



Department  
for Transport

# Department for Transport Annual Report and Accounts 2018-19

(For the year ended 31 March 2019)

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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HC2392



This is part of a series of departmental publications which, along with the Main Estimates 2018-19 and the document Public Expenditure: Statistical Analyses 2018, present the Government's outturn for 2018-19 and planned expenditure for 2019-20.

**OGL**

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Make journeys easier, modern and reliable

Make sure transport is safe, secure and sustainable

Prepare the transport system for technological progress and a prosperous future outside the EU

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# Foreword

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



2018-19 was another exceptionally busy year for the Department for Transport (DfT) and our agencies. We secured Parliament's backing for expansion at Heathrow more than five decades after it was first proposed by Government. We embraced new technologies and smarter travel by launching our Future of Mobility strategy, and spearheaded a brilliant Year of Engineering campaign to promote the benefits of an engineering career to young people. We developed long-term visions for aviation and maritime, looking ahead to 2050 and beyond. And we continued rolling out our ambitious investment programme to renew Britain's roads and railways.

To illustrate the scale of that commitment, we embarked on a five-year, £48 billion plan to maintain and modernise the railway, and in the Budget, we announced that Vehicle Excise Duty (VED) would henceforth be ring-fenced for road repairs in England, providing £28.8 billion between 2020 and 2025, a 40% increase over the current five year period.

The benefits of sustained investment were much in evidence over the past year. Brand new train fleets were introduced on the East Coast and Thameslink lines. Passengers were able to appreciate the stunning transformation of London Bridge Station. And the biggest upgrade of Liverpool Lime Street since the 19th century was just one highlight of the Great North Rail Project, which by 2022 will enable an extra 2,000 extra train services a week to run across the North.

We also opened smart motorways on the M6, M5, M1 and M20, and set out strategic road studies to transform key routes around the country, such as across the Pennines, on the south west quadrant of the M25, and between Oxford and Cambridge. We announced winners of the £2.5 billion Transforming Cities Fund to boost sustainable urban travel, and launched an Inclusive Transport Strategy with the aim that everyone should be able to use the transport network easily and accessibly, regardless of disability.

However, 2018 also brought challenges. There was widespread disruption on the railway during the spring and summer following the introduction of a new timetable. The failure of the Virgin East Coast rail franchise required the Government to step in and run operations from June 2018. And the drone attack on Gatwick Airport in the week before Christmas was cynically designed to upset passengers' travel plans at one of the busiest times of year. We learnt from all three events, and emerged better equipped to deal with similar situations in the future.

The rail timetable problems in particular convinced me that the time has come to tackle the disconnect that exists between different parts of the rail industry. Although rail privatisation has delivered two decades of growth, I have long thought that the industry remains too fragmented to address performance issues and provide the consistently reliable services that passengers deserve. That is why I asked ex-British Airways executive Keith Williams to lead a thorough appraisal of our railway. I wanted a fresh perspective on how we might realign the industry to provide common incentives, clear accountability, and a singular emphasis on the customer. When Keith reports back this autumn, we will use his findings and proposals as a catalyst for rail reform.

Preparations for a possible no-deal EU Exit were high among Whitehall's priorities throughout the year, but they had a particularly big impact on the Department, requiring the laying of 60 separate Statutory Instruments. Although this stretched the resources of the Department, civil servants responded with typical professionalism and diligence, providing crucial advice and helping to reassure industry and the travelling public at a time of inevitable uncertainty.

For many years we have been discussing transport of the future. Now it's becoming a reality, as the past 12 months have shown. To help make this country one of the best places in the world to own and manufacture electric vehicles, we hosted the first ever Zero Emission Vehicle Summit in Birmingham, where global governments signed a commitment to create a cleaner future. We launched our Road to Zero clean motoring strategy, which sets out new measures to clean up road transport and lead the world in the developing, manufacturing and using zero emission road vehicles.

I was very sorry to lose three excellent ministers during the year – Baroness Sugg, Jesse Norman and Jo Johnson - who all made a very positive impact at the Department. But I was delighted to welcome in their place Baroness Vere, Michael Ellis, and for his second term at the Department, Andrew Jones. As for me, in July this year I celebrated my third anniversary as Transport Secretary, something that only two previous Secretaries of State have achieved since the position was first created in the 1970s. It remains the most stimulating and rewarding job I've had in government, and I consider myself fortunate to head up such a talented and dedicated Department.







# Foreword

## Permanent Secretary

**Bernadette Kelly CB**



The last year has been eventful, with a number of our biggest rail projects – including Thameslink, the InterCity Express Programme, and electrification of the Great Western line – reaching their final stages. Whilst passengers are now experiencing the benefits of new trains, better services and much needed additional capacity as a result, there have been problems as well, extensive disruption following timetable changes in May 2018 and delays to the completion of Crossrail.

In response to these, I commissioned a review jointly with the Infrastructure and Projects Authority (IPA) which resulted in the publication of a report, 'Lessons from Transport for the Sponsorship of Major Projects' in April 2019. This sets out 24 key lessons for the successful delivery of major projects, which are now being embedded in all of the Department's most critical programmes including High Speed 2 (HS2), the Transpennine Route Upgrade and the A303 Stonehenge Tunnel.

As the Secretary of State indicates in his foreword, this has also been an important year for Heathrow expansion, with the Government's Airports National Policy Statement receiving overwhelming support in Parliament and successfully defending legal challenge in one of the largest public law cases ever.

Preparing for EU Exit has also been a significant challenge. This has included the Department and its agencies and arms-length bodies introducing new permit systems for drivers, road hauliers and trailers, negotiating seven new bilateral Air Service Agreements with third countries, and successfully completing Operation Brock, which will provide additional resilience for roads in Kent in the event of cross-Channel disruption.

A great deal of the Department work goes on behind the headlines. A million people a year use the digital services provided by Driver and Vehicle Licensing Authority (DVLA), over a million driving tests a year are administered by the Driver and Vehicle Standards Agency (DVSA), and the Maritime and Coastguard Agency's (MCA) search and rescue service helps to save the lives of hundreds of people in trouble at sea and on land. The Bikeability programme allows 400,000 children to benefit from cycling training a year; our Street Manager digital service provides accurate data for motorists on street works; and the investigations carried out by our Accident Investigation teams, help to make rail, air and maritime transport safer.

As a Department, we continue to look to the future with the publication of the green paper on Aviation 2050: The Future of UK Aviation, the Maritime 2050 strategy, and our consultation on the Future of Urban Mobility.

Internally, we have seen improvements in audit assurance and freedom of information; introduced a new performance management system; and recognised some great team and individual achievements through our Vision for Action awards. In our People Survey, our overall engagement score remained level at 64%, and we continue to enjoy some of the highest scores in Government on learning and development and fairness and inclusion.

Improving skills and capability remains a priority, including through the work we have led with industry partners on Transport Infrastructure Skills Strategy and the highly successful Year of Engineering, which culminated in a joint ceremony with the Institution of Civil Engineers at Westminster Abbey on 22 November 2018. Within the Department, we have focused on developing core skills in priority areas including commercial, digital and project delivery, as well as developing our leadership and management capability.

The Department recognises the importance of working in partnership with other Government departments. We continue to work with the Ministry of Housing, Communities & Local Government (MHCLG) to ensure transport investment supports the Government's housing agenda, with the Department for Environment Food and Rural Affairs (Defra) on air quality and zero emissions, and, and with the Department for Business, Energy and Industrial Strategy (BEIS) on industrial strategy.

Throughout the year our people in the Department, our agencies, and our delivery partners including Network Rail, HS2 Ltd and Highways England have continued to demonstrate enormous professionalism and commitment in working to make transport better for the public and the economy. I am extremely grateful to them all for their dedication and hard work.

Finally, 2019 marks the centenary of the Department for Transport. We are celebrating this landmark anniversary with a programme of events and blogs celebrating some of the great achievements in transport over the past 100 years, and looking to what the future might bring. Above all, 'DFT100' is a great opportunity to reflect on how much transport matters to the economy, environment and daily lives of everyone in the UK.

A handwritten signature in black ink that reads "Bernadette Kelly".



# The Performance Report

This section provides an overview of the Department. It sets out our purpose, structure, and performance during the past year.









# Overview: How we have performed

## Our purpose

1.1 The Department and its delivery bodies aim to create a safe, secure, efficient and reliable transport system that works for the people who depend on it; supporting a strong, productive economy and the jobs and homes people need.

1.2 The Department has a full and ambitious programme of delivery designed to support these objectives. A guiding principle at the core of that programme is to put the needs of the road, rail and air users at the heart of our policy development, decision-making and delivery.



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



## How we are organised

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

**1.4** 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 Group, such as Government-owned companies and Non-Departmental Public Bodies (NDPBs) are separate legal entities. The Department usually sets their strategic framework and normally appoints the chair of their Board, approves all non-executive Board member appointments, and is consulted on the appointment of the Chief Executive Officer (CEO).

**1.5** The wider Departmental family includes other delivery bodies that work with us to achieve our objectives, but have more autonomy over their own policies and are not consolidated into the Group's financial statements. An overview of DfT Group and wider family is shown at **Figure 1**.



**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.

<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 Departmental budget.

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

## Our vision

1.6 Our vision for the central Department is set out below

### 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



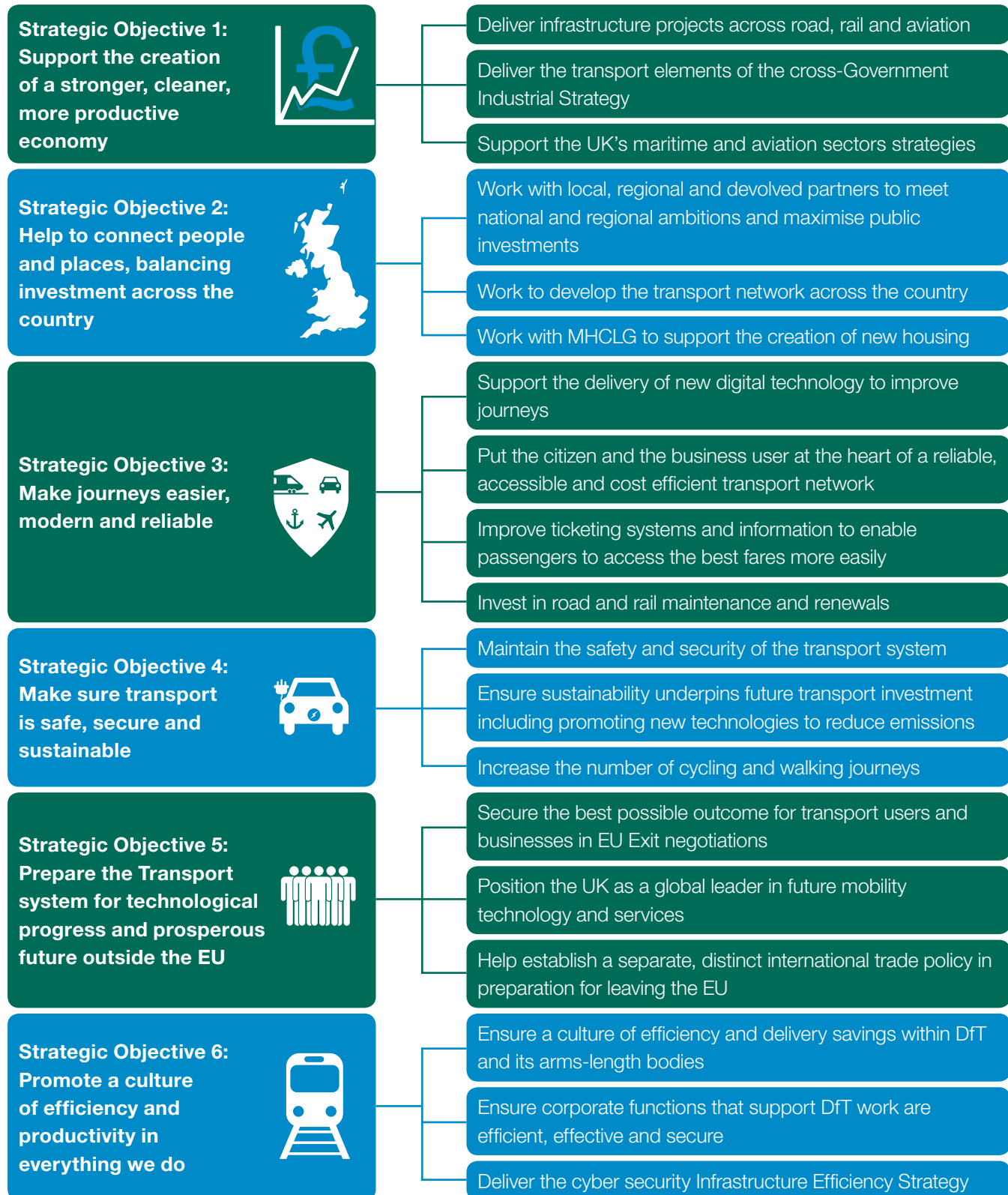
- › An organisation proud of doing things well, supporting its people to build their skills, recognising their contribution and creating an environment where talent thrives.
- › We're known for doing things well, and as a Department where people can strengthen their skills.
- › We create a good environment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

# Our strategy

1.7 In May 2018, the Department updated its Single Departmental Plan (SDP), to set out our strategic objectives for 2018-19. **Figure 2** sets out a summary of how the Department will achieve the objectives, as well as a range of headline indicators against which

performance will be measured. A detailed report of our performance against each strategic objective is set out in the performance analysis from **page 33**. Progress against the SDP indicators is also set out at the end of the Performance Report.

**Figure 2: The Department’s strategic objectives**



## Our governance

1.8 The Department's governance arrangements reflect best practice and the importance of giving Parliament confidence that we use our resources cost-effectively, and meet our strategic objectives. The Department is subject to internal and external audits,

which ensure that our processes and procedures are robust. These are summarised in **Figure 3**, below. The full Governance Statement can be found in the Accountability Report, from **page 88**.

**Figure 3: Overview of the Department's governance structures**

### Parliament



- › Checks and challenges the work of the Department through questioning ministers, debating and committee work.
- › Checks and approves Departmental spending.

### Secretary of State for Transport



- › Appointed by the Prime Minister.
- › Has overall responsibility for the Department and its delivery bodies.
- › Makes policy decisions based on advice from officials, presents and accounts for policy publicly and in Parliament.

### Permanent Secretary and Principal Accounting Officer



- › **Permanent Secretary:** is responsible for the effectiveness and efficiency of the Department's work to support ministerial policies and objectives. She is also responsible for the Department's leadership, management and staffing. The Permanent Secretary is also the Principal Accounting Officer.
- › **Principal Accounting Officer (PAO):** is responsible for the propriety and regularity of the Departmental group's expenditure.

### DfTc's Board



- › Advisory body that supports and challenges both the Department's ministers and the Principal Accounting Officer.
- › Provides strategic focus by advising on the operational implications and effectiveness of policy proposals.

### DfTc's Executive Team



- › Chaired by the Permanent Secretary and attended by the directors general.
- › Supports the Permanent Secretary in the management of the Department's business in line with ministerial priorities.

### Internal and External Audit



- › Reviews our processes and procedures to help us improve our risk management, controls and governance.
- › **Internal Audit:** provides independent assurance to the Permanent Secretary and Departmental Board.
- › **External Audit:** undertakes a statutory audit of DfT's consolidated Annual Report and Accounts.

## Our risks





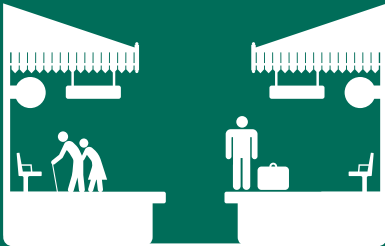



**1.9** Risk management is an integral part of the Department's work, from how we manage our programmes and our money, to how we develop our policies and work with the Departmental family. These risks represent the Department's view of its overall risk profile, taking into account the risk carried and managed by our delivery bodies.

**1.10** The Governance Statement contains a full report on our internal controls and risk management approach, and sets out the top risks faced by the Department in 2018-19. The report includes the actions we are taking to mitigate these risks.

## Our performance at-a-glance










**Support the creation of a stronger, cleaner, more productive economy.**

This year we have:

<p><b>Development Consent Order for the A303 accepted.</b></p> 	 <p><b>Glaister review into rail timetable changes published, making a number of recommendations to improve how timetable changes are planned and delivered</b></p>	 <p><b>Williams review launched, which will recommend a future model for the railways that puts passengers and freight customers at its heart.</b></p>
<p><b>57 new Intercity East Coast trains on Great Western railway.</b></p> 	 <p><b>Major station upgrades:</b>                  – Derby                  – Liverpool Lime Street                  – London Bridge.</p>	<p><b>Tram between Sheffield and Rotherham opened.</b></p> 
 <p><b>Airport National Policy statement approved by Parliament, paving the way for Heathrow's expansion.</b></p>	<p>Enabling works for</p> <h1>HS2</h1> <p><b>Phase One started, including designs for the new stations at Birmingham Interchange (Solihull), Curzon Street and Old Oak Common.</b></p>	<p><b>First Triple decker junction in the North East on the A19.</b></p> 

# Our performance at-a-glance

Help to connect people and places, balancing investment across the country. This year we have:


 <p><b>TRANSPORT FOR THE NORTH</b></p> <p>“Smart North” programme gained <b>£150m</b> in support.</p>	<p><b>Transforming Cities Fund</b> increased to <b>£2.5bn</b> to support local, innovative and sustainable public transport schemes.</p> 	<p><b>Devolution deals</b> across the country to help <b>unlock housing</b>.</p> 
<p><b>£448m</b> awarded to <b>Local Authorities</b> through the <b>Housing Infrastructure Fund</b></p>  <p>Ministry of Housing, Communities &amp; Local Government</p> 	<p><b>Developed EastWestRail</b></p>  <p>company to <b>optimise the delivery of EWR and challenge the status quo</b> within the rail industry</p>	<p>Invested <b>£20m</b> in <b>Northern Powerhouse Rail</b> options development.</p> 
<p>From <b>1 April 2020</b>, all <b>English vehicle excise duty</b> receipts (approximately <b>£3.5bn</b>) will be <b>earmarked</b> for the <b>National Roads Fund</b>, for <b>investment</b> in the country's <b>most</b> strategically <b>important roads</b>.</p>	<p>Awarded <b>£370m</b> to build five <b>new</b> large local <b>major road schemes</b> in <b>Devon, Shrewsbury, Leicestershire</b> and <b>East Riding of Yorkshire</b>.</p> 	<p>Supported development of other <b>Sub-National Transport Bodies</b> including <b>Midlands Connect, England's Economic Heartland</b> and <b>Transport for the South East</b>.</p> 

# Our performance at-a-glance

**Make journeys easier, modern and more reliable.**

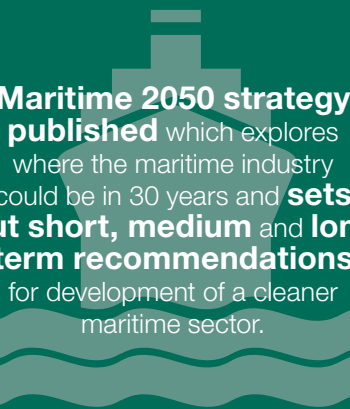
This year we have:

Published the **Aviation 2050 green paper** which details the **government's proposed policy approach** to meet objectives of the strategy and sought to consult with the **aviation industry** and **wider stakeholders**.

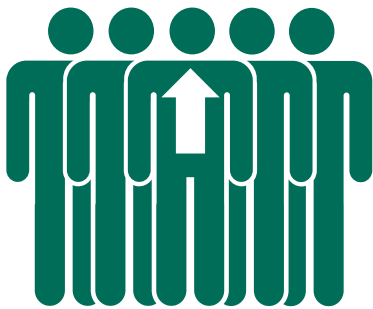


Published the **Future of Mobility: Urban Strategy**, setting out 9 principles for the future development of FoM policy.

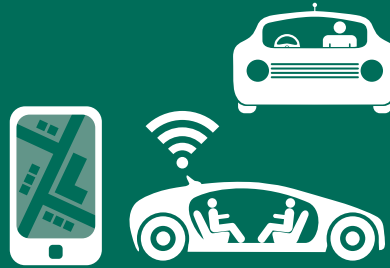
**Maritime 2050 strategy published** which explores where the maritime industry could be in 30 years and **sets out short, medium and long term recommendations** for development of a cleaner maritime sector.



**5000** new **apprentices** delivered by **April 2018**.



**4 Future of Mobility Zone** launched, following our **£90m competition**.



Published the **Road to Zero strategy** which sets out how the government will support the transition to zero emission road transport.



**NetworkRail**

The **Transport Infrastructure Efficiency Strategy (TIES)** published its **one year on report** which highlights their progress in **3 key areas**.

**highways england**



The **TIES** key areas:



**costs and performance**

**HS2**

**construction in infrastructure projects**

 Department for Transport

**relationships with supply chain.**

**Rail sector deal published in December 2018**



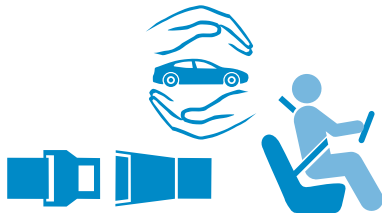


# Our performance at-a-glance

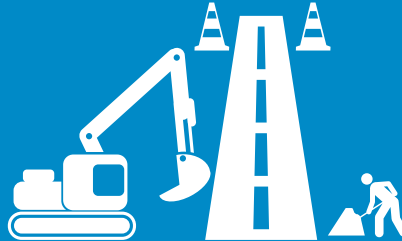
**Make sure transport is safe, secure and sustainable.**

This year we have:

**Driver 2020** – testing real-world interventions to **improve safety for young drivers.**



**£100m** of funding to improve **50** of the **most dangerous 'A' roads** in England.



**131 aviation security assessments** in **27 countries.**



**Go Ultra Low** publicity campaign

**400,000 school children** benefited from the **£50 million funding** for **Bikeability training**



Guidance to **61 local authorities** on **clean air zones** and **plans.** Supported by **£495 million** to develop and implement required measures

**£21m** investment in **National Cycle Network activation projects**

**Road to Zero strategy published** which sets out a clear **pathway to zero emissions**

**New Think! Campaigns** in **March 2019**, providing new drivers with **tips on driving situations** where there are a high number of road casualties or where new drivers feel most vulnerable.

## Our performance at-a-glance

Prepare the transport system for technological progress and a prosperous future outside the EU. This year we have:

**Ferry procurement for additional freight capacity**  
(in case of no deal).



Delivered  
**60 Statutory Instruments**  
to be ready for  
**March 31st 2019**  
in case they were needed.



**Crossrail International – 10 contracts secured** for UK business across the world.



**Successfully completed Operation Brock** which will provide **additional resilience for roads** in Kent in the event of **cross-Channel disruptions**.



European Union  
**Aviation Safety Agency's Delegated Act on drones** came in to effect – it contains **electronic conspicuity requirements** which manufacturers have a three year period to comply.



**Haulage Permits and Trailer Registration Act** received **Royal Assent** in July 2018



**Made international driving permits available at 2,500 Post Offices**



Worked with the government on delivering the **Sanctions and Anti-Money Laundering Act 2018** allowing the UK to continue to meet its **international obligations**



Finished plans to **ensure flights continue** in all Exit scenarios



# Our performance at-a-glance

Promote a culture of efficiency and productivity in everything we do.

This year we have:

600 new apprentices in



Department for Transport



Staff engagement score of 64.

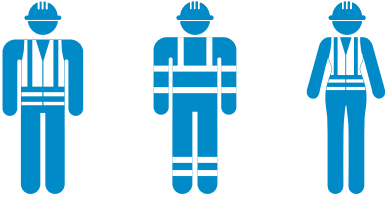


19 new accredited project managers.


Sold **NetworkRail** arches portfolio for £1.46 bn



Year of Engineering  
1,515 partners  
5.1m direct experiences of engineering to 7-16 year olds



31.3% of Departmental spend with **Small to Medium Enterprises (SMEs)**



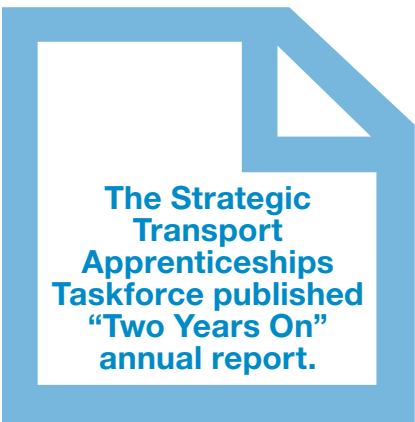
52 staff completed commercial development programme



End-to-end review of Department's cyber security state, developing a fresh approach to DfT cyber security systems.



The Strategic Transport Apprenticeships Taskforce published "Two Years On" annual report.











# Financial Overview

# Financial overview from the Director General for Resources and Strategy

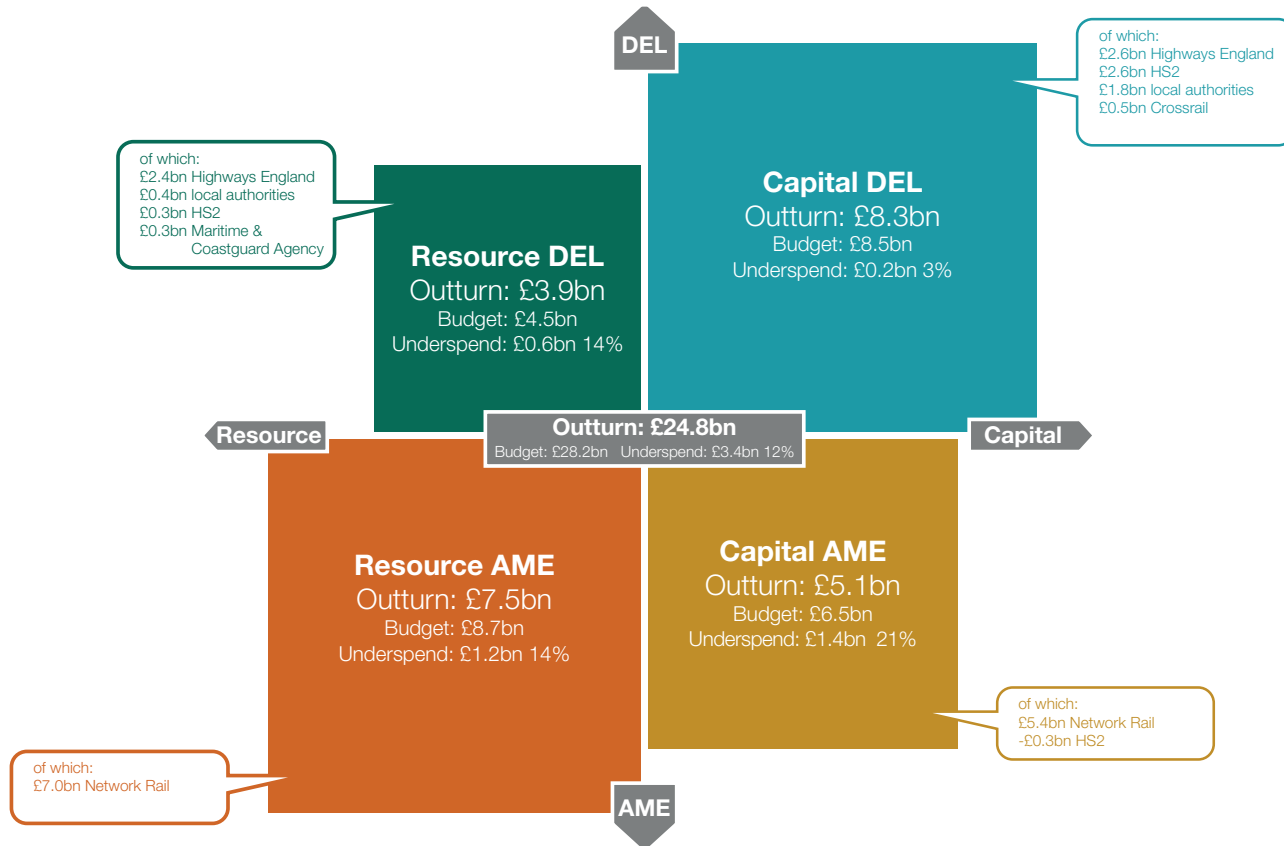


## Total Managed Expenditure

1.11 The Department’s spending plans for 2018-19 were based on the third year of the Spending Review 2015<sup>5</sup>. The Department’s Main Estimate in June 2018 set out the plans for 2018-19 and the Supplementary Estimate in February 2019 provided a further update to those plans.

1.12 Total Managed Expenditure (TME) represents the total funds available to the Department based on a series of different budget types as detailed in **Figure 4** and these values correspond to the Statement of Parliamentary Supply from **page 156**.

**Figure 4: Total Managed Expenditure split by budget type (as defined in Annex A)**



Source: Statement of Parliamentary Supply, Total Outturn 2018-19. In 2019-20, most of Network Rail’s budget will transfer from AME to DEL, which will significantly alter the balance of this diagram.

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

## Comparison between Budgets and Outturn

1.13 **Figure 5** and **Table 1** summarise the Department's performance against the Voted budgets authorised by Parliament for 2018-19. At the start of the year we estimate our costs for each budget type and we monitor against these throughout the year. The size and complexity of our budget, along with economic, social and environmental changes means there will inevitably be some variances for our Estimates. Explanations for the variances can be found on **page 162**. The values correspond to the Voted figures within the Statement of Parliamentary Supply.

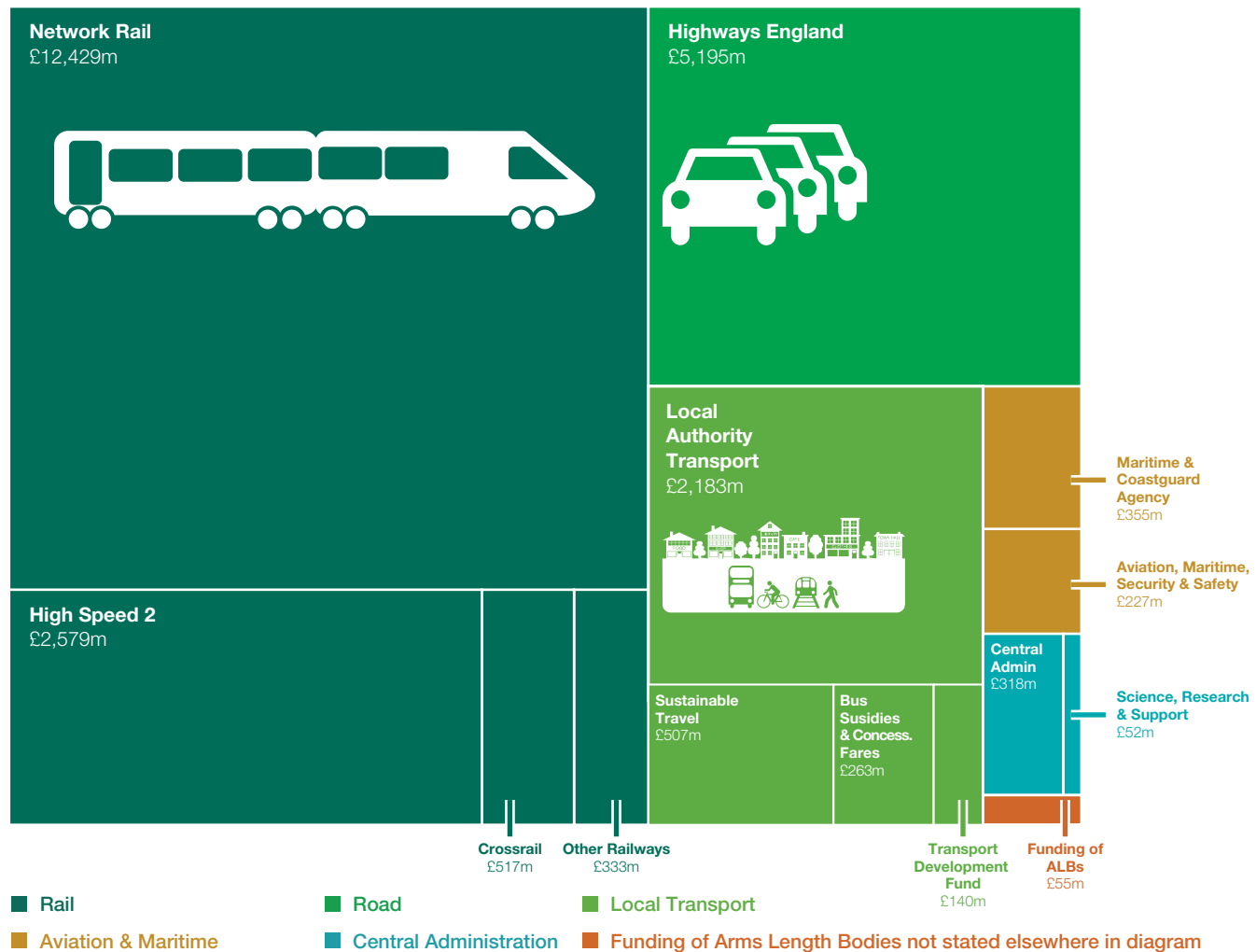
**Table 1: Outturn against Budgetary Control Totals voted by Parliament**

Control total	Budget £m	Outturn £m	Variance £m	%
Resource DEL	4,512	3,889	623	14%
<i>Of which:</i>				
<i>Administration</i>	282	279	3	1%
Capital DEL	8,500	8,274	226	3%
Resource AME	8,649	7,456	1,193	14%
Capital AME	6,542	5,168	1,374	21%
Net Cash	20,111	17,352	2,759	14%

## Where we spent our money

1.14 The majority of our budget is used to invest in or maintain national and local transport infrastructure. Spending on road and rail accounts for around 80% of the Department's overall budget. This split of budget to transport sector and/or use elsewhere is shown in Figure.

**Figure 5: Summary of Departmental spending by Estimate line**



Source: Statement of Parliamentary Supply. The diagram 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: Tolled Crossings (£190m), Support for Passenger Rail Services (£186m) and GLA Transport (£52m).

## Summary of the financial statements

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

### Assets

1.16 The Departmental Group owns £469bn of assets as at 31 March 2019, of which £329bn relates to the Railway Network and £121bn relates to the Strategic Road Network, which are the responsibility of Network Rail and Highways England respectively.

