrastructure & Projects Authority Annual Report publishes the whole life cycle costs on projects in the Government Major Projects Portfolio which comprises the most complex and strategically significant projects and programmes across government.	Infrastructure & Projects Authority, July 2021	https://www.gov.uk/government/publications/infrastructure-and-projects-authority-annual-report-2021
	Departmental statistics	National and official statistics relating to the department's policies and priorities.	DFT	https://www.gov.uk/government/organisations/department-for-transport/about/statistics
	National Audit Office Value for Money Studies	Each study examines a major area of government expenditure and forms a judgement on whether value for money has been achieved, which Parliament use to hold government to account for how it spends public money.	NAO	https://www.nao.org.uk/search/department/department-for-transport/
	National Audit Office Departmental Overview	Departmental Overviews focus on the Department's responsibilities and how it spends its money, key developments in its areas of work and findings from our recent reports.	NAO, December 2021	https://www.nao.org.uk/report/department-for-transport-departmental-financial-overview-2020-21/

Annex C: Expenditure Tables (not subject to audit)

These tables present actual expenditure by the Department for the years 2017-18 to 2021-22 and planned expenditure for 2022-23 to 2024-25. The data relates to the Department's expenditure on an Estimate and budgeting basis. The data is available in an Excel file, which can be found via the Department's Annual Report and Accounts web-page.

Table 1 Total Departmental Spending – summarises expenditure on functions administered by the Department. Consumption of resources includes programme and administration costs. Total Departmental expenditure is analysed by Departmental Supply Estimates. Please note that totals may not sum due to rounding.

All values in £k	2017-18 Outturn	2018-19 Outturn	2019-20 Outturn	2020-21 Outturn	2021-22 Outturn	2022-23 Plans	2023-24 Plans	2024-25 Plans
Resource DEL								
A: Tolled Crossings	-132,223	-189,568	-119,197	-77,560	(106,774)	(145,048)	(145,048)	(145,048)
B: Local Authority Transport	365,545	374,085	373,719	519,395	460,517	377,028	341,630	341,630
C: Highways England (net)	2,548,248	2,370,747	2,533,396	2,291,640	2,393,290	2,496,967	2,509,850	2,558,169
D: Funding of Other ALBs (net)	190,415	-37,649	169,165	15,619	(15,842)	(29,764)	(28,775)	(24,997)
E: Other railways	106,685	63,182	38,355	86,679	139,994	389,287	118,827	122,809
F: Sustainable Travel	87,097	107,742	126,588	183,175	145,603	154,797	176,383	197,384
G: Bus Subsidies & Concessionary Fares	244,922	255,239	256,298	1,531,819	755,085	670,247	482,247	482,247
H: GLA transport grants	255,071	29,071	28,071	2,459,882	1,719,404	202,112	1,056	56
I: Crossrail	1,654	1,435	1,794	-899	(27,838)	175,500	(27,000)	(25,000)
J: Aviation, Maritime, Security and Safety	108,774	103,104	238,181	259,831	217,365	142,325	138,199	126,912
K: Maritime and Coastguard Agency	327,611	337,856	356,645	371,754	369,299	406,237	393,716	448,586
L: Motoring Agencies	98,643	40,839	64,686	193,380	29,338	113,591	107,525	94,235
M: Science, research and support functions	14,886	19,436	24,408	23,095	25,146	30,980	67,267	67,165
N: Central Administration	197,247	245,515	277,586	287,902	319,448	392,006	381,704	377,138
O: Support for Passenger Rail Services	-778,107	-185,990	373,239	8,459,067	4,509,724	2,736,704	1,870,934	1,130,153
High Speed Two	9,140	–	–	-	(5,064)	–	–	–
P: High Speed Rail	–	59,250	53,836	67,167	47,556	70,690	92,343	103,504
Q: Transport Development Fund	24,749	500	3,974	300	–	66,620	25,000	25,000
R: High Speed Two Limited (net)	–	286,132	245,805	106,785	219,246	51,928	15,557	15,557
S: East West Rail Company Limited (net)	–	7,966	22,356	36,293	74,358	99,230	20,081	7,129
T: Network Rail (net)	–	-	6,357,167	6,841,392	7,299,722	8,205,021	8,542,020	8,109,018
U: Funding of Other ALBs (net)	2,724	12,858	12,773	14,144	14,488	11,804	15,231	15,231
Total Resource DEL	3,673,080	3,901,750	11,438,845	23,670,860	**18,584,065**	16,618,262	15,098,747	14,026,878

