Presented pursuant to the Government Resources and Accounts Act 2000 c20, s6 (4)

# Department for Transport

# Resource Accounts 2007-08

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## Resource Accounts 2007-08

**(For the period ended 31 March 2008)**

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# Contents

# Annual Report

## Resource Accounts: Department for Transport

## Scope

### Entities consolidated

The Annual Report and Accounts present the consolidated results for the year ended 31 March 2008 for the following entities:

Department for Transport, and
- Highways Agency;
- Maritime and Coastguard Agency;
- Government Car and Despatch Agency; and
- Vehicle Certification Agency.

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

### Departmental reporting cycle

The Department published its *Annual Report 2008* on 19 May 2008. The Report provides a comprehensive review of the Department for Transport and its reporting bodies, and gives detailed information on the Department's activities in 2007-08 and the following financial information:
- outturn for 2006-07;
- estimated outturn for 2007-08; and
- expenditure plans for 2008-09 and 2009-10.

## Management Commentary

The Department for Transport is a central government department. The main role of the Department and its agencies is to implement government transport policy and to advise Ministers. In order to achieve this, it also works alongside the devolved administrations, local authorities, non-departmental public bodies and other government-sponsored organisations. Most of its resources are provided by Parliament, which votes funding on an annual basis in the context of HM Treasury's Spending Reviews. It provides grant funding to local government (including the Greater London Authority), Network Rail, and other entities that deliver major projects. It contracts with train-operating and freight companies to provide rail services on a franchised basis, maintains and improves motorways and major trunk roads and develops and implements the Government's maritime safety and environmental protection strategy.

### Aims

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

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

### Strategic Plans

*Towards a Sustainable Transport System*, which the Department published in October 2007 included an initial assessment of the challenges for cities and regional networks underlying the transport goals. These will be refined during consultation over the coming year. There are three major strands to the strategy, it:

- describes how the Government is responding to the recommendations made in the Eddington study to improve transport's contribution to economic growth and productivity, and how it is ensuring that transport will play its part in delivering the overall level of reductions in carbon emissions recommended by the Stern Review of the Economics of Climate Change.

- sets out the Department for Transport's ambitious policy and investment plans for the period to 2013-14; and it

- proposes a new approach to longer term transport strategy, building on the model recommended by Sir Rod Eddington, and explains how the Department will engage with passengers, users, the transport industry and other stakeholders as we develop and implement that process. Firm delivery plans and objectives are in place for the short term. A long term transport plan will be published following the consultation.

The Department published *Transport 2010: The 10-Year Plan* in July 2000. In December 2002, the Department reported on progress towards delivery of the plan in *Delivering Better Transport: Progress Report*. The white Paper *The Future of Transport: a network for 2030* (Cm 6234) examined the factors that will shape travel, and transport networks, over the next thirty years. It sets out how the Government will respond to those pressures, safeguarding our economic and social well-being and our environment. The white paper builds on progress that has already been made since the implementation of the white paper *Transport 2010: The 10-Year Plan* and considers sustained investment, improvements in transport management and planning for the long term.

## Key objectives

To deliver its strategy, the Department has a set of objectives and targets. The most important are included in the Department's Public Service Agreement (PSA), established in the Spending Review 2004. The objectives detailed below have been introduced for 2007-08. These objectives were published in the business plan *Delivering Better Transport: Priorities for 2007-08 and beyond*. They have replaced the objectives that were in effect during 2006-07, which had previously been published in *Delivering Better Transport: Priorities for 2005-06 to 2007-08.* The objectives are underpinned by the Department's PSA targets, which have not changed between this and the prior year. The PSA targets express the significant elements of the objectives as specific and measurable performance benchmarks. The Department's objectives and associated PSA targets for 2007-08 were as follows.

**Objective 1** – To sustain economic growth and improved productivity through reliable and efficient transport networks.

> **PSA 1 Target:** By 2007-08, make journeys more reliable on the strategic road network.
>
> **PSA 2 Target:** Improve punctuality and reliability of rail services to at least 85 per cent by 2006, with further improvements by March 2008.
>
> **PSA 4 Target:** By 2010-11, the 10 largest urban areas will meet the congestion targets set in their local transport plan relating to movement on main roads into city centres.

**Objective 2** – To improve the environmental performance of transport.

> **PSA 6 Target:** Improve air quality by meeting the seven Air Quality Strategy targets. These are shared with the Department for Environment, Food and Rural Affairs (DEFRA).
>
> **PSA 7 Target:** To reduce greenhouse gas emissions to 12.5 per cent below 1990 levels in line with our Kyoto commitment; and move towards a 20 per cent reduction in carbon dioxide emissions below 1990 levels by 2010, through measures including energy efficiency and renewables. This target was adopted in SR2004. Target shared with DEFRA and the Department for Business, Enterprise and Regulatory Reform.

**Objective 3** – To strengthen the safety and security of transport.

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

**Objective 4** – To enhance access to jobs, services and social networks, including for the most disadvantaged.

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

### Overall summary of performance against PSA targets:

- **PSA 1 Overview:** – A target for journey reliability on the strategic road network, based on the 10 per cent slowest daytime journeys. Delays on the worst 10 per cent of journeys across the 91 routes covered by the target increased from 3.78 minutes per 10 miles in the baseline period to 3.95 minutes per 10 miles for the measurement year, April 2007 to March 2008. This is equivalent to an extra 10 seconds per 10 miles, or the average speed on these routes dropping from 44.7 mph to 44.1 mph. The measures delivered to improve reliability have not been sufficient to counter the negative impact on reliability from the growth in traffic levels, higher levels of road works and particularly adverse weather during the 2007-08 measurement year compared with the baseline year.

- **PSA 2 Overview:** – A target to improve punctuality and reliability of rail services based on the performance of every scheduled franchised passenger train against the daily timetable at its destination. The 2006 target was reached six months early and the Public Performance Measure has continued to improve. The moving annual average for punctuality at March 2008 was 89.8 per cent for England and Wales, up 1.5 percentage points on the previous year. In terms of distance travelled, more people are using the railways than at any other time since 1946. Passenger kilometres were 4.4 per cent higher in Q3 2007-08 compared to the same quarter in the previous financial year.

- **PSA 3 Overview:** – A target to increase the use of public transport (bus and light rail) by more than 12 per cent in England compared with 2000 levels, with growth in every region. On course to achieve national patronage target and associated improvements to reliability and disabled access: target for growth in patronage in every region remains challenging. A 12 per cent increase in usage for bus and light rail above year 2000 levels has already been achieved, barring a serious slippage in patronage levels between 2006-07 and 2010-11. London is largely responsible for the achievement, although the introduction of free local concessionary fares in April 2006 generated significant patronage uplift. A further uplift will follow the introduction of the national scheme on 1 April 2008. Patronage outside London, especially in the non-Metropolitan areas, rose significantly in 2006-07, largely as a result of the free local concessionary fare scheme of 1 April 2006. Some local authority areas outside London are delivering increases in patronage, over and above those generated by the free concessionary fare scheme. In recent years, these have included the authorities of Telford, Brighton, Dorset, York, West Sussex and Cambridgeshire.

- **PSA 4 Overview:** – A new target to reduce congestion on main roads in the 10 largest urban areas. The baseline was published in 2006-07. Data for 2006-07 show that person journey time on the target routes has improved, by around 2.4 per cent compared to the baseline (i.e. there has been a reduction in journey times of 2.4 per cent). The baseline used a mixture of data mainly from 2004-05 and 2005-06. This performance is better than expected. The trajectory for person journey time (that would result in the target being met in 2010-11) would require an increase in journey times in 2006-07 of no more than 0.9 per cent. If the experience of this first year were to continue, the data suggest it is likely that the urban congestion target set in 2006 will be met.

- **PSA 5 Overview:** – A target to reduce the number of people killed or seriously injured in road accidents, tackling the significantly higher incidence in disadvantaged communities. Disadvantage target met in 2005. Police data indicates that the Department is on course to meet other elements of the target. The road safety strategy published in March 2000 set out a comprehensive range of measures to help achieve the casualty reduction targets to be achieved by 2010. Details are on the Department's website. Annual figures for performance against the road safety target in 2007 were published in June 2008. The number of people killed or seriously injured in 2007 was 36 per cent below the 1994-98 average. The number of children killed or seriously injured in 2007 was 55 per cent below the 1994-1998 average.

- **PSA 6 Overview:** – Joint target with the Department for Environment, Food and Rural Affairs (DEFRA) to improve air quality. Although only four out of our seven Air Quality targets are being met, the long term trend is of improving air quality. We are meeting objectives for all pollutants in this PSA in 95 per cent of the UK, but concentrations of these pollutants show that long-term reducing trends for $NO_2$ and PM 10 are flattening out or even reversing at a number of locations, despite mitigation measures. There were no breaches of the sulphur dioxide ($SO_2$) objectives recorded at our national monitoring sites. A review of the Air Quality Strategy is under way, and together with DEFRA we are considering possible additional measures to move towards meeting the targets.

- **PSA 7 Overview:** – The UK is on course to more than meet our Kyoto target of reducing annual greenhouse gas emissions by 12.5 per cent below base year levels by 2008-2012. On current projections we expect to achieve about 24 per cent greenhouse gas reductions by 2010. The 2010 domestic goal, to cut $CO_2$ emissions by 20 per cent on 1990 levels, was always designed to be stretching and looks increasingly difficult to achieve. We now estimate that in 2010 carbon dioxide ($CO_2$) emissions will be about 16 per cent below 1990 levels.

| | **How the target is measured** | **2007-08 Performance** | **2006-07 Performance** | **2005-06 Performance** |
|---|---|---|---|---|
| PSA 1 | Measuring the delay between an observed journey time and a reference journey time (that could be theoretically achieved when the traffic is free-flowing) on the 10% slowest journeys. | 3.95 minutes delay per 10 miles | 3.99 minutes delay per 10 miles | Baseline published as 3.78 minutes delay per 10 miles |
| PSA 2 | Measuring the percentage of passenger services that arrive on time (within 5 minutes of the timetabled arrival or 10 minutes for long-distance services) of all services, including total and partial cancellations. This measure is known as the Public Performance Measure). Target is 85%. | 89.8%<br><br>(March 2008) | 88.0%<br><br>(March 2007) | 86.4%<br><br>(March 2006) |
| PSA 3 | Measuring the increase of passenger numbers on bus and light rail services compared to year 2000 levels. | Increase of 12% achieved | Increase of 8.1%<br><br>(though declining in some regions) | Increase of 7.7%<br><br>(though declining in some regions) |
| PSA 4 | The target will be deemed to be met if, on target routes in the ten largest urban areas in England, an average increase in travel of 4.4% is accommodated with an average increase of 3.6% in person journey time per mile. | Ahead, improvement of around 2.4 per cent compared to the baseline | Baseline published | N/A |
| PSA 5 | a) Reduction of people killed or seriously injured in road accidents below the 1994-98 average (target 40% by 2010).<br><br>b) Reduction of children killed or seriously injured in road accidents below the 1994-98 average (target 50% by 2010).<br><br>c) Reduction of the number of people killed or seriously injured in the 88 Neighbourhood Renewal Fund areas (disadvantaged communities) since the baseline period 1999-2001, compared against the fall in England as a whole. | a) 36% reduction<br><br>b) 55% reduction (2007 data reported June 2008)<br><br>c) No longer measured as met in 2005 | a) 33% reduction<br><br>b) 52% reduction (2005 data reported June 2006)<br><br>c) 19% reduction (England fall of 15%) (2005 data) | a) 28% reduction<br><br>b) 43% reduction (2004 data reported June 2005)<br><br>c) 15.8% reduction (England fall of 12.3%) (2004 data) |

| | How the target is measured | 2007-08 Performance | 2006-07 Performance | 2005-06 Performance |
|---|---|---|---|---|
| PSA 6 | Improve air quality by meeting national objectives for:<br>• carbon monoxide;<br>• lead;<br>• nitrogen dioxide ($NO_2$);<br>• particles ($PM_{10}$);<br>• sulphur dioxide ($SO_2$);<br>• benzene; and<br>• 1,3- butadiene | 4 out of 7 national objectives are being met | 4 out of 7 national objectives were met | 4 out of 7 national objectives were met |
| PSA 7 | a) Reduce greenhouse gas emissions to 12.5% below 1990 levels in line with our Kyoto commitments.<br><br>b) Move towards a 20% reduction in carbon dioxide emissions below 1990 levels by 2010. | a) Kyoto target is on track<br><br>b) Latest projections show a 16% reduction by 2010 | a) Kyoto target is on track<br><br>b) Latest projections show a 16.2% reduction by 2010 | a) Kyoto target is on track<br><br>b) Data not available |

The above table shows headline performance against the Department's PSA targets. A more detailed analysis of the Department's performance, including performance at regional levels where applicable, is given in the Department's *Annual Report*. This is available via the Department's website, at the following address: http://www.dft.gov.uk/about/publications/apr/

## Financial performance

### a) 2007-08 compared to 2006-07

The Department's expenditure against each objective is shown in the Consolidated Statement of Operating Cost by Departmental Aim and Objectives (page 32). It should be noted that the Departmental objectives have changed between this and the prior year. Details of this change can be reviewed on page 3. The net total of expenditure was £16.08bn, an increase of £2.40bn or 17.5 per cent on the previous year's total of £13.68bn. This increase was recognised within the Estimates for 2007-08. A detailed analysis of expenditure by section is given in Note 2. Expenditure for each section is allocated between objectives. Work of sections may be apportioned to two or more objectives, because the activities they reflect may contribute to the achievement of multiple objectives. Significant changes and elements of those changes are as follows.

**Objective 1**
The net total of expenditure for Objective 1 was £10.56bn, an increase of £1.20bn or 12.7 per cent on the previous year's restated total of £9.36bn. This increase is primarily due to the £1.7bn Metronet grant (page 9), part of the Greater London Authority (GLA) transport grants, of which 70 per cent or £1.19bn is allocated to this objective. The total sum of all GLA transport grants are apportioned between the four objectives.

**Objective 2**
The net total of expenditure for Objective 2 was £0.84bn, an increase of £0.26bn or 44.9 per cent on the previous year's restated total of £0.58bn. The main cause of this increase was that element of the GLA transport grant that was apportioned to this objective. The GLA transport grant apportioned to this objective increased by £0.17bn between this and the prior year.

**Objective 3**
The net total of expenditure for Objective 3 was £3.12bn, an increase of £0.26bn or 9.1 per cent on the previous year's restated total of £2.86bn. Expenditure on this objective increased within the Highways Agency by £122m. Other significant increases occurred within the central Department where an additional £91m was spent on the Road Safety Grant Programme and an additional £44m was spent on Local Transport Grants.

**Objective 4**
The net total of expenditure for Objective 4 was £1.56bn, an increase of £0.68bn or 77.1 per cent on the previous year's restated total of £0.88bn. Local transport grants increased by £0.31bn and that element of the GLA transport grant that was apportioned to this objective increased by £0.33bn. As stated above, the overall GLA transport grant increased as a consequence of the £1.7bn Metronet grant being issued.

### b) 2007-08 Outturn versus Estimate

The Net Resource Outturn reported in Note 2 was £16.12bn, which is £563m or 3.4 per cent below the Estimate of £16.68bn. The material components of this underspend by Estimate section are explained below:

**X: Central Administration - £16m underspend**
The majority of the shortfall is due to the downward adjustment of non cash budgets, particularly in respect of dilapidations, following the decision of the central Department to stay in Great Minster House until 2015 rather than 2010, together with a number of smaller efficiencies spread throughout the central Department.

**AF: Other Transport Grants (capital) - £77m underspend**
Of this underspend, £47m relates to local authority major schemes, due to delays in local authorities submitting business cases to the Department and slippages in construction timetables. A further £15m relates to underspends on local authority road maintenance due to slippage of exceptional maintenance schemes and less funds required for flood repairs than originally forecast, and £12m relates to slippage in the delivery of Community Infrastructure Fund schemes.

**AG: Highways Agency - £35m underspend**
This line relates to the cost of capital charge on the trunk road network, and this underspend represents 1.0% of the total budget of £3.6bn. The underspend relates to lower revaluations and less detrunkings than were anticipated.

**AH: Grant in Aid funding of NDPBs and public corporations - £49m underspend**
The main cause of this underspend was that £45m of anticipated payments to London and Continental Railways (LCR) in respect of the Temple Mills Depot were not required.

**AI: Driver and Vehicle Licensing Agency (trading fund) - £43m underspend**
This comprises a £22m underspend due to DVLA making use of internal cash resources rather than needing to draw on grant-in-aid payments from the Department, and a £20m underspend due to the original budget allocation for grant-in-aid incorrectly including an allowance for non-cash costs which cannot be charged against grant in aid.

**AK: Railways and other expenditure - £148m underspend**
An underspend of £107m was caused by movements within the BR pension scheme. These movements, which are generated by the application of Financial Reporting Standard 17, led to outturn varying significantly to the estimate due to market volatility. A further £43m underspend relates to a release of £13m of the Channel Tunnel Rail Link (CTRL) de-risked grants provisions, where an increase of £30m was provided in the Estimate.

**AL: Other Grants to GLA - £158m underspend**
This underspend was wholly related to a £158m grant that was due to be paid to Transport for London (TfL) to cover the costs of Metronet's future borrowing. However, as Metronet did not come out of administration in 2007-08, the payment of the grant was delayed. The grant will instead be paid in 2008-09.

The remaining difference of £37m relates to various underspends from other sections.

## Financial position

During the year, the Department's net assets increased by £3.58bn. The Department's largest asset remains the strategic road network. Improvements to the road network are typically financed either directly (97.5 per cent of fixed assets by net book value are financed in this way) or via the Private Finance Initiative (PFI). To maximise value for money, the Department retains significant construction risks in relation to its strategic road PFI schemes: hence, they are generally recognised as being on the Department's balance sheet. During the year, the value of the road network increased by £3.80bn, largely due to net revaluation gains of £3.58bn.

The Channel Tunnel Rail Link is owned, managed and operated by the London and Continental Railways group of companies, which is deemed to have the risks and rewards of ownership of that facility. The Department has financed the Link's construction through a package of grants and guarantees. Further details are given in Note 29, 31 and 32 to these Accounts.

## External stakeholders

The Department works with other government departments to achieve its objectives, and the wider objectives of the government, such as crime reduction and social inclusion. It works with European Union partners to promote the development of efficient and competitive transport.

## Social responsibility and community relations

The Department continues to work to demonstrate more accountability and responsiveness to society. In the second year of the operation of *The Freedom of Information Act 2000*, which ended on 31 December 2007, the Department met the target deadlines for responses in 91 per cent of the 1,878 cases it received (*2006: 91 per cent of 1,178 cases)*. Responses of wider public interest have been published on the Department's web site. The Department is working to reduce regulatory and enforcement burdens and, in December 2006, published a comprehensive simplification plan, *Transport: Lightening the Load,* on its web site. The Department has also produced and implemented an Equality Impact Assessment Toolkit to support the delivery of its disability, race and gender equality duties, so that potential adverse impacts of policy and operations can be anticipated and addressed.

## Significant remote contingent liabilities

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

## Expenditure outside the ambit of the vote - Crossrail

In late 2006, Cross-London Rail Links Ltd (CLRL) asked the Department for approval to spend £6.525m on utility diversion works to be carried out by London Underground Ltd (LUL) as part of their upgrade of Tottenham Court Road station. The £6.525m represented the extra cost that LUL would incur in undertaking additional work to develop an interchange that would be usable by Crossrail. Spending on construction works in advance of Royal Assent to the Crossrail Bill would not normally be permitted but the Department was able to present to HM Treasury a strong value for money argument. The argument was that it would be much more expensive for LUL to do this more limited utility diversion work now, only for CLRL to dig it up and extend it at a later stage. The Department obtained from HM Treasury permission for an advance from the Contingencies Fund to cover the cost of the works. The Secretary of State duly informed Parliament of this arrangement in May 2007.

The first tranche of £3.5m was paid over to CLRL and drawn down from the Contingencies Fund in March 2007. In March 2008, CLRL requested the balance of £3.025m. This was paid to CLRL with its normal monthly grant payment, with the £3.025m being recorded as a repayable advance: i.e. CLRL was classed as a debtor for £3.025m. However, this sum was funded by Supply monies – i.e. Voted funds - and not from the Contingencies Fund, as it should have been.

The Department's error was in failing to request from HM Treasury the second half of the Contingencies Fund drawdown which amounted to £3.025m. The circumstances under which these transactions were made were unique in that two tranches of funding were requested and authorised falling over two financial years. HM Treasury is satisfied that this oversight is purely a technical error and not one which indicates weakness in financial management or control.

