Presented pursuant to the Government Resources and Accounts Act 2000 c.20. s.6

Department for Transport

Resource Accounts 2005-06

LONDON: The Stationery Office
HC 1338

20 July 2006
£12.00

Presented pursuant to the Government Resources and Accounts Act 2000 c.20. s.6

Department for Transport

Resource Accounts 2005-06

Ordered by the House of Commons to be printed
20 July 2006

LONDON: The Stationery Office
HC 1338

20 July 2006
£12.00

Contents

Annual Report for the Year Ended 31 March 2006

Scope

Entities Consolidated

The Annual Report and Accounts present the consolidated results for the financial year 2005-06 for the following entities:

Department for Transport, and

- Highways Agency;
- Government Car and Despatch Agency;
- Maritime and Coastguard Agency; and
- Vehicle Certification Agency.

During the year, the Government Car and Despatch Agency was transferred into the Department following a machinery of government change, and certain functions previously carried out by the Strategic Rail Authority were transferred to the Department, necessitating re-statement of opening balances. Consequently, these consolidated accounts reflect the financial impact of these changes.

A list of bodies included and those excluded from consolidation is set out in Note 36 to the accounts.

Departmental reporting cycle

The Department published its *Annual Report* in May 2006. The report provides a comprehensive review of the Department for Transport and its reporting bodies, and gives detailed information on the Department's activities in 2005-06 and the following financial information:

- Outturn for 2004-05;
- Estimated outturn for 2005-06; and
- Expenditure plans for 2006-07 and 2007-08.

Management Commentary

The Department for Transport is a central government department. The main role of the Department and its agencies is to implement government transport policy and to advise Ministers. In order to achieve this, it also works alongside the devolved administrations, local authorities, non-departmental public bodies, and other government-sponsored organisations. Most of its resources are provided by Parliament, which votes funding on an annual basis, in the context of HM Treasury's Spending Reviews. It provides grant funding to local government (including the Greater London Authority), Network Rail, and other entities that deliver major projects. It contracts with train operating and freight companies to provide rail services on a franchised basis, functions performed by the Strategic Rail Authority until they were transferred to the Department under the Railways Act 2005. Following the transfer of the Government Car and Despatch Agency into the Department, it is also responsible for transport, distribution and mail-related services to government, the wider public sector and other approved customers.

The Department for Transport was established in 2002, taking over the transport responsibilities of the former Department for Transport, Local Government and the Regions (DTLR).

The Department for Transport is responsible for policy on local transport, roads and traffic, railways, shipping, ports and aviation. Some of these responsibilities cover the entire United Kingdom, whilst others are limited to Great Britain, England and Wales, or England only.

Aims

The Department's aim is transport that works for everyone. To that end, the Department works in partnership with others to tackle congestion, improve accessibility, reduce casualties, respect the environment and support the economy.

Good transport links to ease the movement of people and goods are vital to a successful and growing economy. The Department for Transport plays a key role in meeting these demands by providing the strategy and framework for transport services and by planning for future transport needs.

Strategic Plans

The Department published "*Transport 2010: The 10 Year Plan*" in July 2000. In December 2002, the Department reported on progress towards delivery of the plan, in "*Delivering Better Transport: Progress Report*".

The Department's strategy, set out in a White Paper "*The Future of Transport: a network for 2030*", examined the factors that will shape travel, and the Department's transport networks, over the next 30 years. It set out the Government's response to those pressures, safeguarding economic and social well-being and the environment. It builds on the progress made since the implementation of the 10 Year Plan and extends the Department's investment plans to 2014-15.

The Department's strategy is built around three central themes set out in "*The Future of Transport*":

- **Sustained investment.** The Government is committed to delivering sustained improvements to transport networks. The Department will increase its spending by an annual average of 4.5 per cent in real terms between 2005-06 and 2007-08. This includes an additional £1.7 billion transport reform package for the railways, over and above the 10 Year Plan provision. 10 Year Plan spending will also increase by £0.5 billion each year from 2006-07. This higher level of spending is planned to grow in real terms by 2.25 per cent each year, to 2015. Meanwhile, the other reforms we are putting in place will ensure that each pound of investment works harder for the British taxpayer.
- **Improvements in transport management.** The Department has reorganised the rail industry with an aim to improve performance and get better value from public spending. The Railways Act 2005 put in place a structure where the Government sets the strategy and controls public expenditure. Better traffic management will help ease congestion on roads. Where additional road capacity is needed, it will be provided. The Department will ensure that the benefits of new capacity are maximised by introducing some tolling and High Occupancy Vehicle lanes, where they make sense.
- **Planning for the long term.** The Department will advance the debate about a national system of road pricing, focusing on how to deliver an effective national system. It will work to ensure that the choices faced, together with their full costs and benefits, are well understood. The Department is committed to sharing decision making with regional and local stakeholders, and to ensure that regional and local planning is based on a shared view of priorities, deliverability and affordability. The Department will ensure that transport decisions are taken alongside those for housing and economic growth.

Key objectives

To deliver its strategy, the Department has a set of objectives and targets. The most important are included in the Department's Public Service Agreement (PSA), established in Spending Review 2004. Objectives relating to the full range of the Department's business, including PSA targets, were published in the business plan: *"Delivering Better Transport: Priorities for 2005-06 to 2007-08"*. The Department's PSA objectives for the year were as follows:

Objective 1 – Support the economy through the provision of efficient and reliable inter-regional transport systems by making better use of the existing road network, reforming rail services and industry structures to deliver significant performance improvements for users, and investing in additional capacity to meet growing demand;

Objective 2 – Deliver improvements to the accessibility, punctuality and reliability of local and regional transport systems through the approaches set out in Objective 1 and through increased use of public transport and other appropriate local solutions;

Objective 3 – Balance the need to travel with the need to improve quality of life by improving safety and respecting the environment; and

Objective 4 – Improve cost effectiveness through sound financial management, robust cost control and clear appraisal of transport investment choices across different modes and locations.

Included within these objectives are the Department's PSA targets. Targets express the significant elements of the objectives as specific and measurable performance benchmarks. They cover congestion, rail, local public transport, road safety, air quality and efficiency. PSA targets are used sparingly and do not cover the full range of the Department's responsibilities, which take in other important areas of transport.

The following transport spending plans reflect the outcome of Spending Review 2004, as adjusted to incorporate Machinery of Government and devolution changes which occurred during 2005-06:

£m	**2006-07 plans**		**2007-08 plans**	
Total Budget	**Resource**	**Capital**	**Resource**	**Capital**
Rail	652	3,335	1,331	2,586
Highways Agency	5,322	1,124	5,399	1,060
Local Transport	549	1,754	572	1,888
London	1,615	763	1,697	803
Other programmes, agencies & admin	633	410	590	372
Total Budget	**8,771**	**7,386**	**9,589**	**6,709**
Of which:				
Departmental Expenditure Limit	6,893	7,386	6,743	6,709
Annually Managed Expenditure	1,878	–	2,846	–

Notes:

1. Figures are consistent with Tables A1 – A3 of the 2006 Departmental Annual Report.
2. Plans may change owing to in-year adjustments to Annually Managed Expenditure, plus any drawdown of End Year Flexibility from previous years.
3. Capital figures represent total spending scoring as investment for the purposes of the National Accounts.

Performance

This year, both this report and the Departmental Annual Report are using the Public Service Agreement objectives as a basis for discussion of performance. This approach increases comparability. Public Service Agreements link the allocation of public expenditure to published targets, which are set for services or outcomes which the Government sees as key national priorities. This does not represent a change in objectives, just a change in the focus of this report. Where relevant, financial data has been restated to enable comparison of the financial data for each year.

More information is available in the Department's Annual Report, which can be found at: http://www.dft.gov.uk/stellent/groups/dft_about/documents/page/dft_about_611668.hcsp and in the Annual Report and Accounts of individual agencies available on their websites.

The Department's Annual Report gives more detailed analysis of performance against PSA targets, which is summarised in the following paragraphs. A fuller exposition of the construction of targets and baselines, and assessment of performance, is set out in the Technical Notes for Spending Review 2004 PSA Targets, at: http://www.dft.gov.uk/stellent/groups/dft_about/documents/page/dft_about_030578.hcsp.

The Department's activities are focused on delivery against the objectives listed on page 4. The Consolidated Statement of Operating Costs by Departmental Aim and Objective to the Resource Accounts sets out expenditure related to these objectives (page 28).

Objective 1 – Support the economy through the provision of efficient and reliable inter-regional transport systems by making better use of the existing road network, reforming rail services and industry structures to deliver significant performance improvements for users, and investing in additional capacity to meet growing demand.

Performance against PSA Targets

PSA 1 – By 2007-08, make journeys more reliable on the strategic road network (see also PSA 4, which covers congestion in the largest urban areas and is discussed on page 7 of these Accounts).

This target was published in July 2005 and replaced the Spending Review 2002 target. The new target covers those Highways Agency roads in England, for which data is considered to be reliable. It will be met if, in 2007-08, average vehicle delays associated with the 10 per cent worst daytime journeys on each of the routes are less than during the baseline period (August 2004 to July 2005). In this context, "delay" represents the difference between observed journey time, and the time that could in theory be achieved if traffic is free-flowing.

The first assessment of performance will be published in 2006.

PSA 2 – Improve punctuality and reliability of rail services to at least 85 per cent by 2006, with further improvements by 2008.

This target covers Great Britain. The indicator measures at destination the performance of every scheduled franchised passenger train against the daily timetable. It is calculated using the number of passengers, multiplied by the average distance travelled by each passenger, and from central ticketing data collected by the Office of the Rail Regulator. Provisional results for March 2006 show that the 85 per cent target has been achieved early. The Moving Annual Average was 85.6 per cent in December 2005, an improvement of 2.8 percentage points compared with the Moving Annual Average of 82.8 per cent in December 2004.

Spend for this Objective

In 2005-06, the Consolidated Statement of Operating Costs by Departmental Aim and Objectives shows that the Department spent £6.15 billion, net of relevant income, in current expenditure towards this objective. This was an increase of 9 per cent compared with 2004-05. Note 2 shows that during 2005-06, £4.67 billion was provided to Highways Agency (Estimate lines E and AG) in current expenditure, an increase of 12 per cent from 2004-05. The Highways Agency's Cash Flow Statement, as presented in its own accounts, indicates that the Agency incurred £0.68 billion net cash outflows on capital activities, an increase of 18 per cent compared with 2004-05 cash outflows on capital activities. Again most, but not all, of this relates to Objective 1. The agency completed eight major schemes on the strategic road network, making a total of 35 schemes since 2001. Fifteen major schemes are under construction, seven of which started during the year.

A further £3.57 billion current expenditure was spent on the rail sector (Estimate lines L, AH and AI). Most, but not all, of this relates to Objective 1. Substantial progress has been made on upgrading the West Coast Main Line. The 125mph railway has reached Liverpool and Preston and the whole route to Glasgow is now modernised and able to run faster trains.

Significant developments

The residual functions of the Strategic Rail Authority were transferred to the Department, with other functions and responsibilities transferred to entities including the Scottish Executive and Passenger Focus (the operating name for the new Rail Passengers Council (RPC)). Rail services between the south eastern counties of England and London have been re-franchised to Govia, part of the Go-Ahead group.

To bring into effect the new working relationship between the Department and Network Rail, as envisaged in the Rail White Paper, the Department's Rail Group has started work on the preparation of the first High Level Output Specification (HLOS), which will describe, for the next five years, the railway the Department wishes to buy, and will set out the money available. The HLOS will be completed during 2007. It will inform the Office of Rail Regulation's assessment of the resources to be made available to Network Rail and the track access charges to be paid by Train Operating Companies.

Objective 2 – Deliver improvements to the accessibility, punctuality and reliability of local and regional transport systems through the approaches set out in Objective 1 and through increased use of public transport and other appropriate local solutions.

Performance against PSA Targets

PSA 3 – By 2010, increase the use of public transport (bus and light rail) by more than 12 per cent in England compared with 2000 levels, with growth in every region.

This target was revised to include a commitment to growth in every region, and covers England only. Additionally, there are specific targets for bus punctuality (reliability), accessibility and bus and light rail patronage. Reliability is defined as the percentage of services actually run, excluding losses outside the control of operators control, with data gathered by Transport for London within London, and by a panel of large operators elsewhere. Accessibility is measured as the percentage of local buses with low floor construction. The use of public transport is, for the purpose of assessing patronage, deemed to be the number of passenger journeys undertaken each year, using survey data from operators.

The two targets relating to reliability and accessibility, are on course to be delivered. Performance against the bus and light rail patronage target is on course, largely due to increased journeys in London; in some regions, bus usage is in decline. As a result, overall progress is more mixed than it was last year and the target for growth in every region remains challenging.

PSA 4 – By 2010-11, the 10 largest urban areas will meet the congestion targets set in their Local Transport Plan relating to movement on main roads into city centres. (During the Spending Review 2002 period, this was included in the PSA 1 target.)

This target covers journeys during the morning peak period on 153 routes into London, Greater Manchester, Merseyside, South Yorkshire, West Yorkshire, Tyne and Wear, West Midlands, Bristol, Leicester and Nottingham. Specific targets will be set for each area by July 2006. They will measure the ability to accommodate a specified increase in travel (the number of person miles travelled on the target routes) in terms of the impact on journey times (the average journey time experienced by individuals, rather than vehicles). As the target is still under development, performance has not been assessed.

Spend for this Objective

The Consolidated Statement of Operating Costs by Departmental Aim and Objectives shows that the Department spent £2.72 billion on Objective 2, net of relevant income. Note 2 indicates that grants of £2.18 billion were provided to the Greater London Authority (Estimate lines AB and AC), of which £0.73 billion was for investment expenditure. Other local authorities received £0.55 billion in grants (Estimate lines AD and AE), of which £0.16 billion was for investment. Most, but not all, of these grants related to Objective 2. In addition, £0.37 billion of Bus Service Operators Grant (Estimate line O) was provided to reimburse fuel costs. A higher relative proportion of the duty was paid for modern, cleaner fuels. Other bus grants included Rural Bus Subsidies, Rural Bus Challenge, Urban Bus Challenge and the "Kickstart" Bus Projects. Free concessionary fares for older and disabled people were introduced from April 2006.

The Department allocates capital funding to local government outside of London on the basis of five year Local Transport Plans, and provides guidance on what the government expects to be delivered. Local Transport Authorities provide annual progress reports, which show performance against targets and objectives. In London, Transport for London is responsible for implementing the Mayor's Transport Strategy.

Objective 3 – Balance the need to travel with the need to improve quality of life by improving safety and respecting the environment.

Performance against PSA Targets

PSA 5 – Reduce the number of people killed or seriously injured in road accidents by 40 per cent and the number of children killed or seriously injured by 50 per cent by 2010, compared with the average for 1994-98, and tackling the significantly higher incidence in disadvantaged communities.

The 40 per cent and 50 per cent targets apply to Great Britain, but the focus on disadvantaged communities applies to England only. This target has been carried forward from Spending Review 2002. Information on the numbers of casualties is gathered from police data. In this context, "disadvantaged communities" refers to the 88 local councils that are eligible to receive Neighbourhood Renewal Funding.

The Department is on course to meet each element of the target. In 2004 (the most recent period of which data is available), the reduction in the number of people killed or seriously injured was 28 per cent (compared with 22 per cent in the previous year) and for children, the reduction was 43 per cent (compared with 40 per cent in the previous year). The NRU 88 (Neighbourhood Renewal Unit's 88 most deprived local councils) showed a 15.8 per cent drop in total casualties (compared with 12.3 per cent for England overall). Last year, the NRU 88 reduction was 10.6 per cent (compared with 9 per cent for England overall). The Department is also working with the police to improve the accuracy of reports of non-fatal road accidents.

PSA 6 – Improve air quality by meeting the Air Quality Strategy targets for carbon monoxide, lead, nitrogen dioxide (NO_2), particles (PM_{10}), sulphur dioxide (SO_2), benzene and 1,3- butadiene.

This target has been carried forward from Spending Review 2002. It covers England only and is shared with DEFRA. Performance is assessed annually by means of the data from the national air quality monitoring network.

As last year, four out of seven objectives are being met. However, there are indications that the long term downward trends for NO_2 and PM_{10} are levelling out, or even reversing, at a number of locations. The Department is working with European partners to develop tighter standards for new vehicles and fuels. With DEFRA, the Department is discussing with the Greater London Authority and Transport for London, the Mayor's proposals for a London Low Emission Zone.

PSA 7 – To reduce greenhouse gas emissions to 12.5 per cent below 1990 levels by 2010, through measures including energy efficiency and renewables.

This target covers the United Kingdom. There are two supporting indicators: fuel efficiency of vehicles and the carbon content of fuel.

The Department is on course to exceed the Kyoto target of keeping annual greenhouse gas emissions between 2008-12 at 12.5 per cent below 1990 levels. A voluntarily set and significantly harder domestic target is a 20 per cent reduction in carbon dioxide emissions below 1990 levels by 2010. This target is shared with DTI and DEFRA.

Spend for this Objective

Total expenditure, net of relevant income, against this objective, as shown in the Consolidated Statement of Operating Costs by Departmental Aim and Objective, was £2.86 billion, an increase of 9 per cent on 2004-05. Successes against the PSA targets were achieved largely by non financial incentives, such as road safety advertising and setting vehicle excise duty rates to penalise less fuel efficient vehicles. As fuel efficiency also directly rewards the vehicle operator, further financial incentives were considered to be an inefficient use of taxpayers' money. Expenditure relating to objectives 1 and 2 can indirectly support achievement of this objective: reducing congestion and making public transport more attractive will reduce emissions, while Highways Agency maintenance expenditure improves road safety.

Objective 4 – Improve cost-effectiveness through sound financial management, robust cost control and clear appraisal of transport investment choices across different modes and locations.

No PSA targets are associated with this objective. However, the Department has set its own targets.

Significant developments

The Department expects to reach its target of total annual efficiency gains of at least £785 million by 2007-08, compared to 2004-05 efficiency levels, thereby releasing resources, where possible, to front line activities, and also to achieve its headcount reduction targets. In 2005-06, the Department had a trajectory to achieve efficiency gains of £261 million. This figure had already been exceeded in 2004-05, when the Department achieved gains of £288 million. The Driver Vehicle and Operator Group has achieved efficiency gains by moving away from paper to more electronic processing, – for example, by enabling customers to buy vehicle tax on line. It has also made efficiency gains through a reduction in vehicle excise duty evasion. The Highways Agency is identifying efficiency gains through improvements in its roads procurement and maintenance contracts, working with local authorities. It is expected to exceed its trajectory of £66 million gains for 2005-06. Further details will be available in the Department's Autumn Performance Report.

The Department has improved its financial management processes and skills, so that funds are used more efficiently and effectively. A new Investment Appraisal Framework has been put in place across the whole Department, and Board review of major projects was further enhanced, to ensure that funds are targeted appropriately and full benefits are realised.

Outturn compared with Estimate

For 2005-06, the Statement of Parliamentary Supply shows an underspend on Request for Resources 1 of £139,938,000. This includes Excess Appropriations in Aid of £67,812,000. The material components of the underspend are explained below:

L and AI: £63 million underspend and £62 million overspend – Railways

This relates to the Estimate containing merger accounting adjustments reflecting the transfer of activities from the Strategic Rail Authority and a track access charge rebate from Network Rail, which had been included on a net basis rather than split between expenditure and receipts.

AD: £31 million underspend – Other transport grants (resource)

There was an underspend within the Rural Bus Services programme, and smaller than anticipated payments to local authorities for de-trunked roads.

AE: £37 million underspend – Other transport grants (capital)

This was due, predominantly, to the cancellation during the year of the Mersey tram scheme and slippage on other major local transport schemes.

AG: £33 million underspend – Highways.

The underspend arises from programme cost of capital: the gearing effect of a small percentage variation in the change in valuation of the Agency's asset base results in a large absolute change in the cost of capital charge.

AH: £58 million underspend – Railways.

As emloyer of the 1994 section of the Railways Pension Scheme we were required to make an adjustment for the FRS17 valuation for the Fund as at the balance sheet date, which resulted in a £51 million non-cash underspend.

The remaining difference relates to £13 million overspends from other variances.

Financial performance

The Net Cash Requirement was £764 million below the Estimate, and is analysed as follows:

£139 million underspend against the Department's Resource Budget

As explained above.

£429 million Estimate adjustment

A decrease in cash requirement sought in the Winter Supplementary Estimate. A memorandum cash reduction was recorded in the Spring Supplementary Estimate for this amount.

£106 million underspend in working capital movements

This comprises mainly of increases in accrued expenditure within the Highways Agency, for which the cash payments will crystallise in the following year. These accruals relate to:

i. several road projects being brought forward towards the end of the year; and

ii. increase in the Private Finance Initiative (PFI) creditor for the A1 Wetherby to Walshford road and a new Traffic Control Centre, both of which opened during the year.

£74 million net underspend in the use of provisions

These comprised:

i. an underspend against provisions of £87 million by the Highways Agency;

ii. additional use of provisions in respect of certain items transferred from the Strategic Rail Authority provisions relating to the Channel Tunnel, and for some small pension schemes, amounting to £13 million.

The remaining difference between the Outturn and Estimate Net Cash Requirement relates to a £13 million underspend in anticipated capital expenditure across the Department, and other smaller offsetting variances totalling £3 million.

Balance sheet as at 31 March 2006

The net book value of the Department's fixed assets increased by £4.81 billion. This was due largely to a £5.04 billion revaluation gain on infrastructure assets (the road network). The remainder of the increase arises from total net additions of £0.30 billion, after adjusting for the writing down of capital additions. This was offset by a £0.25 billion depreciation charge and a £0.49 billion depreciation adjustment in respect of revaluations. The transfer of functions from the SRA decreased net assets by £68.5 million, as shown in Note 37.2. The impact of the merger of GCDA was to increase net assets by £3.2 million, as shown in Note 37.3. The remaining increase in the Department's asset base is a consequence of the increase in expenditure.

Assets	**2005-06**	**2004-05**
	£m	£m
Intangible Fixed Assets	26	21
Tangible Fixed Assets	78,836	74,020
Investments	663	647
Debtors due after one year	185	157
Stocks and work in progress	26	18
Debtors due within one year	309	264
Cash at Bank and in Hand	249	159
Pension Asset	–	1
Total	**80,294**	**75,287**

Tangible Fixed Assets	**2005-06**	**2004-05**
	£m	£m
National Trunk Road	76,200	71,559
Channel Tunnel Rail Link land	1,655	1,554
Other land and buildings excluding dwellings	306	282
Dwellings	55	46
Information Technology	105	90
Other Assets	33	66
Assets under construction	482	423
Total	**78,836**	**74,020**

Movements in the value of fixed assets include £0.76 billion in additions to Assets Under Construction, of which £0.75 billion related to the Highways Agency, as shown in the accounts for that entity, as schemes for new roads or improvements to existing roads commenced. This increase was offset by an adjustment to write down capital additions of £0.49 billion, due to the valuation method used for road schemes, and by the transfer, valued at £0.32 billion, of assets whose construction was completed to the relevant category of completed asset. The increase in the value of the Channel Tunnel Rail Link land, which is leased to the operator of the Channel Tunnel Rail Link, represents an adjustment to the value of the lease income. This adjustment reflects the fact that the date when the income will be received is now one year closer.

Liabilities and reserves	**2005-06**	**2004-05**
	£m	£m
Creditors due within one year	1,296	1,001
Creditors due after one year	2,740	2,569
Provisions for liabilities and charges	1,778	2,402
Pension Liability	349	636
General Fund	38,815	37,863
Revaluation Reserve	35,316	30,816
Total	**80,294**	**75,287**

Creditors falling due after one year increased by £0.17 billion. The most significant element of long term creditors is the value of the Deferred Income in respect of Channel Tunnel Rail Link land, which increased by £0.1 billion in line with the increase in the value of the land itself, discussed above. Provisions fell by £0.62 billion. The largest provision is for deferred grants payable to London and Continental Railways. This fell by £0.71 billion as three grant instalments were paid in cash to London and Continental Railways. The Pension liability fell by £0.29 billion following strong performance by the assets of the 1994 Section of the Railway Pension Scheme.