1.17 Between 31 March 2018 and 31 March 2019, the Department's asset base grew by £33bn, of which: £28bn related to the Railway Network; £5bn related to the Strategic Road Network; £1bn related to road and rail assets under construction. This was offset by £1bn of property sales (see below) and miscellaneous reductions elsewhere. The asset base includes: property, plant and equipment; intangible assets; investment properties; inventory and financial assets.

- ▶ Further details can be found in **Notes 6-9** and **11-18** to the Financial Statements.

### Gain and Losses on Revaluations

1.18 The increases in the infrastructure asset base (including assets under construction) were driven by £12bn of additions and £29bn of revaluation gains. These gains arise from revaluations relating to the estimated annual increase of building a modern equivalent infrastructure asset. 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 1.4.3** and **1.4.4**, whilst **Notes 6.1** and **6.2** show the range of uncertainty over these assets.

### Asset sales

1.19 In February 2019 Network Rail completed the sale of a substantial part of its commercial property portfolio and received proceeds of £1.4bn, which generated a profit of £0.2bn, which is disclosed under other operating expenditure.

- ▶ Further details can be found in **Note 9** to the Financial Statements.

## Liabilities

1.20 The Departmental Group has £48bn of liabilities as at 31 March 2019, of which the significant elements are: £25bn of debt is payable by Network Rail reflecting third party borrowing entered into before the company joined the Group; £5bn comprises net pension liabilities relating to departmental group employees; £5.4bn for accruals and deferred income; £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); £1bn in trade and other payables; £3bn of tax liabilities are deferred; £2bn is provided for potential liabilities (provisions); £1.5bn is payable for PFI schemes and £1bn of derivatives purchased by Network Rail to manage risks associated with external borrowings. Less than £7bn is due within 1 year of 31 March 2019.

1.21 Between 31 March 2018 and 31 March 2019, the Departmental Group increased the amount of liabilities owed by £1bn, which was primarily driven by a £1.5bn increase in Network Rail's and HS2's accruals and payables, and £0.5bn increases to both pension and deferred tax liabilities. This is offset in part by a decrease of £1.5bn in Network Rail's external borrowings.

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

1.22 The Department also has £3.5bn of contingent liabilities and £14bn of remote contingent liabilities, compared to £8bn and £14bn last year. The £4.5bn decrease in contingent liabilities was mainly due to the termination of indemnities in respect of Crossrail funding and delivery. The indemnities were cancelled when the Department agreed a new funding package for the project in December 2018, comprising loans of £1.3bn to the Greater London Authority (GLA) and £750m contingency to be made available to Transport for London. The GLA started to draw down loans in February 2019, the balance of which can be found in **Note 11**. The loan package agreed that the indemnities would be removed from the Sponsors Agreement, hence the reason for the decrease in contingent liabilities this year.

- ▶ Further details can be found in **Note 24** to the Financial Statements and on **page 168** of the section on Parliamentary Accountability.



## Income and Funding

1.23 The Departmental Group recognised £24.0bn of income and funding in 2018-19, which is £0.8bn less than 2017-18. The Group received £17.4bn in Supply funding from HM Treasury, alongside £6.4bn of income from other sources<sup>6</sup>, principally income from Train Operating Companies (TOCs) (2017-18: £18.7bn and £6.1bn respectively).

1.24 The main reason for the £0.3bn increase in income from other sources was a £0.4bn increase to the Franchise Track Access income collected by Network Rail from TOCs from £1.7bn to £2.1bn. The increase in Franchise Track Access Income is offset by a £0.1bn decrease in dividends receivable because neither Network Rail Insurance Ltd nor London Continental Railways announced any dividends by 31 March 2019.

1.25 Network Rail collected £0.4bn more Franchise Track Access income in order to offset a slight reduction in central government subsidy, which was decided as part of Network Rail's Periodic Review in 2013.

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

## Expenditure

1.26 The Departmental Group recognised £19.8bn of expenditure in 2018-19, which included £5.7bn on goods and services; £2.5bn on staff costs; £1.4bn on interest and £3.2bn on other costs (2017-18: £18.5bn, £4.7bn; £2.4bn; £1.5bn and £3.2bn respectively). The Group also incurred £6.9bn of depreciation and impairment charges (2017-18: £6.5bn), which increased in proportion to the increased value of infrastructure assets.

1.27 Spending on goods and services increased by £0.9bn which was driven by: £0.4bn of payments to TOCs for infrastructure delays (impacting the 'Support for Passenger Services' line), and the cost of maintaining rail and road infrastructure costing £0.3bn more than last year. Modest increases across a number of other areas make up the rest of the increase on goods and services.

1.28 Interest costs incurred on Network Rail's RPI-linked bonds decreased with inflation.

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

1.29 The value of non-cancellable contractual commitments for the Group stood at £10.4bn on 31 March 2019 (2017-18: £10.3bn), which will be payable over a number of years. The £0.1bn increase includes a £0.9bn increase in the amount the Department is committed to pay TOCs, which is offset by a £0.6bn reduction in the amount Network Rail and Highways England are committed to spend on infrastructure projects, and £0.2bn reduction to PFI and lease commitments.

- Further details can be found in **Note 10** to the Financial Statements.

1.30 Within the amounts reported, the Group incurred £221m of Losses and Special Payments in 2018-19 (2017-18: £129m). The main reasons for the £92m increase to Losses and Special Payments were £50m of costs to ferry companies and a £33m cost to Eurotunnel, which arose from EU exit contingency planning.

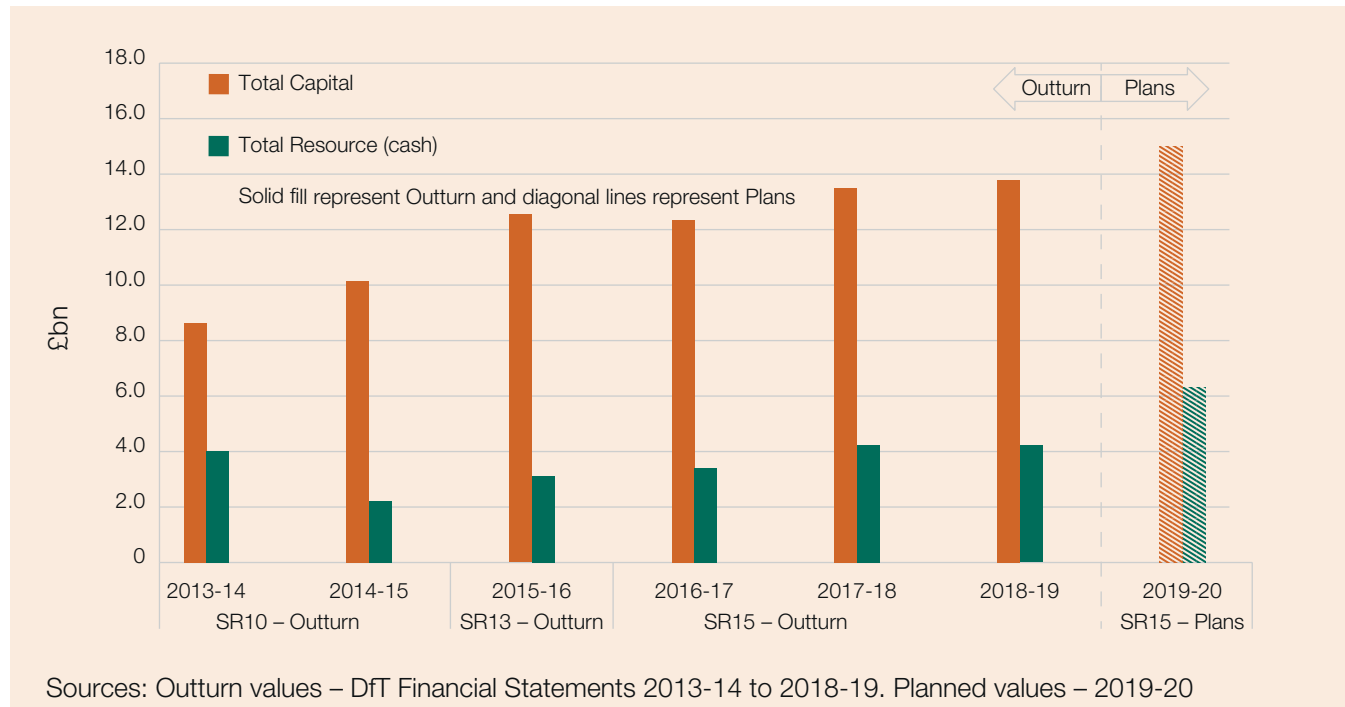
1.31 In addition, the Department incurred 2 significant losses in 2018-19: £46m on the Dartford Thurrock River Crossing Charging Scheme and £53m on the Intercity Express Programme (2017-18: £53m and £42m respectively). The Department also paid £13m to settle 316 industrial disease and injury claims from former British Rail employees (2017-18: £12m to settle 323 claims).

- Further details can be found on **page 165** of the section on Parliamentary Accountability.

<sup>6</sup> Figures may not add up due to rounding differences.

## Long term expenditure trends

**Figure 6: Capital investment versus resource expenditure**



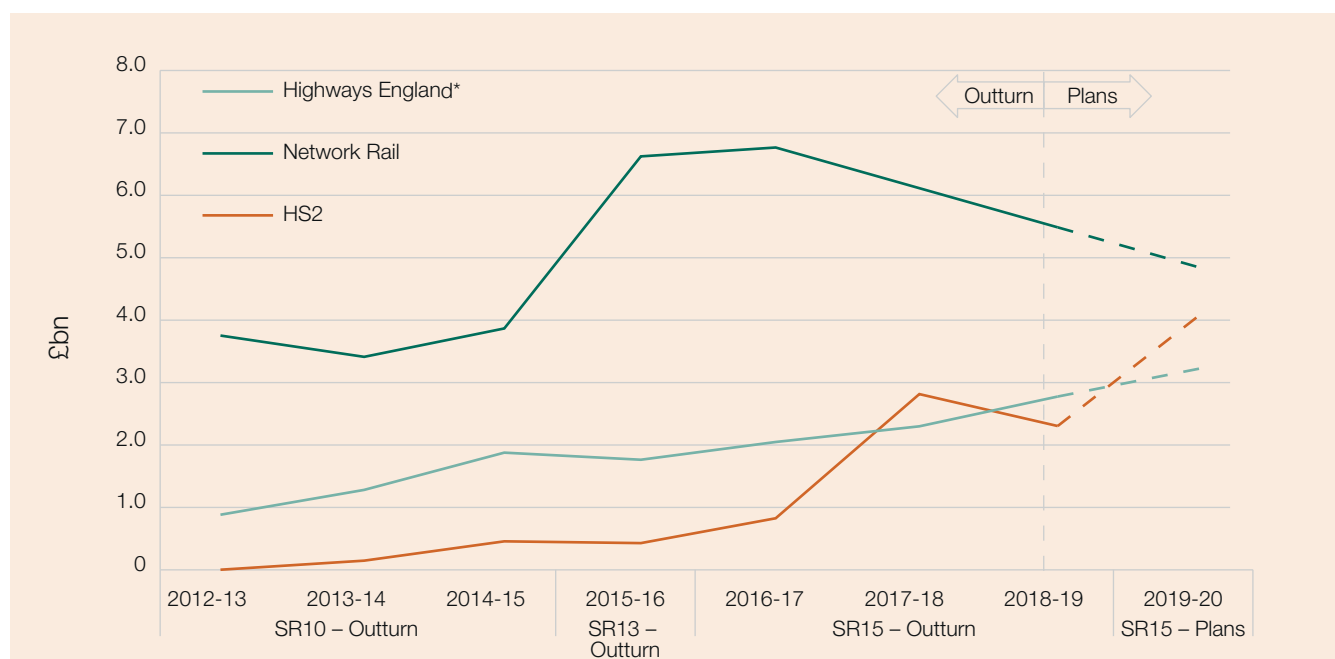
Sources: Outturn values – DfT Financial Statements 2013-14 to 2018-19. Planned values – 2019-20 Main Estimate.

Capital and resource cash data used in the graph includes DEL and AME (for illustration as Network Rail’s capital expenditure was funded through AME up to 2019-20 before switching to DEL) and represents the Department’s funding plans up to 2019-20. Spending plans beyond this period will be agreed during the next Spending Review with HM Treasury.

**1.32** Capital investment in transport infrastructure is increasing against an overall reduction in resource expenditure (excluding non-cash costs) across the Spending Review 2015 (SR15) period. SR15 is the budget settlement agreed with HM Treasury up to and including Financial Year 2019-20.

**1.33** Additional funding has been secured through recent fiscal events, which has provided 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 7: Key areas of capital investment**



Sources: Outturn values – DfT Statement of Parliamentary Supply 2013-14 to 2018-19.  
Planned values – 2019-20 Main Estimate.

\*Highways Agency until 2014-15

Network Rail was reclassified from the private to the public sector during the 2014-15 financial year. The capital spending figures for this year and earlier show the Department’s capital grant paid to Network Rail. The full capital spending of Network Rail, net of non-DfT capital grants receivable, is then shown from 2015-16 onwards. Investment in 2018-19 is shown net of the exceptional item of Network Rail’s sale of the commercial estate – see Note 9 in the financial statements for more information. The forecast spending by Network Rail in 2019-20 is in line with their spending plans for the first year of Control Period 6.

**1.34** The Departmental Group’s capital investment across the SR15 period includes the Network Rail enhancements programme, the construction of High Speed 2 (HS2), and the continued delivery of the Roads Investment Strategy by Highways England. It also includes a number of capital projects for various transport modes across the country.

**1.35 Network Rail** – From 1 April 2019 Network Rail started its latest 5-year planning cycle (control period) with a commitment to spend £48bn on the rail network (of which £35bn will be grant funded). The scope of this funding covers operation, maintenance, renewal and enhancement of the existing rail network.



**1.36 High Speed 2** – the Department plans to further develop High Speed 2 across the next funding review period. Following the 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 steps in extending the line from the West Midlands to Crewe.

**1.37** HS2's Capital budgets will increase in the next few years, in particular Phase 1 will see increased construction activity. The hybrid Bill process for Phases 2a and 2b will continue to develop.

**1.38 Highways England** – In 2019-20 Highways England will complete the £15bn investment in the Strategic Road Network as part of the Road Investment Strategy (RIS). A second 5-year road investment period (RIS2) will commence in 2020 aligned to the National Roads Fund announced by the Autumn Budget 2018.

**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 Single Departmental Plan (SDP) strategic objectives and supporting sub-objectives, and the SDP's indicators as at the end of March 2019.

# Support the creation of a stronger, cleaner, more productive economy

1.39 Transport and the transport sector are an essential part of the United Kingdom's economy, providing a network to move people and goods around, and connecting homes and businesses. Better transport increases opportunity and productivity. It reduces the cost to businesses of moving materials around the country and of 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.

1.40 The UK has a mature transport network, offering generally good connections between our towns, cities, and our gateways to the rest of the world. In some cases, however, they were built or updated decades ago, and have sustained rates of use that they were not originally designed for. That is why the Government has planned to double its investment in transport by 2020.

1.41 Working across Government and with the Devolved Administrations, the Department will deliver the long-term solutions the country needs to further increase productivity and do business with the rest of the world.

## Deliver infrastructure projects across road, rail and aviation

*Deliver the first Road Investment Strategy, comprising over 100 major road projects including major upgrades to the A303, A14 and new Lower Thames Crossing, and consult on the second Road Investment Strategy*

1.42 The Department continues to work with Highways England on the delivery of the Road Investment Strategy (RIS), which sets out how the Government is investing £15 billion in the UK's strategic road network by 2020.

1.43 The Department and Highways England have made good progress with the RIS in 2018-19. Substantial progress has been made on the A303 Amesbury to Berwick Tunnel project, which 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 historic monument in the surrounding landscape. A planning application for a Development Consent Order was made in October 2018 and accepted by the Planning Inspectorate in November 2018.

1.44 The first ever triple decker junction in the North East was opened on the A19. The new junction means that over 80,000 drivers a day are now experiencing safer and smoother journeys across North Tyneside. The Department has also made preferred route announcements for two large road projects, the A428 Black Cat to Caxton Gibbet in February 2019 and the A417 'Missing Link' at Air Balloon in March 2019.

1.45 The Department, working with Highways England, Office of Rail and Road and Transport Focus, continued to develop the second RIS (RIS2). The response to the Department's public consultation on Highways England's proposals was published with Budget 2018 and set out the Government's objectives for RIS2 and intention to make available £25.3bn to deliver them. The final decisions on RIS2 are expected to be published in late 2019.

1.46 Good progress was made on some of the largest road projects in the country. The A14 Cambridge to Huntingdon improvement scheme has passed its half way point on target and on budget. Work to upgrade 21 miles of this road started in November 2016 and is on course to be completed by December 2020.



### Timetable changes

1.47 In May 2018, the rail industry attempted to implement a major timetable change, which if successful, would have improved services substantially for passengers and deliver the benefits in which the Department had invested. The implementation of the May 2018 timetable, however, failed on several lines, particularly on Northern, Transpennine Express (TPE), some Govia Thameslink Railway (GTR) routes and caused significant disruption to passengers.

1.48 The industry and the Department sought to act fast to restore services and de-risk future timetable changes, so that passengers would not experience the level of disruption seen in May. The industry analysed the changes planned for the December 2018 timetable change and proposed a vastly descoped timetable, to ensure Network Rail and operators understood system-wide risks and could control them. The industry also established a Timetable Change Programme Management Office (PMO) to enable timetable changes to be introduced robustly.

1.49 The PMO's intervention, which included reviews of operator readiness, risks, and contingency plans, represented a change from previous timetables, when timetable readiness assessments had been based primarily on self-assurance from the operators and Network Rail's normal timetable change assurance processes.

1.50 Although the Department does not operate the railway and is not responsible for the timetable, it maintains close contact with the PMO and the industry and through regular meetings at senior and ministerial levels, and provides additional challenge and scrutiny. The December 2018 timetable was implemented successfully and unlocked some key passenger benefits in which we had invested, such as increased capacity on busy routes. It also helped improve performance, particularly on routes affected by the May 2018 timetable change, such as GTR, TPE and Northern.

1.51 The PMO will continue to provide assurance work for timetable changes and the Department will retain its oversight of the industry. The Department wants to ensure that as many passengers as possible see the benefits of our long-term investments in the railways that respond to the increasing demand for rail services. Through close collaboration, we continue to challenge the industry to deliver better services for passengers and hold them to account when they fail.

### Glaister Review

1.52 Following serious problems with the delivery of the May 2018 timetable change, the Secretary of State asked the independent Office of Rail and Road (ORR) to investigate the causes of the failures and how to avoid any future repetition of these. The Review's Interim Report found leadership and accountability across the industry diffused and badly understood, meaning no single party felt responsible or empowered to manage system-wide risks. Industry deadlines were not respected, with decisions being made on infrastructure and service patterns in a manner disconnected from the timescales set out in the formal timetable-change process. Moreover, the scale of the May 2018 change was under-estimated, with too much reliance on long-standing change processes ill-equipped to deal with a much larger set of changes.

1.53 The final report, published on 20 September 2018, made a number of recommendations to improve how timetable changes are planned and delivered. These included changes to the Terms of Reference for programme boards, ensuring that they are properly remitted and empowered to examine whole-system risks, across the span of infrastructure, franchise, rolling stock and timetable. There were further recommendations on changes to how the Department managed the delivery of programmes to ensure that passenger interests are properly accounted for at every step, including when plans change. The final report also raised some broader questions around industry structures and gaps that exist in the current assurance framework.

1.54 The Rail Minister, Andrew Jones MP, wrote to ORR confirming that the Government accepted the Final Report's recommendations. For recommendations that fall to the Government, the Department is moving swiftly to implement them and we expect to have done so by summer, 2019 in most cases. Where recommendations raise larger questions around the industry's structure and governance, we have asked Keith Williams to consider these as part of his ongoing rail review and we will put in place short-term measures ahead of the finalisation of the rail review's conclusions.

### *A comprehensive review of the railway*

**1.55** In September 2018, the Secretary of State announced a comprehensive review of Britain's railway. The Review, independently chaired by Keith Williams, will recommend a future model that puts passengers and freight customers at its heart. The Review will support the delivery of:

- ▶ a commercial model that prioritises passengers and taxpayers
- ▶ an industry structure that promotes accountability and effective joint-working
- ▶ financial sustainability and ability to address long-term cost pressures
- ▶ a railway that offers good value fares for passengers, while keeping costs down for taxpayers
- ▶ improved industrial relations, to reduce disruption and improve reliability for passengers and
- ▶ a rail sector with the agility to respond to future challenges and opportunities.

**1.56** The Review's remit does not include the infrastructure and services that should be provided by the railway or public investment decisions that have already been taken.

**1.57** Since September 2018, Keith Williams and his Expert Challenge Panel have engaged with passengers, business and industry groups, trade unions, major political parties and national and regional administrations. The Review's call for evidence has enabled a wide range of industry stakeholders and daily users of railway to express their views.

**1.58** The Review will conclude with a White Paper before the end of 2019, with implementation from 2020.

### *Spend over £50bn to overhaul the rail network in England and Wales over the next six years – increasing asset renewals, improving reliability and reducing disruption (contributes to SDG 9)*

**1.59** The Department and Network Rail have continued to invest in the rail network in England and Wales, to reduce journey times, improve performance, and increase operational flexibility. Amongst the many enhancements delivered within the period, the following significant projects were delivered.

**1.60** As part of the Midland Main Line upgrade, Derby Station underwent a major and historically complex remodelling project. This included new track layout and new signalling at the station. Work was also completed to renew and remodel Ambergate Junction. Both projects were completed successfully on time.

**1.61** Great Western Rail (GWR) now has 57 new InterCity Express trains in service, going to west and south Wales, alongside similar trains that operate to the south west of England. The extension of electrification means these trains are now operating under electric power from Paddington to Newbury and Bristol Parkway, with each train providing more seats for passengers. In addition, GWR has extended the operation of its suburban electric fleet to Didcot Parkway and Newbury. During 2019 electrification will be completed to Cardiff.

**1.62** The former Eurostar terminal at Waterloo station reopened on 10 December 2018, as part of the £800 million project to increase capacity on the South Western Railway network. Passenger services are now operating into and out of platforms 20 to 22 with regular services to Reading, Windsor and South West London. Platforms 23 and 24 reopened in 2019. By December 2020, South Western Railway plan to provide a total of 52,000 extra peak time seats into and out of Waterloo station.

**1.63** In 2018, the electrification and modernisation of the line between Preston and Blackpool was completed with electric services between Manchester and Preston starting in February 2019. The modernisation of Liverpool Lime Street was also completed in 2018, allowing more and longer services to operate. In addition, Tram Train services started between Sheffield and Rotherham, which brought new and innovative technology to the UK. Plans for the modernisation of the Trans Pennine route continue to progress.

**1.64** We continue to develop options for improving key commuter rail services into London from Kent, Sussex and East Anglia. This includes development of proposals for a new Cambridge South station, upgrading Gatwick Airport station and addressing major bottlenecks at Ely and Croydon. During 2019, work will begin to allow longer trains to run on the King's Lynn to Cambridge route and new infrastructure will open to support an enhanced service and new housing in north west London.

**1.65** On the East Coast Main Line, work required to for the introduction of the new InterCity Express trains was completed, with new trains due to be introduced in 2019 on the route between Leeds and London. More new trains are planned for other destinations later in 2019. In total, 65 new electric and bi-mode trains will be delivered by Hitachi. This will provide more capacity and better journey for passengers. Delivery of the enhancements to increase capacity and upgrade the power supply is underway.

**1.66** Two Network Rail colleagues tragically lost their lives on 3 July 2019 near Port Talbot while at work. The Department and Network Rail continue to remember them. At the time of this report, the Rail Accident Investigation Branch and the British Transport Police

are investigating these sad events alongside Network Rail's internal investigations as the body responsible for the safety of its staff and contractors, and all three organisations will report fully.

*Oversee work undertaken by HS2 Ltd to deliver a new, fully integrated high-speed North-South railway, radically enhancing rail capacity between London and the cities of the Midlands and the North, and releasing capacity on the existing network to relieve crowding (contributes to SDG 9)*

*Through the development of High Speed 2 (HS2), be an engine for growth that generates jobs and helps rebalance the economy (contributes to SDG 8)*

**1.67** HS2 is a transformational infrastructure project for the UK. It will significantly increase rail capacity where it is needed most. It will improve passenger journeys and rebalance our economy. HS2 will fundamentally change the economic geography of Midlands and the North. Over 9,000 people are already working on the project and local authorities on the route estimate that as a direct result of HS2 up to 500,000 jobs will be created. 324 of these jobs are apprentices.

**1.68** When all parts of HS2 are in operation, it will be the backbone of UK's rail network. It will carry over 300,000 passengers a day and connect eight of our ten largest cities. In addition, HS2 trains will run off the network to serve a further 25 stations, including Edinburgh and Glasgow. The added capacity will increase space on the network for more local journeys.

**1.69** Enabling works for Phase One (London to Birmingham) are already underway and HS2 Ltd is preparing for the commencement of main construction works. Early works and decommissioning are underway at 60 sites including major development at Curzon Street, Euston and Old Oak Common. At Euston we have appointed a construction partner and master development partner. 2,000 UK businesses have signed contracts with HS2 Ltd. Designs for three new stations along the route were unveiled.

**1.70** The Hybrid Bill <sup>7</sup> to take the network from Birmingham to Crewe is currently in Parliament and plans for the full network to Leeds and Manchester are being developed and refined to support Transport for the North's plans for improving transport connections across the North through Northern Powerhouse Rail (NPR). The recent publication of the HS2 Design Refinement Consultation (DRC) demonstrates our progress towards better integrating HS2 and NPR. The Secretary of State has welcomed the Strategic Outline Business Case for NPR.

**1.71** In 2018 the Department and HS2 Ltd began engaging on the design with local communities along the route, giving those affected a chance to review and comment on initial assessments of the environment and community impacts – via publication of a Working Draft Environmental Statement (WDES).

*Complete delivery of three major rail programmes: Thameslink, Crossrail and Intercity Express Programme alongside progress on the wider programme of enhancements*

**1.72** In August 2018, the Crossrail Ltd Board took the decision to delay the start of passenger services between Abbey Wood and Paddington scheduled for December 2018. During this time significant cost pressures also emerged and to complete the project in an effective way, the Government, the Mayor of London and Transport for London (TfL) finalised a loan package to put the project in a stable financial position. The Department is providing a loan of £1.3bn to the Greater London Authority (GLA) and as a contingency, an additional loan facility of up to £750m to TfL.

**1.73** Considering the significant difficulties faced by the project, the Department and TfL commissioned three reviews of the governance, finances and schedule of the project. As a result of these reviews and recommendations, various changes have been introduced to improve project oversight and governance. In addition, Tony Meggs and Nick Raynsford were appointed as Chair and Deputy Chair respectively and Mark Wild appointed the new Chief Executive of Crossrail Ltd. Due to the complexity of the remaining work, Crossrail Ltd has identified a six month delivery window between October 2020 and March 2021 for the start of services through central London.

**1.74** The Thameslink Programme made substantial progress towards completion during 2017-2018. London Bridge station and its related systems were substantially completed and the station was formally opened by the Duke of Cambridge in May 2018. The last of the 115-new state-of-the-art class 700 trains were delivered in June and the fleet is now in operation on all Thameslink routes. The new Thameslink timetable introduced in May 2018 involved a major re-planning of train paths across the South East. Though affected by the issues delivering the timetable change, this re-planning will enable the introduction of hundreds of additional train services providing better journey opportunities for passengers. Automatic Train Operation Systems that support higher frequency services were successfully tested on peak period Thameslink services, and are planned to be introduced into service from May 2020.

<sup>7</sup> Hybrid Bills are so called because they address both public and private matters. Most Government Bills are public Bills, as they propose legislation that affects everyone equally. Private Bills, on the other hand, change the law in a way that affects some individuals in a different way from others. A hybrid Bill does both.

*Seek Parliamentary approval for the Airports National Policy Statement, enabling decisions to be taken about additional airport capacity in the South East*

**1.75** In June 2018, the Airports National Policy Statement was designated by the Secretary of State following a historic vote in Parliament to approve the policy framework for future planning applications for expansion at Heathrow. Since then, the programme has focussed on delivery of an application for development consent that maximises the benefits and mitigates negative impact of expansion.

**1.76** It has been a key priority over the last year to work with communities and local authorities through the Heathrow Community Engagement Board and Heathrow Strategic Planning Group. This ensured that local stakeholders were able to influence and contribute to planning proposals for expansion and airspace change ahead of Heathrow Airport Limited's statutory consultation, which was launched in June 2019. The programme also commissioned research to help the Department understand attitudes and preferences towards a proposed community compensation fund.

**1.77** Work continues looking at options for improved transport links to Heathrow. The Department published its report on the findings from a market engagement exercises on the Western and Southern Rail Links in December 2018. We are developing the detailed business case for the Western Rail Link.

**1.78** The Department published its Aviation Strategy green paper in December 2017, which included the proposed policies for airspace changes necessary for a third runway and proposals for the wider aviation policy on slots, domestic connectivity, carbon and future capacity. The programme also successfully defended the Government's position against five wide-ranging Judicial Review claims that challenged the designation of the Airports National Policy Statement. These cases were heard in a rolled-up single hearing during March 2019.

**1.79** The Department supported the recruitment of an Executive Director for the Heathrow Strategic Planning Group to lead local authorities as they engage with the Heathrow expansion planning process.

Key stats:

On 25 June 2018, MPs voted in favour of the Airports National Policy Statement (NPS) by a 296 majority (415 votes to 119)

**Drones**

**1.80** Drones have the potential to bring great benefits to the UK, with the industry predicted by PwC to be worth £42 billion to the UK by 2030. Police, fire and search and rescue services all now regularly use drones in emergency situations to help save lives. Drones are also being used to inspect and maintain key national transport infrastructure – reducing the risk of accidents and driving industry productivity and efficiency.

**1.81** Innovation and technology is a core part of the government's developing Aviation Strategy 2050. This objective looks at how to make the best use of new technology for the benefit of consumers and build on the aviation sector's track record of success in encouraging innovation.

**1.82** Through the recent Aviation 2050 consultation, the Department sought views on mandatory identification through electronic conspicuity of all aircraft in UK airspace. In addition, the Civil Aviation Authority (CAA) completed a consultation between March and May on implementing full adoption of an electronic conspicuity solution. One of the main drivers for the adoption of the technology is the more effective mitigation of safety conflicts such as airspace infringement and potential mid-air collisions.

**1.83** Our intention is to set out in the forthcoming Aviation 2050 white paper the best way to implement electronic conspicuity.

**1.84** EASA's Delegated Act, which came into force on 1 July, also contains electronic conspicuity requirements. Manufacturers will have a further three years to comply with this standard.

**Deliver on transport elements of the cross Government Industrial Strategy**

*Lead on the Future of Mobility Grand Challenge, which aims to make the UK the world leader in the movement of goods, people and services*

**1.85** The Future of Mobility Urban Strategy, published in March 2019, sets out the Department's approach to responding to the uncertainty presented by innovation, so that we can take advantage of the wealth of opportunities that emerging technologies and trends in transport present. Given significant uncertainty about the rate of technological development and consumer adoption, the strategy takes a flexible approach and acknowledges that our programme will need to adapt over the coming decades. The strategy provides a clear signal of what we are seeking to achieve and will guide our future decisions, supported by an ambitious programme of work in 2019, including conducting a



wide ranging regulatory review and launching a Future of Mobility Zones competition, which will build on the work of the Centre for Connected and Autonomous Vehicles and the Office for Low Emission Vehicles.

**1.86** The strategy was well received, but feedback suggested more could be done to consider the impact of emerging technologies and trends on the freight sector. This work will be included in the Department's Future of Freight project.

#### *Future of Mobility Zones*

**1.87** In March 2019 the Department launched a competition with £90m funding for up to four cities to become Future Mobility Zones. The competition winners will be announced in Autumn 2019, and the winning Zones will demonstrate a range of new mobility services, modes and models. They will focus on significantly improving mobility for consumers, evaluating what works, and providing an exportable template to allow successful initiatives to be replicated in other areas.

**1.88** The Future Mobility Zones will be part of an enabling culture for new transport technologies in the UK, attracting inward investment and creating new commercial opportunities. The Zones will be globally significant demonstrators and will provide safe, innovative environments in which local and national governments and industry can plot a way through the risks and challenges to seize the great opportunities offered by future forms of mobility.

#### *Commence a thorough regulatory review of all relevant legislation to ensure we continue to have one of the most open environments in the world for transport innovation and new services*

**1.89** In the Future of Mobility: Urban Strategy, published 19 March 2019 the Department launched a wide-ranging Regulatory Review. This will be one of the most significant of its sort for many years and seeks to challenge the status quo. The review will ask fundamental questions about how we regulate transport across eight initial areas of focus: Zero Emission Vehicles; Self-Driving Vehicles (through an existing project with the Law Commission); Drones and Future Flight; Innovation in Maritime; Micro-mobility Vehicles; Transport Data; Mobility as a Service (MaaS); and Buses, Taxis and Private Hire Vehicles. The media coverage of the Regulatory Review section of the Strategy largely focussed on the inclusion of e-scooters in the scope of the Micromobility workstream, as these are currently illegal to use on UK roads.

#### *Law Commission review in to self-driving vehicles*

**1.90** In March 2018, the Centre for Connected and Autonomous Vehicles (CCAV) asked the Law

Commission of England and Wales and the Scottish Law Commission to undertake a far-reaching review of the legal framework for automated vehicles, and their use as part of public transport networks and on-demand passenger services. The project will last until 2021.

**1.91** Driving automation refers to a broad range of vehicle technologies. Examples range from widely-used technologies such as cruise control to vehicles that drive themselves with no human intervention. The focus of the review is on the legal changes that may be necessary for automated driving systems which do not need human drivers for at least part of the journey.

**1.92** Following the conclusion of the consultation in February 2019, the Commissions will consider Mobility-as-a-Service, and possible changes to current regulatory frameworks to accommodate driving automation as the project moves into its second phase of consultation.