## Significant events affecting performance this year

**Metronet**
In April 2003, under the Public Private Partnership (PPP), Transport for London (TfL) awarded contracts to three private sector infrastructure companies (Tubelines and two Metronet companies) that were responsible for maintaining and improving the Underground's infrastructure. The PPP companies lease the Undergrounds' assets and are required to upgrade and maintain them during the 30-year contracts. Before entering into the PPP contracts, the Transport Secretary wrote on 7 March 2003 to the providers of finance of Metronet stating:

"The Secretary of State will take into account, amongst other factors, all the obligations of London Underground Limited (LUL) under any PPP contracts (including obligations under the 'Put Option Agreement'* or the 'Stand Still Agreement') in considering and setting transport grant for the GLA under section 101 of the GLA Act, or in making grants to LRT under Section 12 of the LRT Act."

* 'Put Option Agreement' - whereby London Underground Limited (LUL) could be required to purchase Metronet's debt six months after any defined 'insolvency event'.

This letter of comfort was notified to Parliament as a contingent liability and it has been recorded in successive resource accounts for the Department for Transport, without quantification of the amount in question.

By 2007, Metronet was suffering severe delivery problems and, on 18 July 2007, the Metronet companies entered into PPP administration, following a lengthy period of poor performance. This constituted an "insolvency event" for the purposes of the 'Put Option Agreements'. It was agreed by HM Treasury and the Department that a grant under Section 31 of the Local Government Act 2003 of £1.7bn would be made available specifically for the use of London Underground Limited for the payment of the Put Option and a further £633m in future years in respect of the costs of funding the companies in administration over the years to 2010-11.

The Secretary of State made a written Ministerial Statement to Parliament on 6 February 2008 explaining that a Contingencies Fund advance was needed in advance of the Spring Supplementary Estimates. She also placed in the Library of the House Departmental grant letters, which set out the resulting total financial support for Transport for London, including an annual grant rising from £2.7 billion to £3.9 billion over the years 2008-09 to 2017-18. The Contingencies Fund advance was received and repaid in 2007-08.

The public expenditure implications of this agreement between HM Treasury and the Department were agreed as follows: HM Treasury specified that the level of future TfL Transport Grants would be abated by a sum equivalent to 4.76% of £1.7bn (estimated currently at an sum of £110m per annum) and the £633m additional shorter term borrowing, from 2008-09 to 2017-18 (the end date of the original PPP contracts) designed to reflect the cost saving of grant funding, as opposed to commercial debt servicing. HM Treasury would also take into account the £2.3 bn funding of TfL when setting the Department's Departmental Expenditure Limit (budget) baseline for spending and the Department's annual Request for Resource (alongside other considerations of the public finances at the time) in future Spending Reviews. [Current Spending Reviews set firm and fixed Departmental Expenditure Limits for three-years only until 2010-11.] This arrangement exists only between Treasury and the Department. Funding details between the Department up to 2018 and TfL are set out independently.

These arrangements are not loans. As noted above, TfL received grant funding and the grant letters, provided with the grants, explained that the funding arrangements would be reconsidered in the context of future Spending Reviews.

**Other significant events**
The Department let three major rail franchises including the Inter City East Coast franchise and is seeing through to completion the £8.8bn upgrade of the West Coast Main line. Other significant events included the opening of the refurbished St Pancras station, the high speed Channel Tunnel Rail Link (CTRL) and the opening of Terminal 5 at Heathrow. During 2007-08 the Department conducted a major consultation on the expansion of Heathrow airport and brought into force the Renewable Transport Fuel Obligation Order 2007. The Local Transport Bill provided new mechanisms to meet local transport needs and Active Traffic Management (ATM) continued on the M42.

## Significant events affecting future performance

In October 2007, the Prime Minister confirmed that Crossrail has the necessary funding to enable the programme to go ahead. The Hybrid Bill was given its second reading in the House of Lords in January 2008. *Towards A Sustainable Transport System* (TASTs), launched in October 2007, responded to the recommendations made in Sir Rod Eddington's report, Transport's Role in Sustaining the UK's Productivity and Competitiveness and the Stern Review on the Economics of Climate Change.

During the year, the Department began the procurement process for Intercity Express, the replacement for the existing high speed train fleet and the UK's most significant investment in rolling stock for thirty years. The publication in July 2007 of the White Paper *Delivering a Sustainable Railway* and the associated High Level Output Specification (HLOs) for the railway specifies what the Secretary of State wants the railway to deliver in terms of capacity, performance and safety during the 5 years from 2009. Announcements will be made about adding capacity at Heathrow and Stansted Airports in the near future.

HM Government has issued guarantees to the International Olympic Committee in respect of the 2012 Olympic and Paralympic Games. The nature and extent of these guarantees, which will encompass policy areas which are the responsibility of this Department, Communities and Local Government and the Home Office are disclosed in the Resource Accounts of the Department of Culture, Media and Sport as the lead Department charged with responsibility for the management of the risks associated with the Government guarantees.

The Department's Shared Services Centre Programme rolled out shared services to DVLA and DSA from April 2007, with the core Department going live in April 2008. In January 2008, the Department's Director General for Resources assumed responsibility for the delivery of the Programme and the Director of Shared Services now reports to her in the Department. The Department made grants to the DVLA to cover that Agency's costs in respect of the Shared Service Centre assets and development of systems. The accounts of the DVLA show those costs and grants and the Shared Services Centre assets, together with the asset valuation base which the Department agrees to be appropriate.

## Public Interest

### Equal opportunities and recruitment

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

### Staff relations

The Department has been the subject of strike action during the year for reasons of pays and job security. Two one day strikes took place which affected the Department and its Agencies. The Department continues to manage its pay remit within the bounds of the wider public sector pay policy and have an extremely good record of not implementing compulsory redundancy schemes. Regular meetings take place with its Trade Union side. The Department has undertaken a review of the sickness absence policies and introduced a more holistic approach to streamline these processes whilst robustly managing absence levels. The Department provides occupational services and employee assistance programmes to its staff to assist with personal and work related issues.

### Payment of suppliers

The Department's policy is to comply with the *Prompt Payment Code*. In line with the rest of Government, the Department (including its Executive Agencies) works toward paying 98 per cent of valid undisputed bills on time (within 30 days of the date of receipt of the invoice or within the contractual term, if less). In 2007-08, the Department paid 92.90 per cent (*2006-07: 98.38 per cent*) of bills on time.

### Environmental policy

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

### Euro preparations

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

### Auditors

The audit of the Department's accounts, including the audit of the Agencies, is carried out by the Comptroller and Auditor General under the *Government Resources and Accounts Act 2000* at an annual notional cost of £737,000.

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

## Reconciliation of resource expenditure between Estimates, accounts and budgets.

| | Page | 2007-08 £000 | 2006-07 £000 |
|---|---|---|---|
| **Net Resource Outturn (Estimates)** | 29 | 16,115,337 | 13,713,326 |
| *Adjustments to additionally include:* | | | |
| Consolidated Fund Extra Receipts in the Operating Cost Statement | 41 | (36,968) | (28,967) |
| **Net Operating Cost (Accounts)** | 30 | **16,078,369** | **13,684,359** |
| *Adjustments to remove:* | | | |
| Gains/losses from sale of capital assets | | 42 | (987) |
| Capital grants | | (4,264,184) | (3,918,854) |
| European Union income related to capital grants | | 14,075 | 16,886 |
| Voted expenditure outside the budget | | - | - |
| *Adjustments to additionally include:* | | | |
| Other Consolidated Fund Extra Receipts | | 2,329 | - |
| Resource consumption of non departmental public bodies | | 16,318 | 464,181 |
| Metronet Grant to Transport for London | | (1,700,000) | - |
| Other adjustments | | 166,891 | (11,653) |
| **Resource Budget Outturn (Budget)** | | **10,313,840** | **10,233,932** |
| ***of which*** | | | |
| Departmental Expenditure Limit (DEL) | | 6,799,499 | 7,478,798 |
| Annually Managed Expenditure (AME) | | 3,514,341 | 2,755,134 |

## Personal Data Related Incidents

In line with Cabinet Office guidance, the Department is required to disclose those personal data related incidents that have occurred and provide a statement as to how information risk is managed. This is discussed in the Information Assurance section of our Annual Report for 2007-08. This information is disclosed for the entire departmental family and so covers executive agencies, non departmental public bodies and trading funds as well as the core Department.

**Table 1: Summary of protected personal data related incidents formally reported to the Information Commissioner's Office**

| Date of incident (month) | Nature of incident | Nature of data involved | Number of people potentially affected | Notification steps |
|---|---|---|---|---|
| Mar 08 | Unauthorised disclosure of inadequately protected restricted data | Name, staff number, date of birth, gender, nationality (if declared), disability (if declared) | up to 500 | Key stakeholders notified |
| Jan 08 | Loss of electronic storage device from secured Government premises | Payroll details: Name, address, date of birth, disability status, bank details, tax and NI information | up to 3,750 | Police & Departmental Trade Union Side notified |
| May 07 | Loss of inadequately protected electronic back-up device from outside secured Government premises | Candidate name, address, telephone number, email address (if provided), amount paid for test, method of payment, test centre details | Approx 3 million records | Police notified. Statement to Parliament |
| Feb 08 | Unauthorised disclosure of paper documents | Name, address | 99 | Envelopes returned |
| Dec 07 | Unauthorised disclosure of inadequately protected restricted data | Name, address | 525 | Individuals notified by post |
| Dec 07 | Unauthorised disclosure of paper documents | Name, address | 1,215 | Individuals notified by post. Dedicated phone line |

**Further action on information risk**

The Department will continue to monitor and assess its information risks, in light of the events noted above, in order to identify and address any weaknesses and ensure continuous improvement of its systems.
During the year DfT and its Agencies will be implementing the measures from the Cabinet Office's review into Data Handling, which cover all aspects of information risk and assurance in relation to the handling of personal data.

**Table 2: Summary of other protected personal data related incidents**

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

| Category | Nature of incident | Total |
|---|---|---|
| **I** | Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises | **1** |
| **II** | Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises | **9** |
| **III** | Insecure disposal of inadequately protected electronic equipment, devices or paper document | **0** |
| **IV** | Unauthorised disclosure | **11** |
| **V** | Other | **2** |

**Table 3: Year-on-year total numbers of protected personal data related incidents prior to 2007-08**

**Total number of protected personal data incidents formally reported to the Information Commissioner's Office, by category**

| | I | II | III | IV | V | Total |
|---|---|---|---|---|---|---|
| **2006-07** | 0 | 0 | 0 | 1 | 0 | **1** |
| **2005-06** | 0 | 0 | 0 | 0 | 0 | **0** |
| **2004-05** | 0 | 0 | 0 | 1 | 0 | **1** |

**Total number of other protected personal data incidents, by category**

| | I | II | III | IV | V | Total |
|---|---|---|---|---|---|---|
| **2006-07** | 0 | 0 | 0 | 4 | 1 | **5** |
| **2005-06** | 0 | 0 | 1 | 1 | 0 | **2** |
| **2004-05** | 1 | 2 | 0 | 0 | 0 | **3** |

## International Financial Reporting Standards

The March 2008 Budget announced that the implementation of International Financial Reporting Standards (IFRS) in the public sector will be postponed until 2009-10, mainly because some Departments were unable to meet the original timetable. IFRS work has taken place for over a year at the Department for Transport, a senior Steering Group is in place and in-house expertise has been developed, with key staff possessing the ICAEW IFRS Certificate qualification. Treasury has issued a detailed timetable for transition with key dates over the next two years. Financial instruments standards (FRS 25, FRS 26 and FRS 29) will be implemented in the 2008-09 edition of the FReM. All departments, executive agencies, non-departmental public bodies and trading funds are required to prepare shadow IFRS-based accounts for 2008-09 and any necessary changes to budgets as a result of the switch to IFRS should be made in Winter Supplementary Estimates 2009.

## Remuneration Report

### Remuneration policy

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

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

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

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

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations. Further information about the work of the Review Body can be found on the Office of Manpower Economics web site www.ome.uk.com.

The Prime Minister's decisions on Senior Civil Service (SCS) remuneration are sent to the Department by the Cabinet Office. Annual pay review decisions for individual members of the SCS in the Department are then taken by the Department's SCS Remuneration Committee within the key pay parameters communicated by the Cabinet Office.

### Pay system and performance management

The Department has three levels of senior civil servant below the Permanent Secretary. The levels are underpinned by a tailored job evaluation scheme (JESP - Job Evaluation for Senior Posts), which provides a consistent basis for comparing the relative value of jobs within and across departments. Each of these three levels has a pay range. Movement within the pay range is determined through a pay matrix, which provides the largest increase to the best-performing but lowest paid staff.

Each year, each member of the SCS is allocated to a performance tranche, as follows:

- Tranche 1 – the top 25 per cent;
- Tranche 2 – the middle 65 to 70 per cent; and
- Tranche 3 – the bottom 5 to 10 per cent.

The decisions on tranche are based on an assessment of contribution relative to others operating broadly at the same level and reflect:

- the individual's overall growth in competence;
- the challenge associated with their job; and
- confidence in the individual's future performance based on sustained past performance.

Individuals are also considered for a bonus, which aims to reward in-year performances in relation to agreed objectives, or short-term personal contributions to wider organisational objectives. There is a limit set on the overall value of bonuses that the Department may award, the number of staff who can receive them and the maximum individual value.

Tranche and bonus decisions are monitored by gender, ethnicity, disability and working pattern to guard against bias.

**Remuneration Committee**

The Remuneration Committee is comprised of the Department for Transport's Permanent Secretary (as Chairman), all Director Generals, the Chief Executive of the Highways Agency and a Non-Executive Board member. For the year to 31 March 2008, its members were:

| | |
|---|---|
| Robert Devereux | Permanent Secretary - Department for Transport |
| Stephen Hickey | Director General - Safety, Service Delivery and Logistics |
| Simon Webb | Director General - International Networks and Environment |
| Bronwyn Hill (from 25th June 2007) | Director General - City and Regional Networks |
| Mike Mitchell | Director General - Rail and National Networks |
| Barbara Moorhouse (from 30th July 2007) | Director General - Corporate Resources |
| Archie Robertson | Chief Executive - Highways Agency |
| Ann Hemingway | Non Executive Director - Department for Transport |

The Committee makes pay decisions for Directors and Divisional Managers. Decisions on pay for Director Generals are taken by the Permanent Secretary, with advice from Ann Hemingway, the Committee's Non-Executive Director.

**Service Contracts**

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

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

| **Official** | **Contract period** |
|---|---|
| Archie Robertson | 24 November 2006 to 23 May 2008 |
| Mike Mitchell | 03 May 2005 to 02 May 2008<br>03 May 2008 to 31 December 2010 |

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

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

**Salary and pension entitlements**

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

**Remuneration**

| **Ministers** | **2007-08** | **2006-07** |
|---|---|---|
| | **£** | **£** |
| Rt Hon Ruth Kelly MP – Secretary of State (from 29 June 2007) | 58,105 | - |
| Rt Hon Douglas Alexander MP – Secretary of State (from 8 May 2006 to 28 June 2007) | 19,226 | 68,642 |
| Rt Hon Rosie Winterton MP – Minister of State (from 30 June 2007) | 30,031 | - |
| Stephen Ladyman MP – Minister of State (from 10 May 2005 to 29 June 2007) | 19,947 | 39,405 |
| Tom Harris MP – Parliamentary Under Secretary of State (from 7 September 2006) | 30,280 | 17,002 |
| Jim Fitzpatrick MP – Parliamentary Under Secretary of State (from 30 June 2007) | 22,794 | - |
| Gillian Merron MP – Parliamentary Under Secretary of State (from 5 May 2006 to 29 June 2007) | 10,093 | 27,106 |

| Officials | 2007-08 £000 | 2006-07 £000 |
|---|---|---|
| Robert Devereux – Permanent Secretary[1] (from 31 May 2007; previously Director General) | 165 -170 | 125 - 130 |
| Sir David Rowlands – Permanent Secretary[1] (to 30 May 2007) | 40 - 45 | 180 - 185 |
| Stephen Hickey – Director General (from 2 January 2003) | 125 - 130 | 135 - 140 |
| Simon Webb – Director General (from 27 September 2004) | 155 - 160 | 140 - 145 |
| Mike Mitchell – Director General[1] (from 3 May 2005) | 180 - 185 | 165 - 170 |
| Bronwyn Hill - Director General (from 25 June 2007) | 100 - 105 | - |
| Barbara Moorhouse - Director General (from 30 July 2007) | 135 - 140 | - |
| Archie Robertson – Chief Executive[2] (from 24 November 2003) | - | - |

[1] See also separate note for benefits in kind.
[2] Archie Robertson's remuneration is disclosed separately in the Highways Agency accounts.

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

| Non-Executive Directors | £000 |
|---|---|
| Ann Hemingway[1] | 13 |
| Deborah Williams[2] | 25 |

[1] Ann Hemingway was also a member of the DVO Board (£3,570 for the year) prior to restructuring and changes in corporate governance led to the SSDL Board being established upon which she was not required to sit.
[2] This includes a fee as Chair of the Audit Committee.

### Salary

'Salary' includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

This presentation is based on 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 (£61,820 from 1 November 2007, £61,181 from 1 April 2007, £60,277 from 1 November 2006, £59,686 from 1 April 2006) and various allowances to which they are entitled are borne centrally.

### Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument. The Permanent Secretary is allowed the private use of an unallocated car in the circumstances permitted by the *Civil Service Management Code*. For the period up to 30 May 2007 Sir David Rowlands benefit was £536 (*2006-07 £9,049*). Robert Devereux's benefit for the period from 31 May 2007 was £3,037. Mike Mitchell received benefits in kind in relation to accommodation and travel which amounted to £21,259. These amounts are chargeable to tax under s163 of the *Income and Corporation Taxes Act 1988*. No other Ministers or officials received any benefits in kind.

**Pension benefits**

**Ministers**

| | Accrued pension at age 65 as at 31/03/08 | Real increase in pension at age 65 | CETV at 31/03/08 | CETV at 31/03/07 | Real increase in CETV |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Rt Hon Ruth Kelly MP – Secretary of State (from 29 June 2007) | 5 – 10 | 0 - 2.5 | 51 | 43 | 2 |
| Rt Hon Douglas Alexander MP – Secretary of State (from 8 May 2006 to 28 June 2007) | 5 - 10 | 0 - 2.5 | 43 | 41 | 1 |
| Rt Hon Rosie Winterton MP – Minister of State (from 30 June 2007) | 5 - 10 | 0 - 2.5 | 56 | 47 | 3 |
| Stephen Ladyman MP – Minister of State (from 10 May 2005 to 29 June 2007) | 0 - 5 | 0 - 2.5 | 39 | 36 | 2 |
| Tom Harris MP – Parliamentary Under Secretary of State (from 7 September 2006) | 0 - 5 | 0 - 2.5 | 10 | 3 | 3 |
| Jim Fitzpatrick MP – Parliamentary Under Secretary of State (from 30 June 2007) | 0 - 5 | 0 - 2.5 | 51 | 44 | 4 |
| Gillian Merron MP – Parliamentary Under Secretary of State (from 5 May 2006 to 29 June 2007) | 0 - 5 | 0 - 2.5 | 24 | 21 | 1 |

**Ministerial pensions**

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 arrangements for Ministers provide benefits on an 'average salary' basis, taking account of all service as a Minister. 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 a 1/50th accrual rate and a lower rate of employee contribution.

Benefits for Ministers are payable at the same time as MP's benefits become payable under the PCPF or, for those who are not MPs, on retirement from ministerial office from age 65. Pensions are increased annually in line with changes in the Retail Prices Index. Members pay contributions of 6% of their ministerial salary if they have opted for the 1/50th accrual rate or 10% of salary if they have opted for the 1/40th accrual rate. There is also an employer contribution paid by the Exchequer representing the balance of cost as advised by the Government Actuary. This is 26.8% of the ministerial salary.

The accrued pension quoted is the pension the Minister is entitled to receive when they reach 65, or immediately on ceasing to be an active member of the scheme if they are already 65.

