



Department  
for Transport

# Annual Report and Accounts 2017–18







Department  
for Transport

# Department for Transport Annual Report and Accounts 2017-18

(For the year ended 31 March 2018)

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

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

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This is part of a series of departmental publications which, along with the Main Estimates 2017-18 and the document Public Expenditure: Statistical Analyses 2017, present the Government's outturn for 2017-18 and planned expenditure for 2018-19.



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“This latest Department for Transport (DfT) Annual Report documents another important year of progress for transport across the United Kingdom (UK). Eight years after we began the huge task of upgrading and modernising our overstretched transport network to provide the resilience and capacity our economy needed to grow, today the delivery of that programme is well underway.”

**Rt Hon Chris Grayling MP**  
Secretary of State for Transport

# Foreword

## Secretary of State for Transport

Rt Hon Chris Grayling MP



For a country that until recently was tagged as being infrastructure averse developments during 2017-18 have gone a long way to changing that image. It was a year in which works to enable construction of High Speed 2 (HS2) began, the first new national rail line in Britain since the Victorian era, with £6.6 billion of contracts awarded for enabling work and civil infrastructure. We opened the Ordsall Chord rail bridge, linking Manchester's 3 main railway stations for the first time, as part of the government's £13 billion investment in northern transport. We also won strong support in Parliament for a third runway at Heathrow to address urgently needed airport capacity that will benefit the whole country.

The prospects for improving rail services were enhanced at the end of 2017 when we launched our new Strategic Vision for Rail. This included measures to end the operational divide between track and trains, strengthen the regional focus of the railway, and explore reopening some of the routes closed during the 1960s and 1970s. Joined-up management and simpler, more accountable structures will help sort out problems on the network faster, and rebuild the railway around the passenger. Alongside the new rail strategy, we continued to deliver major upgrades to the rail network that will improve journeys, and open up access to the railway. These include completing the first stage of the upgrades to Liverpool Lime Street, opening the new £23 million Blackburn depot, announcing £337 million for a new fleet of trains for the Tyne and Wear Metro and completion of major engineering works at Waterloo and London Bridge Stations.

Another key announcement was the £1.7 billion Transforming Cities Fund. Many English cities have poor connectivity, particularly between housing and places of work. The launch of the Transforming Cities Fund is a key part of delivering the government's modern Industrial Strategy, supporting public transport projects that will increase productivity and ease congestion. The first £840 million of the fund has begun to be allocated to 6 Mayoral Combined Authorities, among the beneficiaries are Liverpool, the West Midlands and Greater Manchester.

Initiatives like the Future of Mobility Grand Challenge and the Automated and Electric Vehicles Bill – which passed successfully through Parliament – will help make Britain a leader in the way people, goods and services move. They provide further opportunity for the Department to develop its role as a world leader in transport technology. For example, our aim is that by 2050 almost all of the cars and vans on UK roads will be zero emissions. In May 2018, we unveiled a digital railway strategy which will modernise the rail infrastructure, improving efficiency and reliability for passengers. And we have worked closely with the aviation industry to take forward

the outputs of the consultation on airspace modernisation. This is key to developing a cleaner, quieter and more efficient airspace demonstrating the government's support for the third largest aviation sector in the world.

The UK's maritime sector continues to make an important contribution to our economy generating £14.5 billion in 2016 and directly supporting an estimated 186,000 jobs. There has been more investment in training and real progress on environmental agreements in the sector. Autumn 2017 also saw another highly successful London International Shipping Week, hailed by our maritime industry as the best yet.


Nevertheless, the year brought its own challenges. In October 2017 we stepped in to repatriate 84,000 Monarch passengers affected by the airline's failure. It was the biggest operation in British peacetime history. And at a time of massive demand on the railway, I shared passengers' frustration at the widespread disruption caused by strikes and the failed introduction of the new rail timetable in May 2018. I am sorry that services were so badly affected. To find out what happened and make sure it never occurs again, I set-up an inquiry to be carried out by the independent Office of Rail and Road.

Throughout the year we continued to deliver our £15 billion roads investment programme including completion of the Leeming to Barton stretch of the A1, which means you can travel on motorway grade road from London to Newcastle for the first time. We built the case for other major projects like Crossrail 2 and Northern Powerhouse Rail. We also launched the Year of the Engineer 2018 to promote careers in engineering, and help recruit the next generation transport workforce.

Of course, preparation for Britain's withdrawal from the European Union (EU) has been one of our biggest priorities over the last year. Securing a good deal for the transport industry is one of our major objectives. The Haulage Permits and Trailer Registration Bill successfully achieved Royal Assent in July 2018, which will help us support UK hauliers after we leave the EU. The Department also progressed work on over 60 Statutory Instruments needed to ensure that, whatever the outcome of the negotiations, the UK's statute book continues to function smoothly.

It has been a busy but successful year – as I'm sure 2018-19 will be too. As we look ahead to our future plans, I would like to thank my ministerial team and everyone in the DfT family for all their hard work.

A handwritten signature in dark ink, appearing to read 'Chris Grayling'. The signature is fluid and cursive, written in a professional style.



“The Annual Report and Accounts sets out what the Department and its delivery bodies have achieved over the last year with the money allocated by Parliament. The report also provides an overview of how we are organised and governed as well as providing details on our people and our finances.”

**Bernadette Kelly CB**  
Permanent Secretary and  
Principal Accounting Officer



# Foreword

## Permanent Secretary

**Bernadette Kelly CB**



I am pleased to report the excellent progress we have made over the year in delivering the government's priorities for transport across all modes. This is down to the professionalism and hard work of all our people.

In aviation, we undertook 2 public consultations on the draft Airports National Policy Statement (NPS), setting out the government's preferred option for a third runway at Heathrow. This work culminated in a successful Parliamentary vote adopting the NPS in June 2018. We continue to work with Highways England on delivery of the Roads Investment Strategy 1 (RIS1), and have consulted on priorities for RIS2.

We have worked closely with HS2 Ltd as works to enable the construction of HS2 Phase 1 between London and Birmingham commences, introduced a Hybrid Bill in support of Phase 2A between Birmingham and Crewe, and announced the final route decision on Phase 2B to Manchester, Sheffield and Leeds in July 2017. On the existing railway, we saw the successful introduction of new Inter-City Express trains on the Great Western mainline in October 2017 and the re-opening of London Bridge Station in May 2018. In the maritime sector, we hosted a highly successful International Shipping week in November 2017, and played a key role with UK industry in securing agreement in the International Maritime Organisation on a strategy for reducing greenhouse gases from international shipping by 50% by 2050.

More broadly, our work to prepare for EU Exit continues, and we have established Crossrail International Ltd to help the transport sector grow its overseas exports. We have established Transport for the North as a statutory sub-national transport body and continue to work with other regions of England to ensure they have the voice and powers to deliver their transport priorities. We are working closely with the Ministry for Housing, Communities and Local Government to strengthen the links between transport and housing and with the Department for Business, Energy and Industrial Strategy to ensure transport is at the heart of the government's Industrial Strategy. This has included agreeing the Department will lead work to make the UK a world leader on the Future of Mobility, one of 4 Grand Challenges which are critical to the future of our society and productivity.

I am particularly proud of the work we have done to support investment in skills, especially the work the Department has led on the Year of Engineering, which has seen over 1,300 partners get involved in our campaign to inspire a new generation of young people to become engineers. Our THINK! road safety campaigns have also been a big success, using innovative social media techniques to reach target audiences.

Within the Department, we have continued our drive to become a more diverse and inclusive employer, building on our awards from the Times as a Top 50 employer for women and from Business in the Community as a top employer for race, as well as being a Disability Confident Leader. I was delighted to be the first Department in the Civil Service to appoint a job-share partnership to a Director General role and to see the Chair of our Positive Support Group, Kul Bassi, win the Civil Service Award for Diversity and Inclusion for his outstanding work supporting Black and Asian Minority Ethnic (BAME) colleagues across the Department.

Of course no year is without its challenges too. Lower than expected rail revenues on the East Coast mainline resulted in the Secretary of State's decision in May 2018 to terminate the contract with Virgin Trains East Coast (VTEC), and introduce the Operator of Last Resort. A combination of factors means that performance on the railway has not consistently reached the level passengers expect, and disruption, in particular following the introduction of May timetabling changes on Northern and Govia Thameslink Railway (GTR) has been unacceptable. Further work will be needed in 2018 to restore performance and ensure rail franchising is on a sustainable footing.

I was also personally disappointed to see the Department recording one of the largest gender pay gaps in government. There are long-term structural reasons for this linked to the grade mix in our agencies, but I am determined to see us take action to narrow the gap over time.

I would like to thank everyone in the DfT family for all that we have achieved over the past year. I am confident that by continuing to work together, we can all look forward to addressing the challenges we will face over the next year.

A handwritten signature in dark ink that reads "Bernadette Kelly". The signature is written in a cursive, flowing style.



# The Performance Report

This section provides an overview of the Department for Transport (the Department). It sets out our purpose and our performance during the past year. We have presented the information so that readers of the Annual Report and Accounts do not need to look further into the rest of the document unless they require additional details or have specific accountability or decision-making needs.



# Overview: How we have performed

## Our purpose

1.1 The Department for Transport (DfT) and its delivery bodies play a pivotal role in promoting the growth of the UK economy by:

- ▶ Planning and delivering excellent transport infrastructure.
- ▶ Enabling people, goods and services to be transported efficiently.
- ▶ Supporting investment and employment.



**Our investment in rail, roads, maritime and aviation will make journeys better, simpler, faster and more reliable.**

## How we are organised

**1.2 DfT Group** comprises the **central Department (DfTc)** and a number of **delivery bodies** which are classified based on the level of oversight the central Department has over them. The majority of these organisations have separate boards and governance structures and publish their own annual reports with their accounts consolidated into the DfT's Annual Report and Accounts.

**1.3** Executive agencies act as an arm of the central Department and usually carry out services or functions with a focus on delivering specific outputs, with policy set by ministers. The other bodies in the Departmental Group, such as government owned companies and Non-Departmental Public Bodies (NDPBs) are separate legal entities. The central Department usually sets their strategic framework and normally appoints the chair, approves all non-executives members of the board, and is consulted on the appointment of the Chief Executive Officer (CEO).

**1.4** The wider **Departmental family** includes other delivery bodies which work with us to achieve our objectives, but have more autonomy over their own policies and are not consolidated into the group financial statements. An overview of the Departmental Group and wider family is provided in **Figure 1** overleaf.

**Figure 1: The central Department, consolidated Departmental Group and wider family<sup>1</sup>**



<sup>1</sup> Our area of responsibility extends beyond the bodies listed in the wider Departmental family. A more comprehensive picture can be found in our [Accounting Officer System Statement 2017](#), published separately.

<sup>2</sup> British Transport Police (BTP) is consolidated into the British Transport Police Authority (BTPA).

<sup>3</sup> Expert Committees and Advisory Groups are paid from the central Department's budget.

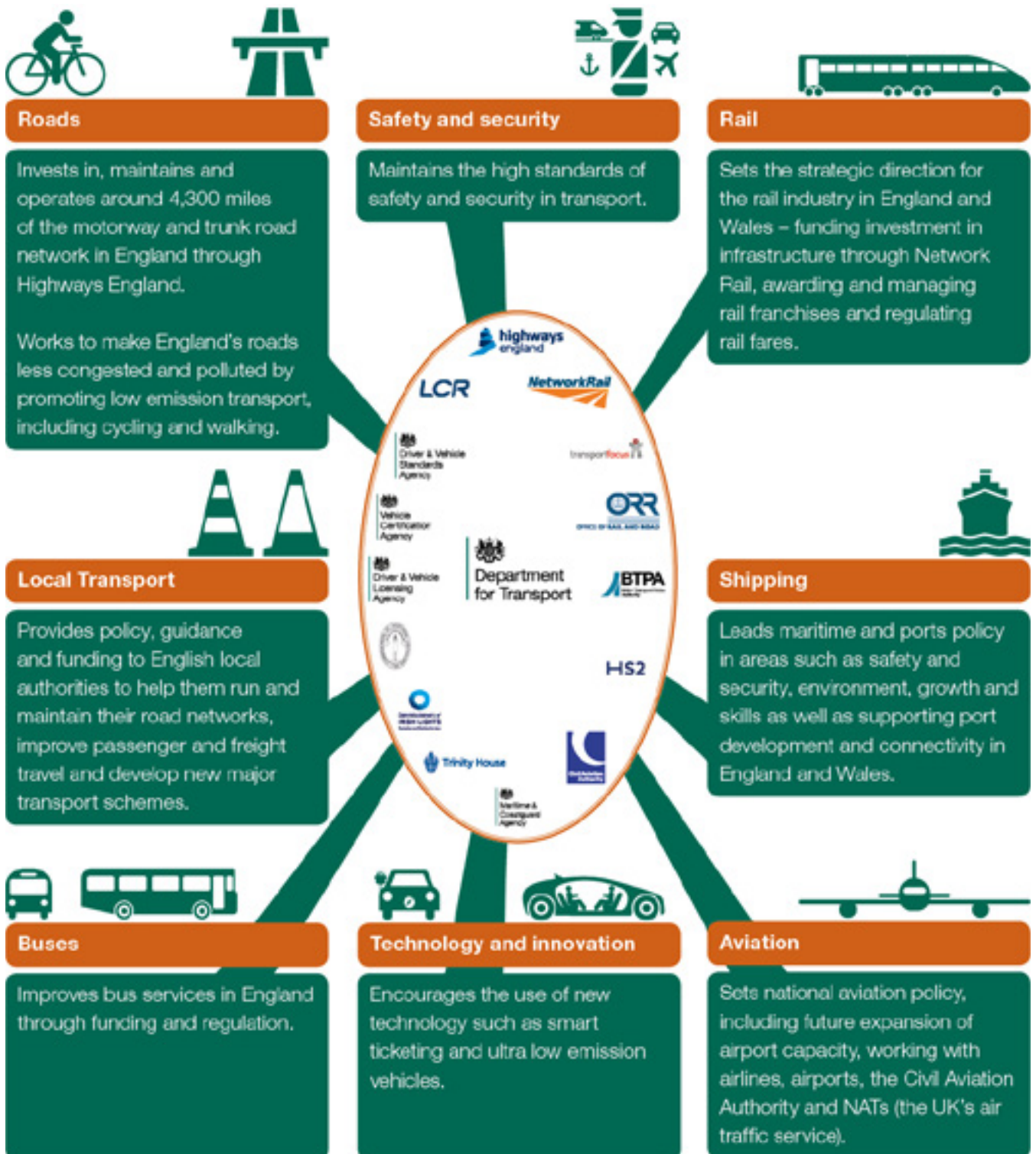
<sup>4</sup> Traffic Commissioners for Great Britain is consolidated into the Driver and Vehicle Standards Agency (DVSA).

# What we do

1.5 The central Department, together with its network of delivery bodies, supports the transport network and invests in transport infrastructure. Our mission is to create a safe, secure, efficient and reliable transport system that works for the people who depend on it. This

supports a strong, productive economy, and access to the jobs and homes people need. An overview of the Departmental family's main responsibilities is provided in **Figure 2**.

**Figure 2: Overview of the Departmental family's main responsibilities**



# Our vision

1.6 Our vision is for a central Department that is:

## Ambitious



- › We have a clear strategy for transport and aim high, to deliver the best in everything we do.
- › We set our sights on a clear vision for the transport system and for ourselves as a Department.
- › We look at the big picture, valuing evidence but also looking beyond hard facts to how our decisions make an impact on peoples lives.

## Outward facing



- › So much of what we set out to achieve relies on building good relationships with others including:
- › Users or providers of transport.
- › Others in national or local government.
- › Key partners in making transport work successfully.

## One team



- › We collaborate to achieve shared goals and communicate our own perspective with confidence and impact.
- › We put aside our own work areas and priorities when needed to deliver a greater outcome.
- › We inject pace and urgency into everything we do.
- › We think outside our silos and belong to wider teams outside our own.

## A great place to work



- › An organisation proud of doing things well, supporting its people to build their skills, recognising their contribution and creating an environment where talent thrives.
- › We're known for doing things well, and as a Department where people can strengthen their skills.
- › We create a good environment for work.

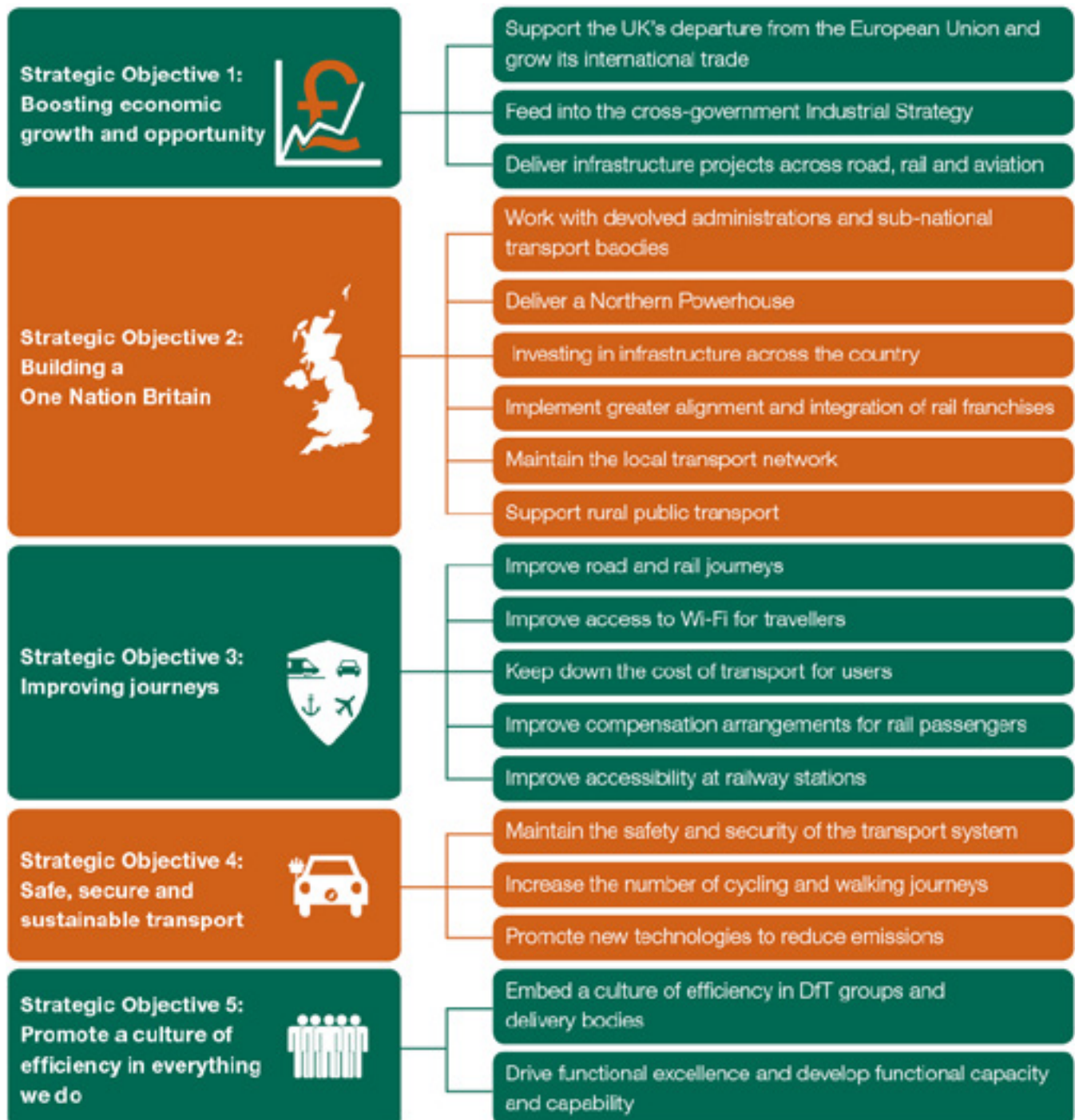


# Our strategy

1.7 In December 2017, the central Department published its [Single Departmental Plan \(SDP\)](#). This set out our strategic objectives for 2017-18 (**Figure 3**) and how we will achieve them, as well as a range of headline indicators through which we would measure progress against. An updated version of the [SDP](#) was published in May 2018 which sets out our strategic objectives to 2020.

1.8 A detailed analysis of our performance against each strategic objective has been set out from [page 36](#) and also reports progress for each indicator as at the end of March 2018<sup>5</sup>.

**Figure 3: The central Department’s strategic objectives**



5 Further information and updates on the SDP and indicators is published at: [DfT Single Departmental Plan](#)

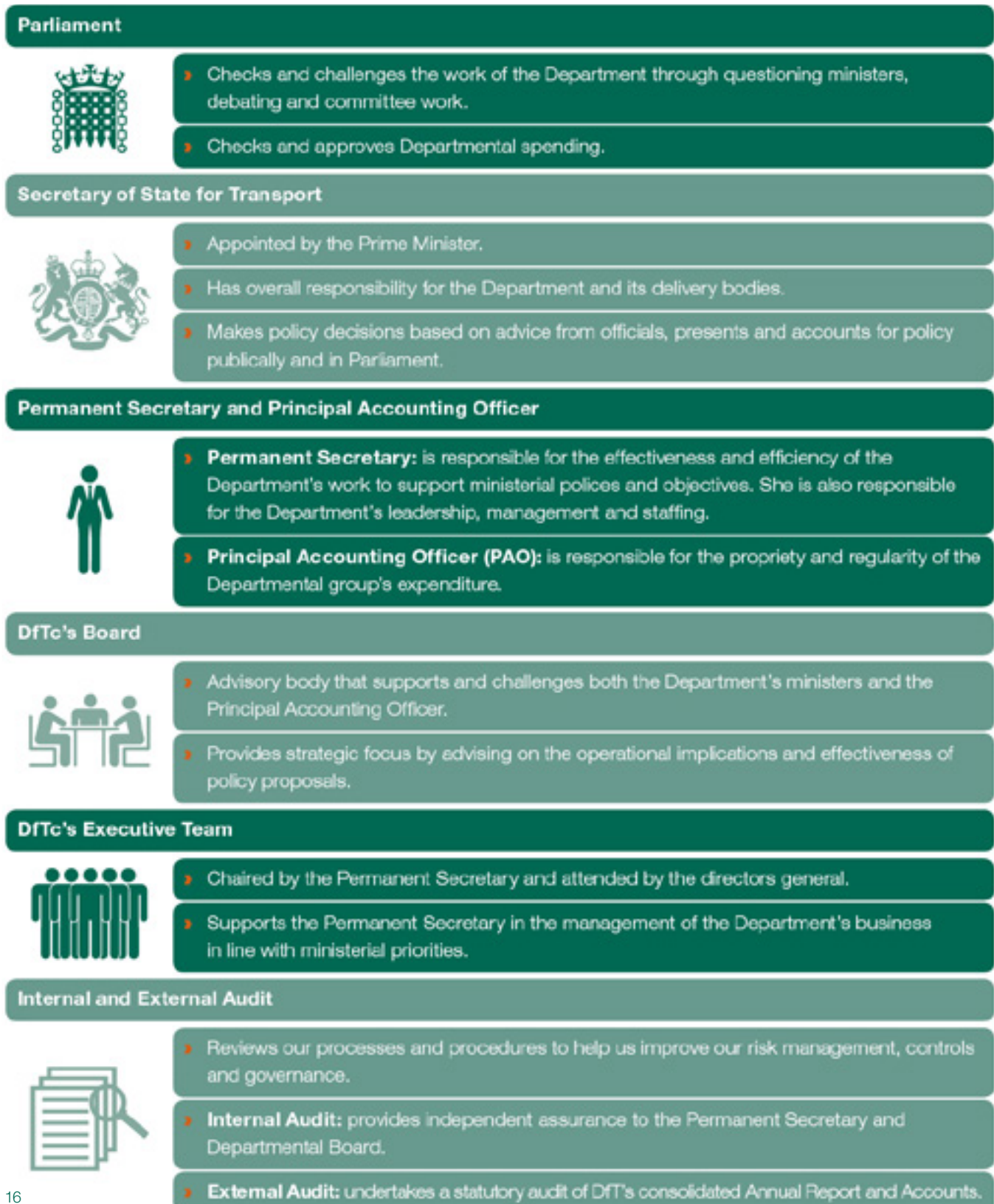
# Our governance

1.9 Our governance arrangements reflect best practice and the importance of giving Parliament confidence that we use our resources cost-effectively and meet our strategic objectives. We are subject to

internal and external examinations, which ensure that our processes and procedures are robust (see Figure 4).

1.10 Our full **Governance Statement** can be found in the Accountability Report from page 125.

**Figure 4: Overview of the central Department’s governance structures**



## Our risks

1.11 Risk management is an integral part of everything we do in the Department, from how we manage our programmes and our money, to how we develop our policy and work with our delivery bodies. **Figure 5** sets out the **top-level risks** that have impacted on, and continue to impact on the Department in 2017-18. These risks represent the centre’s view of the overall risk profile

of the Department, taking into account the risk carried and managed by our delivery bodies.

1.12 The **Governance Statement** (from page 125) contains a full report on our internal controls and risk management, including the actions we are taking to mitigate these risks.

**Figure 5: Top level risks in 2017-18**



# Our performance at-a-glance

**We're boosting economic growth and opportunity** by investing in the biggest modernisation programme for a generation, to bring our transport system into the 21st century and build a stronger economy that works for everyone. During 2017-18 we have:

<p>Announced the preferred route for the <b>Lower Thames Crossing</b> and <b>A303 Stonehenge Tunnel</b>.</p> 	 <p>Worked with <b>HS2 Ltd</b> to initiate works to enable the construction of the railway at key locations along the HS2 Phase 1 route: <b>Euston, Old Oak Common, the Colne Valley and Birmingham.</b></p>	<p>Completed 2 public consultations on the draft <b>Airports National Policy Statement</b> – receiving over <b>83,000</b> responses from the public and industry.</p> 
<p>Continued to work with Highways England on the delivery of our <b>£15.2 billion road investment programme (RIS1)</b> – completing the A1 Leeming to Barton upgrade.</p> 	 <p>Successfully hosted one of the biggest business events of the year: <b>London International Shipping Week.</b></p>	<p>Responded to the consultation on <b>airspace modernisation</b> – part of the important work to develop the way UK airspace is managed to make it <b>cleaner, quieter and more efficient.</b></p> 
<p>Played a leading part in planning for <b>EU Exit</b>: introducing the Haulage, Permits and Trailer Registration Bill and progressing work on over <b>60 Statutory Instruments.</b></p> 	  <p>Continued to work with Network Rail on the delivery of our <b>£46 billion rail investment programme (2014-2019)</b>. Announced a <b>further £47.9 billion (2019-2024)</b> for rail operations, maintenance, renewals and enhancements.</p>	<p>Established the <b>Future of Mobility Grand Challenge</b> for the <b>Industrial Strategy</b>, including ambitious commitments on regulatory reform for autonomous vehicles.</p> 

# Our performance at-a-glance

**We're building a One Nation Britain** by ensuring that every part benefits from a growing economy and that everyone who works hard gets the opportunities they need to succeed. During 2017-18 we have:

<p>Successfully introduced the new <b>Intercity Express Trains</b> into passenger service on the <b>Great Western Mainline</b> route.</p> 	 <p>Secured new legal powers to transform <b>Transport for the North</b> into the first ever <b>statutory</b> sub-national transport body – underlying our commitment to delivering the <b>Northern Powerhouse</b>.</p>	<p>Launched the <b>£1.7 billion Transforming Cities Fund</b> as part of the Industrial Strategy.</p> 
<p>Awarded <b>76 schemes</b> from across the country <b>£244 million</b>, to bring key benefits to <b>local road users</b>. This will improve access to public transport, opening up roads for cyclists and addressing key local traffic 'pinch points'.</p> 	 <p>Launched the <b>Transport Investment Strategy</b>, setting out our plan to ensure transport investment helps to deliver a stronger, fairer Britain with wealth and opportunity spread across the country.</p>	<p>Worked with Network Rail to complete the <b>£1 billion</b> redevelopment of <b>London Bridge station</b> – opening 5 new platforms and a vast, modern, fully accessible concourse, after more than 5 years of work.</p>  <p><b>London Bridge Station</b></p>
<p>Awarded <b>£278 million</b> to build 4 new <b>major roads</b> in Worcester, Cheshire, Cornwall and Great Yarmouth. This will provide much needed congestion relief for residents and commuters as well as boosting jobs and economic growth.</p> 	 <p>Begun to establish the <b>East West Railway Company</b> to restore the <b>Oxford to Cambridge rail link</b> and provide a major boost to the region.</p>	<p>Allocated <b>£100 million</b> to local authorities (outside London) to help <b>repair up to 2 million potholes</b> and protect local roads from future severe weather. This funding is part of the <b>Pothole Action Fund</b> allocation to authorities for 2018-19.</p> 

## Our performance at-a-glance

**We're working to improve journeys** by making transport services better, faster and more reliable today and in the future. During 2017-18 we have:

<p>Worked with Highways England to complete a public consultation on the proposed priorities for the next <b>Road Investment Strategy, RIS2</b> – receiving <b>3,150 responses</b>, which will inform the decision-making process during 2018 to 2019.</p> 	 <p>Introduced <b>new protections</b> to strengthen the <b>penalty fares appeals</b> process for rail passengers.</p>	<p>Published a call for evidence and next steps document on the <b>new Aviation Strategy</b> – outlining our proposals to build on the aviation industry's work to improve the flying experience for passengers at every stage of their journey.</p> 
<p>Changed legislation to <b>protect</b> free off-peak <b>bus travel</b> for <b>10 million</b> older and disabled people.</p> 	 <p>Published a new <b>rail strategy</b> setting out our <b>vision</b> to deliver a more reliable, more competitive, growing railway which offers a <b>better deal</b> for passengers.</p>	<p>Completed a consultation on our draft <b>Accessibility Action Plan</b>, which set out our proposals to improve the travel experience for people with disabilities across modes: rail, aviation, buses and taxis.</p> 
<p>Continued to roll-out the <b>Delay Repay 15 (DR15)</b> scheme across DfT franchised train operators – paying passengers <b>compensation</b> for delays starting from 15 minutes.</p>  <p><b>£73.6 million</b> was paid in compensation in 2016-17.</p>	 <p>Introduced <b>new legislation</b> to give <b>holidaymakers</b> booking package holidays online <b>more protection</b> under the ATOL scheme.</p>	<p>Agreed contracts with <b>11</b> train operators to deliver an <b>£80 million smart-ticketing programme</b> across almost all of the rail network by the end of 2018.</p> 

# Our performance at-a-glance

We're delivering safe, secure and sustainable transport, during 2017-18 we have:

 <p>Published the first statutory <b>Cycling and Walking Investment Strategy</b>, setting out our ambition to make cycling and walking a natural choice for shorter journeys, or as part of longer journeys by 2040.</p>	<p>Led overseas work to <b>strengthen aviation security</b> for inbound flights to the UK, undertaking <b>119</b> assessments in <b>24</b> countries, <b>24%</b> more than 2016-17.</p> 	 <p>Announced a new <b>£540 million</b> package of measures to support our ambitions for almost all cars and vans to be <b>zero emission by 2050</b>, and for the UK to be a world leader in the technology and use of electric vehicles.</p>
 <p>Launched several new <b>THINK! road safety campaigns</b> to help cut drink and drug driving, reduce speed on country roads, improve child and teen road safety and reduce hand-held mobile phone use whilst driving.</p>	<p>Launched a call for evidence on ways to make <b>cycling and walking safer</b> – seeking views on infrastructure and traffic signs, the law and rules of the road, and education for road users.</p> 	 <p>Introduced new legislation that will allow <b>learner drivers</b> to have lessons on <b>motorways</b> with an approved instructor, to improve road safety.</p>
 <p>Announced investment of almost <b>£30 million</b> to help develop <b>electric vehicles</b> capable of <b>returning electricity</b> back to the grid, light homes and power businesses.</p>	<p>Worked with MCA to ensure the successful completion of the <b>£2.2 billion UK Search and Rescue Helicopters (UKSRH)</b> programme. In 2017, UKSRH rescued or assisted over <b>2,000 people</b>.</p>  	<p>Awarded <b>£11 million</b> to local authorities to purchase over <b>150 new Low Emission Buses</b></p>  <p>Launched a new <b>£48 million Ultra Low Emission Bus Scheme</b>, to reduce greenhouse gas emissions.</p>

# Our performance at-a-glance

**We're promoting a culture of efficiency and driving functional excellence** by finding new ways to deliver our ambitious investment plans, looking at how we organise ourselves and develop our workforce. During 2017-18 we have:

<p>Launched DfTc's <b>Diversity and Inclusion Strategy</b> which sets out our commitment to promoting and ensuring equality, valuing diversity and inclusion.</p>  <p>Different people. One team. One team.</p>	 <p>Published the <b>Transport Infrastructure Efficiency Strategy</b> which builds on examples of best practice to deliver better outcomes for transport users.</p>	<p>Launched the <b>Year of Engineering 2018</b> campaign, which aims to promote engineering as a career to young people. It forms an important part of the <b>Industrial Strategy</b>.</p> 
 <p>Increased DfTc's <b>staff engagement</b> to <b>65%</b>, for the <b>4th year</b> in a row, making us a high performing Department.</p>	<p>Awarded: Times <b>Top 50 Employer</b> for <b>Women</b>, Business in the Community <b>Top Employer</b> for <b>Race, Disability</b> <b>Confident Leader</b> and Power <b>Top 50 Job share</b>.</p> 	 <p>Championed <b>efficiency savings</b> within our <b>delivery bodies</b> – Highways England exceeded its saving target, delivering efficiencies at Q2 in 2017-18 of <b>£260 million</b>, £30 million above target.</p>
 <p>Driven forward delivery of <b>DfTc's efficiency plans</b> – scrutinising each work area to identify further efficiency initiatives.</p>	<p>Continued to support the delivery of commitments set out in the <b>Transport Infrastructure Skills Strategy</b> – with <b>over 5,000 new apprenticeships</b> in road and rail created to date.</p> 	 <p>Continued to develop DfTc's <b>leadership and management capability</b>, investing in talent and development programmes.</p>









# Financial Overview

# Financial overview from the Director General for Resources and Strategy



## Total Managed Expenditure

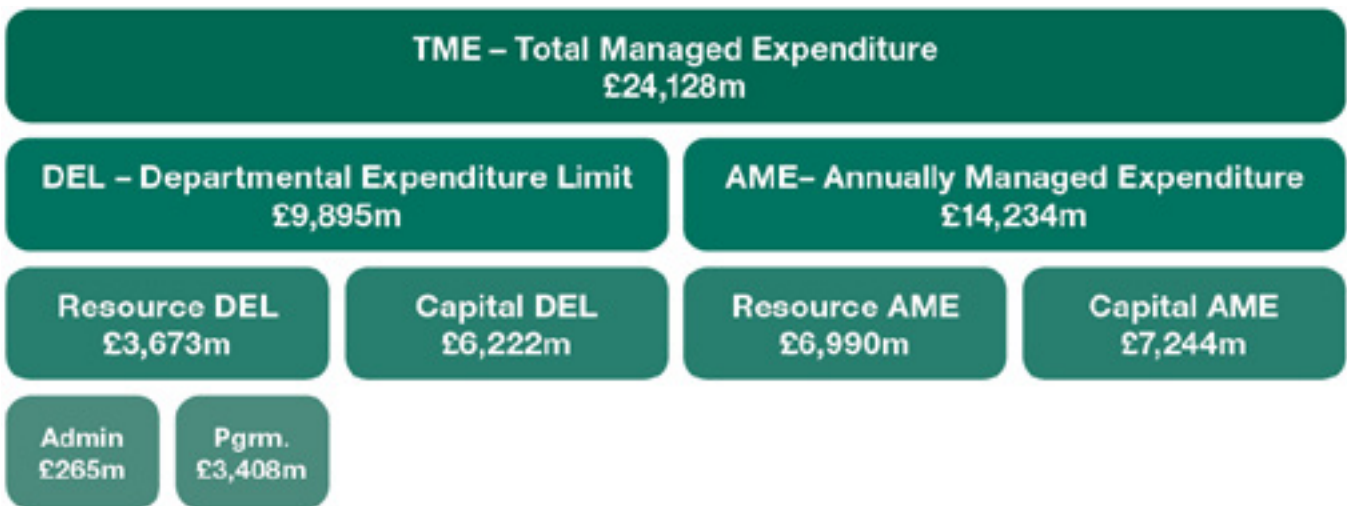
1.13 The Department’s spending plans for 2017-18 were based on the second year of Spending Review 2015<sup>6</sup>. The Department’s Main Estimate in June 2017 set out our plans for 2017-18, with the Supplementary Estimate in February 2018 providing a further update to those plans.

1.14 Total Managed Expenditure (TME) represents the total funds available to the Department based on a series of different budget types as detailed in **Figure 6**, these values correspond to the **Statement of Parliamentary Supply** from page 186.

## Comparison between this year’s Budgets and Outturn

1.15 **Table 1** summarises the Department’s performance against the Voted budgets authorised by Parliament for 2017-18, explanations for the variances can be found in the **Statement of Parliamentary Supply** from page 186. The values correspond to the Voted figures within the Statement of Parliamentary Supply.

**Figure 6: Total Managed Expenditure split by budget type (as defined in Annex A)**



Source: Statement of Parliamentary Supply, Total Outturn 2017-18.

6 HM Treasury, Spending Review and Autumn Statement 2015, November 2015, Cm9162  
<https://www.gov.uk/government/topical-events/autumn-statement-and-spending-review-2015>

**Table 1: Outturn against Budgetary Control Totals voted by Parliament**

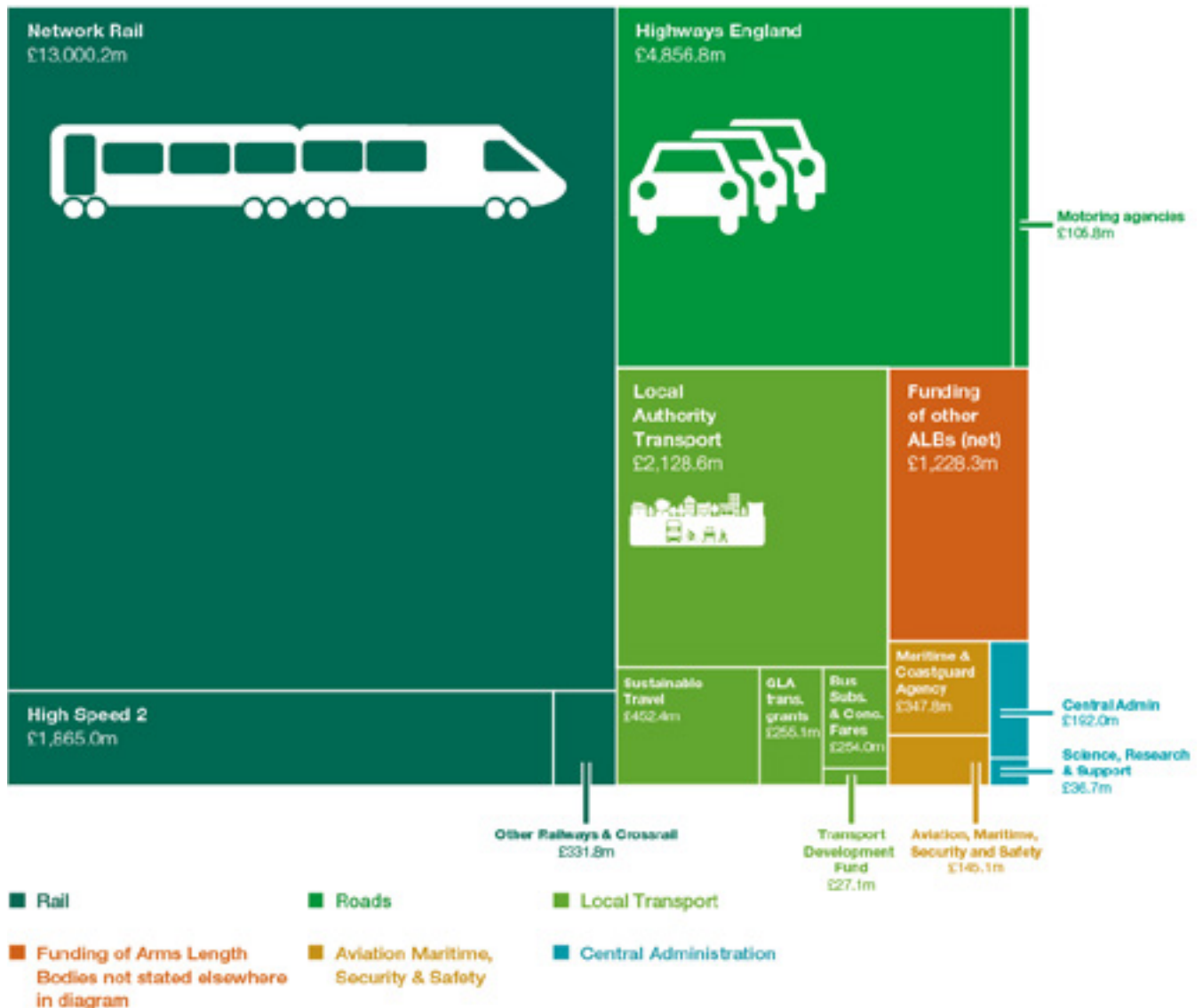
Control total	Budget £m	Outturn £m	Variance £m	%
Resource DEL	3,879.5	3,670.4	209.1	5.4%
<i>Of which: Administration</i>	265.4	264.8	0.6	0.2%
Capital DEL	6,431.7	6,221.5	226.5	3.3%
Resource AME	8,627.8	6,989.4	1,638.4	19.0%
Capital AME	7,449.8	7,244.2	205.6	2.8%
Net Cash	20,963.8	18,675.8	2,288.0	10.9%

Source: Statement of Parliamentary Supply, Voted Estimate and Outturn 2017-18.

## Where we spent our money

1.16 The majority of our budget is used to invest in or maintain national and local transport infrastructure. Spending on road and rail accounts for almost 80% of the Department’s overall budget. How our budget was split across the transport sector and/or used in 2017-18 is shown in **Figure 7**.

**Figure 7: Summary of Departmental spending by Estimate line**



Source: Statement of Parliamentary Supply. Figure 7 presents Estimate lines that show net expenditure on aggregation of the outturn data in Notes 1.1. and 1.2 summarised by Estimate line. The following net income lines are not shown: Support for Passenger Rail Services (£778.1m) and Tolled Crossings (£320.6m).

## Summary of the financial statements

1.17 This section summarises what the Departmental Group owns, owes, receives and spends, and how this has changed since the previous year.

### Assets

1.18 The Departmental Group owns £436bn of assets as at 31 March 2018, of which £301bn relates to the Railway Network and £116bn relates to the Strategic Road Network, which are the responsibility of Network Rail and Highways England respectively.

1.19 Between 31 March 2017 and 31 March 2018, the Department's asset base grew by £14bn, of which, £12bn related to the Railway Network, £2bn related to the Strategic Road Network, £1bn related to road and rail assets under construction, with miscellaneous reductions of circa £1bn elsewhere. The asset base includes: property, plant and equipment; intangible assets; inventory and financial assets.

- Further details can be found in **Notes 6-7, 9.1 and 10-13** to the Financial Statements.

### Liabilities

1.20 The Departmental Group owes up to £48bn of liabilities as at 31 March 2018, of which the significant elements are: £26bn of debt payable by Network Rail reflecting third party borrowing entered into before the company joined the Group; £4bn of debt is payable to institutional investors holdings bonds issued by the Department's finance companies (LCR Finance plc and CTRL Section 1 Finance plc); £4bn comprises net pension liabilities; £4bn for accruals and deferred income; £2.5bn of tax liabilities are deferred; £2bn is provided for potential liabilities (provisions); £1.5bn is payable for Private Finance Initiative (PFI) schemes; £1.2bn in trade and other payables; and £1.2bn of derivatives purchased by Network Rail to manage risks associated with external borrowing.

1.21 Between 31 March 2017 and 31 March 2018, the Department reduced the amount of liabilities it owed by £2.6bn, which was primarily driven by a £1.4bn decrease in the debt payable by Network Rail and £1.6bn in other amounts payable across the group. This is offset by an increase of £1bn in provisions to purchase land and properties on the HS2 route.

- Further details can be found in **Notes 9.2, 14-16 and 18** to the Financial Statements.

1.22 The Department also has £8bn of contingent liabilities and £14bn of remote contingent liabilities, compared to £8bn and £10bn last year. The £4bn increase in remote contingent liabilities was due to the Intercity Express Rolling Stock programme meeting milestones which allowed the government's maximum liability to be measured, which had previously been unquantifiable.

- Further details can be found in **Note 17** to the Financial Statements and on **page 201** of the section on Parliamentary Accountability.

### Income and funding

1.23 The Departmental Group recognised £24.8bn of income and funding in 2017-18, which was £1.4bn more than 2016-17. The Group received £18.7bn in Supply funding from HM Treasury, alongside £6.1bn of income from other sources, principally income from Train Operating Companies (2016-17: £16.9bn and £6.3bn respectively).

1.24 The main reason for the £0.2bn reduction in income from other sources was a 21% reduction in "Income from Train Operating Companies (TOCs)" collected by the central Department from £1.9bn to £1.5bn. This was offset by an increase of £0.2bn in "Franchise track access charges" collected by Network Rail from TOCs.

1.25 The Department collected £0.4bn less income from TOCs because 2017-18 saw rail passenger journeys drop by 1.4%, which is the largest decrease recorded since 1993-94, and this followed a slowing growth rate in each of the last three years. The impact of this trend was twofold:

- New franchise bids that became live in 2017-18 were lower than those that they replaced, and
- Performance related income from TOCs in 2017-18 was down, including those franchises where the Department holds the revenue risk.

1.26 In addition, strike action on the Thameslink, Southern and Great Northern franchise resulted in significantly less receipts in 2017-18 than 2016-17 as the Department held the full revenue risk on this franchise.

- Further details of income can be found in **Note 5** to the Financial Statements.

## Expenditure

**1.27** The Departmental Group recognised £18.4bn of expenditure in 2017-18, which is £0.4bn more than 2016-17. The Group paid: £4.8bn on goods and services; £2.4bn on staff costs; £1.6bn on interest and £3.2bn on other costs (2016-17: £4.3bn; £2.0bn; £1.1bn and £4.4bn respectively). A £1.1bn reduction in spending on “other” costs was offset by increases in: interest (£0.5bn); staff (£0.3bn); support for rail services (£0.2bn) and maintenance of road and rail infrastructure (£0.2bn). The Group also incurred £6.5bn of depreciation and impairment charges (2016-17: £6.1bn), which increased in proportion to the increased value of infrastructure assets.

**1.28** Spending on goods and services increased as the value of subsidies to TOCs increased by £0.2bn as a result of the trends described above; and the HS2 programme spent £0.2bn more than last year in preparation for the construction phase.

**1.29** Interest costs incurred on Network Rail’s Retail Price Index (RPI) linked bonds increased with inflation, while lower interest rates adversely impacted on Network Rail’s interest rate swaps portfolio.

**1.30** Staff costs increased by £0.3bn in-line with increases in headcount at Network Rail, as vacancies were filled.

**1.31** Other costs have reduced because a grant to the Greater London Authority, worth £0.9bn in 2016-17, has been phased out in return for a higher proportion of London’s business rates income which will be used for transport, particularly infrastructure investment.

► Further details can be found in **Notes 3** and **4** to the Financial Statements.

**1.32** The value of non-cancellable contractual commitments for the Group stood at £10.3bn on 31 March 2018 (2016-17: £9.7bn), which will be payable over a number of years. The year on year increase is driven by increasing investment in railway infrastructure.

► Further details can be found in **Note 8** to the Financial Statements.

**1.33** Within the amounts reported, the Group incurred £115m of Losses and £14m of Special Payments in 2017-18 (2016-17: £35m and £15m respectively). The Group incurred 3 significant types of loss in 2017-18: £53m on the Dartford Thurrock River Crossing Charging Scheme, £42m on the Intercity Express Programme and £5.6m following three prosecutions under the Health and Safety at Work Act 1974. The Department also paid £12.3m to settle 323 industrial disease and injury claims from former British Rail employees.

► Further details can be found on **page 196** of the section on Parliamentary Accountability.

## Gain and losses on revaluations

**1.34** The Departmental Group recognised £10bn (2.4%) of unrealised gains on Infrastructure Assets in 2017-18, following gains of £12.4bn (3.1%) in 2016-17. These gains arose from estimated revaluations. Given the high value and often specialised nature of the assets, the Group considers these estimates to be subject to a significant amount of uncertainty.

► The Group’s approach to revaluing these assets and the sources of uncertainty are explained in **Notes 1.22** and **1.23**, whilst **Notes 6.1** and **6.2** show the range of uncertainty over these assets.

**1.35** An increase in market interest rates led to the Group recognising a £0.7bn gain on net pension liabilities in 2017-18 following a £1.4bn loss in 2016-17.

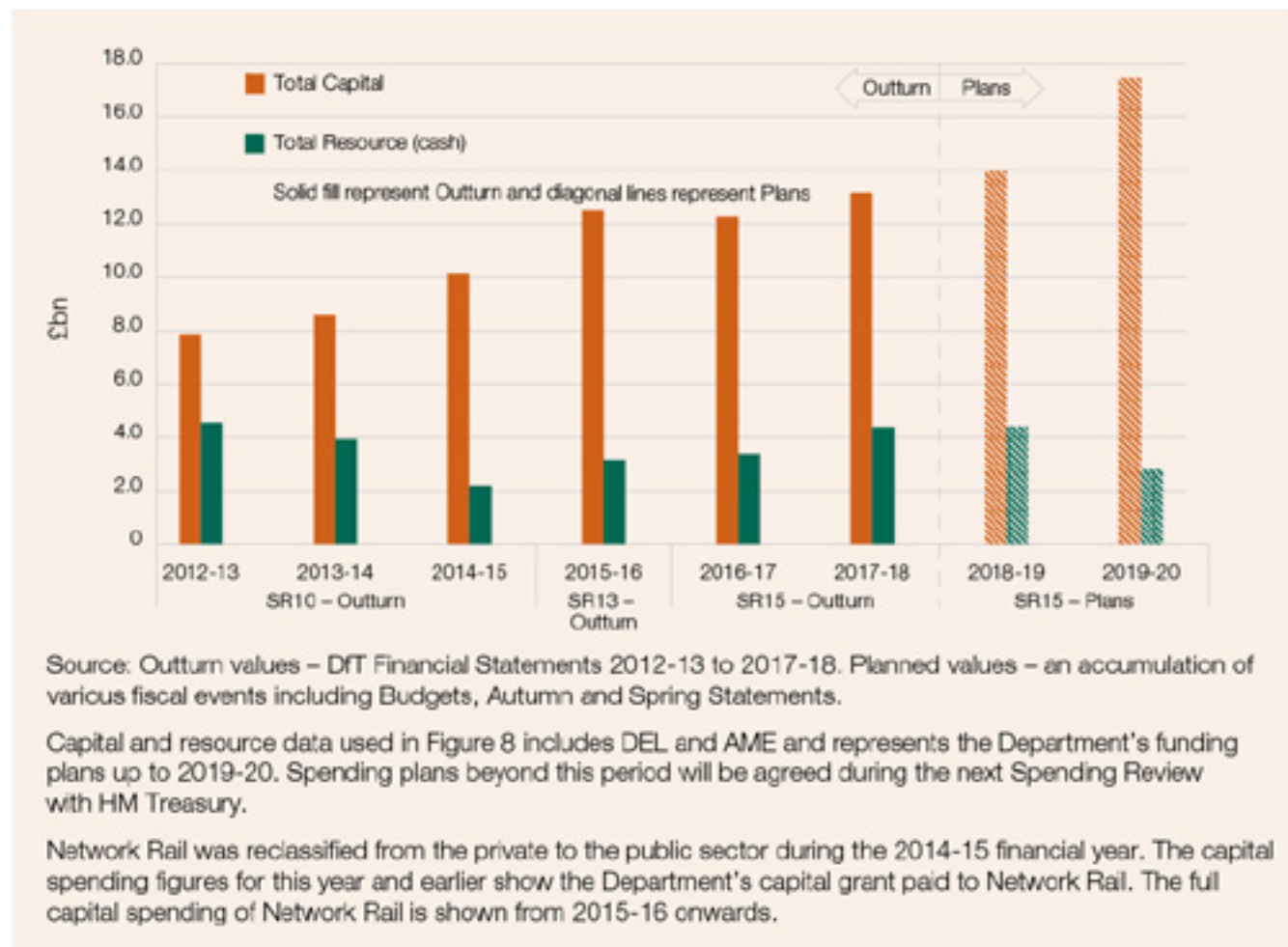
► Further details can be found in **Note 18** to the Financial Statements.

**1.36** A £0.2bn increase on the value of the Department’s investment in NATS Holdings Ltd in 2017-18 follows a £0.1bn loss recognised in 2016-17.

► Further details can be found in **Notes 9** and **10** to the Financial Statements.

## Long term expenditure trends

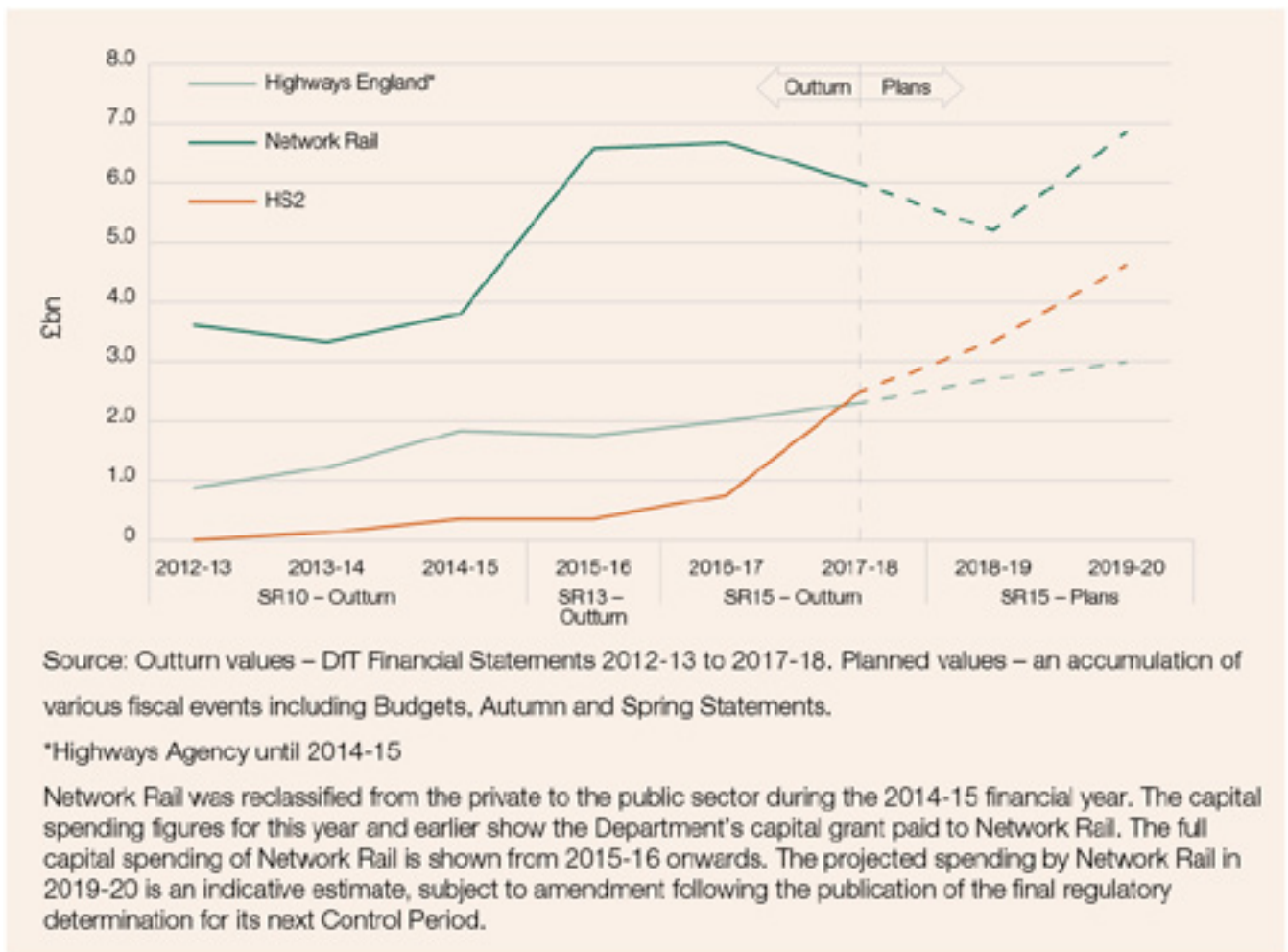
**Figure 8: Capital investment versus resource expenditure**



1.37 Capital investment in transport infrastructure is increasing against an overall reduction in resource (excluding non-cash costs) expenditure across the Spending Review 2015 (SR15) period. SR15 is the budget settlement agreed with HM Treasury for future years up to 2019-20.

1.38 This has been built upon with additional funding secured through more recent fiscal events, which has provided increased funding for road related projects, low-emission vehicles, clean air, digital rail signalling, and smart ticketing. This will help tackle congestion, reduce our emissions footprint, improve air quality and help keep the UK at the forefront of new transport technology to secure highly skilled and well-paid jobs.



**Figure 9: Key areas of capital investment**

**1.39** The capital investment being made over the SR15 period by the Department covers: the Network Rail investment programme; the construction of High Speed 2 (HS2); the continued delivery of the Roads Investment Strategy by Highways England, while driving forward a number of other capital projects across the country.

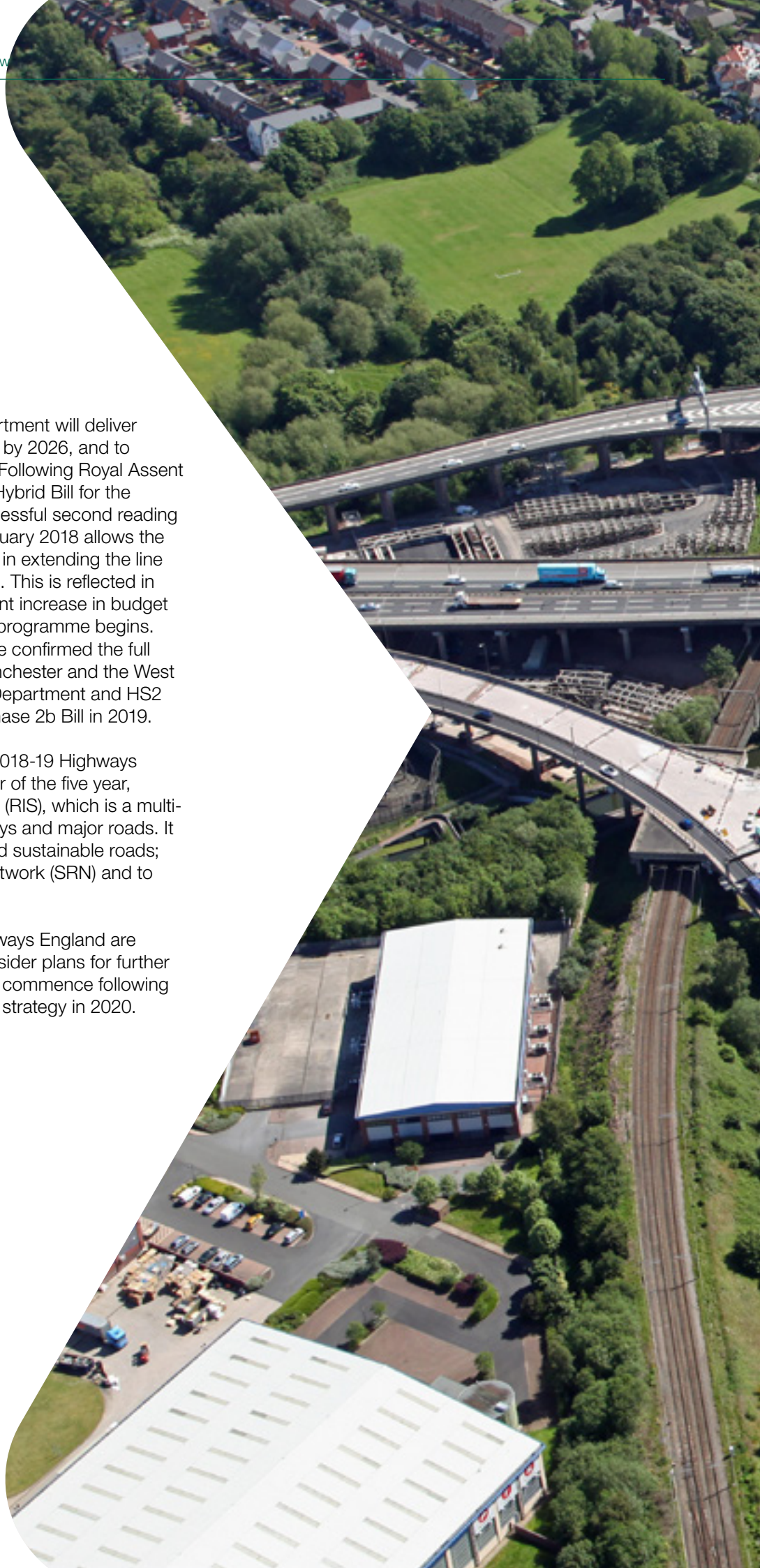
**1.40 Network Rail** – In 2018-19, Network Rail will deliver the final year of its Great Britain-wide programme of operations, maintenance, renewals and enhancements within Control Period 5 (CP5), which runs from 1 April 2014 to 31 March 2019. The outputs Network Rail is required to deliver across CP5 were set by the regulator, the Office of Rail and Road, in its 2013 Final Determination. A similar determination will be set for Control Period 6 (CP6), which will run from 1 April 2019 to 31 March 2024, and will underpin how Network Rail plans expenditure in-line with the Statement of Funds Available for England and Wales. The Statement of Funds Available was published in October 2017, and confirms that £47.9bn will be made available to Network Rail across CP6 (for both capital investment and resource requirements in England and Wales), of which £34.7bn will be grant funding. Network Rail's expenditure plans in Scotland are a matter for Transport Scotland. The scope of the Statement covers the operation, maintenance and renewal of the existing railway, and existing committed infrastructure enhancements.

**1.41 High Speed 2** – the Department will deliver HS2 from London to Birmingham by 2026, and to Leeds and Manchester by 2033. Following Royal Assent in February 2017 of the Phase 1 Hybrid Bill for the construction of Phase 1, the successful second reading of the Phase 2A Hybrid Bill in January 2018 allows the Department to take the next step in extending the line from the West Midlands to Crewe. This is reflected in **Figure 9** which shows a significant increase in budget as the construction phase of the programme begins. In July 2017 the Secretary of State confirmed the full route for Phase 2b (Crewe to Manchester and the West Midlands to Leeds) allowing the Department and HS2 Ltd to begin preparations for a Phase 2b Bill in 2019.

**1.42 Highways England** – In 2018-19 Highways England will deliver the fourth year of the five year, £15bn, Road Investment Strategy (RIS), which is a multi-year investment plan for motorways and major roads. It aims to: create smooth, smart and sustainable roads; to improve the Strategic Road Network (SRN) and to create better roads for users.

**1.43** The Department and Highways England are currently working together to consider plans for further investment in the SRN, which will commence following the end of the current investment strategy in 2020.

**Nick Joyce**  
Director General,  
Resources and Strategy









## Performance Analysis

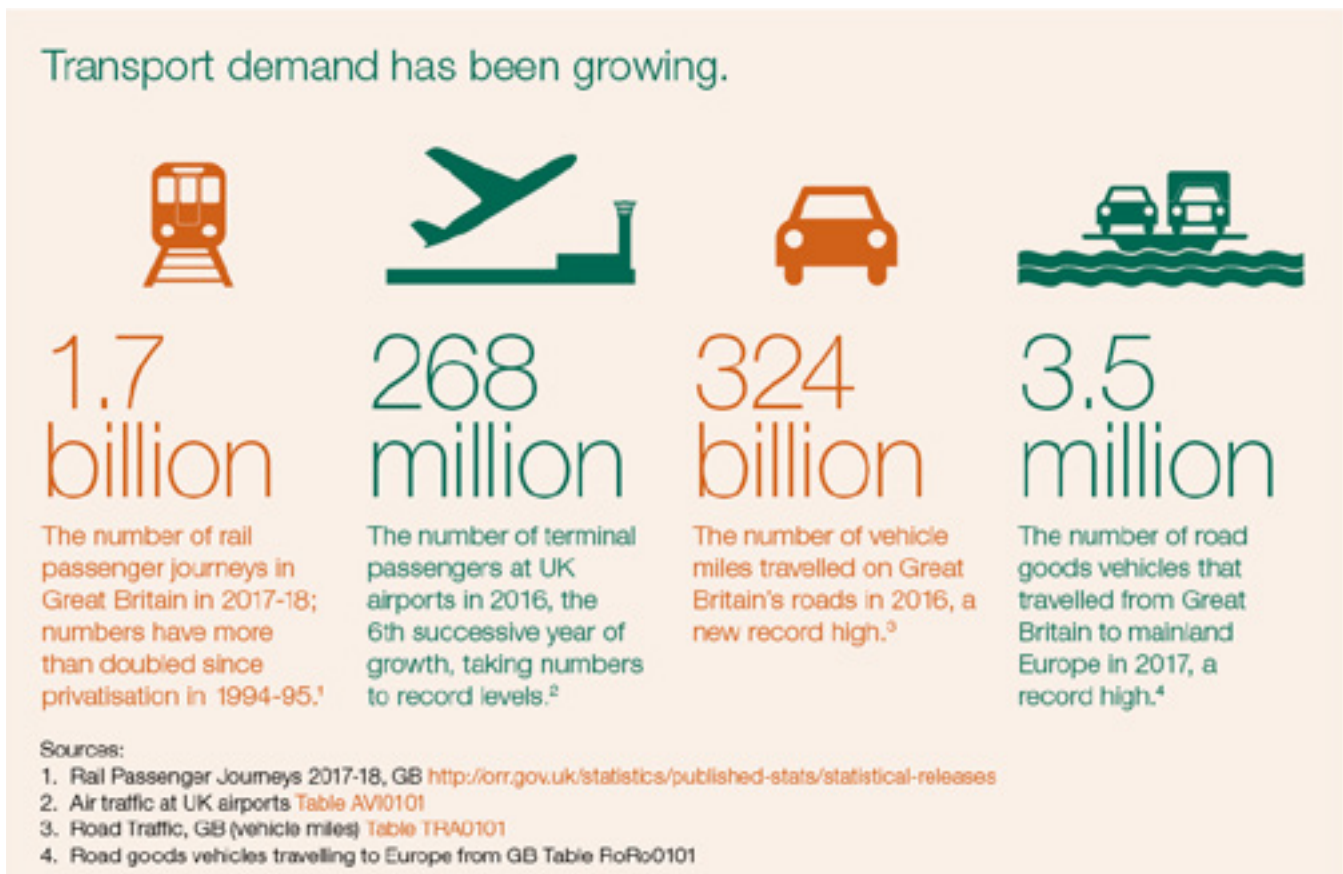
This section sets out in more detail how the Department is performing, and reports our progress against each of the SDP strategic objectives and supporting sub-objectives, and SDP indicators as at the end of March 2018.

# Boosting economic growth and opportunity

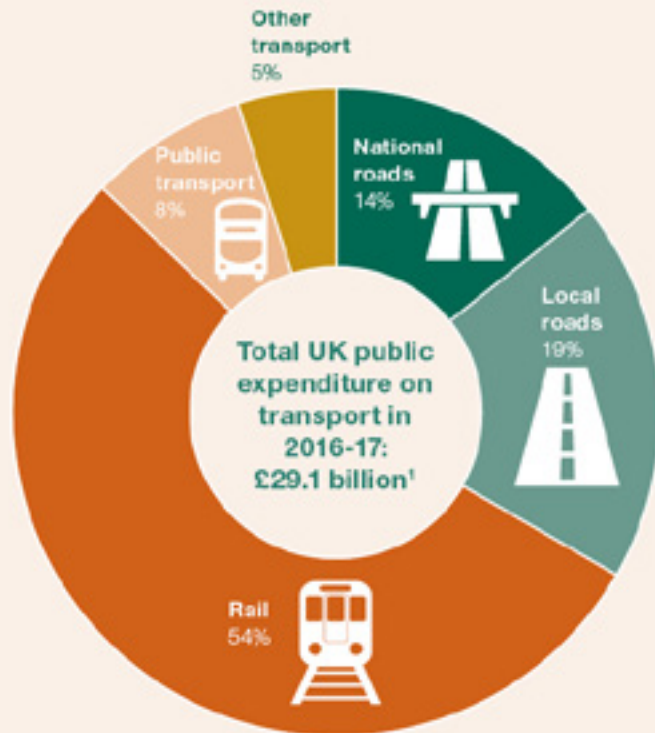
1.44 Transport and the transport sector are an essential part of Britain’s economy, providing a network to move people and goods around, connecting homes and businesses. Better transport increases opportunity and productivity. It reduces the cost to businesses of moving materials around the country and delivering goods to market. It boosts choice for consumers, and encourages competition, driving quality up and prices down. It widens the labour market and the range of jobs people can access.

1.45 By global standards, our existing transport networks are mature and generally offer good connections between our towns, cities, and international gateways. But in some cases they were built decades ago, and have sustained rates of use which they were never designed for. That is why we are doubling our investment in transport by 2020.

1.46 Working across government and with devolved administrations we will deliver the long-term solutions the country needs to further increase productivity and do business with the rest of the world.



Transport and the transport sector remain an essential part of the UK's economy.



**£77 billion**

Transport's contribution to economic output (Gross Value Added, GVA) 2017<sup>2</sup>.



**£16 billion**

Total spending on railways in 2016-17, accounting for 54% of total public expenditure on transport<sup>1</sup>.

Source:

1. Transport Statistics Great Britain, 2017. Data for 2017-18 is due to be published in December 2018.
2. ONS National Accounts 2017 (provisional)



**1.6 million people in the UK are employed in the transport sector.**

Source: ONS Labour Force Survey, 2018

## Support the UK’s departure from the European Union, and growing international trade

1.47 This is a hugely important period for the United Kingdom. As we prepare to leave the European Union (EU) and redefine our place in the world, we must ensure that the decisions we take now maximise Britain’s future potential, and help build a stronger, fairer economy that works for everyone. The task of supporting the government to deliver its programme for exiting the EU and preparing for our future as an independent trading nation, is one of unprecedented scale and complexity. This work is being led by the Department for Exiting the European Union (DExEU) and the Department for International Trade (DIT). DfT is working closely with DExEU and DIT to develop and implement a plan for transport to help Britain succeed once it has left the EU. This includes working with the transport sector to increase trade with the rest of the world. This will help to ensure that the government delivers a smooth and orderly exit, as we move from our current membership of the EU to our future partnership.

1.48 During 2017-18 we have:

- ▶ Prepared and introduced the **Haulage Permits and Trailer Registration Bill** which will give the UK the powers to support UK hauliers to continue operating internationally after we leave the EU. The Bill successfully achieved Royal Assent in July 2018.
- ▶ Supported DExEU in negotiating a **Withdrawal Agreement**, and its preparations to negotiate a future economic partnership agreement, by ensuring that transport policy considerations and priorities are reflected in emerging negotiating positions.
- ▶ Progressed work on over 60 Statutory Instruments that will be tabled under powers proposed in the EU (Withdrawal) Bill to ‘address deficiencies’ in transferred EU law to ensure that it continues to operate once the UK has left the EU, for example by removing references to EU institutions or agencies. The powers in the Bill will ensure that, whatever the outcome of the negotiations, the UK’s statute book will continue to function.
- ▶ Supported DIT as it prepares for the UK to negotiate trade agreements with third countries (these are countries that are not in the EU and/or do not have a free trade agreement with the EU).
- ▶ Increased our focus on trade and exports, by establishing a new Trade and Exports team to help build links across Whitehall and to develop supply chain assessments on the UK’s strengths from an exports perspective as well as identifying the barriers and opportunities companies face.
- ▶ Created a new government owned company, **Crossrail International**. The company is aiming to build on the success of the Crossrail project internationally and augment the UK’s private sector offer.





## Feed into the cross-government Industrial Strategy

1.49 The **Industrial Strategy**, led by the Department for Business, Energy and the Industrial Strategy (BEIS), is the government's plan to boost the productivity and earning power of people throughout the UK. As an enabler of economic activity, transport has an important role to play in achieving this goal.

1.50 Much of the Department's work spans and supports the five foundations set out in the strategy - Ideas, People, Infrastructure, Business Environment and Place (**Figure 10**).

1.51 The Industrial Strategy announced four Grand Challenges, to put the UK at the forefront of the industries of the future. These will seek to ensure that the UK takes advantage of major global changes, improving people's lives and the country's productivity. We are leading the **Future of Mobility Grand Challenge** which aims to make us a world leader in how people, goods and services move.

1.52 The Industrial Strategy also announced sector deals, these are strategic, long-term partnerships between industry and the government. We are working with the rail industry on a rail sector deal. The vision is to deliver a digitally transformed rail network with high levels of productivity, performance, and availability, providing high standards of service for customers and freight users at the heart of a connected and sustainable network.

**Figure 10: High-level overview of the government’s Industrial Strategy and DfT’s role**



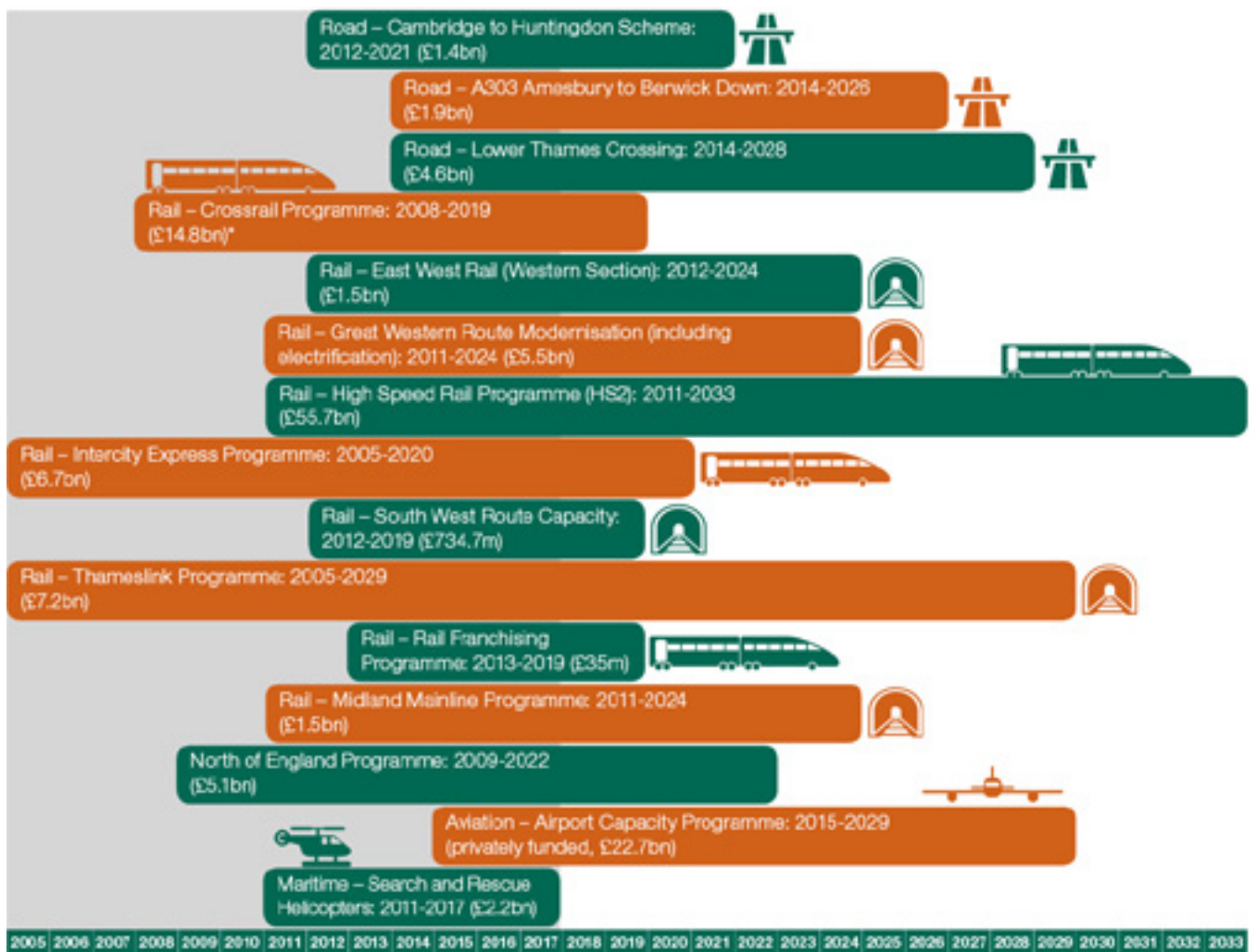
## Support the delivery of major projects across, road, rail, aviation and maritime

1.53 Modern transport infrastructure is essential to ensuring that the UK remains a competitive and strong economy. In recent years, the government has committed record funding to transport investment. Between 2015-16 and 2020-21, we plan to spend over £61 billion on transport investment with an additional £2.6 billion made available through the National Productivity Investment Fund (NPIF). This will fund

upgrades to our railway network, the remainder of the first Road Investment Strategy (RIS1), improvements to local transport networks and enable us to take forward a number of major capital programmes, including HS2, Thameslink and Crossrail to ensure business, communities and individuals have access to the transport networks they need.

1.54 An overview of the major projects and programmes we are supporting up to 2033, including lifetime cost is provided in **Figure 11**. For details of investments in local transport such as buses and cycling see pages 59, 84 and 87.

**Figure 11: DfT and its delivery bodies have a number of major programmes and projects to deliver concurrently**



Source: Government Major Projects Portfolio (GMPP) for DfT as at Q2 2017-18. Figure 11 sets out the lifetime cost of GMPP programmes for DfT as well as the start and end date for each programme.

\* In a Written Ministerial Statement on the 24 July 2018, Jo Johnson announced a revised overall funding envelope for Crossrail of £15.4 billion.

1.55 During 2017-18 the Department, together with **Network Rail** has continued to deliver a number of major upgrades to the rail network that will improve journeys for passengers, open up new access to the railway and reduce emissions. Improvements made on the rail network this year include:

- ▶ Electrification of the **Great Western Mainline**, which was completed as far as Didcot, extending the progress already delivered from Paddington to Maidenhead. This will help to provide up to 8,000 more seats on the Great Western Railway network in the morning peak.
- ▶ Completion of **Ordsall Chord**, the world's first asymmetrical rail bridge as part of the **Great North Rail Project**, linking Manchester's three main railway stations for the first time. The bridge represents an important milestone in improving the rail network and will enable new direct rail services from the North East to Manchester Airport. The project forms part of the government's £13 billion investment in transport in the north.
- ▶ Adding new capacity to the route between Liverpool and Manchester, and opening the new £23 million state-of-the-art train maintenance depot in Blackburn. Alongside this, the government announced £337 million for a new fleet of trains for the Tyne and Wear Metro.
- ▶ Completion of double tracking on the **Midland Mainline** from **Kettering** to **Corby**, as part of the Midland Mainline improvement programme, which will help to deliver around 50% more seats into London during the peak period. The work to electrify the Midland Mainline is an important part of our strategy to provide a safe, reliable and efficient railway fit for the 21st century and beyond.
- ▶ Completion of major engineering works at **Waterloo Station** to extend platforms and allow them to accommodate longer, more modern trains. The works were scheduled to coincide with holiday periods to minimise disruption as far as possible. This work is an essential part of the £800 million Waterloo and South West Upgrade which will boost capacity at the station by 30% by December 2018, providing space for another 45,000 passengers at morning and evening peaks.

1.56 Work is continuing to progress on the major re-signalling and platform upgrades at Liverpool Lime Street, which is due to be completed by the end of 2018.

1.57 Alongside these successful developments, the Department has encountered a number of challenges including having to re-scope rail projects in order to address cost increases in Network Rail's investment plans for Control Period 5 (2014-19). The Department decided to cancel projects including the electrification of the Midland Main Line north of Kettering (to Nottingham and Sheffield), the Great Western Main Line between Cardiff and Swansea, and the Lakes Line between Oxenholme and Windermere. The National Audit Office (NAO) published a report [Investigation into the Department for Transport's decision to cancel three rail electrification projects](#) which detailed the decision-making process leading to the announcement. The NAO report considered it was too early to tell whether the Department will be able to deliver the benefits of electrification without electrifying the 3 routes. The Department and Network Rail still expect to deliver the majority of promised passenger benefits through the planned infrastructure works and the replacement of existing trains.



Network Rail run, maintain and develop Britain's 22,000 miles of railway track, 30,000 bridges, tunnels and viaducts, thousands of signals and level crossings, and run 20 of the UK's largest stations.



£130 million

spent every week on improvements through Network Rail's Upgrade Plan.



117,000 jobs

supported through Network Rail's supply chain.



38,000 employees

the number of staff employed by Network Rail in 2017-18.



2,000 apprentices

trained through Network Rail's supply chain in the last 10 years.

Source: [About Us, An Introduction to Network Rail](#), accessed June 2018



We're investing a record £46 billion in Britain's railway Network up to 2019 and have announced a further £47.9 billion for rail operations, maintenance renewals and enhancements up to 2024.



**1.58 Aviation** is important to building a strong economy. The UK has the biggest aviation market in Europe and the third largest globally. The Department has led a number of projects to grow the sector and support economic growth. During 2017-18 we have:

- ▶ Undertaken 2 public consultations on the draft **Airports National Policy Statement (NPS)** for airport expansion in the south-east of England – the next step in delivering the much needed capacity following the government’s decision that a Northwest runway at Heathrow was its preferred scheme.
- ▶ In parallel to the NPS consultations, we initiated discussions with industry about potential delivery options for the M25 and improved rail links to Heathrow. We also started to develop policies on airport slots, domestic connectivity, carbon emissions and future capacity.
- ▶ Commissioned the CAA to work with Heathrow Airports Ltd (HAL) and airlines on the affordability of HAL’s expansion programme.
- ▶ Begun the process of developing a **new strategy for UK aviation**, publishing an initial call for evidence and next steps document. The strategy will set out the long-term direction for aviation policy to 2050 and beyond. It will have a particular focus on consumers and cover the whole country. Throughout its development the Department will consider

passengers, airports and airlines, communities, the freight sector, private fliers and environmental groups.

- ▶ Responded to the consultation on **airspace modernisation** – part of the work to develop the way in which the UK airspace is managed to reduce delays, make it cleaner, quieter, safer and more efficient.

**1.59** In October 2017, we published a new **airspace change framework** that will ensure greater focus on industry and communities working together to find ways to manage the noise impacts of individual airspace changes. The new process includes:

- ▶ Greater cost benefit analysis of different flight path options.
- ▶ A Secretary of State for Transport call-in power for airspace changes of national strategic importance.
- ▶ The establishment of the **Independent Commission on Civil Aviation Noise**, which will help to ensure that the noise impacts of airspace changes are properly considered and give communities a greater stake in noise management.

## DfT's Airport Capacity Programme: Britain's gateway to global growth



The Airport Capacity Programme has a key role in securing the UK's future as an outward-facing, globally strategic hub for aviation by enabling the delivery of additional airport capacity in the south-east.

