



Department  
for Transport

# Department for Transport Annual Report and Accounts 2014-15

(For the year ended 31 March 2015)

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

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

Annual Report and Accounts presented to the House of Lords by Command of  
Her Majesty

*Ordered by the House of Commons to be printed on 25 June 2015*





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This is part of a series of departmental publications which, along with the Main Estimates 2015-16 and the document Public Expenditure: Statistical Analyses 2015, present the Government's outturn for 2014-15 and planned expenditure for 2015-16.



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# Part 1: Annual Report

# Foreword by the Secretary of State

Transport is a key support to economic growth. It connects employees with jobs, it links people with services they need in their daily lives and it attracts investors to our regions. Transport brings our country together.

The Government wants the UK's transport system to match that of our peers and competitors. We introduced the country's first ever National Infrastructure Plan and plan to invest more than £70 billion across all forms of transport by 2021. As this report shows, over the last year the Department has commenced and delivered a number of projects which will improve lives and strengthen our national economy.

The construction of HS2 sits alongside a wider £38 billion investment programme for our railways over the next five years. The Department has committed to electrifying key lines and to deliver some of Europe's largest infrastructure projects such as Crossrail and Thameslink. We have also begun the biggest upgrade of our Strategic Road Network in half a century. As part of this the Department published a Road Investment Strategy, committing £7.2 billion to 84 new road schemes over this Parliament and the next, delivered by the newly created Highways England, a publicly-owned company with the necessary long-term funding it will need. During the year we further strengthened plans to increase national connectivity through work on the northern powerhouse including new faster links designed to bring together the North's great cities.

The UK has long been a world-leader in aviation and maritime. I am determined that we maintain this position. The Airports Commission took forward its work during the year to examine what measures are necessary to maintain the UK's position as an international hub. The Department has also launched a major new study which will look at how further to grow the UK's important maritime sector.

A transport system for the future not only delivers economic growth, it does so while simultaneously reducing its carbon footprint. That is why this Government has launched a competition to take forward advanced biofuel plants, it is why it has announced new funding for the development of hydrogen cars and it is why it is investing £500 million in ultra-low emission vehicles. We are supporting cycling with an unprecedented level of funding – £214 million to double the number of journeys made by bike by 2020.

A transport network of the future is one that is safe. The Department works tirelessly to continue improving road safety through implementation of new drug-driving laws and by educational campaigns such as the award winning THINK! initiative.

Now is an exciting time for transport in Britain. We are investing unprecedented resources into our roads and railways, airports and ports. We are sustaining economic growth and building a better Britain. We are building a transport network for the future.

**Rt Hon Patrick McLoughlin MP**

Secretary of State for Transport



# Foreword by the Permanent Secretary

The year just past has been a notable one for the Department for Transport. We continue to progress two of Europe's largest infrastructure projects – HS2 and Crossrail – as well as coordinating the biggest investment in our roads for half a century. The Department and its agencies have also gone through significant change over the last year as we have reformed our organisation to continue to deliver high-quality programmes and services to the public.

The Secretary of State's forward highlighted some of the progress the Department has made in 2014-15 and its plans for the future. Let me take this opportunity to outline our key achievements in the areas of project and programme delivery and organisational change.

The Department has made good progress on the major infrastructure programmes it is leading. For High Speed 2 (HS2) several significant milestones were reached over the last year: the HS2 Phase One hybrid Bill received its second reading in Parliament and the Select Committee began its work of considering the Bill in detail. The HS2 Phase One Additional Provision environmental statement and HS2 (Fradley to Crewe) safeguarding consultations were held successfully and a final outcome for the property compensation consultation was announced in January 2015.

On Crossrail, the train tunnels are now complete and work is well advanced on many other aspects. The programme is one of the most ambitious and successful the Department has led. I am pleased to note that the Public Accounts Committee concluded that the public interest has been well-protected in our management of the project.

Another significant delivery achievement has been the conclusion of new or revised franchise agreements for the Greater Anglia, Essex Thameside, Integrated Kent, Thameslink, Southern and Great Northern (TSGN), West Coast Main Line and East Coast Main Line franchises. The continued success of the new franchising programme has been supported by the Rail Executive, a newly organised group launched in April 2014 in response to recommendations of the Rail Organisation Review.

2014 was also a significant year for the wider DfT family, with many departmental agencies effecting organisational reforms to ensure that they continue to deliver a quality service at competitive cost. In April 2014, the formal launch of a new executive agency, the Driver and Vehicle Standards Agency (DVSA) took place. The DVSA merges the Driving Standards Agency and the Vehicle and Operator Services Agency and should provide even better customer service to motorists and commercial operators while also securing back office efficiencies and economies of scale.

Over the year, work to transform the Highways Agency progressed well, culminating with the Infrastructure Act coming into effect in February 2015. The Act allowed the creation of Highways England, a publicly owned company, which came into being on 1 April 2015.

The reforms will make sure that the new company remains accountable to Parliament and the public while providing secure, long-term funding for the strategic road network. Change has also been implemented successfully in the DVLA where progress has been made against the recommendations from the Reilly Review.<sup>1</sup> In October 2014 the tax disc was abolished and in December 2014 the driving licence paper counterpart was also phased out. Finally, the Maritime and Coastguard Agency (MCA) opened the new National Maritime Operations Centre for HM Coastguard near Fareham in September 2014. The new centre is part of our major reform programme to provide HM Coastguard with the tools and skills it needs to work effectively in the 21st century.

Taken together, the successful delivery of projects and meaningful organisational reform has allowed the Department to handle the increasing demands on the UK transport system. 2014-15 has seen a further increase in rail usage, with passenger numbers up 4% to 1,654 million journeys and bus usage up 2.2% to some 4.7 billion passenger journeys in England.

Looking forward, DfT's contribution of £545 million to the package of in year savings for 2015-16 that the Chancellor announced to the House of Commons on 4 June 2015 was the largest headline savings of any department. This included the sale of LCR's shareholding in the 'King's Cross Central' joint venture (valued at £345 million in the 2013-14 Departmental accounts) and a £200 million package of savings from departmental expenditure limit (DEL) budgets for 2015-16.

The Department was able to make these savings because of improved income from rail franchising and the re-profiling of capital projects since budgets were originally set. We will need to build on this in the forthcoming Spending Review and following 8 July budget.

I am very proud of the successes the Department has delivered in 2014-15 and would like to thank the staff across the Departmental family for their invaluable efforts to keep Britain moving.

**Philip Rutnam**

Permanent Secretary

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<sup>1</sup> [www.gov.uk/government/publications/dvla-review](http://www.gov.uk/government/publications/dvla-review)



Department  
for Transport

## Moving Britain Ahead in 2014/15



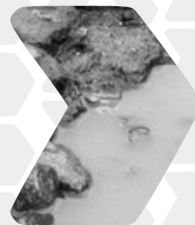
**100%**  
of Crossrail tunnels  
completed



**2**  
new bodies launched:  
Driver and Vehicle  
Standards Agency and  
Highways England



**£7.2bn**  
for 84 road schemes  
from UK's first road  
investment strategy



**£168m**  
pothole repair fund and  
98 pinch point schemes  
completed



**£214m**  
policy package for  
Cycling Ambition  
Cities programme



**42**  
rail stations benefited  
from the Access for All  
initiative, improving  
accessibility at stations



**55**  
2013-15 Department for  
Transport business plan  
commitments delivered



**6**  
new or revised rail  
franchise agreements  
delivered, securing  
benefits for passengers



# Strategic Report

## 1. Our aims and objectives

- 1.1 The Government's vision for the transport system, as an engine for economic growth and to make Britain a great place to live, was set out in *Transport – an engine for growth* published in August 2013.
- 1.2 Quick, efficient and reliable transport links are essential for people and businesses. They allow businesses to operate productively by enabling them to save time, cut costs, share expertise and access the best employees from a wider labour market. Good transport is also important for individuals, giving them a wider choice of potential jobs, goods and services. We put the needs of the users of the transport system at the heart of our thinking.
- 1.3 Our priorities as set out in our 2013-15 Business Plan<sup>2</sup> are to:
- promote UK growth;
  - deliver our commitments on high speed rail;
  - improve the rail network;
  - support sustainable local travel;
  - invest in our roads to promote growth, while reducing congestion, ensuring road safety and tackling carbon;
  - promote sustainable aviation;
  - reform the Coastguard and search and rescue helicopter capability; and
  - implement the Department's key cross-cutting reform priorities.
- 1.4 The Department promotes the growth of the UK economy by providing excellent transport infrastructure that enables goods and services to be transported efficiently and supports investment and employment.

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<sup>2</sup> DfT Business Plan 2013-15. <http://transparency.number10.gov.uk/business-plan/11>

- 1.5 High Speed 2 (HS2), the proposed new north-south rail line, is vital to upgrade the country's transport network. It will increase north-south rail capacity, improve connectivity between regional cities and help to grow and rebalance the economy. It will be built in two phases: the first from London to Birmingham (due for completion in 2026) and the second from Birmingham to Manchester and Leeds (due for completion in 2033). We are currently carrying out the preparation needed to start construction of the first phase of a high speed rail network for Britain during this Parliament. Over the last year the Government has also launched work on Transnorth, high speed rail services connecting the North's great cities which could significantly reduce journey times across the region.
- 1.6 Improving our rail network is central to supporting economic growth. The Department is driving improvements to rail services, delivering major infrastructure projects such as Crossrail, the Intercity Express Programme, and Thameslink, progressing electrification of the network, and putting passengers at the heart of a revitalised rail franchising system, the new InterCity East Coast rail franchise award being only one example of this.
- 1.7 We are working hard to improve local transport to enhance the quality of life in our communities. We are doing this by investing in local transport, decentralising funding and powers, tackling local congestion and making public transport (including light rail), walking and cycling more attractive.
- 1.8 We are changing the way we invest in the strategic road network to provide more stability and predictability. This will promote growth and address the congestion that affects people and businesses. At the same time we are working hard to continue to improve road safety. We also continue to promote low emission transport, supporting the market for electric and other ultra-low emission vehicles.
- 1.9 We want to support the development of aviation to ensure that the UK maintains its hub connectivity. The Government has set up the independent Airports Commission, chaired by Sir Howard Davies, which is tasked with identifying and recommending options for maintaining this country's status as an international hub for aviation.
- 1.10 The Department is working on reforming the Coastguard to deliver a resilient and fully integrated national rescue co-ordination service for the twenty-first century. We are also delivering a modern fleet of search and rescue helicopters which will reduce response times and help save lives.
- 1.11 The Department's cross-cutting reform priorities include promoting a transport system that is accessible and socially inclusive, through measures such as providing better information for disabled and young travellers, and making buses and trams more physically accessible. Other cross-cutting priorities include reducing the burden of transport regulation, supporting innovation and new technology in transport systems, and improving the quality and efficiency of the services that the Department provides by delivering exemplar digital services.
- 1.12 Taken together, the Department's priorities aim to provide world-class connectivity for our towns and cities, both nationally and internationally. They aim to meet the needs of people and businesses for safe, secure, reliable and accessible transport. They aim to build a competitive transport sector that is efficient and innovative, while also protecting the environment.

## 2. How we are organised

### DfT team

- 2.1 The Department for Transport (DfT) comprises the central Department (DfT(c)), executive agencies and trading funds. The Department also has responsibility for a range of other entities including executive, advisory and tribunal non-departmental public bodies (NDPBs), and public corporations. For a full list of the entities related to DfT's activities, see Note 22 to the accounts.

### Organisational groups

- 2.2 DfT(c) is organised into: five director general groups, the General Counsel's Office (GCO), Group Communications Directorate and the Private Offices that report directly to the Permanent Secretary.

### Rail Executive

- 2.3 The Rail Executive was created in April 2014 taking on all the functions previously performed by Rail Group as well as some new teams. During 2014 a new Passenger Services team was designed and implemented, bringing together the work of franchise management and franchise award. Peter Wilkinson was appointed managing director of Passenger Services which was launched on 3 November 2014.<sup>3</sup>
- 2.4 The Rail Executive leads on the sponsorship of major rail projects including Crossrail, Thameslink and the Intercity Express Programme, as well as DfT's interest in Network Rail's investment programme. The Executive also takes the lead on policy and funding for the rail sector, on the rail franchising programme and the sponsorship of Network Rail since it became a public sector arm's-length body of the Department.

### High Speed 2 (HS2)

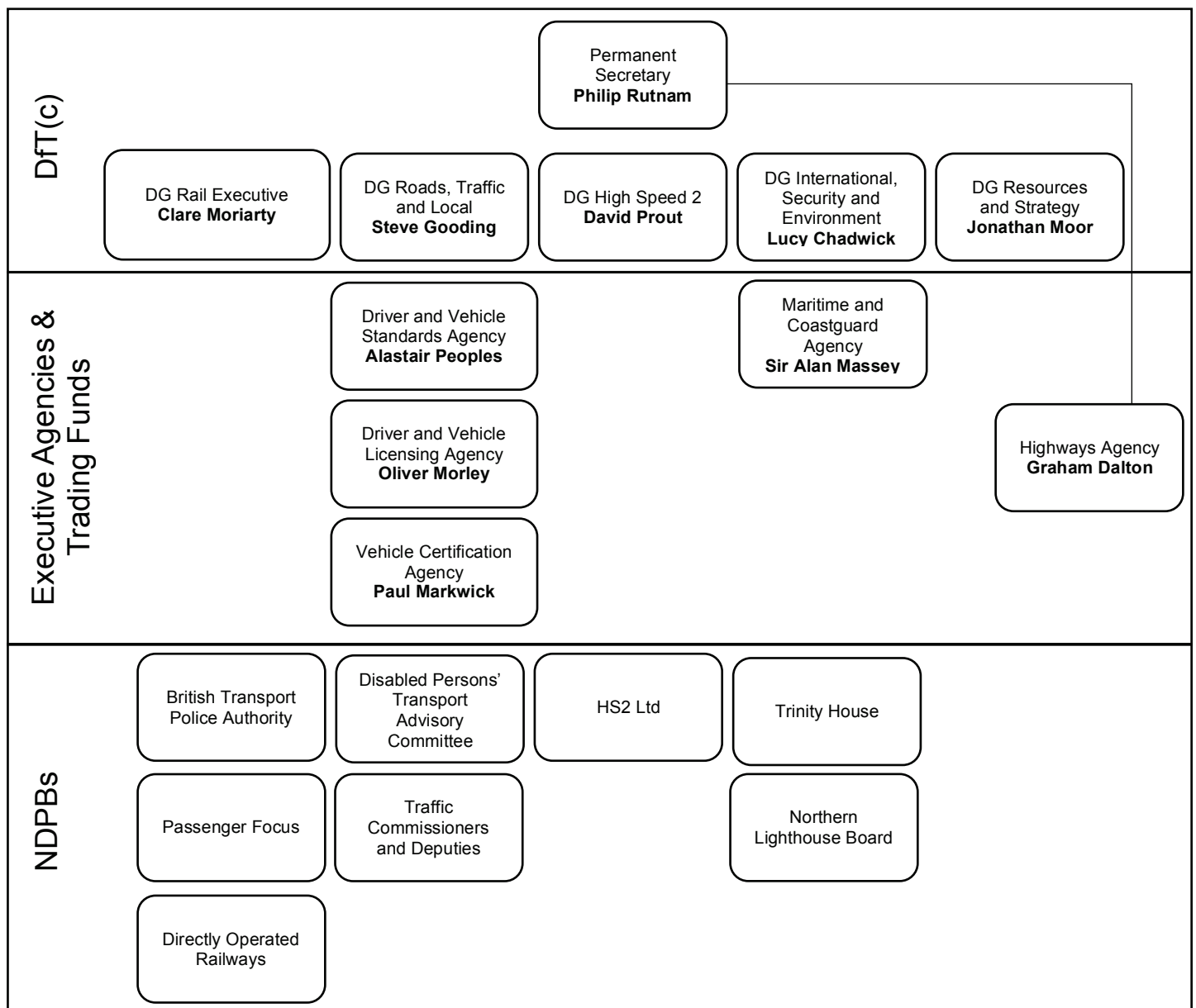
- 2.5 HS2 Group is responsible for ensuring that the HS2 programme meets its demanding timetable and delivers long-term strategic national planning for this major addition to national infrastructure. There is close working between HS2 Group and the Rail Executive within the Department, ensuring policy, project and commercial interfaces between the HS2 programme and the wider rail network are efficiently and effectively managed.

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<sup>3</sup> More information on the creation of the Rail Executive is provided in the Directors' Report.

2.6 HS2 is being developed by the Department and High Speed 2 Ltd (HS2 Ltd), an executive non-departmental public body (NDPB). HS2 Ltd performs both a delivery and advisory role in the development of the high speed rail network. A Framework Document and formal Development Agreement outline HS2 Ltd's relationship with the Department and the framework within which the NDPB must operate. Network Rail, as owner and operator of the existing rail network, is a key partner in the development of the programme.

**Figure 2.1: Central Department for Transport, its executive agencies and NDPBs (as at 31 March 2015)<sup>4</sup>**



<sup>4</sup> A full list of other entities related to the work of the Department (including public corporations) can be found in Note 22 to the accounts. On 1 April 2015 the Highways Agency became Highways England Company Limited and Passenger Focus became Transport Focus.

## **Roads, Traffic and Local**

- 2.7 This Group covers the development of policy in relation to roads, traffic, road safety, sustainable travel, bus travel and logistics. It also leads on the Department's relationship with local government, London and the devolved administrations, and the major reforms to the Highways Agency (HA). The Group also leads on the Department's digital agenda, given the significance of the motoring agencies' digital programme.

## **International, Security and Environment**

- 2.8 This Group's responsibilities include aviation and maritime policy, transport security, and leading the drive to decarbonise transport. It works to manage and minimise the impact of transport on the environment and ensure compliance with (and delivery of) the Government's Better Regulation agenda. It also leads on the international and European Union (EU) aspects of the Department's work.
- 2.9 The three accident investigation branches (maritime, air and rail) are operationally independent bodies within the Department. They work closely with the Department, regulators and industry to ensure the safety of the transport sector, both within the UK and internationally in partnership with international colleagues.

## **Resources and Strategy**

- 2.10 The overall function of the Group is to support the business in achieving its objectives. The Group incorporates a range of functions including financial, HR, analytical, procurement and property issues as well as leading on assurance, governance and audit. It also has responsibility for developing the Department's overall transport strategy.

## **Non-Group**

- 2.11 Non-Group comprises the General Counsel's Office (GCO), Group Communications Directorate and the Private Offices, reporting directly to the Permanent Secretary. The GCO provides legal advice to the Secretary of State and the Permanent Secretary and manages compliance with information and security obligations. In October 2014, GCO's lawyers were incorporated into a centralised legal function under the Treasury Solicitor's Office (since April 2015 called the Government Legal Department). At the same time, the GCO was renamed DfT Legal Advisers and its Information and Security functions were moved to DfT Group Procurement. The Private Offices provide support and assistance to Ministers and the Permanent Secretary.



## Executive agencies and trading funds

- 2.12 The Department's executive agencies and trading funds are central to delivering the Government's transport priorities and services.

### Executive agencies

- 2.13 Executive agencies carry out executive and technical functions, with policy set by ministers. They are defined business units headed up by a chief executive, appointed by the Permanent Secretary, who is supported by a management board. Many of the Department's executive agencies have undergone reform in the 2014-15 financial year.<sup>5</sup>

#### *Driver and Vehicle Licensing Agency*

- 2.14 The Driver and Vehicle Licensing Agency's (DVLA) key purpose is to keep complete and accurate registers of drivers and vehicles and make them as accessible and as flexible as possible to those who have the right to use them. DVLA is responsible for the collection of vehicle excise duty (VED), helping to ensure that the public is protected from untaxed, uninsured and unsafe vehicles and driving, and supports the police and intelligence authorities in dealing with vehicle-related crime. DVLA contributes significantly to the delivery of the Government's e-services agenda through the delivery of its exemplar digital services.
- 2.15 In February 2014, DfT published a review of DVLA and its services conducted by Mary Reilly, DfT Non-Executive Board Member. The review recommended acceleration and expansion of DVLA's digital transformation, reduction of the burden of its requirements on consumers and businesses, governance and management structures fit for the future, and optimisation of DVLA's value as a provider of government services. The Department has accepted all the recommendations which included the preparation of a strategic plan.<sup>6</sup>

#### *Highways Agency/Highways England*

- 2.16 The Highways Agency (HA) was responsible during 2014-15 for approximately 4,300 miles of motorways and all-purpose trunk roads (the strategic road network), which carry around a third of all traffic. The Agency's role is to support the growth of the UK's economy by operating, maintaining and improving the strategic road network in England.
- 2.17 The transformation of the Highways Agency into a legally separate company, Highways England Company Ltd, was a major project in 2014-15 and has been completed, with Highways England starting operation on 1 April 2015. The reform aims to deliver funding certainty through robust, long-term plans and to build confidence for the supply chain. The transformation will also ensure Highways England operates in a more transparent way with independent, expert scrutiny and challenge subject to the passage of legislation.

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<sup>5</sup> A summary of these reforms is provided in this section, with more detail on the reform of the Highways Agency and Maritime and Coastguard Agency and the review of DVLA included in the Directors' Report.

<sup>6</sup> [www.gov.uk/government/publications/dvla-3-year-strategic-plan](http://www.gov.uk/government/publications/dvla-3-year-strategic-plan)

The new company was established as the highway authority for the strategic road network in April 2015.

#### *Maritime and Coastguard Agency*

- 2.18 The Maritime and Coastguard Agency (MCA) facilitates international maritime trade and economic growth through the development, delivery and implementation of the Government's maritime safety strategy, as well as security and environmental standards. The Agency co-ordinates search and rescue at sea through Her Majesty's Coastguard, and ensures ships meet UK and international safety standards. It works to prevent loss of life at the coast and at sea, to support ship safety, and to prevent coastal pollution. Major current change programmes include the modernisation of the Coastguard co-ordination and coastal rescue service, and the introduction of new helicopter search and rescue arrangements.

#### *Vehicle Certification Agency*

- 2.19 The Vehicle Certification Agency (VCA) is the UK approval authority for new types of road vehicle, agricultural tractors and off-road vehicles. It provides internationally recognised testing and certification for vehicles, their systems and components.
- 2.20 In August 2013 Ministers recommended that the VCA should be transformed into a joint venture with a private sector partner to support economic growth and vehicle manufacturing and to contribute further to the needs of the automotive industry. In March 2014, the Department issued a contract notice for the joint venture. In November 2014, Ministers confirmed that the competition had not been successful in identifying a suitable joint venture that would achieve the objectives of both partners and that the VCA would continue to provide vehicle testing and certification services, as it does at present.

#### **Trading funds**

- 2.21 Trading funds display most of the characteristics of general executive agencies but their accounts are not consolidated into the accounts of their parent department. They often charge for their goods or services through a clear customer-supplier relationship and have a reliable income stream (at least 50% from commercial activities).<sup>7</sup>

#### *Driver and Vehicle Standards Agency*

- 2.22 On 20 June 2013, Stephen Hammond, Parliamentary Under Secretary of State for Transport, announced that a new single entity would be created to bring together all the services that were previously provided by two separate trading funds: the Vehicle and Operator Services Agency (VOSA) and the Driving Standards Agency (DSA). The two trading funds were launched as the Driver and Vehicle Standards Agency (DVSA) in April 2014 which was legally established in April 2015.

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<sup>7</sup> [www.gov.uk/government/publications/public-bodies-information-and-guidance](http://www.gov.uk/government/publications/public-bodies-information-and-guidance)

- 2.23 The DVSA improves road safety in Great Britain by setting standards for driving and motorcycling, and making sure drivers, vehicle operators and MOT garages understand and follow roadworthiness standards. The Agency also provides a range of licensing, testing, education and enforcement services. The DVSA also supports the independent Traffic Commissioners and Deputies (a tribunal NDPB; see Table 2.1).

## Non-departmental public bodies and other entities

### Non-departmental public bodies

- 2.24 Non-departmental public bodies (NDPBs) do not directly form part of the Department and carry out their work at arm's length from Ministers. However, NDPBs are directly accountable to Ministers who, in turn, are accountable to Parliament and the public for the performance and continued existence of the NDPBs for which they are responsible.
- 2.25 During 2014-15, the Department continued with its Public Bodies Reform Programme, which stemmed from the Public Bodies Reform Act 2011.
- A two-part triennial review of the British Transport Police Authority was completed in 2014-15. The Part 1 report, which was published on 14 July 2014, established the continuing need for the BTPA and concluded that the overall level of compliance with good practice on corporate governance is good, with just a few omissions and weaknesses which will be addressed. Part 2 of the review considered a wider range of issues raised by the industry about the effectiveness of the BTPA in the discharge of its functions and the industry's ability to influence outcomes. The Part 2 report, which was published on 21 October 2014, acknowledged that there is some frustration on the part of the industry in relating the costs incurred to the services delivered by the BTP and explored what can be done to create a more harmonious and productive relationship between the Force, the Authority, industry and passengers. The report also reflects the generally positive view of the BTPA as well as an improving trend in its willingness to act collaboratively and to consult.<sup>8 9</sup>
  - A triennial review of Passenger Focus was completed in 2014-15. The report, which was published on 20 March 2015, concluded that the functions of Passenger Focus are still necessary, that it remains the right body for delivering them and that it should remain a NDPB. The report also concludes that Passenger Focus is managed to a high standard with well-structured and effective governance systems in place, with only a few minor administrative issues which should be capable of being quickly addressed. On 1 April 2015 Passenger Focus expanded its remit to include the users of the strategic road network and changed its name to Transport Focus. Although the review did not consider in detail its future role in relation to highways, the report comments that the organisation

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<sup>8</sup> [www.gov.uk/government/publications/british-transport-police-authority-triennial-review-2013-to-2014](http://www.gov.uk/government/publications/british-transport-police-authority-triennial-review-2013-to-2014)

<sup>9</sup> [www.gov.uk/government/publications/british-transport-police-authority-triennial-review-part-2-2013-to-2014](http://www.gov.uk/government/publications/british-transport-police-authority-triennial-review-part-2-2013-to-2014)

appears to be in good shape to take this on, with well-established structures and procedures, and led by an effective and well-engaged Board.<sup>10</sup>

- The triennial review of the Northern Lighthouse Board and Trinity House was published on 9 June 2014. The report concluded that both Northern Lighthouse Board and Trinity House should continue in their current form, and as NDPBs. The review encouraged the organisations' efforts to make further efficiency savings and increase their transparency.<sup>11</sup>
- The triennial review of Traffic Commissioners came to the conclusion that the primary function of the commissioners is still necessary and that this is best delivered through the commissioners as non-departmental public bodies (NDPBs). The report was published on 27 March 2015. The review also identified a number of measures which, if implemented, should improve the bodies' governance transparency and accountability.<sup>12</sup>
- Directly Operated Railways Ltd's (DOR) primary function during 2014-15 was to act as the holding company for the East Coast Main Line Company Limited (ECML) which operates rail services on the East Coast Main Line between London and Scotland. DOR also assists the Department in its franchising Direct Awards programme. On 1 March 2015 ECML was sold to Inter City Railways Ltd as part of the award of the new Intercity East Coast franchise. The Department will review the future and purpose of DOR during the course of 2015-16.

2.26 There are three main types of NDPB: executive NDPBs, advisory NDPBs and tribunal NDPBs.

- Executive NDPBs carry out a wide range of administrative, commercial, executive and regulatory or technical functions that are considered to be better delivered at arm's length from Ministers.
- Advisory NDPBs are expert bodies normally established to advise Ministers and officials on specific policy areas for which expertise does not exist within the Department.
- Tribunals operate with jurisdiction in a specialised field of the law, independently of government.

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<sup>10</sup> [www.gov.uk/government/publications/passenger-focus-triennial-review-2014-to-2015](http://www.gov.uk/government/publications/passenger-focus-triennial-review-2014-to-2015)

<sup>11</sup> [www.gov.uk/government/publications/northern-lighthouse-board-and-trinity-house-triennial-review-2013](http://www.gov.uk/government/publications/northern-lighthouse-board-and-trinity-house-triennial-review-2013)

<sup>12</sup> [www.gov.uk/government/publications/traffic-commissioners-triennial-review](http://www.gov.uk/government/publications/traffic-commissioners-triennial-review)

**Table 2.1: DfT's executive, advisory and tribunal NDPBs as at 31 March 2015**

<b>Executive NDPBs</b>	
<b>British Transport Police Authority</b>	<a href="http://www.btpa.police.uk">www.btpa.police.uk</a>
<b>Passenger Focus</b>	<a href="http://www.transportfocus.org.uk">www.transportfocus.org.uk</a>
<b>High Speed 2 Ltd</b>	<a href="http://www.hs2.org.uk">www.hs2.org.uk</a>
<b>Directly Operated Railways Ltd</b>	<a href="http://www.directlyoperatedrailways.co.uk">www.directlyoperatedrailways.co.uk</a>
<b>Northern Lighthouse Board</b>	<a href="http://www.nlb.org.uk">www.nlb.org.uk</a>
<b>Trinity House Lighthouse Service</b>	<a href="http://www.trinityhouse.co.uk">www.trinityhouse.co.uk</a>
<b>Advisory NDPBs</b>	
<b>Disabled Persons' Transport Advisory Committee (DPTAC)</b>	<a href="http://www.gov.uk/government/organisations/disabled-persons-transport-advisory-committee">www.gov.uk/government/organisations/disabled-persons-transport-advisory-committee</a>
<b>Tribunal NDPBs</b>	
<b>Traffic Commissioners and Deputies</b>	<a href="http://www.gov.uk/government/organisations/traffic-commissioners">www.gov.uk/government/organisations/traffic-commissioners</a>

2.27 Summary information on the Department's NDPBs is also available in Public Bodies 2014, published in November 2014<sup>13</sup> More information on all the organisations listed below can be found on the Department's and individual NDPB's websites. This includes details about their remit, work and funding.

### Other entities

2.28 There are other types of central government entities that are relevant to the work of the Department. This section briefly mentions some of these organisations. A full list of these organisations can be found in Note 22 of the Accounts.

2.29 The Office of Rail and Road (ORR) (until 1 April 2015 the Office of Rail Regulation) is a non-ministerial department. It is responsible for ensuring that railway operators comply with health and safety law. It regulates Network Rail's activities and funding requirements, regulates access to the railway network, licenses the operators of railway assets and publishes rail statistics. ORR is (concurrently with the Competition and Markets Authority) also the competition authority for the railways and enforces consumer protection law in relation to the railway. From 1 April 2015 ORR has become the monitor of Highways England and therefore changed its name to the Office of Rail and Road.

<sup>13</sup> [www.gov.uk/government/publications/public-bodies-2014](http://www.gov.uk/government/publications/public-bodies-2014)

- 2.30 The Civil Aviation Authority (CAA) is a public corporation. It is responsible for the regulation of aviation safety in the UK, determining policy for the use of airspace, the economic regulation of Heathrow, Gatwick and Stansted airports, the licensing and financial fitness of airlines and the management of the ATOL financial protection scheme for holidaymakers.
- 2.31 On 1 September 2014 Network Rail was reclassified from the private to the public sector. The body is now listed as a central government body in the public sector. This was an independent statistical decision taken by the Office for National Statistics (ONS) in the light of the European System of National Accounts 2010 (ESA10) manual from Eurostat, which came into force across the EU from 1 September 2014.
- 2.32 The decision to reclassify Network Rail will not affect the Government's commitment to the railways or its plans for investment, including both its existing rail investment strategy for 2014-19 and HS2. More information on the reclassification of Network Rail is provided in the Directors' Report.
- 2.33 The Commissioners of Irish Lights is jointly sponsored by the UK Government and Irish Government, and is therefore not considered by the Cabinet Office to be one of the UK's arm's length bodies. It receives its funding from the General Lighthouse Fund, its commercial work, and a contribution from the Irish Government. The accounts of the Commissioners of Irish Lights are consolidated with those of Trinity House Lighthouse Service and the Northern Lighthouse Board to form part of the DfT accounts.

## 3. Measurement of performance and progress

- 3.1 This chapter reviews the Department's performance and progress during the period 1 April 2014 to 31 March 2015. More detailed information on the performance of the Department's agencies and NDPBs is set out in the individual annual report of each organisation.

### Key achievements

#### HS2

- 3.2 The work on a national high speed rail network reached a significant milestone in April 2014 when the HS2 Phase One hybrid Bill passed its second reading in Parliament. The Bill has now moved into the committee stage. During the reporting period, work also advanced with two consultation processes. The HS2 Phase One Additional Provision (September 2014) environmental statement consultation and HS2 Phase Two (Fradley to Crewe) safeguarding consultation closed in September and November respectively and the Department is now analysing the responses. For a third consultation, on property compensation packages, the final outcome was announced in January 2015 with the introduction of property compensation packages ensuring that HS2 delivers growth to the British economy at large without unduly disadvantaging individuals.
- 3.3 In October 2014 Sir David Higgins, the Chairman of HS2 Ltd, reported on how the construction of HS2 should be used as an opportunity to transform transport connectivity in the North.<sup>14</sup> In particular, Sir David Higgins confirmed that the strategic goal of the Y network – to link Birmingham to Manchester and Leeds by high speed rail – is right and should be delivered as quickly as possible. In response to the report, the Prime Minister and Chancellor agreed to develop proposals for HS3, a high speed rail link designed to bring together the North's great cities. This will cut journey times, boost businesses and create more jobs and security for hardworking people.

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<sup>14</sup> [www.gov.uk/government/publications/rebalancing-britain-from-hs2-towards-a-national-transport-strategy](http://www.gov.uk/government/publications/rebalancing-britain-from-hs2-towards-a-national-transport-strategy)

## Rail

- 3.4 The number of train journeys made by rail passengers has doubled since 1994-95. In 2014-15 franchised passenger journeys reached 1,654 million – the highest number of franchised journeys recorded since evidence collection began.<sup>15</sup> At the same time the railway network continues to be amongst the safest in the European Union.<sup>16</sup>
- 3.5 The Department continues to work to meet increasing demand. The Crossrail train tunnels are now complete.<sup>17</sup> Crossrail will increase London's rail-based transport network capacity by 10% and an estimated 200 million people will travel on Crossrail every year whilst reducing transport congestion, increasing passenger connection choices and adding an estimated £42bn to the economy of the UK as a whole.<sup>18</sup> In April 2014 the Public Accounts Committee confirmed that the Crossrail programme was proceeding well and was on course to deliver value for money to the taxpayer.<sup>19</sup> As Crossrail 1 progresses, plans for Crossrail 2 have also seen further development with a safeguarding consultation on the project currently being undertaken. The outcome of the consultation was announced in early 2015.<sup>20</sup>
- 3.6 On the £6.5 billion government-sponsored Thameslink Programme which will transform north-south travel through London, significant progress has been made as well. Six new platforms have opened at London Bridge and work is progressing on the rest of the station rebuild. Seven new trains have now been constructed and are under test. Good progress has been made with construction of the two new rolling stock depots at Hornsey and at Three Bridges which is now near completion. Significant changes to Southeastern services were implemented in January 2015, to facilitate the next stage of rebuilding London Bridge station, which include Charing Cross services running through and not stopping at London Bridge until August 2016.

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<sup>15</sup> [www.orr.gov.uk/statistics/published-stats/statistical-releases](http://www.orr.gov.uk/statistics/published-stats/statistical-releases)

<sup>16</sup> [www.orr.gov.uk/publications/reports/health-and-safety/health-and-safety-annual-report-2014](http://www.orr.gov.uk/publications/reports/health-and-safety/health-and-safety-annual-report-2014)

<sup>17</sup> [www.crossrail.co.uk/construction/tunnelling](http://www.crossrail.co.uk/construction/tunnelling)

<sup>18</sup> [www.crossrail.co.uk/benefits](http://www.crossrail.co.uk/benefits)

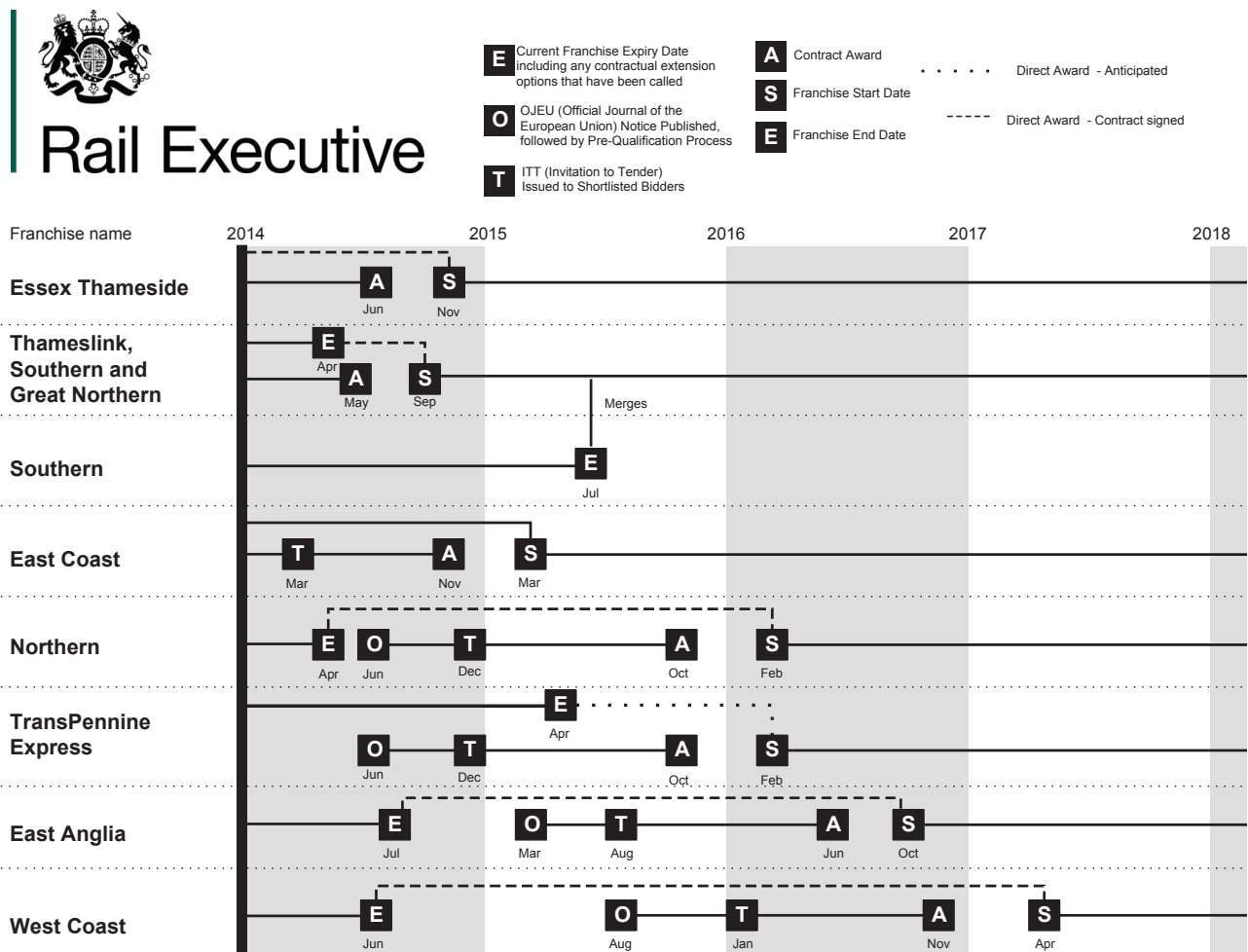
<sup>19</sup> [www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/news/report-crossrail/](http://www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/news/report-crossrail/)

<sup>20</sup> [www.gov.uk/government/consultations/crossrail-2-safeguarding-directions](http://www.gov.uk/government/consultations/crossrail-2-safeguarding-directions)



3.7 Over the last year significant progress has been made on the franchising programme with new or revised franchise agreements being concluded for the Greater Anglia, Essex Thameside, Integrated Kent, Thameslink, Southern and Great Northern (TSGN), West Coast Main Line and East Coast Main Line franchises. The TSGN franchise is set to increase capacity by 50% while the West Coast franchise is expected to deliver £35 million worth of passenger benefits, including 5,500 extra standard-class seats per day. East Coast Main Line services will benefit from a £140 million investment package to improve trains and stations as well as 65 state-of-the-art Intercity Express trains brought into passenger service from 2018. The Northern and TransPennine teams have begun work on the new franchises in close collaboration with Rail North. The OJEU notices and prospectuses for both franchises were issued in June 2014. Invitations to tender were issued in February 2015 to three companies for each franchise.

3.8 The following graphic sets out the progress to date and future timetable for franchise competitions.



3.9 On 7 September 2014 it was announced that the annual rail fares rise would be limited to RPI for the second year. Work with other ticketing options suggested in the Government’s 2013 review of fares and ticketing continues. In September a new cross-modal smart card for passengers on the Southern franchise was introduced. The Department is also exploring options for trialling flexible season tickets, in order to give part-time commuters and flexible workers a better deal.

## Roads and driving

- 3.10 In July 2013, the Department published *Action for Roads: a Network for the 21<sup>st</sup> Century*.<sup>21</sup> This highlights the significant challenges faced on our roads and sets out detailed plans to improve the management of the strategic road network. As part of this, the Government proposed that the Highways Agency should become a publicly owned company from 2015. The Infrastructure Act came in effect in February and Highways England was launched on 1 April 2015. The reform is anticipated to save the taxpayer at least £2.6 billion over the next 10 years by eliminating the costs associated with the previous stop-and-start funding model.
- 3.11 Roads are the lifeblood that keep our economy going. They mean jobs can be created and get products to markets. In December 2014, the Government announced the UK's first Road Investment Strategy, committing £7.2 billion to 84 new road schemes over this Parliament and next.<sup>22</sup> The Department has also expanded the smart motorway programme, aimed to reduce congestion costs which are currently estimated to total over £2 billion per year. The programme converts the hard shoulder of the motorway to a running lane, boosting capacity and smoothing traffic flows without compromising safety. In July 2014, three new major motorway schemes on the M1 and M3 were added to the programme.
- 3.12 Following the withdrawal of two schemes, which have been superseded by schemes announced in the Roads Investment Strategy, there were 121 Highways Agency pinch-point schemes which were due to be completed before March 2015 on the strategic road network. At that time, 98 schemes had completed construction with a further 21 and 2 being in the construction and design phase respectively. Highways England are committed to deliver all of the outstanding schemes by the end of September 2015. Furthermore, the Local Pinch Point Fund announced in the 2012 Autumn Statement, has been carried forward. This comes in addition to £183.5 million allocated to local authorities in England to help repair local highways and other transport infrastructure damaged by the wet winter and a £168 million pothole repair fund.
- 3.13 The Department successfully implemented the heavy goods vehicle (HGV) levy on schedule in April 2014, nearly a year ahead of the originally planned date. The levy ensures for the first time that foreign HGVs make a contribution when they use UK roads, reflecting the damage they cause to the roads. It also contributes to levelling the playing field with UK HGVs, since UK vehicles pay tolls and charges in other European countries. In its first year, it raised £46.5 million from foreign hauliers, higher than originally forecast. It also raised £146 million from UK hauliers, although Vehicle Excise Duty for UK HGVs was reduced at the same time so most UK vehicles pay no more than before.

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<sup>21</sup> [www.gov.uk/government/publications/action-for-roads-a-network-for-the-21st-century](http://www.gov.uk/government/publications/action-for-roads-a-network-for-the-21st-century)

<sup>22</sup> [www.gov.uk/government/publications/road-investment-strategy-overview](http://www.gov.uk/government/publications/road-investment-strategy-overview)

- 3.14 In November 2014 free-flow charging was successfully installed at the Dartford-Thurrock Crossing. Emerging journey time data shows that average journey times are now over nine minutes quicker southbound and over four minutes quicker northbound. Penalty Charge Notices began to be issued in December for those motorists who failed to pay the Dart Charge by midnight the day after they used the Crossing. To give all drivers a further opportunity to comply with the scheme, the first Penalty Charge Notice issued for any vehicle is accompanied by a letter which offers the driver an extra 14 days to pay the Dart Charge. Work continues with regard to the location of an additional Lower Thames Crossing after one of three options was ruled out in December 2013. Both remaining route options will now be developed and appraised in detail before a final decision is made.
- 3.15 The Department continues to take action to improve road safety. The number of road fatalities in 2013 was the lowest since records began in 1926. In 2014 the Department worked hard to maintain this positive trend. On 13 October the Drug Driving (Specified Limits)(England and Wales) Regulations 2014 were approved by Parliament, and the new offence of driving or being in charge of a motor vehicle with a specified controlled drug above the specified limit will come into force on 2 March 2015. The Department has also expanded its award winning THINK! initiative with a new campaign educating drivers on the dangers of using country roads.

### Aviation and maritime

- 3.16 The UK is an international aviation hub with direct air links to more than 360 international destinations. This Government has established an independent Airports Commission to assess how the UK can maintain its current position as this is critical for the national economy. While the Commission's final report will be submitted in summer 2015, an interim report was published in December 2013.<sup>23</sup> The Department has continued to respond to the recommendations made in the interim report. Measures include committing £50 million towards a full redevelopment of the railway station at Gatwick Airport as well as a new franchise that includes railway services to the airport. The Department has also reiterated its commitment to a competitive and transparent aviation sector through its response to the General Aviation (GA) Challenge Panel.<sup>24</sup>
- 3.17 The Department continues to work towards international shipping that is efficient, safe, secure and environmentally friendly. In November 2014 the Department launched a major new study looking at how to grow the UK's important maritime sector further and maintain our place as the world's leading maritime centre. Recommendations from the study are expected in summer 2015.

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<sup>23</sup> [www.gov.uk/government/publications/airports-commission-interim-report](http://www.gov.uk/government/publications/airports-commission-interim-report)

<sup>24</sup> [www.gov.uk/government/publications/general-aviation-red-tape-challenge-panel-report-government-response](http://www.gov.uk/government/publications/general-aviation-red-tape-challenge-panel-report-government-response)

- 3.18 Continuing private sector investment in our ports has seen new and enhanced facilities opening around the UK capable of taking larger vessels and maintaining direct links with key import and export destinations. The importance of maritime security for the maintenance of these connections is emphasised in the first National Strategy for Maritime Security, launched on 13 May 2014 in cooperation with other Government Departments. The new Coastguard National Maritime Operations Centre opened near Fareham (Hampshire) in September as part of a major programme to provide HM Coastguard with the tools and skills it needs to work effectively in the 21st century.
- 3.19 With other government departments and industry, the Department works to prepare for and respond to terrorist and other security incidents in order to ensure the safety of the travelling public.

#### **Other transport improvements: sustainability and accessibility**

- 3.20 The Department continues to fund innovative schemes that improve local economic growth and reduce CO2 emissions, including walking and cycling, public transport infrastructure, car clubs and electric vehicle charging points.
- 3.21 The move towards a low-carbon transport system is supported by a range of initiatives. The Local Sustainable Transport Fund supports projects by local authorities that are designed to promote and improve sustainable travel. In April 2014 the Fund was topped up with an additional £2 million. Local efforts to reduce CO2 emissions were further strengthened with a June 2014 announcement that £5 million of the Clean Vehicle Technology Fund would be made available to local authorities. By September, 17 local authorities had secured grants for a wide variety of cutting-edge, pollution-reducing technologies. The Department also announced funding for the development of hydrogen cars and other carbon-cutting technologies in October 2014. In December 2014 a £25 million competition to build advanced biofuel plants was launched with the Departmental funding being supplemented by significant private sector investment.
- 3.22 In 2014-15 the Department has continued its drive to make the UK one of the global leaders in the design, production and use of ultra-low emission vehicles (ULEVs) as this technology delivers growth, creates jobs, addresses air quality concerns and cuts carbon. In April 2014, the Deputy Prime Minister announced £500 million capital funding to further support the transition to ULEVs in 2015-20, following the £400 million originally made available in 2010-15. This first tranche of funding included a £13.5 million pot of grant announced in February 2013, subsidising the installation of charging technology in homes across the country. While this grant scheme initially experienced financial challenges due to high uptake, these concerns have now been addressed with a new tighter £9 million grant scheme which commenced in September 2014.
- 3.23 In July 2014, the Deputy Prime Minister announced his intention to double the number of journeys made by bike by 2020. This announcement was followed by a £214 million policy package in November to secure funding for the Cycling Ambition Cities Programme and infrastructure investments to improve the conditions of cyclists and walkers on the strategic road network.

- 3.24 The Department's long term efforts to make the transport system more accessible continued between April and September 2014 with the expansion of the Access for All initiative. The initiative will now run until 2019 with 42 new stations receiving financial support.
- 3.25 The Department's strategy for small and medium enterprises (SMEs) is overseen by the Minister of State, supported by an official-level SME Champion. The Government's aspiration is that 25% by value of procurement spend will be with SMEs by the end of the Parliament. The Department's agreed contribution towards that target was 18.6% in 2014-15 and we have achieved 37% (includes direct and indirect spend). The Department has built an ambitious Small Business Research Programme, composed of upwards of a dozen projects. Examples include: improving the aesthetics of over line railway electrification, reducing the costs of bridge reconstruction and improving train design.

## Progress against Business Plan commitments

- 3.26 The Business Plan sets out the Department's key commitments and activities for the period 2013-15. This outlines specific actions the Department is committed to completing, including start and end dates for each of these.
- 3.27 A total of 74% of actions in the 2013-15 DfT Business Plan were completed on time. Many were achieved ahead of schedule, including taking the HS2 paving Bill through Parliament, commencing delivery of the pinch-point programme (addressing bottlenecks on England's motorways and major A-roads), and developing the case for reform of the road network.

**Table 3.1: Status of Business Plan actions, 2013-14 and 2014-15**

<b>Business Plan actions</b>	<b>2013-14</b>	<b>2014-15</b>
Total number of actions completed during the year	35	23
Total number of actions overdue at the end of the year	3	11
Total number of actions that have started and are ongoing	32	11

**Table 3.2: Status of Business Plan actions across Coalition priorities as at 31 March 2015**

Coalition priority	Completed	Completed on time	Missed scheduled end date	In progress – future end date
Promote UK Growth	1	1	-	-
Deliver the Coalition's commitments on high speed rail	6	6	2	1
Improve the Rail Network	6	5	-	4
Support sustainable local travel	10	10	-	-
Invest in our roads to promote growth, while reducing congestion, ensuring road safety and tackling carbon	15	12	3	3
Promote sustainable aviation	8	7	1	-
Reform the Coastguard and search and rescue helicopter capability	1	-	3	2
Implement the Department's key cross-cutting reform priorities	8	8	2	1
<b>Total</b>	<b>55</b>	<b>49</b>	<b>11</b>	<b>11</b>

**Table 3.3: Business Plan actions across the Coalition priorities completed April 2014–March 2015**

<b>Business Plan actions across the Coalition priorities completed April 2014–March 2015</b>
<p><b>Promote UK growth</b></p> <p>Legislate to bolster investment in infrastructure to improve economic competitiveness.</p>
<p><b>Improve the rail network</b></p> <ul style="list-style-type: none"> <li>• Run franchise competitions and award contracts for London, North East and Scotland, Essex Thameside and the new combined Thameslink Southern and Great Northern franchises.</li> <li>• Start franchise competitions for Northern, TransPennine, Great Western, Greater Anglia and West Coast, in accordance with the published franchising programme.</li> <li>• Support major infrastructure investment in London, including the Tube upgrade programme to improve reliability and capacity on the London Underground, by providing funding to Transport for London (TfL).</li> </ul>

## Business Plan actions across the Coalition priorities completed April 2014–March 2015

### Support sustainable local travel

- Work with Civil Society, Local Government and business to build on our Olympic legacy and maximise opportunities for more people to cycle more often and with confidence. Take forward through a Delivery Plan in agreement with all involved.
- Agree and implement deals on the transport elements of the Cities agenda with the core cities (Manchester, Birmingham, Bristol, Leeds, Liverpool, Newcastle, Nottingham and Sheffield).
- Deliver full approvals of local major transport and PFI schemes given the go-ahead in Spending Review 2010 to enable construction to begin, including Mersey Gateway bridge.
- Agree and implement deals with a further tranche of 20 English cities, towards the Cities agenda.
- Continue to roll out smart ticketing requirements for rail, through replacement rail franchising and other specific interventions, over the Parliament.

### Invest in our roads to promote growth, while reducing congestion, ensuring road safety and tackling carbon

- Introduce free-flow charging at Dartford to improve journey reliability at the Crossing and test the technology's potential effectiveness for other parts of the SRN.
- Commence operation of HGV charging systems.
- Reform drug driving laws by developing secondary legislation covering relevant drugs.
- Work with the Home Office to introduce legislation to ensure illegal migrants cannot obtain a UK drivers licence.
- Develop and promote a UK position on the European Commission's review of long-term targets in new car and van CO2 regulations and the Commission's developing strategies for reducing HGV CO2 emissions and rolling out alternative fuels infrastructure.
- Overhaul the regulatory framework for Traffic Signs Regulations and General Directions to reduce clutter, complexity and cost.
- Select areas to pilot comparison road signs showing prices at different service stations along a route, making it easier for drivers to get the cheapest deal and encouraging competition on prices.

### Promote sustainable aviation

- Develop and issue a response to the Airports Commission's interim report.
- Announce improvements to passenger rail services at Gatwick Airport.
- In line with the Airport Commission's interim report, develop a work programme and (subject to securing a satisfactory commercial funding contribution) a programme to redevelop Gatwick Airport railway station.
- Establish a series of pilots to test the Security Management Systems (SeMS) concept, a systematic way to identify threats and control risk while maintaining assurance that security measures are being applied effectively, and a move to a more audit-based inspection regime.
- Transfer appropriate aviation security functions from the DfT to the CAA.
- Publish and agree the Single European Sky (air traffic management) UK Performance Plan for Reference Period 2.

### Reform the Coastguard and search and rescue helicopter capability

- Deliver a new, fully operational national Maritime Operations Centre at Fareham.

- 3.28 There were 11 Business Plan actions rated as overdue at the end of the financial year. These are set out in Table 3.4 below along with a summary of current progress.

**Table 3.4 Business Plan actions**

Business Plan Action	Current Progress
HS2 – consult on Leeds and Manchester routes and stations, analyse responses, and announce decision. (Scheduled end date: Dec 14)	Consultation closed on 31 January 2014. The responses to the consultation have been analysed ready for publication. Sir David Higgins published a second report on 27 October 2014. The Government will set out how it plans to take forward HS2 Phase Two in 2015.
HS2 – commence engineering design, environmental impact assessment, and preparation of the second hybrid Bill, subject to decision following consultation. (Scheduled end date: Jan 15)	In light of the recommendations made in Sir David Higgins reports, published in March and October 2014, the Government will set out its plans to take forward HS2 Phase Two in 2015. Engineering designs are underway. Procurement for environmental impact assessment and preparation of the hybrid bill is being prepared and will be progressed during 2015 once decisions have been taken.
Decide on the location for significant new investment in additional capacity for crossing the Lower Thames. (Scheduled end date: Dec 13)	On 12 December 2013 the Government announced the decision to rule out Option B. The Government will carry out further assessment work on the two remaining options before making a final decision. <sup>25</sup>
Publish proposals for improving the training and testing of new drivers to help improve young driver safety. (Scheduled end date: Dec 13)	Young driver safety is a difficult issue. The Government is considering it carefully before publishing proposals.
Remove the paper counterpart to the driving licence. (Scheduled end date: Dec 14)	Following discussions with industry and stakeholders and to allow time for them to prepare for the change, the abolition of the Paper Counterpart to the Driving Licence took place from 8 June 2015. <sup>26</sup>
Develop and consult on the post-2014 low carbon fuel targets strategy, taking account of EU decisions on indirect land use change. (Scheduled end date: July 14)	EU agreement on ILUC negotiations expected shortly, inter-institutional agreement awaiting confirmation by the European Council. Transport Energy Taskforce recommendations on future biofuels trajectory published March 2015 and will be discussed with Ministers to inform domestic legislative changes required to transpose by anticipated deadline of mid-2017.

<sup>25</sup> [www.gov.uk/government/news/government-rules-out-option-for-lower-thames-crossing](http://www.gov.uk/government/news/government-rules-out-option-for-lower-thames-crossing)

<sup>26</sup> [www.gov.uk/government/news/driving-licence-changes](http://www.gov.uk/government/news/driving-licence-changes)



Business Plan Action	Current Progress
<p>Consult and announce decisions on Heathrow Airport operational freedoms. (Scheduled end date: May 14)</p>	<p>Evidence from operational freedoms trial at Heathrow was referred by Government to the independent Airports Commission given its remit to consider options for making best use of airport infrastructure in the short to medium term. Some of the trial measures now form part of a wider optimisation package for airports and airports airspace recommended by the Commission in its Interim Report, which the Government will respond to in due course.</p>
<p>Coastguard – complete the reform process with all operational systems up and running and delivering services to the public. (Scheduled end date: Mar 15)</p>	<p>A revised implementation plan has been put in place which reflects the delays caused by a second consultation and the time taken to achieve Departmental and HM Treasury agreement for the new HM Coastguard pay arrangements. The programme is on track to meet the revised implementation plan which sees the completion of the programme at the end of December 2015.</p> <p>Recruitment into the new Coastguard roles is progressing well with over 60% of new posts filled. The remainder will be incrementally filled in line with the requirements of the implementation plan through to December 2015.</p>
<p>Ensure the smooth transition of Coastguard personnel to new roles and career structures. (Scheduled end date: Mar 15)</p>	<p>Recruitment into the new Coastguard roles is progressing well with over 60% of new posts filled. The remainder will be incrementally filled in line with the requirements of the implementation plan through to December 2015.</p> <p>The programme is on target to meet the revised implementation plan which sees the completion of the programme at the end of December 2015.</p>
<p>Deliver a fully operational standby Maritime Operations Centre at Dover. (Scheduled end date Aug 14)</p>	<p>To enable a smooth transition and to proactively manage risk the Future Coastguard Programme implementation plan was rescheduled. This decision represents the most effective way of achieving a safe and practical transition by starting such transition only when there is an appropriate level of operational and technical resilience. The revised date for this Business Plan action is December 2015.</p>
<p>Shared Services - Transform service provision to DfT family by migrating to new ISSC-1 platform and implementing standardised Group Operating Model across core functions. (Scheduled end date: Mar 15)</p>	<p>MCA migrated to the new platform and provider in December 2014. While the provider is continuing to provide services for its existing DfT customers the migration to the new platform has not been completed. Migration of the DfT's remaining users excluding Highways England to the new platform is now scheduled for late 2015.</p>

## Departmental indicators

- 3.29 The DfT Business Plan also sets out the Department's input and impact indicators, as well as a small number of other datasets, which are reported on the Number 10 Transparency website.<sup>27</sup> The input indicators show the cost to government of delivering certain products and services (e.g. rail subsidy per passenger mile). The impact indicators show the performance or output of public services (e.g. proportion of trains running on time).
- 3.30 These indicators aim to provide useful information to enable transport users and the wider public to make informed choices, and to make up their own minds about how the Department and transport service operators are performing.
- 3.31 Tables 3.5-3.8 below set out the latest available data and the previous comparable figure. Some explanatory text on the context and trends in data is included below. Further information on each indicator, including a technical note, is available online.<sup>28</sup>

**Table 3.5: Input indicators**

Input indicators <sup>29</sup>	Current	Previous
Rail subsidy per DfT franchised operator passenger mile, GB (pence, current data = 2013-14, previous = 2012-13)	6.8	7.3
Bus subsidy per passenger journey, England (pence, at 2013-14 prices, adjusted for inflation using GDP deflator, current data = 2013-14, previous = 2012-13)	6.3	7.6
Cost of maintaining the Highways Agency's motorway and A-road network per lane mile, England (£, current data = 2014-2015, previous = 2013-2014)	51,000 <sup>30</sup>	44,000
Cost of operating the Highways Agency's motorway and A-road network per vehicle mile, England (pence, current data = 2014-2015, previous = 2013-2014)	0.3	0.3
Cost of running the rail network <sup>31</sup> , GB (£billion, current = 2013-14, previous = 2012-13)	10.3	10.1
Percentage of DfT's approved project spending that is assessed as high or very high value for money <sup>32</sup> , UK (% , current data = 2014, previous data = 2013)	90	94

<sup>27</sup> <http://transparency.number10.gov.uk/>

<sup>28</sup> [www.gov.uk/government/publications/input-and-impact-indicators](http://www.gov.uk/government/publications/input-and-impact-indicators)

<sup>29</sup> The years used vary between indicators as not all data is available for 2014-15 currently.

<sup>30</sup> Expenditure on maintenance, particularly in relation to capital renewals, reflects the varying demands of maintenance activity which is not necessarily comparable year-on-year.

<sup>31</sup> These costs refer to DfT's franchised operators, with data based on information from the report ORR (2015). GB Rail Industry Financial Information 2013-14. London: ORR. <http://orr.gov.uk/>

## Input indicators

- 3.32 In recent years, the balance of subsidy paid to train operators and/or premiums paid to government has switched, so that more operators have made payments to government than received them. This situation has continued in the latest financial year. However when the Network Grant paid indirectly via Network Rail is taken into account, the vast majority are still receiving some form of subsidy.
- 3.33 In 2013-14, the average level of bus subsidy (direct from central government) per bus passenger journey was 6.3 pence in England. This decreased (adjusted for inflation) from 10.5 pence in 2004-05. The rate at which the Bus Service Operators Grant (BSOG) is paid was cut by 20% from April 2012.
- 3.34 In 2014-15 the cost of maintaining the Highways Agency's motorway and A-road network per lane mile increased by 15% compared with 2013-14. This largely reflects an increase in the budget for the programme of works.
- 3.35 The cost of running the rail network for train operators, franchised by DfT, in Great Britain increased by 1.8 per cent in 2013-14. Within the total, train operating costs increased while there was a decrease in the Network Grant. The Office of Rail Regulation (ORR) study, on which the numbers are based, suggests that the increase is mostly due to the industry's response to increased passenger numbers over this period.
- 3.36 Value for money (VfM) measures the expected benefits for each pound of spending. The VfM indicator reports the VfM ratings of UK-wide, approved spending decisions within the Department. In particular, the indicator shows that between January and December 2014, 90% of project spend represented at least 'high value for money' for the taxpayer. Of this, just over 48% was reported as 'very high value for money', and just over 41% was reported as 'high value for money'. For the remaining amount around 7% was reported as 'medium value for money', with 3% being reported as 'poor or low value for money'.

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<sup>32</sup> Please note that future publications of the '% of DfT spending that is High or Very High Value for Money' indicator may not be directly comparable with the figures presented above, owing to proposed methodology changes to the measure.

**Table 3.6: Impact indicators**

Impact indicators	Current	Previous
Reliability of journeys on the Highways Agency's motorway and A-road network, England (% , current data = 2014-15, previous = 2013-14) <sup>33</sup>	78.7	78.1
Proportion of trains running on time, GB (% current data = 2014-2015, previous = 2013-2014) <sup>34</sup>	89.7	90.0
Proportion of bus services running on time, England (% , current data = 2013-14, previous = 2012-13)	83.4	83.1
Proportion of urban trips under 5 miles taken by (i) walking or cycling (ii) public transport, England (% , current data = 2013, previous = 2012)	(i) 36 (ii) 10	(i) 38 (ii) 8
Total greenhouse gas emissions from transport, UK (MtCO <sub>2</sub> e, current data = 2013, previous = 2012)	157.7	159.4
Annual road fatalities, GB (current data = 2013, previous = 2012)	1,713	1,754
Households with good transport access to key services or work, England (index, current data = 2013, previous = 2011) <sup>35</sup>	106	100
Numbers of newly registered ultra-low emission vehicles, UK (current data = 2014-15, previous = 2013-14)	22,974	5,463

**Impact indicators**

- 3.37 The reliability of journeys on the Highways Agency's motorway and A-road network increased by 0.6 percentage points since the year ending March 2014, with 78.7% of journeys being 'on time' in the year ending March 2015.
- 3.38 In 2014-15 89.7% of Great Britain passenger trains were 'on time', a decrease from 90.0% in 2013-14. This is the third successive year that the figure has fallen. Prior to that, the public performance measure improved throughout most of the 2000s, after the substantial decrease observed following the Hatfield accident.

<sup>33</sup> The indicator is measured by the percentage of 'journeys' on these roads that are 'on time'. Please note that future updates to the reliability statistics will not be directly comparable with the figures presented above, owing to planned methodology changes to the indicator.

<sup>34</sup> These are the official full financial year public performance measure annual figures (all operators). This statistic differs from that reported on the DfT website, which is the latest rail industry four-weekly (periodic) statistic for Great Britain. Periodic totals are also published for individual DfT franchised train operating companies.

<sup>35</sup> Values are indexed with a base of 100 for 2011, where a number over 100 implies an increase in access compared with 2011 and vice versa. This index combines information on household access to a car with information on public transport access times to seven types of key local service. It has been rebased since last year – previously 100 represented the score in 2010.

- 3.39 In 2013-14, an estimated 83.4% of non-frequent bus services in England ran on time (defined as between 1 minute early and 5 minutes 59 seconds late). This is an increase from 79.4% in 2007-08. However, trends over time should be interpreted with caution as they can be affected by changes in methods used or reflect random variability arising from the nature of the data collection.
- 3.40 The estimated proportion of urban trips in England taken by walking or cycling fell slightly between 2012 and 2013, while those by public transport increased slightly; the long-term trend remains steady. This is a survey-based indicator: small year-to-year fluctuations are quite common and do not necessarily mean that long-term trends have altered. Figures for 2014 are due for publication in September 2015.
- 3.41 Total UK greenhouse gas emissions from transport include those from domestic transport as well as international shipping and aviation. From 2012 to 2013, transport emissions decreased by 1.0% from 159.4 million to 157.7 million tonnes of CO<sub>2</sub> equivalents and formed slightly more than a quarter of total UK greenhouse gas emissions. Longer term, they increased by 22% between 1990 and 2007, and then decreased by 11% to 2013. In 2013, cars and taxis contributed around two fifths of transport emissions, light vans and heavy goods vehicles around a quarter, with another fifth from international aviation.
- 3.42 2013 saw GB road fatalities at 1,713. This is the lowest figure since national records began in 1926. This was a fall of 2.3% (41 fewer deaths) from 2012 and is a continuation of a long term trend which, with the exception of 2011, has fallen every year since 2003. Since 2003, the number of road deaths has fallen on average by 5% a year and in 2013 was 39% lower than the 2005-09 average.
- 3.43 The indicator score for 'households with good transport access to key services or work' was 106 in 2013 in England, compared with 100 in 2011, implying an increase in accessibility to key services. Such an increase in the measure could be as a result of: an increase in the frequency of public transport services or the number of routes; an increase in cars per household; or an increase in the number of locations of key services. It is likely that the last two factors will have had the greatest effect, along with improvements to service destination datasets, as some public transport services have decreased over this period.<sup>36</sup>
- 3.44 The number of 'newly registered ultra-low emission vehicles' in the UK increased by 321 per cent in 2014-15 compared with the previous financial year. Most of these vehicles use electric engines, so the Plug-In Car and Plug-In Van Grants introduced by DfT in January 2011 and February 2012 respectively, and an increase in the supply of electric and plug-in hybrid cars to the UK market, will have contributed to this increase.