## **Support the UK's maritime and aviation sector strategies**

### *Publish the Maritime Strategy 2050 detailing the vision to ensure we are at the forefront of maritime technology development, skills and safeguarding the environment*

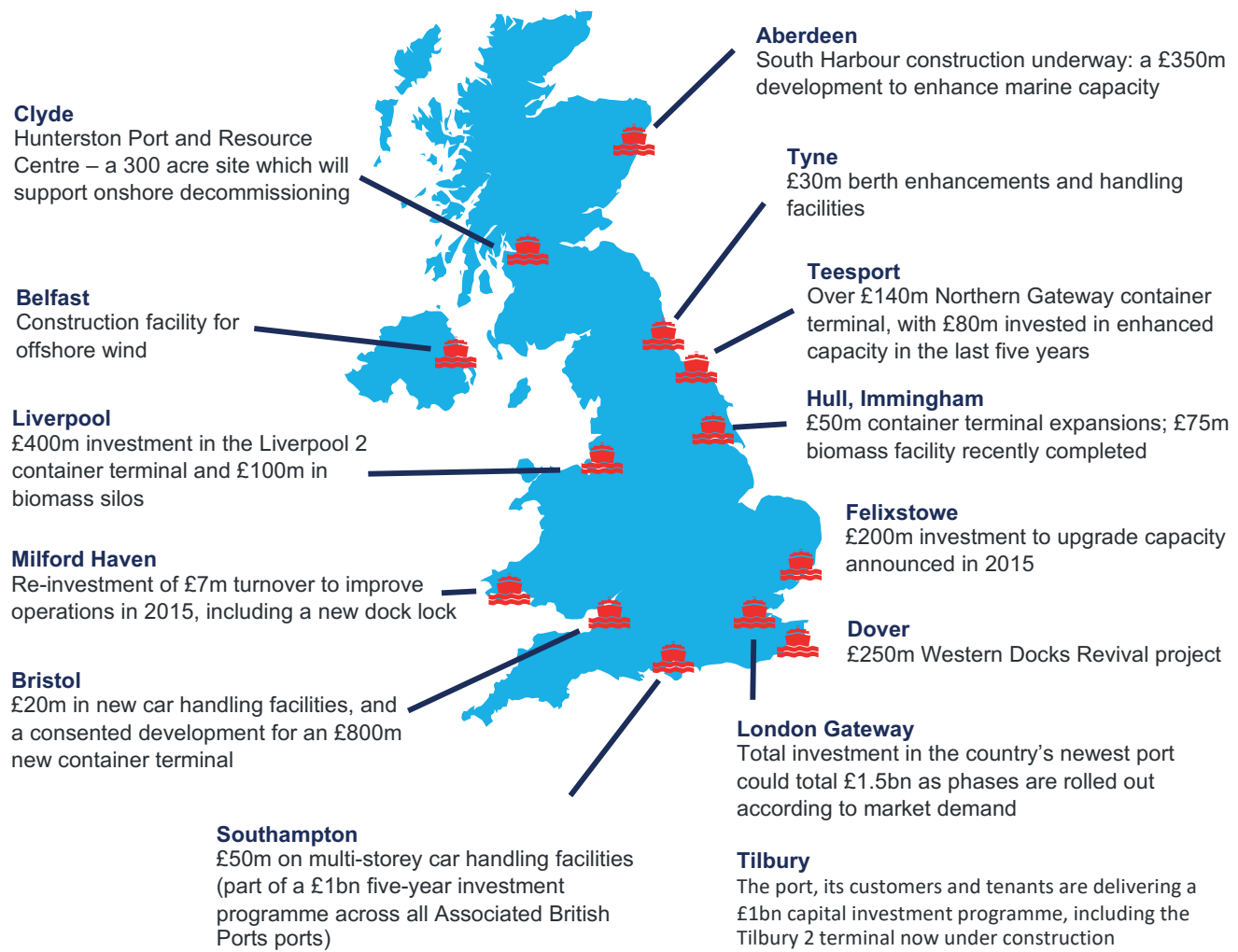
**1.93** In January 2019, the Department published 'Maritime 2050'. This strategy, developed with ports, shipping, maritime business services, leisure marine and marine engineering business, anticipates the challenges ahead, considers the UK's strengths and set out our ambitions to remain a global leader in maritime.

**1.94** The strategy is underpinned by a set of five core values, guiding what we do and what we stand for, including balancing safety, security and sustainability. Guiding our strategy are ten ambitions, articulating where the UK maritime sector aspires to in the second half of the 20th century. This includes being at the forefront of decision making in international fora, leading the way on clean maritime growth and the transition towards zero emission shipping and transforming and growing our maritime workforce. We established the Clean Maritime Council, which supports the development of the Clean Maritime Plan, as part of 'Maritime 2050's environment route map.

**1.95** To ensure that Government and the maritime sector achieve these ambitions together, 'Maritime 2050' makes a number of short to long-term recommendations across seven themes: UK competitive advantage, infrastructure, environment, technology, trade, people and security & resilience.

**1.96** 'Maritime 2050' has been well-received across the maritime sector. Our focus now is on successful implementation.

### Selected examples of recent or planned port investments around the UK





*Support the aviation industry by consulting on a new aviation strategy with the aim of achieving a safe, secure and sustainable aviation sector that meets the needs of consumers and of a global outward-looking Britain*

1.97 The Government published 'Beyond the Horizon: Next Steps' towards developing an Aviation Strategy in April 2018, setting out the approach to develop a strategy and making a commitment to publish a green paper in the autumn. A green paper – 'Aviation 2050: The Future of UK Aviation' – was published on 17 December 2018, fulfilling that commitment. This sets out the Government's long-term vision for aviation to 2050 and beyond, emphasising the significance of aviation to regional growth and the UK economy. The main proposals in 'Aviation 2050' include:

- ▶ increasing our future international connectivity using air services agreements and maximising the UK's global reach
- ▶ establishing a partnership for sustainable growth with industry, communities and environmental groups that actively supports sustainable growth with actions taken to mitigate environmental impacts
- ▶ developing a new passenger charter that will seek to increase awareness of consumer rights standards across aviation, improve passenger service and promote best practice in the aviation sector.

1.98 We consulted on the proposals contained in the green paper, and will publish a white paper that will set out the Government's vision for the future of UK's aviation.

1.99 Aviation plays a vital role in the economy, but the Government and the industry cannot afford to be complacent or to imagine that without action aviation will continue to bring these benefits. Despite its strengths, UK aviation faces challenges to overcome and to take advantage of future opportunities. These include how to realise the benefits of sustainable growth and remain at the forefront of innovation.

1.100 The objectives of 'Aviation 2050' are to:

- ▶ build a global and connected Britain – further expanding and liberalising our connectivity to global markets, promoting our successful aviation and aerospace industries
- ▶ ensure that aviation can grow sustainably – building a new partnership for sustainable growth that actively supports growth with actions take to mitigate environmental impacts
- ▶ support regional growth and connectivity – ensuring aviation enables all regions of the UK to prosper and grow, providing jobs and economic opportunities and a meaningful contribution to the life of communities
- ▶ enhance the passenger experience – ensuring all passengers have the best possible experience of UK aviation, working with industry to promote the existing and widespread best practice, but also driving up standards and enforcement
- ▶ ensure a safe and secure way to travel – to maintain and further build the UK's position as one of the safest and most secure aviation systems in the world, and work closely with international partners to protect the interests of UK citizens around the world
- ▶ encourage innovation and new technology – to be at the forefront of research and development and exploiting the possibilities of new aviation technologies.

1.101 We deliberately took an open, collaborative and no-surprises approach to developing the green paper, which was welcomed by the sector and contributed to a positive response to the publication of Aviation 2050. We are continuing this way of working through to the development of the white paper.

## Passenger Charter



### Passenger Charter

#### Enablers

- Performance framework including KPIs to allow monitoring and reporting
- Expanded enforcement powers for CAA for legal obligations, including PRM assistance and compensation
- Establish standards and protections for open data sharing

### Before the journey

- Accurate, customisable, easily comparable search information available
- Transparent terms and conditions
- No hidden charges
- Clear sign-posting to pre-notification requirements for special assistance service

### During the journey

- Timely information provision during disruption and/or cancellation
- Customer facing staff with improved disability awareness training
- Quality special assistance service with smooth transitions
- Consistent approach on allergies
- Any recommendations from Home Office alcohol licensing consultation
- Disruptive passengers – implementation of existing industry code
- Baggage, including wheelchairs, treated with appropriate care
- Border clearance with service levels

### After the journey

- Simplified complaints process
- Consistent early and visible notification of compensation eligibility from airlines
- Simplified compensation claims process, including provision of ADR
- Timely resolution of compensation claims
- Standard approach to wheelchair compensations

The economic value of **General Aviation flying activity** in the UK is estimated to be around

**£1.1 billion**

and supporting almost **10,000 jobs**

In terms of **leisure flying**, the largest defined sectors are **fixed wing flying** and **helicopter flying**

Over 98% of the UK population is able to access a capable airfield within 35 miles for these types of leisure flying

Year	Leisure movements
2013	454,650
2014	~400,000
2015	~380,000
2016	~450,000
2017	442,100

Leisure movements include Aero Club and Private movements

**Business aviation** movements have increased by about 1% since 2013

Year	Business aviation movements
2013	140,330
2014	~130,000
2015	~135,000
2016	~140,000
2017	141,670

and continues to be a driver of economic value, with additional wider benefits deriving from the use of business aviation estimated to be worth at least

**£0.9 billion**

Business movements include business aviation and air taxi movements

Source: York Aviation (2018): Research into a strategic network of General Aviation aerodromes; Department for Transport analysis of Civil Aviation Authority: Airport data

The Aviation Strategy provides an opportunity to reflect on the needs and priorities in the General Aviation (GA) sector, listen to feedback from the GA community and refresh the 2015 GA Strategy. GA covers all kinds of non-scheduled civil aviation. It includes, amongst other things, business jets, aerial photography, pilot training, emergency services, air displays and private flying. The aircraft involved include single and multiengine fixed wing aeroplanes, helicopters, gliders, balloons, microlights, paragliders and model aircraft. New research commissioned by the Government has confirmed that the economic benefits of GA come from a range of activities such as business aviation, flying schools, air displays, and support services and some additional value from the purchase of aircraft and services by private flyers. The green paper sets out how the Government proposes to enable, facilitate and encourage growth in GA, and where it thinks that the GA sector itself should capitalise on opportunities.

**Boosting Skills**

1.102 The Department set an ambition to deliver 30,000 apprenticeships in road and rail this Parliament. The ‘Transport Infrastructure Skills Strategy’, published on 28 January 2016, sets out how we will monitor and report on progress.

1.103 The Strategic Transport Apprenticeship Taskforce was established to deliver the recommendations of the ‘Transport Infrastructure Skills Strategy’ and has been tasked to report on progress annually, with the latest report due to launch in July 2019. July 2018’s Report showed that 5,000 new apprentice opportunities had been created in road and rail from April 2016 to April 2018.



# Help to connect people and places, balancing investment across the country

**1.104** Investment in our transport networks across the entire country, and improving connectivity between all of our cities, regions and rural areas, is key to unlocking the UK's economic potential. Targeted investment in infrastructure can help local areas and cities grow, especially when combined with policies on skills, innovation, and housing. We are committed to working with other Government departments, our national and sub-national transport bodies, and our delivery bodies to ensure that our investment is balanced across the country, so that all of the UK benefits from a growing economy.

*Work across the UK with local, regional and devolved partners to meet national and regional ambitions and maximise the value of public investment*

*Continue to deliver on 'devolution deals', which will provide powers to regional authorities to make investments based on their local knowledge and needs*

**1.105** Over the course of 2018-19 the Department has supported Transport for the North's aim to boost economic growth across the north and to deliver their programmes and has achieved this by Transport for North's (TfN) Integrated and Smart Ticketing programme and co-clienting the NPR programme. Our sponsorship team works with TfN to ensure good governance to their Boards, cross Whitehall engagement, developing their business plans and budgets ensuring value for money over the past year, with the support of the Sponsor Team, TfN has successfully launched their Strategic Transport Plan and is progressing the NPR programme.

**1.106** In addition, the Department has supported TfN's 'Smart North' programme with £150m of funding, with key successes including: the successful roll-out of Phase 1 project (smartcards on rail) which continues to be rolled-out in Quarter 1 of 2019-20. Phase 2 (focused on opening bus fares, routes and disruptions data) received approval of its Full Business Case and is progressing to delivery stage. Phase 3 of the project (account based Back Office) received approval for its Outline Business Case, and is currently undertaking procurement activities in advance of the submission of the Full Business Case in summer 2019.

**1.107** During the financial year, the Department developed the Transforming Cities Fund, successfully increasing the fund to £2.5bn with an extra fifth year of funding to 2022-23. This includes provision of £90m for up to three Future Mobility Zones. The aim of the fund is to provide capital for transformative public and sustainable transport investments to tackle congestion and drive up productivity in English cities.

## Key stats:

Housing Infrastructure Fund – £448m awarded to local authorities so far, which will unlock 20,000 homes. Further funding decisions totalling £4bn is expected. Transforming Cities Fund has paid out £120m during this financial year.

*Work with MHCLG and other partners to support housing delivery in line with the Government's objective to deliver 300,000 new homes a year in England by the mid-2020s*

**1.108** The Department has continued its activity to support housing growth, working closely with MHCLG to support the delivery of more homes, with the right transport links, in places people want to live, including jointly assessed bids for MHCLG's Garden Settlement Programme and £5.5 billion Housing Infrastructure Fund, with the first successful Housing Infrastructure Fund bids for The Dockland Light Railways (DLR) in London, Carlisle and Exeter all including substantial transport investment.

**1.109** The Department also worked with Network Rail, Highways England and Homes England to maximise opportunities for new homes to be brought forward in association with transport investment. This collaborated across Government and with partners in the Oxford to Cambridge Arc in taking forward delivery of the shared ambition for growth in the Arc to realise its full potential, including the transport infrastructure needed to support growth and create high-quality places; contributed to the revised National Planning Policy Framework and forthcoming updates to the National Planning Practice Guidance to improve the integration of sustainable and inclusive transport into planning for new housing and other developments. The Department also supported local authorities by publishing case studies on how our appraisal framework can be used to demonstrate the benefits of transport investment for dependent housing developments.

*Support cities to develop transport and promote local growth through the £1.7bn Transforming Cities Fund (SDG 11)*

**1.110** Following the announcement at Budget 2018 that the Transforming Cities Fund would be extended to 2022-23, the Government is now providing £1.08bn of devolved funding to six mayoral combined authorities over five years; providing long-term certainty for Mayors and combined authorities to invest according to their priorities to improve public and sustainable transport in their city regions.

**1.111** This year, the Greater Manchester Combined Authority has confirmed that it will invest £160m of its devolved allocation on the iconic 'Bee Network' of cycling and walking corridors and junctions to improve active travel levels and accessibility across the city region. This will be complemented by the purchase of 27 additional Metrolink trams for £83m. This will improve the frequency of services across the network, making it easier for people to travel to work.

**1.112** Elsewhere, the West Midlands plans to invest £207m from the Fund in the extension of the Midland Metro tram network through Dudley to Brierley Hill, expanding the network and reducing journey times for passengers into Birmingham.

**1.113** In Liverpool City Region, the city plan on replacing their ageing Mersey Ferries fleet with new low-emission boats and improving cycling and walking and bus connectivity in the city.

**1.114** The Department has worked hard to ensure that the work TfN is undertaking in the North on smart ticketing aligns with wider Government policies and objectives to maximise benefits to passengers and operators and value for money for taxpayers.

**1.115** For example, Phase 1 – (smartcards on rail) is linked with the Department's wider Smart Ticketing on National Rail programme, ensuring passengers throughout the country benefit from advances in smart ticketing. Phase 2 (improving access to bus fare, routes and disruptions information) close collaborative working has been developed with colleagues working on the Bus Open Data programme. The sponsor team formed and chairs a Smart Ticketing Liaison Group, to ensure that Phase 3 of the programme (account based ticketing) is compatible with future policy on smart ticketing (and wider policies for rail and bus). Phase 3 is being future proofed to potential future policy directions by TfN back office having the ability to be scaled nationally if that is the Department's policy in the future.

## Housing Infrastructure Fund:

We fed into MHCLG's Housing Infrastructure Fund (HIF), a £5.5bn capital grant programme aimed at local authorities which want to unlock housing through additional infrastructure. The fund will unlock up to 650,000 homes in England.

As people want to live in well-connected places, transport is vital for unlocking new housing, and most local authorities have bidden for additional transport infrastructure. Area leads and economists have supported local authorities in finalising their proposals, and then assessed submitted schemes so we can understand and mitigate potential negative effects on the transport network. The Department has supported MHCLG in scrutinising schemes' value for money, strategic ambition, and deliverability, helping to ensure that successful projects will unlock high-quality housing with good transport connections.

Successful projects so far include £290m to expand capacity on the DLR, unlocking 12,000 homes in East London. In Cumbria, £102m will be used to fund a new link road, unlocking the development of a Garden Village with 10,000 homes. A further £55m for road improvements has been announced for South West Exeter, where 1,500 new homes will be unlocked as a result. Further funding decisions can be expected in the coming months.



*Support the continued development of Sub-National Transport Bodies, including Transport for the North and Midlands Connect, to act as powerful voices for the regions, helping to develop and secure the strategic transport interventions that they need for long term economic prosperity (SDG 9)*

**1.116** The Department supported TfN's aim to boost economic growth across the north and to deliver their programmes, by ensuring good governance of TfN's Integrated and Smart Ticketing programme and helping to develop the business plan and budgets for the NPR

programme. TfN has successfully launched its Strategic Transport Plan and is progressing the NPR programme.

**1.117** The Department continued to work closely with and support the development of other Sub-National Transport Bodies (STB) including Midlands Connect, England's Economic Heartland and Transport for the South East. This includes supporting the development of their transport strategies to set out their vision for prioritised transport investment in their region, and to speak with a 'single voice' on behalf of their region. STBs continue to effectively feed into departmental consultations, including playing a key role in developing the evidence base and prioritising schemes for the Major Road Network and Large Local Majors programmes. This regional approach to investment planning will enable STBs, working with local partners, to prioritise interventions which address the most pressing challenges for their area.

*Continue to develop our Appraisal and Modelling Strategy, enhancing the evidence base and tools used to support robust and well-balanced investment decision-making*

**1.118** The Department makes extensive use of analysis to provide evidence to inform decisions on transport investment at all levels. It is essential that we have as full a view as possible about the impacts these investments will have on transport users, the economy, society and the environment. The Department's guidance on conducting transport analysis, Transport Analysis Guidance (TAG), has been developed over many years, drawing on best practice in government, industry and academia.

**1.119** The Department's Appraisal and Modelling Strategy aims to maintain and enhance transport analytical practice and enabling the best investment decisions to be made by equipping those producing appraisals with the right tools, methods, knowledge and data to produce robust assessments of the wide-ranging impacts that transport investment has. Our previous strategy produced some significant advances in appraisal:

- ▶ a significant increase in analytical capability to measure transport's impact on economic growth
- ▶ improvements to understanding the impact of environmental impacts such as how traffic emissions affect health and how people value improved journeys
- ▶ better understanding as to how changes in travel behaviour may be influencing how people to travel day-to-day.





### Reduce Congestion

- › Alleviate local & regional congestion
- › Reduce traffic jams and bottlenecks



### Economic Growth

- › Delivering the Industrial Strategy
- › Drive regional rebalancing



### Housing

- › Unlock land for new housing developments



### Support the SRN

- › Complement & support existing SRN



### Support All Road Users

- › Recognise the needs of all users including people who cycle, walk and people who are disabled

1.120 As part of developing this strategy the Department undertook a major consultation exercise. While there is significant support for our appraisal framework and respect for the evidence base it contains, there was a sense that appraisal methods need to adapt, both to meet the needs and ambitions of devolved and local areas and to reflect the shortage of skills in the industry which is acting as a barrier to high quality, innovative appraisals. The strategy aims to achieve this by improving the evidence base and methods, while supporting our stakeholders in producing proportionate appraisals that are easier to deliver.

## Work to develop the transport network across the country

*Create a new Major Road Network, helping to raise performance on strategically significant roads across the country at the local and regional level*

1.121 The Major Roads Network (MRN) is formed of the country's busiest and most economically important local authority 'A' roads that are not part of Highways England's Strategic Road Network. Improving the roads on this network will enable more reliable travel for road users and more capacity for the journeys which are the lifeblood of our economy. Highways England will deliver schemes that reduce congestion, support economic growth, unlock housing development and support all road users.

1.122 In the 2018 Budget, the Government announced its commitment to commit English Vehicle Excise Duty to create the National Roads Fund (NRF). £3.5b of NRF is expected to be spent on local roads, including MRN and Large Local Majors programmes (LLMs). Over 5,500 miles of local roads are eligible to be considered for improvements as part of MRN programme.

1.123 Sub-national Transport Bodies (STBs) and regional groups will prioritise MRN schemes for their regions and submit them to the Department for consideration at the end of July 2019. The first MRN schemes will commence in 2020-21 and will include interventions such as bypasses, major junction improvements and widening of existing roads.

1.124 In the 2018 Budget, five schemes were announced for early development on the MRN; Grizebeck Bypass in Cumbria, York Outer Ringroad Dualling, A614/A6097 improvements in Nottinghamshire, Gallows Corner junction in London and East Facing Slips in Thurrock. The Departmental contribution to individual MRN schemes is expected to be between £20m and £50m.

### A1237 York Northern Outer Ring Road Dualling scheme

The A1237 York Northern Outer Ring Road Dualling scheme was announced at the 2018 Budget for early development as part of the MRN. The aim of the scheme is to reduce congestion and support planned economic and housing growth. Once complete, it will improve journey time, reduce congestion and enable better access to employment, retail, health and leisure sites in York.

*Fund over 40 local authority major projects across the country by 2020-21 – improving capacity on local networks, cutting congestion and boosting economic growth*

1.125 The Department supports major local authority transport schemes to help relieve congestion, boost economic growth, improve employment opportunities and, in some cases, support new housing developments. These projects are hugely important to the local areas and have a potentially transformational impact on residents and businesses.

1.126 The Department continues to support local authority major transport projects by contributing funding to schemes that meet the priorities of Local Enterprise Partnerships. Many local authority promoted major schemes, part funded by Departmental contributions, were opened during 2018-19 including: the A6 to Manchester Airport Relief Road, Norwich Northern Distributor Road, Bristol Bus Rapid Transit schemes between North Fringe to Hengrove and Ashton Vale to Temple Meads and the Ely Southern Bypass.

1.127 The Department confirmed Local Growth funding for the following local authority major schemes in 2018-19 for which construction has now started: Congleton Link Road, A421 Dualling from Fen Farm to M1 J13, Newhaven – Port Access Road and Forder Valley Link Road.

1.128 The Department funds a small number of exceptionally large local highway authority transport schemes through the Large Local Majors (LLM) programme. There are currently ten schemes in LLM programme which have been awarded a combined Department contribution of more than £750m.

1.129 In 2018-19, the Department announced that it would award £370m to five new large local major road schemes in Warrington, Devon, Shrewsbury, Leicestershire and East Riding of Yorkshire, to reduce congestion, improve connectivity and support economic growth in these areas. In February 2019, the Department also announced final funding approval for the A4440 Worcester Southern Link Road Phase 4 and construction has now March 2019.

### North Devon Link Road

In May 2018, the Department provisionally approved £83m of funding, subject to final business case for a series of improvements to the North Devon Link Road, which are estimated to cost £93m in total.

The scheme's plans include widening three sections of the A361 between Barnstaple and South Molton, with two lanes of travel in one direction and a single lane in the opposite direction.

The project's benefits will include:

- ▶ better connectivity for the local area with the rest of the country
- ▶ decreased congestion and reduced and more reliable average journey times
- ▶ improved safety with better overtaking opportunities
- ▶ economic growth due to improved access and connectivity in the region.

*Make 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 (contributes to SDG 8)*

1.130 East West Rail will improve connectivity in the Oxford-Cambridge corridor, supporting transformational economic growth, creating jobs and unlocking significant housing potential.

The Department is working closely with other Government departments and delivery partners to maximise the potential of the Oxford to Cambridge (Ox-Cam) Arc, ensuring that decisions on route selection and alignment with housing and roads are integrated with the wider arc agenda. The first phase between Oxford and Bicester Village was delivered in 2016, with Phase 2 (Western section) through to Bedford

anticipated to be operational by 2024 and Central Section to Cambridge in the 2020s.

**1.131** East West Railway Company became operational in September 2018 and was incorporated as an Arm's Length Body of Government. It is building its relationship with the Department to develop the capability to deliver the next stages of the project. It will prioritise the acceleration of delivery and explore securing private sector options to design, finance, build and operate the route. The case for Western Section Phase 2 was approved and published in December 2018 with development work in progress on the strategic outline business case for central section.

#### Key stats:

- ▶ Current anticipated cost of Western Section is £1.1bn. Central Section is considering opportunities for private funding, whether through investment and/or Land Value Capture (LVC)
- ▶ The project supports the National Infrastructure Commission's vision for up to one million new homes in the Cambridge-Oxford corridor
- ▶ Aim to have the first trains in service for Western Section by 2024 and for Central Section in the 2020s

#### *Develop the Strategic Outline Business Case for Northern Powerhouse Rail and complete the Crossrail 2 independent affordability review*

**1.132** The Department has been working in close partnership with TfN and its constituent members over the last year to develop further the business case for NPR.

**1.133** NPR is the flagship programme of the Government's Northern Powerhouse agenda which seeks to transform the economy in the North of England. Its aim is to dramatically improve connectivity across the north by delivering faster and more frequent journeys and improved rail capacity between the north's major cities. This will help drive economic growth by deepening and widening labour markets, improving business to business connectivity and boosting access to Manchester airport.

**1.134** The Department has invested over £20m this year to develop infrastructure options (a combination of new lines and upgrades) that achieve NPR's vision and integrate with HS2, ensuring that NPR builds on the benefits and opportunities that HS2 will bring to the north.

**1.135** During 2018-19, the programme achieved a major milestone. An initial Strategic Outline Business Case was completed and unanimously approved by TfN's Board. This was endorsed by Northern leaders and submitted to the Government in March and the Department is now considering it. Over the next 18 months, the Department and TfN will develop proposals for a preferred network, culminating in an updated Strategic Outline Business Case with a single preferred concept for each corridor and recommendations on phasing and delivery models.

**1.136** To develop the programme further, the Department secured an additional £37m at the 2018 Budget, in addition to the £60m budgeted for 2016-20. This will be spent on increasingly detailed development of infrastructure options.

Awarded **£228m** to build **five new large local major road schemes** in Devon, Shrewsbury, Leicestershire and East Riding of Yorkshire. This will reduce congestion, improve connectivity and support economic growth.



Local Growth Fund: **£7.2bn**  
2015-16 to 2020-21

We are supporting projects which meet the priorities of **Local Enterprise Partnerships** such as the A421 to M1 Link Road and Congleton Link Road



“We know that Northern Powerhouse Rail is an opportunity not only to transform the way people travel across the North, but to unleash our economic potential.”  
Barry White, CEO TfN.

## The development of new transport appraisal models

Together, the Department and TfN have developed two new transport modelling systems specifically designed for the north of England to assist with investment appraisal decisions.

The Northern Rail Modelling System (NoRMS) is a transport model that focuses on forecasting the rail demand impacts of infrastructure interventions and service improvements. It captures the benefits to rail users of time savings, reductions in crowding and frequency improvements in addition to the impact on highway users of taking cars off the road. This model incorporates a detailed representation of the North of England, and has been used in the NPR business case to provide the transport user benefits as well as wider economic impacts.

The Northern Economy and Land-Use Model (NELUM) is a Land Use Transport Interaction (LUTI) model, which examines the changes to land use following a transport intervention. The primary purpose NELUM serves is to test how a transport investment, sometimes coupled with changes to land-use policy, will affect the economic performance of the North of England and the UK as a whole. Over the past year, this model has aided the NPR business case providing the potential transformational benefits of the proposed corridors on the network on land use.

## Working with MHCLG to support the creation of new housing

*Work with Network Rail, Highways England and other DfT agencies to release surplus land to support the creation of new homes (contributes to SDG 11)*

**1.137** As a major land-owner, the Government has a crucial role to play in increasing the supply of land for housing. The Department and its delivery bodies are working hard to release non-operational land and to reconfigure operations to free up land for housing.

**1.138** There are many challenges and constraints to releasing land for housing, including planning approvals, regulatory consent, funding and costs of re-provision among others. The Department has to consider future operational requirements before releasing transport land from operational use – especially as increased housing brings increased demand on transport services. In the case of Network Rail, it needs to consult a wide range of stakeholders, in line with the requirements of ORR, before any sites can be declared surplus and sold to the market. Despite these challenges, the delivery bodies successfully disposed of land for nearly 4,600 homes since 2015.

**1.139** The Department and its delivery bodies are working with MHCLG, Homes England, Greater London Authority and other stakeholders to overcome high costs of development (through accessing the Housing Infrastructure Fund and Small Sites Fund among others). Network Rail and Highways England have signed Memoranda of Understanding on partnership working with Homes England. Combining their expertise will help maximise delivery of public sector land for housing.

*Work with MHCLG to make joined-up investment decisions on housing and transport, maximising the impact of transformative investment in projects like HS2 and East-West Rail, and supporting integrated local delivery*

1.140 The Department has continued its activity to support housing growth, working closely with the Ministry for Housing, Communities and Local Government to support the delivery of more homes with the right transport links, in places people want to live. This includes:

- ▶ Jointly assessed bids for MHCLG's Garden Settlement Programme and £5.5 billion Housing Infrastructure Fund, with the first successful Housing Infrastructure Fund bids for the DLR, Carlisle and Exeter all including substantial transport investment
- ▶ Worked with Network Rail, Highways England and Homes England to maximise opportunities for new homes to be brought forward in association with transport investment
- ▶ Collaborated across Government and with partners in the Oxford to Cambridge Arc in taking forward delivery of the shared ambition for growth in the Arc to realise its full potential, including the transport infrastructure needed to support growth and create high-quality places
- ▶ Contributed to the revised National Planning Policy Framework and forthcoming updates to the National Planning Practice Guidance to improve the integration of sustainable and inclusive transport into planning for new housing and other developments
- ▶ Supported local authorities by publishing case studies on how our appraisal framework can be used to demonstrate the benefits of transport investment for dependent housing developments.

# Make journeys easier, modern and reliable

## Support the delivery of new digital technology to improve journeys

*Work with Network Rail to deliver the Digital Rail Strategy published in May 2018, including through pathfinder projects to accelerate the delivery of digital signalling and traffic management across the network*

**1.141** More than 80% of passenger vehicles now have on-train wifi available. Digital signalling solutions also remains a priority for the Department in helping to modernise the UK's railways to reduce delays and increase the number of services. The Digital Railway Strategy, launched in May 2018, cemented the government's ambitious vision for the digital railway in transforming the rail network.

**1.142** As the next step following the Digital Railway Strategy, and in order to support the Rail Sector Deal, the Department requested that Network Rail produce a long-term plan to sustain signalling assets using modern technology. This Digital Railway Long-Term Deployment Plan was published by Network Rail and shows how modern signalling and train control technology could be delivered in a safe and cost-effective manner across the network from Control Period 7 (2024-29).

**1.143** The Local Full Fibre Network team in the Department for Digital, Culture, Media and Sport has a programme which is designed to stimulate commercial investment in full fibre networks in both rural and urban locations across the whole of the UK. The Trans-Pennine Initiative project was initiated to demonstrate the viability of using the rail corridor to deploy high capacity fibre cost effectively and increase the availability of full fibre connectivity services to trackside communities and enterprises, as well as mobile network operators.

**1.144** The outcome will lead to Network Rail Telecoms commercialising digital infrastructure, capturing the challenges and necessary processes of developing a commercial model for other Network Rail projects to adopt.

## *Support the passage of the Automated and Electric Vehicles Bill through Parliament*

**1.145** New vehicle technologies, including automation, connectivity, and decarbonisation of powertrains, offer the potential to make road transport cleaner and safer, as well as broadening access to mobility. The commercialisation and introduction of services to these technologies could encourage new business models as well as other new industrial opportunities.

**1.146** The Automated and Electric Vehicles Act received Royal Assent in July 2018, and forms part of our work to help support the development and deployment of new vehicle technologies.

**1.147** It creates a compulsory insurance regime for self-driving vehicles. The new rules require the driver of an automated vehicle to get insurance that provides third-party cover when they are driving, and when they have handed control to their self-driving vehicle. If the self-driving vehicle caused a collision, any victim would get quick and easy access to compensation. The Department, DVLA and the Motor Insurance Bureau are working to operationalise the insurance measures in the Act. In 2017, an estimated 29,081 people were killed or seriously injured on British roads. Human error was involved in 85% of all road accidents. Automating the operation of a vehicle has the potential to dramatically improve road safety.

**1.148** The Act also gives the Government new powers to improve the customer charging experience and increase provision of electric vehicle infrastructure. This includes being able to require charge point operators to provide a common access method; require charge point operators to make information about their charge points freely available so that locating and accessing the charging network is straightforward and hassle free; and set maintenance and reliability standards for public charge points.



1.149 The Department will continue to monitor market developments to determine whether any significant gaps in charging infrastructure provision emerge in the medium term and whether there may be a case for direct central Government support in areas of market failure. We plan to consult in 2019 on bringing forward regulations so that all new charge points are smart.

1.150 In National Grid's most optimistic scenario for Electric Vehicle (EV) take up, through technology such as smart charging, EVs could increase electricity peak demand by around 8GW in 2040 – an increase of less than 15% on the current peak electricity demand.

1.151 In 2018, sales of ultra-low emission vehicles were 2.6% of all new cars. Since 2011, over 180,000 ultra-low emission battery electric and plug-in hybrid vehicles have been registered in the UK. The UK now has over 15,500 publicly accessible charge points. More than 1,500 are rapid devices – one of the largest networks in Europe.

*Implement a new digital delivery service to improve the availability of information on street maintenance*

1.152 The Department is investing up to £10m on a new digital service that will transform the planning, management and communication of road works. Street Manager is being designed for users from local authorities and utility companies. It will enable them to coordinate and manage over 2 million road works that are carried out on the local road network each year. It will replace the current out-dated systems and it will provide a sub-set of open data on live and planned works for data customers including app developers, SATNAV companies, and network managers, among others.

1.153 The project's benefits will include:

- ▶ better consistency and transparency
- ▶ up to date, accurate and open data on live and planned works
- ▶ map-based forward planning that will support greater collaboration and planning.