In February 2017, the Department launched consultations on the draft **Airports National Policy Statement (NPS)** and **Airspace Policy**. An extensive advertising programme, including the distribution of 1.5 million leaflets, led to over 4,000 people visiting 20 local information events around Heathrow and 12 regional events across the UK, with feedback specifically praising staff for their helpfulness and professionalism. The consultation on the draft Airports NPS closed in May 2017 but it was not possible to include updated economic analysis due to the General Election and associated purdah period. A further consultation was therefore

undertaken on a revised draft Airports NPS, which included updated aviation demand forecasts and analysis based on the final national Air Quality plan.

The Department received over 83,000 responses from the public and industry stakeholders to the consultations which were independently assessed by Sir Jeremy Sullivan to ensure they were both full and fair. The Transport Select Committee scrutinised the revised draft Airports NPS between October 2017 and March 2018.

On 5 June 2018, the government published the proposed Airports NPS, backing Heathrow expansion through the development of a new Northwest runway. Parliament voted in favour of the scheme on 25 June 2018 by a 296 majority, and the proposed Airports NPS was designated as government policy on 26 June 2018.



1.60 Since the Department received the go-ahead to start building **HS2** in February 2017, extensive progress has been made. We have worked in partnership with HS2 Ltd, who are delivering the project, to ensure that **Phase 1**, between **Birmingham** and **London** is on target to be completed on time and on budget. During 2017-18 we have:

- ▶ Initiated works to enable the construction of the railway in a number of key locations along the line of route – this included archaeological work to uncover the hidden history of Britain, extensive environmental works to mitigate the impact of the railway on the countryside, site clearance and essential utility works.
- ▶ Initiated the programme to acquire land necessary to construct the railway.
- ▶ Moved forward the first temporary track closures at Euston and depot clearance at Old Oak Common.
- ▶ Awarded 4 joint ventures the Phase 1 main works civils contracts, worth an estimated £6.6 billion, to construct the bridges, tunnels, embankments and viaducts needed to drive economic growth and provide seamless journeys.
- ▶ Awarded station design contacts to leading creative firms to ensure passengers will experience modern and accessible stations.
- ▶ Launched the procurement processes for the London stations construction contracts, and rolling stock systems contracts. Selected Lendlease as the Euston Master Development Partner to take forward the long-term development opportunities, including new homes, offices and retail space around London Euston.
- ▶ Awarded £695,000 in grants to local projects along the Phase 1 route through the Community and Environment Fund (CEF) and the Business and Local Economy Fund (BLEF). The CEF will help to enhance community facilities, improve access to the countryside and conserve the natural environment, while the BLEF supports local economies in areas where businesses may experience disruption from the construction of HS2.

- ▶ Confirmed the allocation of £30 million of funding to 13 areas along the Phase One route to deliver high quality road and cycle safety projects and ensure that England's roads remain among the safest in the world.
- ▶ Opened applications for the £5 million HS2 Woodland Fund to help landowners create new native, broadleaf woodlands and enhance existing woodland sites along the Phase 1 route.

1.61 In July 2017, the Department introduced the **Phase 2a Hybrid Bill** into Parliament seeking powers for the route between the **West Midlands** and **Crewe** in Cheshire. The second reading was debated and passed by MPs in January 2018. A Select Committee was appointed to hear petitions and enable those whose property or interests are particularly affected by the Bill to submit a petition or objection. Work has continued on the concept of a **Crewe Hub** to allow more HS2 trains to stop at Crewe and more destinations to be served. A consultation was held in 2017 and the government's response confirming support for the Crewe Hub vision was published in March 2018; with future decisions made subject to affordability, including the scale of any local contribution.

1.62 Work is ongoing to integrate HS2 with **Northern Powerhouse Rail (NPR)**. In October 2017, the Chancellor announced £300 million of funding to future proof HS2 Phase 2b to accommodate NPR services in the future. The Department continues to work with Transport for the North to develop the business case by the end of 2018.

1.63 Despite this progress there have also been challenges, as is to be expected on a project of this scale – which is the largest infrastructure project in Europe. There was a Public Accounts Committee inquiry in October 2017 to consider HS2 Ltd's qualified accounts as well as an NAO<sup>7</sup> report. Engagement continues with communities, particularly in the London Boroughs of Camden and Hillingdon, who are affected by site clearance works.

1.64 HS2 Ltd is continuing to mature as an organisation and is building its capabilities to deliver the project. Important lessons have been learnt that will ensure both the Department and HS2 Ltd are better equipped to deal with the challenges ahead. This has led to changes in the way HS2 Ltd is structured, their systems and processes, and how we measure their performance. Throughout the year we have continued to shape our relationship with HS2 Ltd, working together to develop clearer accountabilities and delegation levels.

<sup>7</sup> Report of the Comptroller and Auditor General on the 2016-17 Accounts of High Speed Two (HS2) Limited



1.65 The Department's first **Road Investment Strategy (RIS1)**, which is being delivered by Highways England, sets out how we will invest £15.2 billion in England's strategic road network by 2021. Highways England published an updated Delivery Plan in August 2017. During 2017-18 we have:

- ▶ Overseen the opening of completed sections of the A1 upgrade from Leeming to Barton, with the final section of new motorway opened on 29 March 2018. This motorway has created a standard route from Newcastle to London via the A1(M) and M1 for the first time.
- ▶ Announced the preferred route for the Lower Thames Crossing, which is a proposed new road and bored tunnel under the Thames to connect Kent, Thurrock and Essex. The crossing is expected to carry up to 4.5 million heavy goods vehicles in its first year and create more than 6,000 jobs, boosting the local economy by more than £8 million.
- ▶ Announced the preferred route for the A303 Stonehenge Tunnel. The scheme aims to improve access to and from the south-west of England and puts the A303 in a tunnel past Stonehenge, restoring the setting of the monument in the surrounding landscape.
- ▶ Continued to oversee the continued delivery of the **Congestion Relief Programme**. Twenty-seven schemes were announced at the 2017 Spring Budget, accounting for around half of the £220 million fund. The remainder of the fund is being used for smaller schemes. The first scheme to be delivered, the M1 J36 slip road, was completed in July 2017 and came in under budget at £1.6 million.
- ▶ Continued to develop a longer term alternative to **Operation Stack** (queuing HGVs on sections of the M20) for dealing with the impacts that disruption to cross-Channel services (ferry and rail) has on the road network in Kent. An interim plan is being developed by Highways England to allow motorists to carry on using the M20 when Operation Stack is implemented, minimising the impact on Kent's economy as well as residents.

1.66 An overview of the RIS major improvement schemes completed, in construction and committed from 2015 to 2020 is provided in **Figure 12** overleaf.

Highways England is responsible for supporting the growth of the UK's economy by operating, maintaining and improving the Strategic Road Network (SRN) – covering England's motorways and major A roads.



4,300  
miles

of motorways and  
major A roads.



1  
billion

tonnes of freight is  
transported  
each year on the SRN.



4  
million

people drive on the  
SRN every day.

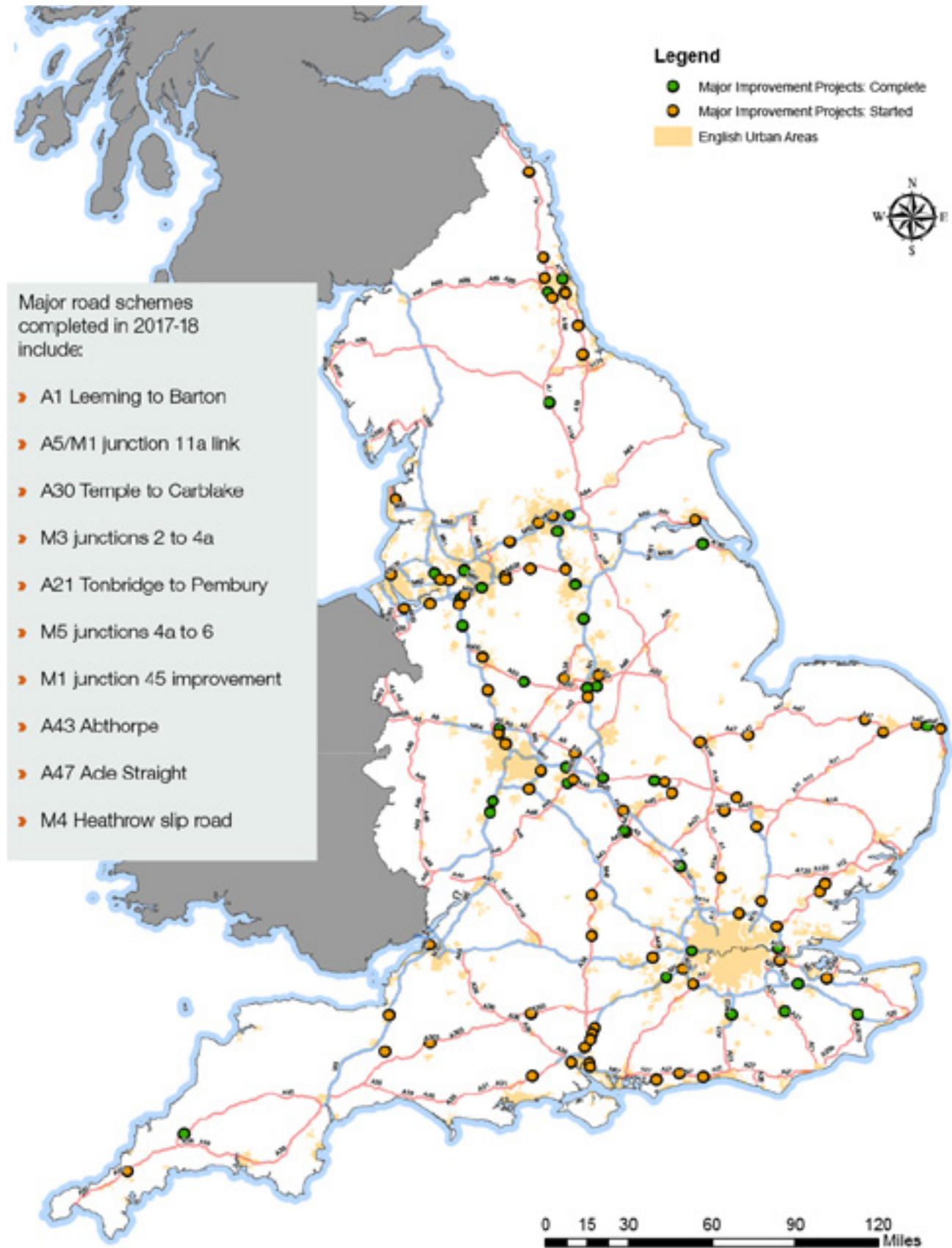


430,000  
incidents

occur annually on  
our roads.

Source: Highways England Strategic Business Plan Overview 2015-2020

**Figure 12: Major road improvement schemes completed and in construction 2015 to 2020**



Source: Highways England, June 2018

1.67 After 10 years of project delivery, **Crossrail** is now over 90% complete, and will deliver a transformation in London’s connectivity and capacity when it opens. Stage 1, and phase 1 of Stage 2 are now in operation and when fully open, Crossrail will add up to 10% capacity to London’s rail network, carrying 200 million passengers per year.

1.68 DfT and Transport for London (TfL), are working closely with Crossrail Ltd and Network Rail to monitor the costs and schedule in the final stages of the project. Crossrail is having a significant impact on the UK economy, creating jobs, as well as having major positive impacts on the London economy.

1.69 **Crossrail 2** is a proposed new rail line for London, connecting Surrey in the south-west to Hertfordshire in the north-east via a tunnelled section through central London. It could offer travellers on national rail lines a new route into London, helping free up capacity, and relieve pressure on the tube network, while unlocking new homes along the route.

1.70 Over the past 12 months we have worked with TfL and the Mayor of London, including through an **Independent Affordability Review** led by Mike Gerrard, to develop plans for an affordable scheme that is fair to the taxpayer, where London pays its share. Learning lessons from Crossrail 1 and maximising the benefits of the scheme will form a key part of this work.

Crossrail is having a significant impact on the UK economy, creating jobs, as well as having major positive impacts on the London economy.



£42 billion  
estimated to be generated for the UK economy.



55,000 jobs  
estimated to be supported by Crossrail across the UK.



62% of suppliers  
based outside London.



96% contracts  
awarded by Crossrail were to companies within the UK.



20,000+ people  
trained at the Tunnelling and Underground Construction Academy.



4,544 job starts  
by local or previously unemployed people.



1,009 young people  
undertook work experience.



1,000 apprentices  
learning on the project.

Source: Crossrail, February 2018

1.71 The UK’s **maritime sector** makes an important contribution to our economy generating £14.5 billion in 2016 and directly supporting an estimated 186,000 jobs. Shipping and ports are critical to supplying the UK’s daily needs. Around 95% of exports and imports come via the sea. To continue to drive the UK’s world leading maritime sector, the Department launched its consultation on **Maritime 2050** – our long term strategy and vision for the sector, which builds on the Maritime Growth study. In addition to this during 2017-18 we have:

- › Delivered the **Port Connectivity Study** which reviewed the ability of rail and road connections to move freight to and from English ports over the next 10 years, and provided recommendations on how to raise the profile of shipping, encouraging closer collaboration on freight and improving information-sharing to further improve connectivity.
- › Invested a further £15 million in maritime training. This will ensure more than 400 extra cadets will be trained in maritime roles from 2018-19.
- › Delivered **London International Shipping Week 2017**, which attracted leaders across international Maritime to showcase the UK maritime sector.
- › Delivered a new overseas security programme to reduce the threat of security risks and protect UK ships and ports.
- › Worked towards reaching a global agreement on reducing **greenhouse gases (GHG)** from international shipping. The sector will aim to cut GHG emissions from shipping by at least 50% with the ambition of 100% by 2050, alongside a commitment to the full decarbonisation of shipping as soon as possible during this century.
- › Provided £1 million in funding to 67 charities through the Inland Rescue Boat Grant Fund to deliver 14 new lifeboats and maritime equipment.
- › Published a review of the Maritime Growth Study, which assessed the progress made against the recommendations published in 2015. The review sets out 10 commitments, in light of the changes to the UK’s economic and political environment, which focus on the immediate and longterm future of the maritime sector.



## London International Shipping Week 2017



The third London International Shipping Week (LISW) took place from 11 to 15 September 2017. The week saw over 150 maritime focused events, organised by both industry and government, with thousands of senior decision makers from across the global maritime sector coming to London to network, engage in discussions and do business. This included a maritime round table at 10 Downing Street and welcome reception at Lancaster House.

The Department hosted a large number of overseas ministerial, official level and commercial delegations, supporting the government's "Global Britain"



agenda. The week also saw increased participation from the devolved nations and regional bodies, promoting all aspects of the UK's world leading maritime offer.

The UK's maritime sector is one of our hidden success stories and in the coming years will become increasingly important – with 80% of the world's trade currently moved by sea. The global maritime sector ensures that there is food on our tables, clothes and consumer goods on our high streets and in our warehouses, and enables the complex supply chains that support modern manufacturing.

## Developing digital transport

1.72 Within almost every sector there are a number of significant changes being driven by technological development and innovation. This is particularly true for the transport sector, with advances in technology driving new models of mobility.

1.73 **Connected and Autonomous Vehicle (CAV)** technology could transform the way we travel by road, encourage new business models and other new industrial opportunities. **The Centre for Connected and Autonomous Vehicles (CCAV)**, a joint unit of DfT and BEIS, aims to position the UK as a global leader in connected and automated vehicle technologies, helping secure their potential road safety, mobility, accessibility, and industrial benefits. During 2017-18 we have:

- Progressed work on the **Automated and Electric Vehicles Bill**, which successfully achieved Royal Assent in July 2018. The new laws will bring automated vehicle insurance in line with longstanding motor insurance practice, ensuring that motorists are covered when they are driving, and when the driver has legitimately handed control to the vehicle. It will also help to improve electric chargepoint availability, giving the government new powers to ensure motorway services are upgraded with plenty of points.

- Allocated £100 million investment (matched by industry) to 51 projects and around 150 companies and research organisations with the aim of creating the world’s most effective CAV testbed ecosystem.
- Ensured mobility is at the heart of the Industrial Strategy, with CCAV leading work to deliver the **Future of Mobility Grand Challenge**. This includes undertaking a thorough review of the regulatory framework to ensure the UK continues to have one of the most open environments for transport innovation.

1.74 Over the next 12 months we will work with CCAV to update the UK’s Code of Practice for testing automated vehicles, publish a Future of Urban Mobility Strategy as part of the Future of Mobility Grand Challenge, and allocate up to £65 million (matched by industry) for collaborative CAV R&D funding through open competitions.

	<p>DfT is working to develop and deliver a <b>new progressive and flexible statutory regime</b> for testing and early deployment of autonomous vehicles.</p>	
<p>CCAV is managing the <b>Intelligent Mobility Fund</b> (£100 million, match funded by industry) to support collaborative R&amp;D in new automated and connected vehicle technologies.</p>		<p>Preparations are underway to ready our road network for <b>connected and autonomous</b> vehicles, with Highways England committed to trial autonomous vehicles on the strategic road network.</p>
	<p>The UK’s <b>domestic regulation</b> is world-leading, with a flexible guidance-based testing regime for automated cars which enables a huge range of activities to take place within the current legal framework.</p>	

	<p>We are investing <b>£1.95 billion</b> in <b>aerospace R&amp;D</b> from 2013 to 2026. This is for a range of innovative research, which includes <b>autonomy</b>.</p>	
<p>The UK is a <b>global leader</b> in innovation and aviation technology, particularly in <b>civil aerospace</b>. This is a key strand of the forthcoming <b>Aviation Strategy</b>.</p>		<p>DfT is leading the cross-government <b>drones programme</b> and in July 2017 set out a number of proposals on the <b>safe use</b> of drones in the UK following a consultation.</p>

1.75 As innovation and technology within the **aviation sector** advance rapidly, it is important that current policy and regulatory practices are sufficient to realise the benefits, whilst managing the risks. During 2017-18 we have:

- ▶ Published our response to the consultation on the benefits of **drones** to the UK economy, setting out proposals to develop the UK’s policy and regulatory framework for drones. We have already taken steps to strengthen the safe use of drones. In May 2018, we introduced new laws to restrict drones from flying above 400 feet and within 1 kilometre of airport boundaries, and introduced registration and pilot test competency requirements. These new measures, alongside an upcoming **draft Drones Bill**, are the first step in setting the UK on a path to be a global leader in the drones market, tackling misuse to build public confidence in drone technology and encourage positive, innovative drone use in the UK.

- ▶ Ensured the **Space Industry Act** passed into law, which will open up new frontiers and opportunities for the UK in satellite and spaceflight launch. The Department is working with the UK Space Agency, CAA and Health and Safety Executive to develop the supporting regulations and guidance that is needed to facilitate the development of spaceports, and support the operation of commercial spaceflight and satellite launch from the UK.

1.76 New and emerging technologies have the potential to transform the **maritime sector** and could bring significant benefits for the industry and customers alike. The Department is considering how technology and innovation, particularly maritime autonomy and digitalisation, will impact the sector as part of the **Maritime 2050** consultation.

	<p>MCA and industry have been collaborating to develop a <b>code of practice</b> to enable development and testing of autonomous vessels in the UK.</p>	
<p>The UK is leading work with the International Marine Organisation (IMO) to facilitate the introduction of <b>autonomous vessels</b>.</p>		<p>Companies who are leading on the development of <b>Marine Autonomous Surface Ships (MASS)</b> are seeking testing opportunities which the UK could offer.</p>

1.77 The use of **digital technology** presents new opportunities for the **rail sector**. Digital signalling and train control, is part of the rail industry’s plan to modernise the UK’s railways. It will help to improve performance and deliver extra capacity from existing infrastructure, by making it work smarter and more efficiently. During 2017-18, the Department has committed £450 million from the National Productivity Investment Fund (NPIF) to accelerate the deployment and delivery of **digital solutions**. Nearly £85 million will be spent on fitting and testing the on-board **European Train Control System (ECTS)** equipment for the first time in several classes of trains. Development funding has also been allocated for potential digital schemes between Manchester and York, the South East Route and Moorgate Branch.

1.78 A digital railway has the potential to provide great benefits, but the complexities of the rail sector have meant that the implementation of innovative signalling and train-regulation technology has been slower than expected. To address this, the Digital Railway Ministerial Group has recommended that industry adopts a more collaborative approach, and that alternative funding, financing and delivery models should be explored. The Department is currently considering the Group’s recommendations and is working in partnership with Network Rail to deliver improvements to train journeys that passengers expect and deserve.

### Modernising Britain’s Railway: Traffic Management System (TMS) on the South Eastern Franchise



Using the £450 million funding from the NPIF, a new TMS will be installed for the upcoming South Eastern franchise, offering a significant performance boost. TMS is a software system that operates within Rail Operating Centres and is able to identify delays in real time, suggesting alternative routes instantaneously. It will therefore help to optimise the flow of trains across the network and reduce delays. This will be of a huge benefit for the South Eastern route, which currently carries more passengers than any other route in Britain.





# Building a One Nation Britain

**1.79** Transport investment and improved connectivity is key to unlocking the potential of all cities, regions and rural areas. Targeted transport infrastructure investment can help local areas and cities grow, if coupled with policies on skills, innovation and housing. The Department is committed to working with other government departments and our delivery bodies to ensure that every part of Britain benefits from a growing economy.

## Work with the devolved administrations and sub-national transport bodies

**1.80** Transport is substantially devolved in the UK, with differing settlements in **Wales, Scotland** and **Northern Ireland**. We consult devolved administrations for all major transport investment projects, and work together on cross-border network issues.

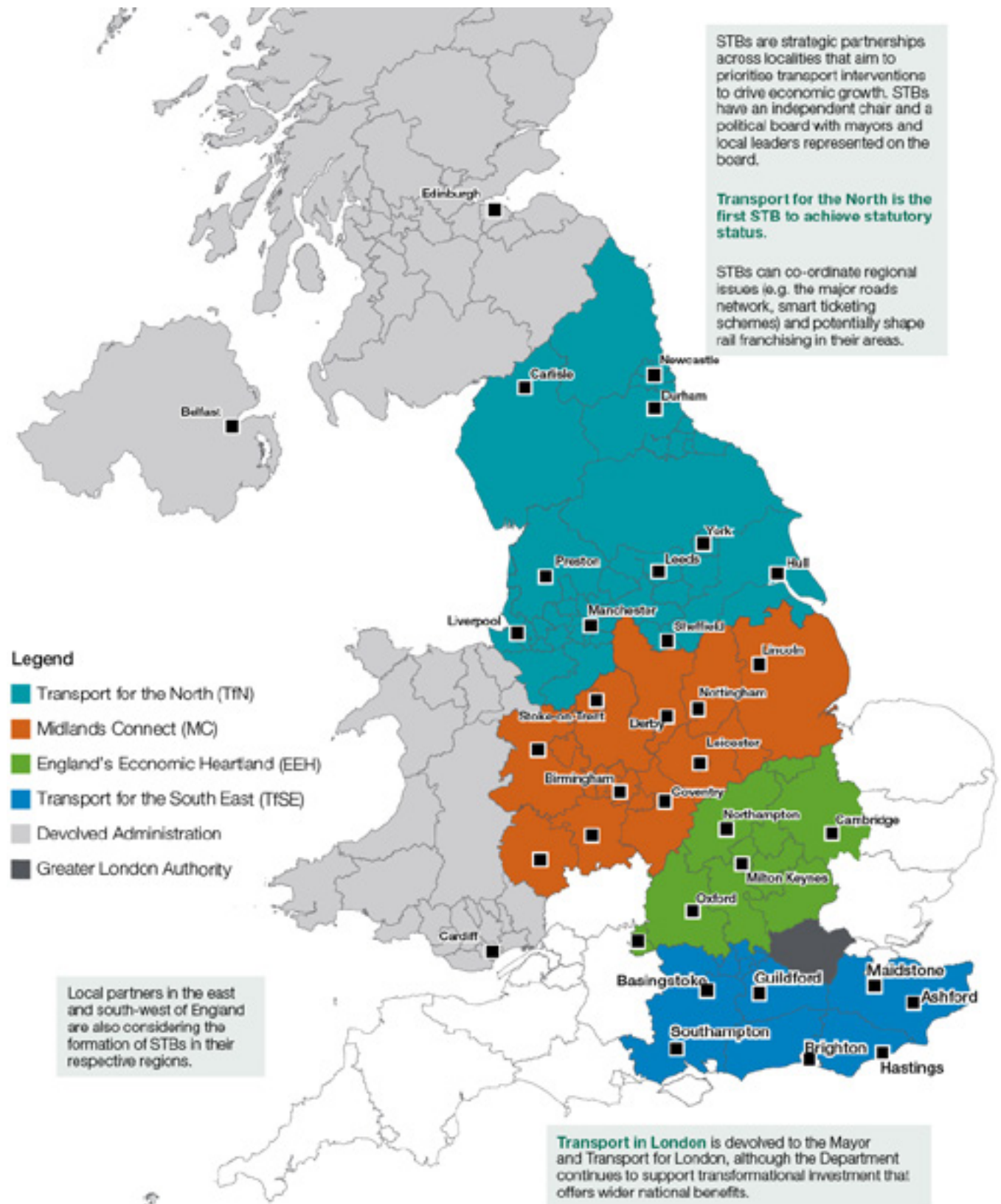
**1.81** The Department has continued work to establish **new sub-national transport bodies (STBs)** in **England** to give regions the voice and powers to help deliver the transport priorities and investment they need (**Figure 13**). STBs are developing regional transport strategies that will ensure that regions' priorities are understood, and inform decision-making on a national level. During 2017-18 we have:

- ▶ Worked closely with England's new Metro Mayors, who were elected to drive growth in 6 of England's biggest city regions to ensure they have the voice, powers and investment they need to deliver their transport priorities.

- ▶ Secured £1.7 billion for the **Transforming Cities Fund**, and devolved £840 million to the 6 metro mayors to provide a significant boost to intra-urban connectivity in English cities. The rest of the funding will be available to other urban areas on a competitive basis.
- ▶ Implemented our **Devolution Capability Plan** to give staff the resources they need to work effectively with the devolved administrations.
- ▶ Continued to work closely with Transport for the North in support of our rebalancing objectives (**see page 57**).
- ▶ Continued to work with **Midlands Connect**, which published its first transport strategy in March 2018 and is consulting on its proposal to become England's second statutory STB.
- ▶ Continued to work with **England's Economic Heartland** (a collaboration between local partners in the Oxford-Milton Keynes-Cambridge arc and beyond) and **Transport for the South East** (partners from Kent to Hampshire) as they shape their regional agendas, develop their own transport strategies and proposals for statutory status. Already both bodies are adding value by speaking with a single voice on road investment priorities for their region.

**1.82** In addition, we have continued to work with **local and regional partners** including local transport authorities and Local Enterprise Partnerships across England to support them in providing the transport interventions needed to secure long-term economic prosperity.

**Figure 13: Sub-National Transport Bodies**



## Deliver a Northern Powerhouse

1.83 The government has committed £13 billion to developing transport in the North between 2015 and 2020, including £6 billion on the road network (split between renewals and enhancement projects). This commitment, alongside the £1.2 billion investment in the North's two new rail franchises, will support major change over the next 5 to 10 years.

1.84 In November 2017, the Department secured Parliamentary approval to establish **Transport for the North (TfN)** as the first statutory sub-national transport body. This provides TfN, as the single voice of the North, with powers to devise the first pan-Northern Transport Strategy which the Department must take into account when making national decisions. TfN are currently consulting on their draft Northern Transport Strategy, which will provide the basis for their advice to the Secretary of State. During 2017-18 the Department has worked closely with TfN on:

- ▶ **Northern Powerhouse Rail (NPR)** to improve journey times between the major Northern cities.
- ▶ **Smart Ticketing.** Good progress has been made rolling out smart ticketing on the Merseyrail, Northern and TPE franchises, which will be delivered by the end of 2018. Further phases to deliver better passenger information and account-based multi-modal travel options are under development.

“We are committed to the Northern Powerhouse, and to giving the great towns and cities of the North more say over transport investment through their umbrella body TfN. This government is investing the most cash for a generation in transport projects for the North. These new powers will give TfN far greater influence over national infrastructure decisions, as well the certainty they need to plan and drive forward projects such as Northern Powerhouse Rail and smart ticketing”.

Jesse Norman, Transport Minister

## Northern Powerhouse Rail – working with an empowered North to deliver a shared vision

The government has a wider agenda to rebalance the economy and is working with stakeholders across the North of England to raise productivity levels and boost economic growth. NPR is key to this vision by ensuring that the North has a world class transport system by significantly improving rail links between key cities in the North of England.

To develop the scheme we are taking an innovative approach to collaboration by working in close partnership with Transport for the North, which represents 32 local authorities across the North of England. This means we are able to leverage their local and regional expertise, whilst ensuring NPR can be integrated seamlessly with the national rail network, and build on other significant investments we are making in the region, including HS2. NPR would link the North's 6 main cities and Manchester Airport, as well as other significant economic centres.



## Investing in infrastructure across the country

1.85 During 2017-18 the Department published its **Transport Investment Strategy**. This sets out our plan to ensure that transport investment helps to deliver a stronger, fairer Britain with wealth and opportunity spread across the country. It is a vital part of the government's **Industrial Strategy**, and forms a key strand of the infrastructure foundation. It describes what we are trying to achieve through:

- › Our investment in transport infrastructure.
- › The priorities and propositions that will guide future investment decisions.
- › The institutional frameworks within which those decisions will be taken.
- › The actions we are taking to help us meet our ambitions.

1.86 It also outlines plans for a new 'rebalancing' measure, which will inform how investment programmes contribute to a more balanced economy. Striking an appropriate balance in our investments will be key to our success. This balance can already be seen in our transport investment plans outlined in **Figure 14**.

1.87 We want our investment in infrastructure to:

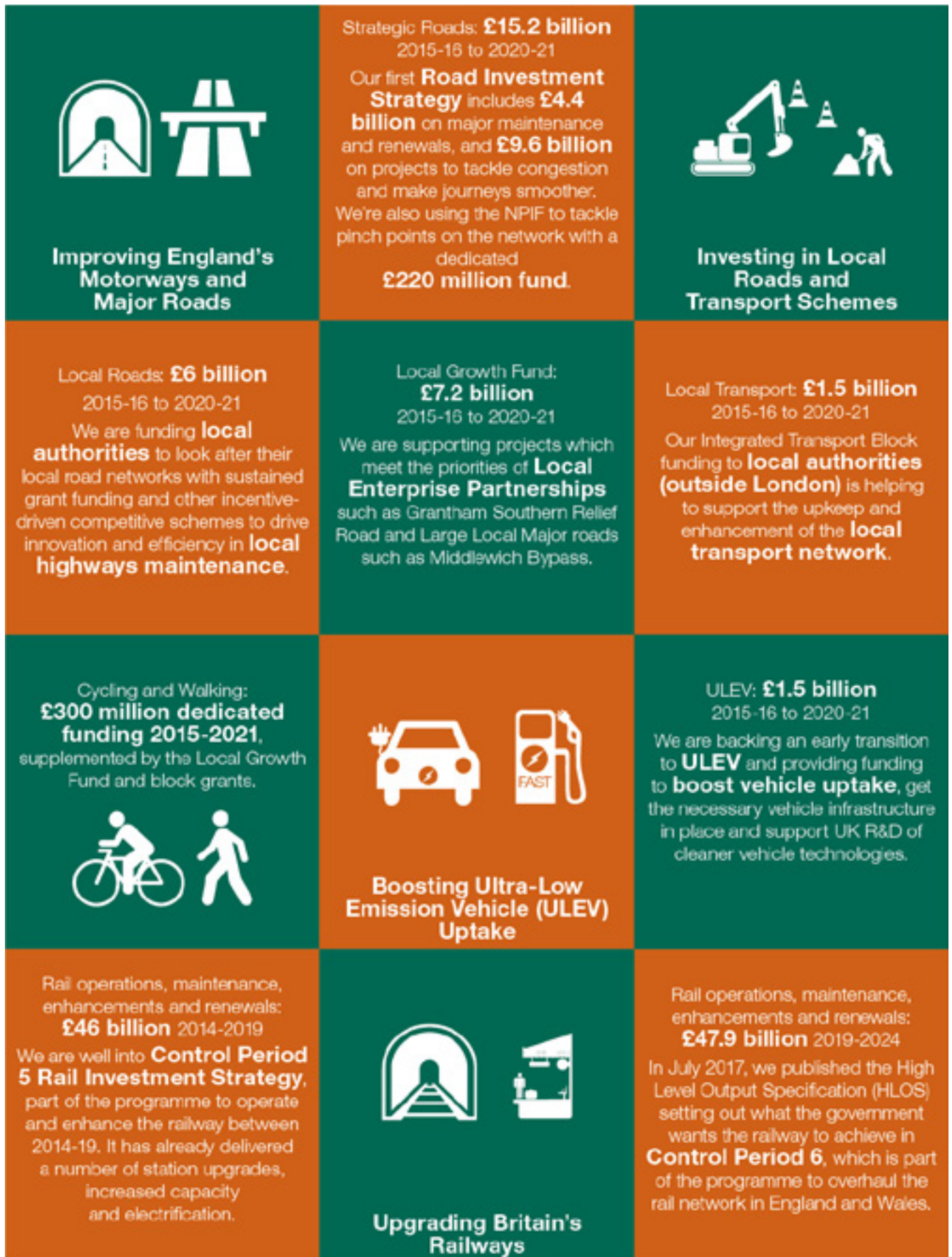
- › Create a more reliable, less congested and better connected transport network that works for the users who rely on it.
- › Build a stronger, more balanced economy by enhancing productivity and responding to local growth priorities.
- › Enhance our global competitiveness by making Britain a more attractive place to trade and invest.
- › Support the creation of new housing.

1.88 We are embedding the Transport Investment Strategy within our decision-making processes through the Transport Business Case. In December 2017, we released updates to our business case guidance that will help government and delivery bodies improve the way wider benefits, like rebalancing and housing, are captured.

1.89 We will continue to work with key stakeholders to further support implementation of the Transport Investment Strategy over 2018-19.



Figure 14: Overview of DfT's key transport investment plans



Source: Transport Investment Strategy, 2017

1.90 Transport infrastructure can play an important role in unlocking new housing opportunities. The Transport Investment Strategy highlighted **housing growth** as a priority for the government. The Department is working closely with the Ministry for Housing, Communities and Local Government (MHCLG) to support the delivery of more homes with the right transport links, in places people want to live. During 2017-18 we have:

- ▶ Jointly assessed bids for MHCLG's £5.7 billion **Housing Infrastructure Fund** and awarded 133 schemes funding, including those with transport elements.
- ▶ Worked with MHCLG and local partners to deliver a **housing deal for Oxfordshire**. A significant part of this was an MHCLG flexible infrastructure fund of £150 million, which will largely fund transport infrastructure schemes to support housing and wider growth.
- ▶ Worked with MHCLG to ensure that transport appraisal methodologies capture wider impacts including unlocking housing growth.

1.91 Releasing land from transport use is challenging, high costs of site clearance, strict regulatory and planning controls can all add to the time it takes to release a site. The Department is working with its delivery bodies, such as Network Rail and Highways England to overcome these challenges and release as much land as possible for housing development.



An aerial photograph of a suburban residential neighborhood, showing houses with brown roofs, green lawns, and paved streets. A large, white, stylized graphic element, resembling a speech bubble or a large letter 'A', is overlaid on the center of the image. The text is centered within this white shape.

We're working closely with MHCLG to support the delivery of more homes with the right transport links, in places people want to live.

1.92 The Department is expanding the rail and road network to boost housing and economic growth, which will ensure that transport investment benefits every region.

1.93 During the past 12 months we have continued to invest in our major infrastructure programme, working with Highways England on a number of key improvement programmes including the **A14 Cambridge to Huntingdon route upgrade**. We have also worked with **Network Rail** and **train operating companies** on a number of key rail programmes including **Intercity Express** and **Thameslink**, and set up the new **East West Rail** programme.

### Intercity Express Programme: delivering the first bi-mode trains on the UK network



#### New Intercity Express train

The £5.7 billion **Intercity Express Programme (IEP)** is now in its delivery phase, with the new high speed, bi-mode trains entering passenger service on the Great Western Mainline (GWML) in October 2017.

The new trains are now providing over 92,000 seats per week into and out of London on the Great Western route.

These are the first bi-mode trains on the UK network, providing greater operational flexibility and resilience as they can operate in either electric or diesel mode.

Sixty-five trains will be introduced to the **East Coast Mainline** from late 2018, with changes to infrastructure and depot facilities planned or already in place.

The IEP has a number of interdependencies, including for example, the Great Western electrification programme, which the Department is actively managing in partnership with Network Rail.

### A14 Cambridge to Huntingdon improvement programme



#### Views of the temporary bridge for construction of the new River Great Ouse viaduct

During 2017-18, the Department has worked with Highways England to oversee delivery of the £1.4 billion A14 Cambridge to Huntingdon road upgrade, which marked its first year of construction in November 2017. Nearly 40% of the main construction work has been successfully completed and work is currently focusing on the scheme's 34 bridges and structures.

Twenty-one miles of the A14 between Cambridge and Huntingdon are being upgraded to three lanes in each direction, including a brand new 12-mile bypass south of Huntingdon, with four lanes in each direction, between Bar Hill and Girton. The project will add additional capacity, boost the local and national economy and cut up to 20 minutes off road journeys.

The 2,200 strong construction team are keeping to the project's challenging timetable, with improvements on track to open to traffic by the end of 2020. The project has led to the recruitment of 111 apprentices and graduates. The project's skills team have also attended 80 local career events and visited 30 schools to promote science, technology and mathematics, and talked to young people about careers in civil engineering.



## Thameslink Programme



### New Concourse at London Bridge Station

The DfT-sponsored £7.2 billion Thameslink Programme is an ambitious 10 year programme of extensive infrastructure enhancements and new trains which aims to bring faster, more frequent, more reliable, better connected journeys for passengers – transforming north-south travel through London.

January 2018 saw the opening of all the new platforms and new street-level concourse at **London Bridge**. The station has been rebuilt to enable more Thameslink trains through central London from 2019.

All current Thameslink services are now provided by a new fleet of high capacity Thameslink trains, which have also started to be introduced to new routes, connecting Cambridge to Brighton, and Peterborough to Horsham, which became part of the Thameslink network in May 2018.

The NAO review [Update on the Thameslink programme](#) published in November 2017, found that the programme had a realistic prospect of delivering value for money, with significant benefits for passengers in terms of increased capacity and more trains. But there remains risks which the Department and Network Rail need to manage carefully, in particular the challenge to be ready to deliver the new services.

1.94 A **new rail timetable** introducing thousands of new services to passengers across large parts of Britain's railway network started on 20 May 2018. The timetable change was intended to deliver benefits to passengers of major investment in the network, but instead it led to unacceptable levels of disruption for passengers in the North of England and in the South East who rely on these services. The industry did not account for itself well and many passengers were left deeply frustrated, particularly on **Northern** and **Govia Thameslink Railway (GTR)**, at the poor standards of performance. Network Rail and train operating companies are methodically working through the timetable and re-planning train paths and driver resourcing to deliver a more reliable service.

1.95 The Department is also working with train operating companies and Network Rail to improve services and to ensure passengers are properly compensated for the disruption. We will also assess whether Northern and GTR met their contractual obligations during this process.

1.96 On 4 June, the Secretary of State asked the Office of Rail and Road (ORR), as the independent rail regulator, to set up an inquiry into the failed introduction of the new timetable. The inquiry, headed by ORR Chair Professor Stephen Glaister will focus on what actually took place when the timetable was introduced, compared to what should have happened. It will concentrate on the evidence of where there were differences, and the underlying root causes. It will examine the disruption experienced by passengers, especially on lines served by Northern and GTR. In addition, the inquiry will look at how Network Rail and the train operating companies worked together (before and after introduction of the timetable), Network Rail's role in delivering network enhancements, the Department's own role in planning enhancements and franchises, and the industry's readiness in preparing for the timetable changes. The inquiry will publish its findings in the Autumn.

1.97 The inquiry is being conducted in addition to, and alongside, ORR's investigation into the compliance of Network Rail and train operating companies with the terms of their licenses. The investigation's findings were published in July 2018, and required Network Rail to take specific actions to provide greater assurance around updates to the December 2018 and May 2019 timetable including:

- ▶ Getting timetables back to being agreed 12 weeks in advance.
- ▶ Boosting Network Rail's timetabling capability.
- ▶ Speeding up decisions on structural reforms in Network Rail.

## East West Rail Programme and Expressway Road



### Improving connectivity along the Cambridge-Milton Keynes-Oxford corridor.

During 2017-18, the Department has driven forward the **East West Rail Programme** and plans for delivering the **Expressway Road**, which will improve connectivity along the **Cambridge-Milton Keynes-Oxford** corridor, supporting transformational economic growth, creating jobs and unlocking significant housing potential.

The Department is working closely with other government departments to maximise the potential of the corridor. Phase 1 of the East West Rail Programme significantly upgraded infrastructure between Oxford and Bicester Village in December 2016. Phase 2 through to Bedford is anticipated to be operational by 2024, and Phase 3 (central section) to Cambridge operational by the mid-2020s.

At Autumn Budget 2017, the government committed to developing an **Expressway** of high-quality east-west roads between Oxford and Cambridge,

key elements of which will be built in the second Roads Investment Strategy period, from 2020-25. In addition, the Department is accelerating development work, completing option selection and detailed design work on the 'missing link' elements of the Expressway between the M1 and Oxford with the aim of it being ready to open by 2030. The Department is also commissioning England's Economic Heartland to study how communities not on the Expressway itself can still benefit from it.

In November 2017, the Department started the process to establish a new government owned company, East West Railway, which is expected to be fully operational in autumn 2018. The company will prioritise the acceleration of delivery of the East West Rail Programme, while securing private sector involvement to design, finance, build and operate the route.

## Implement greater alignment and integration of rail franchises

1.98 The Department is working to deliver the government's objective of creating a passenger focused railway where **Network Rail** and **train operating companies (TOCs)** increasingly work together as 'one team'. This new approach aims to improve performance and passenger experience as well as providing a single accountable face to passengers. The TOCs are responsible for running passenger services, leasing and managing stations from Network Rail, and bid for franchises from the Department to run specific routes.

1.99 During 2017-18, the Department mobilised two new rail franchises: the **South Western franchise** and the **West Midlands franchise**. These new franchises are expected to deliver a range of improvements for passengers.

1.100 The re-letting of the **South Western franchise** (now operated as South Western Railway) in August 2017, coincided with the decline in the punctuality and performance of rail services. In response, the Secretary of State commissioned an **independent review of South Western Railway** and **Network Rail** to ensure that all possible steps are being taken to improve performance and the passenger experience. The review chaired by Sir Michael Holden was published on 10 September 2018.

1.101 Prospective bidders for the new **South Eastern Franchise** were formally invited to tender in November 2017, with the winner expected to be announced in Autumn 2018. We published the Invitations to Tender for both the **West Coast Partnership franchise** and **East Midlands franchise** in March and June 2018 respectively.

1.102 The Department's priority is to ensure the continued smooth running of the **East Coast franchise**, until the implementation of the East Coast Partnership on the route from 2020. In early February 2018, the Department issued Stagecoach with notification that it had breached a key financial covenant of the East Coast Mainline franchise agreement. Since 2015, the franchise has met all its financial commitments to the taxpayer, returning nearly £1 billion to the public purse. This has come at a substantial cost of nearly £200 million to Stagecoach.

The South Western franchise is expected to deliver:



£1.2  
billion

of investment for the  
benefit of passengers.

30%  
extra seats

in and out of Waterloo  
during the morning  
and evening peaks by  
December 2020.

18  
additional

5-car trains for fast  
services to  
Portsmouth by  
December 2018.

100%  
of seats

with accessible charge  
points.

The West Midlands franchise is expected to deliver:



£1  
billion

of investment for the  
benefit of passengers.

10,000  
extra seats

on peak-hour services to  
and from London.

Free  
Wi-Fi

on all mainline trains  
by December 2019.

10,000  
extra seats

on peak-hour services to  
and from Birmingham.

1.103 On 16 May 2018 the Secretary of State announced in the House of Commons:

*“In my statement in February, I said that I was considering 2 options to continue delivering passenger services in the run-up to the creation of the new East Coast Partnership. The first was to permit Stagecoach to continue to operate the railway on a not-for-profit basis until 2020, and to permit them to earn a performance-related payment at the end of their contract. The alternative was to implement an Operator of Last Resort, bringing the route back into the temporary control of my Department, as provided for in legislation. I established a team to prepare this as an alternative, to use if required. To summarise, the analysis suggested the case was very finely balanced, with some elements favouring a contract with the existing operator and others favouring the Operator of Last Resort. When judging against my key principles, neither option was obviously superior.*

*There is another factor that I have taken into account. I want to make the smoothest possible transition to the creation of the new East Coast Partnership. So*

*given the finely balanced judgement, I have taken into account broader considerations and decided to use the current difficulties to drive our long-term plans for the East Coast Partnership.*

*I have decided to begin the transition process towards creating the new partnership now. This will be in the long-term interests of passengers – as every member of staff on the railway will be solely focused on delivering an excellent service for the future.*

*I am therefore informing the House that I will terminate Virgin Trains East Coast’s contract on 24 June 2018.*

*I plan to use a period of Operator of Last Resort control to shape the new partnership. So on that same day we will start with the launch of the new, long-term brand for the East Coast Mainline through the recreation of one of Britain’s iconic rail brands, the London North Eastern Railway (LNER).”*



**The East Coast Mainline will be operated by London North Eastern Railway.**

## Maintain the local road network

1.104 The **local road network** accounts for 98% of roads in England (outside London) and is critical to communities and businesses. Ensuring the safe and effective maintenance of this network is a key priority for the government. Local authorities are funded to maintain their local road networks, with sustained grant funding (awarded on a formula needs basis) and other incentive-driven competitive schemes.

1.105 We know that much of England's highway infrastructure is not new. Roads and bridges deteriorate as they reach the end of their serviceable life. In some places they have deteriorated at a faster rate, perhaps as a result of previous under-investment, or damage by heavy traffic or severe weather. That is why the government is allocating a total of £6 billion from 2015-16 to 2020-21 to look after the local road network. During 2017-18 we have:

- ▶ Awarded £75 million to 19 highway projects from the Highways Maintenance Challenge Fund. Projects included: bridge repairs, resurfacing, drainage and flood resilience.
- ▶ Awarded £185 million to local authorities in England (outside London) from the National Productivity Investment Fund (NPIF) on a formula needs basis to improve local road networks.
- ▶ Awarded £244 million to 76 projects from the NPIF. Projects included: junction improvements, traffic management and new access roads to open up land for housing development (see **Figure 15**).
- ▶ Awarded £278 million to fund 4 large major local road schemes in Worcester, Cheshire, Cornwall and Great Yarmouth.

- ▶ Provided funding of £100 million to local authorities in England (outside London) to help repair almost 2 million **potholes**, and to consider mitigation measures to help protect local highway infrastructure from future severe weather events such as flooding. This funding is part of the £296 million we are providing to local authorities between 2016 and 2021 to help repair potholes or prevent them from forming.

1.106 These schemes will help to ease congestion, provide upgrades on important local routes, as well as helping to unlock economic and job creation opportunities. They will also support, in some areas, the potential delivery of new housing developments. These projects are an essential part of ensuring we have a country which works for everyone.

1.107 A number of local authority promoted **major schemes**, part funded by DfT, were opened during 2017-18 including: Manchester Cross City Bus, Hucknall Town Centre Improvement, Taunton Northern Distributor Road, Elmbridge Transport (Phase 1) in Gloucester, Mersey Gateway Bridge and the Transport Hub scheme in Lincoln.

1.108 As part of the Transport Investment Strategy, the government committed to creating a **Major Road Network (MRN)**. The creation of an MRN will allow for dedicated funding from the **National Roads Fund** to be used to improve this middle tier of our busiest and most economically important local authority 'A' roads.

1.109 In December 2017, the Department published a consultation document which sought views on: how to define the MRN, the role that local, regional and national bodies will play in the MRN investment programme, and which schemes will be eligible for MRN funding. The consultation closed in March 2018 and the Department is considering responses.



**Figure 15: The funding awarded through the National Productivity Investment Fund will bring benefits to local road users across the country**



Source: The full list of projects can be accessed at: [NPIF Regional Breakdown](#).

## Supporting rural public transport

1.110 The Department is committed to supporting community transport operators, and funds routes that may not be commercially viable but are considered socially necessary – ensuring people are connected with their local services and communities. The Department provides funding to local charities and community groups through the £25 million **Community Transport Minibus Fund**. The first round of funding provided over 300 local charities and community groups across England with almost 400 minibuses. During 2017-18 we have:

- ▶ Awarded a further £2 million through the Community Transport Minibus Fund's second round of funding to 43 community groups for new vehicles. These minibuses will help to improve the lives of people, including those in rural areas, by providing crucial links to shops, social events and medical services.

- ▶ Supported local authorities through the Bus Services Operator Grant, by devolving over £42 million in funds to support bus services and awarded almost £3.5 million to run community transport services directly.
- ▶ Awarded £10.2 million through the Better Bus Areas Fund to Merseytravel, Nottingham, South Yorkshire, West of England and York to promote passenger growth through collaboration between bus companies and local authorities.
- ▶ Worked closely with Defra on the development of government proposals to support the rural economy.

1.111 In 2018, as a result of a legal challenge, the Department consulted on revisions to regulations and guidance on community transport. Over 500 responses were received. The amended regulations and revised guidance should be in place by early 2019.



# Improve journeys

1.112 Ensuring we have the most efficient transport network and services is not only important to the economic wealth of the country but also important to ensuring that people can make the best use of their time, travel is affordable, and that everyone can access the transport network. We need to continue to put people at the heart of the transport system.

## Improve road and rail journeys

1.113 The Department is undertaking long term planning in partnership with Highways England to ensure that the strategic road network can meet future demand. We are investing more than £100 million in **6 strategic road studies** to address some of the country's most longstanding road challenges.

1.114 Three of the 6 strategic studies (**Northern Trans-Pennine, Manchester M60 North-west Quadrant and Oxford-Cambridge Expressway**) have progressed from the initial phase of assessment, where transport problems are quantified and prioritised, to the next stage, where options for intervention are developed prior to a period of public consultation. That will begin late in 2018 for the most advanced studies and into 2019 for those which are more complex. The 3 remaining strategic studies (**Trans-Pennine Tunnel, A1 East of England and M25 South-west Quadrant**) have made significant progress towards completing the first phase of assessment, and should progress into the options development phase during 2018-19.







**1.115** During the coming year, we will work with Highways England and the Office of Rail and Road (ORR) to decide the content of the **second Road Investment Strategy (RIS2)**. This will be the first time that the new statutory process for setting a RIS has been used and all parties are keen to ensure lessons from implementation of the first RIS are properly applied.

**1.116** RIS2 will see a step change in how roads investment planning addresses re-balancing the economy by taking a more structured and comprehensive approach to local consultation. For the first time it will map local and regional housing and growth ambitions across England. It will also be shaped by input from sub-national transport bodies, including through their contribution (where relevant) to the individual route strategies, and the strategic road studies, that will together form a major part of the evidence base for RIS2.

**1.117** We will announce the results of this work in 2019, enabling Highways England a period of time to mobilise itself and its supply chain before delivery begins in 2020.

**1.118 Buses** help connect people, homes and businesses, and account for 60% of all public transport journeys. Passenger satisfaction levels are at 87% but there remains room for improvement. During 2017-18 we have taken steps to reform legislation through the **Bus Services Act**, which received Royal Assent in April 2017. The aim of the Act is to improve bus services for passengers by providing a new toolkit that will enable improvements to be made to bus services. In particular, the Act strengthened arrangements for partnership working between bus operators and local authorities, and introduced new bus franchising powers. The Act modernised previous ticketing legislation and provided the powers necessary for a step change in the information available to passengers through audio and visual on-board information, and through the provisions of open data on timetables and fares.

**1.119** In late 2017, the Department published key regulations and guidance to enable local authorities and operators to begin to use the powers in the Act. The Department is consulting on the open data provisions and is actively engaging local authorities and operators on how the Act can be used to improve bus services.



1.120 During 2017-18, the Department set out its vision for rail and what we are doing to make it a reality in [Connecting People: A Strategic Vision for Rail](#). It is intended to act as a guide to industry of our priorities, and a guide to the public of our commitments to change.

1.121 The growth in passenger numbers over the last 20 years has resulted in increased demand on the rail network and train services. To meet this increased demand, the Department is leading a large programme of enhancements across the country, with **Network Rail** delivering these improvements (see pages 42 and 43). The programme of enhancements is essential to ensure the long term reliability, performance and capacity of the network to meet the increased passenger numbers. The scale of this programme of work does have an impact on passengers, who have experienced disruptions to their journeys whilst the upgrades to their routes take place.

1.122 The Department’s response to the disruption experienced by passengers on Northern and GTR since the introduction of the **May 2018 rail timetable** change is set out on [page 63](#).

1.123 In recent years, **industrial action** has remained a significant cause of disruption across the rail network: 48 days were lost to strike action in 2016, 71 in 2017 and 25 so far in 2018 (up to 14 June). Of these total days lost, 97 (67%) have been in relation to disputes over Driver Controlled Operation (DCO) on Southern Rail, Northern Rail, South West Railway, Mersey Rail and Greater Anglia.

1.124 However, since the beginning of these disputes, the Department has worked with the affected TOCs to improve their resilience and reduce the impact of industrial action on passengers. Following an agreement with the train drivers’ union ASLEF on Southern Rail in late 2017, the effects of industrial action by the Rail, Maritime and Transport (RMT) workers’ union, were significantly reduced, and Southern Rail is now capable of running at 90%-95% of planned services in the event of an RMT strike. The strike day resilience of Northern has increased from being able to run 40% of its usual services to 50% and, on South Western, resilience has increased from 60% to 70% today. Greater Anglia expects to run a full planned service during strikes. In order to achieve these levels of resilience, the operators have utilised contingency guards – members of their management and administrative staff who have been trained to perform the role of the guard.

1.125 Network Rail is improving its planning and management of **engineering works** on the rail network to minimise the impact on passengers. Over the Christmas and New Year period 2017-18 Network Rail had 32,000 railway workers supporting the programme of improvements on the tracks and across 3,400 work sites, as well as in signal boxes, rail operating centers and offices around the network. A 15,000-strong workforce completed more than 400 railway projects successfully over the 2018 Easter period.

1.126 The Department continues to encourage **Transport Focus**, the important, independent rail, bus, road and tram user watchdog, to increase its impact for transport users by providing constructive challenge to both industry and government. During 2017-18, research carried out by Transport Focus, to identify rail passenger priorities, helped to bring a stronger passenger perspective on a range of significant issues including: recent franchising competitions, priorities for future spending and challenging industry on the timely publication of timetables. Transport Focus has continued to play an active role in relation to the introduction of a **Rail Ombudsman** to investigate and rule on unresolved customer complaints, with the power to issue decisions that are binding on the industry. As a key member of the task force, Transport Focus is

helping to ensure that the new scheme will be easily accessible, simple to use and passenger focused.

1.127 The Department continues to work with the **aviation industry** on ways to improve passenger experience. An important part of this is ensuring that passengers get the protection they need when things go wrong. In the last year, we have taken steps to reform the legislation to give more holidaymakers coverage under the **Air Travel Organisers' Licence (ATOL) scheme**. The new legislation will help to improve protection irrespective of where holidaymakers buy their holiday package.

1.128 During 2017-18, the Department worked with the CAA and several departments across Whitehall to prepare contingency plans, following the collapse of **Monarch Airlines**. The Secretary of State commissioned the country's biggest ever peacetime repatriation by flying 84,000 passengers back to the UK. Extra aircraft were brought in to support the repatriation effort, which meant that passengers were able to fly home as close as possible to their original departure date at no additional cost to them. In addition to supporting passengers, the Department also worked across government to ensure the almost 2,000 former Monarch employees received the support they needed.

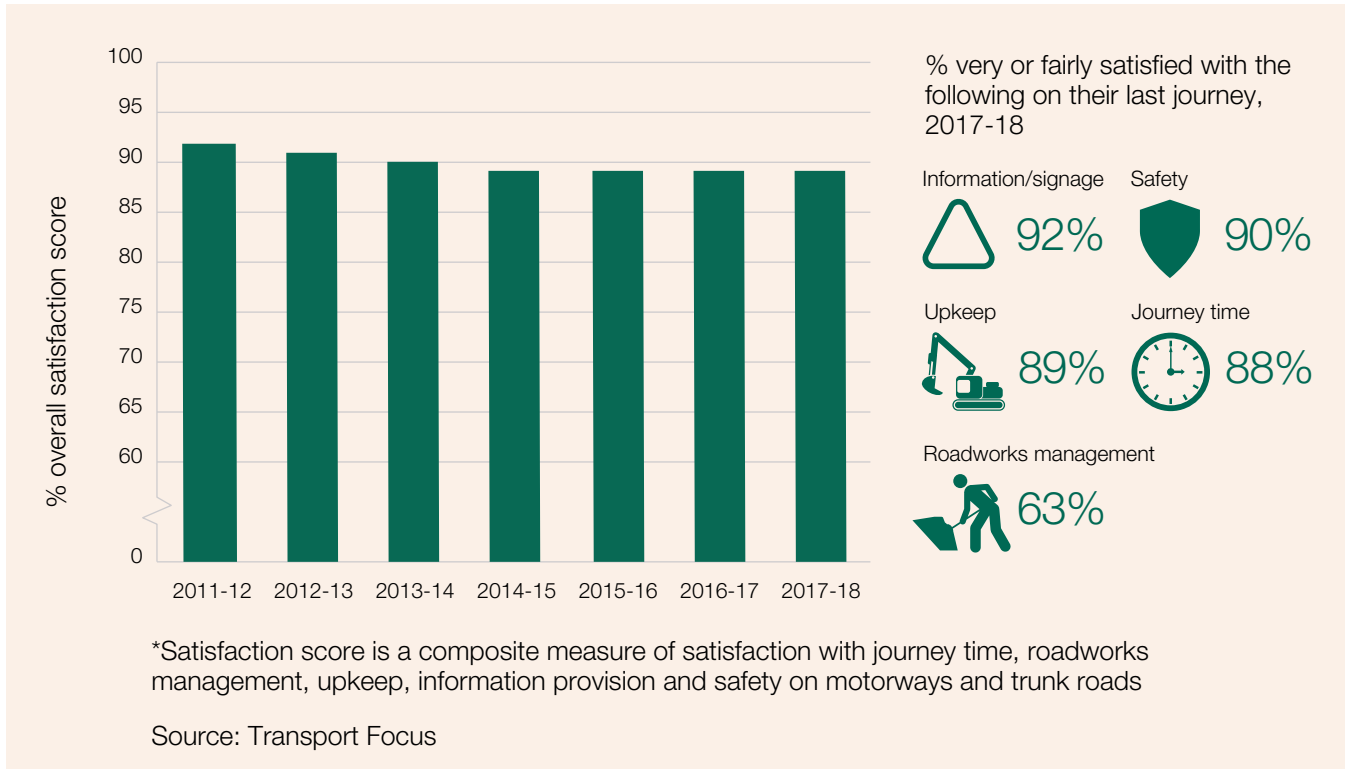


## Trends in journey time and customer satisfaction

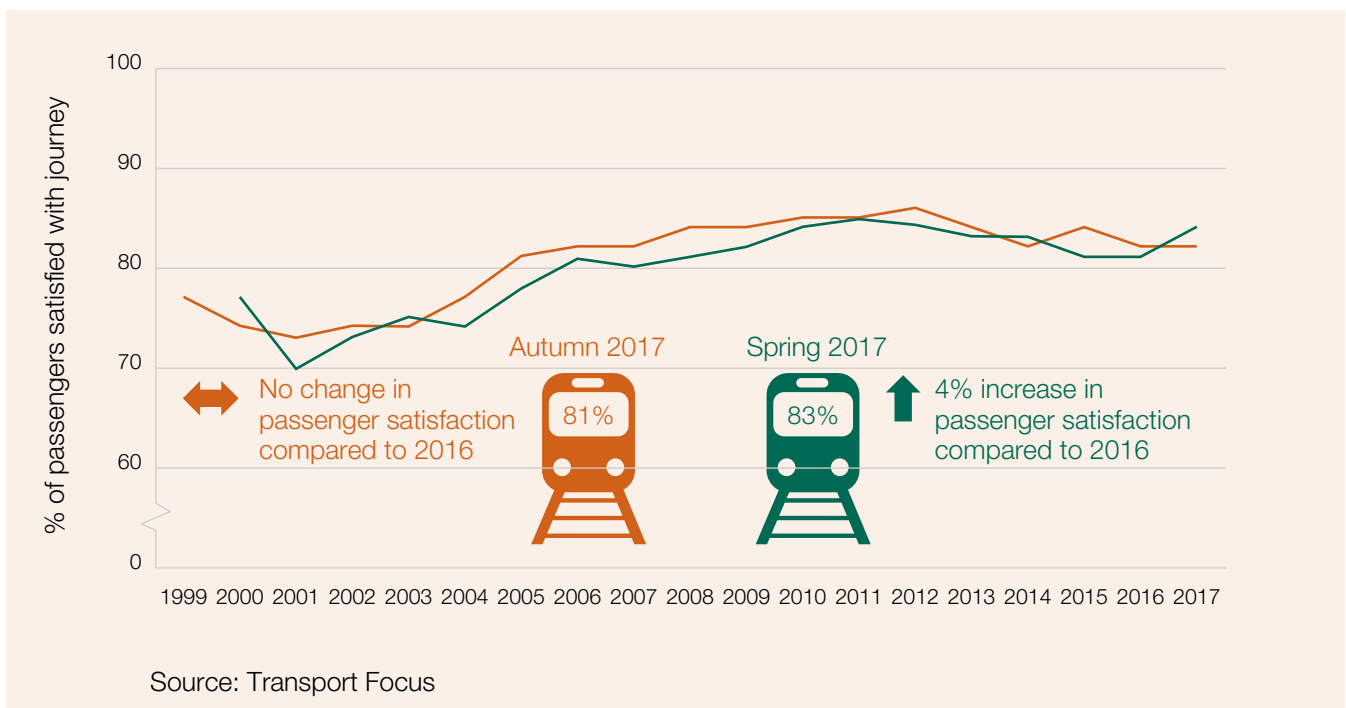
1.129 An overview of the trends in user satisfaction rates for road and rail journeys is provided in **Figures**

**16** and **17**. The proportion of trains and flights running on time is provided in **Figures 18** and **19**. The average delay experienced by drivers on the strategic road network and local 'A' roads is provided in **Figures 20** and **21**.

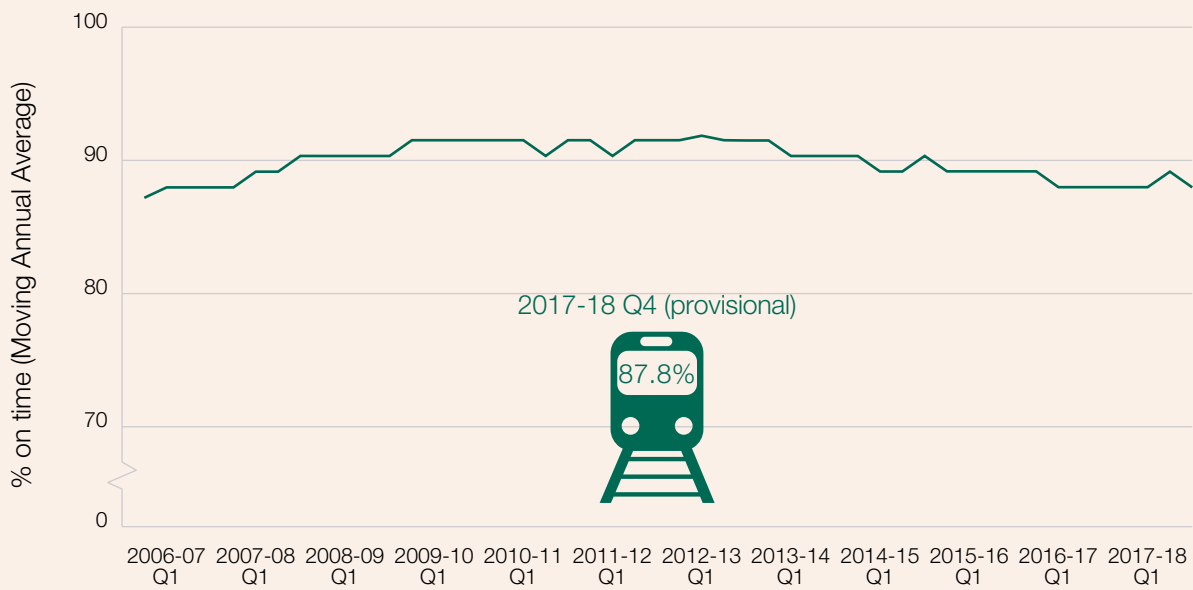
**Figure 16: National Road Users' Satisfaction Survey – overall satisfaction score,\* England**



**Figure 17: National Rail Passenger Survey – overall journey satisfaction, Great Britain: 2017**



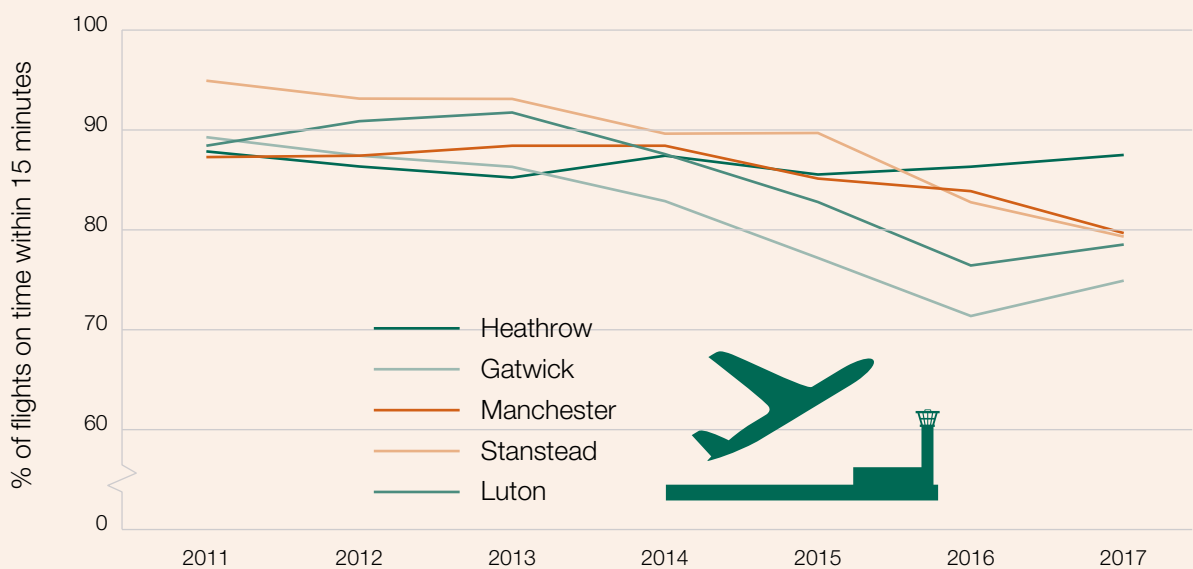
**Figure 18: Proportion of trains running on time\*, Great Britain**



\*On time is defined as arriving at the final destination within five minutes of the planned timetable for London and South East, Regional and Scotland operators, or within ten minutes for the Long Distance operators. MAA stands for "Moving Annual Average" and it is the average value calculated over the previous 12 months. For example, the MAA in Q1 2017-18 would be the average of all quarters from 2016-17.

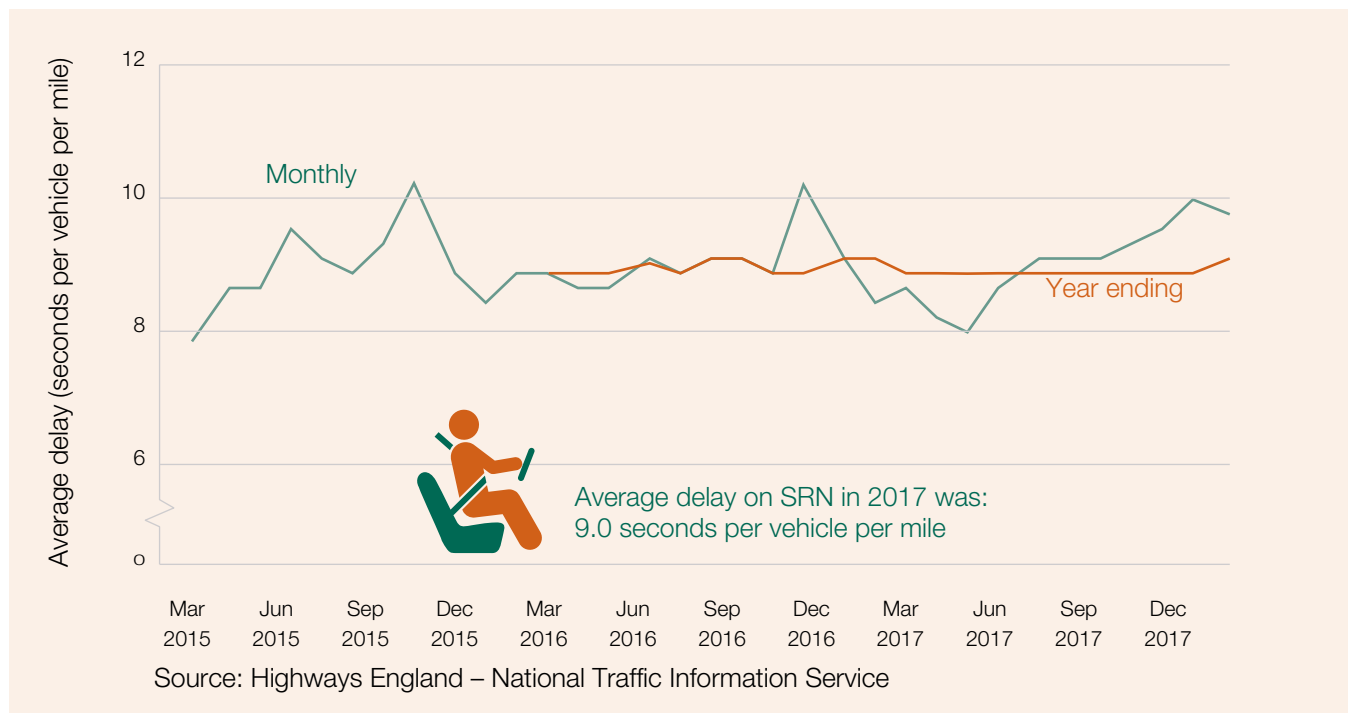
Source: Office of Rail and Road

**Figure 19: Percentage of flights on time within 15 minutes 2011-17**

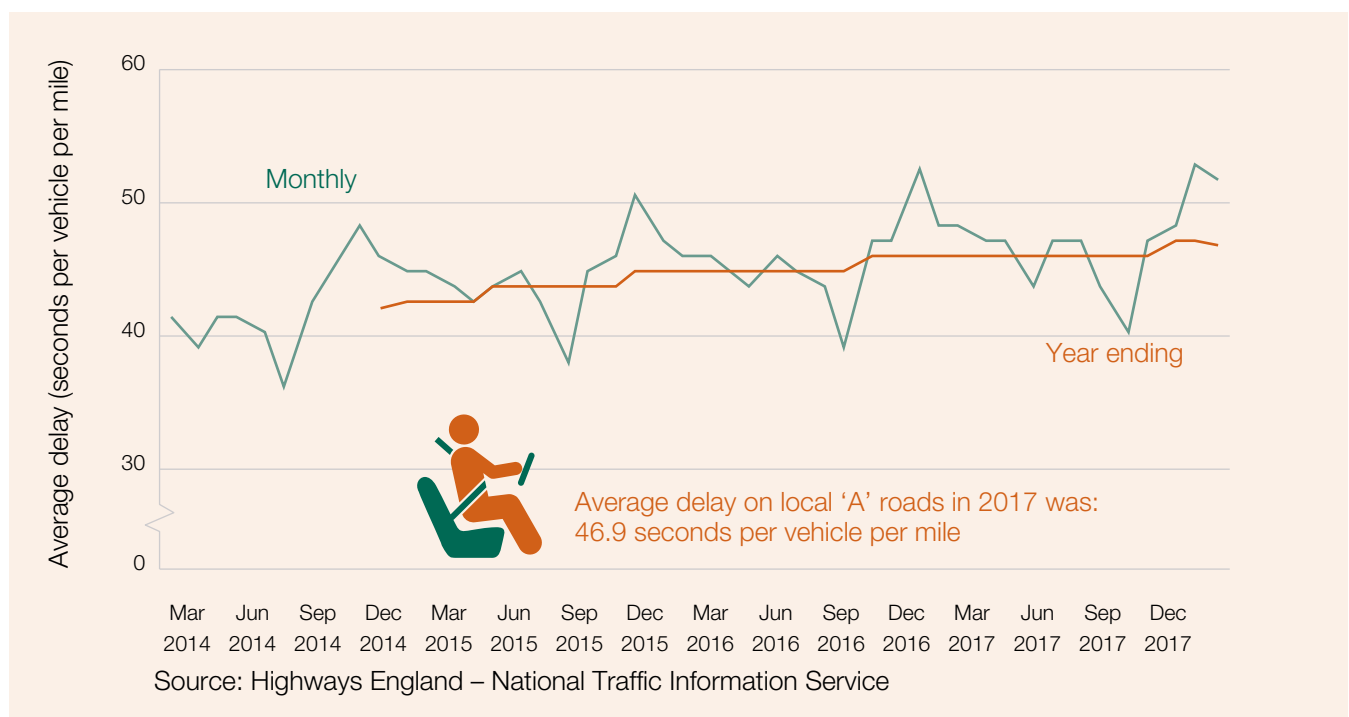


Source: Civil Aviation Authority: Punctuality Data 2011-17

**Figure 20: Average delay, compared to free flow, on the Strategic Road Network in England, by month**



**Figure 21: Average delay, compared to free flow, on local 'A' roads in England, by month**



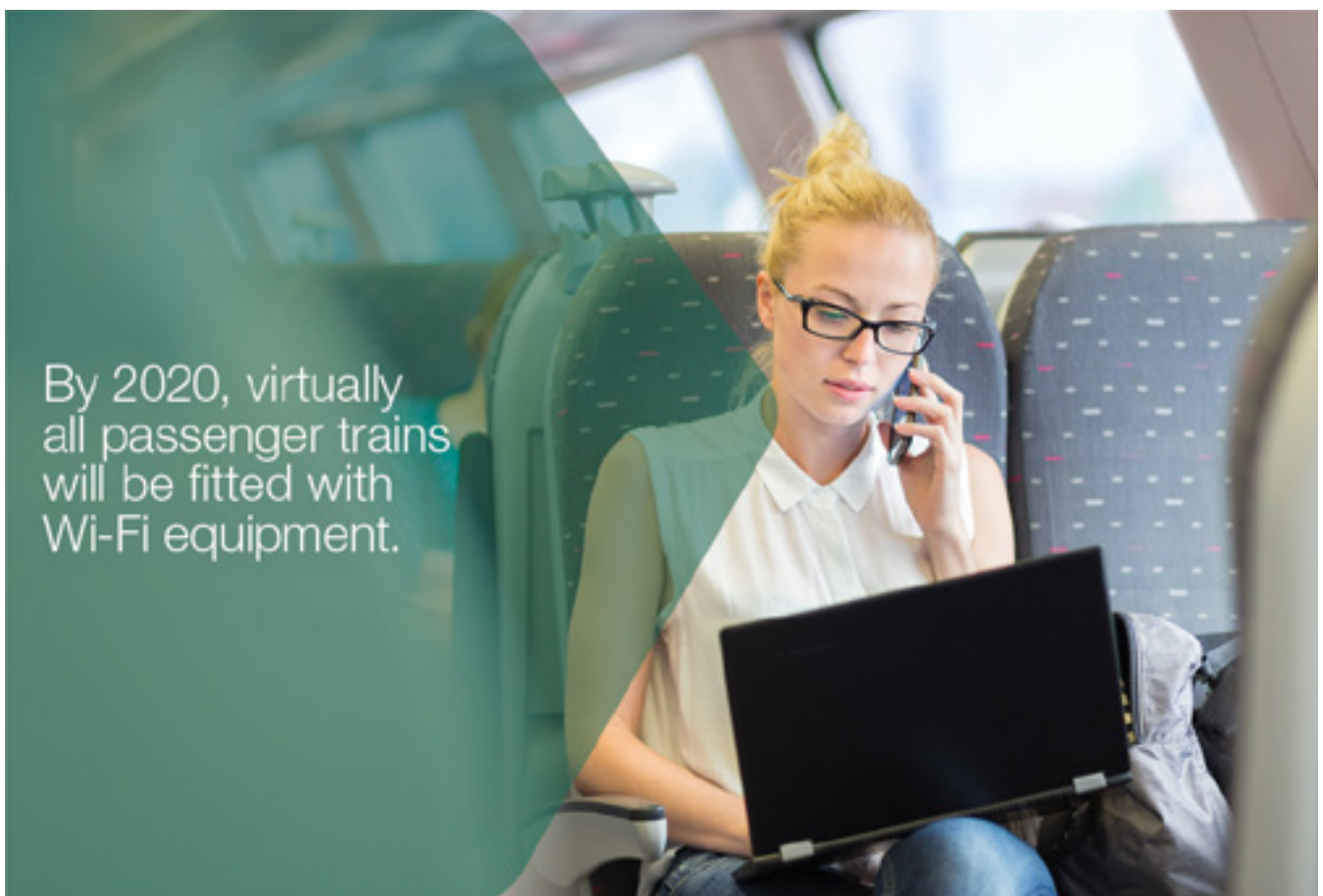
## Improve access to Wi-Fi for travellers

1.130 The desire for rail customers to be 'connected' remains a cross-government priority with an ambitious plan for substantial improvements in coming years. On train Wi-Fi and mobile connectivity today suffers from a lack of reliable, continuous and high speed connectivity between the on-train equipment and the internet due to the constraints of tunnels, deep cuttings and mobile operator 'not spots'. During 2017-18 we have:

- ▶ Made good progress, in collaboration with TOCs to introduce minimum standards for Wi-Fi and mobile connectivity on new and existing rail franchises. This will help us to deliver the commitment for virtually all passenger trains to be fitted with Wi-Fi equipment by 2020.

- ▶ Worked closely with the **Department for Digital, Culture, Media and Sport** to support development of a new dedicated trackside solution on mainline routes to deliver further significant improvements on mobile connectivity. This solution will be tested as part of the Trans-Pennine Initiative – a technical and commercial focused trial undertaken in partnership with Network Rail. This will ensure we know how best to make use of existing trackside infrastructure and utilise Network Rail assets, as well as testing suitable track-to-train radio systems to deliver services to passengers under real-life conditions. A joint Call for Evidence, seeking views on commercial models was undertaken and received a positive response from industry.

1.131 Improving Wi-Fi and mobile connectivity on trains will help passengers to keep up with work, connect with friends or even check the latest journey information online while on the move. Delivering better communications will improve the overall passenger experience during rail journeys as we continue to build and develop our railways.



## Keep down the cost of transport for users

1.132 The fares passengers pay contribute over £10 billion towards the operation, maintenance, renewal and enhancement of the rail network. The government regulates most commuter fares and some long distance fares so that these cannot rise by more than the Retail Price Index (3.6% in January 2018, with fares on average rising by 3.4%). The Department develops policy that seeks to maximise the quality of the service that passengers receive in return for their fare. During 2017-18 we have:

- › Delivered the actions identified in the **Action Plan for Information on Rail Fares and Ticketing<sup>8</sup>**, including upgrading ticket machines and reducing jargon.

- › Led the industry in agreeing contracts with TOCs to deliver smart ticketing to almost all of the network in England by the end of 2018, implementing the lessons learned from the NAO's **Investigation into the South East Flexible Ticketing Programme**.
- › Secured the delivery of 'KeyGo', Govia Thameslink Railway's pay-as-you-go smartcard system, which is the first of its kind on the National Rail network, and franchise obligations for a similar system on South Western Railway.
- › Introduced new secondary legislation to strengthen the penalty fares appeals.



8 [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/579850/action-plan-for-information-on-rail-fares-and-ticketing.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/579850/action-plan-for-information-on-rail-fares-and-ticketing.pdf)



## Improve compensation arrangements for rail passengers

1.133 Maintaining a high standard of performance and customer service is a priority for the Department, but when things go wrong passengers should receive appropriate levels of compensation and have an effective means of redress.

1.134 The Department is improving rail passenger compensation through the introduction of **Delay Repay compensation** for passengers travelling on all ticket types who have been delayed by 15 minutes or more, whatever the cause of the delay. During 2017-18 we have:

- ▶ Rolled out Delay Repay 15 (DR15) on South Western, West Midlands and c2c train services.
- ▶ Worked with train operators to make claiming compensation for delays as swift and simple as possible for passengers on all ticket types. This involved automating processes such as online claim forms and informing passengers of their right to claim via smartcards or apps. All TOCs now have a dedicated online claims process.
- ▶ Worked with TOCs to promote passengers' awareness of their compensation rights. Rail passengers are now more willing and able than ever to demand and get the compensation that they are due. Figures published for 2016-17 showed that over £73 million was paid out to successful claimants – an increase of 63.8% on the previous year.
- ▶ Approved a revised version of the National Rail Conditions of Travel which came into force in March 2018, providing clarification for rail passengers of their compensation rights (including under the Consumer Rights Act 2015 and Consumer Protection from Unfair Trading Regulations).

## Improve accessibility at railway stations

1.135 Transport should be accessible for everyone. Accessible buses, coaches, trains, stations and taxis make it easier for people to travel independently and confidently. Over 13 million people in Britain live with some form of disability. For many, opportunities to access travel for work and leisure are limited by barriers placed upon them by the rail network. Currently, only around 460 of our 2,500 stations have step free access to, and between, every train platform.

1.136 To address this, the Department launched the **Access for All Programme**, which delivers accessible routes at stations by installing lifts or ramps, as well as features to help other disabilities, including tactile paving, signage or customer information systems. Since 2014, over £160 million of funding has been allocated to upgrade railway stations under the programme. To date, 25 station upgrades have been delivered with this funding, with a further 40 projects at various stages of construction or development. This builds on the 150 accessible routes at stations that have been delivered by the programme since its launch in 2006. Details of the next tranche of funding, including how it will be allocated, will be announced in 2018.

1.137 The Department is committed to improving accessibility across all modes of transport. During 2017-18 we have:

- ▶ Launched a consultation on our draft **Accessibility Action Plan** to seek views on how best to improve accessibility on roads, rail, water, and in the air. Measures announced in the plan included improving accessible toilets on railways, ensuring better use of Blue Badges and trials in autonomous vehicles. The consultation received over 1,000 responses and more than 100 people expressed their views at consultation events. The Department published its response to the consultation as well as its **Inclusive Transport Strategy** in July 2018.
- ▶ Started developing proposals to improve bus access for wheelchair users.
- ▶ Amended legislation to ensure that bus passengers in England, over 65 or with a disability will continue to benefit from free off-peak bus travel.
- ▶ Introduced a new requirement in our rail franchise competitions which will ensure all bidders set out how they will meet the needs of passengers with disabilities.