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<sup>36</sup> Measured as vehicle kilometres; see DfT (2013). Table bus0205a, Bus statistics [www.gov.uk/government/collections/bus-statistics](http://www.gov.uk/government/collections/bus-statistics)

- 3.45 All impact indicators are official statistics and their release arrangements are, therefore, governed by a statutory code of practice. One of the requirements is that all producers of statistics commit to a timetable of release dates. The latest timetable for DfT can be accessed online.<sup>37</sup> The release dates reflect the time required to collect, validate and analyse the underlying data, which varies from indicator to indicator depending on the data source used.

**Table 3.7: Other datasets**

Other datasets	Current	Previous
Average new car CO2 emissions, GB (g/km, current data = 2014-15, previous = 2013-14)	123.7	127.4
Franchised rail passenger miles, GB (billion, current data = 2014-15, previous = 2013-14)	38.8	37.1
Bus passenger journeys, England (billion, current data = 2013-14, previous = 2012-13)	4.7	4.6

**Other data**

- 3.46 The average CO2 emissions of new cars in Great Britain have been falling steadily. In 2014-15 they were 3 per cent lower than in the previous financial year, and 28 per cent lower than in 2003-4. EU-wide targets for manufacturers are set under an EU Directive, and the overall targets for all new cars sold in the EU are 130g/km CO2 in 2015 and 95g/km in 2021.
- 3.47 Apart from a slight dip in 2009-10, the number of rail passenger miles travelled each year has been on an upward trend since the mid-1990s. Franchised passenger miles in GB rose again in 2014-15 to reach a total of 38.8 billion.
- 3.48 There were 4.7 billion journeys by bus in England in the year to end March 2014, an increase of 2.3% when compared with the previous year. Around half of all bus journeys in England are made in London, 2.4 billion bus journeys in 2013-14. The number of bus journeys outside London in 2013-14 was an estimated 2.3 billion, 5% (116 million) below the 2008-09 total, which was the highest in the last decade.
- 3.49 The Department continues to publish a wide range of official and national statistics on the transport system. It aims to make publicly available as much of the associated raw data as is reasonably possible via [www.data.gov.uk](http://www.data.gov.uk) and other portals.

<sup>37</sup> Statistics at DfT: forthcoming publications  
[www.gov.uk/government/organisations/department-for-transport/about/statistics](http://www.gov.uk/government/organisations/department-for-transport/about/statistics)

## Quarterly Data Summary

- 3.50 The Quarterly Data Summary (QDS) was first published in July 2011 under an initiative led by the Cabinet Office. Its primary purpose is to make available to the Whitehall community and to the public more of the management information currently held by government departments. The QDS enables comparisons of operational performance across government so that departments and individuals can be held to account. The Department must report on 75% of its total spend (including the spending of its arm's-length bodies). As a result, the Department must report on its central spending and that of the Highways Agency (HA) and Driver and Vehicle Licensing Agency (DVLA) in its QDS data.
- 3.51 Under the QDS framework, departments' spending data is published online to show the taxpayer how the Government is spending their money.
- 3.52 The QDS breaks down the total spend of the Department, the DVLA and the HA in three ways: by budget, by internal operation and by transaction. Departmental headline figures for these sections are offered in Table 3.8. The information given is for the full financial year 2013-14 and figures exclude depreciation.

**Table 3.8: Quarterly Data Summary 2014-15 spending**

<b>Quarterly Data Summary 2014-15 spending, Full Year</b>					
		<b>DfT(c)</b>	<b>DVLA</b>	<b>HA</b>	<b>MCA</b>
		<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>
		<b>(£m)</b>	<b>(£m)</b>	<b>(£m)</b>	<b>(£m)</b>
	<b>Total spend</b>	<b>15,277.73</b>	<b>62.46</b>	<b>3,612.89</b>	<b>183.95</b>
<b>(A) Spend</b> by budget type	(A1) Organisation's own budget (DEL), sub-total	8,733.38	68.33	2,856.01	184.31
	(A2) Expenditure managed by the organisation (AME), sub-total	6,544.35	-5.87	756.88	-0.36
	(A3) Other expenditure outside DEL and AME	0	0	0	0
	(A1 + A2 + A3) Total spend	15,277.73	62.44	3,612.89	183.95
<b>(B) Spend</b> by type of internal operation	(B1) Cost of running the estate, sub-total	16.15	29.46	15.06	4,627.28
	(B2) Cost of running IT, sub-total	25.00	69.44	14.41	10.36
	(B3) Cost of corporate services, sub-total	39.71	9.82	20.16	8.12
	(B4) Policy and policy implementation, sub-total	9,851.40	0	2,304.80	0
	(B5) Other costs	5,345.47	-46.26	1,270.07	154.02
	(B1 + B2 + B3 + B4 + B5) Total spend	15,277.73	62.46	3,624.50	4,799.78
<b>(C) Spend</b> by type of transaction	(C1) Procurement spend, sub-total	184.45	296.24	2,489.48	137.75
	(C2) People costs, sub-total	114.31	150.24	156.72	45.60
	(C3) Grants, sub-total	9,991.17	0	0	0
	(C4) Other costs	4,987.80	-384.02	966.69	0.6
	(C1 + C2 + C3 + C4) Total spend	15,277.73	62.46	3,612.89	183.94



## 4. Regulation, Parliament and the public

### Better Regulation

- 4.1 DfT is committed to delivering the Government's commitment to produce less regulation, better regulation and regulate only as a last resort. Regulation is at times necessary to deliver and support a safe, secure and sustainable transport system. However, the Department has taken significant steps towards reducing and tidying the existing stock of transport-related regulation, stemming the flow of new regulation and facilitating economic growth. The Department also makes use of alternatives to regulation where possible, for example through awareness campaigns about drink and drug driving, and vulnerable road users.

### Reporting on new regulations

- 4.2 The Ninth Statement of New Regulation was published on 30 December 2014. The Statement lists all the regulatory and deregulatory measures in scope of One-in, Two-out (OITO) and EU-derived regulation which DfT intends to implement in the period 1 January to 30 June 2015. It also reports on DfT's OITO balance. The report states that under OITO DfT is saving businesses just over £106m a year. Further savings to business have been validated by the Regulatory Policy Committee since publication of this Statement, with savings of £176m a year.<sup>38</sup>
- 4.3 Alongside the Ninth Statement of New Regulation, the Better Regulation Executive also published a list of all measures that have been implemented under the Red Tape Challenge programme and those measures still to be introduced by the end of the 2011-15 parliament. The Driver and Vehicle Licensing Agency have continued to implement significant reforms under the paperless driving measures package, including the abolition of the tax disc in October 2014 and the abolition of the driving licence paper counterpart on 8 June 2015.

### Small and micro business

- 4.4 In many instances it is appropriate for transport regulations to apply to an entire sector or industry so that the safety or security of those using the transport system is not compromised. However, the Department recognises that small and micro businesses can be disproportionately affected by regulation and endeavours where possible to reduce regulatory burdens on these businesses.

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<sup>38</sup> [www.gov.uk/government/publications/one-in-two-out-ninth-statement-of-new-regulations](http://www.gov.uk/government/publications/one-in-two-out-ninth-statement-of-new-regulations)

A small and micro business assessment is carried out for all proposals with gross costs to business of over £1m in any one year.

### Reviewing regulations

- 4.5 DfT has recently published a revised version of *Reviewing Regulation: Setting out DfT's commitments*, setting out all its statutory review commitments along with those administrative review commitments it expects to fulfil.<sup>39</sup>

### EU regulations

- 4.6 A high proportion of the Department's regulatory proposals are derived from European legislation or international agreements. This presents a challenge to the Department to ensure that Better Regulation principles are considered at these levels, to ensure that unnecessary burdens are not placed on UK businesses.
- 4.7 The Department's approach is to engage early to influence proposals to minimise the burden of regulation, and to ensure that the implementation of such regulation maintains the competitiveness of UK businesses and does not impose unnecessary burdens.
- 4.8 Promoting the consideration of Better Regulation principles at a European and international level is an ongoing task and, to increase influence, DfT maintains and continues to grow alliances with other EU Member States.

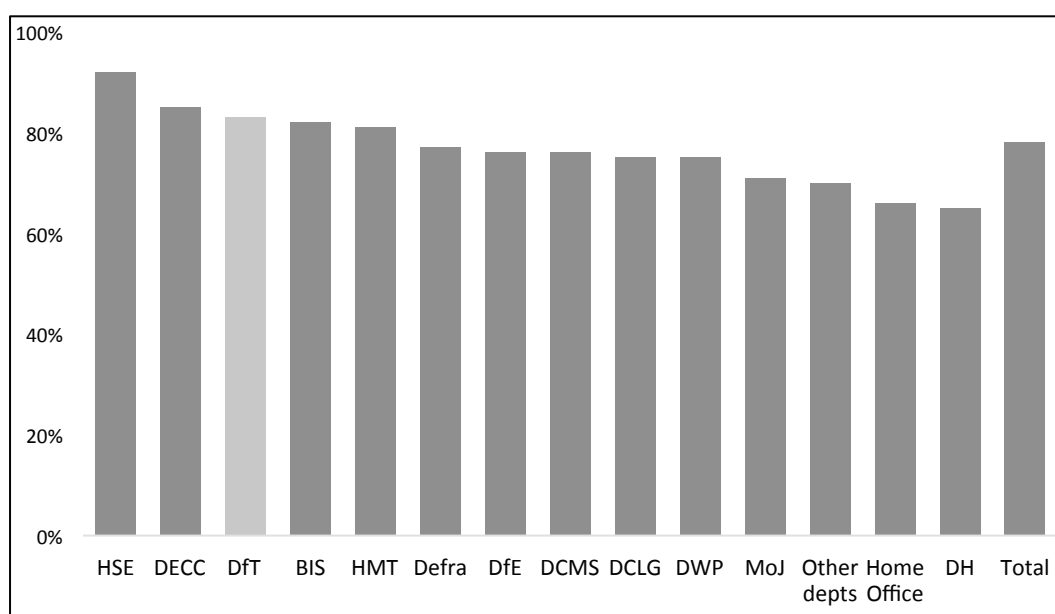
### Regulatory Policy Committee

- 4.9 The Regulatory Policy Committee, the independent body which scrutinises the quality of departmental Impact Assessments, produced its annual report for 2014 in March 2015.<sup>40</sup> The report shows that DfT ranks third across Government departments for the quality of its Impact Assessments, with 83% receiving a fit for purpose opinion on first submission between 2010 and 2015.

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<sup>39</sup> [www.gov.uk/government/publications/reviewing-regulation-setting-out-dfts-commitments](http://www.gov.uk/government/publications/reviewing-regulation-setting-out-dfts-commitments)

<sup>40</sup> [www.gov.uk/government/publications/securing-the-evidence-base-for-regulation-rpc-scrutiny-in-the-2010-to-2015-parliament](http://www.gov.uk/government/publications/securing-the-evidence-base-for-regulation-rpc-scrutiny-in-the-2010-to-2015-parliament)

**Figure 4.1: % of first time submissions to RPC rated fit for purpose**

## Complaints to the Parliamentary and Health Services Ombudsman (PHSO)

- 4.10 The role of the Parliamentary and Health Services Ombudsman (PHSO) is to investigate complaints that individuals have been treated unfairly or have received poor service from government departments and other public organisations and the NHS in England.
- 4.11 Departments are required to publish in their Annual Reports the latest PHSO annual complaints data. The 2013-14 Annual Data for PHSO is displayed in Table 4.1.

**Table 4.1: PHSO investigations (2013-14 PHSO Annual Report)**

<b>PHSO investigations</b>	
The number of complaints assessed for investigation by the PHSO	60
Complaints accepted for investigation by the PHSO	37
The number of investigations reported on by the PHSO	22
The percentage of those reports where the complaint was:	
Upheld in full or in part	41% (9)
Not upheld	59% (13)
The number of PHSO recommendations	9
Complied with	9
Not complied with	0

- 4.12 The number of investigations by the PHSO increased during 2013-14 and is anticipated to increase still further given the Ombudsman's commitment to increase the numbers of investigations across government departments.
- 4.13 The Department continues to drive consistency of complaints handling by harmonising processes across its agencies and other bodies, including providing a complainant with an independent review by one of its Independent Complaints Assessors (ICAs) if they feel that the final response has not fully or adequately addressed the issues raised in a timely fashion. Should the matter remain unresolved after review by the ICAs, complainants can approach the PHSO.
- 4.14 The ICAs provide an annual report to the Department, which details the ICAs' reviews and findings.<sup>41</sup>
- 4.15 The largest numbers of complaints are received by the two agencies with the greatest interaction with the public – namely DVLA and DVSA. However, compared to the total number of transactions carried out by these agencies in 2013-14 the number of complaints going to the PHSO overall are quite small.
- 4.16 DVLA had 17 complaints investigated by the PHSO yet handles in excess of 175 million transactions, including driving licence applications and renewals, change of vehicle keeper, vehicle excise duty, as well as 'sale of marks' and enforcement actions.
- 4.17 DVSA had 9 complaints investigated by the PHSO, yet handles in excess of 3 million transactions, including booking and delivering theory tests, practical driver tests, and vehicle testing as well as enforcement activities on the road.
- 4.18 Of particular importance is the learning from complaints that leads to improvements to the services delivered. Some examples of lessons learned were:
- offering the DfT ICAs as a final complaint review body across increasing parts of the DfT family improves the service to complainants and reduces recourse to the PHSO;
  - DVLA uses the information gained from complaints in regular reviews of its business areas to improve service delivery;
  - DVSA has reviewed their procedure and policy on short notice cancellations of theory and practical tests by offering rebookings; and,
  - VCA updated guidance to anyone looking at data on 'vehicle emissions or performance', which they provide access to on their website but are not directly responsible for validating or assuring.

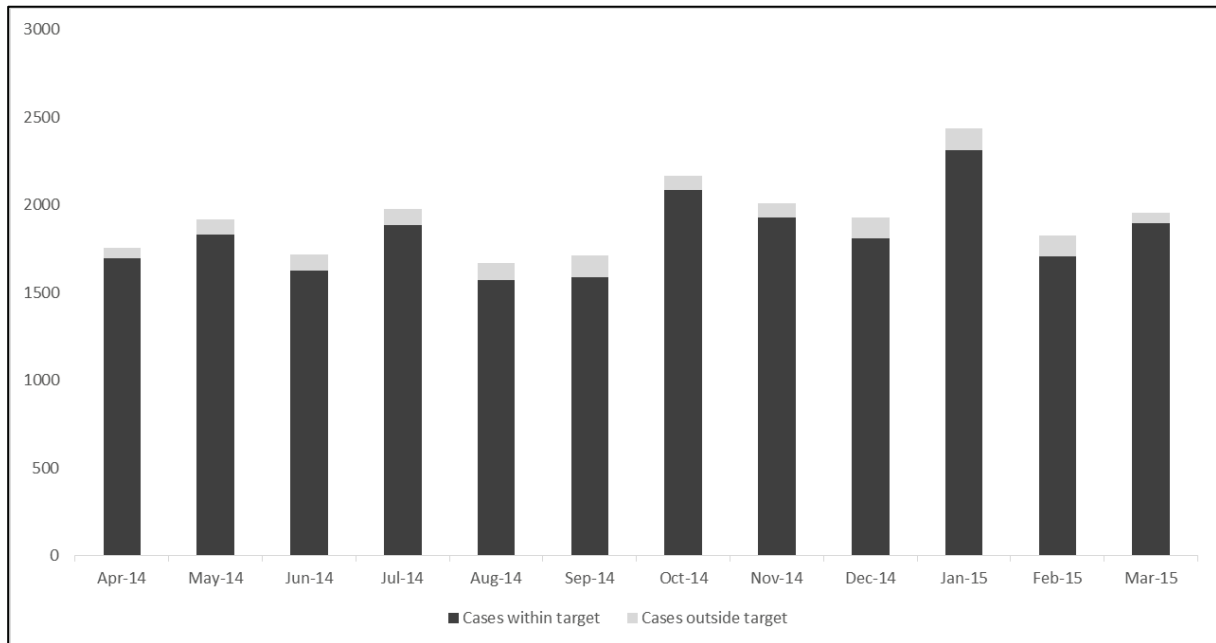
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<sup>41</sup> [www.gov.uk/government/publications/dft-independent-complaints-assessor-report-for-2013-to-2014](http://www.gov.uk/government/publications/dft-independent-complaints-assessor-report-for-2013-to-2014)

## Performance in responding to correspondence from the public

4.19 The Department aims to respond to correspondence within 20 working days. In 2014-15 we responded to just over 23,000 correspondence cases with 95 per cent replied to within that deadline. This includes both correspondence responded to by Ministers and officials.

**Figure 4.2: Performance in responding to correspondence**



## 5. Staff and communications

### Talent development

- 5.1 DfT's talent management strategy aims to help our staff maximise their potential through a clearer understanding of their capability, career aspirations and the development needed to achieve career goals.
- 5.2 During 2014-15, the Nominations and Governance Committee, a sub-committee of the Board, reviewed and scrutinised plans for succession into our most senior leadership roles. The Department's Pay and Performance Committee also reviewed talent and succession plans for the Senior Civil Service (SCS). A further development was the setting up of a new People Committee in DfT(c) to oversee the management of Talent below Director level.
- 5.3 DfT has initiated or participated in a number of programmes in 2014-15 that support talent development across all the grades, including:
  - One Director was successfully nominated to the cross-Government High Potential Scheme and one Deputy Director to the Senior Leaders Scheme.
  - Five people at grades 6 and 7 were successfully nominated to the cross-government Future Leaders Scheme.
  - 24 staff are now enrolled or have completed a cohort with the Major Projects Leadership Academy.
  - DfT is part of a talent partnership with DECC, CLG and Defra which will support a wider range of opportunities for our talented staff at Grades 6 and 7.
  - 22 Fast Streamers gained promotion to Grade 7.
  - 65 apprentices were recruited in the Department and its agencies, with over 60 existing staff in DVLA being signed up to complete the apprenticeship programme.<sup>42</sup>
  - The Crossing Thresholds year-long career mentoring programme for women who want to develop their career in a structured and supportive environment. The mentoring partnerships are underpinned with themed group modules, peer support groups and individual assignments. 17 participants within DfT took part in 2014-15.
  - 8 people have been successfully enrolled on the Positive Action Pathways Programme. The cross-Civil Service Positive Action Pathway 'Levelling the Playing Field' programme is aimed at staff from AA to Grade 6 level in under-represented groups with the potential to progress to at least the

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<sup>42</sup> This data is as at 11 March 2015.

next grade. The aim is to equip participants with the skills and confidence to realise their full potential and to assist with career progression. The programme was previously restricted to women, minority ethnic and disabled staff, but is now open to lesbian, gay, bisexual and transgender staff.

- 5.4 We have introduced a leadership programme for all of our SCS and a management development programme for new managers.
- **Momentum: DfT Senior Leadership Academy:** A new Leadership Programme for all SCS across DfT. This is a bespoke Programme designed in partnership with Cass Business School which aims to address the leadership challenges faced by a diverse department that has huge infrastructure projects and a wide range of other programmes. It also aims to create a more collaborative community of SCS leaders.
  - **Velocity: Manage with Confidence:** A new programme which aims to develop core people management skills to ensure we have confident and capable managers who are able to engage with their teams and manage and develop their people in order to successfully deliver the Department's objectives.
- 5.5 We have introduced a new Commercial Fast Track Programme in DfT(c), aimed at growing and developing our own commercial leaders. Nine people joined the programme in September 2014 and the second round of applications opened in February 2015.
- 5.6 We have implemented a set of actions from the *Civil Service Talent Action Plan: Removing the Barriers to Success*<sup>43</sup>. This includes mentoring of several Black, Asian or Minority-Ethnic (BAME) members of staff by the Permanent Secretary and a year-long positive action programme for 10 BAME staff at Grades 6 and 7, personally run by our Race Champion, a Director General. Plans are in place for matching more members of under-represented groups with senior staff in the spring.
- 5.7 In 2015-16 we will continue to embed our talent management and succession planning offering. We will place more focus on identifying talent and building capability at Grades 6 and 7.

## Recruitment practice

- 5.8 The Department has control systems requiring recruitment to be approved by Departmental HR Directors and controlled from a single point across DfT. In 2014-15 recruitment was undertaken only for front line, security and business critical roles.
- 5.9 The number of posts agreed for external recruitment during 2014-15 for front line, security or business critical roles was 1605.
- 5.10 In 2014-15 there were 16 exceptions to the general recruitment principles in relation to fair and open competition. Of these, one was in Driver and Vehicle

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<sup>43</sup> [www.gov.uk/government/publications/talent-action-plan-removing-the-barriers-to-success](http://www.gov.uk/government/publications/talent-action-plan-removing-the-barriers-to-success)

Standards Agency and one in the Highways Agency and fourteen, of which thirteen were secondments, were in DfT(c). These were permissible under the principles of the Civil Service Commissioner as all required highly specialised skills and experience.

## Number of Senior Civil Service (SCS) staff by salary range

5.11 The number of senior civil servants employed by the Department, including its executive agencies, as at 31 March 2015, is disaggregated in Table 5.1. Information on Pay Multiples, as required by HMT guidance, is included in the Remuneration Report.

**Table 5.1: Number of Senior Civil Service (SCS) staff by salary range**

<b>Distribution of senior civil service salaries within the Department</b>			
<b>Salary Range</b>	<b>Staff numbers</b>	<b>Salary Range</b>	<b>Staff numbers</b>
£60,000-£64,999	1	£165,000-£169,999	1
£65,000-£69,999	40	£170,000-£174,999	0
£70,000-£74,999	22	£175,000-£179,999	0
£75,000-£79,999	15	£180,000-£184,999	0
£80,000-£84,999	15	£185,000-£189,999	0
£85,000-£89,999	23	£190,000-£194,999	0
£90,000-£94,999	7	£195,000-£199,999	0
£95,000-£99,999	7	£200,000-£204,999	0
£100,000-£104,999	10	£205,000-£209,999	0
£105,000-£109,999	5	£210,000-£214,999	0
£110,000-£114,999	7	£215,000-£219,999	0
£115,000-£119,999	3	£220,000-£224,999	0
£120,000-£124,999	3	£225,000-£229,999	0
£125,000-£129,999	3	£230,000-£234,999	0
£130,000-£134,999	4	£235,000-£239,999	0
£135,000-£139,999	2	£240,000-£244,999	0
£140,000-£144,999	0	£245,000-£249,999	0
£145,000-£149,999	2	£250,000-£254,999	0
£150,000-£154,999	0	£255,000-£259,999	0
£155,000-£159,999	0	£260,000-£264,999	1
£160,000-£164,999	0	<b>Total SCS Staff Numbers</b>	<b>171</b>

**Notes:**  
The minimum annual salary for SCS is £62,000 national and £65,500 in London.  
Staff numbers are actual, not full-time equivalents, so a part-time member of staff counts as 1.  
Information is for all senior civil servants in the Department and its Agencies at 31 March 2015 and includes those on fixed-term contracts (but excludes outward loans and secondments). Salary is the basic annual full-time equivalent salary effective from 31 March 2015 and excludes non-consolidated performance related pay.



## Diversity information

5.12 The financial reporting manual (*FReM*) requires departments to disclose the number of persons of each sex who were employees of the entity (Table 5.2).

**Table 5.2: Number of persons of each sex who were employees of the entity as at 31 March 2014**

	Men	Women
Number of persons of each sex who were directors of the entity Permanent Secretary and directors general	4	2
Number of persons of each sex who were senior managers of the entity Members of the Senior Civil Service (excluding above)	109	56
Number of persons of each sex who were employees of the entity Employees in (i) DfT(c) and (ii) DfT including agencies	(i) 1160 (ii) 9954	(i) 681 (ii) 7252

## Expenditure on consultancy, temporary and off-payroll staff

### Expenditure on consultancy and temporary staff

5.13 During the year 2014-15 the Department employed a number of consultancy and temporary staff. Expenditure on consultancy and temporary staff in 2014-15 is shown in Table 5.3 for DfT, its executive agencies and NDPBs.

**Table 5.3: Expenditure on consultancy and temporary staff**

Organisation	Consultancy <sup>44</sup> (£m)	Temporary Staff (£m)	Total (£m)
DfT(c)	19.25	15.77	35.02
Driving & Vehicle Licensing Agency	0.12	0.98	1.10
Driving Standards Agency	0.31	0.80	1.11
Highways Agency	0.00	9.82	9.82
Maritime & Coastguard Agency	0.00	1.07	1.07
Vehicle Certification Agency	0.00	0.14	0.14
Vehicle & Operator Services Agency	0.09	5.39	5.47
British Transport Police	0.19	0.10	0.29
Directly Operated Railways	0.00	0.00	0.00
Passenger Focus	0.00	0.14	0.14
Northern Lighthouse Board	0.00	0.14	0.14
Trinity House Lighthouse Service	0.00	0.13	0.13
HS2	0.00	19.28	19.28
<b>Department Total</b>	<b>19.96</b>	<b>53.74</b>	<b>73.70</b>

<sup>44</sup> Consultancy here is the provision of objective advice relating to strategy, structure, management or operations of an organisation, in pursuit of its purposes and objectives. Such advice will be provided outside the 'business-as-usual' environment when in-house skills are not available and will be time-limited. Consultancy may include the identification of options with recommendations, or assistance with (but not the delivery of) the implementation of solutions.

**Off-payroll staff**

- 5.14 As part of the Review of Tax Arrangements of Public Sector Appointees published by the Chief Secretary to the Treasury on 23 May 2012, departments have been asked to report on the tax arrangements of public sector appointees. The following two tables show the Department's off-payroll engagements and related tax arrangements for the periods outlined by HM Treasury.

**Table 5.4: For all off-payroll engagements as of 31 March 2015, for more than £220 per day and that last for longer than six months**

	DFT(c)	BTP	DVSA	DVLA	HA	HS2 Ltd	MCA	VCA	Total
No. of existing engagements as of 31 March 2015	82	12	66	2	56	158	4	1	<b>381</b>
<i>Of which:</i>									
No. that have existed for less than one year at time of reporting.	45	11	50	2	38	150	0	1	<b>297</b>
No. that have existed for between one and two years at time of reporting.	24	1	14	0	10	5	3	0	<b>57</b>
No. that have existed for between two and three years at time of reporting.	9	0	2	0	6	2	0	0	<b>19</b>
No. that have existed for between three and four years at time of reporting.	2	0	0	0	0	1	0	0	<b>3</b>
No. that have existed for four or more years at time of reporting.	2	0	0	0	2	0	1	0	<b>5</b>

- 5.15 The Department confirms that all existing off-payroll engagements, outlined above, have at some point been subject to a risk based assessment as to whether assurance is required that the individual is paying the right amount of tax and, where necessary, that assurance has been sought.

**Table 5.5: For all new off-payroll engagements, or those that reached six months in duration, between 1 April 2014 and 31 March 2015, for more than £220 per day and that last for longer than six months**

	DfT(c)	BTP	DVSA	DVLA	HA	HS2 Ltd	MCA	VCA	Total
No. of new engagements, or those that reached six months in duration, between 1 April 2014 and 31 March 2015	64	16	60	2	41	149	4	0	<b>336</b>
No. of the above which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations	64	9	50	2	41	149	4	0	<b>319</b>
No. for whom assurance has been requested	64	16	60	2	41	149	4	0	<b>336</b>
<i>Of which:</i>									
No. for whom assurance has been received	56	14	56	2	36	133	4	0	<b>301</b>
No. for whom assurance has not been received	8	2	4	0	5	16	0	0	<b>35</b>
No. that have left the Department (of those in the line above)	8	2	3	0	5	15	0	0	<b>33<sup>45</sup></b>
No. that have been terminated as a result of assurance not being received	0	0	0	0	0	0	0	0	<b>0</b>

- 5.16 BTP: 7 contractors were procured through a Thames Valley Police procurement framework, which does not automatically include contractual clauses giving the Department the right to request assurance. BTP will take steps to remedy this and ensure this cannot happen again. Assurance was requested and received of all contractors regardless, apart from 2 who left BTP before assurance was obtained. Therefore the Authority has been compliant in relation to ensuring its contractors provide the required assurance to DfT when requested.
- 5.17 DVSA: 10 contractors were procured through a Crown Commercial Services procurement framework known as “G-Cloud”, which does not automatically include contractual clauses giving the department the right to request assurance. The Department is now taking steps to remedy this and ensure this cannot happen again. Assurance was requested of the 10 contractors regardless and has so far been received from 8 of them despite the lack of a contractual clause. The remaining 2 are currently obtaining assurance, but their assurances were not received in time for the Annual Report.

<sup>45</sup> The remaining two cases are currently in the final stages of review.

**Table 5.6: For any off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2014 and 31 March 2015**

	DfT(c)	BTP	DOR	DVSA	DVLA	HA/HE	HS2 Ltd	LCR	MCA	NLB	PF/TF	THLS	VCA	Total
No. of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year.	0	2	0	1	0	0	1	0	0	0	0	0	0	4
No. of individuals that have been deemed "board members, and/or, senior officials with significant financial responsibility", during the financial year. This figure should include both off-payroll and on-payroll engagements.	36	8	5	10	14	15	18	6	10	10	17	8	6	163

5.18 Details of the exceptional circumstances that led to the above off-payroll engagements and the length of time each of these engagements lasted:

- BTP: From 19 February 2014 to 24 September 2014: With the substantive post-holder on long-term sick leave, the Chief Executive Officer appointed the individual on a fixed term contract as an interim measure. The substantive post-holder could not return to BTP and the process to recruit a permanent employee for the position was begun in June 2014. The successful candidate joined the Authority in September 2014 and the off-payroll engagement was ended shortly after a structured handover had taken place.
- BTP: From 2 March 2015 to 13 April 2015: The purpose of the engagement was to provide immediate interim cover after the substantive post holder resigned from BTP. A new substantive post-holder has now been permanently appointed to the role.
- DVSA: From 29 April 2014 to 4 June 2014: The individual was engaged due to the challenges faced during the merger taking place at the time between DSA and VOSA. The role has been permanently filled since.
- HS2 Ltd: From 10 February 2014 to 19 June 2014: The individual was engaged on an interim basis to build a directorate while a permanent member of staff was being recruited. It was essential to appoint someone in this post without delay to develop the HS2 programme strategy in preparation for construction.

## Communications

- 5.19 Group Communications Directorate (CD) leads the delivery of communications to support the Department's conduct of business and the delivery of its policy objectives. CD consists of a range of teams providing specialist services in press and media; campaigns; strategy; digital and print publishing; speech writing; as well as insight and evaluation to ensure communication activity is well targeted and provides value for money.
- 5.20 In 2014-15 major communications projects included:
- supporting High Speed 2 communications such as the phase one hybrid bill; launch of the final HS2 Phase One property compensation and assistance schemes and the publication of Sir David Higgins' second report on HS2, *'Rebalancing Britain: From HS2 towards a national transport strategy'*;
  - highlighting progress on rolling stock and infrastructure projects including Crossrail, the Thameslink Programme and the InterCity Express programme;
  - franchising milestone announcements such as the award of new franchises for Thameslink, Southern and Great Northern (TSGN); Essex Thameside, and InterCity East Coast;
  - the Government's first Road Investment Strategy which outlined how £15.2 billion will be invested in our strategic roads between 2015 and 2021;
  - announcing significant funding to repair potholes and improve local roads;
  - supporting the Local Growth Deals announcements which included funding for new local transport schemes; and,
  - the Deputy Prime Minister's announcement of £214 million investment in cycling.
- 5.21 To improve the way we work with our industry partners the Department's senior team have been meeting with transport leaders in groups throughout the year to discuss the transport investment programme we are delivering and hear more about the challenges and priorities faced by the industry. Groups have been representative of all modes and these meetings have helped us gauge the industry's understanding of the transport investment programme and how effective we are in our communication.
- 5.22 We have continued to develop new digital products and channels to support and amplify key announcements and cross government campaigns including interactive maps, infographics and timelines. This year, we have championed and progressed use of digital channels for stakeholder engagement to support open policy making including web chats, commentable websites and online forms and surveys.
- 5.23 This year has seen the further development of the Group Operating Model for Communications across the DfT and its Agencies. This is a collaborative approach that builds on much good practice that was already in place. Benefits that have been realised include: shared knowledge and resources and improved strategic planning.

## Behavioural change campaigns

- 5.24 Since May 2010, behavioural change campaigns require the approval of the Cabinet Office's Efficiency and Reform Group. This year approved activity included the THINK! road safety campaign with a focus on drink driving, speed on country roads, cyclist and motorcyclist safety, and drug driving to support new legislation. We are also continuing the promotion of ultra-low emission vehicles.
- 5.25 In October 2014, THINK! launched its first country roads campaign. The aim was to motivate drivers to take bends on country roads more slowly by highlighting the potential hazard round the bend and getting drivers to brake before the bend, not in it.
- 5.26 We used an innovative study to evaluate the campaign's impact on actual driving behaviour. GPS tracking devices were inserted into the cars of 30 young men and their driving speed was monitored pre and post campaign on rural roads. The results showed that the campaign was successful in reducing driver speed into bends:
- Amongst those exposed to the campaign, there was a statistically significant reduction in drivers' average entry speed into bends on rural roads of 2mph.
  - Post campaign, drivers started decelerating earlier on most types of bends on country roads, and particularly on tighter bends.
  - In addition, there was a statistically significant reduction in drivers' average speed on rural roads of 1mph.
- 5.27 Promotion of 'Go Ultra-Low', a joint government-industry-funded campaign to increase consumer uptake of ultra-low emission vehicles continued in 2015 with three new manufacturers Audi, Mitsubishi and Volkswagen joining BMW, Nissan, Renault and Toyota as co-funders of the campaign. Led by the Society for Motor Manufacturers and Traders in partnership with the Office for Low Emission Vehicles, the campaign aims to make ultra-low emission vehicles normal, not novel by increasing public acceptance, reducing misconceptions and encouraging people to consider an ultra-low emission vehicle. Since the campaign launched in January 2014, sales of ultra-low emission vehicles have increased significantly with grant uptake increasing 300% year on year. The campaign and the government grant for new vehicle purchases are part of a package of measures that support the Government's objective to make the UK a world leader in ultra-low emission vehicle technology.

## Third-party support

- 5.28 As in previous years, the central Department has not received any cash sponsorship but has received support from key partners who have linked with our THINK! road safety campaign. These include the following:
- The first Sky/THINK! partnership activity ran in November 2014 and delivered cycle safety advice for both drivers and cyclists in roadside poster and online advertising formats. This was a pilot campaign using the trusted and expert voices of World Cycling Champions Sir Chris Hoy and Becky James to give credibility and authenticity to the safety messaging. We will continue to work with Sky to review extending the campaign further.

- For the seventh consecutive year, THINK! partnered with Coca-Cola to deliver the annual 'Designated Driver' campaign. This campaign provided drivers with a buy-one-get-one-free offer on Coca-Cola drinks in 12,500 venues nationwide and provided a positive, in-context solution to help drivers to make the right decision to not drink and drive.
  - THINK! ran its first partnership with Diageo in December 2014 to extend their global Johnny Walker branded 'Join the pact' campaign to the UK, led by Formula One stars Jenson Button, Kevin Magnussen and Mika Hakkinen. The campaign encourages people to take a pledge to not drink and drive and in return provides discounted taxi rides. The activity was promoted using national outdoor and online advertising and PR.
- 5.29 The above activities have been delivered at no cost to the Department with partners funding all campaign development and promotion. We continue to work with these partners to further develop road safety campaigns.

## Health and Safety

- 5.30 Improving the management of health and safety continues to be a priority for the whole of the Department, including Agencies. In August 2014 the Department produced its first Annual Occupational Health and Safety report. This gives a Departmental-wide overview of significant corporate management activities over a twelve month period. It sets out achievements, Department-wide statistics and plans for the year ahead.
- 5.31 In total, 63 RIDDOR reports (reports under Reporting of Injuries, Diseases and Dangerous Occurrence Regulations 1998) were reported to the HSE for the year 2014-15. This is a reduction of 2 RIDDOR reports compared to the previous year where a total of 65 were reported.
- 5.32 The figures in both DVSA and Highways Agency (HA) remain greater across the DfT group due to the nature of the risks involved in carrying out their operational duties.
- 5.33 The HA submitted 12 RIDDOR reports during the financial year. In January 2015, the Agency accepted a Crown Censure regarding a failure to provide the necessary supervision of traffic officers based at the Dartford outstation, in accordance with its own procedures. An audit of outstations has been completed to evaluate compliance with the supervision process. An improvement plan has been developed and is now being implemented.
- 5.34 Highways England, the successor organisation to HA, has developed a Health and Safety 5 Year Plan which defines how health, safety and wellbeing will be managed for all the at risk populations: Traffic Officers; office staff; road users; and supply chain workers. The strategy will be delivered through five elements:
- Leadership & culture
  - Competent people
  - Managing risks
  - Measuring performance
  - Engaging stakeholders

- 5.35 The HA has worked with the highways industry to eliminate the need for road maintenance workers to cross live carriageways in order to put out and retrieve temporary traffic management. This has delivered outstanding results which have significantly reduced live carriageway crossings. An action in the 5 Year Plan specifically addresses continuation of this work.
- 5.36 DVSA RIDDOR figures are higher than previous years, 30 in 2014-15 compared to 25 in 2013-14. Changes have been implemented to the Module 1 Motorcycle test which have had a positive impact, but other factors would also have an effect such as the overall number of tests and the weather conditions during a test.
- 5.37 At the end of March 2015 the numbers of significant incidents reported by DfT, including its agencies to the Health and Safety Executive (HSE) under Reporting of Injuries, Diseases and Dangerous Occurrence Regulations 1998 (RIDDOR) are as set out in Table 5.2.

**Table 5.2: Number of RIDDOR reportable incidents**

<b>Organisation</b>	<b>RIDDOR reportable incidents</b>
<b>DfT(c)</b>	2
<b>DVLA</b>	12
<b>DVSA</b>	30 <sup>46</sup>
<b>HA</b>	12 <sup>47</sup>
<b>MCA</b>	6
<b>VCA</b>	1

<sup>46</sup> The figure of 30 accounts for 12 staff incidents and 18 incidents where members of the public were taken from a DVSA site direct to hospital. The latter mainly consisted of Module One motorcycle test candidates using incorrect braking or avoidance techniques resulting in them falling off their motorcycle.

<sup>47</sup> This figure excludes 31 incidents relating to the Highways Agency's (HA) supply chain (sub-contractors). HA employ a number of businesses (referred to as their supply chain) to carry out maintenance and construction work on their behalf. HA, as a major client of the construction and maintenance industry, has a duty of care to ensure this work is carried out safely and monitor the number of RIDDOR incidents happening within their supply chain.



## 6. Climate change, sustainability and the environment

### Mainstreaming sustainable development

- 6.1 Transport is vital in underpinning wider sustainable development in the UK and a key enabler of sustainable economic growth. Many of our policies are aimed at creating growth and cutting emissions. We support this by developing policies and delivering investments in transport that maximise value, limit adverse environmental impacts including those which could impact on biodiversity and, where reasonably practicable, enhance our natural environment and enable social inclusion and mobility.

### Infrastructure development and the wider environment

- 6.2 The Department and the Highways Agency have learnt a great deal about protecting the environment in the past twenty years. Today's road schemes are very different to their predecessors, designed in far greater sympathy with their surroundings and with a much smaller environmental footprint. The investment programme in the Road Investment Strategy, announced in December 2014, includes more than £1 billion of environmental mitigation measures, a large number of which are built into modern roads by default. There is no longer a forced-choice between a well-functioning road network and a well-protected environment. The Road Investment Strategy also sets out to tackle parts of the road network where previous road design has led to particular environmental problems. In addition, it is important to ensure that Highways England, which replaced the Highways Agency on 1 April 2015, plays its part in reducing carbon emissions from road transport and adapting our roads to cope with a changing climate. In order to do this, the Road Investment Strategy established a ring-fenced £300 million Environment Fund to deliver specific enhancements to the network, enabling Highways England to deliver improved environmental outcomes.
- 6.3 Overall, air quality has improved significantly in recent decades but the Road Investment Strategy recognises there is more to be done. Vehicles that drive on our network are a major source of air pollution at the roadside. It is essential that we work with others as many people and organisations, from the public to local councils to central Government, have an important role to play. The Road Investment Strategy commits £100 million of funding in addition to the separate Environment Fund, specifically to target improvements in air quality.
- 6.4 HS2 will be the UK's new high speed rail network and as one of our biggest infrastructure projects is being designed and built to resolve impending capacity issues for both passengers and freight on existing routes, particularly the West Coast Main Line. The hybrid Bill, which will give the Secretary of State the necessary legal powers required to build and operate Phase One of the HS2 network, passed second reading in April 2014. This was followed by a period for

those directly affected by the railway to submit petitions against the Bill. These are now being heard by a specially convened Select Committee. Over 1900 petitions were received and the Select Committee has been examining them in order of their broad geographical order (north to south) since July 2014, giving those with concerns over the environment, amongst others, a chance to have their case heard. As part of the Bill process an Additional Provision<sup>48</sup> was deposited in Parliament in September 2014. This included a range of changes to the design of the railway. The Additional Provision was accompanied by its own Environmental Statement, which was consulted on, and then those who were directly affected by the changes in the Additional Provision had an opportunity to petition.

- 6.5 The Department and HS2 Ltd also gave evidence to the Environmental Audit Committee on environmental protection for Phase One and provided a response that committed the scheme to undertaking certain things, such as recognising the benefit of having an independent body to oversee the output from the biodiversity calculations that underpin the scheme's commitment to no net loss to biodiversity.

## Appraisal

- 6.6 The Department's impact assessments require assessment of sustainable development to be carried out if impacts exist, using a mixture of monetary, quantitative and qualitative techniques. A wide range of environmental factors are considered in appraising transport schemes. We also consider other specific impact tests, for example greenhouse gas, equalities, rural proofing and the new family test.<sup>49</sup> Completion of these impact assessments is checked through the clearance processes in the Better Regulation team and is also subject to peer review by an economist. We are continuously seeking to improve the tools and techniques that inform the decision-making process.
- 6.7 The Department's transport appraisal guidance, WebTAG, includes an Environmental Impact Appraisal unit<sup>50</sup>. We are currently working to incorporate Defra's latest guidance on noise valuation into this unit. We also ensure that our carbon, biodiversity and air quality appraisal guidance is consistent with the latest Supplementary Green Book Guidance<sup>51</sup> and incorporate consideration of electric vehicles into appraisals.

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<sup>48</sup> [www.parliament.uk/business/committees/committees-a-z/commons-select/high-speed-rail-london-west-midlands-bill-select-committee-commons/news/aprovisions](http://www.parliament.uk/business/committees/committees-a-z/commons-select/high-speed-rail-london-west-midlands-bill-select-committee-commons/news/aprovisions)

<sup>49</sup> [www.gov.uk/government/publications/family-test-assessing-the-impact-of-policies-on-families](http://www.gov.uk/government/publications/family-test-assessing-the-impact-of-policies-on-families)

<sup>50</sup> [www.gov.uk/government/publications/webtag-tag-unit-a3-environmental-impact-appraisal-november-2014](http://www.gov.uk/government/publications/webtag-tag-unit-a3-environmental-impact-appraisal-november-2014)

<sup>51</sup> [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/191500/Accounting\\_for\\_environmental\\_impacts.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/191500/Accounting_for_environmental_impacts.pdf)

## Transparency

- 6.8 To ensure that our approach to decision-making is transparent, and that the views of interested parties on projects of particular interest to the wider public involving either transport or transport infrastructure are understood and given consideration, DfT engaged in 42 written consultations and calls for evidence in 2014.

## Staff Engagement

- 6.9 To enhance staff learning and knowledge on issues such as those relating to climate change, the wider environment and sustainable development, regular briefing and awareness sessions on topical and related issues are organised throughout the year in our central London offices. With the regular use of video links and conference calls non-central London based DfT employees have also participated in many of these events. Occasional events have also been opened to invitees from our Agencies or other government departments who have a specialist interest in the seminar topic. In early March 2015, we presented an exhibition in our main entrance foyer on the environmental challenges facing the transport sector highlighting several aspects of DfT's involvement with the action currently being taken to reduce carbon emissions. The foyer exhibition and an associated presentation to staff included live demonstrations linked to current biofuels research.

## Lowering transport emissions

- 6.10 Promotion of lower-emission transport, support for the development of the market for electric and other ultra-low emission vehicles, obliging fuel suppliers to use sustainable biofuels, and encouraging sustainable local travel are included as Departmental priorities. The Carbon Plan (December 2011) detailed the Government's ambitious aims to deliver major reductions in carbon emissions from all sectors, including transport, over the coming decades.<sup>52</sup> It set out a radical vision for the almost complete decarbonisation of cars and vans by 2050. Biofuels, advanced fuels and electric vehicles will all play a major part in achieving this aim and the Department's policies were focused on developing the market, investing in low carbon infrastructure and opportunities for UK industry while ensuring renewable energy is provided sustainably. The DfT has also been actively supporting Defra in taking action to improve air quality.
- 6.11 We remain committed to ensuring that the transport sector plays a full part in delivering the emissions reductions needed to meet our Climate Change Act targets. Our policies to deliver growth have often contained a strong environmental and green transport focus and either complement or form key actions DfT has undertaken to implement the carbon reduction element of the Government's priorities (actions 4.5 and 4.6 in our 2013-15 Business Plan)<sup>53</sup>.

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<sup>52</sup> DECC (2011). *The Carbon Plan: Delivering our low carbon future*. London: Department of Energy and Climate Change. [www.gov.uk/government/publications](http://www.gov.uk/government/publications)

<sup>53</sup> <http://transparency.number10.gov.uk>

For example:

- On our roads, the Office for Low Emission Vehicles (OLEV)<sup>54</sup> is supporting the development of the ultra low emission vehicle market using a comprehensive package of incentives which includes grants towards car and van purchases, help with the installation of recharging infrastructure, and targeted funding for R&D. These measures are helping to create and safeguard jobs in the UK and deliver inward investment; as well as helping towards carbon targets and to improve air quality.
- 2014 saw a fourfold increase in the uptake of the Plug-in Car Grant when compared with 2013, with over 30,000 car grants now made. The UK had the highest annual sales of electric vehicles in the EU, and has established the largest rapid charger network in Europe. More than £500 million has been allocated for the period 2015-2020 to help secure the UK's position as a global leader in the design, manufacture and usage of ultra low emission vehicles. The details of this investment programme have been announced, including continued support for vehicle incentives, infrastructure and R&D, as well as new schemes for ultra low emission taxis, buses and cities. The development of a network of hydrogen refuelling stations is being funded so that hydrogen fuel cell vehicles can also enter the UK market.
- The four rounds of the Green Bus Fund (GBF)<sup>55</sup> ran from 2009 until 2013 providing more than £89 million to bus operators and local authorities to support the introduction of around 1,250 new low-carbon emission buses into public service in England. Buses under GBF round 4 were required to come into service by end March 2014. The Low Emission Bus Scheme, announced 11 March 2015, is replacing the GBF and offers up to £30m for bus operators and local authorities across England and Wales to bid for low emission buses and supporting infrastructure. This scheme funding is open from 2016-2019.
- The Department's ongoing Longer Semi-trailer (LST) Trial, launched in 2012, involving 1800 LSTs up to 2 metres longer than a standard sized trailer. This is proving more efficient for freight operators and better for the environment due to fewer lorries transporting the same amount of goods with lower emissions from fewer journeys. The first annual report of the trial was published in June 2014<sup>56</sup> and we anticipate saving over 3000 tonnes of CO2 over the course of the 10 year trial.
- The Government is helping operators establish and run fleets of low carbon HGVs through the Low Carbon Truck Trial. The Office for Low Emission Vehicles (OLEV) and Innovate UK have provided £11.3m, via competition, to part fund and test around 350 commercial low-carbon vehicles, with most using a gas or dual fuel system (diesel and gas), and to develop refuelling infrastructure. The DfT is overseeing the evaluation of

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<sup>54</sup> [www.gov.uk/government/organisations/office-for-low-emission-vehicles](http://www.gov.uk/government/organisations/office-for-low-emission-vehicles)

<sup>55</sup> [www.gov.uk/government/collections/background-to-the-green-bus-fund](http://www.gov.uk/government/collections/background-to-the-green-bus-fund)

<sup>56</sup> [www.gov.uk/government/publications/evaluation-of-the-longer-semi-trailer-trial-annual-report-2013](http://www.gov.uk/government/publications/evaluation-of-the-longer-semi-trailer-trial-annual-report-2013)

the trial including carbon emissions, costs and operational performance. Preliminary findings were published in June 2014.<sup>57</sup>

- Delivering substantial greenhouse gas emission reductions through sustainable biofuels under the Renewable Transport Fuels Obligation (RTFO).<sup>58</sup> The post-implementation review of the first five years of RTFO reported greenhouse gas emission reductions from biofuels of up to 56% (taking into account estimated indirect land use change emissions); and increasing the proportion of biofuels derived from waste (39% in year).
- Amending the RTFO to provide additional support for some of the most sustainable fuels,<sup>59</sup> and working through a Transport Energy Taskforce,<sup>60</sup> to gather expert stakeholder advice to inform options for future low carbon fuels targets and policy mechanisms.
- Supporting the development of a UK advanced biofuels industry, including the launch in December 2014 of a £25 million competition to build an advanced biofuel demonstration plant, winning bids are expected to be announced this year and funding will run until 2018.
- Continuing to enable local authorities, through additional funding under the Local Sustainable Transport Fund (LSTF)<sup>61</sup> up to 2015-16 to implement schemes which, amongst other objectives, have the core objective of reducing carbon emissions, e.g. by bringing about an increase in the volume and proportion of journeys made by low-carbon sustainable modes. From April 2015, the major source for capital investment in sustainable transport will be the Local Growth Fund.
- Supporting improvements to local air quality, by committing up to £9m under the Clean Vehicle Technology Fund<sup>62</sup>, to support local authorities to fit pollution reducing technology to a wide range of vehicles including buses, taxis, vans, fire engines and ambulances.
- In addition to the above, work on promoting UK interests on the EU new car and van CO2 regulations and the Commission's developing strategy for reducing HGV CO2 emissions is ongoing.
- We are making continued use of 'cascaded' modern electric rolling stock on our railways and exploiting synergies between schemes in order to efficiently meet forecast demand growth. Electrification is a way of reducing the cost of running the railways, boosting the economy, increasing reliability and reducing carbon. This will support economic growth and better environmental outcomes, and secure cost efficiencies for both passenger and freight operators.

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<sup>57</sup> [www.gov.uk/government/publications/low-carbon-truck-trial-first-year-executive-summary](http://www.gov.uk/government/publications/low-carbon-truck-trial-first-year-executive-summary)

<sup>58</sup> [www.gov.uk/renewable-transport-fuels-obligation](http://www.gov.uk/renewable-transport-fuels-obligation)

<sup>59</sup> Amendments made to the RTFO in 2015: [www.legislation.gov.uk/ukdsi/2015/9780111126776/contents](http://www.legislation.gov.uk/ukdsi/2015/9780111126776/contents)

<sup>60</sup> [www.lowcvp.org.uk/projects/transport-energy-task-force](http://www.lowcvp.org.uk/projects/transport-energy-task-force)

<sup>61</sup> [www.gov.uk/government/collections/local-sustainable-transport-fund](http://www.gov.uk/government/collections/local-sustainable-transport-fund)

<sup>62</sup> [www.gov.uk/government/collections/clean-vehicle-technology-fund](http://www.gov.uk/government/collections/clean-vehicle-technology-fund)

- We are continuing to support modal shift from road to rail or water where it makes economic sense and there are environmental benefits to be gained. The Department's two mode shift freight grant schemes have helped to remove in excess of 800,000 journeys and 120,000 tonnes of CO2 a year. About £20m grant funding has been allocated for 2015-16. Future funding will be considered in the Spending Review.
- DfT is part-funding a project to demonstrate a battery powered train. This technology could provide a way of reducing the cost of rail electrification as well as replacing ageing diesel train fleets. In 2014 a conventional electric train was fitted with a large lithium-ion battery pack. Trials on a test track saw the train reaching speeds of 100mph and running for about 50 miles on battery power alone. The train then ran successfully in passenger service in January and February 2015 on the line between Manningtree and Harwich in Essex. We are now evaluating the results of the trial and discussing with industry stakeholders how to commercialise the technology.

## Resilience and Climate Change Adaptation

- 6.12 Keeping our transport networks resilient in both the short and long term is a critical responsibility of DfT. The exceptional storms and floods from December 2013 to February 2014 placed the transport network under significant strain. In light of these events the Secretary of State appointed Richard Brown, Non-Executive Board Member of DfT and former Chairman of Eurostar, to lead a targeted review of the resilience of the transport network to extreme weather events. The Transport Resilience Review: A review of the resilience of the transport network to extreme weather events was published in July 2014 and identified practical measures to improve the resilience of our transport network to severe weather events in the short term, whilst also giving due consideration to the longer term resilience of the nation's transport infrastructure.
- 6.13 The Review made 63 recommendations including measures to mitigate impacts from severe weather events, contingency planning to manage the effects, and adaptation of infrastructure to manage projected future risks.<sup>63</sup> The Secretary of State endorsed the recommendations and the Government Response was published in November 2014.<sup>64</sup> The Response set out in detail the good progress made by the operators and owners of our transport infrastructure while also highlighting areas where further work was required. A final paper Transport Resilience Review: Update Report was published on 26 March 2015 presenting an update of progress on resilience.

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<sup>63</sup> [www.gov.uk/government/publications/transport-resilience-review-recommendations](http://www.gov.uk/government/publications/transport-resilience-review-recommendations)

<sup>64</sup> [www.gov.uk/government/publications/transport-resilience-review-governments-response](http://www.gov.uk/government/publications/transport-resilience-review-governments-response)

- 6.14 Looking towards longer term adaptation, we have reported to Defra on progress of the transport adaptation actions in the National Adaptation Programme (NAP) to inform the Adaptation Sub-Committee's first statutory report on NAP progress to Parliament this summer. We have helped the rail sector in the publication of work package 1 and development of work package 2 in its TRaCCA programme (Tomorrow's Railways and Climate Change Adaptation).
- 6.15 We have shared best practice and maintained awareness of adaptation and resilience issues through our role of chairing the Local Transport Adaptation Steering Group, with effective use of the Chartered Institute of Highways and Transportation (CIHT) and UK Roads Liaison Group (UKRLG) for communications. Most recently, focus has been on supporting the Highways Infrastructure Resilience Assessment Model – a GIS based model developed by an alliance of highways authorities in the South West.

## Rural proofing on DfT policies and programmes

- 6.16 The Department has incorporated the 2013 national guidelines on Rural Proofing into its appraisal system. There are particular requirements in different areas, such as investment decisions, policy development and regulatory proposals. The Department provides extensive appraisal guidance for investments in transport schemes in the form of the Web-based Transport Analysis Guidance (WebTAG), which highlights in several places the need to consider rural impacts, in particular in the guidance on distributional and social impacts.
- 6.17 For impact assessments, rural proofing is one of a number of specific impact tests that DfT applies to proposed policies. The tests are designed to operate as a checklist to ensure key impacts are picked up for further consideration as part of the comprehensive appraisal system.
- 6.18 The Department continues to work with Defra to ensure the impacts of decisions in rural areas are addressed. Evidence of DfT's solid performance is available in Lord Cameron's Independent Review on Rural Proofing published in January 2015. The report reviewed the extent to which different government departments have adopted and effectively implemented the principles and guidance set out in the refreshed package of rural proofing materials – one year on from publication. DfT will be taking the recommendations from this report forward in 2015-16 as appropriate.
- 6.19 As a result of joint working with Defra, the Rural Transport Working Group for Young People report will be available for publication in 2015. This report specifically examines the challenges faced by young people living in rural areas and how they may be overcome.
- 6.20 During 2014, the profile of rural proofing awareness was raised in the most relevant parts of DfT. As a result of this and the Lord Cameron Review findings, it is the intention that in 2015-16 more formal rural proofing awareness training will be made available for all relevant directorates across the Department.

## 2014-15 Sustainability Report

- 6.21 The Department for Transport works with its agencies and partners to support the transport network that helps the UK's businesses and gets people and goods travelling around the country. We plan and invest in transport infrastructure to keep the UK on the move. Whilst we continue to strive to deliver a more sustainable transport system we recognise the need to demonstrate that our own estate and business travel is managed in an equally sustainable manner.
- 6.22 Supporting the Departmental desire to improve internal sustainability performance there are cross Government drivers in the form of the Greening Government Commitments (GGC) which provide structure and the standard to be achieved. It is our performance this year, against those GGC measures, which forms the basis of this sustainability report, in line with HM Treasury's Government Financial Reporting Manual.
- 6.23 The monitoring of our sustainability performance is an integral part of our quarterly performance management reporting regime. The DfT Executive Committee receives quarterly reports on DfT performance against the GGC measures.
- 6.24 This Sustainability Report covers the operations of the core Department, Driver & Vehicle Licensing Agency (DVLA), Highways Agency (HA), Maritime & Coastguard Agency (MCA), Vehicle Certification Agency (VCA), British Transport Police (BTP) and High Speed 2 Ltd (HS2 Ltd). Whilst this report will highlight some of the activities undertaken by these organisations to improve sustainable performance, more detail can be found in the individual Annual Reports and Accounts for each organisation.

### Summary of performance

- 6.25 In 2014-15 we continued to make strong progress in reducing our energy and natural resource consumption and minimising our waste generation. However, an increase in the conversion factor for generated electricity, as announced by Defra in 2014, of 10.95% has had a negative impact on our Greenhouse Gas (GHG) emissions. An overview of our sustainability performance is set out in the table below. Details of our sustainability performance metrics are set out in the tables on pages 66 and 67.



**Table 6.1: Summary of performance against sustainability commitments**

Performance Summary	Measure	2014-15	2013-14	2012-13	2011-12
Energy Emissions	tCO <sub>2</sub> e <sup>65</sup>	130,221	123,692	126,674	129,073
Energy Costs	£m	35.12	32.93	30.40	28.33
Business Travel Emissions	tCO <sub>2</sub> e	6,851	6,508	6,700	6,262
Business Travel Costs	£m	10.36	12.57	10.51	8.78
Waste Generated	tonnes	2,579	2,848	2,719	3,111
Water Consumption	cubic metres (m <sup>3</sup> )	127,475	128,954	121,015	121,308

### Greenhouse Gas Emissions

- 6.26 Over the past year we have continued to implement GHG emissions reduction measures across our estate and business related travel.
- 6.27 In 2014-15 our GHG emissions have risen by 5.3 per cent, in comparison to our 2013-14 performance. Our performance against the GGC 2009-10 baseline is a 20.9 per cent reduction. The rise in GHG emissions is purely down to the aforementioned increase in the conversion factor for generated electricity. Had that electricity emissions factor rise not occurred then our emissions for 2014-15 would have shown a 28 per cent reduction against the GGC baseline. Whilst our emissions have risen we have seen reductions in energy use of 3.9 per cent and business travel mileage has reduced by 7.8 per cent. Those savings have been achieved through:
- Replacement of road lighting installations at the end of their useful life. Highways Agency are installing new road lighting which achieves a 30% energy saving compared with the old installations.
  - Release of all 39 network offices from DVLA ownership saving an additional 150 tCO<sub>2</sub>e on top of the 1,400 tCO<sub>2</sub>e saved in 2013-14.
  - Purchase of Ultra Low Emission Vehicles to replace existing fleet vehicles in DVLA.
  - Modification of the Highways Agency patrolling strategy to reduce the amount of general patrolling, saving in excess of 600 tCO<sub>2</sub>e.
- 6.28 We continually look to improve the data we collect, working with suppliers and sharing best practice across the Department, with the aim of identifying further opportunities to effect reductions.

<sup>65</sup> tCO<sub>2</sub>e = tonnes of carbon dioxide equivalent emissions.

## Waste

- 6.29 In 2014-15 we have reduced the volume of waste generated from our administrative estate by 9.4 per cent when compared to 2013-14. This decrease is as a result of:
- a reduction in the size of the estate following the closure of the DVLA local offices at the end of 2013-14
  - Abolition of the tax disc, significantly reducing the amount of paper used and ultimately waste generated
- 6.30 Some 80 per cent of our office waste was sent for recycling. We continually seek to minimise the amount of office waste that goes to landfill by segregating waste at our sites and working with waste contractors to understand exactly which non-landfill waste streams they are utilising for disposal.

## Water

- 6.31 Our office water consumption has reduced by 1.2 per cent when compared to 2013-14. This has given us an office water consumption figure per FTE of 5.05m<sup>3</sup>, putting us in the good practice category for water consumption and meeting the target that the Department set itself back in 2009-10. We continually seek to improve our management and understanding of water use with the aim of reducing our overall water consumption and the consumption per FTE.

## Sustainable Procurement

- 6.32 The Department recognises the significant impact that its procurement decisions have on sustainability outcomes, and we are committed to ensuring that our supply chain is reflective of the overall supply market and supports our sustainable development goals. We have four main mechanisms for improving our sustainable procurement performance.
- **Policy and Guidance** – Sustainable procurement is included in the Department's procurement guidance to staff, which is reviewed at least annually. We are members of the Government-wide Sustainable Procurement Working Group where we contribute to development of Government sustainable procurement policy and its dissemination to all relevant staff.
  - **Staff Training and Development** – All staff within the Department's procurement function have access to training in how to conduct a sustainable procurement and contract management process, through the Civil Service Learning portal. Key staff have received more advanced and ongoing training in the topic.
  - **Procurement Processes** – Sustainability issues are considered for all relevant procurements, either as part of the business case and statement of requirement or as one of the scoring criteria. In either case they are seen as essential to achieving value for money from an agreement, and a key part of what we expect from our suppliers.

- Contract Management** – The Department’s standard conditions of contract include a clause that requires contractors to comply as a minimum with the law and Government policy on sustainability. In parts of the Department that tender agreements with a higher level of sustainability risk, contract managers actively engage with suppliers to promote continuous improvement of their sustainability performance throughout the term of a contract. Depending on the area of risk or potential for improvement, this could include the analysis of data on scope 3 greenhouse gas emissions, the increased purchase of environmentally preferable or socially ethical products, or the promotion of smaller businesses and supply chain diversity.

**Table 6.2:**

Performance Summary	2014-15	2013-14	2012-13	2011-12
Percentage Spend with Small and Medium Enterprises (SMEs) <sup>66</sup>	37.29%	19.5%	13.4%	Data unavailable
Government Buying Standards (GBS) Compliance <sup>67</sup>	97.44% <sup>68</sup>	90.28% <sup>69</sup>	96.34%	Data unavailable

<sup>66</sup> These figures include both direct and indirect spend with SMEs

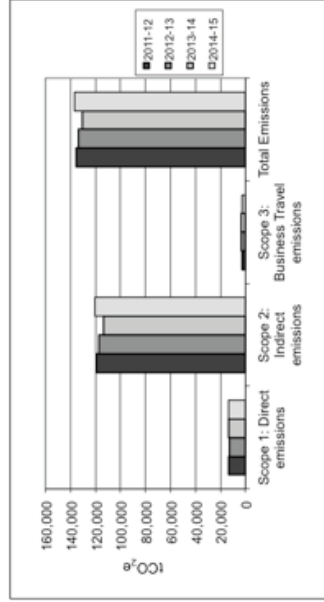
<sup>67</sup> These figures reflect the percentage of spend on products for which a GBS standard exists, that was in line with the GBS standard.

<sup>68</sup> This figure does not include spend data for ICT. Owing to changes in the Department’s financial system these figures are unavailable at this time.

<sup>69</sup> This may not be a real reduction on the previous year. The two main areas that compliance reduced in were Food and Construction. In the latter case we were still awaiting confirmation of GBS compliance from a supplier at the end of the financial year, so the 0% reported might have been incorrect. If we had 100% GBS compliance in construction in 2013-14 as we did in 2012-13, the total compliance figure would have been 96.10%.

**Table 6.3 Greenhouse gas (GHG) emissions**

GREENHOUSE GAS (GHG) EMISSIONS		2011-12	2012-13	2013-14	2014-15
Gross Emissions (tonnes CO <sub>2</sub> e)	Scope 1: Direct emissions	13,547	13,057	13,606	13,416
	Scope 2: Indirect emissions	119,120	117,017	113,402	120,650
	Scope 3: Business Travel emissions	2,669	3,300	3,192	3,007
	<b>Total Emissions</b>	<b>135,336</b>	<b>133,374</b>	<b>130,200</b>	<b>137,072</b>
Related Consumption Data	Estates Electricity (kWh)	45,873,943	47,884,521	50,920,097	54,850,674
	kWh Per head	3,011	3,062	2,340	2,068
	Estates (HA road network) Electricity (kWh)	193,333,676	188,496,743	186,168,000	172,988,659
Private Car Usage (million road miles)		3.11	3.09	3.60	2.86
	Hire Car Usage (million road miles)	3.69	4.03	4.32	4.44
Financial Indicators	Total Energy Expenditure	£28,334,928	£30,397,297	£32,932,245	35,119,593
	CRC Related Expenditure	£1,376,210	£1,265,756	£554,760	2,330,046
	Expenditure on Business Travel	£8,779,501	£10,509,126	£12,565,380	10,363,072



**PERFORMANCE COMMENTARY AND TARGETS**

In 2014-15 DfT (as defined in this Sustainability Report) saw an overall increase in its greenhouse gas emissions of 5.3% compared to emissions in 2013-14. Overall our emissions have reduced by 20.9% since 2009-10, the Greening Government Commitment (GGC) baseline year. This increase was as a result of a the conversion factor for generated electricity rising by 10.95%, as announced by Defra in 2014. The full effect of this increase has been mitigated by our continued reduction in energy consumption and lower levels of business travel. Performance, without this significant increase in the electricity emissions factor, **would have been a 28% reduction** in emissions against the 2009-10 GGC baseline.