1.154 Street Manager will start to be rolled out between November 2019 and March 2020.

## Put the citizen and business user at the heart of a reliable, accessible and cost-efficient transport network

*Publish an Inclusive Transport Strategy to ensure that everyone can access the transport system as easily as possible, including delivery of a further nine step free stations by April 2019*

1.155 The Department published the Inclusive Transport Strategy: Achieving Equal Access for Disabled People in July 2018. It sets out the Government's vision for disabled people to have the same access to transport as everyone else by 2030, with assistance if physical infrastructure remains a barrier. Disabled people should be able to travel confidently, easily and without extra cost.

1.156 The strategy is shaped around a number of commitments falling under five key themes, as identified by a 2017 consultation<sup>8</sup>: promotion of passenger rights; better staff training; improved information; inclusive physical infrastructure and future of inclusive transport.

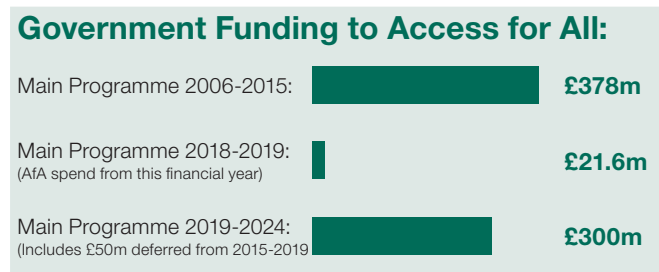
1.157 Key commitments in the strategy include:

- ▶ up to £300 million until 2024 to extend Access for All – making railway stations in Great Britain more accessible, including through step-free access
- ▶ £2 million to install Changing Places toilets at motorway service areas in England, supporting disabled people to travel easily and comfortably on the road network
- ▶ a public awareness campaign to increase disability awareness amongst passengers and raise awareness of the rights of disabled people using transport
- ▶ supporting the Rail Delivery Group (RDG) to improve and simplify Passenger Assist – the system disabled passengers use to book assistance on the rail network in Great Britain
- ▶ provision of further support to the rollout of audible and visual announcements in buses through the launch of a new £2 million fund to help smaller bus operators comply with planned Accessible Information Regulations
- ▶ an accreditation scheme for transport operators to receive formal recognition for positive work to improve disabled passengers' experiences, such as training frontline staff and senior management on disability awareness

<sup>8</sup> The Accessibility Action Plan: Summary of responses

- ensuring future technology is designed inclusively from the outset, with opportunities sought to harness innovation.

During 2018-19 we have completed nine Access for All stations; announced our commitment to expanding the Blue Badge eligibility criteria to include those with less visible impairments, such as autism; established a new Inclusive Transport Stakeholder Group to help us engage with organisations representing disabled people; published a detailed Monitoring and Evaluation Framework setting out how we are going to monitor the progress being made by the strategy and how it is changing the lives of disabled people; and secured a partnership with Muscular Dystrophy UK to receive and distribute £2m on the Department's behalf to install Changing Places toilets at motorway service areas in England, supporting disabled people to travel easily and comfortably on the road network.



**202** Stations Provided with Step Free Access since 2006

**75%** Of rail journeys are now made through Step Free stations, compared to only 50% in 2005

**9** AfA projects to be substantially completed by 31 March 2019

**320** Stations Nominated for AfA in CP6, with an announcement of the successful stations expected in April

*Ensure the introduction of a passenger ombudsman for rail to represent the interests of rail users and support the Office of Rail and Road and Transport Focus as monitor and user watchdog for the Strategic Roads Network*

**1.158** The Department actively supported the establishment by the rail industry of an independent Rail Ombudsman in November 2018 to investigate and rule on unresolved customer complaints, with the power to issue decisions that are binding on the industry. This was a significant step forward for passengers' rights by making sure they are heard and get a fair deal when train companies fall short. Key features of the scheme are that it is free, easily accessible, simple to use and provides a quick, seamless one-stop-shop for passengers.

*Support bus and community transport services through a mix of subsidy and policy initiatives including completion of legislative reforms and new measures on open data*

**1.159** The Department is committed to opening up information on local bus services to all passengers across England through the Bus Open Data Digital Service. This will provide app developers with a single source of information on bus routes and timetables; real time information; and fares. During 2018-2019 we have:

- Undertaken a consultation on 'Improving Information for Bus Passengers' which explored the information to be provided in detail
- Started the building of the Bus Open Data Digital Service delivery model, including developing a prototype.

**1.160** We have already undertaken user research sessions, which were delivered to over fifty stakeholders. The new digital service will be available before the end of 2019.

**1.161** The Government gave legal effect, for the first time in Great Britain, to an additional exemption to the regulation on operator licensing. This exemption allows for local circumstances to be considered and the lighter touch permit regime to be used when making decisions about issuing permits. This is of benefit to communities in rural areas where community transport is often the only transport option. During 2018-2019 we have:

- provided £2.4m directly to charitable community transport operators and paid approximately £400k to local authorities to support community transport initiatives
- devolved a further £2.9m to local authorities annually to help support community transport services provided wholly in-house by local authorities.

**1.162** We published the Government's response and associated guidance, which set out a framework for decisions on a case-by-case basis about whether operators can run services under permits.

**1.163** In July 2018, the Department consulted publicly on proposals in the Bus Services Act 2017 to make Accessible Information Regulations, requiring bus operators to provide audible and visible information on local buses throughout Great Britain. This information would identify the route and direction of respective services, each upcoming stop and points at which diversions start or end.

1.164 We announced the winners of the £48 million Ultra-Low Emission Bus Scheme which provided funding to 19 bus operators and local authorities to support the purchase of 263 zero emission buses and supporting infrastructure.

*Implement the user-focused reform agenda set out in Connecting People – A Strategic Vision for Rail, and deliver sustained investment in the railway aimed at alleviating crowding and providing reliable journeys for passengers and freight operators*

1.165 In November 2017 the Department published 'Connecting people: a strategic vision for rail'. The vision set out the Secretary of State's ambition for the railway and some specific commitments that could contribute to achieving the ambition.

1.166 Since the publication of the vision we have made significant progress on delivering our near-term commitments:

- ▶ We have made available £48 billion to be spent from 2019 to 2024 on our network which will principally be used to improve the reliability and performance of the railways
- ▶ Modern customer services that passenger expect such as the introduction of smart ticketing and the rail ombudsman to settle unresolved disputes
- ▶ Supporting Network Rail to devolve more authority to its newly established regions to meet local customers' needs.

#### *End tolling on the Severn bridge*

1.167 In December 2018, tolls were lifted at the Severn Crossing. This ended over fifty years of tolls since the original Severn Bridge opened in 1966. Drivers no longer face the financial burden of paying a toll every time they travel across the Severn Bridges into Wales and regular commuters are saving more than £1000 per year. Businesses are expected to benefit from strengthened links between communities ranging from Swansea to Swindon, and lower costs will create new opportunities for growth. Highways England, which now maintains and operate the Bridges on behalf of the Secretary of State, began decommissioning the tolling infrastructure in the first half of 2019.

## Improve ticketing systems and information to enable passengers to access the best fares more easily

*Enable passengers on almost all of the rail network to have the choice of travelling without a paper ticket by December 2018*

1.168 In November 2017, in the Strategic Vision for Rail, the Secretary of State set out ambitious plans for the roll out of smart ticketing across almost all of the rail network by the end of 2018. In response, the Department's Smart Ticketing on National Rail (STNR) programme was established to accelerate the availability of smart ticketing across the network. This was a very complex programme of work involving the Department working collaboratively with, and coordinating the activities of, 16 train operators and their supply chain within a challenging timescale. The Programme comprised several distinct, but related, smart ticketing initiatives, including:

- ▶ An £80m project led and funded by the Department to extend the availability and use of smartcards
- ▶ Existing franchise obligations being delivered by operators
- ▶ Work funded by the Department and delivered by Transport for the North to deliver Phase 1 of its Integrated and Smart Travel initiative for the North of England
- ▶ The barcode implementation project managed by the Rail Delivery Group (RDG) on behalf of the wider rail industry.

1.169 Each train operator has chosen its own retail strategy for smart ticketing based on its customers' needs. The operators' retail strategies reflect their different customer and route mix: for example, commuters versus leisure travel, or advance purchase versus on-the-day sales, or long journeys versus short journeys.

1.170 Following the successful delivery of the STNR programme at the end of 2018, all train operators now offer smart ticketing options to their customers covering existing single, return and season tickets, including travel cards.

1.171 To make it easier for customers to select the right tickets for their journeys, we are requiring franchisees to provide clear information about fares and tickets to passengers. We have worked with the Rail Delivery Group to remove industry jargon from ticket vending machines, websites and tickets as part of wider plans to improve the fares system.



**1.172** Our ambition is to ensure that across regional and urban commuter areas smart ticketing can deliver the kind of pay-as-you-go (PAYG) structure that is used in London, to make journeys easier and smoother for passengers.

**1.173** We consulted on the feasibility of delivering PAYG to an expanded area across the South East of England, and will continue to work with other areas to assess opportunities to roll out PAYG. The consultation ran from February to May 2019. As the consultation acknowledged, for passengers to fully realise the benefits of PAYG, there would need to be complementary changes to fares. The consultation investigated options for doing this.

*Support Transport for the North rollout of Smart Ticketing which will deliver modern payment methods and mobile travel information for rail and bus passengers*

**1.174** In the north of England, the Government allocated £150m to the multi-modal PAYG programme already being progressed by TfN under Phase 3 of its Integrated and Smart Travel initiative. More detail has been provided in the section *Support the continued development of Sub-National Transport Bodies*.

## Invest in road and rail maintenance and renewals

*Maintain and improve our national road and rail networks with well-planned, long term investment programmes*

**1.175** The Department is continuing to make record levels of investment in our rail infrastructure. Our funding package for the coming five-year period from 2019 to 2024 makes provision for Network Rail to spend around £48bn in England and Wales. The Department has recognised the importance that passengers and freight users place on a safe and reliable railway and spending plans have been aligned to support this.

**1.176** The funding package includes increased funding for maintenance activities, which are essential to ensuring the safe and effective day-to-day operation of railway services. This need for increase has been driven by the growth of the network as a result of our previous investments, as well as increased levels of traffic on the network as services increase to meet the growth in demand.

**1.177** There is also very substantially increased funding for renewals, reflecting the growing age of many of our current assets. This funding will help to modernise the UK's rail infrastructure, reducing the frequency of failures and improving the reliability of services for passengers.

**1.178** The independent ORR used its Final Determination, published in October 2018, to confirm that Government's funding is sufficient to maintain the safety of the railway while driving improvements in train performance. The Department will now focus on supporting Network Rail in the delivery of its plans, with the aim of ensuring value for public money and making sure that benefits for passengers are fully realised.

*Allocate over £1bn per annum to local authorities to help repair and maintain local roads*

**1.179** 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 remains 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.

**1.180** In the 2018 Budget, the Government announced an additional £420m for 2018-19 for local authorities to tackle potholes, repair damaged roads and keeping bridges open and safe. This increased the Government's investment to £6.6bn from 2015-16 to 2020-21 to help local authorities meet the challenge of repairing and maintaining local roads particularly after the severe weather in early 2018.

**1.181** During 2018-19 the Department has provided £1.2bn to local authorities in England to help with the maintenance of the local road network. This funding is enough to repair over 25m potholes or stop them forming. We also provided £258m to local authorities in England, outside London, through the Integrated Transport Block for small scale transport schemes, including cycling and walking facilities. £323m in Private Finance Initiative credits were made available to support thirty-three street lighting projects, five highway maintenance projects and five major schemes.

## Pothole repair

In January 2019, we announced £22.9m funding for research and trials on new surface materials or pothole repair. This investment will help develop new technologies that have the potential to lead to significant improvements in the road repair and maintenance.

Real-world tests of new road surfaces and technologies in eight local authorities will see which emerging innovations provide long-term solutions. Projects will be delivered by councils and if successful, could be adopted by other authorities.

These schemes include:

- ▶ Expanding the test of plastic roads (Cumbria)
- ▶ The application of gulley sensors to help improve efficiency in highways maintenance (Buckinghamshire)
- ▶ Testing a “Power Road” solution to use geothermal energy to de-ice car parks/ bus stations in sub-zero weather conditions (Central Bedfordshire)
- ▶ A local highway asset management technology incubator to enable more efficient highways maintenance service (Kent).

# Make sure transport is safe, secure and sustainable

## Maintain the safety and security of the transport system

*Implement the Road Safety Statement, continuing to pursue opportunities to enhance road safety*

1.182 The Department published a progress report on the delivery of the 2015 Road Safety Statement's planned actions. Good progress has been made, with 15 of the 23 short-term actions delivered. The Department announced the development of a refreshed Road Safety Statement and two-year action plan targeting four of the most at-risk road user categories: young people, rural road users, motorcyclists and older vulnerable users.

1.183 The Department also announced the successful bids for the Safer Roads Fund to improve the fifty most dangerous stretches of 'A' roads in England and funded a £480,000 partnership between the police, the RAC Foundation and Highways England to trial a new approach to investigating road collisions. This involves more in-depth, qualitative analysis to understand the underlying causes of crashes and road safety incidents. The Department also funded a £350,000 innovation competition to provide police forces with the next generation of mobile breathalyser equipment.

1.184 The Department published the Government's response to the Cycling and Walking Investment Strategy (CWIS) Safety Review Call for Evidence and our two-year action plan. These documents set the framework for consultation on more detailed proposals and a targeted programme of research over the next two years.

1.185 We commenced Driver 2020, a project testing real-world interventions designed to improve the safety of young drivers in their first year of driving, with participant recruitment commencing in January 2019.

1.186 The Department also introduced new legislation allowing learners to drive on motorways when accompanied by a qualified Approved Driving Instructor in a dual control car. We continued to collaborate with the THINK! team to promote road safety issues. In April 2018, we launched new education resources including films, songs and games, for children aged 3 to 16 years old.



## Collision Data

The Department has taken over responsibility for the Collisions Reporting and Sharing (CRASH) system for recording collisions from the Home Office, and is providing the system free to police forces as part of its commitment to road safety. We are also delivering a mobile application that will work on police mobile devices at the scene of a collision, and we are working to integrate CRASH with other key police systems. It is expected that the system will not only deliver savings to police forces, but also deliver more accurate and timely data to the Department, the police, local authorities and the highways agencies.

We have already delivered a dashboard containing up-to-date statistical data to local authorities and Highways England to support their response to developing trends in collisions. Previously this data was available from police only every few months.

*Continue to manage the security risks to transport across the modes through our regulatory regimes, advice, guidance and technology research, working closely with transport industry partners*

**1.187** The Department is a critical component of the UK's national security system. When significant incidents happen in the UK or overseas, transport is either affected or is a major part of the response. During 2018-19 we have refreshed our strategy for working with industry and across Government to manage the national security risks to transport, including terrorism, cyber-attack, and civil and natural hazards, balancing this against the need for an efficient and effective transport network.

**1.188** We work overseas to protect the UK, through our network of International Aviation and Maritime Security Liaison Officers. Our transport security and resilience work significantly contributes to the UK's economy, prosperity and our international position.

**1.189** Within land transport security, the Department has worked closely with rail operators on the implementation of updated rail security regulations. We have delivered a programme of security compliance inspections and testing across:

- ▶ The domestic heavy rail network
- ▶ International rail
- ▶ Light rail
- ▶ The transportation of dangerous goods by road and rail.

**1.190** We have also begun a review into the scope and content of our light rail security regulations.

**1.191** Since the terrorist attacks of 2017, where rented vehicles were used as weapons, the Department developed the Rental Vehicle Security Scheme (RVSS) with industry and security partners. The scheme was launched in December 2018. Membership of the scheme requires companies to follow a 10-point Code of Practice (CoP) which has been designed to improve security cultures and embed security best practice within organisations. CoP requirements include: conducting driver licence verification checks, supporting law enforcement counter terrorism and communications campaigns, sharing data and information with law enforcement agencies, ensuring that appropriate security equipment is fitted to vehicles, training staff to identify and report suspicious behaviours. A register held by the Department contains details of member companies and their Recognised Security Contacts. As part of joining the scheme, companies are also required to complete a security plan indicating how they will meet the requirements of the code.

**1.192** The Department has worked closely with the rail industry to improve our understanding of wider risks to the rail network, such as natural hazards, and how their impacts can be managed when they occur.

**1.193** The UK is a world leader in aviation security. The Department works with the International Civil Aviation Organization (ICAO) to share knowledge and expertise around the world, building the UK's reputation and ability to export its skills, expertise, technology and to strengthen inbound aviation security. The Department's diverse work continues to deliver major security improvements to all members of the travelling public. During 2018-19 we:

- ▶ Committed, through the Aviation Security Strategy to a major programme of work in partnership with industry to get ahead of the threat to aviation
- ▶ Agreed to step up cooperation with international partners, multilateral bodies and industry to work towards full implementation of international aviation security standards. We have an active airport assessment and capacity development programme in countries where the threat is highest to help deliver our mutual goal of safe and secure aviation
- ▶ Continued working with industry to design out the threat, exploit technology, and scale our response wherever possible; to raise the global bar on aviation security
- ▶ Worked collaboratively across Government on developing a national counter-drones strategy, restricted flight for drones above 400ft, extending exclusion zones around airports and building airports' capability to respond effectively to any drone incursions

- ▶ Made progress on developing police powers legislation to be added into a Drones Bill, enabling the police to better enforce the law and investigate misuse
- ▶ Delivered an extensive capacity development programme to improve aviation security standards globally, through the provision of 220 explosive trace detection units to enhance detection capabilities
- ▶ Delivered over 80 courses and training over 1000 security personnel
- ▶ Rolled out the Overseas Aviation Security Information System (OASIS), our new data management system which will allow us to analyse security performance in a flexible way.

**1.194** The UK National Strategy for Maritime Security considers maritime security to be “the advancement and protection of the UK’s national interests, at home and abroad, through the active management of risks and opportunities in and from the maritime domain, in order to strengthen and extend the UK’s prosperity, security and resilience and to help shape a stable world.” The maritime security team within the Department supports this via a range of programmes. During 2018-19 we have:

- ▶ Continued to provide guidance to the shipping and port sectors on mitigation options and response actions to counter-terrorism risk
- ▶ Conducted port security inspections at over 400 port facilities, fourteen British Overseas Territories and four Crown Dependencies
- ▶ Continued to work closely with the maritime sector and agencies including Border Force and the Police to reduce the risk to UK ports from acts of terrorism by ensuring security measures are constantly reviewed and infrastructure vital to our economy remains protected
- ▶ Continued to work with priority countries, to advise and assist in building capability to support their improvement of port security to reduce the risk of successful terrorist attacks.

*Continue to deploy British aviation security experts overseas to work alongside our international partners and host states to improve aviation security*

**1.195** The Department leads the Government’s international work to strengthen aviation security for inbound flights to the UK. Since April 2018, we have undertaken 131 assessments in 27 countries and 62 last points of departure. Following the restriction on carrying phones laptops and tablets (PLATs) from six countries in March 2017, we conducted almost 50

verification visits to ensure appropriate security was in place before we were able to permit the carrying of PLATs. This affected five airports in six countries, covering 46 individual carrier routes, by the end of 2018.

**1.196** We also manage a capacity development programme to assist in mitigating identified vulnerabilities. The Department has provided training, equipment and strategic support to improve aviation security standards globally. We have provided over 220 explosive trace detection units to enhance detection capabilities; delivered over eighty courses and training over 1000 security personnel. The training delivered also includes activities towards sustainable improvement, to develop host state capabilities including ‘Computer Based X-Ray Competency Training’. In November 2018 the Department also launched the first of a series of aviation security animated training films.

**1.197** The success of our international engagement is most notably reflected through the major events that took place in 2018-19. The UK Security Expo took place in November where we hosted thirty international delegates from ten countries. Alongside the Expo, the International Seminar provided a platform to engage with aviation security specialists and senior officials from key host governments. In February 2019, the Department held the first ever joint UK-UAE Global Seminar and Workshop on Aviation Security in Dubai in conjunction with the UAE General Civil Aviation Authority. The event provided an opportunity to discuss and enhance our collective understanding of the threat and global issues related to aviation security and was well received by over 200 delegates from 20 countries.

**1.198** The Department’s aviation programme and security capability continues to be among the best in the world, showing an upward trajectory of performance, building confidence for the travelling public and improving passenger perception at locations of heightened risk. Our cooperative approach to working with host states means we remain a credible global partner in aviation security, both with host states and industry.

*Develop and promote transport cyber security, in line with the National Cyber Security Strategy*

**1.199** The Department’s Cyber Security Team continues to support the Government’s National Cyber Security Strategy to help mitigate and respond to the threat to the sector. Alongside this, a new Cyber Compliance Team has been established to ensure transport operators of essential services are compliant with the new Network and Information Security Regulations (NIS Regulations) 2018. During 2018-19 we have:

- ▶ Continued to work closely with the National Cyber Security Centre to support the transport sector in understanding and mitigating cyber risks

- ▶ Implemented the NIS Regulations 2018 across the transport sector, capturing seventy-two operators of essential services (OES) and publishing formal guidance. OES will return cyber self-assessments in March 2019 for review, adding to our understanding and helping raise the standard of cyber security in the sector
- ▶ Continued to work collaboratively with European and international partners to develop standards and regulations for cyber security.

**1.200** The Department's science and technology programme has continued to fund a varied range of innovative research projects, through the £25.5 million Future Aviation Security Solutions programme which seeks new solutions to strengthen Aviation security.

**1.201** During 2018-19, our scientific research has continued to contribute to the safety and security of transport systems through the provision of evidence and advice to policy teams. Research has focused on understanding the impact of terrorist threats and the application of new technologies or approaches to further improve our capability to protect transport systems.

**1.202** The Transport Security Operations Centre (TSOC) plans for and co-ordinates the Department's response to major incidents affecting the transport network. This year, numerous incidents had a direct effect on the transport sector. When drones disrupted flights from major UK airports over Christmas 2018, the Department worked with partners across Government, law enforcement, the intelligence community and industry to help get back up and running. We worked with the private sector to manage the impact of the Primera and Flybmi insolvencies on passengers and employees. TSOC has also improved aviation security through such programmes as the Nationally Managed Plan, which has strengthened the UK's ability to manage airspace incidents.

**1.203** The team has delivered bespoke crisis response training to over 500 DfT staff, strengthening the Department's ability to deal with multiple incidents and our preparation for EU Exit. TSOC has also provided capability development training to industry, delivering the online Industry Threat Assessment Training.

## Ensure sustainability underpins future transport investment including promoting new technologies to reduce emissions

*Set out our plans for the transition to zero emission road transport by 2050, and for the UK to become the best place in the world to develop and manufacture these vehicles*

**1.204** In March 2019, the Department launched a new Go Ultra Low public communications campaign. Since 2011, we have provided over £700m in grant support to bring electric cars onto UK roads, supporting over 180,000 claims. Over 200,000 ultra-low emission battery electric and plug-in hybrid vehicles have been registered in the UK. Since their launch in early 2018, there are now over 1,200 of the Coventry manufactured zero emission capable LEVC Tx electric taxis across the UK.

### *Together with DEFRA, deliver the Government commitments in the National Air Quality Strategy*

**1.205** In January 2019, the Government published the Clean Air Strategy, which sets out the approach to tackle all sources of air pollution, making our air healthier to breathe, protecting nature and boosting the economy. Air pollution poses an urgent health problem and transport is a significant source of emissions of air pollution; the Clean Air Strategy provides the holistic approach we are following, by reducing emissions from each mode of transport and encouraging a transition to the cleanest options.

**1.206** The immediate air quality challenge is to reduce emissions of nitrogen oxides in the areas where concentrations of these harmful gases exceed legal limits. During 2018-19 we have:

- ▶ Provided comprehensive guidance to 61 local authorities on the development of local plans, including allocating funding from the £275m Implementation Fund and £220m Clean Air Fund
- ▶ Approved plans for Charging Clean Air Zones in Leeds and Birmingham, working closely with the local authorities and the DVLA to launch the new zones in 2020.

**1.207** The Department is working with Highways England to take steps to improve air quality on the Strategic Road Network (SRN). Further work is required to understand the air quality impacts on the SRN and the deliverability of proposed measures.

**1.208** In 2018-19, the Department approved plans for non-charging measures in Nottingham, Southampton, Derby, Fareham, Hampshire and Blackwater Valley, and approved and directed the following local authorities to implement plans for Charging Clean Air Zones: Birmingham, Leeds, Bath and North-East Somerset, Sheffield and Rotherham and Coventry.

**1.209** The Department also published the Road to Zero Strategy in July 2018, which was one of the most comprehensive support packages in the world for the transition to zero emission vehicles. We allocated £200m to support local authorities with their plans to tackle nitrogen dioxide concentrations around roads.



1.210 During 2019-20, the Joint Air Quality Unit will continue to work with local authorities to provide technical support and guidance for the implementation of local plans to improve air quality. A national communications campaign is being developed to raise awareness and coordinate communications relating to charging Clean Air Zones.

### Aviation Emissions

1.211 While the Government supports the thriving growth in the UK aviation industry we recognise that such growth must be coupled with steps to mitigate environmental impacts for carbon emissions and air quality.

1.212 The main contribution to airport-related air quality issues comes from road transport sources, meaning that airport surface access strategies, as well as all other measures to reduce emissions from road vehicles travelling to and from airports, are important in improving local air quality.

1.213 Non-carbon aircraft emissions are a small proportion of overall UK emissions, with aircraft contributing 1% of UK NO<sub>x</sub> emissions and 0.1% of particulate matter (PM<sub>10</sub>) emissions. Nevertheless, the Government aims to reduce emissions from aircraft and to encourage the aviation industry to put in place measures to reduce emissions for which it is responsible through improved international standards. The UK has worked with international partners at the ICAO to agree in February 2019, the first global certification standard for civil aircraft engine emissions. This new stringency level will limit the emissions of non-volatile Particulate Matter (nvPM) and is expected to drive technologies to address non-volatile particulate matter, which in the long run will minimize their potential environmental and health impacts.

1.214 Industry is also working together to reduce airport-related emissions through measures including operating aircraft more efficiently, introducing efficient new technology, using landing charges to incentivise cleaner aircraft, reducing vehicle emissions within the airport boundary and sustainable surface access.

1.215 The Government concluded a consultation on Aviation 2050, a strategy which will set out the challenges and opportunities for aviation over the next three decades. The Strategy will also set out a robust policy framework and package of measures to reduce the harmful effects of aviation on the environment. In particular, the strategy will focus on:

- ▶ Developing a partnership for sustainable growth which meets rising passenger demand, balanced with action to reduce environmental and community impacts

- ▶ Improving the passenger experience, including through technology and innovation, a new passenger charter and action to reduce delays at the border
- ▶ Building on the UK's success to establish new connections across the world and create greater choice for consumers.

1.216 The Aviation Strategy aims to present a clear approach to tackling aviation's greenhouse gas emissions, taking into account the UK's domestic and international obligations to ensure that aviation contributes its fair share to action on climate change.

1.217 In the green paper, the Department sets out its commitment to setting a clear and appropriate level of ambition for the aviation sector and reaffirms that international action is the first priority for tackling international aviation emissions. The Department will continue to lead efforts in the ICAO, the UN body responsible for tackling international aviation emissions, to negotiate for robust, environmentally effective emissions reduction measures that minimise market distortions and address the sector's emissions in the most cost-effective way.

1.218 In 'Aviation 2050', the Department also proposes accepting the Committee on Climate Change's (CCC) recommendation that emissions from UK-departing flights should be at or below 2005 levels in 2050. At the international level, the UK proposes to negotiate in ICAO for a long-term emissions reduction goal for international aviation that is consistent with the temperature goals of the Paris Agreement, ideally by ICAO's 41st Assembly in 2022.

1.219 The Department is awaiting aviation specific advice from the CCC and will take this and the CCC's 'Net Zero' report into consideration in the development of the final Aviation Strategy White Paper, which will be published later this year.

*Continue to lead work with the International Maritime Organization to reduce greenhouse gas emissions from shipping, building on the historic global agreement in April 2018, to phase out greenhouse gases from international shipping as soon as possible during this century*

1.220 Shipping is a highly efficient mode of transport but is responsible for around 2.5% of global greenhouse gas emissions. The sector is growing and if emissions from international shipping are not addressed effectively, they may account for 17% of global emissions by 2050. Responding to this risk, the International Maritime Organization adopted an initial strategy in April 2018 to address shipping industry emissions, with a target of a 50% reduction by 2050 and an aim to decarbonise the sector in this century. The UK strongly supports this strategy and the Department's work is now closely

linked to delivering the ambition of the IMO through measures that deliver emissions reductions in the sector.

**1.221** The adoption of the initial strategy was a major milestone in efforts to address GHG emissions from shipping. Work at the IMO has now turned to considering how the objectives of the strategy can be delivered. The Department played a key role in the negotiations that led to the IMO Initial Strategy, and has continued to play a significant role this year in shaping the IMO debate on measures to deliver the long-term goals.

**1.222** The UK has worked alongside other high ambition states to promote an ambitious and credible work programme at IMO to develop a mix of short, medium and long-term measures that seek to reduce and eventually eliminate emissions from the sector. The Department has focused efforts on shaping the thinking on long term measures to move the sector to low and zero emissions energy sources, and have submitted a paper to the IMO providing a framework for the IMO's work on this critical transition. We have provided support to both the four IMO Greenhouse Gas Study and climate vulnerable states to help build capacity globally to meet this challenge.

**1.223** IMO will adopt a final strategy in 2023, it is vital that a range of well-designed voluntary, technical and regulatory measures are agreed internationally in advance of this to set international shipping on a course to decarbonisation.

**1.224** The Department maintained the UK position as a leading voice on GHG emissions from international shipping and developed a well-informed position on energy transition to inform future IMO work. We aligned international and national objectives through the launch of Maritime 2050 and ensured that our domestic efforts on low and zero emissions shipping support the international goals. We also established strong relationships with civil society, including the establishment of the Clean Maritime Council to inform our policy on GHG and other environmental issues.

#### Key stats:

50% by 2050 – the sectoral reduction sought by the IMO strategy, with a goal to decarbonise the sector as soon as possible this century.

## Capacity building in the Pacific

The Pacific region is extremely vulnerable to the effects of climate change, but Pacific States are also highly dependent on shipping for their everyday needs and face particular challenges resulting from having the highest transport costs in the world.

The Department has worked actively with Pacific States at IMO, and more broadly, to better understand their unique concerns, and to support them as they engage with the IMO process.

We have provided support alongside other Countries to assist Pacific representation to engage in the IMO process and ensure these critical voices are heard in the international process.

## Increase the number of cycling and walking journeys

*Deliver the Walking and Cycling strategy, including the Bikeability programme which will deliver cycle training to 300,000 children during 2018-19 (contributes to SDG 13)*

**1.225** The Department carried out a major cycling and walking safety review in 2018, and published its response in November 2018. This included fifty actions aimed at making the roads safer for those who cycle and walk, including a review of the guidance in the Highway Code to improve safety for vulnerable road users. All the measures in the response are designed to support the continued growth of cycling and walking, with all the benefits they bring to our communities, economy, environment and society.

**1.226** The Department continued to fund the Bikeability programme, with around 400,000 children benefiting from Bikeability training in the academic year 2018-19. We also announced a £21 million investment to improve significant stretches of the 16,575-mile National Cycle Network, to improve cycling and walking around the country, reduce emissions and improve safety.

# Prepare the transport system for technological progress and a prosperous future outside the EU

## Secure the best possible outcome for transport users and businesses in EU Exit negotiations

*Ensure UK negotiators are fully supported to secure the best possible withdrawal and future relationship agreements for transport*

**1.227** During 2018-19, the Department has put in place the necessary preparations to ensure readiness to negotiate the UK's future relationship with the EU in the area of transport. A programme of policy and analytical work has been undertaken and kept under review. Negotiating teams have been identified and a training programme has been delivered.

**1.228** All the Department's EU Exit activity, including preparations for a 'no-deal' exit has been coordinated through formal governance processes.

**1.229** The Department finalised plans to ensure that flights continue in all Exit scenarios, and signed new international agreements to ensure flights continue to third countries, including US and Canada. The UK's security standards will continue to be recognised, preventing UK passengers and baggage facing extra security checks at EU airports. The CAA is fully prepared to take over all functions currently performed by EASA.

**1.230** The EU approved regulations giving UK hauliers access to EU until 31 December 2019, and we ran a multi-channel communications campaign to ensure hauliers have the correct documentation for a no deal scenario. We also finalised measures to ensure UK citizens can continue to drive in the EU with their current driving licences and insurance, and made international driving permits available at over 2,500 Post Offices.

**1.231** The Department, acting on behalf of the Government, secured contracts for ferry capacity to provide critical goods such as medicines, should there

have been disruption at Dover in the event of no deal. Further information on the subsequent out of court settlement to end the legal dispute with Eurotunnel can be found in the Losses and Special Payments section of the Accounts, within the Parliamentary Accountability Disclosures.

**1.232** We also established an operations centre to monitor and manage the flow of goods through ports. Alongside this, we established new UK conformity assessment procedures for marine equipment to ensure safety at sea.

**1.233** The Department, Highways England and other partners worked closely to develop plans to ensure that the Kent road network (particularly the approaches to Dover and Eurotunnel) was ready for EU Exit. This included installation of a steel barrier to support the contraflow system on the M20, meaning the system was in operation ahead of 29 March 2019. This ensured that traffic could continue to flow in both directions at times of cross-Channel disruption.

**1.234** The EU no-deal regulation and other arrangements put in place by operators ensured Channel Tunnel services, including Eurostar and freight, could continue to operate in a no deal scenario. We also put in place measures to ensure bus and coach services continued as normal, including joining the Interbus Agreement.

*Put in place new transport legislation to ensure the UK has the powers it needs when we leave the EU*

**1.235** As part of one of the biggest EU Exit secondary legislation programmes in Whitehall, over 60 statutory instruments were laid to ensure that UK law continued effectively in a no deal scenario. We are now progressing a second EU Exit secondary legislation programme to guarantee a functioning UK statute book in time for the end of the extension period, on 31 October 2019.



## Help establish a separate, distinct international trade policy in preparation for leaving the EU

*Continue to build international transport trade links and work with Department of International Trade (DIT) to support exports and develop transport trade policy*

1.236 The Department has been working closely with the Department for International Trade as the UK develops an independent trade policy, supporting DIT's aim of establishing deeper trade and investment relationships with countries beyond the European Union. This has included developing policy positions as we prepare for the negotiation of new free trade agreements, and engaging with stakeholders across the transport sector to inform our approach.