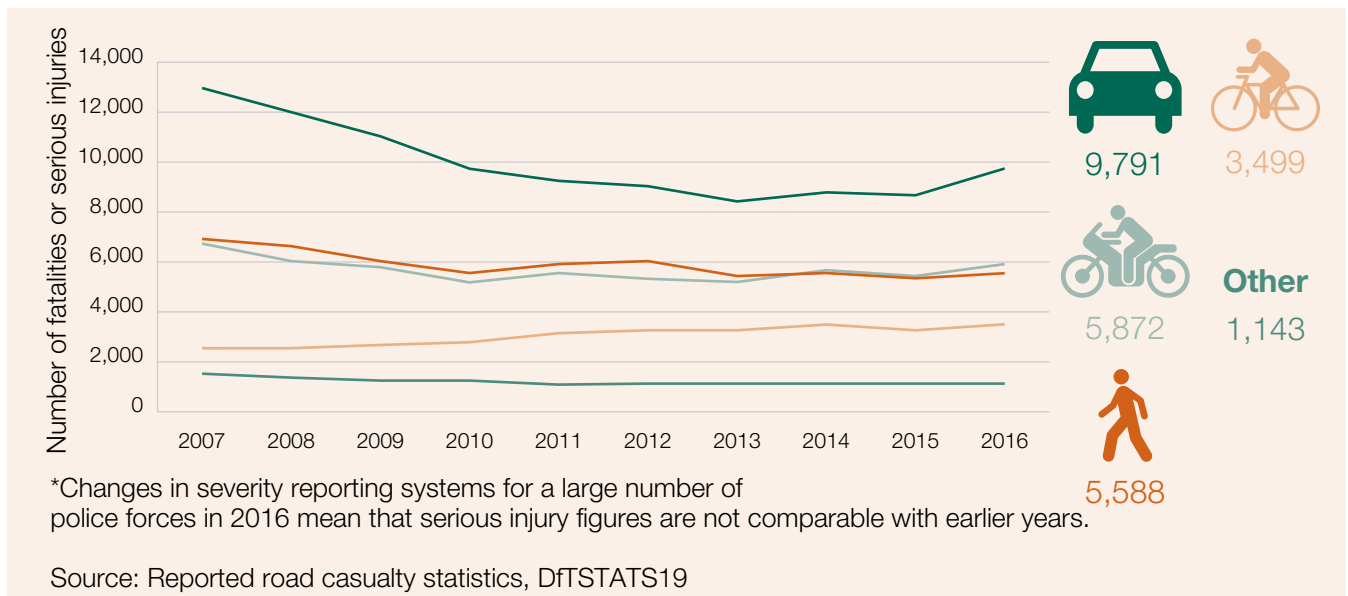
# Deliver safe, secure and sustainable transport

## Maintain the safety and security of the transport system

1.138 Britain continues to have some of the safest roads in the world but we are determined to do more. During 2017-18 we have:

- ▶ Awarded £19 million to 13 local authorities to improve 15 roads through the Safer Roads Fund. This innovative scheme is targeted at improving the safety of 50 of England's most dangerous local 'A' road sections where the risk of collisions causing death and serious injury are highest.
- ▶ Continued to promote wider road safety issues through the THINK! Programme. Campaigns have focused on drink driving, drug driving, reducing speed on country roads, child and teen road safety and hand-held mobile phone use.
- ▶ Reformed legislation to allow learner drivers to take driving lessons on motorways with an Approved Driving Instructor in a dual controlled car. The changes will come into effect in England from June 2018.
- ▶ Worked with the DVSA to promote safer driving, updating the driving test to reflect modern driving (such as following directions from a sat nav), while continuing to reduce waiting times for a test.
- ▶ Published an evaluation of the drug driving legislation introduced in 2015, which concluded that measures had increased police activity and led to higher conviction rates for drug driving prosecutions.
- ▶ Launched the Cycling and Walking Investment Strategy: Safety Review Call for Evidence which will consider the rules of the road, public awareness, key safety risks and the guidance and signage for all road users.

**Figure 22: Number of fatalities and serious injuries in reported road accidents by road user, in Great Britain: 2007 to 2016\***



1.139 The Department’s **executive agencies (DVSA, Driver and Vehicle Licensing Agency (DVLA), Vehicle Certification Agency (VCA) and the Maritime and Coastguard Agency (MCA)** continue to ensure the services they provide to the public are relevant in today’s world. Our agencies, together with the **British Transport Police Authority (BTPA)** and **General Lighthouse Authorities (GLAs)**<sup>9</sup>, work in partnership with the Department to deliver a safe and more secure transport network. This year, we have provided over **£500 million** in funding in support of this aim. During 2017-18 we have:

- ▶ Worked with **MCA** to deliver the Survey and Inspection Transformation Programme. This has led to significant changes to the Marine Office organisational structure, enabling weekend working, out-of-hours working and flexible deployment, which will improve safety and better meet the needs of customers. The MCA’s Marine Surveyors carried out 2,732 inspections and 3,467 surveys on UK ships in 2017-18.
- ▶ Ensured the successful completion of the **£2.2 billion UK Search and Rescue Helicopter Programme**.
- ▶ Initiated a review of **GLA’s shipping fleet** which will assess the capability and management of these ships.
- ▶ Worked with **BTPA** to update their strategy to ensure it focuses on addressing crimes and incidents that cause the greatest risk to those travelling and working on the **railway network**. BTPA launched a consultation on the draft strategy for policing the railways until 2021, and will be initiating a number of programmes in 2018-19 to implement it. Alongside this, the Department has continued to support the British Transport Police (BTP) to enhance its efficiency and ensure an orderly transfer of the BTP in Scotland to the Scottish Government.
- ▶ Worked with **DVSA** and **DVLA** to improve their digital services, allowing customers to more easily manage their vehicles, driving licenses and personalised registration details.
- ▶ Developed contingencies to allow UK drivers, and vehicles, to travel abroad safely and lawfully post-EU exit, whilst ensuring the same applies to those driving from overseas into the UK.



<sup>9</sup> There are 3 GLAs (Northern Lighthouse Board, Trinity House and Commissioners of Irish Lights) which have a statutory responsibility for the provision and maintenance of aids to navigation (lighthouses, buoys) and response to new hazards (e.g. wrecks) around UK/Irish coastlines.

1.140 The UK is a world leader in **aviation safety and security**, sharing our knowledge and expertise around the world. This helps to improve global standards and builds the UK's potential to export our skills, expertise and technological solutions. During 2017-18 we have:

- ▶ Funded a range of innovative research projects, through the £25.5 million Future Aviation Security Solutions programme which seeks new solutions to strengthen aviation security.
- ▶ Led the government's overseas work to strengthen aviation security for inbound flights to the UK, undertaking 119 security assessments in 24 countries.
- ▶ Continued to work in partnership with the CAA to ensure the regulatory framework is used to keep passengers safe.
- ▶ Conducted 41 verification inspections, following the restrictions on phones, laptops and tablets (PLATs) which led to the UK government lifting the PLATs ban on 39 routes, covering 15 carriers, and agreeing action plans with 2 priority countries.
- ▶ Hosted the inaugural International Aviation Security Seminar and Reception aimed at identifying, understanding and reducing risks through sharing aviation security expertise and advice. The event was attended by over 100 senior aviation delegates from 22 countries.

1.141 The Department's comprehensive programme of work continues to deliver significant improvements for the travelling public and has helped to build confidence and improve passenger perception at locations of heightened risk. Looking forward to 2018-19, we plan to build on our programme to examine cargo specific threats, and provide tailored support to partner countries to enable systemic and sustainable change to aviation security systems globally.

1.142 The government's **National Cyber Security Strategy** sets out the importance of the UK effectively managing its cyber security risks. To support this work the Department established a new Cyber Security Team to better understand the cyber threat to the transport sector, help mitigate cyber risks and ensure the sector responds effectively to incidents. During 2017-18 we have:

- ▶ Continued to work closely with the National Cyber Security Centre to support the transport sector in improving the approach to cyber security.
- ▶ Undertaken several Cyber Risk Reviews (CRRs) on key assets to provide in-depth and bespoke recommendations to stakeholders. The CRRs have added to our understanding of cyber security provision in the transport industry, enabling us to target resources to where it will be of most benefit.
- ▶ Continued to work collaboratively with European and international partners to develop standards and regulations on cyber security ensuring passengers and the public are protected from cyber incidents.

1.143 In 2017-18, there were a number of attacks, both in London and Manchester and other parts of the world which demonstrated an ever present threat to the UK and UK citizens, and assets abroad from **terrorism**. Transport has been targeted directly, namely the Parsons Green attack, and indirectly impacted in attacks such as seen in Westminster, at the Manchester Arena, at London Bridge and Finsbury Park. In all of these incidents the Department's security teams enacted contingency plans, in conjunction with other government departments, law enforcement agencies, the intelligence community and industry, to provide a timely and effective response and ensure the return to business as usual as soon as possible. The central Department is continuously working with other counter-terrorism stakeholders to reduce the risk posed from terrorism so that people can go about their business freely and with confidence.



## Increase the number of cycling and walking journeys

1.144 The Department is supporting wider government objectives to protect the environment and improve public health by continuing to deliver its commitment on sustainable transport. Our first ever statutory **Cycling and Walking Investment Strategy** has identified up to £1.2 billion for investment in cycling and walking from 2016 to 2021. The strategy sets out the Department’s aim of doubling cycling, and increasing walking by 2025, and a target to increase the percentage of 5-10 year olds walking to school to 55% (see **Figure 23**). During 2017-18 we have:

- ▶ Supported 43 local authorities to develop Local Cycling and Walking Infrastructure Plans, by providing specialist technical advice and expertise.
- ▶ Awarded £20 million to local authorities to deliver measures to increase cycling and walking across 25 projects through the Access Fund.
- ▶ Provided £12 million to train almost 300,000 children to develop their cycling skills through the Bikeability programme.
- ▶ Awarded £11 million to fund a range of projects and programmes including: cycling and walking to work initiatives, cycle rail, walk to school outreach projects, and the Big Bike Revival.
- ▶ Provided almost £1 million in funding to the Small Business Research Initiative and Innovation Challenge Fund to support the development of new cycling and walking solutions.
- ▶ Published an outcomes report which detailed the outputs from a range of cycling and walking interventions, such as the 250 km of segregated cycle routes delivered through the Cycle Ambition City programme.

## Making cycling and walking the natural choice for journeys

### Bikeability Cycle Training Programme

Almost 300,000 children received some form of Bikeability training in 2017-18. Bikeability is the Department’s national cycle training programme designed to give people the skills and confidence to cycle safely and competently on today’s modern roads. The Department is investing £50 million to cover cycle training from 2016 to 2020. Since 2007, over 2 million children have received training through the Bikeability programme.



### Walk to School Outreach

This year the Department provided £1 million of support to Living Streets to expand its successful Walk to School programme. The funding provided support to 200 schools across 5 local and combined transport authorities. The programme aims to overcome barriers to walking and increase the number of children walking to school.



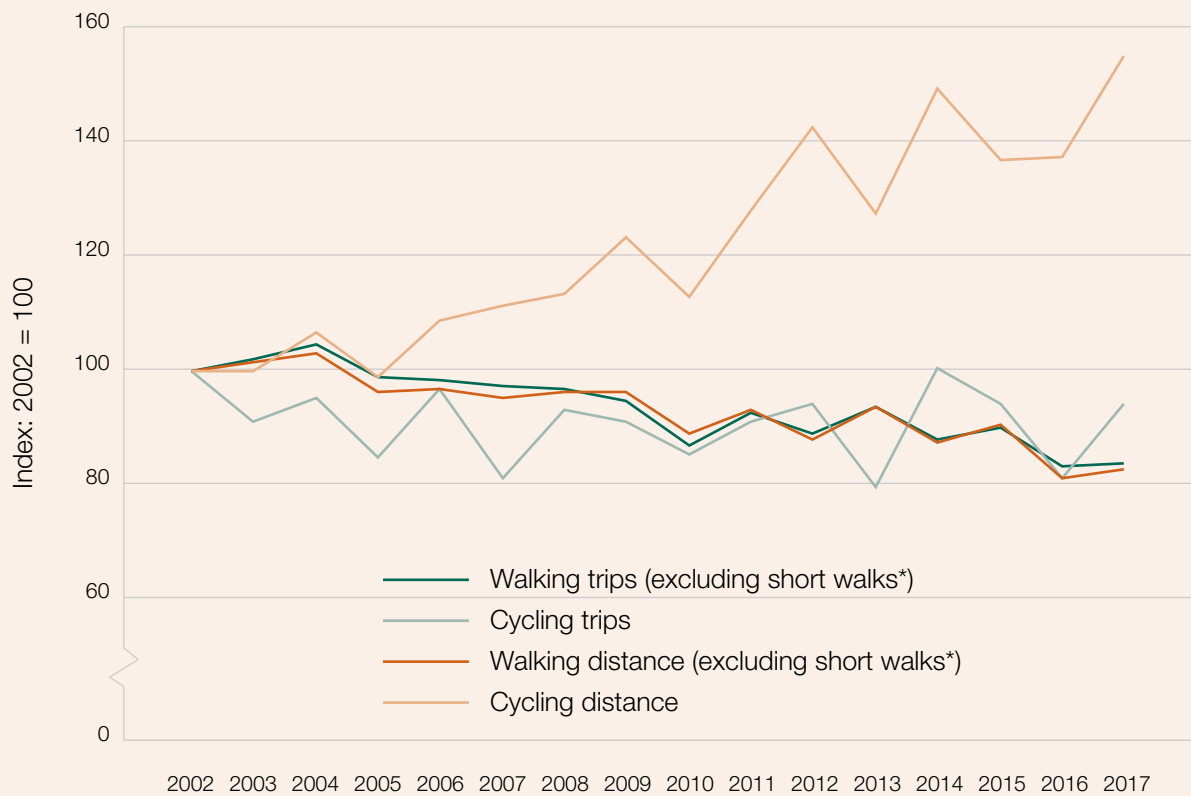
### Big Bike Revival

During 2017-18 the Department provided £1 million to Cycling UK to deliver its successful Big Bike Revival project which has delivered excellent results in terms of getting more people cycling.

The project was supported across England by 10 regionally based cycling development officers and delivered on the ground by 123 small, mainly volunteer-led local organisations, who between them, delivered 1,448 events.



**Figure 23: Average number of walking and cycling trips and distance, England**



\*A short walk is one less than a mile in length. There is a discontinuity in short walk estimates between 2016 and earlier years due to a change in methodology. Trends excluding short walks are presented here to avoid a break in the time series.

Source: National Travel Survey: Tables NTS0303, NTS0305



**2%** of all trips were made by cycling in 2017. The number of cycling trips has remained stable since 2002.



**60 miles** – the average distance people cycled in 2017. This was an increase of 54% compared to 2002.



**82%** of children aged 5-10 years old had access to a bicycle in 2017, and 70% of 11-16 year olds.



**26%** of all trips were made by walking in 2017.



**206 miles** – the average distance people walked in 2017. This is the distance from London to the Yorkshire Dales.



**51%** of 5-10 year olds usually walked to school in 2017.

## Promote new technologies to reduce emissions

1.145 A key part of our strategy for reducing emissions from road transport is our commitment for almost every car and van in the UK to be zero-emission by 2050. The Office for Low Emission Vehicles (OLEV), a joint DfT and BEIS policy unit, was created to support the early market for ultra-low emission vehicles (ULEV). OLEV is investing nearly £1.5 billion between April 2015 and March 2021 in one of the most comprehensive global programmes of support for ULEV, including grants for vehicles and charge point infrastructure.

1.146 Since 2011, over 148,000 ultra-low emission battery electric and plug-in hybrid vehicles have been registered in the UK (see Figure 24), and more than 12,500 publically accessible charge points are now available. This includes over 1,000 rapid charge points - one of the largest networks in Europe. However, there are challenges in ensuring charge point provision on residential streets. Around a third of homes in England do not have off-street parking, making it difficult to charge an electric vehicle overnight. During 2017-18, we have:

- ▶ Announced a new package of measures to support the uptake of electric vehicles, including: a new £400 million electric vehicle Charging Infrastructure Fund (£200 million new government investment to be matched by private investors); £100 million new

funding for the Plug-In Car Grant, which will continue in some form until 2020; and a commitment that 25% of cars in central government department fleets will be ultra-low emission by 2022.

- ▶ Announced we would end the sale of new conventional petrol and diesel cars and vans by 2040.
- ▶ Continued to fund new on-street residential charge point schemes. The funding is available to local authorities and can be used to subsidise the purchase and installation of on street charging solutions on publicly owned residential streets and at workplaces.
- ▶ Announced investment of almost £30 million in funding to support R&D into vehicle-to-grid technologies that could enable cars and other vehicles to deliver electricity back to the smart grid, to light homes and power businesses.
- ▶ Announced £40 million R&D funding (matched by industry) for on-street and wireless charging technologies.

1.147 In July 2018, we published our **Road to Zero Strategy** which sets out how we will support the transition to zero emission vehicles; ensure the UK is well placed to capitalise on new economic opportunities; and drive down emissions from conventional vehicles.





1.148 The Department continues to work with the Department for Environment, Food and Rural Affairs (Defra) through our Joint Air Quality Unit and other key partners, to **reduce vehicle emissions** and **improve air quality**. During 2017-18 we have:

- ▶ Published **The UK Plan for Tackling Roadside Nitrogen Dioxide Concentrations** in order to achieve compliance with legal limits in the shortest possible time, and announced a £225 million Implementation Fund for local authorities to accelerate their air quality plans. £40 million from the Implementation Fund has already been allocated to local authorities to support measures to improve air quality.
- ▶ Laid legislation to set ambitious emissions limits for 5 key air pollutants (particulate matter, sulphur dioxide, nitrogen oxides, ammonia and volatile organic compounds) in 2020 and 2030. The aim of the new regulations is to cut the negative impacts of air pollution on human health by almost half by 2030.
- ▶ Launched the £220 million Clean Air Fund to provide support to individuals and businesses impacted by local air quality plans.
- ▶ Awarded nearly £40 million through the Clean Bus Technology Fund to 20 local authorities to retro-fit 2,700 buses with emission reducing technology.
- ▶ Awarded £11 million to local authorities to purchase

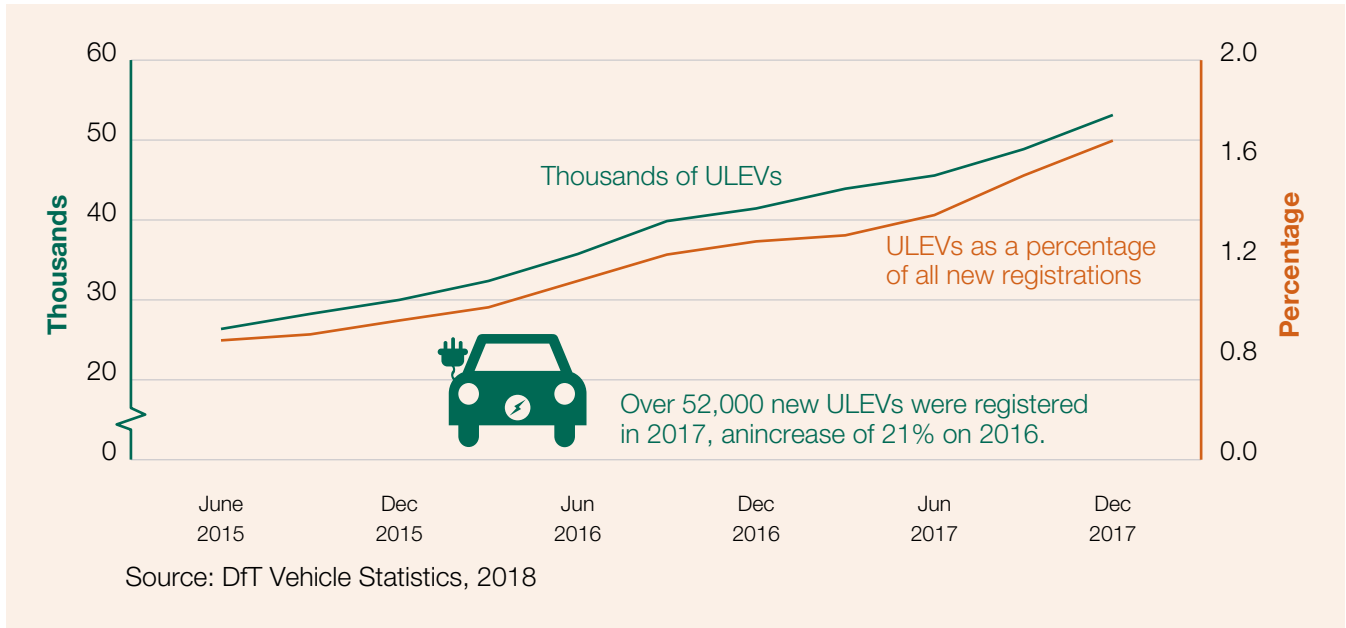
over 150 new low emission buses and launched the new £49 million Ultra-Low Emission Bus Scheme.

- ▶ Worked with DVSA on the new Market Surveillance Unit vehicle testing programme, which focuses on exhaust emissions testing on cars, lights vans, HGVs and buses, to ensure that manufacturers are meeting the relevant standards for vehicles in use.
- ▶ Worked with VCA to support the automotive industry through the introduction of stricter vehicle emissions tests to reduce emissions, and minimise the threat of fraud following the VW scandal.
- ▶ Commissioned the rail industry to set up a taskforce to look at how we can decarbonise the railway and improve air quality. We have challenged the taskforce to set out how the industry will meet the ambition of removing all diesel only trains by 2040 (encompassing both freight and passenger trains).

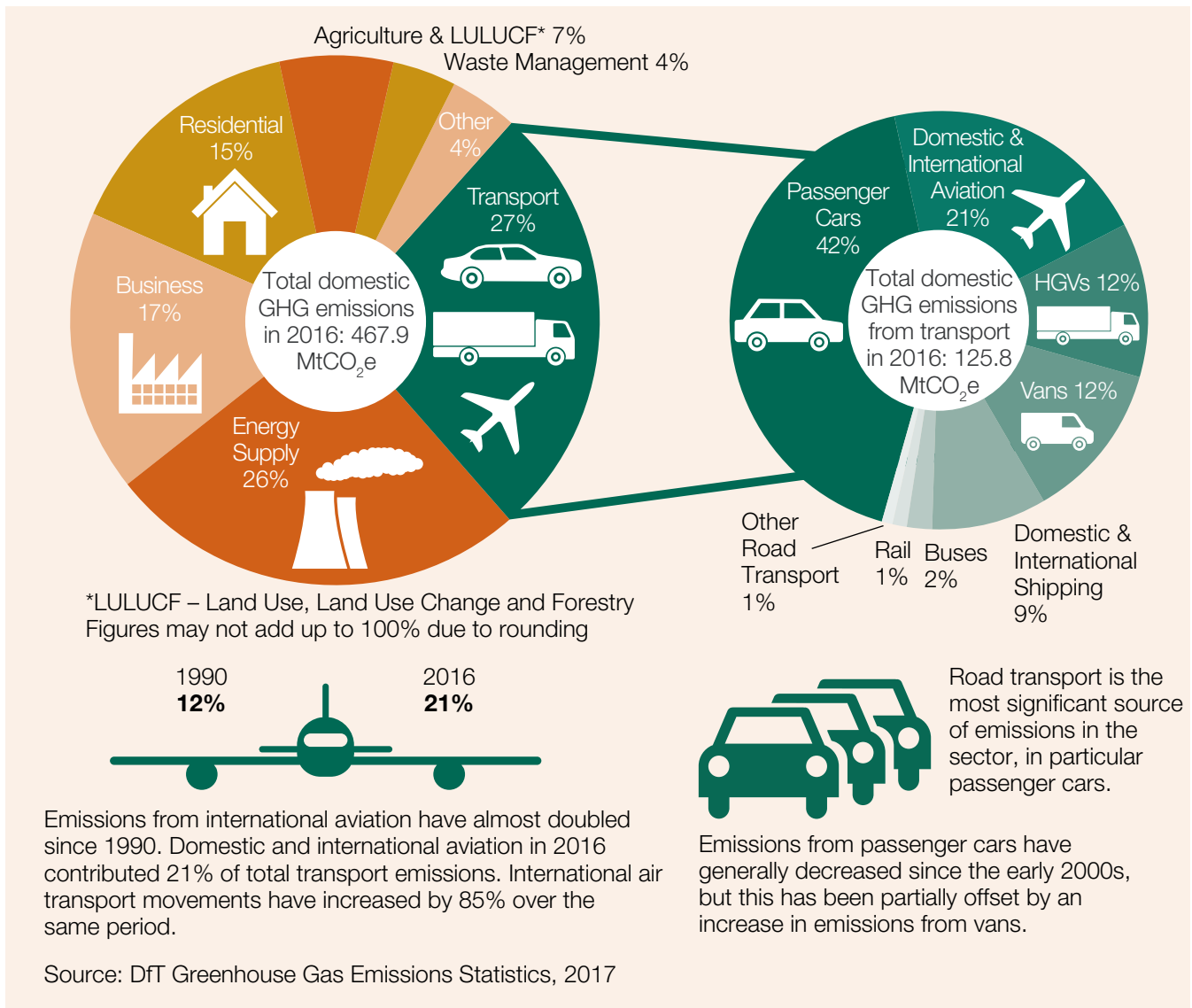
1.149 The Department has worked closely with Defra to shape our contribution to the **Clean Air Strategy** consultation paper. Transport has a key role to play in reducing emissions and meeting the government's objective on the environment and public health (**Figure 25**). The Clean Air Strategy sets out ambitious plans to drive down emissions in each major transport sector, including the announcement of forthcoming strategies for shipping and aviation.



**Figure 24: New registrations of ultra-low emission vehicles (ULEVs), UK: 2015 to 2017**



**Figure 25: UK Greenhouse Gas (GHG) Emissions by sector: 2016**



# Promote a culture of efficiency in everything we do

## Embed a culture of efficiency in DfT groups and delivery bodies

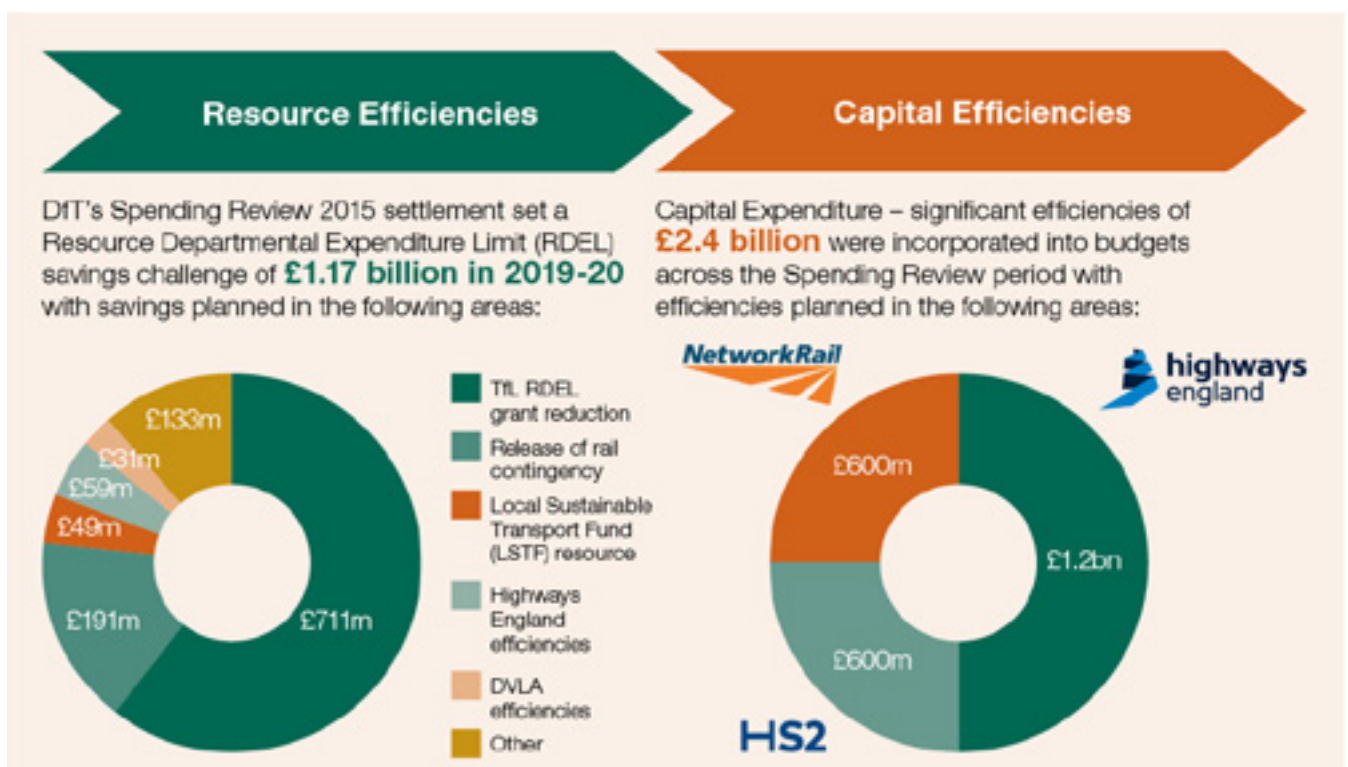
1.150 Embedding efficiency in our culture has been a key priority for the Department in 2017-18. We have driven forward an ambitious **Efficiency Programme** and identified savings which have helped to manage internal financial pressures and allowed us to absorb new work (see **Figure 26**). Our Efficiency Programme Board has continued to provide oversight of the Departmental Efficiency Portfolio. During 2017-18 we have:

- Ensured delivery of the central Department’s efficiency plans and championed efficiency savings within our delivery bodies.

- Sponsored cross-cutting efficiencies such as supply chain and procurement, and better use of commercial assets.
- Recorded and shared best practice in the delivery of efficiencies.

1.151 A key challenge has been delivering efficiency targets against the backdrop of reducing Resource and rising Capital programme. Equally, this financial context has provided an opportunity to challenge ourselves to drive forward innovation and deliver real efficiencies. We will continue to build on this work, as we look forward to planning for the next Spending Review.

**Figure 26: Overview of the efficiency savings challenge for DfTc and its delivery bodies**



1.152 The **Transport Infrastructure Efficiency Strategy** was launched in December 2017 to a good reception from the industry. The strategy sets out 7 challenges that Crossrail Ltd, Highways England, HS2 Ltd, Network Rail, TfL and the central Department will tackle through existing efficiency and transformation programmes and through collaboration. In responding to these challenges, the transport delivery bodies will ensure they are able to deliver existing efficiency targets. The challenges are:

- › Judging strategic choices and trade-offs based on whole-life-costs and wider benefits.
- › Improving the way we set up projects to maximise value and prevent inefficiency throughout delivery.
- › Creating a transport infrastructure benchmarking forum to share best practice and innovation.
- › Establishing a common approach to estimating to improve cost confidence and assurance.

- › Promoting long-term, collaborative relationships with industry to reduce transaction costs in procurement and maximise innovation.
- › Challenging standards to enable innovation and drive efficiencies.
- › Exploiting digital technologies and standardising our assets to enable the adoption of best practice from the manufacturing sector such as off-site construction.

1.153 To implement the strategy, a taskforce, chaired by Andrew Wolstenholme (former CEO of Crossrail Ltd) has been set-up. The taskforce includes representatives from Highways England, HS2 Ltd, Network Rail, TfL and the Infrastructure Projects Authority. The taskforce will publish a one-year-on report in 2018 setting out progress towards meeting the 7 challenges.



## DfT's delivery bodies: Using technology and innovation to harness efficiencies

### Network Rail's Orbis – GEO RINM Viewer

The Geo-RINM Viewer (GRV) software tool shows the location, and condition, of assets in the real world. It enables end users to visualise individual assets, the relevant asset information, and the environment surrounding any particular worksite. This significantly

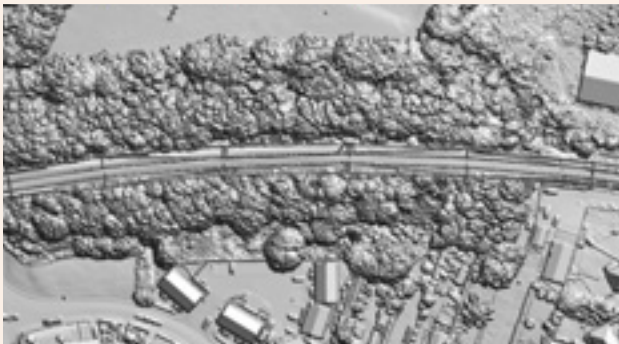
helps when planning what work to do, and how to complete it, and also reduces time spent on the track when conducting site visits to plan the delivery of rail works.



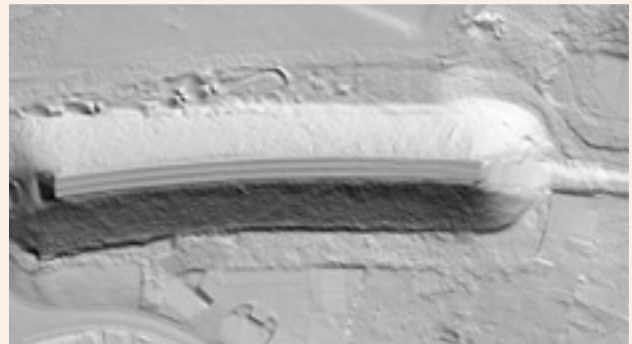
**GRV Map Imagery:** showing our assets geo-spatially and overlaid with different datasets (including land ownership information, flood data and access points).



**High Resolution Top-Down Imagery:** this gives a true colour representation of the real world to 4cm resolution.



**Digital Surface Model:** this LiDAR imagery shows the height of any above the ground features (such as buildings, structures etc.).



**Digital Terrain Model:** this LiDAR imagery shows a digital representation of the bare ground surface (such as slopes in the terrain).

### Highways England – Cold Pave Recycling

A cold in-situ recycling process has been trialled by Highways England in 14 areas. This process encapsulates both the planning and road laying activities. The trial has already delivered a number of benefits including:

- ▶ 66% reduction in waste taken to landfill
- ▶ 75% reduction in quarried aggregate
- ▶ 49% reduction in staff shifts
- ▶ 71% fewer lorry movements
- ▶ Increase in asphalt laid (an average 958 tonnes laid per shift)
- ▶ 25% reduction in quantity of bitumen required

Efficiencies delivered up to 2017: **£8.1 million**



## Drive functional excellence and develop functional capacity and capability

1.154 The Department has a diverse workforce, working across the country in a wide range of roles, from policy developers to critical frontline staff such as accident investigators, driving examiners and marine surveyors.

1.155 Since 2010, we have made significant workforce efficiencies, whilst balancing the need for people with the right skills to deliver our ambitious capital programmes. The Department can only fulfil its obligations to the transport agenda through ensuring that our people have the confidence and capability to deliver their objectives. During 2017-18 we have:

- ▶ Continued to focus on developing core skills in priority areas: commercial, digital and project delivery.
- ▶ Continued to develop our leadership and management capability, investing heavily in talent and development programmes to support this (see **Figure 27**). Learning and development scores are now the highest across Whitehall. Our leadership and managing change scores have increased by 5% from 2016 to 2017 in the Civil Service people survey. Overall staff engagement has risen to 65%, which makes us a high performing Department.
- ▶ Conducted a formal programme of succession planning which focused on encouraging senior leadership teams to pinpoint critical roles and identify successors. This allowed the Department to identify gaps in succession and work on filling them by looking more widely across the organisation and developing new and wider pipelines as well as talent programmes.
- ▶ Launched a **Diversity and Inclusion Strategy** which sets out 5 goals for the central Department, including our aim to become one of the most inclusive employers in the Civil Service by attracting, recognising, and nurturing diverse talent. Further information on the strategy can be found in the **People and Remuneration Report**.

1.156 In 2018-19 we plan on conducting deep dives into all of our professions to support delivery against our priorities.

1.157 The Department is working to deliver the government's commitment to support **3 million new public sector apprenticeships in England**, and the Civil Service target of **2.3% of the English workforce** as new apprentice starts by 2020. The central Department and its executive agencies have set a cumulative target of 600 new apprenticeships in the workforce between 2016 and 2020. These will be across a range of locations and will be available to people in

junior as well as management grades. In 2017-18 the central Department, DVSA, MCA and VCA achieved a total of 66 new apprenticeship starts (in England) in areas such as leadership, management and business administration. This has been a challenging year, largely due to issues around accessing learning providers through the new Civil Service Learning (CSL) contract.

1.158 The Department has continued to support the delivery of its commitments set out in the **Transport Infrastructure Skills Strategy (TISS)**. The strategy set stretching ambitions for the creation of transport sector apprenticeships, improving diversity and recognising the need to promote transport as a career. The TISS led to the creation of the **Strategic Transport Apprentice Taskforce (STAT)** to bring together transport leaders to deliver against these ambitions. Over 2,000 new apprenticeships in road and rail were created in the first year by the Department's delivery bodies. During 2017-18 we have:

- ▶ Supported the creation of an additional 2,784 new apprenticeships in road and rail, an increase of 22% compared to last year, meeting the trajectory to achieve more than 30,000 apprenticeships by 2022.
- ▶ Worked closely with STAT to improve diversity reporting. BAME representation is above the commitments made by the Department of Education (DfE) and the TISS.
- ▶ Worked with STAT and supply chain organisations to understand barriers and motivations to investing in apprenticeships, which will inform the development of shared apprenticeship pilots.

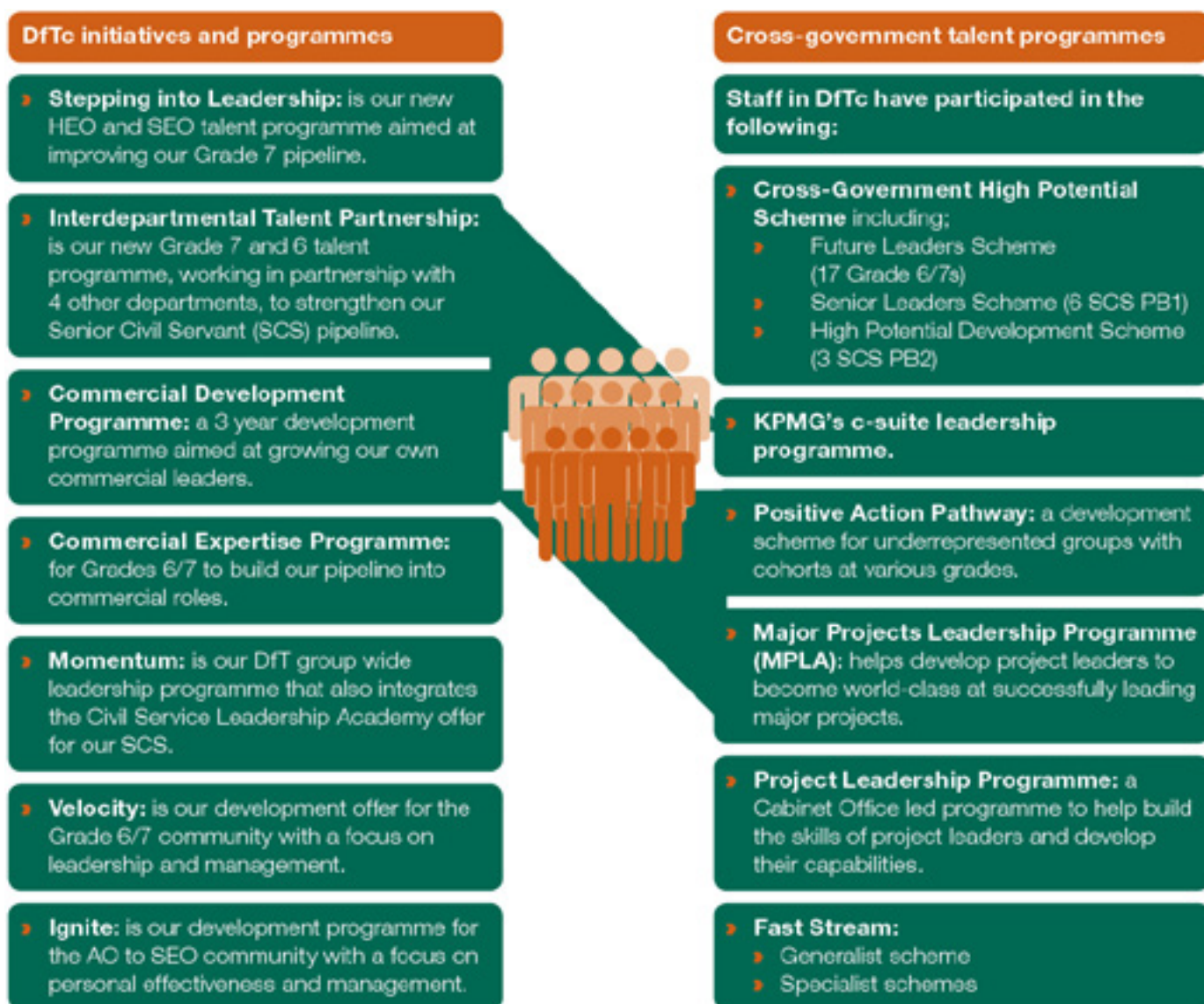
1.159 Looking forward, STAT has committed to further driving quality apprenticeships in the sector; improving diversity, developing shared apprenticeship pilots and pre-apprenticeship training pilots to support social mobility in the sector. Work is also underway to deliver more high quality apprenticeships more widely across the sector, including in aviation, maritime and road freight, logistics and express delivery.

### Strategic Transport Apprenticeship Taskforce:

“My apprenticeship has given me the opportunity to learn and gain valuable experience in the transport industry during a time of major investment and growth”.

Callum, Highways England Civil Engineer

**Figure 27: Overview of talent and succession initiatives undertaken by DfTc staff in 2017-18**



**Stepping into Leadership programme:**

“The Stepping into Leadership programme has enabled me to engage with a great group of people, reflect on our skills, attributes and behaviours, pushing each other to succeed in our personal goals. Some of my personal highlights include learning about storytelling as a means of connecting with people and inspiring others”.

Ruhana Begum, Maritime Trade and International Policy Division

**MPLA programme:**

“The MPLA programme has definitely influenced my mind-set, offering me different perspectives and practical frameworks and also facilitating the time/space to reflect on the challenge of delivering a major project. Equally, it has given me a useful and interesting approach to help me to navigate in uncertainty and changing major project’s environments”.

Belen De Ugarte, High Speed Rail and Major Rail Projects Group

## Crossrail and HS2: building sustainable skills



HS2 will support growth in the wider economy, worth an additional **100,000 jobs**. But this isn't just about when the new railway opens - jobs and skills are being created now.

HS2 Ltd is working with businesses across the UK – including many small and medium-sized firms to ensure they are well prepared to bid for work on HS2. The project will generate around **25,000 jobs** during construction as well as **2,000 apprenticeships**.

HS2 is about upskilling: a more skilled workforce is vital for the country. The **National College for High Speed Rail**, based in Doncaster, will open its doors in 2018. The College will train young people to build HS2 and other world-leading rail projects. We have also provided funding for HS2 locations to develop growth strategies to maximise the benefit of HS2 in their local areas.

**710 apprenticeships** have been created by **Crossrail Ltd** and their contractors during the construction and fit-out of the new stations and tunnels under London. Apprentices have been trained in a range of professions including civil engineering, business administration, railway systems and mechanical and electrical engineering.

Network Rail, Bombardier Transportation and MTR Crossrail have also created nearly **300 apprenticeships** as part of the upgrade of the existing rail network for Crossrail, and the manufacture and operation of the new trains.





HS2: supporting growth in the wider economy, through supply chain opportunities and the creation of 2,000 apprenticeships.

# Single Departmental Plan indicators

1.160 Tables 2 to 5 set out, under the 4 SDP objectives, the latest year-end position for each of our SDP indicators. The years (current and previous) used vary between indicators. The precise year used is referred to in the indicator description, for all tables.

**Table 2: Boosting economic growth and opportunity**

SDP indicator	Current	Previous
<b>Value for money</b>		
DfT's appraised project spend assessed to be high or very high value for money (current data = 2017, previous = 2016)	71%	95%
<b>Boosting Infrastructure: number of transport infrastructure projects and programmes in construction and completed</b>		
(i) Number of transport schemes from the National Infrastructure and Construction Pipeline (NICP) that are currently in construction in England (current data = December 2017, previous = December 2016) <sup>1</sup>	30 projects and 77 programmes	40 projects and 94 programmes
(ii) Number of Highways England and local major transport schemes from the NICP that have been completed in England since June 2015 (current data = June 2017, previous = June 2016) <sup>2</sup>	73	8
<b>Boosting skills</b>		
We have set an ambition to deliver 30,000 apprenticeships in road and rail by 2022. The ' <i>Transport Infrastructure Skills Strategy</i> ', sets out how we will monitor and report on progress (current data = end June 2018, previous data = end June 2017 <sup>3</sup> ).	2,784	2,282
<b>Savings to business as a result of deregulation</b>		
Annual saving since the beginning of the reporting period <sup>4</sup> (current data = 7 June 2017, previous = 31 March 2017)	£4.5 million	£5.7 million

1 Data is not comparable due to differences in the way the data is captured and recorded over time.

2 This indicator is based on administrative data. Updates on rail schemes are available via Network Rail's website: [www.networkrail.co.uk](http://www.networkrail.co.uk)

3 Reporting adjusted from 2,000.

4 Figures represent the cumulative total measured against the Business Impact Target (BIT). The BIT is a target for savings to business as a result of better government regulation. The target reporting period lasts for the duration of a Parliament. The figures reflect the cumulative progress against the BIT up to June 2017 (the end of the previous Parliament). A new BIT was announced for the current Parliament in June 2018, this has been set at a £9 billion saving to business. Although DfT does not have a specific departmental target, as per the last Parliament, we remain committed to minimising the costs associated with burdensome regulation on the transport sector, while also recognising the important role of good regulation in protecting public safety.

**Table 3: Building a One Nation Britain**

SDP indicator	Current	Previous
<b>Boosting infrastructure outside of London and the South East: number of transport infrastructure projects and programmes in construction and completed</b>		
(i) Number of transport schemes from the National Infrastructure and Construction Pipeline (NICP) that are currently in construction in England outside London and the South East (current data = December 2017, previous April 2016) <sup>1</sup>	22 projects and 41 programmes	36 projects and 54 programmes
(ii) Number of Highways England and local major transport schemes that have been completed in England since June 2015 outside London and the South East (current data = June 2017, previous = December 2015) <sup>2</sup>	70	7
<b>Average minimum travel times to key services in England<sup>3</sup></b>		
(i) Public transport/walking	17	17
(ii) Pedal cycle	15	14
(iii) Car (minutes, current data = 2015, previous = 2014)	10	10

1 Data is not always comparable due to differences over time in the way the data has been captured and recorded.

2 This indicator is based on administrative data. Updates on rail schemes are available via Network Rail's website: [www.networkrail.co.uk](http://www.networkrail.co.uk)

3 The key services included in this measure are: centres of employment, primary and secondary schools and further education colleges, GPs, hospitals, food stores and town centres.

**Table 4: Deliver safe, secure and sustainable transport**

SDP indicator	Current	Previous
<b>Number of fatalities and serious injuries in reported road traffic accidents, by road user, Great Britain (Jan-Sep 2017 data provisional)<sup>1</sup></b>		
Fatalities and serious injuries in reported road traffic accidents		
(i) Car occupants	7,080	7,190
(ii) Motorcyclists	4,720	4,520
(iii) Pedestrians	4,490	3,810
(iv) Pedal cyclists	2,960	2,700
(v) Other (current data January to September = 2017, previous = January to September 2016)	810	680
<b>Total domestic greenhouse gas emissions from transport, UK</b>		
(tonnes of CO <sub>2</sub> equivalent, current data = 2016, previous = 2015)	125.8 million	120 million
<b>New registrations of ultra-low emission vehicles, total number and proportion of all new registrations, UK<sup>2</sup></b>		
(i) New registrations of ULEVs (current data = 2017, previous = 2016)	53,203	41,837
(ii) As a proportion of all new vehicle registrations that were ULEVs (% , current data = 2017, previous = 2016)	1.7%	1.2%
<b>Average number of trip stages per person made by bicycle, England<sup>3</sup></b>		
(current data = 2017, previous = 2016)	17	15

1 Changes in severity reporting systems for a large number of police forces in 2016 mean that serious injury figures are not comparable with earlier years.

2 For this indicator 'ultra-low emission vehicle' includes any vehicle which is fully electrically powered and any car or van with a carbon emission rating of less than 75 grams per kilometre.

3 A trip is defined as a one-way course of travel with a single main purpose. A trip consists of one or more stages. A new stage is defined when there is a change in the form of transport or when there is a change of vehicle requiring a separate ticket.

**Table 5: Improving journeys**

SDP indicator	Current	Previous
<b>National Rail Passenger Survey, Great Britain</b>		
Passengers satisfied with their journey (current data = Autumn 2017, previous = Autumn 2016)	81%	81%
<b>National Road User Satisfaction Survey, England</b>		
(i) Satisfaction score for most recent journey taken on the Strategic Road Network (out of 100, current data = 2017-18, previous = 2015-16)	89%	89%
(ii) Users very or fairly satisfied with elements of their most recent journey		
(a) Safety	90%	92%
(b) Upkeep	89%	90%
(c) Information provision	92%	93%
(d) Journey time	88%	87%
(e) Roadworks management (current data = 2017-18, previous = 2016-17)	63%	63%
<b>Proportion of trains running on time, Great Britain<sup>1</sup></b>		
(current data = Q4 2017-18 (provisional), previous = 2016-17)	87.8%	87.7%
<b>Proportion of non-frequent bus services running on time, England<sup>2</sup></b>		
(current data = 2016-17, previous = 2015-16)	82.7%	82.6%
<b>Average excess waiting time for frequent bus services, England</b>		
Data is available at local authority level (see source)		See footnote <sup>3</sup>
<b>Average delay on the Strategic Road Network and average delay on local 'A' roads, England</b>		
(i) Strategic Road Network	9.0	8.9
(ii) Local 'A' roads (seconds per vehicle per mile, current data = 2016-17, previous = 2015-16)	46.0	44.8
<b>Proportion of flights on time (within 15 minutes), UK</b>		
(current data = 2017, previous = 2016 <sup>4</sup> )	73%	73.4%

1 A train is defined as on time if it arrives at its destination within 5 minutes of the scheduled arrival time for London and South East and regional operators, or within 10 minutes for long-distance operators.

2 Defined as 5 or fewer bus services per hour.

3 For available local authority data see:

<https://www.gov.uk/government/collections/bus-statistics>. National figures are not available.

4 Source: Civil Aviation Authority: Punctuality Data. The proportion of flights on time within 15 minutes is defined as the percentage of all flights that operated within 15 minutes of their scheduled departure/arrival time. The number of airports monitored increased from 10 in 2014 to 23 in 2015 and 24 in 2016. Therefore data prior to 2016 is not available on the same basis.

**Bernadette Kelly**

5 September 2018

Permanent Secretary and Principal Accounting Officer  
Department for Transport  
Great Minster House  
33 Horseferry Road  
London SW1P 4DR







# Sustainability Report

# UN sustainable development goals

**1.161** The government is committed to mainstreaming sustainable development, in the way that we formulate policy, run our buildings and purchase goods and services, to maximise the positive impacts on the economy, society and the environment.

**1.162** In 2015, all member states of the United Nations (UN) signed up to 17 **Sustainable Development Goals**. The goals set out measurable aims for improving our world by 2030, including education, health, economic opportunity and action on climate change. The Department supports the delivery of 4 of these goals through its work which are set out in the our **Single Departmental Plan**, activities include:

UN Sustainable Development Goal	We are:
<b>8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.</b>	<ul style="list-style-type: none"> <li>▶ Making rapid progress on East-West Rail and the ‘missing link’ elements of the Oxford-Cambridge Expressway as part of a coordinated, ambitious plan for the Oxford-Milton Keynes-Cambridge corridor.</li> </ul>
<b>9. Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.</b>	<ul style="list-style-type: none"> <li>▶ Announced spending of over £47.9 billion to overhaul the rail network in England and Wales over the next six years – increasing asset renewals, improving reliability and reducing disruption.</li> <li>▶ Improving local road networks using the Highways Maintenance Challenge Fund and the Integrated Transport Block Fund.</li> </ul>
<b>11. Make cities and human settlements inclusive, safe, resilient and sustainable.</b>	<ul style="list-style-type: none"> <li>▶ Working with Network Rail, Highways England and other DfT delivery bodies to release surplus land to support 38,000 new homes by 2020.</li> <li>▶ Together with Defra, delivering the government’s commitments in the UK Plan for Tackling Roadside Nitrogen Dioxide Concentrations.</li> </ul>
<b>13. Take urgent action to combat climate change and its impacts.</b>	<ul style="list-style-type: none"> <li>▶ Supporting the passage of the Automated and Electric Vehicle Bill through Parliament. The Bill will support the installation and operation of charging points for electric vehicles.</li> <li>▶ Delivering the Cycling and Walking Investment Strategy, including the Bikeability programme which will deliver cycle training to 300,000 children during 2018-19.</li> </ul>



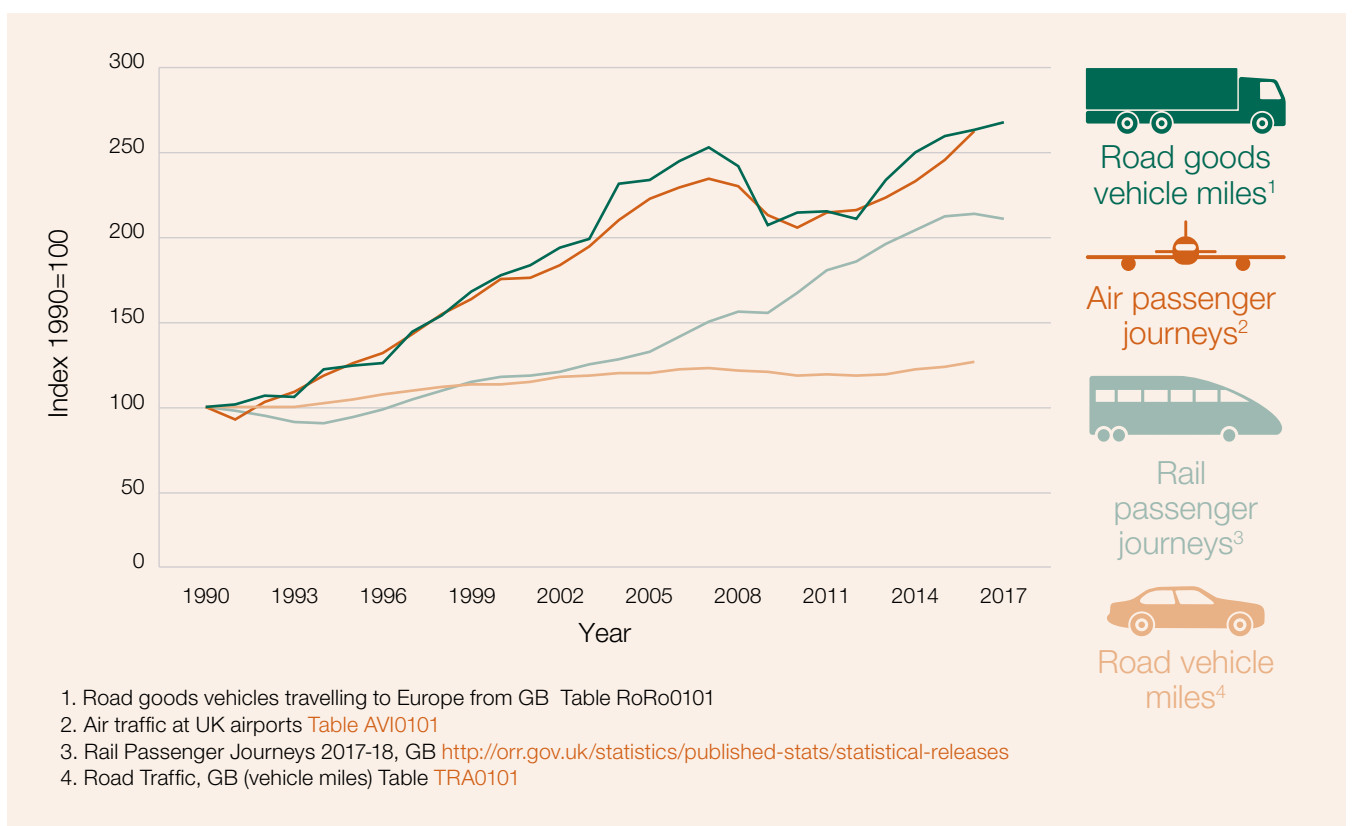
# Policy development

## Climate change adaptation

1.163 UK transport networks must be resilient to both transport incidents and extreme weather, to minimise disruption. Transport policies have to be robust in the face of changing weather patterns, greater incidence

of extreme events and sea-level rise caused by climate change. This will be ever more important in the future, as travel and freight demands on our transport systems continue to grow (see Figure 28).

**Figure 28: Trends in miles travelled/journeys by different transport modes**



## Roads

**1.164** Local authorities are responsible for the construction and maintenance of non-trunk roads (representing approximately 98% of all roads in England). In 2017, the Department, in collaboration with the UK Roads Liaison Group, published the **Code of Practice on Well Managed Highway Infrastructure** which provides advice to local authorities about the management and maintenance of their highway assets. The Code provides information on climate change adaptation as well as guidance about being resilient to extreme weather events.

**1.165** The Department is undertaking work as part of the **National Flood Resilience Review (NFR)** to identify bridges on the local road network that could be vulnerable to flooding, as well as identifying areas of the country that could become isolated under certain flood scenarios. It is expected that this work and analysis will be completed by summer 2018.

**1.166** Adapting the **Strategic Road Network** to become more resilient to weather and climate change factors is a priority for **Highways England** – as set out in their Sustainable Development Strategy. As part of the next Road Investment Strategy (2020-25), Highways England published the **Strategic Road Network Initial Report** which recognises the interaction between climate change and infrastructure, and the importance of future investment to ensure resilience across the transport network.

## Rail

**1.167** The Department works closely with its delivery bodies to understand and mitigate against the impacts of climate change on the railway. **Network Rail** prepares for the impact of weather on our rail network through daily forecasting and where possible, using the latest technology (such as visual and thermal imaging) to monitor when and where weather is likely to cause flooding or landslips.



## Ports

1.168 The Department works closely with port authorities to ensure their infrastructure assets and services are well prepared for the impact of current and future climate change risks. During 2017-18, we have participated in a number of working groups across the country and local resilience forums to assess the risk of, for example, coastal flooding, and to assist in developing mitigating measures.

## Aviation

1.169 The aviation industry is responsible for developing and monitoring their own resilience strategies to current and future climate change risks. The Department regularly liaises with major airport operators, airlines and relevant surface access operators in relation to their preparedness to handle potential disruptions. The **Airports National Policy Statement** (designated as government policy on 26 June 2018) provides the primary basis for decision making on development consent applications for a Northwest Runway at Heathrow Airport. It also includes climate change adaptation requirements, which set out how the developer and government will take into account the wider effects of climate change when developing and considering applications for airport infrastructure in the South-East of England.

## Air quality

1.170 The Department's work on improving air quality is set out in an earlier section of the **Performance Report on Promoting New Technologies to Reduce Emissions**.

## Rural proofing our policies and programmes

1.171 Rural proofing is about understanding the impacts of our policies in rural areas. It ensures that these areas receive fair and reasonable policy outcomes.

1.172 Rural proofing is important because rural communities are an essential part of the economy. Rural areas are home to one-fifth of England's population and a quarter of all registered businesses; they contribute over 16% to England's economy each year, worth an estimated £246 billion. However, rural areas face particular challenges around distance, sparsity and demography. That is why government policies are required to take into account rural impacts at all stages of policy development.

1.173 The Department has incorporated **Defra's refreshed 2017 National Rural Proofing Guidelines** into its appraisal system. Policy makers address particular questions and actions at each stage of the policy cycle, including the design, development and the implementation. This rural proofing impact assessment is designed to operate as a checklist to ensure key impacts are picked up for further consideration as part of the comprehensive appraisal system.

1.174 The Department also provides extensive appraisal guidance for investments in transport schemes in the form of the **Web-based Transport Analysis Guidance (WebTAG)**, which highlights in several places the need to consider rural impacts.



# Sustainable development

1.175 The Department continues to strive to deliver a more sustainable transport system. We recognise that our own estate and business travel should be managed in an equally sustainable manner. There are government drivers in the form of the **Greening Government Commitments (GGC)** which provide the structure and standard of sustainability performance to be achieved.

1.176 The Department has produced an **Operations Sustainability Strategy** that encompasses the central Department and it’s delivery bodies (excluding Network Rail). This details how each organisation will contribute to the achievement of the GGC targets.

1.177 Our Executive Committee receives six-monthly reports on the Department’s performance against the GGC measures. We also report performance against the GGC targets on a quarterly basis to Defra, who collate returns across central government to produce a consolidated picture of performance. The data provided in this report covers the **central Department, DVLA,**

**VCA, DVSA, Highways England, MCA, British Transport Police and HS2 Ltd.** While this report will highlight some of the activities undertaken by these organisations to improve sustainable performance, more detail can be found in the individual Annual Reports and Accounts for each organisation.

## Summary of performance

1.178 In 2017-18 we have continued to make good progress in 2 GGC target areas:

- › Reducing greenhouse gas emissions.
- › Minimising our waste generation.

1.179 We are on track to meet the 2020 targets in all areas except reducing waste to landfill to less than 10% of total waste, and reducing water consumption by 9%. Details of our sustainability performance metrics are set out in **Tables 6 to 9** on the following pages.

**Table 6: Target (by 2019-20 compared to GGC 2009-10 baseline)**

	Progress
Reduce Greenhouse Gas (GHG) emissions by 36%	36%
Reduce domestic business flights by 37%	31%
Reduce the amount of waste going to landfill by 10%	39.7%
Reduce total estate water consumption by 9%	9.8%
Reduce paper use by 56%	62%

**Table 7: Target (by 2019-20 compared to GGC 2009-10 baseline)**

Greenhouse Gas (GHG) Emissions		2017-18	2016-17	2015-16	2014-15	2013-14	2012-13
Gross Emissions (tonnes CO <sub>2</sub> e) <sup>1</sup>	Scope 1: Direct emissions	18,667	20,481	19,618	16,595	17,347	16,648
	Scope 2: Indirect emissions	93,836	94,437	104,944	125,493	118,752	122,538
	Scope 3: Business Travel emissions	9,682	8,705	8,217	6,927	7,110	7,350
	<b>Total Emissions</b>	<b>122,185</b>	123,623	132,779	149,015	143,209	146,536
Related Consumption Data	Estates electricity (kWh)	62,560,792	62,280,588	66,302,021	67,014,564	63,836,998	60,031,387
	kWh per head	2,198	2,271	2,478	2,683	2,375	2,278
	Estates (HE road network) electricity (kWh)	188,760,000	175,280,000	165,494,778	172,988,659	186,168,000	188,496,743
	Private car usage (million road miles)	8.35	6.47	8.43	5.74	7.23	6.20
	Hire car usage (million road miles)	9.93	10.22	10.76	11.90	9.51	8.88
	Financial Indicators	Total energy expenditure	£35,975,506	£32,151,988	£31,056,916	£37,240,817	£34,921,253
CRC related expenditure		£1,855,443	£2,001,105	£2,463,084	£2,432,242	£2,628,812	£1,352,468
Expenditure on business travel		£12,297,647	£11,601,809	£12,589,336	£11,043,926	£13,390,926	£11,199,576

### Direct Impacts

**Scope 1** – this includes direct consumption of gas, LPG and Gas Oil to our built estate and fuel consumption by vehicles owned by the central Department and its delivery bodies.

**Scope 2** – this covers electricity supplies to our buildings, our surplus property portfolio and the Strategic Road Network.

**Scope 3** – Business travel undertaken by staff using 3rd party transport (including hire car use).

### Indirect Impacts

One of the biggest contributors of **Greenhouse Gas emissions** for the UK is the emissions from vehicles travelling on the road network. Across the Department we are working to reduce this impact through policy change that encourages the use of lower emissions vehicles (promoting the installation of electric vehicle charging points) or alternative lower emission forms of transport, improving the information that is available to drivers to reduce journeys and the active management of the network (i.e. smart motorways).

<sup>1</sup> tonnesCO<sub>2</sub>e = tonnes of carbon dioxide equivalent emissions

**1.180** Our total water consumption has increased by 8.3% when compared to 2016-17 as a result of the continued growth of HS2 Ltd and Highways England estate and increasing staffing levels. This has given us an office water consumption per head of 7.76m<sup>3</sup> in 2017-18. We continually seek to improve our management and understanding of water use with the aim of reducing both overall and full-time equivalent (FTE) water consumption.

**1.181** We have decreased the volume of waste generated from our administrative estate by 1.9% when compared to 2016-17. This increase is a result of:

- ▶ Consolidating orders to reduce packaging.
- ▶ Working with our Facilities Management contractors to minimise waste.

**Table 8: Water sustainability**

Water	2017-18	2016-17	2015-16	2014-15	2013-14	2012-13
Estates water	220,937	204,027	199,706	170,743	175,897	174,452
Non – Financial Indicators						
m <sup>3</sup> per head	7.76	7.44	7.46	6.84	6.54	6.62
Emissions from water consumption (tonnes CO <sub>2</sub> e)	76.02	70.21	68.72	58.75	60.53	60.03

**Table 9: Waste sustainability**

Waste	2017-18	2016-17	2015-16	2014-15	2013-14	2012-13
Total admin waste	4,648.68	4,740.68	3,932.02	3,774.65	4,424.29	4,223.73
Non – Financial Indicators						
Recycled waste	2,743.66	2,702.56	2,373.76	2,361.42	2,337.28	1,915.62
Kg per head	163.29	156.44	131.09	137.96	126.16	162.52
Percentage recycled	59.02%	57.01%	60.37%	62.56%	52.83%	45.35%

#### Direct and Indirect Impacts

Highways England continues to collect more than 150,000 sacks of litter each year on the Strategic Road Network.

**1.182** An estimated 59% of our office waste was sent for recycling. We continually seek to minimise the amount of office waste that goes to landfill by segregating waste at our sites and working with waste contractors to understand exactly which non-landfill waste streams they are utilising for disposal.

## Sustainable procurement

1.183 The Department's procurement function is managed through a **collaborative operating model** which includes the central Department, our executive agencies, government owned companies and NDPBs. As a Group, we recognise the significant impact our procurement decisions have on sustainability outcomes, and are committed to ensuring that our supply chain supports our sustainable development goals.

1.184 We are working towards the target in the **Greening Government Commitments** to 'buy greener products and services'. The Department is embedding sustainability into its procurement processes and has developed a number of tools to support this, including:

- ▶ **Guidance** – available to all procurement and contract management staff on our extranet, the Procurement Professionals Library. This is regularly checked and updated when policy changes.
- ▶ **Training** – all staff involved in procurement have access to the Sustainable Development eLearning on Civil Service Learning and are actively encouraged to undertake it. Some agencies include sustainable procurement in their annual performance targets for procurement officers and contract managers, while others provide general sustainable procurement training to all commercial staff. Members of staff with more responsibility for sustainable procurement have undertaken advanced training.
- ▶ **The procurement assurance function** – this team quality checks all major procurement processes in the Department, and specifically look for the inclusion and measurement of relevant sustainability targets.
- ▶ **Defra's Flexible Framework** – this is used to measure our progress as a Department towards making sustainable procurement a standard. We are aiming to reach level 4 of the Flexible Framework by March 2020.

▶ **Defra's Prioritisation Tool** – we used this in 2017-18 to help identify 5 priority categories for sustainable procurement.

1.185 A particular area of focus this year has been growing spend through **Small and Medium Enterprises (SMEs)**. The Department is committed to delivering **33% of procurement spend through SMEs by 2022**. To deliver this, the Department is working closely with its delivery bodies and their supply chains, including Network Rail, Highways England and HS2 Ltd. During 2017-18 we have:

- ▶ Promoted strong engagement across our supply chains and markets through 'Meet the Buyer' and Trade events, engaging with Local Enterprise Partnerships, and holding regional and national roadshows where local businesses are encouraged to bid for emerging opportunities.
- ▶ Broken contracts into smaller lots where possible.
- ▶ Worked with Tier 1 contractors to share procurement pipelines and encourage Tier 1 contractors to advertise opportunities in their supply chains.

1.186 To date, the Department has delivered around **30% of procurement spend** through SMEs.

### Payment of suppliers

1.187 The Department complies with the Institute of Credit Management's Prompt Payment Code. Whilst our standard terms and conditions for the supply of goods and services specify payment within 30 days of receipt of a valid invoice, we aim to pay all valid invoices within 5 working days of receipt. In 2017-18, we paid **94%** of undisputed supplier invoices within the **5 working day target**, and **98%** within **30 day target**. **Table 10** shows performance of the central Department and our executive agencies during 2017-18.

**Table 10: Compliance with the Prompt Payment Code 2017-18**

Organisation	Percentage of targets met	
	Within 5 working days (Target: 80%)	Within 30 working days (Target: 98%)
DfTc	94%	98%
DVLA	93%	100%
DVSA	92%	98%
VCA	91%	98%
MCA	92%	99%



# The Accountability Report





“DfT non-executive board members continue to be engaged across the Department, providing support, challenge and an independent voice across governance and assurance, business improvement, policy development and programme delivery.”

**Ian King**  
Lead Non-Executive Board Member



# Report from the Lead Non-Executive Board Member, Ian King



I am delighted to have taken up my new role as Lead Non-Executive Board Member for the Department and to have joined the Departmental Board.

During 2017-18, the Department continued to focus on efficient and effective delivery of large-scale transport projects, and on the continued provision of safe and accessible services for the public and businesses.

Following the June 2017 General Election, the Departmental Board underwent a number of changes at ministerial level, with Jo Johnson, Jesse Norman, Nusrat Ghani and Baroness Sugg of Coldharbour joining Chris Grayling on the ministerial team. During this financial year, the non-executive members of the Board also saw considerable change; we bade farewell to Ed Smith, Mary Reilly and Richard Brown, and welcomed Richard Aitken-Davies, Richard Keys (to chair the Group Audit and Risk Assurance Committee), Tracy Westall and me to join Tony Poulter.

DfT non-executive board members (NEBMs) continue to be engaged across the Department, providing support, challenge and an independent voice across governance and assurance, business improvement, policy development and programme delivery.

Among the board sub-committees, the Board Investment and Commercial Committee (BICC) considers all the Department's GMPP projects and programmes, providing scrutiny and challenge as part of their wider assurance processes. During 2017-18, the committee considered a diverse range of projects, from HS2's continued development to rail franchise competitions, the Airport Capacity programme to major road improvement schemes, amongst many others. The committee takes a portfolio approach and reports to the Board on the performance of its portfolio. BICC also considers the portfolio of project investments scrutinised at director general level boards and the boards of HS2 Ltd, Highways England and Network Rail.

Two examples of our wider work within the Department include Tony Poulter's extensive work with officials on rail franchising, bringing valuable private sector expertise to assist the Department in its aim to improve and refine our approach to franchising. Additionally, the Prime Minister has commissioned an outsourcing review to consider the lessons learned from the Carillion experience. I sit on this panel and have worked closely with the Cabinet Office to move forward the government's approach.

At the executive level, Bernadette Kelly CB replaced Philip Rutnam as Permanent Secretary; Nick Joyce replaced Jonathan Moor CBE as the Director General for Resources and Strategy; and Clive Maxwell replaced David Prout as Director General for High Speed Rail and Major Rail Projects. Polly Payne and Ruth Hannant joined the Department as the first job-share at director general level in government to replace Bernadette Kelly as Director General for Rail.

While there has been much change, we have retained significant experience at director general level with Lucy Chadwick and Patricia Hayes, Directors General for International Security and Environment, and Roads Devolution and Motoring.

University College London's recent research into the effectiveness of non-executives and of departmental boards noted this Department's Board as one of Whitehall's more effective boards. We have recently undertaken an effectiveness review, which drew on all of the members of the sub-committees of the Board as well as ministers and non-executives, and will be taking forward a programme of improvements to ensure we continue to build on the already effective delivery of our governance arrangements.





# Corporate Governance Report

The Corporate Governance Report explains the composition and organisation of the Department's governance structures and how they support the achievement of our objectives. It is comprised of 3 sections:

- ▶ Directors' Report
- ▶ Statement of Principal Accounting Officer's Responsibilities
- ▶ The Governance Statement

# Corporate Governance Report

## Directors' Report

### How we were structured

2.1 The **Secretary of State for Transport**, appointed by the Prime Minister, has overall responsibility for the Departmental family. The **Permanent Secretary** is responsible for the effectiveness and efficiency of the Department's work to support ministerial policies and objectives. The Permanent Secretary is the **Principal Accounting Officer**, responsible for the propriety and regularity of the Department's group expenditure (further information about the Principal Accounting Officer's responsibilities is provided on **page 123**).

2.2 Our funding sits in a number of categories and HM Treasury hold us accountable to agreed funding limits for each category. Detail of outturn against these funding limits is shown in the **Statement of Parliamentary Supply** (from page 186). The Permanent Secretary is also responsible for the Department's leadership, management and staffing.

### Senior decision-making fora

2.3 The Secretary of State is supported by the Permanent Secretary, ministers, non-executive board members and executive directors general. They operate through two senior decision-making fora: the Departmental Board and the Executive Committee (ExCo). The composition of the Board is provided overleaf.



# Departmental Board members as at 31 March 2018<sup>10</sup>

## Key to membership of sub-committees to the board

- Member of Group Audit and Risk Assurance Committee
- Member of Nominations and Governance Committee
- Member of Board Investment and Commercial Committee
- Attends Executive Non-Executive Meeting

## Executive Board Members



**Bernadette Kelly CB**  
Appointed Permanent Secretary April 2017

- ● ●



**Lucy Chadwick CB**  
Appointed Director General, International, Security and Environment Group in 2012

- ●

## Ministers



**The Rt Hon Chris Grayling MP**  
Appointed Secretary of State for Transport July 2016



**Nusrat Ghani MP**  
Appointed Parliamentary Under Secretary of State for Transport and Assistant Government Whip January 2018

## Non-Executive Board Members



**Ian King**  
Appointed Lead Non-Executive Board Member November 2017

- ●



**Richard Keys**  
Appointed Non-Executive Board Member December 2017

- ●



**Nick Joyce**  
Appointed Director General, Resources and Strategy Group December 2017

- ●



**Patricia Hayes**  
Appointed Director General, Roads, Devolution and Motoring Group April 2016

- ●

<sup>10</sup> Other board members who served during 2017-18 are show in **Table 13** of the **Governance Statement**.





**Jo Johnson MP**  
Appointed Minister of State for Transport January 2018



**Baroness Sugg CBE**  
Appointed Parliamentary Under Secretary for Transport October 2017



**Jesse Norman MP**  
Appointed Parliamentary Under Secretary of State for Transport June 2017



**Tracy Westall**  
Appointed Non-Executive Board Member November 2017



**Tony Poulter**  
Appointed Non-Executive Board Member October 2016



**Richard Aitken-Davies**  
Appointed Non-Executive Board Member November 2017



**Clive Maxwell**  
Appointed Director General, High Speed Rail and Major Projects April 2016



**Ruth Hannant**  
Appointed Director General, Rail Group December 2017



**Polly Payne**  
Appointed Director General, Rail Group December 2017



Biographies for each board member are available on: [Department for Transport GOV.UK](http://Department for Transport GOV.UK)

## The Departmental family

2.4 The Departmental family consists of the central (core) Department, executive agencies and a range of other delivery bodies including:

- ▶ Government owned companies
- ▶ Non-departmental public bodies (NDPBs)
- ▶ Regulators

2.5 We also work in partnership with a number of other entities such as expert committees and advisory groups. These bodies/entities operate independently but are accountable to the central Department.

2.6 **Figure 30** shows the relationship between the central Department and its family of delivery bodies and entities. Our areas of responsibility extend beyond the family of bodies listed in Figure 30. A more comprehensive picture can be found in our Accounting Officer System Statement, published separately.

## The central Department (DfTc)

2.7 DfTc is organised into 5 director general-led groups with some areas of work reporting directly to the Permanent Secretary (non-group). The main responsibilities for each group are shown in **Figure 29**.

**Figure 29: Overview of DfTc's organisational groups**



**Figure 30: The relationship between DfT and its family of delivery bodies and other entities**



**Footnotes:**

- DVSA is also classified as a Trading Fund. Traffic Commissioners are consolidated into the DVSA.
- High Speed 2 Ltd is also classified as a Government Owned Company.
- British Transport Police is consolidated into the British Transport Police Authority.
- Trinity House, 5. Northern Lighthouse Board and 6. Commissioners of Irish Lights are classified as 'Central Government Bodies' by the ONS and treated as NDPBs by agreement.
- This company is currently being wound down.
- London and Continental Railways is also classified by the ONS as a Public Corporation.
- Owens London North Eastern Railway Ltd.
- Cycling and Walking Investment Strategy.
- Expert Committees and Advisory Groups are paid from the central Department's budget.
- Civil Aviation Authority is also classified by the ONS as a Public Corporation.
- Office of Rail and Road is also classified by the ONS as a Non-Ministerial Department.

## Register of interests

2.8 The register of ministers' interests is maintained by the Cabinet Office. Non-executive board members are asked to declare any personal or business interests that may influence, or appear to influence, their judgment in performing their obligations to the Department. Tony Poulter is also the Non-Executive Chair of the Pensions Infrastructure Platform Ltd (PIP). He notified the Department in mid-2017 of a possible acquisition by PIP of a portfolio of assets that included minority stakes in two project companies that were each party to a local authority highways PFI contract. He recused himself from discussions of the projects at PIP and registered the conflict formally with the Department. Mr Poulter has been recused from the DfT's Board Investment and Commercial Committee's discussions on all local authority PFI contracts and does not receive the relevant papers or minutes. No other members of the board have flagged company directorships or other significant interests that may conflict with their management responsibilities in 2017-18.

## Personal data related incidents

2.9 Serious data breaches need to be reported to the Information Commissioner's Office (ICO), following procedures set out by the ICO. In 2017-18 no personal data incidents were formally reported by DfT or its executive agencies to the ICO.

## Auditors

2.10 This section sets out the costs of auditing the DfT group accounts along with the costs of auditing the organisations which form part of the DfT group. The Comptroller and Auditor General carries out the audit of the consolidated accounts of the Departmental group, as well as the audits of the following executive agencies<sup>11</sup>:

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

2.11 These audits are conducted under the Government Resources and Accounts Act 2000, at an annual notional cost of £668,000 (2016-17: £599,000).

2.12 The audits of the following entities are completed by the Comptroller and Auditor General, but incur a cash or real charge of £1,100,000 (2016-17: £1,100,000):

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

2.13 PwC audits the following entities, providing audit assurance to the Comptroller and Auditor General as the group auditor. These audits incur a real cost charge of £176,500 (2016-17: £136,674 this includes the audit of Air Safety Support International Ltd, which was audited by Moore Stephens this year):

- ▶ Directly Operated Railways Ltd
- ▶ Smaller Network Rail subsidiary bodies

2.14 Deloitte audits the following entity, providing audit assurance to the Comptroller and Auditor General as the group auditor. This audit incurs a real cost charge of £60,400 (2016-17: £49,033):

- ▶ Air Travel Trust Fund

2.15 This year, Moore Stephens audited the following entity, providing audit assurance to the Comptroller and Auditor General as the group auditor. This audit incurred a real cost charge of £6,500:

- ▶ Air Safety Support International Ltd

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

<sup>11</sup> The DVSA is not part of DfT group for accounting purposes. The costs of auditing the DVSA's accounts can be found in the Annual Report and Accounts for DVSA.

# Statement of Principal Accounting Officer's responsibilities



**2.17** Under the Government Resources and Accounts Act 2000 (the GRAA), HM Treasury has directed me Bernadette Kelly, to prepare for each financial year, consolidated accounts detailing the resources acquired, used or disposed of, during the year by my Department (including its executive agencies, sponsored non-Departmental and other Arm's Length Bodies (delivery bodies) designated by order made under the GRAA by Statutory Instruments 2017/310 and 2017/1256 (together known as the 'Departmental group', consisting of the Department and designated bodies listed in Note 20 to the Accounts).

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

**2.19** In preparing the Accounts, I have complied with the requirements of the Government Financial Reporting Manual and in particular I have:

- ▶ Observed the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis.
- ▶ Ensured that the Department has in place appropriate and reliable systems and procedures to carry out the consolidation process.

- ▶ Made judgements and estimates on a reasonable basis, including those judgements involved in consolidating the accounting information provided by non-departmental and other delivery bodies.
- ▶ Stated whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the Accounts.
- ▶ Prepared the Accounts on a going concern basis.

**2.20** HM Treasury has appointed me as the Principal Accounting Officer of the Department for Transport. I have appointed the chief executive of each sponsored delivery body as the accounting officer for their delivery body.

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

**2.22** The general responsibilities of an accounting officer, including responsibility for the propriety and regularity of the public finances for which the accounting officer is answerable, for keeping proper records and for safeguarding the assets of the central Department or non-Departmental and other delivery bodies for which the principal accounting officer is responsible, are set out in 'Managing Public Money' published by HM Treasury.

## Statement regarding performance of Accounting Officer responsibilities

Philip Rutnam was Principal Accounting Officer until 3 April 2017 when he moved to the Home Office. Between 3 April and 18 April 2017 Jonathan Moor, who was the Director General for Resources and Strategy, was appointed as the acting Permanent Secretary and Principal Accounting Officer before I was formally appointed. Over this short period both Jonathan Moor and I received briefings from Philip Rutnam and the Finance Director to ensure a smooth handover from one principal accounting officer to another. On taking up the post of Permanent Secretary I continued to receive assurance on the effectiveness of the system of internal control to enable me to have confidence in these accounts.

## Disclosure of information to the auditors

As Principal 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 all relevant information connected with its audit.