**DIRECT IMPACTS**

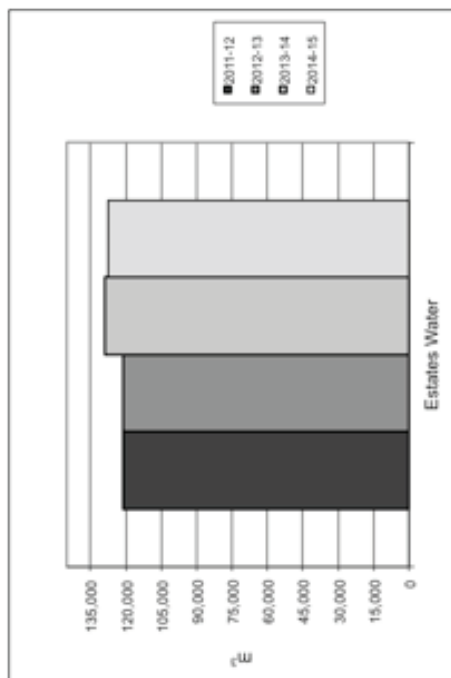
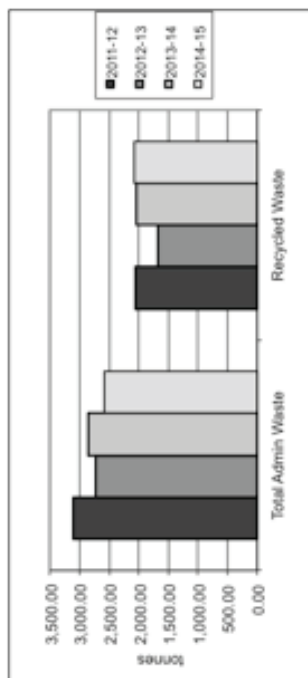
**Scope 1** – this includes direct consumption of gas, LPG, Gas Oil and fuel consumption by vehicles owned by DfT and its Agencies. The gas, LPG and Gas Oil usage encompass in excess of 600 sites across the UK, ranging from large office blocks to remote coastguard stations.  
**Scope 2** – this covers electricity supplies to our buildings, our surplus property portfolio and the strategic road network.  
**Scope 3** Business Travel – Business travel undertaken by DfT and Executive Agency staff using 3rd party transport (including hire car use).

**INDIRECT IMPACTS**

One of the biggest contributors of Greenhouse Gas emissions for the UK is the emissions from vehicles travelling on the road network. Across the Department for Transport we are working to reduce this impact through policy change that encourages the use of lower emissions vehicles (i.e. promoting the installation of electric vehicle charging points) or alternative lower emission forms of transport, improving the information that is available to drivers to reduce fruitless journeys and the active management of the network (i.e. variable speed limits, hard shoulder running) to reduce emissions by minimising time spent in queues.

**Table 6.4: Waste and water**

<b>WASTE</b>		<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>
Non - Financial Indicators	Total Admin Waste	3,111.75	2,719.18	2,848.30	2,579.29
	Recycled Waste	2,066.45	1,675.22	2,043.97	2,073.06
	Kg per head	195.18	162.52	126.16	97.23
	Percentage recycled	66%	62%	72%	80%
<b>PERFORMANCE COMMENTARY AND TARGETS</b>					
<p>In 2014-15 DfT (as defined in this Sustainability Report) saw a decrease in its waste arisings of 9.4% compared to 2013-14. This reduction is as a result of the continued estate rationalisation this year and improved data granularity. Overall our waste arisings have reduced by 25.9% since 2009-10, the Greening Government Commitment baseline year. Paper usage continues to show a 46% reduction in comparison to the baseline. The percentage recycled this year has increased as a result of a greater understanding of waste treatment by disposal agents and the better management of waste at a site level.</p>					
<b>DIRECT AND INDIRECT IMPACTS</b>					
<p>The Highways Agency's "Bag it Bin it!" campaign continues to reduce the amount of litter collected on the strategic road network, but road workers still collect more than 170,000 sacks of rubbish each year.</p>					
<b>WATER</b>		<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>
Non - Financial Indicators	Estates Water	121,308	121,015	128,954	127,475
	m <sup>3</sup> per head	7.53	7.18	5.71	4.81
	Emissions from Water Consumption (tonnes CO <sub>2</sub> e)	41.24	41.15	44.37	43.86
<b>PERFORMANCE COMMENTARY AND TARGETS</b>					
<p>In 2014-15 DfT (as defined in this Sustainability Report) saw a decrease in its water consumption of 1.1% compared to volumes in 2012-13. Overall our water consumption has reduced by 8.4% since 2009-10, the Greening Government Commitment baseline year. Our consumption per head has also reduced from 8.38m<sup>3</sup> to 4.81m<sup>3</sup> as a result of our office rationalisation programme and better management of our properties resulting in fewer undetected leaks.</p>					



## 7. Core tables

### Table 1: Public spending

<b>Total departmental spending, 2009-10 to 2015-16 (£'000)</b>							
	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>
	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>	<b>Plans</b>
<b>Resource DEL</b>							
A: Tolled Crossings	-87,558	-85,767	-87,715	-86,163	-99,519	-101,429	-136,486
B: Local Authority Transport	50,443	335,768	250,520	234,681	409,581	334,398	426,285
Highways Agency	1,977,593	1,652,564	1,881,488	1,855,032	1,877,665	1,862,069	-
C: Highways England (net)	-	-	-	-	-	-	2,275,942
Network Rail	-166,475	-187,237	-199,226	-218,382	-240,898	-361,538	-
D: Funding of Other ALBs (net)	26,406	7,212	27,930	199,902	221,672	19,889	121,813
E: Other railways	234,081	254,638	237,213	190,359	213,728	265,422	398,276
F: Sustainable Travel	111,583	105,591	52,376	150,709	142,464	153,831	188,652
G: Bus Subsidies & Concessionary Fares	733,861	736,856	518,875	350,765	293,559	262,032	242,458
H: GLA transport grants	2,558,911	2,774,169	2,804,060	2,835,008	1,988,430	1,777,465	660,000
I: Crossrail	-	-	-	-	-	-	-
Support For Olympic and Paralympic Games	-	2,060	2,162	5,510	-	-	-
J: Aviation, Maritime, Security and Safety	163,569	115,157	28,386	26,118	20,468	-27,211	71,098
K: Maritime and Coastguard Agency	131,976	127,025	136,838	136,849	154,904	166,951	299,789
L: Motoring Agencies	51,071	15,903	184,332	173,604	157,309	113,663	149,612
Renewable Fuels Agency (Net)	-	-265	-	-	-	-	-
M: Science, research and support functions	100,872	41,429	26,090	48,894	49,961	51,415	70,692
N: Central Administration	216,288	175,681	158,319	164,929	198,909	215,264	188,257
O: Departmental Unallocated Provision	-	-	-	-	-	-	95,800
P: Support for Passenger Rail Services	230,998	-483,236	-475,619	-788,476	-615,929	-1,209,529	-1,174,619
Q: High Speed Two	-	13,961	31,796	3,570	7,952	13,556	37,445
R: Funding of Other ALBs (net)	-	-	-	-	10,613	7,770	11,894
Driver and Vehicle Licensing Agency trading fund (net)	196,814	171,366	-	-	-	-	-
Other Railways	18,938	22,489	-	-	-	-	-
Central Administration	62	32,238	-	-	-	-	-

<b>Total departmental spending, 2009-10 to 2015-16 (£'000)</b>							
	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>
	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>	<b>Plans</b>
Highways Agency	-1,339	-21,328	-	-	-	-	-
<b>Total Resource DEL</b>	<b>6,548,094</b>	<b>5,806,274</b>	<b>5,577,825</b>	<b>5,282,909</b>	<b>4,790,869</b>	<b>3,544,018</b>	<b>3,926,908</b>
<i>Of which:</i>							
Staff costs	614,779	611,552	600,941	597,036	667,854	610,566	594,185
Purchase of goods and services	1,910,133	1,727,207	1,822,565	1,941,873	2,045,876	1,830,919	2,175,716
Income from sales of goods and services	-574,296	-838,095	-920,874	-955,756	-960,610	-692,598	-683,135
Current grants to local government (net)	3,335,059	3,814,501	3,493,763	3,515,034	2,847,010	2,455,915	1,362,801
Current grants to persons and non-profit bodies (net)	70,998	64,584	38,715	41,437	39,992	32,259	49,657
Current grants abroad (net)	421	-197	-2,087	3,268	3,590	5,304	3,706
Subsidies to private sector companies	865,245	844,528	789,483	756,403	763,519	562,384	837,133
Subsidies to public corporations	80,143	58,142	6,706	18,141	11,214	27,555	22,202
Net public service pensions <sup>2</sup>	9,906	8,750	9,940	8,872	9,353	7,624	19,107
Rentals	-3,289	17,708	10,214	6,886	33,914	9,933	4,794
Depreciation <sup>1</sup>	895,875	630,760	898,470	967,720	1,006,805	991,768	1,337,000
Release of provision	-	-	-	-	-	-	-500
Change in pension scheme liabilities	-	20,000	-100	-	-8,990	63,475	-
Unwinding of the discount rate on pension scheme liabilities	-	-	17,300	-	-	-	-
Other resource	-656,880	-1,153,166	-1,187,211	-1,618,005	-1,668,658	-2,361,086	-1,891,558
Unallocated funds – resource	-	-	-	-	-	-	95,800
<b>Resource AME</b>							
Tolled Crossings	-	-	150,000	-	-	-	-
Highways Agency	636,431	627,712	491,676	390,784	622,254	748,805	-
S: Highways England (net)	-	-	-	-	-	-	851,000
Network Rail	-	-	-	-	-	-22,681	-
T: Network Rail (net)	-	-	-	-	-	-	3,337,295
U: Funding of Other ALBs (net)	-	-	-	-3,894	-30	180	56,390
V: Other Railways	596,338	-312,425	197,886	206,571	269,357	193,383	188,393
W: GLA transport grants	-61,960	45	-60	84	-8	-10	-10
X: Aviation, Maritime, Security and Safety	-	-	-	-	-	-2,030	-3,756
Y: Maritime and Coastguard Agency	2,002	24	1,725	533	-2,168	-390	-1,800
Z: Motoring Agencies	775	-3,362	46,241	3,148	-26,110	-5,965	-4,000
AA: Central Administration	-9,178	11,529	-10,324	-6,921	14,312	-16,629	1,004,457
AB: Funding of Other ALBs (net)	-	-	-	-	-1,140	-418,975	-500

<b>Total departmental spending, 2009-10 to 2015-16 (£'000)</b>							
	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>
	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>	<b>Plans</b>
Other Railways	2,587	188,360	-	-	-	-	-
Central Administration	-62	-	-	-	-	-	-
Highways Agency	-21,745	-	-	-	-	-	-
Aviation, Maritime, Security and Safety	-1,728	-	-	-	-	-	-
Support for Passenger Rail Services	-39	-10,800	-1,600	-	-	-	-
<b>Total Resource AME</b>	<b>1,143,421</b>	<b>501,083</b>	<b>875,544</b>	<b>590,305</b>	<b>876,467</b>	<b>475,688</b>	<b>5,427,469</b>
<i>Of which:</i>							
Staff costs	-	-	-	-	-	-322	1,854,587
Purchase of goods and services	10,100	-	75	72	-7,108	-1,919	1,204,198
Current grants to local government (net)	-	-	-	-	-	-	-446,000
Rentals	-	-	-	-	-	-	-271,382
Depreciation <sup>1</sup>	395,278	691,331	507,353	310,463	629,785	742,564	3,783,169
Take up of provisions	305,231	-340,185	56,397	6,404	88,324	-42,294	216,739
Release of provision	-118,113	-87,347	-57,301	-29,340	-44,096	-42,656	-51,523
Change in pension scheme liabilities	-	-	-	-	-	23,172	56,890
Other resource	550,925	237,284	369,020	302,706	209,562	-202,857	-919,209
<b>Total Resource Budget</b>	<b>7,691,515</b>	<b>6,307,357</b>	<b>6,453,369</b>	<b>5,873,214</b>	<b>5,667,336</b>	<b>4,019,706</b>	<b>9,354,377</b>
<i>Of which:</i>							
Depreciation <sup>1</sup>	1,291,153	1,322,091	1,405,823	1,278,183	1,636,590	1,734,332	5,120,169
<b>Capital DEL</b>							
A: Tolled Crossings	-	-2,652	19,961	-2,013	-4,533	-4,220	-
B: Local Authority Transport	1,774,851	1,598,692	1,679,928	1,349,715	1,744,410	1,962,257	1,482,522
Highways Agency	1,926,999	1,601,856	1,281,519	967,882	1,342,347	1,859,541	-
C: Highways England (net)	-	-	-	-	-	-	1,782,000
Network Rail	3,366,096	3,395,356	3,541,928	3,696,008	3,408,514	3,862,411	-
D: Funding of Other ALBs (net)	13,875	8,967	11,011	18,907	13,939	145,295	385,875
E: Other railways	484,745	251,466	52,370	54,587	147,718	22,602	101,862
F: Sustainable Travel	51,091	54,346	28,714	144,776	224,919	217,767	264,850
G: Bus Subsidies & Concessionary Fares	14,803	20,636	110,108	-1,047	15,110	3,901	28,114
H: GLA transport grants	100,000	-	439,000	352,000	301,000	30,000	925,000
I: Crossrail	-	220,000	517,000	1,205,000	1,122,776	1,082,200	800,000
Support For Olympic and Paralympic Games	202,901	233,799	-	-	-	-	-



<b>Total departmental spending, 2009-10 to 2015-16 (£'000)</b>							
	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>
	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>	<b>Plans</b>
J: Aviation, Maritime, Security and Safety	23,656	4,952	4,281	4,261	11,326	3,947	34,591
K: Maritime and Coastguard Agency	9,751	4,504	6,888	8,879	24,049	7,902	10,100
L: Motoring Agencies	23,808	-29,940	-4,809	3,927	-12,705	-18,979	-6,392
M: Science, research and support functions	1,508	1,054	1,598	332	4,318	67	1,480
N: Central Administration	7,848	6,650	1,508	1,446	3,392	1,362	-
P: Support for Passenger Rail Services	11,000	21,000	-	-	-	-	-
Q: High Speed Two	-	1	399	22,890	106,826	180,883	308,900
R: Funding of Other ALBs (net)	-	-	-	-	6,108	5,653	-
Supported Capital Expenditure (Revenue)	208,758	211,871	-	-	-	-	-
Driver and Vehicle Licensing Agency trading fund (net)	30,865	19,062	-	-	-	-	-
Other GLA Transport Grant	-	-	-	-	-	-	-
Other Railways	-	-241,000	-	-	-	-	-
Tolled Crossings	-	-86,877	-	-	-	-	-
Aviation, Maritime, Security and Safety	323	4,967	-5,118	-	-	-	-
<b>Total Capital DEL</b>	<b>8,252,878</b>	<b>7,298,710</b>	<b>7,686,286</b>	<b>7,827,550</b>	<b>8,459,514</b>	<b>9,362,589</b>	<b>6,118,902</b>
<i>Of which:</i>							
Capital support for local government (net)	2,170,124	2,114,279	2,788,737	3,043,892	3,373,210	3,187,772	3,362,765
Capital grants to persons & non-profit bodies (net)	854	8,743	19,305	818	-85	1,241	185,152
Capital grants to private sector companies (net)	3,713,938	3,624,369	3,558,921	3,759,130	3,680,295	4,098,630	300,054
Capital grants abroad (net)	-28,868	-6,862	-16,284	-37,590	-25,346	-24,326	-70,000
Capital support for public corporations	185,771	-241,536	-36,674	-28,459	-16,486	-378,444	-26,342
Purchase of assets	2,001,905	1,653,509	1,361,405	1,083,903	1,430,967	2,135,125	2,276,672
Income from sales of assets	-8,542	-6,519	-8,624	-11,879	-13,529	-15,638	-15,000
Net lending to the private sector and abroad	3,600	-86,877	-	-360	-2,616	-360	-360
Other capital	214,096	239,604	19,500	18,095	33,104	358,589	105,961
<b>Capital AME</b>							
<i>Highways Agency</i>	-	-	-33,464	-60,819	-45,681	15,425	-
S: Highways England (net)	-	-	-	-	-	-	1
Network Rail	-	-	-	-	-	6,450,000	-
T: Network Rail (net)	-	-	-	-	-	-	7,773,588
U: Funding of Other ALBs (net)	-	-	-	-	-	-9,907	-

<b>Total departmental spending, 2009-10 to 2015-16 (£'000)</b>							
	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>
	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>	<b>Plans</b>
V: Other Railways	-	-	-	-	-	-7	-
X: Aviation, Maritime, Security and Safety	-	-	-	-	-	190,000	-20,000
High Speed Two	-	-	-	-	58,314	49,802	-
<b>Total Capital AME</b>	<b>-</b>	<b>-</b>	<b>-33,464</b>	<b>-60,819</b>	<b>12,633</b>	<b>6,695,313</b>	<b>7,753,589</b>
<i>Of which:</i>							
Take up of provisions	-	-	-33,464	3,377	73,147	138,869	-
Release of provision	-	-	-	-90,295	-60,514	-73,642	-27,831
Capital support for local government (net)	-	-	-	-	-	-	-107,675
Purchase of assets	-	-	-	26,099	-	-	7,909,095
Other capital	-	-	-	-	-	6,630,086	-20,000
<b>Total Capital Budget</b>	<b>8,252,878</b>	<b>7,298,710</b>	<b>7,652,822</b>	<b>7,766,731</b>	<b>8,472,147</b>	<b>16,057,902</b>	<b>13,872,491</b>
<b>Total departmental spending<sup>3</sup></b>	<b>14,653,240</b>	<b>12,283,976</b>	<b>12,700,368</b>	<b>12,361,762</b>	<b>12,502,893</b>	<b>18,343,276</b>	<b>18,106,699</b>
<i>Of which:</i>							
Total DEL	13,905,097	12,474,224	12,365,641	12,142,739	12,243,578	11,914,839	8,708,810
Total AME	748,143	-190,248	334,727	219,023	259,315	6,428,437	9,397,889

**Notes:**

1. Includes impairments.

2. Pension schemes report under FRS 17 accounting requirements. These figures therefore include cash payments made and contributions received, as well as certain non-cash items.

3. Total departmental spending is the sum of the resource budget and the capital budget less depreciation. Similarly, total DEL is the sum of the resource budget DEL and capital budget DEL less depreciation in DEL, and total AME is the sum of resource budget AME and capital budget AME less depreciation in AME.

4. Figures for 2015-16 do NOT take account of intended changes that were announced in June 2015.

Table 2: Public spending control

<b>To supplement Table 1, 2014-15 outturn figures (from Table 1) against the original and final budgetary control limits. (£'000)</b>				
	<b>2014-15</b>	<b>2014-15</b>	<b>2014-15</b>	<b>2014-15</b>
	<b>Provision</b>	<b>Final Provision</b>	<b>Outturn</b>	<b>Variance</b>
	<b>Main Estimate</b>	<b>After Supplementary</b>	<b>As per Departmental Accounts</b>	<b>Between Final Provision and Estimated Outturn</b>
<b>Voted Resource DEL Administration</b>				
Section C: Highways Agency	59,684	70,984	68,855	2,129
Section E: Funding of NDPBs (net)	10,734	10,754	11,069	-315
Section L: Maritime and Coastguard Agency	7,875	7,875	7,504	371
Section O: Central Administration	204,031	185,494	176,968	8,526
<b>Voted Resource DEL Programme</b>				
Section A: Tolled Crossings	-102,952	-103,580	-101,429	-2,151
Section B: Local Authority Transport	303,724	305,024	334,398	-29,374
Section C: Highways Agency	1,823,634	1,795,335	1,793,214	2,121
Section D: Network Rail	-336,966	-359,538	-361,538	2,000
Section E: Funding of NDPBs (net)	223,178	-5,406	8,820	-14,226
Section F: Other railways	349,037	224,821	265,422	-40,601
Section G: Sustainable Travel	146,650	146,441	153,831	-7,390
Section H: Bus subsidies and Concessionary Fares	267,771	250,668	262,032	-11,364
Section I: GLA transport grants	1,744,465	1,755,964	1,777,465	-21,501
Section J: Crossrail	-	-	-	-
Section K: Aviation, Maritime, Security and Safety	41,441	22,070	-27,211	49,281
Section L: Maritime and Coastguard Agency	161,449	162,141	159,447	2,694
Section M: Motoring Agencies	134,124	120,715	113,663	7,052
Section N: Science, research and support functions	73,966	74,726	51,415	23,311
Section O: Central Administration	31,376	30,317	38,296	-7,979
Section P: Support for Passenger Rail Services	-822,567	-1,110,548	-1,209,529	98,981
Section Q: High Speed Two	15,975	16,552	13,556	2,996
<b>Non-voted Resource DEL</b>				
<b>Non-voted DEL Administration</b>				
Section S: Funding of NDPBs (net)	5,576	7,505	-	-
<b>Non-voted DEL Programme</b>				
Section R: Motoring Agencies	6,000	1	-	
Section S: Funding of NDPBs (net)	841	12,757	790	11,967
<b>Resource DEL Sub total</b>	<b>4,349,046</b>	<b>3,621,072</b>	<b>3,544,018</b>	<b>77,054</b>
<i>Of which:</i>				
Voted	4,336,629	3,600,809	3,536,248	64,561
Non-voted	12,417	20,263	7,770	12,498

<b>To supplement Table 1, 2014-15 outturn figures (from Table 1) against the original and final budgetary control limits. (£'000)</b>				
	<b>2014-15</b>	<b>2014-15</b>	<b>2014-15</b>	<b>2014-15</b>
	<b>Provision</b>	<b>Final Provision</b>	<b>Outturn</b>	<b>Variance</b>
	<b>Main Estimate</b>	<b>After Supplementary</b>	<b>As per Departmental Accounts</b>	<b>Between Final Provision and Estimated Outturn</b>
Depreciation <sup>1</sup>	936,048	1,008,069	991,768	16,301
Departmental Administration limit	287,900	282,612	271,376	11,236
Departmental Programme limit	4,061,146	3,338,460	3,272,642	65,818
<b>Total Resource DEL<sup>2</sup></b>	<b>3,412,998</b>	<b>2,613,003</b>	<b>2,552,250</b>	<b>60,753</b>
Depreciation <sup>1</sup>	-936,048	-1,008,069	-991,768	-16,301
<b>Voted Resource AME</b>				
Section T: Highways Agency	924,638	884,638	748,805	135,833
Section U: Network Rail	-	-62,685	-22,681	-40,004
Section V: Funding of NDPBs (net)	1	57,511	180	57,331
Section W: Other railways	298,742	296,723	193,383	103,340
Section X: GLA transport grants	-10	-22	-10	-12
Section Y: Aviation, Maritime, Security and Safety	220,000	10,000	-2,030	12,030
Section Z: Maritime and Coastguard Agency	2,700	1,100	-390	1,490
Section AA: Motoring Agencies	-7,900	-7,714	-5,965	-1,749
Section AB: Central Administration	122,367	-4,635	-16,629	11,994
Section AC: High Speed Two	-	-	-	-
<b>Non-voted Resource AME</b>				
Section AD: Funding of NDPBs (net)	-722	-417,880	-418,975	1,095
<b>Resource AME Subtotal</b>	<b>1,559,816</b>	<b>757,036</b>	<b>475,688</b>	<b>281,348</b>
<i>Of which:</i>				
Voted	1,560,538	1,174,916	894,663	280,253
Non-voted	-722	-417,880	-418,975	1,095
Depreciation <sup>1</sup>	923,504	881,496	742,564	138,932
<b>Total Resource AME<sup>2</sup></b>	<b>636,312</b>	<b>-124,460</b>	<b>-266,876</b>	<b>142,416</b>
Depreciation <sup>1</sup>	-923,504	-881,496	-742,564	-138,932
<b>Total Resource Budget<sup>2</sup></b>	<b>4,049,310</b>	<b>2,488,543</b>	<b>2,285,374</b>	<b>203,169</b>
<i>Of which:</i>				
Depreciation <sup>1</sup>	-1,859,552	-1,889,565	-1,734,332	-155,233
<b>Voted Capital DEL</b>				
Section A: Tolloed Crossings	-1,969	-4,969	-4,220	-749
Section B: Local Authority Transport	1,984,075	1,968,682	1,962,257	6,425
Section C: Highways Agency	1,933,205	1,823,205	1,859,541	-36,336
Section D: Network Rail	3,737,411	3,862,411	3,862,411	-
Section E: Funding of NDPBs (net)	44,653	161,170	145,295	15,875
Section F: Other railways	48,025	66,122	22,602	43,520

<b>To supplement Table 1, 2014-15 outturn figures (from Table 1) against the original and final budgetary control limits. (£'000)</b>				
	<b>2014-15</b>	<b>2014-15</b>	<b>2014-15</b>	<b>2014-15</b>
	<b>Provision</b>	<b>Final Provision</b>	<b>Outturn</b>	<b>Variance</b>
	<b>Main Estimate</b>	<b>After Supplementary</b>	<b>As per Departmental Accounts</b>	<b>Between Final Provision and Estimated Outturn</b>
Section G: Sustainable Travel	189,800	250,818	217,767	33,051
Section H: Bus subsidies and Concessionary Fares	2,791	2,840	3,901	-1,061
Section I: GLA transport grants	15,000	30,000	30,000	-
Section J: Crossrail	1,082,200	1,082,200	1,082,200	-
Section K: Aviation, Maritime, Security and Safety	24,993	12,610	3,947	8,663
Section L: Maritime and Coastguard Agency	10,906	10,906	7,902	3,004
Section M: Motoring Agencies	5,843	-17,321	-18,979	1,658
Section N: Science, research and support functions	7,783	5,979	67	5,912
Section O: Central Administration	1,876	2,203	1,362	841
Section P: Support for Passenger Rail Services	-	-	-	-
Section Q: High Speed Two	150,000	204,300	180,883	23,417
<b>Non-Voted Capital DEL</b>				
Section S: Funding of NDPBs (net)	8,939	-	5,653	-5,653
<b>Capital DEL Subtotal</b>	<b>9,245,531</b>	<b>9,461,156</b>	<b>9,362,589</b>	<b>98,567</b>
<i>Of which:</i>				
Voted	9,236,592	9,461,156	9,356,936	104,220
Non-voted	8,939	-	5,653	-5,653
<b>Capital AME</b>				
Section T: Highways Agency	1	35,300	15,425	19,875
Section U: Network Rail	6,500,000	6,500,000	6,450,000	50,000
Section V: Funding of NDPBs (net)	-	1	-9,907	9,908
Section W: Other railways	-	-	-7	7
Section Y: Aviation, Maritime, Security and Safety	-	210,000	190,000	20,000
Section AC: High Speed Two	10,000	137,833	49,802	88,031
<b>Total Capital AME</b>	<b>6,510,001</b>	<b>6,883,134</b>	<b>6,695,313</b>	<b>187,821</b>
<b>Total Capital Budget</b>	<b>15,755,532</b>	<b>16,344,290</b>	<b>16,057,902</b>	<b>286,388</b>
<b>Total departmental spending<sup>2</sup></b>	<b>19,804,842</b>	<b>18,832,833</b>	<b>18,243,276</b>	<b>489,557</b>
<i>Of which:</i>				
Total DEL	12,658,529	12,074,159	11,914,839	159,320
Total AME	7,146,313	6,758,674	6,428,437	330,237

**Note:**

1. Includes impairments.
2. Total departmental spending is the sum of the resource budget and the capital budget less depreciation. Similarly, total DEL is the sum of the resource budget DEL and capital budget DEL less depreciation in DEL, and total AME is the sum of resource budget AME and capital budget AME less depreciation in AME.
3. Explanations for major variances between final budget and outturn can be found in the management report of the Accounts.
4. Figures do not include Non Budget items such as Prior Period Adjustments.

Table 3: Capital employed

<b>Capital employed (£'000)</b>							
	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>
	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn (Restated)</b>	<b>Outturn</b>	<b>Plans</b>	<b>Plans</b>
<b>Assets and Liabilities on the Statement of Financial Position at end of year:</b>							
<b>Assets</b>							
<b>Non-current assets</b>							
Intangible	119,067	107,576	101,549	85,505	68,103	68,716	68,334
Tangible	103,860,369	112,147,270	113,210,570	115,532,363	116,591,845	117,641,173	118,699,943
<i>Of which:</i>							
National trunk road	98,674,177	107,388,626	108,918,044	111,097,590	111,889,484	112,896,488	113,912,557
Infrastructure assets	3,469,247	3,422,678	3,377,143	3,331,091	3,285,039	3,314,604	3,344,436
Assets under construction	1,176,336	763,856	368,234	551,761	716,073	722,518	729,020
Land	150,642	168,782	163,917	175,465	274,557	277,028	279,521
Buildings	217,875	225,233	223,222	226,316	287,803	290,393	293,007
Dwellings	57,060	60,979	60,715	61,163	48,964	49,405	49,849
Plant and machinery	85,009	76,849	69,962	54,895	52,790	53,265	53,744
Furniture and fittings	19,643	17,021	14,015	10,864	6,198	6,254	6,310
Transport equipment	1,848	2,237	1,986	5,535	4,410	4,450	4,490
Information technology	8,532	21,006	13,332	17,683	26,527	26,768	27,009
Investments	639,681	733,485	719,830	1,577,630	7,728,763	7,798,322	7,868,507
Trade and other receivables	3,514,284	3,628,379	4,065,139	3,791,363	3,795,550	3,829,710	3,864,177
Inventory (non-current)	2,906	2,882	2,931	3,860	3,860	3,895	3,930
<b>Current assets</b>	<b>1,007,485</b>	<b>936,313</b>	<b>850,037</b>	<b>908,576</b>	<b>1,211,717</b>	<b>1,222,622</b>	<b>1,233,626</b>
<b>Liabilities</b>							
Payables (<1 year)	(2,236,505)	(1,744,892)	(1,535,059)	(1,569,687)	(1,588,063)	(1,514,638)	(1,528,447)
Payables (>1 year)	(7,478,704)	(7,684,637)	(7,732,822)	(7,658,805)	(7,469,019)	(7,536,240)	(7,604,066)
Provisions	(416,626)	(413,900)	(340,921)	(618,989)	(638,211)	(643,955)	(649,750)
Financial instruments	(3,220,839)	(3,310,477)	(3,730,120)	(3,662,772)	(3,776,001)	(3,809,985)	(3,844,275)
Pension liability	(1,012,542)	(1,249,242)	(1,462,801)	(1,514,426)	(1,496,100)	(1,509,565)	(1,523,151)
<b>Capital employed within core department</b>	<b>94,778,576</b>	<b>103,152,755</b>	<b>104,148,333</b>	<b>106,874,618</b>	<b>114,432,444</b>	<b>115,549,879</b>	<b>116,589,828</b>
<b>ALB net assets/(liabilities)</b>	<b>388,106</b>	<b>294,406</b>	<b>27,292</b>	<b>(423,723)</b>	<b>(81,734)</b>	<b>(82,471)</b>	<b>(83,213)</b>
<b>Total capital employed in departmental group</b>	<b>95,166,682</b>	<b>103,447,161</b>	<b>104,175,625</b>	<b>106,450,895</b>	<b>114,350,710</b>	<b>115,467,408</b>	<b>116,506,615</b>

Table 4: Administration budgets

<b>Administration budgets 2009-10 to 2015-16 (£'000)</b>							
	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>
	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>	<b>Plans</b>
<b>Resource DEL</b>							
<i>Highways Agency</i>	82,202	79,261	58,594	63,643	63,243	68,855	-
C: Highways England (net)	-	-	-	-	-	-	56,109
D: Funding of Other ALBs (net)	6,214	9,600	8,826	11,622	11,271	11,069	11,526
K: Maritime & Coastguard Agency	13,806	14,000	9,143	8,486	7,937	7,504	8,000
L: Motoring Agencies	1,980	4,511	6,230	1,213	-	-	-
N: Central Administration	193,410	168,886	133,951	157,967	151,273	176,968	192,636
R: Funding of Other ALBs	-	-	-	-	6,359	6,980	6,678
<i>Central Administration</i>	62	-	-	-	-	-	-
<b>Total administration budget</b>	<b>297,674</b>	<b>276,258</b>	<b>216,744</b>	<b>242,931</b>	<b>240,083</b>	<b>271,376</b>	<b>274,949</b>
<i>Of which:</i>							
Staff costs	193,685	191,432	129,157	140,221	142,132	142,474	151,305
Purchase of goods and services	123,785	88,847	94,537	92,455	98,255	125,689	120,976
Income from sales of goods and services	-35,839	-31,634	-27,984	-17,251	-12,655	-16,411	-4,067
Subsidies to public corporations	-	-	-	-	-	3,532	-
Rentals	13,729	15,117	10,843	9,635	7,897	7,746	-
Depreciation	9,382	8,359	6,623	8,653	5,366	4,377	6,500
Change in pension scheme liabilities	-	-	-	-	-1,207	-	-
Other resource	-7,068	4,137	3,568	9,218	295	3,969	235

**Notes:**

1. Government Car & Despatch Agency disbanded during 2012-13 following which the work has been undertaken within the Department. The Administration therefore falls under Central Administration section from 2013-14 onwards.
2. General Lighthouse Authorities consolidated into the Department's accounts for 2013-14 and beyond.
3. To ensure that the Department was resourced to deliver its agenda, particularly around letting and managing rail franchise contracts following the Laidlaw and Brown reviews, HM Treasury agreed to switch £25m from DfT's Programme to Administration budgets, increasing the Department's 2014-15 Administration budget to £275m, plus £13m for depreciation.

Table 5: Staff in post

<b>Permanent staff (payroll) and non-payroll in post at 31 March</b>						
	<b>2012-13</b>		<b>2013-14</b>		<b>2014-15</b>	
	<b>Payroll</b>	<b>Non-Pay</b>	<b>Payroll</b>	<b>Non-Pay</b>	<b>Payroll</b>	<b>Non-Pay</b>
Department for Transport	1,696.4	80.3	1,794.2	113.2	1,775.9	116.5
Driving Standards Agency	2,266.4	0.0	2,112.7	7.0	2,082.0	12.0
Driving & Vehicle Licensing Agency	5,641.0	3.5	4,979.5	5.6	5,168.7	3.6
Shared Service Centre	215.5	15.0	0.0	0.0	0.0	0.0
Government Car & Despatch Agency	82.0	0.0	0.0	0.0	0.0	0.0
Highways Agency	3,218.9	28.0	3,346.8	27.2	3,459.1	29.6
Maritime & Coastguard Agency	1,020.6	8.0	1,000.2	31.0	991.0	23.4
Vehicle Certification Agency	146.4	35.7	153.2	4.0	157.4	3.5
Vehicle & Operator Service Agency	2,178.7	43.7	2,180.7	75.2	2,191.2	110.0
<b>Department Total</b>	<b>16,465.9</b>	<b>214.2</b>	<b>15,567.3</b>	<b>263.1</b>	<b>15,825.3</b>	<b>298.6</b>

**Notes:**

1. This table shows numbers of staff on payroll and numbers of consultants and contingent labour, i.e. interim managers, specialist contractors and agency, as non-payroll.
2. The staff numbers are full-time equivalents (FTE); two staff each working 50% of conditioned hours count as one FTE.
3. The data is for the end of the financial year to which it relates, so the 2012-13 figures are for 31 March 2013.
4. For data prior to 2012 please refer to Department for Transport Annual Report and Accounts 2011-12.
5. Payroll data is calculated using the ONS definition of 'headcount'. This includes all employees with an employment contract who are being paid by the organisation. It excludes self-employed, contract workers and agency workers. This cannot be directly compared to Note 3 of the Departmental Accounts figures for Permanently employed staff, which excludes short-term contract staff who are being paid by the organisation, which is captured under the Others heading.
6. Staff costs in Note 3 to the accounts have increased by £9.4m (1.27%).

<b>Staff in the executive non-departmental public bodies</b>						
	<b>2012-13</b>		<b>2013-14</b>		<b>2014-15</b>	
	<b>Payroll</b>	<b>Non-Pay</b>	<b>Payroll</b>	<b>Non-Pay</b>	<b>Payroll</b>	<b>Non-Pay</b>
<b>British Transport Police Authority</b>	8.5	1.0	10.5	2.0	13.0	0.0
<b>Directly Operated Railways Ltd</b>	2.8	1.9	9.3	0.0	12.2	0.0
<b>High Speed 2</b>	204.2	73.9	400.9	200.6	454.0	327.0
<b>Northern Lighthouse Board</b>	180.7	1.7	175.6	2.3	172.0	2.2
<b>Passenger Focus</b>	44.6	3.0	40.3	2.9	39.0	7.0
<b>Trinity House Lighthouse Service</b>	298.0	5.0	291.0	0.0	298.7	6.4
<b>NDPB Total</b>	<b>738.8</b>	<b>86.5</b>	<b>927.6</b>	<b>207.8</b>	<b>988.9</b>	<b>342.6</b>

**Notes:**

1. This table shows the number of staff on payroll and the number of consultants and contingent labour, ie interim managers, specialist contractors and agency as non-payroll.
2. The staff numbers are full-time equivalents (FTE); two staff each working 50% of conditioned hours count as one FTE.
3. The increase in HS2 Ltd staff from 2012-13 follows the Secretary of State's decision in January 2012 to proceed with the high speed rail programme. The growth reflects the need for HS2 Ltd to increase resources to deliver its revised remit.



Table 6: Total spending by country and region

<b>Total identifiable expenditure on services by country and region, 2009-10 to 2013-14</b>					
<b>Department for Transport</b>	<b>National Statistics (£ million)</b>				
	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>
North East	352	297	259	248	262
North West	1,047	831	790	760	754
Yorkshire and the Humber	916	817	832	803	813
East Midlands	709	577	502	416	499
West Midlands	824	598	575	571	630
East	936	1,113	1,008	707	736
London	1,430	1,393	1,347	1,350	1,298
South East	1,523	1,237	1,102	1,166	1,351
South West	641	547	511	508	438
<b>Total England</b>	<b>8,377</b>	<b>7,411</b>	<b>6,926</b>	<b>6,530</b>	<b>6,780</b>
Scotland	188	151	162	164	167
Wales	216	217	205	213	202
Northern Ireland	11	8	7	7	7
UK identifiable expenditure	8,792	7,786	7,300	6,913	7,156
Outside UK	6	6	4	2	4
Total identifiable expenditure	8,797	7,792	7,303	6,915	7,160
Non-identifiable expenditure	150	149	184	416	622
<b>Total expenditure on services</b>	<b>8,947</b>	<b>7,941</b>	<b>7,487</b>	<b>7,331</b>	<b>7,782</b>

Table 7: Total spending per head by country and region

<b>Total identifiable expenditure on services by country and region, per head 2009-10 to 2013-14</b>					
<b>Department for Transport</b>	<b>National Statistics (£ per head)</b>				
	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>
North East	137	115	100	95	100
North West	150	118	112	107	106
Yorkshire and the Humber	175	156	157	151	152
East Midlands	159	128	111	91	108
West Midlands	149	107	103	101	111
East	163	192	172	120	124
London	180	173	164	162	154
South East	179	144	127	134	154
South West	123	104	96	95	81
<b>England</b>	<b>160</b>	<b>141</b>	<b>130</b>	<b>122</b>	<b>126</b>
Scotland	36	29	31	31	31
Wales	71	71	67	69	65
Northern Ireland	6	4	4	4	4
<b>UK identifiable expenditure per head</b>	<b>141</b>	<b>124</b>	<b>115</b>	<b>109</b>	<b>112</b>

Table 8: Spending by function or programme, by country and region

Expenditure on services by sub-function, 2013-14																
National Statistics (£ million)																
Department for Transport	North East	North West	Yorkshire and the Humber	East Midlands	West Midlands	East	London	South East	South West	England	Scotland	Wales	Northern Ireland	Outside UK	Not Identifiable	Grand Total
<b>Public order and safety</b>																
Police Services	14	37	28	24	30	31	44	46	28	280	28	16	0	-	-	324
<i>Of which: immigration and citizenship</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Of which: other police services</i>	14	37	28	24	30	31	44	46	28	280	28	16	0	-	-	324
<b>Total public order and safety</b>	<b>14</b>	<b>37</b>	<b>28</b>	<b>24</b>	<b>30</b>	<b>31</b>	<b>44</b>	<b>46</b>	<b>28</b>	<b>280</b>	<b>28</b>	<b>16</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>324</b>
<b>Economic Affairs</b>																
Transport	246	709	778	469	594	696	1,247	1,295	402	6,436	127	182	6	0	617	7,368
<i>Of which: national roads</i>	113	138	267	257	281	399	37	685	158	2,335	9	6	3	-	-	2,354
<i>Of which: local roads</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Of which: local public transport</i>	19	32	40	35	27	18	46	33	26	276	-	1	-	-	-	277
<i>Of which: railway</i>	103	507	439	155	258	247	1,068	493	197	3,467	107	165	0	-	-	3,740
<i>Of which: other transport</i>	11	32	32	21	28	32	96	84	22	357	11	10	2	0	617	997
R&D economic affairs	3	8	7	6	7	9	7	10	8	63	12	3	1	4	6	89
<b>Total economic affairs</b>	<b>249</b>	<b>717</b>	<b>785</b>	<b>475</b>	<b>600</b>	<b>704</b>	<b>1,254</b>	<b>1,305</b>	<b>410</b>	<b>6,499</b>	<b>139</b>	<b>186</b>	<b>6</b>	<b>4</b>	<b>622</b>	<b>7,457</b>
<b>Environment protection</b>																
Pollution abatement	0	0	0	0	0	0	0	0	0	1	0	0	-	-	-	1
<b>Total environment protection</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1</b>
<b>Total</b>	<b>262</b>	<b>754</b>	<b>813</b>	<b>499</b>	<b>630</b>	<b>736</b>	<b>1,298</b>	<b>1,351</b>	<b>438</b>	<b>6,780</b>	<b>167</b>	<b>202</b>	<b>7</b>	<b>4</b>	<b>622</b>	<b>7,782</b>

**Tables 6, 7 and 8** show analyses of the department's spending by country and region, and by function. The data presented in these tables are consistent with the country and regional analyses (CRA) published by HM Treasury in the November 2014 release.<sup>70</sup> The figures were largely taken from the **Online System for Central Accounting and Reporting (OSCAR)** during the summer of 2014 and the regional distributions were completed by the following autumn (taking on board any revisions to departmental totals). Please note that totals may not sum due to rounding.

The analyses are set within the overall framework of Total Expenditure on Services (TES). TES broadly represents the current and capital expenditure of the public sector, with some differences from the national accounts measure Total Managed Expenditure. The tables show the central government and public corporation elements of TES. They include current and capital spending by the department and its NDPBs, and public corporations' capital expenditure, but do not include capital finance to public corporations. They do not include payments to local authorities or local authorities own expenditure.

TES is a cash equivalent measure of public spending. The tables do not include depreciation, cost of capital charges, or movements in provisions that are in departmental budgets. They do include pay, procurement, capital expenditure, and grants and subsidies to individuals and private sector enterprises. Further information on TES can be found in Appendix E of PESA 2014.<sup>71</sup>

The data feature both identifiable and non-identifiable spending:

- Identifiable expenditure on services – which is capable of being analysed as being for the benefit of individual countries and regions.
- Expenditure that is incurred for the benefit of the UK as a whole and cannot be disseminated by individual country or region is considered to be non-identifiable.

Across government, most expenditure is not planned or allocated on a regional basis. Social security payments, for example, are paid to eligible individuals irrespective of where they live. Expenditure on other programmes is allocated by looking at how all the projects across the department's area of responsibility, usually England, compare. So the analyses show the regional outcome of spending decisions that on the whole have not been made primarily on a regional basis.

The functional analyses of spending in **Table 8** are based on the United Nations Classification of the Functions of Government (COFOG), the international standard. The presentations of spending by function are consistent with those used in Chapter A of the CRA November 2014 release. These are not the same as the strategic priorities shown elsewhere in the report.

**Philip Rutnam**

22 June 2015

Permanent Secretary and Accounting Officer

Department for Transport

Great Minster House

33 Horseferry Road

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<sup>70</sup> [www.gov.uk/government/statistics/country-and-regional-analysis-2014](http://www.gov.uk/government/statistics/country-and-regional-analysis-2014)

<sup>71</sup> [www.gov.uk/government/statistics/public-expenditure-statistical-analyses-2014](http://www.gov.uk/government/statistics/public-expenditure-statistical-analyses-2014)

# Directors' Report

## 1. Introduction

The Department for Transport (DfT) is a central government Department. Its main role, together with its agencies, is to implement government transport policy and to advise ministers. To achieve this, it works alongside the devolved administrations, local authorities 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 companies to provide rail services on a franchised basis, maintains and improves motorways and major trunk roads, and develops and implements the Government's maritime safety and environmental protection strategies.

## 2. Scope

### 2.1. Entities consolidated

The Departmental Accounts present the consolidated results for the financial year ended 31 March 2015 for all the entities listed in Note 22.1 of the Accounts. Those entities linked to the Department but excluded from this consolidated account are detailed within Note 22.2.

## 3. Reform of public bodies

### 3.1. Reclassification of Network Rail

In December 2013 the Office for National Statistics (ONS) announced that Network Rail would be classified as a central government entity from 1 September 2014. The decision is retrospective, so national statistics will show Network Rail as if it had always been in the public sector. The main consequence of this reclassification is to bring the company's debt and any future borrowings onto the public sector balance sheet. More information on the decision is published on the ONS website.<sup>72</sup>

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<sup>72</sup> [www.ons.gov.uk/ons/guide-method/classifications/na-classifications/classification-articles/network-rail/index.html](http://www.ons.gov.uk/ons/guide-method/classifications/na-classifications/classification-articles/network-rail/index.html)

In April 2014, the Government announced that Network Rail would borrow directly from the Government, rather than by issuing debt in its own name. The Department worked with HM Treasury to offer Network Rail a loan facility going forward and this was agreed in July 2014. A loan agreement was published in September, alongside the Framework Agreement which sets out the new relationship between Network Rail and Her Majesty's Government.

The Framework Agreement aims to preserve Network Rail's ability to continue managing its business with appropriate commercial freedom within a proper regulatory and control framework to maintain effective public accountability. From 2015-16, Network Rail will be fully consolidated into the Department's Accounts.

### **3.2. Reclassification of LCR**

In July 2014, the Office for National Statistics announced that it had reclassified LCR Ltd from central government to the wider public sector, on the basis that it now covers more than half of its costs of production from its revenues. This is a consequence of the transfer of commercial properties from the British Railways Board Residuary (BRBR) at the end of September 2013, but also reflects the continuing success of LCR Ltd in delivering its legacy regeneration projects in King's Cross and Stratford. As a result of this reclassification, LCR Ltd is excluded from consolidation with effect from 1 October 2013, as set out in the Accounting Policies note on page 163 and Note 25 on page 227.

### **3.3. Highways Agency incorporation**

During the year, the Department put in place the legislation and governance framework to transform the Highways Agency into a government-owned strategic highways company, fulfilling the objectives of the Department's command paper Action for Roads (2013) and the actions set out in the Department's response to the consultation Transforming the Highways Agency into a government-owned company, launched in October 2013. This realises one of the key recommendations of Alan Cook's review of the Highways Agency, which was commissioned in 2010 to examine independently whether the Government had the right approach to operating, maintaining and enhancing the strategic road network.

The Infrastructure Act, which received Royal Assent on 12 February 2015, established the legal framework for the strategic highways company and the long-term Road Investment Strategy. The new company was incorporated under the name Highways England Company Ltd ("Highways England") in December 2014 and was appointed in April 2015 under the Act with assets, staff and contracts transferring under a separate transfer scheme. The government has put in place a robust system of governance to ensure that Highways England delivers the Secretary of State's Road Investment Strategy, published in December 2014 and its other statutory obligations efficiently and effectively, and can be held to account for its performance. This system includes the Licence (statutory directions and guidance issued by the Secretary of State to Highways England), the Framework Document (setting out Highways England's relationship with Government), tailored Articles of Association under the Companies Act and the Secretary of State's statutory guidance to ORR as the Highways Monitor. The Department has also put in place Memoranda of Understanding with ORR and Transport Focus defining how we will work with these organisations day to day in overseeing the activities and performance of Highways England. All of these arrangements have been published on the Department's website.

The governance of Highways England is exercised through the Strategic Roads sponsorship team and Corporate Finance team in the core Department. There is a shareholder team jointly led by Corporate Finance and the Shareholder Executive. These teams will inform the Secretary of State, the Principal Accounting Officer and the Department's board of developments.

### **3.4. Establishment of DVSA**

DVSA was created on 2 April 2014 from the merger of the Vehicle and Operator Services Agency (VOSA) and Driving Standards Agency (DSA). DVSA continued as two separate trading funds for its first year but will be united as a new single trading fund on 1 April 2015. An all-SCS permanent Directing Board was appointed during the year.

The new agency aims to improve road safety in Britain by setting standards for driving and motorcycling and ensuring drivers, vehicle operators and MOT garages understand and follow roadworthiness standards. It will also provide a range of licensing, testing, education and enforcement services.

Several core projects across the two agencies have been combined to form a clear programme of activity to take the agency forward. These include ICT modernisation, a review of the practical driving test and mobile IT for driving examiners, a move to arvato shared services provision, MoT Computerisation 2, the roll-out of Next Generation Testing and the development of Next Generation Enforcement.

### **3.5. VCA reform: commercial joint venture**

On 10 December 2014, the Transport Minister announced in a written statement that the competition to find a commercial partner to grow the work of the Vehicle Certification Agency had not been successful.

The Minister said that the VCA would continue to provide vehicle testing and certification services, as it does at present and that the Department would consult with a wide range of stakeholders before considering any alternative proposals.

### **3.6. Maritime and Coastguard Agency (MCA) reform**

MCA has continued to make considerable progress in implementing the Future Coastguard programme in line with the revised schedule announced by the Shipping Minister in September 2013. This revised schedule took into account the time taken in aligning future Coastguard changes with the departmental response to Civil Service reform.

Transition to the new HM Coastguard national network started in September 2014 when the National Maritime Operations Centre (NMOC) took responsibility for the areas formerly managed by the Maritime Rescue Coordination Centres (MRCC) at Lee-on-Solent and Portland. MCA have subsequently migrated the operational areas formerly managed by the MRCCs at Falmouth, Brixham, Holyhead, Liverpool, Milford Haven and Swansea into the national network. The MRCCs in Falmouth, Holyhead and Milford Haven are to become new Coastguard Operations Centres (CGOC) and the MRCCs in Brixham, Liverpool and Swansea are to close. The transition of the national network around the United Kingdom will be complete by December 2015.

Considerable progress is being made recruiting for the new Coastguards roles. Currently 87% of posts have been filled, 65% of these from existing experienced Coastguards.

## 4. Factors affecting performance during 2014-15 and future financial years

### 4.1. Fiscal position and Spending Round

Good transport contributes towards creating a stronger economy and making lives easier. The Government has set out plans to invest record levels in transport, across modes including a funding commitment of over £10 billion in 2015-16. As part of the Spending Round 2013 settlement, the Government also set out longer-term capital budgets for national roads, local transport, Transport for London and High Speed 2.

At Autumn Statement 2014, alongside setting out the programme of investments in motorways and major roads which form the Roads Investment Strategy between 2015 and 2021 and the underpinning legislative framework, the Government announced additional funding levels for specific transport initiatives including: the Office of Low Emission Vehicles, cycling infrastructure in key UK cities, accessibility at rail stations, a new station at Chesterton linked to the Cambridge Science Park and support for the Crossrail 2 business case.

### 4.2. High Speed Rail 2

High Speed 2, the proposed new North-South railway, is a project that will be considered by Parliament through hybrid bills promoted by the Department covering phase one (London to the West Midlands) and phase two (West Midlands to Leeds and Manchester).

The second reading for the Hybrid Bill – High Speed Rail (London – West Midlands) was passed with a vote of 452 in favour to 41 against. It seeks the necessary legal powers to enable the construction and operation of phase one. On becoming an Act, it would give the Government deemed planning permission to deliver the scheme, including the powers to acquire the necessary land and undertake the works required. In July 2014 the High Speed Rail (London – West Midlands) Select Committee started to meet to hear the petitions against the Bill and is making good progress through Parliament. By the end of March 2015 the Select Committee had sat for 76 days and heard almost 400 petitions, almost twice as many as the Crossrail Committee heard in 21 months of sittings.

In September 2014 an Additional Provision was deposited making 55 minor changes to the design of the Bill in response to petitioners' requests, requirements by utilities and the design development process.

The Department and HS2 Ltd entered into a Development Agreement on 8 December 2014. This provides clarity about the roles and responsibilities of each organisation, setting requirements for HS2 Ltd in developing, building and operating the new railway and the Department for Transport's role as sponsor and funder.

In July 2014, the Department published its response to the independent HS2 Growth Taskforce, committing to deliver 18 of the 19 recommendations made to Government in March 2014. The Department worked with the Department for Business Innovation & Skills (BIS) to run a national competition to identify the sites for a new national High Speed Rail college – announcing in September the co-location in Birmingham and Doncaster. We also supported local areas to produce HS2 growth strategies and helped to establish local delivery bodies for phase one stations.

On 16 January 2015 the Department introduced an extensive package of discretionary compensation and assistance for property owners along the Phase One route. We have entered into agreements with the London Borough of Camden which fulfil our commitment to replace social housing that will be lost as a result of building the railway. We have also facilitated the co-location of a new building for the Maria Fidelis School in Camden, ensuring that the school will be on one site, minimising the disruption to pupils and staff as work is undertaken at Euston.

Responding to Sir David Higgins' second report – *Rebalancing Britain* – the Department created Transport for the North, to unite the key cities of the North to speak with one voice to Government about the strategic priorities for investment. The Department has worked with Transport for the North to produce the first Northern Transport Strategy, a joint report published in March 2015 that sets out the ambition for transport in the region and the next steps to deliver that, including incrementally devolving decision making where appropriate.

In 2014-15 the HS2 project incurred a total expenditure of £399m. The largest single element of expenditure has been a significant programme of property purchases totalling £160m. There has also been significant expenditure incurred in additional design work, petition management and ground work and investigation. Incurring this expenditure now enables the Programme to remain on the critical path and allows the project to start compensating those likely to be directly affected by the railway.

#### **4.3. Rail Executive**

The Department brought together all of its rail functions (except HS2) into a single Rail Group in January 2013 and work began to implement Richard Brown's review of franchising. As recommended by this review and as announced in the national infrastructure plan (June 2013), a wider organisational review of rail functions was undertaken in order to identify the most effective and efficient way of organising them.

The Rail Organisational Review, published in February 2014, recognised that much had been achieved over 2013, with a clear, professional franchising programme and work under way on the Government's ambitious rail investment programme. Building on this progress, the Organisational Review recommended further developing the Department's rail functions as a new Rail Executive, which would strengthen focus on passengers, build an enhanced culture of commercial expertise and innovation, and ensure greater co-ordination of improvements to tracks and trains. These recommendations have now been implemented.

As a direct result of the recommendations from the Organisational Review, the Rail Executive was created within the Department in 2014 to ensure greater co-ordination of improvements to track and trains, as well as managing the interdependencies between rolling stock, track, stations, freight and passenger services. Some of the major projects undertaken are detailed in the following sections.

#### **4.4. InterCity Express Programme**

The project involves investment of £5.7 billion in infrastructure and rolling stock to replace the fleet of InterCity 125 and 225 trains that operate on the Great Western routes (GWML) and East Coast Main Line (ECML) between 2017 and 2020.

IEP will deliver 122 new faster, higher capacity and more environmentally sustainable electric and bi-mode trains with improved reliability, offering new through services, providing more seats and reducing journey times – ultimately an improved passenger experience over a 27.5 year term.



IEP is being delivered alongside a major programme of infrastructure upgrades including electrification of key parts of the network to provide improved capacity and enhanced connectivity to major cities and towns along the line of the route.

The Intercity Express Programme has reached a number of significant milestones in the last year including:

- the first IEP pre-series test trains arrived at Southampton in March 2015 ready for testing on the East Coast Main Line in April 2015. A second is currently en route from Japan.
- award of the East Coast Main Line franchise to Virgin Trains East Coast (VTEC) in March 2015; bringing with it 23 new services from London to key destinations, 3,100 extra seats for the morning peak time by 2020, faster journey times on the regular services and a £140 million investment package to improve trains and stations. The Direct Award of the Great Western Main Line also took place in March 2015.
- 'topping out' of the new Stoke Gifford Maintenance Depot in January 2015
- 'topping out' of the new Newton Aycliffe factory in October 2014 – marking a key construction milestone working towards formal opening in September 2015.
- financial close on the East Coast element of the deal in April 2014.

#### **4.5. Thameslink**

The Thameslink Programme involves a £6.5 billion investment in trains, depots and Network Rail infrastructure. Work on the programme commenced in 2009. The programme includes:

- major infrastructure works such as enhancements to stations at Blackfriars and Farringdon (already delivered), rebuilding London Bridge station, new connections onto the East Coast plus upgrading track and signalling across an expanded Thameslink network;
- new rolling stock with a fleet of 115 new trains (1,140 new carriages) and supporting depots to provide rail passengers with fast and efficient services through London.

The project is directly sponsored by DfT, working with Network Rail and Siemens. The combination of infrastructure enhancements and new rolling stock (built and maintained by Siemens) will deliver a 24-trains per hour service in each direction through the Blackfriars to St Pancras International 'core' at peak times.

Principal 2014-15 achievements:

- good progress with the overall Programme which is on schedule for full service introduction of 24 trains per hour in each direction at peak times in late 2018.
- completion of six new platforms at London Bridge station.
- commencement of the London Bridge Southeastern "run-through" timetable in January 2015 allowing the closure of platforms 4, 5 and 6 to allow rebuilding.
- negotiation of revised ticketing agreement with TfL allowing passengers to use parts of the TfL network to complete their journeys at no extra cost.
- major cross-industry communications drive to inform passengers about the major services changes required to deliver the infrastructure changes.

- launch of the Class 700 train at the Berlin Innotrans exhibition in September 2014.
- rolling stock delivery proceeding well, with the first train due to arrive in the UK in August 2015 and enter service in early 2016.
- refinancing of the Class 700 fleet saving round £115m (present value) over the next 20 years.
- Three Bridges Depot nearing completion and good progress on the depot at Hornsey.
- new stabling facilities to accommodate the new trains now under construction at locations including Horsham, Peterborough and Cricklewood.

Southern and Thameslink services into and out of London Bridge were disrupted in the early months of 2015 and overall performance remains below expectations – although is improving. There are many reasons for this disruption including restrictions on capacity into London Bridge as a result of the works being carried out on the approaches to the station and a longer-term decline in performance on the Brighton Main Line. In response, the rail industry has published the Brighton Main Line Performance Improvement Plan which we are monitoring closely. Changes to Southeastern services into Charing Cross and Cannon Street to facilitate the station's reconstruction have been more robust although there has been increased crowding on some trains. Further changes are planned for August 2016.

#### **4.6. Crossrail**

Crossrail will deliver a new, high-frequency rail service, stretching from Reading and Heathrow in the west, across central London to Shenfield and Abbey Wood in the east. A key part of this is the construction of twin tunnels, each 13 miles long, through the heart of central London, and ten new London stations. Services are on schedule to be operational from 2018, with full services operating from late 2019.

Crossrail is jointly sponsored by the Department and Transport for London (TfL). The project is being delivered by Crossrail Ltd, a wholly owned subsidiary of TfL, with Network Rail responsible for the delivery of a package of works on the existing rail network. The Crossrail project has an overall budget for an investment of £14.8 billion in economically vital new infrastructure.

The Crossrail project has achieved a number of significant milestones in the last year including:

- all of the TBM tunnelling has been completed;
- TfL has appointed Mass Transit Railways (MTR) as the Crossrail Concession Operator. MTR are preparing to take on the operation of rail services between Liverpool Street and Shenfield for TfL Rail in May 2015;
- the Crossrail Joint Sponsors have confirmed that all stations on the Crossrail route will be step free to platform level;
- it was announced on 27 March 2014 that Crossrail would run to Reading.

## 4.7. Rail Enhancement Programme

### *North of England Programme – North West Electrification*

The North of England programme will transform the rail network in the North by providing faster and more reliable journeys and helping to secure long-term economic growth through over £1bn of investment in North West electrification, Transpennine Electrification and the Northern Hub.

North West Electrification is currently in construction. The first phase was completed in December 2013, enabling electric trains to run between Manchester Airport and Scotland in May 2014. Electric trains began running between Liverpool and Manchester Airport via Piccadilly on 5 March 2015. Infrastructure to enable electric trains running between Liverpool and Wigan was also completed during March 2015.

Manchester Airport 4th platform was finished on time on 9 February 2015 and is due to be brought into use in May 2015. At Manchester Victoria there is a £44m investment project to refurbish the station, restore some of the historical elements, add retail units, install a new roof and add a third tram track and upgrade the platform for the Metrolink tramway. The project has been progressing well and the complete renovation is due to finish in the calendar year 2015.

### *Stations*

Our Stations Commercial Projects Fund (SCPF) supports the delivery of commercially focussed station improvements – enhancing the passenger experience whilst returning revenue to the DfT. SCPF has committed £100m to 47 station projects, including significant improvements to station car parking facilities. 45 of these are now complete and to build on this success a further £60m for the programme was announced on 12 March. We will be seeking industry bids for this funding shortly.

The National Stations Improvement Programme (NSIP) has seen more than £200m of improvements such as new ticket offices delivered at over 450 stations. A further £100m has been made available to the industry to extend the programme from 2014 to 2019.

The Access for All programme has invested more than £400m over the last five years to deliver step free access to and between all platforms at more than 130 stations. Over 1,100 stations have also benefitted from smaller scale access improvements, such as accessible toilets or platform customer information systems. A further £160m was announced in 2014 to extend the programme until 2019 and provide step free access to a further 68 stations.

The New Station Fund scheme is helping to build brand new stations. Five new stations have been approved at Lea Bridge, Kenilworth, Ilkeston, Newcourt and Pye Corner. The new station at Pye Corner was opened in December 2014 and Newcourt is under construction.

### *Reading*

The new Reading station building was completed a year ahead of schedule and under budget and was officially opened by Her Majesty The Queen on 17 July 2014. The work, at one of the country's busiest rail hubs, has transformed the station, providing two new entrances, five new platforms, a wider passenger footbridge, a rail viaduct and improved shopping facilities. New lifts and escalators have also been installed to improve access for all passengers. Work is continuing on track improvements in the area to reduce delays and increase capacity on the network.

#### **4.8. Rail refranchising**

The programme of competitions and Direct Awards, under the programme originally announced in March 2013, has been progressed in line with the franchising schedule that was most recently updated on 10 October 2014.

The programme continues to emphasise an open approach that engages meaningfully with stakeholders and industry. As part of this programme, the Department has sought and received innovative bids that provide good value for money for taxpayers and put passengers right at the heart of our railways.

This financial year we made direct awards to Abellio Greater Anglia (Greater Anglia franchise on 16 April 2014); Virgin Trains (InterCity West Coast franchise on 19 June 2014); Southeastern (South Eastern franchise on 11 September 2014); First TransPennine Express (TransPennine Express franchise on 20 March 2014); and First Great Western (Great Western franchise on 23 March 2014). Following competitions the TSGN franchise was awarded to Govia Thameslink Railway on 23 May 2014; the Essex Thameside franchise was awarded to NXET (National Express) on 27 June 2014; and the InterCity East Coast franchise was awarded to Virgin Trains East Coast (Virgin/ Stagecoach) 27 November 2014. We have also progressed the Northern and TransPennine Express competitions to Invitation to Tender stage (both contracts are due for award late 2015).

#### **4.9. Rail funding**

The rail industry is funded through two main sources: fare revenues and government support. Government support from the Department is by means of a capital grant paid to Network Rail (£3,737m in 2014-15) and by a loan facility (£6,450m drawn down in 2014-15).

Network Rail pays the Department a fee equivalent to the value of the government guarantee on its outstanding external debt (£362m in 2014-15).

In addition, the Department receives a net premium (receipt) from the passenger train operating companies (TOCs). Figures showing which TOCs pay a premium and which receive a subsidy from the Department are shown in Note 5 and Note 6 of the Accounts. In 2014-15, the net position is a receipt of £1,203m.

Core Table 1 in Section 7 of the Strategic Report shows equivalent figures over a 10-year time span.

Network Rail's income and expenditure is determined by the ORR every five years in a review they undertake to evaluate NR's financial requirements. This is based on an assessment of the efficient cost of meeting its customers' requirements, in particular having regard to the Government's Rail Investment Strategy (formerly known as the High Level Output Specification or HLOS) and its statement of public funding available (SoFA). ORR then determines the charges train operators must pay Network Rail for access to the network over the following five years as well as the grant payable by Government.

In October 2013, the ORR determined Network Rail's allowed expenditure across Great Britain on operating, maintaining, renewing and enhancing the network over the five year period from April 2014 to March 2019, known as Control Period 5 or CP5. Financial year 2014-15 is the first year of Control Period 5.

#### 4.10. Contingent liabilities

Government departments are required to report specifically on contingent liabilities arising from guarantees, indemnities, letters of comfort or similar legal obligations. The Department has provided these where they would benefit the taxpayer and where the benefits outweigh the risk. Further disclosures are given in Note 18 of the Accounts.

Note 18 restricts disclosures to contingent liabilities where the risk of crystallisation is greater than remote or where they have been reported to Parliament in accordance with Managing Public Money. Nevertheless, the Department does record all of its contingent liabilities on a database, which is updated via a bi-annual survey. Where applicable, contingent liabilities (which are sub-set of risks) are cross-referenced to the risk register and associated risk management strategies on this database.

From 1 April 2015 Network Rail is within the Departmental group, hence the indemnity and letter of comfort issued for Network Rail will not be disclosed next year. However, the contingent liabilities of Network Rail itself will be included.

#### 4.11. Shared Services Futures project

The Department divested its Shared Service Centre to arvato on 1 June 2013, and in so doing, established the Government's first Independent Shared Service Centre 1 (ISSC1). It continues to manage the full transactional systems of SAP and Business Intelligence for the central Department.

Further details concerning the Department's relationship with ISSC1 are included within paragraphs 73-76 of the Governance Statement.