Asset Financing	**2005-06**	**2004-05**
	£m	£m
Owned	75,552	71,026
On-balance sheet PFI contracts	3,185	2,904
PFI reversionary interest	99	90
Total	**78,836**	**74,020**

The Department's policy on asset financing is to use private financing where this represents better value for money, and otherwise to purchase assets from capital funding. This policy is unchanged from prior years. The increase in the value of owned assets reflects the increase in the value of the road network, discussed above, rather than the purchase of new assets.

Liquidity

The Consolidated Cash Flow Statement shows that Department's holdings of cash at 31 March 2006 were £0.09 billion higher than at 31 March 2005. The significant causes of this increase are as follows: Financing – cash provided by the Treasury – increased by £0.90 billion; Cash outflows on operating activities increased by £0.73 billion; cash spent on capital purchases increased by £0.12 billion; and cash used for the servicing of finance decreased by £0.05 billion. The remaining small amount of the cash provided by Treasury which is unspent is a component of the increase in short-term creditors.

Social responsibility and community relations

The Department continues to work to demonstrate more accountability and responsiveness to society beyond the established stakeholders mentioned previously. The Freedom of Information Act came into effect on 1 January 2005 and, in the first year of its operation which ended on 31 December 2005, the Department met the target deadlines for response in almost 90 per cent of the 1,519 cases it has received. Responses of wider public interest have been published on the Departments web site. The Department is working to improve its regulation, so that it does not impose unnecessary burdens, or stifle growth. It has identified over 100 regulations, which place some administrative burdens on the private and voluntary sectors, and is working to identify those burdens which could be removed. The Department is also working to simplify regulations and enforcement – for example, by introducing on-line licensing to reduce the time needed for the manual completion of documents. The Department has also produced and implemented an Equality Impact Assessment Toolkit to cover disability, race and gender, so that potential adverse impacts of policy and operations can be anticipated and addressed.

External stakeholders

The Department works with other government departments to achieve its objectives, and the wider objectives of the Government. It collaborates with the Home Office on crime reduction and with the Department for Communities and Local Government (formerly, the Office of the Deputy Prime Minister) on the role of transport in reducing social exclusion. It works with European Union partners to promote the development of efficient and competitive transport markets – most recently, in the maritime sector and in international rail transport. During the year, the Communications Directorate carried out an audit of relationships with key stakeholders for each unit, and made recommendations on how communications could be developed to improve relationships.

Significant remote contingent liabilities

Government departments are required to report specifically on contingent liabilities arising from guarantees and letters of comfort. In general, the Department is reluctant to offer such guarantees. However, the Department has provided guarantees where these would benefit the tax payer, and the benefits outweigh the disadvantages. The two situations where this has occurred most significantly are to support private sector borrowing by Network Rail and London and Continental Railways, and to encourage rail franchisees to invest in new facilities, which would last beyond the franchise terms. Further disclosures are given in Notes 31 and 32 of these Accounts.

PUBLIC INTEREST

Equal Opportunities and Recruitment

The Department is an equal opportunities employer. All staff have a right to equality of opportunity in all aspects of employment and to a working environment free from harassment, bullying and victimisation, irrespective of race, ethnic or national origin, age, religion, sex, gender identity, marital status, disability, sexuality, working hours, union membership, union office or union activity. The Department has initiatives in place to remove all forms of unfair discrimination and to promote mainstream diversity in policy making and delivery. The Department recruits staff on the basis of fair and open competition. Selection is on merit and in accordance with the guidance laid down in the Civil Service Commissioners Recruitment Code.

Employment of Disabled Persons

The Disability Discrimination Act 1995 is aimed at ending the discrimination faced by many disabled people, both generally and in the field of employment. The Department is committed to implementing the Act so that disabled people in the Department are treated no less favourably than non-disabled staff. The Department sets out its policy in its "*Disability Guide*".

Staff Relations

The Department encourages staff involvement in all of its activities. It encourages personal development through appropriate training, secondments and attachments. Staff have access to counselling and support services and trade union membership and representation. There are also formal communication channels between management and trade union representatives through the Whitley Council.

The Department and its Agencies encourage good management practice through the profile of the "Good People Manager", as provided for within the Civil Service Reform agenda.

Payment of Suppliers

The Department's policy is to comply with the *"Prompt Payment Code"*. In line with the rest of Government, the Department (including its Executive Agencies) works toward paying 98 per cent of valid undisputed bills on time ie within 30 days of the date of receipt of the invoice or within the contractual term, if less. In 2005-06, the Department paid 98.71 per cent (2004-05: 98.83 per cent) of bills on time.

Environmental Policy

The Department's aim is reliable, safe and secure transport that works for everyone and which respects the environment. The Department is committed to reducing, on a cost-effective basis, the environmental impact of its operations. It conducts its activities and operations to reflect best environmental practice and has implemented an environmental management system to pursue sustainability, continual improvement and the prevention of pollution. The policy can be viewed on the Department's website.

Euro Preparations

Government policy on entry to the Euro continues to be "prepare and decide", thereby ensuring that the UK retains a genuine option to join the single currency if Government, Parliament and the people, in a referendum, decide to do so. The Department has developed and maintained its changeover plan in accordance with HM Treasury's requirements.

Significant events since the end of the financial year

On 24 May 2006, the Secretary of State for Transport announced that motorists were set to benefit from £112 million of road improvements in the West Midlands which will be funded by Macquaria Infrastructure Group (MIG) – the M6 Toll Operator.*

Funded through resources released from the re-financing of the M6 Toll concession, the improvements will include the construction, operation and maintenance of a new road from the M54 and Telford to the M6 and the M6 Toll as well as improvements to the slip road access from the M42 to the Southern end of the M6 Toll.

The new road should be ready for use after 2012, subject to the usual statutory processes and will not be tolled.

*MIG is the 100 per cent owner of Midland Expressway Limited, the concessionaire of the M6 Toll Road.

Auditors

The audit of the Department's accounts, including audit of the Department's agencies, is carried out by the Comptroller and Auditor General under the Government Resources and Accounts Act 2000 at a notional cost of £927,000.

The National Audit Office also performs other statutory audit work including value for money and assurance work at no cost to the Department.

David Rowlands 13 July 2006
Permanent Secretary and Accounting Officer
Department for Transport

Remuneration Report

Remuneration Policy

The remuneration of senior civil servants is set by the Prime Minister, following independent advice from the Review Body on Senior Salaries.

The Review Body also advises the Prime Minister from time to time on the pay and pensions of Members of Parliament and their allowances; on Peers' allowances; and on the pay, pensions and allowances of Ministers and others whose pay is determined by the Ministerial and Other Salaries Act 1975.

In reaching its recommendations, the Review Body has regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- government policies for improving public services, including the requirement on departments to meet the output targets for the delivery of departmental services;
- the funds available to departments, as set out in the government's departmental expenditure limits; and
- the government's inflation target.

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Further information about the work of the Review Body can be found at www.ome.uk.com

The remuneration of the Department's senior civil servants for current and future years is determined by the Department for Transport's Remuneration Committee, in accordance with recommendations from the Pay Review Body on Senior Salaries.

Pay System and Performance Management

The Senior Civil Service pay system is a pay band structure, underpinned by a tailored job evaluation scheme (JESP – Job Evaluation for Senior Posts). JESP provides a consistent basis for comparing the relative value of jobs within and across Departments. It ensures broadly that people with similar levels of responsibility have access to salaries within the same range, and supports equal pay.

Annual base pay awards recommended by the Review Board are allocated to the Agency's senior civil servants using a matrix of performance tranche and salary levels.

Performance tranche allocation is based on an assessment of performance (reflecting how well the job has been performed), overall track record and growth in competence, achievement against the performance agreement (key objectives and targets are agreed between the individual and line manager at the beginning of the reporting year) and contribution relative to others operating broadly at the same level.

Performance also has an effect on any bonus element awarded.

Remuneration Committee

The Remuneration Committee is comprised of the Department for Transport's Permanent Secretary (as Chairman), all Director Generals, the Chief Executive of the Highways Agency and a non-executive Board member. For 2005-06 members were:

David Rowlands	Permanent Secretary, Department for Transport
Stephen Hickey	Director General, Driver, Vehicle and Operator Group
Sue Killen	Director, General, Aviation, Logistics and Maritime Group (on loan to DCMS from 28 October 2005)
Simon Webb	Director General, Delivery and Security Group (from 27 September 2004)
Robert Devereux	Director General, Roads, Regional and Local Transport Group
Mike Mitchell	Director General, Rail Group (from 3 May 2005)
Archie Robertson	Chief Executive, Highways Agency
Ann Hemmingway	Non-executive Director, Department for Transport

Service Contracts

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

Unless otherwise stated below, the officials covered by this report hold appointments, which are open-ended until they reach the normal retiring age of 60. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Official	Current contract and unexpired term
Archie Robertson	24 November 2006 – 23 May 2008 Unexpired term = 26 months
Mike Mitchell	3 May 2005 – 2 May 2008 Unexpired term = 25 months

Both Archie Robertson and Mike Mitchell are subject to the termination agreements/notice periods as laid out in the standard Senior Civil Service contract for fixed term appointments.

No significant awards have been made to senior managers on departure in 2005-06.

Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk

Salary and Pension Entitlements

The following sections provide details of the remuneration and pension interests of the Ministers and the members of the Board:

Remuneration

Ministers

	Salary 2005-06 £	Salary 2004-05 £
Rt Hon Alistair Darling MP – Secretary of State	74,902	72,861
Karen Buck MP – Parliamentary Under Secretary of State (from 10 May 2005 – 16 March 2006)	25,131	–
Stephen Ladyman MP – Minister of State for Transport (from 10 May 2005)	34,675	–
Derek Twigg MP – Parliamentary Under Secretary of State (from 10 May 2005)	26,319	–
Charlotte Atkins – Parliamentary Under Secretary of State (to 10 May 2005)[1]	–	–
David Jamieson – Parliamentary Under Secretary of State (to 9 May 2005)	10,544[2]	28,688
Dr Kim Howells MP – Minister of State (to 9 September 2004)	–	18,898
Tony McNulty MP – Minister of State (to 9 May 2005)	4,209	33,242

[1] Charlotte Atkins received her salary from the Cabinet Office.
[2] David Jamieson received a severance payment of £7,293 included within this figure.

Officials

	Salary 2005-06 £000	Salary (Restated) 2004-05 £000
David Rowlands – Permanent Secretary[1]	170-175	155-160
Stephen Hickey – Director General	120-125	115-120
Sue Killen – Director General[2]	115-120	100-105
Simon Webb – Director General (from 27 September 2004)	130-135	65-70
Robert Devereux – Director General	120-125	110-115
Mike Mitchell – Director General (from 3 May 2005)[3]	150-155	–
Archie Robertson – Chief Executive[4]	–	–
Willy Rickett – Director General (to 30 September 2004)	–	65-70

[1] Please see separate note for benefits in kind.
[2] Sue Killen was on loan to DCMS from 28 October 2005.
[3] Includes relocation expenses of £15,000.
[4] Archie Robertson's remuneration is disclosed separately in the Highways Agency accounts.

The Non-Executive Directors of the Board received the following remuneration for their services during the year:

Non-Executive Director	£000
Ann Hemingway[1]	10
Joe Montgomery[2]	–
Deborah Williams[3]	11.9
Alastair Lyons[4]	12.5

[1] Ann Hemingway is also a member of the DVO Board (£400 a day), Highways Agency Board (£3,500 annual), and the Efficiency Programme Board (£575 a day). Her total remuneration in relation to these responsibilities was approx £50,000 for 2005-06.
[2] Joe Montgomery is a Director General of the formerly Office of the Deputy Prime Minister (ODPM). His salary and pension details are disclosed in the published accounts of ODPM. He received no fees in respect of his membership of the Department for Transport's Board.
[3] Deborah Williams joined the Board in October 2005. She is also chair of the Audit Committee.
[4] This includes fee as Chair of Audit Committee. Alastair Lyons left the Department on 30 September 2005.

Salary

'Salary' includes gross salary; performance pay or bonuses; 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 payments made by the Department and 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 MPs (£59,095; 2004-05 £57,485), and various allowances to which they are entitled, are borne centrally. The arrangements for Ministers in the House of Lords are different in that they do not receive a salary but 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 shown in full in the above figures.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. David Rowlands had the private use of an unallocated car in the circumstances permitted by the Civil Service Management Code. This benefit of £10,261 (2004-05 £9,156) was charged to tax under section 163 of the Income and Corporation Taxes Act 1988. No other Ministers or officials received any benefits in kind in either year.

Pension benefits

Ministers	Accrued pension at age 65 as at 31/3/06 £000	Real increase in pension at age 65 £000	CETV at 31/3/06 £000	CETV at 31/3/05 £000	Real increase in CETV £000
Rt Hon Alistair Darling MP – Secretary of State	12.5-15	0-2.5	183	145	25
Karen Buck MP – Parliamentary Under Secretary of State (from 10 May 2005 – 16 March 2006)	0-2.5	0-2.5	4	0	3
Stephen Ladyman MP – Minister of State for Transport (from 10 May 2005)	0-2.5	0-2.5	24	14	6
Derek Twigg MP – Parliamentary Under Secretary of State (from 10 May 2005)	0-2.5	0-2.5	18	13	3
David Jamieson – Parliamentary Under Secretary of State (to 9 May 2005)	2.5-5	0-2.5	56	55	1
Tony McNulty MP – Minister of State (to 9 May 2005)	2.5-5	0-2.5	29	28	0
Charlotte Atkins – Parliamentary Under Secretary of State (to 10 May 2005)	–	–	–	–	–

Ministerial pensions

Pension benefits for Ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is statutory-based (made under Statutory Instrument SI 1993 No 3253, as amended).

Those Ministers who are Members of Parliament are also entitled to an MP's pension under the PCPF. The arrangements for Ministers provide benefits on an 'average salary' basis with either a 1/50th or 1/40th accrual rate, taking account of all service as a Minister. (The accrual rate has been 1/40th since 15 July 2002 but Ministers, in common with all other members of the PCPF, can opt to increase their accrual rate from 5 July 2001, or retain the former 1/50th accrual rate and the lower rate of employee contribution.)

Benefits for Ministers are payable at the same time as MPs' benefits become payable under the PCPF or, for those individuals who are not MPs, on retirement from Ministerial office on or after age 65. Pensions are increased annually in line with changes in the Retail Prices Index. Members pay contributions of 6 per cent of their Ministerial salary if they have opted for the 1/50th accrual rate. Those members who have opted for the 1/40th accrual rate are required to pay an increased contribution. The rate was increased from 9 per cent to 10 per cent from 1 April 2004. There is also an employer contribution paid by the Exchequer, representing the balance of cost. This is 24 per cent of the Ministerial salary.

Pension Benefits

Officials	Accrued pension at age 60 as at 31/3/06	Real increase in pension at age 60	CETV at 31/3/06	CETV at 31/3/05	Real increase in CETV
	£000	£000	£000	£000	£000
David Rowlands – Permanent Secretary	60-62.5 plus 182.5-185 lump sum	2.5-5 plus 7.5-10 lump sum	1,467	1,160	68
Stephen Hickey – Director General	45-47.5 plus 140-142.5 lump sum	2.5-5 plus 7.5-10 lump sum	1,046	793	72
Sue Killen – Director General[1]	35-37.5 plus 105-107.5 lump sum	2.5-5 plus 7.5-10 lump sum	600	414	55
Simon Webb – Director General (from 27 September 2004)	52.5-55 plus 160-162.5 lump sum	2.5-5 plus 7.5-10 lump sum	1,116	852	55
Robert Devereux – Director General	40-42.5 plus 120-122.5 lump sum	2.5-5 plus 7.5-10 lump sum	717	512	52
Mike Mitchell – Director General (from 3 May 2005)	0-2.5	0-2.5	33	–	33

[1] Sue Killen was on loan to DCMS from 28 October 2005.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5 per cent of pensionable earnings for classic and 3.5 per cent for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' 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 (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in classic.

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

Further details about the Civil Service pension arrangements can be found at the website: www.civilservice-pensions.gov.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 CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the CS Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

The factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary. The CETV figure for 31 March 2005 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2006.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of 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.

David Rowlands 13 July 2006
Permanent Secretary and Accounting Officer
Department for Transport

Statement of Accounting Officer's Responsibilities

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

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

3. HM Treasury has appointed the Permanent Head of the Department as Accounting Officer of the Department with responsibility for preparing the Department's accounts and for transmitting them to the Comptroller and Auditor General.

4. In preparing the accounts, the Accounting Officer is required to comply with the Financial Reporting Manual prepared by HM Treasury, and in particular to:

a. observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;

b. make judgements and estimates on a reasonable basis;

c. state whether applicable accounting standards, as set out in the Financial Reporting Manual, have been followed, and disclose and explain any material departures in the accounts; and

d. prepare the accounts on a going-concern basis.

5. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Department's assets, are set out in the Accounting Officer's Memorandum issued by HM Treasury and published in Government Accounting.

Statement regarding the disclosure of Information to the Auditors

As Accounting Officer I have taken all the steps necessary to make myself aware of any relevant audit information and to establish that the National Audit Office have been made aware of that information in connection with their audit.

Insofar as I am aware, there is no relevant audit information of which the National Audit office is not aware of.

The Department's Statement on Internal Control 2005-06

Scope of responsibility

1. As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Department for Transport's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

2. The Department has seven Executive Agencies. Three of these (the Driver and Vehicle Licensing Agency, the Driving Standards Agency and the Vehicle and Operator Services Agency) operate as Trading Funds. Together with the Strategic Rail Authority, Passenger Focus (formally the Rail Passengers Council), the Railway Heritage Committee, and the British Transport Police (all executive NDPBs), these bodies fall outside the Departmental accounting boundary; direct responsibility for maintaining the system of internal control rests with the relevant body and the accounts are not consolidated in the Department's accounts.

3. The other four DfT Agencies (the Maritime and Coastguard Agency, the Vehicle Certification Agency, the Government Car and Despatch Agency and the Highways Agency) and the Commission for Integrated Transport, the Disabled Persons Transport Advisory Committee and the Traffic Commissioners and Licensing Authorities, fall within the Departmental boundary. The Agency Chief Executives are responsible for the maintenance and operation of their systems of internal control. Each Chief Executive has signed a Statement on Internal Control relating to that system. These Statements are reproduced in the relevant body's accounts, which are consolidated in the Department's accounts. This Statement reports agency control issues only where they are significant in the context of the whole Department.

4. The Director General of the Driver, Vehicle and Operator Group is an Additional Accounting Officer. The Group comprises the Driver and Vehicle Licensing Agency (DVLA), the Driving Standards Agency (DSA), the Vehicle Certification Agency (VCA) and the Vehicle and Operator Services Agency (VOSA). The Group does not produce separate financial statements but provides an additional layer of assurance through the operation of its Management Board. The Director General of the Driver, Vehicle and Operator Group is also an Additional Accounting Officer for the Government Car and Despatch Agency.

5. The Director General of the Rail Group is an Additional Accounting Officer. The Group is responsible for implementing the Government's strategy for the country's railways, for letting contracts for train franchises and for securing improved performance and value for money on the rail network. The Group does not produce separate financial statements but provides an additional layer of assurance through the operation of its Management Board.

The purpose of the system of internal control

6. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve departmental policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. Subject to the developments during the year described in the following paragraphs, the system of internal control has been in place in the Department for Transport for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

7. Leadership on risk management is provided by:

- the Department's Management Board, which monitors delivery against key objectives across the DfT family. Significant risks to these objectives are identified by the line and escalated to the Board. The Department's Board includes the three Directors General in the central Department, the Director General for the DVO Group, the Chief Executive of the Highways Agency and three non-executive members. The Director General for Delivery and Security is the Board's "Risk Management Champion";
- an Executive Committee, which seeks to ensure that the resources available to the central Department are managed as effectively as possible to meet identified risks and corporate governance standards;
- the Driver, Vehicle and Operator Group Board, which monitors delivery against key objectives across the DVO Group agencies, including risks to their achievement;
- the Board of the Department's Rail Group, which monitors delivery against objectives and the management of the Group's resources, including the controls for risk management; and

- the Boards of the Maritime and Coastguard Agency, the Highways Agency and the Government Car and Despatch Agency, which monitor and review risks to the delivery of their objectives.

8. The Department's Audit Committee monitors and reviews the processes for managing risk, control, governance and assurance across the DfT family, and includes two non-executive members from the DfT family. Each Agency has its own Audit Committee, which fulfils a similar function.

9. Officials consult Ministers regularly on risk. Submissions to Ministers incorporate assessments of key risks, including, for example, to the operation of the transport system, including public perceptions, and to the successful delivery of new policies. DfT Ministers also receive regular reports on key cross-government risks from the Domestic Horizon Scanning Committee.

10. The Department's Risk Improvement Manager is responsible for ensuring that appropriate guidance, support and training on risk management is available to staff within the central Department. During 2005-06, a programme of risk management workshops and other events was delivered. Each Agency Chief Executive is responsible for ensuring that appropriate risk management guidance, support and training arrangements are in place within his or her agency.

The risk and control framework

11. The Treasury published its Code of Good Practice on Corporate Governance in Central Government Departments in July 2005; the Department's practices are broadly consistent with the principles set out in this Code.

12. Agency Chief Executives, Directors General and Heads of Unit (Directors) in the central Department take responsibility for the day to day management of risks in their respective areas of influence. Through regular delivery and financial reporting processes, the Board has set guideline criteria for the impact of risks that it considers should be escalated for its potential attention. The Department also has in place risk registers, and a corporate risk log which is reviewed by the Board on a bi-monthly basis.

13. Early in the year, the central Department put in place a comprehensive "Corporate Governance Framework", which included the framework of accountabilities, the roles and responsibilities of Agency Chief Executives, Directors General and Directors, and the end of year reporting arrangements. The Framework set out the responsibilities of Directors General and Directors for risk management. The Framework was supported by delegations from the Accounting Officer to Directors General to maintain effective accountability and management of resources.

14. During the year, the Department and its Agencies agreed a common framework of management assurances to support a more transparent and consistent approach to the review of systems of internal control. This will be implemented fully in 2006-07.

15. The Department and its Agencies have a number of well-established programmes for involving the public in managing the risks associated with transport. These include: road safety campaigns, work by the Maritime and Coastguard Agency to communicate with the public on key areas of water safety, and regular safety digest reports by the Marine Accident Investigation Branch. The Department has also identified its ability to manage major transport disruptions as a key corporate risk and has in place an active programme, working with partners, to ensure adequate contingency and emergency plans are maintained, developed and reviewed.

Review of effectiveness

16. As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the results of my review of the effectiveness of the system of internal control by the Board and the Audit Committee, and a plan to address weaknesses and ensure continuous improvement is in place.

17. The Audit Committee receives summaries of Internal Audit reports and considers the Group Head of Internal Audit's annual opinion on the effectiveness of risk management, control and governance. The Chair of the Audit Committee reports regularly to the Board the Committee's views on the effectiveness of internal control.

18. The effectiveness of the Department's Audit Committee was reviewed jointly with the National Audit Office in June 2005. The recommendations of that review have been agreed and implemented.

19. The Department's Audit and Risk Assurance Division (Internal Audit) operates to standards defined in the Government's Internal Audit Standard. It provides an independent opinion to the Accounting Officer on control and governance and the effectiveness of the Department's risk management systems. Regular reports

are provided to the Department's management, as well as advice on risk and control issues. The Department's assessment of the control environment is also informed by the programme of external audits and value for money studies undertaken by the National Audit Office.

20. Directors General and Directors have reviewed internal control within their areas of responsibility and have completed end of year assurance returns, which the Finance Director has reviewed and summarised in his report to me on stewardship. The responses confirmed that Directors General and Directors regarded their Units as substantially compliant with the structure of internal control.