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

## Fair, balanced and understandable requirement

I confirm that the Accounts have been prepared on a going concern basis, the Annual Report and Accounts as a whole is fair, balanced and understandable. I take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

**Bernadette Kelly CB**

5 September 2018

Permanent Secretary and Principal Accounting Officer, Department for Transport,  
Great Minster House, 33 Horseferry Road,  
London SW1P 4DR



# The Governance Statement

## Introduction

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

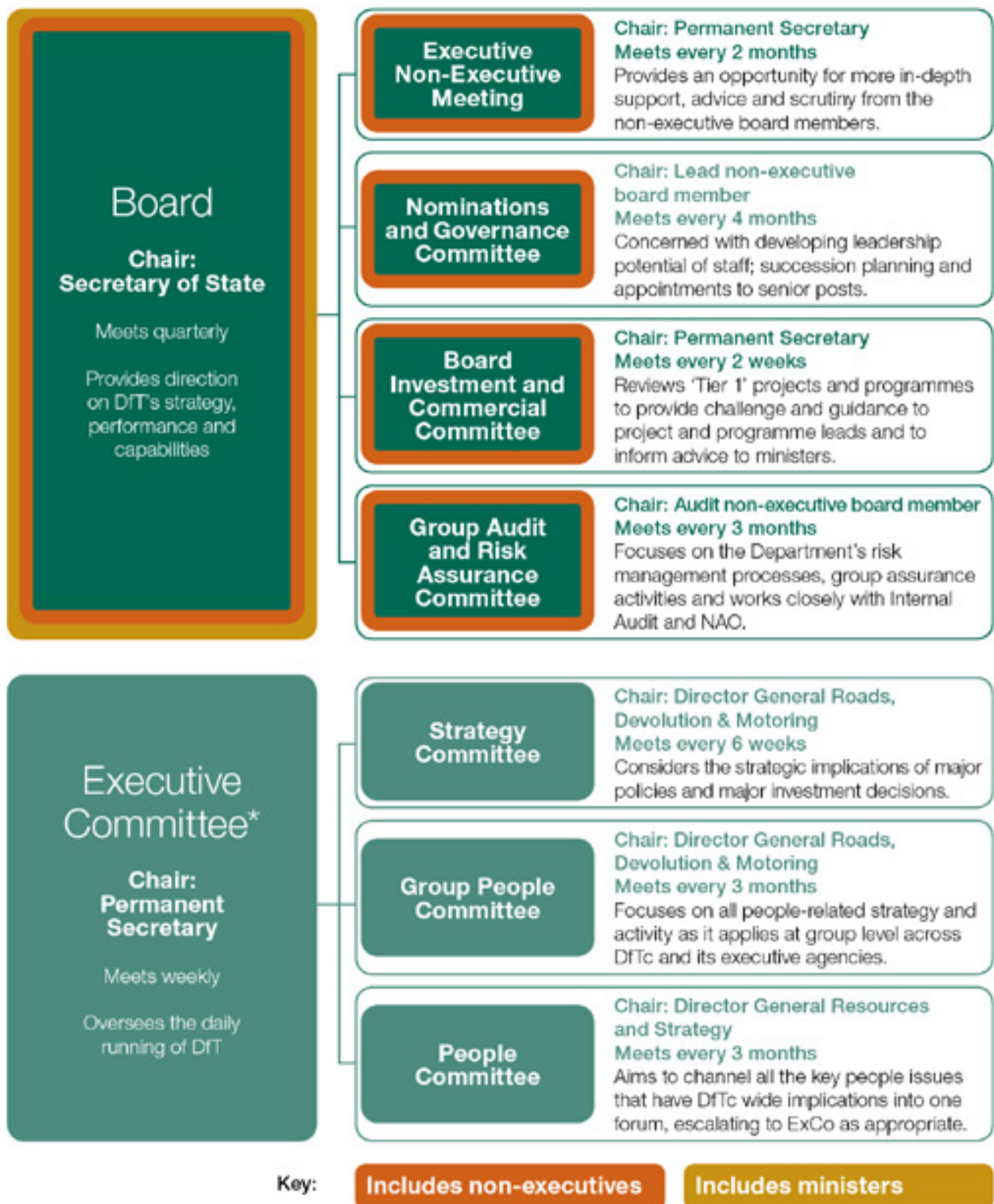
## The system of corporate governance, management and internal control

2.24 We are governed by:

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

2.25 The system of control includes the **Departmental Board sub-committees**, the **executive team** and its **sub-committees** and the Department's delivery bodies. These are governed by our control framework, which is supported by internal and external assurance processes. **Figure 31** provides an illustration of the top-level committees that operate in the Department and the chair of each committee.

**Figure 31: Governance bodies: board and sub-committee structure**



\*Capability Committee no longer meets as ExCo took the decision to streamline the work of the people related committees – its work is now part of Group People Committee.



## Departmental Board

2.26 The Secretary of State chairs the Departmental Board. The Board has 5 main responsibilities covering:

- › Performance
- › Strategy
- › Resources
- › Capability
- › Risk

2.27 It **advises** and **challenges** the Department on its **strategic direction**, and on the **operational implications** and **effectiveness** of its portfolio. The Board achieves this by drawing on the commercial, operational and political expertise of its members, which comprises ministers, Civil Service leaders and non-executive board members.

2.28 During 2017-18, the Departmental Board met 4 times. A summary of the Board's discussions during 2017-18 is provided in **Table 11**.

## Sub-committees to the Board

2.29 Supporting the Departmental Board are sub-committees that have contributed to the work of the Department over the past year. A summary of each sub-committee's discussions during 2017-18 is provided in **Table 12**. An overview of board and sub-committee attendance is provided in **Table 13**.

## The Board Effectiveness Review

2.30 This year's Board Effectiveness Review was overseen by Ian King, Lead Non-Executive Board Member. The review sought views on:

- › The ways in which the Board worked well.
- › Areas for improvement.
- › Good practices which could further strengthen the Board's effectiveness.

2.31 The outcome of the Board Effectiveness Review was discussed at the board meeting on 12 July 2018. Board members agreed with the reviews findings and approved the proposed action plan. Progress against actions will be reported to the November 2018 Board.

**Table 11: Overview of the Boards discussions up to 31 July 2018**

Responsibilities of the Board	Summary of discussion during 2017-18
<b>1. Performance</b> <ul style="list-style-type: none"> <li>➤ Agreeing the Single Departmental Plan and overseeing progress.</li> <li>➤ Scrutinising the performance of DfT's delivery bodies.</li> <li>➤ Setting standards and values.</li> </ul>	<ul style="list-style-type: none"> <li>➤ The Management Information Report which provides an overview of the Department's performance.</li> <li>➤ The BICC Portfolio Management Report, which provides an overview of the Tier 1 projects in the BICC portfolio.</li> <li>➤ The 2016-17 Board Effectiveness Review.</li> <li>➤ The importance of the balance between the control arrangements, accountability and empowerment for delivery bodies to deliver.</li> <li>➤ The 2017-18 Board Effectiveness Review.</li> </ul>
<b>2. Strategy</b> <ul style="list-style-type: none"> <li>➤ Setting the vision and ensuring activities contribute towards it.</li> <li>➤ Advising on major policies, projects and programmes.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Publication of the Transport Investment Strategy (July 2017).</li> <li>➤ Publication of the Aviation Strategy call for evidence (July 2017).</li> <li>➤ Publication of 'Connecting people: a strategic vision for rail' (November 2017).</li> <li>➤ Publication of Transport Infrastructure Efficiency Strategy (December 2017).</li> <li>➤ The importance of delivering technical transformations and digital modernisation across the sector and whether the Department and its delivery bodies had the capacity and capability to support this transformation.</li> <li>➤ Plans for engagement with the 6 elected regional Mayors.</li> <li>➤ Airport Capacity and the Aviation Strategy.</li> </ul>
<b>3. Resources</b> <ul style="list-style-type: none"> <li>➤ Ensuring sound financial management.</li> <li>➤ Considering the appropriate allocation of Departmental resources.</li> </ul>	<ul style="list-style-type: none"> <li>➤ The Management Information Report which provides an overview of the Department's resources and capabilities.</li> <li>➤ Resource contingency and resource for Brexit.</li> <li>➤ Progress on private finance and private funding.</li> <li>➤ 2017-18 Budget.</li> <li>➤ 2017-18 Business Plan.</li> <li>➤ Overview of Medium Term Plan.</li> <li>➤ Medium Term Financial position.</li> <li>➤ The 2019 Spending Review.</li> </ul>
<b>4. Capability</b> <ul style="list-style-type: none"> <li>➤ Ensuring we have the capability to deliver.</li> <li>➤ Ensuring we plan to meet current and future needs.</li> </ul>	<ul style="list-style-type: none"> <li>➤ The Management Information Report which provides an overview of the Department's resources and capabilities.</li> </ul>
<b>5. Risk</b> <ul style="list-style-type: none"> <li>➤ Setting the risk appetite.</li> <li>➤ Reviewing key Departmental risks.</li> <li>➤ Ensuring controls are in place to manage risk.</li> </ul>	<ul style="list-style-type: none"> <li>➤ The Management Information Report provides an overview of the key risks.</li> <li>➤ Update on Network Rail risks and performance.</li> </ul>

**Table 12: Overview of the sub-committees discussions up to 31 August 2018**

Sub-committee	Summary of discussions during 2017-18
<b>Executive Committee (ExCo)</b>	<p>ExCo met 57 times between April 2017 and May 2018. Alongside regular discussions of Departmental strategy, finances, management information, and pressing topical issues such as security incidents and severe weather, ExCo considered a diverse range of policy issues, including:</p> <ul style="list-style-type: none"> <li>▶ EU Exit, including contingency planning and the border.</li> <li>▶ Airport capacity.</li> <li>▶ Rail franchising and strategy.</li> <li>▶ Diversity and inclusion.</li> <li>▶ Regional and spatial strategies.</li> <li>▶ Bus policy.</li> <li>▶ The gender pay gap.</li> <li>▶ The Year of Engineering.</li> <li>▶ Crossrail.</li> <li>▶ Rail pensions and industrial relations.</li> <li>▶ Sub-national transport bodies.</li> <li>▶ 2019 Spending Review.</li> </ul>
<b>Executive and Non-Executive Meeting (ENEM)</b>	<p>ENEM considered:</p> <ul style="list-style-type: none"> <li>▶ Election planning and preparations and gave steers on ministerial briefing and priorities early in the year.</li> <li>▶ The Department's management information.</li> <li>▶ Rail franchise revenue pressures, the governance of our delivery bodies and DfT's shareholdings, and the GIAA Annual Audit Opinion.</li> <li>▶ Brexit uncertainties, risks, resourcing and negotiations.</li> <li>▶ The Industrial Strategy, sector deals, infrastructure and regional rebalancing, a Strategic Review of Rail, horizon scanning, transport statistics and trends, financing forecasting retrospective, crosscutting risks, the Transport Supply Chain Assessment Report and rail timetabling.</li> </ul>
<b>Board Investment and Commercial Committee (BICC)</b>	<p>BICC considered business cases, investment decisions, and procurement activity across the following areas:</p> <ul style="list-style-type: none"> <li>▶ Rail franchising, rolling stock procurement, rail network enhancements and maintenance, and Network Rail business planning.</li> <li>▶ High Speed 2 procurements, design development, land usage, Hybrid Bills and governance.</li> <li>▶ Regional transport schemes, such as Crossrail, Northern Powerhouse Rail, and the East West corridor, alongside Highways England's major road schemes such as the A303, the Lower Thames Crossing and the Trans-Pennine Tunnel.</li> <li>▶ The Airport Capacity programme and projects with interdependencies and maritime radio renewals.</li> <li>▶ Portfolio reporting for BICC and the Department's Tier 2 investment boards, as well as Network Rail and Highways England; principles for procuring private finance for infrastructure projects.</li> </ul>

**Table 12: Overview of the sub-committees discussions up to 31 August 2018**

Sub-committee	Summary of discussions during 2017-18
<b>Nominations and Governance Committee</b>	<p>Nominations and Governance Committee considered:</p> <ul style="list-style-type: none"> <li>➤ ENEM recruitment and directors general succession planning.</li> <li>➤ Oversaw the successful recruitment of 4 NEBMs and 4 directors general.</li> <li>➤ Continued to look at the Public Appointments Diversity Action Plan and the overview of DFT participation in central talent schemes.</li> <li>➤ Considered an internal review of the handling of conflicts of interest.</li> </ul>
<b>Group Audit and Risk Assurance Committee (GARAC)</b>	<p>GARAC considered:</p> <ul style="list-style-type: none"> <li>➤ The Group Efficiency Programme, the Infrastructure Efficiency Strategy, the Annual Report and Accounts and the Management Assurance results.</li> <li>➤ The action plans from areas that had previously received limited audit opinions.</li> <li>➤ An update on the Department's work with Carillion and with the supply chain.</li> <li>➤ Risk deep dives into the Departmental approach to risk management; cyber security; the Department's Senior Leadership Risk Group process; franchising and Network Rail; the Department's shared services provision; HS2 and classic rail integration.</li> <li>➤ Regular updates on the GIAA audit plan and opinion.</li> <li>➤ Regular updates from NAO on their financial and value for money audits, including recommendations for organisational learning.</li> </ul>

**Table 13: Overview of Board and sub-committee attendance up to 31 March 2018<sup>1</sup>**

Name of Board Member	Departmental Board (Board)	Executive and Non-Executive Meeting (ENEM)	Executive Committee (ExCo)	Group Audit and Risk Assurance Committee (GARAC)	Board Investment Commercial Committee (BICC)	Nominations and Governance Committee (NGC)
Rt Hon Chris Grayling MP (from 14 July 2016)	3/4					
Rt Hon John Hayes MP (from 15 July 2016 to 9 January 2018)	1/2					
Paul Maynard MP (from 15 July 2016 to 9 January 2018)	2/2					
Jesse Norman MP (from 14 June 2017)	3/4					
Nusrat Ghani MP (from 10 January 2018)	2/2					
Jo Johnson MP (from 10 January 2018)	1/2					
Lord Callanan (from 14 June to 26 October 2017)	1/1					
Baroness Sugg (from 27 October 2017)	3/3					
Ed Smith (NEBM appointment ended 31 December 2017)	2/2	6/6			14/21	3/3
Ian King (NEBM from 1 November 2017)	3/3	3/3			9/9	1/1

**Table 13: Overview of Board and sub-committee attendance up to 31 March 2018<sup>1</sup>**

Name of Board Member	Departmental Board (Board)	Executive and Non-Executive Meeting (ENEM)	Executive Committee (ExCo)	Group Audit and Risk Assurance Committee (GARAC)	Board Investment Commercial Committee (BICC)	Nominations and Governance Committee (NGC)
Mary Reilly (NEBM appointment ended 31 March 2018))	4/4	7/8		7/7		
Richard Brown (NEBM appointment ended 30 September 2017)	0/1	3/4		5/7		
Tony Poulter (NEBM from 1 November 2017)	4/4	8/8			24/27	
Richard Keys (NEBM from 1 December 2017)	1/2	2/3		1/1		
Richard Aitken-Davies (NEBM from 1 November 2017)	3/3	3/3		1/1		
Tracy Westall (NEBM from 1 November 2017)	3/3	2/3				1/1
Bernadette Kelly (DG to 17 April 2017, Permanent Secretary from 18 April 2017)	4/4	8/8	44/49		22/27	3/3
Lucy Chadwick (DG from 2012)	4/4	7/8	43/49		20/27	
Patricia Hayes (DG from 21 March 2016)	4/4	8/8	42/49		21/27	
Michael Hurn (Acting DG from 23 June to 23 November 2017)	1/1	2/3	17/20		8/11	
Nick Joyce (Acting DG from 25 April to 11 December 2017, DG from 12 December 2017)	4/4	7/8	40/47		25/27	1/1
Clive Maxwell (DG from 20 November 2017)	2/3	2/3	14/17		9/9	
Jonathan Moor (Acting Permanent Secretary to 23 April 2017, DG from 24 April 2017 to 1 January 2018)	3/3	5/6	24/37		16/21	1/2
Polly Payne/Ruth Hannant (DG from 27 November 2017)	1/1	3/3	14/14			
David Prout (DG to 11 July 2017)	0/0	1/2	9/12		6/7	
Bridget Rosewell				5/7		
David Hughes				7/7		
Amarjit Atkar				6/7		
Niamh McBreen				2/3		

1 For each sub-committee only Departmental Board-level members who are permanent members of the sub-committee concerned are included. GARAC members are also included. Total meetings may be lower for some members because they either started or left during the year.

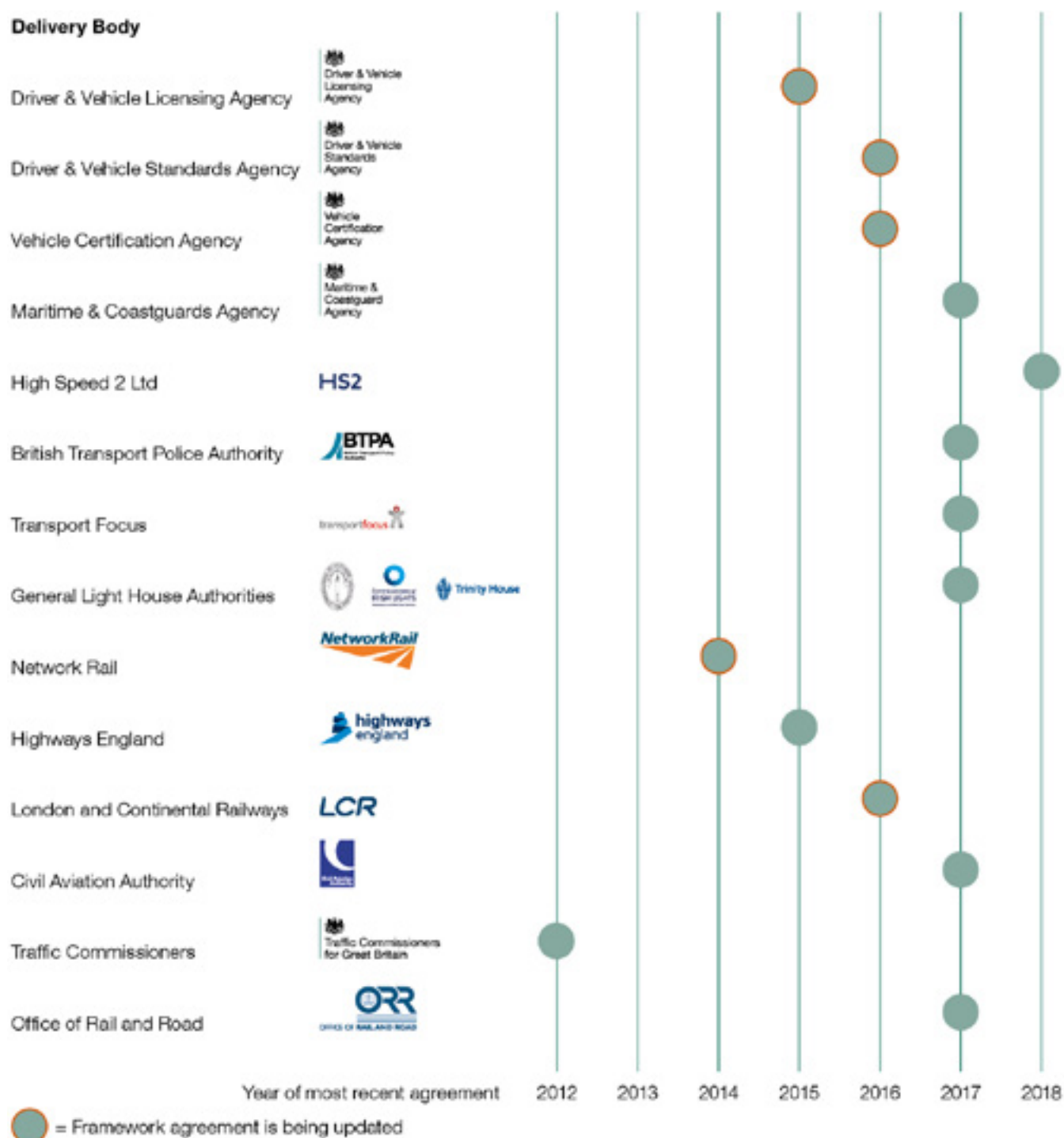
## Compliance with HMT’s Corporate Governance Code

2.2 An assessment of the Department’s compliance with the Corporate Governance Code for Central Government Departments was completed in early 2017-18. The assessment found that the Department is compliant with the spirit and principles of the Code across the majority of its aspects. A gap was identified

in the supporting provisions of delivery body oversight where a number of framework agreements were outside their review periods.

2.3 During 2017-18, a number of framework agreements between the Department and its delivery bodies have been updated, and going forward a review programme is being managed by Governance Division to ensure framework agreements are regularly reviewed, see **Figure 32**.

**Figure 32: Status of framework agreements for DfT-sponsored bodies<sup>12</sup>**



<sup>12</sup> A number of framework agreements are in development and due to be published in 2018-19 including: Crossrail International Ltd, Transport for the North, East West Railway, Independent Commission on Civil Aviation Noise and Midlands Connect.

## Board appointments and diversity

2.4 During the course of the year, the central Department recruited **4 new non-executive board members** to refresh the Departmental Board.

2.5 In addition, DfT ministers appointed over **100 non-executive chairs and board members** to the Department's delivery bodies. As with the Departmental Board, non-executive appointments to the Department's delivery bodies bring independent expertise and constructive challenge to ensure each body's good governance.

2.6 Many of the Department's public appointments are regulated by the Office of the Commissioner for Public Appointments (OCPA), in compliance with the government's **Governance Code for Public Appointments**. This ensures that recruitment campaigns are run in an open, fair and transparent manner. Those which are not regulated by OCPA are recruited in the spirit of the Code as a matter of best practice.

2.7 In December 2017 the government launched a **Diversity Action Plan** for public appointments, which aims to make public boards more representative of the public they serve. The government has set a target that by 2022, **50%** of all public appointees should be female and that **14%** of appointments should be from Black and Asian Minority Ethnic (BAME) backgrounds to bring representation in line with the resident population of England and Wales.

2.8 As at March 2017, **37%** and **5%** of DfT's public appointments were **female** and **BAME** respectively (this includes DfTc and our family of delivery bodies). In part, this represents the historic lack of diversity in the transport sector, which makes the government's targets challenging. However, the Department has been developing a diversity strategy for its public appointments which will aim to improve the profile of our board members. Further information about our Diversity and Inclusion Strategy can be found in of the **People and Remuneration Report**.

## Our approach to risk

2.9 Risk management is an integral part of everything we do in the Department, from how we manage our programmes and our money, to how we develop our policy and work with our delivery bodies. We know that getting risk management right will make us more likely to deliver our projects and programmes on time, to cost and scope. As a result, we take risk seriously and ensure it forms part of the agendas of all our top boards and senior management team meetings. We promote a transparent 'no surprises', 'no blame' culture where we understand that considered and well-managed risk taking is necessary to deliver our business. Our approach to risk is summarised in **Figure 33**.

2.10 Our priority is to:

- ▶ Ensure the safety and security of the travelling public and in the transport solutions that we design.
- ▶ Reduce financial, programme and reputational risks that affect delivery of our objectives and wider risks that affect the transport infrastructure that are outside our direct control.
- ▶ Ensure the right risk management behaviours of identification, evaluation and mitigation are embedded in all Departmental activities, with managers leading by example and reporting and escalating risks appropriately.

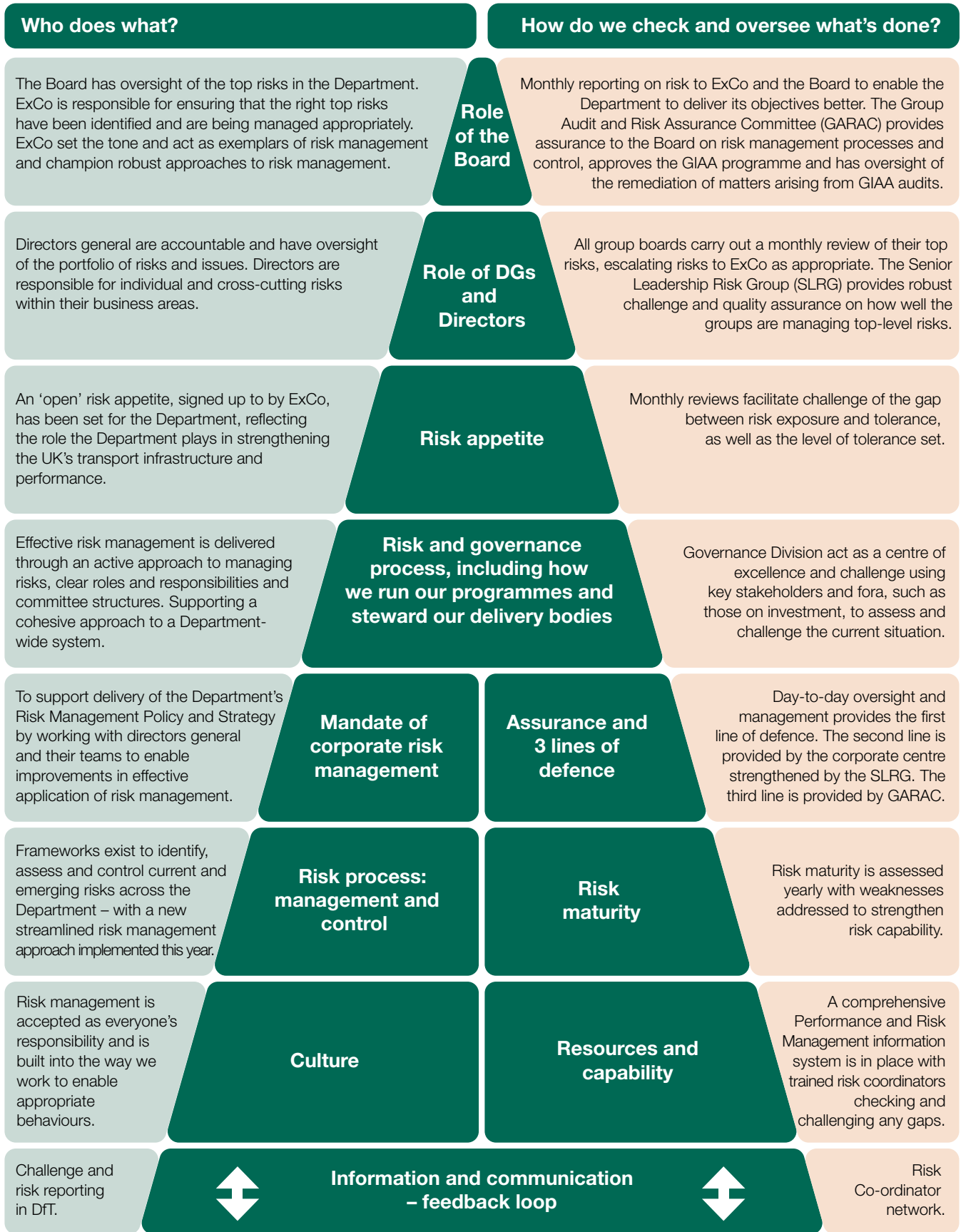
2.11 Key to managing risks, is to understand what level we are managing risks down to, often referred to as 'risk appetite' or the amount of risk an organisation can acceptably carry. Due to the ever-changing environment the Department operates in and the inherent need to be flexible in order to deliver challenging aims, the Board considers the Departmental risk appetite to be 'open'. That is, the Department is 'willing to consider all options and choose the one that is most likely to result in successful delivery, while also providing an acceptable level of reward'. Therefore, 'risk appetite' is considered on a risk-by-risk basis, with each risk managed down to a defined risk appetite 'target' including, where relevant, consideration of trade-offs and cost/benefits of mitigating actions, taking into account wider cumulative risk exposures and cross-cutting issues.

2.12 Through 2017-18, the Department has been driving and supporting improvements to strengthen our approach to risk management. The new approach is focused on '**clarity and brevity**' and getting straight to the heart of the problem, so proportionate action can be taken. The work on simplifying and streamlining our risk management processes is giving us a more intuitive and effective system by:

- ▶ Reducing the administrative burden of risk management, and making the risk narrative clearer and easier to follow.
- ▶ Facilitating better discussions for making key decisions about threats to Departmental delivery of objectives, so we can quickly get to grips with problems and solve them.

2.13 The commitment to build staff capability continues, with dedicated risk management training being carried out with programme and project management specialists to ensure that problems that should be spotted early, are being addressed.

**Figure 33: Overview of DfT’s risk processes**





2.14 The **Senior Leadership Risk Group**, which reports to ExCo, ensures we have identified all our top risks and threats and are doing enough to mitigate and manage them. The Group undertakes reviews of each group’s top-level risk registers, as a **‘second-line of defence’** assurance process. They also ensure that the balance of risk and reward, key to effective risk management, is understood by the Department and reflected in how we are managing our risks and set the risk appetite targets.

2.15 GARAC provides oversight of the risk management process as a **‘third line of defence’** on behalf of the board. The Committee also conducts risk ‘deep dives’ into some of the key challenges the Department faces.

We are strengthening how we work with our delivery bodies, so it is clear which risks fall to them and also when to warn us or involve us in risks that might have a wider impact on the Department. A **‘risk escalation protocol’** protocol is now in place that gives direction to our delivery bodies on what they need to escalate to us and when.

## Top-level risks in 2017-18 and key mitigating factors

2.16 The nature of the Department’s business means that it has to manage a range of risks. **Table 14** sets out the top-level risks that have impacted on, and continue to impact on, the Department in 2017-18. These risks represent the centre’s view of the overall risk profile of the Department, taking account of the risks carried and managed by our delivery bodies.

2.17 Our delivery bodies also have their own risk management systems and compile their own ‘top level’ registers, which we have oversight of, but which are not explicitly referred to in Table 14. Under the framework agreements and the risk escalation protocol, the Department exercises oversight of its delivery bodies and their risks.







2.18 As well as these specific, top-level, risks to DfT’s business, we have identified a number of additional cross-cutting risks that affect how we do our business. These have been identified by the Senior Leadership Risk Group and are being scoped and assessed by the business. These include corporate issues such as how we spend our money, whether we have the right numbers of staff with the right capability to manage key programmes and projects; and risks managed by BICC such as supply chain impacts.

### Key: Icons in Table 14 that map the risks to our strategic objectives







	<b>Strategic objective 1: Boosting economic growth and opportunity</b>
	<b>Strategic objective 2: Building a One Nation Britain</b>
	<b>Strategic objective 3: Improving journeys</b>
	<b>Strategic objective 4: Safe, secure and sustainable transport</b>
	<b>Strategic objective 5: Promote a culture of efficiency in everything we do</b>

Relative Severity			Change during year		
<span style="color: red;">■</span> Very High	<span style="color: orange;">■</span> High	<span style="color: yellow;">■</span> Moderate	 Decreasing Risk	 Increasing Risk	 Stable Risk





**Table 14: DfT’s top-level risk themes for 2017-18**

Risk	Mitigating activities taken so far	Direction of risk trend at year end and explanation of rating and trend
<p><b>1. EU Exit:</b></p> <p>There could be an adverse impact on our links to Europe, our transport services, associated industries and our economy arising from the UK’s exit from the EU.</p> 	<ul style="list-style-type: none"> <li>▶ Critical paths developed for main scenarios.</li> <li>▶ Programme boards established to oversee negotiations and contingency planning.</li> <li>▶ Drafting authorities granted for legislative needs.</li> <li>▶ Close involvement with the government’s border work and proactive contingency planning.</li> <li>▶ Dedicated resources to deal with the potential for increased legislation.</li> </ul>	 <p>Continued active management of the risks going forward, including readiness to contribute to negotiations, though acknowledging continuing uncertainty.</p>
<p><b>2. Environmental:</b></p> <p>There could be an adverse impact on public health and the environment, if air quality and Greenhouse Gas (GHG) emission targets are not met.</p> 	<ul style="list-style-type: none"> <li>▶ The Clean Growth Strategy, aims to accelerate the pace of ‘clean growth’, and meet our intermediate GHG reduction targets.</li> <li>▶ Investing nearly £1.5 billion between 2015 and 2021 in one of the most comprehensive global programmes of support for ultra-low emission vehicles.</li> <li>▶ Introduction of the new world harmonised light vehicle laboratory test procedure and real driving emissions requirements representing the biggest period of change in new car emissions regulations since their introduction.</li> <li>▶ Published and began the delivery of the 2017 Air Quality Plan for Nitrogen Dioxide.</li> </ul>	 <p>Targets are challenging, further resource is being recruited to work on low carbon transport policy (particularly freight) and improving air quality. The Department is committed to enabling the delivery of local air quality plans and identifying further opportunities for reducing GHG emissions from transport.</p> <p>Looking ahead, The Road to Zero Strategy sets out detail on the pathway to zero tailpipe emission road transport in the UK. The Clean Air Strategy will set out the approach for meeting the 2020 and 2030 national air quality emission ceilings. Focused strategies on rail, aviation and shipping are also planned.</p>
<p><b>3. Disruption to services:</b></p> <p>There is a risk of harm to the public and disruption to our transport system if there were a terrorist attack on our transport network.</p> 	<ul style="list-style-type: none"> <li>▶ A proportionate risk-informed approach to prioritising DfT and industry work on counter-terrorism and cyber, drawing on information from all stakeholders (DfT, other government departments, security community, police and industry).</li> <li>▶ Large risk-informed science and technology research programme to improve security standards.</li> <li>▶ Modal specific protective and reactive counter-terrorism and cyber security programmes.</li> <li>▶ Public awareness campaigns such as ‘See it, Say it, Sorted’ coordinated with Home Office and police forces.</li> <li>▶ Regular contingency planning and associated exercises to ensure we are best placed to respond to the variety of incidents that could impact on transport.</li> </ul>	 <p>The likelihood of attack, whilst varied across the modes and types of attacks, remains high in certain aspects. Industry must continue to implement effectively mature, modal regimes to manage the resultant risks. Those regimes must also evolve to meet changes to the threat - lessons are being learned from recent attacks to increase resilience and set policy direction, including working with the Home Office and police forces.</p>





**Table 14: DfT’s top-level risk themes for 2017-18**

Risk	Mitigating activities taken so far	Direction of risk trend at year end and explanation of rating and trend
<p><b>4. Disruption to services:</b></p> <p>There could be disruption to passenger services if there was industrial action by rail/transport unions.</p> 	<ul style="list-style-type: none"> <li>▶ Regular meetings with the relevant TOCs on latest industrial relations positions, including contingency planning, communications, and negotiation.</li> <li>▶ Particular focus on planning, to understand the impacts on passengers, likely total costs of strike action and any alternatives to prolonged action.</li> <li>▶ Work with the relevant TOCs to enhance contingency plans and assessment of strike action.</li> <li>▶ Regular update of DfT communications and media plans to reflect the current situation and keep the public informed.</li> <li>▶ Cobra meetings, as contingency, if the severity of transport disruption merits it.</li> </ul>	 <p>Going forward, maintain and develop relationships with TOCs, keeping communications open and striving to minimise disruption to the passenger.</p>
<p><b>5. Rail Services:</b></p> <p>The affordability and delivery of future rail services could be affected if Network Rail’s programme of enhancements is not delivered.</p> 	<ul style="list-style-type: none"> <li>▶ Monitoring, challenging and reviewing affordability and delivery of Network Rail Enhancement Schemes through the monthly Network Rail Enhancement Portfolio Board.</li> <li>▶ Publication of the High Level Output Specification for railway control period 6 (April 2019 to March 2024) – 20 July 2017</li> <li>▶ Publication of the Statement of Funds Available sets out the public funds government is making available for the railway during control period 6 (2019 to 2024) – 12 October</li> <li>▶ Publication of the Rail Upgrade Plan setting out Network Rail’s plans for control period 6.</li> </ul>	 <p>Going forward, work is being undertaken to understand future plans and inter-dependencies, including working with market teams and Network Rail to identify suitable opportunities as well as risks. However, the wider environment remains challenging.</p>
<p><b>6. Rail Services:</b></p> <p>The delivery of future rail services could be adversely affected if the rail partnership/franchising programme is not delivered.</p> 	<ul style="list-style-type: none"> <li>▶ Close monitoring of TOCs and active engagement with owning group.</li> <li>▶ Engagement with TOC owning groups, to maintain incentives to deliver for passengers.</li> <li>▶ Analysis work to understand the drivers of demand for rail services to better meet the needs of the passenger and encourage a buoyant competitive market.</li> <li>▶ Contingency measures are in place to ensure the continued provision of rail services, such as the use of Operator of Last Resort (OLR) and Direct Awards.</li> </ul>	 <p>Despite the challenging economic climate, there is continued market engagement in new and alternative delivery methods. The focus is on ensuring that interest remains robust with UK rail infrastructure remaining stable going forward.</p>

**Table 14: DfT’s top-level risk themes for 2017-18**

Risk	Mitigating activities taken so far	Direction of risk trend at year end and explanation of rating and trend
<p><b>7. High Speed Rail:</b></p> <p>The delivery of future rail services could be adversely affected, as well as there being significant financial implications, if High Speed 2 (HS2) is not delivered to time and cost.</p> 	<ul style="list-style-type: none"> <li>▶ Put in place effective reporting regimes to ensure effective monitoring of performance and progress of HS2 Ltd.</li> <li>▶ Ensured application of sound programme/project management methodologies in all aspects of the project to maximise chances of meeting time/quality/cost requirements.</li> <li>▶ Worked closely with HS2 Ltd to ensure the target price for Phase 1 of HS2 is feasible throughout.</li> <li>▶ Designing the HS2 route to be as cost efficient as possible, whilst still meeting the requirements of the business and maximising all potential realisation of benefits.</li> <li>▶ Maintaining focus on HS2 being an integral part of the future railway network as per the ‘One Railway’ strategy.</li> </ul>	 <p>Although the project is ambitious, DfT is working closely with HS2 Ltd to incentivise the supply chain to drive efficiencies through the contracts for design and construction. This includes benchmarking costs against other major infrastructure projects to drive efficiencies.</p>
<p><b>8. Airport Expansion:</b></p> <p>There could continue to be a shortage of airport capacity in the South East of England if a new runway is not delivered in a timely way.</p> 	<ul style="list-style-type: none"> <li>▶ Published government responses to public consultations and Parliamentary scrutiny of the draft Airports National Policy Statement (NPS). Published Proposed Airports NPS supporting a new Northwest Runway at Heathrow Airport in June 2018.</li> <li>▶ Civil Aviation Authority (CAA) has overseen airport – airline engagement on potential scheme design and costs of expansion.</li> <li>▶ Pre-development consent consultation completed by Heathrow Airport Ltd (HAL) on their emerging scheme proposals.</li> <li>▶ Independent assurance work undertaken for the Department on the delivery and financeability of HAL’s plans.</li> <li>▶ Heathrow Community Engagement Board established and independent chair appointed to help ensure that communities can constructively engage in the planning and airspace change process.</li> <li>▶ Established effective governance and coordination arrangements with HAL and other delivery bodies to manage key dependencies including airspace change, rail and road links.</li> </ul>	 <p>The Department will work with HAL to manage delivery risks and dependencies. The Department will regularly review risks regarding the delivery of new airport capacity and implement any necessary mitigating actions.</p>

**Table 14: DfT’s top-level risk themes for 2017-18**

Risk	Mitigating activities taken so far	Direction of risk trend at year end and explanation of rating and trend
<p><b>9. Road Services:</b></p> <p>The reliability of future road services could be affected if the first Road Investment Strategy (RIS1) is not delivered to the scale and pace expected.</p> 	<ul style="list-style-type: none"> <li>▶ Regular risk reviews by the dedicated DfT Steering Group taking into account RIS1 delivery forecasts, with a new Highways England Team formed to address shortfalls.</li> <li>▶ Regular reporting to ministers on progress.</li> <li>▶ Monthly reporting by Highways England on performance.</li> <li>▶ DfT and Highways England have implemented well established working arrangements at all levels (formalised through the framework agreement) ensuring an integrated approach to project development and delivery.</li> <li>▶ A review of assurance undertaken during 2017.</li> </ul>	 <p>Going forward, regular risk reviews by the DfT Steering Group are key, with any necessary mitigating action being taken and ministers kept informed of progress.</p>
<p><b>10. Delivery Bodies:</b></p> <p>There is a risk of significant control failures in our delivery bodies, if we fail to exercise robust oversight of them.</p> 	<ul style="list-style-type: none"> <li>▶ Developed a Sponsor Network forum to share best practice and support sponsor teams.</li> <li>▶ Working with Finance and HR in providing an overview of the control environment and upskilling sponsors and their delivery bodies.</li> <li>▶ Reviewed framework agreements to ensure these are accurate and cover all areas of control.</li> <li>▶ Shared new risk management escalation protocol to ensure a two way dialogue on delivery body risks.</li> <li>▶ Held a DfT non-executive board member event in December 2017, to reinforce their role in holding delivery bodies to account.</li> </ul>	 <p>Departmental understanding of the sponsorship role is improving, controls are better understood and there is increased sharing of expertise across the Department.</p>

## Our framework of internal control

2.19 All central government departments and their delivery bodies are subject to internal and external controls to ensure compliance with frameworks from **HM Treasury** (such as **Managing Public Money** and **The Green Book**) and **Cabinet Office (spend controls)**. Robust control arrangements within the Department provide assurance to the board, our principal accounting officer and ministers that public money and resources are used properly and efficiently.

2.20 There are a number of spending controls in place which require prior approval. These include:

- › Hiring consultants and contingent labour (contractors).
- › Considering options for redundancy and compensation schemes.
- › Spending money on commercial, digital or marketing resources.
- › Approving novel or contentious expenditure (for example, writing off a debt, using departmental funds to make a charitable donation or an ex-gratia payment)

2.21 In response to feedback from the National Audit Office (NAO), Government Internal Audit Agency (GIAA) and the 2016-17 Management Assurance exercise, the Department has placed greater focus on improving its controls environment through changing the culture and behaviours in both the central Department and its delivery bodies. During 2017-18 we have:

- › **Established a Control Network Group (CNG)** within the central Department comprising of senior Subject Matter Experts from Group Finance, Commercial, Governance and HR who are responsible for the oversight and delivery of robust controls and driving compliance with HM Treasury, Cabinet Office and internal controls across DfT group.
- › **Produced a single controls and approvals framework** in collaboration with Subject Matter Experts from across the Department.
- › **Launched the Controls and Approvals page** on our intranet, providing a ‘one stop’ summary of major controls that impact DfT group, sign-posting detailed internal and external guidance which identifies each responsible owner for that control.
- › **Engaged the Heads of the Finance, HR and Procurement professions** in the delivery bodies to build greater awareness and drive ownership of the controls framework.
- › **Revised the corporate induction pack** to highlight the importance of controls and counter-fraud activity for all new starters.

- › **Engaged with other central government departments** to promote best practice.

## Governance of our delivery bodies

2.22 The Department operates in a large and complex landscape and much of its business is conducted with and through its delivery bodies. Within DfT, **sponsor, client** and **shareholder** teams manage the relationship with our delivery bodies at a working level by following the principles set out in a **framework agreement**.

2.23 Each framework agreement is developed with the delivery body, setting out the accountabilities and key relationships between the delivery body and the Department, and describing the governance arrangements that support it. All of our framework agreements have review points between 3 and 5 years, and the majority are published. The status of framework agreements for our delivery bodies is set out in **Figure 32**.

2.24 During 2017-18, the Department developed and launched a **good practice guide** for sponsor, shareholder and client teams, setting out the principles and standards of effective partnership working. It is intended to support, at a working level, the roles and responsibilities described in the framework agreement. The good practice guide is our response to the **Code of Good Practice** published by the Cabinet Office, which provides a clearer framework for how Departments and their delivery bodies can form an effective partnership.

2.25 DfT’s board is updated on the performance of our executive agencies and other key delivery bodies through a regular agenda item on **management information (MI)**. Each delivery body follows the Department’s management assurance process, the results of which are reviewed by ExCo and presented to GARAC (**see Figure 35**).

2.26 During 2017-18, it came to light that one of the Department’s delivery bodies, Trinity House, made an ex-gratia payment without prior approval of either the Cabinet Office or HM Treasury, despite the requirement for this being clearly set out in **Managing Public Money** and the framework agreement between the Department and Trinity House. In addition, this year, Highways England extended an existing ICT service integration and management contract without prior approval from the Cabinet Office. A business case was subsequently submitted seeking retrospective approval for these costs in October 2017. The Department is working to strengthen its control environment and Management Assurance process with its delivery bodies to address any identified control weaknesses.

2.27 The Department is required to regularly review its executive agencies, NDPBs and non-ministerial government Departments through the Cabinet Office’s **Tailored Review Programme**. Tailored Reviews are an

opportunity to examine our delivery bodies with the aim of ensuring they remain fit for purpose, well governed and properly accountable for what they do. During 2017-18, the Department has worked closely with the Cabinet Office to develop its programme of Tailored Reviews for 2018-19 onwards.

## Financial governance, management and control

**2.28** The Department's business planning process allocates the budget voted by Parliament to all parts of the organisation. Budget changes are routinely monitored to ensure they have been implemented in accordance with decisions made by ministers and the board. We also review the actual and forecast outturns each month to check that spend is managed in line with approved budgets. This monitoring is designed to ensure that the Department does not breach any of the Parliamentary controls totals (resource DEL, capital DEL, resource AME, capital AME, cash and administration), while also providing advice on options to ensure the best use of available resources to ministers and the Board.

## Ministerial direction

**2.29** The Permanent Secretary sought a ministerial direction on 7 February 2018 as elements of the Department's EU Exit preparation spending would need to commence in advance of the relevant supporting legislation receiving Royal Assent. The process followed was in line with guidance issued by HMT and DexEU. The direction covered activity related to the Haulage Permits and Trailer Registration Bill. The Secretary of State provided a direction to confirm that the Department would begin committing around £25 million of funds to EU exit projects, considering the wider public interest with regard to our readiness for departing the EU.

## Fraud, bribery and whistleblowing

**2.30** We take a 'zero tolerance' approach in the event of any **fraud or bribery**. Within the central Department and its agencies, any suspected cases of fraud or corruption are investigated fully and disciplinary and/or legal action is taken where appropriate, in line with Cabinet Office guidelines.

**2.31** The Department holds quarterly meetings of its Fraud, Error and Debt (FED) Group, comprising fraud officers and other representatives from business units across the central Department, its agencies and other delivery bodies. It considers updates from group members on counter-fraud activity, advice and initiatives from the Cabinet Office, information sharing, best practice and any areas of concern impacting on the Department's policies and procedures. This collaborative approach has allowed the FED Group to raise awareness of counter-fraud activity across our business and has

seen an improvement in DfT compliance against the Cabinet Office fraud standards.

**2.32** All staff in the central Department are also required to undertake an on-line fraud awareness training.

**2.33** In 2017-18, there were **no reported cases of fraud in the central Department**. Where appropriate, any cases of reported fraud during the same period within the Department's delivery bodies are noted in their own Governance Statements.

**2.34 Whistleblowing** has remained a high priority throughout 2017-18, and activity has continued to ensure a culture of confidence and a safe environment to raise a concern is preserved in the Department. In 2017-18, the central Department had **54 concerns** raised through its whistleblowing procedure, 4 of which had a case to answer, which are all now resolved, resulting in one staff dismissal. The Department had 8 concerns raised by the public with regard to the Secretary of State's duty as a Prescribed Person, of which 3 concerns are resolved, and the remaining 5 concerns are on-going.

**2.35** The Department has adopted the Cabinet Office's new cross-government internal fraud initiative. The initiative includes compiling a database of staff who are dismissed for fraud or dishonesty, and applying a ban on such staff being re-employed in the Civil Service for a period of 5 years. The central Department has had no cases fall within scope of the policy since it was implemented in November 2017.

## Equal opportunities, human rights and diversity

**1.36** The Department values **equality** and **diversity** in employment and is actively working to develop a socially inclusive transport system. We are committed to developing an organisation in which fairness, **human rights** and equality of opportunity are central to our business and working relationships, and ensuring the organisational culture reflects and supports these values.

**1.37** All our staff and job applicants have the right to be treated equally and fairly in all aspects of employment including recruitment, promotion and training. We are working towards creating and maintaining a workplace environment, which is free from abuse, offensive behaviour, harassment, bullying, prejudice, discrimination and victimisation. We value having a diverse workforce and we are committed to recruiting retaining, and promoting the best available people. The Department's business success is dependent upon harnessing all the talents that its staff bring and recognises that the organisation needs to be flexible to allow everyone to make the best contribution they can, through training, development and advancement.

## Assurance

2.38 Assurance means gaining ‘confidence’ through looking at, and assessing evidence. Assurance is essential in providing confidence to decision makers, particularly accounting officers and boards in central government departments and their delivery bodies, on the management of risk and internal controls. It helps to inform key decisions for the successful delivery of business objectives and in fulfilling reporting obligations to Parliament and other stakeholders.

2.39 The Department relies on assurance from multiple sources, consistent with good practice. A concept for helping to identify and understand the different contributions these sources of assurance can provide is the ‘**3 lines of defence**’ assurance model, which is summarised in **Figure 34**.

2.40 Sitting outside of the 3 lines of defence model are external reviews, chiefly by the NAO, who have a statutory responsibility for auditing the financial statements of all central government departments and other public bodies. External reviews may also be conducted by parliamentary select committees or independent regulators (such as the Office of Rail and Road or the CAA) after a project or an event. These reviews are a particularly valuable source of learning for an organisation.

**Figure 34: Overview of DfT’s 3 lines of defence assurance approach**





## Management assurance

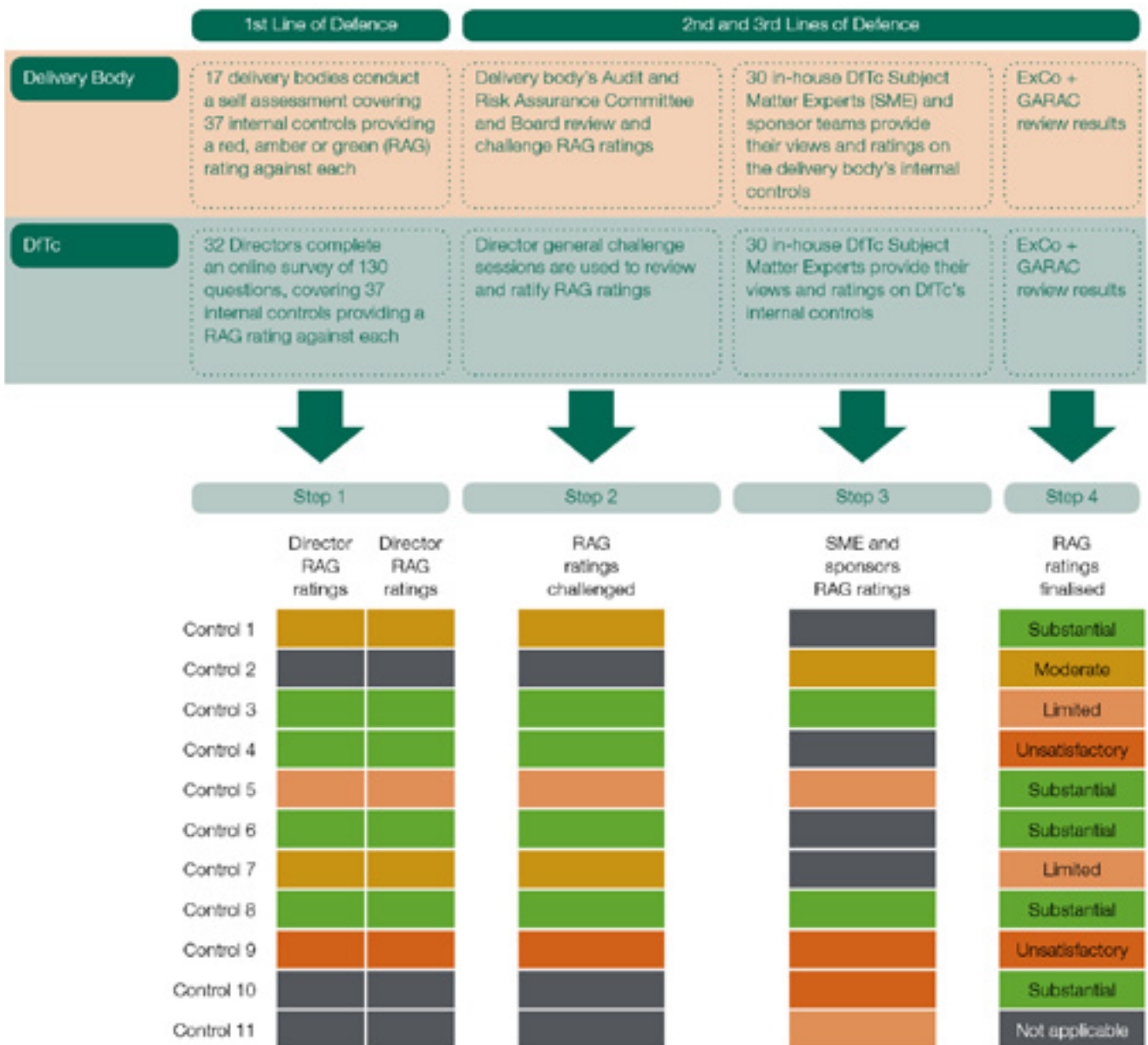
2.41 The Department assesses its compliance with its **internal controls** annually. Each directorate and all of the Department’s delivery bodies (within the accounting boundary) complete an exercise designed to assess how each is performing against 37 key internal management controls. **Figure 35** provides an overview of the process.

2.42 The 2017-18 review identified that, for the **central Department**, 18 of the 37 areas of internal control were rated as ‘substantial’. For the 19 areas of internal control where there was evidence of a lack of full compliance, action plans are being put in place to deliver the necessary improvements.

2.43 For **delivery bodies** included in the process, there were 16 areas of internal control with evidence of a lack of full compliance. Individual delivery bodies have plans in place to identify the actions required to deliver the necessary improvements.

2.44 An internal audit of the 2016-17 Management Assurance process recognised the improvements made since the previous year, whilst outlining areas to strengthen, which have been addressed in the 2017-18 process. This included ensuring that all responses are evidence based as well as some changes to the control categories. The administrative burden has also been reduced by 32% through a smaller, more refined question set.

**Figure 35: Overview of the 2017-18 Management Assurance process**





Tony Meggs, Chief Executive of the Infrastructure and Projects Authority, addressing project delivery professionals at a Department-wide Community of Practice event

## Project Assurance

2.45 The Department is committed to building the project delivery capabilities of all its staff. We have worked closely with the **Infrastructure and Projects Authority (IPA)** and contributed to the cross-government **Project Delivery Capability Framework** which has been rolled out across government, including the central Department.

2.46 Getting the **right people** on the **right projects** at the **right time** is also a key focus for the Department and a Capability Board ensures that individuals are supported in their professional development activities, and that succession planning and help with project delivery recruitment is managed.

2.47 The Department has an established **community of practice** that is used to share lessons and best practice around key areas through a series of events held throughout the year. We are also piloting an internal project delivery learning and development offer to ensure that the Department grows its pipeline of project leaders. This will supplement the established government wide project delivery learning offering. In addition, a **Centre of Excellence** provides expert project assurance to support investment decisions, as well as centralised advice, guidance and support to the project delivery community.

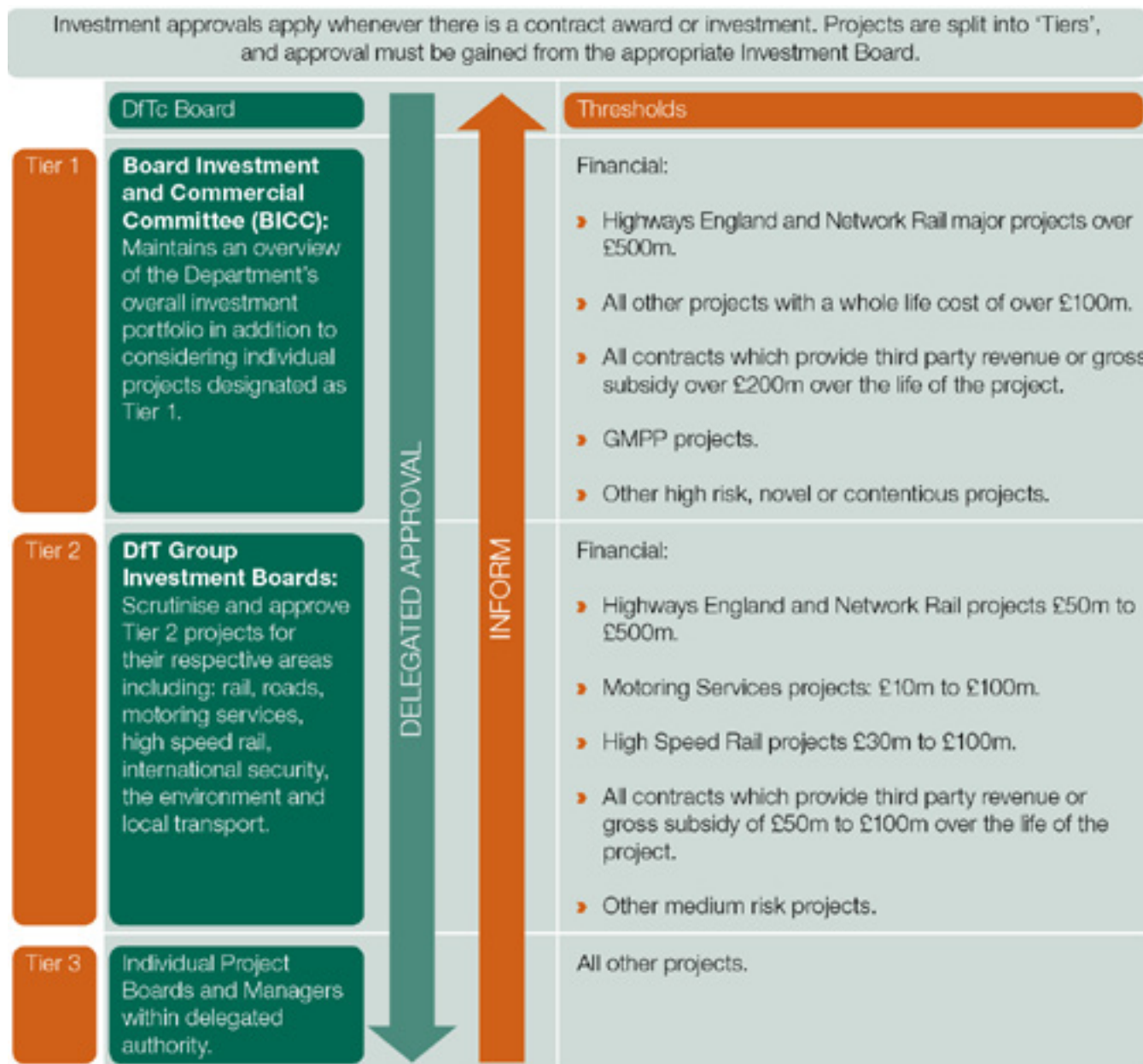
2.48 Within its portfolio the Department has **15 projects** that form part of the Government Major Projects Portfolio (GMPP) requiring quarterly reporting to the IPA. Our investment decisions are based on a tiering system where a project is taken to one of a number of boards depending on its scale, strategic risk and costs. An overview of our tiering system is provided in **Figure 36**.

2.49 Decision making for GMPP projects is taken at **BICC**, which is the Department's Tier 1 investment decision committee. It is the forum for making informed decisions on Tier 1 projects within a strategic, economic, financial, commercial and management context at each approval stage. BICC provides selective strategic challenge and advice and makes recommendations to the appropriate accounting officer and ministers. The Department's lower tier investment boards closely mirror the BICC internal monitoring and scrutiny. This ensures that all our projects undergo robust but proportionate scrutiny.

2.50 Good project assurance remains a priority for the Department, **all top tier projects** have in place an **Integrated Assurance and Approvals Plan (IAAP)** signed off by the Senior Responsible Owner (SRO). We have continuous review processes in place and regularly look at the consistency of IAAPs across the Department. This ensures that SROs are planning and undertaking appropriate project reviews at relevant points in the project lifecycle. During 2017-18 we conducted **20 Tier 1 project reviews (see Figure 37)**.

2.51 We also work closely with our delivery bodies to share best practice in assurance. This ensures that the Department continues to grow and maintain good practice in the application of project delivery.

**Figure 36: DfT’s group investment approvals structure**



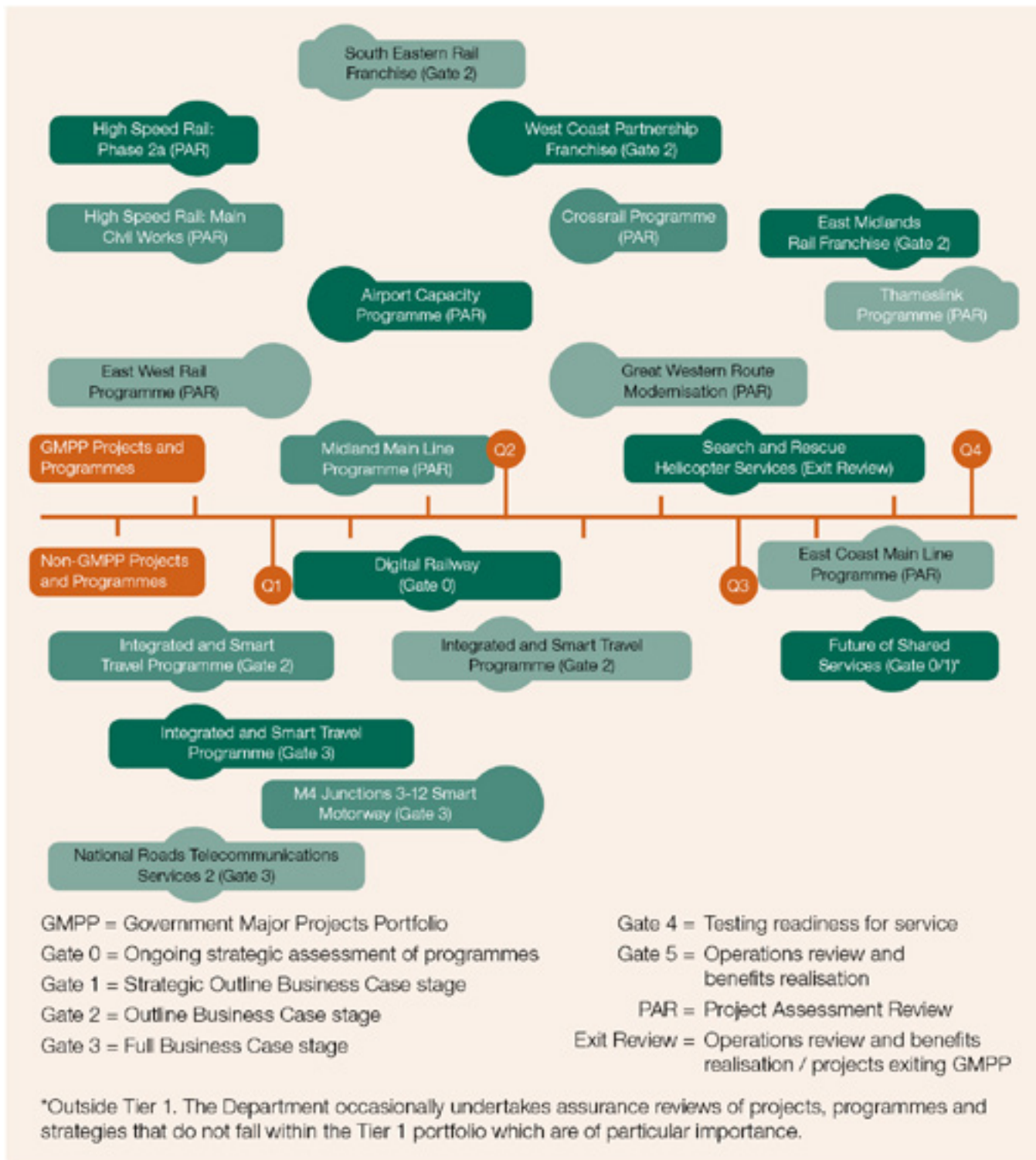
### Procurement assurance

2.52 The Department operates a group wide procurement assurance framework that is risk-based and proportionate. Our Procurement Assurance Board (PAB) provides advice on procurement matters for all Tier 1, 2 and 3 projects at key stages in the project lifecycle including:

- ▶ The development of commercial and procurement strategies.
- ▶ Single Tender Actions, where a contract is awarded to a supplier without a competition.
- ▶ The development of tender documents and formal launch of competitions.

2.53 Our approach ensures that an appropriate level of independent scrutiny is employed according to the type of procurement activity being considered, procurements are compliant and follow Departmental procedures and established good practice, contracts result in optimal value for money outcomes, and risks are transparent and being managed effectively.

**Figure 37: Overview of Tier 1 project assurance reviews in 2017-18**



## Contract and supplier assurance

2.54 The Department is committed to ensuring we have proportionate arrangements in place to manage our contracts and suppliers that is in line with best practice guidance. Each contract must have a definable owner as well as a contract management plan developed in collaboration with the supplier. This ensures we can measure performance throughout the contract lifecycle, develop collaborative relationships with our suppliers, and have the information we need to build forward-looking procurement pipelines and plans.

2.55 There are 3 key strands to contract management:

- ▶ **Individual contract management:** we include key performance indicators in all high-risk and high-value contracts, which are specific to the agreement.
- ▶ **Strategic supplier relationship management:** the Department's top 15 suppliers by spend, are managed by a dedicated team.
- ▶ **Monitoring of targets:** this includes actively monitoring government-wide sustainable procurement targets.

2.56 Following the announcement of **Carillion's insolvency** on 15 January 2018, contingency plans were initiated across the Departmental group. The central Department worked closely with the Cabinet Office and its delivery bodies (including Network Rail and High Speed 2 Ltd) to ensure Carillion contracts were transitioned to alternative suppliers. The transition process is now complete, with no operational impacts reported in the transport sector.

2.57 The Department is working with its delivery bodies to develop a standard contingency planning process for strategic suppliers, using the lessons learnt from Carillion. We are also re-assessing our strategic suppliers across the Departmental group in a range of areas including: commercial, operational and financial to better understand their current status and ensure we are following best practice. The Department has also set-up a new Contract Management Assurance team that will undertake a programme of contract assurance reviews during 2018-19.

## Analytical assurance

2.58 Analytical Assurance involves the consideration and communication of the strengths, weaknesses and limitations of analysis. This allows decision makers to better understand the quality of the evidence base they use. The Department's Analytical Assurance Framework, **Strength in Numbers**<sup>13</sup> aims to strengthen the standard of analytical assurance in the central Department. It is now well embedded within our organisation.

2.59 As part of the framework, we maintain and publish a register of **Business Critical Models**, each of which has an appointed Senior Model Owner (SMO) responsible for ensuring appropriate governance and quality assurance of the model and its outputs throughout its lifecycle. Business Critical Models are used to drive essential decisions and highlight where errors could cause serious financial, legal and/or reputational damage to the Department.

2.60 There are currently **70 Business Critical Models** used in DfTc. The annual Management Assurance exercise indicated that there is good governance in place across the Department. Over **77%** of directorates with Business Critical Models reported substantial levels of assurance are in place, with the remainder of directorates assessed as moderate.

2.61 Where analysis is used to inform or underpin decision-making, papers must include an **Analytical Assurance Statement**. These statements highlight the strengths, limitations and uncertainties in the analysis, ensuring decision-makers are fully informed. When included in submissions to ministers and Tier 1 and Tier 2 investment boards, they must be reviewed by an independent assurer to ensure all relevant information has been communicated, and the extent to which the analysis is considered reasonable and robust is clear. The 2017-18 Management Assurance exercise indicated that the majority of submissions to ministers (73%) and investment boards (83%) that included recommendations based on analysis contained an Analytical Assurance Statement.

## Analytical assurance in our delivery bodies

2.62 The Department's approach to assuring the analysis specified, produced and used by our delivery bodies has evolved over time. There is good governance and assurance of analysis produced by our delivery bodies to inform decisions taken by the central Department facilitated by strong working relationships between analysts in the respective organisations. Where responsibility for decision-making is delegated to our delivery bodies, responsibility for analytical assurance is also delegated.

13 [www.gov.uk/government/publications/dft-analytical-assurance-framework-strength-in-numbers](http://www.gov.uk/government/publications/dft-analytical-assurance-framework-strength-in-numbers)

## High Speed Rail: Assuring analysis to inform decisions

A close relationship exists between the central Department and HS2 Ltd on analytical assurance related to key decisions. Analysts in the Department's High Speed Rail Group are engaged in the assurance of HS2 Ltd's economic analysis, from initial commissioning to delivery and its final use. Where different views on the robustness of the analysis underpinning recommendations are

held between colleagues in the central Department and HS2 Ltd this will typically be reflected in the Analytical Assurance Statement. Before being submitted to the central Department's investment boards, papers undergo independent review by relevant centres of excellence. Reviewers also submit brief comments to the board with their assessment of the information provided.

## Highways England: Building and assuring analytical capability



When Highways England was created in 2015 it was set the challenge of developing Value for Money (VfM) capability. Highways England quickly brought in its own approach to analytical assurance, which complemented the central Department's approach. We provided initial support to Highways England as it established itself and built its analytical capability. This included formally assessing Highways England's capability every 6 months.

Having grown its VfM capability over the past two years, in 2017 it was agreed that the 6 monthly assessments were no longer required. Going forward, Highways England will provide regular reports on VfM to the central Department, and as

part of the wider assurance process, commission an annual assessment of its VfM system. Highways England will also undertake an annual 'critical friend assessment', the outputs of which will advise the company going forward.

To provide assurance on Strategic Roads decisions taken by the central Department, a Tier 1 Analysis and Coordination Forum (TRAC) and Economic Working Groups have been set-up. These forums bring together Highway England and DfT analysts in order to push forward analytical decisions and test assumptions relating to novel, contentious and/or high value Strategic Road schemes.

## Independent Assurance

2.63 The Department's internal audit service is provided by the **Government Internal Audit Agency (GIAA)**, an executive agency of HM Treasury. GIAA operates according to the public sector internal audit standards, confirmed through its last External Quality Assessment undertaken by the Institute of Internal Auditors in January 2016.

2.64 The **Group Head of Internal Audit (Group HIA)** provides the Department's Permanent Secretary with an independent opinion on the adequacy and effectiveness of the Department's systems of internal control, and makes recommendations for improvements. The work of GIAA is based on its analysis of the Department's risks, and its audit programme is approved by GARAC. Regular reports are provided by GIAA to the Department's management, to GARAC and, as appropriate, to ExCo.

2.65 The Group HIA has provided the Permanent Secretary with an **annual report** on internal audit activity in the Department and its delivery bodies over the course of 2017-18. This report summarises each of the individual Head of Internal Audit annual opinions for the Department and its delivery bodies and any movement from 2016-17. It provides the Permanent Secretary with the Group HIA's independent opinion on the level (i.e. substantial, moderate, limited or unsatisfactory) of assurance that can be placed on the adequacy and effectiveness of the Department's and delivery bodies governance, risk management and internal control arrangements.

2.66 This year's report showed that across the Department and its delivery bodies, Internal Audit found evidence that the trajectory of an improving control environment had largely continued, with elements of significant work undertaken during 2017-18 to progress from last year's 'limited' Group HIA opinion. Of note, was the improved picture within the central Department where considerable efforts had been made to tackle the key areas of weakness identified in previous years, notably in the operation of key controls within the Resource and Strategy directorate, and the way those controls were implemented across the rest of the Department. The Department has also set-up the Senior Leadership Risk Group to challenge and direct risk management approaches.

2.67 With all but one of the DfT's delivery bodies reporting at least a 'moderate' opinion, the Group HIA overall opinion is 'moderate' for 2017-18. This is a higher level of assurance than has been achieved in the last two years. For the third consecutive year the opinion expressed by Network Rail's Director of Risk and Internal Audit is that only 'limited' assurance can be placed on the adequacy and effectiveness of Network Rail's control environment. There remain significant weaknesses within Network Rail's core controls, governance, risk management and capital programmes. Network Rail's management team are introducing measures to address these concerns by improving core processes and controls.

## External Reviews

2.68 The Department was the subject of **5 National Audit Office reports** during 2017-18. The Permanent Secretary and members of her leadership team attended **6 hearings** of the **Public Accounts Committee (PAC)** to give evidence on Value for Money. An overview of each area of the committee's interest is summarised in **Table 15**. For more detail, please see the websites of the Public Accounts Committee and the National Audit Office.

## Accounting Officer System Statement

2.69 In 2016, the Public Accounts Committee recommended, as part of its wider work on accountability to Parliament for taxpayers' money, that all departments should prepare accountability statements. This statement is now known as the **Accounting Officer System Statement (AOSS)** and should cover all of the accountability relationships (including those with delivery bodies and third party delivery partners), systems and processes within a department, making clear who is accountable for what at all levels of the system from the Principal Accounting Officer down.

2.70 The AOSS is a current statement of the system that exists at the time of publication and is forward looking (in contrast to the Annual Report which looks back over a completed financial year). DfT's AOSS is available at: [Accounting Officer System Statement 2017](#).

**Table 15: Summary of PAC reviews undertaken in 2017-18<sup>1</sup>**

Title	Review type	PAC report publication date	Purpose of the review	Number of recommendations made by PAC	Number of recommendations outstanding at year end <sup>2</sup>
High Speed Two Annual Report & Accounts	PAC Report	13 Dec 2017	HS2 Ltd's accounts were qualified due to the company running a redundancy scheme with enhanced terms without seeking the necessary approvals. PAC made a series of recommendations including ensuring that staff understand their responsibilities under the framework agreement and <i>Managing Public Money (MPM)</i> guidance.	4	All recommendations implemented
Sheffield to Rotherham tram-trains	PAC Report	13 Dec 2017	The Sheffield to Rotherham tram-train scheme is intended to provide the first transport service in the UK to use both the street tramway and national rail network. It was due to be completed by December 2015 but is now expected to be completed in May 2018. This delay subsequently led to project costs quadrupling. PAC made a series of recommendations that included Network Rail and the Department undertaking a full review of project costs.	5	2
Update on the Thameslink Programme	PAC Report	21 Feb 2018	The £ 7 billion Thameslink programme is intended to increase capacity and relieve crowding on rail services throughout London and the South East, improve connectivity and reduce journey times. The programme was running behind schedule and over budget by 18%.  PAC made a series of recommendations including that the Department and Network Rail should establish clearer arrangements at the outset of future programmes to plan how services will be introduced and run, putting passengers at the heart of the programme. Better working relationships need to be created between Network Rail and train operators. A formal learning process should be established so that lessons from the Thameslink programme can be applied to future major programmes, including HS2.	5	All recommendations implemented

1 The Permanent Secretary attended 5 PAC hearings during 2017-18 however, the Treasury Minutes responding to the PAC reports have not yet been published.

2 Departmental self-assessment.



## Other governance activity

### Correspondence

2.71 The Department aims to respond to correspondence within 20 working days. In 2017-18 we responded to just over **19,000 correspondence cases** from MPs, Peers, key stakeholders (ministerial correspondence cases) and members of the public (treat official cases), **24% lower** than the total number of cases received in 2016-17. We replied to **88%** within our target timescales (91% in 2016-17), including correspondence responded to by ministers, and officials.

### Information rights

2.72 During 2017-18, the Department including its executive agencies received **2,441 requests for information** which were handled under either the Freedom of Information (FOI) Act or the Environmental Information Regulations. We met the statutory response deadlines in **96%** of these cases (97% in 2016-17). The central Department publishes a list of its responses to FOI requests where some or all of the requested information is disclosed. This can be viewed on our disclosure log available at: [DfT: FOI Disclosure Log March 2018](#).

### Better Regulation

2.73 The Department has continued to ensure that regulation in the transport sector is proportionate and does not impose unwarranted burdens on business. It is focusing its resources on measures with the highest impact ensuring that burdens are minimised. Small and micro business assessments are carried out to avoid those businesses being disproportionately affected by regulation where possible.

2.74 The Better Regulation Unit has been managing the Department's EU Exit better regulation obligations, advising on the unique requirements of EU Exit Impact Assessments and helping to deliver our EU Exit obligations.

2.75 The Department has continued a rolling programme of post-implementation reviews so that it can check that regulations affecting business are working. It also makes use of alternatives to regulation where possible, for example through awareness campaigns about drink and drug driving, and vulnerable road users.

2.76 In response to strong feedback from business, independent regulators are under a legal obligation to assess and report on the impacts of their actions on business. For transport, this means that the Civil Aviation Authority, the Office of Rail and Road and the General Lighthouse Authorities are within scope of the Better Regulation Framework.

### Shared Services

2.77 The Department has outsourced its Shared Services arrangements with Arvato until May 2020 covering finance, human resources, procurement and payroll transactions, and the supporting Enterprise Resource Planning (ERP) platform, including hosting, licensing and service management. This arrangement provides services to **17,000 users** for the **central Department** and its **executive agencies**. We have a well-developed strategy for improving the supporting technology to deliver a more intuitive user experience and replace services at the end of the contract.

### Complaints handling

2.78 The central Department is committed to responding to complaints within 20 working days. Each of our delivery bodies, including executive agencies have their own complaints procedure. The number of complaints handled by the Department and its delivery bodies during 2017-18 and the previous 3 years is provided in **Table 16**.

**Table 16: Number of complaints**

Year	2017-18	2016-17	2015-16	2014-15
DfTc	8	23	24	18
DVLA	3,987	4,495	5,283	7,282
DVSA	6,435	11,553	15,704	11,802
VCA	9	8	10	-
MCA	34	15	25	13
Highways England	5,031	4,880 <sup>1</sup>	2,259	1,250
HS2 Ltd	64	56	47	50
CAA	131	178	143	102
Network Rail <sup>2</sup>	-	-	-	-
ORR <sup>3</sup>	1,433	1,514	-	-
BTPA <sup>4</sup>	2	1	-	-
<b>Total</b>	<b>17,134</b>	<b>22,723</b>	<b>23,495</b>	<b>20,517</b>

1 The increase in complaints to Highways England is due to a change in the complaints process and how complaints have been recorded since July 2016.

2 Network Rail do not report data to the Department, their unresolved complaints are passed to the ORR.

3 ORR as regulator for Network Rail, handle complaints that Network Rail have not resolved, this data is reported from 2016-17.

4 BTPA report complaints about their members, staff, the BTP Chief Constable, Deputy, and Assistant Chief Constables.

More details on the ICAs and their Annual Reports are available here: <https://www.gov.uk/government/collections/independent-complaints-assessors-for-the-department-for-transport>

**Table 17: Number of complaints reviewed by ICAs**

Year	2017-18	2016-17	2015-16	2014-15
DfTc	3	4	-	3
DVLA	165	188	126	121
DVSA	45	42	28	38
VCA	-	-	-	-
MCA	1	3	4	1
Highways England	32	24	6	11
HS2 Ltd	3	8	1	3
CAA	3	4	-	-
<b>Total</b>	<b>252</b>	<b>273</b>	<b>165</b>	<b>177</b>

2.79 Where a complainant feels that their complaint has not been handled properly and is not satisfied with the response, they can have the matter reviewed by an **Independent Complaints Assessor (ICA)**. The ICAs are individuals experienced in resolving complaints through reviewing the issues and recommending solutions to remedy a complaint satisfactorily as a final stage in the Department's complaint handling process. The number of complaints that were reviewed by the ICAs in 2017-18 and the previous 3 years is shown in **Table 17**.

2.80 The **Parliamentary and Health Service Ombudsman (PHSO)** investigates complaints about the Department and its delivery bodies when referred by a Member of Parliament on behalf of a complainant. Generally the PHSO will expect the ICAs to have reviewed the matter before they consider investigating. Where the PHSO believes there is evidence that there has been maladministration, unfair treatment, or poor service, it will investigate the issues, review the remedy provided, and may recommend further actions to resolve the matter.

2.81 **Table 18** shows the numbers of complaints upheld in full or in part or not upheld during 2017-18.

**Table 18: Investigations by the PHSO<sup>1</sup>**

Organisation	Complaints accepted for investigation		Investigations upheld or partly upheld		Investigations not upheld	
	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17
DfTc	-	-	-	1	-	1
DVLA	9	15	5	7	8	4
DVSA	3	-	-	-	-	1
VCA	-	-	-	-	-	-
MCA	1	1	-	-	-	1
HE	-	1	-	-	1	1
HS2 Ltd	3	2	1	-	-	1
CAA	-	1	-	1	-	1
ICAs	-	1	1	-	-	1
<b>Total</b>	<b>16</b>	<b>21</b>	<b>7</b>	<b>9</b>	<b>9</b>	<b>11</b>

1 Further details are available here: <https://www.ombudsman.org.uk/>

**Table 19: Number of RIDDOR reportable**

Organisation	2017-18	2015-16	2016-17
DfTc	-	3	-
DVLA	8	8	-
DVSA	31*	21	23
MCA	6	5	10
VCA	-	-	-
<b>Total</b>	<b>45</b>	<b>37</b>	<b>33</b>

\* 12 staff, 19 Non staff

## Health and safety

2.82 Health and safety remains a top priority for the Department and its executive agencies. **Table 19** sets out the number of RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrence Regulations 1998) reports to the Health and Safety Executive for the year 2017-18 and previous years. As expected, the figures for DVSA remain higher than for the rest of the Departmental group due to the operational nature of their work. The figure also includes accident figures involving members of the public taking driving tests both in cars and on motorbikes.

## Publicity, advertising and sponsorship agreements

2.83 Since May 2010, all publicity and advertising campaigns require prior approval from the Cabinet Office. This year, the Department received approval for the THINK! Road Safety, Go Ultra Low and Year of Engineering campaigns. As in previous years, the central Department has not received any cash sponsorship but has worked with key partners to support campaign delivery. An overview of each campaign is provided overleaf.

## THINK!

2.84 The award winning THINK! Campaign seeks to reduce the number of young drivers killed and seriously injured on our roads by changing attitudes and habits. The campaign tackles issues such as drink driving, drug driving, speeding on country roads and mobile phone use while driving.

2.85 THINK!’s 2017 Christmas **#matesmatter** campaign encouraged young men to step in when a mate might be tempted to drink drive during the festive season. Using the strapline, “**A mate doesn’t let a mate drink drive**”, the campaign tapped into male friendships to increase the social unacceptability of drink driving. Post campaign, **75%** of young males agreed they would not let a friend drive after drinking – an increase of **11%** pre-campaign.

2.86 THINK! partnered with Budweiser, Arriva and for the 10<sup>th</sup> consecutive year, Coca-Cola to deliver the Christmas drink drive campaign. Offering incentives such as alcohol-free giveaways, buy-one-get-one-free offers and free bus journeys. The commercial partnership activity generated approximately **£1 million of free advertising**, resulting in a return on investment of 58:1.



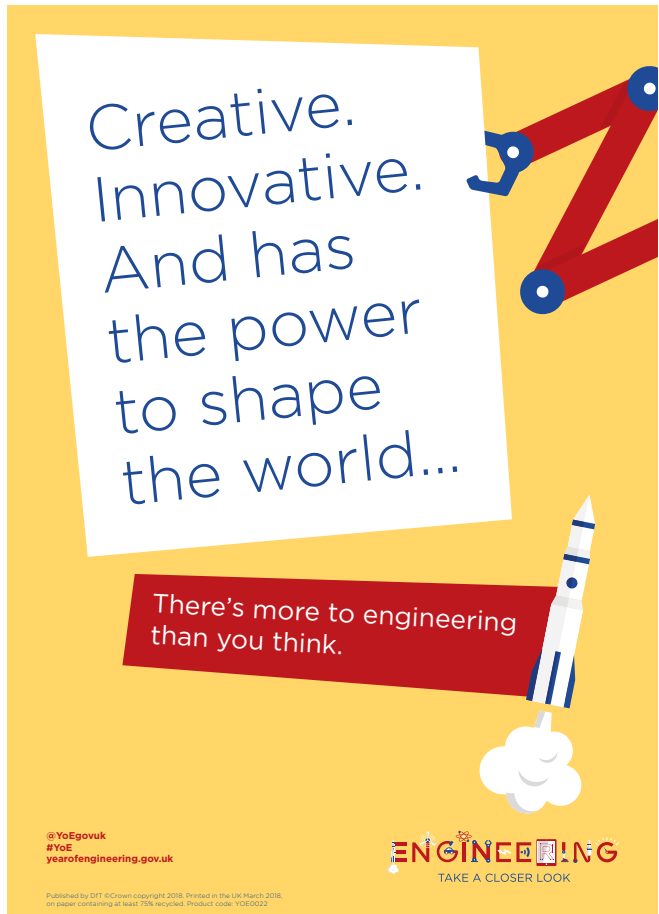
## Go Ultra Low

2.87 Go Ultra Low was a jointly funded government and industry communications campaign designed to educate consumers and fleets about electric vehicles. It seeks to increase the uptake of ULEVs by promoting the benefits and dispelling misconceptions.

2.88 In 2017-18, the Go Ultra Low campaign set out to demonstrate how electric cars can fit into people’s lives and fulfil their driving needs. It did this by addressing a range of common concerns including cost, driving range and charging. Post campaign, **96%** of a sample group said that the adverts made them feel more positive about electric vehicles. **GoUltraLow.com** has also seen over half a million visits since the campaign launched in October 2017.

## Year of Engineering 2018

2.89 The Year of Engineering 2018 is a year-long HM government campaign which aims to widen the pool of young people who would consider engineering as a career in the UK. The Department is working closely with BEIS, Ministry of Defence, wider government and the engineering profession to improve the desirability of engineering by increasing awareness and understanding of what engineers do.



2.90 The campaign has recruited over **1,300 partners** across a range of sectors, which are helping to deliver at least **1 million** direct experiences of engineering to **7-16 year olds** over the course of 2018. We are using media, web and social media analytics to monitor awareness and engagement, and post campaign tracking to measure the effectiveness of the campaign.