## 5. Financial performance

### 2014-15 Estimates versus 2013-14 Estimates

The Departmental budgets for each year are presented in Estimates Voted by Parliament. The Memorandum accompanying the Department's Main Estimate for 2014-15 sets out a breakdown of provision by programmes within each Estimate line, showing a comparison between the 2014-15 Main Estimate and the 2013-14 Supplementary Estimate, and includes a narrative explanation for all large variances.<sup>73</sup>

A Supplementary Estimate was presented in February 2015 and reflects all changes to the original Estimates provision as agreed with HM Treasury. An accompanying Memorandum provides an explanation of how the resources and cash sought changed since the Main Estimates were approved.<sup>74</sup>

Variances between Outturn and the Supplementary Estimate figures are shown in the Annual Report and Accounts for the respective years. In summary, the most significant differences between Outturn in 2013-14 and 2014-15 are as follows:

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<sup>73</sup> [www.parliament.uk/documents/commons-committees/transport/10-2014-15-DfT-Main-Estimate-Memorandum.pdf](http://www.parliament.uk/documents/commons-committees/transport/10-2014-15-DfT-Main-Estimate-Memorandum.pdf)

<sup>74</sup> [www.parliament.uk/documents/commons-committees/transport/08%20-%20Supplementary%20Estimate%20Memorandum%202014-15.pdf](http://www.parliament.uk/documents/commons-committees/transport/08%20-%20Supplementary%20Estimate%20Memorandum%202014-15.pdf)

### *Resource DEL*

- Section D: Network Rail – the ORR determination used a higher rate of 1.1% (2014-15) compared to 0.8% (2013-14) to calculate the Financial Indemnity Mechanism (FIM) rebate due from Network Rail.
- Section E: Funding of Arms Length Bodies – Most expenditure incurred by HS2 Ltd has been reclassified from Resource to Capital.
- Section I: GLA Transport Grants – grants payable to Transport for London were reduced following negotiation with TfL and the Mayor.
- Section P: Support for Passenger Rail Services – This includes additional income received from Train Operating Companies in relation to the Rail Control Period 5 settlement.

### *Resource AME*

- Section T: Highways Agency – Increased level of capital write-downs on the completion of new road schemes following an increase in the Agency's capital programme.
- Section U: Network Rail AME – receipt of interest on loans advanced by the Department to Network Rail. There was no equivalent income in 2013-14.
- Section AD: Funding of ALBs (net) – an exceptional item in 2014-15, explained in Note 23 to the accounts, relating to the transfer of pension liabilities from the General Lighthouse Authorities to the Principal Civil Service Pension Scheme.

### *Capital DEL*

- Section B: Local Authority Transport – Increased funding for Integrated Transport Block and Local Authority major projects.
- Section C: Highways Agency – The Capital programme varies year on year and follows the profile set in SR10 and subsequent Autumn Statements.
- Section D: Network Rail – Increase in capital grants to NR. This represents the profile within the 5 year determination set by the Rail Regulator.
- Section E: Funding of ALBs (net) – Most expenditure incurred by HS2 Ltd has been reclassified from Resource to Capital.
- Section I: GLA Transport Grants – Reduced grant for Transport for London as agreed in the SR10. The negotiated capital grant payable to TfL in 2013-14 was £184m and this was further supplemented by an additional £117m to provide a contribution to the purchase of Crossrail rolling stock (total capital £301m). The budget allocated in 2014-15 is the Department's contribution to the proposed Thames Garden Bridge project.

### *Capital AME*

- Section AR: Aviation, Maritime and Security – loan advanced in 2014-15 to the General Lighthouse Fund: see Note 24 to the accounts.
- Section U: Network Rail AME – The loans made to NR in replacement of their market borrowing now score within the DfT Budget. HM Treasury has agreed that these loans can be scored in AME.

## 2014-15 Outturn versus Estimate

The Net Voted Resource DEL Outturn reported in the Statement of Parliamentary Supply was £3,536m, which is £65m (2%) below the Estimate of £3,601m. Of this, Net Outturn on the Departmental Administration Limit was £ 271.4m and is £11.2m (4%) below the total Estimate of £282.6m.

The Net Voted Capital DEL Outturn Reported in the Statement of Parliamentary Supply was £9,357m, which is £104m (1%) below the Estimate of £9,461m.

The material components of the net underspend by Estimate lines are explained below.

### Departmental Expenditure Limit (DEL)

#### *Section B: Local Authority Transport – Voted Resource DEL overspend £29m;*

The Department made a contribution of £29m to Hertfordshire Country Council in respect of costs incurred on the Croxley Rail Link Scheme. This payment was made after the Supplementary Estimate numbers were finalised.

#### *Section C: Highways Agency – Voted Capital DEL overspend £36m*

The Highways Agency capital DEL outturn of £1,859m is £36m (2%) above the £1,823m budget. Improved confidence in capital delivery in the second half of the year coupled with strong levels of investment for several months meant that the Department agreed with Highways Agency that it should proceed with an ambitious programme, with the additional spend over the Supplementary Estimate met from virement elsewhere in the Department.

#### *Section E: Funding of ALBs – Resource DEL overspend £15m*

This estimate lines represents the net surplus/deficit of the Department's Arms Length Bodies and the variance is an aggregate of smaller variances across a number of bodies.

#### *Section E: Funding of ALBs – Capital DEL underspend £16m*

As in the above line, this represents the net position of the Department's Arms Length Bodies and comprises an aggregate of smaller variances across a number of bodies.

#### *Section F: Other railways – Resource DEL overspend £41m*

Variances on rolling stock refurbishment, rolling stock costs on the Southern and Thameslink routes, IEP and HLOS consultancy support and rail related pensions have given rise to this overspend.

#### *Section F: Other railways – Capital DEL underspend £44m*

This underspend is a result of rephasing, as a result of Network Rail infrastructure delays, of Gatwick Rail Station improvement and the Chesterton links to Cambridge Science Park works. The rephasing of Tram Train works, to avoid utilising the warranty and holding the vehicles in sidings while non-operational, has also contributed.

#### *Section G: Sustainable Travel – Capital DEL underspend £33m*

Part of this underspend relates to Smart Ticketing. The Smart Ticketing programme has been slow to obtain buy in from a number of Train Operating Companies who have taken longer than expected to generate smart ticketing solutions.

*Section H: Bus subsidies and Concessionary Fares – Resource DEL overspend £11m*

£8m of this overspend relates to payments made to a number of local authorities in support of a Total Transport Pilot scheme. This was a scheme agreed by ministers and HM Treasury towards the year end and was funded from underspends elsewhere across the Department. The remainder of the overspend was due to higher than forecast payments to bus service operators. This is a highly volatile area with payments made depending on number of the 'bus miles' claimed by the operators.

*Section I: GLA Transport Grants – Resource DEL overspend £22m*

The overspend is attributable to additional payments made to Transport for London as part of a contribution to conversion costs of taxis into lower emission, greener vehicles.

*Section K: Aviation, Maritime, Security and Safety – Resource DEL underspend £49m*

This variance arises from an increase in the share of profits in NATS (Air Traffic Control).

*Section N: Science, Research and Support functions – Resource DEL underspend £23m*

£3m of the underspend relates to savings from the discontinuation of the Transport Direct travel portal. Underspends across various research projects contributed to the remainder of this variance.

*Section P: Support for Passenger Rail Services – Resource DEL underspend £99m*

This underspend was due to higher than forecast revenues as a result of continuing improvements in the economy and the performance of Network Rail particularly for Southern and South West Trains, offset by lower CP5 receipts than expected as a result of negotiations with Train Operating Companies.

*Section Q: High Speed Two – Capital DEL underspend £23m*

The Department's High Speed Rail DG Group currently has responsibility for the HS2 project Land and Property budget. This underspend has arisen for two reasons.

£12.9m of underspend has resulted from expense incurred by LCR on behalf of HS2. When the budget was set it was anticipated that LCR would require budget cover for this spend, however LCR was reclassified as a Public Corporation during the year and didn't require budget cover to make the purchase. The remaining underspend is a result of forecast purchases in relation to the HS2 compensation schemes not materialising at the rate expected when the budget was set.

*Section S: Funding of ALBs (net) – Non Voted-Resource DEL underspend £12m*

The variance relates to the General Lighthouse Authorities (GLAs) and reflects their expenditure net of transfers of funding from the General Lighthouse Fund (which is not consolidated into the DfT Accounts).

**Annually Managed Expenditure (AME)**

*Section T: Highways Agency – Resource AME underspend £136m*

Resource AME in the Highways Agency represents the write-down of assets relating to motorway widening. Since schemes have differing write down percentages, a change in the mix of schemes delivered compared to budgeted schemes has resulted in the write down outturn being 16% below the £885 million budget.



*Section T: Highways Agency – Capital AME underspend £20m*

The Highways Agency capital AME budget consists largely of utilisation of and the creation of new provisions. Utilisation of (mainly lands) provisions are outside of the Highways Agency's control and difficult to predict. This £20 million underspend reflects that provisions did not crystallise as planned.

*Section U: Network Rail AME – Resource AME overspend £40m*

The underspend was a result of a difference between forecast and achieved daily loan interest rates and the timing of issue of the loans compared to that forecast during the Supplementary Estimates process. The interest recognised as AME income reflects that proportion which the Department is not required to surrender to HM Treasury.

*Section U: Network Rail AME – Capital AME underspend £50m*

An additional £155m grant to Network Rail in relation to Autumn Statement announcements resulted in a reduced loan requirement in the financial year.

*Section V: Funding of ALBs (net) – Resource AME underspend £57m*

This underspend is a result of the volatility of the IAS19 adjustment on the British Transport Police Pension Scheme.

*Section W: Other Railways – Resource AME underspend £103m*

Underspend has arisen against the £100m budget for movements in the valuation of the Rail Pensions assets and liabilities.

A further £7m underspend arises from CTRL Finance Company incurring less expense than anticipated.

*Section AB: Central Administration – Resource AME underspend £12m*

This results from a centrally managed consolidation of budget underspend during the Supplementary Estimates Process.

*Section AC: High Speed Two – Capital AME underspend £88m*

The HS2 Capital AME budget was created on the assumption that the Department would enter, prior to the year end, into a number of conditional contracts. The Department concluded that such an approach was not required and no conditional contracts were entered into.

*Section Y: Aviation, Maritime & Security – Capital AME underspend £20m**Section Y: Aviation, Maritime & Security – Resource AME underspend £12m*

These underspends relate to the transfer of the GLAs' pensions schemes, including both historic liabilities and future contributions into the PCSPS during 2014-15. The variances resulted from the required contribution from the Department being estimated at a higher amount than was ultimately agreed for the overall liability as valued.

## 6. Reconciliation of resource expenditure between Estimates, Accounts and Budgets

<b>Reconciliation of resource expenditure between Estimates, Accounts and Budgets</b>		
	<b>2014-15</b>	<b>2013-14</b>
	<b>£'000</b>	<b>£'000</b>
Net Resource Outturn (Estimates)	4,019,706	5,667,336
Adjustments to remove non-budget elements:		
Prior Year Adjustment		
Total Resource Budget Outturn	4,019,706	5,667,336
<i>Of which:</i>		
Departmental Expenditure Limits (DEL)	3,544,018	4,790,869
Annually Managed Expenditure (AME)	475,688	876,467
<i>Adjustments include:</i>		
Capital grants (net of related EU contributions)	7,171,313	6,959,163
Non-supply income (CFERs)	(198,402)	(124,660)
Adjustments to remove non-budget elements:	(14,640)	(74,405)
Net Operating Cost (Accounts)	10,977,977	12,427,434

## 7. Public interest

### 7.1. Staff relations

During 2014-15, instances of industrial action were as follows:

- 10 July 2014: Civil Service wide one day strike action by PCS; and
- 15 October 2014: Civil Service wide one day strike action by PCS.

The Department continues to manage its pay remit within the bounds of the wider public sector pay policy. It has access to occupational health advisers to assist in managing sickness absence cases. Employee assistance programmes are available to all staff to help with personal and work-related issues. The Department's attendance management policies are under regular review in order to assist managers and improve their performance in dealing with sickness absence cases in a timely, effective and positive manner, which will in turn reduce our sickness absence levels. Currently sickness absence data is collated and analysed monthly and reported to the Cabinet Office. Average working days lost (AWDL) are reported quarterly in arrears on a 12-month rolling basis. For the 12-month period ending 31 March 2014 the Department reported AWDL as 7.3. For the 12-month period ending January 2015 it was 8.06. (Figures for the 12 months to 31 March 2015 are not yet available.) For this purpose, the Department is defined as being the core Department, the executive agencies and the trading funds. All absence is reviewed to ensure that support is offered and that occupational health reports, action plans and trigger-point interviews are progressed as appropriate.

## 7.2. Payment of suppliers

The Department complies with the Prompt Payment Code of paying 80% of undisputed supplier invoices within five working days of receipt, and 98% within 30 days of receipt. For the year 2014-15, the Department paid 96.3% of supplier invoices within five working days of receipt, in comparison with 91.9% in 2013-14. Performance against the 30 working days target in 2014-15 was 99.7% in comparison with 99.0% in 2013-14.

## 7.3. Personal data related incidents

Incidents, the disclosure of which would in itself create an unacceptable risk of harm, may be excluded in accordance with the exemptions contained in the Freedom of Information Act 2000 or may be subject to the limitations of other UK information legislation.

**Table 7.1: Summary of protected personal data related incidents formally reported to the Information Commissioner's office in 2014-15**

Date of incident (month)	Nature of incident	Nature of data involved	Number of people potentially affected	Notification steps
February 2015	Unauthorised disclosure	Individual's name and address	1	Individual notified
Further action on information risk	The Department will continue to monitor and assess its information risks, in the light of the events noted above, in order to identify and address any weaknesses and ensure continuous improvement of its systems.			

**Table 7.2: Summary of other protected personal data related incidents in 2014-15**

Incidents deemed by the Data Controller not to fall within the criteria for reporting to the Information Commissioner's Office but recorded centrally within the Department are set out below. Small, localised incidents are not recorded centrally and are not cited in these figures.

Category	Nature of incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured government premises	0
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured government premises	0
III	Insecure disposal of inadequately protected electronic equipment, devices or paper document	0
IV	Unauthorised disclosure	3
V	Other	3

#### **7.4. External stakeholders**

The Department works with European Union and UK transport partners to promote the development of efficient and competitive transport.

The Communication Directorate leads the delivery of external communications to support the Department's conduct of business and the delivery of its policy objectives. The Department works to achieve effective and efficient communication of DfT's priorities for transport, targeting the press, stakeholders, the general public through a wide range of communication channels.

Major communications projects undertaken in 2014-15 are disclosed at pages 51 to 53 within the Strategic Report.

#### **7.5. Information rights**

In 2014-15, the Department as a whole, including the five executive agencies/trading funds, received 2,796 requests for information which were handled under either the Freedom of Information (FOI) Act or the Environmental Information Regulations. We met the statutory response deadlines in 96% of these cases. This was the same performance level as in 2013-14.

We publish details of FOI responses to requests on our disclosure log on the website [www.gov.uk](http://www.gov.uk) under Publications, sub-section FOI releases.

#### **7.6. Equality of opportunity**

As a public authority, the Department is required to demonstrate how it complies with the public sector equality duty. The Department has agreed equality objectives that set out our aims for promoting equality of opportunity and that reflect the breadth of our work, covering both our business priorities and our workforce. The Department has recently developed an Inclusion Action Plan for staff (December 2014) and has in place an Accessibility Action Plan to support delivery of those objectives and a progress report (2015) which demonstrates commitment to delivery.

The Department considers the effects of its policies and programmes on different groups of people to ensure that it treats people fairly and delivers better and more cost-effective policy outcomes. This includes looking at available evidence and engaging with staff, service users and others to understand the impacts of our work programme on the whole community.

#### **7.7. Pension schemes**

Please refer to Note 27 (Pension schemes) in the Accounts.

#### **7.8. Conflicts of interest**

The register of ministers' interests is maintained by the Cabinet Office. Details of how non-executive board members' conflicts of interests are handled is set out in more detail in page 119 within the Governance Statement. No executive members of the Board have flagged company directorships or other significant interests that may conflict with their management responsibilities. Relevant information is held by the Department in a central register alongside mitigation measures taken.

## 7.9. Disability management

DfT(c) has 77 employees who have declared their disability: 50 in civil service grades AA to SEO, 23 in grades 7 and 6 and 4 who are senior civil servants. We are very keen to encourage employees to declare their disability. Of all employees only 26% have made no declaration at all regarding disability.

DfT(c) is a Two-Ticks Disability Symbol user which means that all job applicants are guaranteed an interview provided they meet the minimum criteria for the job to which they are applying. The Department also ensures that the environment at interviews is suitable for their needs.

The Department provides reasonable adjustments to employees with medical conditions, and appropriate training when needed. The Department was twice runner-up for a diversity award for the standard of reasonable adjustments provided.

The Department also supports positive action initiatives (such as positive action pathways) by which employees from under-represented groups, including disabled employees, are considered for positive action programmes. The Department has a very active staff network for disabled employees, chaired by John Parkinson, which supports their needs and with whom it regularly consults.

Lucy Chadwick, Director General, is the Champion for disability and she has actively encouraged initiatives to support disabled employees and raise the profile generally. In the last year the staff survey showed that the engagement score for disabled employees had improved by 12% over the previous year. The Department has partnered with the Business Disability Forum, which provides training for managers in disability issues.

## 7.10. Employee interests

The Department regularly consults with staff representative bodies on all matters that affect staff and ensures that staff are consulted and informed of any changes that are made that will affect them through line manager briefings, written communications and staff updates.

## 8. Auditors

The Comptroller and Auditor General carries out the audit of the consolidated Accounts of the Departmental Group, as well as the audits of the following subsidiary entities:

- Highways Agency;
- Maritime and Coastguard Agency;
- Driver and Vehicle Licensing Agency; and
- Vehicle Certification Agency.

These audits are conducted under the Government Resources and Accounts Act 2000, at an annual notional cost of £759,000 (2013-14, £849,000).

The audits of the following entities are completed by the National Audit Office but incur a cash or real charge of £187,000 (2013-14, £177,000) for the completion of their audit:

- British Transport Police Authority;
- HS2 Ltd; and
- Passenger Focus.

KPMG audits the following entities, providing audit assurance to the Comptroller and Auditor General as the Group auditor. These audits incur a real cost charge of £15,120 (2013-14, £15,120):

- CTRL Section 1 Finance PLC; and
- LCR Finance PLC.

PWC audits the following entities, providing audit assurance to the Comptroller and Auditor General as the Group auditor. These audits incur a real cost charge of £16,500 (2013-14, £18,175):

- Directly Operated Railways Limited; and
- Air Safety and Support International.

Deloitte audits the following entity, providing audit assurance to the Comptroller and Auditor General as the Group auditor. This audit incurs a real cost charge of £43,000 (2013-14, £32,700):

- Air Travel Trust Fund.

The three General Lighthouse Authorities are consolidated into the General Lighthouse Fund accounts, which are audited by the National Audit Office. The cost of this audit is borne by the General Lighthouse Fund.

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

## 9. Statement regarding the disclosure of information to the auditors

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

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

**Philip Rutnam**

22 June 2015

Permanent Secretary and Accounting Officer

Department for Transport

Great Minster House

33 Horseferry Road

London SW1P 4DR

# Departmental Remuneration Report

## Remuneration policy

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

Recommendations on SCS remuneration are provided by the Review Body on Senior Salaries in an annual report to the Prime Minister. Further information about its work and copies of the annual reports can be found on the Office of Manpower Economics website at [www.ome.uk.com](http://www.ome.uk.com).

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

## Pay system and performance management

The Senior Civil Service pay system is based on broad bands, 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 broadly ensures that people with particular levels of responsibility have access to salaries within the same range, and supports equal pay. DfT has three SCS pay bands:

- pay band 1 (Deputy Director) JESP range of 7-12 points;
- pay band 2 (Director) JESP range of 13-18 points; and
- pay band 3 (Chief Executive) JESP range of 19-22 points.

Each pay band has a minimum and a maximum base salary:

- pay band 1 (Deputy Director) £62,000\*-£117,800;
- pay band 2 (Director) £85,000-£162,500; and
- pay band 3 (Chief Executive) £104,000-£208,100.

\* DfT offers a higher London rate, the minimum for pay band 1 in London is £3,500 higher.

SCS in DfT have objectives in the following categories:

- Leadership objectives which are: the DfT common leadership objective plus leadership behaviours and providing direction for the organisation; delivering results; and building capability in the organisation to address current and future challenges.
- Business delivery objectives which are: defining business outcomes for the specific post, and assigning accountability and responsibility for each business plan or structural reform plan commitment.

- Finance/efficiency objectives which are: capturing what the jobholder will do to ensure that costs are minimised and budgets are managed to ensure maximum value to the taxpayer.
- People/capability objectives which are: ensuring that individuals, the Department and Civil Service have the right capability to deliver business outcomes now and in the future.
- Corporate objectives which are: the contribution to corporate initiatives outside their existing job roles. It encourages staff to work in a joined up way outside their teams, improves knowledge sharing across teams and enhances effectiveness of the Civil Service as a whole.

Objectives incorporate diversity by embedding it in business, people/capability or finance/efficiency objectives, or through a separate diversity objective.

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

- top – top 25% of performers;
- achieving – next 65% of performers;
- low – bottom 10% of performers.

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

The annual value of non-consolidated performance pay and base pay is set within the limits set by the Government's response to the recommendations of the Review Body on Senior Salaries.

Performance group is the starting point for non-consolidated performance pay determination. For 2014-15, only the top 25% of performers, those in the top performance group, received an award.

In 2014-15, base pay increases were available for members of the SCS who were in the top and achieving performance groups.

### **Pay and Performance Committee**

This Committee comprises the Department for Transport's Permanent Secretary (as Chairman), all Directors General, the Group HR Director and the General Counsel.

For the year to 31 March 2015, its members were:

Philip Rutnam	Permanent Secretary, Department for Transport
Lucy Chadwick	Director General, International Security and Environment
Steve Gooding	Director General, Roads, Traffic & Local
Clare Moriarty	Director General, Rail Executive
David Prout	Director General, HS2
Jonathan Moor	Director General, Resources & Strategy
Graham Dalton	Chief Executive, Highways Agency
Alison Rumsey (up to 23 January 2015)	Group HR Director
Jenny Richardson (from 24 January 2015)	Interim Group HR Director
Nick Olley (up to 30 September 2014)	General Counsel



The Committee makes pay decisions for directors and divisional managers.  
The Permanent Secretary decides on pay for Directors General.

### **Service contracts**

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

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

Further information about the work of the Civil Service Commission can be found at [www.civilservicecommission.org.uk](http://www.civilservicecommission.org.uk)

### **Remuneration (including salary) and pension entitlements (audited)**

The following sections provide details of the remuneration and pension interests of the ministers and most senior management (i.e. Board members) of the Department.

**Remuneration (salary and benefits in kind)**

Ministers	2014-15				2013-14			
	Salary (£)	Benefits in Kind (to nearest £100)	Pension benefits (to nearest £1000)	Total benefits (to nearest £1000)	Salary (£)	Benefits in Kind (to nearest £100)	Pension benefits (to nearest £1000)	Total benefits (to nearest £1000)
Patrick McLoughlin MP Secretary of State	67,505	-	17,000	85,000	68,169	-	20,000	88,000
Baroness Susan Kramer Minister of State (from 7 October 2013) Full-Year equivalent	78,891	-	27,000	106,000	38,173  78,891	-	15,000	53,000
Robert Goodwill MP Parliamentary Under Secretary of State (from 7 October 2013) Full-Year equivalent	22,375	-	8,000	31,000	11,086  23,039	-	4,000	15,000
John Hayes MP Minister of State (from 15 July 2014) Full-Year equivalent	22,483  31,680	-	7,000	30,000	-	-	-	-
Claire Perry MP Parliamentary Under Secretary of State (from 15 July 2014) Full-Year equivalent	15,879  22,375	-	6,000	22,000	-	-	-	-
Simon Burns MP Minister of State (to 7 October 2013) Full-year equivalent	-	-	-	-	16,781  32,344	-	6,000	23,000
Stephen Hammond Parliamentary Under Secretary of State (to 31 August 2014) Full-Year equivalent	9,323  22,375	-	N/A	9,000	23,039	-	N/A	23,000
Norman Baker MP Parliamentary Under Secretary of State (to 7 October 2013) Full-year equivalent	-	-	-	-	11,954  23,039	-	5,000	17,000

2013-14										
2014-15										
Officials	Salary (£000)	Bonus Payments (£000)	Benefits in kind (to nearest £100)	Pension benefits <sup>1</sup> (£000)	Total benefits (£000)	Salary (£000)	Bonus Payments (£000)	Benefits in kind (to nearest £100)	Pension benefits <sup>1</sup> (£000)	Total benefits (£000)
Philip Rutnam Permanent Secretary	165-170	-	-	54,000	220-225	165-170	-	-	28,000	190-195
Jonathan Moor Director General (from 12 August 2013) Full Year Equivalent	135-140	-	-	59,000	195-200	85-90	12-15	-	2,000	95-100
Steve Gooding Director General	125-130	-	-	46,000	170-175	125-130	-	-	(10,000)	115-120
Clare Moriarty Director General (from 10 April 2012) <sup>2</sup> Full-year equivalent	150-155	15-20	-	37,000	200-205	135-140	15-20	-	31,000	185-190
Lucy Chadwick Director General	120-125	-	-	49,000	165-170	115-120	-	-	23,000	140-145
David Prout Director General	130-135	15-20	-	29,000	175-180	130-135	-	-	36,000	165-170
Band of Highest Paid Director's Total	165 - 170									
Remuneration (£ '000)	£22,682									
Median Total	£22,682									
Remuneration Ratio	7.38									

**Notes:**

1. Pension data is provided by MYCSP. In 2013-14, there was a change in the way pension benefit had been calculated. As per EPN380, The value of pension benefits accrued during the year was calculated as (the real increase in pension multiplied by 20) less (the contributions made by the individual). The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights. Philip Rutnam has a preserved pension relating to prior employment. A proportion of his pension benefit refers to changes in this preserved element.

2. Clare Moriarty receives a pivotal role allowance of £20,000 – £25,000, this allowance commenced on 18th September 2013 and is reviewable every 6 months.

In 2014-15 one employee (2013-14, no employees) received remuneration in excess of the highest paid director. Remuneration for employees other than the highest paid director ranged from £16,256 to £260,000 (2013-14, £14,967 to £163,038).

### **Pay multiples**

Reporting bodies are required to disclose the relationship between the salary of the highest paid director and the median earnings of the organisation's workforce.

A small increase in the median total remuneration has led to a small decrease in the ratio for 2014-15. The Department considers pay arrangements on an annual basis in accordance with the Civil Service pay guidance, which is published each year.

Total remuneration includes salary, non-consolidated performance-related pay and benefits in kind. It does not include severance payments, employer's pension contributions and the cash equivalent transfer value of pensions.

The ratio is calculated by taking the mid-point of the banded remuneration of the highest paid director, and calculating the ratio between this and the median remuneration of the Department's staff.

This ratio is based on the full-time equivalent staff of the Department at the end of March on an annualised basis. This calculation excludes arm's length bodies within the consolidation boundary.

### **Non-executive Board members**

Each of the departmental Non-executive Board (NEB) members, Sam Laidlaw, Ed Smith, Alan Cook, Mary Reilly, John Kirkland, Richard Brown and Dame Colette Bowe, have been entitled to claim annual fees and reasonable expenses (including travel and subsistence in line with the Department's policy on such expenses) that were properly and necessarily incurred in respect of their duties.

Cabinet Office guidance states that departmental members of the NEB should not be paid more than Bank of England non-executives, paid £15,000 per annum (2011 Bank of England Annual Report). The Department's contracts with Ed Smith pre-dated this guidance, which was published in July 2011, and when his contract and others were renegotiated in December 2011, it was agreed that in recognition of his high calibre, reputation externally and strong experience of commercial issues, that the Department would continue to pay him at the pre-existing level.

Until December 2014, Sam Laidlaw, as the Lead Non-Executive, was entitled to claim an annual fee of £20,000 per annum which included an additional £5,000 in recognition of his role as Lead Non-Executive. However, Sam Laidlaw waived his entitlement to a fee and never claimed any fees or expenses.

Ed Smith was re-appointed as a NEB from January 2015 and was then appointed the Lead-Non-Executive for the Department. He receives an annual fee of £20,000 a year which includes an additional £5,000 in recognition of his role as Lead Non-Executive.

Mary Reilly is also the Chair of the Department's Group Audit and Risk Assurance Committee (GARAC). She is entitled to an additional £5,000 per annum in recognition of this role.

Members of the NEB are expected to dedicate a minimum estimated total time commitment of about 15 days a year for their roles in DfT. In many instances, members of the NEB have actually exceeded this commitment.

Non-executive members of the Board received remuneration within the ranges shown for their services during the year:

<b>Non-executive Board members</b>	<b>2014-15 (£000)</b>	<b>2013-14 (£000)</b>
Sam Laidlaw (appointment ended 31 December 2014)	Chose to be unpaid	Chose to be unpaid
Ed Smith (appointed Lead Non-Executive January 2015)	20-25	20-25
Alan Cook (appointment ended June 2014)	0-5	15-20
Mary Reilly (also Chair of GARAC)	20-25	15-20
John Kirkland	15-20	10-15
Richard Brown	15-20	10-15
Dame Colette Bowe (appointed 1 September 2014)	5-10	n/a

### **Salary**

'Salary' includes gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances; and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the Department and thus recorded in these accounts. In respect of ministers in the House of Commons, departments bear only the cost of the additional ministerial remuneration; the salary for their services as an MP (£66,396 from 1 April 2013, £67,060 from 1 April 2014) and various allowances to which they are entitled are borne centrally. However, the arrangement for ministers in the House of Lords is different in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and is therefore shown in full in the figures above.

### **Benefits in kind**

The monetary value of benefits in kind covers any benefits provided by the Department and treated by HM Revenue and Customs as a taxable emolument. There were no benefits in kind reported in 2014-15 for either ministers or senior staff.

### **Bonuses**

Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the performance in the year in which they become payable to the individual. The bonuses reported in 2014-15 relate to performance in 2013-14, and the comparative bonuses reported for 2013-14 relate to performance in 2012-13.

**Pension benefits (ministers)**

Ministers	Accrued pension at age 65 as at 31/3/2015	Real increase in pension at age 65	CETV at 31/03/2014	CETV at 31/03/2015	Real increase in CETV funded by taxpayer
	£000	£000	£000	£000	£000
Patrick McLoughlin Secretary of State	20-25	0-2.5	353	390	11
Baroness Kramer Minister of State	2.5-5	0-2.5	17	54	24
Robert Goodwill Parliamentary Under Secretary of State	2.5-5	0-2.5	34	44	6
John Hayes Minister of State (from 15 July 2014)	2.5-5	0-2.5	62	71	5
Claire Perry Parliamentary Under Secretary of State (from 15 July 2014)	0-2.5	0-2.5	8	13	3
Stephen Hammond Parliamentary Under Secretary of State (to 15 July 2014)	Opted Out	Opted Out	Opted Out	Opted Out	Opted Out

Pension benefits for ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is made under statute (the regulations are set out in Statutory Instrument (SI) 1993 No 3253, as amended).

Those ministers who are Members of Parliament may also accrue an MP's pension under the PCPF (details of which are not included in this report). The accrual rate has been 1/40th since 15 July 2002 (or 5 July 2001 for those that chose to backdate the change), but ministers, in common with all other members of the PCPF, can opt for an accrual rate of 1/50th accompanied by a lower rate of member contribution. An additional 1/60th accrual rate option (backdated to 1 April 2008) was introduced from 1 January 2010.

Benefits for ministers are payable at the same time as MPs' benefits become payable under the PCPF or, for those who are not MPs, on retirement from ministerial office from the age of 65. Pensions are re-valued annually in line with pensions increase legislation. From 1 April 2014, members paid contributions of between 8.4% and 17.9% depending on their level of seniority and chosen accrual rate.

The accrued pension quoted is the pension the minister is entitled to receive when he or she reaches age 65, or immediately on ceasing to be an active member of the scheme if they are already aged 65.

In line with reforms to other public service pension schemes, it is intended to reform the ministerial pension scheme in 2015. The new scheme will be a career average pension scheme, have an accrual rate of 1.775%, revaluation based on the change in prices, a normal pension age equal to state pension age and a member contribution rate of 11.1%.

### 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 pension benefits he or she has accrued in a former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of his or her total ministerial service, not just the current appointment as a minister. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax, which may be due when pension benefits are taken.

### Real increase in the value of the CETV

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

### Pension benefits (officials)

Officials	Accrued pension at Pension age as at 31/3/2015 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31/3/2015	CETV at 31/3/2014	Real increase in CETV
	£000	£000	£000	£000	£000
Philip Rutnam Permanent Secretary	60-65 Plus lump sum of 135-140	2.5-5 Plus lump sum of 0-2.5	991	904	35
Clare Moriarty Director General	60-65	2.5-5	951	874	23
Steve Gooding Director General	60-65 Plus lump sum of 100-105	2.5-5 Plus lump sum of 0-2.5	1126	1036	36
Lucy Chadwick Director General	40-45	2.5-5	594	521	26
David Prout Director General	10-15	0-2.5	200	162	20
Jonathan Moor Director General	55-60	2.5-5	830	746	41

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

Employee contributions are salary-related and range between 1.5% and 6.85% of pensionable earnings for classic and 3.5% and 8.85% for premium, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos, a member builds up a pension based on his or her pensionable earnings during the period of scheme membership. At the end of the scheme year (31 March), the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with pensions increase legislation. In all cases, members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

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

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

Further details about the Civil Service pension arrangements can be found at the Civil Service Scheme website.<sup>75</sup>

New career average pension arrangements will be introduced from 1st April 2015 and the majority of classic, classic plus and nuvos members will join the new scheme.

Further details of this new scheme are available at the Civil Service Pension Scheme website.<sup>76</sup>

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<sup>75</sup> [www.civilservicepensionscheme.org.uk](http://www.civilservicepensionscheme.org.uk)

<sup>76</sup> [www.civilservicepensionscheme.org.uk/members/the-new-pension-scheme-alpha/](http://www.civilservicepensionscheme.org.uk/members/the-new-pension-scheme-alpha/)



**Cash equivalent transfer values**

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

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

**Real increase in the value of the CETV**

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

**Philip Rutnam**

22 June 2015

Permanent Secretary and Accounting Officer

Department for Transport

Great Minster House

33 Horseferry Road

London SW1P 4DR

## **Part 2: Departmental Accounts**

# Statement of Accounting Officer's Responsibilities

Under Section 5 of the Government Resources and Accounts Act 2000, the Department for Transport is required to prepare departmental accounts for each financial year, in conformity with a direction from HM Treasury, detailing the resources acquired, held or disposed of during the year and the use of resources by the Department during the year.

The departmental 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 the objectives, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual (FReM)* and, in particular, to:

- observe the relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the *FReM*, have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on an ongoing basis.

HM Treasury has appointed the Permanent Head of the Department as Accounting Officer of the Department.

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 safeguarding the Department's assets, are set out in the Accounting Officer's Memorandum issued by HM Treasury and published in *Managing Public Money*.

# Governance Statement

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## Accounting Officer's introduction

1. HM Treasury's *Managing Public Money* summarises the purpose of the Governance Statement as being to record the stewardship of the organisation and to supplement the accounts.<sup>77</sup> The Statement should provide a sense of how successfully the organisation has coped with the challenges it faces, and how vulnerable its performance is, or might be.
2. Good governance is vital to effective financial and risk management. The principles of good corporate governance for central government departments are set out in *Corporate governance in central government departments: Code of good practice 2011* which is published jointly by HM Treasury and the Cabinet Office.<sup>78</sup> This Governance Statement sets out the Department's compliance with the principles set out in the code, with clear reasons for any departures. The Governance Statement also draws on the technical accounting guide, the *Government Financial Reporting Manual 2014-15 (FReM)*.<sup>79</sup>
3. The DfT Governance Statement for 2014-15 explains the Department's approach to corporate governance: the way in which the organisation is directed and controlled. The Statement describes how the Board and its supporting governance structures work and how they have performed. In addition, it provides our assessment of how the Department has been managed, including the effectiveness of the systems of internal control, risk management and accountability.
4. Aside from the central Department, the other entities in the DfT family that fall within the Department's accounting boundary are described in Note 22 of the Annual Accounts. This Statement covers the DfT group, including DfT's agencies and non-departmental public bodies. However, these organisations publish their own governance statements as part of their annual reports. This Statement does not seek to duplicate the information contained in those, but rather to explain group-wide and central Department governance arrangements, and any issues that are of significance to the group as a whole.

## DfT corporate governance framework

5. The corporate governance framework is the system by which the Department is directed and controlled. The framework consists of a network of processes, organisational responsibilities, authorities and accountabilities. After having reviewed its governance framework in 2013, during 2014 the framework was refreshed to ensure that the Department continues to comply with the *Corporate governance in central government departments: Code of good practice 2011*. This exercise resulted in minor changes to some of the Board sub-committees. A full review of the framework will be carried out in 2015-16.

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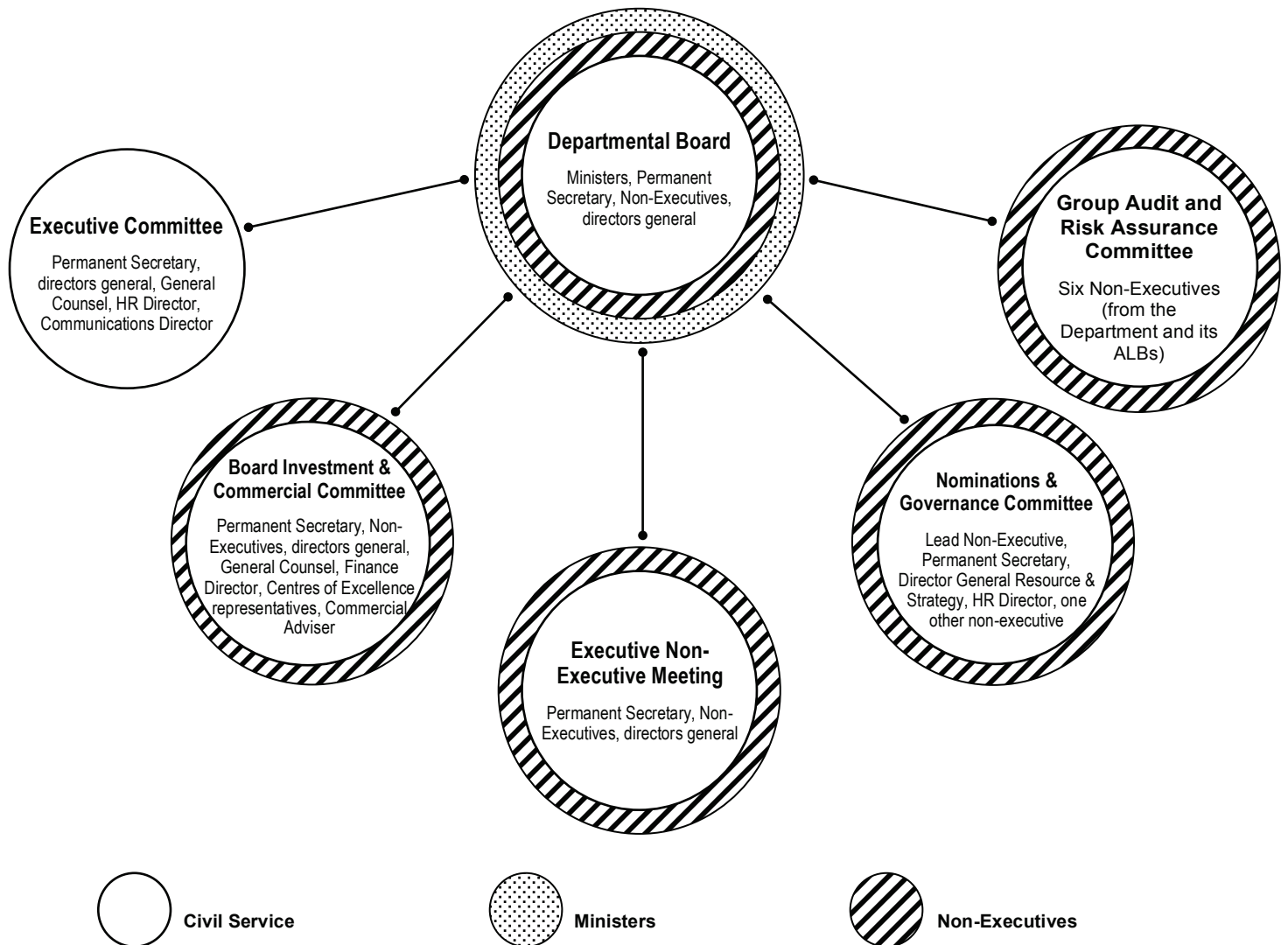
<sup>77</sup> HM Treasury (2013) *Managing Public Money*:  
[www.gov.uk/government/publications/managing-public-money](http://www.gov.uk/government/publications/managing-public-money)

<sup>78</sup> HM Treasury, Cabinet Office (2011) *Corporate governance in central government departments: code of good practice 2011*:  
[www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments](http://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments)

<sup>79</sup> *Government financial reporting manual 2014 to 2015*:  
[www.gov.uk/government/publications/government-financial-reporting-manual](http://www.gov.uk/government/publications/government-financial-reporting-manual)

6. Figure 1 sets out the DfT Board and its sub-committees. This is intended to illustrate the top-level committees that control, scrutinise or oversee the work of the Department. The Board and its sub-committees provide different layers of control and assurance and ensure that the Department has been achieving its aims and objectives in line with an appropriate level of control. A summary of each of these, and their input into and impact on the overall governance of the Department is outlined below.

**Figure 1: DfT Board and its sub-committees**

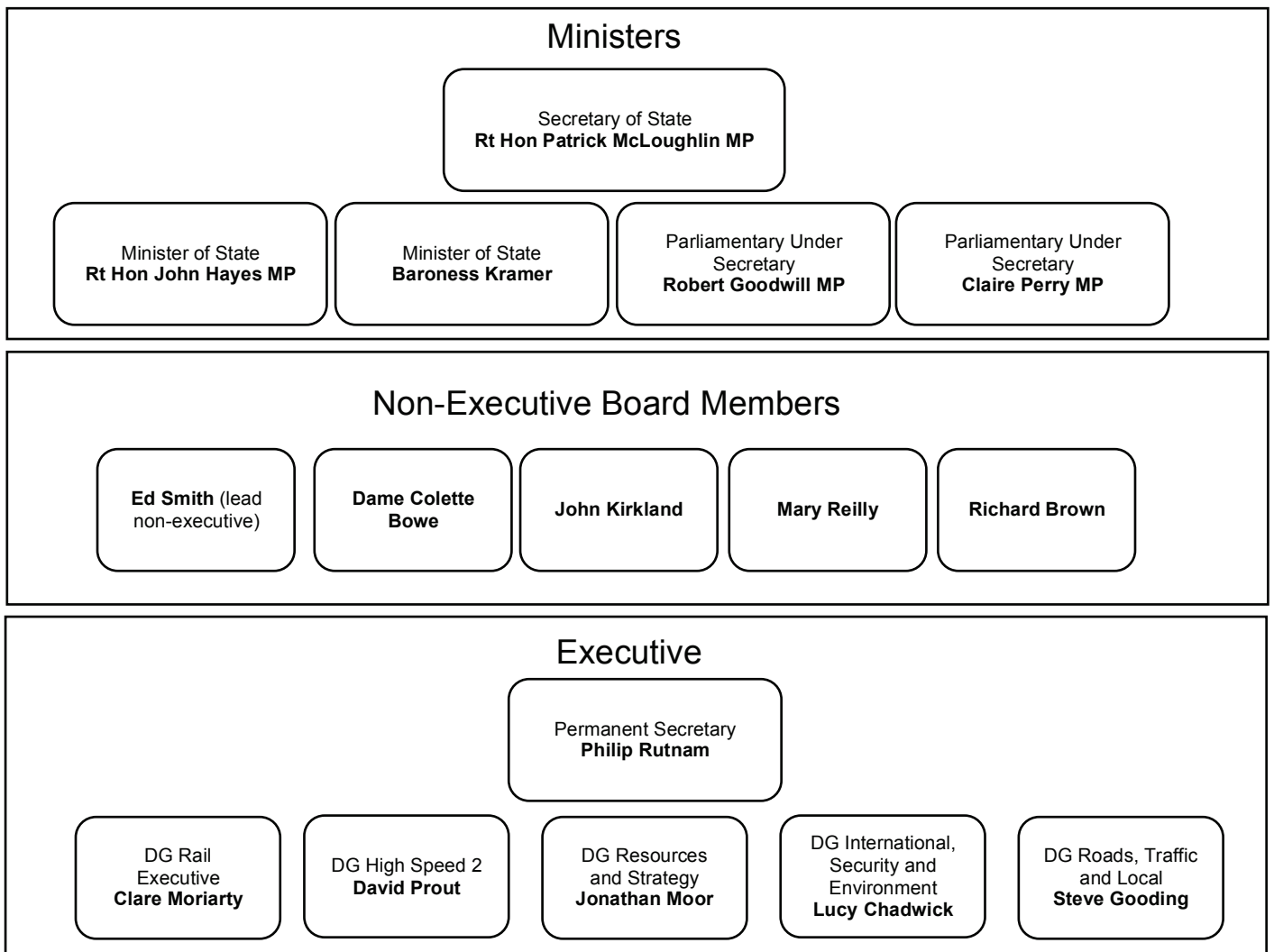


## DfT Board

### Membership

7. The DfT Board is chaired by the Secretary of State. Board membership comprises all Ministers, the Permanent Secretary, the non-executive board members and the directors general. Members are listed in Figure 2 below.

**Figure 2: DfT Board membership as at 31 March 2015**



### Purpose

8. The DfT Board advises and challenges the Department on its strategic direction and on the operational implications and effectiveness of its portfolio. The Board achieves this by drawing on the commercial, operational and political experience and expertise of its members, a combination of Ministers, civil service leaders and non-executive members.

The DfT Board's primary responsibilities during 2014-15 included the following:

*Advisory:*

- contributing towards the Department's strategic vision, and advising on major projects or programmes such as High Speed 2, roads and rail investment strategies and aviation policy; and
- Considering a series of policy and management themes in order to inform and develop the Secretary of State's thinking, and to obtain non-executives' input at the early stages of policy development.

*Scrutiny*

- the oversight and scrutiny of performance and the financial position for the central Department and its sponsored bodies and executive agencies; and
- helping to ensure the design, capability and capacity of the organisation match current and future commitments and plans.

*Monitoring*

- monitoring progress against the published Business Plan actions for 2013-2015, and corporate planning objectives; and
- reviewing key risks and effectiveness of risk management processes.

**Meetings and attendance**

9. During 2014-15 the DfT Board met on 4 occasions. These meetings took place in June, Sept and October 2014 and March 2015 (Table 1).

**Table 1: Board member meeting attendance during 2014-2015**

Board member		In post	Board
<b>Ministers</b>			
Secretary of State	Rt Hon Patrick McLoughlin MP	Full financial year	4(4)
Minister of State	The Rt Hon John Hayes	From 15 July 2014	1(3)
	Baroness Kramer	Full financial year	4(4)
Parliamentary Under Secretary of State	Stephen Hammond MP	Up until 15 July 2014	1(1)
Parliamentary Under Secretary of State	Claire Perry MP	From 15 July 2014	3(3)
	Robert Goodwill MP	Full financial year	4(4)
<b>Non-Executive Board Members</b>			
Lead Non-Executive	Sam Laidlaw	Up until 31 Dec 2014	3(3)
Non-Executive/ Lead Non-Executive from 1 Jan 2015	Ed Smith	Full financial year	3(4)
Non-Executive	Richard Brown	Full financial year	3(4)
Non-Executive	Alan Cook	Up until 30 June 2014	1(1)



Board member		In post	Board
Non-Executive	Mary Reilly	Full financial year	4(4)
Non-Executive	John Kirkland	Full financial year	3(4)
Non-Executive	Dame Colette Bowe	From 2 Sept 2014	2(3)
<b>Civil Service</b>			
Permanent Secretary	Philip Rutnam	Full financial year	4(4)
Director General	Clare Moriarty	Full financial year	4(4)
Director General	Lucy Chadwick	Full financial year	4(4)
Director General	Steve Gooding	Full financial year	4(4)
Director General	David Prout	Full financial year	4(4)
Director General	Jonathan Moor	Full financial year	4(4)

### Changes in year

10. The following changes to Board membership occurred during 2014-15:

- In July 2014 the Rt Hon John Hayes MP became a Minister of State and Claire Perry MP replaced Stephen Hammond MP as Parliamentary Under-Secretary of State.
- After four years as the lead non-executive board member Sam Laidlaw stood down from the board at the end of December 2014. Ed Smith took on the role as lead non-executive member.
- In Sept 2014 Dame Colette Bowe joined as non-executive board member replacing Alan Cook who left the role in June 2014.

### Register of interests

11. The Corporate governance in central government departments: Code of good practice 2011,<sup>80</sup> states that the Board should publish, in its Governance Statement, how any identified or potential conflicts of interest of Board members have been managed.
12. In accordance with Cabinet Office guidance, non-executive board members are asked to declare any personal or business interests that may influence, or appear to influence, their judgement in performing their obligations to the Department. This includes personal pecuniary interests, directorships, shareholdings or public appointments, and any such interests of close family members. This information is held in a central register alongside mitigation measures taken.

<sup>80</sup> HM Treasury, Cabinet Office (2011) Corporate governance in central government departments: code of good practice 2011:

[www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments](http://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments)

13. A register of Ministers' interests is maintained by the Cabinet Office.<sup>81</sup> Under the terms of the Ministerial Code, Ministers must ensure that no conflict arises, or could reasonably be perceived to arise, between their Ministerial position and their private interests, financial or otherwise.
14. All Civil Service staff, including all civil servants on the Board, are contractually obliged to adhere to the standards of behaviour set out in the Civil Service Code, which includes requirements with respect to integrity and impartiality. In line with this, guidance is issued periodically to all staff reminding them of the obligation to declare any conflicts of interests.

### **Board effectiveness review**

15. The code of good practice on corporate governance requires all government departments to undertake an annual evaluation of the effectiveness of their Board arrangements. This year's evaluation has been overseen by Ed Smith, Lead Non-Executive Board Member, and a summary of the findings can be found in his report on page 144.

### **Board sub-committees**

16. The DfT Board is supported by a number of sub-committees, which are as follows:

#### *Executive Committee (ExCo)*

17. The Permanent Secretary (Chair), Directors General, General Counsel, Director of Communications and Director of HR, meet weekly to discuss and scrutinise major workstreams in relation to projects and programmes, policy, and investment and corporate decisions. ExCo focuses on risk and resource management. ExCo also regularly reviews corporate performance, risk and management information in order to maintain an overview of the operations and delivery progress of the Department.

#### *Executive and Non-Executive meeting (ENEM)*

18. The Permanent Secretary (Chair), the Department's non-executive directors, and Directors General met five times in 2014-15. ENEM provides an opportunity for more in depth support, advice and scrutiny from the non-executive directors on the most important issues facing the Department, which this year included delivery and financial performance, programme & project management (PPM) and commercial capability building, the Departmental Improvement Plan, an annual top-down risk deep-dive, transport resilience and cyber security, aviation capacity, the HS2 programme, wider rail policy and delivery, Highways Agency roads reform and the Roads Investment Strategy.

#### *Board Investment and Commercial Committee (BICC)*

19. BICC membership comprises the Permanent Secretary (Chair), one or more of the Department's non-executive board members, the Directors General, the General Counsel, the Heads of Centres of Excellence (Strategy and Analysis, Finance, Corporate Finance, Procurement, and Project and Programme Management), the

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<sup>81</sup> The Cabinet Office publishes the list of Ministers' interests:  
[www.gov.uk/government/publications/list-of-ministers-interests](http://www.gov.uk/government/publications/list-of-ministers-interests)

Department's Commercial Adviser and an additional non-executive member from another government department.

20. BICC meets once a fortnight, with additional meetings scheduled if necessary to meet the timetables for major investment and commercial decisions.
21. BICC has responsibility for reviewing, within an economic, financial and commercial context, 'Tier 1' projects and programmes as defined in the Department's Business Case Approval Framework (see Investment Approval at paragraph 121 below), in order to provide challenge and guidance to project and programme leads, and to inform advice to Ministers. BICC also maintains portfolio-level oversight of the Department's substantial investment and commercial agenda. This oversight role is supported by quarterly portfolio reports, including updates and analysis on delivery progress and cross-cutting risks across the Department's major projects and programmes.
22. The lower tier investment boards 2 and 3 are described in paragraphs 123 and 124.

#### *Group Audit and Risk Assurance Committee (GARAC)*

23. GARAC, chaired by Mary Reilly, supports the Permanent Secretary in his roles as head of the Department and Accounting Officer. The committee, which replaced the Group Audit Committee at the start of the year, has terms of reference in line with HM Treasury's Audit & Risk Assurance Committee handbook and has a more explicit role in reviewing the department's approach to risk.
24. Two new non-executive members joined GARAC over the course of the financial year reflecting wider changes to the department. Richard Brown joined the committee in November to strengthen GARAC's link to the DfT Board; and Bridget Rosewell, Chair of Network Rail's audit committee, was appointed in December. GARAC now comprises six non-executive members: two are non-executives from the DfT board, including the GARAC Chair, with the remainder being audit committee chairs from the Department's agencies or ALBs.
25. GARAC met four times over the financial year, with the Chair reporting to the DfT board after each meeting. Over the course of the year GARAC has:
  - reviewed the Department's approach to risk management. In particular it has tested the robustness of risk escalation from ALBs to the Department;
  - supported the development of an integrated assurance framework for the Department;
  - discussed the Department's approach to market-facing grant schemes;
  - considered the Department's plans for implementing a new shared service arrangement;
  - received a presentation from Network Rail and the Department on preparations for consolidating Network Rail within the Department's accounts; this included a discussion on the linkages and dependencies between rail risks;
  - discussed the results of the DfT family-wide management assurance process; and
  - reviewed the annual reports and accounts.
26. GARAC has also received regular reports from internal and external audit on the results of their work.

27. In September the GARAC Chair brought together the Non-Executive Chairs of the DfT ALB Audit Committees to exchange views on governance, risk and control within the DfT family and to discuss common areas of interest.
28. The Chair provided a report to the Board following GARAC's examination of the Annual Report and Accounts, outlining the items summarised in paragraph 25 above and detailing how the Committee would like to see them taken forward.

#### *Nominations and Governance Committee*

29. The Committee was chaired, until December 2014, by Sam Laidlaw, the then Lead Non-Executive Board Member. His successor, Ed Smith, became the Chair in January 2015. Other members are John Kirkland (non-executive board member), Permanent Secretary, Director General Resources and Strategy, and the Human Resources Director.
30. The remit of the Nominations and Governance Committee covers four central elements:
  - scrutinising systems for identifying and developing leadership and high potential;
  - scrutinising plans for orderly succession of appointments to the Board and of senior management in order to maintain an appropriate balance of skills and experience;
  - scrutinising the process for the appointment of non-executives and external experts to the central Department and its executive agencies; and
  - advising on and scrutinising the Department's implementation of corporate governance policy.

#### **Arm's length bodies including Executive Agencies**

31. DfT operates in a large and complex landscape and much of its business is conducted with and through other organisations from smaller non-ministerial public bodies (NDPBs) to larger bodies including executive agencies such as DVLA and DVSA and government owned companies such as Network Rail. These organisations deliver essential work to keep the country moving and support economic growth. DVLA is our biggest agency with 5,000 staff, followed by DVSA who employ 4,000 staff. The Highways Agency spent over £3.5 billion and employed almost 3,500 staff in 2014-15 and Network Rail has over 34,000 employees spending some £6 billion last year.
32. Executive agencies carry out an executive function, with policy set by Ministers, and are an integral part of the Department. NDPBs have a role in the process of national government, but carry out their work at arm's length from Ministers. Public corporations are public bodies receiving most of their income from selling goods and services or from charges levied for regulatory activities rather than from funds voted by Parliament. Descriptions of some of the DfT's ALBs can be found in Chapter 2 of the Strategic Report, see in particular Figure 2.1, and a full list in Note 22 of the Accounts.

33. The relationship between the Department and its executive agencies and other ALBs is governed by *Corporate governance in central government departments: Code of good practice 2011*.<sup>82</sup> Within the Department sponsorship teams manage the relationship with the ALB at a working level, by following the principals set out in a Framework Agreement which is drawn up with each organisation, setting out the accountabilities and key relationships between the ALB and the Department and describing the governance arrangements that support it.
34. The Department has commenced work to review its assurance arrangements with regard to its ALBs, as set out in the sections on GARAC and Assurance in the Governance Statement of this report.
35. The DfT Board is updated on the performance of executive agencies and other key ALBs through its regular agenda item on management information. Each ALBs follow the Department's management assurance process, the results of which are reviewed at GARAC (further information in paragraphs 106-116). Some executive agencies also own some of the Department's Business Plan actions, and progress on these is regularly reviewed both at the ExCo and the Board (or ENEM).
36. The Department regularly reviews its NDPBs through the Cabinet Office triennial review programme. During the triennial review cycle (2011-14) a number of reviews have been completed and the reports published. The review of High Speed 2 Ltd (HS2 Ltd) was published in August 2013.<sup>83</sup> The triennial review of the two General Lighthouse Authorities (Northern Lighthouse Board and Trinity House) was published on 9 June 2014 while the triennial review of the British Transport Police Authority was published in two parts on 14 July and 21 October 2014 respectively.<sup>84 85 86</sup> The reviews of Passenger Focus and Traffic Commissioners were published on 20 March and 26 March 2015.<sup>87 88</sup> A review of Directly Operated Railways (DOR) Ltd was scheduled for 2014-15 but has been postponed until the financial year 2015-16. Executive agencies are also subject to review by the Department, as and when appropriate.
37. The Department has commenced work to review its assurance arrangements with regard to its ALBs, as set out in the sections on GARAC and Assurance in the Governance Statement of this report.

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<sup>82</sup> HM Treasury, Cabinet Office (2011) *Corporate governance in central government departments: code of good practice 2011*: [www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments](http://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments)

<sup>83</sup> DfT (2013) HS2 Ltd Triennial Review 2011. [www.gov.uk/government/publications/hs2-ltd-triennial-review-2011](http://www.gov.uk/government/publications/hs2-ltd-triennial-review-2011).

<sup>84</sup> DfT (2014) Triennial Review of Northern Lighthouse Board and Trinity House 2013. [www.gov.uk/government/publications/northern-lighthouse-board-and-trinity-house-triennial-review-2013](http://www.gov.uk/government/publications/northern-lighthouse-board-and-trinity-house-triennial-review-2013).

<sup>85</sup> DfT (2014) British Transport Police Authority: triennial review 2013 to 2014, part 1. [www.gov.uk/government/publications/british-transport-police-authority-triennial-review-2013-to-2014](http://www.gov.uk/government/publications/british-transport-police-authority-triennial-review-2013-to-2014).

<sup>86</sup> DfT (2014) British Transport Policy Authority: triennial review 2013 to 2014, part 2. [www.gov.uk/government/publications/british-transport-police-authority-triennial-review-part-2-2013-to-2014](http://www.gov.uk/government/publications/british-transport-police-authority-triennial-review-part-2-2013-to-2014).

<sup>87</sup> DfT (2015) Passenger Focus: triennial review, 2014 to 2015. [www.gov.uk/government/publications/passenger-focus-triennial-review-2014-to-2015](http://www.gov.uk/government/publications/passenger-focus-triennial-review-2014-to-2015)

<sup>88</sup> DfT (2015) Traffic Commissioners: triennial review. [www.gov.uk/government/publications/traffic-commissioners-triennial-review](http://www.gov.uk/government/publications/traffic-commissioners-triennial-review)

38. The DfT Board is updated on the performance of executive agencies and other key ALBs through its regular agenda item on management information. The Department's ALBs are accountable and their management assurance reviewed at GARAC. Some executive agencies also own some of the Department's Business Plan actions, and progress on these is regularly reviewed both at the ExCo and the Board (or ENEM).

#### *Network Rail*

39. In September 2014, Network Rail became an arm's-length body of the Department for Transport (DfT). The Department published a Framework Agreement,<sup>89</sup> that sets out how both bodies would interact in terms of corporate governance and financial management. By working closely with Network Rail, DfT delivered a governance framework that provides appropriate accountability to Parliament and the taxpayer while preserving Network Rail's operational independence. Since September, the Department and Network Rail have been working together on embedding the provisions of the Framework Agreement.
40. Network Rail continues to be regulated by the Office of Rail and Road (ORR) (formerly the Office of Rail Regulation), which monitors it against stretching targets on delivery, train performance, efficiency and safety. Government continues to set the over-arching investment strategy for the railways and the funds available to deliver it, as well as holding Network Rail's board of directors to account and taking a greater role in governance matters as its sponsoring department.
41. Network Rail has conducted its own management assurance exercise – the Group Assurance Letter Process – and concluded that, overall, it can give assurance over its processes of internal control. From 2015-16, when Network Rail will be fully consolidated within the Department's accounts, it is intended to develop the Group Assurance Letter Process so that it is on a comparable basis to that operated by the rest of the Department.

#### *Roads Reform*

42. As part of the wider process of roads reform and the creation of Highways England, a new governance structure has been created to ensure the new strategic highways company is fully accountable. New statutory measures were passed in the Infrastructure Act, which are supported by statutory guidance, a framework agreement and the company's internal governance arrangements. This ensures that the Road Investment Strategy, published in December to provide stability for long-term investment, will be delivered in an effective and accountable way.
43. This system is overseen by two sponsorship teams – a client team based in Strategic Roads and a shareholder team jointly led by Corporate Finance and the Shareholder Executive – thereby realising one of the key recommendations of Alan Cook's review of the Highways Agency. Both of these teams will inform the Secretary of State, the Principal Accounting Officer and the Department's board of developments in their respective areas.
44. There will also be important rules for the new Highways Monitor, based at the Office of Rail and Road and a new road user watchdog, based at Transport Focus (formerly Passenger Focus).

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<sup>89</sup> [www.gov.uk/government/publications/network-rail-framework-agreement](http://www.gov.uk/government/publications/network-rail-framework-agreement)

## Risk management

45. The Department and its executive agencies provide services to millions of people and make very substantial investments in made to our road and rail networks and the development of new technology. The Department must identify its key risks and deal with them effectively if it is to deliver its considerable agenda. During 2014-15 the Department continued to focus on embedding good risk management processes and culture across all parts of its business. This section covers the Department's risk profile and policy, processes for managing information and information security, and civil contingencies.

### DfT risk profile

46. The Department's risk profile covers risks relating to the performance of transport networks and operational services, transport safety, delivery and implementation of UK and EU policy and risks to the delivery of significant infrastructure projects.
47. Over the year the proportion of red risks, i.e. those with a very high impact and likelihood, recorded on the Department's Risk Management Information System (rolled out in March 2014), remained more or less static at around 3-4% of total risks identified. Whilst these top risks covered a wide range of Departmental activity, the majority stemmed from the Department's work in relation to rail and HS2, for example the impact of Network Rail re-classification, the affordability of enhancement works and the impacts of the HS2 build phase on the existing rail network. A number of high impact corporate risks also continue to be managed. These included:
- ensuring we attract, recruit and retain staff with the skills and experience needed to deliver the Department's key business objectives;
  - the affordability of key business objectives within the Department's resource budgets over the next spending review period; and
  - high-impact natural hazards affecting transport.
48. The Department's bottom-up risk profile largely mirrored the strategic risks identified in the Department's annual top down risk review. There was also significant overlap with the wider thematic risks captured by a similar exercise conducted by the Board Investment and Commercial Committee (BICC), focusing on the risks to the Department's Tier 1 projects and programmes. These overlapping themes were:
- affordability
  - resource capacity and capability
  - future markets and environment
  - governance, structure and processes
  - construction inflation and the supply chain

### DfT risk management improvements

49. The Department continued to pursue a robust risk management improvement agenda with the strategic aim of enabling the Department to achieve more successful outcomes, avoid failure in relation to delivery of objectives, manage its finances effectively and improve its reputation through the effective identification and management of risks.

50. To support this agenda the Department is implementing a risk management improvement strategy based around three key pillars:
- Policy – which is clear, relevant and up to date
  - Processes – which are efficient and robust
  - Culture – which leads and drives good risk management
51. Risk management improvement activities took place across all parts of the departmental family focusing on one or more of the three pillars. These included:
- Work in DVSA to re-set its risk appetite with its Board (Policy);
  - Work in HS2 Ltd to revise current policy, focusing on formalising the development framework and what this means for other businesses (Policy);
  - Work in DVLA to explore how to link its agency systems with the core Department (Process);
  - Introduction of weekly review sessions in the DfT– HS2 Group for its senior team for all risks scoring 15+ (those with a high/very high impact and a possible likelihood of occurring)(Process);
  - Running risk policy awareness sessions in the DfT(c) – Resources and Strategy Group with the aim to roll these events out across the rest of DfT(c) (Culture); and
  - Creating and running immersive themed risk events in the DVLA and DfT(c) to increase awareness of particular areas of risk management (Culture).
52. One of the key tools the Department has developed to help drive better risk management is a new Risk Management Information System which was rolled out in March 2014 across DfT(c). This system allows all of the Department's core business areas to update their risks in real time on a centrally managed system that can be interrogated by all managers. This provides a useful tool for managers who can learn from other teams' existing risks and mitigation activities. It also allows the Department to identify emerging themes in its risk profile, e.g. legal challenges.

### **DfT risk policy**

53. The current DfT Risk Policy was established in April 2013 and applies to the central Department and its executive agencies. The policy, aligned to HM Treasury Orange Book guidance, has been embedded across all areas and provides detailed information on the expectations on individuals and the risk behaviours that are demanded of all staff across the Department.
54. In 2014-15 the risk appetite statement within the policy was reviewed in depth by the Executive Non-Executive Meeting (ENEM). ENEM re-confirmed the departmental risk appetite statement should remain as OPEN – to consider all options and choose the one that is most likely to result in successful delivery while also providing an acceptable level of reward – and the need to continue to consider risks on this basis.
55. The Department is aiming to split its finance risk impact definition into two, one set of impacts relating to in-year budget management, the other focusing on financial impacts over the Spending Review period. Moving forward, this will allow the Department more clearly to identify in-year risks such as potential underspends from specific projects, longer term financial pressures, and the risk of making phasing changes in larger planned expenditure profiles.



56. The Department replaced its Group Audit Committee that had previously supported the Accounting Officer in relation to the effectiveness of risk management across the Department with a Group Audit and Risk Assurance Committee (GARAC). The GARAC's role in relation to risk management will be to:
- review the policies and process for identifying and assessing business risks and the management of those risks by the Department and the Group;
  - consider the effectiveness of the policies and processes for Risk, Control and Governance and the Governance Statement; and
  - consider the adequacy of assurance relating to the management of risk and corporate governance requirements for the organisation.
57. Further assurance on the correct application of the Department's risk policy was delivered through:
- project assurance reviews;
  - progressing and completing recommendations throughout the year stemming from the DfT's Group Internal Audit team's audit of risk management practices; and
  - analysing and acting on the results of the annual management assurance exercise.