1.237 The Department has also been working closely with DIT, Department for Exiting the European Union (DEXEU) and the Foreign & Commonwealth Office (FCO) as the Government seeks continuity of our existing EU trade and non-trade agreements as we leave the EU. The Government is committed to ensuring these benefits derived from these agreements are maintained, providing a smooth transition as we leave the EU, for continuity and stability for businesses, consumers and investors.

1.238 Following EU Exit, the Department will support DIT in the negotiation and implementation of new free-trade agreements that deliver benefits for the UK transport sector by reducing barriers to trade and investment and helping businesses to access markets they previously were not able to.

1.239 Alongside our work on trade policy, we have continued to develop our role in export promotion. The Department has looked at key markets and global opportunities where UK supply chains' strengths could be maximised and have engaged with the Department's agencies and Arm's-Length Bodies (ALB) that have an international commercial presence. We are using this knowledge to guide our engagement with embassies around the world and UK industry. In addition, the Department helped UK embassies better understand the UK transport and infrastructure offer and played an active role in DIT's Infrastructure Exports: UK initiative.

1.240 Over the coming year, the Department will support UK expertise at international trade events such as the Abu Dhabi World Road Congress 2019, London International Shipping Week 2019 and Expo 2020 Dubai.

## Sanctions and Anti-Money Laundering Act 2018

The Department has worked across Government on the delivery of the Sanctions and Anti-Money Laundering Act 2018. The Act allows the UK to continue to meet its international obligations in respect of UN Sanctions as well as enabling unilateral sanctions measures and regimes to be implemented. Transport sanctions feature both in the Act and in a number of regime-specific statutory instruments and significant policy work has gone into ensuring these will work effectively post-EU Exit.

We have also taken steps to increase engagement on sanctions with stakeholders, as well as setting up a licensing process that will allow people or companies to seek exemptions from sanctions.

*Continuing to develop the new consultancy – Crossrail International – to leverage the success of the Crossrail project internationally and augment the UK's private sector offer*

1.241 Crossrail International (CI) was established in September 2017 and since then has built a strong consultancy practice supporting rail transport clients globally, which is supporting the UK export strategy. CI's mission is to leverage the knowledge and expertise from the Crossrail Project to provide clients with expert advisors to assist them in realising the maximum value from their respective investments. This approach draws on Crossrail's past and present people (as CI's expert advisors), Crossrail's partners, the IP created and lessons learned from one of the world's most highly complex and extensive metro programmes.

1.242 As a direct result of delivering its mission, CI has assisted its UK partners to win and deliver work on 10 contracts across a broad spectrum of international clients and in turn provided economic benefits to the UK economy. These contracts cover individual consultancy commissions and frameworks for Sydney Metro, City Rail Link Auckland, Metrolinx Toronto, Infrastructure Ontario, MRT Hong Kong, MEF Peru, Rail Projects Victoria and most recently for BART San Francisco. The total value of these contracts is over £70m of which a significant portion is delivered by the UK supply chain.

1.243 Looking forward, Crossrail International is exploring its business operating models whilst in parallel expanding its regions of operation, partners and expert advisors.

## Crossrail International supporting Australia's largest public transport project

Crossrail International is providing specialist consultancy services, on a call-off basis, to its partners Turner & Townsend and HKA in Australia, who have been appointed by Transport for New South Wales as the Managed Services Partner (MSP) for the Project Management Office for Sydney Metro City & Southwest; the second phase of Australia's largest public transport project.

The six-year MSP framework will further develop and manage the governance environment via its independent role, as well as implementing control systems and reporting standards, and providing consistency across the programme to ensure seamless delivery.

Crossrail International's expert advisers are sharing insight and knowledge gained specifically from the Crossrail programme for the delivery of this world scale megaproject, including advice on the client's interface management structure necessary to integrate the various stages of the Sydney Metro programme.

When complete, Sydney Metro will transform Sydney by helping to cut travel times, reduce congestion on the existing transport network and delivering social and economic benefits by supporting business growth, jobs, commercial and residential developments for generations to come.



# Promote a culture of efficiency and productivity in everything we do

## Embed a culture of efficiency and delivery savings within DfT and its Arm's Length Bodies

*Deliver the commitments in the 2017 Transport Infrastructure Efficiency Strategy, including publishing a 'one year on' report detailing progress*

1.244 The Transport Infrastructure Efficiency Strategy (TIES), launched in December 2017 following development as a joint enterprise between the Department, Highways England, Network Rail, HS2 and TfL and is part of the suite of Government and sector initiatives aimed at transforming construction.

1.245 TIES published its one year on report in March which sets out progress in 3 key areas:

- ▶ improving understanding of costs and performance
- ▶ adopting modern methods of construction in infrastructure projects
- ▶ enabling improved delivery, through developing long-term, collaborative relationships with supply chains.

1.246 Delivery is driven by a Taskforce, the Transport Infrastructure Efficiency Taskforce (TIET), which is chaired by Mike Brown MVO, Commissioner, Transport for London.

1.247 In its second year TIES will focus on cost and performance benchmarking. In the longer term, improving the understanding of total programme costs; harmonising standards; and the support for strategic objectives such as lower emissions; less waste; and reducing carbon will be key measures of success.

*Continue to build our commercial capability and working with Crown Commercial Service to deliver the Government's aspiration of 33% of spend with SMEs by 2022*

1.248 The Department's Small and Medium-Sized Enterprise (SME) Action Plan was published in August 2018. The Action Plan outlines how the Department will meet the Government's aspiration of ensuring that 33% of all procurement spend will be with SMEs by the end of this Parliament in 2022.

1.249 The Department has recruited an SME Lead, who coordinates and measures the effectiveness of the SME activities against the measures set out in the Department's SME Action Plan. The Action Plan includes incremental in-year targets of spend with SMEs and visibility of pipeline opportunities that are accessible to SMEs.

1.250 Our spend with SMEs for 2016-17 was 29.9% against an in-year target of 24%; this increased in 2017-18 to 31.3% against an in-year target of 26%.

*Publish the 'Two Years On Transport Infrastructure Skills Strategy Review'*

1.251 The Strategic Transport Apprenticeships Taskforce published its 'Two Years On' annual report in July 2018, celebrating the creation of over 5,000 apprentice starts to date; an increasing Black, Asian and Minority Ethnic (BAME) representation in starts, ahead of Government targets and noting the need for greater female representation in technical and engineering roles.

*Deliver an effective and efficient 2019 to 2020 business planning process, including maintaining the medium term financial forecast (beyond 2020) across DfT and its Arm's Length Bodies*

1.252 In March 2018, the Department agreed a budget for 2019-20 with HM Treasury. This followed a three-month business planning process, which involved



budget holders across the Department and its ALBs. The business planning exercise commenced with a formal commission for all budget holders to update their medium term financial plans (MTFPs). Our overall MTFP extends forward three years, so this exercise not only provided the information for the upcoming financial year, but also provided important information on subsequent years. With this information we considered opportunities for balancing spending plans across future years, to ensure we maintained efficiency going forward.

**1.253** The December 2018 forecasting exercise resulted in confirmation of a trend seen in previous forecasting rounds, of a growing financial pressure due to lower than expected growth in rail passenger income. For 2019-20 this indicated a budget pressure, but having started the process well ahead of the financial year we were able to use this information to challenge forecasts within the Department and its ALBs. We were also able to explore options with HM Treasury for a funding solution.

**1.254** In 2019-20, Network Rail is moving into a new funding arrangement and while finalising our business planning process we identified a requirement to reprofile their expenditure from 2019-20 to later years. With HM Treasury's agreement the Department was able to balance this reprofiling against the budget pressure, which means that we have now started the year with a balanced budget.

**1.255** In February 2019, Network Rail sold 5,261 rental spaces across England and Wales to a consortium of private investors – now the Arch Company. The majority of properties sold were rail arches and 60% of the portfolio was based in London. Network Rail received £1.46bn from the sale and the proceeds helped Network Rail meet its funding shortfall in 2014-19.

## Ensure corporate functions, which support the Department's work are efficient, effective and secure

*Continuing to invest in our capability and skills, including through clear career pathways linked to accreditation and qualifications, focusing on key professions including commercial and project management*

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

**1.257** Since 2010, we have made significant workforce efficiencies, while 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 if our people have the confidence and capability to deliver their objectives. During 2018-19 we

continued to focus on developing core skills in priority areas: commercial, digital and project delivery, and continued to develop our leadership and management capability, investing heavily in talent and development programmes to support this.

**1.258** Staff engagement scores relating to our learning and development offer remains one of the highest across Whitehall. Overall staff engagement has also remained high at 64%.

**1.259** The Department has continued to support the development of its commercial capability including the development of future transport leaders through the Department's flagship Commercial Development Programme. As well studying towards recognised professional qualifications, individuals on the programme undertake placements across a range of major infrastructure projects. Since the programme was launched in 2014, we have supported 52 people through the programme. In 2018-19 a skills gap analysis tool has also been developed within the department aligned to commercial professional standards, supported by targeted training to build a continuous pipeline into senior commercial roles. In 2019-20 there will be a continued focus on building commercial capability, enhancing the contract management capability within the Department.

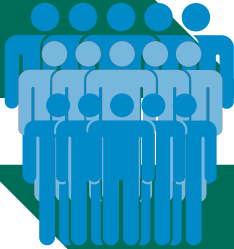
**1.260** In 2018-19 a Project Delivery Profession strategy was launched, setting out priorities to build the profession within the Department to support the successful delivery of our large portfolio of projects and programmes. Since the Association for Project Management (APM) officially became a chartered body in April 2017, we have supported 19 individuals to achieve formal accreditation, and will continue to support a minimum of 20 applications per year going forward.

**1.261** The Department continues to work to deliver the Government's commitment to support three million new public-sector apprenticeships in England as new apprenticeship starts by 2020. While aspiring to achieve the Department's cumulative target of approximately 600 new apprenticeships in the workforce between 2016 and 2020, the Department is focused on providing a quality experience for apprentices, across the country to strengthen skills of our current and future workforce.

**1.262** Currently 1.4% of staff employed by the Department are apprentices, either newly recruited or existing members of staff studying for an apprenticeship. This year, we have broadened the range of professional apprenticeships offered, supporting apprentices in the newly developed finance, policy, commercial and digital apprenticeship standards. The Department continues to offer accredited Leadership and Management training for existing staff through apprenticeship programmes and builds on its successful digital apprenticeship framework cohorts in Swansea.

### DfTc initiatives and programmes

- › **Stepping into Leadership:** a talent programme for high potential HEOs and SEOs aimed at strengthening our Grade 7 pipeline
- › **Interdependent Talent Partnership:** in collaboration with four other departments. A talent programme to provide workshops and cross-government networking opportunities for high potential Grade 6s and 7s aimed at strengthening our senior Civil Service (SCS) pipeline
- › **Commercial Development Programme:** a three year graduate development programme aimed at growing commercial leaders with the appropriate departmental knowledge and expertise
- › **Momentum:** is our DfT group wide leadership development offer for our SCS which also incorporates the Civil Service Leadership Academy offer
- › **Ignite and Velocity:** are our development offers for Ao-SEO and Grade 6/7 communities with a focus on leadership and management, personal effectiveness and career development
- › **Project Delivery Programme (PDDP):** a 12 month talent programme aimed at growing project delivery leaders within DfT



### Cross-government talent programmes

- › **Cross-Government High Potential Scheme** including;
  - › Future Leaders Scheme (21 Grade 6/7s)
  - › Senior Leaders Scheme (6 SCS PB1)
  - › High Potential Development Scheme (4 SCS PB2)
- › **Positive Action Pathway:** a development scheme for underrepresented groups with cohorts at various grades
- › **Fast Stream:** generalist and specialist graduate programme developing technical and leadership capacity aimed at strengthening a diverse and robust talent pipeline for the most senior roles in government
- › **Summer Diversity Internship Programme: work placement opportunities** for graduates and undergraduates aimed at giving people from diverse backgrounds the opportunity to experience what a career in the Civil Service is like
- › **Major Project Leadership Programme (MPLA):** helps develop project leaders to become world-class at successfully leading major projects.

Summer Diversity Internship Programme:

“Participating in the Summer Diversity Internship Programme (SDIP) gave me the opportunity to see how I could use my skills and personal experiences to pursue a rewarding and diverse Civil Service career. The networks I have built while on the SDIP programme have been an immense support, and have really helped me work towards my aspirations for a long-term career in the Civil Service.”

**Bihzad Faryabi,**  
Human Resources

Commercial Development Programme:

“The Commercial Development Programme offered me an opportunity to experience a range of roles and identify a profession (project delivery) within which to progress my career. Since completing the programme, the department has continued to support me in achieving a place on the Project Leadership Programme as the next step on my career path.”

**Nathan Harlatt,**  
High Speed Rail and Major Rail Projects Group

*Deliver our Diversity & Inclusion strategy, with the aim that we should be recognised as an inclusive leader in our sector, and publish a report outlining how we will address the gender pay gap in DfT and its Arm's Length Bodies*

**1.263** The Department values diversity and inclusion in our workforce culture and is actively working to develop a socially inclusive transport system. We are committed to developing an organisation that is inclusive, where our staff are treated fairly and feel able to be themselves. These aims are central to our business and working relationships. The work to progress our Diversity and Inclusion Strategy ensures that as an organisation we are working to support these values.

**1.264** An end-to-end review of the Department's cyber security state was undertaken in late 2018, resulting in the development of a fresh approach to how securing the Department's systems are positioned and practised. This took the form of a contemporary, standards-based, risk-led approach. The Executive Committee has approved a Cyber Security Strategy, supported by a three-year incremental improvement and transformation plan. Key components of the strategy are risk management, enabling digitalisation, developing capabilities and capacity, and responding to cyber threats.

**1.265** The Department works closely across many public-sector bodies in the UK and maintains key relationships across Government through the National Cyber Security Strategy and the Governments' Security Transformation Programme.

**1.266** Following a short review of current governance arrangements in January 2019, a group-wide initiative was proposed and approved to re-establish the Group Senior Information Risk Officer Committee and to develop a supporting Group Chief Information Security Officer Committee, with a view to increase collaboration through increased exchange of information and sharing of best practice. The Department also maintains and supports many distinct specialists within the digital community, and is developing a cyber security skills framework for non-specialists.

## Publicity, advertising and sponsorship agreements

**1.267** 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 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.

### THINK!

**1.268** The award-winning THINK! Road Safety campaign seeks to reduce the number of young drivers killed and seriously injured on our roads by changing attitudes and behaviour. The campaign tackles issues such as drink driving, in car distraction, speeding on country roads and mobile phone use while driving.

**1.269** THINK!'s 2018 Christmas drink drive campaign continued to build on the successful 'mates matter' strategy and encouraged young men to step in when a friend 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, 77% of young males agreed that it was very important to intervene if friends are driving after drinking – an increase of 11% pre-campaign.

**1.270** In early 2019, THINK! launched a new campaign encouraging new drivers to 'learn the ways of the road'. The campaign delivers a series of tips relating to situations where new drivers feel vulnerable or have the highest road casualties, including driving at night, and on country roads and motorways.



## Year of Engineering 2018

1.271 The Year of Engineering 2018 was a year-long Government campaign which aimed to widen the pool of young people who would consider engineering as a career in the UK. The Department led the campaign working closely with the Departments for Business, Energy & Industrial Strategy and Education, the Ministry of Defence, wider Government and the engineering profession to improve the desirability of engineering by increasing awareness and understanding of what engineers do.

1.272 The campaign surpassed all its targets recruiting 1,515 partners across a range of sectors, which helped deliver 5.1 million direct experiences of engineering to 7-16-year olds over the course of 2018, exceeding the targets by 510%. The campaign secured £7.9m worth of partner investment, delivering an audience reach of 242 million through events, digital and social communication and media activity.

1.273 The desirability of engineering as a career increased by 35 percentage points from 47% to 82% among the core audience of 7-11-year olds aware of the campaign and by 14% among 11-16-year olds between January 2018 and January 2019.

1.274 Given the impact and momentum generated by the Year of Engineering – which has been recognised by government, the engineering profession and partners – the campaign will continue under the ‘Engineering: Take a Closer Look’ banner. BEIS will lead ongoing activity to inspire young people to consider engineering careers with Departmental support.

# Single Departmental Plan Indicators

1.275 The tables below set out, against the SDP objectives, the latest published position for each of our SDP indicators. This year's current and previous data vary between indicators. The precise year used is referred to in the indicator description for each table.

**Table 2: Supporting the creation of a stronger, cleaner, more productive economy**

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 = 2018, previous = 2017)	78%	71%
<b>Boosting Infrastructure: number of transport infrastructure projects and programmes in construction and completed in England</b>		
(i) Number of transport schemes from the NICP that are currently in construction in England (current = end 2018, previous = end 2017) <sup>1</sup>	123 programmes and 33 projects	30 programmes and 77 projects
<b>Boosting skills: number of apprenticeships delivered</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 2019, previous data = end June 2018).	2,900	2,784
<b>Savings to business as a result of deregulation: Annual saving since the beginning of this Parliament (£)<sup>2</sup></b>	no qualifying measures to date	–£48.5 million

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

2 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 previous 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 (current data = 19 July 2018, current reporting period of current Parliament, previous data = 7 June 2017, whole reporting period of previous Parliament)

**Table 3: Connecting people and places, with balanced investment across the country to help deliver jobs and homes**

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>		
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 2018, previous data = December 2017)	25 projects and 92 programmes	22 projects and 41 programmes
<b>Average minimum travel times (public transport/walking/pedal cycle/car) to key services in England (minutes)</b>		
(i) Public transport/walking	18	17
(ii) Pedal cycle	15	15
(iii) Car	11	10
(current data = 2016, previous data = 2015) <sup>1</sup>		

1 Source: DfT Journey Time Statistics.



**Table 4: Making journeys easier, modern and reliable**

SDP indicator	Current	Previous
<b>National Rail Passenger Survey, Great Britain: passengers satisfied with their journey (%)</b>		
Passengers satisfied with their journey (current data = Autumn 2018, previous = Autumn 2017) <sup>1</sup>	83%	81%
<b>National Road User Satisfaction Survey: satisfaction score most recent journey, users very or fairly satisfied with elements of most recent journey</b>		
(i) Satisfaction score for most recent journey taken on the Strategic Road Network	88%	89%
(ii) Users very or fairly satisfied with elements of their most recent journey		
(a) Safety	90%	90%
(b) Upkeep	85%	89%
(c) Information provision	92%	92%
(d) Journey time	87%	88%
(e) Roadworks management	61%	63%
(current data = 2018-19, previous = 2017-18)		
<b>Use of smartphones/apps for journey planning</b>		
(current data = December 2018, previous data = December 2017)	86%	84%
<b>Proportion of trains running on time, Great Britain</b>		
(current data = Q4 2018-19 (provisional), previous data = 2017-18)	86.3%	87.8%
<b>Proportion of non-frequent bus services running on time, England</b>		
(current data = 2017-18, previous = 2016-17) <sup>2</sup>	83.0%	82.7%
<b>Average excess waiting time for frequent bus services, England</b>		
Data is available at local authority level, and is not collected nationally	n/a	n/a
<b>Average delay on strategic roads and average delay on local 'A' roads, England: Strategic Road Network and Local 'A' roads</b>		
(i) Strategic Road Network	9.4	9.2
(ii) Local 'A' roads	43.1	47.1
(current data = 2018-19, previous = 2017-18) <sup>3</sup>		
<b>Proportion of flights on time (within 15 minutes), UK (%)</b>		
(current = 2018, previous = 2017) (CAA's methodology for measuring flight accuracy has changed and the 2018 position is not comparable to the 2017 position) <sup>4</sup>	71%	73%

1 Source: Transport Focus.

2 Source: DfT Bus Statistics. 'On time' is defined as between 1 minute early and 5 minutes 59 seconds late.

3 Source: DfT Road congestion and travel times. Units: seconds per vehicle mile. Note: Due to changes in the traffic flow weighting in 2017, a step change has been introduced to the 2019 estimates of average delay. The 2018 data was calculated for quality assurance purposes and used to calculate the 12 month rolling average.

4 Source: DfT Analysis of CAA Punctuality Data. Note: 'On time' is defined as between arriving early and up to 15 minutes late, selected UK airports only. The CAA's methodology for measuring flight performance has changed and the 2018 position is not directly comparable to the 2017 position.

**Table 5: Making sure transport is safe, secure and sustainable**

SDP indicator	Current	Previous
<b>Number of fatalities and serious injuries in reported road traffic accidents, by road user, Great Britain</b>		
Fatalities and serious injuries in reported road traffic accidents		
(i) Car occupants	9,760	9,545
(ii) Motorcyclists	5,760	6,204
(iii) Pedestrians	6,110	5,939
(iv) Pedal cyclists	3,780	3,796
(v) Other	1,200	1,180
(current data = , previous data = January to September 2017) <sup>1</sup>		
<b>Total domestic greenhouse gas emissions from transport, UK (million tonnes of CO2 equivalent)</b>		
(current data = 2017, previous = 2016) <sup>2</sup>	125.9 million	125.9 million
<b>New registrations of ultra-low emission vehicles, total number and proportion of all new registrations, UK<sup>3</sup></b>		
(i) New registrations of ULEVs (current data = 2018, previous data = 2017)	63,993	52,208
(ii) As a proportion of all new vehicle registrations that were ULEVs (current data = 2018, previous data = 2017)	2.1%	1.7%
<b>Annual number of cycling trip stages and walking trip stages per person, England<sup>4</sup></b>		
Current data includes walking trip stages, previous only includes cycling (current = 2018, previous = 2017, cycling trips)	Due to be released on 31 July 2018	17

- 1 Source: DfT Road Accidents and Safety Statistics, <https://www.gov.uk/government/collections/road-accidents-and-safety-statistics>. Note: Figures for serious injuries are as reported by police. Since 2016, changes in severity reporting systems for a large number of police forces mean that serious injury figures, are not comparable with earlier years.
- 2 Source: BEIS UK Greenhouse Gas Emission statistics, <https://www.gov.uk/government/collections/final-uk-greenhouse-gas-emissions-national-statistics>.
- 3 Source: DfT Vehicles Statistics, <https://www.gov.uk/government/collections/vehicles-statistics>. Note: 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.
- 4 Source: DfT, Walking and Cycling Statistics, <https://www.gov.uk/government/collections/walking-and-cycling-statistics>.









# Sustainability Report

# UN Sustainable development goals

1.276 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.

1.277 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 six of these goals through its work which are set out in the SDP. Activities include:

UN Sustainable Development Goal	DfT activity
<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>▶ Through the development of HS2, be an engine for growth that generates jobs and helps rebalance the economy</li> <li>▶ Make 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 industrialization and foster innovation</b>	<ul style="list-style-type: none"> <li>▶ Deliver the first Road Investment Strategy, comprising over 100 major road projects including major upgrades to the A303, A14 and new Lower Thames Crossing, and consult on the second Road Investment Strategy</li> <li>▶ Spend over £50bn to overhaul the rail network in England and Wales over the next six years – increasing asset renewals, improving reliability and reducing disruption</li> <li>▶ Oversee work undertaken by HS2 Ltd to deliver a new, fully integrated high speed North-South railway, radically enhancing rail capacity between London and the cities of the Midlands and the North, and releasing capacity on the existing network to relieve crowding</li> <li>▶ Support the continued development of Sub-National Transport Bodies, including Transport for the North and Midlands Connect, to act as powerful voices for the regions, helping to develop and secure the strategic transport interventions that they need for long term economic prosperity</li> <li>▶ Maintain and improve our national road and rail networks with well-planned, long term investment programmes</li> </ul>
<b>11. Make cities and human settlements inclusive, safe, resilient and sustainable</b>	<ul style="list-style-type: none"> <li>▶ Support cities to develop transport and promote local growth through the £1.7bn Transforming Cities Fund</li> <li>▶ Work with Network Rail, Highways England and other DfT agencies to release surplus land to support the creation of new homes</li> </ul>



UN Sustainable Development Goal	DfT activity
<p><b>13. Take urgent action to combat climate change and its impacts</b></p>	<ul style="list-style-type: none"> <li>▶ Support the passage of the Automated and Electric Vehicles Bill through Parliament</li> <li>▶ Set out our plans for the transition to zero emission road transport by 2050, and for the UK to become the best place in the world to develop and manufacture these vehicles</li> <li>▶ Together with Defra, deliver the government commitments in the National Air Quality Strategy</li> <li>▶ Continue to lead work with the International Maritime Organisation to reduce greenhouse gas emissions from shipping, building on the historic global agreement in April 2018, to phase out greenhouse gases from international shipping as soon as possible during this century</li> <li>▶ Deliver the Walking and Cycling strategy, including the Bikeability programme which will deliver cycle training to 300,000 children during 2018-19</li> </ul>



# Policy development

1.278 The UK's transport networks must be resilient to both transport incidents and extreme weather so as to minimise disruption. Our 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.

## Roads

1.279 The Department undertook work as part of the National Flood Resilience Review (NFRR) 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. This work was completed in 2018 and will assist in ensuring appropriate mitigation and contingency measures are put in place as part of local highway authority resilience plans.

## Rail

1.280 Network Rail's route weather and climate resilience plans outline key investment for the next five years, and asset teams are developing climate change risk assessments strategies which will lead to updated design, operation and maintenance standards.

## Ports

1.281 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 2018-19, 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

1.282 The aviation industry is responsible for developing and monitoring its 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 account the wider effects of climate change when developing and considering applications for airport infrastructure in the South-East of England.

## Rural proofing our policies and programmes

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

1.284 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.



1.285 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.

1.286 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

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.

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

1.288 Our Executive Committee receives regular updates 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 below covers DfTc, DVLA, VCA, DVSA, Highways England, MCA, British Transport Police and HS2 Ltd. While this data 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.

1.289 From 2020-21 the Department will be including Network Rail in the GGC reporting for DfT and 2019-20 will be used to baseline their sustainable performance.

## Summary of performance

1.290 In 2018-19, we have continued to make good progress in 2 GGC target areas:

- ▶ Reducing Greenhouse Gas Emissions
- ▶ Reducing Paper Usage.

1.291 We are on track to meet the 2020 targets for Greenhouse Gas Emissions and Paper Use, and have improved our performance against the Waste to Landfill target. The Domestic Flights and Water targets are proving to be very challenging. Details of our sustainability performance metrics are set out in the following tables.

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

	Achieved to Date
Reduce Greenhouse Gas (GHG) emissions by 36%	42.03%
Reduce domestic business flights by 37%	27.37%
Reduce the amount of waste going to landfill by 10%	27.38%
Reduce total estate water consumption by 9%	15.82%
Reduce paper use by 56%	63.67%



**Table 7: Greenhouse gas emissions**

Greenhouse Gas (GHG) Emissions		2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Gross Emissions (tonnes CO <sub>2</sub> e) <sup>1</sup>	Scope 1: Direct emissions	17,347	16,595	19,618	20,481	18,667	22,831
	Scope 2: Indirect emissions	118,752	125,493	104,944	94,437	93,836	74,096
	Scope 3: Business Travel emissions	7,110	6,927	8,217	8,705	9,682	13,367
	<b>Total Emissions</b>	<b>143,209</b>	<b>149,015</b>	<b>132,779</b>	<b>123,623</b>	<b>122,185</b>	<b>110,294</b>
Related Consumption Data	Estates electricity (kWh)	63,836,998	67,014,564	66,302,021	62,280,588	62,560,792	53,890,162
	kWh per head	2,375	2,683	2,478	2,271	2,198	1,995
	Estates (HE road network) electricity (kWh)	186,168,000	172,988,659	165,494,778	175,280,000	188,760,000	206,503,380
	Private car usage (million road miles)	7.23	5.74	8.43	6.47	8.35	14.61
	Hire car usage (million road miles)	9.51	11.90	10.76	10.22	9.93	14.51
	Financial Indicators	Total energy expenditure	£34,921,253	£37,240,817	£31,056,916	£32,151,988	£35,975,506
	CRC related expenditure	£2,628,812	£2,432,242	£2,463,084	£2,001,105	£1,855,443	£1,696,223
	Expenditure on business travel	£13,390,926	£11,043,926	£12,589,336	£11,601,809	£12,297,647	£11,535,754

### 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 fruitless journeys and the active management of the network (i.e. smart motorways).

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

1.292 Our consumption across a number of indicators has increased when compared to 2017-18 because of the continued development of HS2 Ltd and Highways England estates and increasing staffing levels. We continually seek to improve our management and understanding of water and energy use with the aim of reducing both overall and FTE consumption.

1.293 We have decreased the volume of waste generated from our administrative estate by 20.2% compared to 2017-18. This decrease is as a result of:

- ▶ consolidating orders to reduce packaging
- ▶ increasing the internal re-use of items that were previously recycled or disposed
- ▶ working with our Facilities Management contractors to minimise waste.

**Table 8: Water sustainability**

Water		2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Non – Financial Indicators	Estates water	175,897	170,743	199,706	204,027	220,937	233,029
	m <sup>3</sup> per head	6.54	6.84	7.46	7.44	7.76	8.49
	Emissions from water consumption (tonnes CO <sub>2</sub> e)	60.53	58.75	68.72	70.21	76.02	80.16

**Table 9: Waste sustainability**

Waste		2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Non – Financial Indicators	Total admin waste	4,424.29	3,774.65	3,932.02	4,740.68	4,648.68	3,710.75
	Recycled waste	2,337.28	2,361.42	2,373.76	2,702.56	2,743.66	2,694.91
	Kg per head	126.16	137.96	131.09	156.44	163.29	136.25
	Percentage recycled	52.83%	62.56%	60.37%	57.01%	59.02%	72.62%

#### Direct and Indirect Impacts

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

1.294 An estimated 72.6% 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

1.295 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.

1.296 We are working towards the target in the Greening Government Commitments to 'buy greener products and services'. The Department is committed to 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 Knowledge Hub, 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. Staff with more responsibility for sustainable procurement have undertaken advanced training
- ▶ The Procurement Assurance function – this team provides assurance of all major procurement processes in the Department, to provide confidence to Investment Boards etc. that they are being managed effectively, efficiently and compliantly; this includes consideration of the inclusion of relevant sustainability targets by ensuring consultation with appropriate sustainability experts at appropriate points in the procurement phase. 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
- ▶ Cabinet Office's Procuring for Growth Balanced Scorecard helps procurers consider criteria such as cost balanced against social, economic and environmental considerations. It is mandated for construction and infrastructure contracts above £10m as part of the Industrial Strategy. In the Department, the Balanced Scorecard is embedded within our commercial case guidance and the ongoing procurement assurance process, thereby helping ensure it is taken into account at the earliest stage of our projects.

1.297 A particular area of focus this year has been growing spend through Small and Medium Enterprises (SMEs). The Department's SME Action Plan (published August 2018) outlines how the Department will meet the Government's aspiration of ensuring that 33% of all procurement spend will be with SMEs by 2022. The Action Plan includes incremental in-year targets of spend with SMEs and visibility of pipeline opportunities that are accessible to SMEs.

1.298 To deliver this, we are working closely with our delivery bodies and their supply chains, including Network Rail, Highways England and HS2 Ltd. During 2018-19 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



- ▶ Recruited a SME Lead, who coordinates and measures the effectiveness of the SME activities against the measures set out in the SME Action Plan
- ▶ Disaggregated contracts into smaller lots where possible
- ▶ Worked with tier 1 contractors to share procurement pipelines and advertisement of supply chain opportunities and sub-contracting opportunities on Contracts Finder.

1.299 During 2017-18, the Department's spend with SMEs was 31.3% against a 26% in-year target.

*Payment of suppliers*

1.300 The Department complies with the Chartered Institute of Credit Management's Prompt Payment Code. While 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 five working days of receipt. In 2018-19, we paid 93% of undisputed supplier invoices within the five working day target, and 99% within the thirty day target. **Table 10** shows performance of the central Department and our Executive Agencies during 2018-19.

**Table 10: Compliance with the Prompt Payment Code 2018-19**

Organisation	Percentage of targets met	
	Within 5 working days (Target: 80%)	Within 30 working days (Target: 100%)
DfTc	95%	99%
DVLA	91%	100%
DVSA	93%	99%
VCA	95%	100%
MCA	92%	98%

**Bernadette Kelly CB**

15 July 2019

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







# The Accountability Report









“DfT Non-Executive Board Members continue to be engaged across the Department, providing support, challenge, valuable expertise and an independent voice across governance and assurance, business improvement, policy development and programme delivery.”

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

Departures

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



During 2018-19, 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. This includes continued preparations for EU Exit and work on contingency plans to manage potential disruption to our transport systems.

The membership of the Non-Executive Board Members has not changed since last year, providing continuity and support to the Department. This year, the Non-Executive Board Members have continued to support various areas of work across the Department, by providing additional challenge and scrutiny and acting as independent members on interview panels for senior appointments. Additional contributions from the Non-Executives have included: ongoing work with officials on rail franchising, leading a review on HS2 procurement, continued work on the Department's risk management processes and group assurance activities and supporting officials on digital activity.

The Department's Non-Executive Board Members continue to be engaged across the Department, providing support, challenge, valuable expertise 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 Government Major Project Portfolio (GMPP), providing scrutiny and challenge as part of their wider assurance processes. During 2018-19, 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 information provided to the Board, which enables it to advise and challenge the Department on its strategic direction and on the operational implications and effectiveness of its portfolio, continues to develop. The reports discussed at both the BICC and at the Board provide increased scrutiny and strategic insights into the management and progress of significant projects.

The Board and the supporting sub-committee called the Executive and Non-Executives Meeting have considered a strategic programme of business through 2018-19, including EU Exit readiness, Rail franchising reform, the Glaister Review, and strategic programme discussions on rail, roads, aviation and HS2. The Department also reviewed its approach to managing the Departmental portfolio and an action plan was developed to take forward a suite of governance recommendations, including a number of actions from the Infrastructure Projects Authority review of lessons from recent transport project issues for the effective governance, control and reporting of Major Government Projects.

There were a few changes to the Board during 2018-19. Jesse Norman replaced Jo Johnson as Minister of State, Baroness Vere replaced Baroness Sugg as our Minister in the House of Lords, and we welcomed back Andrew Jones as Parliamentary Under Secretary of State.

At the executive level, we bade farewell to Lucy Chadwick in April 2019 and welcomed Gareth Davies as her replacement, as Director General for International Security and Environment.