**Cash Equivalent Transfer Value (CETV)**

This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. It is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total ministerial service, not just their current appointment as a Minister. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

**Real increase in value of CETV**

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

**Officials**

| | Accrued pension at age 60 as at 31/03/08 £000 | Real increase in pension at age 60 £000 | CETV at 31/03/08 £000 | CETV at 31/3/07 £000 | Real increase in CETV £000 |
|---|---|---|---|---|---|
| Robert Devereux – Permanent Secretary (from 31 May 2007; previously Director General) | 50 - 55 plus 160 – 165 lump sum | 7.5 - 10.0 plus 25.0 - 27.5 lump sum | 1,046 | 767 | 165 |
| Sir David Rowlands – Permanent Secretary (to 30 May 2007) | 65 - 70 plus 200 - 205 lump sum | 0 - 2.5 plus 0 - 2.5 lump sum | 1,548 | 1,583 | 14 |
| Stephen Hickey – Director General (from 2 January 2003) | 50 - 55 plus 155 - 160 lump sum | 0 - 2.5 plus 2.5 - 5.0 lump sum | 1,287 | 1,109 | 32 |
| Simon Webb – Director General (from 27 September 2004) | 60 - 65 plus 180 - 185 lump sum | 0 - 2.5 plus 2.5 - 5.0 lump sum | 1,388 | 1,195 | 29 |
| Mike Mitchell – Director General (from 3 May 2005) | 5 - 10 | 0 - 2.5 | 121 | 71 | 38 |
| Bronwyn Hill – Director General (from 25 June 2007) | 35 - 40 plus 110 - 115 lump sum | 2.5 - 5.0 plus 12.5 - 15.0 lump sum | 676 | 473 | 83 |
| Barbara Moorhouse – Director General (from 30 July 2007) | 5 - 10 | 0 - 2.5 | 94 | 59[1] | 16 |
| Archie Robertson – Chief Executive (from 24 November 2003) | 5 - 10 | 0 - 2.5 | 149 | 100 | 30 |

[1] Barbara Moorhouse's opening CETV value is stated as at 30 July 2007, when she joined the Department from the Ministry of Justice.

### Civil Service Pensions

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 changes in the Retail Prices Index (RPI). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension with a significant employer contribution (**partnership** pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for **classic** and 3.5% 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' 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 in respect of service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 calculated as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

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

**Cash Equivalent Transfer Values (CETV)**

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the 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 individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

**Real increase in value of CETV**

This reflects the increase in CETV effectively 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.

## 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.

*Robert Devereux* 10th July 2008
Permanent Secretary and Accounting Officer
Department for Transport

# Statement of Accounting Officer's Responsibilities

Under s5 of the *Government Resources and Accounts Act 2000*, the Department for Transport is required to prepare resource 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 resource accounts are prepared on an accruals basis, and must give a true and fair view of the state of affairs of the Department, the net resource outturn, resources applied to the objectives, recognised gains and losses 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*.

# Statement on internal control

**Scope of responsibility**

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

2. The Department has seven Executive Agencies. Three of these are Trading Funds (the Driver and Vehicle Licensing Agency, the Driving Standards Agency and the Vehicle and Operator Services Agency) and the remaining four are Agencies (the Maritime and Coastguard Agency, the Vehicle Certification Agency, the Government Car and Despatch Agency and the Highways Agency).

3. The Trading Funds, together with the executive NDPBs (Passenger Focus - formerly the Rail Passengers Council, the Railway Heritage Committee, the British Transport Police and the Renewable Fuels Agency) fall outside the Departmental accounting boundary. The direct responsibility for maintaining the system of internal control within these organisations rests with the relevant body. These accounts are not consolidated in the Department's accounts.

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

5. The Director General of the Safety, Service Delivery and Logistics (SSDL) Group is an Additional Accounting Officer. The Group comprises the Driver and Vehicle Licensing Agency (DVLA), the Driving Standards Agency (DSA), the Vehicle Certification Agency (VCA), the Vehicle and Operator Services Agency (VOSA) and the Government Car and Despatch Agency (GCDA). The Group does not produce separate financial statements but provides an additional layer of assurance via the activity of the Additional Accounting Officer.

6. The Director General of the Rail and National Networks (RNN) Group is an Additional Accounting Officer. The focus of the RNN Group is upon improving connectivity along national networks; the routes that provide essential transport links between the country's major cities and conurbations. The Group is responsible for implementing the Government's strategy for the country's railways, for letting contracts for train franchises and for securing improved performance and value for money on the rail network. It also undertakes the sponsorship function for the Highways Agency. The Group does not produce separate financial statements but provides an additional layer of assurance through the operation of its Management Board.

**The purpose of the system of internal control**

7. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve departmental policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. Subject to the developments during the year described in the following paragraphs, the system of internal control has been in place in the Department for Transport for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

**Capacity to handle risk**

8. Leadership on risk management is provided by the Department's Management Board, which monitors delivery against key objectives across the DfT family. Significant risks to these objectives are identified by the line and escalated to the Board. In 2007-08, the Department's Management Board included the five Directors General in the central Department, the Chief Executive of the Highways Agency and two non-executive members. The following forums help ensure that risks are effectively managed:

- an Executive Committee, which seeks to ensure that the resources available to the central Department are managed as effectively as possible to mitigate identified risks and to meet corporate governance standards;
- the SSDL Group Management Board, which monitors delivery against key objectives across the SSDL Group agencies, including risks to their achievement;
- the Board of the RNN Group, which monitors delivery against objectives and the management of the Group's resources, including the controls for risk management; and
- the Boards of the Maritime and Coastguard Agency, the Highways Agency, the Vehicle and Operator Services Agency, Government Car and Despatch Agency, the Driver and Vehicle Licensing Agency, the Driving Standards Agency and the Vehicle Certification Agency, which monitor and review risks to the delivery of their objectives.

9. The Department's Group Audit Committee monitors and reviews the processes for managing risk, control, governance and assurance across the DfT family, and includes four non-executive members from the DfT family, including the Chair, who is also a member of the Departmental Board. Each Agency has its own Audit Committee, which fulfils a similar function.

10. Officials consult Ministers regularly on risk. Submissions to Ministers incorporate assessments of key risks including, for example, to the operation of the transport system, including public perceptions, and to the successful delivery of new policies.

11. During 2007-08, the focus for improving risk management throughout the Department has fallen to the Resource Management and Planning Teams (RMPTs) with a Departmental Risk Improvement Manager developing overall risk policy and reviewing the corporate risk log. They have continued to identify and implement actions to improve the identification and mitigation of Board and Group level risks through the business planning and risk management reporting process. The RMPTs are also responsible for ensuring that the appropriate support and training on risk management is available to staff within the central Department.

12. A programme of risk management workshops were delivered in year, supported by the Departmental Risk Improvement Manager. This has helped embed risk management concepts further into every day Departmental business. A number of improvements and additions were made to the Departmental risk guidance. Each Agency Chief Executive is responsible for ensuring that appropriate risk management guidance, support and training arrangements are in place within his or her agency.

**The risk and control framework**

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

14. Agency Chief Executives, Directors General (DGs) and Heads of Unit (Directors) in the central Department take responsibility for the day to day management of risks in their respective areas of influence. Through regular delivery and financial reporting processes, the Departmental Management Board has set guideline criteria for the impact of risks that it considers should be escalated for its potential attention. The Department also has in place Group risk registers which are reviewed by DGs and Directors with the RMPTs and the Departmental Risk Improvement Manager, and a corporate risk log which is reviewed by the Departmental Risk Improvement Manager, in each case on a quarterly basis. Any significant Departmental risks are escalated to the Department's Management Board for attention.

15. The central Department has in place a Corporate Governance Framework, which includes: the framework of accountabilities; the roles and responsibilities of Agency Chief Executives, Directors General and Directors; and the end of year reporting arrangements. The Framework sets out the responsibilities of Directors General and Directors for risk management. The Framework is supported by delegations from the Accounting Officer to Directors General to maintain effective accountability and management of resources.

16. The Department and its Agencies have a number of well-established programmes for involving the public in managing the risks associated with transport. These include road safety campaigns and work by the Maritime and Coastguard Agency to communicate with the public on key areas of water safety. The Department has also identified its ability to manage major transport disruptions as a key corporate risk, and has in place an active

programme, working with partners, to ensure that adequate contingency and emergency plans are maintained, developed and reviewed.

**Review of effectiveness**

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

18. The Audit Committee receives summaries of Internal Audit reports and considers the Group Head of Internal Audit's annual opinion on the effectiveness of risk management, control and governance. The Chair of the Audit Committee reports periodically to the Departmental Management Board and to the Accounting Officer the Committee's views on the effectiveness of internal control.

19. The Department's Audit and Risk Assurance Division (Internal Audit) operates to standards defined in the Government's Internal Audit Standard. It provides an independent opinion to the Accounting Officer on control and governance and the effectiveness of the Department's risk management systems. Regular reports are provided to the Department's management, as well as advice on risk and control issues. The Department's assessment of the control environment is also informed by the programme of external audits and value for money studies undertaken by the National Audit Office.

20. Directors General and Directors have reviewed internal control within their areas of responsibility within the central Department and have completed end of year assurance returns which have been communicated to the Audit Committee.

21. All DfT Agencies have reviewed the effectiveness of their systems of internal control and prepared Statements on Internal Control. No significant weaknesses were identified. In my statement for 2006/07, I noted that improvements in internal controls were planned for the Highways Agency. I can now report that work to implement the recommendations raised in the Nichols review are substantially complete and on track to be fully embedded by May 2008 and that work to improve processes and guidance is on target. Further information can be located within the Highways Agency's Statement on Internal Control.

**Capability Review**

22. In 2006/07 the Department underwent an external assessment by the Cabinet Office, referred to as a capability review. The purpose of this review was to determine how well placed the Department was in terms of leadership, strategy and delivery, to meet current and future challenges. The results of this review were published in June 2007 by the Cabinet Office and were very positive with the Department being placed third equal amongst all the Departments that had been assessed. Amongst the strengths that the Department exhibited were a limited number of weaknesses that required attention. A detailed plan spanning the next two years has been developed to tackle these weaknesses. The key elements of this plan are the strengthening of leadership, improvements to the way that strategy is developed, improvements in delivery and the development of our capability. Amongst the actions that have been taken following the Capability Review, now referred to as the 4ward programme, we have revised the organisational structure and recruited two new Directors General; developed new leadership standards; involved stakeholders in the development of our transport strategy and improved relations between the central Department and our agencies. Further actions to improve the running of the Department will be delivered in the next financial year.

**Information and data handling**

23. I am aware that the handling of information and data is a key risk to the Department. I have issued guidance to all staff on the subject of data handling and I have emphasized the importance of the requirements contained within this guidance. In line with a requirement for greater transparency over the issues associated with information and data handling a full disclosure of incidents that have occurred in 2007/08 can be reviewed within the Management Commentary.

24. The Department in compliance with Cabinet Office guidance has appointed an Information Management Officer and created an Information Management Directorate from April 2008. Responsibility for Information Management lies with the Director General for SSDL.

**Shared Service Centre**

25. In my Statement on Internal Control in 2006-07 I identified that, over the following three years, the Department would be completing the transfer of its financial and HR services to a new shared services platform. One year into this implementation, DVLA and DSA have completed their transfer. The central Department has gone live on the new platform from the beginning of 2008-09 and other elements of the Department will follow from October 2008.

26. During its first year of operation, the Shared Service Centre (SSC) has been subject to a comprehensive and continuous programme of internal audit and specialist review, and quality assurance by KMPG and Deloitte. This audit and review activity identified process weaknesses, which represent serious but not fundamental failures in the control framework. These weaknesses have led to instances of inappropriate authority levels amongst staff, prompt payment targets being missed and some elements of functionality not being delivered per the programme timetable. The Department's Management Board and DVLA and DSA's Accounting Officers are committed to implementing fully all the control recommendations.

27. During 2007-08, DVLA and DSA only had their financial services provided by the new SSC. The system limitations had a temporary impact on the Agencies' abilities to exercise full financial control and to carry out management reporting. In order to mitigate risks ensuing from these inefficiencies, the Agencies implemented additional extra-systems control processes and detailed monitoring of financial management information. These measures ensured that effective internal controls were maintained within the Agencies throughout the year.

28. The Department's SSC Programme has taken action to address the cause of the weaknesses and to eliminate their effect. This work is ongoing and will continue through 2008-09.

**Group Internal Audit Opinion**

In my opinion the DfT Group's arrangements for governance, risk management, and internal control have been adequate and effective in 2007/08 except for the following matters of significance in the context of the DfT and its Agencies in aggregation as a group:

**Shared Services**

The SSC commenced operations in April 2007 with a system of internal controls that was inadequate to support its activities. SSC management has started to address these weaknesses during the year but action plans to do so were neither fully formed nor implemented as at the end of March 2008. As a result the system of internal controls remained inadequate at the year-end because of significant weaknesses that had not been resolved.

Implementation timetables for remedial control activities run through to at least mid 2008-09, hence the ongoing weaknesses will have an adverse impact on the central Department and the Maritime and Coastguard Agency in 2008-09 unless adequate compensating controls are put in place.

Resources at the DVLA and the DSA, the SSC's customers during 2007-08, have been diverted to performing additional controls to compensate for the SSC's control weaknesses. As a result of the additional controls performed at both agencies, the views of the respective agencies' management is that the DVLA's and the DSA's financial statements have not been materially mis-stated.

**Data Protection**

A data protection compliance audit commissioned jointly by line management and internal audit in 2007-08 highlighted a number of significant issues that are likely to impact on the central Department's ability to manage the risks and compliance obligations associated with data protection. I summarised these issues in my report of 10 December 2007 to the Accounting Officer on the results of the Department's review of its data handling procedures.

Several of these issues had not been adequately addressed by May 2008 when internal audit followed-up the initial report. The Information Management Directorate, created in April 2008, now has actions underway which should address the unresolved issues as part of its broader programme to respond to the new data handling requirements the Cabinet Office has established.

**Partial and Nil Assurance Audit Reports**
Across the Department and its Agencies for 2007-08, 35% (2006-07: 34%) of rated internal audit reports carried a "partial" or "nil" assurance rating, meaning that significant weaknesses had been identified in the adequacy and effectiveness of arrangements for governance, risk management, or internal control. These weaknesses were significant in the context of the individual audit scope and in some cases in the context of the central Department or respective Agency: management at the appropriate level should pay due attention to these issues.

In the context of this Annual Opinion for the Department and its Agencies as a group, none of these weaknesses warrant specific mention, either individually or in aggregation, except as reported above.

*Robert Devereux* 10th July 2008
Accounting Officer
Department for Transport

**THE CERTIFICATE OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS**

I certify that I have audited the financial statements of the Department for Transport for the year ended 31 March 2008 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. 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*

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, the information which comprises the Management Commentary, included in the Annual Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

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

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

## *Basis of audit opinions*

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

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

## *Opinions*

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2008, and the net cash requirement, net resource outturn, net operating cost, operating costs applied to objectives, recognised gains and losses and cash flows for the year then ended;

- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and

- information which comprises the Management Commentary included within the Annual Report, is consistent with the financial statements.

## *Qualified Opinion on Regularity arising because of expenditure outside of the Ambit of the Vote*

As explained more fully in the attached report, the Department received approval from HM Treasury for an advance from the Contingencies Fund for expenditure on the Crossrail project, pending Parliamentary approval of enabling legislation. The Department did not draw down this money and, instead, paid £3.025 million from Request for Resources 1. The use of Supply financing for this purpose is contrary to HM Treasury authorities and so the Department has incurred expenditure outside the ambit of the Appropriation Act 2007. Accordingly, I have concluded that this expenditure is not in conformity with the authorities which govern it.

- In my opinion, except for the expenditure inappropriately funded from Request for Resources 1 referred to above, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I have reported further on this matter below.

- My report on these financial statements is on page 28.

T J Burr 15th July 2008
Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London
SW1W 9SS

## REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

### *Opinion on Regularity - Expenditure outside the Ambit of the Vote*

As part of my audit of the Department's Resource Accounts, I am required to satisfy myself that, in all material respects, the expenditure and income shown in the Resource Accounts have been applied to the purposes intended by Parliament and conform to the authorities which govern them; that is, they are "regular".

I have qualified my opinion on the Department's 2007-08 Resource Accounts as the Department spent some £3.025 million of Supply in connection with Crossrail which Parliament had not authorised and subsequently incurred "Excess" expenditure for which Parliamentary authority is required.

Crossrail is the plan to integrate the railways to the east and west of London through two tunnels from Paddington to Liverpool Street. The necessary powers are included in the Crossrail Bill which received its third reading in the House of Commons in December 2007 and which is currently at the Committee Stage in the House of Lords.

In January 2007, the Department obtained approval to use £6.525 million from the Contingencies Fund. This was required as there was neither enabling legislation nor Supply Estimate cover for certain Crossrail related expenditure in advance of legislation. Such cases are permitted by HM Treasury only where it would clearly be contrary to the public interest to await the normal Parliamentary approval.

The Department wanted these funds to make a fifty per cent contribution to the costs of utility diversions at Tottenham Court Road underground station to accommodate the planned Crossrail interchange, powers for which are contained in the Crossrail Bill. The Department required the Contingencies Fund advance because it considered it cost-effective to carry out the works at the same time as other work, rather than after the Crossrail Bill had Royal Assent. The Secretary of State for Transport told Parliament that the advance from the Contingencies Fund would be repaid once the Crossrail Bill had been approved by Parliament. The Department drew down and used £3.5 million from the Contingencies Fund in 2006-07.

In 2007-08, the Department spent an additional £3.025 million for further work at the underground station. This was within the overall amount announced to Parliament in January 2007 but the Department did not draw down additional funds from the Contingencies Fund because of an administrative error. Instead it used voted Supply funds without Parliamentary authority.

The Department propose to ask Parliament to authorise the expenditure of £3.025 million as additional use of resources by an Excess Vote at the end of 2008-09.

T J Burr
Comptroller and Auditor General

# Statement of Parliamentary Supply

**for the year ended 31 March 2008**

### Summary of Resource Outturn 2007-08

| | | | | | | | | 2007-08 £000 | 2006-07 £000 |
|---|---|---|---|---|---|---|---|---|---|
| | | Estimate | | | Outturn | | | | Outturn |
| | Note | Gross Expenditure | A in A | Net Total | Gross Expenditure | A in A | Net Total | Net Total Outturn compared with Estimate: saving/ (excess) | Net Total |
| Request for Resources 1 | 2 | 17,206,687 | (528,424) | 16,678,263 | 16,643,761 | (528,424) | 16,115,337 | 562,926 | 13,713,326 |
| Total resources | 3 | 17,206,687 | (528,424) | 16,678,263 | 16,643,761 | (528,424) | 16,115,337 | 562,926 | 13,713,326 |
| **Non-operating cost A in A** | 7 | | | (70,191) | | | (70,191) | - | (24,432) |

In 2006-07, the Department sought and received authority from the Treasury to drawdown a total of £6.525m from the Contingencies Fund for Crossrail expenditure. The Department was not able to use Supply funding for this expenditure as the related Crossrail legislation, which would provide the required authority, had not yet been given Royal Assent. The Department correctly drew down the first tranche of funds in 2006-07 but, in 2007-08, the second tranche of £3.025m was not drawn down and Supply was used instead. The use of Supply for expenditure for which the Department had not yet received Parliamentary approval is deemed irregular and the C&AG has given a qualified audit opinion in respect of this matter. Further details on this issue can be found within the Management Commentary on page 8.

### Net Cash Requirement 2007-08

| | | 2007-08 £000 | | | 2006-07 £000 |
|---|---|---|---|---|---|
| | Note | Estimate | Outturn | Net Total Outturn compared with Estimate: saving/ (excess) | Outturn |
| **Net Cash Requirement** | 4 | 13,674,279 | 13,239,444 | 434,835 | 11,559,814 |

### Summary of the income payable to the Consolidated Fund

In addition to appropriations in aid, the following income relates to the Department and is payable to the Consolidated Fund

| | | Forecast 2007-08 £000 | | Outturn 2007-08 £000 | |
|---|---|---|---|---|---|
| | Note | Income | Receipts | Income | Receipts |
| **Total** | 5 | 122,578 | *122,578* | 234,123 | *230,859* |

Explanations of variances between Estimate and Outturn are given in the Management Commentary.