2.91 The Year of Engineering is working in partnership with EngineeringUK, using its brand to monitor changes in attitudes and awareness towards engineering among young people, their teachers and parents. A partner evaluation tool is also being developed with the Institution of Mechanical Engineers to measure the number and effectiveness of direct experiences of engineering being offered by campaign partners.

## Conclusion

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

Philip Rutnam was Principal Accounting Officer until 3 April 2017 when he moved to the Home Office. Between 3 April and 18 April 2017 Jonathan Moor, who was the Director General for Resources and Strategy, was appointed as the acting Permanent Secretary and Principal Accounting Officer before I was formally appointed. Over this short period both Jonathan Moor and I received briefings from Philip Rutnam and the Finance Director to ensure a smooth handover from one Principal Accounting Officer to another. On taking up the post of Permanent Secretary I continued to receive assurance on the effectiveness of the system of internal control to enable me to have confidence in these accounts.

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

I have noted the opinion of the Head of Internal Audit (HIA). The Department and our delivery bodies have been working to strengthen our systems of internal control since last year's limited assurance opinion by the Group HIA. This includes improving the operation and implementation of key controls across the group, setting-up the Senior Leadership Risk Group to challenge and direct risk management approaches and a continued focus on delivery body governance. I am pleased that the opinion has improved to 'moderate' this year. I am encouraged by the recognition that progress has been made and I am committed to continuing improvements over the coming year.

**Bernadette Kelly CB**

5 September 2018

Permanent Secretary and Principal Accounting Officer, Department for Transport  
Great Minster House  
33 Horseferry Road  
London SW1P 4DR





# People and Remuneration Report

# Our People

## Introduction

2.92 Our vision for the Department is of a place where people can bring their whole selves to work and where everyone is able to fulfil their potential, and feel proud and happy to work here. We are a Department that is ambitious, outward facing, one team and a great place to work.

We embed within this the **Civil Service Vision** of:

*“A Brilliant Civil Service that helps to keep the United Kingdom prosperous and secure, supporting the governments we serve in implementing their commitments and delivering high quality services for the public.”*



## Our successes and celebrations this year

2.93 In September 2017 we launched our diversity and inclusion strategy, **‘Different People: One Team’**. We all want the Department to be a truly great place to work – somewhere people feel safe and comfortable to be themselves. Our strategy is based on five goals. By 2021 we want:

- › To be one of the most inclusive departments in the Civil Service.
- › To better reflect local working populations in all grades, roles and professions – with a particular focus on senior roles where the gaps are greatest.
- › To attract, recognise and nurture diverse talent.
- › Our staff networks to be amongst the best in the Civil Service and transport sector.
- › To make sure everyone understands the importance of diversity and inclusion and how we will all play a part in making it happen.





2.94 We also launched our **Wellbeing Action Plan 2018** to support our aspiration that all line managers are having wellbeing conversations with their team members as part of their regular 1:1s.



2.95 We ran an all staff consultation to co-design our new **performance management system**. Our new approach puts quality conversations and timely feedback at its heart.



2.96 To deliver our **Modernising our Working Environment programme**, over 800 staff attended 'The Big Idea' design exhibition and shared their views as part of our discovery work on the future of Great Minister House, our future technology and software offer.



2.97 We launched the **Year of Engineering**, a cross-government campaign led by the Department which aims to tackle the engineering skills gap by raising the profile of UK engineering and widening the pool of young people that consider a career in the profession.



In December, Ruth Hannant and Polly Payne joined as Directors General for Rail Group this is the first job-share role at director general-level in the Civil Service and were subsequently included in Timewise's Power 50 most influential job-share list. Timewise is an independent organisation championing flexible working. Power 50 is their annual celebration of the people and organisations that prove flexible working is no barrier to success.



2.99 The Department was recognised for its leadership on workplace gender equality by being included in The Times Top 50 Employers for Women 2017.



2.100 Business in the Community named the Department as one of the **UK's Best Employers for Race**. We had to show evidence that we're putting leadership on race into place within our organisation and creating inclusive workplace cultures.



2.101 Kul Bassi, chair of the Positive Support Group (PSG) staff network won the Champion of Champions award at the Civil Service Awards. Winning for the tangible difference he has made to the way people feel about working in our Department. He was commended for being an inspiring leader which has helped grow the membership of the PSG network to nearly 80% of BAME people in DfT.



2.102 Szilvia Varadi from High Speed Rail and Major Rail Projects Group won the **'A Brilliant Civil Service'** monthly award for March. This was for her work leading on the provision of analytical and economic advice for commercial and operational decisions relating to HS2 and for the exceptional feedback she has received from colleagues and peers.



2.103 In December 2018, Nurjahan Khatun of High Speed Rail and Major Projects group won a prestigious award from the Association for Project Management. The award was from the **'Inspiration'** category for her exceptional personal contribution to charity work – all of which have used her strong project management skills and expertise.

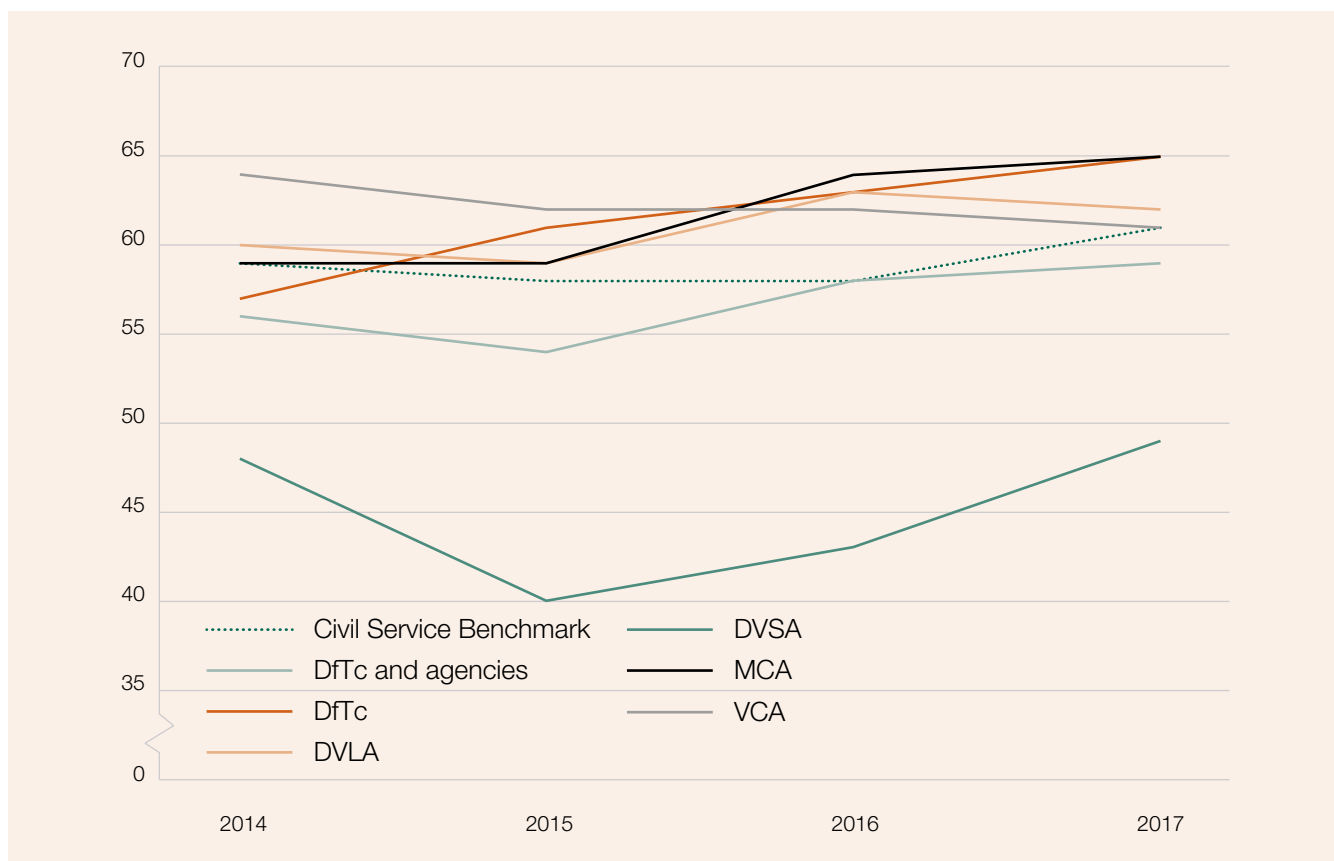
## Employee Engagement

2.104 The Civil Service People Survey 2017 pitched DfTc and MCA towards the top with one of the highest staff engagement scores in Whitehall. We also had and great results on leading and managing change, diversity, inclusion and wellbeing and on learning and development.

2.105 The central Department and our agencies' overall engagement score has continued to increase year on year to 59%. DVLA and VCA are also now at or above the Civil Service benchmark. Further information can be found at: [Civil Service People Survey](#).

**Table 20: Civil Service People Survey engagement scores 2014 to 2017**

Engagement Index	2017	2016	2015	2014
Civil Service	61	58	58	59
DfTc and agencies	59	58	54	56
DfTc	65	63	61	57
DVLA	62	63	59	60
DVSA	49	43	40	48
MCA	65	64	59	59
VCA	61	62	62	64



## Our staff numbers

The following section is subject to audit.

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

**Table 21: Staff numbers (Departmental Group including delivery bodies)<sup>1</sup>**

Average Number of staff					2017-18	2016-17
	Permanently employed staff	Others	Ministers	Special advisers	Total	Total
Average number of persons employed	58,823	1,675	5	2	60,505	58,466
<b>Of which:</b>						
Central Department	2,322	84	5	2	2,413	2,198
Agencies	6,492	23	-	-	6,515	6,691
Other delivery bodies	50,016	1,556	-	-	51,572	49,577

<sup>1</sup> Excluding DVSA which is outside of the accounting boundary.

**Table 22: Staff costs (Departmental Group including delivery bodies)<sup>1</sup>**

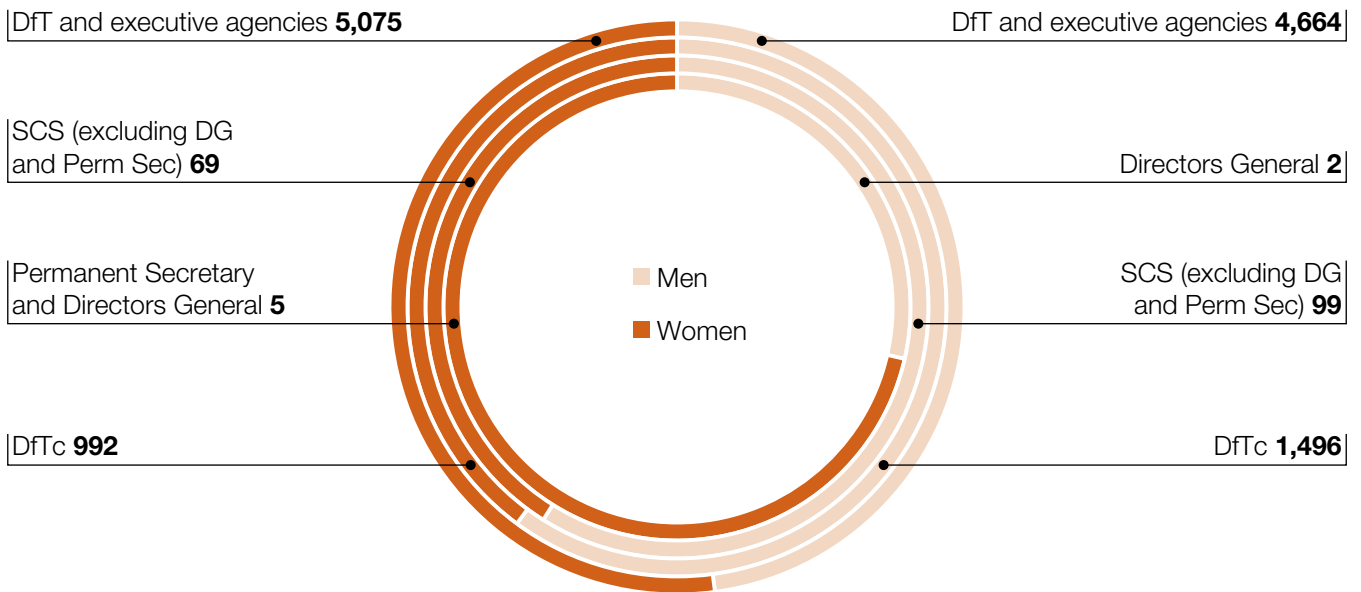
					2017-18	2016-17
	Permanently employed staff £m	Other Staff £m	Ministers £m	Special advisers £m	Total £m	Total £m
Wages and salaries	2,710.7	64.9	0.2	0.1	2,775.9	2,617.6
Social security costs	289.5	0.3	-	-	289.8	276.4
Other pension costs	389.6	0.5	-	-	390.1	223.3
<b>Sub Total</b>	<b>3,389.8</b>	<b>65.7</b>	<b>0.2</b>	<b>0.1</b>	<b>3,455.8</b>	3,117.3
Less recoveries in respect of outward secondments	(1.5)	-	-	-	(1.5)	(1.0)
Less capitalised staff costs	(1,063.9)	(18.8)	-	-	(1,082.7)	(1,080.1)
<b>Total Net Costs</b>	<b>2,324.4</b>	<b>46.9</b>	<b>0.2</b>	<b>0.1</b>	<b>2,317.6</b>	2,036.2
<b>Of the total:</b>						
Core Department & Agencies	389.9	20.3	0.2	-	410.5	398.5
Departmental Group	2,324.4	46.9	0.2	0.1	2,317.6	2,036.2

<sup>1</sup> Excluding DVSA which is outside of the accounting boundary.

## Number of persons of each sex who were employees of the Department and its executive agencies as at 31 March 2018<sup>1</sup>

	Men	Women
Number of persons of each sex who were directors of the entity Permanent Secretary and Directors General	2	5
Number of persons of each sex who were senior managers of the entity Members of the Senior Civil Service (excluding above)	99	69
Number of persons of each sex who were employees of the entity Employees in (i) DfTc and (ii) DfT including agencies	i) 1,496 ii) 4,664	i) 992 ii) 5,075

<sup>1</sup> Excluding DVSA which is outside of the accounting boundary.



# Diversity and Inclusion at DfT

2.107 The Department has agreed equality objectives that set out our aims for promoting equality of opportunity and that reflect the breadth of our work, covering both our workforce and our business priorities.

2.108 Our Vision is for a Department that is ambitious, outward-facing, one team and a great place to work. We want to lead the way on inclusion in the Civil Service and across the transport sector. To keep Britain moving it is essential to attract people from all walks of life and to make the most of everyone's talents. In 2017 we published our first Diversity and Inclusion strategy, *Different People. One Team*. Further information can be found at: [Diversity and Inclusion at DfT](#).

2.109 In addition to the over-arching strategy, each part of DfT Group has its own **Inclusion Action Plan**. These are aligned to our 5 goals and set out the activity underway in each of our business areas. We plan to review our progress one year on later in 2018 against the 5 goals.

2.110 DfT publishes its equality monitoring data annually on the gov.uk website. Further information can be found at: [DfT Equality Monitoring 2016 to 2017](#).

2.111 Although the Department is doing better than many government departments in dealing with bullying and harassment, our People Survey 2017 results on this issue are still much higher than we want them to be.

2.112 In January 2018, we launched our **bullying and harassment toolkit** which is for everyone and particularly line managers and senior leaders. It can be used to build understanding and tackle issues and instances of bullying and harassment by building a more inclusive culture within teams.

2.113 At DfT we use the **'Be yourself'** campaign to encourage everyone to feel able to bring their whole self to work. The aim is to make everyone feel valued for who they are and what they bring to the Department.

2.114 Bernadette Kelly is the **Social Mobility Champion** for the Civil Service. At Executive Committee level we have senior champions who take personal responsibility for leading and supporting their area. The champions are: **gender, age and carers** (Ruth Hannant and Polly Payne), **LGBTi** (Nick Joyce), **disability** (Lucy Chadwick), **race and faith** (Tricia Hayes), **social mobility** (Rachael Etebar) **wellbeing** (Clive Maxwell). They act as change agents, responsible for reiterating the central Department's commitment to becoming one of the leading government departments in promoting good practice on diversity and inclusion in employment.

## Staff networks

2.115 There are a range of staff networks in DfTc, providing support in a number of ways. They aren't just important for employees. These networks also have the potential to provide a wide range of benefits that come from having a collective voice, as well as building a sense of community and cohesion.

- ▶ The **Ability Network** is for anyone who is disabled or who has an interest in disability related issues.
- ▶ The **Carers' Network** helps carers in DfTc to have their needs and responsibilities understood.
- ▶ **Christians in Government** supports and encourages Christians at HQ.
- ▶ The **Employees with Young Families Network** supports, informs and inspires employees with young families.
- ▶ The aim of the **Gender Equality Network** is to close the gender gap, through discussion, support and inspiration.
- ▶ The **LGBT+ Network** support staff in the workplace and helps facilitate change across DfTc.

- ▶ The **Muslim Network** engages, advises and empowers all colleagues about Islam.
- ▶ The **Positive Support Group** is DfTc's multi award-winning Black, Asian Minority Ethnic (BAME) staff network.
- ▶ The **Young People's Network** supports and informs young people throughout their journey within DfTc.

2.116 The Department's gender pay gap information is published as part of the **DfT Gender Pay Gap Report**. Our mean gender pay gap (GPG) is **16.9%** and our median pay gap is **22.6%**. Our GPG is driven by the larger proportion of female employees in more junior grades, and larger proportion of male employees in more senior grades, as well as the fact there are fewer women in some of the specialist, technical roles which attract additional allowances. Work to tackle the gap includes attracting more women to apply for roles where they're traditionally underrepresented, supporting flexible working, investing in our excellent staff networks and supporting talented women to progress through the organisation. Further information can be found at [DfT Gender Pay Gap Report 2017](#).

## Promoting DfT as a Disability Confident Employer

2.117 This year, the Department of Work and Pensions accredited DfT as a '**Disability Confident Leader Level 3**' employer. The Disability Confident scheme encourages employers to become more confident about employing disabled staff. DVLA has also been accredited as a 'Disability Confident Leader Level 3' employer, so that they could be listed separately and support Welsh organisations directly.



2.118 DfT's accreditation is testament to the hard work of our champions, the Ability Network and colleagues across the Department. This is a great step that shows a real commitment to recruiting, retaining and developing disabled colleagues.

2.119 As part of recruitment activity in the Department, the assessment team have changed the way we interview and select successful candidates, introducing a blended interview technique. Testing for strengths as well as experience has been demonstrated to improve the success of candidates with less direct experience but who have skills to do the job. This should improve the chances of success for younger candidates and candidates from under-represented groups. In recognition of this work, the Department was a shortlisted finalist for the Recruitment Industry Disability Initiative Awards for the category of 'extending the reach'. During the recruitment process itself applications are welcomed from all individuals and we make sure to understand what adjustments candidates might need to help them to perform at their best. Our hiring managers also all undergo unconscious bias training.

2.120 We want to ensure that anyone with a disability is able to develop, prosper and fulfil their potential on a level playing field. The workplace adjustment team and occupational health provider are there to help individuals identify what workplace adjustments they might need. It is also good practice to consider a workplace adjustment for anyone, not just those with a disability, who experiences a barrier or difficulty at work. These adjustments might be equipment or specialist software, or involve job carving where the role is redesigned around the needs of a specific disability.

2.121 We have disability networks across DfT, each championed locally by a board-level champion. Our staff network for disability in DfTc (The Ability Network), helps to ensure maximum exposure of messaging across the organisation and has provided support on disability, workplace adjustments and accessible technology. Network members have provided coaching and mentoring for dyslexic and dyspraxic employees and have worked with the Department in developing and running a disability confident training programme for managers and staff. Part of the activities the Ability Network leads on include: learning sessions, speakers and other development for their members to build their skills and confidence.

## Employee Policy

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

2.123 Facility time is granted to accredited representatives for trade union duties (TUD) and trade union activities (TUA) in line with legislation, the Cabinet Office framework on trade union facilities and departmental policy set out in the Staff Handbook. Trade union representatives must also have an official role that will normally take up at least 50% of their paid time.

2.124 The trade union side in DfT is made up of FDA, PCS and Prospect unions. In addition, drivers in the Government Car Service are represented by Unite.

2.125 The data for 2017-18 takes into account paid facility time granted to the trade union side in: the central Department (including Government Car Service); the Driver and Vehicle Licensing Agency; the Driver and Vehicle Standards Agency; the Maritime and Coastguard Agency; and the Vehicle Certification Agency.

**TU representative** – the total number of employees who were TU representatives during the relevant period.

Number of employees who were relevant union officials during the relevant period	FTE employee number
135	13468.71 <sup>1</sup>

**Percentage of time spent on facility time** – the number of employees who were TU representative officials employed during the relevant period.

Percentage of time	Number of employees
0%	45
1-50%	89
51%-99%	1
100%	-

**Percentage of pay bill spent on facility time** – the cost to the Department of trade union facility time represents 0.05% of the pay bill.

Total cost of facility time	£263,920
Total pay bill	£559,840,038 <sup>2</sup>
Percentage of the total pay bill spent on facility time, calculated as: (total cost of facility time ÷ total pay bill) x 100	0.05%

**Paid TU activities** – as a percentage of total paid facility time hours, the number of hours spent by employees who were TU representatives during the relevant period on paid TU activities.

Time spent on paid TU activities as a percentage of total paid facility time hours calculated as: (total hours spent on paid TU activities by TU representatives during the relevant period ÷ total paid facility time hours) x 100	0% <sup>3</sup>
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- 1 Based on average monthly FTE March 2017-April 2018.
- 2 Based on payroll data March 2017-April 2018 for DfT(c), DVLA, DVSA, MCA and VCA only.
- 3 Departmental policy is that trade union activity does not attract paid facility time.

2.126 Average working days lost to sickness absence for the 12 month period ending 31 March 2018 for DfTc and its executive agencies was 8.4 days. This is no change compared to the year ending 31 March 2017. All absence is reviewed to ensure that support is offered and occupational health reports, action plans and interventions are progressed as appropriate. The Department has a working group which considers work to improve wellbeing and reduce sickness absence, and has a programme in place to support staff and improve wellbeing.

## Resourcing at DfT

2.127 The Department and its executive agencies have control systems requiring recruitment to be approved by Departmental HR directors and controlled from a single point across DfT. The number of posts agreed for external recruitment during 2017-18 was 1,653.

2.128 In 2017-18 there were 107 exceptions to the general recruitment principles in relation to fair and open competition. These were spread among the agencies and the central Department in a manner consistent with recruitment volume. Temporary appointments up to two years remain the most common use of exception accounting for more than half of the total (77).



## Service contracts

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

2.130 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.

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

## The Department's role in building capability in our industry

2.132 The **Transport Infrastructure Skills Strategy** was published in January 2016 to set out plans to address the skills gap in the transport sector. The strategy sets out stretching ambitions for the creation of apprenticeships, improving diversity, and recognising the need to collaborate across the sector. It recommended the creation of an industry led body to drive progress – **the Strategic Transport Apprenticeship Taskforce (STAT)**.

2.133 Since its inception, STAT has broadened its membership and includes representation from road and rail delivery bodies and the maritime, freight, haulage and aviation sectors. It is committed to publishing progress on the ambitions set out in the Transport Infrastructure Skills Strategy annually with the first annual report published in July 2017. STAT's second progress report provides an update to the number of apprenticeships created in the sector and highlights that **5,066 apprenticeships** have been created since 2016 in roads and rail bodies; which is **12% ahead** of forecasted starts to date. There are commitments to creating more apprenticeships more widely across the sector; 10,000 apprenticeship opportunities at Heathrow by 2030; demand for 8,000 apprentice starts per year in express delivery and 1,200 maritime cadet starts, a rise from 750 per annum. For women, performance against targets has remained static and there is a clear need to do better in the coming years. In contrast, BAME representation has increased and the reporting rate improved over the last year.

2.134 Progress reports and forecast data can be found online at: <https://www.gov.uk/government/publications/transport-infrastructure-skills-strategy-two-years-on>

2.135 2018 has also seen the launch of the **Year of Engineering**, a communications campaign to raise the profile of engineering training and jobs to encourage more young people and their influencers to consider a career in engineering. The campaign has attracted strong interest both within and beyond the transport sector. Further information can be found at: <https://www.yearofengineering.gov.uk/about>



# Remuneration

## Remuneration policy – Senior Civil Service

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

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

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

## Performance management

2.139 Performance against Cabinet Office determined core objectives, and relative to SCS peers, determines allocation to a performance group, to which non-consolidated variable pay is linked. There are 3 performance groups:

- ▶ Top – top 25% of performers;
- ▶ Achieving – next 65% of performers;
- ▶ Low – bottom 10% of performers.

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

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

2.142 Performance group determines the eligibility point for non-consolidated performance pay determination. For 2017-18, only the top 25% of performers received an award.

2.143 In 2017-18, base pay increases were available for members of the SCS who were in the 'top' and 'achieving' performance groups in line with SCS pay policy determined by the Cabinet Office.

## Number of Senior Civil Service staff by band

2.144 The number of Senior Civil Servants employed by the Department, including its executive agencies, as at 31 March 2018, is provided in **Table 24**.

**Table 23: Number of Senior Civil Service (SCS) staff within the Department and its agencies by salary range**

Distribution of senior civil service salaries within the Department <sup>1</sup>			
Salary Range <sup>2</sup>	Staff numbers <sup>3</sup>	Salary Range	Staff numbers
£65,000-£69,999	-	£115,000-£119,999	4
£70,000-£74,999	52	£120,000-£124,999	4
£75,000-£79,999	35	£125,000-£129,999	4
£80,000-£84,999	23	£130,000-£134,999	4
£85,000-£89,999	8	£135,000-£139,999	1
£90,000-£94,999	14	£145,000-£149,999	1
£95,000-£99,999	5	£160,000-£164,999	1
£100,000-£104,999	10	£260,000-£264,999	1
£105,000-£109,999	6		
£110,000-£114,999	8	<b>Total SCS Staff Numbers</b>	<b>181</b>

- Information is for all Senior Civil Servants in the Department and its agencies at 31 March 2018 and includes those on fixed-term contracts and paid loans in (but excludes outward loans and secondments). Salary is the basic annual full-time equivalent salary effective from 31 March 2018 and excludes non-consolidated performance related pay.
- The minimum annual salary for SCS is £66,000 national and £70,000 in London.
- Staff numbers are actual, not full-time equivalents, so a part-time member of staff counts as 1.

## Pay and Performance Committee

2.145 This committee comprises DfT's Permanent Secretary (as Chairperson), all directors general and the group HR director. For the year to 31 March 2018, its members were:

<b>Bernadette Kelly</b>	Permanent Secretary, Department for Transport
<b>Lucy Chadwick</b>	Director General, International, Security and Environment
<b>David Prout to 11/07/2017</b>	Director General, High Speed 2
<b>Michael Hurn from 12/07/2017 to 19/11/2017</b>	Director General, High Speed 2
<b>Clive Maxwell from 20/11/2017 onwards</b>	Director General, High Speed and Rail Major Projects
<b>Jonathan Moor to 31/12/2017</b>	Director General, Resources and Strategy
<b>Nick Joyce from 1/01/2018 onwards</b>	
<b>Nick Joyce to 26/11/2017</b>	Director General, Rail
<b>Polly Payne and Ruth Hannant from 27/11/2017 onwards</b>	
<b>Patricia Hayes</b>	Director General, Roads, Devolution & Motoring
<b>Rachael Etebar</b>	Group HR Director

2.146 The committee's remit includes making pay and talent decisions for directors and deputy directors. The Permanent Secretary decides on pay for directors general.

## Remuneration (including salary) and pension entitlements

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

### Executive board members

#### Salary

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

#### Bonuses

2.148 Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses are paid in arrears and relate to the performance in the prior year in which they become payable to the individual. The bonuses reported in 2017-18 relate to performance in 2016-17 and the comparative bonuses reported for 2016-17 relate to the performance in 2015-16.

#### Benefits in kind

2.149 The monetary value of benefits in kind covers any benefits provided by the Department and treated by HM Revenue and Customs as a taxable emolument. There were no benefits in kind reported in 2017-18 for executive board members.

**Table 24: Officials' remuneration<sup>1</sup>**

Officials	2017-2018				2016-2017			
	Salary (£000)	Bonus Payments (£000)	Pension Benefits (£000)	Total Benefits (£000)	Salary (£000) <sup>2</sup>	Bonus Payments (£000)	Pension Benefits (£000)	Total Benefits (£000)
<b>Bernadette Kelly</b> Director General (to 17 April 2017) Permanent Secretary (from 18 April 2017) Full year equivalent	165-170	-	167 <sup>3</sup>	330-335	145-150	5-10	54	205-210
<b>Lucy Chadwick</b> Director General	130-135	15-20	45	195-200	130-135	15-20	66	215-220
<b>Patricia Hayes</b> Director General	125-130	-	35 <sup>5</sup>	160-165	125-130	-	281 <sup>4</sup>	405-410
<b>Nick Joyce</b> Acting Director General (from 25 April – 11 December 2017) Director General (from 12 December 2017) Full year equivalent	130-135  135-140	-	59	190-195	-	-	-	-
<b>Clive Maxwell</b> Director General (from 20 November 2017) Full year equivalent	50-55  145-150	-	7	60-65	-	-	-	-
<b>Ruth Hannant</b> Director General (from 27 November 2017) Full year equivalent	25-30  125-130	-	60	85-90	-	-	-	-
<b>Polly Payne</b> Director General (from 27 November 2017) Full year equivalent	25-30  125-130	-	57	80-85	-	-	-	-

**Table 24: Officials' remuneration<sup>1</sup>**

Officials	2017-2018				2016-2017			
	Salary (£000)	Bonus Payments (£000)	Pension Benefits (£000)	Total Benefits (£000)	Salary (£000) <sup>2</sup>	Bonus Payments (£000)	Pension Benefits (£000)	Total Benefits (£000)
<b>Philip Rutnam<sup>6</sup></b> Permanent Secretary (to 3 April 2017) Full year equivalent	0-5 170-175	-	5	5-10	170-175	-	52	220-225
<b>Jonathan Moor</b> Acting Permanent Secretary (to 23 April 2017) Director General (24 April 2017 – 1 January 2018) Full Year equivalent	95-100 140-145	5-10	-4 <sup>7</sup>	95-100	130-135	15-20	25	170-175
<b>David Prout</b> Director General (to 11 July 2017) Full year equivalent	50-55 150-155	5-10	11	65-70	165-170	-	34	195-200
<b>Michael Hurn</b> Acting Director General (from 23 June – 23 November 2017) Full year equivalent	50-55 130-135	-	52	105-110	-	-	-	-

- 1 Pension data is provided by My CSP. The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights.
- 2 HM Treasury approved the payment of role-specific allowances for both David Prout and Bernadette Kelly in 2016-17. David Prout received £30,000 of which £10,000 was a backdated payment in relation to 2015-16. Bernadette Kelly received £10,000. These allowances are non-pensionable.
- 3 Bernadette Kelly's pension benefit assessment during 2017-18 reflects the one-off impact of her change in role.
- 4 Patricia Hayes contributes to a section of the PCSPS pension scheme in which final salary is a key determinant of future pension rights. The pension benefits assessed for Ms Hayes during 2016-17 reflect the one-off impact of her change in role.
- 5 Patricia Hayes' pension for 2017-18 reflects the move from final salary pension scheme to alpha. The final salary pension of a person in employment is calculated by reference to their pay and length of service. The pension will increase from one year to the next by virtue of any pay rise during the year. Where there is no or a small pay rise, the increase in pension due to extra service may not be sufficient to offset the inflation increase – that is, in real terms, the pension value can reduce, hence the negative values.
- 6 Philip Rutnam has a preserved pension relating to prior employment. A proportion of his pension benefit refers to changes in this preserved element.
- 7 Jonathan Moor's pension for 2017-18 reflects the move from final salary pension scheme to alpha. The final salary pension of a person in employment is calculated by reference to their pay and length of service. The pension will increase from one year to the next by virtue of any pay rise during the year. Where there is a small or no pay rise, the increase in pension is not sufficient to offset the inflation increase – that is, in real terms, the pension value can reduce, hence the negative values.

**Table 25: Pension benefits (officials)**

Officials	Accrued pension at Pension age as at 31/3/2018 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31/3/2018 £000	CETV at 31/3/2017 £000	Real increase in CETV £000
<b>Bernadette Kelly</b> <sup>1</sup> Director General (to 17 April 2017) Permanent Secretary (from 18 April 2017)	55 - 60 plus a lump sum of 175 - 180	7.5 - 10 plus a lump sum of 22.5 - 25	1201	987	145
<b>Lucy Chadwick</b> Director General	55-60	2.5 - 5	909	823	17
<b>Patricia Hayes</b> <sup>2</sup> Director General (from 21 March 2016)	45 - 50 plus a lump sum of 120 - 125	0 - 2.5 plus a lump sum of 0	837	772	13
<b>Nick Joyce</b> Acting Director General (from 25 April – 11 December 2017) Director General (from 12 December 2017)	30 - 35	2.5 - 5	417	359	28
<b>Clive Maxwell</b> Director General (from 20 November 2017)	50 - 55 plus a lump sum of 120 - 125	0- 2.5 plus a lump sum of 0	781	771	-
<b>Ruth Hannant</b> Director General (from 27 November 2017)	20 - 25 plus a lump sum of 55 - 60	2.5 - 5 plus a lump sum of 5 - 7.5	331	282	37
<b>Polly Payne</b> Director General (from 27 November 2017)	20 - 25 plus a lump sum of 50 - 55	2.5 - 5 plus a lump sum of 5 - 7.5	361	306	41
<b>Philip Rutnam</b> Permanent Secretary (to 3 April 2017)	65 - 70 plus a lump sum of 140 - 145	0 – 2.5	1212	1209	2
<b>Jonathan Moor</b> <sup>3</sup> Acting Permanent Secretary (to 23 April 2017) Director General (24 April 2017 – 1 January 2018)	60 - 65	0 – 2.5	1076	1019	-13
<b>David Prout</b> Director General (to 11 July 2017)	15 - 20	0 – 2.5	321	306	10
<b>Michael Hurn</b> Acting Director General (from 23 June – 23 November 2017)	25 - 30 plus a lump sum of 60 - 65	2.5 - 5 plus a lump sum of 0 - 2.5	433	378	29

1 Bernadette Kelly's pension benefit assessment during 2017-18 reflects the one-off impact of her change in role.

2 Patricia Hayes' pension for 2017-18 reflects the move from final salary pension scheme to alpha. The final salary pension of a person in employment is calculated by reference to their pay and length of service. The pension will increase from one year to the next by virtue of any pay rise during the year. Where there is no or a small pay rise, the increase in pension due to extra service may not be sufficient to offset the inflation increase – that is, in real terms, the pension value can reduce, hence the negative values.

3 Jonathan Moor's pension for 2017-18 reflects the move from final salary pension scheme to alpha. The final salary pension of a person in employment is calculated by reference to their pay and length of service. The pension will increase from one year to the next by virtue of any pay rise during the year. Where there is a small or no pay rise, the increase in pension is not sufficient to offset the inflation increase – that is, in real terms, the pension value can reduce, hence the negative values.

4 In 2017-18 a number of officials pension related lump sums have been affected by the one off impact of their promotion and change of role.

## Civil Service Pensions

**2.150** Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the **Civil Servants and Others Pension Scheme** or **alpha**, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the **Principal Civil Service Pension Scheme (PCSPS)**. The PCSPS has 4 sections: 3 providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

**2.151** These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with pensions increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', those with earlier benefits in one of the final salary sections of the PCSPS have these benefits based on their final salary when they leave alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

**2.152** Employee contributions are salary-related and range between 4.6% and 8.05% of pensionable earnings for members of classic, premium, classic plus, nuvos and alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to 3 years initial pension is payable on retirement.

**2.153** For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with pensions increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

**2.154** The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

**2.155** The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus, 65 for members of nuvos, and the higher of 65 or State Pension Age for members of alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages).

**2.156** Further details about the Civil Service pension arrangements can be found at:  
[www.civilservicepensionscheme.org.uk](http://www.civilservicepensionscheme.org.uk)

## Cash equivalent transfer values

2.157 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.

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

## Real increase in the value of the CETV

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

## Ministers

The following sections on ministerial remuneration and pension disclosures are subject to audit.

### Salary

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

2.161 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 (£76,011 from April 2017, £74,962 from 1 April 2016) and various allowances to which they are entitled are borne centrally.

2.162 However, the arrangement for ministers in the House of Lords is different in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and is therefore shown in full in **Table 27**.

### Benefits in kind

2.163 The monetary value of benefits in kind covers any benefits provided by the Department and treated by HM Revenue and Customs as a taxable emolument. There were no benefits in kind reported in 2017-18 for ministers.

### Compensation for loss of office

The following section is subject to audit.

2.164 The Rt Hon John Hayes MP left government on 9 January 2018. He received a compensation payment of £7,920.



**Table 26: Ministers' remuneration<sup>1</sup>**

Ministers	2017-18 Salary (£)	Pension benefits (to nearest £1000)	Total benefits (to nearest £1000)	2016-17 Salary (£)	Pension benefits (to nearest £1000)	Total benefits (to nearest £1000)
<b>Rt Hon Chris Grayling MP</b> Secretary of State (from 14 July 2016) Full-year equivalent	67,505	17,000	85,000	45,003 67,505	13,000	58,000
<b>Jo Johnson MP</b> Minister of State (from 10 January 2018) Full year equivalent	7,154 31,680	2,000	9,000	-	-	-
<b>Jesse Norman MP</b> Parliamentary Under Secretary of State (from 14 June 2017) Full year equivalent	17,838 22,375	5,000	23,000	-	-	-
<b>Baroness Sugg CBE</b> (from 27 October 2017) <sup>2</sup> Full-year equivalent	-	9,000	9,000	-	-	-
<b>Nusrat Ghani MP</b> Assistant Chief Whip and Parliamentary Under Secretary of State (from 10 January 2018) <sup>3</sup> Full year equivalent	-	1,000	1,000	-	-	-
<b>Rt Hon John Hayes MP</b> Minister of State (from 15 July 2016 to 9 January 2018) Full-year equivalent	24,526 31,680	5,000	30,000	21,120 31,680	6,000	27,000
<b>Andrew Jones MP</b> Parliamentary Under Secretary of State (from 12 May 2015 to 14 June 2017) Full year equivalent	4,599 22,375	6,000	10,000	22,375	6,000	28,000
<b>Lord Ahmad of Wimbledon</b> Parliamentary Under Secretary of State (from 12 May 2015 to 12 June 2017) Full year equivalent	14,494 72,470	4,000	18,000	72,470	18,000	90,000
<b>Paul Maynard MP</b> Parliamentary Under Secretary of State (from 15 July 2016 to 9 January 2018) Full year equivalent	17,323 22,375	4,000	22,000	15,879 22,375	4,000	20,000
<b>Lord Callanan</b> Parliamentary Under Secretary of State (from 14 June to 26 October 2017) Full year equivalent	38,575 105,076	5,000	44,000	-	-	-
<b>Rt Hon Patrick McLoughlin MP</b> Secretary of State (until 13 July 2016) Full year equivalent	-	-	-	19,235 67,505	8,000	27,000
<b>Robert Goodwill MP</b> Minister of State (until 14 July 2016) Full year equivalent	-	-	-	10,560 31,680	2,000	13,000
<b>Claire Perry MP</b> Parliamentary Under Secretary of State (until 15 July 2016) Full year equivalent	-	-	-	6,496 22,375	2,000	8,000

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

2 Baroness Sugg's DfT role is unpaid.

3 Nusrat Ghani is not paid a ministerial salary by DfT.

## Ministerial Pensions

The following section is subject to audit.

2.165 Pension benefits for ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is made under statute and the rules are set out in the Ministers' etc. Pension Scheme 2015. Further information about this scheme can be found at:

[Rules of the parliamentary contributory pension fund.](#)

2.166 Those ministers who are Members of Parliament may also accrue an MP's pension under the PCPF (details of which are not included in this report). A new MP's pension scheme was introduced from May 2015, although members who were aged 55 or older on 1 April 2013 have transitional protection to remain in the previous MP's final salary pension scheme.

2.167 Benefits for ministers are payable from state pension age under the 2015 scheme. Pensions are re-valued annually in line with pensions increase legislation both before and after retirement. The contribution rate from May 2015 is 11.1% and the accrual rate is 1.775% of pensionable earnings.

2.168 The figure shown in **Table 28** for pension value includes the total pension payable to the member under both the pre- and post-2015 ministerial pension schemes.

**Table 27: Pension benefits (ministers)**

Ministers	Accrued pension at age 65 as at 31/3/2018 £000	Real increase in pension at age 65 £000	CETV at 31/03/2018 £000	CETV at 31/03/2017 £000	Real increase in CETV funded by taxpayer £000
<b>Rt Hon Chris Grayling MP</b> Secretary of State (from 14 July 2016)	10 -15	0-2.5	170	146	8
<b>Jo Johnson MP</b> Minister of State (from 10 January 2018)	0-5	0-2.5	41	39	1
<b>Jesse Norman MP</b> Parliamentary Under Secretary of State (from 14 June 2017)	0-5	0-2.5	17	12	3
<b>Baroness Sugg CBE</b> (from 27 October 2017)	0-5	0-2.5	9	3	2
<b>Nusrat Ghani MP</b> Assistant Chief Whip and Parliamentary Under Secretary of State (from 10 January 2018)	0-5	0-2.5	1	-	-
<b>Rt Hon John Hayes MP</b> Minister of State (from 15 July 2016 to 9 January 2018)	5-10	0-2.5	117	106	3
<b>Andrew Jones MP</b> Parliamentary Under Secretary of State (from 12 May 2015 to 14 June 2017)	0-5	0-2.5	14	10	4
<b>Lord Ahmad of Wimbledon</b> Parliamentary Under Secretary of State (from 12 May 2015 to 12 June 2017)	5-10	0-2.5	73	68	1
<b>Paul Maynard MP</b> Parliamentary Under Secretary of State (from 15 July 2016 to 9 January 2018)	0-5	0-2.5	6	3	1
<b>Lord Callanan</b> Parliamentary Under Secretary of State (from 14 June to 26 October 2017)	0-5	0-2.5	6	-	3

## Cash equivalent transfer values

**2.169** A cash equivalent transfer value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total ministerial service, not just their current appointment as a minister. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from lifetime allowance tax which may be due when pension benefits are taken.

## Real increase in the value of the CETV

**2.170** This reflects the increase in CETV that is funded by the Exchequer. It does not include the increase in accrued pension due to inflation, contributions paid by the minister (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.

## Non-Executive Board Members

The following sections on Non-Executive Board Members' remuneration and pension disclosures are subject to audit.

**2.171** Each of the Non-Executive Board Members (NEBMs), Ian King, Richard Keys, Tony Poulter, Richard Aitken-Davies and Tracy Westall, is entitled to claim annual fees, currently £15,000 per year, and reasonable expenses (including travel and subsistence in line with the Department's policy on such expenses).

**2.172** Ian King, as the Lead NEBM, receives an additional £5,000 in recognition of his role. Richard Keys, as Chair of the Department's Group Audit and Risk Assurance Committee (GARAC), receives an additional £5,000 per annum in recognition of this role. Ed Smith and Mary Reilly, as the outgoing Lead NEBM and Chair of GARAC, respectively, were paid these uplifts pro-rata for the final parts of their terms of appointment. Richard Brown's fee was set at the standard rate, but his appointment ended in September 2017.

**2.173** Non-executive board members are appointed on fixed terms. Their fees for 2017-18 are set out in the table below.

**2.174** In addition, the membership of the GARAC includes the Chairs of the Audit Committees for Highways England and Network Rail who receive a fee for attending and preparing for meetings. Amarjit Akhtar did not receive a fee while he was a Civil Service employee, but has received a fee at the standard rate for GARAC members since he has retired.

Non-Executive Board Members	2017-18 (£000)	2016-17 (£000)
<b>Ian King</b> (Lead non-executive – appointment started 1 November 2017)	5-10	N/A
<b>Tony Poulter</b> (appointment started 20 September 2016)	15-20	5-10
<b>Richard Aitken-Davies</b> (appointment started 1 November 2017)	5-10	N/A
<b>Tracy Westall</b> (appointment started 1 November 2017)	5-10	N/A
<b>Richard Keys<sup>1</sup></b> (appointment started 1 December 2017. Chair of GARAC effective from 1 April 2018)	5-10	N/A
<b>Ed Smith</b> (appointment ended 31 December 2017)	15-20	20-25
<b>Mary Reilly</b> (appointment ended 31 March 2018)	20-25	20-25
<b>Richard Brown</b> (appointment ended 30 September 2017)	5-10	15-20
Group Audit and Risk Assurance Committee	2017-18 (£000)	2016-17 (£000)
<b>David Hughes</b>	0-5	0-5
<b>Bridget Rosewell</b>	0-5	0-5
<b>Amarjit Atkar</b>	0-5	N/A
<b>Niamh McBreen</b>	-	N/A

<sup>1</sup> Richard Keys, the new chair of GARAC, also receives emoluments as a non-executive director of NATS Holdings Ltd, which is an organisation that DfT has a 48.9% investment stake in (see **Note 10** of the financial statements for further information).

## Pay multiples for DfT and its executive agencies

The following section is subject to audit.

**2.175** Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid executive board member in their organisation and the median remuneration of the organisation's workforce. The banded remuneration of the highest paid executive board member in the Department in the financial year 2017-18 was £160,000-165,000 (2016-17: £170,000- 175,000). This was 6.3 times (2016-17, 6.9) the median remuneration of the workforce, which was £25,329 (2016-17, £24,876). The cause of the decrease in pay multiples for 2017-18 is that the highest paid member of the board in 2017-18 received lower remuneration than the highest paid member of the board in 2016-17.

**2.176** The ratio is calculated by taking the mid-point of the banded remuneration of the highest paid executive board member, and calculating the ratio between this and the median remuneration of the Department's staff. This ratio is based on the full-time equivalent staff of the Department at the end of March on an annualised basis. This calculation includes DfTc, DVLA, MCA and VCA. DVSA is not included as it is outside the consolidation boundary.

**2.177** In 2017-18 one employee (2016- 17, one employee) received remuneration in excess of the highest paid executive board member. Remuneration ranged from £16,684 to £260,000 (2016-17, £16,153 to £260,000). Total remuneration includes salary, non-consolidated performance-related pay and benefits in kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

## Pension arrangements within DfT

The following section is subject to audit.

**2.178** Employees of entities included in these accounts benefit from a range of pension scheme arrangements. Some are members of employee-specific defined benefit schemes, set out in **Note 18** to the accounts. Others may be members of the Principal Civil Service Pension Scheme (PCSPS), or of defined contribution arrangements. The key schemes and associated costs for the Departmental group are disclosed below.

**2.179** The PCSPS is an unfunded multi-employer defined benefit scheme but the Department is unable to identify its share of the underlying liabilities.

**2.180** A full actuarial valuation was carried out as at 31 March 2012. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservicepensionscheme.org.uk](http://www.civilservicepensionscheme.org.uk)).

**2.181** For 2017-18, employers' contributions of £77.8m were payable to the PCSPS (2016-17 £90.5m) at one of 4 rates in the range 20.0% to 24.5% (2016-17: 20.0% to 24.5%) of pensionable pay, based on salary bands. The scheme's actuary reviews employer contributions every 4 years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2017-18 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

**2.182** Employees can opt to open a partnership pension account (a stakeholder pension with an employer contribution). Employers' contributions of £871,272 (2016- 17: £873,259) were paid to one or more of a panel of 3 appointed stakeholder pension providers. Employer contributions are age-related and range from 8% to 14.75% of pensionable pay.

**2.183** Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £30,318, 0.5% (2016-17: £30,143, 0.5%) of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

- Contributions prepaid to partnership pension providers were £NIL (2016-17: £NIL).
- Contributions due to partnership pension providers at the reporting date were £NIL (2016-17: £NIL).
- There were 11 early retirements as a result of ill-health (2016-17: 18).

**2.184** These figures include those working in the Department and its executive agencies.

**2.185** Network Rail has two defined benefit pension schemes (RPS and CARE). The Network Rail group pays contributions of 14.04% to 30 June 2016 and 13.2% thereafter of section pay for members with a right to retire unreduced at 60 and 9.30% for other members. For 2017-18 the current service cost was £256m (2016-17: £191m).

**2.186** On 1 April 2004 Network Rail introduced a defined contribution pension scheme, the Network Rail Defined Contribution Pension Scheme (NRDCPS). This is an auto-enrollment scheme for all new employees of Network Rail, except those who have the legal right to join the Railway Pension Scheme (RPS), in compliance with regulations made under the Pensions Act 2008. Any employee who wishes to transfer from the Network Rail Section of the RPS to the NRDCPS is entitled to do so. For 2017-18 employers' contributions of £19m were payable into this scheme (2016-17: £18m).

2.187 On 1 April 2015 Highways England introduced a defined contribution personal pension plan. The Highways England pension plan is administered by a third party. Highways England matches employee contributions to personal pensions plans on a 2:1 basis up to a maximum of 10% gross salary. The default contributions are 5% (employee) and 10% (employer). For 2017-18, employers' contributions of £5.9m (2016-17 £2.5m) were paid into the scheme.

2.188 On 1 July 2016 Highways England introduced, following the transfer in of a small number of staff on local government pension terms, The Federated Pension Plan (FPP) a multi-employer defined benefit scheme pension plan administered by a third party provider. Employers' contributions of £0.2m were payable to the FPP at one of two rates in the range 41.0% to 41.5% of pensionable earnings (2016-17 £0.1m). The contribution rates are set to meet the cost of the benefits accruing during 2017-18 to be paid when the member retires and not the benefits paid during this year to existing pensioners. Employees' contributions range from 6.0% to 6.5%.

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

2.189 During 2017-18, the Department and its delivery bodies employed a number of consultancy

and temporary staff. Expenditure on consultancy and temporary staff in 2017-18 is shown in **Table 29**.

2.190 **Driver and Vehicle Licensing Agency** – temporary staff costs decreased by 92% from £3.0m in 2016-17 to £0.2m in 2017-18 as contractors left following implementation of IR35 legislation, and due to a reorganisation of the IT department.

2.191 **High Speed 2 Ltd** – temporary staff costs decreased by 50% from £32.4m in 2016-17 to £16.2m in 2017-18, as the organisation appoints an increasing proportion of staff on permanent employment contracts which are more cost effective.

2.192 **Network Rail** – temporary staff costs decreased by 18% from £97.3m in 2016-17 to £79.6m in 2017-18, which reflects a reduction in temporary staff headcount from 1,185 in 2016-17 to 968 in 2017-18.

2.193 **Network Rail** – consultancy costs increased by 45% from £25.7m in 2016-17 to £37.29m in 2017-18 in order to mitigate the impact of the liquidation of Carillion on the delivery of its rail projects.

2.194 **Highways England** – temporary staff costs decreased by 41% from £26.5m in 2016-17 to £15.6m in 2017-18 due to a conscious effort to reduce the number of contractors and costs.

**Table 28: Expenditure on consultancy and temporary staff<sup>1</sup>**

Organisation	Consultancy (£m)	Temporary Staff (£m)	Total (£m)
Department for Transport (c)	52.22	10.70	62.92
Driver and Vehicle Licensing Agency	0.17	0.24	0.41
Driver and Vehicle Standards Agency	0.12	7.52	7.64
Maritime and Coastguard Agency	-	0.67	0.67
Vehicle Certification Agency	-	0.09	0.09
British Transport Police Authority	0.09	0.01	0.11
High Speed 2 Ltd	-	16.23	16.23
Northern Lighthouse Board	-	0.45	0.45
Transport Focus	-	0.36	0.36
Trinity House Lighthouse Service	-	0.21	0.21
Network Rail	37.29	79.64	116.9
Highways England	2.60	15.60	18.2
<b>Department Total</b>	<b>92.49</b>	<b>131.72</b>	<b>224.21</b>

<sup>1</sup> Consultancy here is the provision of objective advice relating to strategy, structure, management or operations of an organisation, in pursuit of its purposes and objectives. Such advice will be provided outside the 'business-as-usual' environment when in-house skills are not available and will be time-limited. Consultancy may include the identification of options with recommendations, or assistance with (but not the delivery of) the implementation of solutions.

## Off-payroll appointees

2.195 As part of the review of tax arrangements of public sector appointees published by the Chief Secretary to the Treasury on 23 May 2012, departments have been asked to report on their off-payroll engagements. This data is presented in **Tables 30 to 32**.

2.196 Prior to the start of 2017-18, the Departmental group implemented changes to its off-payroll activities by introducing clearly defined governance and challenge processes to ensure that it was compliant with the revised off-payroll (IR35) working rules in preparation for the new financial year. The Department undertakes a risk-based random sampling exercise where a selection

of engagements, which include those previously assessed as being out-of-scope, are reassessed for consistency to ensure that the status of the role has not changed, which would thus deem it to be in-scope of IR35 legislation.

2.197 All of the engagements reported in **Table 30** have been considered using HMRC's IR35 assessment tool, apart from those in HS2 Ltd. HS2 Ltd automatically assessed all roles as being in scope of the off-payroll working rules and only used the assessment tool when a role was identified to be out of scope in order to assess its compliance against the legislation.

**Table 29: Off-payroll engagements as of 31 March 2018, for more than £245 per day and lasts for longer than 6 months**

	DfTc	BTPA	DVSA	DVLA	HE	HS2 Ltd	MCA	NR	VCA	Total
No. of existing engagements as of 31 March 2018	33	8	40	1	60	78	44	395	9	668
<i>Of which:</i>										
No. that have existed for less than 1 year at time of reporting	20	7	29	-	15	35	16	118	8	248
No. that have existed for between 1 and 2 years at time of reporting	12	1	9	1	39	25	24	214	1	326
No. that have existed for between 2 and 3 years at time of reporting	1	-	1	-	5	12	3	39	-	61
No. that have existed for between 3 and 4 years at time of reporting	-	-	1	-	-	5	-	16	-	22
No. that have existed for 4 or more years at time of reporting	-	-	-	-	1	1	1	8	-	11

**Table 30: New off-payroll engagements, or those that reached six months in duration, between 1 April 2017 and 31 March 2018, for more than £245 per day and lasts for longer than 6 months**

	DfTc	BTPA	DVSA	DVLA	HE	HS2 Ltd	MCA	NR	VCA	Total
No. of new engagements, or those that reached 6 months in duration, between 1 April 2017 and 31 March 2018	49	16	48	1	33	119	12	203	6	487
<i>Of which:</i>										
No. assessed in scope of IR35	35	14	44	1	31	88	-	90	-	303
No. assessed as out of scope of IR35	14	2	4	-	2	31	12	113	6	184
No. engaged directly (via a personal service company contracted to the Department) and are on the Department's payroll	-	-	-	-	-	-	-	-	-	-
No. of engagements reassessed for consistency /assurance purposes during the year *	15	5	10	-	5	-	4	-	-	39
No. of engagements whose IR35 status changed following reassessment	-	3	4	-	1	-	-	-	-	8

\* These figures represent the number of new engagements, or those that reached 6 months in duration, between 1 April 2017 and 31 March 2018 which were reassessed during the period to ensure compliance with the IR35 legislation.

**2.198 DfTc:** All the engagements reported in **Table 31** have been considered and approved by the Department's Approval Committee who provide an independent assessment against the IR35 legislation before any approval is given. Those deemed in-scope of the legislation are placed on the payroll of the Department's chosen commercial framework supplier to ensure tax deductions are taken at the source. Fifteen engagements were reassessed for consistency and compliance without resulting in a change to their initial status.

**2.199 BTPA:** Engagements reported in **Table 31** have been considered using HMRC's IR35 assessment tool. All engagements deemed to be out-of-scope of the legislation are referred for legal advice as part of the assurance process. Five engagements were re-assessed for consistency and assurance purposes, which resulted in 3 being brought into scope of IR35 legislation.

**2.200 DVSA:** The internal process for recruiting off-payroll workers ensures that hiring managers complete an IR35 assessment at the beginning of the hiring process. DVSA monitor and provide challenge to those assessed out-of-scope of the legislation. Ten engagements were re-assessed for consistency and assurance purposes, which resulted in 4 being brought into scope of IR35 legislation.

**2.201 DVLA:** During 2017-18, DVLA took a business decision to reduce its reliance on off-payroll workers. This was due to 2 factors: 1) the re-organisation of its IT Directorate where a number of skills had been brought in-house, and 2) the move towards procuring contracts via managed service agreements, with a discrete statement of work for each activity. Quarterly reviews were undertaken on the use on temporary resource to ensure accuracy and compliance against the legislation.

**2.202 Highways England:** There is a robust internal control process in place to ensure that requests for off-payroll engagements are considered by a committee and scrutinised before approval. Five engagements were re-assessed for consistency and assurance purposes, which resulted in 1 being brought into scope of IR35 legislation.

**2.203 High Speed 2 Ltd:** HS2 Ltd automatically assessed all roles as being in-scope of the IR35 legislation and only used the assessment tool when a role was identified to be out-of-scope in order to assess its compliance against the legislation. The outcome of the assessment was then reviewed via its internal governance process. HS2 Ltd moved to a new commercial framework supplier in January 2018 who ensures that tax deductions are taken at source for those roles deemed in-scope of the legislation.

**2.204 MCA:** Challenges have been built into MCA’s off-payroll recruitment process whereby off-payroll resources are only engaged where it does not have the in-house capability to enable the progression of projects. All off-payroll engagements were assessed using HMRC’s IR35 assessment tool. Four engagements were re-assessed for consistency and assurance purposes, which resulted in no further change.

**2.205 Network Rail:** Robust processes and procedures are in place to determine the status of all off-payroll workers within the IR35 legislation, which has been agreed with HMRC. This provides assurance to Network Rail that all off-payroll workers engaged in the business are being correctly paid and fulfilling all income tax and national insurance obligations.

**2.206 VCA:** All off-payroll engagements are assessed using HMRC’s IR35 assessment tool. If the role is deemed to be in-scope of the legislation, the worker is placed on payroll to ensure tax deductions are taken at the source. With a small number of off-payroll engagements, no additional sample testing was undertaken.

**2.207** The Departmental group did not have off-payroll engagements of board members, and / or senior officials with significant financial responsibility during the financial year 2017-18.

**Table 31: Off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2017 and 31 March 2018**

	DfTc	BTPA	DOR	DVSA	DVLA	HE	HS2 Ltd	MCA	NLB	NR	TF	THLS	VCA	Total
No. of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total no. of individuals that have been deemed ‘board members, and/or, senior officials with significant financial responsibility’, during the financial year. This figure includes both on-payroll and off-payroll engagements	39	12	-*	6	8	13	8	10	4	77	8	4	7	196

\* DOR does not have any officials; all financial decision making is undertaken by DfT officials.



## Exit packages

The following section is subject to audit.

2.208 Following a Judicial Review, the 2016 amendments to the Civil Service Compensations Scheme were quashed, resulting in some compensation payments made during 2016-17 being revised. The

impact of these revisions (with the original reported figures) to people who left with a compensation payment in 2016-17 are noted in **Table 33** below.

**Table 32: Reporting of Civil Service and other compensation schemes – exit packages<sup>1</sup>**

Exit package cost band	Central Department and Agencies <sup>2</sup>						Departmental Group					
	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17
<£10,000	-	-	3	22 (15)	3	22 (15)	61	48	11	33 (26)	72	81 (74)
£10,000-£25,000	1	-	13	53 (57)	14	53 (57)	118	56	33	70 (74)	151	126 (130)
£25,000-£50,000	-	1	5	61 (67)	5	62 (68)	71	64	42	86 (92)	113	150 (156)
£50,000-£100,000	-	-	11	53 (48)	11	53 (48)	12	12	28	87 (82)	40	99 (94)
£100,000-£150,000	-	-	-	- (2)	-	- (2)	3	8	5	3 (5)	8	11 (13)
£150,000-£200,000	-	-	-	-	-	-	-	2	-	4	-	6
>£200,000	-	-	-	-	-	-	-	1	-	2	-	3
Total number of exit packages	1		32	189	33	190	265	191	119	285	384	476
<b>2017-18 Total Cost/£</b>	<b>19,232</b>		<b>1,302,849</b>		<b>1,322,081</b>		<b>6,037,182</b>		<b>4,775,986</b>		<b>10,813,168</b>	
2016-17 Total Cost /£	28,512		6,164,511	(6,278,762)	6,193,023	(6,307,274)	5,608,216		11,288,635	(11,402,886)	16,896,851	(17,011,102)

1 Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972 (with the exception of Network Rail, which is not governed by Cabinet Office controls and runs separate exit schemes). Exit costs are accounted for in full in the year of departure. Where the Department has agreed early retirements, the additional costs are met by the Department and not by the Civil Service Pension Scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

2 Excluding DVSA who are outside the accounting boundary.





# Parliamentary Accountability and Audit Report

## Statement of Parliamentary Supply

2.209 In addition to the primary statements, the Government Financial Reporting Manual (FRm) requires the Department to prepare a Statement of Parliamentary Supply (SOPS) and supporting Notes to show resource and capital outturn against the **Supply Estimate** presented to Parliament, in respect of each budgetary control limit.

2.210 Spending is split into **departmental expenditure limits (DEL)** and **annually managed expenditure (AME)**, and within those categories spending is further split between resource and capital. AME includes areas of spending that HM Treasury deems unpredictable, difficult to control and of a size that departments would have difficulty managing within DEL budgets. DEL is usually set over a four-year period at the spending review, whereas AME is forecast on a yearly basis. Departments are set annual budgets split between resource/capital and DEL/ AME.

2.211 Government departments should not exceed the values that Parliament authorises in the Supply Estimate. These **voted** totals, or budgetary control totals, are outlined in the tables below. Any breach of these control totals will result in an Excess Vote. Non-voted expenditure does not require additional Parliamentary authority, but is included for completeness. The **administration budget** is not a separate voted limit, but any breach of this limit will also result in an Excess Vote.

2.212 A glossary of these financial terms can be found in Annex A.

2.213 Further information about the Supply process can be found in The Estimates Manual. <https://www.gov.uk/government/publications/supply-estimates-guidance-manual> The SOPS and related Notes are subject to audit.

### Summary of Resource and Capital Outturn 2017-18

		2017-18						2016-17	
		Estimate			Outturn			Outturn vs. Estimate	Outturn
Note		Voted	Non-Voted	Total	Voted	Non-Voted	Total	Voted	Total
		£m	£m	£m	£m	£m	£m	£m	£m
<b>Departmental Expenditure Limit (DEL)</b>									
– Resource	SOPS 1.1	3,879.5	17.9	3,897.4	3,670.4	2.8	3,673.2	209.1	2,926.7
– Capital	SOPS 1.2	6,431.7	0.8	6,432.5	6,221.5	-	6,221.5	210.2	5,419.3
<b>Annually Managed Expenditure (AME)</b>									
– Resource	SOPS 1.1	8,627.8	0.1	8,627.9	6,989.4	(0.1)	6,989.3	1,638.4	6,457.1
– Capital	SOPS 1.2	7,449.8	-	7,449.8	7,244.2	-	7,244.2	205.6	6,855.1
<b>Total Budget</b>		<b>26,388.8</b>	<b>18.8</b>	<b>26,407.6</b>	<b>24,125.5</b>	<b>2.7</b>	<b>24,128.2</b>	<b>2,263.3</b>	21,658.2
<b>Total</b>		<b>26,388.8</b>	<b>18.8</b>	<b>26,407.6</b>	<b>24,125.5</b>	<b>2.7</b>	<b>24,128.2</b>	<b>2,263.3</b>	21,658.2
Total resource		<b>12,507.3</b>	<b>18.0</b>	<b>12,525.3</b>	<b>10,659.8</b>	<b>2.7</b>	<b>10,662.5</b>	<b>1,847.5</b>	9,383.8
Total capital		<b>13,881.5</b>	<b>0.8</b>	<b>13,882.3</b>	<b>13,465.7</b>	<b>-</b>	<b>13,465.7</b>	<b>415.8</b>	12,274.4
<b>Total</b>		<b>26,388.8</b>	<b>18.8</b>	<b>26,407.6</b>	<b>24,125.5</b>	<b>2.7</b>	<b>24,128.2</b>	<b>2,263.3</b>	21,658.2

2.214 Explanations of significant variances between Estimate and Net Resource Outturn are shown on pages 188 to 192.

## Net Cash Requirement 2017-18

2.215 The Net Cash Requirement is the limit voted by Parliament reflecting the maximum amount of cash that can be released from the Consolidated Fund to the Department in support of expenditure in its Estimate. As described on page 225 (Note 1.19 to the Financial Statements), some values reported in the 2016-17 Financial Statements have been restated. One of the consequences of this is to reduce the 2016-17 outturn for the Net Cash Requirement by £307m. Whilst the value for 2016-17 reported below remains the same as published last year, the reduction has been reported to HM Treasury.

	£m		2017-18	2016-17
Note	Estimate	Outturn	Outturn vs. Estimate	Outturn
<b>Net Cash Requirement</b> SOPS 3	20,963.8	18,675.8	2,288.0	17,127.6

## Administration Costs 2017-18

2.216 The Administration Budget is a Treasury control on resources consumed by the Department that forms part of the Departmental Expenditure Limit (DEL). Administration costs include items not directly associated with frontline service delivery such as staff costs, accommodation and utilities.

	£m		2017-18	2016-17
	Estimate	Outturn	Outturn vs. Estimate	Outturn
	265.4	264.8	0.6	258.8

The SOPS Notes on pages 188 to 195 form part of these financial statements.

## SOPS 1. Net outturn

### SOPS 1.1 Analysis of net resource outturn by section

	2017-18										2016-17		
	Administration					Programme					Outturn vs. Estimate	Outturn vs. Estimate adjusted for virements	Outturn
	Gross	Income	Net	Gross	Income	Net	Gross	Income	Net	Outturn			
£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
<b>Spending in Departmental Expenditure Limit (DEL):</b>													
<b>Voted:</b>													
A: Tolled Crossings	-	-	-	38.1	(170.3)	(132.2)	(136.8)	(4.6)	(3.3)				(95.0)
B: Local Authority Transport	-	-	-	365.5	-	365.5	363.4	(2.1)	-				335.0
C: Highways England (Net)	48.5	-	48.5	2,499.7	-	2,499.7	2,661.3	113.1	60.0				2,205.7
D: Funding Of Other ALBs (Net)	4.6	-	4.6	185.9	-	185.9	275.9	85.4	85.4				103.9
E: Other Railways	-	-	-	427.6	(320.8)	106.8	73.8	(33.0)					124.6
F: Sustainable Travel	-	-	-	87.5	(0.4)	87.1	88.9	1.8	1.8				91.5
G: Bus Subsidies & Concessionary Fares	-	-	-	244.9	-	244.9	252.9	8.0	8.0				248.2
H: GLA Transport Grants	-	-	-	255.1	-	255.1	255.1	-	-				474.4
I: Crossrail	-	-	-	1.7	-	1.7	1.8	0.1	0.1				1.3
J: Aviation, Maritime, Security And Safety	-	-	-	164.4	(55.6)	108.8	56.1	(52.7)	(2.9)				55.3
K: Maritime And Coastguard Agency	7.9	(0.6)	7.3	320.3	-	320.3	335.2	7.6	7.6				315.7
L: Motoring Agencies	-	-	-	98.6	-	98.6	108.0	9.4	9.4				104.5
M: Science, Research And Support Functions	-	-	-	16.4	(1.5)	14.9	16.8	1.9	1.9				17.6
N: Central Administration	208.4	(10.1)	198.3	54.3	(55.4)	(1.1)	254.3	57.1	57.1				192.0
O: Support For Passenger Rail Services	-	-	-	546.9	(1,325.0)	(778.1)	(763.9)	14.2	14.2				(1,289.4)
P: High Speed Two	-	-	-	10.0	(0.9)	9.1	11.0	1.9	1.9				26.3
Q: Transport Development Fund	-	-	-	24.7	-	24.7	25.7	1.0	1.0				13.7
<b>Total Spending in Voted Resource DEL</b>	<b>269.4</b>	<b>(10.7)</b>	<b>258.7</b>	<b>5,341.6</b>	<b>(1,929.9)</b>	<b>3,411.7</b>	<b>3,879.5</b>	<b>209.1</b>	<b>209.1</b>				<b>2,925.3</b>

	2017-18						2016-17			
	Administration			Programme			Outturn	Outturn vs. Estimate	Outturn vs. Estimate adjusted for virements	
	Gross	Income	Net	Gross	Income	Net	Net Total	Net Total	Net Total	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	
<b>Non-Voted:</b>										
R: Funding Of ALBs (Net)	6.1	-	6.1	(3.3)	-	(3.3)	2.8	17.9	15.1	1.4
<b>Total Spending in Resource DEL</b>	<b>275.5</b>	<b>(10.7)</b>	<b>264.8</b>	<b>5,338.3</b>	<b>(1,929.9)</b>	<b>3,408.4</b>	<b>3,673.2</b>	<b>3,897.4</b>	<b>224.2</b>	<b>2,926.7</b>
<b>Spending in Annually Managed Expenditure (AME):</b>										
S: Highways England (Net)	-	-	-	(3.6)	-	(3.6)	(3.6)	6.0	9.6	(0.2)
T: Network Rail (Net)	-	-	-	6,882.4	-	6,882.4	6,882.4	8,289.8	1,407.4	6,079.5
U: Funding Of Other ALBs (Net)	-	-	-	93.6	-	93.6	93.6	90.6	(3.0)	53.2
V: Other Railways	-	-	-	234.4	(206.8)	27.6	27.6	155.8	128.2	314.7
W: Aviation, Maritime, Security And Safety	-	-	-	(2.9)	-	(2.9)	(2.9)	(2.9)	-	(3.3)
X: Maritime And Coastguard Agency	-	-	-	0.9	-	0.9	0.9	1.0	0.1	(0.1)
Y: Motoring Agencies	-	-	-	(1.2)	-	(1.2)	(1.2)	(4.3)	(3.1)	(2.3)
Z: Central Administration	-	-	-	(7.4)	-	(7.4)	(7.4)	91.8	99.2	15.5
<b>Total Spending in Voted Resource AME</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,196.2</b>	<b>(206.8)</b>	<b>6,989.4</b>	<b>6,989.4</b>	<b>8,627.8</b>	<b>1,638.4</b>	<b>6,457.0</b>
<b>Non-Voted:</b>										
AB: Funding Of ALBs (Net)	-	-	-	(0.1)	-	(0.1)	(0.1)	0.1	0.2	0.1
<b>Total Spending in Resource AME</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,196.1</b>	<b>(206.8)</b>	<b>6,989.3</b>	<b>6,989.3</b>	<b>8,627.9</b>	<b>1,638.6</b>	<b>6,457.1</b>
<b>Resource Outturn</b>	<b>275.5</b>	<b>(10.7)</b>	<b>264.8</b>	<b>12,534.4</b>	<b>(2,136.7)</b>	<b>10,397.7</b>	<b>10,662.5</b>	<b>12,525.3</b>	<b>1,862.8</b>	<b>9,383.8</b>

The final table in Annex B links the spending information in the tables above to the performance information in the Performance Report.

In line with HM Treasury's guidance on Supply Estimates, arm's length bodies spending appears net of income, and is denoted by the suffix "(Net)" in the table above. Explanations of significant variances between Estimate and Net Resource Outturn are shown on the next page.

## Departmental Expenditure Limit (DEL)

### C: Highways England (Net) – £113.1m underspend against Estimate

Highways England's did not utilise £100m of contingency sought for depreciation. A prudent forecast was adopted for the Supplementary Estimate based on the condition of the Strategic Road Network and ultimately the final charge was within the budget tolerance.

### D: Funding of Other ALBs (Net) – £85.4m underspend against Estimate

The variance represents the net surplus of the ALBs and is an aggregate of smaller variances across a number of bodies and a significant surplus by HS2 Ltd. The HS2 Ltd surplus can be offset by deficits on other HS2 activities reported elsewhere in SOPS Notes 1.1 and 1.2 (i.e. "Funding of other ALBs" and "High Speed Two" budget-lines under the Resource-AME and Capital-DEL budget-types).

### J: Aviation, Maritime, Security and Safety – £52.7m overspend against Estimate

The Department paid £45m to the Civil Aviation Authority to facilitate the repatriation of UK citizens following the failure of Monarch Airlines. There was also increased expenditure on implementation of Aviation Security measures.

### N: Central Administration – £57.1m underspend against Estimate

£75m non cash budget cover was provided in the Supplementary Estimate to provide cover for the revaluation of the HS2 property portfolio. At year-end only £16m was charged against this budget.

### O: Support for Passenger Rail Services – £14.2m less income than in Estimate

The Department recognised less income than expected mainly due to the performance of the Southern and TransPennine Express train operating companies.

## Annually Managed Expenditure (AME)

### T: Network Rail – £1,407.4m underspend against Estimate

This underspend is related to derivatives on financial instruments moving in the opposite direction to the £1bn that we held in contingency for such movements.

### V: Other Railways – £128.2m underspend against Estimate

This underspend has arisen due to a write back of the IEP provision no longer required. The explanation for this write back can be found in Note 16 Provisions.

### Z: Central Administration – £99.2m underspend against Estimate

The majority of this underspend relates to the Department providing £100m budget cover for possible charges arising from the annual revaluation of the Department's pension schemes. As shown in Note 18 to the Financial Statements, the charge for 2017-18 was only £2.7m.



## SOPS 1.2 Analysis of net capital outturn by section

	2017-18						2016-17
	Gross	Income	Outturn vs. Estimate Net	Estimate Net	Outturn vs. Estimate Net	Outturn vs. Estimate adjusted for virements Net	Outturn Net
	£m	£m	£m	£m	£m	£m	£m
<b>Spending in Departmental Expenditure Limit (DEL):</b>							
<b>Voted:</b>							
A: Tolled Crossings	0.8	(189.2)	(188.4)	(188.3)	0.1	0.1	1.0
B: Local Authority Transport	1,763.0	-	1,763.0	1,745.4	(17.6)	-	1,550.8
C: Highways England (Net)	2,308.7	-	2,308.7	2,328.0	19.3	19.3	2,020.7
D: Funding Of Other ALBs (Net)	711.3	-	711.3	912.0	200.7	155.4	407.1
E: Other Railways	195.8	-	195.8	216.7	20.9	20.9	72.7
F: Sustainable Travel	371.3	(6.0)	365.3	372.2	6.9	6.9	212.5
G: Bus Subsidies & Concessionary Fares	9.1	-	9.1	9.3	0.2	0.2	7.1
H: GLA Transport Grants	-	-	-	(8.5)	(8.5)	-	944.0
I: Crossrail	-	-	-	-	-	-	(200.0)
J: Aviation, Maritime, Security And Safety	59.3	-	59.3	59.8	0.5	0.5	18.5
K: Maritime And Coastguard Agency	19.3	-	19.3	19.5	0.2	0.2	12.7
L: Motoring Agencies	8.4	-	8.4	(10.8)	(19.2)	-	(5.9)
M: Science, Research And Support Functions	21.8	-	21.8	23.4	1.6	1.6	29.9
N: Central Administration	2.2	-	2.2	3.2	1.0	1.0	0.2
O: Support For Passenger Rail Services	-	-	-	-	-	-	0.5
P: High Speed Two	943.3	-	943.3	942.1	(1.2)	(1.2)	340.7
Q: Transport Development Fund	2.3	-	2.3	7.7	5.4	5.4	-
<b>Total Spending in Voted Capital DEL</b>	<b>6,416.7</b>	<b>(195.2)</b>	<b>6,221.5</b>	<b>6,431.7</b>	<b>210.2</b>	<b>201.2</b>	<b>5,412.5</b>
<b>Non-Voted expenditure:</b>							
R: Funding Of ALBs (Net)	-	-	-	0.8	0.8	0.8	6.8
<b>Total Spending in Capital DEL</b>	<b>6,416.7</b>	<b>(195.2)</b>	<b>6,221.5</b>	<b>6,432.5</b>	<b>211.0</b>	<b>211.0</b>	<b>5,419.3</b>
<b>Spending in Annually Managed Expenditure (AME):</b>							
<b>Voted expenditure:</b>							
S: Highways England (Net)	3.5	-	3.5	40.0	36.5	36.5	30.2
T: Network Rail (Net)	6,117.8	-	6,117.8	6,634.4	516.6	169.1	6,761.9
U: Funding Of Other ALBs (Net)	230.3	-	230.3	(0.6)	(230.9)	-	-
W: Aviation, Maritime, Security And Safety	-	(20.0)	(20.0)	(20.0)	-	-	(20.0)
AA: High Speed Two	912.6	-	912.6	796.0	(116.6)	-	83.0
<b>Total Spending in Capital AME</b>	<b>7,264.2</b>	<b>(20.0)</b>	<b>7,244.2</b>	<b>7,449.8</b>	<b>205.6</b>	<b>205.6</b>	<b>6,855.1</b>
<b>Capital Outturn</b>	<b>13,680.9</b>	<b>(215.2)</b>	<b>13,465.7</b>	<b>13,882.3</b>	<b>416.6</b>	<b>416.6</b>	<b>12,274.3</b>

The final table in Annex B links the spending information in the tables above to the performance information in the Performance Report.

Explanations of significant variances between Estimate and Net Capital Outturn are shown below.

## **Departmental Expenditure Limit (DEL)**

### **B: Local Authority Transport – £17.6m overspend against Estimate**

The Department paid £75m to 83 local authorities to repair potholes and damage caused by the recent winter weather, as well as to improve the resilience of the local road network. These payments formed part of the Secretary of State's announcement in March 2018 to spend £100m on such repairs and improvements; the remainder will be spent in 2018-19. The £75m of additional spend was partly offset by underspends on various programmes across the roads, devolution and motoring portfolio, resulting in a £22.8m overspend against this budget line. The remainder of the additional spend is offset by the aggregate underspend on other budget lines.

### **D: Funding of Other ALBs (Net) – £200.7m underspend against Estimate**

The variance on this estimate line represents the net surplus of the ALBs and is the aggregate of smaller variances across a number of bodies and a significant surplus by HS2 Ltd on this line which is offset by a deficit on HS2 Ltd's Resource-DEL budget (see above).

### **E: Other Railways – £20.9m underspend against Estimate**

The Intercity Express Programme underspent by £19.2m due to cost estimates of project mitigations following the outcome of extensive negotiations and clarification of costs with Agility Trains; as well as depot connection costs that have now slipped into 2018-19. The re-profiled element is allowed for in 2018-19 plans.

### **L: Motoring Agencies – £19.3m overspend against Estimate**

The Department has ensured that overspends by motoring agencies have been utilised by Highways England (see below).

## **Annually Managed Expenditure (AME)**

### **S: Highways England (Net) – £36.5m underspend against Estimate**

Highways England utilised the same value of provisions as it created this year, resulting in an underspend against the AME budget.

### **T: Network Rail (Net) – £516.6m underspend against Estimate**

This underspend arose from changes to Network Rail's forecasts; the adverse weather experienced in February causing delays to capital projects; and unused contingency of some £200m.

### **U: Funding of Other ALBs (Net) – £230.9m overspend against Estimate**

HS2 Ltd has provided £275m for a VAT review that HMRC is undertaking; further details can be found in Note 16 to the Financial Statements. This provision is offset by smaller underspends across a number of other arm's length bodies.

### **AA: High Speed Two – £116.6m overspend against Estimate**

The AME forecast for the Supplementary Estimate was based on providing only for Compulsory Purchase Order and discretionary scheme acquisitions. The final AME outturn includes provision for acquisitions that fall outside those two schemes e.g. those acquisitions agreed on strategic or commercial bases.

## SOPS 2. Reconciliation of outturn to net expenditure

		2017-18	2016-17
		£m	£m
	Note	Outturn	Outturn
<b>Total resource outturn in Statement of Parliamentary Supply</b>			
Budget	SOPS 1.1	10,662.5	9,383.8
Non-Budget	SOPS 1.1	-	-
		10,662.5	9,383.8
Add: Capital grants (net)	4, 5	2,073.2	2,613.7
Research	4	25.4	18.1
EU Grants	4	0.6	26.8
		2,099.2	2,658.6
Less: Capital income		(86.6)	(32.9)
Non-Budget accounting adjustments		(76.2)	(38.5)
Non-supply income (CFERs)	SOPS 4	(229.2)	(205.2)
		(392.0)	(276.6)
<b>Net expenditure in Group Statement of Comprehensive Net Expenditure</b>		<b>12,369.7</b>	11,765.8

## SOPS 3. Reconciliation of Net Outturn to Net Cash Requirement

		Estimate	Net Outturn	Net Outturn vs. Estimate
		£m	£m	£m
	Note			
Resource outturn	SOPS 1.1	<b>12,525.3</b>	<b>10,662.5</b>	<b>1,862.8</b>
Capital outturn	SOPS 1.2	<b>13,882.3</b>	<b>13,465.7</b>	<b>416.6</b>
<b>Accruals to cash adjustments:</b>				
<i>Adjustments to remove non-cash items:</i>				
Depreciation		(199.6)	(119.5)	(80.1)
New provisions and adjustments to previous provisions		(100.9)	(836.2)	735.3
Supported capital expenditure (revenue)		-	(3.7)	3.7
Other non-cash items		53.6	29.2	24.4
<i>Adjustments for arm's length bodies:</i>				
Remove voted resource and capital		(21,237.4)	(19,601.7)	(1,635.7)
Add cash grant in aid and loans		15,682.2	15,094.5	587.7
<i>Adjustments to reflect movements in working balances:</i>				
Increase/(decrease) in inventories		-	157.5	(157.5)
Increase/(decrease) in receivables		-	110.8	(110.8)
(Increase)/decrease in payables		250.3	(349.6)	599.9
Use of provisions		126.8	69.0	57.8
		(5,425.0)	(5,449.7)	24.7
<b>Removal of non-voted budget items:</b>				
Other adjustments		(18.8)	(2.7)	(16.1)
<b>Net Cash Requirement</b>		<b>20,963.8</b>	<b>18,675.8</b>	<b>2,288.0</b>

## SOPS 4. Income payable to the Consolidated Fund

### SOPS 4.1 Analysis of income payable to the Consolidated Fund

2.217 In addition to income retained by the Department, the following income is payable to the Consolidated Fund (often referred to as Consolidated Fund Extra Receipts (CFERs)), (cash receipts being shown in italics):

	2017-18		2016-17	
	£m	£m	£m	£m
	<b>Income</b>	<b>Receipts</b>	<b>Income</b>	<b>Receipts</b>
Operating income outside the ambit of the Estimate – Resource	229.2	229.2	205.2	205.2
Operating income outside the ambit of the Estimate – Capital	20.0	20.0	20.0	20.0
<b>Total income payable to the Consolidated Fund</b>	<b>249.2</b>	<b>249.2</b>	225.2	225.2

2.218 The Income above includes fees of £206.6m relating to the sale and transfer of personalised registration marks by Driver and Vehicle Licencing Agency (DVLA) (2016-17: £201.5m) and £22.9m in loan repayments and interest payments made to the Department from the General Lighthouse Fund (2016-17: £23.3m).