Last year, the Board Effectiveness evaluation highlighted the positive impact that the Non-Executives bring individually and collectively across the Group. This year, we are undertaking a lighter-touch effectiveness review with our Non-Executives; to gain valuable insight into their views regarding the Board and its sub-committees. We will also continue to take forward last year's programme of improvements, to ensure we deliver continuous improvement 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 three 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 set out on **page 102**.

2.2 Our funding sits in a number of categories and HM Treasury holds 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 156**). 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 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 2019<sup>9</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, and left the Department on 31 March 2019



## 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>9</sup> Other board members who served during 2018-19 are shown in **Table 8** 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 Department, its executive agencies and a range of other delivery bodies including:

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

2.5 The Department also works 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 The central Department is organised into five groups, each led by a director general, with some areas of work reporting directly to the Permanent Secretary. The main responsibilities for these groups are set out in **Figure 8** below.

**Figure 8: Overview of the Department’s organisational groups, as of 31 March 2019<sup>10</sup>**



<sup>10</sup> International, Security and Environment Group is now called International and Security Group, and Roads, Devolution and Motoring Group is now called Roads, Places and Environment Group

Figure 9: The relationship between the Department 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.

Key:

- Within DfT Accounting Boundary
- Outside DfT Accounting Boundary

Bubble sizes are not to scale but illustrative of the size of spend.

## Register of interests

2.7 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 and a central register is maintained by the Board Secretariat.

2.8 Tony Poulter is 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 Department's Board Investment and Commercial Committee's discussions on all local authority PFI contracts and does not receive the relevant papers or minutes.

2.9 Lucy Chadwick notified the Department in January 2019 of her plans to leave the Department in April 2019. Owing to the nature of the organisation that she would be joining; she made a register of interest declaration. Her responsibilities as Director General for aviation and airports capacity were delegated. She recused herself from discussions on all related topics and did not receive the relevant papers or minutes.

2.10 No other members of the Board have flagged company directorships or other significant interests that may conflict with their management responsibilities in 2018-19.

## Personal data related incidents

2.11 The Department holds personal data on many millions of the UK population, including drivers, vehicle keepers, those taking driving tests, driving instructors, and seafarers. Each year the Group processes millions of transactions involving this and other personal data. We take very seriously our obligations to protect this data. Our preparations for the General Data Protection Regulation (GDPR), which came into force on 25 May 2018, were thorough and have resulted in strengthened governance arrangements and tighter incident management processes. Implementation projects were subject to a number of independent audits, the results of which have been acted upon.

2.12 The introduction of the GDPR has brought with it a new lower threshold for reporting breaches to the Information Commissioner's Office (ICO). This has meant that we have, for the first time, reported a large number of incidents involving the personal data of a single individual.

2.13 In 2018-19, there were 3,808 recorded personal data incidents across the department and its executive agencies. The Department made 522 separate notifications to the ICO. The vast majority of these were low level incidents, often involving administrative errors. As a department we have taken a cautious approach to ensuring that we meet the new breach reporting requirements, and the ICO have not required us to take further action following any of our reports to them.

## Auditors

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

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

2.15 These audits are conducted under the Government Resources and Accounts Act 2000, at an annual notional cost of £719,000 (2017-18: £637,000).

2.16 The audits of the following entities are completed by the Comptroller and Auditor General, but incur a cash or real charge of £1,146,500<sup>11</sup> (2017-18: 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.

11 In addition to these entities, the C&AG audit the accounts of the General Lighthouse Fund (GLF), which consolidates the General Lighthouse Authorities (GLAs). While the GLAs are consolidated into the DfT group, the GLF is not consolidated. As such, the audit fee for the GLF is not included in this total. The audit fee for the GLF for 2018/19 is £90,000. East West Rail Ltd is a new entity in 2018/19 and therefore is not included within the 2017-18 comparative. This reflects the costs of external audit activity only for bodies consolidated into DfT group in 2017-18. Directly Operated Holdings Ltd is a new entity in 2018/19 and therefore is not included within the 2017-18 comparative.



- ▶ CTRL Section 1 Finance PLC
- ▶ LCR Finance PLC
- ▶ East West Rail Ltd.<sup>12</sup>

2.17 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 £100,550 (2017-18: £103,370<sup>13</sup>):

- ▶ Directly Operated Railways Ltd
- ▶ Smaller Network Rail subsidiary bodies
- ▶ Directly Operated Holdings Ltd.<sup>14</sup>

2.18 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 £63,000 (2017-18: £60,400):

- ▶ Air Travel Trust Fund.

2.19 Moore Stephens audits the following entity, providing audit assurance to the Comptroller and Auditor General as the group auditor. This audit incurred a real cost charge of £6,000 (2017-18: £6,500):

- ▶ Air Safety Support International Ltd.

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

<sup>12</sup> East West Rail Ltd is a new entity in 2018/19 and therefore is not included within the 2017/18 comparative.

<sup>13</sup> This reflects the costs of external audit activity only for bodies consolidated into DfT group in 2017/18.

<sup>14</sup> Directly Operated Holdings Ltd is a new entity in 2018/19 and therefore is not included within the 2017/18 comparative.

# Statement of Principal Accounting Officer's Responsibilities



2.21 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 2018/313 and 2017/1256 (together known as the 'Departmental group', consisting of the Department and designated bodies listed in **Note 26** to the Accounts).

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

2.23 In preparing the Accounts, I have complied with the requirements of the Government Financial Reporting Manual and 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.

2.24 HM Treasury has appointed me as the Principal Accounting Officer of the Department for Transport.

2.25 I have appointed the chief executive of each sponsored delivery body as the accounting officer for their delivery body.

2.26 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.

2.27 The general responsibilities of an accounting officer, which includes responsibility for the propriety and regularity of the public finances for which the accounting officer is answerable; for keeping proper records; and for safeguarding the assets of the central Department or non-Departmental and other delivery bodies for which the principal accounting officer is responsible, are set out in full in section 3.3.3 of 'Managing Public Money' published by HM Treasury.



## Disclosure of information to the auditors

As Principal Accounting Officer, I have taken all 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 are fair, balanced and understandable. I take personal responsibility for the Annual Report and Accounts and the judgements required for determining that they are fair, balanced and understandable.

### **Bernadette Kelly CB**

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



# The Governance Statement

## Introduction

2.28 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

2.29 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 the provision of layers of control, scrutiny and assurance to ensure that the Department is achieving its aims and objectives with an appropriate level of control.

2.30 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 10** provides an illustration of the top-level committees that operate in the Department and the chair of each committee.

Figure 10: Governance bodies – board and sub-committee structure



The Accountability Report

<sup>1</sup> 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

2.31 The Secretary of State chairs the Departmental Board. The Board has oversight of five main areas:

- ▶ Performance
- ▶ Strategy
- ▶ Resources
- ▶ Capability
- ▶ Risk.

2.32 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.

2.33 During 2018-19, the Departmental Board met four times. A summary of the Board’s discussions during 2018-19 is provided in **Table 11**.

**Table 11: Overview of the Board’s discussions up to 31 July 2019**

Responsibilities of the Board		Summary of discussions in 2018-19
<b>Performance</b>	▶ Agreeing the Single Departmental Plan and overseeing progress	▶ The Management Information Report which provides an overview of the Department’s performance
	▶ Scrutinising the performance of DfT’s delivery bodies	▶ Non-Executive Board Members Governance Review
	▶ Setting standards and values	▶ The 2018-19 Board Effectiveness Review ▶ HS2 Update on background facts and the economic case for HS2, business case risks and risks associated to the delivery of the programme, schedule and budget and how these were being mitigated.
<b>Strategy</b>	▶ Setting the vision and ensuring activities contribute towards it	▶ Successful designation of the Airports National Policy Statement
	▶ Advising on major policies, projects and programmes	▶ Publication of the Ports Connectivity Study (April 2018)
		▶ TfN had become a statutory body (April 2018)
		▶ Publication of Road to Zero (July 2018)
		▶ Publication of the KPMG TfL Crossrail Governance Independent Review and the KPMG TfL Crossrail Financial and Commercial Independent Review (January 2019)
		▶ Publication of the Gender Pay Gap Report (December 2018).
		▶ Brexit Yellowhammer
		▶ Forthcoming transport technological developments and the opportunities and risks they brought
		▶ Airport Capacity and the Aviation Strategy
		▶ DfT Preparedness for a ‘No Deal’ EU Exit
		▶ NAO had published a report into the Departments’ Brexit planning (July 2018)
		▶ Publication of the Future of Mobility Call for evidence (July 2018) alongside the announcement of our Future of Mobility Business Champions.
		▶ The Government Internal Audit Agency (GIAA) had completed the annual internal audit report.
		▶ Steven Glaister had published his interim report on timetabling (November 2018)
		▶ Publication of the Cycling and Walking Investment Strategy Safety Review summary of evidence (November 2018)



**Table 11: Overview of the Board's discussions up to 31 July 2019**

Responsibilities of the Board	Summary of discussions in 2018-19	
<b>Resources</b>	<ul style="list-style-type: none"> <li>Ensuring sound financial management</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>
	<ul style="list-style-type: none"> <li>Considering the appropriate allocation of Departmental resources</li> </ul>	<ul style="list-style-type: none"> <li>The 2019 Spending Review</li> </ul>
<b>Capability</b>	<ul style="list-style-type: none"> <li>Ensuring we have the capability to deliver</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>
	<ul style="list-style-type: none"> <li>Ensuring we plan to meet current and future needs</li> </ul>	<ul style="list-style-type: none"> <li>Briefing on Cyber Security Threats</li> </ul>
<b>Risk</b>	<ul style="list-style-type: none"> <li>Setting the risk appetite</li> </ul>	<ul style="list-style-type: none"> <li>The Management Information Report provides an overview of the key risks.</li> </ul>
	<ul style="list-style-type: none"> <li>Reviewing key Departmental risks</li> </ul>	<ul style="list-style-type: none"> <li>Update on Key Rail Issues highlighted the key areas of concern for the Department regarding rail</li> </ul>
	<ul style="list-style-type: none"> <li>Ensuring controls are in place to manage risk</li> </ul>	

## Sub-committees to the Board

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 2018-19 is provided in **Table 12**. An overview of board and sub-committee attendance is provided in **Table 13**.

**Table 12: Overview of the sub-committee discussions 1 April 2018 to 31 March 2019**

Sub-committee	Summary of discussions in 2018-19
<b>Executive Committee (ExCo)</b>	<p>ExCo met 48 times between April 2018 and March 2019. 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>Maritime 2050</li> <li>Rail franchising and strategy</li> <li>Diversity and inclusion</li> <li>Regional and spatial strategies</li> <li>Bus policy</li> <li>Gender pay gap</li> <li>Year of Engineering</li> <li>Crossrail</li> <li>Rail pensions and industrial relations</li> <li>Sub-national transport bodies</li> <li>Spending Review</li> <li>100 Years of DfT</li> <li>Annual Audit Plan</li> <li>New Year 2019 Honours</li> <li>Glaister and Williams Reviews</li> <li>People Survey results</li> </ul>

**Table 12: Overview of the sub-committee discussions 1 April 2018 to 31 March 2019**

Sub-committee	Summary of discussions in 2018-19
<b>Executive and Non-Executive Meeting (ENEM)</b>	ENEM considered: <ul style="list-style-type: none"> <li>▶ EU Exit</li> <li>▶ Network Rail</li> <li>▶ Franchising</li> <li>▶ Finance Forecast Retrospectives</li> <li>▶ Rail Timetabling</li> <li>▶ Lessons for DFT from the Glaister Review</li> <li>▶ Local and regional transport risks and opportunities</li> <li>▶ Governance and lessons learned</li> <li>▶ Supply chain management</li> </ul>
<b>Board Investment and Commercial Committee (BICC)</b>	BICC considered business cases, investment decisions, and procurement activity across the following areas: <ul style="list-style-type: none"> <li>▶ Rail franchising, train operating company (TOC) viability, Station re-development, the digital railway programme, TFN smart ticketing, rail network enhancements and maintenance, and Network Rail business planning.</li> <li>▶ The High-Speed Rail 2 portfolio including rolling stock procurements, land and property compulsory purchase, development, design enhancements, Hybrid Bill design, finance, schedule and affordability.</li> <li>▶ Major transport schemes, such as Intercity Express Programme, Thameslink, Crossrail, Northern Powerhouse Rail, and the Oxford to Cambridge Expressway Corridor choice.</li> <li>▶ DVSA projects and the Highways England's Roads Investment Strategy including major road schemes such as the Lower Thames Crossing, A303 and the Transpennine Tunnel.</li> <li>▶ The Airport Capacity programme, maritime freight capacity and EU negotiations.</li> <li>▶ Portfolio reporting for BICC and the Department's Tier 1 Investments, as well Highways England's Capital Portfolio.</li> </ul>
<b>Nominations Committee</b>	<ul style="list-style-type: none"> <li>▶ Senior leaders' learning and development</li> <li>▶ Board capability and performance</li> <li>▶ Diversity and inclusion</li> <li>▶ Non-Executive candidate pool/talent pipeline strategy</li> <li>▶ Arms-Length Body (ALB) non-executive engagement activity</li> <li>▶ Public Appointments Order in Council and pre-appointment scrutiny</li> <li>▶ Results and actions from the Commissioner for Public Appointment's compliance report</li> <li>▶ ALB learning and development leadership schemes</li> </ul>
<b>Group Audit and Risk Assurance Committee (GARAC)</b>	GARAC considered: <ul style="list-style-type: none"> <li>▶ Government Internal Audit Agency (GIAA) and National Audit Office updates, including final opinions for the previous year</li> <li>▶ Interim financial audit results, Management Assurance and Annual Report and Accounts</li> <li>▶ GIAA &amp; Price Waterhouse Cooper (PWC) rail timetabling review</li> <li>▶ Cyber security and attempted fraud updates</li> <li>▶ EU Exit risks and contingency planning</li> <li>▶ Supply Chain Management</li> <li>▶ NAO financial audit and value for money updates and reports</li> <li>▶ Network Rail risk and control framework</li> <li>▶ Departmental risk management process and controls</li> </ul>

**Table 13: Overview of Board and sub-committee attendance up to 31 March 2019**

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	4/4					
Jesse Norman MP	3/4					
Nusrat Ghani MP	2/4					
Jo Johnson MP <sup>1</sup>	2/2					
Andrew Jones MP <sup>2</sup>	1/2					
Baroness Sugg	3/4					
Ian King	3/4	6/6			20/26	2/2
Tony Poulter	4/4	4/6			21/26	
Richard Keys	2/4	5/6		7/7		
Richard Aitken-Davies	4/4	6/6		7/7		
Tracy Westall	4/4	6/6				2/2
Bernadette Kelly	4/4	6/6	41/47	3/7	21/26	2/2
Lucy Chadwick	4/4	5/6	42/47		8/20	
Patricia Hayes	4/4	4/6	43/47		23/26	
Nick Joyce	3/4	6/6	44/47	5/7	21/26	2/2
Clive Maxwell	4/4	6/6	40/47		22/26	
Polly Payne/Ruth Hannant	4/4	6/6	47/47		24/26	
Bridget Rosewell				6/7		
David Hughes <sup>3</sup>				3/3		
Amarjit Atkar				7/7		
Kathryn Cearns <sup>4</sup>				1/2		

1 from 9 January 2018 to 9 November 2018

2 from 9 November 2019

3 Appointment ended 31 August 2018

4 Appointed 17 October 2018



## Compliance with HM Treasury's Corporate Governance Code

2.34 The Department has assessed its compliances with the Corporate Governance Code for Central Government Departments and is compliant with the spirit and principles of the Code. Following the gap identified in 2017-18 in the supporting provisions of delivery body oversight, the Department undertook a programme of work to update the framework agreements between it and its delivery bodies. Going forward a review programme is being managed by Governance Division to ensure framework agreements are regularly reviewed.

2.35 Work continues in 2018-19 to update framework documents between the Department and its delivery bodies. Framework agreements were agreed for East West Rail and DOHL Ltd during 2018-19, and Network Rail's framework agreement was updated in June 2019.

## Board appointments and diversity

2.36 Ministers appoint 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.

2.37 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.

2.38 The Government remains focussed on making public boards more representative of the public they serve and has set a target that by 2022, 50% of all public appointees should be female and that 14% of appointments should be from BAME backgrounds to bring representation into line with the resident population of England and Wales. As of March 2019, 31% and 4% of our public appointments were female and BAME respectively.

2.39 In part, this represents the historic lack of diversity in the transport sector, which makes meeting the Government's targets challenging. However, 44% of new appointments within the year were female, and the Department is committed to continue this level of growth in its Board's diversity.

2.40 In December 2018, Lord Holmes of Richmond published the conclusions of his review into making public appointments more accessible to candidates with disabilities. The Holmes Review recommended a target of 11.3% of appointees with declared disabilities by 2022. The Department has 23% of appointees with declared disabilities, in part due to our sponsorship of the Disabled People's Transport Advisory Committee (DPTAC), and DPTAC's success in attracting candidates with disabilities has helped to inform the strategies suggested by the Holmes Review.

## Our approach to risk

2.41 Risk management is part and parcel 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.

2.42 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 transport disruption 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.

2.43 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 chooses to carry. Due to the ever-changing environment the Department operates in and the inherent need to be flexible to deliver challenging aims, the Board considers the Departmental risk appetite to be 'open', where 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 a consideration of the trade-offs and cost/benefits of mitigating actions. This process considers wider cumulative risk exposures and cross-cutting issues.

2.44 As with all Government departments, the Department is typically cautious when it comes to setting risk appetite targets relating to our internal control processes, such as fraud and accounting procedures, or those that affect members of the public's data or the Department's cyber security. Most Government departments keep their risk appetites under review and we are looking to review ours again during 2019.

2.45 During 2018, the Department simplified and streamlined its risk management processes. The new approach focused on 'clarity and brevity' and getting straight to the heart of the problem, so that proportionate action could be taken. The work on simplifying and streamlining our risk management processes gave us a more intuitive and effective system by:

- ▶ 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
- ▶ reducing the administrative burden of risk management, and making the risk narrative clearer and easier to follow.

2.46 The work done on streamlining risk management was undertaken to prepare for a new risk management system introduced in May 2019. The new risk system, called the Future Business Information (FBI) Project, includes not just risk management information, but also performance, finance and HR information. It is a cloud-based application, designed specifically for the Department's needs and is intuitive and streamlined, being based on the process improvements begun in 2018. As part of this recent roll-out, new reports are being designed that will further assist our risk intelligence and, as a result, our decision-making processes.

2.47 The commitment to build staff capability continues, with dedicated risk management training being carried out with our risk coordinators during the year. These people help to ensure that problems that should be spotted early are addressed.

2.48 During 2018, the Senior Leadership Risk Group (SLRG), which reported to ExCo, offered oversight and challenge on the Department's top risks and threats, and the associated mitigations. The SLRG undertook reviews of each Director General group's top-level risk registers, as a second-line of defence assurance process. The SLRG focused on the balance of risk and reward, which is the key to effective risk management, and ensuring that this was understood by the Department and was reflected in risk identification and management, as well as setting risk appetite. In early 2019, the scope and remit of the SLRG was subject to review, as part of the ongoing focus to improve the Department's risk management environment.

2.49 The Group Audit and Risk Assurance Committee (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.

2.50 We continue to work closely with our delivery bodies, to ensure clarity on where risks are managed and the role of the Department in risk management. The risk escalation protocol introduced last year continues to give direction to our delivery bodies on what they need to escalate to us and when.




## Top-level risks in 2018-19 and key mitigating factors

2.51 The nature of the Department's business means that it must manage a range of risks. **Table 14** sets out the top-level risks that we have been managing during 2018-19. These risks represent the overall risk profile of the Department, taking account of the risks carried and managed by our delivery bodies.

2.52 Our delivery bodies also have their own risk management systems and compile their own top-level registers, of which the Department has oversight. Under the framework agreements and the risk escalation protocol, the Department exercises oversight of its delivery bodies and their risks.

As well as these risks to our business, we have identified a number of additional cross-cutting risks that affect how we do our business. These were identified by the Senior Leadership Risk Group and have been managed throughout this financial year. They include corporate issues such as how we spend our money, and whether we have the right numbers of staff with the right capability to manage key programmes and projects.



**Table 14: DfT’s top-level risk themes for 2018-19<sup>15</sup>**

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, contingency planning and operations.</li> <li>▶ Close involvement with the government’s border work and proactive contingency planning together with other government departments.</li> <li>▶ Dedicated resources to deal with increased requirement for legislation.</li> </ul>	<div style="text-align: center;">  </div> <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>Adverse impact on the environment and public health if greenhouse gas emissions (GHG) and air quality targets are not met.</p>	<ul style="list-style-type: none"> <li>▶ The policies and ambitions set out in our focused modal strategies – Road to Zero, Maritime 2050, Aviation 2050 and our challenge to the rail sector to remove diesel only trains by 2040 have put the UK on a pathway to make substantial emissions reductions right across transport.</li> <li>▶ The Clean Growth Strategy, aims to accelerate the pace of ‘clean growth’, and achieve our economy wide intermediate GHG reduction targets.</li> <li>▶ The Road to Zero strategy sets out the detail of the UK’s pathway to zero emission road transport and an investment of nearly £1.5 billion between 2015 and 2021.</li> <li>▶ The Clean Air Strategy sets out the approach for meeting the 2020 and 2030 national air quality emission ceilings.</li> <li>▶ Continued the delivery of the 2017 Air Quality Plan for Nitrogen Dioxide.</li> </ul>	<div style="text-align: center;">  </div> <p>Climate change is one of the most urgent and pressing challenges we face today, and the UK is committed to tackling it. The new ‘net zero’ greenhouse gas emissions legal target will require a step change in sustained Government action. The challenge is also pressing in the context of our binding carbon targets.</p> <p>The Department is committed to playing its fullest role as we decarbonise the UK economy. We continue to implement our existing commitments. However, with transport accounting for an increasingly large share of the UK’s greenhouse gas emissions, we recognise the need to increase our ambition and step up the pace of progress.</p> <p>The Department remains committed to enabling the delivery of local air quality plans.</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>	<div style="text-align: center;">  </div> <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 previous attacks to increase resilience and set policy direction, including working with the Home Office and police forces.</p>




<sup>15</sup> The risks are colour coded as follows, relating to their rating on the risk register: Red – ‘very high’; Amber – ‘high’; Yellow – ‘moderate’





**Table 14: DfT’s top-level risk themes for 2018-19<sup>15</sup>**

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> Failure to manage new rail timetabling schedules causes disruption to passengers.</p>	<ul style="list-style-type: none"> <li>▶ Pre-timetabling bid planning work undertaken by the DfT Project Management Office (PMO) provided timetable propositions that were viable and did not include high levels of risk.</li> <li>▶ The PMO (Network Rail) assurance process was ongoing as were independent ‘deep dives’ based on the RAG rating of particular changes.</li> <li>▶ DfT officials were regularly briefed on risks by key stakeholders.</li> <li>▶ Ongoing monitoring of infrastructure and rolling stock delivery to ensure these were completed as planned, and any issues mitigated.</li> <li>▶ Industry and DfT will review lessons from the May 2019 timetable change to assess what lessons can be learnt from the assurance and planning process.</li> </ul>	<div style="text-align: center;">  </div> <p>Measures have been taken which have resulted in more stable changes to the rail timetable. However, timetable changes remain a complex undertaking which the Department will continue to monitor closely going forward.</p>
<p><b>5. Rail Services:</b> 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>▶ Monitoring of the High-Level Output Specification for railway control period 6 (April 2019 to March 2024).</li> <li>▶ Monitoring of the Statement of Funds Available during control period 6 (2019 to 2024).</li> <li>▶ Publication of the Rail Upgrade Plan setting out Network Rail’s plans for control period 6.</li> </ul>	<div style="text-align: center;">  </div> <p>Going forward, work is being undertaken to understand future plans and inter-dependencies, including work between DfT and Network Rail to identify opportunities and risks.</p> <p>However, the wider delivery environment remains challenging.</p>

**Table 14: DfT's top-level risk themes for 2018-19<sup>15</sup>**


Risk	Mitigating activities taken so far	Direction of risk trend at year end and explanation of rating and trend
<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 Train Operating Companies (TOCs) and active engagement with owning groups to maintain incentives to deliver benefits for passengers.</li> <li>▶ Analysis to understand the drivers of demand for rail services to better meet the needs of the passenger and encourage a competitive market.</li> <li>▶ Contingency measures are in place to ensure the continued provision of rail services.</li> </ul>	<div style="text-align: center;">  </div> <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>
<p><b>7. Major Rail Projects:</b></p> <p>New Major Rail Projects may not be delivered to time and cost with consequential impacts on the delivery of benefits.</p>	<ul style="list-style-type: none"> <li>▶ Put in place effective controls to ensure effective monitoring of performance and progress across all the Major Rail Projects.</li> <li>▶ Ensured application of sound programme and project management methodologies in all aspects of the projects to maximise chances of meeting time, quality and cost requirements.</li> <li>▶ Worked closely with the delivery organisations to ensure the target prices for all Major Rail Projects are feasible.</li> <li>▶ Maintaining focus on all Major Projects being an integral part of the future railway network as per the 'One Railway' strategy.</li> </ul>	<div style="text-align: center;">  </div> <p>The Department for Transport is working closely with service providers to monitor progress and ensure delivery.</p>
<p><b>8. Airport Expansion:</b></p> <p>There could continue to be a shortage of airport capacity if expansion at Heathrow is not delivered to schedule or within the parameters set by the Government / the Regulator.</p>	<ul style="list-style-type: none"> <li>▶ Defended the government's position against five wide-ranging judicial review claims that challenged the designation of the Airports National Policy Statement.</li> <li>▶ Worked with Heathrow Airport Limited (HAL), the Civil Aviation Authority, Heathrow Community Engagement Board, Heathrow Strategic Planning Group, airlines and other, including community, stakeholders with respect to proposals for appropriate community compensation and promoting constructive engagement on expansion proposals.</li> </ul>	<div style="text-align: center;">  </div> <p>The Department is working with HAL in accordance with a relationship framework document to manage delivery risks and dependencies.</p> <p>The Department regularly reviews risks regarding the delivery of expansion at Heathrow and implements any necessary mitigating actions.</p>

**Table 14: DfT’s top-level risk themes for 2018-19<sup>15</sup>**

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 as agreed with the Secretary of State.</p>	<ul style="list-style-type: none"> <li>▶ Regular risk reviews by the dedicated DfT Steering Group taking into account RIS1 delivery forecasts, with an established Highways England team in place to address potential shortfalls.</li> <li>▶ Regular reporting to ministers on progress.</li> <li>▶ Monthly reporting by Highways England on performance, including the overall status of the RIS portfolio (to both DfT and ORR) with increased transparency and openness.</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> </ul>	<div style="text-align: center;">  </div> <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 control failures in our delivery bodies if we fail to provide clear frameworks and delegations or exercise robust oversight of them.</p>	<ul style="list-style-type: none"> <li>▶ Reviewed framework agreements and delegations to establish clear delegations and controls environment.</li> <li>▶ Established internal fora to share best practice and support sponsorship function. Including working with Finance and HR to raise awareness and upskill sponsors in DfT and its delivery bodies.</li> <li>▶ Shared new risk management escalation protocol to ensure a two-way dialogue on delivery body risks.</li> </ul>	<div style="text-align: center;">  </div> <p>Departmental sponsorship functions are improving and controls environment better understood amongst Delivery Bodies.</p>



**Table 14: DfT’s top-level risk themes for 2018-19<sup>15</sup>**

Risk	Mitigating activities taken so far	Direction of risk trend at year end and explanation of rating and trend
<p><b>11: Supply Chain Failure</b></p> <p>There is a risk of critical transport market or supplier failure due to uncertainty around EU exit.</p>	<ul style="list-style-type: none"> <li>▶ Identification of top 15 strategic suppliers and supply chain dependencies across DfT Group.</li> <li>▶ Enhanced monitoring of key suppliers, including financial and performance criteria harnessing collective intelligence from DfT Group, Cabinet Office and the market.</li> <li>▶ Development of robust and deliverable contingency plans in collaboration with ALBs/Executive Agencies and the Cabinet Office where monitoring predicts/indicates financial distress is present.</li> <li>▶ Implementation of Strategic Supplier Working Group to ensure an holistic understanding of supplier and supply chain risks across DfT Group and to ensure appropriate contingency plans are in place.</li> <li>▶ Regular fortnightly meetings with a cross-Government working group to discover and share cross-cutting issues, e.g. risks arising from common suppliers, impact on capability of fall back options, etc.</li> </ul>	<div style="text-align: center;">  </div> <p>Current work focused on enhancing supplier and market monitoring capabilities, in particular our predictive capabilities, including liaison with UK Government Investments (UKGI) and data analysis providers.</p> <p>Further work proposed with OGDs (including Department for Business, Energy and Industrial Strategy (BEIS), Department for International Trade (DIT) and Cabinet Office to identify and engage key common suppliers, and to examine the aggregated impact on the supply chain across government and ALBs.</p>

## Our framework of internal control

2.53 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.

2.54 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).

2.55 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 2018-19 the following have been embedded within the central Department:

- ▶ the Control Network Group (CNG) – comprising of senior Subject Matter Experts (SMEs) from Group Finance, Commercial, Governance and Human Resource (HR) – has continued to meet throughout the year to ensure oversight and delivery of robust controls and driving compliance with HM Treasury, Cabinet Office and internal controls across the Group
- ▶ reviewed the single controls and approvals framework – a quarterly review process was established with SMEs from the central Department to allow the content of the controls and approvals framework to be kept up to date and any changes to be shared with the delivery bodies
- ▶ maintained a single controls and approvals page – on our intranet, providing a ‘one stop’ summary of major controls, sign-posting detailed internal and external guidance which identifies each responsible owner for that control
- ▶ engaged our delivery bodies – to build greater awareness and drive ownership of the controls framework

- ▶ revised the delegation letters to Directors General and delivery bodies – to ensure relevant reference to financial controls and ownership.

## Governance of our delivery bodies

2.56 The Department operates in a large and complex landscape and much of its business is conducted with and through its delivery bodies. Within the central Department, 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 document.

2.57 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 our framework documents have review points between three and five years, and the majority are published.

2.58 The Department’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 (within the Department’s Accounting Boundary) follows the Department’s management assurance process, the results of which are reviewed by ExCo and presented to GARAC (see **Figure 12**).

2.59 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 2018-19, the Department completed a tailored review of Transport Focus, which will be published in 2019. We continue to work with the Cabinet Office on our programme of tailored reviews for the remainder of the Parliament.

## Financial governance, management and control

2.60 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

2.61 The Permanent Secretary sought a ministerial direction on 7 February 2018 as elements of the Department's EU Exit preparation spending related to the Haulage Permits and Trailer Registration Bill commenced in advance of receiving Royal Assent. The process followed was in line with guidance issued by HM Treasury and the Department for Exiting the European Union (DExEU). The Statutory Instrument received Royal Assent on 19 July 2018 and expenditure by the Department and its Agencies before this date was within the scope of the ministerial direction. In total across the financial year 2018-19 the Department incurred costs of £13 million in respect of these workstreams.

## Fraud, bribery and whistleblowing

2.62 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).

2.63 In 2018-19, the Department continued to raise awareness of the importance of the controls framework across the Group, whilst the Control Network Group, comprising senior Subject Matter Experts from Group Finance, Commercial, Governance, HR and Internal Audit met throughout the year to ensure oversight and delivery of robust controls and driving compliance with HM Treasury, Cabinet Office and internal controls.

2.64 The Department adopts a 'zero-tolerance' culture in relation to acts of fraud, bribery and corruption. We do not permit it under any circumstances - any such acts are investigated fully and where appropriate, disciplinary and/or legal action is taken, in line with Cabinet Office guidelines.

2.65 We hold quarterly meetings of our 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 the Department's compliance with the Government's Counter Fraud Functional Standards.

2.66 All staff in the central Department are mandated to undertake annual on-line fraud awareness training.

2.67 The Department adopted the Cabinet Office's Cross-Government internal fraud policy from November 2018. The policy 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 six cases fall within scope of the policy in 2018-19 (no cases reported in 2017-18).

2.68 In 2018-19, there were no cases of reported fraud in the central Department that resulted in financial loss. Where appropriate, any cases of reported fraud during the same period within the Department's delivery bodies are noted in their own Governance Statements.

2.69 To deal with misconduct in the Department, we have regular communication with staff about 'Whistleblowing' and 'Speak Up!' as part of our commitment to build an organisational culture around challenge where people feel safe to speak up about inappropriate workplace behaviour. 'Speak Up!' provides an approach to widen our conversation with our people on 'feeling safe to speak up and challenge' beyond whistleblowing, to include bullying, harassment and discrimination, and signposts staff to the range of internal, informal and formal routes available to raise a concern and the help and support in place for all concerned parties.

## Equal opportunities, human rights and diversity

2.70 The Department values diversity and inclusion in our workforce culture and is actively working to develop a socially inclusive transport system. We are committed to developing an organisation that is inclusive, where our staff are treated fairly and feel able to be themselves. These aims are central to our business and working relationships. Our work to progress our Diversity and Inclusion Strategy ensures that as an organisation we are working to support these values.

2.71 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. The Department is 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.

2.72 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. Further information can be found in the Diversity and Inclusion section of the Remuneration Report, on page 129.