### **Managing information and information security**

58. The handling of data and information carries significant risks to government departments and DfT is committed to ensuring its information is managed and valued.
59. DfT publishes its information asset register and champions the transparency agenda through the Transport Transparency Sector Board.<sup>90</sup>
60. The DfT information governance structure is aligned with the requirements of the Security Policy Framework. This enables the Department to manage the risks related to the safe handling of information, and to make maximum use of its information for wider business benefit. A network of information asset owners (IAOs) provides ongoing management of information risk as well as assurance to the Senior Information Risk Owner (SIRO). This structure is replicated across all DfT agencies.
61. DfT, including its agencies, carries out an annual assessment of its compliance with the Security Policy Framework.<sup>91</sup> For 2013-14,<sup>92</sup> as for previous years, that process was subject to independent challenge from another Government Department as well as an internal audit. In both cases, our self-assessment was found to have been "fair and transparent".

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<sup>90</sup> [www.gov.uk/government/groups/dft-transport-sector-transparency-board](http://www.gov.uk/government/groups/dft-transport-sector-transparency-board)

<sup>91</sup> [www.gov.uk/government/publications/security-policy-framework](http://www.gov.uk/government/publications/security-policy-framework)

<sup>92</sup> This is the latest available assessment at the time of publication. The assessment for 2014-15 will not be completed until June 2015.

62. In 2014-15 we implemented the new Government Security Classification Scheme. A DfT-tailored e-learning course and a series of easy-to-read desk aids were made available to staff. Our assessment to date is that the new, simpler, scheme is delivering the benefits that were expected of it.
63. In 2014-15 information management policies and procedures were subject to an internal audit. Systems of governance, risk management and internal control arrangements over information management were found to be “generally well-established and effective”.
64. DfT carries out the review and transfer of historical records to The National Archives (TNA) in compliance with the Public Records Act 1958. In 2014-15 we reported to TNA a 66% reduction in our review backlog and transferred 219 files that hold enduring historical value.
65. A summary of the personal data related incidents that have occurred during 2014-15 is published in the Directors’ Report in Section 7.3.

### **Civil contingencies**

66. The Department and its agencies contribute to government planning for, and its response to, a range of national civil emergencies, particularly those with a significant transport component or those that may cause transport disruption or threaten the security of UK citizens. The starting point for this is the annual national risk assessment (NRA) prepared by the Cabinet Office. DfT is the lead Department for a range of risks on the NRA. Of the risks owned by other government departments, almost all have some implications for transport.
67. In the event of significant civil emergencies DfT becomes engaged in the cross-Whitehall response and subsequent recovery efforts. We work closely with stakeholders to ensure they are aware of the potential threats and put in place robust contingency plans. One significant challenge faced in 2014-15 was the Ebola outbreak in West Africa. The Department has been actively engaged in the Government’s response from the outset. In addition, the Department supported contingency planning for the 2014 Commonwealth Games and the NATO Summit in Wales in September 2014.

## **Financial governance, management and controls**

68. It is a key responsibility of the Accounting Officer to ensure that the Department uses its resources efficiently, economically and effectively. All those concerned with the administration of the Department support the Accounting Officer in discharging those responsibilities, including appropriate governance and management processes. They are supported by specialists in corporate functions who maintain processes to ensure that suitable arrangements are in place in areas such as financial governance; financial and corporate planning; financial loss; fraud, bribery and whistleblowing; and localism and accountability.

### **Financial governance**

69. The Department’s corporate governance framework describes the responsibilities of Directors General to manage annual budgets and Business Plan commitments. The DfT Board, ExCo and investment boards also review and approve financial decisions, while GARAC reviews financial management and governance processes.

70. Group Finance Directorate includes staff responsible for financial planning and for maintaining financial controls and reporting; and finance business partners who work with the business units to ensure sound financial management. These teams provide professional advice to the business, ExCo, the DfT Board and other committees and boards.
71. Finance directors of executive agencies and other arm's length bodies have an indirect reporting relationship to the Group Finance Director, and, through membership of the finance leadership team, have a shared responsibility for building the Department's financial management capability.
72. The Department's corporate planning process allocates the budget voted by Parliament to all parts of the organisation. Group Finance Directorate monitors budget changes to ensure they have been implemented in accordance with decisions made by Ministers and the Board, and reviews the actual and forecast outturns each month to check that expenditure is managed in line with approved budgets. This monitoring is designed to ensure that the Department does not breach any of the Parliamentary control totals (resource DEL, capital DEL, resource AME, capital AME, cash and administration), while also providing advice on options to ensure best use of available resources.

### *Shared Services*

73. The Department divested its Shared Service Centre (which provides back office services including HR, Payroll and Finance) to arvato on 1 June 2013, and in so doing, established the Government's first Independent Shared Service Centre 1 (ISSC1).
74. arvato continues to provide legacy SAP services to the central Department, DVLA, the former DSA contingent of DVSA and payroll and HR for Highways England. MCA became the first Government organisation to migrate on to the new arvato provided Agresso platform in December 2014. Whilst later than originally anticipated, work continues to migrate the rest of the DfT family on to the new platform during calendar year 2015, although this continues to be a challenging objective. The Department is working with MCA and arvato to resolve issues which remain outstanding from the MCA migration, and to incorporate lessons learned into the migration plans for other parts of the DfT family.
75. The Department contracts with arvato via a call-off under a framework agreement managed by the Cabinet Office. The Cabinet Office is the accountable contract manager for ISSC1 and has put in place a governance framework which enables it to manage service delivery standards on behalf of ISSC1 customers. As the framework authority, the Cabinet Office Accounting Officer is responsible for providing DfT with assurance that ISSC1 is meeting its contractual obligations; the Cabinet Office Accounting Officer is supported in this role by a dedicated Shared Service Audit Committee.
76. The Department has received an ISAE 3402 report produced by EY on the operation of the control environment at ISSC1. Separately, the Department has also received a number of internal audit reports from Cabinet Office on ISSC1 risk controls. The Department has placed reliance on these reports for assurance over ISSC1's control environment during the 2014-15 financial year.

### *The Domestic Recharging Scheme*

77. 2014 saw problems with a grant programme administered by the Office for Low Emission Vehicles (OLEV) to support the rollout of electric vehicles in the UK by providing grant funding for home chargepoints. The scheme was originally launched in 2013 but a number of suppliers changed their business models to exploit the grant and maximise their revenue by offering chargepoints for 'free' to homeowners resulting in significant oversubscription. Management information on the scheme was insufficiently timely resulting in an overspend before interim measures were put in place in May 2014. The grant was replaced by one with a far tighter scope and much improved and more timely management information in September 2014. Lessons learned are being promulgated within DfT and across Whitehall and the new scheme is now running within budget with no signs of abuse by suppliers.

### *SS Gairsoppa*

78. Following a procurement exercise carried out in 2009 to seek a company to undertake a salvage of cargo from the SS Gairsoppa, a British ship which was sunk in 1941, an unsuccessful bidder made a claim against the Department. The Department entered into an out of court settlement with that bidder for £16,000,000 including costs. The Department has not let any further contracts for the salvage of such wrecks and has carried out a full review of the circumstances that led to the claim. The procedures for considering and evaluating future applications have been revised in the light of the lessons learned from this review.

### *Highways Agency Crown Censure*

79. During 2014-15 the Highways Agency accepted a Crown Censure regarding a failure to provide the necessary supervision of traffic officers based at the Dartford outstation, in accordance with its own procedures. An improvement plan has been developed and is now being implemented. See also the Health and Safety section of the Strategic Report page 53.

### **Financial and corporate planning**

80. The Strategic Finance and Planning Division manages spending reviews, annual financial planning processes and the Department's response to fiscal events such as Budget and Autumn Statement. These set out the Department's spending priorities and total funding envelopes, categorised into Parliamentary control totals. Within these envelopes, the Department sets indicative budgets for its programmes covering the relevant spending periods. These budgets are refreshed in line with priorities via an annual corporate planning process. Allocated budgets are then approved via the Main Estimate and processed and captured at a more detailed level on internal systems. These are then updated at Supplementary Estimate.
81. This year's corporate planning process confirmed budgets for 2015-16, aimed at aligning both people and financial resources to the Department's objectives and Ministers' priorities. Information was captured against a set of workstreams, intended to be an exhaustive list of the Department's work, to enable prioritisation decisions to be taken against a backdrop of increased capital investments and reducing resource budgets. Budget allocation for 2015-16 was then approved by the Department's Executive Committee.

## Fraud, bribery and whistleblowing

82. The Department follows the Cabinet Office guidelines and takes a 'zero tolerance' approach in the event of any fraud or bribery. Within the Department and its agencies, any suspected cases of fraud or corruption are investigated vigorously. The Department's policy is to take disciplinary and/or legal action where appropriate against any who perpetrate, are involved in or assist with fraudulent or other improper or illegal activities.
83. For reporting purposes, fraud and corruption includes all of the offences relating to the Fraud Act 2006, Theft Act 1978 and the Bribery Act 2010. The Department also reports any 'near misses' in terms of financial loss, risks and reputation.
84. The Department adopted the recommendations of the Ministerial Committee on Public Expenditure: Efficiency and Reform (PEX(ER)) to reduce internal and external fraud and official and customer error across government by appointing Jonathan Moor, Director General, Resources and Strategy as its accountable officer for fraud losses.
85. The Department continues to support the Cabinet Office (Efficiency and Reform) agenda which placed two requirements on Departments:
  - to have outcome-based metrics, to evaluate the success of their counter-fraud and error identification and reduction activity. These metrics are currently being developed, in consultation with members of the Department's Fraud Error and Debt Group, and are under discussion with Cabinet Office.
  - to undertake two small, targeted random sampling exercises to identify and measure fraud and error losses in the highest risk payment areas. The areas identified for DfT were Government Purchasing Cards and Bus Operator Grant payments. The PEX Oversight Board's first meeting on the Department for Transport's current progress on the random sampling mandate received a green RAG.
86. DfT's Counter Fraud Champion, Jonathan Moor, has written to all senior managers in DfT and the ALBs on the need to undertake a fraud risk assessment to accurately assess its current position on fraud risk. Internal Audit has been commissioned, with the assistance of PwC and Group Finance, to undertake a fraud risk assessment exercise across the DfT family. As part of this exercise individuals with counter fraud responsibilities have been asked to attend a workshop which will help to establish the framework for a Fraud Risk Assessment template to be used across the DfT and its family.
87. The results and recommendations from the fraud risk assessment will be discussed by GARAC to inform future consideration of fraud risks, management reporting and controls.
88. During 2014-15 the Department refreshed its Whistleblowing policy, launching the Whistleblowing and Raising a Concern policies on 20 May 2015. The policies apply to Civil Servants in DfT group (the central Department for Transport and DfT's Executive Agencies – DVLA, MCA, VCA and DVSA). The policies, which DfT have implemented, will help to ensure consistency of approach across DfT group and ensure that DfT group is consistent with other Civil Service departments.
89. Regular anti-fraud awareness bribery courses and workshops are also run for staff within the central Department and its agencies.

90. The Department holds quarterly meetings of its Fraud, Error and Debt Group, comprising fraud officers and other representatives from business units across the Department and its agencies. It considers updates from group members on counter-fraud activity across the Department, advice and initiatives from the Cabinet Office and City of London Police, information sharing, best practice and any areas of concern impacting on the Department's policies and procedures.

### **Financial loss**

91. There were no new confirmed fraud cases reported in the central Department. Where appropriate, incidents occurring within the Department's agencies and arm's length bodies during 2014-15 have been noted in their own governance statements.

### **Localism and accountability**

92. The Department distributes a number of grants to local government from its departmental expenditure limit (DEL). These can be classified into five broad groups: formula grants, challenge or bid-based grants, the Greater London Authority's transport grant (Transport for London's block grant), the Crossrail grant and payments to local government in relation to rail services.
93. Accountability for this local funding is set out in the Department's accountability system statement.<sup>93</sup> The information below provides a summary of DfT's accountability system statement.

#### *Formula funding*

94. Two of the funding streams that the Department provides to local government (outside London) are allocated via formula. These are the Highways Maintenance Block Fund and the Integrated Transport Block Fund.
95. The funding is not ring-fenced, meaning that these grants are not subject to any additional DfT restrictions on how the local authorities (LAs) use the resources; this provides LAs with flexibility to spend the funding according to local priorities. However, there is an audit process in place for all such funds through the normal accountability requirements placed on LAs as independent statutory bodies.
96. The Department for Communities and Local Government's (DCLG's) Accounting Officer, as lead Accounting Officer across central government with respect to local government, provides the assurance that a core framework is in place that requires LAs to act with regularity, propriety and value for money in the use of all of these resources.<sup>94</sup>

#### *Challenge/bid-based funding*

97. The Department provides funding grants to local government for a number of more specific transport purposes. Funding via these grant streams is provided on a bid-based system, with the Department appraising and assessing bids on various criteria relevant to that fund, including value for money.

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<sup>93</sup> [www.gov.uk/government/publications/accountability-system-statement](http://www.gov.uk/government/publications/accountability-system-statement)

<sup>94</sup> Accounting Officer Accountability System Statement for Local Government  
[www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/6264/2110027.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/6264/2110027.pdf)

98. Award of grant funding is usually provided in arrears, and mechanisms are in place to ensure the regularity of the funding, i.e. the funding has been spent for the purpose for which it was intended.
99. The mechanisms in place to ensure the regularity, propriety and value for money for specific individual funding streams are set out in more detail in the Department's accountability system statement.

#### *Transport for London*

100. The Department is required under Section 101 of the Greater London Authority Act 1999 to provide a transport grant to the Greater London Authority, which in turn is effectively obliged to pass it to Transport for London (TfL).<sup>95</sup> The Department cannot direct the Mayor of London as to what purposes this funding can be used, but it remains involved to seek reassurance that regularity, propriety and value for money in the use of these resources are achieved.
101. How it does this is again set out in detail in the Department's accountability system statement. The key principles are TfL's own scrutiny arrangements, for example internal and external audit, the democratic accountability of the Mayor to, the Greater London Assembly, and the role of the Independent Investment Programme Advisory Group.

#### *Crossrail and funding for rail services*

102. The Secretary of State pays grants to Crossrail Ltd, a wholly-owned subsidiary of TfL, towards the costs of building Crossrail. In addition the Department makes various grants and payments to local government to pay for the operation of rail services. These include payments for Northern Rail, London Overground and Merseyrail. The accountability arrangements for these are set out in more detail in the accountability system statement.

#### *Data, transparency, failure and intervention*

103. The Department recognises that a key aspect of being able to hold both the Department and local government to account is that of comparable data and the ease with which it can be accessed. The accountability system statement sets out what the Department is already doing in regard to data at the LA-level and its plans for the future.
104. The Department expects to make further progress now more transport-related data is available on LG Inform.<sup>96</sup> This will aid in taking forward the recommendations in the Public Accounts Committee's report *Funding for local transport: an overview*.<sup>97</sup>

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<sup>95</sup> [www.legislation.gov.uk/ukpga/1999/29/contents](http://www.legislation.gov.uk/ukpga/1999/29/contents)

<sup>96</sup> <http://lginform.local.gov.uk/>

<sup>97</sup> [www.publications.parliament.uk/pa/cm201213/cmselect/cmpubacc/747/747.pdf](http://www.publications.parliament.uk/pa/cm201213/cmselect/cmpubacc/747/747.pdf)

## **Chartered Institute of Public Finance and Accountancy (CIPFA) review of financial management**

105. In 2013-14 the Department and the largest agencies within its boundary, the Highways Agency (HA) and the Driver and Vehicle Licensing Agency (DVLA), commissioned a financial management assessment using the CIPFA Financial Management Model. These assessments have now been completed and reports finalised for the central Department (July 2014), DVLA (May 2014) and HA (April 2014). Action plans have also been agreed. The findings for the central Department are typical of central government departments, with strong stewardship and governance, effective budget management and reporting and robust internal systems and processes. Areas for development included people management, value for money challenge and transformational financial management. Most of the agreed actions for the central Department have been completed. Both HA and DVLA scored well against the best practice statements in the CIPFA model, which is typical for organisations that are focused more on operations than policy issues.

## **Assurance**

106. The Department relies on assurance from multiple sources:

- **Front-line or business operational areas:** The Department has established arrangements that are used to derive assurance on how well objectives are being met and risks managed. These include monthly management reporting, risk registers, reports on the routine system controls, the directors' annual statements of assurance and other management information;
- **Management oversight and peer review:** separate from the work of those responsible for delivery, this includes investment approval work undertaken by the Department's investment Boards, the central centres of excellence, analytical assurance, as well as work undertaken by the human resources and the departmental security teams;
- **Independent and objective assurance:** This includes the work of internal audit.

107. In addition, external independent assurance is provided by the Major Projects Authority, the National Audit Office and by Parliamentary scrutiny.

108. A project to gain a better understanding of the full range of assurance work being undertaken at various levels within the Department commenced during 2014-15. This project will create a framework that can be used to ensure assurance is being delivered in the most effective and efficient way. The first stage of this work is looking at our key investment projects, corporate processes, and our arm's length bodies (e.g. agencies and non-departmental public bodies). By mapping assurance in these areas, the project will identify areas for improvement, as well as good practices, and recommend actions to take forward in 2015-16.

109. Further details in regards to our key assurance work undertaken during 2014-15 are provided below.



## Management assurance

110. Management assurance is a key component of the internal control and compliance framework. Other components include governance and assurance provided by the Heads of Profession, subject matter experts and work undertaken independently by audit and other reviews. It ensures that directors general and directors in the Department, and CEOs in the agencies and arm's length bodies, have an informed assessment of the operation of systems, processes and controls in key business areas, which they can challenge, and from which they identify actions for improvement.
111. The management assurance process refers to a set of control and business risk-based questions developed in consultation with subject matter experts and business process owners and aligns our reporting with the Government Internal Audit Agency's assurance risk ratings. Directors are held accountable and required to review controls within their areas of responsibility, rate their effectiveness and draw up an action plan for any areas of assurance where controls are not operating effectively.
112. Returns are completed by each directorate in the central Department and are consolidated and challenged by directors general. Each of the Department's executive agencies and arm's length bodies has also been asked to complete the survey, which are discussed and endorsed by their audit committees before being returned to the central Department. Some agencies have continued to use their own management assurance tools and transferred the results to the tool developed by the Central Department, so as to enable consistent reporting at Group level.
113. The time frame for this year's Management Assurance exercise allowed directors and CEOs time to take into account input from the heads of profession, subject matter experts and internal audit. The management assurance exercise was undertaken as at 31 December 2014 with a follow-up review for any significant changes to take it up to 31 March 2015. The Group results were then considered by the Permanent Secretary and the Group Audit Risk and Assurance Committee.
114. The 2014-15 review has identified an overall improvement in all of the categories of assurance, most significantly Fraud and Bribery. The exercise has also identified a number of areas of strength across the Department, particularly: Budget Setting and Corporate Plans, Grant Management, Financial Performance Management, Treasury and Cabinet Office Controls and Impact Assessments.
115. On the other hand, there are some consistent areas of lower assurance across the Department: Succession Planning; Business Continuity; Records Management and Freedom of Information; Health & Safety and Information Assurance. The Department has appointed Senior Responsible Owners to take the lead in these areas of improvement.
116. Feedback from users of the revised Management Assurance process has been very positive; the extension of the web-based reporting, this year, to include the ALBs was particularly welcomed. We now have a robust reporting process for our control framework. We will continue to embed and strengthen the process, to work with the business units and agencies, Subject Matter Experts, Senior Responsible Owners and Internal Audit, to address the feedback and action plans.

## Management reporting

117. The Department makes use of management information systems to gain assurance about value for money and the quality of delivery. Ed Smith provides an assessment of the Board's management information in his lead non-executive report.
118. A Management information Pack and covering paper are issued monthly to ExCo, and to each Board and ENEM. These summarise the Department's financial information and progress against published DfT Business Plan commitments and major projects. On a quarterly basis, the ExCo and ENEM or the Board also receive a quarterly delivery report, which details the Department's performance across 30 of the Department's key workstreams (encompassing programmes, projects and policy areas). This data is collected through the Management Information system that is widely used by all business areas. There are separate arrangements to collect management information from the agencies.
119. Departmental finance reports are produced monthly and reviewed by finance professionals. Data from the management information systems is also used by the finance business partners, who produce detailed monthly reports for their director general groups to manage budgets and performance.
120. Decisions on the allocation of resources are generally a matter for ministers, subject to any delegations of authority that have been granted. The Executive Committee plays an important role in overseeing the advice to be given to ministers about the Department's finances and the choices available. Proposals are made to them through specific documents, which are reviewed for financial implications.

## Investment approval

121. The Strategic Finance and Planning Division reviews and provides clearance for spending decisions, including all investment decisions as set out in the three-tier governance structure defined in the Department's Business Case Approval Framework (BCAF). The criteria defining the three-tier levels are set out in the BCAF and include financial cost, degree of risk exposure, change in strategic direction and opportunity costs. The appropriate Investment Board for each area and the financial thresholds that apply at each level are set out below:
122. Tier 1: the Board Investment and Commercial Committee. This includes projects with an initial procurement cost or contract value of £100 million or more, contracts providing a third-party with gross revenue or gross subsidy of over £200 million, projects carrying high-impact corporate risks, and those involving a major change in DfT working arrangements. The exceptions to this are road capital projects or Network Rail projects, which are included in the Tier 1 portfolio only if their costs exceed £500m (or are categorised as novel or contentious).
123. Tier 2: investment committees: the Rail Investment Board, HS2 Programme Investment Board, Highways Investment Board, Motoring Services Investment Board and Local Transport Investment Committee, which considers local authority major scheme investment decisions. Financial thresholds that apply at tier 2 are: Highways Major Programmes spend between £50 million and £200 million; Motoring Services projects, programmes and policy announcements between £10m and £100 million; and all other projects and programmes, announcements and policy proposals with spend between £50 million and £100 million. Projects over £40m in value, but with a BCR below 3.5 are referred to the Tier 2 body and to Strategic Finance and Planning before any decisions are made. Projects with a BCR of below 1.5 are referred to the

Tier 2 body and to Strategic Finance and Planning before any decisions are made, regardless of value.

124. Tier 3: individual project boards: delegated budget holders and agency directorates consider investment decisions falling below the tier 2 thresholds set out above.

#### *Northern and Transpennine Express Franchises – Invitations to Tender*

125. The Permanent Secretary sought a Ministerial direction on 26 February 2015 to release the Invitations to Tender for the Northern and Transpennine Express Franchises containing an obligation to withdraw all Pacer vehicles by 2020 and to bring into operation a minimum of 120 new build vehicles. In terms of the Department's guidance for calculating costs and benefits, the costs of bringing forward replacement of the Pacers would be significantly greater than the monetised benefits with a Benefit:Cost ratio estimated at 0.35. However, the Secretary of State considered that the continued use of the uncomfortable and low quality Pacer vehicles was not compatible with the Government's vision for economic growth and prosperity in the north.

#### *Manston Airport*

126. The Permanent Secretary also sought a Ministerial direction on 18 March 2015 in relation to the award of a contract to consultants to undertake a review of papers, supplied by Thanet District Council and RiverOak Investment Corp LLC, in relation to a potential Compulsory Purchase Order (CPO) of the former Manston Airport. The Permanent Secretary drew attention to the lack of a defined Government role at that stage of the CPO process and said that there was not a clear and obvious gap in the process which the DfT would typically fill. The Secretary of State considered that this contract was important given the contribution smaller airports can make to providing regions with convenient access to other national and international markets and noted that if a decision is taken to use the site for other purposes it will not be possible to re-open the airport in future.

#### **Analytical assurance**

127. The analytical assurance framework *Strength in Numbers*,<sup>98</sup> which specifies how analysis is used and produced in the Department, has been in place since June 2013, and is in line with the recommendations of the Macpherson Review of quality assurance of government analytical models.<sup>99</sup> As part of the framework, DfT has a register of business critical models along with the appointment of a single specialist senior model owner for each business critical model.
128. *Strength in Numbers* helps build a culture of mutual understanding amongst policy and analyst leads around the risks and limitations of any analysis, which are communicated to decision-makers in submissions. The identification of specific roles and responsibilities and the use of analytical strategies also play an integral role in building the foundations of this strong assurance framework.

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<sup>98</sup> DfT analytical assurance framework: strength in numbers.  
[www.gov.uk/government/publications/dft-analytical-assurance-framework-strength-in-numbers](http://www.gov.uk/government/publications/dft-analytical-assurance-framework-strength-in-numbers)

<sup>99</sup> Review of quality assurance of Government analytical models.  
[www.gov.uk/government/publications/review-of-quality-assurance-of-government-models](http://www.gov.uk/government/publications/review-of-quality-assurance-of-government-models)

129. Over the last year, the Department has taken a proactive role in further embedding and strengthening the Framework across the Department. For instance, we took the opportunity to evaluate and use our successes to ensure we build on best practice. This includes further updates to the business critical register to encompass all business critical models in the Department and across all Arm's Length Bodies. To promote transparency and improve the way we work, we published an updated list of business critical models externally as well as the *Strength in Numbers* guidance documents in September 2014.
130. Over the last year, the Department has also maintained close engagement with ALBs, including Network Rail and the Highways Agency to ensure that every piece of analysis is right for the decision it supports. We have also contributed to the progress report by Sir Nicholas Macpherson, Permanent Secretary to the Treasury, into the quality assurance of analytical models that inform government policy.<sup>100</sup>
131. Throughout 2015-16, the Department will ensure that Strength in Numbers continues to shape the way we produce and use analysis. We will also continue to work with Arm's Length Bodies to share best practice and build on the existing framework.

## Independent and external review and reporting

### Internal audit

132. The Department's Group Internal Audit function operates to prescribed public sector internal audit standards. The Group Head of Internal Audit (Group HIA) provides the Department's Accounting Officer with an independent opinion on the adequacy and effectiveness of the Department's systems of internal control, and makes recommendations for improvement. The work of the division is based on its analysis of the Department's risks, and its audit programme is endorsed by the Group Audit Committee. Regular reports are provided by Internal Audit to the Department's management, to the Group Audit Committee and, as appropriate, to the Executive Committee.
133. The Group HIA has provided the Permanent Secretary with a report on internal audit activity in the Department for 2014-15, which includes his independent opinion on the adequacy and effectiveness of the Department's governance, risk management and internal control arrangements. The Group HIA has informed the Permanent Secretary that there is 'moderate' assurance that the arrangements for control, risk management and governance have been adequate and effective in 2014-15. A moderate assurance means that systems of governance, risk and internal control are generally established and effective, with some minor weaknesses or gaps identified.
134. Over the course of the year, the Group HIA has recommended improvements in controls within IT, recruitment and succession planning, implementation of finance and HR shared services, market facing grant schemes for electric vehicles and rail enhancement programmes and projects.

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<sup>100</sup> Review of quality assurance of government analytical models: progress report.  
[www.gov.uk/government/publications/review-of-quality-assurance-of-government-analytical-models-progress-report](http://www.gov.uk/government/publications/review-of-quality-assurance-of-government-analytical-models-progress-report)

135. From 1 April 2015 the Department's internal audit service transferred to the newly created Government Internal Audit Agency (GIAA).

### **Major Projects Authority (MPA) and assurance reviews**

136. The Department is committed to building the project and programme management (PPM) capabilities of all its staff and is working closely with the Major Projects Authority (MPA) to ensure coherency with activities across government. Within its portfolio the Department has nine projects that form part of the Government Major Project Portfolio (GMPP) requiring quarterly reporting to the MPA.

137. The Department uses Integrated Assurance and Approvals Plans (IAAPs), which are mandatory for GMPP projects. In March 2015 the Department mandated IAAPs for all its tier 1 projects. The Department is developing an Integrated Assurance Framework and will, as part of its portfolio reporting, monitor assurance and approvals to ensure that projects are planning and undertaking appropriate assurance and approvals at relevant points in the project lifecycle. During 2014-15 DfT undertook 10 assurance reviews for those projects reporting via the GMPP.

138. The Department continues to make significant steps to grow and maintain good practice application of PPM via a dedicated Centre of Excellence through:

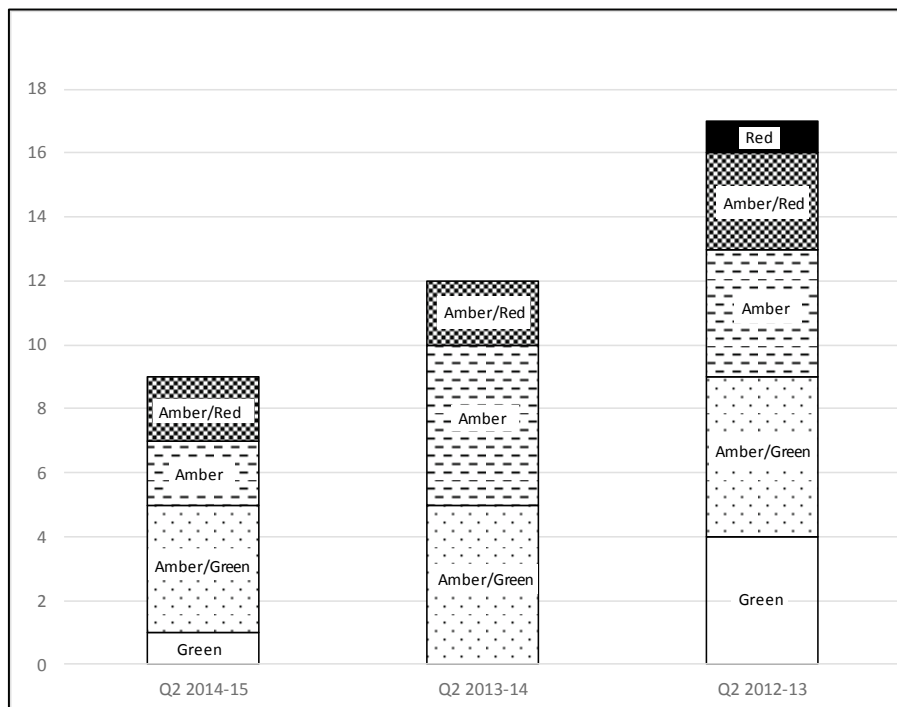
- providing centralised advice and support, building the PPM community through a number of networks and events, providing a PPM toolkit and delivery framework as core components of guidance;
- enhancing capability by continuing to support individuals with the provision of professional development activities including support to the application of key PPM principles in individual projects;
- ensuring Senior Responsible Owners (SRO) and Project Directors have the required skills and experience. The Department supports the Major Projects Leadership Academy (MPLA), with 24 staff enrolled or completed a cohort to date. Additionally two senior leaders attended the pilot of the Project Leadership Programme (PLP) with five staff accepted onto cohort 1.
- a more supported approach to sharing of Lessons Learned enabling the department to continue the identification and sharing of lessons across divisions;
- continued scrutiny of Business Cases to provide subject matter expert advice for investment decision boards;
- working with the Cabinet Office to ensure our SRO appointment letters reflect the 2014 revisions to the Osmotherly rules<sup>101</sup>;
- continued quarterly reporting of GMPP projects; and
- maintaining our corporate accreditation with the Association for Project Management (APM) to show our commitment to the profession.

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<sup>101</sup> [www.gov.uk/government/publications/departmental-evidence-and-response-to-select-committees-guidance](http://www.gov.uk/government/publications/departmental-evidence-and-response-to-select-committees-guidance)

139. The MPA is expected to publish its third annual report on the GMPP in June 2015. In parallel with this, the Department published its Quarter 2 2014-15 GMPP project list which includes the MPA delivery confidence rating. The MPA rating is derived from a combination of a project's size, scale, the degree of risk, complexity and timeframes involved, noting that it is not unusual for projects of a large scale and early on in their lifecycle to have a low delivery confidence assessment. In DfT 78 per cent of our projects were assessed as 'amber' or better with two reporting an increase in delivery confidence from the last period. Further information on each of these projects is available online.<sup>102</sup>

**Figure 3: MPA's assessment of delivery confidence of DfT projects**



140. The Department continues to strengthen PPM capabilities by working with the MPA and other Departments to share good practice and experiences.

### External audit

141. During 2014-15, the National Audit Office (NAO) published the following reports directly related to the Department and these are available on its website.<sup>103</sup>

- Maintaining strategic infrastructure – roads: published on 6 June 2014
- Procuring New Trains; published on 9 July 2014
- Departmental Overview: The performance of the Department for Transport 2013-14: published on 20 October 2014
- Lessons from major rail infrastructure programmes: published on 29 October 2014

<sup>102</sup> DfT (2014) *DfT Government Major Projects Portfolio data, 2014*.  
[www.gov.uk/government/publications/dft-government-major-projects-portfolio-data-2014](http://www.gov.uk/government/publications/dft-government-major-projects-portfolio-data-2014)

<sup>103</sup> NAO (no date) *Publications: Transport and Infrastructure*.  
[www.nao.org.uk/search/sector/transport-and-infrastructure/type/report/](http://www.nao.org.uk/search/sector/transport-and-infrastructure/type/report/).

142. The NAO concluded that funding pressures on highways authorities have encouraged efficiency and innovation in how budgets for road maintenance are spent, but that public value will be lost unless funding becomes more predictable. For the two large procurements of rolling stock, Thameslink and Intercity Express, the NAO stated that value for money of the projects depends on effective programme and contract management, and assumptions, such as passenger demand forecasts, holding true. The review of five major rail projects produced 11 lessons for the Department in areas including producing robust business cases, setting up appropriate delivery arrangements, planning and monitoring progress and realising benefits. The Departmental Overview report provided the Transport Select Committee with a summary of the Department's activity and performance since September 2013.

### **Parliamentary scrutiny**

143. Ministers are accountable to Parliament for the policies, decisions and actions of their departments and agencies. Parliament exercises this prerogative through day-to-day questioning of Ministers, raising topics for debate and scrutinising legislation which the Department lays before it. Detailed inquiries of specific topics are undertaken by a number of committees, as set out below.

#### *Transport Committee*

144. The Transport Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Transport and its associated public bodies.

145. The committee carries out its role by calling on ministers and DfT staff to give evidence in front of the committee on selected issues as well as by producing reports with recommendations for the Department. The committee has reported during the year on: fraud and the cost of motor insurance; offshore helicopter safety; cycling safety; passenger transport in isolated communities; security on the railway; investing in the railway; the impact reorganisation of the motoring agencies is having on service users; motoring of the future; smaller airports, and; strategic river crossings. The Department's responses to these reports are published on the committee's website.<sup>104</sup>

#### *Public Accounts Committee (PAC)*

146. The Public Accounts Committee is appointed by the House of Commons to examine the Department's accounts and focuses on value-for-money criteria which are based on economy, effectiveness and efficiency.

147. Members of DfT staff appear in front of the committee to give evidence when called to do so. The committee has produced a number of reports and recommendations during the 2014-15 financial year, including on Crossrail, the maintenance of strategic roads, procuring new trains, and the lessons from major rail infrastructure programmes. The Department responds to these reports in the form of Treasury

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<sup>104</sup> [www.parliament.uk/transcom](http://www.parliament.uk/transcom) under Publications

Minutes (which are formally submitted by HM Treasury) and these are published on the committee's website.<sup>105</sup>

### *Other committees*

148. A number of other select committees have an interest in the work of the Department. In the course of 2014-15, ministers and officials have given evidence to specific inquiries by the Commons Environmental Audit Committee, the Lords Economic Affairs Committee and the Lords EU Sub-Committee on the Internal Market, Infrastructure and Employment.

## Conclusion

149. As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. I am supported by the work of Internal Audit, by the management assurance reporting of the executive managers within the Department who are responsible for the development and maintenance of the internal control framework and by comments made by the external auditors in their management letter and other reports.

150. I have been advised by the Chair of the Group Audit and Risk Assurance Committee of reviews and recommendations carried out during the year on governance, risk and assurance, and a plan to address weaknesses and ensure continuous improvement is in place.

151. Much work has been done on strengthening the Department's governance arrangements, and our project and programme management (PPM) capability and skills. The Department will continue to work hard to strengthen its assurance and control processes. This is appropriate not least given the scale of the task ahead of the Department in infrastructure investment and service transformation.

**Philip Rutnam**

22 June 2015

Permanent Secretary and Accounting Officer

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<sup>105</sup> [www.parliament.uk/pac](http://www.parliament.uk/pac) under Publications



# Report from the Lead Non-Executive Director

This year has been an extremely busy and productive one for the Department and I was pleased to be asked to take on the position of lead non-executive board member in January 2015.

Much of the Department's focus has continued to be on the delivery of large-scale capital projects by the private sector or commercial arrangements with the private sector (such as rail franchising). Over the last financial year, the Department made significant progress in a number of key areas of the departmental Business Plan. The Infrastructure Act received Royal Assent in February 2015 allowing for the transformation of the Highways Agency into Highways England – a government-owned company, which will use access to long term stable funding to ensure improvements on the country's major road network are streamlined, cost efficient and encourage investment.

Progress has been made in the legislation for HS2 with the HS2 hybrid Bill being examined in detail by the Parliamentary Select Committee.

The Rail Executive, newly created in April 2014, has grown and strengthened over the year ensuring a strong base of skills and expertise is contained within the Department. The launch of Passenger Services within Rail Executive under Peter Wilkinson is an important step forward bringing all the Department's work associated with negotiation and management of passenger service contracts together in one place. Significant progress has also been made on the rail franchising programme.

I have continued to take a leading role in the Board Investment and Commercial Committee (BICC), which reviews the Department's most significant programmes and projects. My fellow non-executive board members are also now attending BICC on a rota basis. During the year BICC has strengthened its portfolio approach to managing a broad range of major commercial issues across the Department and its agencies.

The Board met in Derby in October 2014, giving members valuable insights from a number of regional transport related businesses and saw at first-hand how trains are designed and built. There is a plan to meet outside London in the coming year.

In July 2014 Richard Brown published the Transport Resilience Review report which examined the weather events of the 2013 and 2014 winters and made a number of recommendations for better transport resilience in future winters.

The Board has been closely involved in the work on strengthening the Department's capability in Project and Programme management (PPM), which is aligned and a key part of the cross Government drive to increase Project Delivery capability and capacity. The Department has ensured the inclusion of the Department's Government Major Projects Portfolio (GMPP) Senior Responsible Owners (SRO's) and Project Directors onto leadership programmes delivered by the Major Project Authority (MPA) and supported development for staff at all grades, including successfully gaining Corporate Accreditation from the Association for Project Management (APM). The Board's Nominations and Governance Committee has scrutinised plans for the succession into the Department's most senior leadership roles in the Department. Non-Executive Board Members have also participated in the recruitment of senior posts within the Department and its arm's length bodies.

The work of the Group Audit and Risk Assurance Committee (GARAC) has continued the focus on sound internal controls and risk assurance working with an increasingly effective management assurance regime and the Government shared service audit function. My colleague Mary Reilly, who chairs GARAC, has also remodelled membership to include non-executive board members from our major arm's length bodies.

The Board uses management information regularly to assess progress against milestones and budgets for the priorities set out in the departmental Business Plan, as well as performance of the executive agencies. Over this financial year the management information has been tailored more effectively to allow timely and focussed discussion on the issues the Board needs to give its attention to.

There has been a light-touch evaluation of the Board's effectiveness, as required in the Corporate Governance Code. The overall results remain encouraging, with members continuing to report that they are clear on their individual and collective responsibilities in the Board and its sub-Committees. The majority consider that the Board has a clear set of objectives that link directly to the Department's business plan and strategic priorities. There is substantial endorsement that the Board continues to have the right combination of skills, experience and diversity of views to encourage debate and facilitate high quality decision making, which is aided by the provision of appropriate and accurate information. The Board considers that it has a good understanding of key Departmental risks.

While the Board considers that it is continuing to operate effectively, there are areas where further improvements could be made. These include greater information on the performance and delivery risks of the Department's arm's length bodies, and the need to review how the Department matches its resources to Ministerial priorities.

The evaluation has been a useful stocktake on our progress as a Board this year, and has provided some detailed action points to take forward.

This year has seen several changes to the Department's team of non-executive board members. I would like to pay tribute to the work of Sam Laidlaw who stood down as lead non-executive member in December 2014, particularly the valuable work and support he gave to the Department following the cancellation of the West Coast franchise competition.

I would also like to thank Alan Cook for his work as a non-executive board member over the past five and half years and to welcome Colette Bowe who joined the board in September 2014.

During the 2015-16 financial year, the Department will need to continue the focus on delivery of our major infrastructure projects, the progress on HS2, manage the franchising programme and take forward the significant road and rail investment. The recommendations of the Airports Commission report on airport capacity will have long-term implications not only for the travelling public and Britain's economic growth but also for the Department's workload. My fellow non-executive board members and I look forward to playing our part in supporting the Department over the coming year.

**Ed Smith CBE, FCA**

Lead Non-Executive

Department for Transport

# 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 and of its Departmental Group for the year ended 31 March 2015 under the Government Resources and Accounts Act 2000. The Department consists of the core Department and its agencies. The Departmental Group consists of the Department and the bodies designated for inclusion under the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2015. The financial statements comprise: the Department's and Departmental Group's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. I have also audited the Statement of Parliamentary Supply and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

## **Respective responsibilities of the Accounting Officer and auditor**

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

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

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

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### **Opinion on regularity**

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2015 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### **Opinion on financial statements**

In my opinion:

- the financial statements give a true and fair view of the state of the Department's and the Departmental Group's affairs as at 31 March 2015 and of the Department's net operating cost and Departmental Group's net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

### **Opinion on other matters**

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Strategic Report, Directors' Report and Sustainability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

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

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

### **Report**

I have no observations to make on these financial statements.

**Sir Amyas C E Morse**  
Comptroller and Auditor General

23 June 2015

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

# Departmental Accounts

## Statement of Parliamentary Supply

for the year ended 31 March 2015

### Summary of Resource and Capital Outturn 2014-15

£000								2014-15	2013-14
		Estimate			Outturn			Voted Outturn vs. Estimate	Outturn
Note	Voted	Non-Voted	Total	Voted	Non-Voted	Total	Voted	Total	
<b>Departmental Expenditure Limit (DEL)</b>									
- Resource	SOPS 2.1.1 3,600,809	20,263	3,621,072	3,536,248	7,770	3,544,018	64,561	4,790,869	
- Capital	SOPS 2.1.2 9,461,156	-	9,461,156	9,356,936	5,653	9,362,589	104,220	8,459,514	
<b>Annually Managed Expenditure (AME)</b>									
- Resource	SOPS 2.1.1 1,174,916	(417,880)	757,036	894,663	(418,975)	475,688	280,253	876,467	
- Capital	SOPS 2.1.2 6,883,134	-	6,883,134	6,695,313	-	6,695,313	187,821	12,633	
<b>Total Budget</b>	<b>21,120,015</b>	<b>(397,617)</b>	<b>20,722,398</b>	<b>20,483,160</b>	<b>(405,552)</b>	<b>20,077,608</b>	<b>636,855</b>	<b>14,139,483</b>	
Total Resource	4,775,725	(397,617)	4,378,108	4,430,911	(411,205)	4,019,706	344,814	5,667,336	
Total Capital	16,344,290	-	16,344,290	16,052,249	5,653	16,057,902	292,041	8,472,147	
<b>Total</b>	<b>21,120,015</b>	<b>(397,617)</b>	<b>20,722,398</b>	<b>20,483,160</b>	<b>(405,552)</b>	<b>20,077,608</b>	<b>636,855</b>	<b>14,139,483</b>	

Net Cash Requirement 2014-15		£000			2014-15	2013-14
Note		Estimate		Outturn	Outturn vs. Estimate	Outturn
Net Cash Requirement	SOPS 4	19,138,830		18,952,653	186,177	12,274,703

Administration Costs 2014-15 (Net)		£000			2014-15	2013-14
Note		Estimate		Outturn	Outturn vs. Estimate	Outturn
SOPS 3.2		282,612		271,376	11,236	240,083

Figures in the areas outlined in bold are voted totals subject to Parliamentary control. In addition, although not a separate voted limit, any breach of the Administration budget will also result in an excess vote.

The analysis of variances between Estimate and Outturn by Estimate Section is in SOPS 2, as referenced above. An explanation of these variances is in section 5 of the Directors' Report.

The SOPS notes on pages 150 to 157 form part of these accounts.

## SOPS 1. Statement of Accounting Policies

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

### SOPS 1.1 Accounting Convention

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

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

The Government's objectives for fiscal policy are set out in the Charter for Budget Responsibility. These are to:

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

### SOPS 1.2 Comparison with IFRS-based Accounts

Many transactions are treated in the same way in National Accounts and IFRS-based accounts, but there are a number of differences.

#### *SOPS 1.2.1 PFI and other Service Concession Arrangements*

The National Accounts basis for recognising service concession arrangements is broadly similar to UK-GAAP, applying a risk-based test to determine the financial reporting. IFRS-based recognition of service concession arrangements (IFRIC 12) is determined using control tests, which can result in a different on/off balance sheet treatment. There are no differences for this Department in 2014-15.

#### *SOPS 1.2.2 Capital Grants*

Grant expenditures used for capital purposes are treated as capital (CDEL) items in the Statement of Parliamentary Supply (SOPS). Under IFRS, as applied by the *FReM*, there is no distinction between capital grants and other grants, and they score as an item of expenditure in the Consolidated Statement of Comprehensive Net Expenditure (SOCNE).

#### *SOPS 1.2.3 Provisions - Administration and Programme Expenditure*

Provisions recognised in IFRS-based accounts are not recognised as expenditure for National Accounts purposes until the actual payment of cash (or accrual liability) is recognised. To meet the requirements of both resource accounting and national accounts, additional data entries are made in the Statement of Parliamentary Supply (SOPS) across AME and DEL control totals, which do not affect the Statement of Comprehensive Net Expenditure (SOCNE). As the Administration control total is a sub-category of DEL, Administration and Programme expenditure reported in the Statement of Parliamentary Supply (SOPS) was different from that reported in the IFRS-based accounts. A reconciliation is provided in SOPS 3.2.



# SOPS 2. Net Outturn

## SOPS 2.1. Net Outturn

### SOPS 2.1.1 Analysis of Net Resource Outturn by Section

£000

	2014-15										2013-14					
	Administration					Outturn					Estimate	Outturn vs. Estimate	Outturn vs. Estimate adjusted for virements	Net Total	Net Total	
	Gross	Income	Net	Net	Net	Gross	Income	Programme	Net	Net Total						
<b>Spending in Departmental Expenditure Limit (DEL)</b>																
<b>Voted:</b>																
A	-	-	-	-	(101,429)	542	(101,971)	(101,429)	(101,429)	(103,580)	(2,151)	-	-	(99,519)		
B	-	-	-	-	334,398	334,398	-	334,398	334,398	305,024	(29,374)	-	-	409,581		
C	70,616	(1,761)	68,855	-	1,840,785	1,840,785	(47,571)	1,793,214	1,862,069	1,866,319	4,250	1,814	1,877,665			
D	-	-	-	-	(361,538)	-	(361,538)	(361,538)	(361,538)	(359,538)	2,000	2,000	(240,898)			
E	11,069	-	11,069	-	8,820	8,820	-	8,820	19,889	5,348	(14,541)	-	-	221,672		
F	-	-	-	-	559,171	559,171	(293,749)	265,422	265,422	224,821	(40,601)	-	-	213,728		
G	-	-	-	-	154,562	154,562	(731)	153,831	153,831	146,441	(7,390)	20	20	142,464		
H	-	-	-	-	262,032	262,032	-	262,032	262,032	250,668	(11,364)	-	-	293,559		
I	-	-	-	-	1,777,465	1,777,465	-	1,777,465	1,777,465	1,755,964	(21,501)	-	-	1,988,430		
K	-	-	-	-	101,771	101,771	(128,982)	(27,211)	(27,211)	22,070	49,281	33,399	33,399	20,468		
L	8,439	(935)	7,504	-	170,425	170,425	(10,978)	159,447	166,951	170,016	3,065	371	371	154,904		
M	-	-	-	-	534,512	534,512	(420,849)	113,663	113,663	120,715	7,052	3,731	3,731	157,309		
N	-	-	-	-	55,169	55,169	(3,754)	51,415	51,415	74,726	23,311	-	-	49,961		
O	187,292	(10,324)	176,968	-	40,497	40,497	(2,201)	38,296	215,264	215,811	547	547	547	198,909		
P	-	-	-	-	374,740	374,740	(1,584,269)	(1,209,529)	(1,209,529)	(1,110,548)	98,981	22,679	22,679	(615,929)		
Q	-	-	-	-	13,556	13,556	-	13,556	13,556	16,552	2,996	-	-	7,952		
<b>Total Spending in Voted Resource DEL</b>	<b>277,416</b>	<b>(13,020)</b>	<b>264,396</b>	-	<b>6,228,445</b>	<b>(2,956,593)</b>	-	<b>3,271,852</b>	<b>3,536,248</b>	<b>3,600,809</b>	<b>64,561</b>	<b>64,561</b>	<b>64,561</b>	<b>4,780,256</b>		
<b>Non-voted</b>																
S	6,980	-	6,980	-	790	790	-	790	7,770	20,262	12,492	12,492	12,492	10,613		
X	-	-	-	-	-	-	-	-	-	-	-	-	-	(8)		
R	-	-	-	-	-	-	-	-	-	1	1	1	1	-		
<b>Total Spending in DEL</b>	<b>284,396</b>	<b>(13,020)</b>	<b>271,376</b>	-	<b>6,229,235</b>	<b>(2,956,593)</b>	-	<b>3,272,642</b>	<b>3,544,018</b>	<b>3,621,072</b>	<b>77,054</b>	<b>77,054</b>	<b>77,054</b>	<b>4,790,869</b>		

Detailed explanations of significant variances between Estimate and Net Resource Outturn are shown in the Directors' Report.

## SOPS 2.1.1 Analysis of net Resource Outturn by Section – continued

	£000										
	Administration				Outturn			Estimate	2014-15		2013-14
	Gross	Income	Net	Gross	Income	Net	Net Total		Outturn vs. Estimate	Outturn vs. Estimate adjusted for virements	
<b>Spending in Annually Managed Expenditure (AME)</b>											
<b>Voted</b>											
T Highways Agency	-	-	-	748,805	-	748,805	748,805	884,638	135,833	135,833	622,254
W Other Railways	-	-	-	193,383	-	193,383	193,383	296,723	103,340	61,575	269,357
X GLA Transport Grants	-	-	-	(10)	-	(10)	(10)	(22)	(12)	-	(8)
Y Aviation, Maritime, Security and Safety	-	-	-	(2,030)	-	(2,030)	(2,030)	10,000	12,030	12,030	-
Z Maritime & Coastguard Agency	-	-	-	(390)	-	(390)	(390)	1,100	1,490	1,490	(2,168)
AA Motoring Agencies	-	-	-	(5,965)	-	(5,965)	(5,965)	(7,714)	(1,749)	-	(26,110)
AB Central Administration	-	-	-	(16,629)	-	(16,629)	(16,629)	(4,635)	11,994	11,994	14,312
V Funding of ALBs (Net)	-	-	-	180	-	180	180	57,511	57,331	57,331	(30)
U Network Rail	-	-	-	-	(22,681)	(22,681)	(22,681)	(62,685)	(40,004)	-	-
<b>Total Spending in Voted Resource AME</b>	-	-	-	<b>917,344</b>	<b>(22,681)</b>	<b>894,663</b>	<b>894,663</b>	<b>1,174,916</b>	<b>280,253</b>	<b>280,253</b>	<b>877,607</b>
<b>Non-Voted</b>											
AD Funding of ALBs (Net)	-	-	-	(418,975)	-	(418,975)	(418,975)	(417,880)	1,095	1,095	(1,140)
<b>Total Spending in Resource AME</b>	-	-	-	<b>498,369</b>	<b>(22,681)</b>	<b>475,688</b>	<b>475,688</b>	<b>757,036</b>	<b>281,348</b>	<b>281,348</b>	<b>878,467</b>
<b>Total spending in DEL &amp; AME (Budget)</b>	<b>284,396</b>	<b>(13,020)</b>	<b>271,376</b>	<b>6,727,604</b>	<b>(2,979,274)</b>	<b>3,748,330</b>	<b>4,019,706</b>	<b>4,378,108</b>	<b>358,402</b>	<b>358,402</b>	<b>5,667,336</b>
<b>Resource Outturn</b>	<b>284,396</b>	<b>(13,020)</b>	<b>271,376</b>	<b>6,727,604</b>	<b>(2,979,274)</b>	<b>3,748,330</b>	<b>4,019,706</b>	<b>4,378,108</b>	<b>358,402</b>	<b>358,402</b>	<b>5,667,336</b>

Detailed explanations of significant variances between Estimate and Net Resource Outturn are shown in the Directors' Report.

SOPS 2.1.2 Analysis of net Capital Outturn by Section

£000

	2014-15		2013-14	
	Outturn		Outturn	
	Gross	Income	Estimate	vs. Estimate adjusted for virements
		Net	Net	Net
<b>Spending in Departmental Expenditure Limit (DEL)</b>				
<b>Voted:</b>				
A	750	(4,970)	(4,220)	(4,533)
B	1,962,257	-	1,962,257	5,675
C	1,887,169	(27,628)	1,859,541	(36,336)
D	3,862,411	-	3,862,411	-
E	145,295	-	145,295	15,875
F	357,602	(335,000)	22,602	10,000
G	242,453	(24,686)	217,767	31,269
H	3,901	-	3,901	(1,061)
I	30,000	-	30,000	-
J	1,082,200	-	1,082,200	-
K	3,947	-	3,947	5,847
L	8,688	(786)	7,902	3,004
M	15,837	(34,816)	(18,979)	1,658
N	67	-	67	5,912
O	1,362	-	1,362	841
Q	180,883	-	180,883	23,417
	<b>9,784,822</b>	<b>(427,886)</b>	<b>9,356,936</b>	<b>104,220</b>
				<b>8,453,406</b>
<b>Non-voted expenditure</b>				
S	5,653	-	5,653	(5,653)
	<b>9,790,475</b>	<b>(427,886)</b>	<b>9,362,589</b>	<b>98,567</b>
				<b>8,459,514</b>

Detailed explanations of significant variances between Estimate and Net Resource Outturn are shown in the Directors' Report.

154 SOPS 2.1.2 Analysis of net Capital Outturn by Section – continued

	£000											
	2014-15			2013-14			2014-15			2013-14		
	Gross	Outturn Income	Net	Estimate Net	Outturn vs. Estimate	Net	Outturn vs. Estimate adjusted for virements	Net	Net	Net	Net	
<b>Spending in Annually Managed Expenditure (AME)</b>												
<b>Voted expenditure:</b>												
T	15,425	-	15,425	35,300	19,875	19,875	19,875	19,875	(45,681)			
AC	49,802	-	49,802	137,833	88,031	88,031	88,031	88,031	58,314			
W	-	(7)	(7)	-	7	7	7	7	-			
Y	200,000	(10,000)	190,000	210,000	20,000	20,000	20,000	20,000	-			
U	6,450,000	-	6,450,000	6,500,000	50,000	50,000	50,000	50,000	-			
V	(9,907)	-	(9,907)	1	9,908	9,908	9,908	9,908	-			
	<b>6,705,320</b>	<b>(10,007)</b>	<b>6,695,313</b>	<b>6,883,134</b>	<b>187,821</b>	<b>187,821</b>	<b>187,821</b>	<b>187,821</b>	<b>12,633</b>			
	<b>16,495,795</b>	<b>(437,893)</b>	<b>16,057,902</b>	<b>16,344,290</b>	<b>286,388</b>	<b>286,388</b>	<b>286,388</b>	<b>286,388</b>	<b>8,472,147</b>			

Detailed explanations of significant variances between Estimate and Net Resource Outturn are shown in the Directors' Report.

## SOPS 3. Reconciliation of Outturn to Net Operating Cost and Against Administration Budget

### SOPS 3.1 Reconciliation of Net Resource Outturn to Net Operating Cost

	£000	2014-15	2013-14
<b>Total resource outturn in Statement of Parliamentary Supply</b>	<b>Note</b>	<b>Outturn</b>	<b>Outturn</b>
Budget	SOPS 2.1.1	4,019,706	5,667,336
Add: Capital grants		7,207,284	6,969,380
Capital grant in kind		325,000	-
EU Grants		19,259	-
		<u>7,551,543</u>	<u>6,969,380</u>
Capital income		(55,230)	(10,217)
Dividend in specie		(325,000)	-
Non-Budget accounting adjustments		(14,640)	(74,405)
Less: Non-supply income (CFERs)	SOPS 5	(198,402)	(124,660)
		<u>(593,272)</u>	<u>(209,282)</u>
<b>Net Operating Costs in Consolidated Statement of Comprehensive Net Expenditure</b>		<b><u>10,977,977</u></b>	<b><u>12,427,434</u></b>

### SOPS 3.2 Outturn Against Final Administration Budget and Administration Net Operating Cost

	£000	2014-15	2013-14
Estimate – Administration costs limit (Gross)		296,166	279,723
Estimate – Administration costs limit (Net)		<u>282,612</u>	<u>260,591</u>
Outturn – Gross Administration costs		284,396	257,951
Outturn – Gross Income relating to administration costs		(13,020)	(17,868)
Outturn – Net Administration costs		<u>271,376</u>	<u>240,083</u>
Reconciliation to operating costs:			
Provisions utilised (transfer from Programme)		67	(19)
<b>Administration Net Operating Costs</b>		<b><u>271,443</u></b>	<b><u>240,064</u></b>

## SOPS 4. Reconciliation of Net Outturn to Net Cash Requirement for 2014-15

	£000	Estimate	Net Outturn	Net Outturn vs. Estimate
	<b>Note</b>			
Resource Outturn	SOPS 2.1.1	<b>4,378,108</b>	<b>4,019,706</b>	<b>358,402</b>
Capital Outturn	SOPS 2.1.2	<b>16,344,290</b>	<b>16,057,902</b>	<b>286,388</b>
<b>Accruals to cash adjustments:</b>		<b>(1,981,185)</b>	<b>(1,530,507)</b>	<b>(450,678)</b>
<i>Of which:</i>				
<i>Adjustments to remove non-cash items:</i>				
Depreciation		(1,854,140)	(1,737,257)	(116,883)
New provisions and adjustments to previous provisions		(330,842)	(129,149)	(201,693)
Supported capital expenditure (revenue)		-	1,634	(1,634)
Other non-cash items		47,533	(191,325)	238,858
<i>Adjustments for arm's length bodies:</i>				
Remove voted resource and capital	2.2	(224,030)	(200,016)	(24,014)
Add cash grant-in-aid		194,910	176,974	17,936
<i>Adjustments to reflect movements in working balances:</i>				
Increase/(decrease) in stock		-	52,766	(52,766)
Increase/(decrease) in debtors		-	214,528	(214,528)
(Increase)/decrease in creditors		73,834	171,410	(97,576)
Use of provisions		111,550	109,928	1,622
<b>Removal of non-voted budget items:</b>		<b>397,617</b>	<b>405,552</b>	<b>(7,935)</b>
<i>Of which:</i>				
Other adjustments		397,617	405,552	(7,935)
<b>Net Cash Requirement</b>		<b>19,138,830</b>	<b>18,952,653</b>	<b>186,177</b>

## SOPS 5. Income Payable to the Consolidated Fund

### SOPS 5.1 Analysis of Income Payable to the Consolidated Fund

In addition to income retained by the Department, the following income is payable to the Consolidated Fund.

	£000		Outturn 2014-15		Outturn 2013-14	
	Income	Receipts	Income	Receipts	Income	Receipts
Operating income outside the ambit of the Estimate - Resource	198,402	198,402	124,660	207,857		
Operating income outside the ambit of the Estimate - Capital	10,000	10,000	-	-		
	208,402	208,402	124,660	207,857		
Other payable to the Consolidated Fund	-	-	-	-		
	208,402	208,402	124,660	207,857		
Interest on loan to GLF payable to the Consolidated Fund	2,020	2,020	-	-		
Non-budget amounts collectable on behalf of the Consolidated Fund	70,958	70,958	5	5		
<b>Total income payable to the Consolidated Fund</b>	<b>281,380</b>	<b>281,380</b>	<b>124,665</b>	<b>207,862</b>		

### SOPS 5.2 Consolidated Fund Income

Consolidated Fund income shown in Note SOPS 5.1 above does not include any amounts collected by the Department where it was acting as agent of the Consolidated Fund rather than as principal. The amounts collected as agent for the Consolidated Fund (which are otherwise excluded from these financial statements) were:

	£000	
	2014-15	2013-14
Licence fees, penalties and fines	40,675	47,470
Costs of collection – where deductible	(5,477)	(14,671)
Amount payable to the Consolidated Fund	35,198	32,799
Balance held at the start of the year	4,080	4,023
Payments into the Consolidated Fund	(35,319)	(32,742)
Balance held on trust at the end of the year	3,959	4,080

Vehicle Excise Duty is not collected by the Department but paid directly into the Consolidated Fund. Further details are given in the Trust statement within the DVLA Accounts.

# Group Statement of Comprehensive Net Expenditure

for the year ended 31 March 2015

	£000	2014-15			2013-14		
		Note	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies
Administration costs							
Staff costs	3	106,436	132,660	141,206	100,608	129,706	138,888
Other costs	4	80,856	131,855	141,421	64,061	110,605	119,410
Income	6	(10,324)	(11,188)	(11,184)	(13,405)	(17,868)	(18,235)
Programme expenditure							
Staff costs	3	27,813	333,854	603,319	29,051	325,998	596,271
Other costs	5	11,585,559	14,540,748	14,481,627	11,686,552	14,554,847	14,689,326
Income	6	(2,396,287)	(3,009,243)	(3,817,958)	(1,915,691)	(2,497,300)	(2,911,442)
EU income	6	(24,326)	(24,326)	(24,326)	(25,346)	(26,667)	(26,739)
Share of profits of associates	10	(82,624)	(82,624)	(82,624)	(63,367)	(63,367)	(120,367)
Share of profits of joint venture	10.5	-	-	-	-	-	(1,900)
<b>Totals</b>		<b>9,287,103</b>	<b>12,011,736</b>	<b>11,431,481</b>	<b>9,862,463</b>	<b>12,515,954</b>	<b>12,465,212</b>
Dividends		(327,369)	(327,369)	(347,020)	(1,128)	(1,128)	(2,550)
Interest Receivable		(86,579)	(106,224)	(106,484)	(13,367)	(34,689)	(35,228)
<b>Net Operating Costs for the year</b>		<b>8,873,155</b>	<b>11,578,143</b>	<b>10,977,977</b>	<b>9,847,968</b>	<b>12,480,137</b>	<b>12,427,434</b>
Total expenditure		11,800,664	15,139,117	15,367,573	11,880,272	15,121,156	15,543,895
Total income	6	(2,927,509)	(3,560,974)	(4,389,596)	(2,032,304)	(2,641,019)	(3,116,461)
<b>Net Operating Costs for the year</b>		<b>8,873,155</b>	<b>11,578,143</b>	<b>10,977,977</b>	<b>9,847,968</b>	<b>12,480,137</b>	<b>12,427,434</b>
<b>Other Comprehensive Net Expenditure</b>							
Items that will not be reclassified to net operating costs:							
Net (gain)/loss on:							
revaluation of property, plant & equipment	7	(17,940)	(1,144,825)	(1,148,155)	(2,690)	(2,605,283)	(2,612,397)
revaluation of intangibles	8	-	(966)	(966)	-	(1,129)	(1,129)
revaluation of investments	9	391,200	391,200	391,190	(154,100)	(154,100)	(154,100)
Share of associate's other comprehensive net expenditure	10	106,032	106,032	106,032	22,344	22,344	16,444
Non-operating loss from the transfer of BRBR functions		-	-	-	147,910	147,910	86,677
Actuarial (gain)/loss on pension schemes	27	(81,497)	(81,497)	163,333	(9,132)	(9,132)	(172,756)
<b>Total comprehensive net expenditure for the year</b>		<b>9,270,950</b>	<b>10,848,087</b>	<b>10,489,411</b>	<b>9,852,300</b>	<b>9,880,747</b>	<b>9,590,173</b>

The notes on pages 163 to 236 form part of these accounts.



# Group Statement of Financial Position

as at 31 March 2015

	£000	2015			2014 (restated)			
		Note	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
<b>Non-current assets:</b>								
Property, plant & equipment		7	3,632,779	116,591,845	117,057,451	3,615,662	115,532,363	115,839,681
Investment properties		7.7	-	-	393	-	-	412
Intangible assets		8	3,909	68,103	75,004	2,261	85,505	91,670
Financial assets		9	7,467,592	7,467,592	7,465,245	1,255,406	1,255,406	1,255,406
Investment in associates		10	261,171	261,171	261,171	322,224	322,224	322,224
Trade and other receivables		13	3,487,568	3,795,550	3,794,978	3,434,138	3,791,363	3,763,857
Inventories		12	-	3,860	3,860	-	3,860	3,860
<b>Total non-current assets</b>			<b>14,853,019</b>	<b>128,188,121</b>	<b>128,658,102</b>	<b>8,629,691</b>	<b>120,990,721</b>	<b>121,277,110</b>
Assets classified as held for sale		7.6	-	14,752	14,779	-	10,258	10,284
Inventories		12	329,438	359,692	364,805	154,555	193,888	198,691
Trade & other receivables		13	503,216	734,111	779,342	343,942	523,770	575,338
Cash & cash equivalents		14	65,880	103,162	279,844	140,278	180,660	294,205
<b>Total current assets</b>			<b>898,534</b>	<b>1,211,717</b>	<b>1,438,770</b>	<b>638,775</b>	<b>908,576</b>	<b>1,078,518</b>
<b>Total assets</b>			<b>15,751,553</b>	<b>129,399,838</b>	<b>130,096,872</b>	<b>9,268,466</b>	<b>121,899,297</b>	<b>122,355,628</b>
<b>Current liabilities</b>								
Trade and other payables		15	(773,527)	(1,588,063)	(1,707,634)	(876,977)	(1,569,687)	(1,644,336)
Provisions		16	(83,213)	(143,837)	(150,015)	(81,089)	(150,021)	(151,141)
<b>Total current liabilities</b>			<b>(856,740)</b>	<b>(1,731,900)</b>	<b>(1,857,649)</b>	<b>(958,066)</b>	<b>(1,719,708)</b>	<b>(1,795,477)</b>
<b>Total assets less net current liabilities</b>			<b>14,894,813</b>	<b>127,667,938</b>	<b>128,239,223</b>	<b>8,310,400</b>	<b>120,179,589</b>	<b>120,560,151</b>
<b>Non-current liabilities</b>								
Provisions		16	(372,217)	(494,374)	(495,807)	(365,691)	(468,968)	(476,377)
Other payables		15	(5,600,192)	(7,469,019)	(7,490,355)	(5,633,744)	(7,658,805)	(7,684,177)
Financial liabilities		9	(3,776,001)	(3,776,001)	(3,776,001)	(3,662,772)	(3,662,772)	(3,662,772)
<b>Total non-current liabilities</b>			<b>(9,748,410)</b>	<b>(11,739,394)</b>	<b>(11,762,163)</b>	<b>(9,662,207)</b>	<b>(11,790,545)</b>	<b>(11,823,326)</b>
<b>Assets less liabilities excluding pension liability</b>			<b>5,146,403</b>	<b>115,928,544</b>	<b>116,477,060</b>	<b>(1,351,807)</b>	<b>108,389,044</b>	<b>108,736,825</b>
Pension liability		27	(1,496,100)	(1,496,100)	(2,126,350)	(1,514,426)	(1,514,426)	(2,285,930)
<b>Assets less liabilities</b>			<b>3,650,303</b>	<b>114,432,444</b>	<b>114,350,710</b>	<b>(2,866,233)</b>	<b>106,874,618</b>	<b>106,450,895</b>
<b>Taxpayers' equity and other reserves:</b>								
General fund			3,064,558	46,105,218	45,847,682	(3,825,238)	38,982,731	38,391,687
Revaluation reserve			30,345	67,771,826	67,947,628	12,405	66,945,287	67,112,608
Available-for-Sale Reserve			555,400	555,400	555,400	946,600	946,600	946,600
<b>Total equity</b>			<b>3,650,303</b>	<b>114,432,444</b>	<b>114,350,710</b>	<b>(2,866,233)</b>	<b>106,874,618</b>	<b>106,450,895</b>

The notes on pages 163 to 236 form part of these accounts.