21. All DfT Agencies have reviewed the effectiveness of their systems of internal control and prepared Statements on Internal Control. No significant weaknesses were identified; however, the Highways Agency recognises the need to improve its internal control and has made ongoing continuous improvements to risk handling and the control environment. The improvements made during 2005-06 and those planned for 2006-07 are described in the Highways Agency's Statement on Internal Control and are expected to deliver further significant benefits in 2006-07 when the new arrangements are fully implemented, embedded and operating.

Group Audit Opinion

The Group Head of Internal Audit has provided the following opinion for 2005-06:

- "I can provide substantial assurance that risk management processes are working well in the Department and the Agencies. The Department has made significant improvements during the year and there are plans in place to further strengthen and improve these practices. Agencies continue to embed risk management as part of decision making and management processes.
- Internal controls, including financial controls, have continued to improve during the year so that I am able to provide substantial assurance on internal control in all parts of the organisation other than in the Highways Agency. Significant effort has been made to improve internal controls in the Highways Agency and management is working on a continuous programme to improve controls further. However some of our audits identified scope for improvement. Accordingly I am able to provide partial assurance on internal control arrangements in the Highways Agency. Notwithstanding this level of assurance, no weaknesses were identified that are sufficiently significant or material to require disclosure in the Statement on Internal Control.
- Improvements have been made to the Governance process in the Department and in the agencies during the year leading me to provide substantial assurance."

David Rowlands
Accounting Officer
Date: 13 July 2006

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Department for Transport for the year ended 31 March 2006 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Annual Report and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the part of the Financial Statements and the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the statement pages 19 to 21 reflects the Department's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Annual Report and the Management Commentary on pages 3 to 12 and the parts of the Remuneration Report on page 13. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Department's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Report of the Comptroller and Auditor General to the House of Commons

Railways Act 2005

Under the Railways Act 2005, the Strategic Rail Authority (SRA), an NDPB, was abolished and many of its strategic and financial functions were transferred to the Department for Transport during 2005. Those functions are reflected in these accounts. In 2004-05 the SRA's accounts included the consolidation of Network Rail. The consolidation boundary for the Department's Resource Account, defined by rules in HM Treasury's Financial Reporting Manual, excludes the consolidation of entities such as Network Rail. Note 38 to these accounts, sets out the nature of the Department for Transport's relationship with Network Rail. My opinion on the truth and fairness of the Department's financial statements is given in the context of the rules set out in HM Treasury's Financial Reporting Manual.

Section 2 of the Exchequer and Audit Departments Act 1921

Section 2 of the Exchequer and Audit Departments Act 1921 requires me to examine all revenue accounts on behalf of the House of Commons to ascertain that adequate regulations and procedure have been framed to secure an effective check on the assessment, collection and proper allocation of revenue, and that they are being duly carried out. I am also required by that Act to examine the correctness of the sums brought to account and to report the results to the House of Commons.

The Driver and Vehicle Licensing Agency, a Trading Fund of the Department for Transport, is responsible for the collection of Vehicle Excise Duty across the United Kingdom. The Vehicle Excise Duty account is laid before the House of Commons (HC1395, 19 July 2006) with my detailed report under the 1921 Act. My audit opinion on the Vehicle Excise Duty account for 2005-06 was unqualified.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2006 and the net cash requirement, net resource outturn, resources applied to objectives, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

John Bourn
Comptroller and Auditor General

18 July 2006

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

Statement of Parliamentary Supply

SCHEDULE 1

Summary of Resource Outturn
2005-06

	2005-06 Estimate			2005-06 Outturn				2004-05 Outturn
	Gross Expenditure	*Appropriations in Aid (A-in-A)*	*Net Total*	*Gross Expenditure*	*Appropriations in Aid*	*Net Total*	*Net Total Outturn compared with estimate savings/ (excess)*	*Net Total (restated)*
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1 (Note 2)	12,657,287	(470,680)	12,186,607	12,517,349	(470,680)	12,046,669	139,938	11,323,001
Total Resources (Note 3)	**12,657,287**	**(470,680)**	**12,186,607**	**12,517,349**	**(470,680)**	**12,046,669**	**139,938**	**11,323,001**
Non-operating cost A-in-A	–	–	**(23,557)**	–	–	**(23,557)**	–	**(10,490)**

Net Cash Requirement 2005-06

		2005-06			2004-05
		Estimate	Outturn	Net total outturn compared with Estimate: saving/ (excess)	Outturn
	Note	£000	£000	£000	£000
Net Cash Requirement	4	**10,814,085**	**10,050,545**	**763,540**	**9,183,194**

Summary of income payable to the Consolidated Fund

In addition to Appropriations in Aid, the following income relates to the Department and is payable to the Consolidated Fund.

		2005-06 Forecast		2005-06 Outturn	
		Income	**Receipts**	**Income**	**Receipts**
	Note	£000	£000	£000	£000
Total: Analysis of income payable to the Consolidated Fund	5	**152,430**	***152,430***	**222,603**	***190,887***

Explanations of variances between Estimate and Outturn are given in Note 2 and in the Operating and Financial Review.

SCHEDULE 2

Operating Cost Statement
for the year ended 31 March 2006

		2005-06		2004-05 (restated)	
		Core Department	Consolidated	Core Department	Consolidated
	Note	£000	£000	£000	£000
Administration Costs					
Staff costs	9	98,833	171,303	93,574	163,779
Other administration costs	10	128,140	171,193	69,953	110,659
Gross Administration Costs		**226,973**	**342,496**	**163,527**	**274,438**
Operating income	12	(14,077)	(40,074)	(15,000)	(37,623)
Net Administration Costs		**212,896**	**302,422**	**148,527**	**236,815**
Programme costs					
Staff costs	9	13,778	80,504	17,078	63,716
Other programme costs	11	7,436,906	12,117,349	7,306,447	11,506,114
Income	12	(430,728)	(483,332)	(385,532)	(438,096)
EU income		–	(2,276)	–	(2,401)
EU income (acting as agency)	12	(22,367)	(22,367)	(35,151)	(35,151)
Total		**7,210,485**	**11,992,300**	**7,051,369**	**11,330,997**
Dividend receivable	12	(5,277)	(5,277)	(5,451)	(5,451)
Interest receivable	12	(30,073)	(39,347)	(28,350)	(34,071)
Net Operating Cost		**7,175,135**	**11,947,676**	**7,017,568**	**11,291,475**
Net Resource Outturn	3	**7,192,801**	**12,046,669**	**7,055,396**	**11,323,001**

There were no material acquisitions or disposals in the year. The comparatives have been restated following the merger into the Department of the Strategic Rail Authority and the Government Car and Despatch Agency (see Note 37).

Statement of Total Recognised Gains and Losses

for the year ended 31 March 2006

		2005-06		2004-05 (restated)	
		Core Department	Consolidated	Core Department	Consolidated
	Note	£000	£000	£000	£000
Net (loss)/gain on revaluation of tangible/intangible fixed assets	14	3,209	4,573,194	17,454	5,653,790
Reversionary interest on M6 toll road		–	9,130	–	(1,628)
Actuarial gain/(loss) recognised in pension scheme		247,700	247,700	(66,200)	(66,200)
Prior year adjustment		(1,595)	111,562	(137)	(89,881)
Total Recognised Gains and Losses for the financial year		**249,314**	**4,941,586**	**(48,883)**	**5,496,081**

SCHEDULE 3

Balance Sheet
As at 31 March 2006

	Note	2005-06 Core Department £000	2005-06 Consolidated £000	2004-05 (restated) Core Department £000	2004-05 (restated) Consolidated £000
Fixed Assets					
Intangible Assets	15	20,846	25,803	15,494	21,081
Tangible Assets	14	1,737,369	78,836,340	1,640,554	74,020,074
Investments	16	663,431	663,431	647,236	647,236
		2,421,646	**79,525,574**	**2,303,284**	**74,688,391**
Debtors falling due after more than one year	18	**10,000**	**184,462**	–	**156,522**
Current Assets					
Stocks and Work in Progress	17	–	25,818	–	18,279
Debtors	18	221,168	309,078	193,223	263,410
Cash at Bank and in Hand	19	243,703	248,583	147,230	159,273
		464,871	583,479	340,453	440,962
Creditors (due within one year)	20(a)	(651,301)	(1,295,680)	(524,223)	(1,000,629)
Net Current Liabilities		**(186,430)**	**(712,201)**	**(183,770)**	**(559,667)**
Total Assets less Current Liabilities		**2,245,216**	**78,997,835**	**2,119,514**	**74,285,246**
Creditors (amounts falling due after more than one year)	20(b)	(1,666,943)	(2,739,677)	(1,561,128)	(2,568,877)
Provisions for Liabilities and Charges	21	(1,318,238)	(1,777,497)	(1,962,846)	(2,401,963)
Pension Liability		(349,140)	(349,140)	(636,340)	(636,340)
Pension Asset		100	100	1,400	1,400
		(1,089,005)	**74,131,621**	**(2,039,400)**	**68,679,466**
Taxpayers' Equity					
General Fund	22	(1,111,858)	38,815,331	(2,060,423)	37,863,494
Revaluation Reserve	23	22,853	35,316,290	21,023	30,815,972
		(1,089,005)	**74,131,621**	**(2,039,400)**	**68,679,466**

The comparative figures have been restated following the detrunking of certain non-core roads to local authorities and the merger into the Department of the Strategic Rail Authority and the Government Car and Despatch Agency (Note 37).

David Rowlands
Accounting Officer
Department for Transport

Approved on 13 July 2006

SCHEDULE 4

Cash Flow Statement
for the year ended 31 March 2006

	Note	2005-06	2004-05 (restated)
		£000	£000
Net cash out flow from operating activities	24a	(9,212,164)	(8,484,763)
Cost of servicing of finance: interest element of PFI payments		–	(53,191)
Capital expenditure and financial investment	24b	(729,130)	(611,491)
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		113,110	108,347
Payments to the Consolidated Fund		(190,815)	(181,376)
Financing	24d	10,108,309	9,208,960
Increase/(decrease) in cash in the period	24e	**89,310**	**(13,514)**

SCHEDULE 5

Consolidated Statement of Operating Costs by Departmental Aim and Objectives
for the year ended 31 March 2006

			2005-06			2004-05 (restated)
Main objective	Gross £000	Income £000	Net £000	Gross £000	Income £000	Net £000
Objective 1	6,377,342	(225,413)	6,151,929	5,834,350	(198,243)	5,636,107
Objective 2	2,824,684	(109,160)	2,715,524	2,914,286	(110,475)	2,803,811
Objective 3	3,047,345	(191,467)	2,855,878	2,802,910	(187,187)	2,615,723
Objective 4	290,978	(66,633)	224,345	292,722	(56,888)	235,834
Net Operating Costs (Operating Cost Statement)	**12,540,349**	**(592,673)**	**11,947,676**	**11,844,268**	**(552,793)**	**11,291,475**

Note 25 provides further analysis of these figures.

Objective 1 – Support the economy through the provision of efficient and reliable inter-regional transport systems by making better use of the existing road network, reforming rail services and industry structures to deliver significant performance improvements for users, and investing in additional capacity to meet growing demand.

Objective 2 – Deliver improvements to the accessibility, punctuality and reliability of local and regional transport systems through the approaches set out in Objective 1 and through increased use of public transport and other appropriate local solutions.

Objective 3 – Balance the need to travel with the need to improve quality of life by improving safety and respecting the environment.

Objective 4 – Improve cost effectiveness through sound financial management, robust cost control and clear appraisal of transport investment choices across different modes and locations.

Notes to the Departmental Resource Accounts

1.1 Statement of Accounting Policies and Significant Estimation Techniques

These financial statements have been prepared in accordance with the 2005-06 Government *Financial Reporting Manual* (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

In addition to the primary statements prepared under UK GAAP, the FReM also requires the Department to prepare two additional primary statements. The Statement of Parliamentary Supply and supporting notes show outturn against Estimates in terms of the net resource requirement and the net cash requirement. The consolidated Statement of Operating Cost by Department Aim and Objectives and supporting notes analyse the Department's income and expenditure by the objectives agreed with Ministers.

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

1.2 Accounting Convention

These accounts have been prepared under the historical cost convention, modified to account for the revaluation of fixed assets and stocks where material, at their value to the business by reference to their current costs.

1.3 Basis of Consolidation

These accounts comprise a consolidation of the non-agency parts of the Department, and those entities that fall within the departmental boundary as defined in the FReM (Section 1.5) issued by HM Treasury. Transactions between entities included in the consolidation are eliminated. A list of those entities within the departmental boundary is given in Note 36.

1.4 Prior Year Adjustments

Material adjustments applicable to prior periods arising from machinery of government changes, changes in accounting policy or from the correction of fundamental errors are accounted for as prior year adjustments. Opening balances are adjusted for the cumulative effect of the prior year adjustment and comparative figures for the previous period restated. In these accounts, prior year adjustments have been made to reflect the detrunking of non-core roads, the incorporation of Government Car and Despatch Agency and the transfer of functions from the Strategic Rail Authority to the Department.

The Highways Agency carried out detrunkings of non-core roads to local authorities and they are treated as a transfer of function. Merger accounting principles are applied with opening balances adjusted for the cumulative effect of the trunking/detrunking and comparative figures for the preceding period restated.

1.5 Tangible Fixed Assets

Legal title to the freehold land and buildings shown in the accounts is held in the name of the Secretary of State. The Department assumed responsibility for the Civil Estate on 1 April 1996 as a major occupier and pays a charge for this accommodation to the Consolidated Fund in that capacity.

Tangible fixed assets are categorised as network assets and non-network assets. Network assets comprise motorways and trunk roads in England and Wales, which form an integrated network infrastructure servicing a significant geographical area. The network consists of carriageways, including earthworks, tunnelling and road pavements, roadside communications, bridges and other structures, and land and buildings within the perimeter of highways. Non-network assets include land and buildings, plant and equipment and information technology.

Notes to the Department Resource Accounts *(continued)*

The core Department's capitalisation threshold is £5,000. The thresholds in the Agencies range from £1,000 to £2,000 for individual or grouped assets; except for land, for which there is no minimum, and infrastructure construction schemes in the Highways Agency, for which the minimum is £100,000. Items falling below these values are charged as an expense and shown in the Operating Cost Statement. Assets usually comprise single items; however, items included within the road network, or ring-fenced relocation projects, or computer equipment which, in substance, form a single asset, are capitalised as a single asset.

Expenditure on road building schemes in the course of design and construction is capitalised when it is reasonably certain the scheme will be completed:

- the cost of schemes within the discretion of the Highways Agency is capitalised from inception; and
- the cost of major schemes which are subject to approval by Ministers are capitalised once their inclusion in the Department's Targeted Programme of Improvement (TPI) has been agreed. Until that point, any costs are charged as an expense and shown in the Operating Cost Statement.

When a scheme is subsequently withdrawn from the Secretary of State's road programme, cumulative design expenditure is written off to the Operating Cost Statement. Any retained land and property is transferred to land and buildings and valued as an asset held for resale. Network assets in the course of design or construction are capitalised at the lower of actual and expected standard cost.

Operating software is capitalised, with the value of the hardware supporting it, as a tangible fixed asset. Applications software is capitalised separately as an intangible fixed asset.

Valuation

Freehold land and buildings are restated to current value using professional valuations, in accordance with *FRS 15 – Tangible Fixed Assets*, every five years; values are adjusted using appropriate indices in intervening years, except the freehold land on which the Channel Tunnel Rail Link (CTRL) has been constructed, which has been leased to the operator for ninety years. Reflecting this usage, the land has been valued at the net present value of the lease income, since the land is not unencumbered and the Department's rights are to that extent constrained. The reversionary interest of the land and the link constructed upon it are valued at nil. Further details are given at Note 28.3.9. Assets held for resale (dwellings), being land and property released from road schemes, are valued at open market value, less provision for selling costs. All other tangible fixed assets except, database development (these assets are stated at cost), are restated to current value each year, using appropriate indices.

The network infrastructure, which is intended to be maintained at a specific level of service potential by continuing replacement and refurbishment, is valued at depreciated replacement cost. Between valuations, the assets are adjusted annually using the following indices:

- Roads and structures: ROCOS (resource cost index of road construction); and
- Land: based on VOA property market reports.

ROCOS is published on a quarterly basis by the Department of Trade and Industry (DTI). The land indices are published every six months by the Valuation Office Agency (VOA).

Network assets are valued by reference to internal costings and physical asset records. The estimated unexpired life of the network is reassessed annually and the valuation adjusted, if required.

Notes to the Department Resource Accounts *(continued)*

1.6 Depreciation

Network Assets

A modified version of renewals accounting, as described in the FReM, is applied to calculate the depreciation for those network assets which meet the renewals criteria. Assets that qualify for renewals accounting are not depreciated; instead, expenditure incurred in maintaining the operating capacity of assets is expensed as a proxy for depreciation. In addition, an annual condition survey of assets is undertaken, and the value of any material variation in operating condition shown by the survey is taken to the Operating Cost Statement as an impairment charge or an improvement credit. The following network asset components are subject to renewals accounting:

- surface layer of flexible pavements;
- sub-pavement layer of determinate life pavements;
- fencing, drainage, lighting signage, kerbs, footways;
- road markings and studs; and
- rigid concrete pavements.

All other network assets and definable components, with determinable finite lives, are depreciated at rates calculated to write off the assets over their expected useful lives on a straight line basis, as follows:

National Trunk Roads	road bridges, tunnels and underpasses, road culverts, retaining walls and gantries.	20 to 120 years
National Trunk Roads	road communications assets.	15 to 50 years.

Expenditure incurred on network structures and communications assets is capitalised, to the extent that it restores the service potential of the asset that has previously been consumed and reflected in depreciation.

The following network components are considered to have an indefinite life and are not depreciated:

- freehold land;
- sub pavement layer of long life pavements; and
- earthworks.

Non-Network Assets

Freehold land is not depreciated. Assets in the course of construction, and residual interests in off-balance sheet PFI contract assets, are not depreciated until the relevant asset is brought into use or reverts to the Department, respectively. Depreciation is provided at rates calculated to write off the valuation of freehold buildings and other tangible fixed assets on a straight line basis. Asset lives are normally in the following ranges:

Land and buildings, including dwellings	—	Freehold or leasehold buildings	Up to 60 years or length of lease
Plant and machinery	—	General plant and equipment	3 to 10 years
	—	Winter maintenance equipment	25 years
	—	Communications equipment	15 to 25 years
	—	Structural steelwork	10 years
	—	Assets in storage	No depreciation
Furniture and fittings	—	Furniture and fittings	10 years
Transport equipment	—	Vehicles	4 to 10 years
Information technology	—	Computers	3 to 10 years
	—	Purchased software	Up to 10 years
	—	Database development costs	5 years
	—	Web portals	10 years
Assets under construction	—	Assets under construction	No depreciation

Assets in storage include overhead gantries and become a network asset once issued from stores. These items are kept in controlled conditions and do not deteriorate. They have a design life in excess of 60 years. Whilst not depreciated, they are subject to an annual impairment review.

Notes to the Department Resource Accounts *(continued)*

1.7 Intangible Fixed Assets

Purchased computer software licences are capitalised as intangible fixed assets. These items are valued at historic cost and are amortised over 3 to 5 years on a straight line basis over their useful lives.

1.8 Investments

Investments comprise holdings that the Department intends to retain for the foreseeable future and are therefore treated as fixed asset investments. All loans and issued Public Dividend Capital are shown at historical cost. Investments may either be equity investments, held in the name of the Secretary of State, or medium or long term loans that were made with the intention of providing working capital or commercial support.

Amounts owed by the Department to the National Loans Fund are included in creditors in the Balance Sheet at historic cost. The Secretary of State's holdings in companies, in the form of special shares, are each valued at a nominal value of £1 and are included in Note 16 to the accounts. The National Air Traffic Holdings Ltd (NATS), SRA Investment Company Limited (SICL) and British Rail Board (Residuary) Limited (BRBR) shares are valued at historic cost less any impairments.

Other investments are shown at market value at the balance sheet date.

1.9 Stock and Work in Progress

Stock is valued at cost, or replacement cost, where materially different. Long term stock holdings for special structures (such as tunnels and bridges), where there are no recent purchases, are valued at estimated replacement cost. Where excess or obsolete stock holdings have been identified, a provision has been made to reduce the carrying value to the estimated net realisable value. Work in progress is valued at the lower of cost, including appropriate overheads, and net realisable value.

1.10 Research and Development

Expenditure on research is not capitalised. Expenditure on development in connection with a product or service, which is to be supplied on a full cost recovery basis, is capitalised if it meets the criteria specified in the *FReM*. Other development expenditure is capitalised if it meets the criteria specified in the *FReM*. Expenditure that does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred. Fixed assets acquired for use in research and development are depreciated over the life of the associated project, or according to the asset category if the asset is to be used for subsequent production work.

1.11 Operating Income

Operating income is income that relates directly to the operating activities of the Department. Principally, it comprises:

- fees and charges for work carried out on a full cost basis for external customers in both the public and the private sectors;
- rental income from properties acquired for road schemes, which have yet to be disposed of and from offices where the Highways Agency is the main occupier and surplus accommodation is let to other organisations;
- receipts from third parties for claims for damage to the motorways and trunk roads;
- cost recoveries from Midland Expressway Limited relating to the M6 toll road; and
- other investment income.

It includes not only income appropriated-in-aid of the Estimate, but also income payable to the Consolidated Fund, authorised by HM Treasury to be treated as operating income. It is stated net of VAT.

Notes to the Department Resource Accounts *(continued)*

1.12 Incentive Regimes

The contractual subsidy payable or premium receivable within each franchise agreement is included as expenditure or income respectively. These amounts include an estimate for payments and receipts due under performance regimes for the relevant financial period. Supplements to track access charges and bonuses receivable from, less penalties payable to, customers are included in income. Additional contract amounts and bonuses payable to, less penalties receivable from, suppliers and the Office of Rail Regulation are included in operating expenditure, see the Strategic Rail Authority's 2004-05 Accounts.

1.13 Foreign Exchange

Transactions in year that are denominated in a foreign currency are recorded in sterling at an average rate of exchange. Monetary assets and liabilities in foreign currencies are translated into sterling at the rates ruling at the balance sheet date. The resulting translation differences are charged to the Operating Cost Statement.

1.14 Leases

Rentals under operating leases are charged to the Operating Cost Statement on a straight line basis over the term of the lease. Where the substantial risks and rewards of ownership are borne by the Department, the asset is recorded as a tangible fixed asset and a creditor to the lessor is recorded of the minimum lease payments discounted by the interest rate implicit in the lease. The interest element of the finance lease payment is charged to the Operating Cost Statement over the period of the lease at a constant rate in relation to the balance outstanding.

1.15 Private Finance Initiative (PFI) Transactions

PFI transactions have been accounted for in accordance with the HM Treasury's Technical Note No 1 Revised: '*How to Account for PFI Transactions*'.

Where the balance of the risks and rewards of ownership of the PFI property is borne by the Department, the property is recognised as a fixed asset and the liability to pay for it accounted for as a finance lease. The asset and liability are both initially recorded at the fair value of the property and the asset is subsequently revalued and depreciated in accordance with accounting policies 1.5 and 1.6. The liability, after inclusion of imputed finance charges, is reduced as payments for the property are made. The remainder of the PFI payment (ie the full contract payment, less the capital repayment and the imputed financing charges) are recorded as a service charge in the Operating Cost Statement.

Where the balance of risks and rewards of ownership of the PFI property is borne by the PFI operator, the PFI payments are recorded as an operating cost. Where the Department has contributed assets that result in lower service charge payments, a prepayment for their fair value is recognised and subsequently charged as an operating cost over the life of the PFI contract.

Where, at the end of a PFI contract, all or part of the property reverts to the Department for a specified value, the difference between the expected fair value of the residual asset on reversion at the start of the contract and any agreed payment on reversion is built up over the life of the contract to ensure proper allocation of payments between the cost of services under the contract and acquisition of the residual interest. Capitalisation of residual interest is a disclosure within Tangible Fixed Assets under Assets under Construction.