The notes on pages 33 to 76 form part of these accounts

# Operating Cost Statement

### for the year ended 31 March 2008

| | | | | | | | 2007-08 £000 | | 2006-07 £000 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Core Department | | | Consolidated | Core Department | Consolidated |
| | Note | Staff Costs | Other Costs | Income | Staff Costs | Other Costs | Income | Total | Total |
| **Administration Costs:** | | | | | | | | | |
| Staff costs | 9 | 90,106 | | | 163,001 | | | 92,538 | 165,177 |
| Other administration costs | 10 | | 103,582 | | | 146,464 | | 73,990 | 117,600 |
| Operating income | 12 | | | (3,998) | | | (25,956) | (7,557) | (29,866) |
| **Programme Costs** | | | | | | | | | |
| Staff costs | 9 | 25,233 | | | 127,123 | | | 14,172 | 107,876 |
| Programme costs | 11 | | 10,836,135 | | | 16,221,884 | | 8,874,377 | 13,990,701 |
| Income | 12 | | | (395,662) | | | (489,271) | (525,152) | (605,926) |
| EU Income | 12 | | | - | | | (1,830) | - | (4,270) |
| EU Income (acting as agency) | 12 | | | (14,075) | | | (14,075) | (16,886) | (16,886) |
| Dividend receivable | 12 | | | (5,273) | | | (5,273) | - | - |
| Interest receivable | 12 | | | (36,173) | | | (43,698) | (29,140) | (40,047) |
| **Totals** | | 115,339 | 10,939,717 | (455,181) | 290,124 | 16,368,348 | (580,103) | 8,476,342 | 13,684,359 |
| **Net Operating Cost** | 3, 13 | | | 10,599,875 | | | 16,078,369 | 8,476,342 | 13,684,359 |

# Statement of Recognised Gains and Losses

### for the year ended 31 March 2008

| | | | 2007-08 £000 | | 2006-07 £000 |
|---|---|---|---|---|---|
| | Note | Core Department | Consolidated | Core Department | Consolidated |
| Net gain on revaluation of tangible/intangible fixed assets | 23 | (2,610) | 3,604,867 | 3,855 | 5,777,859 |
| Reversionary interest on M6 toll road | 22 | - | 7,240 | - | 12,366 |
| Actuarial gain recognised in pension scheme | 22 | (175,100) | (175,100) | 193,417 | 193,417 |
| Prior year adjustment | 22, 23 | - | 225,279 | - | (55,786) |
| **Recognised gains and losses for the financial year** | | (177,710) | 3,662,286 | 197,272 | 5,927,856 |

The notes on pages 33 to 76 form part of these accounts

# Balance Sheet

### as at 31 March 2008

| | | | 2007-08 £000 | | 2006-07 £000 | |
|---|---|---|---|---|---|---|
| | | | Core Department | Consolidated | Core Department | Consolidated (restated) |
| | Note | | | | | |
| **Fixed assets:** | | | | | | |
| Tangible assets | 14 | | 2,062,265 | 87,612,458 | 1,883,329 | 83,532,713 |
| Intangible assets | 15 | | 23,476 | 30,179 | 22,856 | 27,991 |
| Investments | 16 | | 624,901 | 624,901 | 675,882 | 675,882 |
| | | | 2,710,642 | 88,267,538 | 2,582,067 | 84,236,586 |
| Debtors falling due after more than one year | 18 | | 3,500 | 227,401 | 5,000 | 206,448 |
| **Current assets:** | | | | | | |
| Stocks | 17 | - | | 24,029 | - | 27,434 |
| Debtors | 18 | 88,493 | | 205,363 | 173,584 | 268,495 |
| Cash at bank and in hand | 19 | 155,702 | | 101,932 | 190,705 | 191,937 |
| | | 244,195 | | 331,324 | 364,289 | 487,866 |
| Creditors (amounts falling due within one year) | 20 | (833,217) | | (1,328,542) | (622,688) | (1,213,254) |
| **Net current liabilities** | | | (589,022) | (997,218) | (258,399) | (725,388) |
| **Total assets less current liabilities** | | | **2,125,120** | **87,497,721** | **2,328,668** | **83,717,646** |
| Creditors (amounts falling due after more than one year) | 20 | | (1,944,551) | (3,263,552) | (1,806,759) | (3,120,469) |
| Provisions for liabilities and charges | 21 | | (520,857) | (1,208,179) | (700,785) | (1,288,601) |
| Pension liability | 39 | | (251,139) | (251,139) | (116,038) | (116,038) |
| Total | | | **(591,427)** | **82,774,851** | **(294,914)** | **79,192,538** |
| **Taxpayers' equity:** | | | | | | |
| General Fund | 22 | | (615,527) | 38,724,946 | (321,624) | 38,722,545 |
| Revaluation Reserve | 23 | | 24,100 | 44,049,905 | 26,710 | 40,469,993 |
| Total | | | **(591,427)** | **82,774,851** | **(294,914)** | **79,192,538** |

The comparative figures have been restated following the detrunking of non-core roads to local authorities (see Note 37).

*Robert Devereux*
Accounting Officer
Department for Transport

10th July 2008

The notes on pages 33 to 76 form part of these accounts

# Consolidated Cash Flow Statement

**for the year ended 31 March 2008**

| | Note | 2007-08 £000 | 2006-07 £000 |
|---|---|---|---|
| Net cash outflow from operating activities | 24.1 | (12,118,818) | (10,344,294) |
| Cost of servicing of finance: interest element of PFI payments | | - | - |
| Capital expenditure and financial investment | 24.2 | (1,006,197) | (1,076,738) |
| Receipts due to the Consolidated Fund which are outside the scope of the Department's activities | | 155,864 | 134,780 |
| Payments of amounts due to the Consolidated Fund | | (176,389) | (237,513) |
| Financing | 24.4 | 13,055,535 | 11,467,119 |
| Decrease in cash in the period | 24.5 | (90,005) | (56,646) |

# Consolidated Statement of Operating Costs by Departmental Aim and Objectives

**for the year ended 31 March 2008**

| | 2007-08 | | £000 | 2006-07 (restated) | | £000 |
|---|---|---|---|---|---|---|
| | **Gross** | **Income** | **Net** | **Gross** | **Income** | **Net** |
| **Aim**[1] | | | | | | |
| Objective 1 | 10,999,025 | (441,271) | 10,557,754 | 9,814,896 | (450,895) | 9,364,001 |
| Objective 2 | 856,405 | (18,677) | 837,728 | 595,145 | (17,176) | 577,969 |
| Objective 3 | 3,205,635 | (84,788) | 3,120,847 | 3,053,416 | (192,935) | 2,860,481 |
| Objective 4 | 1,597,407 | (35,367) | 1,562,040 | 917,897 | (35,989) | 881,908 |
| **Net operating costs** | **16,658,472** | **(580,103)** | **16,078,369** | **14,381,354** | **(696,995)** | **13,684,359** |

[1]The Departmental Objectives changed for 2007-08. The prior year information has been restated in line with these new objectives. This change is described on Page 3 of the management commentary.

The Department's objectives were as follows:

**Objective 1** – To sustain economic growth and improved productivity through reliable and efficient transport networks.

**Objective 2** – To improve the environmental performance of transport.

**Objective 3** – To strengthen the safety and security of transport.

**Objective 4** – To enhance access to jobs, services and social networks, including for the most disadvantaged.

The notes on pages 33 to 76 form part of these accounts

# Notes to the Departmental Resource Accounts

## 1 Statement of Accounting Policies

These financial statements have been prepared in accordance with the *2007-08 Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the *FReM* follow UK Generally Accepted Accounting Practice for companies *(*UK GAAP*)* to the extent that it is meaningful and appropriate to the public sector.

In addition to the primary statements prepared under UK GAAP, the *FReM* also requires the Department to prepare two additional primary statements. The Statement of Parliamentary Supply and supporting notes show Outturn against Estimate in terms of the Net Resource Requirement and the Net Cash Requirement. The Consolidated Statement of Operating Costs by Departmental Aim and Objectives and supporting notes analyse the Department's income and expenditure by the objectives agreed with Ministers.

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

### 1.1 Accounting convention

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

### 1.2 Basis of consolidation

These accounts comprise a consolidation of the core Department, and those entities that fall within the Departmental boundary as defined in the *FReM* issued by HM Treasury and as listed in Note 36. Transactions between entities included in the consolidation are eliminated.

### 1.3 Tangible fixed assets

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

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

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

Legal title to the freehold land and buildings shown in the accounts is held in the name of the Secretary of State.

### 1.4 Valuation

Fixed assets are expressed at their current value through the application of Modified Historic Cost Accounting.

Network assets, which are intended to be maintained at a specific level of service potential by continuing replacement and refurbishment, are valued at depreciated replacement cost. Between valuations, the assets are adjusted annually using ROCOS (resource cost index of road construction) and Valuation Office Agency property market reports. Network assets are valued by reference to internal costings and physical asset records. The estimated unexpired life of the network is reassessed annually and the valuation adjusted, if required.

Freehold land and buildings are restated to current value using professional valuations, in accordance with *FRS 15.* Such valuations are undertaken every five years. In intervening years, values are adjusted using appropriate methods, including indices, except the freehold land on which the Channel Tunnel Rail Link has been constructed, which has been leased to the operator for 90 years. Reflecting this usage, the land has been valued at the net present value of the lease income, since the land is not unencumbered and the Department's rights are, to that extent, constrained. The reversionary interest of the land and the Link constructed upon it are valued at nil.

Assets held for resale (dwellings), being land and property released from road schemes, are valued at open market value, less provision for selling costs. All other tangible fixed assets are restated to current value each year, using appropriate indices, except database development assets which are stated at cost.

### 1.5 Depreciation

**Network assets (Infrastructure assets)**

A modified version of renewals accounting, as described in the *FReM*, is applied, where appropriate. The following network asset components are subject to renewals accounting: surface layer of flexible pavements; sub-pavement layer of determinate life pavements; fencing, drainage, lighting signage, kerbs, footways; road markings and studs; and rigid concrete pavements.

Assets that qualify for renewals accounting are not depreciated. Instead, expenditure incurred in maintaining the operating capacity of assets is expensed as a proxy for depreciation. Further details are disclosed within the accounts of the Highways Agency.

The following network components are considered to have an indefinite life and are not depreciated: freehold land; sub-pavement layer of long-life pavements; and earthworks.

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

| | |
|---|---|
| Road bridges, tunnels and underpasses, road culverts, retaining walls and gantries | 20 to 120 years |
| Road communications assets | 15 to 50 years |

**Non-network assets**

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

| Asset group | Asset life |
|---|---|
| Land and buildings, including dwellings | Up to 60 years or length of lease |
| Plant and machinery | 3 to 25 years |
| Furniture and fittings | 2 to 10 years |
| Transport equipment | 3 to 10 years |
| Information technology | 3 to 10 years |
| Assets under construction | No depreciation |

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

### 1.6 Intangible fixed assets

Purchased computer software licences are capitalised as intangible fixed assets. These items are valued at historic cost and are normally amortised over two to five years on a straight-line basis over their useful lives. Expenditure on research is not capitalised. Expenditure on development in connection with a product or service, which is to be supplied on a full cost recovery basis, is capitalised if it meets the criteria specified in the *FReM.* Other development expenditure is capitalised if it meets the criteria specified in the *FReM*. Expenditure that does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred. Fixed assets acquired for use in research and development are depreciated over the life of the associated project, or according to the asset category if the asset is to be used for subsequent production work.

### 1.7 Investments

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

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

Other investments are shown at market value at 31 March 2008.

### 1.8 Stocks and work in progress

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

### 1.9 Research and development expenditure

Expenditure on research and development has been treated as programme expenditure in the Operating Cost Statement in the year in which it is incurred. Fixed assets acquired for use in research and development are depreciated over the life of the associated research project, or according to the asset category, if the asset is to be used for subsequent production work.

### 1.10 Operating income

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

### 1.11 Administration and programme expenditure

The Operating Cost Statement is segmented into programme and non-programme expenditure. The classification of expenditure and income as administration or as programme follows the definition of administration costs set by HM Treasury. Programme costs reflect non-administration costs, including payments of grants and other disbursements by the Department. Both the Maritime and Coastguard Agency and the Vehicle Certification Agency have programme expenditure only.

### 1.12 Capital charge

A charge, reflecting the cost of capital utilised by the Department, is included in operating costs. The charge is calculated at the real rate set by HM Treasury (3.5 per cent) on the average carrying amount of all assets less liabilities, except for:

(i) tangible and intangible fixed assets, where the cost of capital charge is based on opening values, adjusted pro rata for in-year:

- additions;
- disposals as valued in the opening balance sheet (plus any subsequent capital expenditure prior to disposal);
- impairments at the amount of the reduction of the opening balance sheet value (plus any subsequent capital expenditure); and
- depreciation of tangible, and amortisation of intangible, fixed assets:

(ii) cash balances with the Office of the Paymaster General, where the charge is nil; and
(iii) the Department's investments and loans, where the charge is between 3.5 and 7.875 per cent, based on the rate of return on the investment with the exception of the Humber Bridge Board Loan, where the capital charge is set at 7.75 per cent and the interest rate charged on the loan is 4.25 per cent.

### 1.13 Pensions

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 9. The defined benefit scheme is unfunded and is non-contributory, except in respect of dependants' benefits. The Department recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruals basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the Department recognises the contributions payable for the year.

Pension benefits to Ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). Further details are provided in the Remuneration Report. Other schemes are accounted for in accordance with *FRS 17*.

The Department is also responsible for funding any shortfalls in a small number of historic funded pension arrangements, which relate almost entirely to individuals drawing pensions. Where it is considered more likely than not that the Department has an obligation to make contributions in respect of any deficit, the value of such contributions is recognised as a provision.

The Department has also undertaken to fund the pension of a small number of special post holders including the PPP Arbiter.

### 1.14 Leases

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

### 1.15 Public Finance Initiative (PFI) contracts

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

Where the substance of the transaction is that the risks and rewards of ownership remain with the Department, the assets and liabilities are reported on the Department's balance sheet. Unitary charges in respect of on-balance sheet PFI deals are apportioned between reduction in the capital obligation and charges to the Operating Cost Statement for service performance and finance cost. Where the balance of risks and rewards of ownership of the PFI property is borne by the PFI operator, the PFI payments are recorded as an operating cost. Where the Department has contributed assets that result in lower service charge payments, a prepayment for their fair value is recognised and subsequently charged as an operating cost over the life of the PFI contract.

### 1.16 Grants payable

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

### 1.17 Provisions

The Department makes provision for liabilities and charges in accordance with *FRS 12* where, at the balance sheet date, 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 HM Treasury model.

### 1.18 Contingent liabilities

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

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

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

### 1.19 Value added tax

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

### 1.20 Prior year adjustments

Material adjustments applicable to prior periods arising from machinery of government changes, accounting policy changes, or from the correction of fundamental errors are accounted for as prior year adjustments. Due to trunking and detrunking of the Highways Agency's road network, opening balances and comparative figures for the previous period have been restated.

### 1.21 Rail franchise agreements

Franchise agreements provide for each train operating company to either pay franchise premia or to receive subsidy in each franchise year. Franchise agreements include mechanisms to adjust the level of premia/subsidy dependent on performance and agreed events. All transactions in respect of premium generating franchises are accounted for wholly through income, all transactions in respect of subsidy-paying franchises are accounted for wholly through programme costs.

### 1.22 Early departure costs

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

### 1.23 Significant estimation techniques

Significant estimation techniques include the valuation of the national trunk road network; the recognition and valuation of provisions; the method of apportionment of lease rentals between capital, interest and service elements of PFI contracts; and, for those pension schemes for which *FRS 17* applies, the expected return on scheme assets, as advised by independent actuaries.

## 2 Analysis of Net Resource Outturn by Section

| | | | | | | | | | 2007-08 £000 | 2006-07 £000 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Admin | Other Current | Grants | Gross Resource Expenditure | A in A | Net Total | Estimate | Net Total compared with Estimate | Net Total |
| | **Spending in Departmental Expenditure Limits (DEL)** | | | | | | | | | |
| | **Central Government spending** | | | | | | | | | |
| A | Ports and shipping services | | 16,040 | - | 16,040 | (3,665) | 12,375 | 16,638 | 4,263 | 15,977 |
| B | Maritime and Coastguard Agency | | 141,604 | - | 141,604 | (13,044) | 128,560 | 129,337 | 777 | 121,998 |
| C | Aviation services | | 26,103 | 45,177 | 71,280 | (61,547) | 9,733 | 18,532 | 8,799 | 20,142 |
| D | Transport security and Royal travel | | 21,200 | 6,421 | 27,621 | (171) | 27,450 | 26,569 | (881) | 14,374 |
| E | Highways Agency | 96,016 | 1,772,528 | - | 1,868,544 | (58,627) | 1,809,917 | 1,812,286 | 2,369 | 2,364,637 |
| F | Publicity and advice | | 7,157 | 6,458 | 13,615 | - | 13,615 | 19,997 | 6,382 | 20,955 |
| G | Research | | 22,350 | - | 22,350 | (504) | 21,846 | 30,317 | 8,471 | 22,374 |
| H | Statistics, censuses and surveys | | 11,348 | 87 | 11,435 | - | 11,435 | 14,138 | 2,703 | 9,512 |
| I | Consultancies and other services for roads and local transport | | 5,006 | 418 | 5,424 | - | 5,424 | 7,538 | 2,114 | 4,800 |
| J | Mobility and Inclusion Unit | | 1,904 | 4,039 | 5,943 | (14) | 5,929 | 6,022 | 93 | 4,333 |
| K | Strategic transport studies | | 557 | - | 557 | - | 557 | 1,500 | 943 | 86 |
| L | Railways | | 39,431 | 4,033,590 | 4,073,021 | (258,105) | 3,814,916 | 3,799,533 | (15,383) | 3,959,184 |
| M | Commission for Integrated Transport | | 942 | - | 942 | - | 942 | 1,500 | 558 | 1,445 |
| N | Freight grants | | 17,475 | (1,293) | 16,182 | (79) | 16,103 | 18,228 | 2,125 | 28,849 |
| O | Bus service operators grant | | 409,993 | - | 409,993 | - | 409,993 | 413,521 | 3,528 | 370,325 |
| P | Vehicle excise duty enforcement | | - | - | - | - | - | - | - | (17,076) |
| Q | Vehicle Certification Agency - other payments | | 1,024 | - | 1,024 | - | 1,024 | 1,000 | (24) | 883 |
| R | Vehicle Certification Agency | | 11,103 | - | 11,103 | (11,404) | (301) | 112 | 413 | (338) |
| S | Power shift and clean up | | 7,554 | 9,099 | 16,653 | (296) | 16,357 | 17,700 | 1,343 | 13,180 |
| T | Dartford river crossing | | - | - | - | (68,902) | (68,902) | (68,883) | 19 | (68,365) |
| U | Driving Standards Agency trading fund | | 3,872 | - | 3,872 | (1,738) | 2,134 | (805) | (2,939) | 1,592 |
| V | Vehicle and Operator Service Agency trading fund | | 6,581 | - | 6,581 | (3,316) | 3,265 | 2,159 | (1,106) | 931 |
| W | Driver, Vehicle and Operator Group - enforcement | | 16,549 | 1,085 | 17,634 | (2,813) | 14,821 | 19,157 | 4,336 | 16,088 |
| X | Central administration | 190,802 | 33,106 | - | 223,908 | (5,631) | 218,277 | 234,516 | 16,239 | 172,565 |
| Y | Trans-European network payments for transport projects(net) | | (8) | - | (8) | - | (8) | 3 | 11 | - |
| Z | Driver, Vehicle and Operator Group - central (including loan pool) | | 131 | - | 131 | - | 131 | - | (131) | - |

| | | | | | | | | | 2007-08 £000 | 2006-07 £000 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | **Admin** | **Other Current** | **Grants** | **Gross Resource Expenditure** | **A in A** | **Net Total** | **Estimate** | **Net Total compared with Estimate** | **Net Total** |
| AA | Other river crossings | | 26,815 | - | 26,815 | (15,157) | 11,658 | 11,000 | (658) | 11,856 |
| AB | Haulage efficiency and modernisation projects | | 56 | - | 56 | - | 56 | 2,000 | 1,944 | 1,582 |
| AC | Government Car and Despatch Agency | 19,946 | - | - | 19,946 | (19,607) | 339 | - | (339) | (201) |
| | **Support for Local Authorities** | | | | | | | | | |
| AD | GLA transport grant (resource) | | - | 2,396,500 | 2,396,500 | - | 2,396,500 | 2,396,500 | - | 2,638,305 |
| AE | Other transport grants (resource) | | 2,700 | 574,767 | 577,467 | (74) | 577,393 | 584,633 | 7,240 | 462,863 |
| AF | Other transport grants (capital) | | 1,574 | 928,924 | 930,498 | (110) | 930,388 | 1,006,983 | 76,595 | 290,959 |
| | *Speed and red-light camera enforcement* | | - | - | - | - | - | - | - | *(69)* |
| | **Spending in Annually Managed Expenditure (AME)** | | | | | | | | | |
| | **Central Government spending** | | | | | | | | | |
| AG | Highways Agency | | 3,561,318 | - | 3,561,318 | - | 3,561,318 | 3,595,924 | 34,606 | 2,741,535 |
| | *Railways* | | - | - | - | - | - | - | - | (24,674) |
| | **Non-Budget** | | | | | | | | | |
| AH | Grant in Aid funding of non-departmental public bodies and public corporations | | - | 133,699 | 133,699 | - | 133,699 | 183,000 | 49,301 | 243,637 |
| AI | Driver and Vehicle Licensing Agency (trading fund) | | 8,108 | 221,059 | 229,167 | (3,620) | 225,547 | 268,858 | 43,311 | 264,982 |
| | *Strategic Rail Authority* | | - | - | - | - | - | - | - | *4,100* |
| | **Spending in Departmental Expenditure Limits (DEL)** | | | | | | | | | |
| | **Support for Local Authorities** | | | | | | | | | |
| AJ | Other Grants to GLA | | - | 150,000 | 150,000 | - | 150,000 | 150,000 | - | - |
| | **Spending in Annually Managed Expenditure (AME)** | | | | | | | | | |
| | **Central Government spending** | | | | | | | | | |
| AK | Railways and Other Expenditure | | (10,254) | (36,900) | (47,154) | - | (47,154) | 100,750 | 147,904 | - |
| | **Non-Budget** | | | | | | | | | |
| AL | Other Grants to GLA | | - | 1,700,000 | 1,700,000 | - | 1,700,000 | 1,858,000 | 158,000 | - |
| | **Net Resource Outturn** | **306,764** | **6,163,867** | **10,173,130** | **16,643,761** | **(528,424)** | **16,115,337** | **16,678,263** | **562,926** | **13,713,326** |

Detailed explanations of significant variances between Estimate and Net Resource Outturn are shown in the Management Commentary on page 7.