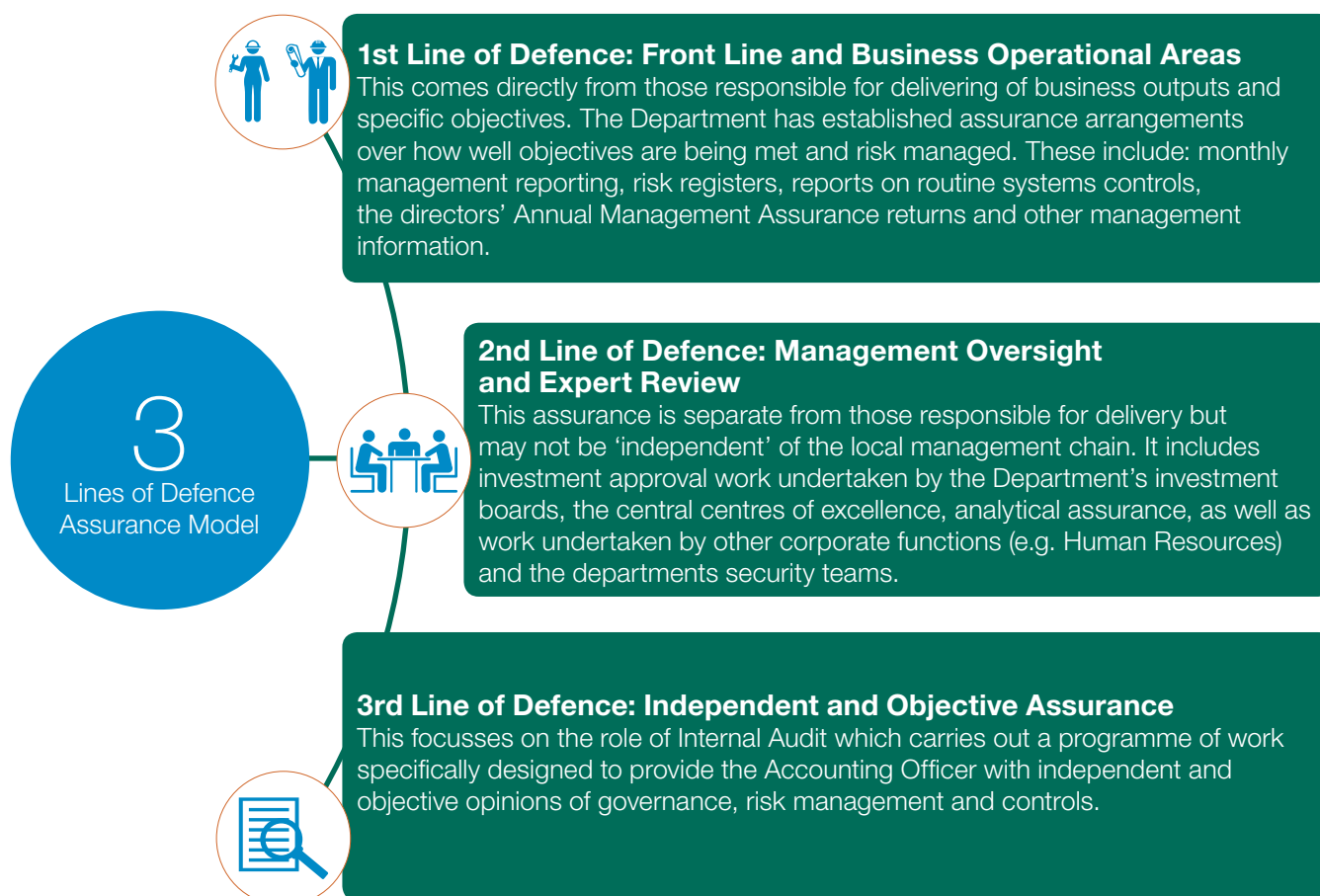
2.74 The Department relies on assurance from multiple sources, consistent with good practice. The three lines of defence model of assurance is set out below, in **Figure 11**.

2.75 Sitting outside the three lines of defence model are external reviews, chiefly by the National Audit Office, which has a statutory responsibility for auditing the financial statements of central Government departments and other public bodies. External reviews are also conducted by Parliamentary select committees and by independent regulators after a project or event, and are rich sources of lessons for organisational learning.

## Assurance

2.73 Assurance means gaining confidence through looking at and assessing evidence for those outputs and outcomes the Department is accountable for. Assurance is essential in providing confidence to decision-makers, particularly the Accounting Officer, the Board and our 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.

**Figure 11: Overview of the Department’s 3 lines of defence assurance approach**



## Management assurance

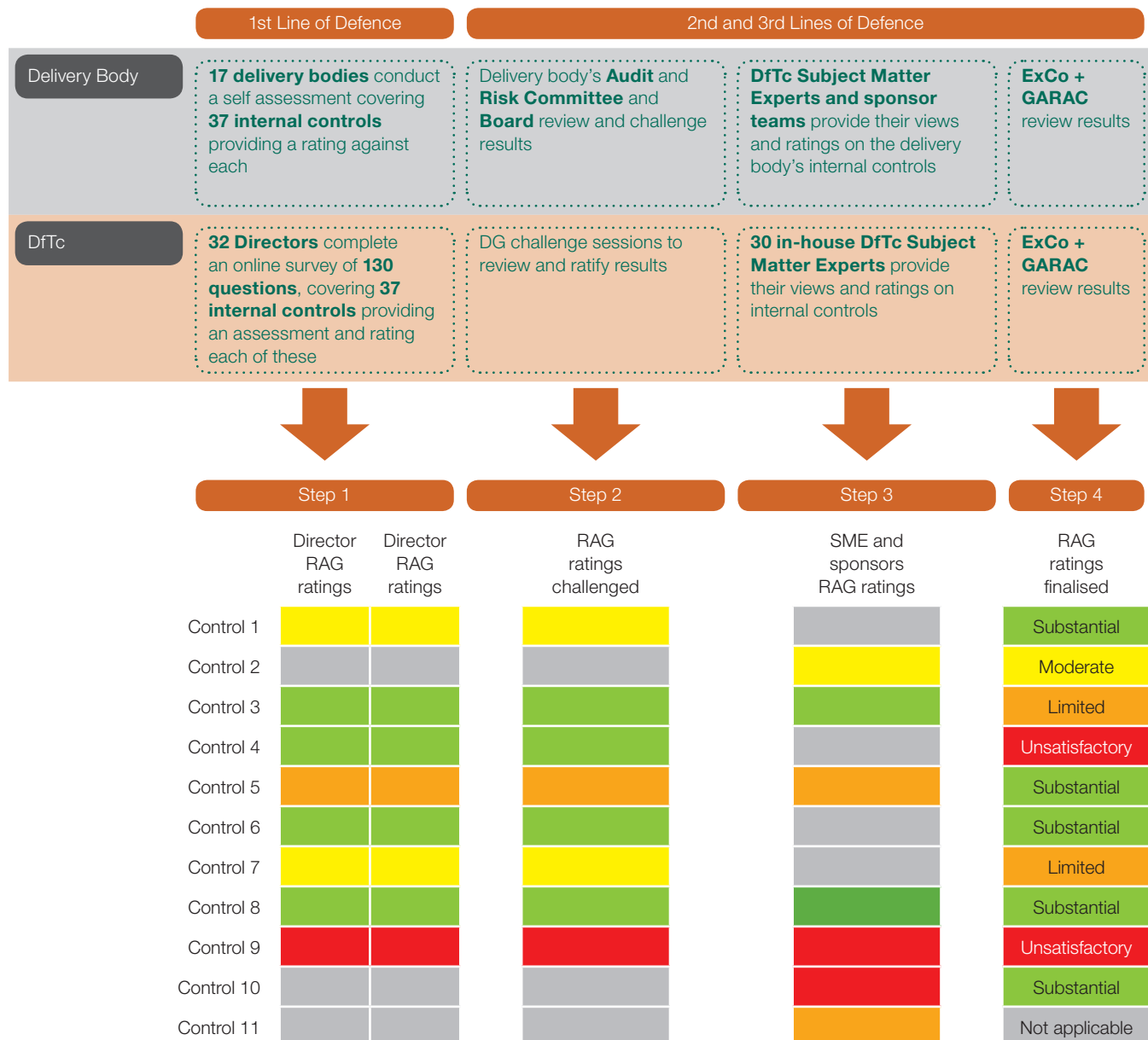
2.76 The Department assesses its compliance with its internal controls annually. Each directorate and all the Department’s delivery bodies (within the accounting boundary) complete an exercise designed to assess how each is performing against thirty-seven key internal management controls. **Figure 12** provides an overview of the process.

2.77 The 2018-19 review identified that, for the central Department, twenty-seven of the thirty-seven areas of internal control were rated as ‘substantial’. For the ten 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.

2.78 For delivery bodies included in the process, there were 14 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.

2.79 Improvements made to the process since the previous year include ensuring that all responses are evidence based, streamlining some of the control categories and strengthening links to the assurance provided via second and third lines of defence. The administrative burden has also been reduced by 15% through a smaller, more refined question set. During 2018-19, to reduce the reporting burden further, groups were asked to report by exception on areas rated substantial or not applicable in the 2017-18 exercise. The Department will keep the process under review to ensure that the assurance provided is robust.

**Figure 12: Overview of the Department’s Management Assurance process**



## Project assurance

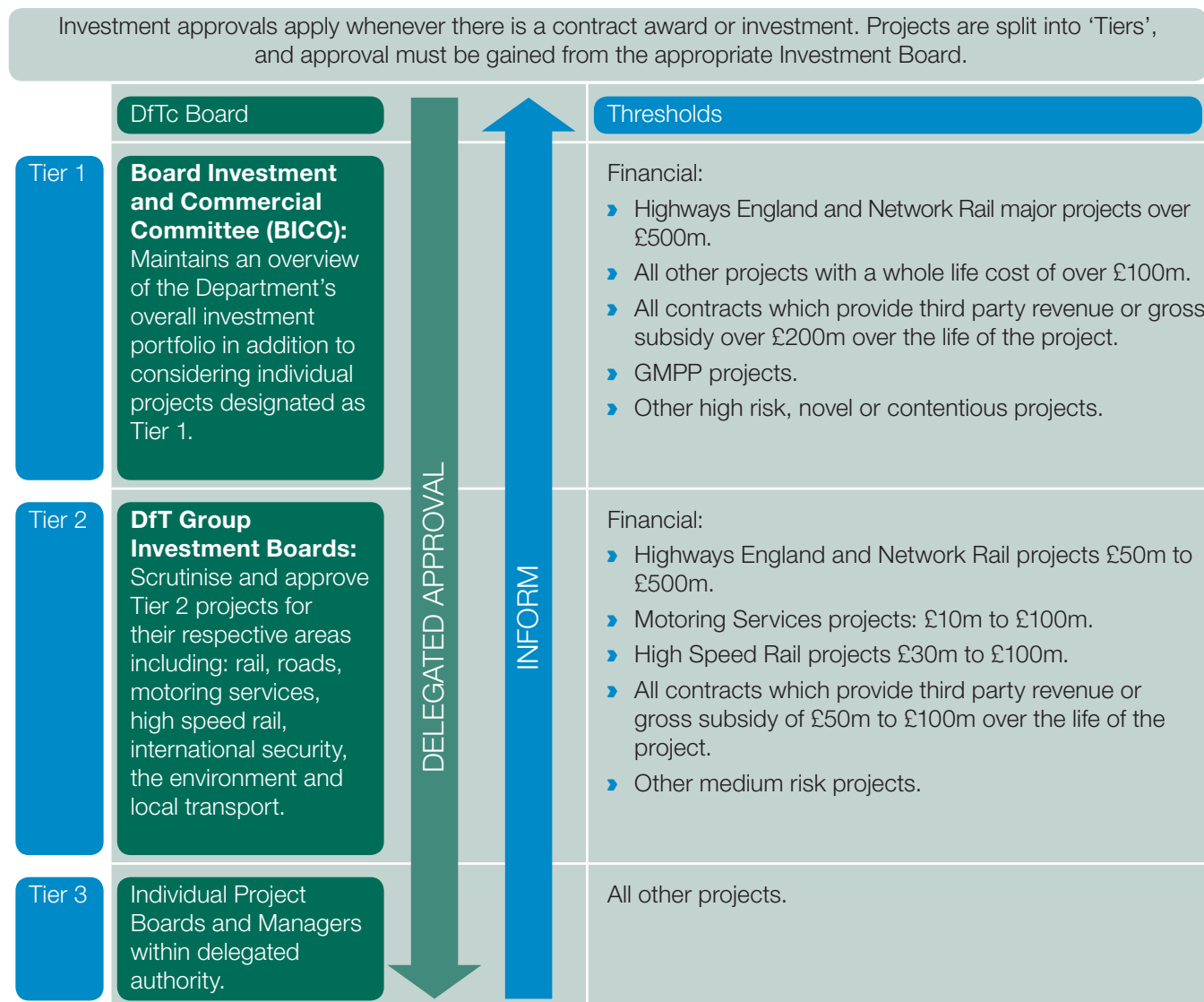
2.80 The Department is committed to building the project delivery capabilities of all its staff. We continue to work closely with the IPA and contribute to the cross-Government Project Delivery Capability Framework which has been rolled out across Government and other workstreams to support the enhancement of the project delivery profession. Getting the right people on the right projects at the right time is also a key focus for the Department and the Project Delivery Profession Board ensures that individuals are supported in their continued professional development.

2.81 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 also run the Project Delivery

Development Programme (PDDP) an internal project delivery learning and development offer to ensure that the Department grows its pipeline of project leaders for the future. This programme is endorsed by the IPA. It supplements 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.

2.82 Within its portfolio the Department has 18 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 13**.

**Figure 13: DfT’s group investment approvals structure**

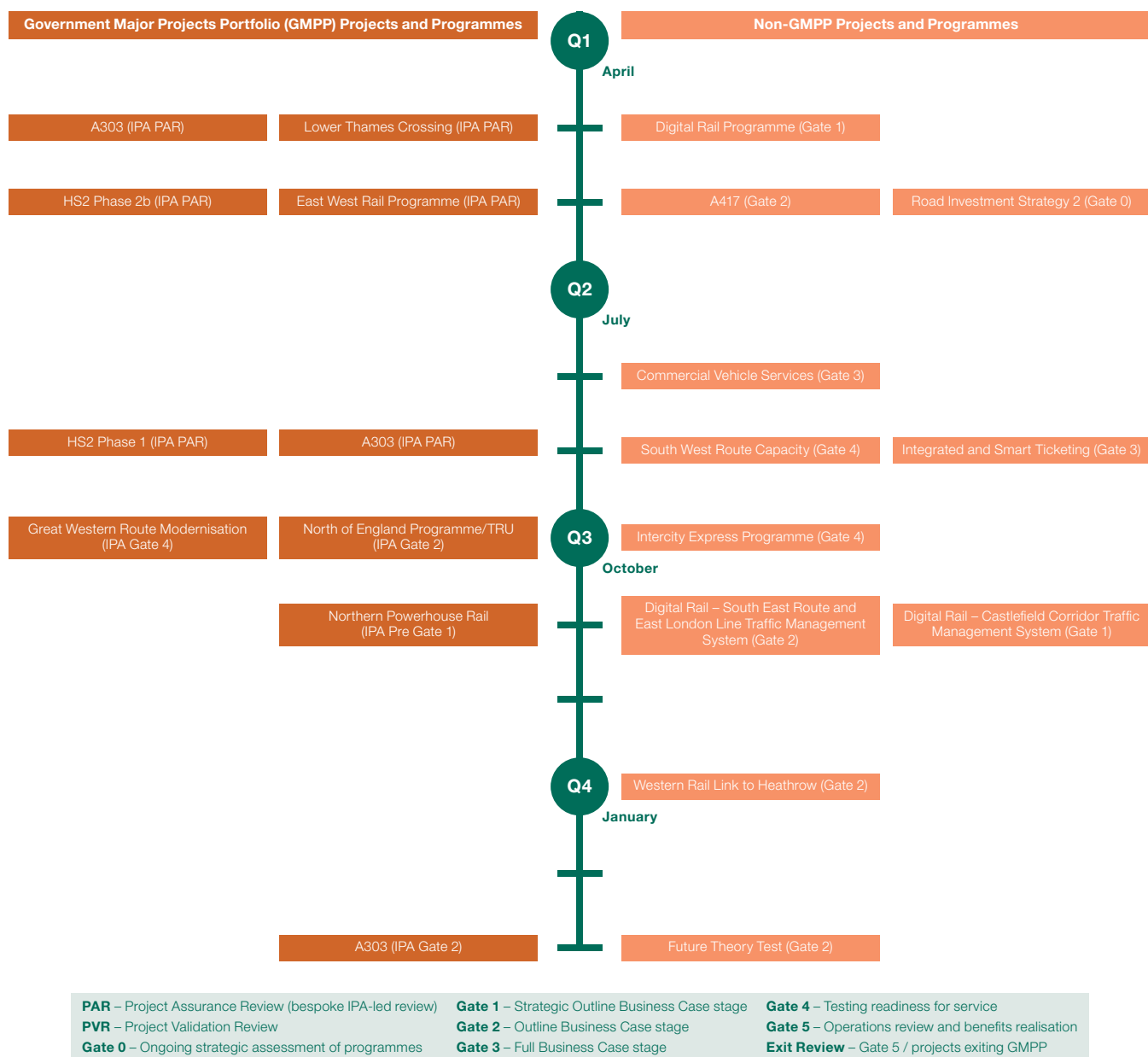




2.83 Decision making for GMPP projects is taken at the Board Investment and Commercial Committee (BICC), which is the Department’s Tier 1 investment decision committee. It is the forum for making informed decisions on Tier 1 projects within a strategic, economic, financial, commercial and management 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.

2.84 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 2018-19 we conducted 20 Tier 1 project reviews. Overview of Tier 1 project assurance in 2018-19, as set out in **Figure 14**.

**Figure 14: Overview of Tier 1 project assurance reviews in 2018-19**



2.85 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.

## Procurement assurance

2.86 Following the Carillion insolvency, our supply chain strategic relationship management capability and capacity has expanded, based on lessons learned and a more proactive look at supply chain resilience across the Departmental family. Earlier warning measures have been put in place in collaboration with the Cabinet Office, our agencies and ALBs to mitigate the risks of supplier failure.

2.87 The Department has a mature assurance function that considers procurement and contract management processes against best practice at key stages throughout the commercial lifecycle. These processes will be further enhanced in 2019-20 with the use of intelligence from supplier relationship management activity, which will drive improvements in market, risk and contingency strategies for the Department's commercial activities.

2.88 Due to the pace at which the ferry procurement was executed in March 2019, the Department deployed assurance personnel at various events and activities (including legal discussions with lawyers) sometimes just as observers so to follow and report on a rapid delivery mechanism. The Department also chaired the evaluation consensus sessions and the 'sight in flight' approach was part of a progressive assurance regime to ensure queries could be raised at the right time without causing post activity delays.

## Contract and supplier assurance

2.89 The Department is committed to ensuring we have proportionate arrangements in place to manage our contracts and suppliers 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 allows us to 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.

2.90 There are three 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.

## Analytical assurance

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

2.92 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.

2.93 There are currently 118 Business Critical Models used in across the Department and agencies, 68 of which are based in the central Department.

2.94 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.

## Analytical assurance in our delivery bodies

2.95 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 across our respective organisations. Where responsibility for decision-making is delegated to our delivery bodies, responsibility for Analytical Quality Assurance (AQA) is also delegated. In July 2018, we established a Community of Practice which brings together colleagues responsible for AQA from the Department and its agencies on a quarterly basis to share good practice and learn from each other's experience. This has deepened mutual understanding of how AQA is applied in different organisational contexts.

## Independent assurance

2.96 The Department's internal audit service is provided by the Government Internal Audit Agency (GIAA), an Executive Agency of HM Treasury. GIAA operates to the public sector internal audit standards, confirmed through its last External Quality Assessment undertaken by the Institute of Internal Auditors in January 2016. The Group Head of Internal Audit (Group HIA) provides the Department's Accounting Officer with an independent opinion on the adequacy and effectiveness of the Department's systems of internal control, and makes recommendations for improvement. The work of GIAA is based on its analysis of the Department's risks and its audit programme, which is approved by GARAC. Regular reports are provided by GIAA to the Department's management, to GARAC and, as appropriate, to the Executive Committee.

2.97 The Group HIA has provided the Permanent Secretary with an annual report on internal audit activity in the Department and its ALBs over the course of 2018-19. This report summarises each of the individual Head of Internal Audit annual opinions for the Department and its ALBs; movement from 2017-18 and provides the Permanent Secretary with the Group HIA's independent opinion for 2018-19 on the level (i.e. Substantial, Moderate, Limited, Unsatisfactory) of assurance that can be placed on the adequacy and effectiveness of the Department and ALB's governance, risk management and internal control arrangements.

2.98 The report showed that across the Department and its ALBs, Internal Audit found evidence that the improved control environment established over the past couple of years has largely been sustained. This is the first occasion where all of the HIA of the Department's bodies are reporting at a Moderate opinion or above. As a result, the Group Audit Opinion for 2018-19 is 'Moderate'. This is the second consecutive year a Moderate opinion has been assessed for the Group and follows the Limited opinions issued in 2016-17 and 2015-16.

2.99 Due to its relative materiality to the Group, it is also highlighted that this is the first occasion in four years that the Network Rail internal audit opinion has now been raised to Moderate by Network Rail's Director of Risk and Internal Audit. Whilst a number of challenges remain in core areas, progress has been made in building a stronger platform which will help support the business in meeting its objectives in the coming year.

## External reviews

2.100 The Department was the subject of seven National Audit Office reports during 2018-19. The Permanent Secretary and members of her leadership team attended four 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 further detail, please see the websites of the Public Accounts Committee and the NAO.

2.101 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.



**Table 15: Summary of PAC reviews undertaken in 2018-19**

Title	PAC report publication date	Purpose of the review	Number of recommendations made by PAC	Number of recommendations outstanding at year end
Rail franchising in the UK	27 April 2018	Poor performance by Govia Thameslink on the the Thameslink, Southern and Great Northern franchise affected the introduction of the new Thameslink services. Additionally, the Committee took evidence on the early conclusion of Virgin Trains' running of the East Coast franchise	5	1
Department for Transport's implementation of Brexit	28 November 2018	The Committee considered the progress the Department had made to date with its EU Exit workstreams and secondary legislation programme	6	All recommendations implemented
Rail management and timetabling	27 February 2019	Following the poor implementation of the May 2018 timetable changes, the Committee took interest in the governance and management of the timetabling process and the Department's management of the rail system	7	6
Brexit and the UK border: further progress review	12 March 2019	Following the procurement of maritime freight services during the winter of 2018 to mitigate potential disruption across the Short Straits in a 'no-deal' EU Exit scenario, the Committee sought further information on the termination of one of the contracts with a freight provider, and wider information on the plans for the movement of goods in a 'no-deal' scenario	4	3

## Accounting Officer system statement

2.102 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.

2.103 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). The Department's AOSS is available at: [Accounting Officer System Statement 2017](#).

## Other governance activity

### Correspondence

2.104 The Department aims to respond to correspondence within twenty working days. In 2018-19 we responded to over 18,500 correspondence cases from MPs, Peers, key stakeholders (Ministerial correspondence cases) and members of the public (treat official cases), 2% lower than the total number of cases received in 2017-18. We replied to 79% within our target timescales (88% in 2017-18), including correspondence responded to by Ministers and officials.

### Information rights

2.105 During 2018-19, the Department and its executive agencies received 2,649 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 98% of these cases (96% in 2017-18).

2.106 The central Department publishes a list of its responses to FOI requests where some or all of the requested information is disclosed. The list can be viewed on our disclosure log available at: [DfT FOI Disclosure Log March 2019](#).

### Better Regulation

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

2.108 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.

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

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

### Shared Services

2.111 The Department has outsourced its Shared Services arrangements with Arvato until May 2023. This platform covers 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

2.112 The central Department is committed to responding to complaints within twenty 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 2018-19 and the previous three years is provided in **Table 16**.

**Table 16: Number of complaints**

Year	2018-19	2017-18	2016-17	2015-16
DfTc	5	8	23	24
DVLA	4,106	3,987	4,495	5,283
DVSA	9,100	6,435	11,553	15,704
VCA	3	9	8	10
MCA	80	34	15	25
Highways England	5,022	5,031	4,880	2,259
HS2 Ltd	518 <sup>1</sup>	64	56	47
CAA	195	131	178	143
Network Rail	-	-	-	-
ORR	1638	1,433	1,514	-
BTPA	0	2	1	-
<b>Total</b>	<b>20,667</b>	<b>17,134</b>	<b>22,723</b>	<b>23,495</b>

1 HS2 Ltd's increase in complaints over the past year can be attributed to the increase in construction work across Phase 1, resulting in a higher number of complaints about noise, vibration and traffic concerns.

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

Year	2018-19	2017-18	2016-17	2015-16
DfTc	2	3	4	-
DVLA	211	165	188	126
DVSA	59	45	42	28
VCA	-	-	-	-
MCA	7	1	3	4
Highways England	49	32	24	6
HS2 Ltd	13	3	8	1
CAA	5	3	4	-
<b>Total</b>	<b>346</b>	<b>252</b>	<b>273</b>	<b>165</b>

**2.113** HS2 Ltd's increase in complaints over the past year can be attributed to the increase in construction works across Phase One, resulting in a higher number of complaints about noise, vibration and traffic concerns.

**2.114** 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 received for review by the ICAs in 2018-19 and the previous 3 years is shown in **Table 17**.

**2.115** 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.



**Table 18: Investigations by the PHSO<sup>1,2</sup>**

Organisation	Complaints accepted for investigation		Investigations upheld or partly upheld		Investigations not upheld	
	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18
DfTc	-	-	-	-	-	-
DVLA	11	9	-	5	5	8
DVSA	-	3	-	-	-	-
VCA	-	-	-	-	-	-
MCA	-	1	-	-	-	-
HE	-	-	-	-	-	1
HS2 Ltd	-	3	-	1	-	-
CAA	-	-	-	-	-	-
ICAs	-	-	-	1	-	-
<b>Total</b>	<b>11</b>	16	-	7	<b>5</b>	9

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

2 The Ombudsman made 19 recommendations across 6 of the cases in 2018-19. Of these, 15 are closed, and 4 remain open.

## Health and Safety

2.116 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 2018-19 and previous years. As expected, the figures for DVSA remain higher than for the rest of the Department and its executive agencies due to the operational nature of its work. The figure also includes accident figures involving members of the public taking driving tests both in cars and on motorbikes.

**Table 19: Number of RIDDOR reportable**

Organisation	2018-19	2017-18	2015-16
DfTc	0	0	3
DVLA	5	8	8
DVSA	2 staff and 7 third party	12 staff and 19 non staff	21
MCA	7	6	5
VCA	0	0	0
<b>Total</b>	<b>21</b>	45	37

\* 12 staff, 19 Non staff

## 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.

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 the limited assurance opinion by the Group HIA in 2016-17. This includes improving the operation and implementation of key controls across the Group and a continued focus on delivery body governance. I am pleased that the opinion remained at Moderate, and that Network Rail's 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**

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

2.117 Our vision for the Department is of a place where people feel proud to work, consistently deliver to the highest standards, and where everyone can fulfil their potential. 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.”*



## Employee Engagement

2.118 The combined Civil Service People Survey engagement score for 2018 for the Department and its agencies is unchanged from the previous year at 59%.

2.119 VCA and DVSA both achieved 3% point uplifts, DfTc and MCA scores were unchanged, but DVLA experienced a small decrease (2%) to 61%.

2.120 The Group remains a high performer in six areas: DVLA is a high performer for the My Manager and Resources and Workload themes; as is DfTc for the My Work, Learning and Development, Inclusion and Fair Treatment and Leadership and Managing Change themes. DVSA, VCA and MCA continue to make progress across almost all themes.

Further information on the People Survey can be found at **this link**.

**Table 20: Civil Service People Survey engagement scores 2014 to 2018**

Engagement Index (%)	2018	2017	2016	2015	2014
Civil Service	62	61	58	58	59
DfTc and agencies	59	59	58	54	56
DfTc	64	65	63	61	57
DVLA	61	62	63	59	60
DVSA	52	49	43	40	48
MCA	65	65	64	59	59
VCA	64	61	62	62	64

## Our staff numbers

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

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

Average number of staff					2018-19	2017-18
	Permanently employed Staff	Others	Ministers	Special advisers	Total	Total
Average number of persons employed	60,499	1,380	5	2	61,886	60,505
<b>Of which</b>						
DfTc	2,553	58	5	2	2,618	2,413
Agencies	6,406	169	-	-	6,575	6,515
Other delivery bodies	51,540	1,153	-	-	52,693	51,572

1 Excluding DVSA which is outside of the accounting boundary.

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

				2016-17
	Permanently employed Staff £m	Other Staff £m	Total £m	Total £m
Wages and salaries	2,888	42	1,930	2,776
Social security costs	314	-	314	290
Other pension costs	414	-	414	390
Sub-total	<b>3,616</b>	<b>42</b>	<b>3,658</b>	<b>3,456</b>
Gross staff costs	(1)	-	(1)	(1)
Less recoveries in respect of outward secondments				
<b>Total net costs</b>	<b>(1,139)</b>	<b>(20)</b>	<b>(1,159)</b>	<b>(1,083)</b>
Core Department and Agencies	2,476	22	2,498	2,372
Core Department and Agencies	410	15	425	411
Departmental Group	2,476	22	2,498	2,372



**Table 23: Number of persons of each sex who were employees of the Department and its executive agencies as at 31 March 2019**

	Men	Women
Number of persons of each sex who were directors of the entity Permanent Secretary and Directors General	3	4
Number of persons of each sex who were senior managers of the entity Members of the Senior Civil Service (excluding above)	112	68
Number of persons of each sex who were employees of the entity Employees in (i) DfTc and (ii) DfT including agencies	i) 1,639 ii) 4,866	i) 1,149 ii) 5,358

## Staff redeployments

2.122 This data relates to the central Department only.

**Table 24: Staff Loaned in to DfT**

	Numbers of Staff	Loaned in short term (6 months or less)	Loaned in long term (more than 6 months)	Average loan (in months)
Paid for by DfT	25	18	7	7
Not paid by DfT	44	35	9	6
<b>Totals</b>	<b>69</b>	<b>53</b>	<b>16</b>	<b>-</b>

2.123 Staff loaned in are classed as an administration cost. The cost of staff on loan to the Department in 2018-19 is £379k.

**Table 25: Staff Loaned out of DfT**

	Numbers of Staff	Loaned in short term (6 months or less)	Loaned in long term (more than 6 months)	Average loan (in months)
<b>Totals</b>	<b>6</b>	<b>5</b>	<b>3</b>	<b>7</b>

2.124 Staff on loan from the Department are not paid for by the Department, but are paid by their host department.

# Diversity and Inclusion

**2.125** The Department wants to be a leader on diversity and inclusion (D&I) in both the Civil Service and the Transport Sector.

**2.126** In 2017 we published our first Diversity and Inclusion strategy, 'Different People. One Team' which explains our five shared goals for a more diverse and inclusive workplace by 2021.

**2.127** It is essential we can understand and reflect the needs of the society we serve, and draw on the widest possible talent pool to deliver our crucial transport objectives. In addition to the over-arching strategy, each part of the Group has its own Inclusion Action Plan. These are aligned to our five goals and set out the activity underway in each of our business areas.

**2.128** The Department publishes its equality monitoring data annually on [gov.uk](http://gov.uk).

**2.129** Bernadette Kelly is the Social Mobility Champion for the Civil Service and the Department. 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), LGBT+ (Nick Joyce), disability and wellbeing (Clive Maxwell), race and faith (Patricia Hayes). They act as change agents, responsible for reiterating the Department's commitment to becoming one of the leading government departments in promoting good practice on diversity and inclusion in employment.

## Staff networks

**2.130** There are a range of staff networks in the Department, providing support in a number of ways. They are not 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.

Our networks are strong partners of our diversity and inclusion work and include representing people and engaging on matters relating to race, faith, disability, gender, caring responsibilities, sexual orientation and identity, age, social mobility, working pattern, working location and armed forces veterans.

**2.131** The Department's gender pay gap information is published as part of the Department's Gender Pay Gap Report. Our mean gender pay gap (GPG) is 15.6% (2017-18: 16.9%) and our median pay gap is 15.6% (2017-18: 22.6%).

**2.132** Our GPG is driven by different levels of gender representation across all grades and across different locations, as well as the fact that there are fewer women in some of the specialist, technical roles which attract additional allowances. Work to tackle the gap includes actions to: ensure we have an inclusive culture where women can thrive; remove barriers in attraction and recruitment; and support women to develop and progress.

## Promoting the Department as a Disability Confident Employer

**2.133** In 2017, the Department of Work and Pensions accredited the Department as a 'Disability Confident Leader Level 3' employer. The Disability Confident scheme encourages employers to become more confident about employing disabled staff. DVLA has been separately accredited as a 'Disability Confident Leader Level 3' employer, so that they could be listed separately and support Welsh organisations directly.

**2.134** Since gaining accreditation, the department continues to be committed to supporting disabled employers and promoting the department as an employer of choice for people with a disability.

**2.135** Further enhancements have been made to the recruitment approach used in the department with the introduction of Success Profiles. This builds on the work the department had already completed to broaden the way we select successful candidates. Success Profiles allow the hiring manager to choose from five possible areas of assessment; Ability, Strengths, Behaviours, Experience and Technical. Assessing candidates using Success Profiles provides a more rounded picture of the individual, removing some barriers to candidates and support the department to select the most suitable candidate for the job.

**2.136** 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. In 2018 we launched new careers pages for the department on the Civil Service Careers website, to showcase what it is like to work in the department and the breadth of opportunities available.

**2.137** Following the completion of an Inclusion Audit of recruitment processes by The Clear Company, all the departmental resourcing group have been confirmed as Accredited Recruiters by completing The Clear Company Inclusive Recruitment and Selection programme. Our hiring managers also all undergo unconscious bias training.

**2.138** We want to ensure that anyone with a disability can 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 workplaces 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.

**2.139** We have disability networks across the Department, 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 dyspraxia 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

**2.140** 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.

**2.141** Employee policies introduced in 2018-19 include:

- ▶ a new performance management process based on monthly rather than end year assessment
- ▶ a ‘speak up’ message aimed at encouraging staff to raise issues of concern such as harassment and bullying or financial impropriety, and providing different channels for them to do so

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

**2.143** 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.

**2.144** TU representative – The number of TU representatives employed by the department and the cost of facility time is set out below:

Number of employees who were relevant union officials during the relevant period	FTE <sup>1</sup> employee number
146	134.7

<sup>1</sup> Full Time Equivalent

**2.145** Percentage of time spent on facility time – How many employees who were TU representatives officials employed during the relevant period spent.

Percentage of time	Number of employees
0%	31
1-50%	114
51%-99%	1
100%	0



**2.146** 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	£232,488
Total pay bill	£635,582,615
Percentage of the total pay bill spent on facility time, calculated as: (total cost of facility time ÷ total pay bill) x 100	0.04%

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

Time spent on paid TU activities as a percentage of total paid facility time hours calculated as: (total hours spent on paid TU activities by TU representatives during the relevant period ÷ total paid facility time hours) x 100	0%
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- i) Based on payroll data March 2018-April 2019 for DfT(c), DVLA, DVSA, MCA and VCA only.
- ii) Departmental policy is that Trade Union Activity does not attract paid facility time.