1.16 Grants Payable

Grants payable are recognised in the period in which the underlying event or activity giving entitlement to the grant occurs. Where conditions, such as a specific milestone attaching to a grant, are waived then the amount is recognised as expenditure.

1.17 Provision for Liabilities and Charges

The Department makes provision for liabilities and charges in accordance with FRS 12 *Provisions, Contingent Liabilities and Contingent Assets* where, at the balance sheet date, a legal or constructive liability (ie a present obligation from past events) exists, the transfer of economic benefits is probable and a reasonable estimate can be made. Where the effect of the time value of money is material, the estimated risk adjusted cash flows are discounted using the Treasury model.

Notes to the Department Resource Accounts *(continued)*

1.18 Value Added Tax

Irrecoverable VAT is charged to the relevant expenditure category or, if appropriate, capitalised with additions to Fixed Assets. Income and expenditure are otherwise shown net of VAT.

1.19 Administration and Programme Expenditure

The Operating Cost Statement is analysed between administration and programme costs. The classification of expenditure and income as administration or as programme follows the definition of administration costs set by HM Treasury. Administration costs reflect the costs of running the Department, as defined under the administration cost control regime, together with the associated operating income. Income is analysed in the Notes between that which, under the regime, is allowed to be offset against gross administrative costs in determining the outturn against the administration cost limit, and that operating income which is not. Programme costs reflect non-administration costs, including payments of grants and other disbursements by the Department.

1.20 Capital Charge

A charge, reflecting the cost of capital utilised by the Department, is included in operating costs. The charge is calculated at the Government's standard rate of 3.5 per cent in real terms on:

- the opening values of fixed assets, adjusted for the effects of any in year revaluations and also adjusted pro rata for in year additions at cost, disposals and permanent impairments; and
- the average values of all other assets less liabilities, except for cash balances with the Office of Paymaster General, and amounts to be surrendered to the Consolidated Fund, where the charge is nil; and the Department's investments, where the rate of return is higher than the HM Treasury standard rate, where the rate used is the rate of return.

1.21 Contingent Liabilities

In accordance with FRS 12, the Department discloses as contingent liabilities potential future obligations arising from past obligating events, where the existence of such obligations remains uncertain pending the outcome of future events outside of the Department's control, unless their likelihood is considered to be remote.

In addition to contingent liabilities disclosed in accordance with FRS 12, the Department also discloses for parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of a transfer of economic benefit is remote. These comprise:

- items over £250,000 (or lower, where required by specific statute) that do not arise in the normal course of business and which are reported to Parliament by Departmental Minute prior to the Department entering into the arrangement; and
- all items (whether or not they arise in the normal course of business) over £250,000 (or lower, where required by specific statue or where material in the context of resource accounts) that are required by the FReM to be noted in the resource accounts.

Where the time value of money is material, contingent liabilities, which are required to be disclosed under FRS 12, are stated at discounted amounts and the amount reported to Parliament is noted separately. Contingent liabilities that are not required to be disclosed by FRS 12 are stated at the amounts reported to Parliament.

Notes to the Department Resource Accounts *(continued)*

1.22 Pensions

Past and present employees of the Department and its Agencies are generally covered by the provisions of the Principal Civil Service Pension Schemes (PCSPS) which are described under Note 9. The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' benefits. The Department recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruals basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the Department recognises the contributions payable for the year.

Pension benefits to Ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). Further details are provided in the Remuneration Report.

Some employees of the Department are members of the BR and OPRAF Shares Cost Sections of the Railway Pension Scheme. This is a defined benefit scheme where it is possible for the employer to identify its share of the underlying assets and liabilities. Consequently, the pension liabilities and assets are recorded in line with FRS 17, with a valuation undertaken by an independent actuary. FRS 17 *Retirement Benefits* measures the value of pension assets and liabilities at the Balance Sheet date, and determines the benefits accrued in the year and the interest on assets and liabilities. The value of benefits accrued is used to determine the pension charge in the Operating Cost Statement and the interest on scheme assets and liabilities is included within net interest. The change in the value of assets and liabilities arising from asset valuations, changes in benefits, actuarial assumptions, or a change in the level of deficit attributable to members is recognised in the Statement of Total Recognised Gains and Losses. The resulting pension liability or asset is shown in the Balance Sheet.

The Department has provided guarantees to the 1994 Section of the Railways Pension Scheme, which has the pensioners and deferred pensioners of the Railways Pension Scheme at 1 April 2004. It is also the designated employer for that Section. Consequently, FRS 17 is applied to this Section also, in the manner described above.

The Department is also responsible for funding any shortfalls in a small number of historic funded pension arrangements, which relate almost entirely to individuals drawing pensions. There are 48 active members participating in these schemes. They are legacy schemes and the Department does not have any employees participating in these schemes. These are all defined benefit schemes. The latest actuarial valuations of these funds have been carried out either at 31 December 2002, 31 December 2003 or 31 December 2004.

The schemes concerned are:

1. The British Railways Superannuation Fund;
2. Great Western Railway Supplemental Pensions Reserve Fund;
3. Great Western Railway Salaried Staff Widows' and Orphans' Pension Society;
4. London and North Western Railway Provident Society for Providing Pensions for Widows And Orphans of Salaried Staff;
5. Great Western Railway Inspectors' and Foremen's Special Pension Fund; and
6. Great Northern Railway Superannuation Fund.

As the Department's obligations in respect of these schemes are contingent on the value of the schemes' assets and liabilities, no FRS 17 disclosures are made. Instead, any material contingent liabilities are disclosed and, where it is considered more likely than not that the Department has an obligation to make contributions in respect of any deficit, the value of such contributions is recognised as a provision.

1.23 Early Departure Costs

The Department is required to pay the additional cost of benefits, beyond the normal PCSPS benefits, in respect of employees who retire early, unless the retirements are on approved medical grounds. The Department provides in full for the cost of meeting pensions up to normal retirement age in respect of early retirement programmes announced in the current or previous years.

Notes to the Department Resource Accounts *(continued)*

1.24 Significant Estimation Techniques

Estimation techniques are the methods adopted to arrive at estimated monetary amounts for income and expenditure during the reporting period and the valuation of assets and liabilities and disclosure of contingent asset and liabilities at the date of the financial statements. There may be several alternative estimation techniques, which could produce a range of results. The significant estimation techniques for the Department include the valuation of the trunk road network, the recognition and valuation of provisions and the method of apportionment of lease rentals between capital, interest and service elements of PFI contracts and (for those pension schemes for which FRS 17 applies) the expected return on scheme assets, which is advised by independent actuaries.

Notes to the Department Resource Accounts *(continued)*

2. Analysis of Net Resource Outturn by Function and Reconciliation to Operating Cost Statement

Analysis of Net Resource Outturn by section

RfR		Admin	Other Current	Grants	Gross Resource expenditure	Appropriations in Aid	Net Total	Estimate	Net Total Compared with Estimate	**Net Total**
		2005-06								**2004-05**
		£000	£000	£000	£000	£000	£000	£000	£000	**£000**
	Spending in Departmental Expenditure Limits (DEL)									
RfR	**Central Government Expenditure**									
A	Ports and Shipping Services	–	12,943	412	13,355	(1,391)	11,964	13,601	(1,637)	14,818
B	Maritime and Coastguard Agency	–	128,840	–	128,840	(9,502)	119,338	118,595	743	118,257
C	Aviation Services	–	23,472	43,737	67,209	(55,421)	11,788	15,281	(3,493)	(11,805)
D	Transport Security and Royal Travel	–	6,536	5,242	11,778	–	11,778	17,863	(6,085)	11,177
E	Highways Agency	98,320	2,022,053	–	2,120,373	(40,699)	2,079,674	2,085,597	(5,923)	1,821,471
F	Publicity and Advice	–	19,200	5,950	25,150	(4)	25,146	24,878	268	29,567
G	Research	–	21,426	1	21,427	(148)	21,279	23,911	(2,632)	21,758
H	Statistics, Censuses and Surveys	–	9,815	116	9,931	(11)	9,920	10,997	(1,077)	11,067
I	Consultancies and Other Services for Roads and Local Transport	–	3,560	404	3,964	–	3,964	5,045	(1,081)	5,166
J	Mobility and Inclusion Unit	–	751	3,650	4,401	(21)	4,380	4,894	(514)	3,050
K	Strategic Transport Studies	–	658	–	658	(97)	561	1,500	(939)	549
L	Railways	–	958,439	620,206	1,578,645	(158,222)	1,420,423	1,483,001	(62,578)	250,348
M	Commission for Integrated Transport	–	481	–	481	–	481	1,506	(1,025)	422
N	Water Freight Grants	–	–	26,134	26,134	–	26,134	37,008	(10,874)	3,532
O	Bus Service Operators Grant	–	374,189	–	374,189	–	374,189	380,300	(6,111)	363,076
P	Vehicle Excise Duty Enforcement	–	–	–	–	(39,333)	(39,333)	(40,200)	867	(32,107)
Q	Vehicle Certification Agency Enforcement	–	1,344	–	1,344	–	1,344	1,290	54	1,135
R	Vehicle Certification Agency	–	8,888	–	8,888	(8,824)	64	368	(304)	501
S	Power Shift and Cleaning Up	–	9,091	–	9,091	–	9,091	11,824	(2,733)	20,938
T	Dartford River Crossing	–	–	–	–	(69,151)	(69,151)	(69,700)	549	(69,489)
U	Driving Standards Agency Trading Fund	–	773	–	773	(847)	(74)	(289)	215	(112)
V	Vehicle and Operator Service Agency Trading Fund	–	2,672	1,300	3,972	(3,040)	932	(257)	1,189	(2,533)
W	Vehicle and Operator Service Agency Enforcement	–	15,962	–	15,962	–	15,962	13,902	2,060	19,730
X	Central Administration	172,677	69,174	–	241,851	(14,074)	227,777	215,121	12,656	138,017
Y	Trans European Network Payments for transport (net)	–	(180)	194	14	–	14	7,501	(7,487)	(224)
Z	Driver, Vehicle and Operator Group Central (including loan pool)	–	–	–	–	–	–	–	–	–

Notes to the Department Resource Accounts *(continued)*

		2005-06								2004-05
		Admin	Other Current	Grants	Gross Resource expenditure	Approp-riations in Aid	Net Total	Estimate	Net Total Compared with Estimate	**Net Total**
		£000	£000	£000	£000	£000	£000	£000	£000	**£000**
AA	Other River Crossings	–	27,515	–	27,515	(15,650)	11,865	11,997	(132)	191
	Support for Local Authorities									
AB	GLA Transport Grant (Resource)	–	–	1,448,510	1,448,510	–	1,448,510	1,448,885	(375)	1,379,375
AC	GLA Transport Grant (Capital)	–	–	731,958	731,958	–	731,958	731,458	500	880,771
AD	Other Transport Grants (Resource)	–	–	391,713	391,713	(103)	391,610	422,382	(30,772)	196,881
AE	Other Transport Grants (Capital)	–	–	159,798	159,798	–	159,798	197,026	(37,228)	281,628
AF	Speed and Red-Light Camera Enforcement	–	2,624	100,929	103,553	(103,553)	–	826	(826)	1
	Spending in Annually Managed Expenditure (AME) Central Government Spending									
AG	Highways Agency	–	2,588,794	–	2,588,794	–	2,588,794	2,621,951	(33,157)	2,347,798
AH	Railways	–	(51,200)	99,850	48,650	–	48,650	107,155	(58,505)	65,159
	Non-Budget									
AI	Strategic Rail Authority	–	–	2,105,621	2,105,621	–	2,105,621	2,044,004	61,617	3,194,899
AJ	Grant in Aid Funding of Non-Departmental Public Bodies	–	–	20,669	20,669	–	20,669	28,200	(7,531)	18,994
AK	Driver and Vehicle Licensing Agency Trading Fund	–	1,111	203,059	204,170	(789)	203,381	207,686	(4,305)	205,391
2004-05	EU receipts related to WHO (DVT STUDY)	–	–	–	–	–	–	–	–	–
	Spending in Departmental Expenditure Limits (DEL)									
	Central Government Expenditure									
AL	Haulage Efficiency and Modernisation Projects	–	458	–	458	–	458	1,500	(1,042)	1,997
AM	Government Car and Despatch Agency	17,510	–	–	17,510	(17,612)	(102)	–	(102)	–
	Total	**288,507**	**6,259,389**	**5,969,453**	**12,517,349**	**(538,492)**	**11,978,857**	**12,186,607**	**(207,750)**	**11,291,394**
	Excess A-in-A	–	–	–	–	67,812	67,812	–	67,812	31,607
	Resource Outturn—Operating Cost Statement	**288,507**	**6,259,389**	**5,969,453**	**12,517,349**	**(470,680)**	**12,046,669**	**12,186,607**	**(139,938)**	**11,323,001**

Notes to the Department Resource Accounts *(continued)*

Explanation of the variance between Estimate and Outturn

The Statement of Parliamentary Supply Statement shows an underspend on Request for Resource 1 of £139,938,000 against Net Resource Outturn of £12,046,669,000 and an underspend on cash of £763,540,000 against total cash requirement of £10,814,085,000.

The actual receipts that were surrenderable to the Consolidated Fund were £152,430,000.

Variance explanations have been provided where the comparison of Outturn against Estimate has resulted in an under or overspend of £30 million or more.

L and AI: £63 million underspend and £62 million overspend – Railways

This relates to the Estimate containing merger accounting adjustments reflecting the transfer of activities from the Strategic Rail Authority and a track access charge rebate from Network Rail, which had been included on a net basis rather than split between expenditure and receipts.

AD: £31 million underspend – Other Transport Grants (Resource)

This was caused by underspending within the Rural Bus Services programme and smaller than anticipated payments to local authorities for de-trunked roads.

AE: £37 million underspend – Other Transport Grants (Capital)

This was due, mainly, to the cancellation during the year of the Mersey Tram scheme and slippage on other major Local Transport schemes.

AG: £33 million underspend – Highways Agency

The underspend was against programme cost of capital: the gearing effect of a small percentage variation in the change of valuation of the Agency's asset base resulted in a large absolute change in the cost of capital charge.

AH: £58 million underspend – Railways

As employer of the 1994 section of the Railways Pension Scheme we were required to make an adjustment for the FRS17 valuation for the Fund as at the balance sheet date, which resulted in a £51 million non-cash underspend.
The remaining difference relates to £13 million overspends from other variances.

3. Reconciliation of Outturn to Net Operating Cost and against Administration Budget

3(a) Reconciliation of Net Resource Outturn to Net Operating Cost

		2005-06			2004-05 (restated)
		Outturn	Supply Estimate	Outturn Compared with Estimate	Outturn
	Note	£000	£000	£000	£000
Net Resource Outturn	2	12,046,669	12,186,607	139,938	11,323,001
Machine of Government changes		–	–	–	38,418
Non-voted income (CFERs)	5	(98,993)	(148,410)	(49,417)	(69,944)
Other adjustment		–	2,270	2,270	–
Net Operating Cost		**11,947,676**	**12,040,467**	**92,791**	**11,291,475**

Notes to the Department Resource Accounts *(continued)*

3(b) Outturn against Administration Budget

		2005-06	2004-05 (restated)
	Budget	Outturn	Outturn
	£000	£000	£000
Gross Administration Budget	305,017	288,507	134,413
Income allowable against the Administration Budget	(35,094)	(33,281)	(14,530)
Net outturn against Administration Budget	**269,923**	**255,226**	**119,883**

4. Reconciliation of Resources to Cash Requirement

			2005-06		2004-05 (restated)
	Note	Estimate	Net Outturn	Net Outturn compared with Estimate savings/ (excess)	Net Outturn
		£000	£000	£000	£000
Resource Outturn	2	**12,186,607**	**12,046,669**	**139,938**	**11,323,001**
Capital expenditure	14 & 15	842,972	795,091	47,881	655,449
Investments	16	–	34,800	(34,800)	11,612
Non-Operating A-in-A					
Proceeds from fixed asset disposals		(23,557)	(12,373)	(11,184)	(9,954)
Repayments of investments		–	(11,185)	11,185	(6,078)
Accruals adjustments:					
Non-cash items	10 & 11	(3,563,470)	(3,575,343)	11,873	(3,080,827)
Changes in working capital other than cash		(56,880)	(176,664)	119,784	(66,458)
Use of provision	21	998,984	925,368	73,616	368,362
Non-cash movement in provisions		–	21,217	(21,217)	(7,375)
Increase/(decrease) in third party balances	20	–	1,784	(1,784)	10,294
Detrunkings		–	1,181	(1,181)	5,126
Machinery of Government		–	–	–	(19,958)
Estimate underspend adjustment*		429,429	–	429,429	–
Net Cash Requirement		**10,814,085**	**10,050,545**	**763,540**	**9,183,194**

* In the Spring Supplementary Estimate, a line was inserted in the 'Part II: Resource to Cash Reconciliation' table showing "Adjustment to Reflect Underspend in Cash £429,429k". The line by line functional breakdown in Part II of the Estimate (which is given at Note 2 to the Resource Accounts) is unaffected and shows the full Net Cash Requirement.

5. Analysis of Income Payable to the Consolidated Fund

In addition to Appropriations in Aid, the following income relates to the Department and is payable to the Consolidated Fund.

	2005-06		2005-06	
	Forecast		Outturn	
	Income	Receipts	Income	Receipts
	£000	£000	£000	£000
Operating income and receipts – Excess A-in-A	–	–	67,812	31,608
Other operating income and receipts not classified as A-in-A	148,410	148,410	31,181	34,880
	148,410	148,410	98,993	66,488
Non-operating income and receipts – Excess A-in-A	–	–	6,479	5,270
Other non-operating income and receipts not classified as A-in-A	4,020	4,020	4,021	6,019
Other amounts collectable on behalf of the Consolidated Fund	–	–	113,110	113,110
Total Income Payable to the Consolidated Fund	**152,430**	**152,430**	**222,603**	**190,887**

Notes to the Department Resource Accounts *(continued)*

6. Reconciliation of Income Recorded within the Operating Cost Statement to Operating Income payable to the Consolidated Fund

	Note	2005-06	2004-05 (restated)
		£000	£000
Operating income	12	592,673	552,793
Gross income		592,673	552,793
Income authorised to be appropriated-in-aid		(470,680)	(397,658)
Income netted off within Note 2		(22,367)	
Interest to be paid to National Loans Fund		(633)	(625)
Operating Income Payable to the Consolidated Fund	5	**98,993**	**154,510**

7. Non-Operating Income

	2005-06	2004-05 (restated)
	£000	£000
Principal repayment of Voted loans	17,663	5,806
Proceeds on disposals of fixed assets	12,373	9,954
Excess Appropriations in Aid	(6,479)	(5,270)
Non-Operating income	**23,557**	**10,490**

8. Non-Operating Income not classified as Appropriations in Aid

The Department received non-operating income that was surrendered to the Consolidated Fund in respect of repayments on three loans:

	Income	Receipts
	£000	£000
Humber Bridge	1,144	1,144
Mersey Tunnel	1,400	2,056
Tyne Tunnel	1,477	2,819
Total	**4,021**	**6,019**

Notes to the Department Resource Accounts *(continued)*

9. Staff Numbers and Costs

9.1 Staff Costs

Staff costs comprise:

	2005-06				2004-05 (restated)
	Total	Permanently Employed Staff	Ministers	Special Advisers	Total
	£000	£000	£000	£000	£000
Wages and salaries	199,052	198,772	177	103	177,995
Social security costs	18,440	18,414	15	11	15,261
Other pension costs	36,318	36,299	–	19	25,269
	253,810	**253,485**	**192**	**133**	**218,525**
Agency and contracted out staff	8,998	8,998	–	–	21,594
Inward secondments	2,139	2,139	–	–	26
	264,947	264,622	192	133	240,145
Less: amount capitalised	(13,140)	(13,140)	–	–	(12,650)
Total Net Costs Operating Cost Statement	**251,807**	**251,482**	**192**	**133**	**227,495**
Of which:					
Core Department	**112,611**	**112,286**	**192**	**133**	**110,652**

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme, which prepares its own scheme statements. The Department is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2005-06, employers' contributions of £34,479,533 (2004-05: £22,714,053) were payable to the PCSPS at one of four rates in the range 16.2 to 24.6 per cent (2004-05: 12.0 to 18.5 per cent) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years, following a full scheme valuation. From 2006-07, the salary bands will be revised and the rates will be in the range 17.1 to 25.5 per cent. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees joining the Department after 1 October 2002 could opt to open a partnership pension account, which is a stakeholder pension with an employer contribution. Employers' contributions of £89,063 (2004-05: £51,304) were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions of up to 3 per cent of pensionable pay. In addition, employer contributions of £18,185 (2004-05: £6,427), representing 0.8 per cent 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 for relevant employees. No contributions were due to the partnership pension providers at the balance sheet date. There were no contributions prepaid at the balance sheet date.

Eleven people retired early on ill health grounds; the total additional accrued pension liabilities in the year amounted to £72,954 (2004-05: five people, £10,180).

9.2 Rail Pensions

Following the transfer of the Strategic Rail Authority, the Department participates in two sections of the Railway Pension Scheme. These are defined benefit schemes and the BR Shared Cost and the OPRAF Shared Cost. The last actuarial reviews for funding purposes of the BR Shared Cost section, and the OPRAF Shared Cost Section were carried out as at 31 December 2004 by independent qualified actuaries, Watson Wyatt Partners, using the projected unit method. Assets and accrued liabilities were valued using the market related method (see Note 39 for FRS 17 disclosure).

Notes to the Department Resource Accounts *(continued)*

Employer pension contributions have been suspended until 2009, following actuarial advice in relation to the BR Shared Cost section. Employer contributions of £1.3 million (£1 million 2004-05:) were made in respect of the OPRAF Shared Cost section.

Following the transfer of the Strategic Rail Authority, the Department is also responsible for funding any shortfalls in a small number of historic funded pension arrangements which relate almost entirely to individuals drawing pensions. There are 48 active members participating in these schemes. They are legacy schemes from the British Railways Board and the Department does not have any employees participating in these schemes. These are all defined benefit schemes. The latest actuarial valuations of these funds have been carried out either as at 31 December 2003, 31 December 2004 or 31 December 2005 (see Note 39 for FRS 17 disclosure). Contributions of £103,000 (2004-05: £103,000) were made to the Great Western Railway Salaried Staff Widows' and Orphans' Pension Society. No other contributions were made for any other historic funded pension arrangements. See Note 39 for further disclosure.

9.3 Average Number of Persons Employed

The average number of full-time equivalent persons employed during the year is shown in the following table. The figures include those persons working in the core Department and its Agencies, as included within the consolidated Departmental resource account.