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

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

| | | 2007-08 | | | 2006-07 |
|---|---|---|---|---|---|
| | | £000 | | | £000 |
| | Note | Outturn | Supply Estimate | Outturn compared with Estimate | Outturn |
| Net Resource Outturn | 2 | 16,115,337 | 16,678,263 | 562,926 | 13,713,326 |
| Non-supply income (CFERs) | 5 | (36,968) | (11,339) | 25,629 | (28,967) |
| **Net Operating Cost** | | 16,078,369 | 16,666,924 | 588,555 | 13,684,359 |

### 3.2 Outturn against Administration Budget

| | 2007-08 | | 2006-07 |
|---|---|---|---|
| | £000 | | £000 |
| | Budget | Outturn | Outturn |
| Gross Administration Budget | 323,430 | 306,764 | 272,114 |
| Income allowable against the Administration Budget | (28,904) | (25,756) | (28,482) |
| **Net Outturn against Administration Budget** | 294,526 | 281,008 | 243,632 |

## 4 Reconciliation of Resources to Cash Requirement

| | | | | 2007-08 | 2006-07 |
|---|---|---|---|---|---|
| | | £000 | £000 | £000 | £000 |
| | Note | Estimate | Outturn | Net Total Outturn compared with Estimate: saving/ (excess) | Outturn |
| **Resource Outturn** | 2 | 16,678,263 | 16,115,337 | 562,926 | 13,713,326 |
| Capital Expenditure | 14 & 15 | 1,202,929 | 1,128,701 | 74,228 | 1,157,693 |
| Investments | 16 | - | 53,800 | (53,800) | 32,500 |
| **Non-Operating A in A** | | | | | |
| Proceeds from fixed asset disposals | | (57,396) | (7,751) | (49,645) | (9,604) |
| Repayments of investments | | (12,795) | (101,535) | 88,740 | (14,828) |
| Excess Non-Operating A-in-A | | - | 39,095 | (39,095) | - |
| **Accruals adjustments:** | | | | | |
| Non-cash items | 10,11,12 | (4,103,357) | (3,970,789) | (132,568) | (4,225,945) |
| Changes in working capital other than cash | | (222,517) | (194,772) | (27,745) | (175,790) |
| Use of provision | 21 | 189,152 | 328,197 | (139,045) | 1,100,267 |
| Non-cash movement in provisions | | - | (142,095) | 142,095 | (19,569) |
| Increase/(decrease) in third party balances | 20 | - | (10,738) | 10,738 | (303) |
| Detrunkings | | - | 1,994 | (1,994) | 2,067 |
| **Net Cash Requirement** | | 13,674,279 | 13,239,444 | 434,835 | 11,559,814 |

## 5 Analysis of income payable to the Consolidated Fund

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

| | | Forecast 2007-08 £000 | | Outturn 2007-08 £000 | |
|---|---|---|---|---|---|
| | Note | Income | Receipts | Income | Receipts |
| Operating income and receipts - Excess A in A | | - | - | 11,996 | *11,996* |
| Other operating income and receipts not classified as A in A | | 11,339 | *11,339* | 24,972 | *21,708* |
| | | 11,339 | *11,339* | 36,968 | *33,704* |
| Non-operating income and receipts - Excess A in A | 7 | - | - | 39,095 | *39,095* |
| Other non-operating income and receipts not classified as A in A | 8 | 1,662 | *1,662* | 2,196 | *2,196* |
| Other amounts collectable on behalf of the Consolidated Fund | | 109,577 | *109,577* | 155,864 | *155,864* |
| | | **122,578** | ***122,578*** | **234,123** | ***230,859*** |

## 6 Reconciliation of income recorded within the Operating Cost Statement to operating income payable to the Consolidated Fund

| | Note | 2007-08 £000 | 2006-07 £000 |
|---|---|---|---|
| Operating income | 12 | 580,103 | 696,995 |
| Income authorised to be Appropriated in Aid | 2 | (528,424) | (650,444) |
| Income netted off within Note 2 section Y | | (14,075) | (16,886) |
| Interest to be paid to the National Loans Fund | | (636) | (698) |
| **Operating income payable to the Consolidated Fund** | 5 | 36,968 | 28,967 |

## 7 Non-operating income – Excess A in A

| | 2007-08 £000 | 2006-07 £000 |
|---|---|---|
| Principal repayments of Voted loans | 101,535 | 14,828 |
| Proceeds on disposals of fixed assets | 7,751 | 9,604 |
| *less* Non-Operating A in A Cover in Estimate | (70,191) | (24,432) |
| **Non-operating Income - Excess A in A** | 39,095 | - |

## 8 Non-operating income not classified as A in A

| | Income £000 | Receipts £000 |
|---|---|---|
| Humber Bridge | 533 | 533 |
| Mersey Tunnel | 1,663 | 1,663 |
| **Total** | 2,196 | 2,196 |

## 9 Staff Numbers and Costs

### 9.1 Staff Costs

Staff costs comprise:

| | | | | 2007-08 | 2006-07 |
|---|---|---|---|---|---|
| | Total | Permanently Employed Staff | Ministers | Special Advisers | Total |
| | £000 | £000 | £000 | £000 | £000 |
| Wages and salaries | 224,457 | 224,163 | 185 | 109 | 214,452 |
| Social security costs | 19,703 | 19,676 | 16 | 11 | 19,545 |
| Other pension costs | 46,591 | 46,567 | - | 24 | 41,882 |
| | 290,751 | 290,406 | 201 | 144 | 275,879 |
| Agency and contracted out staff | 14,121 | 14,121 | - | - | 11,061 |
| Inward secondments | 131 | 131 | - | - | 185 |
| | 305,003 | 304,658 | 201 | 144 | 287,125 |
| Less: amount capitalised | (14,879) | (14,879) | - | - | (14,072) |
| **Total Net Costs** | 290,124 | 289,779 | 201 | 144 | 273,053 |
| Of which: | | | | | |
| Core Department | 115,339 | 114,994 | 201 | 144 | 106,710 |

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the Department is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2007-08, employers' contributions of £41,252,839 were payable to the PCSPS (2006-07: £38,837,609) at one of four rates in the range 17.1 to 25.5 per cent (2006-07: 17.1 to 25.5 per cent) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2008-09, the salary bands will be revised but the rates will remain the same. (The rates will be changing with effect from April 2009). The contribution rates are set to meet the cost of the benefits accruing during 2007-08 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 £198,652 (2006-07: £153,731) 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 per cent (2006-07: 3 to 12.5 per cent) of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £9,393 (0.8 per cent; 2006-07: £13,952, 0.8 per cent) of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

5 persons (2006-07: 18 persons) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £8,428 (2006-07: £26,674).

### 9.2 Average Number of Persons Employed

The average number of whole-time equivalent persons employed during the year was as follows. These figures include those working in the Department as well as in Agencies and other bodies included within the consolidated departmental resource account:

| | 2007-08 Number | | | | | 2006-07 Number (restated) |
|---|---|---|---|---|---|---|
| | Total | Permanent Staff | Other Staff | Ministers | Special Advisers | Total |
| **Objective[1]** | | | | | | |
| 1 | 2,962.35 | 2,691.68 | 269.17 | 1.00 | 0.50 | 2,936.18 |
| 2 | 374.38 | 331.56 | 41.32 | 1.00 | 0.50 | 317.77 |
| 3 | 3,494.99 | 3,286.52 | 206.97 | 1.00 | 0.50 | 3,479.11 |
| 4 | 661.41 | 593.98 | 65.93 | 1.00 | 0.50 | 647.16 |
| **Total** | **7,493.13** | **6,903.74** | **583.39** | **4.00** | **2.00** | **7,380.22** |
| Of which: | | | | | | |
| Core Department | 2,325.60 | 1,993.14 | 326.46 | 4.00 | 2.00 | 2,281.71 |

[1]The Departmental Objectives changed for 2007-08. The prior year information has been restated in line with these new objectives. This change is described on Page 3 of the management commentary.

### 10 Other Administration Costs

| | 2007-08 | | 2006-07 | |
|---|---|---|---|---|
| | Core Department | Consolidated | Core Department (restated) | Consolidated (restated) |
| | £000 | £000 | £000 | £000 |
| Rentals under operating leases | 15,472 | 23,410 | 14,942 | 23,410 |
| Research and development expenditure | 517 | 541 | 458 | 467 |
| Communication and information technology | 8,910 | 10,467 | 9,328 | 11,164 |
| Consultancy [1] | 40,894 | 42,652 | 9,998 | 11,783 |
| Professional services | 8,997 | 9,408 | 1,782 | 1,996 |
| Accommodation [2] | 8,439 | 16,310 | 10,551 | 17,151 |
| Support services | 531 | 531 | 2,199 | 2,199 |
| Travel and subsistence | 2,989 | 6,856 | 3,354 | 7,441 |
| Vehicle costs and services | - | 3,521 | - | 2,860 |
| Other costs [2] | 14,634 | 21,209 | 12,681 | 18,667 |
| **Subtotal - Cash items** | **101,383** | **134,905** | **65,293** | **97,138** |
| Non-cash items: | | | | |
| Depreciation | 3,318 | 7,310 | 4,404 | 9,113 |
| Amortisation | 408 | 1,336 | 705 | 1,721 |
| Impairment of fixed assets | - | 5 | - | 370 |
| Write down in value of fixed assets | - | - | - | 2,203 |
| Loss on disposal of fixed assets | 112 | 186 | 140 | 226 |
| Cost of capital charges | (794) | 6 | (1,778) | (844) |
| Auditors remuneration and expenses | 300 | 737 | 350 | 800 |
| Provisions provided for in year | (1,177) | 1,883 | 4,873 | 6,846 |
| Provision for bad and doubtful debts | 32 | 96 | 3 | 27 |
| **Subtotal - Non-cash items** | **2,199** | **11,559** | **8,697** | **20,462** |
| **Operating Cost Statement** | **103,582** | **146,464** | **73,990** | **117,600** |

[1] A Treasury 'Public Expenditure System' Paper, issued in June 2007, directed Departments to adopt a standard set of definitions and accounting codes when recognising consultancy costs. Extensive work was completed to satisfy, for 2007/08, the requirements contained within this direction. There was no requirement to amend historical data.

[2] The prior year figures for Accommodation, in both the Core and Consolidated columns, have been increased with a corresponding decrease recorded in Other costs. The change in Core was £1,595,000 and the change in the Consolidated column was £2,298,000. These restatements reflect a more accurate disclosure of expenditure.

## 11 Programme Costs

| | 2007-08 | | 2006-07 | |
|---|---|---|---|---|
| | Core Department | Consolidated | Core Department (restated) | Consolidated (restated) |
| | £000 | £000 | £000 | £000 |
| Rentals under operating leases | 1,153 | 1,403 | 1,164 | 1,419 |
| Interest charges | (36,263) | (36,263) | 709 | 710 |
| Interest credits due pension movements | - | - | (46,400) | (46,400) |
| PFI service charges | - | 74,885 | - | 74,410 |
| Research and development expenditure | 34,672 | 48,464 | 31,604 | 44,184 |
| Metronet Grant to TfL | 1,700,000 | 1,700,000 | - | - |
| Capital grants | 4,351,215 | 4,351,215 | 2,830,144 | 2,830,144 |
| Current grants | 2,948,759 | 2,948,759 | 2,651,752 | 2,651,752 |
| Grant in Aid | 221,158 | 221,158 | 268,672 | 268,672 |
| EU capital grants | 14,075 | 14,075 | 16,886 | 16,886 |
| Subsidies | 467,377 | 467,377 | 411,698 | 411,698 |
| Support for passenger rail services[1] | 935,061 | 935,061 | 2,087,038 | 2,087,038 |
| Road network capital maintenance | - | 488,572 | - | 504,632 |
| Road network current maintenance | - | 534,713 | - | 482,704 |
| PFI contract shadow tolls | - | 160,528 | - | 154,733 |
| Eurocontrol payments | 43,103 | 43,103 | 44,893 | 44,893 |
| Search and rescue helicopters | - | 22,756 | - | 17,609 |
| Emergency towing vessls | - | 11,254 | - | 10,773 |
| Civil hydrography | - | 5,430 | - | 5,500 |
| Weather bulletins and navigational warnings | - | 860 | - | 1,143 |
| Communication and information technology | 8,405 | 15,678 | 6,499 | 13,789 |
| Consultancy | 19,027 | 20,666 | 18,794 | 19,731 |
| Professional services | 69,139 | 69,950 | 64,286 | 65,369 |
| Accommodation [2] | 975 | 10,435 | 467 | 9,432 |
| Publicity [3] | 26,080 | 26,080 | 25,657 | 25,657 |
| Support services | 1,261 | 1,261 | 3,357 | 3,357 |
| Travel and subsistence | 1,448 | 5,830 | 1,242 | 5,526 |
| Other costs [2,3] | 35,609 | 118,251 | 16,203 | 79,857 |
| **Subtotal - Cash items** | **10,842,254** | **12,261,501** | **8,434,665** | **9,785,218** |
| | | | | |
| Non-cash items: | | | | |
| Depreciation | 8,271 | 322,668 | 8,274 | 261,270 |
| Amortisation | 414 | 1,083 | 103 | 635 |
| Impairment of fixed assets | - | 1,122 | - | 10,329 |
| Downward revaluation of fixed assets | - | 2,364 | - | 295 |
| Write down in value of fixed assets | - | 684,213 | - | 596,197 |
| Loss on disposal of fixed assets | 75 | 926 | 17 | 761 |
| Cost of capital charges | 6,033 | 2,841,248 | (2,633) | 2,697,144 |
| Provisions provided for in year | (20,912) | 105,173 | 437,551 | 647,476 |
| Unwinding of discount on provisions | - | - | (3,600) | (3,600) |
| Provision for bad and doubtful debts | - | 1,586 | - | (5,024) |
| **Subtotal - Non-cash items** | **(6,119)** | **3,960,383** | **439,712** | **4,205,483** |
| | | | | |
| **Operating Cost Statement** | **10,836,135** | **16,221,884** | **8,874,377** | **13,990,701** |

[1]This figure includes income of £2.8m (2006-07: £6.5m) being amounts due from Train Operating Companies in respect of operational performance during the financial year. This is presented in line with the accounting policy at Note 1.21.

[2] The prior year figures for Accommodation, in both the Core and Consolidated columns, have been increased with a corresponding decrease recorded in Other costs. The change in Core was £23,000 and the change in the Consolidated column was £80,000. These restatements reflect a more accurate disclosure of expenditure.

[3] For both the Core and the Consolidated columns £25,657,000 of expenditure has been extracted from Other Costs and disclosed as a new line titled Publicity. These restatements provide a more accurate disclosure of expenditure.

## 12 Income

### 12.1 Income

| | 2007-08 | | 2006-07 | |
|---|---|---|---|---|
| | Core Department | Consolidated | Core Department | Consolidated |
| | £000 | £000 | £000 | £000 |
| Rental income | 1,846 | 5,467 | 1,299 | 4,460 |
| Fees and charges to other government departments | 4,180 | 26,555 | 5,265 | 27,190 |
| Fees and charges to external customers | 1,656 | 55,457 | 1,725 | 60,693 |
| EU income | 14,075 | 15,904 | 16,886 | 21,156 |
| Eurocontrol receipts | 45,109 | 45,109 | 45,015 | 45,015 |
| Dividends receivable | 5,273 | 5,273 | - | - |
| Interest receivable | 36,173 | 43,698 | 29,140 | 40,047 |
| Dartford road crossing user charges | 68,902 | 68,902 | 68,365 | 68,365 |
| Speed and red-light camera enforcement[1] | 2,813 | 4,689 | 103,837 | 103,837 |
| Vehicle excise duty | - | - | 17,076 | 17,076 |
| Claims for damages to road network | - | 12,993 | - | 12,717 |
| Income from train operating companies[2] | 129,797 | 129,797 | 141,804 | 141,804 |
| Transport for Scotland - Service Level Agreement receipt | 139,083 | 139,083 | 133,896 | 133,896 |
| Profit on disposal of fixed assets (non-cash) | 14 | 1,153 | - | - |
| Other | 6,260 | 26,023 | 14,427 | 20,739 |
| **Operating Cost Statement** | **455,181** | **580,103** | **578,735** | **696,995** |

[1]Prior to 2007/08 penalties were collected via the Department for the speed and red light camera enforcement programme. The funds that the Department collected were then transferred to the Treasury. In 2007/08 the process changed with funds being transferred directly to the Treasury.

[2]This figure includes expenditure of £2.3m (2006-07: £2.2m) being amounts due to Train Operating Companies in respect of operational performance during the financial year. This is presented in line with the accounting policy at Note 1.21.