All values in £k	2017-18 Outturn	2018-19 Outturn	2019-20 Outturn	2020-21 Outturn	2021-22 Outturn	2022-23 Plans	2023-24 Plans	2024-25 Plans
Of which:								
Staff costs (Note C)	726,724	724,807	2,445,710	2,625,484	3,058,554	3,264,845	3,144,434	3,107,577
Purchase of goods and services (Note C)	2,214,081	2,489,804	5,387,701	5,188,822	5,277,926	6,680,488	6,333,914	5,967,932
Income from sales of goods and services	-358,072	-431,543	-497,234	-485,453	(968,709)	(836,738)	(788,208)	(779,634)
Current grants to local government (net)	819,715	619,154	527,418	3,368,925	2,440,816	1,161,749	953,946	976,692
Current grants to persons and non-profit bodies (net)	28,821	34,864	375,645	83,827	55,231	23,737	21,927	22,096
Current grants abroad (net)	3,192	3,135	3,237	20,742	6,860	(43,649)	(42,949)	(42,949)
Subsidies to private sector companies	634,960	1,173,169	1,580,261	9,778,934	5,347,481	3,040,355	1,984,304	1,244,266
Subsidies to public corporations	-	-	-	60,344	406	707	707	707
Net public service pensions (Note B)	7,402	2,009	4,798	17,189	12,369	16,094	15,489	14,914
Rentals (Note C)	-336	-5,070	-277,195	-112,845	(196,658)	(214,639)	(232,402)	(230,922)
Depreciation (Notes A & C)	1,596,878	1,422,846	7,335,790	7,413,426	8,129,305	8,279,125	8,279,125	8,279,125
Change in pension scheme liabilities	234	238	236	203	212	265	272	–
Other resource	-2,000,520	-2,131,508	-5,447,618	-4,288,707	(4,579,728)	(4,754,077)	(4,571,812)	(4,532,926)
Take up of provisions	–	–	96	-31	–	–	–	–
Release of provision	–	-155	–	-	–	–	–	–
Resource AME								
V: Highways England (net)	-3,646	41,815	-42,629	22,113	9,380	10,000	10,000	10,000
W: Network Rail (net)	6,882,390	7,046,148	1,649,152	1,234,751	3,136,601	4,536,885	4,536,885	4,536,885
X: Funding of Other ALBs (net)	93,580	70,097	123,124	29,808	87,277	106,757	106,607	111,809
Y: Other Railways	27,619	226,761	137,086	132,247	199,658	231,502	228,939	206,465
Z: Aviation, Maritime, Security and Safety	-2,945	51,448	-51,963	-1,726	(1,421)	(1,066)	(833)	(1,066)