			2005-06 Number			**2004-05 (restated)**
Objective	Total	Ministers	Special Advisers	Permanent Staff	Other Staff	Total
1	2,162	0.98	0.50	1,993.25	167.77	1,694.22
2	757	0.98	0.50	673.33	82.14	779.77
3	3,328	0.98	0.50	3,176.29	150.09	3,116.07
4	101	0.98	0.50	87.34	11.69	395.59
Total	**6,348**	**4**	**2**	**5,930**	**412**	**5,986**

Notes to the Department Resource Accounts *(continued)*

10. Other Administration Costs

	2005-06		2004-05 (restated)	
	Core Department	Consolidated	Core Department	Consolidated
	£000	£000	£000	£000
Rental under operating leases	12,957	20,845	12,875	21,058
Interest charges	(200)	(200)	–	4
Research and development expenditure	86	97	273	273
IT and communication	8,830	10,861	8,463	11,066
Consultancy	14,158	16,440	8,403	9,564
Accommodation	6,629	12,471	4,647	11,621
Professional services	3,436	3,749	6,933	7,082
Travel and subsistence	3,279	7,246	3,288	8,619
Vehicle costs and services	–	3,160	–	2,775
Support services	2,304	2,304	2,703	2,703
Other costs	17,558	23,695	11,964	18,204
Subtotal	**69,037**	**100,668**	**59,549**	**92,969**
Non cash costs:				
Depreciation	6,829	10,841	6,100	10,394
Amortisation	942	1,968	511	1,202
Impairment of fixed assets	1,161	1,382	807	1,262
Downward revaluation of fixed assets	–	12	–	15
Loss on disposal of fixed assets	177	158	12	15
Cost of capital charges	(838)	285	617	1,692
Auditor's remuneration and expenses	450	828	280	682
Provisions made in the year	50,367	55,100	2,077	2,467
Provision for bad and doubtful debts	15	(49)	–	(39)
Subtotal – Non cash items	**59,103**	**70,525**	**10,404**	**17,690**
Operating Cost Statement	**128,140**	**171,193**	**69,953**	**110,659**

Notes to the Department Resource Accounts *(continued)*

11. Programme Costs

	2005-06		2004-05 (restated)	
	Core Department	Consolidated	Core Department	Consolidated
	£000	£000	£000	£000
Rentals under operating leases	925	1,169	1,107	1,351
Interest charges	(21,067)	(21,024)	(20,675)	(20,675)
PFI service charges	–	60,222	–	53,191
Research and development expenditure	36,510	49,770	50,938	64,918
Capital grants	1,445,642	1,445,642	1,466,035	1,466,035
Current grants	1,804,266	1,815,068	1,789,657	1,800,440
Grant in aid	2,311,166	2,311,166	2,395,214	2,395,214
EU capital grants	22,561	22,561	35,151	35,151
Subsidies	392,210	392,210	380,707	380,707
Support for passenger rail services	1,170,430	1,170,430	968,775	968,775
Road network capital maintenance	–	524,749	–	442,243
Road network current maintenance	–	457,513	–	414,723
PFI contract shadow tolls	–	141,264	–	141,184
Search and rescue helicopters	–	17,611	–	16,460
Emergency towing vessels	–	10,693	–	10,446
Civil hydrography	–	4,935	–	5,234
Weather bulletins and navigational warnings	–	1,023	–	4,470
IT and communication	4,466	11,234	2,986	9,618
Consultancy	18,943	20,878	50,107	50,539
Accommodation	559	11,195	491	9,692
Professional services	84,485	85,181	47,294	47,403
Travel and subsistence	1,818	6,228	2,107	6,998
Support services	2,349	2,349	3,204	3,204
Other costs	29,599	70,464	99,500	135,656
Subtotal	**7,304,862**	**8,612,531**	**7,272,598**	**8,442,977**
Non cash costs:				
Depreciation	10,862	237,147	1,210	212,783
Amortisation	–	391	505	848
Loss/(profit) on sale of fixed assets (net)	(5)	76	37	1,984
Impairment	100	1,794	–	6,918
Downward revaluation of fixed assets	–	241	–	–
Write down in value of fixed assets	–	493,379	–	393,377
Auditor’s remuneration and expenses	–	99	–	101
Cost of capital charges	(52,585)	2,502,901	(67,211)	2,251,294
Provisions made in year	164,302	257,855	(5,124)	86,209
Unwinding of discount or provision	9,166	9,166	104,387	104,387
Provision for bad and doubtful debts	204	1,769	45	5,236
Subtotal – Non cash items	**132,044**	**3,504,818**	**33,849**	**3,063,137**
Operating Cost Statement	**7,436,906**	**12,117,349**	**7,306,447**	**11,506,114**

For comparative purposes, the 2004-05 capital maintenance figure has been reduced by £1,821,000, being spend relating to roads detrunked and trunked in the current year.

Notes to the Department Resource Accounts *(continued)*

12. Income

	2005-06 Core Department	2005-06 Consolidated	2004-05 (restated) Core Department	2004-05 (restated) Consolidated
	£000	£000	£000	£000
Rental income	1,571	4,750	–	2,833
Fees and charges to other government departments	12,915	32,705	14,310	32,478
Fees and charges to external customers	1,022	38,714	917	37,141
EU income	22,367	24,643	35,151	37,552
Eurocontrol receipts	45,033	45,033	44,672	44,672
Dividends receivable	5,277	5,277	5,451	5,451
Interest receivable	30,073	39,347	28,350	34,071
Dartford road crossing user charges	69,151	69,151	69,529	69,529
Speed and red light	114,260	115,326	114,107	114,107
Vehicle Excise Duty	39,333	39,333	32,107	32,107
Claims for damages to road network	–	13,086	–	9,700
Income from train operating companies	158,164	158,164	99,467	99,467
Strategic Rail Authority property sales	–	–	20,763	20,763
Other	3,356	7,144	4,660	12,922
Operating Cost Statement	**502,522**	**592,673**	**469,484**	**552,793**

Analysis of Income from Services provided to External and Public Sector Customers

	2005-06 Income	2005-06 Full Cost	2005-06 Surplus/ (Deficit)	2004-05 Income	2004-05 Full Cost	2004-05 Surplus/ (Deficit)
	£000	£000	£000	£000	£000	£000
Department for Transport						
IT services to Department for Communitites and Local Government	9,299	9,299	–	10,101	10,101	–
Government Car and Despatch Agency						
Government car service	–	–	–	11,301	10,856	445
InterDespatch service	–	–	–	3,066	3,175	(109)
Government mail services	–	–	–	1,662	1,615	47
Highways Agency						
Road damage claims	13,086	14,412	(1,326)	9,700	9,980	(280)
Road contract income (S278 Schemes)	12,854	12,854	–	16,183	16,183	–
Rental income	3,179	565	2,614	2,833	6,106	(3,273)
Maritime and Coastguard Agency						
Marine surveys	4,115	4,643	(528)	3,953	4,383	(430)
Registration of ships	930	1,062	(132)	1,026	1,003	23
Seafarers' examination and certification	1,570	1,603	(33)	1,400	1,421	(21)
Wider marker initatives and EU twinning projects	1,189	947	242	1,181	1,076	105
Vehicle Certification Agency						
Product certification	(5,331)	477	(5,808)	3,457	3,575	(118)
Management system certification	(3,165)	643	(3,808)	1,701	1,939	(238)
	37,726	**46,505**	**(8,779)**	**67,564**	**71,413**	**(3,849)**

Notes to the Department Resource Accounts *(continued)*

13. Analysis of Net Operating Cost by Spending Body

		2005-06	2004-05 (restated)
	Budget	Outturn	Outturn
	£000	£000	£000
Spending Body:			
Core Department	2,137,141	2,418,962	912,013
Highways Agency	4,696,355	4,657,041	4,157,428
Maritime and Coastguard Agency	118,595	117,252	117,238
Vehicle Certification Agency	368	64	502
Government Car and Despatch Agency	–	(102)	(381)
Non Departmental Public Bodies	2,280,532	2,102,331	3,194,901
Local Authorities	2,806,475	2,484,525	2,739,046
Other Bodies	1,001	167,603	170,728
Operating Cost Statement	**12,040,467**	**11,947,676**	**11,291,475**

Notes to the Department Resource Accounts *(continued)*

14. Tangible Fixed Assets

	Infrastructure Assets	Assets under Construction	Land and Buildings excluding Dwellings	Dwellings	Plant and Machinery	Furniture and Fittings	Transport Equipment	Information Technology	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation									
Balance at 1 April 2005	82,031,669	422,443	1,856,922	46,396	146,112	2,073	5,849	146,071	84,657,535
Detrunkings	(659,711)	–	–	–	–	–	–	–	(659,711)
Restated balance at 1 April 2005	81,371,958	422,443	1,856,922	46,396	146,112	2,073	5,849	146,071	83,997,824
Prior year balances adjustment	(42,403)	116,634	(6,676)	(1,009)	172	–	–	(1,594)	65,124
Additions	–	757,673	4,095	2,510	2,287	315	1,354	20,232	788,466
Write down of capital additions	–	(493,379)	–	–	–	–	–	–	(493,379)
Disposals	–	–	(3,035)	(9,131)	(1,907)	(12)	(1,373)	(8,630)	(24,088)
Transfers	286,749	(321,764)	34,842	(4,075)	1,035	–	–	32,248	29,035
Reclassifications	–	(9)	(13,718)	13,718	(28,894)	–	–	(529)	(29,432)
Revaluation	5,037,950	–	14,455	6,068	4,533	(12)	37	(588)	5,062,443
CTRL Land Increase	–	–	100,400	–	–	–	–	–	100,400
At 31 March 2006	86,654,254	481,598	1,987,285	54,477	123,338	2,364	5,867	187,210	89,496,393
Depreciation									
Balance at 1 April 2005	9,887,295	–	21,033	–	83,916	286	3,430	55,715	10,051,675
Detrunkings	(73,925)	–	–	–	–	–	–	–	(73,925)
Restated at 1 April 2005	9,813,370	–	21,033	–	83,916	286	3,430	55,715	9,977,750
Prior year balances adjustment	(45,993)	–	(27)	–	(480)	–	–	–	(46,500)
Provided in year	200,748	–	4,670	–	6,317	306	727	35,252	248,020
Disposals	–	–	(321)	–	(1,684)	(10)	(1,074)	(8,569)	(11,658)
Impairments	–	–	410	–	66	–	–	2,716	3,192
Transfers	–	–	–	–	2,788	–	–	(2,788)	–
Revaluation	485,761	–	482	–	3,483	4	26	(507)	489,249
At 31 March 2006	10,453,886	–	26,247	–	94,406	586	3,109	81,819	10,660,053
NBV at 31 March 2006	**76,200,368**	**481,598**	**1,961,038**	**54,477**	**28,932**	**1,778**	**2,758**	**105,391**	**78,836,340**
NBV at 31 March 2005 (restated)	**71,558,588**	**422,443**	**1,835,889**	**46,396**	**62,196**	**1,787**	**2,419**	**90,356**	**74,020,074**
Asset Financing:									
Freehold	74,716,431	382,311	304,374	54,477	28,932	1,778	2,758	60,327	75,551,388
Short term lease	–	–	203	–	–	–	–	–	203
On balance sheet PFI contracts	1,483,937	–	1,656,461	–	–	–	–	45,064	3,185,462
PFI Reversionary Interest	–	99,287	–	–	–	–	–	–	99,287
NBV at 31 March 2006	**76,200,368**	**481,598**	**1,961,038**	**54,477**	**28,932**	**1,778**	**2,758**	**105,391**	**78,836,340**

Notes to the Department Resource Accounts *(continued)*

Analysis of Tangible Fixed Assets

The net book value as at 31 March of tangible fixed assets comprises:

Core Department 2006	:	£1,737,369,000
Agencies 2006	:	£77,098,971,000
Core Department 2005	:	£1,640,554,000
Agencies 2005	:	£72,379,520,000

FIXED ASSETS

14.1 Land and Buildings includes the valuation of Channel Tunnel Rail Link (CTRL) land (£1,654,500,000). This value is matched exactly by a liability for deferred income, being lease payments due from 2030 to 2086. The contract start date for the development agreement of CTRL was 28 February 1996 and the end date of the concession period is 29 July 2086. CTRL is a Public/Private Partnership.

14.2 The Department recognises the Transport Direct web portal as a fixed asset, as it is used to deliver a service to the public. Transport Direct became fully functional in January 2005. In 2005-06, the asset value has been adjusted to take into account £7.1 million of reclassified revenue expenditure and, following a review, the life of the asset has been reduced to four years. The depreciation charge has been adjusted in 2005-06 by £6 million.

14.3 A full revaluation of the Highways Agency's road network was carried out on 31 March 2005 and this valuation has been adjusted using indices (for details, see the Highways Agency Accounts for 2005-06).

The Assets under Construction balance has been adjusted by £116,634,000 for the following reasons:

- an increase of £28,379,000, being a reduction to the write down in the value of the regional control centres taken in prior years;
- an adjustment of £9,130,000 to the reversionary interest, based on the current book value of the M6 toll road; and
- an adjustment of £79,125,000 to reflect the Highways Agency's interest in the Heathrow Terminal 5 link road, which was constructed by the Agency and funded directly by the British Airport Authority.

The Assets under Construction valuation adjustment (£493,379,000) comprises the excess of capital costs over standard costs for Targeted Programme of Improvements (TPI) schemes.

14.4 The trunk road network balances as at 1 April 2005 have been restated:

i. to remove the value of trunk road network assets that have been detrunked and transferred to local authorities, as analysed below:

	General Fund (Note 22)	Revaluation Reserve (Note 23)
	£000	£000
Detrunking	**(372,733)**	**(213,049)**

ii. to reflect amendments to records held on the Highways Agency's road asset databases, as follows:

- dimensional variance – an adjustment reflecting better information on the dimensions of individual bridges and other structures;
- re-referencing variance – an adjustment arising from the re-measurement of road length; and
- route variation – a valuation adjustment following changes in route management responsibilities.

14.5 Movements in respect of disposals and depreciation of £32,000 for the Vehicle Certification Agency have been taken to the General Fund.

Notes to the Department Resource Accounts *(continued)*

15. Intangible Fixed Assets

	Total	Software Licences	Development costs
	£000	£000	£000
Cost or valuation			
At 1 April 2005	24,366	23,668	698
Additions	6,861	6,634	227
Transfers	397	430	(33)
Disposals	(408)	(408)	–
At 31 March 2006	**31,216**	**30,324**	**892**
Amortisation			
At 1 April 2005	3,285	3,285	–
Charged in year	2,359	2,359	–
Disposals	(231)	(231)	–
At 31 March 2006	**5,413**	**5,413**	–
Net book value:			
31 March 2006	**25,803**	**24,911**	**892**
31 March 2005 (restated)	**21,081**	**20,383**	**698**

Analysis of Intangible Fixed Assets

The net book value **as at 31 March** of intangible fixed assets comprises:

Core Department 2006	:	£20,846,000
Agencies 2006	:	£4,957,000
Core Department 2005	:	£15,494,000
Agencies 2005	:	£5,587,000

16(a) Investments

Public Dividend Capital

	Vehicle and Operator Services Agency	Driving Standards Agency	Driver and Vehicle Licensing Agency	Total
	£000	£000	£000	£000
Balance at 1 April 2005	28,984	3,475	19,048	51,507
Balance at 31 March 2006	**28,984**	**3,475**	**19,048**	**51,507**

Loans

	Vehicle and Operator Services Agency	Driving Standards Agency	Driver and Vehicle Licensing Agency	Mersey Tunnel	Tyne Tunnel	Humber Bridge Board	NATS Group	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2005	37,748	11,614	16,909	14,560	3,101	335,581	100,421	519,934
Advances	23,200	11,600	–	–	–	–	–	34,800
Loan repayments	(2,933)	(1,137)	(8,455)	(1,400)	(1,477)	(1,144)	(5,138)	(21,684)
Balance at 31 March 2006	**58,015**	**22,077**	**8,454**	**13,160**	**1,624**	**334,437**	**95,283**	**533,050**

Notes to the Department Resource Accounts *(continued)*

Share Investments

	National Air Traffic Holdings Ltd	SRA Investment Company Ltd (SICL)	Other Investments	Total
	£000	£000	£000	£000
Balance at 1 April 2005	68,761	–	5	68,766
Balance at 31 March 2006	**68,761**	**–**	**5**	**68,766**

National Loans Fund

	Civil Aviation Authority	Kings Lynn Harbour Conservancy	Total
	£000	£000	£000
Balance at 1 April 2005	6,974	55	7,029
Advances	4,000	–	4,000
Loans repayable within one year transferred to debtors	(918)	(3)	(921)
Balance at 31 March 2006	**10,056**	**52**	**10,108**

Total investments at 31 March 2006	£663,431,000
Total investments at 31 March 2005	£647,236,000

Under the Humber Bridge (Debts) Order 1998, interest on £240 million of the £359 million principal due was suspended on 1 April 1998; thereafter, the proportion of the debt being charged with interest increases each year until the whole principal again becomes subject to interest charge. At 31 March 2006, the amount of suspended debt was £153 million.

The dividend on Public Dividend Capital is surrendered to the Consolidated Fund and is included as income and expenditure in the Operating Cost Statement.

The following share investments have not been consolidated into the Department's Resource Accounts as they are outside the Department's consolidation boundary (see Note 36). These investments have been shown at historic cost less any impairments:

100 per cent of the issued share capital in SRA Investment Company Limited (SICL), which were purchased at their nominal value of £100. SICL is a holding company for the Secretary of State's 50 per cent shareholding (nominal value £1) in Cross London Rail Links Ltd (CLRL). SICL has no other assets. CLRL is the company established for the purposes of developing proposals for a new east-west rail link across London: Crossrail. The remaining 50 per cent shareholding in CLRL is held by Transport Trading Limited, a subsidiary of Transport for London.

One share in British Rail Board (Residuary) Limited (Nominal Value £1). This company manages the remaining property, rights and liabilities of the British Railways Board. Under a transfer scheme on 21 August 2005, one ordinary share (100 per cent of shares issued) was transferred to the Department.

On 26 July 2001, the Government sold 46 per cent of the shares in NATS Holdings Ltd to the Airline Group Ltd. An additional 5 per cent of the shareholding was transferred to the Employee Share Ownership Trust. The Government's remaining 49 per cent interest is treated as an investment, in accordance with the FReM.

The company's role is to plan, provide and operate an integrated air traffic service covering the en-route terminal area, approach and airport air traffic control operations in UK airspace. It also provides air traffic control services over the eastern part of the North Atlantic. These air traffic control, aeronautical information and other services to aviation are supported by a network of communications, surveillance and navigational aids, and by a computer based infrastructure, which includes flight and radar data processing systems.

Notes to the Department Resource Accounts *(continued)*

16(b) Other investments

The Secretary of State holds the shares shown below:

i Stena Line Ltd (£1 preference share). Disposal of the whole or a material part of the company's fleet, specified as 25 per cent, requires the Secretary of State's consent under rights conferred by the preference share.

ii One special share of £1 in NATS Holdings Ltd., which confers certain rights upon the Secretary of State, restricting the creation, issuing, purchase and redemption of shares, and any changes to the rights of the issued share capital, entitling the special shareholder to certain rights on the winding up of the company and preventing the removal of any director appointed by a Crown representative. All the shares are held directly.

iii One redeemable special share of £1 in Eurostar (UK) Ltd. The special share provides the Secretary of State with certain consent rights in respect of Eurostar (UK) Ltd, including amendments to its Memorandum and Articles of Association which affect such rights, resolutions for the winding up of Eurostar (UK) Ltd, the carrying on of any business other than the management and operation of international passenger train services through the Channel Tunnel, and the entry into any agreements by Eurostar (UK) Ltd, which would or might breach the ringfencing obligations in respect of Eurostar (UK) Ltd.

iv One special share of 25 pence in London and Continental Railways Ltd. The share confers certain rights in relation to London and Continental Railways Ltd and its group, including certain changes to the London and Continental Railways Ltd Memorandum and Articles of Association, winding up processes, payment of distributions, transfers and issues of shares in London and Continental Railways Ltd and variations to share rights. The special share allows the Secretary of State to require a sale or listing of all the shares in London and Continental Railways Ltd. The special share also entitles the Secretary of State to appoint a director to the Board of London and Continental Railways Ltd and LCR Finance plc.

v One redeemable special share of £1 in Union Railways (North) Ltd, which is a subsidiary of London and Continental Railways Ltd. The share carries the right to appoint a director and certain prior consent rights in relation to the business of Union Railways (North) Ltd. This share was transferred from Railtrack Group Plc in Summer 2002, as a result of a restructuring of the Channel Tunnel Rail Link arrangements.

vi One redeemable special participating share of £1 in Inter-Capital and Regional Rail Limited (which is the manager of the Eurostar UK business). The share carries the right to 5 per cent of the dividends or other distributions declared as payable on the ordinary shares of that company.

vii 1,030,725 shares of 25 pence each in Railtrack Group Plc. These shares are the residual holding remaining following the distribution of bonus shares to eligible shareholders. Railtrack Group's shares were de-listed on 27 December 2002 and ceased trading on the London Stock Exchange on that date. The company's remaining assets were realised by the joint liquidators, and shareholders received the first instalment of 200 pence per share on 10 January 2003. The second instalment of 43 pence per share was received in August 2003, the third of 8.5 pence in December 2004 and the most recent of 9 pence in 20 December 2005.

viii 100 per cent of the issued share capital in the following companies:

- Goldings Rail Ltd;
- Hays Rail Ltd;
- OQS Rail Ltd;
- Strutton Rail Ltd;
- Abbey Rail Ltd;
- Orchard Rail Ltd;
- Broadway Rail Ltd; and
- Westminster Rail Ltd.

Notes to the Department Resource Accounts *(continued)*

These companies are dormant and have never traded. They are held as available to be activated in the event that the Secretary of State needs to exercise his obligations as a rail operator of last resort.

The Secretary of State is a member of Network Rail and has certain special membership rights under Network Rail's Articles of Association. As a company limited by guarantee, Network Rail has no share capital and, therefore, no shareholders. Members of Network Rail do not receive dividends (Note 38).

The Secretary of State is a member of HR Wallingford Group Ltd., a company limited by guarantee. Disposal of surplus assets and the alteration of the Memorandum of Association relating to assets and the distribution of income and property require the prior written consent of the Secretary of State.

Further information about all of the Department's investments can be found in each entity's audited annual reports and accounts.

16(c) National Loans Fund (NLF)Loans

NLF loans are loans that are repayable by the following bodies:

	2005-06 Total	Civil Aviation Authority Fixed Rates	Kings Lynn Harbour Conservancy Fixed Rates	**2004-05 Total**
	£000	£000	£000	£000
Within one year	921	918	3	658
Over one and under two years	985	981	4	708
Over two and under five years	3,098	3,086	12	2,372
More than five years	6,025	5,989	36	3,948
Total – Note 16(a)	**11,029**	**10,974**	**55**	**7,686**

	2005-06	**2004-05**
	£000	£000
Shown as:		
Fixed Rates		
Amounts falling due within one year	921	658
Amounts falling due after more than one year	10,108	7,028
Total	**11,029**	**7,686**

The borrowings are repayable at interest rates varying between 4.3 per cent and 7.875 per cent.

17. Stocks and Work-in-Progress

	2005-06 Consolidated	**2004-05** Consolidated
	£000	£000
Stocks	25,621	18,106
Work in progress	197	173
Total – Balance Sheet	**25,818**	**18,279**

Notes to the Department Resource Accounts *(continued)*

18. Debtors

18(a) Analysis by type

	2005-06		2004-05 (restated)	
	Core Department	Consolidated	Core Department	Consolidated
	£000	£000	£000	£000
Amounts falling due within one year:				
Trade debtors	5,730	16,368	15,556	28,260
Deposits and advances	654	5,277	696	717
VAT debtors	7,816	73,654	6,129	55,066
Other debtors	997	3,937	2,084	7,005
Prepayments and accrued income	194,342	124,126	106,588	109,375
Current part of NLF loan	921	921	658	658
Amounts due in respect of Consolidated Fund Extra Receipts	10,708	84,795	61,512	62,329
Total – Balance Sheet	**221,168**	**309,078**	**193,223**	**263,410**
Amounts falling due after more than one year:				
Deposits and advances	–	112	–	–
Other debtors	10,000	167,316	–	144,927
Prepayments and accrued income	–	17,034	–	11,595
Total – Balance Sheet	**10,000**	**184,462**	–	**156,522**

The reduction in accrued income between the consolidated figures compared to the Core Department figures is largely made up of amounts that relate to excess appropriations in aid payable to the consolidated Fund, which are only calculated for the consolidated Department.