## 12.2 Analysis of income from services provided to external and public sector customers

| | Income | Full Cost | 2007-08 Surplus/ (deficit) | Income | Full Cost | 2006-07 Surplus/ (deficit) |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| **Department for Transport** | | | | | | |
| IT services to Department for Communities and Local Government | 994 | 994 | - | 2,445 | 2,445 | - |
| **Government Car and Despatch Agency** | | | | | | |
| Government car service | 13,806 | 14,154 | (348) | 12,368 | 12,067 | 301 |
| InterDespatch services | 4,688 | 4,623 | 65 | 3,968 | 4,018 | (50) |
| Government mail services | 236 | 236 | - | 1,788 | 1,838 | (50) |
| **Highways Agency** | | | | | | |
| Road damage claims | 12,993 | 13,676 | (683) | 12,717 | 13,030 | (313) |
| Road contract income (s278 schemes) | 18,218 | 18,218 | - | 25,577 | 25,577 | - |
| Rental income | 3,622 | 4,066 | (444) | 3,160 | 940 | 2,220 |
| **Maritime and Coastguard Agency** | | | | | | |
| Marine survey | 4,669 | 5,069 | (400) | 4,634 | 4,918 | (284) |
| Registration of ships | 1,451 | 870 | 581 | 1,141 | 1,104 | 37 |
| Seafarers' examination and certification | 2,657 | 2,174 | 483 | 1,910 | 1,953 | (43) |
| Wider market initiatives and EU twinning projects | 1,234 | 839 | 395 | 1,034 | 855 | 179 |
| **Vehicle Certification Agency** | | | | | | |
| Product certification | 5,309 | 4,054 | 1,255 | 5,034 | 4,750 | 284 |
| Management system certification | 1,208 | 1,395 | (187) | 1,588 | 1,580 | 8 |
| | **71,085** | **70,368** | **717** | **77,364** | **75,075** | **2,289** |

## 13 Analysis of Net Operating Cost by spending body

| | | 2007-08 | 2006-07 |
|---|---|---|---|
| | | £000 | £000 |
| | **Budget** | **Outturn** | **Outturn** |
| **Spending body:** | | | |
| Core Department | 6,550,096 | 6,161,851 | 4,582,463 |
| Government Car and Despatch Agency | - | 339 | (201) |
| Highways Agency | 5,398,210 | 5,371,235 | 5,074,167 |
| Maritime and Coastguard Agency | 128,337 | 128,560 | 121,016 |
| Vehicle Certification Agency | 112 | (301) | (338) |
| Non-departmental public bodies | 451,858 | 359,246 | 512,719 |
| Local Authorities | 4,138,116 | 4,054,281 | 3,392,058 |
| Other bodies | 195 | 3,158 | 2,475 |
| **Operating Cost Statement** | 16,666,924 | 16,078,369 | 13,684,359 |

## 14 Tangible Fixed Assets

| | Infrastructure Assets (restated) | Assets under Construction | Land and Buildings excluding Dwellings | Dwellings | Plant and Machinery | Furniture and Fittings | Transport Equipment | Information Technology | Total (restated) |
|---|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Cost or valuation** | | | | | | | | | |
| **Balance at 1 April 2007** | 93,004,341 | 405,022 | 2,181,726 | 59,452 | 136,351 | 2,408 | 6,169 | 173,106 | 95,968,575 |
| Detrunkings | (846,807) | - | - | - | - | - | - | - | (846,807) |
| **Restated balance at 1 April 2007** | 92,157,534 | 405,022 | 2,181,726 | 59,452 | 136,351 | 2,408 | 6,169 | 173,106 | 95,121,768 |
| Prior year balance adjustment | 240,506 | 13,687 | (6,411) | (18,000) | - | - | - | - | 229,782 |
| Additions | - | 1,104,370 | 4,280 | 3,508 | 2,831 | 13 | 1,018 | 8,154 | 1,124,174 |
| Write down of capital additions | - | (684,213) | - | - | - | - | - | - | (684,213) |
| Disposals | - | (2) | (2,301) | (3,604) | (3,204) | - | (1,570) | (11,622) | (22,303) |
| Impairment | - | - | (164) | (61) | (19) | - | 8 | (891) | (1,127) |
| Transfers | 256,179 | (280,698) | 3,710 | - | 1,828 | - | - | 18,943 | (38) |
| Reclassifications | - | (408) | (512) | 512 | (1,436) | - | - | 1,803 | (41) |
| Revaluation | 4,027,033 | - | 18,484 | 7,883 | 1,341 | 73 | 76 | (2,720) | 4,052,170 |
| CTRL land revaluation | - | - | 139,500 | - | - | - | - | - | 139,500 |
| **Balance at 31 March 2008** | 96,681,252 | 557,758 | 2,338,312 | 49,690 | 137,692 | 2,494 | 5,701 | 186,773 | 99,959,672 |
| **Depreciation** | | | | | | | | | |
| **Balance at 1 April 2007** | 11,448,632 | - | 31,998 | - | 96,534 | 962 | 2,976 | 98,992 | 11,680,094 |
| Detrunkings | (91,039) | - | - | - | - | - | - | - | (91,039) |
| **Restated balance at 1 April 2007** | 11,357,593 | - | 31,998 | - | 96,534 | 962 | 2,976 | 98,992 | 11,589,055 |
| Prior year balance adjustment | (4,530) | - | - | - | - | - | - | - | (4,530) |
| Provided in year | 281,466 | - | 6,786 | - | 6,463 | 372 | 994 | 33,897 | 329,978 |
| Disposals | - | - | (108) | - | (3,013) | - | (1,037) | (10,434) | (14,592) |
| Transfers | - | - | - | - | (830) | - | - | 830 | - |
| Revaluation | 445,886 | - | 1,102 | - | 650 | 6 | 56 | (397) | 447,303 |
| **Balance at 31 March 2008** | 12,080,415 | - | 39,778 | - | 99,804 | 1,340 | 2,989 | 122,888 | 12,347,214 |
| **NBV at 31 March 2008** | **84,600,837** | **557,758** | **2,298,534** | **49,690** | **37,888** | **1,154** | **2,712** | **63,885** | **87,612,458** |
| **NBV at 31 March 2007** | **80,799,941** | **405,022** | **2,149,728** | **59,452** | **39,817** | **1,446** | **3,193** | **74,114** | **83,532,713** |
| **Asset financing:** | | | | | | | | | |
| Freehold | 82,602,725 | 438,865 | 2,296,320 | 49,690 | 31,504 | 1,154 | 2,712 | 41,876 | 85,464,846 |
| Short term lease | - | - | - | - | 6,384 | - | - | - | 6,384 |
| On-balance sheet PFI contracts | 1,998,112 | - | 2,214 | - | - | - | - | 22,009 | 2,022,335 |
| PFI reversionary interest | - | 118,893 | - | - | - | - | - | - | 118,893 |
| **NBV at 31 March 2008** | **84,600,837** | **557,758** | **2,298,534** | **49,690** | **37,888** | **1,154** | **2,712** | **63,885** | **87,612,458** |

**Analysis of tangible fixed assets**

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

| | | |
|---|---|---|
| Core Department 2008 | : | £2,062,265,000 |
| Agencies 2008 | : | £85,550,193,000 |
| Core Department 2007 | : | £1,883,329,000 |
| Agencies 2007 | : | £81,649,384,000 |

**14.1** Land and Buildings includes the valuation of the Channel Tunnel Rail Link (CTRL) land (£1,934.8m). The Department retains the freehold interest in the land on which the CTRL is being constructed. This value is matched exactly by a liability for deferred income, being lease payments due from 2030 to 2086 from the owners of Sections 1 and 2 of the CTRL (See Note 29 for further details). The contract start date for the development agreement of CTRL was 28 February 1996 and the end date of the concession period is 29 July 2086.

**14.2** The Department recognises the Transport Direct web portal as a fixed asset, as it is used to deliver a service to the public. Transport Direct became fully functional in January 2005.

**14.3** The trunk road network balances at 1 April 2007 have been restated:

(i) to remove the value of trunk road network assets that have been detrunked and transferred to local authorities. Further information is shown in Note 37.1; and

(ii) to reflect amendments to records held on the Agency's road asset databases. These adjustments are routine in nature and do not arise from changes in accounting policy or from corrections of fundamental errors. They comprise:

- a dimensional variance – an adjustment reflecting better information on the dimensions of individual bridges and other structures: £292.3m; and
- a valuation adjustment arising from a number of schemes capitalised in a prior year: (£47.3m).

**14.4** The Assets under Construction balance at 1 April 2007 has been adjusted by £7.2m, being reversionary interest, based on the current book value (which is projected forward then discounted back) of the M6 toll road.

## 15 Intangible Fixed Assets

| | Software licences | Development costs | Total |
|---|---|---|---|
| | £000 | £000 | £000 |
| **Cost or valuation** | | | |
| At 1 April 2007 | 33,845 | 1,467 | 35,312 |
| Additions | 4,105 | 422 | 4,527 |
| Transfers | (16,965) | 17,045 | 80 |
| Disposals | (924) | - | (924) |
| **At 31 March 2008** | **20,061** | **18,934** | **38,995** |
| **Amortisation** | | | |
| At 1 April 2007 | 7,321 | - | 7,321 |
| Charged in year | 2,419 | - | 2,419 |
| Disposals | (924) | - | (924) |
| **At 31 March 2008** | **8,816** | **-** | **8,816** |
| **Net book value:** | | | |
| **31 March 2008 - Balance Sheet** | 11,245 | 18,934 | 30,179 |
| **31 March 2007 - Balance Sheet** | 26,524 | 1,467 | 27,991 |

### Analysis of intangible fixed assets

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

| | | |
|---|---|---|
| Core Department 2008 | : | £23,476,000 |
| Agencies 2008 | : | £6,703,000 |
| Core Department 2007 | : | £22,856,000 |
| Agencies 2007 | : | £5,135,000 |

## 16 Investments

### 16.1 Investments

**Public Dividend Capital**

| | Vehicle and Operator Services Agency | Driver and Vehicle Licensing Agency | Driving Standards Agency | Total |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Balance at 1 April 2007 | 28,984 | 19,048 | 3,475 | 51,507 |
| **Balance at 31 March 2008** | **28,984** | **19,048** | **3,475** | **51,507** |

**Loans**

| | Vehicle and Operator Services Agency | Driving Standards Agency | Humber Bridge Board | Mersey Tunnel | NATS Group | Total |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Balance at 1 April 2007 | 71,537 | 35,626 | 333,355 | 11,635 | 94,339 | 546,492 |
| Advances (see Note 24.2) | 23,000 | 30,800 | - | - | - | 53,800 |
| Repayments (see Note 24.2) | (5,145) | (2,050) | (533) | (1,663) | (94,339) | (103,730) |
| **Balance at 31 March 2008** | **89,392** | **64,376** | **332,822** | **9,972** | **-** | **496,562** |

**Share Investments**

| | National Air Traffic Holdings Ltd | Total |
|---|---|---|
| | £000 | £000 |
| Balance at 1 April 2007 | 68,761 | 68,761 |
| Disposals | - | - |
| **Balance at 31 March 2008** | **68,761** | **68,761** |

**National Loans Fund**

| | Civil Aviation Authority | Kings Lynn Harbour Conservancy | Total |
|---|---|---|---|
| | £000 | £000 | £000 |
| Balance at 1 April 2007 | 9,075 | 47 | 9,122 |
| Loans repayable within one year transferred to debtors | (1,048) | (3) | (1,051) |
| **Balance at 31 March 2008** | **8,027** | **44** | **8,071** |

| | £000 |
|---|---|
| **Total Investments at 31 March 2008 - Balance Sheet** | 624,901 |
| **Total Investments at 31 March 2007 - Balance Sheet** | 675,882 |

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

(i) 49 per cent of the share capital in National Air Traffic Services Holdings Limited (NATS). On 26 July 2001, the government sold 46 per cent of the shares in NATS Holdings Limited to the Airline Group Limited. An additional 5 per cent of the shareholding was transferred to the Employee Share Ownership Trust;

(ii) 100 per cent of the issued share capital in SRA Investment Company Limited (SICL), which was purchased at its nominal value of £100. SICL is a holding company for the Secretary of State's 50 per cent shareholding (nominal value £1) in Cross London Rail Links Limited (CLRL). The remaining 50 per cent shareholding in CLRL is held by Transport Trading Limited, a subsidiary of Transport for London;

(iii) one share in British Railways Board (Residuary) Limited (nominal value £1); and

(iv) 100 per cent of the issued share capital in the following companies:
Goldings Rail Limited;
Hays Rail Limited;
OQS Rail Limited;
Strutton Rail Limited;
Abbey Rail Limited;
Orchard Rail Limited;
Broadway Rail Limited; and
Westminster Rail Limited.

**16.2 Other investments**

The Secretary of State holds the following shares.

(i) 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. All the shares are held directly.

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

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

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

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

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

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

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

### 16.3 Humber Bridge Loan

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 was completed in 1981. In 1998, the Department agreed to a restructuring of the loan arrangement with the Board so that, under the *Humber Bridge (Debts) Order 1998*, interest on £240m of the £359m principal due was suspended on 1 April 1998; thereafter, the proportion of the debt being charged with interest increased each year until the whole principal again became subject to the interest charge, which would happen on 1 April 2014. At 31 March 2006, the amount of suspended debt was £153m out of a total of £334m.

Under the *Humber Bridge (Debts) Order 2007 (No: 1828)*, the rate of interest was set at 4.25 per cent effective from 1 April 2006. A five-yearly review will take place to inform a new order from 1 April 2011.

Under the arrangements that took effect on 1 April 2006, the Department continues to incur the cost of capital charge on the total investment at a rate of 7.75 per cent. Over the five year review period 2006-2011, the resource expenditure is likely to amount to £58.2m. This difference between the values of the cost of capital payable and of the interest receivable represents the likely level of budgetary support provided by the Department for the operation of the Humber Bridge; actual liability for which will arise in the year of account.

Included in the £58.2m referred to in the previous paragraph is the aggregate sum of £16.6m (Year ended March 2007 £0.937m; March 2008 £2.074m; March 2009 £3.282m; March 2010 £4.529m; March 2011 £5.795m) which represents a reduction in expected cashflows in respect of interest: that is, the difference between the higher rate of interest on the active debt and the lower rate of interest on the whole debt.

### 17 Stocks and work-in-progress

| | 2007-08<br>Consolidated<br>£000 | 2006-07<br>Consolidated<br>£000 |
|---|---|---|
| Stocks | 23,996 | 27,418 |
| Work-in-progress | 33 | 16 |
| **Total - Balance Sheet** | **24,029** | **27,434** |

# 18 Debtors

## 18.1 Analysis by type

| | Core Department 2007-08 | Consolidated 2007-08 | Core Department 2006-07 | Consolidated 2006-07 |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| **Amounts falling due within one year:** | | | | |
| Trade debtors | 4,508 | 16,623 | 23,242 | 36,021 |
| Deposits and advances | 597 | 9,110 | 633 | 9,916 |
| VAT debtors | 6,881 | 92,111 | 7,445 | 78,244 |
| Other debtors | 9,000 | 11,292 | 9,480 | 13,124 |
| Prepayments and accrued income | 66,455 | 74,719 | 125,046 | 122,887 |
| Current part of National Loans Fund loan | 1,052 | 1,052 | 985 | 985 |
| Amounts due in respect of Consolidated Fund Extra Receipts | - | 456 | 6,753 | 7,318 |
| **Total - Balance Sheet** | **88,493** | **205,363** | **173,584** | **268,495** |
| | | | | |
| **Amounts falling due after more than one year:** | | | | |
| Deposits and advances | - | 71 | - | 90 |
| Other debtors | 3,500 | 196,831 | 5,000 | 182,776 |
| Prepayments and accrued income | - | 30,499 | - | 23,582 |
| **Total - Balance Sheet** | **3,500** | **227,401** | **5,000** | **206,448** |

## 18.2 Intra-government balances

| | 2007-08 Amounts falling due within one year | 2006-07 Amounts falling due within one year | 2007-08 Amounts falling due after more than one year | 2006-07 Amounts falling due after more than one year |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| **Balances with:** | | | | |
| Other central government bodies | 107,258 | 116,660 | 3,500 | 5,000 |
| Local authorities | 1,894 | 15,501 | - | - |
| NHS trusts | 807 | 102 | - | - |
| Public corporations and trading funds | 3,073 | 18,721 | - | - |
| Bodies external to government | 92,331 | 117,511 | 223,901 | 201,448 |
| **Total debtors at 31 March - Balance Sheet** | **205,363** | **268,495** | **227,401** | **206,448** |

## 19 Cash at bank and in hand

| | 2007-08 Core Department | 2007-08 Consolidated | 2006-07 Core Department | 2006-07 Consolidated |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Balance at 1 April | 190,705 | 191,937 | 243,703 | 248,583 |
| Net change in cash balances | (35,003) | (90,005) | (52,998) | (56,646) |
| **Balance at 31 March - Balance Sheet** | **155,702** | **101,932** | **190,705** | **191,937** |
| The following balances at 31 March were held at: | | | | |
| Office of HM Paymaster General | 155,561 | 99,815 | 190,479 | 190,788 |
| Commercial banks and cash in hand | 141 | 2,117 | 226 | 1,149 |
| **Balance at 31 March - Balance Sheet** | **155,702** | **101,932** | **190,705** | **191,937** |

## 20 Creditors

### 20.1 Analysis by type

| | 2007-08 Core Department | 2007-08 Consolidated | 2006-07 Core Department | 2006-07 Consolidated |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| **Amounts falling due within one year:** | | | | |
| VAT creditor | - | 566 | - | 707 |
| Other taxation and social security | 2,490 | 2,775 | 2,364 | 2,636 |
| Trade creditors | 174 | 22,838 | 19,119 | 71,852 |
| Other creditors | 14,770 | 21,034 | 8,048 | 6,401 |
| Accruals and deferred income | 643,721 | 1,125,697 | 385,928 | 892,046 |
| Current part of imputed finance lease element of on-balance sheet PFI contracts | - | 49,167 | - | 42,869 |
| Current part of National Loans Fund loan | 1,052 | 1,052 | 985 | 985 |
| Third party creditors | 2,228 | 2,229 | 12,966 | 12,967 |
| Central payroll | - | - | 4 | 4 |
| Amounts owed to the Contingency Fund | 3,500 | 3,500 | | |
| Amounts issued from the Consolidated Fund for Supply but not spent at 31 March | 108,636 | 34,004 | 183,715 | 170,447 |
| Amounts issued from the Consolidated Fund for Supply not authorised but spent at 31 March | 3,025 | 3,025 | - | - |
| Consolidated Fund Extra Receipts and other amounts not yet paid to the Consolidated Fund: | | | | |
| Received | 53,621 | 62,199 | 2,806 | 5,022 |
| Receivable | - | 456 | 6,753 | 7,318 |
| **Total - Balance Sheet** | **833,217** | **1,328,542** | **622,688** | **1,213,254** |
| **Amounts falling due after more than one year:** | | | | |
| Imputed finance lease element of on-balance sheet PFI contracts | - | 1,159,830 | - | 1,163,261 |
| National Loans Fund loans | 8,071 | 8,071 | 9,123 | 9,123 |
| Consolidated Fund Extra Receipts creditors | - | 54,775 | - | 47,356 |
| Other creditors | 1,680 | 106,076 | 2,336 | 105,429 |
| Channel Tunnel Rail Link land creditor | 1,934,800 | 1,934,800 | 1,795,300 | 1,795,300 |
| **Total - Balance Sheet** | **1,944,551** | **3,263,552** | **1,806,759** | **3,120,469** |

### 20.2 Intra-government balances

| | 2007-08 | 2006-07 | 2007-08 | 2006-07 |
|---|---|---|---|---|
| | Amounts falling due within one year | | Amounts falling due after more than one year | |
| | £000 | £000 | £000 | £000 |
| **Balances with:** | | | | |
| Other central government bodies | 132,367 | 220,456 | 155,061 | 149,105 |
| Local authorities | 366,706 | 78,531 | - | - |
| NHS trusts | 1 | 3 | - | - |
| Public corporations and trading funds | 1,138 | 2,837 | - | - |
| Bodies external to government | 825,305 | 911,427 | 3,108,491 | 2,971,364 |
| **Total creditors at 31 March - Balance Sheet** | **1,325,517** | **1,213,254** | **3,263,552** | **3,120,469** |

### 20.3 National Loans Fund (NLF) loans

NLF loans are repayable by the following bodies:

| | | | 2007-08 | 2006-07 |
|---|---|---|---|---|
| | Civil Aviation Authority Fixed Rates | Kings Lynn Harbour Conservancy Fixed Rates | Total | Total |
| | £000 | £000 | £000 | £000 |
| Within one year | **1,048** | **3** | **1,051** | 985 |
| Over one and under two years | **1,029** | **4** | **1,033** | 1,052 |
| Over two and under five years | **3,246** | **15** | **3,261** | 3,132 |
| More than five years | **3,752** | **25** | **3,777** | 4,939 |
| **Total** | **9,075** | **47** | **9,122** | **10,108** |

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

## 21 Provisions for liabilities and charges

| | Early Departure (i) | Greater London Authority (ii) | National Freight Company (iii) | Channel Tunnel Rail (iv) | Highways Schemes (v) | Other (vi) | Total |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Core Department** | | | | | | | |
| **Balance at 1 April 2007** | 31,451 | 248,000 | 63,810 | 250,839 | - | 106,685 | 700,785 |
| Provided in year | 798 | - | 3,093 | - | - | 22,227 | 26,118 |
| Provisions released | - | - | - | (12,619) | - | (35,589) | (48,208) |
| Provisions utilised in year | (5,305) | (124,000) | (7,203) | - | - | (21,330) | (157,838) |
| Unwinding of discount | - | - | - | - | - | - | - |
| Provisions reclassified | - | - | - | - | - | - | - |
| **Balance at 31 March 2008** | **26,944** | **124,000** | **59,700** | **238,220** | **-** | **71,993** | **520,857** |
| **Consolidated** | | | | | | | |
| **Balance at 1 April 2007** | 34,081 | 248,000 | 63,810 | 250,839 | 569,276 | 122,595 | 1,288,601 |
| Provided in year | 5,179 | - | 3,093 | - | 243,076 | 25,719 | 277,067 |
| Provisions released | (163) | - | - | (12,619) | (56,591) | (38,175) | (107,548) |
| Provisions utilised in year | (6,350) | (124,000) | (7,203) | - | (167,940) | (22,704) | (328,197) |
| Unwinding of discount | - | - | - | - | - | - | - |
| Provisions reclassified | - | - | - | - | 78,256 | - | 78,256 |
| **Balance at 31 March 2008** | **32,747** | **124,000** | **59,700** | **238,220** | **666,077** | **87,435** | **1,208,179** |

### (i) Early Departure

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

### (ii) Greater London Authority

In 2003, the then Secretary of State gave a commitment to TfL to take account of the need to meet shortfalls in the valuation of the London Regional Transport/London Underground pension schemes and the costs of pension administration. This was reflected in TfL’s Spending Review 2004 settlement. A provision was recognised for this element of the grant, as reported to Parliament in the Department’s Spring Supplementary Estimate 2007 and set out in the Appropriation Act 2007.