All values in £k	2017-18 Outturn	2018-19 Outturn	2019-20 Outturn	2020-21 Outturn	2021-22 Outturn	2022-23 Plans	2023-24 Plans	2024-25 Plans
AA: Maritime and Coastguard Agency	899	4,643	575	613	1,212	1,000	1,000	1,000
AB: Motoring Agencies	-1,175	-2,218	-1,785	-1,569	(5,476)	(5,391)	(3,111)	(20)
AC: Central Administration	-7,402	65,205	1,765	21,705	17,888	96,000	96,000	96,000
AD: High Speed Rail	–	1,346	–	-1,188	13	–	–	–
AE: High Speed Two Limited (net)	–	-49,122	1,000	2,906	4,264	–	–	–
AF: East West Rail Company Limited (net)	–	–	–	11	0	500	500	–
AG: Funding of ALBs (net)	–	-24	10,989	-356	4,874	–	–	–
Total Resource AME	6,989,321	7,456,099	1,827,314	1,439,315	**3,454,270**	4,976,187	4,975,987	4,961,073
Of which:								
Staff costs (Note C)	1,383,815	1,540,721	–	-	–	2,050	2,050	2,050
Purchase of goods and services (Note C)	2,097,952	2,358,270	726	793	1,327	46	262	(15,884)
Current grants to/from local government (net)	-425,354	-338,956	–	-	–	–	–	–
Rentals (Note C)	-306,321	-317,471	–	-	–	–	–	–
Depreciation (Notes A & C)	4,604,849	5,547,646	-259,551	-147,582	(11,861)	343,350	343,350	343,350
Take up of provisions	48,963	93,137	466,144	193,692	928,235	633,390	628,029	792,131
Release of provision	-92,042	-35,034	-556,703	-23,323	(40,873)	(47,838)	(36,450)	(20,476)
Change in pension scheme liabilities	231,116	313,437	268,863	250,554	374,204	444,510	441,218	269,510
Unwinding of the discount rate on pension scheme liabilities	57,000	55,000	58,000	44,004	84,030	89,660	89,660	89,660
Other resource	-610,657	-1,760,652	1,849,835	1,121,177	2,119,208	3,511,019	3,507,868	3,500,732
Total Resource Budget	10,662,401	11,357,850	13,266,159	25,110,175	**22,038,335**	21,594,449	20,074,734	18,987,951
Of which:								
Depreciation (Note A)	6,201,727	6,970,492	7,076,239	7,265,844	8,117,444	8,622,475	8,622,475	8,622,475

All values in £k	2017-18 Outturn	2018-19 Outturn	2019-20 Outturn	2020-21 Outturn	2021-22 Outturn	2022-23 Plans	2023-24 Plans	2024-25 Plans
Capital DEL								
A: Tolled Crossings	-188,393	372	-1,738	255	459	675	675	675
B: Local Authority Transport	1,763,031	1,808,654	1,757,625	2,411,593	1,810,158	1,481,232	916,975	916,975
C: Highways England (net)	2,308,700	2,649,466	3,231,792	3,295,075	3,184,289	3,745,700	3,824,200	4,074,299
D: Funding of Other ALBs (net)	711,324	9,573	143,657	119,368	36,397	54,800	24,100	20,500
E: Other railways	195,840	34,581	74,491	13,959	122,955	132,772	165,042	110,012
F: Sustainable Travel	365,310	398,648	477,952	711,455	788,934	758,717	891,442	917,242
G: Bus Subsidies & Concessionary Fares	9,064	8,294	9,955	81,535	238,829	216,560	264,560	229,560
H: GLA transport grants	–	-81,000	-9,645	-	3,211	3,868	16,864	16,714
I: Crossrail	–	515,000	889,000	722,349	477,987	107,000	(166,000)	(199,000)
J: Aviation, Maritime, Security and Safety	59,285	93,467	53,060	67,784	303,068	56,959	79,596	213,833
K: Maritime and Coastguard Agency	19,339	11,669	-7,193	23,069	31,848	77,251	17,212	138,911
L: Motoring Agencies	8,358	35,956	34,041	214,495	99,529	73,324	72,499	67,371
M: Science, research and support functions	21,800	33,253	32,291	8,113	26,978	19,432	796,863	1,055,111
N: Central Administration	2,192	7,368	41,361	45,448	47,183	48,505	26,584	43,695
O: Support for Passenger Rail Services	–	243	–	84,686	296,649	4,000	–	–
High Speed Two	943,326	–	–	-	–	–	480	400
P: High Speed Rail	–	554,056	302,570	264,619	251,947	720,440	–	–
Q: Transport Development Fund	2,304	138,800	343,850	436,070	849,338	1,415,800	557,724	435,165
R: High Speed Two Limited (net)	–	2,055,597	2,245,648	3,250,079	5,001,680	5,011,494	1,172,300	1,146,900
National Productivity Investment Fund	–	180	–	-	–	–	5,292,077	5,439,636
S: East West Rail Company Limited (net)	–	91	1,308	1,640	315	250	–	–