18(b) Intra-Government Balances

	2005-06	2004-05 (restated)	2005-06	2004-05 (restated)
	Amounts falling due within one year		Amounts falling due after more than one year	
	£000	£000	£000	£000
Balances with:				
Other central government bodies	101,973	92,380	10,000	–
Local authorities	1,244	10,224	–	–
NHS & trusts	263	50	–	–
Public corporations and trading funds	1,396	3,560	–	–
Bodies external to government	204,202	157,196	174,462	156,522
Total debtors at 31 March	**309,078**	**263,410**	**184,462**	**156,522**

Notes to the Department Resource Accounts *(continued)*

19. Cash at bank and in hand

	2005-06		2004-05 (restated)	
	Core Department	Consolidated	Core Department	Consolidated
	£000	£000	£000	£000
Balance at 1 April	147,230	159,273	171,077	176,607
Net change in cash balances	96,473	89,310	(23,847)	(17,334)
Balance at 31 March	**243,703**	**248,583**	**147,230**	**159,273**
The following balances at 31 March were held at:				
Office of HM Paymaster General	242,550	246,413	147,205	157,254
Commercial banks and cash in hand	1,153	2,170	25	2,019
Balance at 31 March – Balance Sheet	**243,703**	**248,583**	**147,230**	**159,273**

20. Creditors

20(a) Analysis by type

Amounts falling due within one year

	2005-06		2004-05 (restated)	
	Core Department	Consolidated	Core Department	Consolidated
	£000	£000	£000	£000
VAT	–	545	–	563
Other taxation and social security	2,598	2,879	2,395	2,694
Trade creditors	16,018	97,825	16,463	72,663
Other creditors	8,385	12,641	6,979	32,306
Accruals and deferred income	356,621	812,487	276,649	639,536
Current part of imputed finance lease element of on balance sheet PFI contracts	–	35,015	–	30,630
Current part of National Loans Fund loans	921	921	658	658
Third party creditors	12,075	13,270	10,294	11,486
Central payroll	(10)	(10)	(21)	(21)
Amounts issued from the Consolidated Fund for Supply but not spent at 31 March 2006	236,141	227,408	141,699	139,952
Consolidated Fund Extra Receipts and other amounts not yet paid to the Consolidated Fund:				
Received	7,844	7,904	7,595	7,833
Receivable	10,708	84,795	61,512	62,329
Total – Balance Sheet	**651,301**	**1,295,680**	**524,223**	**1,000,629**

The consolidated supply balances include £9,806,000 relating to the agencies that have been netted off.

Amounts falling due after more than one year

	2005-06		2004-05 (restated)	
	Core Department	Consolidated	Core Department	Consolidated
	£000	£000	£000	£000
Imputed finance lease element of on balance sheet PFI contracts	–	938,164	–	882,705
National Loans Fund loans	10,107	10,107	7,028	7,028
Consolidated Fund Extra Receipts creditors	–	36,531	–	27,283
Other creditors	2,336	100,375	–	97,761
CTRL land creditor	1,654,500	1,654,500	1,554,100	1,554,100
Total – Balance Sheet	**1,666,943**	**2,739,677**	**1,561,128**	**2,568,877**

Notes to the Department Resource Accounts *(continued)*

20(b) Intra-Government Balances

	2005-06	2004-05	2005-06	2004-05
	Amounts falling due within one year		Amounts falling due after more than one year	
	£000	£000	£000	£000
Balances with:				
Other central government bodies	339,006	225,868	10,107	34,311
Local authorities	36,393	82,132	–	–
NHS trusts				
Public corporations and trading funds	3,019	3,576	–	–
Bodies external to government	917,262	689,053	2,729,570	2,534,566
Total creditors at 31 March	**1,295,680**	**1,000,629**	**2,739,677**	**2,568,877**

21. Provisions for Liabilities and Charges

Consolidated

Note	Early Departure (i)	NFC Pension Trustee (ii)	NFC Travel Concession (iii)	British Rail ex-Employees (iv)	Highways Schemes (v)	Channel Tunnel Rail (vi)	Other	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2005	9,496	51,535	21,255	89,769	423,803	1,738,676	67,429	2,401,963
Provided in the year	37,674	–	–	29	230,670	99,850	83,482	451,705
Released	(254)	–	–	–	(67,634)	–	(816)	(68,704)
Provisions utilised in the year	(9,374)	(5,341)	(2,432)	(7,860)	(54,745)	(811,626)	(33,990)	(925,368)
Unwinding of discount	–	2,720	1,120	4,150	–	–	1,176	9,166
Provisions reclassified	–	–	–	–	(91,265)	–	–	(91,265)
Balance Sheet	**37,542**	**48,914**	**19,943**	**86,088**	**440,829**	**1,026,900**	**117,281**	**1,777,497**

Core Department

Note	Early departure (i)	NFC Pension Trustee (ii)	NFC Travel Concession (iii)	British Rail ex-employees (iv)	Channel Tunnel Rail (v)	Other (vi)	Total
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2005	7,206	51,535	21,255	89,769	1,738,676	54,405	1,962,846
Provided in the year	34,976	–	–	29	99,850	80,313	215,168
Released	–	–	–	–		(500)	(500)
Provisions utilised in the year	(7,703)	(5,341)	(2,432)	(7,860)	(811,626)	(33,480)	(868,442)
Unwinding of discount	–	2,720	1,120	4,150	–	1,176	9,166
Balance at 31 March 2006	**34,479**	**48,914**	**19,943**	**86,088**	**1,026,900**	**101,914**	**1,318,238**

(i) Early departure

These amounts relate to former staff who left the Department's employment before their formal retirement age of 60, and in respect of whom the Department and its Agencies are responsible for making payments until their retirement age. It is assumed that all recipients will survive to their retirement age.

(ii) National Freight Company (NFC) PLC pension trustee

These amounts cover reimbursement to NFC PLC pension trustees in respect of payments covering unfunded pension service with NFC before 1 April 1975 (Part III, Transport Act 1980).

(iii) NFC PLC travel concession

These amounts cover reimbursements to NFC PLC and its subsidiaries for providing travel concession to staff previously employed by the road transport division of British Rail (Section 21, Transport Act 1978 and Schedule 6 to the Transport Act 1980).

Notes to the Department Resource Accounts *(continued)*

(iv) British Railways Board's ex-employees' pensions

This amounts cover reimbursement to trustees of railway pension schemes in respect of pension payments, covering the unfunded proportion of pensions deriving from service with British Railways Board before 1 January 1975 (Part III, Transport Act 1980).

These post-retirement benefits are valued in accordance with advice from the Government Actuary's Department. The exact amounts payable will depend on factors that include the mortality of the individuals covered by the schemes.

(v) Highways scheme costs

This provision covers planning blight, resulting from the announcement of plans to enhance the road network; discretionary and compulsory acquisition of property required for road schemes and compensation for property owners arising from construction of a road scheme; disputed contractual claims, including compensation for delays, prolongation, liquidated damages, employers' changes, specification issues and the cost of work necessary following the opening of roads for traffic; and work to strengthen bridges in order to comply with minimum legal requirements (currently 40 tonnes) as established by European Union legislation.

(vi) Channel Tunnel Rail Link (CTRL)

These amounts cover the capital grants payable to London and Continental Railways Ltd (LCR), as some of the construction milestones have been waived to facilitate the raising of finance by LCR – see Note 28 on the Private Finance Initiative. The actual amounts payable are calculated using a formula which requires indexation by the Retail Price Index. Amounts are discounted using the rate set by HM Treasury, given that the time value of money is material.

22. General Fund

	2005-06		2004-05 (restated)	
	Core Department	Consolidated	Core Department	Consolidated
	£000	£000	£000	£000
Balance at 1 April	(2,060,423)	38,236,227	(2,102,367)	39,627,723
Prior period Adjustment				
Detrunking	–	(372,733)	–	(1,125,432)
Trunking	–	–	–	72,905
Restated opening balance	**(2,060,423)**	**37,863,494**	**(2,102,367)**	**38,575,196**
Net parliamentary funding				
Drawn down	8,031,000	10,138,000	7,204,563	9,166,065
Deemed	141,699	139,952	159,210	159,644
Year end adjustment				
Supply creditor – current year	(236,141)	(227,408)	(141,699)	(139,952)
Net transfer from operating activities				
Net operating cost	(7,175,135)	(11,947,676)	(7,017,568)	(11,291,475)
CFERS repayable to Consolidated Fund	(21,687)	(109,493)	(66,424)	(79,417)
Non cash charges				
Cost of capital	(53,423)	2,503,186	(66,594)	2,252,986
Auditor's remuneration	450	927	280	783
Transfer from revaluation reserve	1,379	73,884	–	(236,356)
In year adjustments relating to prior year transactions				
Reversionary interest on M6 toll road	–	9,130	–	(1,628)
Road Network	–	110,058	–	(159,541)
Non-network assets	–	(6,461)	–	26,549
Highways Agency Stock	–	8,805	–	–
Other prior year adjustments	(1,595)	(1,595)	(137)	140
In year spend on detrunked roads	–	(1,181)	–	(5,126)
DVLA Trading Fund set up	–	–	37,836	37,836
Transfers to/from SRA	14,318	14,318	–	–
Moment on pension schemes	247,700	247,700	(66,200)	(66,200)
Other movements	–	(309)	(1,323)	(3,277)
Balance at 31 March	**(1,111,858)**	**38,815,331**	**(2,060,423)**	**38,236,227**

Notes to the Department Resource Accounts *(continued)*

The balance on the General Fund is analysed as follows:

	2005-06 Core Department	2005-06 Consolidated	2004-05 (restated) Core Department	2004-05 (restated) Consolidated
	£000	£000	£000	£000
General Fund excluding pension assets/(liabilities)	(762,818)	39,164,371	(1,425,483)	38,871,167
Pension Asset	100	100	1,400	1,400
Pension Liability	(349,140)	(349,140)	(636,340)	(636,340)
General Fund	**(1,111,858)**	**38,815,331**	**(2,060,423)**	**38,236,227**

23. Reserves

Revaluation Reserve

	2005-06 Core Department	2005-06 Consolidated	2004-05 (restated) Core Department	2004-05 (restated) Consolidated
	£000	£000	£000	£000
Revaluation Reserve prior to opening balance restatement	**21,023**	**31,029,021**	**3,569**	**25,697,513**
Opening balance restatement Detrunking (Note 14)	–	(213,049)	–	(643,280)
Trunkings	–	–	–	41,671
Restated Opening Balance	**21,023**	**30,815,972**	**3,569**	**25,095,904**
Arising on revaluation during year – net	3,209	4,573,194	17,454	5,653,790
Amounts released to Operating Cost Statement (Notes 10 & 11)	–	253	–	–
Prior year adjustments – Relating to value of road network	–	1,460	–	46,722
Prior year adjustments – Relating to non-network assets	–	(546)	–	(3,730)
Prior year adjustments – Other	–	(159)	–	(21)
Transferred to General Fund in respect of realised element of Revaluation Reserve (Note 22)	(1,379)	(73,884)	–	236,356
Revaluation reserve carried forward:	**22,853**	**35,316,290**	**21,023**	**31,029,021**

24. Notes to the Consolidated Cash Flow Statement

Note 24(a) Reconciliation of operating cost to operating cash flows

	Note	2005-06 £000	2004-05 (restated) £000
Net operating cost		(11,947,676)	(11,291,475)
Adjustment for non-cash transactions		3,575,343	3,080,827
Increase in stock		(7,539)	(733)
(Increase)/decrease in debtors		(73,608)	18,524
Less movements in debtors relating to items not passing through the Operating Cost Statement (OCS)		6,250	(2,895)
Increase in creditors		465,851	143,839
Less movements in creditors relating to items not passing through the OCS		(246,000)	(107,733)
Use of provision	21	(925,368)	(368,362)
Non-cash movement in classification of provision	21	(91,265)	(27,480)
In-year spend on detrunkings		(1,181)	(5,126)
Adjustment for capital and interest element of PFI payments		33,029	75,851
Net cash outflow from operating activities		**(9,212,164)**	**(8,484,763)**

Notes to the Department Resource Accounts *(continued)*

Note 24(b) Analysis of capital expenditure and financial investment

	Note	2005-06 £000	2004-05 (restated) £000
Intangible fixed asset additions	15	(6,861)	(5,302)
Tangible fixed asset additions*		(788,230)	(650,147)
Proceeds of disposal of fixed assets		12,373	9,954
Capital element of lands provision		70,046	34,855
Advances of investments		(38,800)	(11,612)
Repayments of investments	16a	21,684	10,149
Repayment of loans for National Loans Fund	16c	658	612
Net cash flow from capital expenditure and financial investment		**(729,130)**	**(611,491)**

*cash element only

24(c) Analysis of the Department's Capital Expenditure, Financial Investment and Associated Appropriations-in-Aid

	2005-06			
	Capital Expenditure	Loans and Grant	Appropriations -in-Aid	Net Total
	£000	£000	£000	£000
Request for Resources	795,327	38,800	(30,035)	804,092
Total	**795,327**	**38,800**	**(30,035)**	**804,092**
	2004-05 (restated)			
Request for Resources	655,808	43,836	(10,218)	689,426
Total	**655,808**	**43,836**	**(10,218)**	**689,426**

Note 24(d) Analysis of financing

	2005-06 £000	2004-05 (restated) £000
From Consolidated Fund (Supply): current year	10,138,000	9,166,065
Machinery of government	–	66,231
Repayment of loans to the National Loans Fund	(658)	(612)
Loans received from the National Loans Fund	4,000	–
Capital element of payments in respect of finance leases and on-balance sheet PFI contracts	(33,033)	(22,724)
Net Financing	**10,108,309**	**9,208,960**

Note 24(e) Reconciliation of Net Cash Requirement to increase/(decrease) in cash

	2005-06 £000	2004-05 (restated) £000
Net Cash Requirement	**10,050,545**	**9,183,194**
Machinery of Government	–	(7,657)
From the Consolidated Fund Supply – current year	(10,138,000)	(9,166,065)
Amounts due to the Consolidated Fund – received in a prior year and paid over	7,833	16,927
Amounts due to the Consolidated Fund received and not paid over	(7,904)	(2,588)
Decrease in third party balances	(1,784)	(10,297)
Increase/(decrease) in cash	**(89,310)**	**13,514**

Notes to the Department Resource Accounts *(continued)*

25. Notes to the Consolidated Statement of Operating Costs by Departmental Aim and Objectives

Other programme costs including capital and current grants have been allocated as follows:

	2005-06	2004-05
	£000	£000
Main objective		
Objective 1 – Support the economy through the provision of efficient transport systems	6,199,024	5,696,118
Objective 2 – Deliver improvements to transport systems	2,753,997	2,866,822
Objective 3 – Safety and environment	2,902,088	2,676,256
Objective 4 – Improve cost effectiveness of transport investment choices	262,240	266,918
	12,117,349	**11,506,114**

Sponsor divisions and the Department's agencies were required to attribute their programme expenditure by objective. Administration costs were allocated to objectives in the same proportions as the allocations to programme expenditure.

Capital employed by Departmental Aim and Objectives as at 31 March 2006

	2005-06	2004-05
	£000	£000
Main objective		
Objective 1 – Support the economy through the provision of efficient transport systems	32,166,026	29,242,176
Objective 2 – Deliver improvements to transport systems	311,880	310,172
Objective 3 – Safety and environment	40,775,822	38,291,969
Objective 4 – Improve cost effectiveness of transport investment choices	877,893	835,149
Balance Sheet	**74,131,621**	**68,679,466**

26. Capital Commitments

		2005-06		2004-05 (restated)
	Core Department	Consolidated	Core Department	Consolidated
	£000	£000	£000	£000
Contracted capital commitments at 31 March for which no provision has been made	237	522,354	432	224,900
	237	**522,354**	**432**	**224,900**

Notes to the Department Resource Accounts *(continued)*

27. Commitments Under Leases

27.1 Operating leases

Commitments under operating leases to pay rentals during the following year are analysed according to the period in which the lease expires, as follows:

	2005-06		2004-05 (restated)	
	Core Department	Consolidated	Core Department	Consolidated
	£000	£000	£000	£000
Land and Buildings:				
Expiry within 1 year	6	1,527	–	484
Expiry after 1 year but not more than 5 years	11,136	13,014	110	2,245
Expiry thereafter	4,082	13,337	11,348	18,354
	15,224	**27,878**	**11,458**	**21,083**
Other:				
Expiry within 1 year		999		45
Expiry after 1 year but not more than 5 years		1,142		269
Expiry thereafter		–		–
		2,141		**314**

28. Commitments under PFI contracts

Off-Balance Sheet

The Department has entered into the following off-balance sheet Private Finance Initiative (PFI) contracts:

- Channel Tunnel Rail Link (land on balance sheet).

On-Balance Sheet

The Department has entered into the following on-balance sheet Private Finance Initiative (PFI) contracts:

- M1-A1 Lofthouse to Branham link road (Yorkshire link);
- A1(M) Alconbury-Peterborough;
- A419/A417 Swindon to Gloucester;
- A50/A564 Stoke-Derby link;
- M40 Junction 1-15 Denham to Warwick;
- A19 Dishforth to Tyne Tunnel;
- A30/A35 Exeter to Bere Regis;
- A69 Carlisle to Newcastle;
- A1(M) Darrington to Dishforth;
- A249 Iwade to Queensborough; and
- National Traffic Control Centre.

Notes to the Department Resource Accounts *(continued)*

	2005-06 Consolidated £000	2004-05 Consolidated £000
Imputed finance lease obligations under on-balance sheet PFI contracts comprise:		
Rentals due within 1 year	93,377	85,227
Rentals due after 1 year but not more than 5 years	373,508	343,556
Rentals due after 5 years	1,195,797	1,130,617
	1,662,682	**1,559,400**
Less interest element	(689,503)	(646,065)
	973,179	**913,335**

Charge to the Operating Cost Statement and future commitments

The total amount charged in the Operating Cost Statement in respect of off-balance sheet PFI transactions, and the service element of on-balance sheet PFI transactions, was £141,264,000 (2004-05 £141,184,000). The payments to which the Department is committed during 2005-06, analysed by the period during which the commitment expires, are as follows:

	2005-06 Consolidated £000	2004-05 Consolidated £000
Expiry within 2 to 5 years	16,013	7,659
Expiry within 6 to 15 years	–	–
Expiry within 16 to 20 years	104,418	–
Expiry within 21 to 25 years	42,419	147,677
Expiry within 26 to 30 years	10,115	–
Expiry within 31 to 35 years	–	13,529
	172,965	**168,865**

28.3.1 Contractual: The Department has entered into a concession agreement with London and Continental Railways Ltd ("LCR"), under which LCR will construct the Channel Tunnel Rail Link ("CTRL") and operate Eurostar UK Ltd ("EUKL"). The Department has certain obligations and entitlements. The following paragraphs summarise the significant details.

28.3.2 Ownership and operation: LCR is building the CTRL in two phases: the southern and northern sections. Following completion of each phase, LCR will retain ownership of both the southern and northern sections (referred to as Sections 1 and 2 respectively) through its subsidiaries. LCR will also retain, through a number of associated private sector entities, the operation of EUKL (the UK arm of Eurostar). EUKL will pay access charges to the owners of the southern and northern sections of the CTRL once each phase is completed. LCR has also entered into an agreement with Network Rail, whereby Network Rail will operate each section of the CTRL, once each section is complete. For Section 2, this includes the operation of St Pancras Station. Section 1 has been operational since September 2003; Section 2 is expected to become operational by the latter part of 2007.

28.3.3 Payments for Construction: It was originally anticipated that construction would be substantially financed by capital grants. The financing arrangements were detailed in the Development Agreement. In accordance with the Agreement, in the years to 31 March 2006, the Department paid LCR capital grants totalling £895 million, for Section 1, and deferred grants of £1,379 million, for Section 2. It remains committed to paying LCR further deferred grants totalling £834 million (in March 2006 NPV terms) (commitment as at March 2005: £1,839 million).

28.3.4 Deferred Grant de-risking: It was intended that the deferred grants were to have been payable in stages, subject to achievement of specific construction milestones. However, it was subsequently decided to waive most of the construction milestones for the deferred grants ("de-risking") to assist LCR in raising finance. The de-risked obligations have been provided for in prior years. Further details are given in Note 21.

28.3.5 Payments for Operation: The Department has an obligation to pay Domestic Capacity Charges for each Section. An amount of £39 million was paid in the year to 31 March 2006 for Section 1, and the remaining obligation for Sections 1 and 2 is £1,093 million in March 2006 NPV terms (March 2005: £971 million). This is payable in half yearly instalments, following the completion of each Section of the CTRL.

Notes to the Department Resource Accounts *(continued)*

28.3.6 Domestic Capacity Charge de-risking: Some of the Section 1 Domestic Capacity Charge instalments have been de-risked to assist LCR in raising finance. They have been treated consistently with the de-risked deferred grants and have been provided for. Further details are given in Note 21.

28.3.7 Guarantees for Construction financing: To help fund the construction of the CTRL and EUKL, the Department has guaranteed debts of £3.75 billion (nominal) raised by LCR, which are classified as contingent liabilities (see Note 31).

28.3.8 Guarantees for Track Access Charges: The Department has given LCR a guarantee that Eurostar UK will meet its obligation to pay track access charges for a period of 50 years from the opening of Section 1 in 2003. To reduce the risk of a call on this guarantee, the Department has set up an access charge loan facility from which Eurostar UK Ltd can draw down funds to pay track access charges to LCR. This facility is capped at £270 million (NPV at 6 per cent real to January 1997), with any annual drawdown limited to the value of track access charges to be paid in that year. Recognition of the loan as a debtor will occur once entitlement passes and the loan is drawn down. Interest payable on the loan will be capitalised and added to the net debt. The loan and accrued interest will be repaid to the Department by LCR from any positive post-tax cash flows after 2021. The Department has also guaranteed payment of the CTRL access charges through the access charge guarantee, which has been disclosed as a contingent liability (see Note 31).

28.3.9 Interests in Land: The Department retains the freehold interest in the land on which the CTRL is being constructed. The freehold land is subject to a 90-year lease. The freehold interest retained by the Department is expected to produce an income of £1,654 million (in March 2006 NPV terms) (March 2005: £1,554 million) from the land rental payable by the owners of Sections 1 and 2. This value has been attributed to the land and to the matching deferred income balance, which is recognised in the balance sheet under "Creditors: amounts falling due after more than one year". The reversionary interest in the land and the rail link at the end of the lease is recognised at market value for existing use, which is currently deemed to be nil.

28.3.10 Disposal of Development Land and Buildings: The Department has rights to a share in the disposal proceeds of surplus development land. This may generate £68 million (NPV prices in March 2006) (March 2005: £68 million). In view of its uncertainty, the amount is being treated as a contingent asset.

28.3.11 Interests in profits: The Department is entitled to receive a 35 per cent share of LCR's post tax cash flows from 2021 until 2086, subject to LCR firstly repaying any debt arising from drawing down on the access charges loan facility, as referred to in 28.3.8 above. As the value of any receipt depends on LCR's performance, the Department's entitlement constitutes a contingent asset, but with no value since realisation is not 'virtually certain' (per Financial Reporting Standard No. 12). However, the degree of certainty will be continually assessed for the purposes of estimating a value for this contingent asset.

28.3.12 Status of LCR and accounting treatment: In February 2006, the Office of National Statistics reclassified LCR for National Accounts purposes as a public non-financial corporation, with retrospective effect to February 1999, being the date of the implementation of the restructuring of LCR. Before this decision, LCR had been classified as a private non-financial corporation. The new classification decision was based on a judgement made by ONS that, as part of the conditions in the 1999 restructuring, government acquired the power to control LCR's corporate policy. As such, under the terms of the European System of Accounts 1995 which govern reporting in the National Accounts, LCR should be classified as being in the public sector. In accordance with paragraph 2.4.8(a) of the *Financial Reporting Manual*, it has not been consolidated or treated as an associate in these resource accounts.

29. Other financial commitments

The Strategic Rail Authority entered into franchise agreements with 24 train operating companies for the provision of train services and these have subsequently been transferred to the Department. The amounts falling due in the year to 31 March 2007 are as follows:

	2005-06 Consolidated	**2004-05** Consolidated
	£000	£000
Expiry within 1 year	207,597	260,000
Expiry after 1 year but within 5 years	653,412	299,100
Expiry thereafter	1,013,605	388,700
	1,874,614	**947,800**

Notes to the Department Resource Accounts *(continued)*

30. Financial Instruments

FRS 13, *Derivatives and Other Financial Instruments*, requires disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities.