In accordance with the profile set out in the grant, disbursements of £124m were made in 2006-07 and 2007-08, and disbursements of £62m should be made in both 2008-09 and 2009-10.

### (iii) National Freight Company

This provision covers two schemes:

(a) National Freight Company plc (NFC) pension trustee (1 April 2007 - £45.3m; 31 March 2008 - £42.7m) - reimbursement to NFC pension trustees in respect of payments covering unfunded pension service with NFC before 1 April 1975 (*Part III, Transport Act 1980*);

(b) NFC travel concession (1 April 2007 - £18.5m; 31 March 2008 - £17.0m) - 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*).

**(iv) Channel Tunnel Rail Link**

This provision covers two schemes:

(a) De-risked grants (1 April 2007 - £202.6m; 31 March 2008 - £190m) - grants payable to London and Continental Railways Limited (LCR) up to 2022, as a result of the 2003 Securitisation Framework Agreement between the Secretary of State for Transport and CTRL UK Ltd., to facilitate the raising of finance by LCR.; and

(b) Schedule 2 (1 April 2007 - £48.2m; 31 March 2008 - £48.2m) and relates to claims on both sections of the Channel Tunnel Rail Link route that are made by contractors and other parties under the main construction agreement for Section 1 and Section 2 of the rail link. The claims continue to be negotiated and, once completed, the liability will be settled on a contractor by contractor basis.

**(v) Highways Schemes**

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

**(vi) Other**

This heading covers a range of smaller provisions, including:

(a) South Eastern Trains (SET) (1 April 2007 - £45m; 31 March 2008 - £14.8m) - covers the potential liability faced by the Department upon the transfer of the previous SET franchise to the incoming franchisee, Govia;

(b) British Railways Board's ex-employees' pensions (1 April 2007 - £23.7m; 31 March 2008 - £22.4m) - reimbursement to trustees of railway pension schemes in respect of pension payments, covering the unfunded proportion of pensions deriving from service with British Railways Board before 1 January 1975 (*Part III, Transport Act 1980*);

(c) dilapidations of core Department buildings (1 April 2007 - £11.3m; 31 March 2008 - £8.6m) - the Department recognises as a provision its best estimate as at the balance sheet date of the costs of reversing the accumulated wear and tear on the properties it occupies as a tenant, where this is a requirement under the relevant tenancy agreements; and

(d) Highways Agency compensation claims (1 April 2007 - £9m; 31 March 2008 - £3.4m) - third parties who have suffered damage or injury as a result of the road network being damaged and are entitled to submit a claim to the Highways Agency for compensation.

## 22 General Fund

| | 2007-08 | | 2006-07 | |
|---|---|---|---|---|
| | Core Department | Consolidated | Core Department | Consolidated |
| | £000 | £000 | £000 | £000 |
| **Balance at 1 April** | (321,624) | 39,203,440 | (1,151,173) | 38,854,498 |
| **Prior period adjustment** | | | | |
| Detrunking (see Note 37) | - | (480,895) | - | (436,518) |
| **Restated opening balance** | **(321,624)** | **38,722,545** | **(1,151,173)** | **38,417,980** |
| **Net Parliamentary Funding** | | | | |
| Drawn down | 10,463,000 | 13,103,000 | 9,081,759 | 11,502,853 |
| Deemed | 183,715 | 170,447 | 236,141 | 227,408 |
| Contingencies Fund | (3,500) | (3,500) | 3,500 | 3,500 |
| Year end adjustment: | | | | |
| Supply creditor - current year | (108,636) | (34,004) | (183,715) | (170,447) |
| Supply creditor - Unauthorised supply | (3,025) | (3,025) | - | - |
| Net transfer from operating activities: | | | | |
| Net Operating Cost | (10,599,875) | (16,078,369) | (8,476,342) | (13,684,359) |
| CFERs repayable to Consolidated Fund | (56,021) | (78,259) | (15,208) | (33,200) |
| Non-cash charges: | | | | |
| Cost of capital | 5,239 | 2,841,254 | (4,410) | 2,696,299 |
| Auditor's remuneration | 300 | 737 | 350 | 800 |
| Transfer from Revaluation Reserve | - | 99,743 | (2) | 80,220 |
| In-year adjustments relating to prior year transactions: | | | | |
| Reversionary interest on M6 toll road | - | 7,240 | - | 12,366 |
| Road network | - | 155,917 | - | (35,497) |
| Other prior year adjustments | - | (3,062) | - | - |
| In-year spend on detrunked roads | - | (1,994) | - | (2,067) |
| Actuarial gain recognised in pension scheme | (175,100) | (175,100) | 193,417 | 193,417 |
| Other movements | - | 1,376 | (5,941) | (5,833) |
| **Total - Balance Sheet** | **(615,527)** | **38,724,946** | **(321,624)** | **39,203,440** |

## 23 Revaluation Reserve

| | 2007-08 | | 2006-07 | |
|---|---|---|---|---|
| | Core Department | Consolidated | Core Department | Consolidated |
| | £000 | £000 | £000 | £000 |
| **Balance at 1 April** | 26,710 | 40,744,866 | 22,854 | 35,316,728 |
| **Prior period adjustment** | | | | |
| Detrunking (see Note 37) | - | (274,873) | - | (249,507) |
| **Restated opening balance** | **26,710** | **40,469,993** | **22,854** | **35,067,221** |
| Arising on revaluation during year - net | (2,610) | 3,604,867 | 3,854 | 5,777,859 |
| Amounts released to Operating Cost Statement | - | 2,364 | - | 295 |
| In-year adjustments relating to prior year transactions: | | | | |
| Road network | - | 89,120 | - | (20,289) |
| Other prior year adjustments | - | (16,696) | - | - |
| Transferred to General Fund in respect of realised element of Revaluation Reserve | - | (99,743) | 2 | (80,220) |
| **Total - Balance Sheet** | **24,100** | **44,049,905** | **26,710** | **40,744,866** |

## 24 Notes to the Cash Flow Statement

### 24.1 Reconciliation of operating cost to operating cash flows

| | Note | 2007-08 | 2006-07 |
|---|---|---|---|
| | | £000 | £000 |
| **Net Operating Cost** | | (16,078,369) | (13,684,359) |
| Adjustment for non-cash transactions | 10, 11, 12 | 3,970,789 | 4,225,945 |
| Adjustment for non-cash transactions related to pension schemes | | (40,000) | (64,284) |
| (Increase)/decrease in stock | | 3,405 | (1,616) |
| Decrease in debtors | | 42,178 | 16,839 |
| less: movements in debtors relating to items not passing through the Operating Cost Statement | | (4,228) | 5,061 |
| Increase in creditors | | 251,847 | 300,172 |
| less: movements in creditors relating to items not passing through the Operating Cost Statement | | (58,986) | (13,729) |
| Use of provision | 21 | (328,197) | (1,100,267) |
| Non-cash movement in classification of provision | 21 | 78,256 | (64,302) |
| In-year spend on detrunkings | | (1,994) | (2,067) |
| Adjustment for capital and interest element of PFI payments | | 46,481 | 38,313 |
| **Net cash flow from operating activities** | | **(12,118,818)** | **(10,344,294)** |

## 24.2 Analysis of capital expenditure and financial investment

| | Note | 2007-08 | 2006-07 |
|---|---|---|---|
| | | £000 | £000 |
| Tangible fixed asset additions | 14 | (1,124,174) | (1,152,790) |
| Intangible fixed asset additions | 15 | (4,527) | (4,903) |
| Proceeds of disposal of fixed assets | | 7,751 | 9,604 |
| Capital element of lands provision | | 63,839 | 83,871 |
| Advances of investments | 16 | (53,800) | (32,500) |
| Repayments of investments | 16 | 103,730 | 19,059 |
| Repayments of loans for National Loans Fund | | 984 | 921 |
| **Net cash flow from capital expenditure and financial investment** | | **(1,006,197)** | **(1,076,738)** |

## 24.3 Analysis of the Department's capital expenditure, financial investment and associated appropriations in aid

| | Capital Expenditure | Loans | Appropriation in Aid | Net Total |
|---|---|---|---|---|
| | **2007-08** | | | |
| | £000 | £000 | £000 | £000 |
| Request for Resources 1 | 1,128,701 | (49,930) | (7,751) | 1,071,020 |
| **Total** | **1,128,701** | **(49,930)** | **(7,751)** | **1,071,020** |
| | **2006-07 (restated)** | | | |
| Request for Resources 1 [1] | 1,157,693 | 13,439 | (9,604) | 1,161,528 |
| **Total** | **1,157,693** | **13,439** | **(9,604)** | **1,161,528** |

[1] The prior year information has been restated to reflect a more accurate interpretation of guidance issued by H.M. Treasury.

## 24.4 Analysis of financing

| | 2007-08 | 2006-07 |
|---|---|---|
| | £000 | £000 |
| From Consolidated Fund (Supply): current year | 13,103,000 | 11,502,853 |
| Advances from the Contingencies Fund | 1,700,000 | 836,500 |
| Repayments to the Contingencies Fund | (1,700,000) | (833,000) |
| Repayments of loans from the National Loans Fund | (984) | (921) |
| Capital element of payments in respect of on-balance sheet PFI contracts | (46,481) | (38,313) |
| **Net Financing** | **13,055,535** | **11,467,119** |

### 24.5 Reconciliation of Net Cash Requirement to increase/(decrease) in cash

| | 2007-08 | 2006-07 |
|---|---|---|
| | £000 | £000 |
| **Net Cash Requirement (see Note 4)** | (13,239,444) | (11,559,814) |
| From the Consolidated Fund (Supply) - current year | 13,103,000 | 11,502,853 |
| From the Contingencies Fund | - | 3,500 |
| Amounts due to the Consolidated Fund - received in a prior year and paid over | (5,022) | (7,904) |
| Amounts due to the Consolidated Fund - received and not paid over | 62,199 | 5,022 |
| Decrease in third party balances | (10,738) | (303) |
| **Decrease in cash** | **(90,005)** | **(56,646)** |

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

### 25.1 Programme grants and other current expenditure have been allocated as follows:

| | 2007-08 | 2006-07 (restated) |
|---|---|---|
| | £000 | £000 |
| **Main objective**[1] | | |
| Objective 1 - Support the economy through the provision of efficient transport systems | 10,795,977 | 9,642,543 |
| Objective 2 - Deliver improvements to transport systems | 831,848 | 576,238 |
| Objective 3 - Safety and environment | 3,052,448 | 2,902,377 |
| Objective 4 - Improve cost effectiveness of transport investment choices | 1,541,611 | 869,543 |
| | **16,221,884** | **13,990,701** |

[1]The Departmental Objectives changed for 2007-08. The prior year information has been restated in line with these new objectives. This change is described on Page 3 of the management commentary.

### 25.2 Capital employed by Departmental aim and objectives during the year

| | 2007-08 | 2006-07 (restated) |
|---|---|---|
| | £000 | £000 |
| **Main objective**[1] | | |
| Objective 1 - Support the economy through the provision of efficient transport systems | 40,880,776 | 39,080,868 |
| Objective 2 - Deliver improvements to transport systems | 2,498,375 | 2,402,795 |
| Objective 3 - Safety and environment | 39,324,161 | 37,545,792 |
| Objective 4 - Improve cost effectiveness of transport investment choices | 71,539 | 163,083 |
| | **82,774,851** | **79,192,538** |

[1]The Departmental Objectives changed for 2007-08. The prior year information has been restated in line with these new objectives, described in the management commentary, and the restatement of prior year balances, described in Note 37.

## 26 Capital commitments

| | 2007-08 | | 2006-07 | |
|---|---|---|---|---|
| | Core Department | Consolidated | Core Department | Consolidated |
| | £000 | £000 | £000 | £000 |
| Contracted capital commitments at 31 March for which no provision has been made | 483 | 735,183 | 21,956 | 750,287 |
| | 483 | 735,183 | 21,956 | 750,287 |

## 27 Commitments under leases

### Operating leases

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

| | 2007-08 | | 2006-07 | |
|---|---|---|---|---|
| | Core Department | Consolidated | Core Department | Consolidated |
| | £000 | £000 | £000 | £000 |
| Land and buildings: | | | | |
| Expiry within 1 year | 290 | 1,570 | 334 | 908 |
| Expiry after 1 year but within 5 years | 3,173 | 4,294 | 12,639 | 14,571 |
| Expiry thereafter | 10,363 | 19,321 | 1,811 | 10,959 |
| | 13,826 | 25,185 | 14,784 | 26,438 |
| Other: | | | | |
| Expiry within 1 year | | 733 | | 643 |
| Expiry after 1 year but within 5 years | | 2,924 | | 373 |
| Expiry thereafter | | - | | - |
| | | 3,657 | | 1,016 |

## 28 Commitments under PFI contracts

### 28.1 On-balance sheet

The 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 to Derby link;
- M40 - Junctions 1 to15;
- 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 Traffic Control Centre; and
- National Roads Telecommunications Services.

The substance of the PFI contract is that the Highways Agency has a finance lease, with the asset being recognised as a fixed asset on the Highways Agency's balance sheet. Payments under PFI contracts comprise two elements: imputed finance lease charges and services charges.

| | 2007-08 | 2006-07 |
|---|---|---|
| | £000 | £000 |
| **Imputed finance lease obligation under on-Balance Sheet PFI contracts comprise:** | | |
| Rentals due within 1 year | 121,246 | 115,080 |
| Rentals due after 1 year but not more than 5 years | 456,540 | 448,733 |
| Rentals due after 5 years | 1,552,885 | 1,552,257 |
| | **2,130,671** | **2,116,070** |
| Interest element | (921,674) | (907,792) |
| | **1,208,997** | **1,208,278** |

### 28.2 Charges to the Operating Cost Statement and future commitments

The total amount charged in the Operating Cost Statement in respect of the service element of on-balance sheet PFI transactions was £160.5m (2006–07: £154.7m).

Service elements to which the Highways Agency is committed during 2007–08 are shown in the table below, analysed by the period during which the commitment expires.

| | 2007-08 | 2006-07 |
|---|---|---|
| | £000 | £000 |
| Expiry within 2 to 5 years | 20,706 | 17,313 |
| Expiry within 6 to 15 years | 52,428 | 37,364 |
| Expiry within 16 to 20 years | 127,586 | 155,772 |
| Expiry within 21 to 25 years | - | - |
| Expiry within 26 to 30 years | 10,190 | 12,882 |
| | **210,910** | **223,331** |

## 29 Other financial commitments

The Department is committed to paying a grant of £2,399m to Network Rail, in accordance with the Deed of Grant agreed in 2006-07.

At 31 March 2008, 17 franchise agreements had been entered into for the provision of train services. The Strategic Rail Authority had entered into 12 of these agreements, which have been transferred to the Department. Subsequent to this transfer, the Department has entered into five franchise agreements with train operating companies for the provision of train services.

The amounts falling due in the year to 31 March 2008 are as follows:

| | 2007-08 | 2006-07 |
|---|---|---|
| | £000 | £000 |
| Expiry within 1 year | 3,873,695 | 414,798 |
| Expiry after 1 year but within 5 years | 4,578,462 | 2,703,561 |
| Expiry thereafter | 113,239 | 1,111,274 |
| | **8,565,396** | **4,229,633** |

The Department has entered into a contract for the Channel Tunnel Rail Link (CTRL). This comprises a concession agreement with London and Continental Railways Limited (LCR), under which LCR will construct the CTRL and operate Eurostar UK Limited (EUKL). The classification of this contract is in accordance with HM Treasury guidance under the terms of *FRS 5.*

LCR built the CTRL in two phases: the southern section, which was completed prior to start of this accounting period, and the northern section, which was completed in November 2007. LCR retains ownership of the southern section (Section 1) and will retain ownership of the northern section (Sections 2) through its subsidiaries. LCR will also retain, through a number of associated private sector entities, the operation of EUKL.

It was originally anticipated that construction would be financed substantially by capital grants. The financing arrangements were detailed in the Development Agreement. In accordance with the Agreement, in the years to 31 March 2008, the Department paid LCR deferred grants totalling £2,225m for Section 2. The Department has no further financial commitments with respect to CTRL.

## 30 Financial instruments

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

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

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

### Liquidity risk

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

### Interest-rate risk

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

### Currency risk

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

### Fair values

A comparison of the Department's financial obligations in respect of its PFI contracts in terms of book and fair values is shown below.

| | | 31 March 2008 | | 31 March 2007 |
|---|---|---|---|---|
| | Book value | Fair value | Book value | Fair value |
| | £000 | £000 | £000 | £000 |
| **Financial liabilities** | | | | |
| Finance lease obligations, including on-Balance Sheet PFI imputed finance lease obligations | 1,208,997 | 662,630 | 1,208,278 | 628,724 |

### Basis of fair valuation

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

## 31 Contingent liabilities

In accordance with government policy, no buildings included in tangible fixed assets in the balance sheet are insured. Other contingent liabilities are shown below.

The value shown is the best estimate of the expected cost of settling the liability, in the unlikely event that the contingent liability becomes an actual liability. The exceptions are the two cases for which the maximum exposure is indicated. (31.1 and 31.2).

| | 31 March 2008 | 31 March 2007 |
|---|---|---|
| | £m | £m |
| **31.1** Channel Tunnel Rail Link - Government guarantee in respect of bonds issued by London and Continental Railways Limited (LCR). The bonds are repayable in 2010, 2028, 2038 and 2051. The risk of a call on the guarantee depends on LCR's financial performance. | 3,750 | 3,750 |
| **31.2** Channel Tunnel Rail Link - Guarantee issued in respect of track access payments, to support securitisation of this revenue stream to finance Section 2. Track access charges are payable over approximately 50 years. The probability of a call will depend on LCR's cash flow performance over that period. | 630 | 630 |
| **31.3** Other contingent liabilities[1]. | 1,213 | 1,113 |
| **31.4** Possible obligations in relation to land and property acquisition. | 391 | 464 |
| **31.5** Possible obligations in relation to tunnels. | 0 | 124 |
| **31.6** Possible obligations in relation to engineering and construction services. | 8 | 5 |
| **31.7** Third-party claims. | 8 | 15 |
| **31.8** General Lighthouse Authorities' pension fund deficiency. | 348 | 305 |
| **31.9** The Secretary of State has given a guarantee to the owners of certain properties on the route of the proposed Crossrail extension that their properties will be purchased should the *Crossrail Hybrid Bill* receive Royal Assent. | 0 | 6 |

[1]This includes contingent liabilities where disclosure of details could prejudice the outcome of the case

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 39).

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

| | 1 April 2007 | Increase/ (decrease) in year | Liabilities crystallised in year | Obligation expired in year | 31 March 2008 | Amount reported to Parliament[1] |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Guarantees (listed) | 87,700 | 11,400 | - | - | 99,100 | Unquantified |
| Letter of comfort (listed) | 8,900,000 | (1,000,000) | - | - | 7,900,000 | Unquantified |
| Indemnity (listed) | 13,400,000 | 1,400,000 | - | - | 14,800,000 | 22,000,000 |

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

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

### 32.1 Quantifiable guarantees and indemnities

| | 31 March 2008 | 31 March 2007 (restated) | Amount reported to Parliament by Departmental minute |
|---|---|---|---|
| | £m | £m | £m |
| **Guarantees**[1] | | | |
| Should the International Maritime Organization building or the International Oil Pollution Compensation Fund Building be partially or completely destroyed, the government would be obliged to reconstruct the building, suspend or reduce the rent for a period of three years and fund alternative accommodation. | 69 | 69 | Unquantified |
| A guarantee has been offered to the Air Travel Trust Fund to enable the trustees to borrow to meet the claims of package holiday makers in the event of the failure of tour operators. | 31 | 20 | 31 |
| A guarantee in respect of lease obligations of Eurostar (UK) Limited at Ashford International Passenger Station to 2022. | 60 | 60 | 133 |

[1]An additional £61m of guarantees were identified as relating to the prior year.

| | | | |
|---|---|---|---|
| **Letters of comfort** | | | |
| Letters of comfort were originally issued to the Strategic Rail Authority in relation to financial support for Network Rail's borrowing. Subsequently, these responsibilities transferred to the Secretary of State. The credit support arrangements comprise of standby credit facilities and financial indemnity in support of Network Rail's Debt Issuance Programme. As at 31 March 2007, the arrangements supported Network Rail's net debt of £19.8bn. | | | |
| A standby credit facility and related agreements to enable Network Rail to raise medium-term notes for its short and medium-term financing requirements. The support arrangements expire in 2009. | 3,900 | 4,900 | 10,000 |
| A standby credit facility, with a term of 50 years, to act as a long term contingency buffer. | 4,000 | 4,000 | 4,000 |
| Letters of indemnity have been issued in respect of non-statutory liabilities incurred by staff appointed as directors of Cross London Rail Links Limited (CLRL) and as a director or company secretary of SRA Investment Company Limited. | - | - | Unquantified |
| **Indemnity** | | | |
| The Department has provided a financial indemnity in support of Network Rail's Debt Issuance Programme. | 14,800 | 13,400 | 22,000 |

### 32.2 Unquantifiable guarantees and indemnities

**Statutory guarantees**

Agreements were entered into by the Director of Passenger Rail Franchising (novated to the Strategic Rail Authority and then to the Department), prior to the privatisation of each of the three rolling-stock companies (ROSCOs). It is not possible to quantify the liabilities associated with these agreements because they will depend on the circumstances that arise at the time.