All values in £k	2017-18 Outturn	2018-19 Outturn	2019-20 Outturn	2020-21 Outturn	2021-22 Outturn	2022-23 Plans	2023-24 Plans	2024-25 Plans
S: East West Rail Company Limited (net)	–	91	1,308	1,640	315	250	–	–
T: Network Rail (net)	–	-	4,621,957	5,280,812	5,579,337	6,198,631	–	–
U: Funding of ALBs (net)	–	–	–	-2	–	19,400	5,919,807	5,824,001
Total Capital DEL	6,221,480	8,274,268	14,241,982	17,032,402	**19,151,091**	20,146,810	19,873,000	20,452,000
Of which:								
Purchase of goods and services	28,232	43,083	61,671	48,719	91,434	558,033	581,751	711,876
Current grants to persons and non-profit bodies (net)	14,604	11,952	2,479	13,618	18,546	18,725	11,025	11,175
Capital support for local government (net)	1,935,344	2,583,243	3,006,836	3,634,737	3,326,488	3,074,993	2,926,038	3,002,918
Capital grants to persons & non-profit bodies (net)	–	-7	13624	19,858	(20,685)	13,500	13,500	13,000
Capital grants to private sector companies (net)	1,253,257	450,963	233,749	265,235	600,911	86,543	(166,049)	(334,787)
Capital grants abroad (net)	-5,806	–	-12,229	-1,509	(1,327)	–	–	–
Capital support for public corporations	33,319	69,654	9,803	152,479	514,891	–	–	–
Purchase of assets (Note C)	3,128,535	5,129,214	11,222,429	13,065,557	14,784,415	16,547,529	16,451,086	16,717,362
Income from sales of assets	-13,620	-8,162	-13,098	-4,747	(12,197)	–	–	–
Net lending to the private sector and abroad	-197,248	4,708	–	-	–	–	–	–
Other capital	44,863	-10,380	-283,282	-161,545	(151,385)	(152,513)	55,649	330,456
Capital AME								
V: Highways England (net)	3,492	132,970	-8,994	171,294	(156,443)	50,000	50,000	50,000
Network Rail (net)	6,117,800	5,382,855	–	-	–	–	–	–
Funding of Other ALBs (net)	230,329	–	–	-	–	–	–	–
Y: Other Railways	–	-10	-	-11	(12)	–	–	–