**Philip Rutnam**  
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22 June 2015

# Group Statement of Cash Flows

for the year ended 31 March 2015

£000	Note	2014-15		2013-14 (restated)	
		Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
<b>Cash flows from operating activities</b>					
Net operating cost		(11,578,143)	(10,977,977)	(12,480,137)	(12,427,434)
Adjustments for non-cash transactions	4, 5, 6	1,674,086	1,694,179	1,542,575	1,517,644
Adjustments for non-cash transactions related to pension schemes		63,171	(293,582)	60,758	128,138
Release of reserves		-	502	-	-
(Increase)/decrease in inventories		(165,804)	(166,114)	(98,776)	(95,695)
less movement in inventory relating to items not passing through the Statement of Comprehensive Net Expenditure		(111)	(638)	-	69
(Increase)/decrease in trade and other receivables		(214,528)	(235,125)	146,027	163,951
less movements in receivables relating to items not passing through the Statement of Comprehensive Net Expenditure		60,536	46,666	(56,398)	(133,105)
Increase/(decrease) in trade and other payables		(171,410)	(130,524)	(39,389)	(60,448)
less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure		177,190	147,857	354,390	340,223
Use of provisions	15	(109,928)	(117,884)	(110,616)	(116,402)
Non-cash movement in classification of provision		-	(47)	(640)	1,857
Adjustment for capital and interest element of PFI payments		67,671	67,671	63,847	63,847
<b>Net cash outflow from operating activities</b>		<b>(10,197,270)</b>	<b>(9,965,016)</b>	<b>(10,618,359)</b>	<b>(10,617,355)</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment – additions	7	(2,004,128)	(2,174,158)	(1,404,734)	(1,425,843)
Adjustments for movement in capital accruals relating to additions		426	4,436	(411)	(419)
Purchase of intangible assets – cash additions	8	(13,929)	(15,453)	(11,576)	(12,445)
Purchase of intangible assets – Non-Cash additions		(214)	(381)	(442)	(442)
Proceeds of disposal of property, plant and equipment		400	594	299	1,304
Proceeds of disposal of assets held for sale		13,811	13,811	13,528	14,083
Proceeds of disposal of investments		-	9,907	-	285
Capital element of lands provision		45,351	45,351	14,840	14,840
Loans to other bodies		(6,650,000)	(6,650,000)	-	(12,827)
Repayments from other bodies		57,814	47,847	31,273	31,266
Repayments of National Loan Fund Loans		1,080	1,080	2,504	2,504
<b>Net cash outflow from investing activities</b>		<b>(8,549,389)</b>	<b>(8,716,966)</b>	<b>(1,354,719)</b>	<b>(1,387,694)</b>
<b>Cash flows from financing activities</b>					
From the Consolidated Fund (Supply) – current year		18,923,019	18,923,019	12,106,600	12,106,600
Advances from the Contingencies Fund *		550,000	550,000	-	-
Repayments to the Contingencies Fund *		(550,000)	(550,000)	-	-
Repayments of loans from the National Loans Fund		(1,080)	(1,080)	(2,504)	(2,504)
Capital element of payments in respect of finance leases		(27)	(1,567)	(221)	(3,089)
Capital element of payments in respect of on-balance sheet PFI contracts		(67,671)	(67,671)	(63,847)	(63,847)
<b>Net Financing</b>		<b>18,854,241</b>	<b>18,852,701</b>	<b>12,040,028</b>	<b>12,037,160</b>
<b>Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund</b>		<b>107,582</b>	<b>170,719</b>	<b>66,950</b>	<b>32,111</b>
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		<b>64,796</b>	<b>64,796</b>	<b>5</b>	<b>5</b>
Payments of amounts due to the Consolidated Fund		<b>(249,876)</b>	<b>(249,876)</b>	<b>(231,950)</b>	<b>(231,950)</b>
<b>Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund</b>		<b>(77,498)</b>	<b>(14,361)</b>	<b>(164,995)</b>	<b>(199,834)</b>
Cash and cash equivalents at the beginning of the period	14	<b>180,660</b>	<b>294,205</b>	<b>345,655</b>	<b>494,039</b>
Cash and cash equivalents at the end of the period	14	<b>103,162</b>	<b>279,844</b>	<b>180,660</b>	<b>294,205</b>

The notes on pages 163 to 236 form part of these accounts.

\* Loans to Network Rail in advance of Estimates approval.

## Group Statement of Changes in Taxpayers' Equity

	£000	Note	General Fund	Revaluation Reserve	Available-for-Sale Reserve	Total Reserves
<b>Balance at 31 March 2013</b>			39,004,864	64,780,530	390,225	104,175,619
Trunking/Detrunking			(5,229)	-	-	(5,229)
FReM restatement (NATS) *			242,829	-	(309,906)	(67,077)
FReM restatement (LCR) *			30,886	-	(80,319)	(49,433)
<b>Restated balance at 1 April 2013</b>			<b>39,273,350</b>	<b>64,780,530</b>	-	<b>104,053,880</b>
Net gain on revaluation of property, plant and equipment			-	2,612,398	-	2,612,398
Net gain on revaluation of intangible assets			-	1,129	-	1,129
Net gain on revaluation of investments			-	-	187,451	187,451
Non-cash charges – auditor's remuneration		4, 5	846	-	-	846
Transfers between reserves			144,144	(144,144)	-	-
Net operating cost for the year			(12,427,434)	-	-	(12,427,434)
Reversionary interest on M6 toll road			10,980	-	-	10,980
Adjustment to non-current assets			(284,316)	(137,305)	-	(421,621)
Actuarial loss recognised in pension scheme			172,756	-	-	172,756
Non-operating loss from the transfer of BRBR functions			(86,677)	-	-	(86,677)
Net movements on deconsolidation of LCR Ltd at 29 Sep 2013		23,9,3	(491,093)	-	651,381	160,288
Adjustment to NATS accounting policy change			-	-	(46,332)	(46,332)
Net gain in value of LCR investment		9.3	-	-	154,100	154,100
Share of non-operating income of associates		10	(16,444)	-	-	(16,444)
Other movements			(27,265)	-	-	(27,265)
<b>Balance as adjusted by income and expense for 2013-14</b>			<b>26,268,847</b>	<b>67,112,608</b>	<b>946,600</b>	<b>94,328,055</b>
Net Parliamentary Funding – drawn down			12,106,600	-	-	12,106,600
Net Parliamentary Funding – deemed			314,899	-	-	314,899
Supply (payable)/receivable adjustment			(146,795)	-	-	(146,795)
CFERs payable to the Consolidated Fund			(124,660)	-	-	(124,660)
Other payable to the Consolidated Fund			(27,204)	-	-	(27,204)
<b>Balance at 31 March 2014</b>			<b>38,391,687</b>	<b>67,112,608</b>	<b>946,600</b>	<b>106,450,895</b>
Net gain on revaluation of property, plant and equipment			-	1,148,155	-	1,148,155
Net gain on revaluation of intangible assets			-	966	-	966
Net loss on revaluation of investments		9.3	-	-	(391,200)	(391,200)
Release of reserves to the Consolidated Statement of Comprehensive Net Expenditure			-	502	-	502
Non-cash charges – auditor's remuneration		4, 5	759	-	-	759
Non-cash charges – DfTc notional charges		4, 5	125	-	-	125
Transfers between reserves			183,288	(183,288)	-	-
Net operating cost for the year			(10,977,977)	-	-	(10,977,977)
Reversionary interest on M6 toll road			4,220	-	-	4,220
Adjustment to non-current assets			18,775	(131,315)	-	(112,540)
Actuarial gain recognised in pension scheme			(163,333)	-	-	(163,333)
Share of non-operating costs of associates			(106,032)	-	-	(106,032)
Other movements			(246,062)	-	-	(246,062)
<b>Balance as adjusted by income and expense for 2014-15</b>			<b>27,105,450</b>	<b>67,947,628</b>	<b>555,400</b>	<b>95,608,478</b>
Net Parliamentary Funding – drawn down			18,923,019	-	-	18,923,019
Net Parliamentary Funding – deemed			146,795	-	-	146,795
Supply (payable)/receivable adjustment			(117,160)	-	-	(117,160)
CFERs payable to the Consolidated Fund			(210,422)	-	-	(210,422)
<b>Balance at 31 March 2015</b>			<b>45,847,682</b>	<b>67,947,628</b>	<b>555,400</b>	<b>114,350,710</b>

The notes on pages 163 to 236 form part of these accounts.

\* LCR has been deconsolidated and there has been an accounting policy change. This has resulted in a restatement of the General Fund and the Available for Sale Reserve.

The General Fund serves as the chief operating fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund.

## Statement of Changes in Taxpayers' Equity

## Core Department and Agencies

	£000	Note	General Fund	Revaluation Reserve	Available-for-Sale Reserve	Total Reserves
<b>Balance at 31 March 2013</b>			<b>39,221,952</b>	<b>64,616,474</b>	<b>309,906</b>	<b>104,148,332</b>
Trunking/Detrunking			(5,229)	-	-	(5,229)
FReM Restatement NATS *			242,829	-	(309,906)	(67,077)
<b>Restated balance at 1 April 2013</b>			<b>39,459,552</b>	<b>64,616,474</b>	-	<b>104,076,026</b>
Net gain on revaluation of property, plant and equipment			-	2,605,283	-	<b>2,605,283</b>
Net gain on revaluation of intangible assets			-	1,129	-	<b>1,129</b>
Net gain on revaluation of investments			-	-	34,069	<b>34,069</b>
Non-cash charges – auditor's remuneration		4, 5	846	-	-	<b>846</b>
Transfers between reserves			140,240	(140,240)	-	-
Net operating cost for the year			(12,480,137)	-	-	<b>(12,480,137)</b>
Reversionary interest on M6 toll road			10,980	-	-	<b>10,980</b>
Adjustment to non-current assets			(98,986)	(137,359)	-	<b>(236,345)</b>
Actuarial loss recognised in pension scheme			9,132	-	-	<b>9,132</b>
Non-operating loss from the transfer of BRBR functions			(147,910)	-	-	<b>(147,910)</b>
Impairments through Revaluation Reserve			-	-	-	-
Adjustment to NATS accounting policy change			(12,263)	-	(34,069)	<b>(46,332)</b>
Net movements on deconsolidation of LCR Ltd at 29 Sep 2013		9.3	-	-	792,500	<b>792,500</b>
Net Gain in value of LCR investment		9.3	-	-	154,100	<b>154,100</b>
Share of non-operating costs of associates			(22,344)	-	-	<b>(22,344)</b>
Other movements			781	-	-	<b>781</b>
<b>Balance as adjusted by income and expense for 2013-14</b>			<b>26,859,891</b>	<b>66,945,287</b>	<b>946,600</b>	<b>94,751,778</b>
Net Parliamentary funding – drawn down			12,106,600	-	-	<b>12,106,600</b>
Net Parliamentary funding – deemed			314,899	-	-	<b>314,899</b>
Supply (payable)/receivable adjustment			(146,795)	-	-	<b>(146,795)</b>
CFERs payable to the Consolidated Fund			(124,660)	-	-	<b>(124,660)</b>
Other payable to the Consolidated Fund			(27,204)	-	-	<b>(27,204)</b>
<b>Balance at 31 March 2014</b>			<b>38,982,731</b>	<b>66,945,287</b>	<b>946,600</b>	<b>106,874,618</b>
Net gain on revaluation of property, plant and equipment			-	1,144,825	-	<b>1,144,825</b>
Net gain on revaluation of intangible assets			-	966	-	<b>966</b>
Net loss on revaluation of investments		9.3	-	-	(391,200)	<b>(391,200)</b>
Non-cash charges – auditor's remuneration		4, 5	759	-	-	<b>759</b>
Non-cash charges – DfTc notional charges		4, 5	125	-	-	<b>125</b>
Transfers between reserves			183,288	(183,288)	-	-
Net operating cost for the year			(11,578,143)	-	-	<b>(11,578,143)</b>
Reversionary interest on M6 toll road			4,220	-	-	<b>4,220</b>
Adjustment to non-current assets			25,394	(135,964)	-	<b>(110,570)</b>
Actuarial gain recognised in pension scheme			81,497	-	-	<b>81,497</b>
Share of non-operating costs of associates			(106,032)	-	-	<b>(106,032)</b>
Other movements			(230,853)	-	-	<b>(230,853)</b>
<b>Balance as adjusted by income and expense for 2014-15</b>			<b>27,362,986</b>	<b>67,771,826</b>	<b>555,400</b>	<b>95,690,212</b>
Net Parliamentary funding – drawn down			18,923,019	-	-	<b>18,923,019</b>
Net Parliamentary funding – deemed			146,795	-	-	<b>146,795</b>
Supply (payable)/receivable adjustment			(117,160)	-	-	<b>(117,160)</b>
CFERs payable to the Consolidated Fund			(210,422)	-	-	<b>(210,422)</b>
<b>Balance at 31 March 2015</b>			<b>46,105,218</b>	<b>67,771,826</b>	<b>555,400</b>	<b>114,432,444</b>

The notes on pages 163 to 236 form part of these accounts.

\* There has been an accounting policy change which has resulted in a restatement of the General Fund and Available for Sale Reserve.

The General Fund serves as the chief operating fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund.

# Notes to the Departmental Accounts

## 1. Statement of Accounting Policies

These financial statements have been prepared in accordance with the *2014-15 Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the *FReM* apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

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

In addition to the primary statements prepared under IFRS, the *FReM* also requires the Department to prepare an additional primary statement. The Statement of Parliamentary Supply (SOPS) and supporting notes show Outturn against Estimate in terms of the net resource requirement and the net cash requirement.

These accounts have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment, intangible assets and inventories and certain financial assets and liabilities.

### 1.1 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 March 2015, and have not been applied in preparing these financial statements. The following are those standards, amendments and interpretations that may need to be adopted in subsequent periods:

- IFRS 9 Financial Instruments, which will replace parts of IAS 39, deals with the classification and measurement of financial assets and financial liabilities, hedge accounting and (following the July 2014 amendment), the impairment of financial assets. IFRS 9 is intended to improve and simplify the treatment of financial instruments in financial statements. According to the International Accounting Standards Board (IASB), application of this standard is required for reporting periods beginning on or after 1 January 2018, though earlier application is permitted. However, it is yet to receive EU endorsement so it is not possible to predict the actual application date. The impact of initial application of IFRS 9 is not expected to be significant. This is because, while the classification of financial assets and liabilities will change, it seems that existing measurement approaches will continue to be appropriate. It is also considered that there will be no significant change to the recognition of impairment on the Department's financial assets, because the expected credit losses on those assets are currently thought to be immaterial.
- IFRS 13 should be adopted by 1 April 2015. It provides guidance on establishing fair values of assets and liabilities and sets out disclosure requirements, where other standards require the fair value to be used or disclosed. It defines fair value as an exit value, reflecting the assets' highest and best use rather than its actual use. This approach is problematic for many central government assets, which may be of a specialised nature (meaning that exit values are difficult to identify) and which may need to be retained for the provision of services (meaning that the assets may need to be retained in their current use). HM Treasury have issued an Exposure Draft proposing modifications to the *FReM*, to adapt IASs 16 and 38. These adaptations would require assets held for the provision of services should be valued on an existing use basis, using methods including depreciated replacement cost. Other assets and liabilities, such as surplus properties, would be valued in accordance with IFRS 13 where applicable. The consolidated accounts include assets, such as the strategic road network, that are currently valued using depreciated replacement cost. It seems likely that the Exposure Draft would permit this approach to continue. It therefore seems likely that the implementation of IFRS 13 as adapted by the *FReM* will not have a material impact on the assets and liabilities recognised in these accounts.
- IFRS 15 Revenue from Contracts with Customers is expected to come into effect from 1 January 2017, though it has not yet received EU endorsement. It requires the recognition of revenue as the performance obligations under the contracts are satisfied. Its implementation is expected to have no material impact on the Department.
- The IASB has issued an exposure draft of a replacement to the existing leasing standard, which is expected to eliminate off-balance sheet leasing arrangements, and require recognition of a single

right-of-use asset, measured at the present value of lease payments, with a matching liability. The pattern for recognition of the expenditure will depend on the type of leases: for most leases of property, the lessee will recognise expenditure on a straight-line basis; for most leases of other types of asset, the lessee's expenditure will reduce over the term of the lease. As the Department and its consolidated bodies currently occupy administrative properties under operating leases, this is likely to have an effect on the statement of financial position, but a more limited effect on the recognition of expenditure.

- Other changes due to come into effect after 2014-15 are considered to have no impact on the Department.

## 1.2 Trunkings/Detrunkings

The policy to transfer non-core routes on the Strategic Road Network to local authorities, as outlined in the Government's policy announced in the 1998 White Paper, is now complete. These transfers were treated as a transfer of function. However, from time to time, in delivering the major schemes programme, when a new section of road has been built to improve the road network the old section is detrunked to the relevant local authority. In these circumstances, merger accounting principles are applied, as described in section 1.3 below.

## 1.3 Basis of consolidation.

### 1.3.1 Entities consolidated

These accounts comprise a consolidation of the Department (the core Department) and those entities which fall within the Departmental boundary as defined in the *FReM*, because they have been classified to the Central Government Sector by the Office for National Statistics (ONS). These are:

- Executive Agencies of the Department for Transport i.e. the HA, the DVLA, the MCA and the VCA.
- Non-Departmental Public Bodies, such as BTPA, High Speed Two Ltd (HS2 Ltd), Trinity House Lighthouse Service and the Northern Lighthouse Board.
- Entities classified as Central Government, but not as Executive Agencies or Non-Departmental Public Bodies: the Air Travel Trust Fund, LCR Finance plc, CTRL Section 1 Finance plc, Directly Operated Railways Ltd, the Commissioners of Irish Lights and Air Safety Support International Ltd. LCR Ltd is included until 30 September 2013 and excluded thereafter, because the ONS advised in July 2014 that it had reclassified LCR Ltd as a public corporation with effect from September 2013, due to the transfer to LCR Ltd after 30 September 2013 of revenue-generating assets previously held by British Railways Board (Residuary) Ltd.

The subsidiary of Directly Operated Railways Ltd (and, formerly, the subsidiaries of LCR Ltd) are excluded from the consolidation boundary because they are classified to the wider Public Sector, and not to Central Government, on the grounds that their trading activities support their operational costs.

Network Rail was reclassified to central government from 1 September 2014, but is not consolidated into the Department until 1 April 2015.

These Departmental accounts are separated into three reporting elements:

- Core Department;
- Core Department and Agencies; and
- the Departmental Group.

A list of all those entities within the Departmental boundary is given at Note 22.

### 1.3.2 Changes to entities consolidated

Changes to the list of entities consolidated occur for the following reasons:

- Changes in the sector classification of individual entities;
- Machinery of Government changes resulting in the transfer of entities or the functions they perform between government departments; and
- Machinery of Government changes resulting in the creation or abolition of entities or in the transfer of entities or the functions they perform within the departmental boundary.

These changes are considered to be restructuring of entities subject to common control and therefore the principles of IFRS 3 are not applicable. Consequently, the assets and liabilities of consolidated entities are not fair-valued when they join the Departmental group, and no goodwill or gain from a bargain purchase arises. Instead, merger accounting or absorption accounting is applied.

### 1.3.3 Consolidation mechanics

The initial consolidation approach depends on the reason why the entity is consolidated or ceases to be consolidated:

#### 1.3.3.1 Merger accounting

- Where an entity (or function) has been transferred between central government departments under a Machinery of Government change, merger accounting is applied and the financial statements are prepared as if the revised departmental group boundaries had always applied. The financial statements are re-stated from the start of the earliest period included in the statements, to include the assets and liabilities of an entity (or function) that has been transferred in, or to exclude the assets and liabilities of an entity (or function) that has been transferred out. Assets and liabilities are recognised at book value. The balancing entry is recognised through Other Comprehensive Net Expenditure.

#### 1.3.3.2 Absorption accounting

- Where an entity (or function) has been reclassified within the departmental boundary, or has been reclassified between the central government and wider public sector boundaries, absorption accounting is applied and the financial statements reflect the revised structure with effect from the reclassification date advised by the Office for National Statistics. Where the reclassification date is retrospective, and the reclassification is effective from a date before the start of the current reporting period, this will require a prior period restatement. From the reclassification date, the financial statements will include the assets and liabilities of an entity (or function) that has been reclassified into a reporting element (the Core Department; the Core Department and Agencies; and the Departmental Group) or exclude the assets and liabilities of an entity (or function) that has been reclassified out of a reporting element. The balancing entry is recognised through Other Comprehensive Net Expenditure.
- For the comparatives, LCR Ltd has been treated as a central government body and consolidated until 30 September 2013, which is the effective date of its reclassification as a public corporation; thereafter, it has been excluded from consolidation. This has been reflected as a re-statement of the prior period statements, with further details provided in Note 23.

#### 1.3.3.3 Group policies

- Accounting policies are harmonised, and balances and transactions between consolidated entities are eliminated on consolidation.

### 1.3.4 Joint arrangements

- Where the Department or any other consolidated body jointly controls an arrangement which gives it rights in respect of the investee's net assets, and the investee is classified to the private sector, the investee is accounted for in accordance with IFRS 11 and IAS 28. Consequently, the Department recognises its share of the investee's profits, losses and other comprehensive income or expenditure in its Statement of Comprehensive Net Expenditure. The investment in the investee is recognised initially at cost, subsequently adjusted for the Department's share of profits or losses and other comprehensive income made by the investee. Distributions received from the investee reduce the carrying value of the investment.

### 1.3.5 Investments in associates

- Where the Department or any other consolidated body has significant influence over an investee, and the investee is classified to the private sector, the investee is accounted for in accordance with IAS 28. Consequently, the Department recognises its share of the investee's profits, losses and other comprehensive income or expenditure in its Statement of Comprehensive Net Expenditure. The investment in the investee is recognised initially at cost, subsequently adjusted for the Department's share of profits or losses and other comprehensive income made by the investee. Distributions received from the investee reduce the carrying value of the investment.

## 1.4 Prior year adjustments

Items are retrospectively restated either (in accordance with IAS 8) where there has been a change in accounting policy, to correct a material prior year error, or to reflect transfers of functions between departmental groups (as described above) or to reflect changes in classification that ONS has announced retrospectively.

Where there has been a change in accounting policy, the opening balance of each affected component of equity for the earliest period presented and other comparative amounts disclosed for each prior year presented are adjusted as if the new accounting policy had always been applied.

Where a material prior year error is identified, it is corrected by restating the comparative amounts for the prior years presented in which the error occurred, or, where the error occurred before the earliest period presented, by restating the opening balances for the earliest prior year presented. However, insofar as it is impracticable to determine the period-specific or cumulative effects of the change in policy or error, no restatement will be made.

Full details of prior year adjustments are disclosed in Note 23.

## 1.5 Non-current assets: Property, plant and equipment

Property, plant and equipment is sub-categorised into the Highways Agency's Strategic Road Network (which is a networked asset, as defined in the *FReM*) and non-networked assets (including those recognised by the Highways Agency as well as those recognised by other group members).

The Strategic Road Network consists of the motorways and all-purpose trunk roads (APTRs) in England, which form a single integrated network. The SRN constitutes carriageways, including earthworks, tunnelling and road pavements, roadside communications, bridges and other structures, and land and buildings within the highway's perimeter.

Non-networked assets include land and buildings outside the highway's perimeter (including those recognised by other group members), the HS1 infrastructure recognised by the core Department, lighthouses and vessels recognised by the General Lighthouse Authorities, non-operational buildings, plant and equipment and information technology.

During the prior year, the Department issued a Safeguarding Order for the proposed route of HS2. This creates an obligation on the Department to purchase properties that have been blighted. The Department recognises a provision for the cost of properties that it accepts are blighted and where a reasonable estimation of the purchase price can be made. At this point, the asset is recognised as part of an Asset under Construction. Any residual uncertainties (where payments compensation payments are indicated but not yet accepted) concerning the value of the purchase price are disclosed as contingent liabilities, except where the likelihood of the amount being paid is considered to be remote.

All residential properties owned by the Department and not part of an existing scheme under construction are reported as dwellings and valued at open market value.

### 1.5.1 Capitalisation policy

#### Recognition

Legal title to the freehold land and buildings shown in the accounts is held in the name of the Secretary of State.

The core Department's capitalisation threshold is £5,000. The thresholds in the other consolidated entities range from £1,000 to £5,000 for individual or grouped assets. However, for land, road construction schemes and road and structures renewals in the Highways Agency, no minimum value is applied; in practice, the values are well in excess of £5,000. Expenditure falling below these values is charged as an expense in the Statement of Comprehensive Net Expenditure (SOCNE).

Assets usually comprise single assets. However, capitalisation is applied on a grouped basis where the elements in substance form a single asset. This applies to assets included within the road network, ring-fenced relocation projects, or computer equipment. Further, where an item includes material components with significantly different useful economic lives, those components are capitalised separately and depreciated over their specific useful economic lives.



**Initial costs**

Assets are recognised initially at cost, which comprises purchase price (including non-recoverable VAT), any costs of bringing assets to the location and condition necessary for them to be capable of operating in the manner intended, and initial estimates of the costs of dismantling and removing the assets where an obligation to dismantle or remove the assets arises from their acquisition or usage. Internal staff costs that can be attributed directly to the construction of an asset, including capital renewal schemes, are capitalised.

Expenditure on road construction schemes in the course of design or construction is capitalised when it is reasonably certain the scheme will go ahead.

**Subsequent costs**

Subsequent costs of day-to-day servicing are expensed as incurred. Costs of replacing parts of assets are capitalised and the carrying values of replaced parts are derecognised.

The road network is inspected regularly to enable maintenance to be planned on a priority basis and ensure the safety of the road user. All planned non-routine road renewals maintenance expenditure is capitalised as it is recognised if the maintenance spend enhances or replaces the service potential of the road network.

Routine maintenance expenditure, such as repairing potholes, is regarded as day to day servicing and is charged to the SOCNE. Expenditure on renewal of structures is capitalised when the planned maintenance spend enhances or replaces the service potential of the structure. All routine maintenance expenditure such as clearing drainage is charged to the SOCNE.

Where regular major inspections of assets are required for their continuing operation, the costs of such inspections, such as dry dock and repair of ships operated by the GLAs, are capitalised and the carrying value of the previous inspection is derecognised.

**Derecognition**

Where a road scheme is subsequently withdrawn from the capital programme, cumulative design expenditure is written off to the SOCNE. Assets rendered surplus will be reclassified as assets held for sale, when the criteria specified in IFRS 5 are met.

Any gains or losses on the eventual disposal of property, plant and equipment are recognised in the SOCNE when the asset is derecognised. Gains are not classed as revenue.

**1.6 Valuation – Property, Plant & Equipment****1.6.1 General principles**

Property, plant and equipment are expressed at their current value through regular valuation or through the application of Modified Historic Cost Accounting as a proxy for fair value. The fair value of land, non-specialised buildings and vessels is the market value, as determined by a professionally qualified valuer. The fair value of specialised assets may be estimated using an income approach or a depreciated replacement cost approach. A depreciated replacement cost approach assumes a modern equivalent asset which, in the case of assets such as lighthouses, may be very different from historic structures.

Where assets are revalued through the use of indices, gross book values and accumulated depreciation balances are adjusted, and upwards movements are taken to the revaluation reserve and presented under Other Comprehensive Expenditure in the SOCNE. Downwards movements are analysed to determine whether they were caused by a clear consumption of economic benefits. Downwards movements that are caused by a clear consumption of economic benefits, or which reduce the value of the asset below its historic cost, are recognised as a part of the Net Operating Cost in the SOCNE, with the reduction then transferred from the General Fund to the Revaluation Reserve. Other downwards movements are recognised under Other Comprehensive Expenditure in the SOCNE.

Where assets are revalued through professional valuation, the previous gross book value and accumulated depreciation balances are released and the asset's gross book value is restated to that reported by the valuer.

A net upward movement is taken to the revaluation reserve and presented under Other Comprehensive Expenditure in the SOCNE and a downwards movement is taken initially to the revaluation reserve and presented under Other Comprehensive Expenditure in the SOCNE (insofar as there is a balance related to the specific asset) and otherwise as part of the Net Operating Cost in the SOCNE.

## 1.6.2 The Strategic Road Network

### 1.6.2.1 The Completed Strategic Road Network

The Strategic Road Network (SRN) asset consists of carriageways, structures, land and communication equipment which form a single integrated network. The Strategic Road Network is intended to be maintained at a specific level of service potential by continual replacement and refurbishment.

The Strategic Road Network assets are specialised (i.e. a market value is not available) and therefore must be valued using Gross Replacement Cost (GRC) in accordance with the *FReM*, before applying depreciation.

The Strategic Road Network valuation is based on a standard cost model, using accounting estimates to determine the valuation. The gross replacement cost is calculated as if providing a replacement asset, on a 'green-field' site, constructed to modern build standards and then depreciated to take account of the condition of the network.

External professional valuers undertake a full valuation of the Strategic Road Network at intervals not exceeding five years on a rolling basis. The five yearly valuation is undertaken in accordance with the general principles of the Appraisal and Valuation Manual (Red Book) of the Royal Institution of Chartered Surveyors (RICS). As at 31 March 2015, the pavement, technology and land elements of the Strategic Road Network were subject to a valuation as part of the rolling five year programme. The valuation is not based on the historic actual cost of construction for individual elements of the Strategic Road Network. Rather, the Agency determines standard costs for the Strategic Road Network based on accounting estimates using the best information available and reflect the actual cost of recent schemes, together with physical assets records to provide unit rates for all elements and components of the Strategic Road Network.

Standard costs unit rates are determined for the following elements of the Strategic Road Network: road, structures, technology equipment and land. When calculating the unit rates for the various elements of the network, a number of accounting assumptions are implicit in determining the Strategic Road Network valuation. These assumptions are reviewed every five years when the Agency provide a new valuation of the Strategic Road Network.

#### Determining unit rates for valuation

Unit type / Unit cost determination
<p><b>Road:</b> The standard costing for roads is based on a series of road types created to identify all roads and determine the unit costs. There are 27 road types, each road type will have a standard width for the carriageway, hard-strip or hard-shoulder, central reservations, etc. Each road type will have a standard unit rate that is applied across the SRN. Road type rates are generated from suitable schemes which have opened for traffic in the past.</p>
<p><b>Structures:</b> <i>Standard structures</i> – Unit rates for bridges, tunnels, gantries and retaining walls are based on a number of standard road types and standard structure types, which are extrapolated where necessary.</p> <p><i>Non-standard structures</i> – These are structures that, due to a combination of their size, construction and character cannot be quantified and valued in the same manner as other structures, e.g. the Dartford River Crossing. The valuation for special structures is based on unit rates and actual cost data.</p>
<p><b>Land:</b> Land is an integral part of the SRN and forms an important part of the valuation. Although some of the land occupied by the SRN may not actually be owned by the Agency, it is considered that, as the Agency had an entitlement to use the land in perpetuity, it is included within the valuation at freehold values. Land valuation is based on the following factors:</p> <ol style="list-style-type: none"> <li>1. Location – geographical location of land within England</li> <li>2. Classification – land is classified as either urban or rural dependent on location.</li> </ol>
<p><b>Technology:</b> Technology equipment unit costs are developed using rates from technology frameworks currently in place between the Agency and its contractors and bulk purchase prices for materials procured directly by the Agency. The unit costs for technology equipment also includes the cost of individual components; installation costs; commissioning costs; preparation and supervision costs and traffic management costs where applicable.</p>

Data on the Strategic Road Network is held on a number of operational asset management systems. Where appropriate, dimensional data is used from these systems to inform the valuation of individual roads and structures. The application of professional judgement by engineers will impact the variability of dimensional data which in turn will impact the valuation of the Strategic Road Network.
<b>Indexation</b> Various indices are applied annually to the valuation of the Strategic Road Network to ensure the final valuation is at current replacement cost. Indexation of the Strategic Road Network valuation is applied as follows:
<b>Indexation</b>
<b>Roads and structures:</b> Road Construction Resource Cost Indices (ROCOS) is the index applied to roads and structures for yearly revaluation and reflects the movement in prices in the construction industry. ROCOS is published on a quarterly basis by the Department for Business, Innovation and Skills (BIS)
<b>Technology:</b> ROCOS is the index applied to all technology assets.
<b>Land:</b> Land indexation is determined by the Agency in consultation with external consultants and the following external sources: <ul style="list-style-type: none"> <li>• Urban land indices from the Land Registry House price index</li> <li>• Rural land indices from the Royal Institute of Chartered Surveyors (RICS) and</li> <li>• the Royal Agricultural University (RAU) market surveys.</li> </ul>

Indexation based on these indices is applied to all elements of the Strategic Road Network. However, there may be occasions where the use of indices for particular Strategic Road Network elements may give an unrealistic outcome. This may happen for example where there has been substantial technological change; when changes in the cost of specific assets are known to have been significantly different from the changes in the index; or where the historical purchase cost of assets was affected by special circumstances unlikely to be repeated and for which no allowance can be made. In such circumstances the gross current replacement cost is based on expert opinion or other evidence of the current cost of assets or groups of assets having a similar service potential.

The Strategic Road Network is valued on the basis that the site is a 'greenfield site' and accordingly VAT is non recoverable. The current non-recoverable VAT rate of 20% is used to reflect the current replacement cost of the Strategic Road Network. However, certain non-standard structures are valued at historic prices appropriately indexed, or insurance valuations have been used as the best approximation of replacement cost.

#### 1.6.2.2 Assets Under Construction

All new road projects in the course of design or construction are accounted as assets under construction (AUC) at their actual build cost. On completion of a project, the project is transferred out of AUC and into Strategic Road Network Assets at the current standard replacement cost (which will be different from the actual cost).

The difference between a project's actual cost of construction and the current replacement cost is treated as a write down which is charged to the SOCNE.

#### 1.6.2.3 Write-downs

The difference between the cost of construction and the current replacement standard costs is written down. There are a number of reasons for this difference in cost including:

- i. One of the standard costing assumptions is that all construction is developed on a 'green-field' site. This is not always the case; therefore the cost of new constructions can be much higher due to additional building costs in urban areas or additional costs of replacing existing roads etc.; and
- ii. Generally it is cheaper to build a three lane motorway as one project rather than two lanes initially and then to widen at some point thereafter. In a road widening scheme, a significant amount of cost will relate to traffic management, which does not increase the value of the Strategic Road Network and therefore is written-down.

However standard write-down percentages are used for construction projects lasting more than one year. These percentages are based on projects constructed over the previous five years. This ensures that the asset is written down on an on-going basis rather than when the project is opened for traffic. When a project

is open for traffic, a formal calculation of the write-down required is completed and compared with the cumulative write-down; adjustments are made as necessary.

### **1.6.3 Non-network assets: Land and Buildings, including Dwellings**

Freehold land and buildings have been valued on the basis of open market value for existing use. Land and buildings are freehold and leasehold. Some HA Regional Control Centres are leasehold properties under 50 years and defined as short leasehold properties.

Freehold land and buildings are restated to current value using professional valuations, in accordance with IAS 16. Such valuations are generally undertaken every five years. In intervening years, values are adjusted using appropriate methods, including indices.

The Core Department's land and buildings are valued by the DVS (commercial arm of the Valuation Office Agency) and Lambert Smith Hampton (LSH). The majority of the core Department's land and buildings consist of Temple Mills Depot, North Pole Depot, Waterloo International Station (all valued by LSH as at 31 March 2014), the International Maritime Organization building and the Air Accident Investigation Board building which were valued by DVS in March 2015.

Information on how land and buildings are valued within the individual entities consolidated in these accounts can be found within the accounts produced by these entities.

### **1.6.4 Non-network assets: Plant and Equipment**

HA structural steelwork is stated at current cost using the current market value of steel. All other property, plant and equipment is restated to current value each year, using appropriate indices supplied by BIS.

### **1.6.5 Non-network assets: Information Technology**

Information Technology consists of IT Hardware and Database Development. Database development is stated at cost. Other information technology assets are stated at fair value using monthly plant and equipment indices supplied by BIS.

## **1.7 Depreciation**

### **1.7.1 General Principles**

The depreciable amount of assets is allocated on a systematic basis over their useful lives. Residual values and useful lives are reviewed at each financial year end and any changes are accounted for prospectively. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The SRN as reported in the financial statements is based on depreciated replacement cost (DRC), as required by the *FReM*. All parts of the SRN, apart from land and the sub-structure of the road which have an unlimited useful life, are depreciated.

### **1.7.2 Strategic Road Network**

Depreciation is a measure of the book value of an asset that has been consumed during the accounting period. It attempts to allocate the cost of utilising the asset over the accounting periods that will benefit from its use and is charged to the SOCNE.

#### **Road depreciation**

The road surface element comprises:

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

For the purpose of depreciation, the road surface is recognised as a single asset and depreciation is calculated in two parts:

1. Capital renewal maintenance expenditure on network road surface is capitalised, to the extent that it restores the service potential of the asset that has previously been consumed, and is therefore reflected as a depreciation charge in the SOCNE. The value of materials replaced by subsequent expenditure is derecognised from the gross book and from the accumulated depreciation value.
2. The condition of the road surface is measured by rutting, obtained from TRACS (Traffic Road Assessment Condition Survey) surveys. Rutting is a good overall indicator for the condition of the road surface and is a measurement of the deterioration of the wearable element of the road surface. The condition of the road surface, as assessed by condition surveys, is undertaken and any movement in the condition is taken to the SOCNE as a depreciation charge or conversely an improvement credit.

**Structures**

Depreciation for structures is determined in two parts as follows:

1. Capital renewal maintenance expenditure on structures is capitalised, to the extent that it restores the service potential of the asset that has previously been consumed, and is therefore reflected as a depreciation charge in the SOCNE. The value of materials replaced by subsequent expenditure is derecognised from the gross book value and from the accumulated depreciation value.
2. Structures have a number of definable components with different design life and are depreciated on a straight-line basis at rates to write off the assets over their economic life as follows:

<b>Life in years</b>
i. Road bridges, tunnels and underpasses – 20 to 120
ii. Road culverts – 20 to 120
iii. Retaining walls – 20 to 120
iv. Gantries – 20 to 120

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

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

**Technology**

The depreciation charge for technology assets is based on the linear ‘straight line’ depreciation method based on an assigned design life. This overall anticipated life span of technology equipment varies according to the type of equipment between 15 to 50 years.

**Impairment**

The road surface and other Strategic Road Network components are subject to an annual impairment review. Impairment is recognised as required by IAS 36, Impairment of Assets.

**1.7.3 Non-network assets: Other categories of property, plant and equipment (recognised by Highways Agency and other group entities)**

No depreciation is provided on freehold land. Other assets are depreciated at rates calculated to write off the assets over their expected useful lives on a straight-line basis as follows:

<b>Property / Life in years</b>
Freehold buildings, including lighthouses – up to 60 years
Leasehold buildings – length of the lease
Historic leasehold building – length of the lease
Highways Agency: Surplus properties awaiting sale – no depreciation
HS1 infrastructure asset – Over period to 2086 (Estimated life of asset from inception in 1996)

<b>Plant and Equipment / Life in years</b>
Highways Agency: Winter maintenance equipment – 10 to 25 years
Highways Agency: Technology equipment – 15 to 25 years
Highways Agency: Test equipment – 5 to 10 years
Highways Agency: Structural steelwork – 10 years
Highways Agency: Capital spares – no depreciation
IT equipment – 3 to 5 years
Structural steelwork – 10 years
Tenders, workboats and lightvessels – 10 to 50 years (2.5 - 7 years for dry dock and repair)
Assets in storage – no depreciation
Assets awaiting sale – no depreciation

Highways Agency capital spares (for example, overhead gantries), become part of the Strategic Road Network once issued from stores. These items are kept in controlled conditions and do not deteriorate. Whilst not depreciated, they are subject to an annual impairment review.

### **1.8 Non-current assets: Assets held for sale**

Assets held for sale comprise surplus land, buildings and dwellings, released from road schemes, which are available for immediate sale in their present condition and are being actively marketed for sale, and are valued at the lower of carrying amount and fair value (market value) less costs to sell where material, and are not depreciated.

### **1.9 Non-current assets: Intangible assets**

An intangible asset is an identifiable non-monetary asset without physical substance. Intangible assets are capitalised if it is probable that the expected future benefits attributable to them will flow to the Department and if their cost can be measured reliably.

#### *1.9.1 Intangible assets acquired separately*

Intangible assets acquired separately are deemed automatically to meet the criteria for capitalisation specified in IAS 38 and are therefore recognised as assets at cost.

#### *1.9.2 Internally generated intangible assets, including research and development*

Internally generated intangible assets are capitalised if they meet the criteria specified in IAS 38. The criteria are that completion is technically feasible; that there is an intention to complete and then use or sell the assets; that the Department is able to use or sell the assets; that the assets will generate future probable benefits; that there are sufficient resources to complete the development and to use or sell the assets, and that it is possible reliably to measure the expenditure attributable to the assets during the development phase.

Expenditure on research is not capitalised. Expenditure that does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred.

#### *1.9.3 Subsequent valuation*

Intangibles are subsequently valued using the revaluation model, as described in IAS 38. Any increases in value are taken to the revaluation reserve. Any decreases are taken initially to the revaluation reserve (insofar as there is a balance for that specific asset) and otherwise to the Statement of Comprehensive Net Expenditure. If an intangible asset cannot be revalued because there is no active market for assets of that type these intangible assets are expressed at their current value through the application of Modified Historical Cost Accounting as a proxy for fair value less any accumulated amortisation or impairment losses.

### 1.9.4 Amortisation and depreciation

Intangible assets are amortised over their useful lives, which are typically between two to fifteen years, on a straight-line basis. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period.

Property, plant and equipment 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.

### 1.10 Impairment of non-current assets

At the end of each reporting period, the Department assesses whether there is any indication that an asset is impaired. The Department tests for impairment any such asset and also any intangibles with an indefinite useful life or in the course of construction. Assets are tested for impairment by comparing their carrying value with their recoverable amount, this being the higher of the value in use and the fair value less costs to sell. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined instead.

### 1.11 Investment properties

IAS 40 requires that properties are classified as investment properties where they are held for the purpose of capital appreciation or to earn rentals, or both. Investment properties are valued at fair value with movements in the fair value being recorded in the Statement of Comprehensive Net Expenditure for the period in which they arise.

The Department holds, via LCR Ltd and the GLAs, a limited number of commercial properties which are leased out to third parties. These are recognised in these statements for the first part of the comparative period only.

### 1.12 Investments and financial instruments

Financial instruments are contracts that give rise to a financial asset in one entity and a financial liability or equity in another entity. Financial instruments in public sector entities outside the consolidation boundary (such as Public Dividend Capital, National Loans Fund loans and other shares or loans) are recognised at historic cost, adjusted for impairment where necessary and, in the case of loans, for interest and for repayments of interest and capital, as permitted by the *FReM*. Other financial instruments are recognised initially at fair value adjusted for transaction costs (except for assets and liabilities held at fair value through profit or loss), which is typically the amount specified in the contract. Thereafter, such instruments are classified in accordance with IAS 39 and measured as described below.

#### 1.12.1 Assets and liabilities held at fair value through profit or loss

This classification is required for financial instruments that are held for trading, for derivatives (including embedded derivatives not closely related to the host contract) and for instruments that the entity has elected to classify in this way. Such instruments are recognised at market value, with movements recognised through the SOCNE. During the period covered by this account, the Department held no such instruments.

#### 1.12.2 Held-to-maturity investments

This classification is required for non-derivative financial assets with fixed or determinable payments and fixed maturity (for example, listed bonds) that the entity intends to hold to maturity. These are held at amortised cost, using the effective interest method. During the period covered by this account, the Department held no such instruments.

#### 1.12.3 Loans and receivables

This classification is required for non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, that are not held for trading and that the entity does not plan to sell. During the period covered by this account and at the end of the period, the Department had material loans and receivables, including new loans to Network Rail to replace market borrowings and to the General Lighthouse Fund to fund the settlement of the General Lighthouse Authorities' pension liabilities. These are held at amortised cost, using the effective interest method to discount future cash flows. The effective interest rate is the rate that exactly discounts future cash flows back to the amount initially recognised.

Impairments are recognised in accordance with the 'incurred loss' method, reflecting events that occurred between the initial recognition of the asset and the end of the current reporting period that have an impact on future cash flows. The existence of evidence of the occurrence of such events, as at the end of the current reporting period, is assessed individually, then collectively for other financial assets. This includes estimates based on historic experience of the incidence of such events, adjusted for recent factors that would affect incidence.

#### **1.12.4 Available-for-sale financial assets**

This classification is required for non-derivative financial assets that are not classified to any of the preceding categories. Where investments are in other public sector entities, they are recognised at historic cost less impairment adjustments where required. Where these investments are in private sector entities, they are recognised at fair value.

If an investment is not traded in an active market, the fair value is calculated using a valuation technique, to establish what the transaction price for that investment would have been on the measurement date. Valuation techniques are selected based on whether the technique is commonly used by market participants and has been shown to be reliable, making maximum use of market inputs and minimum use of entity-specific inputs. Changes in fair value, other than impairments, are recognised in reserves. Where such models produce a significant range of reasonable fair value estimates and the probabilities of the various estimates cannot be reasonably assessed, IAS 39 precludes fair value measurement and the investment is recognised at cost less any impairment adjustment.

These accounts include the following non-current available-for-sale financial assets:

Directly held by the Department:

- A shareholding in LCR Ltd - recognised at fair value with effect from 29 September 2013;
- A shareholding in Eurostar International Ltd, transferred from LCR Ltd to the Department and from the Department to HM Treasury during June 2014, recognised at fair value;
- Other subsidiaries of LCR Ltd initially held at transfer value from British Railways Board (Residuary) Ltd, and thereafter, where material, at fair value using valuation techniques.

Details of the valuation approaches are given in Notes 9.3.1 and 9.3.3.

The Secretary of State's special shares are each valued at a nominal value of £1. Further information is given in Note 9 to these accounts.

#### **1.12.5 Other financial liabilities**

These are financial liabilities other than those classified as held at fair value through profit or loss. They are valued initially at fair value and thereafter at amortised cost using the effective interest rate. The effective interest rate is the rate that exactly discounts the future cash flows back to the initial fair value. All of the Department's financial liabilities are classified as 'other financial liabilities'.

These consolidated accounts incorporate the financial liabilities of LCR Finance plc and CTRL Section 1 Finance plc, repayment of which is being funded by the core Department. Consequently, the Department's obligations to these companies are recognised in the core Department's Statement of Financial Position, and the companies' obligations to their lenders are recognised in the consolidated Statement of Financial Position, with the Department's obligations eliminated on consolidation. The obligations to the external lenders take the form of debt instruments (bonds and fixed-rate and index-linked notes) issued to the public.

For the index-linked notes, where the values of repayments are linked to the Retail Prices Index, the impact of changes in the Index is reflected in the following way. The carrying amount is adjusted for changes in the Retail Price Index. Interest is calculated on the adjusted balance.

#### **1.12.6 Financial guarantee contracts**

A financial guarantee contract is a contract that requires the issuer to make specified repayments to reimburse the holder for a loss it incurs, because a specified debtor fails to make payments when due, in accordance with the original or modified terms of a debt instrument. Contracts that are financial guarantee contracts are recognised initially at fair value. Market participants typically value such contracts based on the reduction in risk to the lender provided by the guarantee, as reflected by the improvement in credit terms to the borrower, typically the reduction in interest payable by the borrower. Where the contract specifies the fee payable to the Department, and there is reasonable evidence that the fee was calculated on this basis, the guarantee is valued at the net present value of the fee. This approach has been applied to the guarantee



provided to Network Rail. The fee is payable in instalments over the life of the guarantee. The guarantee is, therefore, recognised at the net present value of the fee, with a matching receivable being recognised, valued using the effective interest method.

Where no fee is specified, the Department values the guarantee using estimation techniques that reflect the market approach as closely as possible. For example, it will try to identify comparable unguaranteed debt, and observe the credit terms provided and the consequent reduction in interest payable by the borrower. The Department would then value the guarantee at the net present value of the differential in interest payments over the life of the debt instrument. Where no examples of unguaranteed debt are identifiable, the Department may use techniques such as option pricing methods, or the expected value of borrower default or other statistical approaches.

After initial recognition, financial guarantee contracts are recognised at the higher of amortised cost or the amount required to be recognised under IAS 37. Thus, if the Department considers it more likely than not that it will have to transfer resources to settle its obligations under the contract, i.e. if it thinks it more likely than not the guarantee will be called, and if the value of those resources is higher than the amortised cost, then this higher value will be used.

### **1.12.7 Derecognition of financial instruments**

Financial assets are derecognised when the Department's rights to receive cash flows expire or have been transferred, provided that the transfer transaction also transfers substantially all of the risks and rewards of ownership and control of the financial asset. On derecognition, the Department recognises assets and liabilities at fair value to reflect the rights and obligations created or retained in the transfer. The profit or loss on disposal is calculated as the fair value of the consideration received, minus the net aggregate of the carrying value of the asset transferred and of any assets and liabilities recognised and amounts previously recognised in other comprehensive income which are reclassified to be recognised in operating costs.

Financial liabilities are derecognised when they are extinguished, which is the point when the Department's obligations are discharged, or cancelled, or expired.

## **1.13 Inventories**

The entities consolidated in these accounts hold various types of inventory: police uniforms held by British Transport Police Authority (BTPA); oil dispersants held by Maritime & Coastguard Agency (MCA); highways repair and maintenance items (including electrical equipment and salt) held by Highways Agency (HA); properties on the proposed route of the high speed rail link acquired under the Exceptional Hardship Scheme held by the core Department, valued at cost, or replacement cost, if materially different. Long-term inventory 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 inventory 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.

Properties acquired under the High Speed 2 (HS2) Exceptional Hardship Scheme are recognised from the exchange of contracts with the vendor, as this is the point when the risks and rewards of ownership are transferred.

Some properties initially acquired under the HS2 Exceptional Hardship Scheme are currently being rented, pending the commencement of construction. They are recognised as inventories rather than investment properties, as they were not acquired for the purposes of earning rental income or capital appreciation.

## **1.14 Operating income**

Some of the entities consolidated in these accounts earn revenues from the sale of goods or services. They include:

- the BTPA, which charges Network Rail, freight companies, Train Operating Companies and TfL for statutory policing services and recovers its income by means of a charging mechanism;
- The Air Travel Trust Fund, which receives ATOL protection contributions from customers booking package holidays;
- Advances from the General Lighthouse Fund (GLF) to the General Lighthouse Authorities. The GLF is administered by the Department for Transport and receives income principally from Light Dues, a levy on ships using ports in the British Isles. GLA advances are based on cash requirements for both Revenue and Capital Expenditure and are credited as Income in the Accounts of the GLAs;

- the DVLA, which receives fees for issuing driving licences and sells registration marks.

Operating income is income that relates directly to the operating activities of the Department. It is stated net of VAT, measured at the fair value of the consideration received or receivable and is recognised in accordance with IAS 18, which requires specifically that:

- income from the sale of goods should be recognised on transfer of the risks and rewards of ownership in those goods;
- income from the performance of services should be recognised on the degree of performance;
- interest income should be recognised using the effective interest method;
- dividends receivable should be recognised when the Department becomes entitled to them; and
- income from permitting others to use the Department's assets should be recognised on an accruals basis in accordance with the terms of the contract.

### **1.15 Administration and programme expenditure**

The SOCNE is analysed between programme and administration income and expenditure. 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, including staff, accommodation, IT costs, and operating lease rentals.

Programme costs are the costs of delivery of services, directly or indirectly by the Department, and include payments of grants and capital expenditure.

Bodies excluded from the Administration budget regime (such as DVLA and VCA) report all of their expenditure as programme expenditure.

### **1.16 Pensions and other employee benefits**

Past and present employees of the Department and its agencies are generally covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which is described in Note 27.

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.

Past and present employees of other consolidated entities may be members of defined benefit arrangements, including sections of the Railways Pension Schemes and the General Lighthouse pension scheme. Defined benefit arrangements may be funded (meaning that the scheme is a separate entity, which receives contributions and invests them to fund pension payments) or unfunded (meaning that there is no separate scheme and the employer remains directly liable to fund pension payments). These defined benefit schemes are accounted for in accordance with IAS 19. Current service costs and a single interest cost on the schemes' net liabilities (for funded arrangements) are recognised in the SOCNE, and remeasurements are recognised in equity, as required by the *FReM*.

During the current period, the General Lighthouse Authorities' responsibilities for paying pension benefits were transferred to the PCSPS in return for a cash contribution of £353m. The transfer has been treated as a settlement and the resulting gain on settlement (the difference between the value of the pension liabilities and of the cash contribution) has been reflected under staff costs as an exceptional item. The cash contribution was funded from two sources: funds raised by the General Lighthouse Fund through the sale of its investments (held for the benefit of the pension scheme) and a loan of £200m from the Department to the General Lighthouse Fund. The General Lighthouse Authorities have treated the cash contribution as income from the General Lighthouse Fund. As the General Lighthouse Fund is not consolidated in these accounts, this income is recognised on the consolidation of the Authorities. The Department also recognises the loan to the General Lighthouse Fund as a financial asset.

The Department is also responsible for funding any shortfalls in a small number of historic funded pension arrangements, most of whose members are current pensioners. Where it is considered more likely than not that the Department has an obligation to make contributions in respect of any deficit, the deficit under the

schemes is accounted for in accordance with IAS 19. Remeasurements are accounted for through reserves as required by the *FReM*.

Some consolidated entities have undertaken to fund the pensions of employees of entities that are not consolidated in these accounts. As such undertakings do not arise from services provided by employees of the consolidated entities, they are accounted for in accordance with IAS 37, either as provisions or contingent liabilities, depending on the likelihood that the Department will be required to transfer economic resources in order to satisfy its obligations.

The Department accrues for short-term employee benefits (which fall due within twelve months of the period in which they are earned). The Department is required to pay, as termination benefits, 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 for the full cost of benefits (including pensions payable up to the normal retirement age and lump sums) when it becomes demonstrably committed to providing those benefits.

### 1.17 Leases

A lease is an agreement whereby the lessor conveys the right to use an asset for an agreed period in return for payments. At their inception, leases are classified as operating or finance leases. If a lease conveys substantially all the risks and rewards of ownership to the lessee (such as transfer of title, the lease term covering the major part of the asset's life, or the lease payments are substantially all of the fair value of the leased asset), it is classified as a finance lease. Otherwise, it is classified as an operating lease. Where a lease covers the right to use both land and buildings, the risks and rewards of the land and the buildings are considered separately. Land is assumed to be held under an operating lease unless the title transfers to the Department at the end of the lease. The assessment is made at the inception of the lease, except in the case of leases pre-existing the transition to IFRS, when the assessment is made as at that date.

Arrangements whose fulfilment is dependent on the use of a specific asset or which convey a right to use an asset, are assessed at their inception to determine if they contain a lease. If an arrangement is found to contain a lease, that lease is then classified as an operating or finance lease. Transactions involving the legal form of a lease, such as sale and leaseback arrangements, are accounted for according to their economic substance.

Rentals under operating leases are charged to the SOCNE on a straight-line basis over the term of the lease. Where the arrangement includes incentives, such as rent-free periods, the value is recognised on a straight-line basis over the lease term. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The interest element of the finance lease payment is charged to the SOCNE over the period of the lease at a constant periodic rate in relation to the balance outstanding.

### 1.18 Service concessions

Under a service concession, a Government entity contracts with a private sector entity to develop, finance, operate and maintain infrastructure, to deliver services directly or indirectly to the public, but controls or regulates those services and controls any significant residual interest in the infrastructure. Services indirectly provided to the public include those related to assets held for administrative purposes in the delivery of services to the public.

The Department recognises the infrastructure associated with service concessions as an asset. The asset is accounted for in a manner consistent with other assets of that type. Where the operator has a right to receive consideration from the Department, for example, in the form of Unitary Charges, the Department recognises the related liability. Interest on the liability and expenditure on services provided under the service concession are recognised in the SOCNE as they accrue. Unitary Charges are apportioned between three elements: an element to pay for services; an element to pay interest on the liability and an element to repay the initial liability. Where the operator has a right to charge the public, the Department recognises a deferred income balance initially at the same value as the asset, which is amortised to the SOCNE over the life of the arrangement.

Where, at the end of the concession, all or part of the property constructed by the operator 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 disclosed within Non-Current Assets under Assets under Construction. However, for the High Speed 1 (HS1) rail link, the entirety of the property

is recognised with effect from August 2009, being the date on which the most recent concession was granted to HS1 Ltd, and the rights to operate the infrastructure thereafter were withdrawn from the company. The residual asset has been valued using the enterprise value determined during the bidding process for the sale of HS1 Ltd, discounted to its present value.

The Department currently has twelve PFI assets in service that are recognised as being assets of the HA. The capital value of the pre 2005-06 PFI schemes was estimated using the public sector comparator. From 2005-06, the capital value has been based on the PFI contractor's best estimate of capital cost at the time the contract is awarded.

In respect of the M6 toll, the reversionary interest is based on the current net book value (NBV) of the M6 toll road. The NBV is projected forward then discounted back, with the balance being built up and indexed over the life of the assets until they revert back to the Department in 2054.

The DVLA has a property maintenance and refurbishment contract which it considers to be within the scope of IFRIC 12. Works are recognised as property, plant and equipment, with a matching liability, if they are considered to be capital in nature (for example, construction and fit-out costs, or installation of air conditioning or lifts).

### **1.19 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. Where the conditions of a grant require a specified form of verification from a grant recipient to provide assurance on compliance with grant terms and conditions, any subsequent adjustments are recognised in the next accounting period. Grant payments are outside the scope of VAT and are therefore made on a gross basis.

Some entities consolidated within these accounts receive grant and grant-in-aid from the core Department. In such cases, balances and transactions between these entities are eliminated on consolidation.

### **1.20 Deferred tax**

Most consolidated entities are not liable to corporation tax or have no taxable profits. However, Directly Operated Railways Ltd and LCR Ltd are liable to corporation tax. Deferred tax assets or liabilities arise from temporary differences between the carrying amount and the tax base of assets or liabilities. Deferred tax assets are recognised only to the extent that it is probable that taxable profits will be available against which the asset can be utilised.

### **1.21 Provisions**

The Department makes provision for liabilities and charges in accordance with IAS 37 where, at the end of the current reporting period, a legal or constructive liability (i.e. 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 rates set by HM Treasury. When the discount is unwound, the adjustment is recognised as an interest expense.

### **1.22 Contingent liabilities**

In accordance with IAS 37, 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. Guarantees, indemnities and undertakings are treated as contingent liabilities.

In addition to contingent liabilities disclosed in accordance with IAS 37, the Department also discloses for Parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of a transfer of economic benefit is remote but which have been reported to Parliament in accordance with the requirements of Managing Public Money.

Where a guarantee meets the IAS 39 definition of a financial guarantee contract, it will be recognised as a liability in accordance with the measurement requirements of that standard, and any additional disclosures required under IAS 37 as interpreted by the *FReM* will be provided with the disclosures for other contingent liabilities. Such additional disclosures will include an estimate of the amount required to settle the liability.

Where the time value of money is material, contingent liabilities, which are required to be disclosed under IAS 37, are stated at discounted amounts and the amount reported to Parliament is noted separately.

### 1.23 Value Added Tax

Irrecoverable VAT is charged to the relevant expenditure category or, if appropriate, capitalised with additions to non-current assets. Income and expenditure is otherwise shown net of VAT.

### 1.24 Rail franchise agreements

Franchise agreements provide for each TOC either to pay franchise premia or to receive subsidy in each franchise year. Premia received for the use of continuing rights under the franchise are recognised as revenue as the rights are used; subsidies are recognised as expenditure as they are earned.

Franchise agreements include mechanisms to adjust the level of premia/subsidy dependent on performance and agreed events. Adjusting costs or revenues are recognised as they are earned or incurred. Adjusting transactions are not considered to be separately identifiable components; consequently, all adjusting transactions in respect of premium-generating franchises are accounted for as adjustments to income and all adjusting transactions in respect of subsidy-paying franchises are accounted for as adjustments to programme costs. Franchise subsidies and premiums are outside the scope of VAT.

### 1.25 Foreign currencies

The consolidated financial statements are presented in sterling, which is the core Department's functional and presentation currency. Transactions in foreign currencies, which are those other than the functional currency of an entity, are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated at the rates ruling at the year end. Resulting exchange gains or losses are recognised in the statement of comprehensive net expenditure. Upon consolidation, the assets and liabilities of the Commissioners of Irish Lights are translated at the rate of exchange ruling at the year-end date. Income and expense items of foreign operations are translated at the average rate during the period. Differences on translation are recognised through the statement of comprehensive net expenditure.

### 1.26 Significant estimation techniques

The Department applies the following significant estimation techniques. The recognition and valuation of provisions depends on assessments made as to the likelihood of future events outside of the Department's control, such as the outcome of legal cases, the future financial performance of other entities, and future changes in rates of inflation. The subsequent valuation of financial guarantee contracts, after initial recognition, is based on an assessment of the likelihood and magnitude of any call on the guarantee, which is informed by assessments of the performance of the issuer of the guaranteed debt instrument.

In valuing available-for-sale financial assets, for which there is no active market, the Department uses estimation techniques which reflect, so far as practicable, those that would be used by market participants, making maximum use of market data. Most assets of this nature have been held since the incorporation of the investee (in the case of NATS and LCR Ltd's property development ventures), meaning that the instruments may never have been actively traded.

The entities are chiefly jointly owned with other, private sector, investors, and the value of each investor's contribution would have been negotiated competitively with those investors. Therefore, the initial contribution is deemed to be the fair value as at that date. Thereafter, that valuation is benchmarked against forecast discounted cash flows, changes in the share prices of entities in comparable sectors, and changes in the values of the entity's asset base, to determine whether any changes in valuations are required.

In accounting for arrangements containing a lease and for service concessions, the apportionment of lease rentals between capital, interest and service elements of PFI contracts requires an estimate of the interest rate implicit in the contract, using HM Treasury's Pocket Databank.

In accounting for employee benefits, determining the value of post-termination benefits depends on judgements made as to the longevity of recipients and on their entitlements to post-retirement benefits, which is determined by their length of service. For those pension schemes for which IAS 19 applies, the values of scheme liabilities are determined by actuarial estimates regarding the longevity of current and deferred pensioners and long-term rates of inflation.

In calculating present values, the calculation of nominal discount rates and of future repayments of index-linked obligations, requires the estimation of future changes in the Retail Prices Index or the Consumer Price Index. For this purpose, we use the forecast rate provided by HM Treasury.

Where material, the cost of untaken staff leave has been estimated and accrued by individual entities and consolidated.

## **1.27 Critical judgements and key sources of estimation uncertainty**

### ***1.27.1 Value of financial guarantee to Network Rail and of the fee receivable from Network Rail***

The Department has determined the fair value of the financial guarantee to Network Rail (the Financial Indemnity Mechanism) shown in Note 9.4 from an estimation of the value of the guarantee to Network Rail, being the reduction in interest costs arising from the existence of a Government guarantee, obtained by comparing guaranteed and unguaranteed debt instruments. This estimation was prepared by independent experts (Cambridge Economic Policy Associates) for the ORR (Office of Rail and Road). This reflects the ORR's current policy that Network Rail should pay for the benefit they receive from the guarantee.

Following the policy decision that Network Rail's maturing borrowings should be replaced by government loans, rather than commercial debt issuances, future fee levels have been re-forecast to reflect the revised outstanding borrowings covered by the guarantee. These are currently expected to reduce over the period to 2052.

### ***1.27.2 Classification of legal claims as contingent liabilities or provisions, and then as current and non-current provisions***

The Department occasionally faces legal claims and challenges, which may result in the possible outflow of economic benefits. These are classified as contingent or actual liabilities based on the Department's assessment of the likelihood of the claim succeeding, as informed by its legal advisors. For those claims recognised partly or entirely as provisions, the amount recognised is also informed by legal advice; however, in determining the timing of a possible settlement the Department must also make a judgement as to the present willingness of the counter-party to agree to what it considers to be a reasonable settlement amount within the next twelve months.

### ***1.27.3 Useful lives of property, plant and equipment and valuation of provisions for dilapidations***

Where items of plant and equipment are installed within properties, their useful lives may be curtailed by the useful life of the property. In determining their useful lives, the Department reflects its intention to remain in its freehold properties for the foreseeable future and in its leasehold properties until the end of the lease. For some leasehold arrangements there may be a dilapidation clause in the contract requiring the Department to restore the property to its original condition; the Department recognises dilapidation provisions based on a professional valuation of the costs of restoration, discounted to the date when the Department intends to vacate the leased property. The valuation of the restoration costs will normally be carried out externally at least every 5 years. This will therefore reflect its intention to remain in the leased properties until the end of the lease.

### ***1.27.4 Valuation of financial assets (investments)***

In accordance with the *FReM*, investments in public corporations, where material, are held at fair value. Full details are provided in Note 9.3.

### ***1.27.5 Valuation of provisions***

The Department has recognised as provisions the amounts required to settle its obligations to those who have taken voluntary early retirement. The determination of these amounts is affected by estimates of the life expectancy of retirees.

The Department has assumed from British Railways Board (Residuary) Limited obligations to compensate former employees of British Rail for industrial diseases contracted during that employment. The valuation of the outstanding liability is performed by independent actuaries, based on assumptions about the incidence and impact of these diseases.