Guarantees were given by the Strategic Rail Authority (and previously by the Director of Passenger Rail Franchising), and novated to the Department, in relation to new, replacement and extended passenger rail franchise agreements. It is not possible to quantify the potential liability that might arise as a result of these undertakings.

Guarantees were given in respect of certain legacy pension schemes from the British Railways Board that any shortfalls would be met. Details are disclosed in Note 39.

**Letters of comfort**

Letters of comfort have been issued, providing an indemnity in relation to legal action taken against the judge, counsel, solicitors and secretariat to the Thames Safety Inquiry and the Victim Identification Inquiry, following major transport disasters.

Letters of comfort were issued in support of each of the three London Underground PPP contracts, clarifying the Secretary of State's role in relation to the Greater London Authority and Transport for London. During the year, all obligations under the letters of comfort in support of the Metronet contracts were settled; the letter of comfort in support of the Tubelines contract remains.

**Other**

The Department has a statutory liability under the *Channel Tunnel Act 1987* that if, after termination of the Channel Tunnel concession, it appears to the Secretary of State that the operation of the Tunnel will not be resumed in the near future, he shall take the necessary steps to ensure that the land is left in a suitable condition in accordance with the scheme.

Details on restricted contingent liabilities are not shown due to their sensitivity to commercial confidentiality and national security.

## 33 Losses and special payments

### 33.1 Losses statement

| | 2007-08 | 2006-07 |
|---|---|---|
| Total number of cases | 3,847 | 3,618 |
| | £000 | £000 |
| Total amount | 9,203 | 12,610 |

**Humber Bridge**
At Note 16.3 to the Department's 2006-07 Resource Accounts, the arrangements for the restructuring of the loan to the Humber Bridge were disclosed. A loss amounting to £0.937m was disclosed relating to the amount of interest waived in the relevant year of account as a result of reducing the interest rate chargeable. On a change of interest rate, no further losses accrue in subsequent years.

It was also noted that the Department will continue to pay the cost of capital charge on the total investment at a rate of 7.75 per cent, which, over the five-year review period 2006-2011, was estimated to amount to £58.2m and which includes the aggregate sum of £16.6m (Year ended March 2007 £0.937m; March 2008 £2.074m; March 2009 £3.282m; March 2010 £4.529m; March 2011 £5.795m) in respect of the reduction cashflows.

### 33.2 Special payments

| | 2007-08 | 2006-07 |
|---|---|---|
| Total number of cases | 41 | 61 |
| | £000 | £000 |
| Total amount | 786 | 487 |

Under regular contractual terms of employment, a payment totalling £665,753 was made in respect of the compulsory early retirement of a former member of the senior management team, who left their post in the Department for Transport in 2005. The staff member took up a senior post on secondment in another central government department.

## 34 Related party transactions

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

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

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

**34.4** No Board members, key managerial staff or other related parties have undertaken any material transactions with the Department during the year other than those reported.

## 35 Third-party assets

The Highways Agency, under Section 278 of the Highways Act 1980, receives payment in advance of works. These amounts are paid into interest bearing Escrow Accounts at Lloyds TSB Bank.

The Highways Agency is acting as a co-ordinator for a new Coordination Action under the EU Sixth Framework Programme. It holds a Euro Lloyds TSB bank account where funding from the EU is deposited and subsequently distributed to eleven partners across Europe. Over the three year duration of the project total funding provided by Brussels will be up to 2.5 million euros. A small portion of the funding will be to reimburse costs incurred by the Highways Agency in this collaboration action.

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

These are not Agency assets and therefore are not included in the accounts.

The amounts held are shown in the table below:

| | 31 March 2007 (restated) | Gross Inflows | Gross Outflows | 31 March 2008 |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Lloyds TSB Escrow bank accounts | 19,057 | 8,362 | (12,973) | 14,446 |
| Lloyds TSB Euro bank account | 586 | 78 | (389) | 275 |
| | 19,643 | 8,440 | (13,362) | 14,721 |

## 36 Entities within and outside the Departmental boundary

**36.1** The following Executive Agencies, Advisory Bodies and Tribunals have been consolidated within these accounts:

*Executive Agencies*
Highways Agency
Maritime and Coastguard Agency
Government Car and Despatch Agency
Vehicle Certification Agency

*Advisory Bodies*
Commission for Integrated Transport
Disabled Persons' Transport Advisory Committee

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

*Tribunals*
Traffic Commissioners and Licensing Authorities (Traffic Areas).

**36.2** The following bodies have not been consolidated within the accounts for the Department. Financial information for these bodies can be obtained from their separately published annual reports and accounts.

*Trading Funds*
Driving Standards Agency
Driver and Vehicle Licensing Agency
Vehicle and Operator Services Agency

*Public Corporations*
Aberdeen Harbour Board
Civil Aviation Authority
Dover Harbour Board
General Lighthouse Fund, incorporating:
- Commissioner for Irish Lights;
- Northern Lighthouse Board; and
- Trinity House Lighthouse Service

Milford Haven Port Authority
Poole Harbour Commissioners
Port of London Authority
Port of Tyne Authority
Shoreham Port Authority

*Executive Non-Departmental Public Bodies*
British Transport Police
Passenger Focus
Railway Heritage Committee
Renewable Fuels Agency

*Other Entities*
British Railways Board (Residuary) Limited
Channel Tunnel Rail Link Complaints Commissioner
Cross London Rail Links Limited
London and Continental Railways Limited
Marine and Aviation Insurance (War Risks) Fund
NATS Holdings Limited
Network Rail Limited
Office of the PPP Arbiter
SRA Investments Company Limited

## 37 Restatement of prior year balances

### Highways Agency

The trunk road network balance at 1 April 2007 has been restated by £756m due to detrunking of parts of the road network, in accordance with merger accounting principles.

These prior year adjustments gave rise to the following restatement of balances at 31 March 2007:

| | As previously stated | Adjustment | As Restated |
|---|---|---|---|
| | £000 | £000 | £000 |
| Trunk road network - cost | 93,004,341 | (846,807) | 92,157,534 |
| Trunk road network - depreciation | (11,448,632) | 91,039 | (11,357,593) |
| | **81,555,709** | **(755,768)** | **80,799,941** |
| General Fund | 39,203,437 | (480,895) | 38,722,542 |
| Revaluation Reserve | 40,744,866 | (274,873) | 40,469,993 |

## 38 Network Rail

### 38.1 Body outside the consolidation boundary

Many functions of the Strategic Rail Authority transferred to the Department in 2005-06. This included a transfer of the lead responsibility for the Government's relationship with Network Rail Limited (Network Rail), a private company limited by guarantee, which is the parent company of the Network Rail group of companies. Network Rail owns and operates the main rail network in Great Britain. 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 commercial lines, Network Rail is a not-for-dividend company and all profits made will be reinvested in the industry. Its members include the train operating companies and other stakeholders. The Secretary of State is a special member with no rights to any dividend or other distribution.

The Department's principal financial interest in Network Rail arises from indemnities issued in support of Network Rail's debt. Agreements were made between the Department and Network Rail in connection with the acquisition of Railtrack plc, which relate to the financial support provided to Network Rail, together with its output and enhancement obligations. These agreements operate alongside the contractual arrangements that exist between the Department and Network Rail. The Department considers that the likelihood of Network Rail having to rely upon letters of comfort for financial support is remote. Consequently, these agreements represent contingent liabilities and are disclosed under Note 32.1. The support facilities for Network Rail's borrowings are:

- a financial indemnity mechanism (FIM) in respect of borrowings of Network Rail Infrastructure Finance plc (NRIF), under which £15.9bn had been borrowed at 31 March 2008. The FIM is available until 2052. The indemnity also covers guarantees provided by NRIF in respect of certain financial obligations of Network Rail Infrastructure Limited; and
- a support facility in respect of the Medium Term Note Programme arranged through Network Rail MTN Finance plc, under which £4.2bn had been borrowed at 31 March 2008.

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

Network Rail reports to its members in the manner of a listed plc and, therefore, follows European Union regulations requiring companies listed in any member state to adopt International Financial Reporting Standards (IFRS).

### 38.2 Key Financial Figures

Profit and loss account for year ended 31 March 2008

| | 2007-08 | 2006-07 |
|---|---|---|
| | £m | £m |
| Revenue[1] | 5,960 | 5,795 |
| Operating costs | (3,536) | (3,505) |
| Operating profit | 2,424 | 2,290 |
| Revaluation gains and profits on disposals of properties | 34 | 102 |
| Net investment and finance costs | (870) | (918) |
| Profit/(loss) before tax | 1,588 | 1,474 |
| Taxation | (405) | (442) |
| **Profit/(loss) for the year** | **1,183** | **1,032** |

[1]Revenue includes £3,050 m (2006-07: £3,103m) received directly from the Department for Transport and £2,301m (2006-07: £2,206m) received from train operating companies (TOCs) for access charges.

Balance sheet as at 31 March 2008

| | 2007-08 | 2006-07 |
|---|---|---|
| | £m | £m |
| **Non-current assets** | | |
| Intangible assets | 74 | 75 |
| Property plant and equipment - the railway network | 31,443 | 28,304 |
| Investment property | 949 | 948 |
| Financial assets | 110 | 57 |
| | 32,576 | 29,384 |
| Current assets | 1,656 | 876 |
| Current liabilities | (7,547) | (5,197) |
| Non-current liabilities | (20,134) | (20,008) |
| **Net assets** | **6,551** | **5,055** |
| **Equity** | | |
| Revaluation reserve | 3,870 | 3,606 |
| Retained earnings | 2,504 | 1,264 |
| Other reserves | 177 | 185 |
| | **6,551** | **5,055** |

The Department paid TOCs £935m (2006-07: £2,087m), in accordance with the conditions of its franchising contracts with them. These payments are disclosed as support for passenger rail services in Note 11 to the Resource Accounts.

## 39 Pension schemes

The Department participates in the following defined benefit pension schemes. Some of the Department's employees are members of the BR Shared Cost Section of the Railways Pension Scheme. The Department is the scheme employer for the 1994 Section of the Railways Pension Scheme. It applies *FRS 17* to these sections. It has also offered a guarantee to the British Railways Superannuation Fund, a legacy defined benefit scheme from the British Railways Board (BRB), in which the Department has no employees participating. It applies *FRS 17* to any scheme that is in deficit. In accordance with *FRS 17*, the share of any deficits or recoverable surplus in the pension funds is recognised on the balance sheet. Interim valuations have been carried out as at 31 March 2008 by the Government Actuary's Department on the Department's defined benefit schemes, for the purpose of providing these disclosures.

### Analysis of pension liability recognised on the Balance Sheet

| | 2007-08 | 2006-07 |
|---|---|---|
| | £m | £m |
| **Deficit at beginning of period** | (116.0) | (373.7) |
| Contributions paid | 3.9 | 18.8 |
| Current service cost | (0.8) | (0.9) |
| Other finance income | 36.9 | 46.4 |
| Employees share of deficit | - | (0.6) |
| Actuarial gain | (175.1) | 194.0 |
| **Deficit at end of period** | **(251.1)** | **(116.0)** |

The deficit comprises the following balances:

| | 2007-08 | 2006-07 |
|---|---|---|
| | £m | £m |
| **Scheme:** | | |
| BR Shared Cost Section | 0.3 | 4.0 |
| 1974 Section | (15.1) | (22.7) |
| 1994 Section | (236.0) | (97.0) |
| Great Western Railway Salaried Staff Widows' and Orphans' Pension Society | (0.3) | (0.3) |
| **Total deficit at the end of the period** | **(251.1)** | **(116.0)** |

**1994 Section**

The 1994 Pensioners Section is a defined benefit scheme representing the majority, by value, of the Department's financial relationships with pension schemes.

Pensioners and deferred pensioners in the BR Pension Scheme on 30 September 2004 were transferred into a separate section of the RPS - the 1994 Pensioners Section. On 30 December 2000, there was a transfer of pensioners and deferred pensioners from the BR Section to the 1994 Pensioners Section. On 31 July 2007 members from seven historic railway pension schemes were transferred into the 1994 Section. All the assets and the liability to pay pensions from these historic schemes were also transferred to the 1994 Pensioners Section. Six of these schemes (The London and North Western Railway Provident Society for providing pensions for widows and orphans of the salaried staff; Great Western Railway Supplemental Pensions Reserve Fund; The Great Western Railway Salaried Staff Widows' and Orphans' Pension Society; The Great Northern Railway Superannuation Fund; and The Great Western Railway Inspectors and Foremen's Special Pension Fund) formerly benefited from a guarantee from the Department. These schemes have now been wound up. Where a member had rights under one of the historic funds and also had supplementary pension rights under the 1974 Fund, those rights under the 1974 Fund were also transferred into the 1994 Pensioners Section.

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 is being carried out as at 31 December 2007 by the RPS Scheme Actuary, Watson Wyatt Partners. Assets and accrued liabilities were valued using the market-related method.

Financial assumptions

The latest actuarial valuation for the section as at 31 December 2004 was updated to 31 March 2008 by the Government Actuary's Department, using the following assumptions, as shown in the table below:

| | 31 March 2008 | 31 March 2007 | 31 March 2006 | 31 March 2005 |
|---|---|---|---|---|
| | % pa | % pa | % pa | % pa |
| Inflation | 3.70 | 3.00 | 2.85 | 2.8 |
| Rate of increase of pensions in payment | 3.70 | 3.00 | 2.85 | 2.8 |
| Rate of increase for deferred pensioners | 3.70 | 3.00 | 2.85 | 2.8 |
| Discount rate | 6.90 | 5.40 | 4.95 | 5.4 |

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

| | Net Assets | | | Expected rate of return | | |
|---|---|---|---|---|---|---|
| | 31 March 2008 | 31 March 2007 | 31 March 2006 | 31 March 2008 | 31 March 2007 | 31 March 2006 |
| | £m | £m | £m | % pa | % pa | % pa |
| Equities | 2,201 | 2,603 | 2,622 | 8.0 | 8.0 | 7.6 |
| Bonds | 322 | 1,705 | 1,645 | 5.5 | 5.0 | 4.6 |
| Properties | 1,616 | 350 | 375 | 6.8 | 6.5 | 6.1 |
| Other | 411 | 260 | 257 | 5.25 | 5.25 | 4.5 |
| **Total market value of assets** | **4,550** | **4,918** | **4,899** | **6.8** | **6.3** | **6.2** |
| Present value of scheme liabilities | (4,786) | (5,015) | (5,245) | | | |
| **Total deficit** | **(236)** | **(97)** | **(346)** | | | |

Components of the defined benefit cost for the period ended 31 March 2008:

**Analysis of the amount charged to other finance income:**

| | 31 March 2008 | 31 March 2007 |
|---|---|---|
| | £m | £m |
| Interest on Fund liabilities | 260 | 250 |
| Expected return on Fund assets | (297) | (297) |
| **Net credit to other finance income** | **(37)** | **(47)** |

**Analysis of amounts recognised in Statement of Recognised Gains and Losses (SRGL):**

| | 31 March 2008 | 31 March 2007 |
|---|---|---|
| | £m | £m |
| Gain on assets | (257) | 112 |
| Experience loss on liabilities | 111 | (67) |
| Gain/(loss) on change of assumption | (30) | 142 |
| **Total gain recognised in SRGL before adjustment for tax** | **(176)** | **187** |

**Experience gains and losses:**

| | 31 March 2008 | 31 March 2007 |
|---|---|---|
| **Gain on section assets** | | |
| (i) Amount (£m) | (257) | 112 |
| (ii) % of section assets at end of period | -6% | 2% |
| **Experience loss on section liabilities** | | |
| (i) Amount (£m) | 111 | (67) |
| (ii) % of liabilities assets at end of period | 2% | 1% |
| **Total actuarial gain recognised in SRGL** | | |
| (i) Amount (£m) | (176) | 180 |
| (ii) % of section liabilities at end of period | -4% | 4% |

**Analysis of the movement in deficit in the section during the period**

| | 31 March 2008 | 31 March 2007 |
|---|---|---|
| | £m | £m |
| Deficit in employer's share in the section at beginning of period | (97) | (346) |
| Contributions paid | - | 15 |
| Other finance income | 37 | 47 |
| Actuarial gain | (176) | 187 |
| **Deficit in employer's share in the section at end of period** | **(236)** | **(97)** |

**Analysis of pension liability**

| | 31 March 2008 | 31 March 2007 |
|---|---|---|
| | £m | £m |
| Balance at 1 April | (97) | (346) |
| Items charged to income and expenditure reserve | 37 | 62 |
| Gain on assets | (257) | 112 |
| Experience loss in liabilities | 111 | (67) |
| Gain/(loss) on change of assumptions | (30) | 142 |
| **Result for period** | **(236)** | **(97)** |

### 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.

### Railways Pension Scheme: BR Shared Cost Sections

The BR Shared Cost Section of the RPS covers most of BRB (Residuary) Limited's employees, and some former Strategic Rail Authority employees. In March 2007 the OPRAF Shared Cost Section covering some of the former Strategic Rail Authority's employees, primarily those who were formerly employed by the franchising director was merged with the BR Shared Cost Section, by transferring the assets and liabilities of the OPRAF Section into the BR Section.

The last actuarial review for funding purposes was performed at 31 December 2004 by the RPS Scheme Actuary, Watson Wyatt Partners, using the projected unit method. Assets and accrued liabilities were valued using the market-related method.

### BR Shared Cost Section

The market value of assets, net of additional voluntary contribution (AVC) amounts, of the BR Section at 31 December 2004 was £34.192m. This is approximately 1.5 per cent lower than the corresponding value of the projected accrued liabilities (after allowing for future salary increases but before allowing for agreed future contribution reductions and AVC matching by the Department). In this calculation, an investment return of 6.8 per cent on existing assets was assumed over the 20 year future mean term of liabilities.

The actuary estimated the ongoing funding cost of the BR Section for future years to be met by both the employees and the employer at 29.3 per cent of Section pay, defined as pensionable pay less 150 per cent of the basic state pension. Over the 8 months to 30 November 2006, member contributions were 9.2 per cent of Section Pay, and employer contributions were suspended on actuarial advice. Over the 4 months to 31 March 2007, member contributions were 12.0 per cent of Section Pay, and employer contributions were 18.0 per cent of Section Pay, in respect of most members.

The Fund is closed to new members.

### Other schemes

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 31 December 2004 by the Scheme Actuary, Watson Wyatt Partners.

The position of the scheme at the latest formal actuarial valuation date, is summarised below:

| Scheme | Date of Last Valuation | Assets | Liabilities | Employer Contribution |
|---|---|---|---|---|
| | | £m | £m | |
| British Railways Superannuation Fund | 31 December 2004 | 406.0 | 384.0 | Nil |

This scheme was reviewed as at 31 March 2008. Given the nature of the scheme and the obligations on the Department, and because the fund is in surplus for, no *FRS 17* disclosures are included for this year or prior years. Any future funding obligations form a contingent liability for the Department.

## 40 Post Balance Sheet events

### Authorised for issue

These Financial Statements are laid before the Houses of Parliament by the HM Treasury. Financial Reporting Standard (FRS) 21 requires the Department to disclose the date on which the accounts are authorised for issue. This is the date on which the certified accounts are despatched by the Department to the HM Treasury. The authorised date for issue is 17 July 2008.

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