### SOPS 4.2 Consolidated Fund income

2.219 The Consolidated Fund income shown in SOPS 4.1 above does not include any amounts collected by the Department where it was acting as agent for the Consolidated Fund rather than as principal. The amounts collected as agent for the Consolidated Fund (which are otherwise excluded from these financial statements) were:

	2017-18		2016-17	
	£m	£m	£m	£m
Licence fees, penalties and fines	81.4		53.0	
Costs of collection– where deductible	(13.9)		(5.4)	
<b>Amount payable to the Consolidated Fund</b>	<b>67.5</b>		47.6	
Balance held at the start of the year	5.2		5.1	
Payments into the Consolidated Fund	(56.4)		(47.5)	
<b>Balance held on trust at the end of the year</b>	<b>16.3</b>		5.2	

2.220 In addition to the values above, the DVLA collects Vehicle Excise Duty and pays it directly to the Consolidated Fund. Further details are given in the Trust Statement within the [DVLA financial statements](#).

**Reconciliation of resource expenditure between Estimates, Accounts and Budgets**

	2017-18	2016-17
	£m	£m
<b>Total Resource Budget Outturn</b>	<b>10,662.5</b>	9,383.8
<i>Of which:</i>		
Departmental Expenditure Limits (DEL)	3,673.2	2,926.7
Annually Managed Expenditure (AME)	6,989.3	6,457.1
<i>Adjustments include:</i>		
Capital grants (net)	2,073.2	2,613.7
Research	25.4	18.1
EU Grants	0.6	26.8
Non-supply income (CFERs)	(229.2)	(205.2)
Adjustments to remove non-budget elements	(162.8)	(71.4)
<b>Net Expenditure in Group Statement of Comprehensive Net Expenditure</b>	<b>12,369.7</b>	11,765.8

## Parliamentary accountability disclosures

All of the following sections are subject to audit, i.e. losses and special payments, fees and charges, and remote contingent liabilities.

### Losses and special payments

2.221 This section reports the total number of cases and value of losses and special payments, and any losses or special payments that exceed £300,000.

#### Losses statement

2.222 Losses may relate to cash and store losses, bookkeeping losses, losses arising from a failure to make adequate charge for the use of public property or services, fruitless payments, claims abandoned and frauds.

	2017-18		2016-17 (restated)	
	Total number of cases	Total amount (£000)	Total number of cases	Total amount (£000)
Core Department	13	95,080	18	22,412*
Agencies	14,984	475	11,426	537
<b>Core Department &amp; Agencies</b>	<b>14,997</b>	<b>95,555</b>	<b>11,444</b>	<b>22,949</b>
Highways England	1,754	10,385	1,298	8,041
Network Rail	35,013	8,422	19,235**	3,791
Other ALBs	2,044	184	8	222
<b>Departmental Group</b>	<b>53,808</b>	<b>114,546</b>	<b>31,985</b>	<b>35,003</b>

#### Corrections to 2016-17

\* The value of the loss arising from the Dartford-Thurrock river crossing has decreased by £15,675,000 and the Scheme is now attributed to the core Department in terms of classification. Further details can be found in the Dartford-Thurrock River Crossing Charging Scheme section below.

\*\* The number of cases reported by Network Rail for 2016-17 has increased by 19,231 because

- ▶ cases were previously summarised by types of loss (4) rather than reporting the number of cases (18,986), which results in a net increase in the reporting of 18,982 cases and
- ▶ salary overpayments were not disclosed in last year's accounts (resulting in a further increase of 249 cases).

2.223 The losses disclosed above for 2017-18 include the following, which require separate disclosure:

## Core Department

### Intercity Express Programme

2.224 Under the Railways Act 1993, the Secretary of State has the power to issue guarantees to promote investment in railway assets. These guarantees include bearing the risk of increased costs owing to delays in electrification; and in contracts relating to the Intercity Express Programme (IEP) the Department accepted the risk relating to delays in the provision of key infrastructure on the Great Western line, where this could not reasonably be transferred to the contractor.

2.225 Subsequent delays in Great Western electrification have impacted on the introduction of IEP trains into passenger services. This meant that the Secretary of the State was contractually obliged to pay Agility Trains for the train usage payments foregone from Train Operating Companies as a result of the delay. Following commercial negotiations in summer 2017, the Department agreed to pay Agility Trains payments totalling £134m which shall be recognised over the period until all the rolling stock enters service, which is expected to be 2020. The Department paid the first instalment of £42m to Agility in 2017-18, which is recognised as a constructive loss in the table above.

### Dartford-Thurrock River Crossing Charging Scheme

2.226 Until 30 November 2014, drivers using the Dartford-Thurrock River Crossing had to stop at barriers in order to pay the road-user charge, which resulted in significant levels of congestion. From 1 December 2014, a new scheme was introduced, which was a key deliverable in the Department's Business Plan for 2012-2015. The scheme introduced a barrier-less, free-flowing charging operation (Dart Charge) which requires drivers to pay for their crossing during chargeable hours, either in advance or by midnight the day after using the crossing. Road users have access to a variety of methods to pay the charge including: payments online; via phone; at retail outlets, or by registered customer accounts. If a payment is not made in the allotted time, the scheme will issue a Penalty Charge Notice (PCN). If required, penalty and recovery processes are employed to enforce the charging scheme and collection of charges. In November 2014, the predecessor to Highways England, the Highways Agency, awarded a 7 year contract for collecting and enforcing payment of road user charges to Emovis Operations Leeds Ltd.

2.227 After a period of time, when the Scheme considers that it is no longer able to collect the PCN, it then regards the charge as being 'irrecoverable' and impairs the amount that was due.

2.228 The 2017-18 losses include £52,673,000 in relation to 2016-17 Dartford Crossing charges (2016-17 restated: £19,535,000 in relation to 2015-16). Of this, £48,673,000 relates to the write-off of receivables for both road user charges and penalty charge notices that became irrecoverable, and £4,000,000 relates to penalty charge notices that were not issued (2016-17: £10,735,000 & £8,800,000 respectively in relation to 2015-16). This can happen for a number of reasons including vehicle keeper details not being available, poor images, mis-read number plates, system errors and illegal activity/evasion (eg. cloned vehicles).

2.229 The write-offs reported this year, in relation to 2016-17, were exceptionally high as the Scheme dealt with a legacy population of debts built up shortly after the new barrier-less operation was implemented.

2.230 During the initial phase of the new operation, debt was accumulated due to a conscious decision to halt enforcement action for contraventions with certain characteristics. This supported the Scheme's aim to take a balanced approach to enforcement, focusing on educating and engaging customers regarding the new scheme, and to avoid compliant road users being charged incorrectly due to system issues. This approach did have the temporary effect whereby some valid PCNs that should have been issued, were not issued.

2.231 During 2016-17, the Scheme made improvements, through both system changes and training on how to treat items on hold, which address the risks of further losses. These improvements ensure cases are dealt with more efficiently, and enforcement notices issued promptly where appropriate.

### **Prior year restatement of Dartford-Thurrock River Crossing Charging Scheme losses:**

2.232 In previous years the Scheme exceeded the requirements of Managing Public Money by recognising losses before amounts due had been formally written-off; this resulted in an overstatement of £25,254,000 in the value reported last year. Furthermore, following implementation of the improvements outlined above, a project was undertaken to cleanse the scheme of aged debts resulting from the historic issues, which resulted in a £9,579,000 increase to the prior year write-off. Overall, this results in a £15,665,000 decrease to the amount reported last year, from £35,200,000 to £19,535,000.

2.233 In last year's account, the scheme was reported under 'Departmental Group' because Highways England manages the scheme, however it does so on behalf of the core Department. A further prior-year restatement has been included in these accounts to correctly report the scheme under 'Core Department & Agencies'.

2.234 Further information can be found in the [2016-17 financial statements](#) for the Dartford-Thurrock River Crossing charging scheme, which were published in January 2018. The 2017-18 financial statements are yet to be finalised.

### **Highways England**

2.235 915 cases valued at £4,104,070 (2016-17: 869 cases valued at £6,314,474) for damage to the road network where the culprit could not be identified or otherwise pursued for costs.

2.236 £592,669 (2016-17: £933,133) was lost due to unrecovered payments from road users whose vehicles have been removed, stored or disposed under the national vehicle recovery contract arrangements. Recovery of such debts is improbable and not considered value for money to pursue.

### **Network Rail**

2.237 The increase in the value of losses incurred by Network Rail in 2017-18 was due to three prosecutions under the Health and Safety at Work Act 1974. The values below relate to the fines and court costs for the health and safety prosecutions only; any compensation payments to victims will be disclosed under special payments.

- ▶ A fatal accident took place at the Gypsy Lane level crossing in 2011. Following prosecution, Network Rail was fined £4m in September 2016, with an additional £34,000 incurred for court costs.
- ▶ A track worker sustained life changing injuries while carrying out maintenance work at Redhill in 2014. Network Rail was fined £800,000 in January 2017 following prosecution.
- ▶ In March 2018 Network Rail was prosecuted and fined £803,120 in respect of an allegation of failing to maintain properly the railway track at Churcham, Gloucestershire resulting in the part derailment of a freight train in October 2013.



## Special Payments

Special payments include extra-contractual, special severance, ex gratia and compensation payments.

	2017-18		2016-17 (restated)	
	Total number of cases	Total amount (£000)	Total number of cases	Total amount (£000)
Core Department	332	12,317	370*	12,302
Agencies	1,740	578	1,411	237
<b>Core Department &amp; Agencies</b>	<b>2,072</b>	<b>12,895</b>	<b>1,781</b>	<b>12,539</b>
ALBs	128	1,425	84	2,774
<b>Departmental Group</b>	<b>2,220</b>	<b>14,320</b>	<b>1,865</b>	<b>15,313</b>

The payments disclosed above for 2017-18 include the following, which require separate disclosure:

### Core Department

**2.238** A total of £12,312,229 was paid to settle 323 industrial disease and injury claims from former British Rail employees (2017: 365 cases totalling £12,300,000). There was no individual payment in excess of £300,000. Note 16 of the financial statements provides further information about these claims.

### Corrections to 2016-17

\* The number of industrial disease and injury cases reported in 2016-17 has increased by 364 because the Department's 2016-17 financial statements summarised the data as one category (i.e. one loss) rather than reporting the number of cases of loss.

## Fees and charges information

2.239 The majority of the Departmental Group's income, described at Note 5, arises either under contract or resulting from railway industry regulation. The table below describes the subset of the Departmental Group's income relating to fees and charges made directly to public service users, and describes both the income relating to those services and the full cost of providing them. It does not constitute IFRS 8 (Operating Segment Reporting) disclosure.

2.240 This year we have aligned the information presented with the data reported in the underlying organisations, which has resulted in the data reported for 2016-17 being restated.

	2017-18			2016-17 (restated)		
	Income	Full Cost	Surplus/ (Deficit)	Income	Full Cost	Surplus/ (Deficit)
	£m	£m	£m	£m	£m	£m
<b>Maritime and Coastguard Agency (MCA)</b>						
Marine surveys	4.4	4.0	<b>0.4</b>	4.9	4.6	0.3
Registration of ships	1.1	0.8	<b>0.3</b>	0.9	0.7	0.2
Seafarers' examination and certification	2.3	2.1	<b>0.2</b>	2.8	2.6	0.2
<b>Vehicle Certification Agency (VCA)</b>						
Product certification	18.1	15.7	<b>2.4</b>	18.2	16.2	2.0
<b>Driver and Vehicle Licensing Agency (DVLA)</b>						
Fees and charges *	413.5	289.9	<b>123.6</b>	432.7	311.0	121.7
	439.4	312.5	<b>126.9</b>	459.5	335.1	124.4
Less: DVLA amounts paid to the Consolidated Fund *			<b>(96.0)</b>			(91.5)
<b>Net surplus / (deficit) retained by the Group</b>			<b>30.9</b>			32.9

MCA and VCA fees and charges are set in line with a full cost recovery objective. In line with The Department for Transport (Driver Licensing and Vehicle Registration Fees) Order 2003, DVLA is required to target full cost recovery of its fees and charges on a pooled basis.

\*Any DVLA income from changes to and assignments of registration marks in excess of costs is payable to the Consolidated Fund. This included £96.0 million (2016-17: £91.5 million) in respect of cherished transfer transactions, for which a fixed fee is charged. Other income in respect of personalised registrations involves public auctions and is not part of fees and charges disclosure, but the surplus on this activity is payable in full to the Consolidated Fund in the same way.

2.241 Additional information regarding these fees and charges (including the financial objective and performance against financial objective) can be found in the published financial statements for each of the individual agencies.

2.242 Information is also available for Driver and Vehicle Standards Agency (DVSA) in respect of driving tests and HGV testing charges, and published in its financial statements, but not summarised here since DVSA is outside the Department's accounting boundary (see Notes 1.3 and 20 to the financial statements for the rationale).

## Remote contingent liabilities

2.243 Contingent liabilities are presented here where the likelihood of a transfer of economic benefit in settlement is judged remote. Because of this, they do not meet the IAS 37 criteria for disclosure in the financial statements, but are presented here for transparency purposes. These predominantly relate to situations where guarantees or indemnities have been entered into by the Department, but where there are currently no indications that these will be drawn upon. While all mitigating actions have been and will be taken to minimise the risk and exposure, the risk cannot be removed altogether. Contingent liabilities for which the probability of crystallisation is rated as greater than remote are disclosed at Note 17 in the Financial Statements.

## Quantifiable contingent liabilities

2.244 This table summarises quantifiable contingent liabilities by their nature and purpose, with the amounts disclosed reflecting the highest reasonable estimate of the possible liability.

Quantifiable Contingent Liabilities	31 March 2018	31 March 2017
	£m	£m
In 2012 the Secretary of State agreed to quantifiable (disclosed) and unquantifiable assurances, warranties, indemnities and potential losses under the Inter City Express Rolling Stock contracts with Agility Consortium and Network Rail. During 2017-18 the Inter City Express Rolling Stock programme met various milestones which allowed some of the assurances relating to force majeure scenarios, to be quantified. Approximately £5,700m is the government's maximum liability should the Master and Train Availability and Reliability Agreements be terminated. A further £200m of the increase relates to indemnities provided the possibility that the Consortium might be unable to secure insurance.	5,900	12
CTRL Act 1996. The HS1 Concession Agreement between the Secretary of State and HS1 Ltd specifies that the Secretary of State would be liable to pay compensation if the contract were terminated due to events outside of the control of either party. The amount payable is formalised in the Agreement, but depends on the cause of the termination. The amount disclosed for last year has been increased from £2,423m to £3,211m to reflect a better understanding of the type of events that could trigger a termination.	4,424	3,211
Railways Act 1993, Transport Act 2000: Contingent liabilities arise from signing of new, replacement and extended passenger rail franchise agreements, along with other agreements to encourage railways investment. The value of this liability is based on the remaining value of rolling stock and depots, which tend to decrease over time. This liability could increase if new rolling stock or depots are introduced.	2,006	2,777
In 2013 the Secretary of State agreed to quantifiable (disclosed) and unquantifiable assurances, warranties, indemnities and potential losses under the Thameslink Rolling Stock contracts with Siemens, Network Rail and Cross London Trains. The balance has decreased as performance thresholds were met successfully for certain new fleets. The remaining amount reflects assurances, warranties and indemnities covering ongoing contracts between the stakeholders.	1,179	2,747
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.	137	165
Under the HS1 Concession agreement the Secretary of State may be liable for a number of quantifiable (disclosed) and unquantifiable payments, including capital expenditure, increase in operating costs and loss of revenue. This would be in the event of legal changes, either in the UK or Europe ('Change in Circumstances') or a change directed by another part of the Government ('Government Change').	100	100
The Department has a statutory liability under the Channel Tunnel Act 1987 that if, after termination of the Channel Tunnel concession, it appears to the Secretary of State that the operation of the Tunnel will not be resumed in the near future, he shall take the necessary steps to ensure that the land is left in a suitable condition in accordance with the scheme.	100	100

Quantifiable Contingent Liabilities	31 March 2018	31 March 2017
	£m	£m
In view of the fact that government departments generally self-insure, a guarantee has been given to the International Maritime Organisation that should the building be partially or completely destroyed, the Department would be obliged to reconstruct the building, or suspend or reduce the rent for a period of three years and fund alternative accommodation.	91	91
Indemnities issued to businesses at rail privatisation by the British Rail Board (Residuary) Ltd, which were transferred to the Department when the Board closed in 2013. The majority of warranties issued to businesses expired during the year.	20	691
Under the Merchant Shipping Acts 1894 and 1995, the Secretary of State may order a formal investigation into any marine accident, or may order the re-hearing of a formal investigation if new and important evidence has been discovered or if there are grounds for suspecting that a miscarriage of justice may have occurred.	20	20
Letters of comfort have been issued, providing an indemnity in relation to legal action taken against the judge, counsel, solicitors and secretariat to the Thames Safety Inquiry and the Victim Identification Inquiry, which reported in 2000 and 2001 respectively, following major transport disasters.	6	6
Indemnities have been issued to non-executive members of the departmental board, and to civil servants appointed to represent the Department on the boards of other organisations.	1	1
Other contingent liabilities, including legal claims.	16	52
<b>Total</b>	<b>14,000</b>	<b>9,973</b>

## Unquantifiable contingent liabilities

**2.245** The Department has obligations under agreements entered into by the Office of Passenger Rail Franchising (also known as the Director of Passenger Rail Franchising) prior to privatisation which indemnified the three rolling stock companies for the costs of industrial disease claims, personal injury claims and property damage claims. On abolition of the Office of Passenger Rail Franchising in 2001, the obligation novated to the Strategic Rail Authority. On abolition of the Strategic Rail Authority in 2006, the obligation novated to the Department.

**2.246** The Department is party to a NATO agreement relating to indemnification of civil aircraft in respect of their use on NATO tasks in times of crisis and war.

**2.247** Marine and Aviation Insurance Act 1952, s1: Government war risk reinsurance for British ship owners insuring their vessels with the British Mutual War Risks Associations (Clubs). Under the current agreement with Clubs, the Government provides 95% reinsurance for Queen's Enemy Risks (QER). A contingent liability arises from the continuous QER cover for the hull and machinery value of British flag vessels entered with the Clubs.

**2.248** The Department has statutory responsibility for the maintenance of all railway structures. This responsibility also applies to structures that have been sold to, and are controlled by third parties.

## Exiting from the European Union (EU)

**2.249** On 29 March 2017, the UK Government submitted its notification to leave the EU in accordance with Article 50. The triggering of Article 50 starts a two-year negotiation process between the UK and the EU.

**2.250** Any subsequent changes in legislation, regulation and funding arrangements are subject to the outcome of the negotiations. As a result, an unquantifiable contingent liability is disclosed in Note 17.2, relating to the Connecting Europe Facility.

### Bernadette Kelly CB

5 September 2018

Permanent Secretary and Principal Accounting Officer  
Department for Transport, Great Minster House  
33 Horseferry Road, London SW1P 4DR

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

## Opinion on financial statements

I certify that I have audited the financial statements of the Department for Transport and of its Departmental Group for the year ended 31 March 2018 under the Government Resources and Accounts Act 2000. The Department comprises the core Department and its agencies. The Departmental Group consists of the Department and the bodies designated for inclusion under the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2017. The financial statements comprise: the Department's and Departmental Group's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Accountability Report that is described in that report as having been audited.

In my opinion:

- ▶ the financial statements give a true and fair view of the state of the Department's and the Departmental Group's affairs as at 31 March 2018 and of the Department's net expenditure and Departmental Group's net expenditure for the year then ended; and
- ▶ the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

## Opinion on regularity

In my opinion, in all material respects:

- ▶ the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2018 and shows that those totals have not been exceeded; and
- ▶ the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Department for Transport in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

## Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Principal Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

## Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- ▶ identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the Department for Transport's internal control.
- ▶ evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the the group's and the Department for Transport's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- ▶ evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the group financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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

## Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

## Opinion on other matters

In my opinion:

- ▶ the parts of the Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- ▶ in the light of the knowledge and understanding of the group and the parent and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and
- ▶ the information given in the Performance and Accountability Reports for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which I report by exception

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

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

## Report

I have no observations to make on these financial statements.

**Sir Amyas C E Morse**

7 September 2018

Comptroller and Auditor General  
National Audit Office  
157-197 Buckingham Palace Road  
Victoria, London SW1W 9SP

# Financial Statements







# Group Statement of Comprehensive Net Expenditure

for the period ended 31 March 2018

	Note	2017-18		2016-17 (restated*)	
		Core Department & Agencies £m	Departmental Group £m	Core Department & Agencies £m	Departmental Group £m
Income from sale of goods and services	5	(169.6)	(2,246.5)	(123.6)	(1,963.0)
Other operating income	5	(2,596.5)	(3,655.6)	(3,168.1)	(4,170.6)
<b>Total Operating Income</b>		<b>(2,766.1)</b>	<b>(5,902.1)</b>	<b>(3,291.7)</b>	<b>(6,133.6)</b>
Staff costs	3	410.5	2,371.6	398.5	2,036.2
Purchase of goods and services	4	1,584.3	4,765.6	1,355.5	4,264.3
Depreciation and impairment charges	4	119.1	6,540.5	126.8	6,068.2
Provision expense	4	(121.7)	(25.0)	152.6	178.8
Other operating expenditure	4	12,325.9	3,241.1	11,731.5	4,415.3
<b>Total Operating Expenditure</b>		<b>14,318.1</b>	<b>16,893.8</b>	<b>13,764.9</b>	<b>16,962.8</b>
<b>Net Operating Expenditure</b>		<b>11,552.0</b>	<b>10,991.7</b>	<b>10,473.2</b>	<b>10,829.2</b>
Share of (profit) / loss of associate	5, 10	(54.8)	(54.8)	(27.2)	(27.2)
Finance income	5	(580.7)	(117.3)	(506.0)	(99.0)
Finance expense	4	209.7	1,550.1	202.9	1,062.8
<b>Net Expenditure</b>		<b>11,126.2</b>	<b>12,369.7</b>	<b>10,142.9</b>	<b>11,765.8</b>
<b>Other Comprehensive Net Expenditure</b>					
<b>Items that will not be reclassified to net operating costs:</b>					
Detrunking (transfer roads to local authority ownership)	6	-	192.6	-	2.5
Net (gain) / loss on revaluation of property, plant & equipment	6	(120.2)	(10,001.3)	(309.4)	(12,403.6)
Net (gain) / loss on revaluation of intangibles	7	0.1	(0.1)	(0.2)	(38.7)
Share of associate's other comprehensive net (income)/expenditure	10	(179.8)	(179.8)	142.7	142.7
Actuarial (gain) / loss on pension schemes	18	(385.0)	(732.6)	372.3	1,406.3
Deferred tax movement	15	-	152.4	-	(344.9)
Reversionary interest on M6 toll road		(2.7)	(2.7)	(14.2)	(14.2)
<b>Items that will or may subsequently be reclassified to net operating costs:</b>					
Available-for-sale financial assets – net change in fair values	9	13.4	123.0	(5.6)	(99.2)
Cash flow hedge – effective portion of fair value change	9	-	-	-	(14.0)
Cash flow hedge – reclassified to profit or loss	9	-	0.5	-	(25.8)
<b>Total Comprehensive Net Expenditure</b>		<b>10,452.0</b>	<b>1,921.7</b>	<b>10,328.5</b>	<b>376.9</b>

\* M6 reversionary interest and detrunking are now reported under Other Comprehensive Net Expenditure, which has reduced Total Comprehensive Net Expenditure for 2016-17 from £388.6m to £376.9m. The 2016-17 Financial Statements reported these items in the Statement of Changes in Taxpayers' Equity only.

The Notes on pages 216 to 290 form part of these financial statements.

# Group Statement of Financial Position

as at 31 March 2018

	Note	2017-18		2016-17 (restated*)	
		Core Department & Agencies £m	Departmental Group £m	Core Department & Agencies £m	Departmental Group £m
<b>Non-current assets:</b>					
Property, plant and equipment	6	8,711.0	429,337.2	7,025.4	414,978.2
Investment properties	6.5	-	207.6	-	1,232.3
Intangible assets	7	35.9	161.0	37.1	155.2
Financial assets	9	27,306.1	1,043.4	20,796.3	1,948.8
Investment in associates	10	430.3	430.3	223.6	223.6
Trade and other receivables	12	3,777.1	9.7	3,862.8	46.3
Inventories	11	431.4	431.4	250.4	250.4
<b>Total non-current assets</b>		<b>40,691.8</b>	<b>431,620.6</b>	<b>32,195.6</b>	<b>418,834.8</b>
<b>Current assets</b>					
Assets classified as held for sale	6.6	1.0	1,156.9	1.1	17.5
Inventories	11	-	257.4	-	230.5
Financial assets	9	-	227.4	-	238.3
Trade and other receivables	12	646.4	1,785.6	575.1	1,866.5
Cash and cash equivalents	13	146.7	1,133.4	150.2	993.9
<b>Total current assets</b>		<b>794.1</b>	<b>4,560.7</b>	<b>726.4</b>	<b>3,346.7</b>
<b>Total assets</b>		<b>41,485.9</b>	<b>436,181.3</b>	<b>32,922.0</b>	<b>422,181.5</b>
<b>Current liabilities</b>					
Financial liabilities	9	-	(19.8)	-	(1.0)
Trade and other payables	14	(1,227.3)	(6,157.0)	(847.9)	(7,549.2)
Provisions	16	(485.0)	(898.3)	(209.5)	(328.0)
<b>Total current liabilities</b>		<b>(1,712.3)</b>	<b>(7,075.1)</b>	<b>(1,057.4)</b>	<b>(7,878.2)</b>
<b>Total assets less current liabilities</b>		<b>39,773.6</b>	<b>429,106.2</b>	<b>(31,864.6)</b>	<b>414,303.3</b>
<b>Non-current liabilities</b>					
Provisions	16	(1,021.3)	(1,117.8)	(529.5)	(621.4)
Other payables	14	(5,274.7)	(31,388.2)	(5,387.2)	(33,042.4)
Financial liabilities	9	(4,044.4)	(1,146.8)	(4,141.7)	(1,528.5)
Deferred tax liabilities	15	-	(2,508.2)	-	(2,381.4)
<b>Total non-current liabilities</b>		<b>(10,340.4)</b>	<b>(36,161.0)</b>	<b>(10,058.4)</b>	<b>(37,573.7)</b>
<b>Assets less liabilities excl. pension liabilities</b>		<b>29,433.2</b>	<b>392,945.2</b>	<b>21,806.2</b>	<b>376,729.6</b>
Pension liability	18	(1,298.9)	(4,329.8)	(1,647.7)	(4,734.4)
<b>Assets less liabilities</b>		<b>28,134.3</b>	<b>388,615.4</b>	<b>20,158.5</b>	<b>371,995.2</b>
<b>Taxpayers' equity and other reserves:</b>					
General fund		(25,660.2)	(73,370.1)	(17,789.7)	(66,417.0)
Revaluation reserve		(2,117.9)	(314,531.2)	(1,999.2)	(304,778.6)
Hedging reserve		-	(28.1)	-	10.0
Available for sale reserve		(356.2)	(686.0)	(369.6)	(809.6)
<b>Total equity</b>		<b>(28,134.3)</b>	<b>(388,615.4)</b>	<b>(20,158.5)</b>	<b>(371,995.2)</b>

\* Note 1.19 provides details of the restatement. In addition, the inventories disclosed under core and agencies relate to land and properties acquired during the construction of High Speed 2. As there is no intention to sell the land and properties in the short-term, the inventories have been reclassified from current to non-current assets.

**Bernadette Kelly CB**

5 September 2018

Permanent Secretary and Principal Accounting Officer,  
Department for Transport, Great Minster House,  
33 Horseferry Road, London SW1P 4DR

The Notes on pages 216 to 290 form part of these financial statements.

# Group Statement of Cash Flows

for the year ended 31 March 2018

	Note	2017-18		2016-17 (restated)	
		Core Department & Agencies £m	Departmental Group £m	Core Department & Agencies £m	Departmental Group £m
<b>Cash flows from operating activities</b>					
Net expenditure for year		(11,126.2)	(12,369.7)	(10,142.9)	(11,765.8)
Adjustments for non-cash transactions other than pension schemes	4,5	(69.0)	6,850.7	225.7	6,339.8
Adjustments for non-cash transactions related to pension schemes	4	36.3	329.3	35.4	84.7
(Increase) / decrease in inventories	11	(181.0)	(207.9)	147.4	157.4
less movement in inventory relating to items not passing through the Statement of Comprehensive Net Expenditure (SOCNE)		23.5	23.5	(0.2)	(0.2)
(Increase) / decrease in trade and other receivables	12	14.4	117.5	(117.7)	(192.2)
less movements in receivables relating to items not passing through the SOCNE		(125.2)	(222.1)	157.8	301.9
Increase / (decrease) in trade and other payables	14	266.9	(3,046.4)	(293.7)	(1,956.0)
less movements in payables relating to items not passing through the SOCNE		82.7	192.2	42.6	(63.0)
(Increase) / Decrease in derivative assets	9.1.4	-	606.6	-	(139.6)
Increase / (Decrease) in derivative liabilities	9.2.1	-	(362.9)	-	120.8
less movements in derivatives not passing through the SoCNE		-	(243.7)	-	25.6
Use of provisions	16	(69.0)	(159.0)	(58.1)	(111.7)
Non-cash movement in classification of provision		-	-	-	5.1
Adjustment for capital and interest element of PFI payments		2.3	76.3	2.3	72.6
<b>Net cash outflow from operating activities</b>		<b>(11,144.3)</b>	<b>(8,415.6)</b>	<b>(10,001.4)</b>	<b>(7,120.6)</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment – additions	6	(1,708.5)	(11,278.8)	(616.8)	(9,870.9)
Purchase of property, plant and equipment – non-cash additions		3.4	22.7	1.2	5.0
Adjustments for movement in capital accruals relating to additions		-	(80.0)	-	-
Purchase of intangible assets – cash additions	7	(15.5)	(27.1)	(9.6)	(13.5)
Purchase of intangible assets – non-cash additions		(0.7)	(0.7)	0.1	0.1
Proceeds of disposal of assets and assets held for sale		1.7	125.8	0.5	9.2
Equity injections to joint venture partnerships		-	-	-	(2.4)
Purchase of investment properties	6.5	-	(6.7)	-	(18.4)
Proceeds of disposal of investments		-	6.4	-	64.6
Capital element of lands provision		957.8	1,254.6	105.4	170.7
Loans to other bodies	9.1	(8,371.1)	(24.0)	(6,100.)	-
Repayments from other bodies	9.1	1,852.5	217.5	27.3	27.3
Repayments to National Loans Fund		(1.2)	(1.2)	1.1	1.1
<b>Net cash outflow from investing activities</b>		<b>(7,281.6)</b>	<b>(9,791.5)</b>	<b>(6,590.8)</b>	<b>(9,627.2)</b>

	2017-18		2016-17 (restated)	
		Core Department & Agencies	Departmental Group	Core Department & Agencies
Note	£m	£m	£m	£m
<b>Cash flows from financing activities</b>				
From the Consolidated Fund (Supply) – current year	18,477.5	18,477.5	16,854.5	16,854.5
From the Consolidated Fund (Supply) – prior year	182.4	182.4	-	-
Repayments of loans from the National Loans Fund	1.2	1.2	(1.1)	(1.1)
Capital element of payments in respect of finance leases	-	(1.8)	-	(1.8)
Capital element of payments in respect of onbalance sheet PFI contracts	(2.3)	(76.3)	(2.3)	(72.6)
<b>Net financing</b>	<b>18,658.8</b>	<b>18,583.0</b>	16,851.1	16,779.0
<b>Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund</b>	<b>232.9</b>	<b>375.9</b>	258.9	31.2
Payments of amounts due to the Consolidated Fund	(236.4)	(236.4)	(218.1)	(218.1)
<b>Net increase / (decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund</b>	<b>(3.5)</b>	<b>139.5</b>	40.8	(186.9)
<b>Cash and cash equivalents at the beginning of the period</b>	<b>150.2</b>	<b>993.9</b>	109.4	1,180.8
<b>Cash and cash equivalents at the end of the period</b>	<b>146.7</b>	<b>1,133.4</b>	150.2	993.9

The Notes on pages 216 to 290 form part of these financial statements.

# Group Statement of Changes in Taxpayers' Equity

as at 31 March 2018

	Note	General Fund £m	Revaluation Reserve £m	Hedging Reserve £m	Available-for-Sale Reserve £m	Total Reserves £m
Balance at 31 March 2016		(62,750.1)	(292,247.7)	28.0	(710.4)	(355,680.2)
Detrunking (transfer roads to local authority ownership)	6	2.5	-	-	-	2.5
Net (gain) / loss on revaluation of property, plant and equipment	6	-	(12,403.6)	-	-	(12,403.6)
Net (gain) / loss on revaluation of intangible assets	7	-	(38.7)	-	-	(38.7)
Change in fair value of derivatives	9	-	-	(14.0)	-	(14.0)
Reclassified to Statement of Comprehensive Net Expenditure		-	-	(25.8)	-	(25.8)
Net (gain) / loss on revaluation of investments	9	-	-	-	(99.2)	(99.2)
Non-cash charges – auditor's remuneration	4	(0.6)	-	-	-	(0.6)
Transfers between reserves		(486.5)	468.5	18.0	-	-
Net expenditure for the year		11,765.8	-	-	-	11,765.8
Reversionary interest on M6 toll road		(14.2)	-	-	-	(14.2)
Deferred tax movements	15	211.6	(556.5)	-	-	(344.9)
Adjustment to non-current assets		(3.0)	(0.6)	-	-	(3.6)
Actuarial (gain)/loss recognised in pension scheme	18	1,406.3	-	-	-	1,406.3
Share of non-operating (income)/expenditure of associate	10	142.7	-	-	-	142.7
Other movements (restated)		(96.0)	-	3.8	-	(92.2)
<b>Balance as adjusted by income and expense for 2016-17 (restated)</b>		<b>(49,821.5)</b>	<b>(304,778.6)</b>	<b>10.0</b>	<b>(809.6)</b>	<b>(355,399.7)</b>
Net Parliamentary Funding – drawn down		(16,854.5)	-	-	-	(16,854.5)
Net Parliamentary Funding – deemed		(91.0)	-	-	-	(91.0)
Supply payable/(receivable) (restated)	14	124.7	-	-	-	124.7
CFERs payable to the Consolidated Fund		225.2	-	-	-	225.2
Balance at 31 March 2017 (restated)		(66,417.1)	(304,778.6)	10.0	(809.6)	(371,995.3)

In 2016-17 the Financial Statements included a misallocation between Cash and the Supply payable/(receivable), which were both understated by £307m. This reflects a timing difference in terms of the Department's cash funding position. "Other movements" in the Statement above relates to Parliamentary Supply that would follow from the adjustment to the Supply payable/(receivable). Retrospective restatement for the misallocation would have no impact on the net asset positions for either 31 March 2017 or 31 March 2018, nor on the financial performance of either 2016-17 or 2017-18. Note 1.19 provides more information.

	Note	General Fund £m	Revaluation Reserve £m	Hedging Reserve £m	Available-for-Sale Reserve £m	Total Reserves £m
<b>Balance at 1 April 2017</b>		<b>(66,417.1)</b>	<b>(304,778.6)</b>	<b>10.0</b>	<b>(809.6)</b>	<b>(371,995.3)</b>
Trunking / Detrunking (transfer roads to local authority ownership)	6	192.6	-	-	-	192.6
Net (gain) / loss on revaluation of property, plant and equipment	6	-	(10,001.2)	-	-	(10,001.2)
Net (gain) / loss on revaluation of intangible assets	7	-	(0.1)	-	-	(0.1)
Reclassified to Statement of Comprehensive Net Expenditure		-	-	-	0.6	0.6
Net (gain) / loss on revaluation of investments	9	-	-	-	123.0	123.0
Non-cash charges – auditor's remuneration	4	(0.7)	-	-	-	(0.7)
Transfers between reserves		(132.0)	132.0	-	-	-
Net expenditure for the year		12,369.7	-	-	-	12,369.7
Reversionary interest on M6 toll road		(2.7)	-	-	-	(2.7)
Deferred tax movements	15	36.0	116.4	-	-	152.4
Actuarial (gain)/loss recognised in pension scheme	18	(732.6)	-	-	-	(732.6)
Impairments through Revaluation Reserve	6	-	0.3	-	-	0.3
Share of non-operating (income)/expenditure of associate	10	(179.8)	-	-	-	(179.8)
Other movements		(76.6)	-	(38.1)	-	(114.7)
<b>Balance as adjusted by income and expense for 2017-18</b>		<b>(54,943.2)</b>	<b>(314,531.2)</b>	<b>(28.1)</b>	<b>(686.0)</b>	<b>(370,188.5)</b>
Net Parliamentary Funding – drawn down (current year)		(18,477.5)	-	-	-	(18,477.5)
Net Parliamentary Funding – drawn down (prior year)		(182.4)	-	-	-	(182.4)
Net Parliamentary Funding – deemed		(124.6)	-	-	-	(124.6)
Supply payable/(receivable)	14	108.4	-	-	-	108.4
CFERs payable to the Consolidated Fund		249.2	-	-	-	249.2
<b>Balance at 31 March 2018</b>		<b>(73,370.1)</b>	<b>(314,531.2)</b>	<b>(28.1)</b>	<b>(686.0)</b>	<b>(388,615.4)</b>

The Notes on pages 216 to 290 form part of these financial statements.

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

The Revaluation Reserve reflects the unrealised element of the cumulative balance of the revaluation adjustments to property, plant and equipment and intangible assets.

The hedging and available-for-sale reserves record the cumulative fair value gains and losses on certain derivative instruments (to the extent that the hedge is effective) and available for sale financial assets respectively. The cumulative gains and losses are recycled to income and expenditure on conclusion of hedges or on disposal of the assets. There are no Charitable Fund reserves in the Group.

# Statement of Changes in Taxpayers' Equity

## Core Department and Agencies

as at 31 March 2018

	Note	General Fund £m	Revaluation Reserve £m	Available-for-Sale Reserve £m	Total Reserves £m
Balance at 31 March 2016		(11,565.3)	(1,948.4)	(364.0)	(13,877.7)
Detrunking (transfer roads to local authority ownership)					
Net (gain) / loss on revaluation of property, plant and equipment	6	-	(309.4)	-	(309.4)
Net (gain) / loss on revaluation of intangible assets	7	-	(0.3)	-	(0.3)
Net (gain) / loss on revaluation of investments	9	-	-	(5.6)	(5.6)
Non-cash charges – auditor's remuneration	4	(0.6)		-	(0.6)
Transfers between reserves		(259.4)	259.4	-	
Net expenditure for the year		10,142.9		-	10,142.9
Reversionary interest on M6 toll road		(14.2)		-	(14.2)
Adjustment to non-current assets		0.1	(0.5)	-	(0.4)
Actuarial (gain)/loss recognised in pension scheme	18	372.3	-	-	372.3
Share of non-operating (income)/expenditure of associate	10	142.7	-	-	142.7
Other movements (restated)		(12.4)	-	-	(12.4)
Balance as adjusted by income and expense for 2016-17 (restated)		(1,193.9)	(1,999.2)	(369.6)	(3,562.7)
Net Parliamentary Funding – drawn down		(16,854.5)	-	-	(16,854.5)
Net Parliamentary Funding – deemed		(91.0)	-	-	(91.0)
Supply payable/(receivable) (restated)	14	124.7	-	-	124.7
CFERs payable to the Consolidated Fund		225.2	-	-	225.2
Balance at 31 March 2017 (restated)		(17,789.5)	(1,999.2)	(369.6)	(20,158.3)



	Note	General Fund £m	Revaluation Reserve £m	Available-for-Sale Reserve £m	Total Reserves £m
<b>Balance at 1 April 2017</b>		<b>(17,789.5)</b>	<b>(1,999.2)</b>	<b>(369.6)</b>	<b>(20,158.3)</b>
Net (gain) / loss on revaluation of property, plant and equipment	6	-	(120.2)	-	(120.2)
Net (gain) / loss on revaluation of intangible assets	7	-	0.1	-	0.1
Net (gain) / loss on revaluation of investments	9	-	-	13.4	13.4
Non-cash charges – auditor’s remuneration	4	(0.7)	-	-	(0.7)
Transfers between reserves		(1.1)	1.1	-	-
Net expenditure for the year		11,126.2	-	-	11,126.2
Reversionary interest on M6 toll road		(2.7)	-	-	(2.7)
Actuarial (gain)/loss recognised in pension scheme	18	(385.0)	-	-	(385.0)
Impairments through Revaluation Reserve	6	-	0.3	-	0.3
Share of non-operating (income)/expenditure of associate	10	(179.8)	-	-	(179.8)
Other movements		(0.6)	-	-	(0.6)
<b>Balance as adjusted by income and expense for 2017-18</b>		<b>(7,233.2)</b>	<b>(2,117.9)</b>	<b>(356.2)</b>	<b>(9,707.3)</b>
Net Parliamentary Funding – drawn down (current year)		(18,477.5)	-	-	(18,477.5)
Net Parliamentary Funding – drawn down (prior year)		(182.4)	-	-	(182.4)
Net Parliamentary Funding – deemed		(124.6)	-	-	(124.6)
Supply payable/(receivable)	14	108.3	-	-	108.3
CFERs payable to the Consolidated Fund		249.2	-	-	249.2
<b>Balance at 31 March 2018</b>		<b>(25,660.2)</b>	<b>(2,117.9)</b>	<b>(356.2)</b>	<b>(28,134.3)</b>

The Notes on pages 216 to 290 form part of these financial statements.

# Notes to the Financial Statements

Notes to the financial statements provide additional information required by statute and accounting standards to explain a particular feature of the financial statements. The Notes which follow will also provide explanations and additional disclosure to assist readers' understanding and interpretation of the financial statements, and enlarge upon the accounting policies described below.

## 1. Statement of Significant Accounting Policies

This Note sets out the accounting policies that determine the recognition and valuation of the material assets, liabilities, income and expenditure. As the Statement of Financial Position and Note 6 indicate, the most material assets in the Departmental Group are the Strategic Road Network and the Railway Network. Depreciation and maintenance of those assets, disclosed in Note 4, are also material expenditure items. These assets are both specialised and complex; therefore, the valuation of the assets requires a significant degree of judgement and use of estimates. Estimation uncertainties may therefore result in a material adjustment to the values of the assets, and the amount of depreciation, recognised in future accounting periods. These issues are discussed in detail in Notes 1.4, 1.21, 1.22 and 1.23, as well as in Note 6.

### 1.1 Basis of preparation

These financial statements have been prepared in accordance with the 2017-18 Government Financial Reporting Manual<sup>1</sup> (FReM) issued by HM Treasury and accordingly are drawn up to give a true and fair view on that basis. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

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

In addition to the primary statements prepared under IFRS, the FReM requires the Department to prepare a Statement of Parliamentary Supply and supporting Notes showing the outturn against estimate in terms of the net resource requirement and the net

cash requirement. These are included within the Parliamentary Accountability section of this document.

### 1.2 Accounting convention

These financial statements have been prepared on a going concern basis under the historical cost convention modified by the revaluation of certain categories of non-current assets and financial instruments.

### 1.3 Basis of consolidation

In accordance with the FReM, these financial statements comprise a consolidation of the Department (the core Department) and those entities which fall within the Departmental boundary as defined by Statutory Instrument 2017 No 1256 made under the Government Resources & Accounts Act 2000. Note 20 contains a list of all the entities within the Departmental boundary, and a list of entities that are sponsored by the Department but are not consolidated, such as Public Corporations and Trading Funds.

Where two columns are included, one contains amounts for the core Department and its Agencies and the other contains amounts for the Departmental Group (the Group) as a whole. Accounting policies are harmonised across the Group and all material intra-group transactions are eliminated on consolidation.

In accordance with the FReM, Transfer by Absorption accounting is applied to all transfers of functions (and entities), including those with local government, with public corporations and within a departmental group. Under Transfer by Absorption accounting, the values of assets and liabilities are not adjusted to fair value, and there is no recognition of goodwill.

### 1.4 Property, plant and equipment

Property, plant and equipment is described and analysed in Note 6.

#### 1.4.1 Recognition

Assets are recognised initially at cost, which comprises purchase price or construction cost, any costs directly attributable to bringing the asset into the location and condition necessary for it to be capable of operating in the manner intended by the Group.

For proposed new infrastructure projects, costs are expensed until the point that it is reasonably certain that they will go ahead. After that point, capitalisation commences. Further information is given in Note 1.4.2 and 6.4, Capital Additions and Asset Under Construction (AUC).

On completion, project costs are transferred out of AUC and into the networked asset.

<sup>1</sup> <https://www.gov.uk/government/collections/government-financial-reporting-manual-frem>

Land and property required for the construction of new infrastructure assets is acquired through several legal processes and is recognised as an asset when the Group has an obligation to purchase. The recognition points depend on the acquisition process used, and the most significant processes and recognition points are:

- ▶ Discretionary processes, such as Need to Sell: When the owner demonstrates that the requirements are met and the application is accepted.
- ▶ Compensatory processes, such as Statutory Blight: When the owner demonstrates that the requirements are met and the application is accepted.
- ▶ Compulsory purchase – General Vesting Declaration: When the Secretary of State signs the General Vesting Declaration, simultaneously with service of notice on the property owner.
- ▶ Compulsory purchase – Notice to Treat: When the Secretary of State serves the Notice of Entry on the owner.

It is also necessary to access neighbouring land for construction purposes. This is done through Temporary Possession. The owner receives compensation for any losses suffered during Temporary Possession. These costs are part of the construction cost and are capitalised, to the extent of the loss caused.

During the construction phase, land and properties that are on the route of the infrastructure will be recognised as part of an asset under construction. Land and properties outside of this boundary, acquired under discretionary purchase schemes such as “Need to Sell” rather than for construction, are classified as inventory.

At the point of recognition, the cost of the asset is also recognised as a liability; either as a provision, where the timing or amount of the payment is subject to material uncertainty, or otherwise as an accrual. In some cases, liabilities relating to capital expenditure will persist for some time, for example pending the final settlement of legally disputed compensation amounts due to counterparties following a compulsory purchase order vesting.

#### 1.4.2 Classification

Property, plant and equipment is categorised into Infrastructure Assets, Assets Under Construction, Land and Buildings, and Other Assets. Brief descriptions are given below, with fuller disclosures in Note 6.

##### Infrastructure Assets

These are Networked Assets, which are integrated networks servicing a significant geographical area. They comprise the Railway Network, the Strategic Road Network and the HS1 concession. These assets usually display some or all of the following characteristics:

- ▶ They are part of a system or network;
- ▶ They are specialised in nature and do not have alternative uses;
- ▶ They are immovable; and
- ▶ They may be subject to constraints on disposal.

The Strategic Road Network (SRN) consists of the motorways and all-purpose trunk roads in England, which form a single integrated network. The SRN constitutes: carriageways, including earthworks; tunnelling and road pavements; roadside communications; bridges and other structures, and land and buildings within the highway’s perimeter.

The Railway Network consists of the infrastructure supporting the operation of Great Britain’s national rail system. The Railway Network consists of: track; earthworks; signalling; power; plant; telecommunications; bridges; fencing; coastal defences; stations and operational property and land. It includes only those assets which are controlled by Network Rail; others such as London Underground, other separately owned metropolitan systems, and heritage railway lines are reported in the financial statements of the organisations who control them.

Further information about capitalisation and valuation policies can be found in Notes 1.4.1, 1.4.3 and 6.1 – 6.4 below.

##### Assets under Construction (AUC)

The amount presented under the heading of assets under construction mostly comprises new infrastructure projects, specifically:

- ▶ enhancements to and renewals of the Railway Network;
- ▶ enhancements to the Strategic Road Network; and
- ▶ preparatory work for construction of HS2.

Renewals of the Strategic Road Network are recorded against the strategic road network asset.

Enhancements and renewals of the Railway Network are presented as a single amount in Note 6. This is because the distinction between the two types of improvement is less clear-cut in the context of a depreciated replacement cost valuation, because a depreciated replacement cost valuation is based on the cost of a modern equivalent asset, which is then reduced to reflect the condition and capacity of the actual network. For example, the replacement of an old signalling system with a modern digital system represents an enhancement of the actual Railway Network but renewal of a part of the modern equivalent Railway Network. Given the ambiguous nature of such improvements,

they are presented as a single amount, as assets under construction, until they are commissioned, at which point the asset is transferred into the relevant 'live asset' category.

### Land and Buildings

This category includes:

- ▶ Land and buildings outside the networks' perimeters;
- ▶ Lighthouses and vessels recognised by the General Lighthouse Authorities; and
- ▶ Dwellings, which encompasses all residential properties owned by the Group that are not part of an existing scheme under construction. They are valued at their open market value.

### Other Assets

This category includes:

- ▶ Plant and Machinery
- ▶ Fixtures and Fittings
- ▶ Information Technology Hardware

#### 1.4.3 Valuation

The valuation approach used for specific assets depends on their function and value.

### Infrastructure assets

Networked assets (the Strategic Road Network and Railway Network, but not HS1) are valued at Depreciated Replacement Cost (DRC), because they are specialised assets used to deliver a service to the public. The DRC is arrived at by first determining a gross replacement cost for each Network in line with guidelines issued by the Royal Institute of Chartered Surveyors. The guidelines require certain assumptions including: a modern equivalent asset which the Department treats as being a Network identical in function, scale and connectivity, but constructed using modern specifications and methods; and instantaneous build on a green-field site. To arrive at the final DRC valuation, the gross replacement value is adjusted to reflect management's best estimate of the condition and capacity of the Network. A full valuation takes place at least every five years, with input indices applied to a standard price list of the Network's components in interim periods. Disclosures of the judgements made in determining the characteristics of the modern equivalent asset, in calculating the gross replacement cost and the deduction to reflect the condition and the capacity of the Network are given in Note 1.21. The accounting estimates, and sources of estimation uncertainty are disclosed in Notes 1.22 and 1.23, and the sensitivity analyses are presented in Note 6.

The HS1 infrastructure is valued on an income basis because it is held to maximise returns to the Group. It is operated by HS1 Ltd, under the current service concession that will end in 2040. There are two parts to its valuation:

- ▶ For the current concession period to 2040: £1,686m based on the impaired value of the asset in the financial statements of London and Continental Railways Ltd as at 31 December 2009. This is the value in use as calculated from the net present value of future cash flows, reflecting the shortening of the concession; and
- ▶ For the asset's estimated remaining life (to 2086): £1,860m reflecting the price paid by Borealis and the Ontario Teachers' Pension Plan in November 2010 to operate the infrastructure until 2040, which is a best estimate of the concession income the Department will receive in 2040 or beyond.

This asset is not revalued, as no subsequent changes have occurred that would increase the benefits that the Group can control. The financial statements of HS1 Ltd do not provide any indication that this asset should be impaired.

### Assets under Construction

Capital works to networked assets are recognised at cost. However, to achieve consistency with the DRC valuation assumptions, such as instantaneous build on a greenfield site, the carrying value of the Network asset, including assets under construction, is adjusted to DRC at the year-end. This typically results in a write-down, arising from the specific costing assumptions required for depreciated replacement cost valuations. This is recognised in Other Comprehensive Net Expenditure to the extent a revaluation surplus is available.

Other assets under construction, including the costs of HS2, are recognised at cost until the assets' future operating model (whether they are used to deliver a service to the public, or to generate a commercial return) becomes sufficiently clear to adopt an alternative basis.

### Other assets, including Land and Buildings

Non-networked assets are valued either at fair value or DRC through regular valuation or through the application of indices and estimated asset lives. The valuation approach used for specific assets depends on their function and value.

Where assets are revalued using indices, both the gross book value and accumulated depreciation balances are adjusted. If the net asset value has increased, the upwards movements are recognised as gains in Other Comprehensive Net Expenditure and accumulated in equity under the heading of revaluation surplus. If

the net asset value has decreased, the causes of the downwards movements are analysed to determine whether they were caused by a clear consumption of economic benefits. Clear consumption of economic benefits includes cases of physical damage, or a policy decision to use the asset for a less specialised purpose. The latter is the central government equivalent of a reduction in the asset's value-in-use. Downwards movements that are caused by a clear consumption of economic benefits, or which reduce the value of the asset below its historic cost, are treated as impairments and recognised as a part of the Net Operating Expenditure, with the reduction then transferred from the General Fund to reduce the amount accumulated in equity under the revaluation surplus, within Taxpayers' Equity. Other downwards movements are recognised as losses under Other Comprehensive Net Expenditure.

#### 1.4.4 Depreciation

No depreciation is provided on freehold land. Assets or definable components with a determinable useful economic life are depreciated at rates calculated to write off the assets over their expected useful economic lives on a straight-line basis. Note 6 provides further information on the weighted average asset lives used to depreciate components of the major networked assets; these are typically weighted averages for a range of components, given the complexity of these structures. The lives of non-networked assets vary from 60 years (for some freehold structures) or more in special cases, to three years (for some IT assets). Where material, lives are reviewed annually to reflect the latest engineering trends.

Some definable components of networked assets have no determinable useful economic life. For these components, depreciation is calculated as the cost of maintenance adjusted for observed changes in the condition of the asset, so that a deterioration in the asset's condition increases the depreciation charge, and vice versa. Fuller disclosure of the judgements, estimates and uncertainties is given in Notes 1.21, 1.22 and 1.23.

### 1.5 Impairment of non-current assets

The Group annually tests for impairment of all non-current assets, including any in the course of construction. Assets are tested for impairment by comparing their carrying value with their recoverable amount. For specialised assets held to deliver a service to the public, the recoverable amount is considered to be the cost of replacing the service capacity currently in use. For other assets, the recoverable amount is the higher of the value in use and the fair value, less costs of disposal. Where appropriate, impairment losses are charged to the relevant revaluation reserve.

### 1.6 Leases

Leases are classified as finance leases if the risks and rewards of ownership are transferred to the lessee.

Finance leases are capitalised at the commencement of the lease term at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Finance charges are allocated to each period to achieve a constant rate of interest on the remaining balance of the liability and are charged directly against income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Other leases are classified as operating leases. Operating lease payments are recognised as an expense in Net Operating Expenditure on a straight-line basis over the lease term.

### 1.7 Service concessions

The Group has agreed several contracts with private sector entities under which those entities develop, finance, operate and maintain an infrastructure that is used to deliver services to the public, whether directly or indirectly. The accounting treatment is determined by the extent of control that the Group has over the infrastructure, and by the basis on which the private sector operator recovers its investment.

If the Group controls or regulates the service (including the price of that service) and controls any significant residual interest in the infrastructure, the concession falls within the scope of IFRIC 12 Service Concession Arrangements. The Group then recognises the infrastructure associated with service concessions as an asset, and recognises a matching liability. The asset is accounted for in a manner consistent with other similar assets. The treatment of the liability is determined by the basis on which the private sector operator recovers its investment.

- ▶ Where the operator has a right to receive consideration from the Group, (for example, in the form of unitary charges), the Group recognises the related financial liability. Interest on the liability and expenditure on services provided under the service concession are recognised in Net Operating Expenditure as they accrue. Unitary charges are apportioned between three elements: an element to pay for services; an element to pay interest on the liability and an element to repay the initial liability.
- ▶ Where the operator has a right to charge the public, such as the HS1 concession, the Group recognises a deferred income balance, which is amortised to Net Operating Expenditure over the life of the arrangement.

The Group does not control or regulate the M6 Toll Motorway, but controls a significant residual interest in the infrastructure. This concession is outside the scope of IFRIC 12. The Group does not recognise the infrastructure as an asset from the inception of the concession. However, the infrastructure reverts to the Group at the end of the concession for no

consideration. The expected fair value of the residual interest is recognised incrementally through Other Comprehensive Net Expenditure over the term of the concession as an increase in the value of Non-Current Assets under Assets under Construction. This ensures the proper allocation of payments between the cost of services under the contract and acquisition of the residual interest. The capitalisation of the residual interest is disclosed within Non-Current Assets under Assets under Construction in Note 6.

## 1.8 Inventories

Different valuation bases are applied to different types of inventories. The most significant by value are as follows:

- ▶ Land and properties acquired for the construction of infrastructure, acquired under discretionary schemes such as “Need to Sell”, and which fall outside the boundary of the infrastructure route and will therefore not be required for construction, are valued at the lower of cost and net realisable value, and are classified as inventory as the intention is that the land and properties will ultimately be sold;
- ▶ Long-term inventory holdings for special structures (such as tunnels and bridges) and oil dispersants are valued at estimated replacement cost;
- ▶ Where excess or obsolete inventory holdings have been identified, the carrying value is reduced to the estimated net realisable value; and
- ▶ Work in progress is valued at the lower of cost, including appropriate overheads, and net realisable value.

## 1.9 Investment properties and Assets Held for Sale

IAS 40 requires that properties are classified as investment properties where they are held for the purpose of capital appreciation, or to earn rentals, or both. Investment properties are valued at fair value as at the end of each reporting period, with changes recognised in Net Operating Expenditure for the period in which they arise.

Assets Held for Sale are available for immediate sale in their present condition and are being actively marketed for sale. They are valued at the lower of their carrying amount at the point of transfer and fair value (market value) less material selling costs. Depreciation is not applied.

## 1.10 Investments in associates and joint arrangements

Where the Group has significant influence or joint control over an investee and the investee is classified to the private sector, the investee is accounted for as an associate or as a joint arrangement using equity

accounting.

The Group recognises its share of the investee’s profits, losses and other comprehensive gains and losses in its Statement of Comprehensive Net Expenditure. The investment in the investee is recognised initially at cost and subsequently adjusted for the Group’s share of profits or losses and other comprehensive income made by the investee. Distributions received from the investee reduce the carrying value of the investment.

## 1.11 Financial instruments

### 1.11.1 Measurement of financial instruments

The measurement of financial instruments depends on their categorisation. The group holds the following categories of financial instruments:

#### Public dividend capital

Public dividend capital is a form of investment in a public sector body, such as a trading fund, which yields dividends based on the investee’s financial performance and which can be redeemed.

As this is a form of investment found only in central government, the FReM interprets IAS 32 and IAS 39, to require that Public Dividend Capital is recognised at historical cost, and adjusted for impairment where necessary.

#### Assets and liabilities held at fair value through profit or loss (net operating expenditure)

These are financial instruments that are required to be held at fair value through profit or loss because they are classified as held for trading (such as derivatives not designated and effective as hedging instruments), or are designated to be held on this basis to prevent an accounting mismatch (for example, bond liabilities that share a risk with derivatives held, that gives rise to opposite changes in fair value that tend to offset each other).

These instruments are re-stated to fair value at the end of each reporting period. The change is typically recognised in Net Operating Expenditure, except for derivatives used in a hedge of cash flows, where the effective part of the gain or loss is recognised in Other Comprehensive Net Expenditure. This may involve the use of accounting estimates, which are disclosed in Note 1.23.4.

#### Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, are not held for trading and that the Group does not plan to sell. They include long-term investments as well as trade receivables.

Loans and receivables are held at amortised cost, using the effective interest method to discount future cash flows. Impairments are recognised in accordance with the 'incurred loss' method, reflecting events that have an impact on future cash flows that occurred between the initial recognition of the asset and the end of the current reporting period.

### Available-for-sale financial assets

These are non-derivative financial assets that either do not meet the criteria for other categories or are designated as such. This classification is required for non-derivative financial assets that are not classified to any of the preceding categories. The Group's available-for-sale financial assets are typically equity investments in other public sector entities. There is usually an intention to hold these for the longer-term.

After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised within Other Comprehensive Net Expenditure. In the event of impairment, any cumulative loss is reclassified to Net Operating Expenditure. This may involve the use of accounting estimates, which are disclosed in Note 1.22.7.

### Other financial liabilities

These are financial liabilities other than those classified as held at fair value through profit or loss (Net Operating Expenditure) and include bond liabilities as well as trade and other payables.

They are valued initially at fair value, net of issue costs including fees, premia and discounts. Thereafter, they are held at amortised cost using the effective interest rate to discount future cash flows. The effective interest rate is calculated as the rate that discounts future cash repayments of interest and principal back to the amount initially recognised.

#### 1.11.2 De-recognition of financial instruments

Financial assets are de-recognised when the Group's rights to receive cash flows expire or have been transferred, provided that the transfer transaction also transfers substantially all of the risks and rewards of ownership and control of the financial asset.

#### 1.11.3 Hedge accounting

The Group's hedging arrangements originate from Network Rail. Network Rail is predominantly debt-financed. Prior to its reclassification to the central government sector, and therefore before it became a member of the Group, it raised debt finance by issuing bonds under the Debt Issuance Programme and so is exposed to financial risks, such as interest rate risk and foreign exchange risk. The Office of Rail and Road (ORR) has set Network Rail a capital management target, to maintain regulatory net debt (measured on a hedged basis) at no more than 75% of its regulatory asset base. The financial risk exposures made it

harder for Network Rail to meet that target. It therefore managed its exposure by purchasing derivatives to cover debt to be raised up to the end of the current Control Period. Network Rail has ceased to issue third party debt and is now financed by loans and grants from the Department. Network Rail's existing portfolio of derivatives to hedge borrowings are being allowed to unwind. However, Network Rail may continue to purchase derivatives to manage the risks on other types of transaction, such as purchases of equipment in foreign currencies. A more comprehensive analysis of Network Rail's performance against its capital management target is presented in Network Rail's own financial statements; this paragraph represents a summary overview of that operational context.

Some of these arrangements qualify for hedge accounting, and Network Rail applies this in its own financial statements. However, as loans from the Department are eliminated on consolidation in the Group Statement of Financial Position, hedge accounting cannot be applied to their hedging derivatives. The derivatives are designated for group accounting purposes as held at fair value through profit or loss. Therefore, at a Group level, hedge accounting is primarily applied to Network Rail's external debt.

An arrangement qualifies for hedge accounting if, at inception, the Group formally designates and documents the hedging relationship, which includes: the Group's risk management objective and strategy for undertaking the hedge; identification of the hedging instrument; the hedged item; the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness. To continue to qualify for hedge accounting, the hedge must remain highly effective in offsetting changes in fair value or cash flows of the hedged item within a range of 80% to 125%. There are two types of hedge accounting: fair value hedges and cash flow hedges. Their accounting treatment is described below.

If a hedging arrangement is not highly effective, it does not qualify for hedge accounting. If the item attributable to the hedged risk is a financial instrument, such as a bond liability, the Group may designate that financial instrument is held at fair value through profit and loss, where this treatment will provide more relevant information. Both the derivative and the hedging instrument will be fair valued and a degree of offsetting should be achieved.

Disclosures of financial risks and how they are managed are presented in Note 9.5, with fair value disclosures provided in Note 9.3.

### Fair value hedges

Under an arrangement that is designated and qualifies as a fair value hedge, both the hedging instrument (the derivative) and the hedged item are held at fair value. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the

hedged risk are recognised as gains or losses in Net Expenditure.

### Cash flow hedges

Under an arrangement that is designated and qualifies as a fair value hedge, both the hedging instrument (the derivative) and the hedged item are held at fair value. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised as gains or losses in Net Expenditure.

Cash flow hedge accounting ceases when the hedging instrument expires, is sold, terminated, exercised or no longer meets the criteria for hedge accounting. The accounting treatment depends on whether the hedging instrument ceases to meet the criteria or the forecast transaction is no longer expected to occur:

- ▶ Where the hedging instrument no longer meets the criteria for hedge accounting, the cumulative gain or loss on the hedging instrument that was recognised directly in equity when the hedge was effective is retained in equity until the forecast transaction occurs;
- ▶ Where cash flow hedge accounting is discontinued because the forecast transaction is no longer expected to occur, the cumulative gain or loss on the hedging instrument that was recognised directly in equity when the hedge was effective is reclassified immediately to Net Expenditure.

## 1.12 Cash and cash equivalents

Cash and cash equivalents comprise: bank balances held; commercial paper and money market deposit investments at varying rates. The carrying amount of these assets approximates to their fair value.

## 1.13 Pensions and other employee benefits

### 1.13.1 Defined benefit plans provided by the Principal Civil Service Pension Scheme

Past and present employees of the core Department and its agencies are generally covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is an unfunded multi-employer defined benefit scheme. The scheme is treated as a defined contribution arrangement because there is insufficient information to identify the Group's share of the scheme liabilities and costs.

The core Department and its agencies recognise the contributions payable to the PCSPS, which are expensed as incurred. The PCSPS pays pension benefits and accounts for the liability.

Pension benefits to ministers are provided by the Parliamentary Contributory Pension Fund (PCPF).

Further details for both schemes are provided in the People and Remuneration Report in the Accountability Section.

### 1.13.2 Other defined benefit plans

Past and present employees of other consolidated entities may be members of defined benefit arrangements, which provide benefits based on pensionable pay. As shown in Note 20, there are currently 8 such arrangements and all of them are provided through funded schemes that are legally separate from the Group. On retirement, members of the schemes are paid their pensions from a fund which is kept separate from the Group. The Group makes cash contributions to the funds in advance of members' retirement.

Every three years, all of the Group's schemes are subject to a full actuarial funding valuation using the projected unit method based on assumptions agreed between the employer and the actuary as being appropriate for a funding valuation. Separate valuations are prepared for accounting purposes on an IAS 19 basis as at the balance sheet date, under which the liabilities are measured using neutral assumptions and the assets held at fair value. Pension scheme assets are measured using current market bid values. Pension scheme defined benefit obligations are measured using the projected unit credit method to estimate the ultimate cost of the pension benefit that employees have earned in the current and prior years. This requires the determination of: how much pension benefit is attributable to the current year and to prior years; the estimation (making actuarial assumptions) of the demographic variables (such as mortality) and financial variables (such as changes in earnings and price inflation) that will affect the cost of the pension benefit. The obligations are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the defined benefit obligation. Disclosures concerning the estimates and estimation uncertainties are given in Note 1.22.3 and Note 1.23.2 respectively.

The difference between the value of the pension scheme assets and pension scheme liabilities is a surplus or a deficit. A pension scheme surplus is recognised to the extent that it is recoverable and a pension scheme deficit is recognised in full.

Changes in the surplus or deficit are categorised between: (a) service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements); (b) net interest expense or income and (c) re-measurement.

The Group presents the first two components in profit or loss (Net Expenditure). Past service cost is recognised in the period of a plan amendment. Curtailment gains and losses are accounted for as past service costs.



Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit obligation or asset.

Re-measurements, comprising actuarial gains and losses and the return on plan assets (excluding interest), are reflected immediately in the balance sheet with a charge or credit recognised in Other Comprehensive Net Expenditure in the period in which they occur. They are not reclassified to Net Operating Expenditure.

### 1.13.3 Defined contribution plans

Some employees are members of defined contribution plans, including the Network Rail Defined Contribution Scheme. A defined contribution plan is a post-employment benefit plan under which the employer pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in Net Operating Expenditure in the periods during which services are rendered by employees.

### 1.13.4 Early Retirement

The Group is required to pay (as termination benefits) the additional cost of benefits, beyond the normal PCSPS benefits, in respect of employees who retire early, unless the retirements are on approved medical grounds. The Group provides for the full cost of benefits (including pensions payable up to the normal retirement age and lump sums) when it becomes demonstrably committed to providing those benefits.

## 1.14 Provisions and contingent liabilities

The Group recognises provisions for liabilities and charges where, at the reporting date, a legal or constructive obligation exists for a future liability in respect of a past event and where the amount of the obligation can be estimated reliably. Descriptions of the significant provision balances are given in Note 16. Significant components of the provisions balance include: compensation for industrial diseases; purchases of land and property for the High Speed 2 programme and for any charges that may arise from a review of HS2 Ltd's VAT status. Specific recognition points for these are disclosed in Note 16. Estimates and assumptions made in quantifying these provisions are discussed in Note 1.22.5.

Contractual agreements for rail sector in particular frequently contain mechanisms to transfer risk to the party best placed to manage them, frequently the Department. These mechanisms are analysed to identify specific clauses that transfer risk and determine their accounting treatment. Where a mechanism adjusts the price of future services, the impact will be recognised in the relevant year, since future operating costs in respect of executory contracts are not within the scope of IAS

37. However, mechanism that have the substance of a guarantee or indemnity, for example, to compensate for the adverse impact of third-party actions, are within the scope of IAS 37. Note 1.18 provides further detail on some of these agreements.

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

In addition, the Group also discloses its remote contingent liabilities in the Accountability Report. These include guarantees, indemnities and letters of comfort that were reported to Parliament in accordance with *Managing Public Money*. This is to ensure that Parliament is aware of all arrangements for which vote funding might be required.

## 1.15 Grants payable

Grants payable are recognised in the period in which the underlying event or activity giving entitlement to the grant occurs. Where the conditions of a grant require a specified form of verification from a grant recipient to provide assurance on compliance with grant terms and conditions, any subsequent adjustments are recognised in the next accounting period.

## 1.16 Taxation

### Corporation Tax

Some members of the Group are liable to corporation tax on their taxable profits; the most significant of them is Network Rail. The tax expense comprises current tax and deferred tax. The current tax liability is calculated using the tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes where these will result in either adverse or favourable tax effects on the realisation of assets or settlement of liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets are recognised on all deductible temporary differences to the extent that it is probable that there will be taxable profits available against which the temporary timing differences can be utilised. Deferred tax liabilities are recognised for all taxable temporary differences. The valuation of the Railway Network to depreciated replacement cost is not considered to represent a taxable temporary difference, because it does not

reflect conditions which are expected to result in taxable amounts when determining the taxable profits of future years.

Deferred tax is charged or credited in the income statement except when it relates to items charged or credited directly to equity. In this case the deferred tax is also accounted for within equity.

### Value Added Tax

The VAT rules for central government bodies differ from those for companies. Government bodies are permitted to recover VAT on a specified list of goods and services and not on others. Irrecoverable VAT is charged to the relevant expenditure category or, if appropriate, included in the capitalised purchase cost of non-current assets. Income and expenditure is otherwise shown net of VAT.

Other types of income and expenditure, such as grants or rail franchising premia and subsidies, are outside the scope of VAT.

## 1.17 Revenue recognition

Operating income is stated net of VAT, measured at the fair value of the consideration received or receivable and is recognised on the following basis:

- ▶ Income from the sale of goods is recognised on transfer of the risks and rewards of ownership in those goods;
- ▶ Income from the performance of services is recognised on the degree of performance;
- ▶ Interest income is recognised using the effective interest method;
- ▶ Dividends receivable are recognised when the Group becomes entitled to them;
- ▶ Income from permitting others to use the Group's assets is recognised on an accruals basis in accordance with the terms of the contract; and
- ▶ Income received for the use of continuing rights under rail franchise agreements is recognised as revenue as the rights are used.

## 1.18 Rail franchise agreements

Passenger rail services are provided on a franchised basis. Under rail franchise agreements, Train Operating Companies receive the right to deliver rail passenger services on part of the Railway Network for a period of time. The Companies collect ticket revenues, adjusted either by a subsidy received from the Department or a premium paid to the Department, so that they generate a competitive return. Net subsidy franchises are not considered to be onerous, as the Companies provide a service of value to the nation and the travelling public.

The operation of a franchise on a net subsidy or net premium basis is usually reflective of the region in which the service is provided rather than differences in the service that is provided.

The amount of premium or subsidy for a financial year is adjusted to reflect the Companies' performance during that financial year. Rail franchise agreements include mechanisms to adjust the level of premium/subsidy to reflect performance and agreed events. For example, the amount of subsidy or premium for a month will be adjusted to reflect cancellations or delays during that month, and cash transactions are always made on a net basis. These adjustments are not considered to be separately identifiable components. Consequently, all adjustments in respect of premium-generating franchises are accounted for as adjustments to income and all adjusting transactions in respect of subsidy-paying franchises are accounted for as adjustments to programme costs. In some cases, the adjusting transactions may transform a premium to a net subsidy or vice versa. The aggregate amounts payable to all net subsidy franchises are presented as expenditure (Support for passenger rail services) and the aggregate amounts receivable from all net premium franchises are presented as income (Income from Train Operating Companies).

The amounts recognised as income or expenditure for the financial year are the net premia or subsidies receivable or payable during the financial year, reflecting the Companies' performance during that year.

## 1.19 Prior period adjustments

Items are restated retrospectively to either:

- ▶ correct a material prior year error;
- ▶ to apply a material change in accounting policy; or
- ▶ to reflect some types of change in consolidation boundaries.

Changes in consolidation boundaries include: transfers of functions between government departments and retrospective reclassifications by the Office for National Statistics (ONS) (reclassifying a body to, or from, central government with effect from a date before the start of the comparative period). Transfers of functions are reflected by recognising or derecognising the related assets and liabilities from the start of the comparative period. Retrospective reclassifications will result in an entity being added to, or removed from, the Statutory Instrument list of entities required to be consolidated for a year, subject to agreement with HM Treasury. The Department will start or cease to consolidate the entity in the financial statements for that year, but the effective date of consolidation will be that specified by ONS.

Where there has been a change in accounting policy, adjustments are made to the opening balance of each affected component of equity for the earliest period presented and other comparative amounts are disclosed for each prior year, presented as if the new accounting policy had always been applied, except where a new accounting standard or FReM interpretation requires or permits different approaches.

Where a material prior year error is identified, it is corrected by restating the comparative amounts for the prior years presented in which the error occurred, or, where the error occurred before the earliest period presented, by restating the opening balances for the earliest prior year presented.

However, if it is impracticable to determine the period-specific or cumulative effects of the change in policy or error, re-statements are made to the earliest practical period, which may be the current period.

In 2016-17 the Financial Statements included a misallocation between Cash and the Supply payable/ (receivable) on the Statement of Financial Position, which were both understated by £307m. This reflects a misstatement in respect of the Department's cash funding position arising from a single accounting adjustment, as a result of which the Supply funding due for return to central government was misstated by an offsetting amount. This also resulted in a misallocation within the Statement of Changes in Taxpayers' Equity, between Other movements and the Supply (payable)/ receivable adjustment, and an overstatement of the Net cash outflow from operating activities in the Statement of Cash Flows.

These amounts have been re-stated, with the impact disclosed below.

There is no impact on the financial performance of either 2016-17 or 2017-18. Similarly, there is no impact on Net Current Assets, Net Assets or Taxpayers' Equity.

## 1.20 Adoption of new and revised standards

### 2017-18

No new accounting standards became effective for the first time in 2017-18.

### 2018-19

The following new standards have been adopted by the 2018-19 FReM:

IFRS 9 *Financial Instruments* replaces IAS 39. The most significant changes and their expected impacts are as follows:

- ▶ New classifications for financial assets, with different measurement requirements. We consider that this will have an immaterial impact. The Group's financial assets will be classified on the new basis, but will continue to be measured on their existing basis;
- ▶ Recognition of credit loss allowances on an expected loss rather than an incurred loss basis. We consider that this will have an immaterial impact, as the expected credit losses on the Group's financial assets and financial guarantee contracts are assessed as negligible, because the counterparties are other government bodies;
- ▶ A new principles-based approach to hedge accounting. We consider that this will have an immaterial impact, as existing arrangements to which hedge accounting is applied will continue to be eligible for hedge accounting.

IFRS 15 *Revenue from Contracts with Customers* introduces a new five-step model for revenue recognition: 1) Identify the contract(s) with a customer; 2) Identify the performance obligations in the contract; 3) Determine the transaction price; 4) Allocate the transaction price to the performance obligations in the contract; and 5) Recognise revenue when (or as) the entity satisfies a performance obligation.

		2017-18					
		Core Department & Agencies			Department Group		
All values in £m	Note	As previously stated	Re-statement	As re-stated	As previously stated	Re-statement	As re-stated
<b>Statement of financial position as at 31 March 2017</b>							
Current trade and other receivables	12	757.3	(182.4)	575.1	2,048.7	(182.4)	1,866.5
Cash and cash equivalents	13	(156.7)	307.0	150.2	686.9	307.0	993.9
Current trade and other payables	14	(723.3)	(124.6)	(847.9)	(7,424.4)	(124.6)	(7,549.2)
<b>Statement of changes in taxpayers' equity for 2016-17</b>							
General Fund – Other movements		294.4	(307.0)	(12.4)	211.0	(307.0)	(96.0)
Supply (payable)/ receivable adjustment		(182.3)	307.0	124.7	(182.3)	307.0	124.7

We have performed a preliminary review of the Group's most material income streams and assessed them against the five-step model. As part of this exercise, a sample of contracts related to the Department's income from Train Operating Companies were reviewed in detail. The Group considers that the existing recognition policies are consistent with the requirements of IFRS 15 and therefore there will be no material changes to balances and transactions reported in the financial statements. Confirmation was received from all of the Group's arm's length bodies that they do not anticipate any material changes to balances and transactions in the group financial statements. This review suggests that there would not be a material change in the revenue recognition of these revenue streams.

A more detailed assessment will be performed in the coming months to examine the contractual terms and performance obligations to ensure we have fully complied with the requirements of IFRS 15.

The 2018-19 FReM states that entities cannot adopt IFRSs 9 and 15 retrospectively. The Department will recognise any difference between the previous carrying amount and the carrying amount on 1 April 2018 in the opening retained earnings (or other component of equity, as appropriate).

### 2019-20 and beyond

IFRS 16 provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less, or the underlying asset meets the IFRS 16 criteria to be classified as of "low value". The IFRS should become effective in the private sector for accounting periods commencing on or after 1 January 2019. It is expected to be included in the 2019-20 FReM.

IFRS 16 gives a narrower definition of a lease than IAS 17 and IFRIC 4, by requiring that assets and liabilities will be recognised initially at the discounted value of the minimum lease payments, and that the assets, to be described as "right of use" assets, will be presented under Property, Plant and Equipment. The Group expects that its existing finance leases will continue to be recognised on the same basis, and that all of its existing operating leases will fall within the scope of IFRS 16. Therefore, implementation of IFRS 16 will increase the value of property, plant and equipment assets and the value of lease liabilities. After initial recognition, right of use assets will be amortised on a straight-line basis and interest will be recognised on the liabilities. Thus, it will affect the timing of the recognition of lease expenditure, as interest costs will be higher at the start of a lease. IFRS 16 provides some options on first-time adoption; the 2019-20 FReM is expected to specify which options are to be adopted to ensure consistency across government. The precise impact will depend on the terms of the leases in which the Group participates and on the FReM specifications for first-time adoption. An estimation of the impact will be produced

once these specifications are available. Note 8 includes a disclosure of undiscounted future cash flows under existing operating leases. As the values of assets and liabilities to be recognised in the financial statements will be based on the discounted values of these cash flows, the impact on the financial statements for these contracts will, therefore, be lower than these amounts.

IFRS 17 requires a discounted cash flow approach to accounting for insurance contracts. Subject to EU adoption, it is expected to come into effect for accounting periods commencing on, or after, 1 January 2021 and should be included in the 2021-22 FReM. The Group currently has no contracts which meet the definition of insurance contracts and intends to treat its financial guarantee contracts as financial instruments rather than insurance contracts.

The Group does not consider that any other new, or revised standard, or interpretation will have a material impact.

## 1.21 Critical judgements

When applying the accounting policies described above to its balances and transactions, the Group is required to exercise judgement, particularly for complex or specialised balances and transactions. This may involve a determination of how theoretical definitions apply to a practical example, or when criteria are met. Some judgements may have a material impact on the transactions recognised and the measurement of those transactions. This section describes the judgements that have the most material impacts. Most relate to the valuation of the Group's networked assets. Often, the exercise of judgement is accompanied by the need to make accounting estimates and these are described in Notes 1.22 and 1.23.

### 1.21.1 Valuation of Networked Assets

As disclosed under Note 1.4.3, networked assets are valued on a Depreciated Replacement Cost (DRC) basis, which reflects the cost of constructing a modern equivalent asset, adjusted to reflect the asset's current condition and capacity. Judgement is required to determine the nature of a modern equivalent asset and the asset's current condition.

## The Railway Network

### Defining the modern equivalent asset

The hypothetical modern equivalent railway network is assumed to deliver the same functionality as the existing network. Therefore, the same services must be provided over the same geographic area and therefore, the modern equivalent network is deemed to contain the same quantity of track and termini as the actual network. However, it is anticipated that the modern equivalent network will, wherever possible, use standardised assets, systems and technologies. These standard designs will only be deviated from if, following

review by a qualified engineer, the standard design is deemed impossible. These standardised assets, systems and technologies are therefore repeatable components, or “building blocks”, which are aggregated to form the network. Finally, the modern equivalent network reflects technological advances only to the extent that they represent value for money. For example, the hypothetical modern equivalent network is assumed to be only partially electrified and electrification is not assumed where the costs would exceed the benefits. In practice, only lines that are already electrified are assumed to be electrified in the modern equivalent network. This is reflected by defining categories for different technologies and allocating the components of the modern equivalent network into those categories.

### Costing the modern equivalent asset

Costings for the modern equivalent asset are taken from a range of sources, which may include estimates (discussed in more detail in Note 1.22). Where estimated costs are used, these are adjusted to reflect a risk allowance consistent with the maturity of the project and contingencies for costs that vary from project to project. The risk allowance used in this valuation assumes a high initial understanding of the scope of the project. In some cases, the cost of a modern equivalent component may not be more expensive than the actual component..

### Determining the remaining lives and condition of asset components

The remaining useful economic lives disclosed in Note 6.1 represent weighted averages, based on management judgements of the remaining lives for detailed categorisations of the underlying components. This is a critical judgement based on the available data, including that used for Network Rail’s whole life costing assessments. However, careful judgement is required in some cases, especially for components that are rarely replaced, such as structures and earthworks. Some components are capable of very long lives, however, for this valuation, lives are capped at 100 years.

The condition of asset components is assessed using a range of methods, including physical inspection and the use of electronic sensors. However, there are some types of component where only a limited amount of data is available.

## The Strategic Road Network

### Defining the modern equivalent asset

Judgement is required to ensure that the gross replacement cost of a modern equivalent road network involving some use of “smart” technologies is appropriately adjusted to depreciated replacement cost. This is done by the careful use of categorisation. The composition of the road pavement is a standardised design. A “smart” motorway is categorised as a standard pavement, supplemented by active traffic management systems, which are categorised as separate components.

### Costing the modern equivalent asset

The Group considers that the best approach to costing the modern equivalent asset is through the use of rates derived from actual, recent construction costs. These are based on schemes constructed in recent years. At each full revaluation, costing rates are derived for specific asset types, for example, bridges falling into certain classes of width and length according to their function. The use of this data requires judgements on: how relevant the data is, considering the type of scheme; its geographical location and the amount of time subsequently elapsed. Where the data is considered not to be sufficiently relevant, the rates will be adjusted based on assumptions disclosed in Note 1.22.1, to ensure that each population of SRN elements is valued in a way that represents its overall composition. Where necessary, the work of professional cost estimators is used in determining rates.

### Determining the remaining lives and conditions of significant asset components

The road pavement consists of a surface layer (‘black top’) and supporting sublayers. Experience has shown that if the surface layer remains in good condition, the supporting sublayers do not deteriorate and therefore the depreciation charge and accumulated depreciation on the sublayers would be immaterial.

### Calculating the depreciation charge

The Group considers that depreciation of the road network cannot be accurately measured either by the straight-line, declining balance, or units of production method. Instead, the method that best reflects the expected pattern of consumption of the future economic benefits embodied in the asset is the value of renewals capitalised during the year, adjusted to reflect changes in the condition of the road pavement as measured by the rutting survey. This method is described in Note 1.22, together with the estimates and assumptions involved.

#### 1.21.2 Classification of legal claims

The classification of legal claims and challenges as contingent liabilities or provisions, their valuation, and presentation as current or non-current provisions, is based on legal and other professional advice.

## 1.22 Significant accounting estimates

Determining the value of some assets and liabilities and the related income and expenditure, involves the estimation of uncertain future events. This arises from the application of the accounting policies and the implementation of judgements to specific balances and transactions. Where such estimates have a material impact, they are disclosed here. The most significant are those related to the Group’s networked assets.

All estimates are, to some extent, uncertain. Where this could result in material differences, further disclosure is presented in Note 1.23.