### *1.27.6 Valuation of defined benefit pension schemes*

In valuing the liabilities of defined benefit pension schemes, the Department consults actuaries who provide valuations based on estimates of demographic factors, such as life expectancy. The actuaries also provide advice on the assumptions underlying the investment assets, such as future rates of return. Note 27 contains a sensitivity analysis which indicates the approximate effects on the actuarial liability of changes to the main actuarial assumptions.

### *1.27.7 Valuation of long-term financial obligations*

CTRL Section 1 Finance plc has obligations to its noteholders, some of which are linked to RPI. The core Department has assumed legal responsibility for financing the payments to the noteholders and it therefore has an index-linked obligation to CTRL Section 1 Finance plc.

Payments on the index-linked notes are contractually required to be calculated by multiplying the unindexed amount by the RPI as at the relevant month (eight months before the month in which the payment is made) and dividing it by the base RPI. The RPI accretion movement on the outstanding liability is calculated by multiplying the amount by the RPI as at the relevant month (eight months before the month in which the payment is made) and dividing it by the RPI as at the relevant month for the previous payment date. The accretion movement is then time-apportioned.

### *1.27.8 Valuation of the Strategic Road Network*

The significant estimation techniques for the Department include the valuation of the Strategic Road Network where the application of indices and standard costs generate a valuation.

## 2. Statement of Operating Costs by Operating Segment

	£000					2014-15
	Rail Executive	Resources & Strategy	International Security & Environment	Roads, Traffic & Local	High Speed Two	Total
Administration expenditure	58,680	77,872	29,055	105,246	11,774	282,627
Programme expenditure	6,005,490	768,640	477,398	7,502,594	330,824	15,084,946
<b>Gross expenditure</b>	<b>6,064,170</b>	<b>846,512</b>	<b>506,453</b>	<b>7,607,840</b>	<b>342,598</b>	<b>15,367,573</b>
<b>Income</b>	<b>(2,541,726)</b>	<b>(127,986)</b>	<b>(687,973)</b>	<b>(495,783)</b>	-	<b>(3,853,468)</b>
<b>Net Expenditure</b>	<b>3,522,444</b>	<b>718,526</b>	<b>(181,520)</b>	<b>7,112,057</b>	<b>342,598</b>	<b>11,514,105</b>
Share of profits of associates						(82,624)
Dividend Receivable						(347,020)
Interest Receivable						(106,484)
<b>Net Operating Costs per Statement of Comprehensive Net Expenditure</b>						<b>10,977,977</b>

	£000					2013-14
	Rail Executive	Resources & Strategy	International Security & Environment	Roads, Traffic & Local	High Speed Two	Total
						(restated)
Administration expenditure	44,596	54,973	47,835	99,881	11,013	258,298
Programme expenditure	6,174,946	250,439	361,708	8,113,377	385,127	15,285,597
<b>Gross expenditure</b>	<b>6,219,542</b>	<b>305,412</b>	<b>409,543</b>	<b>8,213,258</b>	<b>396,140</b>	<b>15,543,895</b>
<b>Income</b>	<b>(2,059,796)</b>	<b>(7,918)</b>	<b>(218,888)</b>	<b>(668,569)</b>	<b>(1,245)</b>	<b>(2,956,416)</b>
<b>Net Expenditure</b>	<b>4,159,746</b>	<b>297,494</b>	<b>190,655</b>	<b>7,544,689</b>	<b>394,895</b>	<b>12,587,479</b>
Share of profits of associates						(122,267)
Dividend Receivable						(2,550)
Interest Receivable						(35,228)
<b>Net Operating Costs per Statement of Comprehensive Net Expenditure</b>						<b>12,427,434</b>



### 3. Staff Numbers and Related Costs

#### Staff costs comprise:

	£000				2014-15	2013-14
	Permanently employed staff	Other Staff	Ministers	Special advisers	Total	Total
Wages and salaries	544,026	40,439	217	184	584,866	592,513
Social security costs	47,388	83	22	19	47,512	48,054
Other pension costs	112,512	123	-	42	112,677	95,400
<b>Sub Total</b>	<b>703,926</b>	<b>40,645</b>	<b>239</b>	<b>245</b>	<b>745,055</b>	<b>735,967</b>
Less recoveries in respect of outward secondments	(530)	-	-	-	(530)	(808)
<b>Total net costs</b>	<b>703,396</b>	<b>40,645</b>	<b>239</b>	<b>245</b>	<b>744,525</b>	<b>735,159</b>

#### Of which:

<b>Core Department</b>	115,332	18,433	239	245	134,249	129,659
<b>Core Department and Agencies</b>	432,923	33,107	239	245	466,514	455,704
<b>Departmental Group</b>	703,396	40,645	239	245	744,525	735,159

#### Staff Costs split by Admin and Programme:

##### Admin

Core Department	90,339	15,613	239	245	106,436	100,608
Core Department and Agencies	113,388	18,788	239	245	132,660	129,706
Departmental Group	121,073	19,649	239	245	141,206	138,888

##### Programme

Core Department	24,993	2,820	-	-	27,813	29,051
Core Department and Agencies	319,535	14,319	-	-	333,854	325,998
Departmental Group	582,323	20,996	-	-	603,319	596,271

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the Department for Transport is unable to identify its share of the underlying liabilities. A full actuarial valuation was carried out as at 31 March 2012. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservicepensionscheme.org.uk](http://www.civilservicepensionscheme.org.uk)).

For 2014-15, employers' contributions of £71,627,855 were payable to the PCSPS (2013-14 £62,137,648) at one of four rates in the range 16.7% to 24.3% (2013-14: 16.7% to 24.3%) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2014-15 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £339,312 (2013-14: £530,139) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3.0% to 12.5% (2013-14: 3.0% to 12.5%) of pensionable pay.

Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £33,163, 0.8% (2013-14: £35,699, 0.8%) of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at the reporting period date were £314,271 (2013-14: £55,467). Contributions prepaid at that date were £67,966 (2013-14: £nil).

There were 9 reported early retirements as a result of ill-health.

The remaining balance of £40,511,712 (2013-14: £32,806,047) relates to employers pension costs of bodies which are consolidated into these accounts, but which have none PCSPS pension arrangements.

### 3. Staff Numbers and Related Costs

#### Average number of persons employed

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

Activity					2014-15	2013-14
	Permanently employed staff	Others	Ministers	Special advisers	Total	Total
<b>Number of staff</b>						
Average number of persons employed	17,589	528	5	3	18,125	18,134
<i>Of which:</i>						
<b>Core Department</b>	1,776	116	5	3	1,900	1,864
<b>Core Department and Agencies</b>	11,553	177	5	3	11,738	11,906
<b>Departmental Group</b>	17,589	528	5	3	18,125	18,134

These figures include those working in the Department as well as in agencies and other bodies included within the consolidated departmental account.

### 3.1 Reporting of Civil Service and Other Compensation Schemes – Exit Packages

Comparative data is shown (in brackets) for previous year

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
<£10,000	-	-	-	1	7	8	(20)	(17)	(37)
£10,000 - £25,000	-	-	-	1	34	35	(214)	(196)	(410)
£25,000 - £50,000	-	1	(3)	6	11	17	(10)	(248)	(258)
£50,000 - £100,000	-	3	(4)	1	8	9	-	(28)	(28)
£100,000 - £150,000	-	1	(2)	1	2	3	-	(6)	(6)
£150,000 - £200,000	-	1	(1)	-	1	1	-	-	-
<b>Total number of exit packages</b>	-	<b>6</b>	<b>(10)</b>	<b>10</b>	<b>63</b>	<b>73</b>	<b>(244)</b>	<b>(495)</b>	<b>(739)</b>
<b>2014-15 Total cost /£</b>	-	<b>318,840</b>	<b>318,840</b>	<b>371,880</b>	<b>485,269</b>	<b>857,149</b>	<b>371,880</b>	<b>485,269</b>	<b>857,149</b>
<b>2013-14 Total cost /£</b>	-	<b>652,576</b>	<b>652,576</b>	<b>4,020,256</b>	<b>14,480,731</b>	<b>18,500,987</b>	<b>4,020,256</b>	<b>14,480,731</b>	<b>18,500,987</b>

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

During the financial year 2014-15, 4 payments were made which were not covered by the Civil Service Compensation Scheme. These totalled £12,572 and were out of court settlements. HM Treasury approval was obtained where required.

## 4. Other Administration Costs

	£000	2014-15			2013-14 <i>(restated)</i>			
		Note	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
<b>Cash Items</b>								
Rentals under operating leases			7,887	13,145	13,364	9,534	15,209	15,387
Research and development expenditure			453	453	453	165	165	165
Communications & Information Technology			6,617	34,735	35,726	8,660	28,318	29,660
Consultancy			23,810	28,935	28,759	17,586	17,962	17,978
Professional services			7,789	7,938	11,048	2,813	3,347	5,173
Accommodation			9,718	15,637	16,284	7,058	13,813	14,550
Support services			6,283	4,389	4,452	5,382	5,382	5,442
Travel and subsistence			6,267	7,673	8,016	1,744	3,202	3,512
Vehicle costs and services			801	801	802	767	767	768
Auditors' remuneration and expenses			-	-	81	-	-	21
Other costs			8,276	12,737	16,770	6,582	15,445	19,485
<b>Sub Total – Cash Items</b>			<b>77,901</b>	<b>126,443</b>	<b>135,755</b>	<b>60,291</b>	<b>103,610</b>	<b>112,141</b>
<b>Non-cash items</b>								
Depreciation			2,576	4,110	4,278	3,359	4,968	5,210
Amortisation			79	79	99	92	92	121
Impairment of fixed assets and assets held for sale		11	-	-	-	-	32	35
Profit on disposal of fixed assets			-	-	-	(9)	(9)	(9)
Loss on disposal of fixed assets			25	25	25	-	-	-
Auditors' remuneration and expenses			275	590	590	328	678	678
DfT(c) notional charges			-	125	125	-	-	-
Provisions (released)/provided in year			-	483	549	-	1,234	1,234
<b>Sub Total – Non Cash Items</b>			<b>2,955</b>	<b>5,412</b>	<b>5,666</b>	<b>3,770</b>	<b>6,995</b>	<b>7,269</b>
<b>Statement of Comprehensive Net Expenditure</b>			<b>80,856</b>	<b>131,855</b>	<b>141,421</b>	<b>64,061</b>	<b>110,605</b>	<b>119,410</b>

## 5. Programme Costs

£000	Note	2014-15			2013-14		
		Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
							(restated)
<b>Cash Items</b>							
Corporation Tax (refund)/charge		-	-	166	-	-	(171)
Rentals under operating leases		2,835	10,715	21,206	2,935	4,614	14,298
Interest charges		205,731	207,250	207,789	211,930	213,562	214,866
PFI interest charges		-	149,892	149,892	-	156,209	156,209
Research and development expenditure		17,543	17,543	17,543	13,600	19,019	19,019
Capital grants		7,207,396	7,207,396	7,207,284	6,969,380	6,969,380	6,969,380
Current grants		2,481,784	2,481,784	2,478,277	2,715,550	2,715,550	2,715,550
Grant in Aid		176,974	176,974	-	226,899	226,899	-
EU capital grants		19,259	19,259	19,259	25,346	25,346	25,346
Subsidies		261,107	261,107	261,107	299,808	299,808	299,808
Support for passenger rail services		380,671	380,671	380,671	657,172	657,172	657,172
Road network current maintenance		-	444,131	444,131	-	380,324	380,324
PFI service charges		-	249,125	249,125	-	343,015	343,015
Eurocontrol payments		43,224	43,224	43,224	44,557	44,557	44,557
Search & rescue helicopters		-	55,414	55,394	-	48,703	48,703
Information & Communications Technology		7,989	143,967	159,056	7,802	155,117	175,550
Consultancy		32,878	33,302	34,051	23,109	24,356	26,803
Professional services		21,068	24,942	40,253	1,700	6,852	167,524
Accommodation		3,534	21,901	34,827	1,396	24,548	39,653
Publicity & legal		6,135	6,135	6,895	5,779	5,779	6,228
Support services		20,119	22,266	21,777	34,643	33,655	34,226
Travel and subsistence		1,700	8,018	14,411	2,438	9,453	16,372
Auditors' remuneration and expenses		-	-	167	-	-	252
Eurotunnel payments		246,862	246,862	246,862	255,537	255,537	255,537
Other costs		24,617	235,830	275,381	37,647	251,678	294,798
<b>Sub Total – Cash</b>		<b>11,161,426</b>	<b>12,447,708</b>	<b>12,368,748</b>	<b>11,537,228</b>	<b>12,871,133</b>	<b>12,905,019</b>
<b>Non-cash items:</b>							
Depreciation		50,761	896,326	917,353	49,669	935,162	958,361
Amortisation		506	34,448	36,587	996	29,658	32,163
Impairment of fixed assets and assets held for sale	11	-	35,613	37,039	-	12,997	14,058
Downward revaluation of fixed assets		-	(1,116)	(313)	-	(352)	1,006
Write down in value of assets		-	739,289	739,289	-	625,584	625,584
Loss/(profit) on disposal of fixed assets		343	1,267	1,870	-	260	(187)
Loss on disposal of share capital		-	-	(9,907)	-	-	(171)
Pension scheme costs		63,171	63,171	59,902	60,758	60,758	127,844
Auditors' remuneration and expenses		-	169	169	-	168	168
Provisions (released)/provided in year		(15,648)	(9,498)	(2,482)	37,901	26,708	32,706
Unwinding of discount on provisions	16	-	104	104	-	(155)	(156)
Capital grant in kind (Eurostar International Ltd)		325,000	325,000	325,000	-	-	-
Provision for bad/doubtful debt		-	8,267	8,268	-	(7,074)	(7,069)
<b>Sub Total – Non-Cash Items</b>		<b>424,133</b>	<b>2,093,040</b>	<b>2,112,879</b>	<b>149,324</b>	<b>1,683,714</b>	<b>1,784,307</b>
<b>Statement of Comprehensive Net Expenditure</b>		<b>11,585,559</b>	<b>14,540,748</b>	<b>14,481,627</b>	<b>11,686,552</b>	<b>14,554,847</b>	<b>14,689,326</b>

## 6. Income

### 6.1 Income

	£000	2014-15			2013-14 (restated)			
		Note	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
<b>Cash Items</b>								
Rental income			301	3,985	5,118	1,690	5,417	6,572
Fees & charges to other government departments			373,215	376,346	376,793	12,013	14,792	13,980
Fees & charges to external customers			13,486	588,822	596,341	246,178	797,978	800,450
EU income			24,326	24,326	24,326	25,346	26,667	26,739
Dartford road crossing user charges			93,881	95,625	95,625	92,640	92,640	92,640
Claims for damages to road network			-	12,013	12,013	-	13,635	13,635
Income to Department from Train Operating Companies			1,583,267	1,583,267	1,861,608	1,229,195	1,229,195	1,506,949
Eurocontrol Receipts			43,165	43,165	43,165	44,647	44,647	44,647
Eurotunnel Recharge			236,200	236,200	236,200	246,308	246,308	246,308
Other income			8,709	26,621	194,408	2,038	16,169	150,109
<b>Sub Total – Cash Items</b>			<b>2,376,550</b>	<b>2,990,370</b>	<b>3,445,597</b>	<b>1,900,055</b>	<b>2,487,448</b>	<b>2,902,029</b>
<b>Non cash items</b>								
Share of profits of associates	10		44,979	44,979	44,979	32,987	32,987	89,987
Share of profits of joint ventures	10.4		-	-	-	-	-	1,900
Income from General Lighthouse Fund			-	-	353,484	-	-	-
Dividend in specie (Eurostar International Limited)	9.3		325,000	325,000	325,000	-	-	-
Amortisation of deferred income			54,387	54,387	54,387	54,387	54,387	54,387
<b>Sub Total – Non cash items</b>			<b>424,366</b>	<b>424,366</b>	<b>777,850</b>	<b>87,374</b>	<b>87,374</b>	<b>146,274</b>
<b>Operating Income</b>			<b>2,800,916</b>	<b>3,414,736</b>	<b>4,223,447</b>	<b>1,987,429</b>	<b>2,574,822</b>	<b>3,048,303</b>
Share of profits of associates	10		37,645	37,645	37,645	30,380	30,380	30,380
Dividends receivable			2,369	2,369	22,020	1,128	1,128	2,550
Interest receivable			86,579	106,224	106,484	13,367	34,689	35,228
<b>Statement of Comprehensive Net Expenditure</b>			<b>2,927,509</b>	<b>3,560,974</b>	<b>4,389,596</b>	<b>2,032,304</b>	<b>2,641,019</b>	<b>3,116,461</b>

### 6.2 Operating Income is analysed by Admin and Programme income as follows:

	£000	2014-15			2013-14 (restated)		
		Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
<b>Operating Income by Admin and Programme</b>							
Administration income		10,324	11,188	11,184	13,405	17,868	18,235
Programme income		2,420,613	3,033,569	3,842,284	1,941,037	2,523,967	2,938,180
<b>Operating income</b>		<b>2,430,937</b>	<b>3,044,757</b>	<b>3,853,468</b>	<b>1,954,442</b>	<b>2,541,835</b>	<b>2,956,415</b>
Share of profits of associates		82,624	82,624	82,624	63,367	63,367	122,267
Dividends and interest receivable		413,948	433,593	453,504	14,495	35,817	37,778
<b>Statement of Comprehensive Net Expenditure</b>		<b>2,927,509</b>	<b>3,560,974</b>	<b>4,389,596</b>	<b>2,032,304</b>	<b>2,641,019</b>	<b>3,116,460</b>

## 6.3 Fees and Charges information

£000	2014-15			2013-14 <i>(restated)</i>		
	Income	Full Cost	Surplus/ (Deficit)	Income	Full Cost	Surplus/ (Deficit)
<b>HA</b>						
Road damage claims	12,013	13,527	(1,514)	13,635	15,063	(1,428)
Road contract income (S278 Schemes)	7,096	7,096	-	20,506	20,506	-
Rental income	3,684	3,765	(81)	3,727	5,635	(1,908)
<b>MCA</b>						
Marine surveys	4,197	3,928	269	5,519	4,722	797
Registration of ships	947	712	235	1,066	778	288
Seafarers' examination & certification	2,292	2,096	196	2,384	2,095	289
Wider market initiatives and EU twinning projects	909	666	243	874	632	242
<b>Vehicle Certification Agency</b>						
Product certification	12,801	12,387	414	10,602	11,037	(435)
Management system certification	2,141	2,041	100	1,917	1,892	25
<b>DVLA</b>						
Fees *	436,194	371,739	64,455	420,758	382,723	38,035
DVLA personalised registrations *	87,150	87,150	-	73,019	73,019	-
	<b>569,424</b>	<b>505,107</b>	<b>64,317</b>	<b>554,007</b>	<b>518,102</b>	<b>35,905</b>

\* Full cost numbers include fees and charges paid into the Consolidated Fund.

The information provided above is for fees and charges purposes and is not for IFRS 8 (Operating Segment Reporting) purposes.

Additional information regarding these fees and charges (including the financial objective and performance against financial objective) can be found in the published accounts for each of the individual agencies.

## 7. Property, Plant and Equipment

Group	2014-15										
	Strategic Road Network	High Speed 1 Asset	Assets under Construction	Land	Buildings	Dwellings	Plant & Machinery	Furniture & Fittings	Transport Equipment	Information Technology	Total
<b>Cost or valuation</b>											
At 1 April 2014	129,721,041	3,546,000	562,214	258,490	625,296	63,268	192,613	42,196	105,535	107,639	135,224,292
Opening balance adjustments	-	-	6,950	121	(110)	-	19,294	161	453	171	27,040
Additions	631,163	-	1,507,761	-	11,799	-	2,806	858	5,970	13,801	2,174,156
Write-down of capital additions	-	-	(739,400)	-	-	-	-	-	-	-	(739,400)
Disposals	-	-	(48)	(1,472)	(6,916)	(2,686)	(7,653)	(809)	(1,903)	(15,939)	(37,426)
Impairments	(42,147)	-	(2,783)	(1,597)	(2,783)	(5,796)	(1,299)	-	293	(384)	(53,713)
Transfers	410,977	-	(463,675)	588	3,164	(1,625)	14,373	(11,855)	593	945	(46,515)
Reclassifications	-	-	(7,678)	(8,946)	(907)	(3,885)	(694)	247	(1,208)	6,822	(16,249)
Revaluations	(4,326,875)	-	-	36,324	33,970	(312)	946	118	(3,781)	127	(4,259,483)
<b>At 31 March 2015</b>	<b>126,394,159</b>	<b>3,546,000</b>	<b>866,124</b>	<b>283,508</b>	<b>663,513</b>	<b>48,964</b>	<b>220,386</b>	<b>30,916</b>	<b>105,952</b>	<b>113,182</b>	<b>132,272,704</b>
<b>Depreciation</b>											
At 1 April 2014	18,758,524	214,909	-	-	182,757	2,105	98,649	30,529	19,796	77,342	19,384,611
Opening balance adjustments	-	-	-	(1)	2	-	9,706	(3)	285	(768)	9,221
Charged in year	821,034	46,052	-	-	20,152	-	15,464	3,796	6,036	9,423	921,957
Disposals	-	-	-	-	(5,112)	-	(7,955)	(879)	(1,804)	(14,214)	(29,964)
Impairments	(14,235)	-	-	-	(6)	-	(10)	-	1,393	(140)	(12,998)
Transfers	-	-	-	-	-	(2,105)	11,354	(10,771)	-	-	(1,522)
Reclassifications	-	-	-	1	(235)	-	(176)	247	-	(25)	(188)
Revaluations	(5,060,647)	-	-	-	11,034	-	(1,160)	311	(4,239)	(1,163)	(5,055,864)
<b>At 31 March 2015</b>	<b>14,504,676</b>	<b>260,961</b>	<b>-</b>	<b>-</b>	<b>208,592</b>	<b>-</b>	<b>125,872</b>	<b>23,230</b>	<b>21,467</b>	<b>70,455</b>	<b>15,215,253</b>
<b>Carrying amount at 31 March 2015</b>	<b>111,889,483</b>	<b>3,285,039</b>	<b>866,124</b>	<b>283,508</b>	<b>454,921</b>	<b>48,964</b>	<b>94,514</b>	<b>7,686</b>	<b>84,485</b>	<b>42,727</b>	<b>117,057,451</b>
<b>Carrying amount at 31 March 2014</b>	<b>110,962,517</b>	<b>3,331,091</b>	<b>562,214</b>	<b>258,490</b>	<b>442,539</b>	<b>61,163</b>	<b>93,964</b>	<b>11,667</b>	<b>85,739</b>	<b>30,297</b>	<b>115,839,681</b>
<b>Asset financing:</b>											
Owned	109,404,743	3,285,039	648,856	283,077	426,942	48,964	94,514	3,040	46,697	42,727	114,284,599
Finance leased	-	-	-	-	2,193	-	-	-	37,788	-	39,981
On-balance sheet (SoFP) PFI contracts	2,484,740	-	-	431	25,786	-	-	4,646	-	-	2,515,603
PFI residual interests	-	-	217,268	-	-	-	-	-	-	-	217,268
<b>Carrying amount at 31 March 2015</b>	<b>111,889,483</b>	<b>3,285,039</b>	<b>866,124</b>	<b>283,508</b>	<b>454,921</b>	<b>48,964</b>	<b>94,514</b>	<b>7,686</b>	<b>84,485</b>	<b>42,727</b>	<b>117,057,451</b>
<b>Of the total:</b>											
Core Department	-	3,285,039	117,245	102,601	117,359	-	5,033	92	938	4,472	3,632,779
Core Department and Agencies	111,889,483	3,285,039	716,073	274,557	287,803	48,964	52,790	6,198	4,410	26,527	116,591,845
Departmental Group	111,889,483	3,285,039	866,124	283,508	454,921	48,964	94,514	7,686	84,485	42,727	117,057,451



## 7. Property, Plant and Equipment – continued

Group											2013-14
	Strategic Road Network	High Speed 1 Asset	Assets under Construction	Land	Buildings	Dwellings	Plant & Machinery	Furniture & Fittings	Transport Equipment	Information Technology	Total
	£000										
<b>Cost or valuation</b>	127,583,040	3,546,000	378,466	168,928	536,800	60,715	208,453	43,579	93,887	100,089	132,719,957
At 1 April 2013	(5,453)	-	-	-	-	-	-	-	-	-	(5,453)
Prior year adjustments	127,577,587	3,546,000	378,466	168,928	536,800	60,715	208,453	43,579	93,887	100,089	132,714,504
Opening balance adjustments	(652,770)	-	11,202	3,392	(6,233)	302	2,766	1	11	128	(641,201)
Additions	491,430	-	897,631	1,441	19,371	-	4,276	702	4,314	6,678	1,425,843
Write-down of capital additions	-	-	(625,584)	-	-	-	-	-	-	-	(625,584)
Disposals	-	-	-	(1,490)	(1,027)	(5,495)	(5,005)	(1,135)	(4,822)	(4,159)	(23,133)
Impairments	(512,059)	-	-	(836)	(1,047)	(547)	(221)	(13)	(752)	(370)	(515,845)
Opening balance adjustments BRBR	-	-	-	71,242	60,579	-	-	-	-	-	131,821
Transfer	81,673	-	(99,496)	4,518	1,820	730	(13,931)	582	14,097	11,487	1,480
Reclassifications	-	-	(5)	2,604	(2,139)	-	(119)	(254)	(187)	(576)	(676)
Revaluations	2,735,180	-	(8,691)	7,563	17,172	7,563	(3,606)	(1,266)	(1,013)	(5,638)	2,757,083
<b>At 31 March 2014</b>	<b>129,721,041</b>	<b>3,546,000</b>	<b>562,214</b>	<b>258,490</b>	<b>625,296</b>	<b>63,268</b>	<b>192,613</b>	<b>42,196</b>	<b>105,535</b>	<b>107,639</b>	<b>135,224,292</b>
<b>Depreciation</b>											
At 1 April 2013	18,664,996	168,857	-	(76)	152,781	-	102,964	28,943	10,103	74,256	19,202,824
Detrunings	(224)	-	-	-	-	-	-	-	-	-	(224)
Opening balance adjustments	18,664,772	168,857	-	(76)	152,781	-	102,964	28,943	10,103	74,256	19,202,600
Charged in year	(412,330)	-	-	-	(558)	-	851	1	-	(92)	(412,128)
Disposals	861,967	46,052	-	(12)	17,790	-	15,110	4,078	8,924	9,661	963,570
Impairments	(502,126)	-	-	(47)	(145)	-	(4,701)	(1,110)	(4,394)	(4,024)	(14,374)
Transfer	-	-	-	-	194	-	(11,961)	(5)	9,464	2,646	(502,312)
Reclassifications	-	-	-	88	(270)	2,105	(33)	(179)	-	(515)	1,196
Revaluations	146,241	-	-	-	13,012	-	(3,470)	(1,199)	(4,301)	(4,567)	145,716
<b>At 31 March 2014</b>	<b>18,758,524</b>	<b>214,909</b>	<b>-</b>	<b>182,757</b>	<b>2,105</b>	<b>2,105</b>	<b>98,649</b>	<b>30,529</b>	<b>19,796</b>	<b>77,342</b>	<b>19,384,611</b>
<b>Carrying amount at 31 March 2014</b>	<b>110,962,517</b>	<b>3,331,091</b>	<b>562,214</b>	<b>258,490</b>	<b>442,539</b>	<b>61,163</b>	<b>93,964</b>	<b>11,667</b>	<b>85,739</b>	<b>30,297</b>	<b>115,839,681</b>
<b>Carrying amount at 31 March 2013</b>	<b>108,912,591</b>	<b>3,377,143</b>	<b>378,466</b>	<b>169,004</b>	<b>384,019</b>	<b>60,715</b>	<b>105,489</b>	<b>14,636</b>	<b>83,784</b>	<b>25,833</b>	<b>113,511,680</b>
<b>Asset financing:</b>											
Owned	108,596,213	3,331,091	349,166	258,059	414,944	61,163	93,964	5,860	27,943	30,297	113,168,700
Finance Leased	-	-	-	-	2,400	-	-	-	57,349	-	59,749
On-balance (SoFP) sheet PFI contracts	2,366,304	-	-	431	25,195	-	-	5,807	447	-	2,398,184
PFI residual interests	-	-	213,048	-	-	-	-	-	-	-	213,048
<b>Carrying amount at 31 March 2014</b>	<b>110,962,517</b>	<b>3,331,091</b>	<b>562,214</b>	<b>258,490</b>	<b>442,539</b>	<b>61,163</b>	<b>93,964</b>	<b>11,667</b>	<b>85,739</b>	<b>30,297</b>	<b>115,839,681</b>
<b>Of the total:</b>											
Core Department	-	3,331,091	63,592	85,636	122,649	-	6,447	262	1,208	4,777	3,615,662
Core Department and Agencies	110,962,517	3,331,091	551,761	249,840	287,012	61,163	54,895	10,864	5,535	17,685	115,532,363
Departmental Group	110,962,517	3,331,091	562,214	258,490	442,539	61,163	93,964	11,667	85,739	30,297	115,839,681

## 7.1 Strategic Road Network(SRN)

During the year, road, land and technology assets were revalued by Atkins (professional valuers) in accordance with the policy to revalue elements of the SRN every 5 years on a rolling basis.

### Capital additions

HA invested £631.2m during 2014-15 (2013-14: £491.4m) on capital renewal which is the ongoing programme to update and improve the SRN through a variety of interventions that will yield future economic benefits. The valuation adjustment of £631.2m represents the gross value of materials replaced by the capital renewal programme, which is accordingly removed from the gross value and the accumulated depreciation of the road element of the SRN.

### Revaluation

The revaluation increase of £733.7m (£5,060.6m less £4,429.3m) (2013-14: £2,588.2m) consists of:

Revaluation	Roads (£m)	Technology and structures (£m)	Land (£m)	Total (£m)
In year adjustments	(168.7)	-	-	(168.7)
5 year valuation	5,307.0	(242.2)	(5,188.9)	(124.1)
In year valuation	-	-	1,026.5	1,026.5
Total (£m)	5,138.3	(242.2)	(4,162.4)	733.7

The net in year adjustment of £168.7m (£236.7m minus £68.0m) during 2014-15 (2013-14: £236.7m) resulted from adjustments in the valuation of the SRN due to improved information on dimensions for road, land area and individual structures. Dimensions are checked on a routine basis as part of the operational requirement for robust data. Changes identified in this process are updated in the asset databases and reported either as an increase or decrease in the valuation of the SRN.

The 5 yearly valuation of road, land and technology assets resulted in a net decrease of the SRN of £124.1m (2013-4:nil), reflecting revised standard costs and land values.

During 2014-15 HA applied an indexation factor to the gross valuation of all elements of the SRN to reflect the impact of current prices. The indexation resulted in an increase in the valuation of the SRN of £1,026m (2013-14; £2,588.2m)

### Depreciation

The depreciation charge for 2014-15 was £821.0m (2013-14: £862.0m) which was made up of:

- A credit of £36.1m (2013-14: £14.2m) for road condition, reflecting the improvement in the overall condition of the road element of the SRN;
- £112.8m (2013-14: £295.8m) reflecting the charge for structures;
- £113.1m (2013-14: £88.9m) reflecting the charge for technology; and
- £631.2m (2013-14: £491.4m) reflecting capital renewals maintenance expenditure previously capitalised.

## 7.2 Assets under construction (SRN)

### Reversionary interest

There was an in year adjustment of £4.2m relating to the reversionary interest for the M6 toll road, The M6 toll road agreement includes the provision that the asset will revert to public ownership when the concession ends in 2054.

### Write down

The HA valuation of the SRN is based on standard costing and indexation. There is always a difference between the actual cost of construction and the standard cost valuation of the SRN, this difference is defined as write-down. During 2014-15 the write-down was £739.4m (2013-14: £625.6m) and included £246.3m relating to improvement schemes, £139.8m relating to managed motorway schemes and £271m relating to smaller projects. The amount of the write down is impacted by the type of scheme under construction or opened to traffic during the period.

### 7.3 High Speed 1 Asset

This is the value of the service concession on the HS1 rail link from the Kent coast to St. Pancras in London. Further information is shown within the Accounting Policies note, Note 1.18.

### 7.4 Analysis of land and buildings of the Core Department

The land and buildings of the Core Department were externally valued as at 31 March 2015. The main components are analysed below.

	£000	2014-15		2013-14	
		Total	Land	Buildings	Total
Waterloo International Terminal *		38,400	1,600	36,800	38,355
North Pole Depot *		89,650	75,073	14,577	86,970
Temple Mills Bus Depot *		9,825	-	9,825	9,750
International Maritime Organization (Embankment) #		58,875	-	58,875	46,573
Other Land and buildings #		5,380	2,000	3,380	3,515
		<u>202,130</u>	<u>78,673</u>	<u>123,457</u>	<u>185,163</u>

\* Valued by Lambert Smith Hampton

# Valued by DVS (The commercial arm of the Valuation Office Agency)

### 7.5 Analysis of other land and buildings of the Highways Agency, excluding dwellings.

	£000	2014-15	2013-14
Freehold buildings		227,228	217,123
Short leasehold buildings (less than 50 years)		8,412	8,613
<b>Total</b>		<u>235,640</u>	<u>225,736</u>

### 7.6 Assets held for sale

	£000	Agencies	Departmental Group
<b>Cost or valuation</b>			
At 1 April 2014		10,258	10,284
Reclassifications		12,784	12,785
Disposals		(8,369)	(8,369)
Impairments		79	79
<b>At 31 March 2015</b>		<u>14,752</u>	<u>14,779</u>
<b>Cost or valuation</b>			
At 1 April 2013		12,314	12,505
Reclassifications		4,570	4,570
Disposals		(6,065)	(6,229)
Impairments		(561)	(562)
<b>At 31 March 2014</b>		<u>10,258</u>	<u>10,284</u>

There were no assets held for sale by the core Department.

### 7.7 Investment properties

	£000	Departmental Group
<b>Fair value</b>		
1 April 2014		412
Revaluations		(19)
<b>31 March 2015</b>		<u>393</u>
1 April 2013		27,420
Transfer from BRBR		10,875
Disposals		(23)
LCR Reclassified		(37,860)
<b>31 March 2014</b>		<u>412</u>

## 8. Intangible Assets

### Group

	£000			2014-15
	Software Licences	Development Expenditure	Assets under Construction	Total
<b>Cost or valuation</b>				
At 1 April 2014	81,485	320,795	9,561	411,841
In-year balances adjustment	630	100	-	730
Additions	2,435	-	13,018	15,453
Transfers	111	11,699	(11,722)	88
Disposals	(33,738)	(86)	-	(33,824)
Revaluations	(140)	1,001	-	861
Reclassifications	673	-	(683)	(10)
<b>At 31 March 2015</b>	<b>51,456</b>	<b>333,509</b>	<b>10,174</b>	<b>395,139</b>
<b>Amortisation</b>				
At 1 April 2014	68,954	251,217	-	320,171
In-year balances adjustment	(1,117)	-	-	(1,117)
Charged in year	5,064	32,057	-	37,121
Disposals	(35,862)	(61)	-	(35,923)
Revaluations	(105)	-	-	(105)
Reclassifications	(12)	-	-	(12)
<b>At 31 March 2015</b>	<b>36,922</b>	<b>283,213</b>	<b>-</b>	<b>320,135</b>
<b>Carrying amount at 31 March 2015</b>	<b>14,534</b>	<b>50,296</b>	<b>10,174</b>	<b>75,004</b>
<b>Carrying amount at 31 March 2014</b>	<b>12,531</b>	<b>69,578</b>	<b>9,561</b>	<b>91,670</b>
<b>Asset financing:</b>				
Owned	14,534	41,750	10,174	66,458
Finance leased	-	8,546	-	8,546
<b>Carrying amount at 31 March 2015</b>	<b>14,534</b>	<b>50,296</b>	<b>10,174</b>	<b>75,004</b>
<b>Of the total:</b>				
Core Department	3,909	-	-	3,909
Core Department and Agencies	9,244	48,685	10,174	68,103
Departmental Group	14,534	50,296	10,174	75,004

## 8. Intangible Assets – continued

## Group

	£000			2013-14
	Software Licences	Development Expenditure	Assets under Construction	Total
<b>Cost or valuation</b>				
At 1 April 2013	90,169	290,773	29,191	410,133
In-year balances adjustment	79	-	(258)	(179)
Additions	1,724	252	10,469	12,445
Transfers	1,145	29,290	(29,865)	570
Disposals	(11,780)	(110)	-	(11,890)
Revaluations	155	1,048	24	1,227
Reclassifications	(7)	(458)	-	(465)
<b>At 31 March 2014</b>	<b>81,485</b>	<b>320,795</b>	<b>9,561</b>	<b>411,841</b>
<b>Amortisation</b>				
At 1 April 2013	75,268	225,185	-	300,453
In-year balances adjustment	85	-	-	85
Charged in year	5,279	27,004	-	32,283
Transfers	(58)	(514)	-	(572)
Disposals	(11,688)	-	-	(11,688)
Revaluations	74	-	-	74
Reclassifications	(6)	(458)	-	(464)
<b>At 31 March 2014</b>	<b>68,954</b>	<b>251,217</b>	<b>-</b>	<b>320,171</b>
<b>Carrying amount at 31 March 2014</b>	<b>12,531</b>	<b>69,578</b>	<b>9,561</b>	<b>91,670</b>
<b>Carrying amount at 31 March 2013</b>	<b>14,901</b>	<b>65,588</b>	<b>29,191</b>	<b>109,680</b>
<b>Asset financing:</b>				
Owned	12,531	51,253	9,561	73,345
Finance leased	-	18,325	-	18,325
<b>Carrying amount at 31 March 2014</b>	<b>12,531</b>	<b>69,578</b>	<b>9,561</b>	<b>91,670</b>
<b>Of the total:</b>				
Core Department	2,261	-	-	2,261
Core Department and Agencies	8,988	66,956	9,561	85,505
Departmental Group	12,531	69,578	9,561	91,670

## 9. Financial Instruments

IFRS 7 requires specified minimum disclosures about the nature and extent of credit risk, liquidity risk and market risk that the Department faces in undertaking its activities.

The core Department for Transport is resourced mostly from funds voted by Parliament and so has limited dependency on revenues from customers. This substantially reduces many financial risks. These conditions apply also to the HA, the MCA, LCR Finance plc and CTRL Section 1 Finance plc. Other entities within the consolidation boundary, in particular the BTPA, are at least partly reliant on trading relationships. However, these entities are relatively immaterial in the context of the consolidated Department. Further financial risk disclosures are given in the accounts of these entities.

### Credit risk

Credit risk is the risk of suffering financial loss, should any of the Department's customers or counterparties fail to fulfil their contractual obligations to the Department.

A significant proportion of the Department's customers and counterparties are other public sector organisations. No credit risk arises from these organisations.

### Maximum exposure

	31 March 2015	31 March 2014
	£000	£000
Loans	6,821,800	176,770
Trade and other receivables		
Current	416,317	320,385
Non-current	3,554,253	3,468,893
	<b>10,792,370</b>	<b>3,966,048</b>

Of this amount, £10.27bn (2014: £3.66bn) relates to balances with Network Rail which has now been classified to the central government sector. We consider the residual exposure to be immaterial. None of the amounts are past the due date or impaired. We consider all amounts are recoverable in full.

A further £76m relates to balances outstanding from Severn River Crossing plc under the subordinated loan. In March 2014, the Secretary of State received legal ownership of the entire share capital of the company as collateral in addition to the existing charge over the shares. It is considered that the subordinated loan is recoverable in full. Further information about the Secretary of State's rights is provided in Note 9.3.4.

For those customers and counter parties that are not public sector organisations, the Department has policies and procedures in place to ensure credit risk is kept to a minimum. The TOCs generate significant amounts of income for the Department. Risk in relation to this income is minimised through close working relations between the Department and the TOCs. In July 2014, the Public Accounts Committee issued a report entitled "Managing debt owed to central government", in response to which HM Treasury and the Cabinet Office jointly issued guidance to all central government bodies on reducing fraud, error and debt. The Department and its arm's length bodies have implemented this guidance.

### Liquidity risk

This is the risk that the Department is unable to meet its obligations when they fall due and to replace funds when they are withdrawn.

Within the core Department and its agencies, the cash requirements are covered through the Estimates process and forecast cash requirements can be amended through the Supplementary Estimate. Requesting cash in excess of the Net Cash Requirement leads to an Excess Vote. During the year cash is drawn down from the Government Banking Service. Government bodies are required to provide regular forecasts for the month ahead, and any significant divergencies from the forecast will be penalised. As a result, the Department has limited exposure to liquidity risk and the role of financial instruments in managing this risk is insignificant.

### Market risk

Some of the Department's liabilities are linked to movements in the Retail Prices Index (RPI). Pensions payable to former employees who have been granted early retirement are linked to RPI; the Department's exposure ceases once the employees reach the standard retirement age, or the liability is contractually

transferred. Liabilities under other pension obligations are linked either to RPI or CPI; sensitivity analysis for these obligations is provided in the relevant notes.

The Department has further exposure to inflation risk through index-linked notes issued by CTRL Section 1 Finance plc. These have a book value of £712m (2014: £698m). The values of repayments of interest and capital are determined by the value of the RPI (all items) eight months before the month in which payments are made to investors.

This gives rise to a risk that cash payments and finance costs can fluctuate significantly, where RPI is volatile. The Department manages this risk by preparing cash forecasts using short-term forecasts of movements in the RPI, based on market expectations, as notified by HM Treasury. For 2014-15, the rate used was 3% (2013-14: 5%).

### Sensitivity analysis

Last year, these accounts provided sensitivity analysis assuming RPI (all items) increases of 2.5% and 3%. A comparison of these forecasts with actual index-linked expenditure reveals the following variances:

	<b>Actual</b>	<b>2.5%</b>	<b>3%</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
		+/-	+/-
Index-linked expenditure	30,770	2,788	4,351
Index-linked cash flows	16,435	(5)	-

During 2014-15, RPI inflation was closer to 2%, so expenditure was lower than under the two forecast scenarios. Cash flows were higher than the 2.5% forecast scenario, however, because the cash payments made in May 2014 and November 2014 were linked to RPI for September 2013 and March 2014 respectively. Actual RPI for March 2014 was higher than the 2.5% forecast, but lower than the 3% forecast.

Forecasts for the four years ending 31 March 2019 were prepared using the following forecast RPI assumptions: 2.5%; 1%; and 3%:

	Index-linked expenditure			Index-linked cash flows		
	1%	2.5%	3%	1%	2.5%	3%
	£000	£000	£000	£000	£000	£000
Year ended 31 March	+/-		+/-	+/-		+/-
<b>2016</b>	(5,393)	26,626	1,798	(10)	16,700	-
<b>2017</b>	(11,172)	35,250	3,760	(205)	16,995	70
<b>2018</b>	(11,813)	36,114	4,049	(465)	17,425	155
<b>2019</b>	(12,474)	37,015	4,352	(730)	17,860	245

### Currency risk

The Department has minimal transactions or balances that are either denominated in foreign currency, linked to a floating interest rate, or linked to any other market price. It therefore considers that changes in exchange rates, interest rates or other market prices would represent a negligible risk.

**Financial assets and liabilities, all non-current**

£000		31 March 2015	31 March 2014 <i>(restated)</i>
<b>Financial assets</b>	<b>Note</b>		
Loans	9.1.1	6,862,067	259,914
Share capital	9.1.2	567,664	958,864
Public dividend capital	9.1.3	32,459	32,459
National loans fund	9.1.4	3,055	4,169
		<u>7,465,245</u>	<u>1,255,406</u>
<b>Financial liabilities</b>			
Financial guarantees	9.4	<u>(3,776,001)</u>	<u>(3,662,772)</u>
<i>Of which:</i>			
<b>Core Department</b>			
Financial assets		7,467,592	1,255,406
Financial liabilities		<u>(3,776,001)</u>	<u>(3,662,772)</u>
		<u>3,691,591</u>	<u>(2,407,366)</u>
<b>Core Department &amp; Agencies</b>			
Financial assets		7,467,592	1,255,406
Financial liabilities		<u>(3,776,001)</u>	<u>(3,662,772)</u>
		<u>3,691,591</u>	<u>(2,407,366)</u>
<b>Departmental Group</b>			
Financial assets		7,465,245	1,255,406
Financial liabilities		<u>(3,776,001)</u>	<u>(3,662,772)</u>
		<u>3,689,244</u>	<u>(2,407,366)</u>

The Departmental Group balance excludes an intragroup loan between Directly Operated Railways and the Core Department which at 31 March 2015 was £10,000,000 (2014: £10,000,000), and another intragroup subordinated loan for £2,930,000 between the core Department and CTRL Section 1 Finance plc (both removed on consolidation).

**Fair value disclosures**

	2015		2014	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
<b>Group</b>				
<b>Financial assets</b>				
Finance lease receivables	10	10	16	16
Trade and other receivables (less prepayments and accrued income and other taxation and social security)	135	135	117	117
Available-for-sale financial assets	568	568	959	959
Other loans and receivables	6,865	6,865	264	264
	<u>7,578</u>	<u>7,578</u>	<u>1,356</u>	<u>1,356</u>
<b>Financial liabilities</b>				
Financial liabilities held at amortised cost				
Financial guarantee contract	3,776	3,776	3,663	3,663
Bonds and notes issued by LCR Finance plc and CTRL Section 1 Finance plc	4,240	5,872	4,225	4,922
Trade and other payables at amortised cost (less deferred income)	3,586	3,586	3,726	3,726
	<u>11,602</u>	<u>13,234</u>	<u>11,614</u>	<u>12,311</u>



## 9.1 Financial Assets

### 9.1.1 Loans

£000	Network Rail	VOSA	DSA	Mersey Tunnel	Humber Bridge	Other Loans	Total
Balance at 1 April 2014	-	50,378	29,846	370	176,400	2,920	259,914
Advances	6,450,000	-	-	-	-	200,000	6,650,000
Repayment	-	(10,627)	(21,810)	(370)	(4,600)	(10,440)	(47,847)
<b>Balance at 31 March 2015</b>	<b>6,450,000</b>	<b>39,751</b>	<b>8,036</b>	<b>-</b>	<b>171,800</b>	<b>192,480</b>	<b>6,862,067</b>
Balance at 1 April 2013	-	62,173	44,416	1,059	180,243	3,240	291,131
Prior Year Adjustment	-	-	-	-	-	49	49
Repayment	-	(11,795)	(14,570)	(689)	(3,843)	(369)	(31,266)
<b>Balance at 31 March 2014</b>	<b>-</b>	<b>50,378</b>	<b>29,846</b>	<b>370</b>	<b>176,400</b>	<b>2,920</b>	<b>259,914</b>

#### 9.1.1.1 Loans to Network Rail

Following the decision by ONS to reclassify Network Rail as part of the public sector it was decided that new cash requirements of Network Rail would be met by the Department. A loan agreement has been signed between the Department and Network Rail and the first loans have been made in this financial year (2014-15).

#### 9.1.1.2 Loan to General Lighthouse Fund

A loan was made to the General Lighthouse Fund on 1 April 2014 as detailed in Note 24.

### 9.1.2 Share Capital

£000	NATS Holdings Ltd	LCR Ltd	Whittles Property Companies and Other	Direct Subsidiaries	Total
Balance at 1 April 2014	-	946,600	-	12,264	958,864
Revaluations	-	(391,200)	-	-	(391,200)
<b>Balance at 31 March 2015</b>	<b>-</b>	<b>555,400</b>	<b>-</b>	<b>12,264</b>	<b>567,664</b>
Balance at 1 April 2013	378,668	-	285	-	378,953
Opening balance from BRBR	-	-	30,082	12,264	42,346
Accounting policy change	(378,668)	-	-	-	(378,668)
Disposals	-	-	(285)	-	(285)
Revaluations	-	154,100	-	-	154,100
Reclassification of LCR	-	792,500	(30,082)	-	762,418
<b>Balance at 31 March 2014</b>	<b>-</b>	<b>946,600</b>	<b>-</b>	<b>12,264</b>	<b>958,864</b>

### 9.1.3 Public Dividend Capital

£000	VOSA	DSA	Total
Balance at 31 March 2015	28,984	3,475	32,459
Balance at 31 March 2014	28,984	3,475	32,459

### 9.1.4 National Loans Fund

£000	Civil Aviation Authority	King's Lynn Harbour Conservancy	Total
Balance at 1 April 2014	4,156	13	4,169
Loans repayable within one year transferred to receivables	(1,108)	(6)	(1,114)
<b>Balance at 31 March 2015</b>	<b>3,048</b>	<b>7</b>	<b>3,055</b>
Balance at 1 April 2013	5,230	19	5,249
Loans repayable within one year transferred to receivables	(1,074)	(6)	(1,080)
<b>Balance at 31 March 2014</b>	<b>4,156</b>	<b>13</b>	<b>4,169</b>

## 9.2 Investments in Other Public Sector Bodies

The Secretary of State holds the following shares:

### 9.2.1 Special share investments

One special share of £1 in NATS Holdings Limited, 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.

One redeemable special participating share of £1 in Inter-Capital and Regional Rail Limited. The share carries the right to 5% of the dividends or other distributions declared as payable on the ordinary shares of that company.

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 26).

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

## 9.3 Investments that have not been consolidated

In accordance with the *FReM*, the Department does not consolidate the following wholly-owned entities that are classified as public corporations. Public dividend capital is held at historic cost less any impairments; loans are held at amortised cost and equity interests are held at fair value.

Directly Operated Railways Limited (DOR Ltd) is consolidated into the accounts of the Department. East Coast Main Line Limited (ECML), a wholly owned subsidiary of DOR Ltd was sold to Inter City Railways Ltd for a consideration of £11m on 1 March 2015. ECML was the public sector operator of rail services on the East Coast Main Line. It was sold following the Intercity East Coast franchise competition, which was announced by the Secretary of State in November 2014. The sale was contemplated as an integral part of that competition.

### 9.3.1 London & Continental Railways Limited (LCR Ltd)

#### Directly owned

The Department acquired the entire share capital of LCR Ltd in June 2009 to facilitate the restructuring of the HS1 and Eurostar businesses and to effect debt assumption. At this point, LCR was classified to the central government sector. LCR was reclassified as a Public Corporation with effect from 30 September 2013, when it received a portfolio of investment properties following the abolition of BRBR, which provided additional commercial income.

It remains a wholly-owned subsidiary of the Department for Transport. This note sets out the valuation of this asset and provides additional disclosures relating to the nature and business purpose of its activities and the financial impact of those arrangements, as required by section 410A of the Companies Act 2006.

On 17 June 2014, the shareholding in Eurostar International Ltd was transferred from LCR to the Department, and from the Department to HM Treasury. On 4 March 2015, it was announced that the sale of the shareholding for £757.1m had been agreed between HM Treasury and Patina Rail LLP.

### 9.3.2 Valuation

The consideration paid for the shares in 2009 was £8. Following the sale of the share capital of HS1 Ltd in November 2010, the value of the investment had been impaired to zero. LCR Ltd was consolidated in the resource accounts under the Clear Line of Sight initiative from 2010-11. It has ceased to be consolidated with effect from its reclassification, reflected retrospectively in these accounts, and has been included at its fair value as at its reclassification date, as part of the deabsorption adjustment detailed in Note 25.

LCR Ltd is therefore recognised at fair value as at 30 September 2013, 31 March 2014 and 31 March 2015. The valuation is based on five components: Eurostar (carried out through LCR Ltd's associate, Eurostar International Ltd) until June 2014; property development around King's Cross (carried out through its associate, King's Cross Central Limited Partnership); investment properties representing undeveloped land and buildings near railway stations; cash and working capital; and property development around Stratford (carried out through its joint venture, Stratford City Business District Ltd).

The valuation was performed by selecting, for each component, the valuation techniques that a knowledgeable investor would use to value an investment of that nature. For example, the valuations of property interests reflect surveyors' valuations of the individual properties; the valuations of Eurostar reflect earnings multiples and discounted cash flows.

These valuation techniques use a range of level 2 inputs (such as EV/EBITDA multiples for comparable listed companies) and level 3 inputs (such as management cash flow forecasts and valuations of individual properties). On this basis, the valuation is considered to be a level 3 valuation.

The valuation identified the following changes of value, which have been recognised through the available-for-sale reserve:

As at 30 September 2013:	£792,500,000
Between 30 September 2013 and 31 March 2014:	£154,100,000
Between 31 March 2014 and 31 March 2015:	(£391,200,000)

The reduction in value between 31 March 2014 and 31 March 2015 reflects the transfer of LCR Ltd's shareholding in Eurostar International Ltd to HM Treasury in June 2014, offset by increases in the value of other components.

### 9.3.3 Companies Act disclosures

If LCR Ltd was consolidated as a wholly-owned subsidiary, its activities and financial impacts would be reflected more pervasively through these accounts. To enable readers to assess the potential impacts, the following information is provided.

	2014-15	2013-14	2012-13
	£m	£m	£m
<b>Associates and joint venture</b>			
Eurostar International	-	338	353
King's Cross Central	211	228	176
Stratford City	12	10	7
	<b>223</b>	<b>576</b>	<b>536</b>
<b>Investment properties</b>	<b>161</b>	<b>113</b>	<b>101</b>
<b>Current assets</b>	<b>160</b>	<b>123</b>	<b>110</b>
<b>Current liabilities</b>	<b>(17)</b>	<b>(21)</b>	<b>(20)</b>
<b>Non-current liabilities</b>	<b>(25)</b>	<b>(15)</b>	<b>(16)</b>
<b>Net assets</b>	<b>502</b>	<b>776</b>	<b>711</b>
<b>Revenue</b>	<b>17</b>	<b>9</b>	
<b>Gross profit</b>	<b>17</b>	<b>9</b>	
Administrative expenses	(17)	(12)	
Gain on revaluation of investment properties	53	12	
Other operating income	4	1	
<b>Operating profit</b>	<b>57</b>	<b>10</b>	
Share of gains of associates and joint venture	22	117	
<b>Profit before tax</b>	<b>79</b>	<b>127</b>	
Taxation	(4)	-	
<b>Profit for the year</b>	<b>75</b>	<b>127</b>	
<b>Other comprehensive income</b>			
Share of associate's cash flow hedge	(3)	6	
<b>Total comprehensive income</b>	<b>72</b>	<b>133</b>	

### 9.3.4 Other non-consolidated subsidiaries

The Department owns the entire share capital of the following companies (all dormant)

- Thameslink Rail Limited;
- Hays Rail Limited;
- GW Railway Limited;
- DOA;
- British Rail Engineering Limited;
- British Transport Hotels Limited;
- RFD (Channel Tunnel) Limited;
- The Pullman Car Company Limited;
- British Rail Limited;
- British Railways Limited; and
- British Railways Board Limited.

It is considered that the associated risks and benefits arising from these companies are immaterial.

#### Share investments outside of the Departmental Consolidation boundary

The Department holds a number of shell companies (dormant – no activity and negligible assets) which, where necessary, can be set up as rail operators of last resort.

### Humber Bridge

The Secretary of State for Transport provided debt finance for the construction of the Humber Bridge which is owned and managed by the Humber Bridge Board (a joint local authority board). The bridge opened to traffic in 1981.

The Humber Bridge (Debts) Order 2012 (No. 716) wrote down £150m from the Humber Bridge debt on 31 March 2012. The interest rate on the total outstanding debt was set at 4.25% for the remainder of the loan term.

The Bridge Board made a capital repayment of £4,600,000 during 2014-15, and therefore the total outstanding debt on 1 April 2015 was £171,800,000.

### Severn River Crossing PLC

Severn River Crossing PLC is party to a contract for the design, construction and operation of the Second Severn River Crossing, which is included under property, plant and equipment on the consolidated balance sheet. On 26 March 2014, legal ownership of 100% of the ordinary share capital of Severn River Crossing plc was transferred to the Secretary of State. This is security for the Government Subordinated Loan, the outstanding balance of which is £76m (31 March 2014 £140m) and is included in non-current receivables on the consolidated balance sheet. However, beneficial ownership (including voting rights and the right to retain dividends) remains with the company's original four shareholders and sponsors: John Laing PLC, Vinci Concession SAS, Barclays PLC and Bank of America. Once the Government Subordinated Loan is fully repaid, legal ownership of the shares will be transferred back to them.

### Highways England Company Limited

The Secretary of State for Transport is the sole shareholder of Highways England Company Limited, a newly created company which has been set up to manage the road network. Substantially all of the activities, assets and liabilities of the Highways Agency were transferred to this company on 1 April 2015.

## 9.4 Financial Liabilities

### Financial Guarantee

	£000	Network Rail
Balance at 1 April 2014		3,662,772
Charged in year		260,234
Unwinding discount		214,604
Amortised to income		(361,609)
		<hr/>
<b>Balance at 31 March 2015</b>		<b>3,776,001</b>
		<hr/>
Balance at 1 April 2013		3,730,120
Charged in year		(40,499)
Released		(240,000)
Unwinding discount		213,151
		<hr/>
<b>Balance at 31 March 2014</b>		<b>3,662,772</b>
		<hr/>

The Department has given an indemnity to Network Rail's debt holders, with a total outstanding debt as at 31 March 2015 of £31,309m (2014: £32,987m). The indemnity expires in 2052, and is recognised as a Financial Guarantee Contract in accordance with IAS 39. The indemnity reduces the cost of borrowing for Network Rail and the Department is paid a fee by Network Rail for the equivalent benefit of reduced interest charges on its commercial debt. The discounted value of it over the 37 year period is calculated to be as shown in the table above. Further information is in the Accounting Policies note, Note 1.12.6 and 1.22, and reference to it is also within the Contingent Liabilities note, Note 18.3.

The sum released passes through the SOCNE as income. The amount charged in year together with the unwinding of the discount are also charged through the SOCNE, but these are offset by a corresponding sum released from receivables.

## 10. Investments in Associates and Joint Ventures

### 10.1 Holdings

The Department holds investments in material associates

Name	Principal Activity	Proportion of voting rights controlled by group	
		2014-15	2013-14
NATS Holdings Ltd	Air traffic control	48.90%	48.90%
Eurostar International Ltd	Operation of Eurostar passenger services	0.00%	40.00%
King's Cross Central Limited Partnership	Property development	0.00%	36.50%

	£000	NATS Holdings Ltd	Eurostar International Ltd	King's Cross Central	Total
Balance at 1 April 2014		322,224	-	-	322,224
Share of profits		82,624	-	-	82,624
Share of other comprehensive net expenditure		(106,032)	-	-	(106,032)
Share of other movements		(37,645)	-	-	(37,645)
<b>Balance at 31 March 2015</b>		<b>261,171</b>	<b>-</b>	<b>-</b>	<b>261,171</b>
Balance at 1 April 2013					
Prior Year Adjustment		311,591	311,000	147,200	769,791
Share of profits		63,367	14,500	42,500	120,367
Share of other comprehensive net income/(expenditure)		(22,344)	5,000	900	(16,444)
Share of other movements		(30,390)	-	(2,400)	(32,790)
LCR Deconsolidation		-	(330,500)	(188,200)	(518,700)
<b>Balance at 31 March 2014</b>		<b>322,224</b>	<b>-</b>	<b>-</b>	<b>322,224</b>

### 10.2 Share of assets, liabilities and profits

NATS Holdings Ltd	£000	2014-15	2013-14
Balance at 31 March 2015			
Current assets		534,300	425,800
Non current assets		1,282,700	1,325,500
Current liabilities		(334,100)	(199,500)
Non current liabilities		(948,700)	(894,200)
Net assets		534,200	657,600
Revenue		922,200	918,000
Profit for the year		169,000	129,300
Other comprehensive income/(expenditure) for the year		(215,400)	(45,600)
Total comprehensive income/(expenditure) for the year		(46,400)	83,700
Dividends received during the year		(77,000)	(62,000)

### 10.3 Share of Net Assets (Investment value)

Carrying amount of the Department's interests in NATS Holdings Ltd (48.9% of Net Assets)	<b>261,171</b>	<b>322,224</b>
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### 10.4 Change of ownership

From 29 September 2013, LCR was reclassified as a public corporation, and was excluded from the group consolidation with effect from that date. On that basis the interests in Eurostar and King's Cross were derecognised.

In June 2014, LCR Ltd transferred its interest in Eurostar to the Department via a dividend in specie, and, on the same day the Department transferred its interest to HM Treasury.

### 10.5 Investments in joint ventures

<b>Stratford City Business District Ltd</b>	<b>£000</b>
Balance at 1 April 2013	-
2013 Prior period	6,400
Share of profits	1,900
LCR Deconsolidation	(8,300)
	<hr/>
<b>Balance at 31 March 2014</b>	<b>-</b>
	<hr/>

### 10.6 Change of ownership

From 29 September 2013, LCR was reclassified as a public corporation, and was excluded from the group consolidation with effect from that date. On that basis the interests in Stratford City Business District Ltd were derecognised.

## 11. Impairments

	£000	2014-15	2013-14
<b>Core Department &amp; Agencies</b>			
Impairments through the Statement of Comprehensive Net Expenditure – non-current assets and assets held for sale *		35,613	13,029
		<b>35,613</b>	<b>13,029</b>
<b>Departmental Group</b>			
Impairments through the Statement of Comprehensive Net Expenditure – non-current assets and assets held for sale *		37,039	14,093
		<b>37,039</b>	<b>14,093</b>
<i>Of which:</i>			
Other Administration Costs		-	35
Programme Costs		37,039	14,058
		<b>37,039</b>	<b>14,093</b>

\* Highways Agency had an impairment charge against the Strategic Road Network of £27.9m, compared to £9.9m for 2013-14. This largely relates to structures and portal gantries removed and replaced as part of the SMART motorway schemes, including the Birmingham Box Phase 3 project.

## 12. Inventories

	31 March 2015			31 March 2014		
	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
<b>Current assets</b>						
Stocks	329,438	359,002	364,115	154,555	193,509	198,312
Work in progress	-	690	690	-	379	379
	<b>329,438</b>	<b>359,692</b>	<b>364,805</b>	<b>154,555</b>	<b>193,888</b>	<b>198,691</b>
<b>Non-current assets</b>						
Stocks	-	3,860	3,860	-	3,860	3,860
	<b>-</b>	<b>3,860</b>	<b>3,860</b>	<b>-</b>	<b>3,860</b>	<b>3,860</b>

Core Department current stocks include property purchases on behalf of HS2.



## 13. Trade Receivables and Other Assets

£000	31 March 2015			31 March 2014		
	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
				<i>(restated)</i>		
<b>Amounts falling due within one year:</b>						
Trade receivables	15,743	32,362	60,374	3,921	13,724	30,732
Deposits and advances	666	14,519	14,861	685	7,505	7,861
VAT receivables	2,731	146,319	151,662	783	113,311	113,769
Other receivables	3,274	23,149	25,023	903	13,555	42,012
Financial indemnity fee *	327,000	327,000	327,000	240,000	240,000	240,000
Prepayments and accrued income	149,882	186,842	196,502	90,009	128,028	133,317
Current part of finance leases	2,806	2,806	2,806	6,561	6,561	6,561
Current part of NLF loan	1,114	1,114	1,114	1,080	1,080	1,080
Amounts due in respect of Consolidated Fund Extra Receipts (CFERs)	-	-	-	-	6	6
<b>Total current</b>	<b>503,216</b>	<b>734,111</b>	<b>779,342</b>	<b>343,942</b>	<b>523,770</b>	<b>575,338</b>
£000	31 March 2015			31 March 2014		
	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
				<i>(restated)</i>		
<b>Amounts falling due after more than one year:</b>						
Deposits and advances	-	6	6	-	10	10
Amounts due in respect of Consolidated Fund Extra Receipts	-	201,035	201,035	-	201,035	201,035
Other receivables	31,096	34,935	34,354	1,773	64,138	36,528
Financial indemnity fee *	3,449,001	3,449,001	3,449,001	3,422,772	3,422,772	3,422,772
Finance leases	7,471	7,471	7,471	9,593	9,593	9,593
Prepayments and accrued income	-	103,102	103,111	-	93,815	93,919
<b>Total non-current</b>	<b>3,487,568</b>	<b>3,795,550</b>	<b>3,794,978</b>	<b>3,434,138</b>	<b>3,791,363</b>	<b>3,763,857</b>
<b>Total current and non-current</b>	<b>3,990,784</b>	<b>4,529,661</b>	<b>4,574,320</b>	<b>3,778,080</b>	<b>4,315,133</b>	<b>4,339,195</b>

\* More details of the financial guarantee (£3,776,001,000 (2015) and £3,662,772,000 (2014)) are disclosed in Note 9.4.

### 13.1. Intra-Government Balances

£000	Amounts falling due within one year		Amounts falling due after more than one year	
	31 March 2015	31 March 2014	31 March 2015	31 March 2014
		<i>(restated)</i>		<i>(restated)</i>
Balances with other central government bodies	193,369	146,863	40	-
Balances with local authorities	13,422	10,549	6,477	6,545
Balances with NHS bodies	304	83	-	-
Balances with public corporations and trading funds	330,325	3,754	3,478,682	-
Subtotal: intra-government balances	537,420	161,249	3,485,199	6,545
Balances with bodies external to government	241,922	414,089	309,779	3,757,312
<b>Total receivables at 31 March 2015</b>	<b>779,342</b>	<b>575,338</b>	<b>3,794,978</b>	<b>3,763,857</b>

Core Department current stocks include property purchases on behalf of HS2.