All values in £k	2017-18 Outturn	2018-19 Outturn	2019-20 Outturn	2020-21 Outturn	2021-22 Outturn	2022-23 Plans	2023-24 Plans	2024-25 Plans
Z: Aviation, Maritime, Security and Safety	-20,000	-20,000	-20,000	-20,000	(11,667)	(23,333)	(22,500)	(22,333)
Central Administration	–	–	–	-	–	–	–	–
High Speed Two	912,567	–	–	-	–	–	–	–
AD: High Speed Rail	–	-97,781	37,318	-99,331	237,724	(354,656)	(354,656)	(354,656)
AE: High Speed Two Limited (net)	–	-229,964	2,055	1,998	8,735	–	1,000	–
Total Capital AME	7,244,187	5,168,070	10,379	53,950	**78,337**	(326,989)	(326,156)	(326,989)
Of which:								
Take up of provisions	230,767	-229,964	2,055	1,998	8,735	–	–	–
Release of provision	-108,914	-394,047	-527,714	-322,633	(307,152)	(554,656)	(552,923)	(430,364)
Capital support for local government (net)	-308,438	-301,230	–	394,596	–	–	–	–
Purchase of assets (Note C)	7,202,192	7,220,105	556,048	–	388,433	227,667	226,767	103,375
Income from sales of assets	-35,431	-1,126,784	–	–	–	–	–	–
Other capital	264,011	-10	-20,010	-20,011	(11,679)	–	–	–
Total Capital Budget	13,465,667	13,442,338	14,252,361	17,086,352	**19,229,428**	19,819,821	19,546,844	20,125,011
Total departmental spending (Note D)	17,926,341	17,829,695	20,442,281	34,949,311	**33,150,319**	30,185,298	29,912,321	30,490,488
Of which:								
Total DEL	8,297,682	10,753,172	18,345,037	33,308,453	29,605,851	28,485,947	26,692,622	26,199,753
Total AME	9,628,659	7,076,523	2,097,244	1,640,858	3,544,468	4,305,848	4,306,481	4,294,734

Notes:

A. Includes impairments and non-cash movement in derivatives.

B. Pension schemes reported under IAS 19 accounting requirements. These figures include cash payments made, as well as certain non-cash items.

C. Until 31 March 2019, the classification of Network Rail's spending was classified to AME. Since the start of Control Period 6 on 1 April 2019, most of Network Rail's spending has been classified as DEL.

D. Total departmental spending is the sum of the resource budget and the capital budget less depreciation. Similarly, total DEL is the sum of the resource budget DEL and capital budget DEL less depreciation in DEL, and total AME is the sum of resource budget AME and capital budget AME less depreciation in AME.

Table 2 Administration Costs – provides a more detailed analysis of the administration costs of the Department. It retains the high level functional analysis used in table 1. Please note that totals may not sum due to rounding.

All values in £k	2017-18 Outturn	2018-19 Outturn	2019-20 Outturn	2020-21 Outturn	2021-22 Outturn	2022-23 Plans	2023-24 Plans	2024-25 Plans
Resource DEL								
Highways England (net)	48,491	46,575	43,566	43,002	45,292	45,000	45,000	45,000
Funding of Other ALBs (net)	1,586	942	967	1,018	996	980	980	980
Maritime and Coastguard Agency	7,324	7,011	7,163	6,857	7,463	8,281	8,281	8,281
Central Administration	198,338	222,185	240,991	241,459	273,354	317,003	317,464	317,457
High Speed Two Limited (net)	2,968	2,135	2,030	1,976	1,834	3,143	–	–
East West Rail Company Limited (net)	–	116	223	185	171	338	297	304
Funding of Other ALBs (net)	6,057	33	34	14	34	(3,416)	39	39
Total administration budget	**264,764**	**278,997**	**294,974**	**294,511**	**329,144**	**371,329**	**372,061**	**372,061**
Of which:								
Staff costs	155,954	155,573	205,546	184,746	197,063	200,673	132,760	128,327
Purchase of goods and services	103,499	118,521	86,582	107,143	122,204	151,093	117,925	114,650
Income from sales of goods and services	-7,535	-9,895	-10,127	-15,362	(11,537)	(6,649)	(6,650)	(6,650)
Subsidies to private sector companies	-1	–	–	-	–	–	–	–
Rentals	-1,833	8,852	147	-	80	–	–	–
Depreciation	6,350	5,901	11,447	13,425	15,767	26,301	26,301	26,301
Other resource	8,330	45	1,283	4,590	5,257	(89)	101,725	109,432
Take up of provisions	–	–	96	-31	–	–	–	–

Annex D: Information on Agencies and Arm's Length Bodies (not subject to audit)

This table shows the Department's, Agencies' and ALBs' contributions to the group financial performance, in accordance with PES(2022)01 issued on 5 January 2022.