### 1.22.1 Valuation of networked assets

When determining a Depreciated Replacement Cost (DRC) valuation of the networked assets, estimates are required to adjust recent cost data to current costs and to extrapolate sample data to the population level. Costing methods and assumptions are based on expert advice. Further estimation techniques are required for the specific assets, as follows.

#### The Railway Network

The valuation of the Railway Network on a depreciated replacement cost basis includes some key estimates and assumptions, which are reflected in the detail below. Estimation uncertainty is discussed in Note 1.23.1 and sensitivity analyses are presented in Note 6.1.

#### Costing the modern equivalent asset

The replacement costs are derived from sources including: final costs of recently completed projects; contractor's Framework Rates; Project Cost plans; first principle estimating techniques and actual cost data from other UK contracts. Indirect construction costs have been taken from benchmarking ranges policy documentation; the principles and ranges have been reviewed and endorsed by ORR. Estimated costs are adjusted to reflect a risk allowance which is described in Note 1.21.1. Costs have been benchmarked against actual costs of recent projects where possible; however, this is less feasible for components that are routinely maintained rather than fully replaced. The cost data has been indexed to a base date of 31 March 2016, using the techniques used for the current estimation of projects. Subsequent indexations reflect CPIH for land, and RPI for other components.

#### Determining the remaining lives and condition of asset components

Some components, such as structures and earthworks, are rarely replaced and therefore remaining lives must be estimated. The disclosures in Note 6.1 give weighted average lives for categories of components.

#### Land compensation

The land valuation includes an assessment of compensation costs on purchasing land. As Network Rail rarely purchases large parcels of land, this estimate is based on experience from Highways England and its predecessor, the Highways Agency.

#### Greenfield assumption

DRC assumes that assets are built on a greenfield site. Comparative costs may be difficult to find, and in some cases, it is necessary to start with a comparative cost that includes construction of assets in a live operational environment, which is more expensive than a greenfield site. It is therefore necessary to estimate the cost differences.

## The Strategic Road Network

### Costing the modern equivalent asset – costing rates

As disclosed in note 1.21.1, costings used to inform the valuation of the road and structures elements of the SRN are based on schemes constructed in recent years. For some specific asset types there may be a limited number of construction schemes providing a direct costing comparator. In these cases, Highways England derives a reasonable costing rate through a line of best fit approach applied to the broader asset type (e.g. bridges) as a whole, using scheme data available and known cost relationships between specific asset types. This provides a complete set of data points based on the best information available. The statistical methodology involved requires a degree of estimation. However, we consider that the approach taken minimises uncertainty by making full use of the data available. The extent of estimation uncertainty is discussed in 1.23.1.

### Full and interim valuations

A number of construction-related indices are applied to the costing rates for various elements of the SRN, both in updating actual scheme information to current cost as part of the full revaluation exercises described in 1.4.3, and in revaluing overall SRN components in interim valuation years. The Group chooses the indices which, in its view, are most relevant to the replacement costs for the SRN's component parts and the extrapolation of data to ascertain an estimated standard cost valuation. The most significant index is ROCOS (Road Construction Resource Cost index). The extent of estimation uncertainty is discussed in 1.23.1.

### Calculating the depreciation charge

As described in Note 1.21.1, the depreciation charge for the road pavement is calculated as the value of renewals capitalised, adjusted for changes in the asset's condition. Highways England considers that the best measure of the asset's condition is the level of rutting (depressions/grooves in the road surface caused by wear or deformation over time). Rutting measures only the 'black top' of the road surface. However, Highways England uses the rutting level to determine when a road surface requires maintenance intervention, and has therefore determined that this provides a fair approximation for the overall condition of the road surface. Highways England currently estimates that the level of rutting that is acceptable before intervention is 15.5mm. At this level, it is considered there is no further service potential in the road surface and this triggers the renewals programme. Road condition analysis is determined by surveys of the level of rutting, carried out at 10 metre intervals across all lanes of the SRN. As the rutting level is used to determine when a road surface requires maintenance intervention, this provides a fair approximation for the overall condition of the road surface.

Rutting data is used to generate the depreciation charge which is the rutting percentage multiplied by

the depreciable element of the road. The depreciable element of roads has been calculated as 17.55% of the total road valuation, based on the proportion of cost related to the elements regularly renewed. Management consider that the balance of the valuation relates to elements (including sublayers) that have useful lives long enough, subject to regular renewal of the top layer, as to require no depreciation charge.

Structures (e.g. bridges) are subject to a depreciation charge based on an asset valuation model reflecting both the impact of deterioration over time and periodic renewal. Highways England keep information on the condition of its structures under regular review to assess whether an adjustment is required for depreciation.

Other components are depreciated over a useful economic life. To determine the useful economic life, assumptions are made about the period of time during which various elements of the SRN will provide service potential. As shown in Note 6.2, estimates are made of the Useful Economic Life of structures and technology equipment, which are based on historic trends and expert knowledge.

#### 1.22.2 Valuation of land inventories

The Group's land inventories comprise individual properties held over a dispersed area. Land and property that is classified as inventory is held at the lower of cost and net realisable value, determined by professional valuation of a rolling 20% sample of the properties. By undertaking a different 20% valuation each year, the total portfolio will therefore be revalued every 5 years.

#### 1.22.3 Valuation of pension scheme liabilities

As disclosed in Note 1.15.2, in valuing the liabilities of defined benefit pension schemes, scheme actuaries provide valuations based on estimates of demographic variables, such as mortality and financial variables. The actuaries also provide advice on the assumptions underlying the investment assets, such as future rates of return. The assumptions that have a material impact on the valuation of the liabilities are:

- ▶ price inflation (where pensions are linked to RPI or CPI);
- ▶ discount rates (which are based on the yields of high quality corporate bonds for the expected duration of the liabilities and are therefore also influenced by mortality assumptions);
- ▶ mortality assumptions (which affect the total amount and the timing of pension payments); and
- ▶ earnings assumptions (because pension payments are linked to final or average salaries).

Note 1.23.2 provides a disclosure of the reasonable boundaries of these assumptions and Note 18 contains a sensitivity analysis which indicates the approximate effects on the liabilities of changes to the main actuarial assumptions. During the year, mortality assumptions have been revised, due to the availability of data more relevant to the members of the schemes.

#### 1.22.4 Valuation of long-term financial instruments

The Group holds long-term financial instruments, such as debt and derivatives, which are recognised at fair value. Where such instruments are not actively traded, valuations are constructed from forecast cash flows, calculated based on forecast interest rates, exchange rates or inflation rates. Note 1.23.3 discloses the reasonable boundaries of these assumptions and a sensitivity analysis is given in Note 9.5.3.

#### 1.22.5 Valuation of provisions

In applying the policy disclosed at Note 1.14, the Group estimates the amount to be recognised, in cases which are by their nature uncertain. The estimates are based on the following assumptions and sources:

- ▶ Obligations to compensate former employees of British Rail for industrial diseases contracted during that employment are valued using a model developed by independent actuaries, based on the average cost of settlements over the last 3 years and assumptions about the incidence and impact of these diseases.
- ▶ The amount recognised for purchase of land and properties for the construction of the HS2 infrastructure is determined by professional valuation as at the point that the Group is deemed to have acquired them from the previous owners. The Group also has obligations to the owners of land currently subject to temporary possession, which will be returned to the owners. The obligations are initially materially uncertain, but will reflect the initial condition of the land, the impact of construction works, and the restoration plans agreed with the owners.

#### 1.22.6 Valuation of the financial guarantee to Network Rail and of the fee receivable from Network Rail

The core Department determined the fair value of the financial guarantee to Network Rail (the Financial Indemnity Mechanism), shown in Note 9.2.2, as the estimated value of the reduction in Network Rail's borrowing costs. This estimation was prepared for Periodic Review 2013 by independent experts (Cambridge Economic Policy Associates) for the ORR (Office of Rail and Road). This reflects the ORR's current policy that Network Rail should pay for the benefit they receive from the guarantee. It will be revisited as part of Periodic Review 2018 later this year.

### 1.22.7 Valuation of available-for-sale financial assets

In valuing available-for-sale financial assets, for which there is no active market, the Group uses estimation techniques which reflect, so far as practicable, those that would be used by market participants, making maximum use of observable inputs. The available-for-sale financial assets are equity interests in investee companies that operate in different sectors, and a range of techniques are therefore used. They are described in more detail in Notes 1.23.4 and 9.5, where sensitivity disclosures are also given.

### 1.22.8 Allocating costs for leases and service concessions

In accounting for both arrangements containing a lease and for service concessions, the costs must be apportioned between capital, interest and (in the case of most service concessions) services provided by the operator. If the operator does not provide a full cost breakdown, the apportionment may reflect an estimated fair value of the asset.

### 1.22.9 Valuation of investment properties and assets held for sale

As disclosed in Note 1.9, investment properties are held at fair value through operating expenditure. The fair value of investment properties at 31 March 2018 is deemed to be market value. Note 6.5 provides details about the external valuers and the valuation approach, in relation to their valuation at the point of transfer

(judged to be November 2017 based on the point at which active marketing began).

The same applies to those Investment Properties that were reclassified as Assets Held for Sale during the year.

## 1.23 Key sources of estimation uncertainty

The accounting estimates disclosed above involve assumptions about the future and other major sources of estimation uncertainty. In some cases, there are alternative assumptions that were reasonably possible at the balance sheet date. Some alternative assumptions could result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The following disclosures identify the areas of material exposure and refer, where appropriate, to sensitivity analyses in subsequent notes. Other accounting estimates are not considered to give rise to sufficiently material degrees of uncertainty.

### 1.23.1 Valuation of networked assets

#### The Railway Network

The accounting estimates disclosed in Note 1.22.1 include asset lives; the land compensation adjustment; the greenfield assumption adjustment and the cost risk factor, which are all subject to a material extent of estimation uncertainty. The following boundaries are used in the Sensitivity Analysis in Note 6.1 to indicate the potential impact of the given level of uncertainty:

Accounting estimate	Boundary (+/-)	Comment
Asset lives of the components of the modern equivalent railway network	10%	Assets lives are provided in Note 6.1
Land compensation adjustment (normally 65%)	10%	Maximum and minimum compensation adjustments of 75% and 55%
Greenfield assumption adjustment (normally 32%)	10%	Maximum and minimum adjustments of 42% and 22%
Cost risk factor, currently 22%	10%	Maximum and minimum risk factors of 32% and 12%

### The Strategic Road Network

The accounting estimates disclosed in Note 1.22.1 include costing rates; the use of ROCOS (Road Construction Resource Cost index) and other indices;

and the acceptable level of rutting. These are all subject to a material extent of estimation uncertainty. The following boundaries are used in the sensitivity analysis in Note 6.2 to indicate the potential impact of the given level of uncertainty:

Accounting estimate	Boundary (+/-)	Comment
Costing rates	10%	Sensitivity of the valuation to extrapolations is limited since the recent actual costs are usually available for the most commonly used asset types, which represent a large proportion of the asset value.
ROCOS index	10 points	The asset valuation is sensitive to other indices, but ROCOS is the most significant.
Acceptable level of rutting, currently 15.5mm	1mm	Maximum and minimum level of rutting of 14.5mm and 16.5mm

### 1.23.2 Valuation of pension scheme liabilities

The accounting estimates disclosed in Note 1.22.3 include: price inflation; discount rates; mortality assumptions

and earning assumptions. The scheme actuaries advise the reasonable bounds for uncertainty and these are presented, with a sensitivity analysis, in Note 18.



### 1.23.3 Valuation of long-term financial instruments

As described in Note 1.22.4, these valuations are calculated based on forecast interest rates, exchange rates or inflation rates. The Group considers that its exposure to exchange rates is fully hedged and so does not include a sensitivity analysis. However, Note 9.5.3 includes a sensitivity analysis of the impact of changes in interest rates and inflation rates of  $\pm 1\%$ , which is considered to be reasonably possible.

### 1.23.4 Valuation of available-for-sale financial assets

As described in Note 1.22.7, the estimates and assumptions used in the valuation of available-for-sale financial assets will vary depending on the valuation technique used, which reflects the nature of the investee's business. While a change in the assumptions could result in a change in the value recognised, the impact of any change is considered immaterial.

### 1.23.5 Valuation of provisions

The criteria for the recognition of land and property acquisitions on the Statement of Financial Position are described in Note 1.4.1. As described in Note 1.22.5, the amount recognised for purchase of land and properties for the construction of the HS2 infrastructure is determined by professional valuation as at the point that the Group is deemed to have acquired them from the previous owners. Properties are acquired through different means: the Secretary of State has put in place a number of discretionary schemes, and land and property can also be acquired via Statutory Blight, Compulsory Purchase or via commercial negotiations. This note provides further detail about the key estimation factors affecting the valuation of land and property provisions connected with Compulsory Purchase powers, which represents £787m out of the total £1,099m provision included in Note 16.

The Compulsory Purchase portfolio consists of "active" and "inactive" cases: active cases are those cases where a claim is live or HS2 Ltd has commenced valuation activity in anticipation of a claim, inactive cases are land and property acquisitions where there is no current or anticipated claim. By value, the year-end provision is split 41% actives, 59% inactives.

2017-18 is the first year of significant acquisition activity under the Compulsory Purchase powers which were granted at the time of Royal Assent of the High Speed 2 (London – West Midlands) Act in February 2017. Under compulsory purchase, owners are entitled to receive market value for their interest. A small number of properties will not have a market value and compensation will be assessed on the basis of re-instatement; examples of this might include village halls or schools. In addition, there are other statutory entitlements which arise, including for example: compensation for business loss or damage, relocation costs, professional fees, and statutory loss payments. These amounts are estimated based on an agreed set of assumptions which provide a consistency of approach across high volumes of cases

and enable risk to be measured and contingencies to be carried until knowledge of individual cases improves as the acquisition draws near. These assumptions are based on the requirements of the relevant legislation, for example that market value assessment excludes the effect of the scheme for which the compulsory purchase is being made (HS2).

There is inherent estimating uncertainty in both the quantum and timing of claims for compensation. These factors include, but are not limited to: the extent of irrecoverable VAT the Department will bear as a result of counterparties 'opting to tax'; the timing and extent of construction requirements; the method of acquisition; the underlying land use and any proposals for development. Inherent uncertainty is also higher where a CPO has been issued, but a claim has not yet been received, or the claim received provides a low level of supporting detail; either of these situations leave the Department reliant on its own valuation and assessment of risk, without being able to also factor in the counterparty position when forecasting cost outturn.

In all cases the Department assesses risk and bases provisions on its view of a most likely settlement value informed by professional valuations.

For active cases, this is based on detailed valuation work performed following a CPO adopting the principles above. Key assumptions including VAT treatment and development value are based on valuers' advice on a case-by-case basis.

For inactive cases, the Department relies on desktop valuations performed to inform the HS2 Property Cost Estimate (PCE). PCE valuations are prepared to cover the entire expected population of acquisitions for Phase 1, and will be regularly updated in line with the HS2 budgeting cycle. PCE valuations are prepared assuming the market value for a property reflects its existing use, unless specific knowledge exists that development value is appropriate. The PCE has been reviewed line by line by HS2 Ltd staff to contribute to development value assessments and to ensure that adjustments are applied where appropriate. The PCE is prepared on an interest-by-interest basis, enabling values to be used to measure provisions for interests on which a notice has been served, but where a claim and/or detailed valuation is not yet available.

Certain valuation assumptions for inactive cases are set at a portfolio level, including the proportion of counterparties who will opt to tax. Based on the rate of election for VAT observed in the 2017/18 actuals for commercial cases, the Department has estimated that 41% of the inactive cases by value will opt to tax. Additionally, because the inactive cases rely on a Property Cost Estimate (PCE) based on 1Q2016 prices, the Department uplifts the PCE values to reflect market movements. In doing so it applies a blended rate of indexation to reflect the different types of properties and their different locations.

## 2. Statement of Operating Costs by Operating Segment

The Department reports to the Board in accordance with its organisational structure and this is reflected in the segmental analysis. The core Department's operations are organised into five Director General-led groups, with some areas of work reporting directly to the Permanent Secretary. The main reportable segments combine outturn information of the core Department and its arm's length bodies for each segment. No operating segments have been aggregated. The groups and associated delivery bodies are described in more detail in the Directors' report.

### Rail

The key activities of this group are: franchise management; oversight of Network Rail's enhancement portfolio; developing the strategy and policy for rail; and sponsorship of Crossrail, Thameslink and the Intercity Express Programme.

### High Speed Rail and Major Projects

This group supports the development of the HS2 programme. In addition, the group is responsible for the Department's joint work with Transport for London on the development of Crossrail 2 and it is overseeing the set-up of the East West Railway Company that plans to reinstate a direct rail link from Oxford to Cambridge.

### Roads, Devolution and Motoring

This group contains driving and roads related activities. It oversees the agencies that deliver services relating to driving and vehicles, including the Driver and Vehicle Standards Agency (DVSA) which is not consolidated in these statements (see Notes 1.3 and 20 for the rationale). The group also includes oversight of Highways England and leads on roads policy and strategy.

### International, Security and Environmental

This group is responsible for activity regarding: transport security; transport energy/environment; accident investigation; aviation and maritime, including oversight of the Maritime and Coastguard Agency.

### Resources and Strategy

This group supports the activities of the other groups. It leads on: finance; human resources; procurement; property; digital, analytical matters and the Secretary of State's shareholder interests in arm's length bodies such as Network Rail, Highways England and HS2 Ltd. For this analysis, this Group also includes units that report directly to the Permanent Secretary, such as Private Office, Legal and Strategy & Communications.

	2017-18					
	Rail	Resources and Strategy	International, Security and Environment	Roads, Devolution and Motoring	High Speed Rail	Total
	£m	£m	£m	£m	£m	£m
Gross Expenditure	11,433.6	400.3	864.1	5,495.8	250.1	18,443.9
Income	(5,281.8)	(118.0)	(107.6)	(388.1)	(6.6)	(5,902.1)
<b>Net Expenditure</b>	<b>6,151.8</b>	<b>282.3</b>	<b>756.5</b>	<b>5,107.7</b>	<b>243.5</b>	<b>12,541.8</b>
Share of (profit)/loss of associate						(54.8)
Dividend Receivable						(106.5)
Income Receivable						(10.8)
<b>Net Expenditure per Statement of Comprehensive Net Expenditure</b>						<b>12,369.7</b>

	2016-17					
	Rail	Resources and Strategy	International Security and Environment	Roads, Devolution and Motoring	High Speed Rail	Total
	£m	£m	£m	£m	£m	£m
Gross Expenditure	10,201.7	346.6	789.3	6,548.0	140.1	18,025.7
Income	(4,979.7)	(167.2)	(193.4)	(793.2)	(0.2)	(6,133.7)
Net Expenditure	5,222.0	179.4	595.9	5,754.8	139.9	11,892.0
Share of (profit)/loss of associate						(27.2)
Dividend Receivable						(30.6)
Income Receivable						(68.4)
Net Expenditure per Statement of Comprehensive Net Expenditure						11,765.8

The Department does not report asset and liability balances to the Board.

### 3. Staff Costs

	2017-18					2016-17
	Permanently employed staff	Other staff	Ministers	Special advisers	Total	Total
	£m	£m	£m	£m	£m	£m
Wages and salaries	2,710.7	64.9	0.2	0.1	2,775.9	2,617.6
Social security costs	289.5	0.3	-	-	289.8	276.4
Other pension costs	389.6	0.5	-	-	390.1	223.3
<b>Sub Total</b>	<b>3,389.8</b>	<b>65.7</b>	<b>0.2</b>	<b>0.1</b>	<b>3,455.8</b>	3,117.3
Less recoveries in respect of outward secondments	(1.5)	-	-	-	(1.5)	(1.0)
Less capitalised staff costs	(1,063.9)	(18.8)	-	-	(1,082.7)	(1,080.1)
<b>Total Net Costs</b>	<b>2,324.4</b>	<b>46.9</b>	<b>0.2</b>	<b>0.1</b>	<b>2,317.6</b>	2,036.2
<b>Of the total:</b>						
Core Department & Agencies	389.9	20.3	0.2	0.1	410.5	398.5
Departmental Group	2,324.4	46.9	0.2	0.1	2,317.6	2,036.2

For further information on staff costs, staff numbers, exit packages and other relevant disclosures, please see the People and Remuneration Report in the Accountability Section.

## 4. Expenditure

	2017-18		2016-17	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
<b>Cash items:</b>				
Interest charges	209.7	789.3	202.9	1,062.8
<b>Other operating expenditure – Cash</b>				
Capital grants	2,798.6	2,317.6	2,811.9	2,813.7
Current grants	826.6	826.6	1,056.4	1,055.7
Grant in Aid	8,366.4	-	7,528.1	-
EU capital grants	6.4	0.6	27.2	26.8
Subsidies	227.5	227.5	224.8	224.8
Eurocontrol payments	49.0	49.0	47.6	47.6
<b>Purchase of goods and services – Cash</b>				
Rentals under operating leases	8.9	67.6	9.0	65.7
PFI interest charges	18.2	136.7	18.8	142.0
Research and development expenditure	22.3	25.4	18.2	18.1
Support for passenger rail services	544.3	544.3	374.2	374.2
Road network current maintenance	-	456.0	-	466.5
Rail network maintenance	-	936.7	-	801.1
PFI service charges	-	323.7	-	277.3
Search & rescue helicopters	203.6	203.6	191.9	191.9
Information & communications technology	93.8	241.5	113.5	273.0
Consultancy	52.6	93.0	50.2	78.8
Professional services	23.9	302.0	20.0	207.9
Accommodation	29.2	452.3	39.6	398.4
Publicity	8.5	22.0	7.1	12.7
Support services	101.6	204.9	69.7	214.4
Travel and subsistence	12.6	56.6	12.7	66.8
Auditors' remuneration and expenses	-	2.2	-	1.9
Eurotunnel payments	276.2	276.2	242.9	242.9
Other costs	187.9	420.2	187.1	430.1
<b>Sub Total – Cash items</b>	<b>14,067.8</b>	<b>8,975.5</b>	<b>13,253.8</b>	<b>9,495.1</b>

	2017-18		2016-17	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
<b>Non-cash items:</b>				
<b>Finance expense - Non Cash</b>				
Interest charges	-	760.8	-	-
<b>Depreciation and impairment charges</b>				
Depreciation	102.8	6,638.2	102.2	6,164.0
Amortisation	16.7	22.3	24.2	30.5
Impairment of PPE and assets held for sale	-	4.7	-	3.8
Downward / (upward) revaluation of PPE	(0.4)	(115.5)	0.4	(130.1)
Downward / (upward) revaluation of joint ventures	-	(9.2)	-	-
Corporation tax (refund) / charge	-	(26.6)	-	(76.6)
Net ineffectiveness arising from cash flow hedge accounting	-	14.7	-	-
Fair value losses / (gains) on fair value hedges	-	445.2	-	(164.3)
Fair value loss/(gain) on carrying value of fair value hedged debt	-	(448.7)	-	171.0
Net decrease/(increase) in fair value of non-hedge accounted debt	-	(21.1)	-	27.4
Loss / (gain) on derivatives not hedge accounted	-	(273.5)	-	137.3
Write down in value of inventory	16.2	16.2	-	-
Loss / (profit) on disposal of PPE	(1.0)	(50.3)	0.1	12.5
Loss / (profit) on disposal of share capital	-	-	-	(37.3)
Pension scheme costs	36.2	163.9	35.4	176.7
<b>Purchase of goods and services - Non Cash</b>				
Auditors' remuneration and expenses - Non Cash	0.7	0.7	0.6	0.6
<b>Provision expense</b>				
Provisions (released) / provided in year	(129.0)	(45.4)	144.9	160.0
Unwinding of discount on provisions	7.4	7.4	7.6	7.6
Provision for bad/doubtful debts	(0.1)	13.0	0.1	11.2
<b>Sub Total - Non-cash items</b>	<b>49.5</b>	<b>7,096.8</b>	315.5	6,494.3
<b>Total Expenditure</b>	<b>14,117.3</b>	<b>16,072.3</b>	13,569.3	15,989.4
<b>Expenditure analysis</b>				
Purchase of goods and services	1,584.3	4,765.6	1,355.5	4,264.3
Depreciation and impairment charges	119.1	6,540.5	126.8	6,068.2
Provision expense	(121.7)	(25.0)	152.6	178.8
Other operating expenditure	12,325.9	3,241.1	11,731.5	4,415.3
Finance expense	209.7	1,550.1	202.9	1,062.8
<b>Total Expenditure</b>	<b>14,117.3</b>	<b>16,072.3</b>	13,569.3	15,989.4

## 5. Income

	2017-18		2016-17 (reclassified*)	
	Core Department & Agencies £m	Departmental Group £m	Core Department & Agencies £m	Departmental Group £m
<b>Cash Items</b>				
<b>Sale of good and services</b>				
Rental income	(0.9)	(312.0)	(1.1)	(298.1)
River crossings charges	(168.7)	(168.6)	(122.5)	(122.5)
Franchised track access income	-	(1,712.8)	-	(1,489.5)
Freight income	-	(53.1)	-	(52.9)
<b>Other Income</b>				
Transport for Scotland - SLA Receipt	-	(425.4)	-	(463.6)
Fees & charges to other public bodies	(301.4)	(21.4)	(318.1)	(20.9)
Fees & charges to external customers	(572.4)	(670.4)	(598.2)	(728.7)
EU income	(5.8)	(4.8)	(27.2)	(27.4)
Claims for damages to road network	-	(8.4)	-	(5.8)
Income from Train Operating Companies	(1,325.0)	(1,520.6)	(1,663.8)	(1,866.1)
Grant income received	-	-	-	(158.6)
Capital grant income received	-	(244.4)	(200.0)	(200.0)
Eurocontrol Receipts	(49.0)	(49.0)	(47.8)	(47.8)
Eurotunnel Recharge	(259.2)	(259.2)	(241.4)	(241.4)
Other income	(29.3)	(397.6)	(17.2)	(355.9)
<b>Sub Total - Cash items</b>	<b>(2,711.7)</b>	<b>(5,847.7)</b>	<b>(3,237.3)</b>	<b>(6,079.2)</b>
<b>Non cash items</b>				
Share of associate's operating (profit) / loss	(27.9)	(27.9)	(15.5)	(15.5)
Amortisation of deferred income	(54.4)	(54.4)	(54.4)	(54.4)
<b>Sub Total - Non cash items</b>	<b>(82.3)</b>	<b>(82.3)</b>	<b>(69.9)</b>	<b>(69.9)</b>
<b>Operating Income</b>	<b>(2,794.0)</b>	<b>(5,930.0)</b>	<b>(3,307.2)</b>	<b>(6,149.1)</b>
Share of associate's non-operating (profit) / loss	(26.9)	(26.9)	(11.7)	(11.7)
Dividends receivable	(31.4)	(106.4)	(30.5)	(30.6)
Interest receivable	(549.3)	(10.9)	(475.5)	(68.4)
<b>Total Income</b>	<b>(3,401.6)</b>	<b>(6,074.2)</b>	<b>(3,824.9)</b>	<b>(6,259.8)</b>
<b>Income analysis</b>				
Sale of goods and services	(169.6)	(2,246.5)	(123.6)	(1,265.0)
Other operating income	(2,596.5)	(3,655.6)	(3,168.1)	(4,868.6)
Finance income	(580.7)	(117.3)	(506.0)	(99.0)
Share of associate's (profit) / loss	(54.8)	(54.8)	(27.2)	(27.2)
<b>Total income</b>	<b>(3,401.6)</b>	<b>(6,074.2)</b>	<b>(3,824.9)</b>	<b>(6,259.8)</b>

\* Income items have been reclassified to better reflect the nature of Network Rail's transactions.

Income from river crossings charges increased in 2017-18 as control over the Severn River Crossings transferred to the Department from Severn River Crossing plc in January 2018. At this point tolls under the Severn Bridges Act ceased to be levied, and road user charges began at a lower rate under the M4 and M48 Motorways (Severn Bridges Charging Scheme) Order 2017. The Department retains the income from

these charges. Toll are outside the scope of these accounts as they were collected on behalf of the Consolidated Fund; tolling is described fully in the Severn Bridges Act Accounts. Charges for the Severn River Crossings are due to cease at the end of 2018.

Charging arrangements for the Dartford-Thurrock River Crossing, which the Department has controlled since it opened in 1991, will remain unchanged.

## 6. Property, Plant and Equipment

As described in Note 1.4.2, Property, Plant and Equipment is categorised into Infrastructure Assets, Assets under Construction, Land and Buildings, and Other Assets. Subsequent sections of this Note provide an analysis of the balances at the year-end and changes during the year.

	2017-18						
Group	Infrastructure assets						
	Rail Network	Strategic Road Network	HS1 Infrastructure Asset	Assets under Construction	Land and buildings	Other assets	Total
	£m	£m	£m	£m	£m	£m	£m
<b>Cost or valuation</b>							
At 1 April 2017	429,658.1	129,218.0	3,546.0	7,679.6	1,073.7	498.6	<b>571,674.0</b>
Detrunings	-	(198.8)	-	-	-	-	<b>(198.8)</b>
Additions	-	739.7	-	10,503.8	10.4	24.9	<b>11,278.8</b>
Disposals	-	(59.3)	-	-	(5.5)	(14.7)	<b>(79.5)</b>
Impairments	-	-	-	(3.0)	-	(0.1)	<b>(3.1)</b>
Transfers	-	489.2	-	(497.6)	6.6	1.9	<b>0.1</b>
Reclassifications	6,581.9	-	-	(6,627.3)	(3.4)	(12.2)	<b>(61.0)</b>
Revaluations	9,380.8	1,195.4	-	(2,644.2)	98.7	8.2	<b>8,038.9</b>
<b>At 31 March 2018</b>	<b>445,620.8</b>	<b>131,384.2</b>	<b>3,546.0</b>	<b>8,411.3</b>	<b>1,180.5</b>	<b>506.6</b>	<b>590,649.4</b>
<b>Depreciation</b>							
At 1 April 2017	(140,751.9)	(15,028.0)	(353.2)	-	(264.0)	(298.7)	<b>(156,695.8)</b>
Detrunings	-	6.2	-	-	-	-	<b>6.2</b>
Charged in year	(5,080.3)	(1,443.4)	(46.1)	-	(23.0)	(45.4)	<b>(6,638.2)</b>
Disposals	-	29.9	-	-	4.0	13.2	<b>47.1</b>
Transfers	-	-	-	-	(0.1)	0.1	<b>-</b>
Reclassifications	-	-	-	-	-	6.1	<b>6.1</b>
Revaluation	836.0	1,152.7	-	-	(28.9)	2.6	<b>1,962.4</b>
<b>At 31 March 2018</b>	<b>(144,996.2)</b>	<b>(15,282.6)</b>	<b>(399.3)</b>	<b>-</b>	<b>(312.0)</b>	<b>(322.1)</b>	<b>(161,312.2)</b>
<b>Carrying amount at 31 March 2018</b>	<b>300,624.6</b>	<b>116,101.6</b>	<b>3,146.7</b>	<b>8,411.3</b>	<b>868.5</b>	<b>184.5</b>	<b>429,337.2</b>
<b>Carrying amount at 31 March 2017</b>	<b>288,906.2</b>	<b>114,190.0</b>	<b>3,192.8</b>	<b>7,679.6</b>	<b>809.7</b>	<b>199.9</b>	<b>414,978.2</b>

Detrunking is the transfer of road ownership from Highways England to local authorities. Note 6.2 details the transfers.



2017-18							
Group	Infrastructure assets						
	Rail Network	Strategic Road Network	HS1 Infrastructure Asset	Assets under Construction	Land and buildings	Other assets	Total
	£m	£m	£m	£m	£m	£m	£m
<b>Asset financing:</b>							
Owned	300,624.6	115,562.5	3,146.7	8,411.3	841.5	156.1	<b>428,742.7</b>
Finance Leased	-	-	-	-	1.0	28.4	<b>29.4</b>
PFI & other service concession arrangements	-	539.1	-	-	26.0	-	<b>565.1</b>
<b>Carrying amount at 31 March 2018</b>	<b>300,624.6</b>	<b>116,101.6</b>	<b>3,146.7</b>	<b>8,411.3</b>	<b>868.5</b>	<b>184.5</b>	<b>429,337.2</b>
<b>Of the total:</b>							
Core Department	-	2,764.0	3,146.7	2,384.9	249.2	15.0	<b>8,559.8</b>
Agencies	-	-	-	6.3	105.5	39.4	<b>151.2</b>
Other designated bodies	300,624.6	113,337.6	-	6,020.1	513.8	130.1	<b>420,626.2</b>
<b>Carrying amount at 31 March 2018</b>	<b>300,624.6</b>	<b>116,101.6</b>	<b>3,146.7</b>	<b>8,411.3</b>	<b>868.5</b>	<b>184.5</b>	<b>429,337.2</b>

Group	Infrastructure assets							Total £m
	Rail Network £m	Strategic Road Network £m	HS1 Infrastructure Asset £m	Assets under Construction £m	Land and buildings £m	Other assets £m		
<b>Cost or valuation</b>								
At 1 April 2016	414,988.2	124,070.8	3,546.0	4,553.8	1,023.8	474.8	548,657.4	
Detrunckings	-	(2.6)	-	-	-	-	(2.6)	
Additions	-	634.5	-	9,215.3	3.3	17.8	9,870.9	
Write-down of capital additions	-	-	-	(2,681.8)	-	-	(2,681.8)	
Disposals	-	(22.2)	-	-	(4.5)	(37.5)	(64.2)	
Impairments	-	-	-	-	(2.2)	(0.7)	(2.9)	
Transfers	2,839.9	522.6	-	(3,399.9)	20.0	14.0	(3.4)	
Reclassifications	-	2.8	-	(4.3)	35.4	23.0	56.9	
Revaluations	11,830.0	4,012.1	-	(3.5)	(2.2)	7.3	15,843.7	
<b>At 31 March 2017</b>	<b>429,658.1</b>	<b>129,218.0</b>	<b>3,546.0</b>	<b>7,679.6</b>	<b>1,073.6</b>	<b>498.7</b>	<b>571,674.0</b>	
<b>Depreciation</b>								
At 1 April 2016	(134,916.2)	(14,040.6)	(307.1)	-	(218.6)	(265.5)	(149,748.0)	
Charged in year	(4,856.7)	(1,195.4)	(46.1)	-	(25.3)	(44.4)	(6,167.9)	
Disposals	-	5.3	-	-	3.1	36.7	45.1	
Impairments	-	-	-	-	-	0.1	0.1	
Reclassifications	-	(0.1)	-	-	(44.8)	(20.2)	(65.1)	
Revaluation	(979.0)	202.8	-	-	21.6	(5.4)	(760.0)	
<b>At 31 March 2017</b>	<b>(140,751.9)</b>	<b>(15,028.0)</b>	<b>(353.2)</b>	<b>-</b>	<b>(264.0)</b>	<b>(298.7)</b>	<b>(156,695.8)</b>	
<b>Carrying amount at 31 March 2017</b>	<b>288,906.2</b>	<b>114,190.0</b>	<b>3,192.8</b>	<b>7,679.6</b>	<b>809.6</b>	<b>200.0</b>	<b>414,978.2</b>	
<b>Carrying amount at 31 March 2016</b>	<b>280,072.0</b>	<b>110,030.2</b>	<b>3,238.9</b>	<b>4,553.8</b>	<b>805.2</b>	<b>209.3</b>	<b>398,909.4</b>	
<b>Asset financing:</b>								
Owned	288,906.2	111,684.9	3,192.8	7,679.6	780.9	169.4	412,413.8	
Finance Leased	-	-	-	-	1.4	28.8	30.2	
PFI & other service concession arrangements	-	2,505.1	-	-	27.3	1.8	2,534.2	
<b>Carrying amount at 31 March 2017</b>	<b>288,906.2</b>	<b>114,190.0</b>	<b>3,192.8</b>	<b>7,679.6</b>	<b>809.6</b>	<b>200.0</b>	<b>414,978.2</b>	
<b>Of the total:</b>								
Core Department	-	2,490.8	3,192.8	968.0	213.1	13.9	6,878.6	
Agencies	-	-	-	4.2	104.1	38.5	146.8	
Other designated bodies	288,906.2	111,699.2	-	6,707.4	492.4	147.6	407,952.8	
<b>Carrying amount at 31 March 2017</b>	<b>288,906.2</b>	<b>114,190.0</b>	<b>3,192.8</b>	<b>7,679.6</b>	<b>809.6</b>	<b>200.0</b>	<b>414,978.2</b>	

The 2016-17 financial statements misstated total revaluations of depreciation as £1,018.4m. The misstatement had no impact on any other figure in the financial statements. These financial statements correct that misstatement and report the correct figure as £760.0m.

“Write-downs of capital additions” in 2016-17 are disclosed as “Revaluations” from 2017-18 onwards, which is consistent with the treatment in the financial statements of Highways England.

## 6.1 Rail Network

### Differences in accounting framework

Network Rail's own financial statements value the Railway Network at fair value using an income approach. This value differs significantly from the Depreciated Replacement Cost of the Railway Network included in these financial statements.

Network Rail prepares its financial statements under unadapted IFRS, in accordance with the Companies Act, so having elected to account for the Railway Network on a revaluation basis is required to determine its fair value in accordance with IFRS 13. It fulfils the requirements of IFRS 13 by valuing the Railway Network at the present value of the net future cash inflows an investor could expect from operation of the network. These inflows are produced through both track access payments from Train Operating Companies, in accordance with the network licence, and a grant from the Department. The level of inflows due to a licence holder is determined as a function of the amortisation of the Regulated Asset Base (RAB) built up through previous qualifying investment, together with an efficient return set by the ORR. This method of determining charges has been applied to the operation of the Railway Network since privatisation and is widely used in other regulated industries. This income approach complies with IFRS 13 because it represents the value of the Railway Network to any operator that holds a network licence and because it is based on information, contained in the regulatory settlements that are in the public domain, thus maximising the use of observable inputs.

In contrast, the Department values Infrastructure Assets, including the rail network, using Depreciated Replacement Cost (DRC). DRC is the cost of replacing an asset's remaining service potential, net of a reduction to reflect its existing condition. The FReM mandates this valuation approach for specialised assets that are used for delivering a service to the public and it is applied consistently by all government departments and in the

Whole of Government Accounts. It reflects the basis on which public services are funded. However, it would be inappropriate for Network Rail to apply the FReM in its own financial statements, as application of the IFRS adaptations in the FReM would breach Network Rail's responsibilities under the Companies Act.

Application of a depreciated replacement cost valuation to the Railway Network in these financial statements has the following consequences. Most obviously, the DRC is higher than Network Rail's income-based valuation, as it reflects the replacement cost for the network as a whole, including significant network elements funded before the RAB was introduced. The most significant elements by value are earthworks, long life structures, and operational land. Together, they comprise much of the value for DRC purposes and are essential to the operation of the railway network. This cost-based approach therefore measures the significant economic benefits to Great Britain of the physical network in total, which exceed the monetary returns receivable by the holder of the railway network licence.

The Department considers that this higher valuation is recoverable in full. The Departmental group receives both Network Rail's income and Parliamentary Supply as part of the Department's overall funding settlement. The funding settlement reflects the costs of delivering services requiring a railway network of an agreed specification. This specification is reflected in the assumptions that underpin the DRC valuation approach. Therefore, the Department is content to maintain a carrying value for rail infrastructure in excess of Network Rail's financial statements.

### Details of the valuation adopted by the Department

The Railway Network was valued, as at 31 December 2015, by Network Rail and Turner & Townsend (professional valuers) using data provided by Network Rail. An indexation factor has been applied to each reporting year-end since then, using the indices outlined in the table below:

	Land	Other Components
Index	CPIH	RPI
1 Jan 2016 to 31 March 2017	2.3%	3.1%
1 Jan 2016 to 31 March 2018	4.7%	6.6%

The key components of this valuation, associated remaining lives and depreciation charges are shown in the table below:

Type	2017-18			2016-17
	Depreciated Replacement Cost	Remaining Life	Depreciation Charge	Depreciation Charge
	£m	Years*	£m	£m
Structures	44,212.5	58	730.0	709.3
Earthworks	69,760.5	99	698.0	674.6
Telecoms	2,717.7	13	201.9	195.4
Operational property	15,816.0	26	594.9	572.9
Electrification, plant and signals	44,449.2	34	1,700.5	1,616.8
Track	25,672.9	19	1,155.0	1,087.7
Land	97,995.8	-	-	-
<b>Total</b>	<b>300,624.6</b>	<b>-</b>	<b>5,080.3</b>	<b>4,856.7</b>

### Sensitivity analysis

The following sensitivity analysis reflects the sources of estimation uncertainty disclosed in Note 1.23.1, showing the impact of changes in assumptions at the reasonable boundaries of uncertainty.

#### Scenario 1

Shows the impact of increasing or decreasing the remaining asset lives of the components of the modern equivalent railway network by 10%.

#### Scenario 2

Shows the impact if the land compensation adjustment (normally 65%) were to increase or decrease by 10%; i.e. a compensation adjustment of 75% or 55% respectively.

#### Scenario 3

Shows the impact if the adjustment for building on a greenfield site rather than in an operational environment (normally 32%) were to increase or decrease by 10%, showing the impact of an adjustment at 42% and 22%. This adjustment applies only to costing rates built up using a methodology not already reflecting greenfield build.

#### Scenario 4

Shows the impact of an adjustment to the risk factor applied to the overall DRC valuations, currently 22%, by an increase or decrease of 10%, effectively showing risk factors of 32% and 12%.

### Depreciated Replacement Cost

Type	2017-18		
	Depreciated Replacement Cost (-)	Depreciated Replacement Cost	Depreciated Replacement Cost (+)
	£m	£m	£m
Base Case inc 22% risk	-	300,624.6	-
Scenario 1	280,361.6	-	320,887.4
Scenario 2	294,685.4	-	306,563.7
Scenario 3	305,423.7	-	295,825.4
Scenario 4	284,015.6	-	317,233.4
<b>Total range</b>	<b>280,361.6</b>	<b>300,624.6</b>	<b>320,887.4</b>

## Depreciation Charge

Type	2017-18		
	Depreciation Charge (-)	Depreciation Charge	Depreciation Charge (+)
Base Case inc 22% risk	-	5,080.3	-
Scenario 1	5,010.1	-	5,158.2
Scenario 2	5,080.3	-	5,080.3
Scenario 3	5,292.3	-	4,868.3
Scenario 4	4,663.9	-	5,497.6
<b>Total range</b>	<b>4,663.9</b>	<b>5,080.3</b>	<b>5,497.6</b>

## 6.2 Strategic Road Network (SRN)

### De-trunking

The following roads ceased being trunk roads controlled by Highways England during 2017-18:

- › Sections of the A5-M1 link Dunstable by-pass were transferred to Central Bedfordshire Council and Hertfordshire County Council on 11 May 2017 (£120.7m);
- › A section of the A21 between Tonbridge and Pembury was transferred to Kent County Council on 13 January 2018 (£5.4m); and
- › A section of the A556 between Knutsford and Bowden was transferred to Cheshire East Council on 31 March 2018 (£66.5m).

### Valuation approach

The Strategic Road Network (SRN) is valued using a Depreciated Replacement Cost approach. The valuation is principally built up using: an understanding of the extent of the network and its component parts on a modern equivalent basis; the application of a number of costing rates for those component parts, by type; and the condition of the network. Key components of the SRN, their valuations, asset lives and associated depreciation charges are included in the table below:

Type	2017-18			2016-17
	Depreciated Replacement Cost	Asset Life	Depreciation Charge	Depreciation Charge
	£m	Years	£m	£m
Roads	70,490.0	N/A	242.0	162.8
Renewals capitalised	-	N/A	737.0	620.2
Structures	31,161.6	20-120	341.3	244.0
Technology	1,588.3	15-50	123.1	136.3
Land	12,861.7	N/A	-	-
<b>Total</b>	<b>116,101.6</b>		<b>1,443.4</b>	<b>1,163.3</b>

### Sensitivity analysis

The valuation relies on the accounting estimates described in Note 1.22.1 which is subject to the estimation uncertainties disclosed in Note 1.23.1. The following analysis shows the impact on the balance recognised for the SRN (including the part under construction) of alternative estimates, at the boundary levels of estimation uncertainty.

#### Scenario 1

Shows the impact of increasing or decreasing the costing rates by 10% (£11,356.6m).

#### Scenario 2

Shows the impact of changing the ROCOS (Road Construction Resource Cost index) by 10 points (£4,560.9m).

#### Scenario 3

Shows the impact of changing the acceptable level of rutting by 1mm, from an estimate of 15.5mm (£162.8m).

Type	2017-18		
	Depreciated Replacement Cost (-)	Depreciated Replacement Cost	Depreciated Replacement Cost (+)
	£m	£m	£m
Base Case	-	116,101.6	-
Scenario 1	104,745.0	-	127,458.2
Scenario 2	111,540.7	-	120,662.5
Scenario 3	115,938.8	-	116,264.4
<b>Total range</b>	<b>104,745.0</b>	<b>116,101.6</b>	<b>127,458.2</b>

### 6.3 High Speed 1 Asset

This is the value of the infrastructure of the HS1 rail link from the Kent coast to St. Pancras in London, originally constructed by HS1 Ltd (a subsidiary of London and Continental Railways Limited) under a 99-year concession. This original concession was intended to be privately-financed. The Secretary of State acquired London and Continental Railways Ltd in June 2009 to restructure the business. As part of the restructuring process, the concession was renegotiated to revise the access-charging basis and to bring forward the end of the period to 2040. The infrastructure continues to be operated by HS1 Ltd, which was sold in November 2010 to Borealis and the Ontario Teachers' Pension Plan. HS1 Ltd maintains the infrastructure and generates track access charges from domestic and international Train Operating Companies. It operates on a commercial basis, receiving no public subsidy and is classified to the private sector by the Office for National Statistics. At the end of the concession, the infrastructure will return to the Group and it is currently expected that a further concession will be granted at this point. The asset life is considered to be the same as the term of the original concession. HS1 Ltd (which recognises the asset under UK GAAP) has recognised a partial reversal of the 2009 impairment, which reflects a reduction in their cost of borrowing and is not indicative of any benefit that the Department can control.

The asset is depreciated on a straight-line basis over its remaining useful economic life.

### 6.4 Capital additions and Assets under Construction (Networked Assets)

Of the closing balance of Assets under Construction,

- ▶ £2,598.8m relates to Network Rail schemes;
- ▶ £1,348.3m to Highways England schemes; and
- ▶ £4,180.3m to the work in progress for HS2.

The material additions to Assets under Construction are:

- ▶ enhancements to and renewals of the Railway Network (2017-18 additions: £6,478.7m, 2016-17 additions: £4,856.7m);
- ▶ enhancements to the Strategic Road Network (2017-18 additions: £1,600.6m, 2016-17 additions: £1,484.8m); and
- ▶ preparatory work for construction of HS2 (2017-18 additions: £2,553.8m, 2016-17 additions: £587.3m).

As described in Note 1.6.2, renewals of the Strategic Road Network are recorded against the strategic road network asset.

## 6.5 Investment Properties

	<b>Departmental Group</b>
	£m
Balance at 1 April 2016	1,109.3
Additions	18.4
Disposals	(27.2)
Revaluations	131.8
Balance at 31 March 2017	1,232.3
Additions	6.7
Disposals	(6.4)
Reclassifications	(1,141.8)
Revaluations	116.8
<b>Balance at 31 March 2018</b>	<b>207.6</b>

### Ownership

Almost all investment properties are controlled by Network Rail.

### Valuation

The market values of the group's investment properties at 31 March 2018 have been arrived at on the basis of a valuation carried out at that date with Jones Lang LaSalle. The fair value of Network Rail's investment property portfolio is deemed to be the market value.

The valuation, which conforms to International Valuation Standards, was arrived at by splitting the portfolio between one-off individual properties to be valued separately and the remainder of the portfolio to be valued under the Beacon method.

Jones Lang LaSalle provided independent valuations of 6 one-off individual properties (2017: 17), amounting to 35% (2017: 12%) of the total valuation. The balance of the estate was valued under the Beacon method by splitting the portfolio into 13 homogeneous classes (2017: 13) of property and areas, assuming that the current passing rent received from these properties are in line with market rent. Jones Lang LaSalle independently assessed the appropriate yield to be adopted within each of these classes and areas. This enabled Network Rail to estimate market values by applying the provided yields to the net rental income from these properties, in accordance with a standard UK investment property valuation.

### Rental net income

The property rental income earned by the group from its investment properties, including those transferred to Assets Held for Sale, all of which is leased out under operating leases, amounted to £96m (2016-17: £90m). Direct operating expenses arising on the investment properties in the year amounted to £8m (2016-17: £6m). These values include the rental income and expenses incurred after the properties were reclassified as Assets Held for Sale.

The group's investment properties are let on a tenant repairing basis. The group's maintenance obligations are limited to common areas and vacant property units.

### Re-classification

During the year investment property was transferred to assets held for sale (Note 6.6 below) as part of Network Rail's asset divestment programme.

## 6.6 Assets held for sale

	Core Department & Agencies	Departmental Group
	£m	£m
Balance at 1 April 2016	1.1	10.2
Disposals	-	(2.7)
Impairments	-	(0.8)
Reclassifications	-	10.8
Balance at 31 March 2017	1.1	17.5
Additions	1.0	4.3
Disposals	-	(7.6)
Impairments	-	(1.4)
Reclassifications	(1.1)	1,144.1
<b>Balance at 31 March 2018</b>	<b>1.0</b>	<b>1,156.9</b>

### Re-classification

In November 2017 Network Rail received clearance from Her Majesty's Government to begin marketing the sale of a substantial part of its investment property portfolio, at which point the assets were transferred from investment properties to assets held for sale.

### Valuation

The assets were transferred from investment properties to assets held for sale at their carrying value when the assets met the criteria to be reclassified as assets held for sale.

In September 2018 terms were agreed for the sale of these assets for £1.46bn. See note 21.1 for further details.

## 6.7 Re-measurements of PPE recognised in other comprehensive expenditure

The write-down resulting from capital additions for the SRN and Railway Network to a level consistent with Depreciated Replacement Cost forms part of the overall revaluation movement that passes through Other Comprehensive Net Expenditure. A reconciliation of the movements in Note 6 to the net revaluation of PPE in the Statements of Changes in Taxpayers' Equity and Comprehensive Net Expenditure is shown below.

	Departmental Group
	£m
Write-down of capital additions	(2,644.2)
Revaluation (cost)	10,683.0
Revaluation (depreciation)	1,962.4
Impairments recognised against revaluation surplus	0.3
	<b>10,001.5</b>



## 7. Intangible Assets

Group	2017-18			
	Software Licences £m	Development Expenditure £m	Assets under Construction £m	Total £m
<b>Cost or valuation</b>				
At 1 April 2017	66.2	457.5	5.8	<b>529.5</b>
Additions	11.9	0.9	14.3	<b>27.1</b>
Disposals	(5.1)	(0.3)	-	<b>(5.4)</b>
Transfers	0.2	-	-	<b>0.2</b>
Reclassifications	7.1	1.6	(1.7)	<b>7.0</b>
Revaluations	0.1	(0.1)	-	<b>-</b>
<b>At 31 March 2018</b>	<b>80.4</b>	<b>459.6</b>	<b>18.4</b>	<b>558.4</b>
<b>Amortisation</b>				
At 1 April 2017	(39.6)	(334.7)	-	<b>(374.3)</b>
Charged in year	(10.1)	(12.2)	-	<b>(22.3)</b>
Disposals	5.0	0.3	-	<b>5.3</b>
Transfers	(0.1)	-	-	<b>(0.1)</b>
Reclassifications	(6.1)	-	-	<b>(6.1)</b>
Revaluation	0.1	-	-	<b>0.1</b>
<b>At 31 March 2018</b>	<b>(50.8)</b>	<b>(346.6)</b>	<b>-</b>	<b>(397.4)</b>
<b>Carrying amount at 31 March 2018</b>	<b>29.6</b>	<b>113.0</b>	<b>18.4</b>	<b>161.0</b>
<b>Carrying amount at 31 March 2017</b>	<b>26.6</b>	<b>122.8</b>	<b>5.8</b>	<b>155.2</b>
<b>Of the total:</b>				
Core Department	2.5	-	-	<b>2.5</b>
Agencies	5.0	10.0	18.4	<b>33.4</b>
Other designated bodies	22.1	103.0	-	<b>125.1</b>
<b>Carrying amount at 31 March 2018</b>	<b>29.6</b>	<b>113.0</b>	<b>18.4</b>	<b>161.0</b>

On 31 March 2017 and 2018, all intangible assets were owned by entities in the Departmental Group.

Group	2016-17			
	Software Licences	Development Expenditure	Assets under Construction	Total
	£m	£m	£m	£m
<b>Cost or valuation</b>				
At 1 April 2016	71.5	423.7	5.0	500.2
In year balance adjustment	(5.4)	5.4	(0.5)	(0.5)
Additions	3.5	2.6	7.6	13.7
Disposals	(12.2)	(13.9)	-	(26.1)
Transfers	8.3	0.8	(5.9)	3.2
Reclassifications	-	0.4	(0.4)	-
Revaluations	0.5	38.5	-	39.0
<b>At 31 March 2017</b>	<b>66.2</b>	<b>457.5</b>	<b>5.8</b>	<b>529.5</b>
<b>Amortisation</b>				
At 1 April 2016	(43.5)	(325.6)	-	(369.1)
In year balance adjustment	3.0	(3.0)	-	-
Charged in year	(10.9)	(19.9)	-	(30.8)
Disposals	12.0	13.8	-	25.8
Revaluation	(0.2)	-	-	(0.2)
<b>At 31 March 2017</b>	<b>(39.6)</b>	<b>(334.7)</b>	<b>-</b>	<b>(374.3)</b>
Carrying amount at 31 March 2017	26.6	122.8	5.8	155.2
Carrying amount at 31 March 2016	28.0	98.1	5.0	131.1
<b>Of the total:</b>				
Core Department	3.0	-	-	3.0
Agencies	9.7	18.8	5.6	34.1
Other designated bodies	13.9	104.0	0.2	118.1
<b>Carrying amount at 31 March 2017</b>	<b>26.6</b>	<b>122.8</b>	<b>5.8</b>	<b>155.2</b>

## 8. Capital and Other Commitments

Commitment Type	Note	2017-18		2016-17	
		Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
		£m	£m	£m	£m
Capital	8.1	2.3	5,666.7	239.1	5,107.9
Operating leases	8.2	547.2	974.2	526.6	952.1
Finance leases		0.4	16.8	0.5	20.2
PFI & other service concession arrangements	8.3	20.2	1,547.6	22.8	1,624.1
Other financial	8.4	40,524.1	2,057.0	9,832.9	2,019.7
		<b>41,094.2</b>	<b>10,262.3</b>	10,621.9	9,724.0

### 8.1 Capital commitments

Contracted and approved commitments at 31 March not otherwise included in these financial statements:

Commitment Type	2017-18		2016-17	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Property, plant and equipment	2.2	5,662.6	238.4	5,103.7
Intangible assets	0.1	4.1	0.7	4.2
	<b>2.3</b>	<b>5,666.7</b>	239.1	5,107.9

## 8.2 Lease commitments

Total future minimum lease payments under operating leases for each of the following periods are:

	2017-18		2016-17	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
<b>Land</b>				
Not later than one year	0.1	0.3	-	0.2
Later than one year and not later than five years	0.1	0.6	-	0.5
Later than five years	-	2.0	-	2.0
<b>Total future lease payments – land</b>	<b>0.2</b>	<b>2.9</b>	-	2.7
<b>Buildings</b>				
Not later than one year	4.6	62.5	2.5	62.1
Later than one year and not later than five years	38.5	215.4	34.7	198.3
Later than five years	121.6	303.7	51.8	238.8
<b>Total future lease payments – buildings</b>	<b>164.7</b>	<b>581.6</b>	89.0	499.2
<b>Other</b>				
Not later than one year	56.5	58.2	55.2	57.3
Later than one year and not later than five years	227.8	233.5	227.4	234.0
Later than five years	98.0	98.0	155.0	158.9
<b>Total future lease payments – other</b>	<b>382.3</b>	<b>389.7</b>	437.6	450.2

The core Department renewed the lease for its headquarters located in Great Minster House, London. The new lease started in March 2017 and lasts for 15 years. This has led to a £96.6m increase in building commitments.

Whilst the core Department refurbishes its headquarters, it is leasing 3 floors in Windsor House from the Cabinet Office: 2 floors from January 2018 to March 2020 and then 1 remaining floor until March 2021. This has led to a £3.3m increase in building commitments.

### 8.3 Commitments under PFI and other service concession arrangements

The obligations under on-balance sheet PFI contracts are held by Highways England and DVLA.

Highways England has 11 PFI contracts for the design, build, financing and operation of sections of the network. The most significant of these is the 30 year M25 London Orbital Motorway contract that commenced in 2009, which requires the contractor to: operate; maintain; renew; reconstruct; repair and reinstate the road facilities within the designated area. The liability as at 31 March 2018 was £3.0bn, which includes an interest element of £1.5bn. The future service charge relating to the M25 PFI is £5.8bn.

On 4 April 2005, DVLA entered into a 20-year service concession agreement with Telereal Trillium (formerly Land Securities Trillium). This agreement has been set up to provide property outsourcing solutions, including: buildings management; maintenance and services. Revenue expenditure is recorded as a service charge in the Statement of Comprehensive Net Expenditure. The liability as at 31 March 2018 was £24.2m, which includes an interest element of £4.1m.

These arrangements fall within the scope of IFRIC 12 Service Concession Arrangements. Consequently, a PFI liability has been created to reflect the work capitalised. This liability is reduced over the life of the contract as payments are made. In accordance with FReM requirements, the interest element of the unitary charge relating to the assets capitalised has been calculated using the actuarial method.

#### Imputed finance lease obligations under on balance sheet PFI contracts comprise:

	2017-18		2016-17	
	Core Department & Agencies £m	Departmental Group £m	Core Department & Agencies £m	Departmental Group £m
<b>Rentals due:</b>				
Not later than one year	3.5	191.2	3.5	201.1
Later than one year and not later than five years	13.9	764.6	13.9	764.6
Later than five years	6.9	2,052.7	10.4	2,238.6
	<b>24.3</b>	<b>3,008.5</b>	<b>27.8</b>	<b>3,204.3</b>
Less: interest element	(4.1)	(1,460.9)	(5.0)	(1,580.2)
	<b>20.2</b>	<b>1,547.6</b>	22.8	1,624.1

#### The capital element under on balance sheet PFI contracts comprises:

	2017-18		2016-17	
	Core Department & Agencies £m	Departmental Group £m	Core Department & Agencies £m	Departmental Group £m
Not later than one year	2.4	76.1	2.5	81.6
Later than one year and not later than five years	17.8	363.7	10.9	335.7
Later than five years	-	1,107.8	9.4	1,206.8
	<b>20.2</b>	<b>1,547.6</b>	22.8	1,624.1

**The interest element under on balance sheet PFI contracts comprises:**

	2017-18		2016-17	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Not later than one year	1.0	115.0	1.0	119.5
Later than one year and not later than five years	2.7	407.5	3.0	428.9
Later than five years	0.4	938.4	1.0	1,031.8
	<b>4.1</b>	<b>1,460.9</b>	5.0	1,580.2

The future total service element payments to which the Department is committed are given in the table below, analysed according to the period in which the commitment expires.

**Future charges to the Statement of Comprehensive Net Expenditure**

	31 March 2018		31 March 2017	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Not later than one year	20.5	320.9	19.6	360.3
Later than one year and not later than five years	88.0	1,499.9	85.2	1,457.8
Later than five years	47.7	5,956.0	70.6	6,550.6
	<b>156.2</b>	<b>7,776.8</b>	175.4	8,368.7

**8.4 Other financial commitments**

The Departmental Group has entered into non-cancellable contracts (which are not leases, PFI contracts or other service concession arrangements). The payments to which the Group are committed are as follows:

	31 March 2018		31 March 2017	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Not later than one year	4,537.1	769.2	4,463.2	408.9
Later than one year and not later than five years	28,803.1	1,043.9	4,974.4	1,215.4
Later than five years	7,183.9	243.9	395.3	395.4
	<b>40,524.1</b>	<b>2,057.0</b>	9,832.9	2,019.7
Of which:				
Network Rail – Control Period 5	3,785.9	-	7,813.3	-
Network Rail – Control Period 6	34,700.0	-	-	-
<b>Network Rail – total</b>	<b>38,485.9</b>	-	7,813.3	-
Train Operating Companies	2,001.5	2,001.5	2,019.6	2,019.6
Other	36.7	55.5	-	0.1
	<b>40,524.1</b>	<b>2,057.0</b>	9,832.9	2,019.7

## Core Departmental commitment to Network Rail

### 2014-2019 – Control Period 5

In accordance with a Deed of Grant entered into in December 2013, the Department is committed to making direct payments of £17,661m to Network Rail spread over the financial years 2014-15 to 2018-19. This sum is expressed in 2012-13 prices. As at 31 March 2018 the commitment, expressed in 2017-18 prices, stood at £3,785.9m. The values shown in the table above include the commitment for the final period of Control Period 5, payable over the 2018-19 financial year.

### 2019-2024 – Control Period 6

In October 2017, the Secretary of State announced that the Department could pay grants of up to £34,700m to Network Rail over the financial years 2019-20 to 2023-24 (known as Control Period 6). In October 2018, the Office of Rail and Road is scheduled to announce the exact amounts to be paid in each year of Control Period 6. The values in the table above assume a flat spending profile of £6,940m per year (undiscounted), resulting in £27,760m payable in 2-5 years and £6,940m in more than 5 years. Next year's annual report and accounts will be updated to reflect the actual sums agreed in the Deed of Grant.

The Group total excludes the financial commitments from the core Department to Network Rail, which are intra-group.

## Train Operating Companies (TOCs)

As at 31 March 2018, the Department had 14 contracts with TOCs for the provision of rail services. This included Virgin Trains East Coast for which the franchise agreement on the East Coast Mainline was terminated on 24 June 2018 as detailed in Note 21.

These contracts are not leases or PFI contracts and are only cancellable prior to their expiry or break date in certain circumstances, normally following an event of default under an individual contract.

The figures in the table include the contract payments committed by the Department under the suite of franchise agreements that it has entered into.

The actual amounts payable under each franchise contract are subject to variation in accordance with the terms of the individual contracts, which take account of various factors including changes to assumed passenger revenues and variations to Network Rail's income requirements as determined by the Office of Rail and Road.

The amounts in the table do not attempt to forecast any commitments by the Department for the provision of rail services beyond the expiry of the current suite of contracts with the rail industry.

The amounts in the table do not attempt to deduct amounts payable by TOCs to the Department, in respect of contract premiums due to the Department. These expected inflows are not included in the table of commitments. The annual amount of paid subsidies and premiums received in respect of the TOC contracts is shown respectively in the Core & Agencies numbers in:

- ▶ Note 4 (support for passenger rail services); and
- ▶ Note 5 (income from Train Operating Companies).

## 9. Financial Instruments

Analysis by category		2017-18		2016-17	
		Core Department & Agencies £m	Departmental Group £m	Core Department & Agencies £m	Departmental Group £m
	Note				
<b>Non-current financial assets</b>					
Loans and receivables	9.1.1 & 9.1.1.2	26,905.1	155.8	20,381.9	342.6
Available-for-sale financial assets	9.1.2	368.5	586.3	381.9	709.2
Public Dividend Capital	9.1.3	32.5	32.5	32.5	32.5
Financial assets held at fair value through the SOCNE	9.1.4	-	268.8	-	864.5
		<b>27,306.1</b>	<b>1,043.4</b>	20,796.3	1,948.8
<b>Current financial assets</b>					
Financial assets held at fair value through the SOCNE		-	227.4	-	238.3
<b>Current financial liabilities</b>					
Financial liabilities held at fair value through the SOCNE		-	(19.8)	-	(1.0)
<b>Non-current financial liabilities</b>					
Financial liabilities held at fair value through the SOCNE		-	(1,146.8)	-	(1,528.5)
Other financial liabilities	9.2.2	(4,044.4)	-	(4,141.7)	-
		<b>23,261.7</b>	<b>104.2</b>	16,654.6	657.6

In addition, there are balances that meet the definition of financial assets and financial liabilities (including 'Obligations in respect of Network Rail debt' and 'Obligations in respect of Channel Tunnel Rail Link debt') presented as Receivables and Payables in Notes 12 and 14.



## 9.1 Financial Assets

The Department holds financial assets comprising interest bearing loans (Note 9.1.1); equity investments classified as available-for-sale (Note 9.1.2); public dividend capital (Note 9.1.3); and financial assets held at fair value through the Statement of Comprehensive Net Expenditure (Note 9.1.4).

### 9.1.1 Loans

The Department has provided interest-bearing loans when the borrower is expected to be able to service and repay the debt and where it is appropriate for the borrower's customers to cover the full cost (including financing) of the services. Some lending is funded from the Department's Supply (Note 9.1.1); other lending is funded through loans from the National Loans Fund (Note 9.1.1.2).

	DVSA	GLF	Other Loans	Departmental Group Total
	£m	£m	£m	£m
Balance at 1 April 2016	17.1	170.0	179.2	366.3
Reclassifications	-	-	5.1	5.1
Repayments	(9.1)	(20.0)	(0.5)	(29.6)
Balance at 31 March 2017	8.0	150.0	183.8	341.8
Reclassifications	-	-	6.7	6.7
Advances	-	-	24.0	24.0
Repayments	(8.0)	(20.0)	(189.5)	(217.5)
<b>Balance at 31 March 2018</b>	<b>-</b>	<b>130.0</b>	<b>25.0</b>	<b>155.0</b>

The repayment of Other Loans relates to repayment of the loan to Midlands Expressway Ltd in June 2017.

	Departmental Group Total	Other Loans	Loans to Network Rail	Core Department & Agencies Total
	£m	£m	£m	£m
Balance at 1 April 2016	366.3	2.3	13,950.0	14,318.6
Write-off	-	-	(13.0)	(13.0)
Reclassifications	5.1	-	-	5.1
Advances	-	-	6,100.0	6,100.0
Repayments	(29.6)	-	-	(29.6)
Balance at 31 March 2017	341.8	2.3	20,037.0	20,381.1
Reclassifications	6.7	-	(2.1)	4.6
Advances	24.0	(2.9)	8,350.0	8,371.1
Repayments	(217.5)	-	(1,635.0)	(1,852.5)
<b>Balance at 31 March 2018</b>	<b>155.0</b>	<b>(0.6)</b>	<b>26,749.9</b>	<b>26,904.3</b>

### 9.1.1.2 National Loans Fund

	Civil Aviation Authority
	£m
Balance at 1 April 2016	1.9
Loans payable within one year transferred to receivables	(1.1)
Balance at 31 March 2017	0.8
<b>Balance at 31 March 2018</b>	<b>0.8</b>

### 9.1.2 Available-for-sale financial assets

The Departmental Group holds available-for-sale financial assets (typically equity shares) where this is judged to provide the best return for the taxpayer, typically for projects that will generate volatile returns during their early phases.

Note 9.3 describes the nature of these assets and how they have been valued.

	LCR Ltd	Direct Subsidiaries	Core Department & Agencies Total	Network Rail Insurance Ltd	Interests in jointly controlled entities	Departmental Group Total
	£m	£m	£m	£m	£m	£m
Balance at 1 April 2016	364.0	12.3	<b>376.3</b>	188.7	43.1	<b>608.1</b>
Additions	-	-	-	-	2.4	<b>2.4</b>
Revaluations	5.6	-	<b>5.6</b>	93.3	(0.2)	<b>98.7</b>
Balance at 31 March 2017	369.6	12.3	<b>381.9</b>	282.0	45.3	<b>709.2</b>
Revaluations	(13.4)	-	<b>(13.4)</b>	(112.4)	2.9	<b>(122.9)</b>
<b>Balance at 31 March 2018</b>	<b>356.2</b>	<b>12.3</b>	<b>368.5</b>	<b>169.6</b>	<b>48.2</b>	<b>586.3</b>

### 9.1.3 Public Dividend Capital

PDC is held by the core Department. In accordance with the FReM, PDC is carried at historical cost less any impairment. There is no indication of impairment as at 31 March 2018.

#### DVSA

£m

Balance at 31 March 2017	32.5
<b>Balance at 31 March 2018</b>	<b>32.5</b>

### 9.1.4 Financial assets held at fair value through the Statement of Comprehensive Net Expenditure

Before Network Rail was reclassified to the central government sector in 2014, it raised debt finance principally through the sale of bonds. To manage the associated risks, such as foreign currency exchange risk and interest-rate risk, it purchased derivatives which fix the exchange rate or interest rate. Similarly,

it purchased derivatives to manage risks associated with the purchase of goods or services. It uses hedge accounting for these arrangements where appropriate. Its portfolio of derivatives includes those purchased for debt to be raised during Control Period 5. Following reclassification, it was decided that Network Rail would be financed by loans from the Department. Network Rail now purchases derivatives only to manage risks related to the purchase of goods or services.

	2017-18		2016-17	
	Departmental Group		Departmental Group	
	Fair Value	Notional amounts	Fair Value	Notional amounts
	£m	£m	£m	£m
<b>Derivative financial instrument assets</b>				
<b>Cash flow hedges</b>				
Cross-currency swaps to hedge debt issued under the debt issuance programme	125.0	128.2	152.5	128.2
<b>Fair value hedges</b>				
Cross-currency swaps to hedge debt issued under the debt issuance programme	217.0	1,738.0	671.2	2,512.6
<b>Non-hedge accounted derivatives</b>				
Cross-currency swaps to hedge debt issued under the debt issuance programme	97.2	197.8	120.0	198.0
Interest rate swaps	57.0	4,531.0	157.2	9,145.0
Forward foreign exchange contracts	-	11.0	1.9	42.6
	<b>496.2</b>	<b>6,606.0</b>	<b>1,102.8</b>	<b>12,026.4</b>
Included in non-current assets	268.8	3,497.0	864.5	9,028.2
Included in current assets	227.4	3,109.0	238.3	2,998.2
	<b>496.2</b>	<b>6,606.0</b>	<b>1,102.8</b>	<b>12,026.4</b>

## 9.2 Financial Liabilities

### 9.2.1 Financial liabilities held at fair value through the SOCNE

Network Rail purchases derivatives in order to manage the risks inherent in its external borrowings.

	2017-18		2016-17	
	Departmental Group		Departmental Group	
	Fair Value	Notional amounts	Fair Value	Notional amounts
	£m	£m	£m	£m
<b>Derivative financial instrument liabilities</b>				
<b>Cash flow hedges</b>				
Interest rate swaps	(19.0)	130.0	(26.0)	130.0
Forward starting interest rate swaps	(241.6)	2,695.0	-	-
<b>Non-hedge accounted</b>				
Interest rate swaps to hedge debt issued under the Debt Issuance Programme	(905.0)	22,590.0	(1,500.8)	17,796.0
Forward foreign exchange contracts	(1.0)	66.0	(2.7)	46.0
	<b>(1,166.6)</b>	<b>25,481.0</b>	<b>(1,529.5)</b>	<b>17,972.0</b>
Included in non-current liability	(1,146.8)	23,080.0	(1,528.5)	17,940.0
Included in current liability	(19.8)	2,401.0	(1.0)	32.0
	<b>(1,166.6)</b>	<b>25,481.0</b>	<b>(1,529.5)</b>	<b>17,972.0</b>

### 9.2.2 Other financial liabilities

#### Financial Guarantees (Core Department and Agencies)

	Network Rail
	£m
Balance at 1 April 2016	(4,297.9)
Charge in year	16.7
Amortised to income	298.8
Unwinding of discount	(159.3)
Balance at 31 March 2017	(4,141.7)
Charge in year	(29.5)
Amortised to income	281.2
Unwinding of discount	(154.4)
<b>Balance at 31 March 2018</b>	<b>(4,044.4)</b>

The Department has given an indemnity to Network Rail's debt holders, with a total outstanding debt as at 31 March 2018 of £25,702m (2017 updated: (£27,046m)). The indemnity expires in 2052 and is recognised as a financial guarantee contract in accordance with IAS 39. The indemnity reduces the cost of borrowing for Network Rail and the Department is paid a fee by Network Rail for the equivalent benefit of reduced interest charges on its commercial debt. The discounted value of the indemnity over the remaining period is calculated to be as shown in the table above. There is a corresponding asset, shown in Note 12, to reflect the value of the financial indemnity fee due to the Department from Network Rail.

The asset and liability are valued identically since the charge to Network Rail reflects the additional risk premium avoided by Network Rail, which would also be a reasonable basis of determining the fair value of the guarantee given by the Department. No asset or liability appears for the Group since at this level the obligations attaching to Network Rail's portfolio of borrowings is recognised in full.

### 9.3 Valuation methodologies and techniques

The following available-for-sale financial assets: LCR Ltd and Network Rail Insurance Limited, are held at fair value and have been measured using valuation techniques, because the instruments are not regularly traded on an active market.

#### 9.3.1 London & Continental Railways Limited (LCR Ltd)

LCR Ltd is recognised at fair value as at 31 March 2018 and 31 March 2017. The valuation is based on four (previously three) components: investment properties; cash and working capital; property developments around Stratford (through its joint venture, Stratford City Business District Ltd) and the Manchester Mayfield site (since 2017).

The valuation was performed by selecting the valuation techniques for each component that a knowledgeable investor would use. For the most part, these reflect surveyors' valuations of properties. In performing these valuations, surveyors make estimates and assumptions around rental yields, voids, occupancy rates and rent-free periods. Changes in these assumptions could increase or decrease the reported valuations. It is considered that all properties and developments are currently being held or developed for their highest and best use. Given the valuation approach, we consider that the resulting valuation is level 3 in the IFRS 13 hierarchy, as shown in Note 9.3.4.

The valuation identified the following changes of value, which have been recognised through the available-for-sale reserve:

2016-17: £5.6m  
2017-18: (£13.4m)

The £5.6m increase in value in 2016-17 reflects valuation gains on the investment properties and profits generated by Stratford City Business District Ltd, which are largely offset by reductions in LCR's working capital.

The £13.4m decrease in value in 2017-18 reflects a reduction in working capital, partly attributable to a £25m dividend payment to the Group, offset by increases in the value of other components of the valuation. Notwithstanding the decrease in value, there are not considered to be any indications that the shareholding is impaired.

#### 9.3.2 Network Rail Insurance Ltd

Network Rail Insurance Ltd is recognised at fair value reflecting its role as a provider of insurance cover for Network Rail and its subsidiaries and associates. Management aim to operate the company at a break-even level over the longer term, but results can fluctuate materially from year to year.

The valuation was performed by KPMG in 2015 using the Adjusted Book Value (ABV) approach as at 31 March 2014 and 31 March 2015, updated for changes in net assets between 1 April 2015 and 31 March 2018. This is an accepted valuation technique for insurance companies. The net assets of Network Rail Insurance Ltd have increased due to profitable trading in the year and the book values of assets and liabilities are therefore adjusted to fair values. This includes adjustments to reserves for claims reported and for claims incurred but not reported to the mid-point of the range of reasonable estimates.

The valuation identified the following changes of value, which have been recognised either through the available-for-sale reserve or the Statement of Net Expenditure as appropriate:

2016-17: £93.3m  
2017-18: (£112.4m)

#### 9.3.3 Joint Ventures

Network Rail's joint venture investments in the Station Office Network, West Hampstead Square, and Solum were valued at an aggregated amount of £48.2m at 31 March 2018 (£45.3m at 31 March 2017) and updated for changes in net assets between 1 April 2017 and 31 March 2018. This resulted in an upwards revaluation of £2.9m in 2017-18 that has been recognised in the available-for-sale reserve.

### 9.3.4 Summary of fair value measurements recognised in the Statement of Financial Position

The following table provides an analysis of instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- ▶ Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- ▶ Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- ▶ Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2017-18			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Available-for-sale financial assets	-	217.8	368.5	<b>586.3</b>
Derivative financial assets *	-	496.2	-	<b>496.2</b>
Derivative financial liabilities *	-	(1,166.6)	-	<b>(1,166.6)</b>
Borrowings held at fair value	(283.0)	-	-	<b>(283.0)</b>

	2016-17			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Available-for-sale financial assets	-	-	709.2	709.2
Derivative financial assets *	-	1,102.8	-	1,102.8
Derivative financial liabilities *	-	(1,529.5)	-	(1,529.5)
Borrowings held at fair value	(304.0)	-	-	(304.0)

\*The fair value of derivatives is estimated by discounting the future contractual cash flows using appropriate yield curves based on quoted market rates as at the current financial year end.

### 9.3.5 Summary of fair value measurements of instruments recognised at amortised cost in the Statements of Financial Position

	2017-18				
	Level 1	Level 2	Level 3	Total	Carrying Value
	£m	£m	£m	£m	£m
Loans and receivables *	-	2,281.0	-	<b>2,281.0</b>	2,754.0
Borrowings held at amortised cost	(36,260.9)	(30,714.0)	-	<b>(66,974.9)</b>	(56,770.1)

	2016-17				
	Level 1	Level 2	Level 3	Total	Carrying Value
	£m	£m	£m	£m	£m
Loans and receivables *	-	2,100.0	-	<b>2,100.0</b>	2,100.0
Borrowings held at amortised cost	(34,886.0)	(6,970.0)	-	<b>(41,856.0)</b>	(34,173.0)

\*The Department considers that, for short-term trade and other payables and receivables, the carrying value is a satisfactory approximation to fair value.

## 9.4 Off-balance sheet arrangements

The Companies Act requires disclosure of the risks associated with off-balance sheet arrangements. The Department considers that its most significant off-balance sheet arrangements relate to entities 100% owned by the Department or other group members, which are not consolidated in these financial statements. These entities are not consolidated because they are not listed in the Statutory Instrument that dictates which entities are consolidated. This departure from

conventional IFRS is in accordance with the FREM, see Note 1.3 for more details.

### 9.4.1 Entity majority-owned by the Department – LCR Ltd

If LCR Ltd was consolidated as a wholly-owned subsidiary, its activities and financial impacts would be reflected more pervasively through these financial statements. To enable readers to assess the potential impacts, the following information is provided:

	2017-18	2016-17*
	£m	£m
Stratford City	50.8	34.5
Investment properties	166.4	160.4
Non-current receivables from related parties	18.0	3.4
Property, plant and equipment	-	0.1
Current assets	178.8	221.4
Current liabilities	(22.4)	(24.2)
Non-current liabilities	(45.4)	(43.4)
<b>Net assets</b>	<b>346.2</b>	<b>352.2</b>
Revenue	20.4	23.4
Cost of sales	-	-
<b>Gross profit</b>	<b>20.4</b>	<b>23.4</b>
Administrative expenses	(17.9)	(18.7)
Gain on revaluation of investment properties	3.4	19.4
Other operating income	0.4	4.3
Increase of provisions	(1.7)	(14.8)
<b>Operating profit</b>	<b>4.6</b>	<b>13.6</b>
Net finance income	(0.1)	0.7
Share of gains of associates and joint venture	14.4	8.8
<b>Profit before tax</b>	<b>18.9</b>	<b>23.1</b>
Taxation	0.1	1.9
<b>Profit for the year</b>	<b>19.0</b>	<b>25.0</b>
Share of associate's cash flow hedge	-	0.1
<b>Total comprehensive income</b>	<b>19.0</b>	<b>25.1</b>

\* The values for 2016-17 have been updated to reflect the company's published financial statements.

The figures above are book values and will not agree to fair value figures included in other Notes to these financial statements.

## 9.4.2 Entities majority-owned by Network Rail

### Network Rail Insurance Ltd

Network Rail is the ultimate parent company of Network Rail Insurance Ltd, however Network Rail Insurance Ltd cannot be consolidated into these financial statements because the company is not part of the UK public sector because it is registered in Guernsey. It is included in the available-for-sale financial assets disclosure.

	2017-18	2016-17
	£m	£m
Cash and cash equivalents	290.1	364.5
Other financial assets	-	-
Receivables from insurance contracts	16.2	20.1
<b>Total assets</b>	<b>306.3</b>	<b>384.6</b>
Trade and other payables	(2.8)	(7.5)
Liabilities from insurance contracts	(145.7)	(166.3)
<b>Total liabilities</b>	<b>(148.5)</b>	<b>(173.8)</b>
<b>Net assets</b>	<b>157.8</b>	<b>210.8</b>
Premium revenue	23.0	58.7
Insurance claims	-	-
Administration expenses	(1.0)	(0.3)
Other income	-	0.3
<b>Net gain/(loss) before tax</b>	<b>22.0</b>	<b>58.7</b>

The figures above are book values and will not agree to fair value figures included in other Notes to these financial statements. The values come from Network Rail Insurance Ltd's year-end management accounts, therefore they have not been audited.

### Joint Ventures

Network Rail has joint control over several entities, including the Station Office Network and West Hampstead Square, which are also presented in the available-for-sale financial assets disclosure. Network Rail's investment in these entities does not give rise to material financial risk to the group.

Network Rail and its subsidiaries participate in cross-guarantees of certain credit facilities, as described in Note 17.



## 9.5 Financial Risks

Entity	Funding mechanism	Risk	Downside Impact	Residual Risk
Core Department and agencies.	Supply and cash drawn down from Consolidated Fund (voted by Parliament), Income from Train Operating Companies.	Liquidity risk. Further details can be found in the table of DFT's top level risks (inc. non-financial risks) in the Governance Statement.	Excess vote; qualification of accounts.	Medium
Network Rail, Vehicle Certification Authority, Driver & Vehicle Licensing Agency, British Transport Police Authority	Income from performance of services.	Liquidity risk; credit risk.	Would need additional funding from core Department; were such funding not available then could lead to excess vote; qualification of accounts.	Low
Network Rail	Debt financing (from core Department and external lenders); use of derivatives for hedging.	Liquidity risk; credit risk; market risk on index-linked borrowings; market risk on ineffectual hedges; foreign exchange risk; counterparty risk.	Would need additional funding from core Department; were such funding not available then could lead to excess vote; qualification of accounts.	Low
LCR Finance plc; CTRL Section 1 Finance plc.	Interest income from core Department to cover interest expenditure.	Liquidity risk; credit risk; market risk on index-linked borrowings.	Would need additional funding from core Department; were such funding not available then could lead to excess vote; qualification of accounts.	Low

The specific financial risks borne by the Departmental group are: Credit risk (described in 9.5.1); Liquidity risk (described in 9.5.2) and Market risk (including interest rate risk) (described in 9.5.3).

### 9.5.1 Credit Risk

The Departmental group is exposed to credit risk through the loans and receivables balances disclosed in Note 9.1.1 and trade and other receivables disclosed in Note 12. Most of these balances are with other public sector bodies and the risk is considered to be low. None of the loans and receivables balances disclosed in Note 9.1.1 are past due and there has been no deterioration of credit quality. Consequently, no credit loss allowance or other adjustment is recognised in respect of these balances.

The Departmental Group is also exposed to credit risk through the derivative arrangements disclosed above in Notes 9.1.4 and 9.2.1. These derivatives were acquired by Network Rail to manage interest rate risk, inflation risk and foreign exchange risk on their borrowings – these risks are discussed in more detail in Note 9.5.3. Network Rail applies hedge accounting to most of these arrangements in its financial statements, because they are judged to be highly effective in accordance

with IAS 39. Hedge accounting cannot be applied on consolidation to derivatives used to hedge loans from the Department. The derivatives are therefore held at fair value through profit or loss.

The credit risk for all classes of derivative financial instruments and other funds is limited because counterparties are banks with high credit ratings assigned by international credit rating agencies. The Network Rail treasury committee authorises the policy for setting counterparty limits based on credit ratings. Network Rail spreads its exposure over several counterparties and have strict policies on how much exposure can be assigned to each counterparty. The concentration and amount of the group's investments varies depending on the level of surplus liquidity the group chooses to hold at any point in time. However, because of the strict criteria governing counterparty suitability, the risk is mitigated. The treasury committee also authorises the investment and borrowing instruments that can be used.