## 14. Cash and Cash Equivalents

£000	31 March 2015			31 March 2014		
	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
Balance at 1 April 2014	140,278	180,660	294,205	249,024	345,655	494,039
Net change in cash and cash equivalent balances	(74,398)	(77,498)	(14,361)	(108,746)	(164,995)	(199,834)
<b>Balance at 31 March 2015</b>	<b>65,880</b>	<b>103,162</b>	<b>279,844</b>	<b>140,278</b>	<b>180,660</b>	<b>294,205</b>
<b>The following balances at 31 March were held at:</b>						
Government Banking Service	65,820	91,057	92,140	140,202	179,636	180,008
Commercial banks and cash in hand	60	12,105	187,704	76	1,024	114,197
<b>Balance at 31 March 2015</b>	<b>65,880</b>	<b>103,162</b>	<b>279,844</b>	<b>140,278</b>	<b>180,660</b>	<b>294,205</b>

## 15. Trade Payables and Other Liabilities

£000	31 March 2015			31 March 2014 <i>(restated)</i>			
	Note	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
<b>Amounts falling due within one year:</b>							
VAT		-	26	988	-	-	836
Other taxation and social security		2,621	7,539	12,417	3,345	6,691	11,533
Pension		15	2,525	2,568	19	2,655	2,691
Trade payables		33,595	59,089	64,071	37,093	127,550	133,251
Other payables		48,454	65,531	65,385	31,344	37,085	38,740
Accruals and deferred income *		523,908	1,135,584	1,221,944	541,020	1,094,284	1,156,036
Current part of finance leases		5,672	9,529	13,538	7,207	7,599	11,608
Current part of imputed finance lease element of on balance sheet (SoFP) Public Finance Initiative (PFI) contracts and other service concession arrangements		-	73,436	73,436	-	72,733	72,733
Obligations in respect of Channel Tunnel Rail Link debt		65,747	65,747	84,230	53,937	53,937	49,753
Current part of National Loan Fund (NLF) loans	9.1.4	1,114	1,114	1,114	1,080	1,080	1,080
Amounts issued from the Consolidated Fund for supply but not spent at year end		59,557	117,160	117,160	201,932	146,794	146,794
Consolidated Fund Extra Receipts due to the Consolidated Fund:							
received		32,844	50,783	50,783	-	19,273	19,275
receivable		-	-	-	-	6	6
<b>Total current</b>		<b>773,527</b>	<b>1,588,063</b>	<b>1,707,634</b>	<b>876,977</b>	<b>1,569,687</b>	<b>1,644,336</b>
<b>Amounts falling due after more than one year:</b>							
Other payables		59,828	32,479	30,112	65,238	87,160	83,913
Deferred income *		1,371,156	1,371,156	1,371,160	1,377,831	1,377,831	1,377,836
Finance Leases		7,471	8,351	34,556	9,593	10,865	41,078
Non Current part of imputed finance lease element of on balance sheet (SoFP) Public Finance Initiative (PFI) contracts and other service concession arrangements		-	1,694,261	1,694,261	-	1,800,832	1,800,832
Obligations in respect of Channel Tunnel Rail Link debt		4,158,682	4,158,682	4,156,176	4,176,913	4,176,913	4,175,314
NLF loans		3,055	3,055	3,055	4,169	4,169	4,169
Consolidated Fund Extra Receipts due to the Consolidated Fund		-	201,035	201,035	-	201,035	201,035
<b>Total non-current</b>		<b>5,600,192</b>	<b>7,469,019</b>	<b>7,490,355</b>	<b>5,633,744</b>	<b>7,658,805</b>	<b>7,684,177</b>
<b>Total current and non-current</b>		<b>6,373,719</b>	<b>9,057,082</b>	<b>9,197,989</b>	<b>6,510,721</b>	<b>9,228,492</b>	<b>9,328,513</b>

\* Deferred income in relation to HS1 is amortised at the rate of £54,387,000 annually.

## 15.1 Intra-Government Balances

£000	Amounts falling due within one year		Amounts falling due after more than one year	
	31 March 2015	31 March 2014	31 March 2015	31 March 2014
		<i>(restated)</i>		<i>(restated)</i>
Balances with other central government bodies	231,942	227,027	475,308	1,638,485
Balances with local authorities	257,211	219,428	260	-
Balances with NHS bodies	281	47	-	-
Balances with public corporations and trading funds	12,679	12,791	80,304	(1,056)
Subtotal: intra-government balances	502,113	459,293	555,872	1,637,429
Balances with bodies external to government	1,205,521	1,185,043	6,934,483	6,046,748
<b>Total payables at 31 March 2015</b>	<b>1,707,634</b>	<b>1,644,336</b>	<b>7,490,355</b>	<b>7,684,177</b>

## 15.2 National Loans Fund (NLF) loans

NLF loans are repayable by the following bodies:

£000			2014-15	2013-14
	Civil Aviation Authority Fixed Rates	King's Lynn Harbour Conservancy Fixed Rates	Total	Total
Within one year	1,108	6	1,114	1,080
Over one and under two years	1,142	7	1,149	1,114
Over two and under five years	1,906	-	1,906	2,684
More than five years	-	-	-	371
<b>Total</b>	<b>4,156</b>	<b>13</b>	<b>4,169</b>	<b>5,249</b>

The Department has lent money made available by the National Loans Fund (NLF) to the Civil Aviation Authority (CAA) and to the Kings Lynn Harbour Conservancy. The profile of repayments payable by the Department to the National Loans Fund (NLF) is set out above. The loans are repayable at interest rates varying between 2.61% and 7.875%.

## 16. Provisions for Liabilities and Charges

£000	31 March 2015			31 March 2014		
	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies <i>(restated)</i>	Departmental Group
Balance at 1 April 2014	446,781	618,989	627,518	84,649	340,921	350,622
Provided in the year *	94,706	181,620	190,956	102,107	171,269	163,830
Provisions not required written back	(16,456)	(51,386)	(53,637)	-	(66,836)	(68,218)
Provisions utilised in the year	(69,601)	(109,928)	(117,884)	(22,751)	(110,615)	(116,402)
Unwinding of discounts	-	104	104	289	(156)	(156)
Opening balance adjustment	-	(1,188)	(1,188)	282,486	282,486	295,986
Reclassification *	-	-	(47)	-	1,920	1,856
<b>Balance at 31 March 2015</b>	<b>455,430</b>	<b>638,211</b>	<b>645,822</b>	<b>446,780</b>	<b>618,989</b>	<b>627,518</b>
<i>Of which:</i>						
Amounts falling due within one year:	83,213	143,837	150,015	81,089	150,021	151,141
Amounts falling due after more than one year:	372,217	494,374	495,807	365,691	468,968	476,377
Total current and non-current	<b>455,430</b>	<b>638,211</b>	<b>645,822</b>	<b>446,780</b>	<b>618,989</b>	<b>627,518</b>

\* Includes land provision adjustments of £45.3m (2013-14: £14.8m), HS2 capital provisions of £94.7m (2013-14: £58.3m) and reclassifications of provisions of £0m (2013-14: £12.8m).

### Analysis of expected timing of discounted flows

£000	31 March 2015			31 March 2014		
	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies <i>(restated)</i>	Departmental Group
Not later than one year	83,213	143,837	150,015	81,089	150,021	151,141
Later than one year and not later than five years	120,925	232,211	233,642	113,882	205,167	212,576
Later than five years	251,292	262,163	262,165	251,809	263,801	263,801
<b>Balance at 31 March 2015</b>	<b>455,430</b>	<b>638,211</b>	<b>645,822</b>	<b>446,780</b>	<b>618,989</b>	<b>627,518</b>

### 16.1.1 Departmental Group

£000	Employee ill Health Claims	Early departure costs	National Freight Company Pension	Highways scheme costs	Others	Total
	Balance at 1 April 2014	267,500	8,257	64,900	134,469	152,394
Provided in the year	-	1,587	-	81,472	107,895	190,954
Provisions not required written back	(16,456)	(205)	-	(34,534)	(2,442)	(53,637)
Provisions utilised in the year	(15,905)	(3,162)	(3,058)	(31,005)	(64,754)	(117,884)
Unwinding of discounts	-	47	-	-	57	104
opening balance	-	-	-	-	(1,188)	(1,188)
Reclassification	-	-	-	-	(47)	(47)
<b>Balance at 31 March 2015</b>	<b>235,139</b>	<b>6,524</b>	<b>61,842</b>	<b>150,402</b>	<b>191,915</b>	<b>645,822</b>

### 16.1.2 Core Department and Agencies

	Employee ill Health Claims	Early departure costs	National Freight Company Pension	Highways scheme costs	Others	Total
<b>£000</b>						
Balance at 1 April 2014	267,500	8,257	64,900	134,469	143,864	618,990
Provided in the year	-	1,520	-	81,472	98,627	181,619
Provisions not required written back	(16,456)	(205)	-	(34,534)	(191)	(51,386)
Provisions utilised in the year	(15,905)	(3,162)	(3,058)	(31,005)	(56,798)	(109,928)
Unwinding of discounts	-	47	-	-	57	104
opening balance	-	-	-	-	(1,188)	(1,188)
<b>Balance at 31 March 2015</b>	<b>235,139</b>	<b>6,457</b>	<b>61,842</b>	<b>150,402</b>	<b>184,371</b>	<b>638,211</b>

### 16.1.3 Core Department

	Employee ill Health Claims	Early departure costs	National Freight Company Pension	Highways scheme costs	Others	Total
<b>£000</b>						
Balance at 1 April 2014	267,500	629	64,900	-	113,752	446,781
Provided in the year	-	-	-	-	94,706	94,706
Provisions not required written back	(16,456)	-	-	-	-	(16,456)
Provisions utilised in the year	(15,905)	(61)	(3,058)	-	(50,577)	(69,601)
<b>Balance at 31 March 2015</b>	<b>235,139</b>	<b>568</b>	<b>61,842</b>	<b>-</b>	<b>157,881</b>	<b>455,430</b>

#### Analysis of expected timing of discounted flows

	Employee ill Health Claims	Early departure costs	National Freight Company Pension	Highways Scheme costs	Others	Total
<b>£000</b>						
Not later than one year	15,000	3,873	5,040	51,147	74,955	150,015
Later than one year and not later than five years	60,000	2,323	20,160	99,255	51,904	233,642
Later than five years	160,139	328	36,642	-	65,056	262,165
<b>Balance at 31 March 2015</b>	<b>235,139</b>	<b>6,524</b>	<b>61,842</b>	<b>150,402</b>	<b>191,915</b>	<b>645,822</b>

## 16.2 Provisions for Liabilities and Charges

### 16.2.1 Employee ill health claims

The British Railways Board was a major employer for some 50 years (with up to three-quarters of a million employees at one time) and as an operator of trains, ships and hotels for most of that time, the British Railways Board (BRB) on privatisation, retained responsibility in the great majority of cases for industrial injuries and employment and environment-related claims resulting from its activities during that period. In some instances claims do not arise until many years after the relevant employment ceases (e.g. medical conditions may not develop until much later). On the abolition of BRBR (29 September 2013) liability for these claims passed over to the Department for Transport.

As at 31 March 2015, 873 (2014: 1560) disease and injury claims were still outstanding against the Company, including 88 (2014: 195) mesothelioma claims, 60 (2014: 219) asbestosis claims, 8 (2014: 48) pleural plaque claims, 14 (2014: 80) vibration white finger claims, and 687 (2014: 1,014) industrial deafness claims. During the year some £15.9 million (2014: £15.5m) was paid out in settlement of such claims. The value of the provision for employee related claims as at 31 March 2015 was £235.1 million (2014: £267.5m).

As a result of a decrease in the number of open claims and changes in assumptions of the future employee claims model, the provision has been reduced at the year end. This has resulted in a £16.5m benefit (2014: £26.9m charge) to the Income Statement.

### *16.2.2 Early departure costs*

The Department and its Agencies meet the additional costs of benefits beyond the normal Principal Civil Service Pension Scheme (PCSPS) benefits in respect of employees who retired early under the pre-2010 Civil Service Compensation Scheme by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. The Department and its Agencies provide for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by the HM Treasury discount rate of 1.80% in real terms. From the introduction of the 2010 Civil Service Compensation Scheme staff who leave early under a Voluntary Exit or Redundancy arrangement and who are over their scheme minimum retirement age may, if the Department agrees, have their pension reduction made up by the Department. This allows them to receive their pension from the date of leaving. The Department pays the additional sum as part of the compensation payment or on receipt of an invoice from Capita.

### *16.2.3 National Freight Company Pension*

National Freight Company plc (NFC) pension trustee (31 March 2015 - £51.7m; 31 March 2014 - £51.3m) – reimbursement to NFC pension trustees in respect of payments covering unfunded pension service with NFC before 1 April 1975 (Part III, Transport Act 1980);

NFC travel concession (31 March 2015: £10.1m; 31 March 2014: £13.6m) - reimbursements to NFC and its subsidiaries for providing travel concession to staff previously employed by the road transport division of British Rail (s21, Transport Act 1978 and Schedule 6 to the Transport Act 1980).

### *16.2.4 Highways Schemes*

#### **Land and property acquisition**

Land and property acquisition provisions relate principally to the estimated cost of planning blight, discretionary and compulsory acquisition of property and compensation for property owners arising from physical construction of a road scheme. It may take several years from the announcement of a scheme to completion of the road and final settlement of all liabilities.

#### **Bridge strengthening**

The provision is predominantly for work required to strengthen the Chelmer Viaduct and River bridge to comply with minimum legal requirements, as established by European Union legislation and authoritative statements by Ministers in Parliament.

#### **Pension liabilities for early retirees**

The pension liability relates to former staff who left the Agency's employment before the formal retirement age of 60. The Agency is responsible for making payments to the pension plan until their retirement age.

### *16.2.5 Other*

This heading covers a range of smaller provisions, including:

The onerous lease on the arches beneath Waterloo domestic station. (31 March 2015: £35.6m; 31 March 2014: £35.6m). The lease expires in July 2052.

Blighted property – HS2. (31 March 2015 £108.1m; 31 March 2014 £58.3m) – This provision is expected to be required up to the date of Royal Assent.

BRB's ex-employees' pensions (31 March 2015: £12.5m; 31 March 2014: £12.8m) – reimbursement to trustees of the British Transport Police Force Superannuation Fund in respect of unfunded proportions of pensions deriving from service with the BRB before 1 January 1975 (Part III, Transport Act 1980).

Dilapidations of core Department buildings (31 March 2015: £3.7m; 31 March 2014: £5.1m).

## 17. Capital and Other Commitments

### 17.1 Capital commitments

£000	31 March 2015			31 March 2014		
	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
Contracted capital commitments at 31 March not otherwise included in these financial statements						
Property, plant and equipment	-	1,615,449	1,616,717	-	555,243	556,657
Intangible assets	-	17	17	-	886	886
	-	<b>1,615,466</b>	<b>1,616,734</b>	-	<b>556,129</b>	<b>557,543</b>

### 17.2 Commitments under leases

#### 17.2.1 Operating leases

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

£000	31 March 2015			31 March 2014		
	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
<b>Obligations under operating leases for the following periods comprise:</b>						
<b>Land</b>						
Not later than one year	-	360	369	-	310	318
Later than one year and not later than five years	-	372	409	-	876	908
Later than five years	-	270	421	-	1,390	1,529
	-	<b>1,002</b>	<b>1,199</b>	-	<b>2,576</b>	<b>2,755</b>
<b>Buildings</b>						
Not later than one year	8,411	17,312	30,615	8,965	10,543	20,006
Later than one year and not later than five years	25,000	57,479	96,761	38,682	43,745	69,938
Later than five years	2,988	42,970	68,578	11,990	21,442	58,606
	<b>36,399</b>	<b>117,761</b>	<b>195,954</b>	<b>59,637</b>	<b>75,730</b>	<b>148,550</b>
<b>Other:</b>						
Not later than one year	-	44,464	45,538	-	13,719	14,856
Later than one year and not later than five years	-	227,283	228,501	-	132,917	134,209
Later than five years	-	268,872	268,872	-	318,968	318,968
	-	<b>540,619</b>	<b>542,911</b>	-	<b>465,604</b>	<b>468,033</b>



### 17.2.2 Finance leases

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

£000	31 March 2015			31 March 2014		
	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
<b>Obligations under finance leases for the following periods comprise:</b>						
<b>Buildings</b>						
Not later than one year	-	182	182	-	182	182
Later than one year and not later than five years	-	729	729	-	729	729
Later than five years	-	46	46	-	228	228
	-	957	957	-	1,139	1,139
Less interest element	-	(131)	(131)	-	(175)	(175)
Present value of obligations	-	<b>826</b>	<b>826</b>	-	<b>964</b>	<b>964</b>
<b>Other</b>						
Not later than one year	5,672	5,882	9,891	7,207	7,417	11,426
Later than one year and not later than five years	7,471	7,576	23,611	9,593	9,908	25,943
Later than five years	-	-	10,170	-	-	14,179
	13,143	13,458	43,672	16,800	17,325	51,548
Less interest element	(2,867)	(2,873)	(7,044)	(646)	(663)	(5,887)
Present value of obligations	<b>10,276</b>	<b>10,585</b>	<b>36,628</b>	<b>16,154</b>	<b>16,662</b>	<b>45,661</b>

### 17.3 Commitments under PFI and other service concession arrangements

#### 17.3.1 On-balance sheet (Statement of Financial Position)

The Highways Agency has entered into the following on balance sheet PFI contracts for the design, build, finance and operation of sections of the network:

- M1-A1 Yorkshire link
- A1(M) Alconbury to Peterborough
- A419/A417 Swindon to Gloucester
- A50/A564 Stoke – Derby link
- M40 Junctions 1-15
- A19 Dishforth to Tyne Tunnel
- A30/A35 Exeter to Bere Regis
- A69 Carlisle to Newcastle
- A1(M) Darrington to Dishforth
- A249 Iwade to Queenborough
- – National Roads Telecommunications Services
- M25 London Orbital Motorway contract

The substance of the PFI contract is that the Highways Agency has a finance lease, with the asset being recognised as a non-current asset of the Agency. Payments under PFI contracts comprise two elements – imputed finance lease charges and capital payments.

On 4 April 2005, DVLA entered into a 20-year service concession agreement with Telereal Trillium (formerly Land Securities Trillium). This agreement falls within the scope of IFRIC 12 Service Concession Arrangements and has been set up to provide the following property outsourcing solutions:

- Building maintenance
- Office moves
- Cleaning
- Catering and vending
- Furniture repair
- Furniture replacement
- Grounds maintenance
- Waste management and pest control

DVLA are invoiced on a monthly basis and this revenue expenditure is recorded as a service charge in the Statement of Comprehensive Net Expenditure. As part of the contract, Telereal Trillium have undertaken a refurbishment of the Swansea HQ site. Where the work is capital in nature (air conditioning, double-glazing, lifts and specialist cabling), the costs have been capitalised on Independent Assessors sign off for each floor as complete and ready for use. The air conditioning, double-glazing and lifts are depreciated over the length of the PFI contract. The cabling is depreciated over its expected useful life of five years.

A PFI liability has been created to reflect the work capitalised. This liability is reduced over the life of the contract as payments are made. In accordance with *FReM* requirements, the interest element of the unitary charge relating to the assets capitalised has been calculated using the actuarial method.

### 17.3.2 Departmental Group

Imputed finance lease obligations under on balance sheet PFI contracts comprise:

	£000	2014-15	2013-14
Rentals due:			
Not later than one year		201,054	204,518
Later than one year and not later than five years		774,505	798,266
Later than five years		2,631,185	2,843,119
		3,606,744	3,845,903
Less: Interest element		(1,839,046)	(1,972,338)
		<b>1,767,698</b>	<b>1,873,565</b>

The capital element under on balance sheet PFI contracts comprises:

	£000	2014-15	2013-14
Not later than one year		73,436	72,733
Later than one year and not later than five years		309,703	315,041
Later than five years		1,384,559	1,485,791
		<b>1,767,698</b>	<b>1,873,565</b>

The interest element under on balance sheet PFI contracts comprises:

	£000	2014-15	2013-14
Not later than one year		127,618	131,785
Later than one year and not later than five years		464,802	483,225
Later than five years		1,246,626	1,357,328
		<b>1,839,046</b>	<b>1,972,338</b>

All finance lease obligations under on balance sheet PFI contracts are held by the Agencies.

### 17.3.3 Charge to the Statement of Comprehensive Net Expenditure and future commitments

The total amount charged in the Statement of Comprehensive Net Expenditure in respect of the service element of on balance sheet PFI transactions was £249,125,000.

The future total service element payments which the Department is committed to for each of the following periods are given in the table below, analysed according to the period in which the commitment expires.

£000	2014-15			2013-14		
	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
Not later than one year	-	547,090	547,090	-	543,692	543,692
Later than one year and not later than five years	-	2,159,030	2,159,030	-	2,175,017	2,175,017
Later than five years	-	10,287,415	10,287,415	-	11,995,241	11,995,241
	-	<b>12,993,535</b>	<b>12,993,535</b>	-	<b>14,713,950</b>	<b>14,713,950</b>

## 17.4 Other financial commitments

### Network Rail

In accordance with a Deed of Grant entered into in December 2013, the Department is committed to making direct payments of £17,661m to Network Rail spread over the financial years 2014-15 to 2018-19. This sum is expressed in 2012-13 prices. Actual sums payable under the Deed of Grant are subject to indexation with reference to the RPI. Any direct payments to Network Rail beyond this period will be contracted following a review of Network Rail's income requirement which will be conducted by the Office of Rail and Road in due course. The (undiscounted) numbers shown below include the commitments for the financial years 2015-16 to 2018-19. In comparison with the prior year, the value for later than 1 year is lower as there are now three, rather than four years of outstanding commitments in this category.

### Train Operating Companies

In addition, as at 31 March 2015, the Department had 16 contracts with TOCs for the provision of rail services.

These contracts are not leases or PFI contracts and are only cancellable prior to their expiry or break date in certain circumstances, normally following an event of default under an individual contract.

The figures below include the contract payments committed by the Department under the suite of franchise agreements which it has entered into. The actual amounts payable under each franchise contract are subject to variation in accordance with the terms of the individual contracts which take account of a number of factors including changes to assumed passenger revenues and variations to Network Rail's income requirements as determined by the Office of Rail and Road (ORR).

The amounts in the table below do not attempt to forecast any commitments by the Department for the provision of rail services beyond the expiry of the current suite of contracts with the rail industry. They do not include amounts payable by TOCs to the Department which are expected to be as set out in the base contracts.

### Other

The group total includes £23m of additional financial commitments relating to purchase orders at the year end net of accruals and VAT.

### Table of commitments (Network Rail, TOC's and Other)

£000	2014-15			2013-14		
	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
Not later than one year	4,208,810	4,208,810	4,231,754	4,192,672	4,192,672	4,220,772
Later than one year and not later than five years	12,351,797	12,351,797	12,351,797	16,312,496	16,312,496	16,312,496
	<b>16,560,607</b>	<b>16,560,607</b>	<b>16,583,551</b>	<b>20,505,168</b>	<b>20,505,168</b>	<b>20,533,268</b>

## 18. Contingent Liabilities

As a government department, the Department for Transport discloses contingent liabilities under requirements that are broader than those applicable to commercial entities. In accordance with IAS 37, it discloses contingent liabilities for which the risk of crystallisation is greater than remote but not probable (18.1 below). However, it also discloses contingent liabilities for which the risk of crystallisation is remote, where such contingent liabilities have been reported to Parliament in accordance with the guidance provided in Managing Public Money (18.3 below), because as guarantees, indemnities and letters of comfort, they expose the taxpayer to financial risk. These disclosure requirements are presented under separate headings, so that readers of the accounts can assess the level of risk that they represent.

### 18.1 Contingent liabilities disclosed under IAS 37

The Department has the following contingent liabilities for which the risk of crystallisation is considered greater than remote but is not thought probable. These are summarised by the nature and purpose of the contingent liability:

	31 March 2015 £m	31 March 2014 £m
<b>Indemnities in respect of Crossrail funding and delivery</b>		
To support delivery of the Crossrail project, the Department has provided indemnities and assurances to parties carrying risks that they would be unable to bear.	3,840	3,468
<b>Guarantees to promote investment in railway assets</b>		
Under the Railways Act 1993, the Transport Act 2000 and the Channel Tunnel Rail Link Act 1996, the Secretary of State has provided guarantees to promote investment in the rail sector. 2014-15 includes two new contingent liabilities.	566	24
£387m – A franchise has partial protection against inefficient pricing of a competitive bid for access rights to a new path.		
£100m – A franchise may be compensated if new rolling stock is not provided by the delivery date.		
The Secretary of State has provided non-statutory guarantees to promote investment in the rail sector.	-	10
<b>Legal claims</b>		
From time to time, the Department experiences legal claims and challenges which it defends vigorously.	21	24
<b>Highways Agency</b>		
The process of constructing and maintaining the strategic network may bring the Highways Agency into disagreement with parties affected by this work. This can result in counter-claims, which are aggregated under the following sub-headings:		
Possible obligations in relation to land and property acquisition	179	129
Possible obligations in relation to engineering and construction services	-	6
Deficit liability for employees transferred from Kent County Council	-	5
Carriageway pavements defects	3	-
Third-party claims	8	12
<b>Indemnities in respect of Thameslink funding and delivery</b>		
To support delivery of the Thameslink project, the Department has provided indemnities to parties carrying risks that they would be unable to bear.	5	5
<b>Indemnities in respect of Intercity Express funding and delivery</b>		
To support delivery of the Intercity Express project, the Department has provided indemnities to parties carrying risks that they would be unable to bear.	50	-

**18.1 Contingent liabilities disclosed under IAS 37 – continued**

	31 March 2015	31 March 2014
	£m	£m
<b>HS2</b>		
The Department issued a safeguarding order, in July 2013, for the proposed route of HS2. This creates an obligation on the Department to purchase properties that have been blighted. A provision has been recognised for the cost of properties the Department has accepted as blighted, and where the purchase price has been substantially agreed. Any remaining liability is classed as a contingent liability.	2	4
<b>HS2 Ltd</b>		
Following the second reading of the Hybrid Bill HS2 Ltd has given assurances and undertakings to those who brought forward petitions before the Parliamentary Select Committee and maintains a register of all such assurances and undertakings. Some of these will result in an obligation to transfer cash in future dependent on one or more future events, including Royal Assent.	27	-
<b>HS1</b>		
Under the HS1 concession agreement, the Secretary of State may be liable for payments, including capital expenditure, increase in operating costs and loss of revenue. This would be in the event of legal changes, either in the UK or Europe ('Change in Circumstances') or a change directed by another part of the Government ('Government Change').	20	20
<b>Mersey Gateway</b>		
Commitment by the Department to fund any shortfall of toll revenue from the Mersey Gateway Bridge to meet Halton Council's financial obligations under the Demand Management Participation Agreement.	1,663	1,663

The Department has responsibility for a number of legacy pension schemes formerly part of the British Railways Board. The Department is required to fund the employer's share of any deficits arising on these schemes (see Note 27) and thus they are recognised on the Department's balance sheet.

**18.2 Unquantifiable contingent liabilities**

The following guarantees, indemnities, statutory obligations and letters of comfort cannot be quantified with any degree of accuracy:

- Under the Railways Act 1993, the Transport Act 2000 and the Channel Tunnel Rail Link Act 1996, the Secretary of State has provided guarantees to promote investment in the rail sector, through passenger rail franchising agreements and agreements for individual station enhancement projects. These are now considered to be part of the Department's normal course of business.
- The Department has historic obligations under 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.
- Letters of comfort have been issued, providing an indemnity in relation to legal action taken against the judge, counsel, solicitors and secretariat to the Thames Safety Inquiry and the Victim Identification Inquiry, which reported in 2000 and 2001 respectively, following major transport disasters.
- The Department is liable for potential claims by ex-seafarers or ship repairers employed on, or engaged in work on ships owned by nationalised shipping companies between 1939 and 1971 where they were exposed to hazardous materials.
- The Department is party to a NATO agreement relating to indemnification of civil aircraft in respect of their use on NATO tasks in times of crisis and war.
- 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.
- The Department has given indemnities to Network Rail should it exercise powers under the Crossrail Act 2008 which would, in the longer term, adversely affect the ability of Heathrow Airports Holdings Ltd (formerly BAA) to operate the Heathrow Express rail service on Network Rail's infrastructure in a similar manner as today.

- Some EU legislation needs to be transposed into Member States' domestic law in order to have effect. The Department for Transport has responsibility for transposing EU legislation that relates to transport issues. The EU sets deadlines for transposition and has the power to impose financial penalties on Member States that do not meet those deadlines or that incorrectly implement obligations.
- In 2013 the Secretary of State agreed to quantifiable (disclosed in Note 18.1) and unquantifiable assurances, warranties, indemnities and potential losses under the Thameslink Rolling Stock contracts with Siemens, Network Rail and Cross London Trains.
- In 2012 the Secretary of State agreed to quantifiable (disclosed in Note 18.1) and unquantifiable assurances, warranties, indemnities and potential losses under the InterCity Express Rolling Stock contracts with Agility Consortium and Network Rail.
- HS2 Ltd has issued early access agreements/environmental access licences, there is a liability contingent on whether there is damage to the property when work is being completed.

### 18.3 Quantifiable contingent liabilities disclosed because they have been reported to Parliament in accordance with Managing Public Money

The Department has entered into the following quantifiable guarantees, indemnities or provided letters of comfort. None of these is a contingent liability within the meaning of IAS 37 since the likelihood of them being called is considered to be remote.

	31 March 2015	31 March 2014	Reported to Parliament by departmental minute
	£m	£m	£m
<b>Indemnity and letter of comfort for Network Rail</b>			
<b>Indemnity</b>			
A financial indemnity over the life of the Network Rail Debt Issuance Programme. This is also recognised as a Financial Guarantee Contract in accordance with IAS39 in Note 9.4 – Financial Liabilities. This note shows that the contract has a current market value of £3.776bn, and in recognition of the value of this indemnity, Network Rail is obliged to pay an annual fee to the Department, the net present value of which, also £3.776bn, is included in Other Receivables (Note 13 – Trade receivables and other assets), with further reference within the Accounting Policies note, Note 1.27.1. This indemnity will not expire before the final maturity of debt issued under the Programme.	31,309	32,987	31,500
<b>Letter of comfort</b>			
A standby credit facility, with a term of 50 years, to act as a long-term contingency buffer. (From 2014-15 Network Rail has a loan agreement with the Department to meet its funding requirements and as a consequence the credit facility has been terminated).	-	4,000	4,000
<b>Guarantees</b>			
In view of the fact that government departments generally self-insure, a guarantee has been given to the International Maritime Organization that should the building be partially or completely destroyed, the Department would be obliged to reconstruct the building, or suspend or reduce the rent for a period of three years and fund alternative accommodation.	66	69	Unquantified

Managing Public Money requires that the full potential liabilities from such guarantees, indemnities and letters of comfort be reported to Parliament. These costs, with their movements during the year, are summarised in the table below.

	1 April 2014	Increase in year	Liabilities crystallised in year	Obligations expired in year	31 March 2015	Reported to Parliament by departmental minute
£m						
Guarantees	69	-	-	(3)	66	Unquantified
Letter of Comfort	4,000	-	-	(4,000)	-	4,000
Indemnity	32,987	-	-	(1,678)	31,309	31,500

## 19. Losses and special payments

### 19.1 Losses Statement

	2014-15			2013-14		
	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
<b>Total number of cases</b>	11	3,525	3,525	14	2,865	2,867
<b>Total amount (£000)</b>	903	10,911	10,911	833	10,901	10,916

Managing Public Money requires a statement showing losses and special payments by value and by type to be shown where they exceed £300,000 in total and those that, individually, exceed £300,000. Losses may relate to cash and store losses, bookkeeping losses, losses arising from a failure to make adequate charge for the use of public property or services, fruitless payments and claims abandoned as well as frauds. Special payments may relate to extra-contractual, extra-statutory and ex-gratia payments and compensation.

The losses disclosed above include 1,779 cases valued at £7,409,000 (2013-14: 1,649 cases valued at £4,377,000) for damage to the road network where the culprit could not be identified or otherwise pursued for costs.

The losses disclosed above include 333 cases valued at £2,433,000 (2013-14: 317 cases valued at £3,425,000) for store losses.

The following losses require separate disclosure:

A loss of £556,660 was recorded by Highways Agency in relation to vandalism and fire to the M5 Midland Links Motorway Wigmore Viaduct control panels. This required the replacement of electrical works and control panels.

A loss of £310,000 was recorded by Highways Agency in relation to a theft of cable from the Strategic Road Network.

### 19.2 Special Payments

	2014-15			2013-14		
	Core Department	Core Department & Agencies	Departmental Group	Core Department	Core Department & Agencies	Departmental Group
<b>Total number of cases</b>	33	1,253	1,255	39	1,366	1,368
<b>Total amount (£000)</b>	25,712	51,806	51,807	25,852	33,117	33,117

The following payments require separate disclosure:

An unsuccessful bidder made a claim against the Department concerning a procurement undertaken in 2009, in respect of salvage from SS Gairsoppa. The Department entered into an out of court settlement for £16,000,000 including costs.

A special payment of £318,230 was made on 20th April 2014 in respect of an industrial injury claim from a former British Railways Board employee.

## 20. Related-party transactions

These bodies are regarded as related parties with which the Department has had various material transactions during the year.

The Department for Transport is a parent of the executive agencies listed at Note 22 and a sponsor of the non departmental public bodies and other central government organisations listed there.

In addition, the Department for Transport has had various material transactions with other government departments and other central government bodies. Most transactions have been with the Greater London Authority, Network Rail, TfL and Her Majesty's Treasury.

During the year, no minister, board member, key manager or other related party has undertaken any material transactions with the Department for Transport during the year other than those reported.

## 21. Third-party assets

The only entity within the Departmental group which holds third-party assets is the HA, which under Section 278 of the Highways Act 1980, receives payment in advance of works. These are paid into interest bearing Escrow Accounts at Lloyds Bank. Monies are drawn down from the escrow accounts by the Agency as work progresses.

These are not Agency assets and therefore are not included in the accounts.

	£000	31 March 2014 (Restated)	Gross Inflows	Gross Outflows	31 March 2015
Lloyds escrow bank account		3,044	1,475	460	4,059
Lloyds euro bank account		158	-	95	63
<b>Total</b>		<b>3,202</b>	<b>1,475</b>	<b>555</b>	<b>4,122</b>

In 2010 the Department sold HS1 Ltd, and with it, the right to operate the Channel Tunnel high speed rail link for the next thirty years.

Following the Department's and the HS1 concession agreement governance process, monies are drawn down from the escrow accounts by HS1 Ltd when works (previously agreed) need to be undertaken (to the stations or track).

These are not Departmental assets and therefore are not included in the accounts.

	£000	31 March 2014	Gross Inflows	Gross Outflows	31 March 2015
HSBC escrow bank account – Ashford		1,932	2,504	2,625	1,811
HSBC escrow bank account – Ebbsfleet		635	3,606	3,500	741
HSBC escrow bank account – Stratford		472	3,005	2,900	577
HSBC escrow bank account – St. Pancras		3,547	12,730	12,487	3,790
HSBC escrow bank account – Track Infrastructure		16	33,594	29,100	4,510
<b>Total</b>		<b>6,602</b>	<b>55,439</b>	<b>50,612</b>	<b>11,429</b>



## 22. Entities within and outside the departmental boundary

### 22.1 Within the Departmental Accounting boundary

The following entities were within the Departmental boundary during 2014-15 and are reported as part of the Department's accounts:

#### 22.1.1 Reported within the core Department's own accounts

##### Advisory Non Departmental Public Bodies

Disabled Persons' Transport Advisory Committee

#### 22.1.2 Consolidated within the accounts of the Department

##### Executive Agencies (Supply financed agencies)

Highways Agency \*

Maritime and Coastguard Agency \*

Driver and Vehicle Licensing Agency \*

Vehicle Certification Agency \*

##### Arms Length Bodies (Executive Non Departmental Public Bodies)

British Transport Police Authority \*

Directly Operated Railways Limited \*

High Speed 2 Ltd \*

The Commissioners of Northern Lighthouses \*

Trinity House Lighthouse Service \*

Transport Focus (formerly Passenger Focus) \*

##### Arms Length Bodies (Other than Non Departmental Public Bodies)

CTRL Section 1 Finance plc \*

LCR Finance plc \*

The Commissioners of Irish Lights \*

Air Safety Support International Limited \*

Air Travel Trust Fund \*

\* These entities are reported within the accounts of the Department and also produce their own separate accounts.

## 22. Entities within and outside the departmental boundary – continued

### 22.2 Not reported within the Departmental Accounting boundary

The following entities are not reported as part of the Department's 2014-15 departmental accounts:

#### **Tribunal Non Departmental Public Body**

Traffic Commissioners and Licensing Authorities (Traffic Areas).

This entity is reported within the accounts of the Vehicle and Operator Services Agency. This is because the VOSA Trading Fund Order 2003/942 extended the Vehicle Inspectorate Trading Fund to become the trading fund of the Vehicle and Operator Services Agency, which took over the operations, assets and liabilities of the Vehicle Inspectorate Agency and the Traffic Area Network (i.e. the Traffic Commissioners) on 1 April 2003. It is therefore necessary to include the Traffic Commissioners within the accounts of the VOSA Trading Fund and not within the Departmental Accounts. Nevertheless, as a tribunal non-departmental public body, the Traffic Commissioners and Licensing Authorities should be disclosed within the Departmental Accounts in accordance with Clear Line of Sight guidance.

Financial information for the following entities can be obtained from their separately published annual reports and accounts.

#### **Public Corporations**

Civil Aviation Authority  
Dover Harbour Board  
ITSO Ltd  
ITSO Services Ltd  
Milford Haven Port Authority  
Poole Harbour Commissioners  
Port of London Authority  
Port of Tyne Authority  
Shoreham Port Authority  
Blyth Harbour Commissioners  
Harwich Haven Commissioners  
London and Continental Railways Limited

#### **Trading Funds**

Driving Standards Agency  
Vehicle and Operator Services Agency

#### **Other Entities**

Crossrail Complaints Commissioner  
Marine and Aviation Insurance (War Risks) Fund  
General Lighthouse Fund  
NATS Holdings Limited  
Network Rail Limited

Since 1 April 2014 the Vehicle and Operator Services Agency (VOSA) and the Driving Standards Agency (DSA) have been operating as a merged single agency known as the Driver and Vehicle Standards Agency (DVSA). This took effect legally on 1 April 2015, via the Driver and Vehicle Standards Agency Trading Fund Order. This also disbanded the former DSA and VOSA Trading Funds by revoking the relevant orders relating to these funds.

## 23. Restatement of prior year balances

These are material adjustments applicable to prior years arising from either changes in accounting policy or correction of material errors. Opening balances are adjusted for the cumulative effect of the prior year adjustments and comparative figures for the preceding period are restated.

In 2014-15 an amendment was made to the *FReM*, to the effect that investments in joint ventures are to be reported under the equity accounting method (IFRS11 and IAS 28 (2011)) rather than at fair value (IAS 39). This requires the joint ventures held via LCR and the Department's investment in NATS to be restated for prior years.

An adjustment made to reflect the reclassification of London and Continental Railways Limited (LCR), effective from 29 September 2013, as a public corporation. The company was consolidated in full as at 31 March 2014, so the adjustment removes the full assets and liabilities of LCR (£907,473,000) at that date. On deconsolidation LCR became an investment of the core department so this was reported at fair value at 31 March 2014 (£946,600,000). Further details are disclosed in Note 9.3.

	£000	Note	<u>2013-14</u>
<b>Change in net assets</b>			
As previously stated as at 31 March 2014			106,514,553
LCR reclassification:			
Adjustment to 2013-14 operating costs			(13,872)
Adjustment to 2013-14 BRBR transfer			(59,194)
Adjustment to 2013-14 Available-for-Sale Reserve			(280,361)
Adjustment to 2013-14 other non-SOCNE cost			(554,051)
Core Department restatement:			
Fair value of LCR investment as at 31 March 2014			946,600
FReM Policy Change:			
Prior year adjustment General Fund			273,715
Prior year adjustment Available-for-Sale-Reserve			(390,225)
Adjustment to 2013-14 Available for Sale Reserve			(46,332)
Adjustment to 2013-14 operating costs			122,257
Adjustment to 2013-14 non-operating costs			(16,444)
Adjustment to 2013-14 dividend from NATS			(30,380)
Eliminate on deconsolidation net LCR impact			(15,371)
<b>As restated at 31 March 2014</b>			<b><u><u>106,450,895</u></u></b>
<b>General Fund</b>			
As previously stated as at 31 March 2013			38,999,635
Prior year adjustment (FReM change)			273,715
<b>As restated 1 April 2013</b>			<b><u><u>39,273,350</u></u></b>
<b>Available-for-Sale Reserve</b>			
As previously stated as at 31 March 2013			390,225
Prior year adjustment (FReM change)			(390,225)
<b>As restated 1 April 2013</b>			<b><u><u>-</u></u></b>

## 24. Exceptional Transaction

The General Lighthouse Authorities maintained an unfunded defined benefit pension scheme for their employees, with benefits consistent with those provided by Principal Civil Service Pension Scheme. Payment of pension benefits was funded in the same way as all other General Lighthouse Authority payments, by disbursements from the General Lighthouse Fund, which holds light dues received. The pension obligations were guaranteed by the Secretary of State.

With effect from 1 April 2014, the unfunded defined obligations of the General Lighthouse Authorities were transferred to the Principal Civil Service Pension Scheme in return for a payment of £353m, which is treated as income in the form of a donation from the General Lighthouse Fund to the General Lighthouse Authorities. This transaction was funded from two sources. Firstly, the Department transferred a sum of £200m to the General Lighthouse Fund, which is to be repaid by the General Lighthouse Fund, with interest at the National Loan Funds rate of 2.3% over the next ten years. Secondly, during 2013-14, the General Lighthouse Fund liquidated its investment portfolio (which had been funded from light dues received), raising £153m. The pension obligations were derecognised with effect from 1 April 2014, and this has been accounted for as a settlement transaction, in accordance with IAS 19.

While the General Lighthouse Authorities are consolidated in these accounts, the General Lighthouse Fund is not consolidated, because of its role in receiving light dues, and it is therefore treated as an external party. Accordingly, these accounts include the following balances and transactions.

	Note	£000	£000
<b>Income</b>			
Income from the General Lighthouse Fund	6.1	353,484	
Interest on receivable	6.1	4,460	
		<hr/>	357,944
Gain on settlement of pension obligations			63,520
<b>Financial assets</b>			
Loans to the General Lighthouse Fund	9.1.1	190,000	
Interest receivable	13	2,173	
		<hr/>	192,173
<b>Statement of cash flows</b>			
Receipts of interest		2,287	
Receipts of principal		10,000	
		<hr/>	12,287

This transaction is also reflected in the General Lighthouse Fund consolidated accounts, which include the General Lighthouse Fund and the General Lighthouse Authorities.

## 25. Reclassification of London and Continental Railways Ltd (LCR Ltd)

### Transfer by absorption

On 29 September 2013 BRBR Ltd was abolished. At that date part of its assets and liabilities was transferred to LCR Ltd. In July 2014 ONS reclassified LCR Ltd as a public corporation with effect from the date of the transfer to it of the BRBR balances.

The accounting impact of the reclassification is a transfer by absorption. Under this methodology assets and liabilities have not been adjusted to fair value, comparatives have not been restated and the change has been applied from the date of the transfer (29 September 2013).

As LCR Ltd was no longer consolidated from 29 September 2013 the shareholding was included in financial assets at fair value. Full details are disclosed in Note 9.3.

The balances transferred into LCR from BRBR and the balances of LCR transferred out of the group are shown below.

### Balances transferred out of the Department on reclassification of LCR on 29 September 2013

	£000	BRBR	LCR excluding BRBR	LCR Total
<b>Non-current assets</b>				
Property, plant & equipment		137	15	152
Investment properties		72,455	28,157	100,612
Financial assets		-	514,033	514,033
Trade & other receivables		-	261	261
		<b>72,592</b>	<b>542,466</b>	<b>615,058</b>
<b>Current assets</b>				
Inventories		1,400	3,560	4,960
Trade & other receivables		-	1,799	1,799
Cash & cash equivalents		-	98,112	98,112
		<b>1,400</b>	<b>103,471</b>	<b>104,871</b>
<b>Current liabilities</b>				
Trade & other payables		(1,298)	(13,725)	(15,023)
		<b>(1,298)</b>	<b>(13,725)</b>	<b>(15,023)</b>
<b>Non current liabilities</b>				
Provisions		(13,500)	-	(13,500)
		<b>(13,500)</b>	<b>-</b>	<b>(13,500)</b>
<b>Total Net liability</b>		<b>59,194</b>	<b>632,212</b>	<b>691,406</b>
<b>General fund</b>		<b>59,194</b>	<b>491,093</b>	<b>550,287</b>
<b>Available for sale reserve</b>		<b>-</b>	<b>141,119</b>	<b>141,119</b>
		<b>59,194</b>	<b>632,212</b>	<b>691,406</b>

## 26. Network Rail

### 26.1 Body outside the consolidation boundary

In December 2013 the Office for National Statistics (ONS) published the outcome of its review of the classification of Network Rail Limited (Network Rail). The classification was reviewed following new guidance in the 2010 European System of Accounts (ESA10). ONS concluded that because of the government's risk exposure through guaranteeing its debt, Network Rail is a government controlled body and, therefore is within the public sector. Following an ESA10 market test, ONS concluded that Network Rail is a non-market body. The ONS classification is retrospective from April 2004 and was to be implemented from 1 September 2014. However HMT have agreed with the Department the implementation should be deferred until 1 April 2015.

Network Rail, a private company limited by guarantee, is the parent company of the Network Rail Group of companies. Network Rail owns and operates the main rail network in Great Britain. Its 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 a commercial basis, Network Rail is a not-for-dividend company and all profits made are reinvested in the industry. 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 a financial indemnity mechanism (FIM) in respect of net borrowings of Network Rail Infrastructure Finance PLC, (NRIF), under which £31bn had been borrowed as at 31 March 2015. The FIM is available until 2052, and the indemnity will be for any amount issued under the Debt Issuance Programme. The indemnity also covers guarantees provided by NRIF in respect of certain financial obligations of Network Rail Infrastructure Limited.

This agreement operates 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 this financial support is remote. Consequently, the indemnity is shown within contingent liabilities and is disclosed under Note 18.3. It is not required to be disclosed under IAS 37 but included for parliamentary reporting and accountability.

As a consequence of the reclassification, with effect from 1 April 2014, all of Network Rail's additional financing requirements were provided by the Department (£6.45bn in 2014-15). The impact of this change will be the gradual reduction in external debt, as existing loans expire and an associated reduction in the FIM fee payable to the Department in future years.

In 2014-15 Network Rail was outside the Departmental accounting boundary and, as such, 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, 1 Eversholt Street, London, NW1 2DN. In addition, Network Rail's annual report and financial statements are available by visiting [www.networkrail.co.uk](http://www.networkrail.co.uk).

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 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.

## 26.2 Key Financial Figures

### *Income Statement for year ended 31 March 2015*

	£m	2014-15	2013-14	2012-13
Revenue		6,087	6,333	6,197
Operating costs		(4,352)	(4,332)	(3,980)
Operating profit		1,735	2,001	2,217
Revaluation gains/(losses) on disposals of properties		140	96	(3)
Net investment and finance costs		(1,369)	(1,062)	(1,457)
Profit before tax		506	1,035	757
Taxation		(882)	221	(70)
<b>Profit for the year</b>		<b>(376)</b>	<b>1,256</b>	<b>687</b>

### *Statement of Financial Position as at 31 March 2015*

	£m	2014-15	2013-14	2012-13
Intangible assets		67	68	69
Property, plant and equipment - the railway network		54,091	49,833	46,411
Investment property		982	856	751
Financial assets		872	800	712
Non-current assets		56,012	51,557	47,943
Current assets		2,037	2,358	4,706
Current liabilities		(6,341)	(7,013)	(7,545)
Non-current liabilities		(45,317)	(38,720)	(37,091)
<b>Net assets</b>		<b>6,391</b>	<b>8,182</b>	<b>8,013</b>

## 27. Pension Schemes

### Core Department

The Secretary of State for Transport fulfils the role of the 'designated employer' for the following defined benefit schemes:

- The 1994 Pensioners Section of the Railways Pension Scheme (RPS);
- The BR Section of the RPS (which includes some of the Department's staff members);
- The British Railways Superannuation Fund (BRSF); and
- The British Rail (1974) Pension Fund.

### Core Department and Agencies

There are no pension schemes reported in the Agencies.

### Departmental Group

Non-Departmental Public Bodies and other entities classified as Central Government are included in the Departmental Accounts and details of their pension schemes are given below. A list of all those entities within the Departmental boundary is given at Note 22 and further information is available from their websites.

- British Transport Police Force Superannuation Fund (BTPFSF) for police officers
- British Transport Police Section of the Railways Pension Scheme (RPS) for other staff
- General Lighthouse Authorities Pension Schemes

The Department applies IAS 19 to all of these schemes. In accordance with IAS 19, the share of any deficits or recoverable surplus in the pension funds is recognised in the Statement of Financial Position. Interim valuations have been carried out as at 31 March 2015 by the Government Actuary's Department (GAD), for the purpose of providing these disclosures.

Since 1 April 2011, the Government has used the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) for the price indexation of public service pensions through the statutory link to the indexation of the Second State Pension.

### Analysis of pension liability recognised in the Statement of Financial Position

£000	Core Department		Departmental Group	
	2014-15	2013-14	2014-15	2013-14
<b>Deficit at beginning of period</b>	<b>(1,514,426)</b>	<b>(1,462,800)</b>	<b>(2,285,930)</b>	<b>(2,347,286)</b>
Contributions paid by the Department	1,905	2,389	33,585	49,903
Current service cost	(1,661)	(1,733)	(46,941)	(63,512)
Settlement (Note 24)	-	-	415,034	-
Other finance charges	(63,415)	(61,414)	(78,765)	(97,791)
Actuarial gain / (loss)	81,497	9,132	(163,333)	172,756
<b>Deficit at end of period</b>	<b>(1,496,100)</b>	<b>(1,514,426)</b>	<b>(2,126,350)</b>	<b>(2,285,930)</b>



The deficit comprises the following balances:

	£000 Note	Core Department		Departmental Group	
		2014-15	2013-14	2014-15	2013-14
Scheme:					
1994 Section	27.1	(1,414,131)	(1,424,208)	(1,414,131)	(1,424,208)
BR Shared Cost Section	27.2	(36,784)	(38,741)	(36,784)	(38,741)
British Railways Superannuation Fund (BRSF)	27.3	(38,905)	(42,179)	(38,905)	(42,179)
BR (1974) Pension Fund	27.4	(6,280)	(9,298)	(6,280)	(9,298)
BTP Force Superannuation Fund (BTPFSF)	27.5	-	-	(555,870)	(321,210)
BTP Section of the Railways Pension Scheme (RPS)	27.6	-	-	(74,380)	(35,260)
GLA Pension schemes		-	-	-	(415,034)
<b>Total deficit at the end of the period</b>		<b>(1,496,100)</b>	<b>(1,514,426)</b>	<b>(2,126,350)</b>	<b>(2,285,930)</b>

## 27.1 1994 Pensioners Section of the RPS

The 1994 Pensioners Section is a defined benefit scheme representing the majority, by value, of the Department's financial relationships with railway pension schemes. The Secretary of State has been the 'employer' and guarantor of the 1994 Pensioners Section (which consists mainly of those who were either pensioners or preserved pensioners at the time of privatisation) since 1994. Although the 1994 Pensioners Section is part of the industry-wide RPS, its assets and liabilities are identified separately from the remainder of the scheme. Further details are shown below.

The last actuarial review for funding purposes was carried out as at 31 December 2011 by the RPS Joint Scheme Actuaries, Towers Watson and Government Actuary's Department. Assets and accrued liabilities were valued using the market-related method.

The amounts recognised in the statement of financial position are as follows:

	£000	31 March 2015	31 March 2014
Present value of funded obligations		(4,384,287)	(4,364,718)
Fair value of plan assets		2,970,156	2,940,510
Net liability		(1,414,131)	(1,424,208)
Amounts in the statement of financial position			
Liabilities		1,414,131	1,424,208
Assets		-	-
Net Liability		1,414,131	1,424,208

The amounts recognised in the operating costs statement are as follows:

	£000	31 March 2015	31 March 2014
Interest on obligation		175,812	181,025
Expected return on plan assets		(115,996)	(123,198)
Total		59,816	57,827

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The amounts recognised in the Statement of Changes in Taxpayers' Equity are as follows:

	£000	31 March 2015	31 March 2014
Gain/(loss) on assets		271,074	67,068
Experience gain/(loss) on liabilities		108,469	(22,035)
Gain/(loss) on change of assumptions		(309,650)	(34,591)
<b>Total gain/(loss)</b>		<b>69,893</b>	<b>10,442</b>

Changes in the present value of the defined benefit obligation are as follows:

	£000	31 March 2015	31 March 2014
Opening defined benefit obligation		4,364,718	4,492,900
Interest cost		175,812	181,025
Experience (gain)/loss on liabilities		(108,469)	22,035
Actuarial (gain)/loss		(47,774)	(331,242)
<b>Closing defined benefit obligation</b>		<b>4,384,287</b>	<b>4,364,718</b>

Changes in the fair value of plan assets are as follows:

	£000	31 March 2015	31 March 2014
Opening fair value of plan assets		2,940,510	3,116,000
Expected return		115,996	123,198
Gain/(loss) on assets		271,074	67,068
Actuarial gain/(loss)		(357,424)	(365,756)
<b>Closing fair value of plan assets</b>		<b>2,970,156</b>	<b>2,940,510</b>

Principal actuarial assumptions at the balance sheet date (expressed as weighted average):

	31 March 2015	31 March 2014
Discount rate at 31 March	2.9%	4.2%
Expected return on plan assets at 31 March	2.9%	4.2%
Future pension increases	1.6%	2.2%
Consumer Price Index	1.6%	2.2%
<b>Rate of increase for deferred pensions</b>	<b>1.6%</b>	<b>2.2%</b>

Amounts for the current and previous three periods are as follows:

	£000	31 March 2015	31 March 2014	31 March 2013	31 March 2012
Defined benefit obligation		(4,384,287)	(4,364,718)	(4,492,900)	(4,378,000)
Plan assets		2,970,156	2,940,510	3,116,000	3,208,000
Surplus/(deficit)		(1,414,131)	(1,424,208)	(1,376,900)	(1,170,000)
Experience adjustment on plan liabilities		108,469	(22,035)	(134,000)	128,000
Experience adjustment on plan assets		271,074	67,068	149,000	(175,000)

### Sensitivity of results

The results of any actuarial calculation are inherently uncertain because of the assumptions which must be made. The approximate effects on the actuarial liability as at 31 March 2015 of changes to the main actuarial assumptions are shown below.

The principal financial assumptions are the real rates of return in excess of pensions increases and earnings growth. (The assumed nominal rate of return is less important although it does affect the past service liability in respect of Guaranteed Minimum Pensions (GMPs). A key demographic assumption is pensioner mortality.

Table 3 shows the indicative effects on the total liability as at 31 March 2015 of changes to these assumptions.

**Table 3 Sensitivity to main assumptions**

Change in assumption * <sup>1</sup>	Approximate effect on total liability	
Rate of return		
(i) in excess of earnings: -½% a year	+ 0% * <sup>2</sup>	(+) £0 million
(ii) in excess of pensions: -½% a year	+ 6%	(+) £260 million
Pensioner mortality		
(iii) pensioners are assumed to have the life expectancy of someone who is a year younger than their current age.	+ 4%	(+) £170 million

\*1 Opposite changes in the assumptions will produce approximately equal and opposite changes in the liability.

\*2 Effect is zero as there are very few active members in the Schemes to have an impact on the total liability.

In variant (i) of Table 3, the assumed rate of return in excess of pensions increases remains unchanged, and in variant (ii), the assumed rate of return in excess of earnings remains unchanged.

Variant (i) shows little change from the central assumptions because the majority of the benefits are not linked to earnings (the sections being largely deferred and pensioner members).

Variant (ii) shows a substantial effect because the real rate of return in excess of pensions increases differs from the central assumptions (by ½% a year). The total actuarial liability would change by about 6%.

Variant (iii) shows the significance of pensioner mortality: if pensioners are assumed to have the life expectancy of someone who is a year younger than their current age, then this would increase the total actuarial liability by about 4%.

### Other schemes

The Department's relationships with other schemes are described below. Given the relatively low value of the balances and transactions in respect of these schemes, detailed disclosures are not provided.

## 27.2 Railways Pension Scheme: BR Shared Cost Section

The BR Shared Cost Section of the RPS is a defined benefit scheme that covers most of the former BRBR Ltd's employees, and some former Strategic Rail Authority employees who are now employed by the Department.

The last actuarial review for funding purposes was performed at 31 December 2010 by the RPS Joint Scheme Actuaries, Towers Watson and the Government Actuary's Department, using the projected unit method. Assets and accrued liabilities were valued using the market-related method.

The market value of assets, net of additional voluntary contribution (AVC) amounts, of the BR Section was £124.7m at 31 March 2015 (31 March 2014: £111.5m). This is approximately 77% (2014: 74%) of the corresponding value of the projected accrued liabilities.

The deficit on the section as at 31 March 2015 was £36.8m (2013: £38.7m).

## 27.3 British Railways Superannuation Fund

The Department is also responsible for funding the British Railways Superannuation Fund. This is a defined benefit scheme which the Department has inherited from the BRB. The Department has no employees participating in it. The latest actuarial valuation of this fund was carried out on 31 December 2010 by the Joint Scheme Actuaries, Towers Watson and the Government Actuary's Department.

The deficit on the scheme as at 31 March 2015 was £38.9m (31 March 2014: £42.2m).

## 27.4 BR (1974) Pension Fund

The BR (1974) Pension Fund is a supplementary fund established in 1974. It covers the BTC (Male Wages Grades) Pension Scheme, various ex-gratia benefits (customary practices) and the historic Schemes of Supplementation increases made when other schemes could not meet their full cost of living increases. It currently has around 4,500 members, with 31 active members remaining in the BTC, and is operated largely on an unfunded pay-as-you-go basis: a small amount of contributions are paid in by members, with costs of the balance of the emerging benefits met by the Secretary of State.

The deficit on the scheme as at 31 March 2015 was £6.3m (31 March 2014: £9.3m).

## 27.5 British Transport Police Force Superannuation Fund (BTPFSF)

The British Transport Police Force Superannuation Fund (BTPFSF) was established by a Trust Deed made on 30 December 1974 which amalgamated the British Transport Police Force Superannuation and Retirement Benefit Fund, which itself was established by a Trust Deed made on 1 September 1968 (the 1968 Section), and the BTPFSF 1970 Section, established by a Trust Deed on 5 April 1972 (the 1970 Section).

From 1 April 2007 the BTPFSF established a new category where all new joiners will be enrolled – hereafter known as BTPFSF (new). The existing category was closed to all new members at this time. The new category is a defined benefit scheme.

The BTPFSF provides benefits on a “final salary” basis at a pension age of 55. Pension benefits accrue at the rate of one-seventieth of final average salary for each year of beneficial membership of the fund (subject to a maximum of thirty-five years). In addition, a tax-free lump sum equivalent to four-seventieths of final average salary for every year of beneficial membership in the fund is payable on retirement.

The deficit on the scheme at the end of the year was £555.9m (31 March 2014 £321.2m). **For further details please refer to the British Transport Police accounts for the year to 31 March 2015.**

## 27.6 British Transport Police Section of the Railways Pension Scheme (RPS)

The Railways Pension Scheme (RPS) was established by the Railways Pension Scheme Order 1994 (SI No 1433). The British Transport Police Shared Cost Section of the Scheme was established on 1 July 2004 by a Deed of Establishment and Participation between the BTPA (the 'Participating Employer') and Railways Pension Trustee Company Limited as Trustee of the Scheme (the Trustee).

The RPS provides benefits on a defined benefit "final salary" basis at a pension age of 60. Pension benefits accrue at the rate of one-sixtieth of final average pay less one-fortieth of the final average basic State pension for each year of pensionable service. In addition, a lump sum equivalent to one fortieth of final average pay for every year of pensionable service is payable on retirement.

The fair value of the plan assets at the end of the year was £103.6m (31 March 2014: £85.1m), and the deficit on the scheme was £74.4m (31 March 2014 £35.3m). **For further details please refer to the British Transport Police accounts for the year to 31 March 2015.**

## 27.7 GLAs' Pension Schemes

The defined benefit obligations of the General Lighthouse Authorities pension schemes were transferred into the Principal Civil Service Pension Scheme on 1 April 2014. The details of this transaction are disclosed in Note 24. **For further details of the prior year position please refer to the General Lighthouse Fund accounts for the year to 31 March 2014.**

## 27.8 Merchant Navy Officers' Pension Fund

The GLAs are Participating Employers of the Merchant Navy Officers Pension Fund (MNOFF) which is a defined benefit scheme providing benefits based on final pensionable salary. The MNOFF is a funded multi-employer scheme but the GLA boards are unable to identify their share of the underlying assets and liabilities. Formerly officers who started employment with the GLAs and were members of the MNOFF were given the option of continuing MNOFF membership or joining the GLA Pension Scheme. This option is no longer given to new entrants. The assets of the scheme are held separately from the General Lighthouse Fund, being held in separate funds managed by trustees of the scheme. Contributions to the scheme (20.0% of pensionable salaries) are charged to the Statement of Comprehensive Net Expenditure when they are paid.

The MNOPF has a deficit of £120,000,000 identified in an actuarial valuation as at 31 March 2012. The rules of the MNOPF state that Participating Employers may be called to make lump sum payments to make up deficits. With effect from 8 June 2000 the rules were amended to state that an employer will not be regarded as ceasing to be a Participating Employer as a result of ceasing to employ Active Members or other eligible employees. The MNOPF has made an application to the Court to obtain confirmation that the position that applies from 8 June 2000 also applied before. As Participating Employers, the GLAs can be required to contribute to the deficit. In general terms the judgement stated that the Trustees of the MNOPF are entitled to demand a contribution to meet the deficit in the Post 1978 section from all employers who ever participated in the Fund. This means that the burden will be spread over a large number of companies. It also means that the Trustees have the option of demanding contributions from employers who have only ever participated in the Pre 1978 Section to meet the deficit in the Post 1978 Section. Although the Trustees have yet to make a decision, our legal advice is that the Trustees are unlikely to demand a contribution from this group of employers. The Trustees have also not decided whether these additional contributions will be payable as a single payment or spread over several years.

Contributions to the MNOPF of £9,744 (£22,000 2013-14) were made during 2013-14 relating to 1 member of MNOPF.

No Lump Sum payments were made during the year (£95,000 2013-14).

Requests for additional contributions would normally only arise after the triennial valuation of the scheme and then only if the scheme was in a deficit considered significant enough to require additional contributions as part of a recovery plan. A revaluation of the scheme was commissioned for 31 March 2015.

## **27.9 Partnership Pension Accounts**

Employees joining after 1 October 2002 can opt to open a Partnership Pension Account, a stakeholder pension with an employer contribution. Employer contributions of £26,500 (2013-14 £21,000) 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% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay.

There were contributions due of £314,271 to the partnership pension providers at 31 March 2015. There were contributions of £67,996 that had been prepaid at that date.

## 28. Events after the reporting period

### 28.1 Non-adjusting Post-Balance Sheet Events

On 1 April 2015 substantially all of the assets and liabilities of the Highways Agency were transferred to Highways England Company Ltd. The Secretary of State retains the remainder of the assets and liabilities directly and is the sole shareholder of the Company. The Secretary of State has appointed Highways England as a strategic highways company by way of an Order in accordance with Section 1 of the Infrastructure Act 2015. Effectively Highways England has a licence to operate and manage the strategic road network. It holds the legislative functions of a strategic highways company and as a result, the company is the highway authority for the strategic road network. Highways England is classed as being within the Departmental accounting boundary.

### 28.2 Non-adjusting Post-Balance Sheet Events

From 1 April 2015, the ONS reclassification of Network Rail becomes fully effective, so that as of that date Network Rail is classed as being within the Departmental accounting boundary. Further details, together with key financial data for Network Rail are disclosed in Note 26.

### 28.3 Authorised for issue

These Financial Statements are laid before the House of Parliament by HM Treasury. IAS 10 requires the Department to disclose the date on which the accounts are authorised for issue. This is the date that the Comptroller and Auditor General signs the audit certificate.

# Annex A: List of abbreviations

## A

AME	Annually Managed Expenditure
ALB's	Arm's Length Bodies
ASSI	Air Safety Support International Limited
AUC	Assets Under Construction
AVC	Additional Voluntary Contribution
AWDL	Average Working Days Lost

## B

BICC	Board Investment and Commercial Committee
BIS	Department for Business, Innovation and Skills
BRBR	British Railways Board (Residuary) Ltd
BRSF	British Railways Superannuation Fund
BTPA	British Transport Policy Authority

## C

CETV	Cash Equivalent Transfer Value
CFER	Consolidated Fund Extra Receipts

## D

DfT	Department for Transport
DfT(c)	Department for Transport (Central)
DECC	Department of Energy and Climate Change
DEFRA	Department for Environment, Food and Rural Affairs
DEL	Departmental Expenditure Limit
DOR	Directly Operated Railways Limited
DSA	Driving Standards Agency
DVLA	Driver and Vehicle Licensing Agency

## E

ECML	East Coast Main Line
ENEM	Executive and Non-Executive Meeting
ERG	Efficiency and Reform Group
EU	European Union

ExCo Executive Committee

**F**

FOI Freedom of Information

FIM Financial Indemnity Mechanism

FReM Financial Reporting Manual

FRS Financial Reporting Standard(s)

**G**

GAD Government Actuary's Department

GCDA Government Car and Despatch Agency

GCS Government Car Service

GLA Greater London Authority

GLF General Lighthouse Fund

GRC Gross Replacement Cost

**H**

HA Highways Agency

HR Human Resources

HS2 High Speed 2

**I**

IAO Information Asset Owner

IAS International Accounting Standard(s)

ICT Information, Communications and Technology

IEP Intercity Express Programme

IFRS International Financial Reporting Standard(s)

IPSAS(B) International Public Sector Accounting Standards (Board)

IT Information Technology

ITT Invitation to Tender

**J**

JESP Job Evaluation for Senior Posts

**L**

LCR London & Continental Railways Ltd

LUL London Underground Limited



**M**

MCA	Maritime and Coastguard Agency
MoD	Ministry of Defence
MNOPF	Merchant Navy Officers Pension Fund
MP	Member of Parliament
MPA	Major Projects Authority

**N**

NAO	National Audit Office
NATS	National Air Traffic Services
NBV	Net Book Value
NDPB	Non-Departmental Public Body
NFC	National Freight Company
NLB	The Commissioners of Northern Lighthouses
NR	Network Rail

**O**

ORR	Office of Rail Regulation (from 1 April 2015 Office of Rail and Road)
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**P**

PAC	Public Accounts Committee
PCPF	Parliamentary Contributory Pension Fund
PCSPS	Principal Civil Service Pension Scheme
PFI	Private Finance Initiative
PPA	Prior Period Adjustment

**R**

RFA	Renewable Fuels Authority
RICS	Royal Institution of Chartered Surveyors
ROCOS	Resource Cost Index of Road Construction
RoSCo	Rolling Stock Company
RPC	Regulatory Policy Committee
RPI	Retail Prices Index
RPS	Railways Pension Scheme

**S**

SoCNE	Statement of Comprehensive Net Expenditure
SCS	Senior Civil Service
SI	Statutory Instrument

**T**

tCO2	tonnes of carbon dioxide
THLS	Trinity House Lighthouse Service
TOC	Train Operating Company

**V**

VCA	Vehicle Certification Agency
VfM	Value for Money
VOA	Valuation Office Agency
VOSA	Vehicle and Operator Services Agency

**W**

WGA	Whole of Government Accounts
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