Total operating income, total operating expenditure and net expenditure reported here will be inconsistent with the financial statements of individual Agencies and ALBs because:

- There are differences in the way the Department and the individual Agencies and ALBs present certain categories of income, expenditure, assets and liabilities. The Department has classified them on a consistent basis for the Departmental Group financial statements, which assists comparability here;
- There are differences in certain accounting policies adopted by the Department and the individual Agencies and ALBs. The Department has applied consistent policies to all entities in the Departmental Group financial statements;
- The values are after intra-group transactions and balances that are eliminated on consolidation; and
- There are immaterial audit adjustments for smaller entities whose accounts are audited after the Departmental Group financial statements are published.

This annex is not subject to audit.

	Total Operating Income	Total Operating Expenditure	Net Expenditure (including financing)	Permanently employed staff		Other staff	
				Number of employees	Staff costs	Number of employees	Staff costs
	£m	£m	£m	FTE	£m	FTE	£m
Department for Transport	-559	13,176	12,601	3,535	244	47	7
Driver and Vehicle Licencing Agency	-645	445	-199	5,260	202	155	7
Maritime and Coastguard Agency	-16	380	368	1,127	62	75	3
Vehicle Certification Agency	-18	21	4	195	10	71	3
Driver and Vehicle Standards Agency	-379	383	13	4,597	195	54	4
Network Rail	-4,219	12,096	9,934	42,974	1,751	1,281	0*
National Highways	-109	2,469	2,361	5,995	153	17	1
High Speed 2	0	223	223	1,668	13	143	4
British Transport Police	-234	439	205	4,797	255	409	1
Trinity House Lighthouse Board	-37	45	8	286	16	17	0
Northern Lighthouse Board	-24	27	3	179	12	9	1
Commissioners of Irish Lights	-2	2	0	115	1	9	0
Train Fleet 2019 Ltd	-11	9	-2	0	0	0	0
Directly Operated Railways	0	0	0	0	0	0	0
Transport Focus	-1	7	7	41	3	2	0

	Total Operating Income	Total Operating Expenditure	Net Expenditure (including financing)	Permanently employed staff		Other staff	
				Number of employees	Staff costs	Number of employees	Staff costs
	£m	£m	£m	FTE	£m	FTE	£m
Air Safety Support International	0	3	3	19	2	1	0
Air Travel Trust Fund	-37	-10	-47	0	0	0	0
CTRL Section 1 Finance plc	0	0	73	0	0	0	0
LCR Finance plc	0	0	131	0	0	0	0
East West Rail	0	74	74	118	11	50	9
TOTALS	**-6,291**	**29,789**	**25,760**	**70,906**	**2,930**	**2,340**	**40**

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Spending and Performance

The table below links the spending information in the tables above to the service and performance information in the performance report. Activities denoted by an asterisk are not referred to explicitly in the Performance Report.

Activity		Pages in the performance report
Central functions		
M	Science, research and support functions	61, 66, 67, 79
N, AC	Central administration	70-74, 78
Local		
A	Tolled Crossings	45
B	Local authority transport	55, 71
F	Sustainable travel	57
G	Bus subsidies & Concessionary fares	41, 42, 43, 49, 54, 59, 65, 73
H	GLA transport grants	34, 40
Q	Transport Development Fund	–
Rail		
T, W	Network Rail	35, 39, 45, 72, 75
P, R, AD, AE	High Speed Two Ltd and High Speed Rail	38-40, 45, 66, 72
I	Crossrail	40, 63
S, AF	East West Rail	40, 41, 75

O	Support for Passenger Rail services	36, 50
E, Y	Other Railways	–
Road		
C, V	National Highways	45, 47, 48, 72
L, AB	Motoring agencies	34
Aviation, maritime, security and safety		
J, Z	Aviation, maritime, security and safety	33, 35, 36, 57, 61
K, AA	Maritime and coastguard agency	–
Funding of other ALBs not referred to above		
D, E, U, X, AG	Funding of other ALBs	–