Due to the largely non-trading nature of its activities and the way in which government departments are financed, the Department is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The Department has very limited powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Department in undertaking its activities.

As permitted by FRS 13, debtors and creditors that mature, or become payable within 12 months from the balance sheet date, have been omitted from the currency profile.

Liquidity Risk

The Department's net revenue resource requirements are financed by resources voted annually by Parliament. The Department is not, therefore, exposed to significant liquidity risks.

Interest-Rate Risk

The Department is not exposed to significant interest rate risk as its financial assets and liabilities carry nil or fixed rates of interest.

Currency Risk

The Department undertook a small number of foreign currency transactions and, therefore, is not exposed to significant exchange rate risk.

Fair Values

Set out below is a comparison in book values and fair values of the Department's financial obligations in respect of its PFI contracts.

Basis of Fair Valuation

The fair value has been calculated using the net present value (NPV) of future capital payments at a discount rate of 6 per cent per annum (which is the rate implied in the contracts).

	31 March 2006		31 March 2005	
	Book value	Fair value	Book value	Fair value
	£000	£000	£000	£000
Financial liabilities:				
Finance lease obligations, including on-balance sheet PFI imputed finance lease obligations	973,179	479,602	913,395	456,642

Notes to the Department Resource Accounts *(continued)*

31. Contingent Liabilities

In accordance with Government policy, none of the buildings included in Tangible Fixed Assets in the balance sheet are insured. Other contingent liabilities are shown below.
The value shown is the best estimate of the expected cost of settling the liability, in the unlikely event that the contingent liability becomes an actual liability. The exceptions are the two cases for which the maximum exposure is indicated. (31.3 and 31.5).

		2005-06	2004-05 (restated)
		£m	£m
31.1	This arose from litigation following the Secretary of State's decision to apply to the Courts to have Railtrack placed into administration. The applicants claimed this action had the effect of depriving them of their rightful interest in the shares of Railtrack. Judgement was given in the Department's favour in October 2005. The applicants have not appealed. It is the Department's view that no uncertainties remain.	–	–
31.2	The Secretary of State has issued guarantees to the Trustees of the Railways Pension Scheme in respect of any deficit arising in the pensioners' sections of the Railways Pension Scheme. A call on the guarantees, which is unlikely, is dependent upon the level of investment return. It is expected that the guarantee will remain in effect over the remaining lives of scheme members.	400.0	400.0
31.3	Channel Tunnel Rail Link – Government guarantee in respect of bonds issued by London and Continental Railways Ltd. (Note 28). The bonds were issued in four tranches, repayable in 2010, 2028, 2038 and 2051. The risk of a call on the guarantee depends on LCR's ability to raise finance against Section 2 of the Channel Tunnel Rail Link, potential cost overruns in the construction of Section 2 and, ultimately, the operating performance of the LCR group, particularly Eurostar UK, which is affected by passenger demand and yields.	3,750.0	3,750.0
31.4	Guarantee in respect of lease obligations of Eurostar (UK) Ltd at Ashford International Passenger Station. The guarantee of the liabilities extends to 2022. The probability of a call depends on Eurostar UK's ability to cover the lease payments, and therefore upon its operating performance. The factors affecting probability are linked to 31.3 and 31.5, as it is considered that a call on these would arise before a call on this guarantee.	60.0	60.0
31.5	Channel Tunnel Rail Link – Guarantee issued in respect of track access payments, to support securitisation of this revenue stream to finance Section 2. The term over which track access charges are payable is approximately 50 years. The probability of a call will depend on LCR's cashflow performance over the period in which track access payments are due, which depends on Eurostar UK's performance, and on LCR's ability to raise finance against Section 2 of the Channel Tunnel Rail Link, and potential cost overruns in the construction of Section 2. The value of the contingent liability increased following revised passenger forecasts, which indicated that the expected value of the potential claim had increased.	630.0	630.0
31.6	Other contingent liabilities.	6.0	72.5
31.7	Possible obligations in relation to land and property acquisition.	509.0	516.5
31.8	Possible obligations in relation to engineering and construction services.	53.0	29.3
31.9	Third party claims.	17.0	10.2
31.10	General Lighthouse Authorities' pension fund deficiency.	256.0	257.7
31.11	The British Railways Board, jointly with the French National Railway, has rights to utilise a proportion of the capacity of the Channel Tunnel until 2052, the period of the concession granted. In return, the Board has certain obligations to the concessionaires, specified in a Usage Contract, to provide infrastructure capacity and joint obligations to operate services from the date of the opening of the Tunnel. The SRA has been operating this contract on behalf of the British Railways Board. The rights and obligations under this contract have been variously delegated to Network Rail Infrastructure Limited, Eurostar (UK) Limited and Railfreight Distribution Limited. Should any of these parties default, any outstanding obligations may fall in due course to the Department. The likelihood of a claim depends on the operational policies of the British Railways Board, Network Rail Infrastructure Limited, Eurostar (UK) Limited and Railfreight Distribution Limited. The contract is governed by French law.	2,000.0	2,000.0
31.12	The Secretary of State has given a guarantee to the owners of certain properties on the route of the proposed Crossrail extension that their properties will be purchased should the Crossrail Hybrid Bill receive Royal Assent. The likelihood and timing of any claim would depend on the progress of the Bill through Parliament. The value would depend on the state of the property market.	16.2	–

Notes to the Department Resource Accounts *(continued)*

32. Contingent liabilities not required to be disclosed under FRS 12 but included for parliamentary reporting and accountability

	1 April 2005	Increase in year	Liabilities crystallised in year	Obligation expired in year	31 March 2006	Amount reported to Parliament[1]
	£000	£000	£000	£000	£000	£000
Guarantees (listed)	130,000	–	–	(62,000)	68,000	Unquantified
Letter of comfort (listed)	19,000,000	–	–	(9,300,000)	9,700,000	Unquantified
Indemnity (listed)	4,000,000	8,500,000	–	–	12,500,000	22,000,000

[1] Note that not all quantifiable items were quantified when the item was reported to Parliament. See below for fuller details.

The Department has entered into the following quantifiable contingent liabilities by offering guarantees, indemnities or by giving letters of comfort. None of these is a contingent liability within the meaning of FRS 12 and the amounts shown are as reported to Parliament.

32.1 Quantifiable Guarantees and Indemnities

	2005-06	2004-05 (restated)	Amount reported to Parliament by departmental minute
	£m	£m	£m
Guarantees			
Should the International Maritime Organisation building be partially or completely destroyed, the Government would be legally obliged to reconstruct the building, suspend or reduce the rent for a period of three years and might have to fund alternative accommodation. The probability of a call depends, inter alia, on the structural condition of the property. The value of any claim would depend on the extent of any damage and the cost of any alternative accommodation funded. The guarantee is part of the Government's policy to support the United Nations. The building lease covers a fifty year period from 1982.	68.0	130.0	Unquantified
Letters of comfort			
Letters of comfort have been issued to the Strategic Rail Authority in relation to the financial support it provides for Network Rail's borrowing. The support initially comprised the standby credit facilities granted as an interim measure when Network Rail commenced operational activities. This is being replaced by the longer-term Debt Issuance Programme, launched in October 2004.			
The capping mechanism for the standby credit facilities operated in the following manner. Each facility had an individual cap, as set out below. However, the maximum amount of support available under all facilities was capped at £21.05 billion principal. Thus, the Department's maximum exposure under the arrangement was lower than the sum of the individual caps.			
From 26 June 2005, the Secretary of State took over all of the Strategic Rail Authority's responsibilities for providing credit support arrangements for Network Rail's borrowing. The need for the previous letters of comfort issued to the SRA and others in respect of these arrangements has, therefore, fallen away. The credit support arrangements comprise standby credit facilities and the Financial Indemnity in support of Network Rail's Debt Issuance Programme. As at 31 March 2006, the arrangements supported Network Rail's net debt of £18.2 billion.			
The likelihood of a call under these arrangements depends on Network Rail's financial performance. Its income will be determined by the independent Office of the Rail Regulations will take into account debt servicing costs.			
A standby credit facility, together with related agreements, to allow certain existing loans to continue and to provide bridging finance for Network Rail until longer term debt financing can be implemented. This has now expired.	–	1,000.0	10,050.0

Notes to the Department Resource Accounts *(continued)*

A standby credit facility and related agreements to enable Network Rail to raise Medium Term Notes for its short and medium term financing requirements. The support arrangements expire in 2009.	5,700.0	10,000.0	10,000.0
A standby credit facility and related agreements to enable Network Rail to raise working capital to meet 'legacy costs' arising from its acquisition of Railtrack and also to allow Network Rail to meet overruns on legacy costs, if required. This facility was formally terminated in December 2005, and so the contingent liability has lapsed.	–	4,000.0	7,000.0
A standby credit facility, with a term of 50 years, to act as a long term contingency buffer.	4,000.0	4,000.0	4,000.0
Letters of indemnity have been issued for non-statutory liabilities in respect of liabilities incurred by staff appointed as a director of and Cross London Rail Links Limited and company secretary of SRA Investment Company Limited.	–	–	Unquantified

Indemnity

The Department has provided a Financial Indemnity in support of Network Rail's Debt Issuance Programme.	12,500.0	4,000.0	22,000.0

32.2 Unquantifiable Guarantees and Indemnities

Statutory guarantees

Contingent liabilities arise from agreements entered into by the Director of Passenger Rail Franchising (novated to the Strategic Rail Authority and then to the Department) prior to the privatisation of each of the three Rolling Stock Companies (ROSCOs). These agreements, with the ROSCOs and other industry parties, enable the Department to fulfil its duties under section 30 of the Railways Act 1993 (as amended) on the occurrence of certain eventualities. It is not possible to quantify the liabilities associated with these agreements because they will depend on the circumstances that arise at the time.

Parliament has been notified of a number of guarantees 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. It is not possible to quantify the potential liability that could arise as a result of these undertakings.

On the privatisation of the rail industry, guarantees were given in respect of certain legacy pension schemes from the British Railways Board that any shortfalls would be met. The names of the schemes and relevant financial information are disclosed in Note 39 to these accounts.

Letters of comfort

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, following major transport disasters.

Letters of comfort have been issued in support of each of the three London Underground PPP contracts, clarifying the Secretary of State's role in relation to the Greater London Authority and Transport for London. In particular, the letters make it clear that in the event of London Underground being unable to meet its financial obligations under any of the PPP contracts, the Secretary of State would regard it as untenable that he could stand by and do nothing.

Other

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.

Notes to the Department Resource Accounts *(continued)*

33. Losses and Special Payments

Government Accounting requires a statement showing losses and special payments by value and by type to be shown where they exceed £250,000 in total and those, which, individually, exceed £250,000. These items cover cash losses, fruitless payments and claims abandoned, as well as frauds. The amounts are as follows:

33(a) Losses Statement

	2005-06	2004-05
Total number of cases	4,279	4,463
	£000	£000
Total amount	15,320	15,631

Details of individual cases over £250,000 in 2006-05 are shown below:

Losses

	£000
Claims abandoned:	
Write-off of costs (Core Department)	1,671

Write-off of additional costs incurred in respect of Due Diligence work carried out by external firms and paid for by the Department in 2000 and 2001, which were classsed as recoverable by the Department from a third party.

There are no other individual losses over £250,000.

33(b) Special Payments

	2005-06	2004-05
Total number of cases	63	30
	£000	£000
Total amount	560	1,468

34. Related Party Transactions

34.1 The Department is the parent of the Highways Agency, the Maritime and Coastguard Agency, the Vehicle Certification Agency, the Government Car and Despatch Agency, and a number of sponsored bodies listed in Note 36. These bodies are regarded as related parties with which the Department has had various material transactions during the year.

34.2 In addition, the Department has had a small number of transactions with other government departments, principally Department for Communities and Local Government, Treasury Solicitors, Department of Constitutional Affairs, Department for Trade and Industry, Valuation Office Agency, Ministry of Defence, NATS Holdings Ltd, CLRL and a number of local authorities.

34.3 Some Board members and key managerial staff are related to persons employed by bodies with which the Department has financial dealings. These related party relationships, although between two organisations which have had financial dealings, do not in themselves involve any personal financial gain by the individuals concerned. No Board members or key managerial staff had any direct interest in organisations or suppliers in receipt of grants or other payments.

34.4 None of the Board members, key managerial staff or other related parties have undertaken any material transactions with the Department during the year other than those reported.

Notes to the Department Resource Accounts *(continued)*

35. Third party assets

The Highways Agency, under Section 278 of the Highways Act 1980, receives payment in advance of works. These amounts are paid into interest bearing Escrow Accounts at Lloyds TSB Bank. They are not Agency assets and are not included in the accounts.

Monies are drawn down from the Escrow accounts by the Highways Agency as work progresses.

	31 March 2005	Gross Inflows	Gross Outflows	31 March 2006
	£000	£000	£000	£000
Llodys TSB Escrow Bank Accounts	17,139	3,312	4,291	16,160

36. Entities within and outside the Departmental Boundary

36.1 The following executive agencies, advisory bodies and tribunals have been consolidated within these accounts:

Executive Agencies

Maritime and Coastguard Agency
Highways Agency
Vehicle Certification Agency
Government Car and Despatch Agency

Advisory Bodies

Commission for Integrated Transport
Disabled Persons' Transport Advisory Committee

Advisory NDPBs are expert bodies normally established to advise Ministers and officials on specific policy areas where the expertise does not exist within the Department. Most members of such bodies are unpaid, although several bodies' chairmen and members do receive a daily fee for attendance at meetings and other work.

Tribunals

Traffic Commissioners and Licensing Authorities (Traffic Areas)

36.2 The following bodies have not been consolidated within the accounts for the Department. Financial information on these bodies can be obtained from their separately published Annual Reports and Accounts.

Trading Funds

Driving Standards Agency
Vehicle and Operator Services Agency
Driver and Vehicle Licensing Agency

Nationalised Industries

Transport for London

Public Corporations

Civil Aviation Authority
British Rail Board (Residuary) Limited
Strategic Rail Authority Investment Company Limited

Notes to the Department Resource Accounts *(continued)*

Executive Non-Departmental Public Bodies

Strategic Rail Authority
British Transport Police
Passenger Focus
Railway Heritage Committee

Other Entities

NATS Holdings Ltd
Cross London Rail Link Ltd
Public Private Partnership Arbiter
Marine and Aviation Insurance War Risks Fund
Channel Tunnel Rail Link Complaints Commissioner
General Lighthouse Fund, incorporating:
— Northern Lighthouse Board;
— Trinity House Lighthouse Service; and
— Commissioner for Irish Lights.
Network Rail Limited
Port of London Authority

Following the Financial Reporting Manual (FReM) paragraph 2.4.9c and specific guidance from HM Treasury where necessary, the Department's holdings in shares of NATS Holdings Ltd. Cross London Rail Link Ltd and British Rail Board (Residuary) Limited have been treated as Investments valued at historic cost less any impairments. Details are disclosed in Note 16.

37. Restatement of Prior Year Balances

Highways Agency

37.1 The trunk road network balance as at 1 April 2005 has been restated by (£585,782,000) due to trunking and detrunking of the road network as merger accounting principles have been applied.
These prior year adjustments gave rise to the following restatement of balances as at 31 March 2005:

	As previously stated	Adjustment	As Restated
	£000	£000	£000
Trunk road network – cost	82,031,668	(659,501)	81,372,167
Trunk road network – depreciation	(9,887,294)	73,719	(9,813,575)
	72,144,374	**(585,782)**	**71,558,592**
General Fund	40,245,386	(372,733)	39,872,653
Revaluation Reserve	30,999,678	(213,049)	30,786,629
Capital Maintenance	442,243	(1,821)	440,422

Strategic Rail Authority

37.2 Various activities carried out by the Strategic Rail Authority (SRA) were transferred to the Department via transfer schemes that were effected between July and November 2005. The principal activities transferred were revenue projects, capital projects of support to passenger rail services (Train Operating Companies), Channel Tunnel, Trans European Network funding, and pension funds.

These transfers have been being accounted for under merger accounting principles, in accordance with HM Treasury's Financial Reporting Manual (FReM). The Operating Cost Statement, therefore, states the position as if these activities had always been conducted by the Department, on the basis that as merger accounting requires the accounts to reflect the income and expenditure, assets and liabilities as if the Department had undertaken these activities. This also affects the results and balances for 2004-05. The effect on the opening balance sheet of the Department is to add net liabilities of £82 million at 1 April 2005.

Further details of the impact and components of merger accounting can be seen in the SRA's annual accounts for the year ended 31 March 2006.

Notes to the Department Resource Accounts *(continued)*

Merger accounting principles have been applied to the opening balances for the SRA's activities. This change has resulted in a restatement of net assets in the Department's consolidated resource accounts, showing an increase in net assets of £68.5 million.

The SRA's Operating Cost Statement and balances were as shown below:

Operating Cost Statement 31 March 2005	£000
Staff costs	27,362
Non staff costs	140,641
Gross costs	168,003
Operating income	(99,430)
Operating cost	**65,573**

Balance Sheet as at 31 March 2005	£000
Investments	5
Debtors falling due after more than one year	1,400
Debtors falling due within one year	107,751
Creditors (amounts falling due within a year)	(123,429)
Total assets less current liabilities	(14,273)
Creditors (amounts falling after more than one year)	(6,340)
Provisions for liabilities and charges	(47,959)
	(68,572)
General fund	**(68,572)**

Government Car and Despatch Agency

37.3 On 8 November 2005, the Government Car and Despatch Agency (GCDA) became part of the Department and has been consolidated in 2005-06.

Merger accounting principles have been applied to the opening balances for the GCDA's activities. This change resulted in a restatement of net assets in the Department's consolidated resource accounts, showing an increase in net assets of £3.2 million.

The GCDA's balances were as shown below:

Operating Cost Statement 31 March 2005	£000
Staff costs	9,841
Non staff costs	6,519
Gross administration costs	16,360
Operating income	(16,743)
Net resource outturn	**(383)**

Balance Sheet as at 31 March 2005	£000
Tangible assets	2,392
Stocks and work in progress	20
Debtors falling due within one year	2,681
Cash at bank and in hand	1,325
	6,418
Creditors (amounts falling due within a year)	(3,053)
Total assets, less current liabilities	3,365
Provisions for liabilities and charges	(190)
	3,175
General fund	3,171
Revaluation reserve	4
	3,175

Notes to the Department Resource Accounts *(continued)*

Change in Accounting Treatment – 1994 Section British Rail Pension Scheme

37.4 The 1994 Section British Rail Pension Scheme is now being accounted for as a pension liability using FRS17, where it had previously been accounted for as a provision under FRS12. The Department is both an employer and guarantor for this scheme. The previous accounting treatment reflected the guarantor relationship, but it has been decided that the Department's relationship is in substance closer to that of an employer. This has led to the restatement of some of the opening balances in the 2004-05 accounts.

The restatements to the operating balances for 2004-05 are shown below:

	£000
Provisions for liabilities and charges	504,920
Pension liability	(606,500)
	(101,580)
General Fund	(101,580)
	(101,580)

Change in Accout Treatment – Investment in Shares of National Air Traffic Holdings Ltd

37.5 The shares held by the Department in National Air Traffic Holding Ltd have previously been accounted for as an Investment in Associate. This share holding falls outside the Department's consolidation boundary (see Note 36) and following the Financial Reporting Manual and specific guidance from HM Treasury, is now valued at historic cost less any impairments.

The restatements to the opening balances for 2004-05 are shown below:

	£000
Investment	38,915
	38,915
General fund	**38,915**
	38,915

38. Network Rail

Body outside the consolidation boundary

Many functions of the Strategic Rail Authority transferred to the Department in 2005-06, as explained in Note 37.2. This included a transfer of the lead responsibility for the Government's relationship with Network Rail Limited (Network Rail), a private company limited by guarantee, which is the parent company of the Network Rail Group of companies. Network Rail owns and operates the main rail network in Great Britain. It's primary aim is to provide a safe, reliable and efficient rail infrastructure. The main focus of Network Rail is on the operation, maintenance and renewal of Britain's railway, and facilitating enhancements. Whilst operating on commercial lines, Network Rail is a not-for-dividend company and all profits made will be reinvested in the industry. Its members include the train operating companies and other stakeholders. The Secretary of State is a Special Member. The Secretary of State has no rights to any dividend or other distribution.

The Department's principal financial interest in Network Rail arises from indemnities issued in support of Network Rail's debt. Agreements were made between the Department and Network Rail in connection with the acquisition of Railtrack plc by Network Rail, which relate to the financial support provided to Network Rail, together with its output and enhancement obligations. These agreements operate alongside the contractual arrangements that exist between the Department and Network Rail. The Department considers that the likelihood of Network Rail having to rely upon these letters for financial support is remote. Consequently, these agreements represent contingent liabilities and are disclosed under Note 32 *'Contingent liabilities not required to be disclosed under FRS 12 but included for parliamentary reporting and accountability'.* The support facilities for Network Rail's borrowings are:

- a financial indemnity mechanism (FIM) in respect of borrowings of Network Rail Infrastructure Finance PLC. (NRIF), under which £12.2 billion had been borrowed at 31 March 2006. The FIM is available until 2052. The indemnity also covers guarantees provided by NRIF in respect of certain financial obligations of Network Rail Infrastructure Limited; and
- a support facility in respect of the Medium Term Note Programme arranged through Network Rail MTN Finance PLC (NRMTN), under which £5.7 billion had been borrowed at 31 March 2006.

Notes to the Department Resource Accounts *(continued)*

Network Rail is outside the Department's resource accounting boundary and is not consolidated in these accounts. In order to maintain openness and transparency regarding the relationship between the Department and Network Rail, the summary results and other details concerning Network Rail are shown below. For further details, of Network Rail, copies of the financial statements of Network Rail Limited can be obtained from the Company Secretary, 40 Melton Street, London NW1 2EE. In addition, Network Rail's annual report and financial statements are available by visiting www.networkrail.co.uk from the following website:

http://www.networkrail.co.uk/browse%20documents/annual%20report%20and%20accounts/network%20rail%20limited%20annual%20report%20and%20accounts%202006.pdf

Network Rail reports to its members in the manner of a listed PLC and, therefore, follows European Union regulations requiring companies listed in any member state to adopt International Financial Reporting Standards ("IFRS") for financial years commencing on or after 1 January 2005. Therefore, the financial information shown below taken directly from Network Rail's accounts is prepared and presented in accordance with the requirements of IFRS.

The figures shown below are an extract from the published accounts of Network Rail.

Network Rail key financial figures

Profit and loss account for year ended 31 March 2006

	2006	2005
	£m	£m
Turnover (note 1)	3,837	3,800
Operating costs	(3,357)	(3,331)
Operating profit	480	469
Revaluation gains and profits on disposal of properties	78	135
Net investment and finance costs	(792)	(643)
Loss before tax	(234)	(39)
Taxation	(21)	17
Loss for the year	**(255)**	**(22)**

Notes to the Department Resource Accounts *(continued)*

Balance sheet as at 31 March 2006

	2006	2005
	£m	£m
Non-current assets		
Intangible assets	77	79
Property plant and equipment	25,991	22,221
Investment property	892	872
Financial assets	245	191
	27,205	23,363
Current assets		
Inventories	44	35
Receivables (including finance lease receivables)	446	598
Derivative financial instruments	50	–
Cash and cash equivalents	31	28
	571	661
Total assets	**27,776**	**24,024**
Current liabilities		
Trade and other payables	(2,082)	(2,098)
Bank loans and overdrafts	(4,191)	(5,127)
Derivative financial instruments	(2)	–
Short-term provisions	(17)	(53)
	(6,292)	(7,278)
Net current liabilities	**(5,721)**	**(6,617)**
Non-current liabilities		
Bank loans	(14,219)	(10,735)
Derivative financial instruments	(45)	–
Other payables	(1,177)	(1,130)
Retirement benefit obligation	(359)	(414)
Deferred tax liabilities	(1,889)	(1,437)
Long-term provisions	(22)	(8)
Obligations under finance leases	(10)	(10)
	(17,721)	(13,734)
Total liabilities	**(24,013)**	**(21,012)**
Net assets	**3,763**	**3,012**
Equity		
Revaluation reserve	3,696	2,716
Other reserve	242	242
Hedging reserve	(178)	–
Retained earnings	3	54
Total equity	**3,763**	**3,012**

Note 1. Turnover includes £1,983 million (2005 – £2,058 million) received directly from the Department for Transport and £1,515 million (2005 – £1,435 million) received from train operating companies (TOCs) for access charges.