Where derivatives are purchased to hedge debt, but the resulting hedge is not highly effective, it is possible to achieve a degree of offset by designating the debt as fair value through profit or loss (FVTPL). Once

designated, this debt cannot be reclassified. For FVTPL debt, there has been no change in carrying value as a result of changes in the group's credit risk. Note 4 shows that the re-measurement of FVTPL debt items resulted in a £21.1m gain (2017: £27.4m loss), which are all attributable to changes in market risk.

The credit risk regarding all classes of derivative financial instruments entered into before 1 January 2013, is limited because Network Rail has arrangements in place which limit each bank to a threshold (based on credit ratings), which if breached requires the bank to post collateral in cash or eligible securities. The members of the banking group are required to post collateral on positive mark-to-market swaps above the threshold. In December 2012 Network Rail entered into new collateral agreements in respect of derivative trades entered into after 1 January 2013. Under the terms of the new agreements Network Rail posts collateral on adverse net derivative positions with its counterparties. The new agreements do not contain a provision for thresholds; as such Network Rail or its counterparties are required to post collateral for the full fair value of net "out of the money" positions. At 31 March 2018 the fair value of collateral held was £87.1m (2017: £258.7m). Network Rail is the beneficial owner of this collateral and is free to invest or otherwise utilise the collateral at its discretion, subject to acting within the authority sanctioned by its treasury committee. The balance of collateral posted by Network Rail at 31 March 2018 was £750.1m (2017: £625m).

## 9.5.2 Liquidity Risk

As shown in Note 5, the Department receives material levels of income from some Train Operating Companies (TOCs), which is contingent upon various factors but primarily passenger numbers.

The Department is exposed to liquidity risk through its trade and other payables balances, borrowings and requirements to place collateral under derivative arrangements. As described above, the Department can draw down cash from the Consolidated Fund so its liquidity risk is low. However, requirements for cash that diverge significantly from forecast are penalised.

Liquidity risk within Network Rail is managed on a standalone basis for historical reasons to ensure that the price of delivering the Railway Network is allocated in accordance with ORR expectations. Network Rail employs an appropriate liquidity risk management framework covering its short, medium and long-term funding and liquidity management requirements. Their treasury committee establishes policies and provides oversight designed to ensure liquidity is managed to meet Network Rail's needs, while reducing financial risks and prudently maximising interest receivable and minimising credit risk on surplus cash. Network Rail manages liquidity risk by maintaining sufficient cash and facilities (in the form of loans from the core department) to cover at least one year's working capital requirement by continuously monitoring forecast and actual cash flows.

As noted above, Network Rail is required to post collateral on adverse net derivative positions at the full fair value of net "out-of-the-money" positions. Collateral placed is disclosed in Note 12 and collateral held is disclosed in Note 14. Whilst, this may expose the Department to uncertainty in its cash requirements, it is able to call upon additional funds from HM Treasury at short notice.

The following table details Network Rail's remaining contractual maturity for its financial liabilities. The values reflect the undiscounted cash flows of financial liabilities, based on the earliest date on which Network Rail can be required to pay and therefore differs from both the carrying value and the fair value. The table includes both interest and principal cash flows.

	2017-18				
Group	Within one year	1-2 years	2-5 years	5+ years	Total
	£m	£m	£m	£m	£m
<b>Non-derivative financial liabilities</b>					
Bank loans and overdrafts	(5.0)	(5.0)	(14.0)	(483.0)	<b>(507.0)</b>
<b>Bonds issued under the NR Debt Issuance Programme</b>					
– Sterling denominated bonds	(196.0)	(196.0)	(1,496.0)	(4,573.0)	<b>(6,461.0)</b>
– Sterling denominated index-linked bonds	(256.0)	(264.0)	(839.0)	(38,849.0)	<b>(40,208.0)</b>
– Foreign currency denominated bonds	(1,993.0)	(13.0)	(454.0)	(69.0)	<b>(2,529.0)</b>
<b>Bonds issued by LCR Finance plc and CTRL Section 1 Finance plc</b>					
– Sterling denominated bonds	(231.1)	(229.8)	(565.1)	(5,410.8)	<b>(6,436.8)</b>
– Sterling denominated index-linked bonds	(18.0)	(18.4)	(58.1)	(1,976.6)	<b>(2,071.1)</b>
<b>Derivative financial liabilities</b>					
Net settled derivative contracts	(191.0)	(177.0)	(372.0)	(104.0)	<b>(844.0)</b>
Gross settled derivative contracts – receipts	1,993.0	13.0	454.0	69.0	<b>2,529.0</b>
Gross settled derivative contracts – payments	(1,757.0)	(5.0)	(282.0)	(61.0)	<b>(2,105.0)</b>
<b>Total</b>	<b>(2,654.1)</b>	<b>(895.2)</b>	<b>(3,626.2)</b>	<b>(51,457.4)</b>	<b>(58,632.9)</b>

	2016-17				
Group	Within one year	1-2 years	2-5 years	5+ years	Total
	£m	£m	£m	£m	£m
<b>Non-derivative financial liabilities</b>					
Bank loans and overdrafts	(17.0)	-	(10.0)	(527.0)	(554.0)
<b>Bonds issued under the NR Debt Issuance Programme</b>					
– Sterling denominated bonds	(971.0)	(214.0)	(1,595.0)	(5,149.0)	(7,929.0)
– Sterling denominated index-linked bonds	(155.0)	(155.0)	(464.0)	(20,612.0)	(21,386.0)
– Foreign currency denominated bonds	(1,055.0)	(2,237.0)	(535.0)	(979.0)	(4,806.0)
<b>Bonds issued by LCR Finance plc and CTRL Section 1 Finance plc</b>					
– Sterling denominated bonds	(232.5)	(231.1)	(618.3)	(5,587.5)	(6,669.4)
– Sterling denominated index-linked bonds	(17.3)	(17.8)	(56.0)	(1,975.0)	(2,066.1)
– Trade and other payables	(2,174.8)	(304.2)	-	-	(2,479.0)
<b>Derivative financial liabilities</b>					
Net settled derivative contracts	(160.0)	(280.0)	(916.0)	(409.0)	(1,765.0)
Gross settled derivative contracts – receipts	1,040.0	2,225.0	495.0	73.0	3,833.0
Gross settled derivative contracts – payments	(794.0)	(1,764.0)	(276.0)	(61.0)	(2,895.0)
<b>Total</b>	<b>(4,536.6)</b>	<b>(2,978.1)</b>	<b>(3,975.3)</b>	<b>(35,226.5)</b>	<b>(46,716.5)</b>

## 9.5.3 Market Risk

### 9.5.3.1 Foreign exchange risk

The only material exposure to foreign exchange risk comes from Network Rail, through its investing, financing and operating activities. Foreign exchange risk is managed using forward exchange contracts and currency swaps to limit the effects of movements in exchange rates on foreign currency denominated liabilities.

As this risk arises from arrangements with external counterparties, the position remains hedged on consolidation. It is estimated that a general increase of up to 10 percentage points in the value of any currency against sterling would have no material effect on the group's profit before tax or equity, due to all currency positions being 100% hedged so no sensitivity analysis is produced.

### 9.5.3.2 Interest rate and inflation risk

Network Rail is exposed to changes in interest rates as funds are borrowed at both fixed and floating interest rates. The hedging strategy approved by the treasury committee defines the appropriate mix between fixed and floating borrowings. Cross-currency and interest rate swap contracts are used to manage the fixed/floating ratio. On consolidation, debt obtained from the Department is eliminated.

Network Rail has arranged or swapped debt with a carrying value of £18,885m (2017: £21,373m) into fixed interest rates. They have arranged or swapped other borrowings into floating rates, thus exposing the group to cash flow interest rate risk.

Network Rail has forward starting interest rate swaps with a notional value of £3,120m (2017: £5,696m) which hedge the interest rate on forecast borrowings in Control Period 5. The weighted average rate on these swaps is 3.07% (2017: 3.3%). The fair value movement on these swaps during the year was £41m (2017: £190m).

Network Rail has some debt issuances that are index-linked and so are exposed to movements in inflation rates. Network Rail does not enter into any derivative arrangements to hedge its exposure to inflation in relation to its index-linked debt, but rather to mitigate the effects of inflation on the group's retail price index-linked revenue streams.

The Department also has exposure to inflation risk through its wholly owned subsidiary, CTRL Section 1 Finance plc, which has one tranche of asset-backed notes which are also index-linked. As the company's liabilities are offset by an index-linked receivable from the core Department, this risk is transferred to the core Department. The core Department has identified that mitigation of the inflation risk through derivatives does not represent value for money.

### Sensitivity analysis

This sensitivity analysis has been determined based on the exposure to interest rates and inflation for both derivative and non-derivative financial instruments at the balance sheet date. A one per cent increase or decrease represents management's assessment of the reasonably possible changes in average interest rates and inflation.

	2017-18		2016-17	
	Impact on Net Expenditure £m	Impact on Taxpayers' Equity £m	Impact on Net Expenditure £m	Impact on Taxpayers' Equity £m
1% increase in the interest rate	341	(20)	(726)	(159)
1% increase in the GBP RPI on index linked bonds	(186)	(7)	(189)	(7)

A 1% decrease in the above rates would have an equal and opposite effect.

Interest rate sensitivities have been calculated by comparing the average rates of the derivative financial instruments to the market rate for similar instruments.

The impact of a change in GBP RPI has been calculated by applying a change of one per cent to the RPI at the balance sheet date to the carrying value of the index linked bonds issued by both Network Rail and CTRL Section 1 Finance plc.

For Network Rail, it is considered that the analysis above is unrepresentative of the risks inherent in issuing index-linked debt. Franchised track access and grants from the core Department constitute £6,187m (2017: £5,874m) of revenue which is far more than the index-linked interest expense of £243m (2017: £239m). Currently, these sources of income are contractually index-linked and whilst there is no absolute contractual guarantee for future regulatory control periods that this will continue, the group is highly confident that this will continue to be the case. Therefore, the natural hedge that exists between finance costs and revenue mitigates the risk of RPI movements.

### 9.5.3.3 Other market risk

The Departmental Group has material investments in entities involved in the property sector. As discussed in Note 9.3.1, the valuations of these investments are based on expert valuations of their property assets. Sensitivity analyses of the related assumptions are presented in that section. The values of the investments in those entities will be influenced at least in part by changes in the performance of the UK property market. The Department mitigates any associated risks by ensuring that any new projects initiated by those entities are subject to rigorous appraisal before funds are committed.

### 9.5.3.4 Offsetting financial assets and liabilities

#### a) Financial assets

The following financial assets are subject to offsetting, enforceable master netting arrangements and similar agreements.

\* Financial instruments and cash collateral received are related amounts not set off in the Statement of Financial Position.

	2017-18					
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the balance sheet	Net amount of financial assets presented in the balance sheet	Financial instruments*	Cash collateral received*	Net amount
	£m	£m	£m	£m	£m	£m
Derivative financial assets	496.2	-	<b>496.2</b>	(405.9)	122.6	<b>212.9</b>

	2016-17					
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the balance sheet	Net amount of financial assets presented in the balance sheet	Financial instruments*	Cash collateral received*	Net amount
	£m	£m	£m	£m	£m	£m
Derivative financial assets	1,103.1	-	1,103.1	(868.3)	(9.1)	225.7

## b) Financial liabilities

The following financial liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements.

\* Financial instruments and cash collateral received are related amounts not set off in the Statement of Financial Position.

2017-18						
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the balance sheet	Net amount of financial assets presented in the balance sheet	Financial instruments*	Cash collateral received*	Net amount
	£m	£m	£m	£m	£m	£m
Derivative financial liabilities	(1,166.6)	-	<b>(1,166.6)</b>	405.9	540.4	<b>(220.3)</b>

2016-17						
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the balance sheet	Net amount of financial assets presented in the balance sheet	Financial instruments*	Cash collateral received*	Net amount
	£m	£m	£m	£m	£m	£m
Derivative financial liabilities	(1,529.8)	-	(1,529.8)	868.3	375.1	(286.4)

### Cash flow hedges

Contractual payments on derivatives designated as cash flow hedges impact the income statement and will all have matured by 2027.

### Borrowings

Details of the Group's undrawn committed facilities and types of debt instrument used can be found in the payables Note 14.

## 10. Investment in Associate

### 10.1 Holdings

The Department holds an investment in NATS Holdings Ltd. As the Department holds the minority voting rights in NATS Holdings, it is accounted for as an associate.

NATS Holdings is the sole provider of en-route air traffic control services to flights within the UK Flight Information Regions and the Shanwick Oceanic Control Area and provides air traffic control services to fourteen UK airports.

Name	Principal Activity	Proportion of voting rights controlled by group	
		2017-18	2016-17
		%	%
NATS Holdings Ltd	Air traffic control	48.90%	48.90%

	<b>NATS Holdings Ltd</b>
	£m
Balance at 1 April 2016	350.8
Share of profits / (loss)	27.2
Share of other comprehensive net income / (expenditure)	(142.7)
Share of other movements, inc. dividend paid from NATS to DFT	(11.7)
Balance at 31 March 2017	223.6
Share of profits / (loss)	54.8
Share of other comprehensive net income / (expenditure)	179.8
Share of other movements, inc. dividend paid from NATS to DFT	(27.9)
Balance at 31 March 2018	<b>430.3</b>

## 10.2 Financial results of associate

NATS Holdings Ltd	2017-18	2016-17
	£m	£m
<b>Balances at 31 March</b>		
Current assets	492.2	462.8
Non current assets	1,409.2	1,241.2
Current liabilities	(273.7)	(225.7)
Non current liabilities	(746.8)	(1,020.8)
<b>Net assets</b>	<b>880.9</b>	457.5
Revenue	913.1	919.3
Profit for the year	112.7	103.8
Other comprehensive income/(expenditure) for the year	367.7	(236.1)
Total comprehensive income/(expenditure) for the year	480.4	(132.3)
Dividends paid during the year	(57.0)	(24.0)



## 11. Inventories

	2017-18		2016-17 (reclassified)	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
<b>Current assets</b>				
Raw materials, consumables & work-in-progress	-	257.4	-	230.6
	-	<b>257.4</b>	-	230.6
<b>Non-current assets</b>				
Properties acquired under the HS2 exceptional hardship and related schemes	427.0	427.0	246.2	246.2
Raw materials, consumables & work-in-progress	4.4	4.4	4.2	4.2
	<b>431.4</b>	<b>431.4</b>	250.4	250.4

The inventories disclosed under core and agencies relate to land and properties acquired during the construction of High Speed 2. As there is no intention to sell the land and properties in the short-term, the inventories have been reclassified from current to non-current assets.

## 12. Trade Receivables and Other Assets

	2017-18		2016-17 (restated)	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
<b>Amounts falling due within one year:</b>				
Trade receivables	27.7	314.8	15.2	316.5
Deposits and advances	0.9	23.6	1.0	10.2
VAT receivables	5.3	275.5	5.5	266.6
Other receivables	102.8	62.3	105.5	235.0
Collateral placed with banking counterparties	-	750.1	-	625.0
Financial indemnity fee	269.1	-	280.4	-
Prepayments and accrued income	239.4	358.1	166.2	411.9
Current part of NLF loan	1.2	1.2	1.2	1.2
<b>Total current</b>	<b>646.4</b>	<b>1,785.6</b>	<b>575.0</b>	<b>1,866.4</b>
<b>Amounts falling due after more than one year:</b>				
Other receivables	1.6	-	1.4	36.1
Financial indemnity fee	3,775.3	-	3,861.4	-
Prepayments and accrued income	0.2	9.7	-	10.2
<b>Total non-current</b>	<b>3,777.1</b>	<b>9.7</b>	<b>3,862.8</b>	<b>46.3</b>
<b>Total current and non-current</b>	<b>4,423.5</b>	<b>1,795.3</b>	<b>4,437.8</b>	<b>1,912.7</b>

## 13. Cash and Cash Equivalents

	2017-18		2016-17 (restated)	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Balance 1 April	150.2	993.9	109.5	1,180.8
Net change in cash and cash equivalents	(3.5)	139.5	40.7	(186.9)
<b>Balance at 31 March</b>	<b>146.7</b>	<b>1,133.4</b>	150.2	993.9
<b>Balances were held at:</b>				
Government Banking Service	142.6	182.1	144.5	184.7
Commercial banks and cash in hand	4.1	951.3	5.7	809.2
<b>Balance at 31 March</b>	<b>146.7</b>	<b>1,133.4</b>	150.2	993.9

## 14. Trade Payables and Other Liabilities

	2017-18		2016-17 (restated)	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
<b>Amounts falling due within one year:</b>				
VAT, other taxation and social security	(7.5)	(86.1)	(6.4)	(68.7)
Pension	-	(0.1)	-	(2.9)
Trade payables	(64.2)	(606.3)	(49.6)	(704.7)
Other payables	(22.2)	(252.1)	(26.0)	(1,470.1)
Accruals and deferred income	(871.4)	(2,796.7)	(503.7)	(2,934.8)
Current part of finance leases	(0.2)	(6.2)	(0.2)	(5.8)
Current part of imputed finance lease element of Public Finance Initiative (PFI) contracts and other service concession arrangements	(2.4)	(76.1)	(4.0)	(81.6)
Obligations in respect of Channel Tunnel Rail Link debt	(108.8)	(118.2)	(106.5)	(117.1)
Obligations in respect of Network Rail debt *	-	(1,980.0)	-	(1,753.3)
Collateral received from banking counterparties	-	(87.1)	-	(258.7)
Current part of National Loan Fund (NLF) loans	(1.2)	(1.2)	(1.2)	(1.2)
Amounts issued from the Consolidated Fund for supply but not spent at year end	(108.4)	(108.4)	(124.7)	(124.7)
Consolidated Fund Extra Receipts due to the Consolidated Fund (Received)	(38.3)	(38.5)	(25.6)	(25.6)
<b>Total current</b>	<b>(1,227.3)</b>	<b>(6,157.0)</b>	<b>(847.9)</b>	<b>(7,549.2)</b>
<b>Amounts falling due after more than one year:</b>				
Other payables	(54.8)	(347.4)	(61.8)	(304.2)
Deferred income	(1,208.0)	(1,350.5)	(1,262.4)	(1,353.0)
Finance leases	(0.2)	(13.0)	-	-
Non current part of imputed finance lease element of Public Finance Initiative (PFI) contracts and other service concession arrangements	(17.6)	(1,471.3)	(22.8)	(1,566.6)
Obligations in respect of Channel Tunnel Rail Link debt	(3,993.3)	(3,998.9)	(4,039.4)	(4,044.2)
Obligations in respect of Network Rail debt *	-	(23,722.0)	-	(25,306.1)
European Investment Bank loan	-	(484.3)	-	(467.5)
NLF loans	(0.8)	(0.8)	(0.8)	(0.8)
<b>Total non-current</b>	<b>(5,274.7)</b>	<b>(31,388.2)</b>	<b>(5,387.2)</b>	<b>(33,042.4)</b>
<b>Total current and non-current</b>	<b>(6,502.0)</b>	<b>(37,545.2)</b>	<b>(6,235.1)</b>	<b>(40,591.6)</b>

\*Detailed information is available in Network Rail's financial statements.

## 15. Deferred Taxation

Other than Network Rail and High Speed Two Ltd, the Departmental Group's activities are classified as non-business and fall outside the taxation regime. Deferred tax relates to the activities of Network Rail only.

	2017-18	2016-17
	Departmental Group	Departmental Group
	£m	£m
Opening balance	(2,381.4)	(2,807.6)
Prior year adjustments	(3.5)	77.1
Operating gain / (loss)	29.1	4.2
Other comprehensive income/(expenditure)	(152.4)	344.9
<b>Closing balance</b>	<b>(2,508.2)</b>	<b>(2,381.4)</b>

Some deferred tax assets and liabilities have been offset. The following is the analysis of the gross deferred tax balances.

Deferred tax liabilities	(2,583.2)	(2,460.6)
Deferred tax assets	75.0	79.2
	<b>(2,508.2)</b>	<b>(2,381.4)</b>

No deferred tax asset is recognised in respect of accumulated tax losses, since future taxable profits available for the utilisation of those losses are not anticipated. The minimal deferred tax assets above relate to other timing differences.

The liability balance relates principally to taxable temporary differences arising because accelerated capital allowances that affect the tax base exceed accounting depreciation.

No adjustment is made in respect of the revaluation of the Railway Network in these financial statements to Depreciated Replacement Cost. The Department believes that the valuation of the Railway Network in Network Rail's financial statements (on which the deferred tax workings are based) provides the best basis for assessing temporary differences that would affect the future assessment of tax if the relevant assets were realised.

## 16. Provisions for Liabilities and Charges

	Industrial disease claims	Intercity Express Programme	National Freight Company Pension	High Speed 2 Land & Property	Others	Core Department & Agencies Total	HS2 VAT	Highways Land & Property Acquisitions	Others	Group Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 April 2017	(284.7)	(134.0)	(63.6)	(186.1)	(70.6)	<b>(739.0)</b>	-	(152.5)	(57.9)	<b>(949.4)</b>
Provided in year	(16.3)	-	(0.8)	(1,002.9)	(1.6)	<b>(1,021.6)</b>	(274.6)	(68.9)	(47.0)	<b>(1,412.1)</b>
Provision written back	12.3	134.0	-	44.5	1.9	<b>192.7</b>	-	-	0.9	<b>193.6</b>
Provision utilised	12.3	-	7.4	45.4	3.9	<b>69.0</b>	-	60.5	29.7	<b>159.2</b>
Unwinding of discount	(7.6)	-	-	-	0.2	<b>(7.4)</b>	-	-	-	<b>(7.4)</b>
Reclassifications	-	-	-	-	-	-	-	5.9	(5.9)	-
<b>Balance at 31 March 2018</b>	<b>(284.0)</b>	<b>-</b>	<b>(57.0)</b>	<b>(1,099.1)</b>	<b>(66.2)</b>	<b>(1,506.3)</b>	<b>(274.6)</b>	<b>(155.0)</b>	<b>(80.2)</b>	<b>(2,016.1)</b>
<b>Of which:</b>										
Later than five years	(205.2)	-	(30.6)	-	(36.9)	<b>(272.7)</b>	-	-	(0.3)	<b>(273.0)</b>
Between one and five years	(64.3)	-	(20.8)	(641.1)	(22.4)	<b>(748.6)</b>	-	(88.4)	(7.8)	<b>(884.3)</b>
<b>Non-current</b>	<b>(269.5)</b>	<b>-</b>	<b>(51.4)</b>	<b>(641.1)</b>	<b>(59.3)</b>	<b>(1,021.3)</b>	<b>-</b>	<b>(88.4)</b>	<b>(8.1)</b>	<b>(1,117.8)</b>
<b>Current / within one year</b>	<b>(14.5)</b>	<b>-</b>	<b>(5.6)</b>	<b>(458.0)</b>	<b>(6.9)</b>	<b>(485.0)</b>	<b>(274.6)</b>	<b>(66.6)</b>	<b>(72.1)</b>	<b>(898.3)</b>
Balance at 1 April 2016	(303.1)	-	(62.9)	(103.1)	(57.1)	(526.2)	-	(122.3)	(85.6)	(734.1)
Provided in year	(8.9)	(134.0)	(7.9)	(115.5)	(19.7)	(286.0)	-	(90.9)	(22.5)	(399.4)
Provision written back	22.1	-	-	-	0.6	22.7	-	25.0	37.4	85.1
Provision utilised	12.3	-	7.2	32.5	6.1	58.1	-	35.7	17.9	111.7
Unwinding of discount	(7.1)	-	-	-	(0.5)	(7.6)	-	-	-	(7.6)
Reclassifications	-	-	-	-	-	-	-	-	(5.1)	(5.1)
Balance at 31 March 2017	(284.7)	(134.0)	(63.6)	(186.1)	(70.6)	(739.0)	-	(152.5)	(57.9)	(949.4)

On 31 March 2017, the core Department and agencies had £209.5m of provisions due within one year and £529.5m due in more than one year. The Group had £328.0m due within in one year and £621.4m due in more than one year.

## HS2 Land & Property

The Department holds various provisions to cover the purchase of land and properties acquired under different HS2 schemes and processes (31 March 2018 £1,099.1m; 31 March 2017 £186.1m). These include: compulsory purchase orders (£786.5m); statutory blight legislation (£169.6m); the Need to Sell scheme (£37.0m) and specific agreements with various corporate entities (£106.0m). In 2016-17 the provision related principally to statutory blight legislation; in 2017-18 it expanded to cover compulsory purchase activity, the Need to Sell Scheme and specific agreements. The HS2 project will be delivered in three phases. The provision for compulsory purchases currently relates to the first phase, whereas the provisions for statutory blight, the Need to Sell scheme and specific agreements cover all three phases.

### Recognition, measurement and classification

Provisions are recognised at the point when the Secretary of State cannot withdraw from the obligation. This point varies depending on the scheme or process. For example, obligations arise for compulsory purchases when General Vesting Declarations are signed and served; and obligations arise for the statutory blight process when the Secretary of State confirms that the property owner meets the scheme's eligibility requirements.

Except for specific agreements, which are based on the minimum value that the Department is exposed to if the scheme was cancelled, these provisions are valued by surveyors' estimates. The actual amounts that will be required to settle the obligation is uncertain, as property owners may provide their own surveyors' estimates, and may proceed to a Lands Tribunal hearing. Note 1.22.5 provides more details on the sources of uncertainty over the valuation.

Land and properties purchased for the HS2 project are owned by the Secretary of State. Consequently, liabilities arising from the purchase of land and properties will be disclosed under the Core & Agencies classification. HS2 Limited is a non-departmental public body responsible for developing and promoting the new High Speed Railway Network. Any liabilities arising from its activities, such as the HS2 VAT liability below, will be disclosed under the Group classification.

### Estimation uncertainty

Specific factors influencing estimation uncertainty for land and property provisions are discussed in detail at Note 1.23.5. The note below provides an indication of the extent of cost uncertainty.

The provision for land and property is predicated on the most reasonable estimate of claims for both active

and inactive cases. Where a case is active, a detailed out-turn forecast is created, and for inactive cases, the property cost estimate is utilised with adjustments to reflect market conditions. There is a possibility that claims for either active or inactive cases could ultimately settle for either a lower or a greater value than is currently included in the provision. This risk is managed at a portfolio level, and a quantified cost risk assessment (QCRA) is carried out at each baseline. This QCRA allowance forms part of the funding envelope for HS2 and values the contingency required for the Phase 1 property acquisitions at 10% of the unadjusted property cost estimate (including irrecoverable VAT). This QCRA % provides an indication of the level of estimation uncertainty the Department has considered in arriving at its best (central) estimate of future outflow, which forms the basis of measurement for the land and property provisions in this note.

## Industrial Disease Claims

The British Railways Board was a major employer for some 50 years (with up to three-quarters of a million employees at one time), during which time it was responsible for industrial injuries, along with employment and environment-related claims resulting from its activities. Some of these claims do not arise until many years after the relevant employment ceases because medical conditions may not develop until much later. In 2001, following privatisation, the responsibility and liability for these claims transferred to British Railways Board (Residuary) Ltd (BRBR), and when BRBR was abolished in 2013, they passed to the Department for Transport.

The value of this provision has decreased from £284.7m on 31 March 2017 to £284.1m on 31 March 2018. There has been a 16% decrease in the number of outstanding disease and injury claims, from 547 to 459 during 2017-18, which is offset by an overall increase in the costs of claims and unwinding the discount rate, resulting in a £11.7m cost to the SOCNE (2017: £6.1m benefit). £12.3m (2017: £12.3m) was paid out in settlement of such claims during the year.

## Intercity Express Programmes

Under the Railways Act 1993, the Secretary of State has the power to issue guarantees to promote investment in railway assets. These guarantees include bearing the risk of increased costs owing to delays in electrification. In contracts relating to the Intercity Express Programme (IEP) the Department accepted the risk relating to delays in the provision of key infrastructure on the Great Western line, where this could not reasonably be transferred to the contractor.

Delays in the Great Western electrification project impacted on the introduction of IEP trains into passenger services. This meant that the Secretary of

State was contractually obliged to pay Agility Trains for the train usage payments foregone from Train Operating Companies due to the delay. Following commercial negotiations in summer 2017, the Department agreed to pay Agility Trains payments totalling £134m which shall be recognised over the period until the rolling stock enters service. Consequently, a provision is no longer required.

The Department's financial statements for 2016-17 provided for this event under the heading 'Obligations for railway asset investment' (31 March 2017: £134m).

## National Freight Company Pension

The National Freight Company (NFC) was created by the Transport Act 1980 to be a successor to the nationalised transport company, the National Freight Corporation, in anticipation of privatisation. The Government agreed to fund some benefits already granted to employees. This provision includes two elements:

- ▶ pension trustee (31 March 2018 £46.8m; 31 March 2017 £52.1m) – reimbursement to NFC pension trustees in respect of payments covering unfunded pension service with NFC before 1 April 1975 (Part III, Transport Act 1980); and
- ▶ travel concession (31 March 2018 £10.2m; 31 March 2017 £11.5m) – reimbursements to NFC and its subsidiaries for providing travel concessions to staff previously employed by the road transport division of British Rail (s21, Transport Act 1978 and Schedule 6 to the Transport Act 1980).

## HS2 VAT

HS2 Ltd registered for VAT with effect from April 2014. HMRC are currently reviewing HS2 Ltd's ability to recover VAT incurred on construction activity. HS2 Ltd has sought specialist advice to ensure that the correct treatment is applied.

Subject to the outcome of this review, there may be a change in the way VAT is applied to HS2 Ltd's activities. The company therefore considers that recognition of a provision covering the VAT reclaimed to date is appropriate. The change in recognition from a contingent liability in 2016-17 is the result of a reappraisal of the liability based on the latest information available. In the event that HMRC's review results in a decision to remove HS2 Ltd's ability to recover VAT on construction costs, HS2 Ltd would be required to repay up to £274.6m of reclaimed VAT for the period April 2014 to March 2018.

HS2 Ltd is currently assessing the likely impact of an HMRC ruling on the total cost of the infrastructure

with assistance from specialist advisors. The NAO made it clear in its 2013 report on HS2 that in respect of construction costs affecting HS2 Ltd, any VAT 'represents an internal transfer within Government. Any change to HS2 Ltd's VAT status would not change the net cost to the UK taxpayer of delivering HS2.'

## Highways England Land & Property acquisition

Land and property acquisition provisions relate principally to the estimated cost of: planning blight; discretionary and compulsory acquisition of property; and compensation for property owners arising from physical construction of a road scheme. It may take several years from the announcement of a scheme to completion of the road and the final settlement of all liabilities (31 March 2018: £155.0m; 31 March 2017: £152.5m).

## Other

These headings cover a range of smaller provisions, including:

- ▶ An onerous lease on arches in Leake Street beneath Waterloo station (31 March 2018: £30m; 31 March 2017: £30m). The provision is reported in Core and Agency only as Network Rail is the lessor and the Department is the lessee. The lease expires in July 2052.
- ▶ British Railways Board's (BRB) ex-employees' pensions (31 March 2018: £10.5m; 31 March 2017: £10.5m) – reimbursement from the core Department to trustees of the British Transport Police Force Superannuation Fund in respect of unfunded proportions of pensions deriving from service with the BRB before 1 January 1975 (Part III, Transport Act 1980).
- ▶ Other liabilities include those to third parties who have suffered damage or injury due to the road network being damaged and are entitled to submit a claim to Highways England for compensation. A provision is made which estimates the value of claims received as at 31 March 2018 that will require settlement by Highways England. This also includes Pension liabilities for early retirees, which relates to former staff who left Highways England's employment before the formal retirement age of 60. Highways England is responsible for making payments to the pension plan until their retirement age (31 March 2018: £11.1m; 31 March 2017: £6.5m).



## 17. Contingent Liabilities

As a government department, the Department for Transport discloses contingent liabilities under requirements that are broader than those applicable to commercial entities. In accordance with International Accounting Standard 37, it discloses contingent liabilities for which the risk of crystallisation is greater than remote but not probable. Where these can be quantified they are disclosed under Note 17.1 below;

where they cannot be quantified with any degree of accuracy, they are disclosed under Note 17.2 below.

### 17.1 Quantifiable contingent liabilities disclosed under IAS 37

The Department has the following contingent liabilities for which the risk of crystallisation is considered greater than remote but is not thought probable. Amounts disclosed reflect the highest reasonable estimate of the possible liability. These are summarised by the nature and purpose of the contingent liability:

	31 March 2018	31 March 2017
	£m	£m
<b>Indemnities in respect of Crossrail funding and delivery</b>		
To support delivery of the Crossrail project, the Department has provided indemnities and assurances to parties carrying risks that they would be unable to bear.	5,136	5,639
<b>Mersey Gateway</b>		
Commitment by the Department to fund any shortfall of toll revenue from the Mersey Gateway Bridge to meet Halton Council's financial obligations under the Demand Management Participation Agreement.	1,546	1,546
<b>Legal claims – Highways England</b>		
The process of constructing and maintaining the strategic road network may bring Highways England into disagreement with parties affected by this work. This can result in counter-claims, which are aggregated under the following sub-headings:		
Possible obligations in relation to land and property acquisition	664	403
Carriageway pavement defects	3	3
Third-party claims	15	7
<b>Legal claims – rest of the group</b>		
From time to time, the Department experiences legal claims and challenges which it defends wherever appropriate.	43	45
<b>Guarantees to promote investment in railway assets</b>		
Under the Railways Act 1993, the Transport Act 2000 and the Channel Tunnel Rail Link Act 1996, the Secretary of State has provided guarantees to promote investment in the rail sector.	347	333
<b>HS2 undertakings and assurances</b>		
HS2 Ltd has identified a number of undertakings and assurances where there is an uncertainty over whether a 'present obligation' (as defined by IAS37) exists at year end which is likely to lead to expenditure by HS2 Ltd.	115	65
<b>Thameslink</b>		
To support delivery of the Thameslink project, the Department has provided indemnities to parties carrying risks that they would be unable to bear.	75	40
<b>Network Rail</b>		
Guarantees issued by Network Rail to financial institutions in respect of its own activities and the activities of businesses it wholly or partially owns.	25	90

	31 March 2018	31 March 2017
	£m	£m
<b>HS1</b>		
Under the HS1 concession agreement, the Secretary of State may be liable for payments, including capital expenditure, increase in operating costs and loss of revenue. This would be in the event of legal changes, either in the UK or Europe ('Change in Circumstances') or a change directed by another part of the Government ('Government Change').	20	20
<b>HS2 – Blight</b>		
The Department issued a safeguarding order, in July 2013, for the proposed route of HS2. This creates an obligation on the Department to purchase properties which have been blighted. A provision has been recognised for the cost of properties the Department has accepted as blighted, and where the purchase price has been substantially agreed. Consideration of the potential impact on properties has progressed sufficiently for the Department to determine that there were no properties where there was less than a 50:50 chance of being liable as at 31 March 2018.	-	2
<b>HS2 – VAT</b>		
HMRC considers that VAT should not have been reclaimed on some of HS2 Ltd's activities. During 2017-18, HS2 Ltd has transferred this liability from contingent liabilities to provisions and increased the amount at risk to £275m. The increase in value from £138m, represents another year of operation and progress on the project. See Note 16.2 for details.	-	138
<b>Total</b>	<b>7,989</b>	<b>8,331</b>

## 17.2 Unquantifiable contingent liabilities

The following guarantees, indemnities, statutory obligations and letters of comfort cannot be quantified with any degree of accuracy:

- ▶ Safeguarding Directions are in place for Crossrail 2. Property owners within the safeguarded area may be eligible to serve a Blight Notice asking the Secretary of State to buy their property and there is a contingent liability associated with this as a consequence of the existence of statutory blight.
- ▶ As part of the normal course of business, HS2 Ltd has given indemnities to individuals and companies who could be impacted by the construction of HS2. A number of Protective Provision Agreements have been made with either special status or utility companies that include indemnities in relation to HS2 Ltd's work as Nominated Undertaker for constructing HS2. These agreements go no further than the provisions made in the Phase 1 Hybrid Bill Act that provides for protection, repair, compensation and indemnification from third party claims.
- ▶ Following the referendum in June 2016 and the subsequent decision to leave the European Union, the Government announced in August and October 2016 that EU funding streams would be guaranteed. For the Department this covers its activities under the Connecting Europe Facility.

## 18. Pension Schemes

This Note provides disclosures on the Departmental group's obligations in respect of the defined benefit pension arrangements for which it is the designated employer. All of the schemes are funded. The Departmental group also provides defined contribution retirement benefit schemes, and these are described in the Staff and Remuneration Report in the Accountability section.

The Department applies International Accounting Standard (IAS) 19 to all these schemes. In accordance

with IAS 19, the share of any deficits or recoverable surplus in the pension funds is recognised in the Statement of Financial Position.

### Overview of the schemes

The Secretary of State for Transport fulfils the role of the 'designated employer' for the first four defined benefit schemes listed below. Network Rail and the British Transport Police Authority are the designated employers for their own defined benefit pension schemes.

Key data				
Scheme	Open/closed	Basis	Accrual Rate	Normal retirement age
1994 Section (RPS).	Closed to new members and accruals: members are those who were pensioners and preserved pensioners of BR at the time of privatisation.	Final salary-based, linked to CPI.	Not applicable, as scheme is closed to new accruals.	60
British Railways Superannuation Fund (BRSF).	Closed to new members and accruals.		Not applicable, as scheme is closed to new accruals.	60
British Railways Shared Cost Section (RPS).	Open to eligible members	Shared cost (employer's share: 60%), final-salary based, linked to CPI.	1/60 final salary	60
British Railways (1974) Pension Fund.	Closed to new members and accruals.	Supplementary to other RPS schemes.	Not applicable, as scheme is closed to new accruals.	60
Network Rail (RPS) (includes RPS 60 and RPS 65) <i>more detail can be obtained from the accounts of Network Rail Limited.</i>	Open to employees with five years' service (RPS 60 closed to new joiners from 1 July 2012).	Shared cost (employer's share: 60%) final salary-based (subject to capping); linked to CPI.	1/60 (RPS 60 and RPS 65) average final pensionable salary <i>minus</i> 150% final basic state pension (RPS 60) or 75% final basic state pension.	Either 60 (for RPS 60) or 65 (for RPS 65) (reflected in contribution rate).
Network Rail (CARE) <i>more detail can be obtained from the accounts of Network Rail Limited.</i>	Open to all employees.	Shared cost (employer's share: 60%) career average revalued earnings, linked to RPI up to 31 March 2016 and CPI thereafter.	1/60 average pensionable salary.	65
British Transport Police Force Superannuation Fund (BTPFSF) (including BTPFSF (new)) <i>more detail can be obtained from the accounts of the British Transport Police.</i>	Closed to new members except BTPSF (new) open to new members.	Shared cost (employer's share 60% or 66% (for the new scheme)) final salary-based, linked to CPI.	(1/45 <i>minus</i> 1/30 state pension); 1/70 (for BTPSF (new)).	55

Key data				
Scheme	Open/closed	Basis	Accrual Rate	Normal retirement age
British Transport Police Section of the Railways Pension Scheme (RPS) <i>more detail can be obtained from the accounts of the British Transport Police.</i>	Open to new members.	Shared cost (employer's share: 60%), final-salary based, linked to CPI.	1/60 final salary.	60

## Formal actuarial valuations

A formal actuarial valuation on the 1994 Pensioners' Section as at 31 December 2016 is being undertaken by the joint actuaries (Willis Towers Watson and GAD). The report relating to the previous actuarial valuation as at 31 December 2013 was published on 29 February 2016.

A formal actuarial valuation of the BR Shared Cost Section for funding purposes was undertaken by the joint actuaries (Willis Towers Watson and GAD) using the projected unit method with a valuation date as at 31 December 2016. The outcome has been agreed by the participating employers, the Department and the Trustee and the final report is expected to be published shortly. The next actuarial valuation will be due as at 31 December 2019.

A formal actuarial valuation of the British Railways Superannuation Fund for funding purposes was undertaken by the joint actuaries (Willis Towers Watson and GAD) using the projected unit method with a valuation date as at 31 December 2016. The final valuation report was published on 25 October 2017. The next actuarial valuation will be due as at 31 December 2019.

## The net pension liability by scheme

The deficit comprises the following balances:

	2017-18		2016-17	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
NR (RPS and CARE)	-	(2,311.1)	-	(2,311.0)
1994 Section	(1,254.2)	(1,254.2)	(1,562.4)	(1,562.4)
BR Shared Cost Section	(33.8)	(33.8)	(54.8)	(54.8)
British Railways Superannuation Fund (BRSF)	(7.0)	(7.0)	(25.5)	(25.5)
BR (1974) Pension Fund	(3.9)	(3.9)	(5.0)	(5.0)
BTP Force Superannuation Fund (BTPFSF)	-	(601.3)	-	(639.8)
BTP Section of the Railways Pension Scheme (RPS)	-	(118.5)	-	(135.9)
<b>Total deficit at the end of the period</b>	<b>(1,298.9)</b>	<b>(4,329.8)</b>	<b>(1,647.7)</b>	<b>(4,734.4)</b>

The net liability of each Scheme has decreased over 2017-18. The main factors underlying the changes in liability are changes in:

- financial assumptions, which have decreased the liabilities, all other things being equal, due to the increase in the net discount rate (disclosed below under principal actuarial assumptions); and
- membership, which has tended to reduce the liabilities, all other things being equal, as the schemes mature.

Network Rail's RPS and CARE schemes are both shared cost in nature, so the cost of benefits being earned and the cost of funding any shortfall in the schemes are normally split in the proportion 60:40 between Network Rail and the members. These financial statements consolidate the proportion that relates to Network Rail only.

## Reconciliation of net pension liability

	Core Department & Agencies	Departmental Group		
	Deficit £m	Asset £m	Liabilities £m	Deficit £m
At 1 April 2016	(1,240.0)	7,513.8	(10,665.2)	(3,151.4)
Current service cost including members' share	(1.9)	-	(247.6)	(247.6)
Past service costs	-	-	42.0	42.0
Interest on pension deficit	(38.3)	243.0	(343.6)	(100.6)
Administration expenses	-	(7.6)	-	(7.6)
Return on plan assets greater than the discount rate	396.0	941.0	-	941.0
Actuarial gain/(loss) arising from changes in financial assumption	(646.6)	-	(1,932.0)	(1,932.0)
Actuarial gains/(losses) on defined benefit obligation due to demographic assumptions	-	-	(496.4)	(496.4)
Actuarial gain/(loss) arising from experience adjustments	(121.7)	-	81.1	81.1
Regular contributions by employer	4.8	95.7	-	95.7
Contributions by employees	-	57.4	(16.0)	41.4
Benefits paid	-	(531.9)	531.9	-
<b>As at 31 March 2017</b>	<b>(1,647.7)</b>	<b>8,311.4</b>	<b>(13,045.8)</b>	<b>(4,734.4)</b>
Current service cost including members' share	(2.6)	-	(340.7)	(340.7)
Interest on pension deficit	(36.1)	194.4	(306.0)	(111.6)
Administration expenses	-	(9.6)	-	(9.6)
Return on plan assets greater than the discount rate	67.0	138.0	-	138.0
Actuarial gain/(loss) arising from changes in financial assumption	259.4	-	329.1	329.1
Actuarial gains/(losses) on defined benefit obligation due to demographic assumptions	-	-	182.9	182.9
Actuarial gain/(loss) arising from experience adjustments	58.6	-	82.6	82.6
Regular contributions by employer	2.5	92.1	-	92.1
Contributions by employees	-	57.9	(16.1)	41.8
Benefits paid	-	(510.9)	510.9	-
<b>As at 31 March 2018</b>	<b>(1,298.9)</b>	<b>8,273.3</b>	<b>(12,603.1)</b>	<b>(4,329.8)</b>

As shown in the table above, the change in the net pension liability is largely dictated by four factors:

- ▶ actuarial gains or losses, which reduce or increase the liability
- ▶ return on plan assets, which reduce the liability
- ▶ current service costs, which increase the liability
- ▶ net interest costs, which increase the liability

The volatility of actuarial gains or losses is predominantly due to changes in assumptions, in particular the discount rate net of inflation and demographic assumptions, such as life expectancy. The experience adjustments are caused by experience in the scheme being different from that expected; such as the number

of retirements is more or less than that assumed.

The return on plan assets represents the interest and gains or losses generated on assets that the scheme invests in.

The current service cost is an estimate made by actuaries of the benefit earned by employees in the year, calculated using assumptions in line with IAS 19.

The net interest cost reflects the increase in the present value of the pension liability during the year because the benefits are one period closer to settlement. The financing cost is based on the discount rate (including inflation) at the start of the year and is calculated on the gross liability of unfunded schemes and the net liability of funded schemes. The expense from unwinding the discount rate is recognised against net expenditure.

## Analysis of scheme assets

	2017-18		2016-17	
	Core Department & Agencies £m	Departmental Group £m	Core Department & Agencies £m	Departmental Group £m
Cash and cash equivalents	304.7	434.7	303.6	142.1
Equity instruments and funds	2,389.2	6,461.2	2,521.8	6,468.2
Debt instruments – Government	166.0	775.1	152.0	724.4
Debt instruments – Non-Government	-	158.7	-	155.4
Property	-	117.2	-	114.5
Other	110.6	326.4	196.1	706.8
<b>Fair value of plan assets</b>	<b>2,970.5</b>	<b>8,273.3</b>	3,173.5	8,311.4
Present value of funded obligations	(4,269.4)	(12,603.1)	(4,821.2)	(13,045.8)
<b>Net liability</b>	<b>(1,298.9)</b>	<b>(4,329.8)</b>	(1,647.7)	(4,734.4)

## Amounts charged to operating costs

	2017-18		2016-17	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Current service cost	2.6	340.7	1.9	247.6
Past service cost	-	-	-	(42.0)
Section amendment	-	-	-	-
Net interest expense / (income)	36.1	111.6	38.3	100.6
Administrative costs and taxes	-	9.6	-	7.6
Contributions by employees	-	-	-	(41.4)
<b>Total</b>	<b>38.7</b>	<b>461.9</b>	<b>40.2</b>	<b>272.4</b>
<b>Of which:</b>				
Employer contributions included in Note 3 'other pension costs'	2.5	298.0	4.8	95.7
Pension scheme costs per Note 4	36.2	163.9	35.4	176.7

## Amounts recognised in other comprehensive expenditure

	2017-18		2016-17	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Return on plan assets greater than the discount rate	67.0	138.0	396.0	941.0
Actuarial gain / (loss) arising from changes in assumptions	259.4	512.0	(646.6)	(2,428.4)
Actuarial gain arising from experience adjustments	58.6	82.6	(121.7)	81.1
<b>Total gain / (loss)</b>	<b>385.0</b>	<b>732.6</b>	<b>(372.3)</b>	<b>(1,406.3)</b>

## Principal actuarial assumptions at the reporting date (expressed as weighted average)

	NR (RPS)	NR (CARE)	1994 Section	BTP Force Superannuation Fund (BTPFSF)
<b>2017-18</b>				
Discount rate	2.40%	2.40%	2.35%	2.50%
Future pension increases	2.10%	2.10%	2.15%	2.10%
Future prices increase (CPI unless otherwise stated)	2.10%	2.10%	2.15%	2.10%
Rate of increase in salaries	3.10%	3.10%	3.15%	3.10%
<b>2016-17</b>				
Discount rate	2.50%	2.50%	2.20%	2.50%
Future pension increases	2.20%	3.20%	2.05%	2.30%
Future prices increase (CPI unless otherwise stated)	2.20%	2.20%	2.05%	2.30%
Rate of increase in salaries	3.20%	3.20%	3.80%	3.30%

The mortality assumptions for the most significant schemes by value are as follows:

### 1994 Section

The remaining life expectancy of pensioners in normal health at age 65 is 21.3 years for men and 23.4 years for women.

The post-retirement mortality tables used are based on the mortality experience, weighted by amounts, and by reference to the Series 2 SAPS (self-administered pension scheme) mortality investigation over the period 2004-2011. The "S2" suite of mortality tables were the latest standard table published by the Institute and Faculty of Actuaries at the time the investigation was carried out. The mortality improvements are in line with the CMI 2016 Core projection model with long term rates of 1.5% per annum for both males and females.

### Network Rail (RPS and CARE)

Average life expectancy mortality tables used to determine defined benefit obligations:	Males	Females
Members aged 65 now (pension under £9,300 pa or pensionable pay under £35,000 pa)	22.1	23.7
Members aged 65 now (others)	22.1	23.7
Members aged 65 in 20 years' time (pension under £9,300 pa or pensionable pay under £35,000 pa)	23.8	25.6
Members aged 65 in 20 years' time (others)	23.8	25.6



## Sensitivity Analysis

The table below shows the impact of changes to assumptions on the net pension deficit.

	2017-18			2016-17			
	NR (RPS and CARE) £m	1994 Section £m	BTP Force Superannuation Fund (BTPFSF)* £m	NR (RPS and CARE) £m	1994 Section £m	BTP Force Superannuation Fund (BTPFSF) £m	
<b>Discount rate</b>							
25 basis points	+	(529.0)	(110.0)	(91.8)	(297.0)	(130.0)	(96.3)
	-	571.0	110.0	99.2	314.4	130.0	104.3
<b>Mortality</b>							
1 year	+	287.0	(170.0)	50.7	193.8	170.0	59.4
	-	(278.0)	170.0	(50.7)	(187.8)	(170.0)	(59.4)
<b>Earnings increase</b>							
25 basis points	+	164.0	-	-	117.0	-	-
	-	(159.0)	-	-	(113.4)	-	-
<b>Price inflation (CPI measure; appropriate adjustment made for NR (CARE) RPI)</b>							
25 basis points	+	541.0	110.0	94.1	313.2	130.0	98.9
	-	(505.0)	(110.0)	(87.6)	(297.6)	(130.0)	(91.8)

It is considered that none of the other schemes expose the Department to risk of material changes in balances and transactions arising from factors surrounding the actuarial assumptions and their sensitivities. As a result, this data is not provided for those schemes.

## Risk analysis

Defined benefit scheme liabilities expose the Departmental Group to material financial uncertainty, arising from factors such as changes in life expectancy and in the amount of pensions payable. Some scheme investments, such as equities, should offer long-term growth in excess of inflation, but are typically more volatile in the shorter term than government bonds.

The cost of financing defined benefit pension deficits is borne by a number of parties. For shared cost schemes, such as the RPS shared cost sections, any increase in contributions will be met in part by the employees and this element of the deficit is not recorded as a liability on the balance sheet. In the case of the employer's contributions to both the NR and BTP schemes, any deficits will be met by increased contributions by all the employer participants of the schemes.

## Potential obligation to Merchant Navy Officers' Pension Fund

As described in the staff costs disclosures, the General Lighthouse Authorities (GLAs) are Participating Employers of the Merchant Navy Officers Pension Fund (MNOFF) which is a defined benefit scheme providing benefits based on final pensionable salary.

The MNOFF scheme has been closed by its trustees, therefore GLA employees no longer participate in the scheme. However, the GLAs could be liable to contribute towards historic deficits along with all employers who have ever participated in the fund.

The MNOFF publishes full actuarial valuations on a triennial basis and is unable to determine the proportion of their gross deficit which is attributable to the GLAs. MNOFF's last full valuation reported a gross deficit of £329m as at 31 March 2015. An interim update as at 31 March 2016 estimated the gross deficit to have reduced to £266m. In addition, the March 2016 valuation forecast that sufficient deficit contributions are due from employers to eliminate the shortfall over the agreed deficit recovery period, allowing for 0.1% expected asset outperformance. Accordingly, the MNOFF trustees determined that no additional contributions would be required in order to eliminate the deficit over the period to 30 September 2025. The trustees will review the need for additional deficit contributions as part of the 31 March 2018 valuation, which is unlikely to be published before July 2019.

## 19. Related-party transactions

The Department for Transport is a parent of the executive agencies listed at Note 20 and a sponsor of the non-departmental public bodies and other central government organisations listed there.

These bodies are regarded as related parties with which the Department has had various material transactions during the year.

In addition, the Department for Transport has had various material transactions with other public sector bodies. Most transactions have been with the Greater London Authority, Transport for London and HM Treasury.

During the year, no minister, board member, key manager or other related party has undertaken any material transactions with the Department for Transport other than those reported below.

Richard Brown served as a non-executive member at the Department for Transport until October 2017, whilst also serving as non-executive director at both Network Rail and High Speed Two Ltd, which are wholly owned and controlled by the Secretary of State and are consolidated into these financial statements.

Richard Keys serves as a non-executive member at the Department for Transport and was also appointed by the Secretary of State for Transport as a non-executive director of NATS Holdings Ltd, in which the Department owns a minority shareholding, as shown in Note 10.

The Department for Transport undertook the following transactions with these respective bodies:

	2017-18	2016-17
	£m	£m
<b>Transactions between the Department and High Speed Two Ltd (HS2)</b>		
Grant in Aid paid to HS2	838.1	445.0
Other amounts paid to HS2	1.5	6.5
Amounts received from HS2	(44.7)	(32.4)
<b>Balances held by the Department for HS2</b>		
Income receivable from HS2	30.5	22.0
Payments due to HS2	(2.4)	-
<b>Transactions between the Department and Network Rail</b>		
Loan advances made to Network Rail	8,350.0	6,087.0
Grant in Aid paid to Network Rail	4,361.4	4,072.0
Interest on loan advances received from Network Rail	(450.1)	(412.7)
Financial Indemnity fee income received from Network Rail	(281.2)	(298.8)
<b>Balances held by the Department for Network Rail</b>		
Loan receivable from Network Rail	26,749.7	20,037.0
Indemnity given to Network Rail debt holders	(4,044.5)	(4,141.7)
<b>Transactions between the Department and NATS Holdings Ltd</b>		
Dividends received from NATS Holding Ltd (Note 10)	(27.9)	(11.7)
Amounts paid to NATS Holdings Ltd	0.8	0.7
<b>Balances held by the Department for NATS Holdings Ltd</b>		
Investment in NATS Holdings Ltd (Note 10)	433.7	223.6

## 20. Entities within and outside the departmental boundary

### 20.1 Within the Departmental Accounting boundary

The following entities were within the Departmental boundary during 2017-18 and are reported as part of the Department's financial statements:

#### Executive Agencies (Supply financed agencies)

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

#### Arm's Length Bodies (Executive Non-Departmental Public Bodies)

British Transport Police Authority  
Directly Operated Railways Limited  
High Speed Two (HS2) Limited  
The Commissioners of Irish Lights  
The Commissioners of Northern Lighthouses  
Trinity House Lighthouse Service  
Transport Focus

#### Arm's Length Bodies (Other than Non-Departmental Public Bodies)

Network Rail Group (Network Rail Limited and its UK subsidiaries)  
Highways England Company Limited  
CTRL Section 1 Finance plc  
LCR Finance plc  
Air Safety Support International Limited  
Air Travel Trust Fund

All these entities publish their own annual report and accounts. Many of these can be accessed from <https://www.gov.uk/government/collections/dft-annual-reports-and-accounts>

### 20.2 Not reported within the Departmental Accounting boundary

London and Continental Railways Limited and Network Rail Insurance Limited are reported in these financial statements as financial assets at fair value (Note 9).

NATS Holdings Limited is reported in these financial statements as an associate at fair value (Note 10). The remaining entities, listed below, are not reported as part of the Department's financial statements.

Financial information for the following entities can be obtained from their separately published annual reports and accounts:

#### Public Corporations

Civil Aviation Authority  
London and Continental Railways Limited  
ITSO Limited  
ITSO Services Limited  
Dover Harbour Board  
Milford Haven Port Authority  
Port of London Authority  
Port of Tyne Authority  
Shoreham Port Authority  
Blyth Harbour Commissioners  
Harwich Haven Commissioners  
Poole Harbour Commissioners

#### Trading Funds

Driving and Vehicle Standards Agency

#### Non-Ministerial Department and Regulator

Office of Rail and Road

#### Other Entities

Crossrail Complaints Commissioner  
General Lighthouse Fund  
Marine and Aviation Insurance (War Risks) Fund  
NATS Holdings Limited  
Network Rail Insurance Limited (Guernsey)

#### New Entities

The following entities commenced operations after the Designation Order, which lists the entities that the Department must consolidate, was made to Parliament in December 2017:

Crossrail International Limited  
East West Railway Company Limited  
DfT OLR Holdings Limited, which owns:  
London North Eastern Railway Limited

## 21. Events after the reporting period

### 21.1 Post-Balance Sheet Events

There have been no events between 31 March 2018 and the date the financial statements were authorised for issue requiring an adjustment to the financial statements, however the following significant non-adjusting event should be noted.

#### East Coast Mainline

Following the Secretary of State's announcement on 16 May 2018, the passenger service franchise agreement with Virgin Trains East Coast to operate the East Coast Mainline was terminated on 24 June 2018. On that day, the Operator of Last Resort (OLR) took control of the franchise and the East Coast Mainline was rebranded as the London North Eastern Railway (LNER).

The OLR (formally known as DFT OLR Holdings Ltd) is an executive NDPB controlled by the Secretary of State, which will be consolidated into the Department's consolidated financial statements from 2018-19, as it began actively trading in April 2018 in order to prepare for the possibility of having to step into the East Coast Rail Franchise. The OLR owns London North Eastern Railway Limited (LNER), which began operating rail passenger services on the East Coast Main Line on 24 June 2018. LNER is expected to be classified as a public corporation by the Office for National Statistics later this year. In accordance with the FReM, public corporations are treated as investments rather than being consolidated into departmental group financial statements.

Further information on how the Government works with Train Operating Companies can be found in paragraph 1.98 on page 65 of the Performance Report. Table 14 on page 137 of the Governance Statement shows the Department's top-level risks and summarises its approach to managing risk in this sector.

#### Network Rail Commercial Estate

On 10 September 2018, Network Rail announced that it had agreed terms with Telereal Trillium and Blackstone Property Partners for the sale of its commercial estate portfolio. Proceeds from the £1.46 billion transaction will help fund the railway upgrade plan, bringing major improvements for passengers and reducing the need for taxpayers to fund the railway.

As indicated in Note 6.6 and described in Network Rail's 2017-18 annual report and accounts, these assets were valued at £1,134m on 31 March 2018. Notes 1.9 and 1.22.9 describe how these assets were valued.

Further information can be found on this website: <https://www.networkrail.co.uk/feeds/network-rail-agrees-1-46bn-commercial-estate-sale-to-telereal-trillium-and-blackstone-property-partners/>

### 21.2 Authorised for issue

These financial statements are laid before the Houses of Parliament by HM Treasury. The Accounting Officer has authorised these financial statements to be issued on the same day as the Comptroller and Auditor General signs the audit certificate.

## Annex A: Glossary of financial terms

Accounting Officer		A person appointed by HM Treasury or designated by a department to be accountable for the operations of an organisation and the preparation of its accounts. The appointee is, by convention, usually the head of a department or other organisation, or the Chief Executive of a non-departmental public body.
Administration budget		A Treasury budgetary control that forms part of the resource Departmental Expenditure Limit. It is normally spent on the running costs of the Department and its agencies, including back office staff, accommodation and ICT.
Annually Managed Expenditure	AME	A Treasury budgetary control. AME is spending included in Total Managed Expenditure, which does not fall within Departmental Expenditure Limits (DEL). Expenditure in AME is generally less predictable and controllable than expenditure in DEL.
Arm's length body	ALB	An NDPB, company in which the department has a significant shareholding, or other sponsored body.
Budgetary controls		The means by which government plans and controls expenditure to meet its objectives.
Capital		Capital is for spending on assets and investment. By having a separate total for Capital DEL, funding for capital investment is both protected and controlled.
Consolidated Fund		The Government's current account, operated by HM Treasury, through which pass most government payments and receipts.
Consolidated Fund Extra Receipt	CFER	Income, or related cash, received by a department that it is not authorised to retain and which are surrendered/paid over to the Consolidated Fund.
Departmental Expenditure Limit	DEL	A Treasury budgetary control. DEL spending forms part of Total Managed Expenditure and includes that expenditure which is generally within the departments control and can be managed with fixed multi-year limits. Some elements may be largely demand led.
Estimate		<p>Supply Estimates are the means by which Parliament gives approval to (and grants resources for) Departmental Spending Plans. The amount approved by Parliament is often termed the Vote. The resources granted in the Vote are specifically for the set of Departmental operations covered under the ambits. The Vote also includes the Net Cash Requirement.</p> <p>Budgets may be amended via the Supplementary Estimate. This allows the Department to make various changes, including: taking account of new internal allocations; increasing or decreasing the net cash requirement; and Reserve claims to increase funding.</p> <p>Most departmental net spending needs to be voted annually by Parliament but some spending has separate standing legislative authority and does not need to be voted; this is referred to as 'non-voted'.</p> <p>The values quoted in the Estimate columns in the Statement of Parliamentary Supply were approved in the Supplementary Estimates 2017-18, February 2018: <a href="https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/679746/PU2137_supplementary_estimates_print.pdf">https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/679746/PU2137_supplementary_estimates_print.pdf</a></p>
Executive Agency		A body established to undertake the executive functions of government, as distinct from policy advice. They are within central government and can be departments in their own right or a part of a department.
Financial Reporting Manual FReM		<p>A technical guide for producing the accounts of public bodies.</p> <p><a href="https://www.gov.uk/government/collections/government-financial-reporting-manual-frem">https://www.gov.uk/government/collections/government-financial-reporting-manual-frem</a></p>

Grant		Payment made by a department, or other public body, to outside bodies to reimburse expenditure on agreed items or functions, and often paid only on statutory conditions being met. May be made for resource or for capital purposes.
Grant in Aid	GiA	Financing payment made by a department to an NDPB or other arm's length body.
Managing Public Money	MPM	A publication produced by HM Treasury which is concerned with regularity and propriety and sets out the main principles for dealing with resources used by public sector bodies.  <a href="https://www.gov.uk/government/publications/managing-public-money">https://www.gov.uk/government/publications/managing-public-money</a>
National Audit Office	NAO	Office of the Comptroller and Auditor General, which audits accounts of government bodies and carries out value for money inspections within the bodies it audits. <a href="https://www.nao.org.uk/">https://www.nao.org.uk/</a>
National Loans Fund	NLF	The fund through which passes most of the government's borrowing transactions and some domestic lending transactions.
Net Cash Requirement	NCR	The limit voted by Parliament reflecting the maximum amount of cash that can be released from the Consolidated Fund to a department in support of expenditure in its Estimate. It is not ring-fenced between any of the other voted limits.
Non-Cash		Expenditure where there is no directly related cash transaction but which reflects resources used. Examples include depreciation and provisions.
Non-Departmental Public Body	NDPB	A body that has a role in the process of government but is not a government department or part of one (though NDPBs fall inside the budgetary, Estimates and accounting boundary of government departments). NDPBs operate, to a greater or lesser extent, at arm's length from Ministers.
Public Corporation		Publicly controlled trading bodies with substantial financial day to day operating independence.
Programme budget/ expenditure		A form of resource expenditure which is normally spent on the delivery of the Department's frontline objectives, including funding for many agencies and arm's length bodies.
Regularity		The principle that all consumption of resources should be made in accordance with the legislation authorising them, any applicable delegated authority and Managing Public Money.
Resource income or expenditure		Reflecting the consumption of resources (and the income so generated) in that year. Examples include, pay, current grants and depreciation.
Spending Review		A cross-government review of departmental aims and objectives and analysis of spending programmes. Results in the allocation of multi-year budgetary limits.
Supply		The funds paid to the Department by HM Treasury are known as Supply; the amount paid in the year is shown in the Statement of Changes in Taxpayers' Equity.
Total Managed Expenditure	TME	A measure defined by HM Treasury to cover all public expenditure.
Trading Fund		Public sector organisation that has a financing framework allowing it to meet outgoings from commercial revenues.
Voted Budget		That which has been authorised by Parliament in response to Supply Estimates. See Estimates above.

## Annex B: Expenditure Tables

These Tables present actual expenditure by the Department for the years 2013-14 to 2017-18 and planned expenditure for 2018-19 and 2019-20. The data relates to the Department's expenditure on an Estimate and budgeting basis. The data is available in an Excel file, which can be found via the Department's Annual Report and Accounts web-page.

**Table 1 Total Departmental Spending** – summarises expenditure on functions administered by the Department. Consumption of resources includes programme and administration costs. Total Departmental expenditure is analysed by Departmental Supply Estimates, and any unallocated provision. Please note that totals may not sum due to rounding.

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	Outturn	Outturn	Outturn	Outturn	Outturn	Plans	Plans
<b>Resource DEL</b>							
A: Tolled Crossings	-99,519	-101,429	-101,134	-95,004	-132,223	-196,618	-136,597
B: Local Authority Transport	409,581	334,398	343,263	334,992	365,545	373,445	378,920
<i>Highways Agency</i>	1,874,265	1,861,643	-	-	-	-	-
C: Highways England (net)	-11,630	-11,323	1,998,800	2,205,683	2,548,248	2,636,658	2,655,863
<i>Network Rail</i>	-240,898	-361,538	-	-	-	-	-
D: Funding of Other ALBs (net)	221,672	19,889	66,525	103,800	190,414	-17,228	-25,694
E: Other railways	213,728	265,422	221,383	124,600	106,685	68,556	77,650
F: Sustainable Travel	83,923	96,835	159,706	91,600	87,097	103,414	108,975
G: Bus Subsidies & Concessionary Fares	293,559	262,032	261,025	248,165	244,922	259,851	262,108
H: GLA transport grants	1,988,430	1,777,465	591,419	474,369	255,071	-24,919	29,081
I: Crossrail	-	-	28,714	1,270	1,654	5,036	2,577
J: Aviation, Maritime, Security and Safety	7,925	-39,424	65,800	55,300	108,774	70,664	74,851
K: Maritime and Coastguard Agency	154,904	166,951	284,445	315,707	327,610	355,441	357,297
L: Motoring Agencies	157,309	113,663	130,728	104,500	98,643	69,619	56,574
M: Science, research and support functions	46,716	48,256	53,769	17,597	14,886	23,473	23,828
N: Central Administration	198,909	215,264	177,919	191,967	197,247	180,594	215,536
O: Support for Passenger Rail Services	-615,929	-1,209,529	-1,245,333	-1,289,400	-	-403,966	-931,456
P: High Speed Two	7,952	13,556	15,647	26,324	-778,107		
<i>High Speed Rail (New in ME 18-19)</i>	-	-	-	-	9,140	74,146	51,498
Q: Transport Development Fund	-	-	-	13,700	-	26,300	9,000
<i>High Speed Two Limited (New in ME 18-19)</i>					24,750	127,455	104,455
<i>East West Railway Company Limited (net)</i>					-	1	
R: Funding of Other ALBs (net)	10,613	7,770	16,746	1,444	-	19,086	12,930
<i>Other Railways</i>					2,724		
<b>Total Resource DEL</b>	<b>4,701,510</b>	<b>3,459,901</b>	<b>3,069,420</b>	<b>2,926,615</b>	<b>3,673,000</b>	<b>3,761,008</b>	<b>3,327,396</b>

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	Outturn	Outturn	Outturn	Outturn	Outturn	Plans	Plans
<b>Total Resource DEL</b>	<b>4,701,510</b>	<b>3,459,901</b>	<b>3,069,420</b>	<b>2,926,615</b>	<b>3,673,000</b>	<b>3,761,008</b>	<b>3,327,396</b>
<i>Of which:</i>							
Staff costs	667,854	610,566	585,969	697,780	726,724	1,074,877	1,044,306
Purchase of goods and services	1,959,917	1,747,228	2,061,722	1,977,800	2,214,092	2,140,301	2,239,031
Income from sales of goods and services	-960,610	-692,598	-330,299	-328,937	-358,072	-346,201	-335,752
Current grants to local government (net)	2,847,010	2,455,915	1,356,288	1,019,904	819,715	554,756	625,984
Current grants to persons and non-profit bodies (net)	39,992	32,259	36,248	32,630	28,821	13,269	15,335
Current grants abroad (net)	3,590	5,304	3,063	2,949	3,192	-47,965	-49,809
Subsidies to private sector companies	763,519	562,384	504,997	594,953	634,960	686,709	569,629
Subsidies to public corporations	11,214	27,555	-1,058	-170	-	17,199	17,610
Net public service pensions 2	9,353	7,624	9,153	5,006	7,402	21,220	20,951
Rentals	33,914	9,933	8,610	7,038	-336	358	342
Depreciation 1	1,006,805	991,768	1,114,649	1,342,307	1,596,878	1,699,007	1,697,896
Change in pension scheme liabilities	-8,990	63,475	239	238	234	290	290
Unwinding of the discount rate on pension scheme liabilities	-	-	-	-	-	-	-
Other resource	-1,672,058	-2,361,512	-2,280,161	-2,424,883	-1,794,321	-2,062,812	-2,518,417
Unallocated funds - resource	-	-	-	-	-	10,000	-
<b>Resource AME</b>							
<i>Tolled Crossings</i>	-	-	-	-	-	-	-
<i>Highways Agency</i>	-5,461,615	9,516	-	-	-	-	-
S: Highways England (net)	-	-	2,721	-200	-3,646	6,000	6,000
<i>Network Rail</i>	-	-22,681	-	-	-	-	-
T: Network Rail (net)	-	-	5,387,309	6,079,500	6,882,390	8,717,274	6,913,127
U: Funding of Other ALBs (net)	-30	180	56,481	53,200	93,580	79,886	81,903
V: Other Railways	269,357	193,383	251,278	314,700	27,619	188,715	181,823
<i>GLA transport grants</i>	-8	-10	-	-	-	-	-
W: Aviation, Maritime, Security and Safety	-	-2,030	-3,757	-3,350	-2,943	-2,537	-2,131
X: Maritime and Coastguard Agency	-2,168	-390	-2,077	-94	899	1,000	1,000
Y: Motoring Agencies	-26,110	-5,965	-4,792	-2,296	-1,175	-2,372	-2,335
Z: Central Administration	14,312	-16,629	-7,260	15,500	-7,402	93,280	93,549
<i>High Speed Rail (New in ME 18-19)</i>						-	
<i>High Speed Two Limited (New in ME 18-19)</i>						-	
AB: Funding of Other ALBs (net)	-1,140	-418,975	-236	-	-59	10,983	-11,006
<b>Total Resource AME</b>	<b>-5,207,402</b>	<b>-263,601</b>	<b>5,679,668</b>	<b>6,456,960</b>	<b>6,989,313</b>	<b>9,092,229</b>	<b>7,261,930</b>



	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	Outturn	Outturn	Outturn	Outturn	Outturn	Plans	Plans
<b>Total Resource AME</b>	<b>-5,207,402</b>	<b>-263,601</b>	<b>5,679,668</b>	<b>6,456,960</b>	<b>6,989,313</b>	<b>9,092,229</b>	<b>7,261,930</b>
<i>Of which:</i>							
Staff costs	-	-322	1,242,349	1,226,107	1,383,815	1,376,793	1,556,417
Purchase of goods and services	-7,108	-1,919	1,565,692	1,820,194	2,097,952	2,204,828	2,639,596
Current grants to/from local government (net)	-	-	-445,365	-463,590	-425,354	-332,000	-624,000
Rentals	-	-	-271,859	-292,368	-306,321	-264,862	-228,612
Depreciation <sup>1</sup>	-5,454,084	3,275	4,595,335	4,677,389	4,604,849	6,724,977	6,104,431
Take up of provisions	88,324	-42,294	2,011	198,227	48,963	129,350	116,080
Release of provision	-44,096	-42,656	-40,719	-65,820	-92,042	-44,371	-50,423
Change in pension scheme liabilities	-	23,172	58,858	94,549	231,116	181,900	181,900
Unwinding of the discount rate on pension scheme liabilities	-	-	-	44,999	57,000	50,000	50,000
Other resource	209,562	-202,857	-1,026,634	-782,727	-808,478	-934,386	-2,483,459
<b>Total Resource Budget</b>	<b>-505,892</b>	<b>3,196,300</b>	<b>8,749,089</b>	<b>9,383,575</b>	<b>10,591,910</b>	<b>12,853,237</b>	<b>10,589,326</b>
<i>Of which:</i>							
Depreciation <sup>1</sup>	-4,447,279	995,043	5,709,984	6,019,696	6,201,727	8,423,984	7,802,327
<b>Capital DEL</b>							
A: Tolled Crossings	-4,533	-4,220	-286,128	968	-188,393	1,250	750
B: Local Authority Transport	1,744,410	1,962,257	1,754,268	1,550,793	1,763,031	1,337,702	1,738,959
<i>Highways Agency</i>	1,342,347	1,859,541	-	-	-	-	-
C: Highways England (net)	11,630	11,323	1,931,009	2,020,728	2,308,702	2,706,329	2,987,333
<i>Network Rail</i>	3,408,514	3,862,411	-	-	-	-	-
D: Funding of Other ALBs (net)	13,939	145,295	332,959	407,100	711,324	17,666	9,660
E: Other railways	147,718	22,602	65,550	72,700	195,840	157,931	102,012
F: Sustainable Travel	283,460	274,763	295,241	212,455	365,310	379,620	348,380
G: Bus Subsidies & Concessionary Fares	15,110	3,901	28,845	7,134	9,064	2,652	2,652
H: GLA transport grants	301,000	30,000	925,000	943,997	-	-	-
I: Crossrail	1,122,776	1,082,200	799,974	-200,000	-	18,000	-10,000
J: Aviation, Maritime, Security and Safety	23,869	16,160	7,190	18,500	59,285	18,359	20,295
K: Maritime and Coastguard Agency	24,049	7,902	10,184	12,709	19,339	11,974	25,830
L: Motoring Agencies	-12,705	-18,979	-14,946	-5,905	8,358	-17,525	-78,017
M: Science, research and support functions	7,563	3,226	199	29,883	21,800	40,271	33,582
N: Central Administration	3,392	1,362	3,158	236	2,192	17,676	21,355
<i>Departmental Unallocated Provision</i>					-	184,395	-
O: Support for Passenger Rail Services	-	-	-	451	-4	-	-
P: High Speed Two	106,826	180,883	102,536	340,700	-	-	-
<i>High Speed Rail (New in ME 18-19)</i>					943,326	1,335,000	1,053,709
Q: Transport Development Fund	-	-	-	-	2,304	202,600	346,400
R: Funding of other ALBs	6,108	5,653	5,556	6,800	-	-	-
<i>High Speed Two Limited (New in ME 18-19)</i>					-	1,656,000	3,737,000

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	Outturn	Outturn	Outturn	Outturn	Outturn	Plans	Plans
<i>National Productivity Investment Fund (net)</i>						-	178,600
<b>Total Capital DEL</b>	<b>8,545,473</b>	<b>9,446,280</b>	<b>5,960,594</b>	<b>5,419,249</b>	<b>6,351,907</b>	<b>8,069,900</b>	<b>10,518,500</b>
<b>Total Capital DEL</b>	<b>8,545,473</b>	<b>9,446,280</b>	<b>5,960,594</b>	<b>5,419,249</b>	<b>6,351,907</b>	<b>8,069,900</b>	<b>10,518,500</b>
<i>Of which:</i>							
Purchase of goods and services	85,959	83,691	-	28,089	28,232	33,850	34,160
Capital support for local government (net)	3,373,210	3,187,772	3,582,851	2,396,332	1,935,344	1,852,262	2,513,689
Capital grants to persons & non-profit bodies (net)	-85	1,241	2,526	23,857	14,604	31,438	31,817
Capital grants to private sector companies (net)	3,680,295	4,098,630	310,820	452,626	1,253,257	1,231,335	402,355
Capital grants abroad (net)	-25,346	-24,326	293	-27,184	-5,806	-20,000	-20,000
Capital support for public corporations	-16,486	-378,444	1,129	-5,530	33,319	-33,000	-87,000
Purchase of assets	1,430,967	2,135,125	2,363,796	2,494,728	3,128,535	4,710,120	7,583,979
Income from sales of assets	-13,529	-15,638	-5,613	-8,192	-13,620	-	-
Net lending to the private sector and abroad	-2,616	-360	-317,404	-1,317	-197,248	-	-
Other capital	33,104	358,589	22,196	65,840	-11,453	79,500	59,500
Unallocated Capital	-	-	-	-	-	184,395	-
<b>Capital AME</b>							
<i>Highways Agency</i>	-45,681	15,425	-	-	-	-	-
T: Highways England (net)	-	-	-23,755	30,245	3,492	40,000	50,000
<i>Network Rail</i>	-	6,450,000	-	-	-	-	-
U: Network Rail (net)	-	-	6,600,451	6,761,884	6,117,863	5,314,174	6,972,993
<i>Funding of Other ALBs (net)</i>	-	-9,907	-	-	912,565	-	-
V: Other Railways	-	-7	-	-	-9	-	-
W: Aviation, Maritime, Security and Safety	-	190,000	-20,000	-20,000	-20,000	-20,000	-20,000
Z: Central Administration	-	-	-7,260	-	-	-	-
AB: High Speed Two	58,314	49,802	-4,975	83,026	912,567	-	-
<i>Motoring Agencies</i>	-	-	-	-	-	-	-
<i>High Speed Rail (New in ME 18-19)</i>	-	-	-	-	-	412,000	-98,000
<i>High Speed Two Limited (New in ME 18-19)</i>	-	-	-	-	230,329	-	-
<b>Total Capital AME</b>	<b>12,633</b>	<b>6,695,313</b>	<b>6,544,462</b>	<b>6,855,155</b>	<b>7,244,240</b>	<b>5,746,174</b>	<b>6,904,993</b>

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	Outturn	Outturn	Outturn	Outturn	Outturn	Plans	Plans
<b>Total Capital AME</b>	<b>12,633</b>	<b>6,695,313</b>	<b>6,544,462</b>	<b>6,855,155</b>	<b>7,244,240</b>	<b>5,746,174</b>	<b>6,904,993</b>
<i>Of which:</i>							
Take up of provisions	73,147	138,869	54,121	-	230,767	-	-
Release of provision	-60,514	-73,642	-90,111	-67,266	-108,914	-273,000	-783,000
Capital support for local government (net)	-	-	-250,668	-45,324	-308,438	-311,118	-434,981
Purchase of assets	-	-	6,851,119	6,987,745	7,202,192	7,618,473	8,142,974
Income from sales of assets	-	-9,907	-	-929	-35,431	-1,268,181	-
Other capital	-	6,639,993	-19,999	-20,008	275,064	-20,000	-20,000
<b>Total Capital Budget</b>	<b>8,558,106</b>	<b>16,141,593</b>	<b>12,505,055</b>	<b>12,274,405</b>	<b>13,596,096</b>	<b>13,816,074</b>	<b>17,423,493</b>
<b>Total departmental spending</b> <sup>3</sup>	<b>12,499,493</b>	<b>18,342,850</b>	<b>15,544,160</b>	<b>15,638,283</b>	<b>17,889,467</b>	<b>18,245,327</b>	<b>20,210,492</b>
<i>Of which:</i>							
Total DEL	12,240,178	11,914,413	7,915,365	7,003,557	8,447,576	10,131,901	12,148,000
Total AME	259,315	6,428,437	7,628,795	8,634,726	9,441,891	8,113,426	8,062,492

### Notes

Includes impairments

1. Pension schemes report under FRS 17 accounting requirements. These figures therefore include cash payments made and contributions received, as well as certain non-cash items.
2. Total departmental spending is the sum of the resource budget and the capital budget less depreciation. Similarly, total DEL is the sum of the resource budget DEL and capital budget DEL less depreciation in DEL, and total AME is the sum of resource budget AME and capital budget AME less depreciation in AME.
3. No budgetary settlement has been agreed in Spending Review 2015 for 2020-21.
4. Dedicated estimate lines for High Speed Rail and HS2 have now been added to permit closer scrutiny of the programmes. As a result all HS2 element have been deducted from the line "Funding of other ALBs".
5. Figures for 2012-13 to 2014-15 (DEL) include Prior Year Adjustments to reflect corrected treatment of loans and repayments for M6 and Severn crossing.
6. Figures for 2015-16 have been completed in line with consolidated budgeting guidance 2015-16 (including Research and Development).
7. Figures for 2011-12 to 2014-15 and 2016 to 2019-20 (DEL) include new treatment for Research and Development expenditure as per Spending Review 2015.
8. Figures for 2013-14 and 2014-15 (AME) include Prior Year Adjustments to reflect corrected treatment of impairments.
9. Core tables do not include Voted Non-budget items such as prior period adjustments.

**Table 2 Administration Costs** – provides a more detailed analysis of the administration costs of the Department. It retains the high level functional analysis used in Table 1. Please note that totals may not sum due to rounding.

	2013-14 Outturn	2014-15 Outturn	2015-16 Outturn	2016-17 Outturn	2017-18 Outturn	2018-19 Plans	2019-20 Plans
<b>Resource DEL</b>							
<i>Highways Agency</i>	63,243	68,855	-	-	-	-	-
C: Highways England (net)	-	-	55,955	47,983	48,489	47,698	48,698
D: Funding of Other ALBs (net)	11,271	11,069	3,627	3,300	1,586	1,771	889
K: Maritime and Coastguard Agency	7,937	7,504	6,711	7,207	7,322	8,115	8,200
L: Motoring Agencies	-	-	-	-	-	-	-
N: Central Administration	151,273	176,968	197,584	193,671	192,926	201,041	204,678
R: Funding of Other ALBs (net)	6,359	6,980	3,208	6,653	6,051	6,920	80
<i>High Speed Two Limited (Net)</i>					2,967	3,455	3,455
<b>Total administration budget</b>	<b>240,083</b>	<b>271,376</b>	<b>267,085</b>	<b>258,814</b>	<b>259,341</b>	<b>269,000</b>	<b>266,000</b>
<i>Of which:</i>							
Staff costs	142,132	142,474	140,914	151,653	156,000	216,104	206,857
Purchase of goods and services	98,255	125,689	118,990	103,511	102,708	56,160	35,495
Income from sales of goods and services	-12,655	-16,411	-8,656	-9,701	-7,538	-6,588	-548
Subsidies to private sector companies	-	-	-20	-	-	-	-
Subsidies to public corporations	-	3,532	-	-	-	-	-
Rentals	7,897	7,746	6,971	7,117	-1,830	-22	7
Depreciation	5,366	4,377	4,975	4,109	5,349	7,000	7,000
Change in pension scheme liabilities	-1,207	-	-	-	-	-	-
Other resource	295	3,969	3,911	2,125	4,652	-3,654	17,189

## Spending and Performance

The table below links the spending information in the tables above to the service and performance information in the performance report. Activities denoted by an asterisk are not referred to explicitly in the Performance Report.

Activity (the letters correspond to rows in the Expenditure Tables above and the analysis tables in the Statement of Parliamentary Supply on pages 188-191)		Pages in the performance report
<b>Central functions</b>		
M	Science, research and support functions	52-54
N, Z	Central administration	89
<b>Local</b>		
A	Tolled crossings	*
B	Local authority transport	60, 67-68
F	Sustainable travel	84-88, 103-105
G	Bus subsidies & concessionary fares	71, 87
H	GLA transport grants	*
Q	Transport Development Fund	*
<b>Rail</b>		
D,T	Network Rail	41-43
P,AA	High Speed Two	46, 94
I	Crossrail	49, 94
O	Support for Passenger Rail Services	763, 65-66, 72-80
E,V	Other railways	64
<b>Road</b>		
C,S	Highways England	47-48, 70-71, 74-76
L,Y	Motoring agencies	81-82, 87
<b>Aviation, maritime, security and safety</b>		
J,W	Aviation, maritime, security and safety	44-45, 50-51, 73, 81-83
K,X	Maritime & Coastguard Agency	82
<b>Funding of other ALBs not referred to above</b>		
R,U,AB	Funding of other ALBs	82