The Department paid TOCs some £1,170 million (2005 – £969 million), in accordance with the conditions of its franchising contracts with them. These payments are disclosed as "*Support for Passenger Rail Services*" in Note 11 to these accounts.

Notes to the Department Resource Accounts *(continued)*

39. Pension Schemes

In accordance with FRS 17, the share of any deficits or recoverable surplus in the pension funds is recognised on the balance sheet. An interim valuation has been carried out by independent qualified actuaries Mercer Human Resource Consulting Limited on the Department's defined benefit schemes as at 31 March 2006, for the purpose of providing these disclosures. The assumptions used for the actuarial valuations have been disclosed.

The Department participates in two sections of the Railway Pension Scheme: the BR and OPRAF Shared Cost sections. These are described below. FRS 17 has been adopted as appropriate for each of these schemes. The Department has also given guarantees in respect of the 1994 Section, which has the pensioners and deferred pensioners of the British Railways Board at 1 April 2004 and is the designated employer of the Section. Consequently, FRS 17 has also been adopted as appropriate for this scheme.

Railways Pension Scheme: BR and OPRAF Shared Cost Sections

The BR Shared Cost Section covers most of BRB (Residuary) Ltd's employees, and some former Strategic Rail Authority employees. The OPRAF Shared Cost Section covers some of the former Strategic Rail Authority employees, primarily those who were formerly employed by the Franchising Director. They are defined benefit schemes and although they are part of the industry-wide Railways Pension Scheme, their assets and liabilities are identified separately from the remainder of the scheme. Further details are given below.

The last actuarial reviews for funding purposes of both Sections were performed as at 31 December 2004 by independent qualified actuaries Watson Wyatt Partners, using the projected unit method. Assets and accrued liabilities were valued using the market related method.

BR Shared Cost Section

The market value of assets (net of additional voluntary contribution (AVC) amounts) of the BR Section at 31 December 2004 was £34.192 million. This is approximately 1.5 per cent lower than the corresponding value of the projected accrued liabilities (after allowing for future salary increases but before allowing for agreed future contribution reductions and AVC matching by the Department). In this calculation, an investment return of 6.80 per cent on existing assets was assumed over the 20-year future mean term of liabilities.

The actuary estimated the ongoing funding cost of the BR Section for future years to be met by both the employees and the employer at 29.3 per cent of Section Pay, defined as pensionable pay less 150 per cent of the basic state pension. Over the year to 31 March 2006, member contributions were 9.2 per cent of Section Pay. Employer contributions are suspended until 31 March 2009 on the basis of actuarial advice.

These disclosures reflect the impact of the establishment of the British Transport Police Authority (BTP) on 1 July 2004 and the transfer of civilian staff from the BR Shared Cost Section to the BTP Shared Cost Section. The FRS 17 valuation for 31 March 2005, therefore, includes only assets and liabilities relating to the remaining staff. The gain arising on the transfer out of the BTP civilian staff has been disclosed.

The Fund is closed to new members.

OPRAF Shared Cost Section

The market value of assets (net of AVC amounts) of the OPRAF Section at 31 December 2004 was £12.396 million. The market value of assets was estimated as approximately 78 per cent of the corresponding value of the projected accrued liabilities (after allowing for future salary increases). In this calculation, it was assumed that the investment return on existing assets over the future mean term of liabilities of 21.1 years would be 6.8 per cent.

The ongoing funding cost of the OPRAF Section for future years, to be met by both the employees and the Authority, was estimated by the actuary at 28.6 per cent of Section Pay, defined as pensionable pay less 150 per cent of the basic state pension. During the year to 31 March 2006, member contributions of 12.85 per cent of Section Pay were paid. Employer contributions were 29.33 per cent of Section Pay throughout the year.

Notes to the Department Resource Accounts *(continued)*

The Fund is open to new members.

Financial assumptions:

The latest actuarial valuation for both Sections as at 31 December 2001 was updated to 31 March 2005 by an independent qualified actuary using the assumptions shown in the table below.

As at 31 March	2006	2005	2004	2003	2002
	% pa	% pa	% pa	% pa	% pa
Inflation	2.85	2.8	2.7	2.1	2.5
Rate of increase in salaries	4.35	4.3	4.2	3.6	4.0
Rate of increase in pensions in payment	2.85	2.8	2.7	2.1	2.5
Rate of increase for deferred pensioners	2.85	2.8	2.7	2.1	2.5
Discount rate	4.95	5.4	5.5	5.4	5.75

The assets in the scheme and the expected rates of return for each of these schemes were:

BR Shared Cost Section

	Net Assets			Expected rate of return		
	31 March 2006	31 March 2005	31 March 2004	31 March 2006	31 March 2005	31 March 2004
	£m	£m	£m	% pa	% pa	% pa
Equities	15.7	20.1	41.0	7.6	8.1	8.1
Bonds	18.7	10.0	10.6	4.6	5.0	5.0
Property	2.8	2.7	4.3	6.1	6.5	6.5
Other	1.9	1.8	(0.4)	4.5	4.7	3.7
Total market value of assets	**39.1**	**34.6**	**55.5**	**5.9**	**6.9**	**7.4**
Present value of scheme liabilities	(39.0)	(33.2)	(50.5)			
Transfer to 1994 Pensions Section	–	–	(2.2)			
Pension scheme surplus	**0.1**	**1.4**	**2.8**			

OPRAF Shared Cost Section

	Net Assets			Expected rate of return		
	31 March 2006	31 March 2005	31 March 2004	31 March 2006	31 March 2005	31 March 2004
	£m	£m	£m	% pa	% pa	% pa
Equities	14.8	10.0	7.9	7.6	8.1	8.1
Bonds	1.9	1.3	0.9	4.6	5.0	5.0
Property	1.4	0.8	0.6	6.1	6.5	6.5
Other	1.4	0.8	0.4	4.5	4.7	3.7
Total market value of assets	**19.5**	**12.9**	**9.8**	**7.0**	**7.5**	**7.5**
Present value of scheme liabilities	(22.8)	(20.5)	(15.3)			
Total deficit	(3.3)	(7.6)	(5.5)			
Members' share of deficit	0.6	1.5	1.1			
Pension scheme deficit attributable to the employer	**(2.7)**	**(6.1)**	**(4.4)**			

Components of defined benefit cost for the period ended 31 March 2006:

Analysis of amounts charged to operating profit:	BR Shared Cost Section 31 March 2006	BR Shared Cost Section 31 March 2005	OPRAF Shared Cost Section 31 March 2006	OPRAF Shared Cost Section 31 March 2005
	£m	£m	£m	£m
Current service cost	0.5	0.9	0.6	0.5
Past service costs	–	–	–	–
Settlement gain BTP	–	(1.4)	–	–
Total charge/(credit) to operating profit	**0.5**	**(0.5)**	**0.6**	**0.5**

Notes to the Department Resource Accounts *(continued)*

Analysis of the amounts charged to other finance income:	**BR Shared Cost Section 31 March 2006**	**BR Shared Cost Section 31 March 2005**	**OPRAF Shared Cost Section 31 March 2006**	**OPRAF Shared Cost Section 31 March 2005**
	£m	£m	£m	£m
Interest on fund liabilities	1.8	2.8	1.2	0.9
Expected return on fund assets	(2.1)	(3.5)	(1.1)	(0.8)
Interest on employee share of deficit	–	–	(0.1)	(0.1)
Net charge/(credit) to other finance income	**(0.3)**	**(0.7)**	–	–

Analysis of amounts recognised in the Statement of Recognised Gains and Losses:	**BR Shared Cost Section 31 March 2006**	**BR Shared Cost Section 31 March 2005**	**OPRAF Shared Cost Section 31 March 2006**	**OPRAF Shared Cost Section 31 March 2005**
	£m	£m	£m	£m
Gain/(loss) on assets	4.0	2.5	2.8	0.5
Experience gain/(loss) on liabilities	(2.3)	0.4	2.6	(1.0)
Gain/(loss) on change of assumptions	(2.8)	(5.5)	(1.8)	(2.0)
Movement of employee share of deficit	–	–	(0.9)	0.3
Total gain/(loss) recognised in the Statement of Recognised Gains and Losses before adjustment for tax	**(1.1)**	**(2.6)**	**2.7**	**(2.2)**

Experience gains and losses:	**BR Shared Cost Section 31 March 2006**	**BR Shared Cost Section 31 March 2005**	**BR Shared Cost Section 31 March 2004**	**BR Shared Cost Section 31 March 2003**
	£m	£m	£m	£m
Gain/(loss) on Section assets				
(i) Amount	4.0	2.5	6.8	(10.6)
(ii) % of Section assets at end of period	10%	4%	13%	24%
Experience gain/(loss) on Section liabilities				
(i) Amount	(2.3)	0.4	(2.3)	(5.0)
(ii) % of section liabilities at end of period	6%	1%	5%	12%
Total actuarial gain (loss) recognised in the Statement of Recognised Gains and Losses				
(i) Amount	(1.1)	(2.6)	1.9	(15.2)
(ii) % of section liabilities at end of period	3%	4%	4%	37%

Experience gains and losses:	**OPRAF Shared Cost Section 31 March 2006**	**OPRAF Shared Cost Section 31 March 2005**	**OPRAF Shared Cost Section 31 March 2004**	**OPRAF Shared Cost Section 31 March 2003**
	£m	£m	£m	£m
Gain/(loss) on Section assets				
(i) Amount	2.8	0.5	1.3	(2.7)
(ii) % of Section assets at end of period	14%	4%	13%	43%
Experience gain/(loss) on Section liabilities				
(i) Amount	2.6	(1.0)	(0.1)	(2.1)
(ii) % of section liabilities at end of period	11%	5%	0.7%	17.9%
Total actuarial gain (loss) recognised in Statement of Recognised Gains and Losses				
(i) Amount	2.7	(2.2)	0.3	(4.6)
(ii) % of section liabilities at end of period	12%	11%	2%	39%

Notes to the Department Resource Accounts *(continued)*

Analysis of the movement in employers' share of surplus/(deficit) in the Section during the period:	**BR Shared Cost Section 31 March 2006**	**BR Shared Cost Section 31 March 2005**	**OPRAF Shared Cost Section 31 March 2006**	**OPRAF Shared Cost Section 31 March 2005**
	£m	£m	£m	£m
Surplus/(deficit) in employers' share in the Section at beginning of period	1.4	2.8	(6.1)	(4.4)
Contributions paid	–	–	1.3	1.0
Current service cost	(0.5)	(0.9)	(0.6)	(0.5)
Settlement gain – BTP	–	1.4	–	–
Other finance income/(charge)	0.3	0.7	–	–
Actuarial gain/(loss)	(1.1)	(2.6)	2.7	(2.2)
Surplus/(deficit) in employers' share in the Section at end of period	**0.1**	**1.4**	**(2.7)**	**(6.1)**

Analysis of the movement in surplus/(deficit) in the Section during the period:	**BR Shared Cost Section 31 March 2006**	**BR Shared Cost Section 31 March 2005**	**OPRAF Shared Cost Section 31 March 2006**	**OPRAF Shared Cost Section 31 March 2005**
	£m	£m	£m	£m
Surplus/(deficit) in the Section at beginning of period	1.4	2.8	(7.6)	(5.5)
Contributions paid	–	–	1.3	1.0
Current service cost	(0.5)	(0.9)	(0.6)	(0.5)
Settlement gain – BTP	–	1.4	–	–
Other finance income/(charge)	0.3	0.7	(0.1)	(0.1)
Actuarial gain/(loss)	(1.1)	(2.6)	3.7	(2.5)
Surplus/(deficit) in the Section at end of period	**0.1**	**1.4**	**(3.3)**	**(7.6)**

1994 Section

The 1994 Section has the pensioners and deferred pensioners of the British Railways Board at 1 April 2004. It is a defined benefit scheme and although it is part of the industry wide Railways Pension Scheme, its assets and liabilities are identified separately from the remainder of the scheme. Further details are given below.

The last actuarial reviews for funding purposes was carried out as at 31 December 2004 by independent qualified actuaries Watson Wyatt Partners using the projected unit method. Assets and accrued liabilities were valued using the market related method.

Financial assumptions:

The latest actuarial valuation for the section as at 31 December 2004 was updated to 31 March 2006 by an independent qualified actuary using the following assumptions, as set out in the table below.

	31 March 2006	**31 March 2005**	**31 March 2004**
	% pa	% pa	% pa
Inflation	2.85	2.8	2.7
Rate of increase of pensions in payment	2.85	2.8	2.7
Rate of increase for deferred pensioners	2.85	2.8	2.7
Discount rate	4.95	5.4	5.5

Notes to the Department Resource Accounts *(continued)*

The assets in the scheme and the expected rates of return for each of these schemes were:

1994 section

	Net Assets			Expected rate of return		
	31 March 2006	31 March 2005	31 March 2004	31 March 2006	31 March 2005	31 March 2004
		£m			% pa	% pa
Equities	2,622	2,257	2,361	7.6	8.1	8.1
Bonds	1,645	1,630	1,753	4.6	5.0	5.0
Property	375	338	333	6.1	6.5	6.5
Other	257	225	(1)	4.5	4.7	3.7
Total market value of assets	**4,899**	**4,450**	**4,446**	**6.2**	**6.6**	**6.7**
Present value of scheme liabilities	(5,245)	(5,080)	(5,052)			
Total deficit	(346)	(630)	(606)			

Components of defined benefit cost for the period ended 31 March 2006:

Analysis of the amount charged to other finance income:

	31 March 2006	31 March 2005
	£m	£m
Interest on Fund liabilities	263	267
Expected return on Fund assets	(285)	(288)
Net charge/(credit) to other finance income	**(22)**	**(21)**

Analysis of amounts recognised in the Statement of Recognised Gains and Losses:

	31 March 2006	31 March 2005
	£m	£m
Gain/(loss) on assets	545	92
Experience gain/(loss) on liabilities	(39)	(63)
Gain/(loss) on change of assumptions	(260)	(90)
Total gain/(loss) recognised in the Statement of Recognised Gains and Losses before adjustment for tax	**246**	**(61)**

Experience gains and losses:

	31 March 2006	31 March 2005
	£m	£m
Gain/(loss) on section assets		
(i) Amount	545	92
(ii) % of section assets at end of period	11%	2%
Experience gain/(loss) on section liabilities		
(i) Amount	(39)	(63)
(ii) % of section liabilities at end of period	1%	1%
Total actuarial gain (loss) recognised in the Statement of Recognised Gains and Losses		
(i) Amount	246	(61)
(ii) % of section liabilities at end of period	5%	1%

Analysis of the movement in surplus/(deficit) in the Section during the period:

	31 March 2006	31 March 2005
	£m	£m
Surplus/(deficit) in employers share in the Section at beginning of period	(630)	(606)
Contributions paid	16	16
Other finance income/(charge)	22	21
Actuarial gain/(loss)	246	(61)
Surplus/(deficit) in employers share in the Section at end of period	**(346)**	**(630)**

Notes to the Department Resource Accounts *(continued)*

Analysis of pension liability

	31 March 2006	31 March 2005
	£m	£m
Balance at 1 April	(630)	(606)
Items charged to Income and Expenditure reserve	38	37
Gain/(loss) on assets	545	92
Experience gain/(loss) on liabilities	(39)	(63)
Gain/(loss) on change of assumptions	(260)	(90)
Result for period before deferred tax	(346)	(630)
Result for the period after deferred tax	**(346)**	**(630)**

Other Schemes

The Department is also responsible for funding any shortfalls in six historic funded pension arrangements, which relate almost entirely to individuals drawing pensions. There are 48 active members participating in these schemes. They are legacy defined benefit schemes from the British Railways Board and the Department has no employees participating in them. The latest actuarial valuations of these funds have all been carried out either as at 31 December 2003, 31 December 2004 or 31 December 2005.

The schemes concerned are:

1. The British Railways Superannuation Fund
2. Great Western Railway Supplemental Pensions Reserve Fund
3. Great Western Railway Salaried Staff Widows' and Orphans' Pension Society
4. London and North Western Railway Provident Society for Providing Pensions for Widows And Orphans of Salaried Staff
5. Great Western Railway Inspectors' and Foremen's Special Pension Fund; and
6. Great Northern Railway Superannuation Fund

The position of the schemes, which are material for the Department's accounts at the latest formal actuarial valuation date, is summarised below:

Scheme	Last Valuation	Assets	Liabilities	Employer Contributions
BR Superannuation Fund	31 December 2004	£406m	£384m	Nil
Great Western Railway Supplemental Pensions Reserve Fund	31 December 2004	£49.6m	£48.6m	Nil
Great Western Railway Salaried Staff Widows' and Orphans' Pension Society	31 December 2003	£8.2m	£9.0m	£103,000 per annum for 10 years from 1 January 2005

The remaining schemes have liabilities of less than £0.5 million.

The schemes have been reviewed as at 31 March 2006. Given the nature of these schemes and the obligations on the Department, and as the first two funds are in surplus for these schemes, no FRS 17 disclosures are included for this year or prior years. Any future funding obligations form a contingent liability on the Department.

The third fund, shown above, the Great Western Railway Salaried Staff Widows' and Orphans' Pension Society, was valued at 31 December 2003. The market value at that date was £8.172 million. The market value of assets was estimated as approximately 91 per cent of the corresponding value of the accrued liabilities (after allowing for future salary increases). In this calculation, it was assumed that the investment return on existing assets would be 4.75 per cent. Contributions of £0.1 million were made in the year. The ongoing funding cost of the Scheme for future years will be met by the Department, and has been included as a provision within the accounts.

The fund was closed to new members in November 1948. It provides a pension on the death of a member to his wife at the date of his retirement. If a member's wife predeceases him, his contributions are returned without interest.

Notes to the Department Resource Accounts *(continued)*

Financial assumptions:

The latest actuarial valuation as at 31 December 2003 was updated to 31 March 2006 by an independent qualified actuary, using the assumptions, shown in the table below:

As at 31 March:	2006	2005	2004	2003
	% pa	% pa	% pa	% pa
Discount rate	4.95	5.4	5.5	5.4
Inflation	2.85	2.8	2.7	2.7

No rate of increase in salary is stated as there are no active scheme members. All increases to pensions are met by the BR (1974) Pension Fund. Consequently, the assumed rates of increase for pensions in payment and deferred pensions are nil.

The assets in the scheme and the expected rates of return were:

	Net Assets			Expected rate of return		
	31 March 2006	31 March 2005	31 March 2004	31 March 2006	31 March 2005	31 March 2004
	£m	£m	£m	% pa	% pa	% pa
Equities	–	–	0.9	7.6	8.1	8.1
Bonds	5.5	6.3	6.1	4.6	5.0	5.0
Other	1.3	1.1	1.0	4.5	4.7	3.7
Total market value of assets	**6.8**	**7.4**	**8.0**	**4.6**	**4.9**	**5.2**
Present value of scheme liabilities	**(7.3)**	**(7.7)**	**(8.2)**			
Pension scheme deficit attributable to the employer	**(0.5)**	**(0.3)**	**(0.2)**			

Components of defined benefit cost for the period ended 31 March 2006 were as follows:

Analysis of the amount charged to other finance income:

	31 March 2006	31 March 2005
	£m	£m
Interest on Fund liabilities	0.4	0.4
Expected return on Fund assets	(0.3)	(0.4)
Net charge/(credit) to other finance income	**0.1**	–

Analysis of amounts recognised in the Statement of Recognised Gains and Losses:

	31 March 2006	31 March 2005
	£m	£m
Gain/(loss) on assets	–	(0.1)
Experience gain/(loss) on liabilities	–	(0.1)
Gain/(loss) on change of assumptions	(0.2)	–
Total gain/(loss) recognised in the Statement of Recognised Gains and Losses before adjustment for tax	**(0.2)**	**(0.2)**

Notes to the Department Resource Accounts *(continued)*

Experience gains and losses:

	31 March 2006 £m	31 March 2005 £m
Gain/(loss) on Section assets		
(i) Amount	–	(0.1)
(ii) % of section assets at end of period	–	1%
Experience gain/(loss) on Section liabilities		
(i) Amount	–	(0.1)
(ii) % of section liabilities at end of period	–	1%
Total actuarial gain/(loss) recognised in the Statement of Recognised Gains and Losses		
(i) Amount	(0.2)	(0.2)
(ii) % of section liabilities at end of period	3%	2%

Analysis of the movement in surplus/(deficit) in the Fund during the period:

	31 March 2006 £m	31 March 2005 £m
Deficit in the fund at beginning of period	(0.3)	(0.2)
Contributions paid	0.1	0.1
Other finance income/(charge)	(0.1)	–
Actuarial gain/(loss)	(0.2)	(0.2)
Deficit in the fund at end of period	**(0.5)**	**(0.3)**

The Department also has liabilities relating to historic obligations under unfunded pension arrangements for former employees, former directors of BRB and for a former franchising director.

The charge to Income and Expenditure Account during the period was £0.2 million (2005: £0.2 million). A provision of £3.7 million has been made in the accounts against these liabilities (2005: £3.3 million).

Analysis of pension liability

	31 March 2006 £m	31 March 2005 £m
Balance at 1 April	(6.4)	(4.6)
Items charged to Income and Expenditure reserve	0.7	0.6
Employees share of deficit	(0.9)	0.3
Gain/(loss) on assets	2.8	0.4
Experience gain/(loss) on liabilities	2.6	(1.1)
Gain/(loss) on change of assumptions	(2.0)	(2.0)
Result for period before deferred tax	(3.2)	(6.4)
Result for the period after deferred tax	**(3.2)**	**(6.4)**

Analysis of pension asset

	31 March 2006 £m	31 March 2005 £m
Balance at 1 April	1.4	2.8
Items charged to Income and Expenditure reserve	(0.2)	(0.2)
Gain/(loss) on assets	4.0	2.5
Experience gain/(loss) on liabilities	(2.3)	0.4
Gain/(loss) on change of assumptions	(2.8)	(5.5)
Result for period	0.1	–
Assets transferred to British Transport Police	–	(24.1)
Liabilities transferred to British Transport Police	–	25.5
	0.1	**1.4**

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
07/06 19585 5390332

Published by TSO (The Stationery Office) and available from:

Online
www.tso.co.uk/bookshop

Mail, Telephone, Fax & E-mail
TSO
PO Box 29, Norwich NR3 1GN
Telephone orders/General enquiries 0870 600 5522
Fax orders 0870 600 5533
Order through the Parliamentary Hotline *Lo-call* 0845 7 023474
Email book.orders@tso.co.uk
Textphone 0870 240 3701

TSO Shops
123 Kingsway, London WC2B 6PQ
020 7242 6393 Fax 020 7242 6394
68–69 Bull Street, Birmingham B4 6AD
0121 236 9696 Fax 0121 236 9699
9–21 Princess Street, Manchester M60 8AS
0161 834 7201 Fax 0161 833 0634
16 Arthur Street, Belfast BT1 4GD
028 9023 8451 Fax 028 9023 5401
18–19 High Street, Cardiff CF10 1PT
029 2039 5548 Fax 029 2038 4347
71 Lothian Road, Edinburgh EH3 9AZ
0870 606 5566 Fax 0870 606 5588

The Parliamentary Bookshop
12 Bridge Street, Parliament Square,
London SW1A 2JX
Telephone orders/General enquiries 020 7219 3890
Fax orders 020 7219 3866

Accredited Agents
(see Yellow Pages)

and through good booksellers

ISBN 0-10-294199-8
9 780102 941999