**2.148** Average working days lost to sickness absence for the 12 month period ending 31 March 2019 for the central Department and its executive agencies was 8.0 days. This is a small reduction of 0.4 days on the year to 31 March 2018 (8.4 days). 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

**2.149** 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 the Department. The number of posts agreed for external recruitment during 2018-19 was 2077.

**2.150** In 2018-19, there were 74 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 nearly half of the total (33).

### Service contracts

**2.151** 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.

**2.152** 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.

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

# Remuneration

## Remuneration policy – Senior Civil Service

2.154 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.

2.155 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](#).

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

## Performance management

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

- ▶ top
- ▶ achieving
- ▶ low.

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

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

2.160 In 2018-19, 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.

2.161 Performance group determines the eligibility point for non-consolidated performance pay determination. For 2018-19, the following two changes apply to the SCS Performance Management system:

- ▶ Removal of forced distribution (for 18/19 and future years)
- ▶ Removal of the 25% cap for top performers to receive an end of year reward.

## Number of Senior Civil Service staff by band

2.162 The number of Senior Civil Servants employed by the Department, including its executive agencies, as at 31 March 2019, is disaggregated in **Table 26**.

**Table 26: 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	0	£115,000-£119,999	3
£70,000-£74,999	52	£120,000-£124,999	4
£75,000-£79,999	38	£125,000-£129,999	5
£80,000-£84,999	21	£130,000-£134,999	2
£85,000-£89,999	8	£135,000-£139,999	3
£90,000-£94,999	17	£145,000-£149,999	1
£95,000-£99,999	7	£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>187</b>

1 Information is for all Senior Civil Servants in the Department and its Agencies at 31 March 2019 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 2019 and excludes non-consolidated performance related pay.

2 The minimum annual salary for SCS is £68,000 national and £70,000 in London.

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

## Pay and Performance Committee

2.163 This Committee comprises the Department's Permanent Secretary (as Chairperson), all Directors General and the Group HR Director. For the year to 31 March 2019, its members were:

<b>Bernadette Kelly</b>	Permanent Secretary, Department for Transport
<b>Lucy Chadwick</b>	Director General, International, Security and Environment
<b>Clive Maxwell</b>	Director General, High Speed and Rail Major Projects
<b>Nick Joyce</b>	Director General, Resources & Strategy
<b>Polly Payne &amp; Ruth Hannant</b>	Director General, Rail
<b>Patricia Hayes</b>	Director General, Roads, Devolution & Motoring
<b>Rachael Etebar to 13/08/2018</b>	Group HR Director
<b>Christina Duncan from 11/09/2018 onwards</b>	Group HR Director

2.164 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

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

**2.166** 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 2018-19 relate to performance in 2017-18 and the comparative bonuses reported for 2017-18 relate to the performance in 2016-17.

**2.167** 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 2018-19 or 2017-18 for executive board members.

**Table 27: Officials' remuneration<sup>1</sup>**

Officials	2018-2019				2017-2018			
	Salary (£000)	Bonus Payments (£000)	Pension Benefits (£000)	Total Benefits (£000)	Salary (£000)	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)	160-165	-	74	235-240	160-165	-	167 <sup>2</sup>	330-335
<b>Lucy Chadwick</b> (Director General)	135-140	15-20	55	205-210	130-135	15-20	45	195-200
<b>Patricia Hayes</b> (Director General)	130-135	15-20	43	185-190	125-130	-	35 <sup>3</sup>	160-165
<b>Nick Joyce</b> (Acting Director General from 25 April 2017 – 11 December 2017, Director General from 12 December 2017) (Full year equivalent)	135-140	5-10	63	205-210	130-135	-	59	190-195
<b>Clive Maxwell</b> (Director General from 20 November 2017) (Full year equivalent)	145-150	5-10	44	190-195	50-55	-	7	60-65
<b>Ruth Hannant</b> (Director General from 27 November 2017) (Full year equivalent)	125-130	-	134	260-265	25-30	-	64 <sup>4</sup>	85-90

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 Bernadette Kelly's pension benefit assessment during 2017-18 reflects the one-off impact of her change in role.

3 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.

4 Ruth Hannant – pensions benefits for 2017-18 have been recalculated due to a retrospective change to service history.

Table 27: Officials' remuneration<sup>1</sup>

Officials	2018-2019				2017-2018			
	Salary (£000)	Bonus Payments (£000)	Pension Benefits (£000)	Total Benefits (£000)	Salary (£000)	Bonus Payments (£000)	Pension Benefits (£000)	Total Benefits (£000)
<b>Polly Payne</b> (Director General from 27 November 2017) (Full year equivalent)	125-130	-	111	235-240	25-30	-	50 <sup>5</sup>	75-80
					125-130			
<b>Philip Rutnam</b> (Permanent Secretary to 3 April 2017) <sup>6</sup> (Full year equivalent)	-	-	-	-	0-5	-	5	75-80
					170-175			
<b>Jonathan Moor</b> (Acting Permanent Secretary to 23 April 2017, Director General 24 April 2017 to 1 January 2018) (Full year equivalent)	-	-	-	-	95-100	5-10	-4 <sup>7</sup>	95-100
					140-145			
<b>David Prout Director General</b> Director General (to 11 July 2017) (Full year equivalent)	-	-	-	-	50-55	5-10	11	65-70
					150-155			
<b>Michael Hurn</b> (Acting Director General from 23 June to 23 November 2017) (Full year equivalent)	-	-	-	-	50-55	-	52	105-110
					130-135			

5 Polly Payne – pensions benefits for 2017-18 have been recalculated due to a retrospective change to service history.

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 28: Pension benefits (officials)**

Officials	Accrued pension at Pension age as at 31/3/2019 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31/3/2019 £000	CETV at 31/3/2018 £000	Real increase in CETV £000
<b>Bernadette Kelly</b> Permanent Secretary	65 – 70 Lump sum 180-185	2.5 – 5 Lump sum 0 – 2.5	1389	1201	48
<b>Lucy Chadwick</b> Director General	60 – 65	2.5 – 5	1071	909	30
<b>Patricia Hayes</b> Director General	50 – 55 Lump sum 120 – 125	2.5 – 5 Lump sum 0	970	837	21
<b>Nick Joyce</b> Director General	30 – 35	2.5 – 5	519	417	36
<b>Clive Maxwell</b> Director General	55 – 60 Lump sum 125-130	2.5 – 5 Lump sum 0	916	781	17
<b>Ruth Hannant</b> Director General	30 – 35 Lump sum 70 – 75	5 – 7.5 Lump sum 12.5 – 15	480	333 <sup>1</sup>	90
<b>Polly Payne</b> Director General	25 – 30 Lump sum 55 – 60	5 – 7.5 Lump sum 10 – 12.5	445	315 <sup>2</sup>	84

1 Ruth Hannant – pensions benefits for 2017-18 have been recalculated due to a retrospective change to service history, CETV for 31/3/2018 has been amended to reflect these recalculations

2 Polly Payne – pensions benefits for 2017-18 have been recalculated due to a retrospective change to service history, CETV for 31/3/2018 has been amended to reflect these recalculations



## Civil Service Pensions

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

**2.169** 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', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

**2.170** 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 three years initial pension is payable on retirement.

**2.171** For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate 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.

**2.172** 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. From 1 September 2018, the Scheme Manager reduced the panel of three appointed stakeholder pension providers to one new provider, Legal and General. Employer contributions are age-related and range from 8% to 14.75% of pensionable pay. 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).

**2.173** 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.)

**2.174** Further details about the Civil Service pension arrangements can be found at the website [www.civilservicepensionscheme.org.uk](http://www.civilservicepensionscheme.org.uk).

## Cash equivalent transfer values

2.175 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 because of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

2.176 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 because 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

2.177 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

2.178 '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.

2.179 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 (£79,468 from April 2018, £76,011 from April 2017) and various allowances to which they are entitled are borne centrally.

2.180 However, the arrangement for Ministers in the House of Lords is different in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their Ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and is therefore shown in full in the figures above.

### Benefits in kind

2.181 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 2018-19 for ministers.

### Compensation for loss of office

2.182 Jo Johnson left Government on 9 November 2018. He received a compensation payment of £7,920.

Table 29: Ministers' remuneration

Ministers	2018-19 Salary (£)	Pension benefits (to nearest £1000)	Total benefits (to nearest £1000)	2017-18 Salary (£)	Pension benefits (to nearest £1000)	Total benefits (to nearest £1000)
<b>Rt Hon Chris Grayling MP Secretary of State</b> (from 14 July 2016)	67,505	14,000	82,000	67,505	17,000	85,000
<b>Jo Johnson MP</b> Minister of State (from 10 January 2018 to 9 November 2018) (full year equivalent)	19,727	4,000	23,000	7,154	2,000	9,000
<b>Jesse Norman MP</b> Parliamentary Under Secretary of State (from 14 June 2017 to 11 November 2018) and Minister of State from (12 November 2018) (full year equivalent) <sup>1</sup>	25,968	6,000	32,000	17,838	5,000	23,000
<b>Andrew Jones MP</b> Parliamentary Under Secretary of State (from 12 May 2015 to 14 June 2017) Parliamentary Under Secretary of State (from 12 November 2018) (full year equivalent)	8,639	2,000	11,000	4,599	6,000	10,000
<b>Baroness Sugg CBE</b> (from 27 October 2017) (full year equivalent) <sup>2</sup>	-	15,000	15,000	-	9,000	9,000
<b>Nusrat Ghani MP</b> Assistant Chief Whip and Parliamentary Under Secretary of State (from 10 January 2018) (full year equivalent) <sup>3</sup>	-	4,000	4,000	-	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	5,000	30,000
<b>Lord Ahmad of Wimbledon</b> Parliamentary Under Secretary of State (from 12 May 2015 to 12 June 2017) (full year equivalent)	-	-	-	14,494	4,000	18,000
<b>Paul Maynard MP</b> Parliamentary Under Secretary of State (from 15 July 2016 to 9 January 2018) (full year equivalent)	-	-	-	17,323	4,000	22,000
<b>Lord Callanan</b> Parliamentary Under Secretary of State (from 14 June to 26 October 2017) (full year equivalent)	-	-	-	38,575	5,000	44,000
				105,076		

1 The full year equivalent value provided is for Jesse Norman's role as Minister of State for Transport. The figures represent the salary earned while a DfT Minister. However, he voluntarily waived a portion of his available salary during his time as a DfT Minister.

2 Baroness Sugg's role at DfT is unpaid.

3 Nusrat Ghani MP is not paid a Ministerial salary by DfT.



## Ministerial Pensions

**2.183** 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 2015.53

**2.184** 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 1st April 2013 have transitional protection to remain in the previous MP's final salary pension scheme.

**2.185** 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.

**2.186** The figure shown for pension value includes the total pension payable to the member under both the pre- and post-2015 Ministerial pension schemes.

**Table 30: 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 31/03/2019 £000	CETV at 31/03/2018 £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	204	180	8
<b>Jo Johnson MP</b> Minister of State (from 10 January 2018 to 9 November 2018)	0 – 5	0 – 2.5	49	45	1
<b>Jesse Norman MP</b> Parliamentary Under Secretary of State (from 14 June 2017 to 11 November 2018) and Minister of State from (12 November 2018)	0 – 5	0 – 2.5	25	18	4
<b>Baroness Sugg CBE</b> (from 27 October 2017)	0 – 5	0 – 2.5	23	10	5
<b>Nusrat Ghani MP</b> Assistant Chief Whip and Parliamentary Under Secretary of State (from 10 January 2018)	0 – 5	0 – 2.5	5	1	2
<b>Andrew Jones MP</b> Parliamentary Under Secretary of State (from 12 November 2018)	0 – 5	0 – 2.5	18	15	1

## Cash equivalent transfer values

2.187 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. The factors for calculating CETVs were changed by the Government Actuary in November 2018, therefore, figures reported for CETV at 31 March 2018 will differ to those reported in the 2017-18 Annual Report and Accounts.

## Real increase in the value of the CETV

2.188 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

2.189 The following sections on Non-Executive Board Members' remuneration and pension disclosures are subject to audit.

2.190 Each of the NEBMs, Ian King, Richard Aitken-Davies, Richard Keys, Tony Poulter and Tracy Westall, is entitled to claim annual fees, currently £15,000 per annum, and reasonable expenses (including travel and subsistence in line with the Department's policy on such expenses).

2.191 Ian King, as the lead Non-Executive Board Member, 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. Richard Keys also receives emoluments as a non-executive director of NATS Holdings Ltd, which is an organisation that the Department has a

48.9% investment stake in (see **Note 28** of the financial statements for further information).

2.192 NEBMs are appointed on fixed terms. Their fees for 2018-19 are set out in the table below. In addition, the membership of the GARAC includes the Chair of the Highways England Audit Committee, the Chair of the DVSA Board, and an independent member, who receive a fee for attending and preparing for meetings.

**Table 31: Non-Executive Board Members' fees, 2018-19**

Non-Executive Board Member	2018-19 (£000)	2017-18 (£000)
<b>Mr Ian King</b>	20-25	5-10 (appointment started 01 November 2017, lead NEBM)
<b>Mr Richard Keys</b>	20-25	5-10 (appointment started 01 November 2017; chair of GARAC from 01 April 2018)
<b>Mrs Tracy Westall</b>	15-20	5-10 (appointment started 01 November 2017)
<b>Mr Anthony Poulter</b>	15-20	15-20
<b>Mr Richard Aitken Davies</b>	15-20	5-10 (appointment started 01 November 2017)
<b>Ed Smith</b>	-	15-20 (appointment ended 31 December 2017)
<b>Mary Reilly</b>	-	20-25 (appointment ended 31 March 2018)
<b>Richard Brown</b>	-	5-10 (appointment ended 30 September 2017)

Group Audit and Risk Assurance Committee member	2018-19 (£000)	2017-18 (£000)
<b>Bridget Rosewell</b>	0-5	0-5
<b>Kathryn Cearns</b>	0-5	. <sup>1</sup>
<b>Amarjit Atkar</b>	0-5	0-5
<b>David Hughes</b>	0-5	0-5 <sup>2</sup>

1 Appointment began 17 October 2018.

2 Appointment ended 31 August 2018.

## Pay multiples for DfTc and its executive agencies (including agency staff and secondees)

The following section is subject to audit.

**2.193** 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 2018-19 was £160,000-165,000 (2017-18: £160,000-165,000). This was 6.2 times (2017-18, 6.3) the median remuneration of the workforce, which was £26,227 (2017-18, £25,329).

**2.194** 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.

**2.195** In 2018-19 one employee (2017-18: one employee) received remuneration in excess of the highest paid executive board member. Remuneration ranged from £16,684 to £260,000 (2017-18: £16,684 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

**2.196** 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 25** 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.

**2.197** The PCSPS is an unfunded multi-employer defined benefit scheme but the Department for Transport is unable to identify its share of the underlying liabilities.

**2.198** 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)).

**2.199** For 2018-19, employers' contributions of £61m were payable to the PCSPS (2017-18 £77.8m) at one of four rates in the range 20.0% to 24.5% (2017-18: 20.0%

to 24.5%) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2018-19 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

**2.200** Employees can opt to open a partnership pension account (a stakeholder pension with an employer contribution). Employers' contributions of £688,594 (2017-18: £871,272) were paid to one or more of a panel of three appointed stakeholder pension providers. From 1 September 2018, the Scheme Manager reduced the panel of three appointed stakeholder pension providers to one new provider, Legal and General. Employer contributions are age-related and range from 8% to 14.75% of pensionable pay.

**2.201** Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £15,716, 0.5% (2017-18: £30,318, 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 (2017-18: £NIL)
- ▶ Contributions due to partnership pension providers at the reporting date were £NIL (2017-18: £NIL)
- ▶ There were 6 early retirements as a result of ill-health (2017-18: 11).

**2.202** These figures include those working in the Department and the executive agencies excluding DVSA which is outside the accounting boundary.

**2.203** Network Rail has two defined pension schemes. The RPS and CARE schemes are both shared cost in nature, so the cost of benefits being earned and the cost of funding any shortfall in the schemes are normally split in the proportion 60:40 between the group and the members. In practice, the contributions are adjusted at each triennial valuation to reflect the funding position of the schemes at that time. For 2018-19, the current service cost was £257m (2017-18: £256m).

**2.204** On 1 April 2004, the group introduced a defined contribution pension scheme, the Network Rail Defined Contribution Pension Scheme (NRDCPS). This is an auto-enrolment scheme for all new employees of Network Rail, except those who have the legal right to join the Railway Pension Scheme (RPS), in compliance with regulations made under the Pensions Act 2008. Any employee who wishes to transfer from the Network Rail Section of the RPS to the NRDCPS is entitled to do so. For 2018-19 employers' contributions of £20m were payable into this scheme (2016-17: £19m).



2.205 The Highways England Pension Plan is a defined contribution Group Personal Pension Plan administered by a third-party provider. Highways England matches employee contributions to personal pension plans on a 2:1 basis, up to a maximum of 10% of gross salary. The default contributions are 5% (employee) and 10% (employer). In addition, life insurance cover is provided for members of the plan at an average cost of 0.55% of gross salary. This meets Highways England's statutory obligation to provide a workplace pension under current legislation.

2.206 As this is a defined contribution scheme, Highways England incurs no liability for future pension costs of members of the pension plan. For 2018-2019, employers' contributions of £8.7m (2017-18 £5.9m) were payable to the plan.

2.207 The Federated Pension Plan – Highways England section (FPP) is a master-trust defined benefit pension plan, administered by PAN Trustees. Employer contributions are set between 41.0% and 41.5% of pensionable earnings (dependent upon contractual employee contribution rates at the time of transfer). Employer's contributions of £0.2m were paid to the FPP during 2018-19 (2017-18 £0.2m). The contribution rates were set based on an actuarial valuation of the scheme at inception in July 2016.

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

2.208 During 2018-19, the Department and its delivery bodies employed a number of consultancy and temporary staff. Expenditure on consultancy and temporary staff in 2018-19 is shown in table xxxx below.

2.209 Consultancy is the provision of objective advice relating to strategy, structure, management or operations of an organisation in pursuit of its purposes and objectives. Such advice is provided outside the 'business-as-usual' environment when 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.

2.210 While the Department's overall spending on consultancy has increased, in large part due to increases in Network Rail for [preparations for the next Control Period], the formation of the East West Rail company, and in the core Department for specific projects in advance of EU Exit, the cost of temporary staff has decreased, leading to a decrease in the total spending on consultancy and temporary staff by £10m.

**Table 32: Expenditure on consultancy and temporary staff**

	Consultancy £k	Temporary Staff £k	Total
DFTC	66,221	8,102	74,323
DVLA	431	1,953	2,384
MCA	369	594	963
VCA	87	289	376
BTP	567	666	1,233
ATTF	-	-	-
High Speed 2 Ltd	1,090	11,462	12,552
Network Rail	71,143	38,824	109,967
Highways England	2,500	4,200	6,700
Northern Lighthouse Board	39	447	486
Trinity House	-	265	265
Commission for Irish Lights	-	60	60
Passenger Focus	-	292	292
DfT OLR Holdings Limited	2	37	39
Directly Operated Railways Ltd	-	-	-
East West Rail	3,113	1,532	4,645
LCR Finance Company	-	-	-
CTRL Finance Company	-	-	-
Air Safety Support International	-	-	-
<b>Department Total</b>	<b>145,562</b>	<b>68,723</b>	<b>214,285</b>

## Off-payroll appointees

2.211 As part of the review of tax arrangements of public sector appointees published by the Chief Secretary to HM Treasury on 23 May 2012, Departments and their ALBs have been asked to report on their off-payroll engagements. Data on these appointments are set out in **Tables 33 to 35**.

1.212 The Department, its Executive Agencies and ALBs have clearly defined governance and challenge processes in place to ensure they are compliant with the off-payroll (IR35) working rules. The Department's Approval Committee provides independent challenge and seeks assurance from the business that: every effort is being made to reduce its reliance on off-payroll resource; that a process is in place to transfer skills from off-payroll resource to permanent staff, and that alternative resourcing options have been considered.

1.213 The Department undertakes a risk-based sampling exercise where a selection of engagements, which include those previously assessed as being out-of-scope, are reassessed for consistency to ensure that the status of the role has not changed, which would thus deem it to be in-scope of IR35 legislation.

**Table 33** below, shows the number engagements that were reassessed for consistency purposes during the 2018-19.

1.214 The Department confirms that all the engagements reported in **Table 33** and **Table 34** have been considered using HM Revenue and Customs' IR35 assessment tool, apart from those in HS2. HS2 automatically assessed all roles as being in scope of the off-payroll working rules and that it only used the assessment tool when a role was identified to be out of scope to assess its compliance against the legislation.

**Table 33: Off-payroll engagements as of 31 March 2019, for more than £245 per day and lasts for longer than six months**

	DfTc	BTPa	DVSA	DVLA	HE	HS2 Ltd	MCA	NR	VCA	EWRCo	Total
No. of existing engagements as of 31 March 2019	38	4	21	8	13	46	20	540	7	9	706
<i>Of which:</i>											
No. that have existed for less than one year at time of reporting	23	3	13	8	5	18	-	394	7	9	480
No. that have existed for between one and two years at time of reporting	10	1	6	-	5	10	7	83	-	-	122
No. that have existed for between two and three years at time of reporting	1	-	2	-	2	9	10	40	-	-	64
No. that have existed for between three and four years at time of reporting	4	-	-	-	1	4	2	10	-	-	21
No. that have existed for four or more years at time of reporting	-	-	-	-	-	5	1	13	-	-	19

**Table 34: New off-payroll engagements, or those that reached six months in duration, between 1 April 2018 and 31 March 2019, for more than £245 per day and lasts longer than six months**

	DfTc	BTPa	DVSA	DVLA	HE	HS2 Ltd	MCA	NR	VCA	EWRco	Total
No. of new engagements, or those that reached six months in duration, between 1 April 2018 and 31 March 2019	23	9	9	8	11	136	14	45	2	9	266
<i>Of which:</i>											
No. assessed in scope of IR35	21	9	8	8	11	116	-	41	-	9	223
No. assessed as out of scope of IR35	2	-	1	-	-	20	14	4	2	-	43
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 *	13	5	7	3	8	34	14	30	-	4	118
No. of engagements whose IR35 status changed following reassessment	-	-	-	-	-	-	-	4	-	-	4

These figures represent the number of new engagements, or those that reached six months in duration, between 1 April 2018 and 31 March 2019 which were reassessed during the period to ensure compliance with the IR35 legislation.

**1.215 DfTc:** All engagements deemed in-scope of the legislation are recruited through the Public-Sector Resourcing framework and placed on the payroll of the Department's chosen commercial framework supplier to ensure tax deductions are taken at the source. 13 engagements were reassessed for consistency and compliance without resulting in a change to their initial status.

**1.216 British Transport Police Authority:** All engagements deemed to be out-of-scope of the IR35 legislation are usually referred for legal advice as part of the assurance process. 5 engagements were reassessed for consistency and compliance without resulting in a change to their initial status.

**1.217 Driver and Vehicle Standards Agency:** All engagements assessed out-of-scope of the legislation are monitored and challenged prior to recruitment. 7 engagements were reassessed for consistency and assurance purposes, without resulting in a change to their initial status.

**1.218 Driver and Vehicle Licensing Agency (DVLA):** Quarterly reviews were undertaken by DVLA to assess all engagements deemed out of scope of the IR35 legislation for consistency. 3 engagements were reassessed for consistency and assurance purposes, without resulting in a change to their initial status.

**1.219 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 approving. 8 engagements were reassessed for consistency and assurance purposes, without resulting in a change to their initial status.

**1.220 High Speed 2 Ltd (HS2):** The outcome of IR35 assessment is reviewed via HS2's internal governance process for consistency. 34 engagements were reassessed for consistency and assurance purposes, without resulting in a change to their initial status.



**1.221 Maritime and Coastguards Agency (MCA):** MCA operates a robust recruitment process where the business is challenged on the use of off-payroll engagements. This requires managers to critically consider alternative resourcing options including, looking at in-house capability before off-payroll engagements are approved. 14 engagements were re-assessed for consistency and assurance purposes, without resulting in a change to their initial status.

**1.222 Network Rail (NR):** 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 NR that all off-payroll workers engaged in the business are being correctly paid and fulfilling all income tax and national insurance obligations. 30 engagements were reassessed for consistency and assurance purposes, which resulted in 4 being brought into scope of IR35 legislation.

**1.223 Vehicle Certification Agency:** Due to the small number of off-payroll engagements, no additional sample testing was undertaken.

**1.224 East West Rail co (EWRco):** EWRco became operational from September 2018. All off-payroll engagements were assessed for compliance with the IR35 legislation. 4 engagements were reassessed for consistency and assurance purposes, without resulting in a change to their initial status.

**1.225 Details of the exceptional circumstances that led to the above off-payroll engagement with significant financial responsibility, and the duration of the engagement is as follows:**

**1.226 EWRco.:** From 10 September 2018 – 10 March 2019; the post holder was recruited as an interim Finance Director to support EWRco since its inception. The post-holder was successfully appointed as the permanent Finance Director from 11 March 2019 following a recruitment campaign. Accounting Officer approval was received for the temporary engagement.

**Table 35: Table 3: Off-payroll engagements of board members, and / or, senior officials with significant financial responsibility, between 1 April 2018 and 31 March 2019**

	DfTc	BTPa	DOR	DVSA	DVLA	HE	HS2 Ltd	MCA	NLB	NR	TF	THLS	VCA	EWRco	Total
No. of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year	-	-	-	-	-	-	-	-	-	-	-	-	-	1	1
Total no. of individuals that have been deemed 'board members, and/or, senior officials with significant financial responsibility', during the financial year. This figure should include both on payroll and off-payroll engagements	39	8	-*	6	9	9	8	13	8	32	9	4	7	3	155

DOR does not have any officials; all financial decision making is undertaken by DfT officials.

## Exit packages

**Table 36: Reporting of Civil Service and other compensation schemes – exit packages<sup>1</sup>**

The following section is subject to audit

Exit package cost band	Core Department and Agencies <sup>2</sup>						Departmental Group					
	Compulsory redundancies		Other departures agreed		Exit packages by cost band		Compulsory redundancies		Other departures agreed		Exit packages by cost band	
	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18
<£10,000	-	-	3	3	3	3	134	61	15	11	149	72
£10,000–£25,000	1	1	5	13	3	14	142	118	26	33	168	151
£25,000–£50,000	-	-	6	5	6	5	123	71	72	42	195	113
£50,000–£100,000	-	-	8	11	8	11	25	12	38	28	63	40
£100,000–£150,000	-	-	1	-	1	-	4	3	3	5	7	8
£150,000–£200,000	-	-	-	-	-	-	-	-	-	-	-	-
>£200,000	-	-	-	-	-	-	-	-	-	-	-	-
Total number of exit packages	1	1	23	32	24	33	428	265	154	119	582	384
<b>2018-19 Total cost /£</b>	<b>22,176</b>		<b>1,040,553</b>		<b>1,062,772</b>		<b>9,268,568</b>		<b>6,167,692</b>		<b>15,436,260</b>	
2017-18 Total cost /£	19,232		1,302,849		1,322,081		6,037,182		4,775,986		10,813,168	

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 of the accounting boundary







# Parliamentary Accountability and Audit Report



## Statement of Parliamentary Supply

2.227 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.

2.228 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.

2.229 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.

2.230 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.

2.231 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.

2.232 A glossary of these financial terms can be found in **Annex A**.

2.233 Further information about the Supply process can be found in **The Estimates Manual**.

2.234 The SOPS and related Notes are subject to audit.

## Summary of Resource and Capital Outturn 2018-19

		2018-19						2017-18	
		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	4,512	13	4,525	3,889	13	3,902	623	3,673
– Capital	SOPS 1.2	8,500	-	8,500	8,274	-	8,274	226	6,222
<b>Annually Managed Expenditure (AME)</b>									
– Resource	SOPS 1.1	8,649	11	8,660	7,456	-	7,456	1,193	6,989
– Capital	SOPS 1.2	6,542	-	6,542	5,168	-	5,168	1,374	7,244
<b>Total Budget</b>		<b>28,203</b>	<b>24</b>	<b>28,227</b>	<b>24,787</b>	<b>13</b>	<b>24,800</b>	<b>3,416</b>	24,128
– Resource	SOPS 1.1	13,161	24	13,185	11,345	13	11,358	1,816	10,662
– Capital	SOPS 1.2	15,042	-	15,042	13,442	-	13,442	1,600	13,466
<b>Total</b>		<b>28,203</b>	<b>24</b>	<b>28,227</b>	<b>24,787</b>	<b>13</b>	<b>24,800</b>	<b>3,416</b>	24,128

2.235 Detailed explanations of significant variances between Estimate and Net Resource Outturn are shown later in the Accountability report (**page 162**).

## Net Cash Requirement 2018-19

2.236 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.

		£m		2018-19	2017-18
Note		Estimate	Outturn	Outturn vs. Estimate	Outturn
<b>Net Cash Requirement</b>	SOPS 3	20,111	17,352	2,759	18,676

## Administration Costs 2018-19

2.237 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		2018-19	2017-18
		Estimate	Outturn	Outturn vs. Estimate	Outturn
		282	279	3	265

The SOPS Notes on **pages 158 to 164** form part of these financial statements.



## SOPS 1. Net outturn

### SOPS 1.1 Analysis of net resource outturn by section

	2018-19						2017-18				
	Administration			Programme			Outturn	Outturn vs. Estimate	Outturn vs. Estimates adjusted for virements	Net Total	
	Gross	Income	Net	Gross	Income	Net					Net Total
£m	£m	£m	£m	£m	£m	£m	£m	£m	£m		
<b>Spending in Departmental Expenditure Limit (DEL):</b>											
<b>Voted:</b>											
A: Tolled Crossings	-	-	-	37	(227)	(190)	(190)	(192)	(2)	1	(132)
B: Local Authority Transport	-	-	-	374	-	374	374	375	1	1	366
C: Highways England (Net)	47	-	47	2,324	-	2,324	2,371	2,713	342	282	2,548
D: Funding Of Other ALBs (Net)	1	-	1	(39)	-	(39)	(38)	(24)	14	14	190
E: Other Railways	-	-	-	397	(334)	63	63	76	13	13	107
F: Sustainable Travel	-	-	-	108	-	108	108	92	(16)	1	87
G: Bus Subsidies & Concessionary Fares	-	-	-	255	-	255	255	257	2	2	245
H: GLA Transport Grants	-	-	-	29	-	29	29	(24)	(53)	-	255
I: Crossrail	-	-	-	3	(1)	2	2	5	3	3	2
J: Aviation, Maritime, Security And Safety	-	-	-	161	(58)	103	103	68	(35)	1	109
K: Maritime And Coastguard Agency	8	(1)	7	345	(14)	331	338	349	11	11	328
L: Motoring Agencies	-	-	-	465	(424)	41	41	83	42	12	99
M: Science, Research And Support Functions	-	-	-	20	(1)	19	19	44	25	6	15
N: Central Administration	231	(9)	222	69	(45)	24	246	321	75	75	197
O: Support For Passenger Rail Services	-	-	-	1,062	(1,248)	(186)	(186)	(33)	153	153	(778)
P: High Speed Rail	-	-	-	59	-	59	59	60	1	1	9
Q: Transport Development Fund	-	-	-	1	-	1	1	3	2	2	25
R: High Speed Two Limited (Net)	2	-	2	284	-	284	286	330	44	44	-
S: East West Rail Company Limited (Net)	-	-	-	8	-	8	8	9	1	1	-
<b>Total Spending in Voted Resource DEL</b>	<b>289</b>	<b>(10)</b>	<b>279</b>	<b>5,962</b>	<b>(2,352)</b>	<b>3,610</b>	<b>3,889</b>	<b>4,512</b>	<b>623</b>	<b>623</b>	<b>3,670</b>

	2018-19										2017-18					
	Administration					Programme					Outturn	Outturn vs. Estimate	Outturn vs. Estimates adjusted for virements	Outturn		
	Gross	Income	Net	Gross	Income	Net	Gross	Income	Net	Net Total	Estimate	Net Total	Estimate	Net Total	Estimate	Net Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Non-Voted:</b>																
T: Funding Of ALBs (Net)	-	-	-	13	-	13					13					3
<b>Total Spending in Resource DEL</b>	<b>289</b>	<b>(10)</b>	<b>279</b>	<b>5,975</b>	<b>(2,352)</b>	<b>3,623</b>				<b>3,902</b>	<b>4,525</b>	<b>623</b>		<b>623</b>		<b>3,673</b>
<b>Spending in Annually Managed Expenditure (AME):</b>																
<b>Voted:</b>																
U: Highways England (Net)	-	-	-	42	-	42				42	6	(36)		-		(4)
V: Network Rail (Net)	-	-	-	7,046	-	7,046				7,046	8,267	1,221		1,085		6,882
W: Funding Of Other ALBs (Net)	-	-	-	70	-	70				70	80	10		10		93
X: Other Railways	-	-	-	428	(201)	227				227	189	(38)		1		28
Y: Aviation, Maritime, Security And Safety	-	-	-	51	-	51				51	(3)	(54)		1		(3)
Z: Maritime And Coastguard Agency	-	-	-	5	-	5				5	1	(4)		-		1
AA: Motoring Agencies	-	-	-	(2)	-	(2)				(2)	(2)	-		-		(1)
AB: Central Administration	-	-	-	65	-	65				65	93	28		28		(7)
AC: High Speed Rail	-	-	-	1	-	1				1	-	(1)		1		-
AD: High Speed Two Limited (Net)	-	-	-	(49)	-	(49)				(49)	18	67		67		-
AE: East West Rail Company Limited (Net)	-	-	-	-	-	-				-	-	-		-		-
<b>Total Spending in Voted AME</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,657</b>	<b>(201)</b>	<b>7,456</b>				<b>7,456</b>	<b>8,649</b>	<b>1,193</b>		<b>1,193</b>		<b>6,989</b>
<b>Non-Voted:</b>																
AF: Funding Of ALBs (Net)	-	-	-	-	-	-				-	11	11		11		-
<b>Total Spending in Resource AME</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,657</b>	<b>(201)</b>	<b>7,456</b>				<b>7,456</b>	<b>8,660</b>	<b>1,204</b>		<b>1,204</b>		<b>6,989</b>
<b>Resource Outturn</b>	<b>289</b>	<b>(10)</b>	<b>279</b>	<b>13,632</b>	<b>(2,553)</b>	<b>11,079</b>				<b>11,358</b>	<b>13,155</b>	<b>1,827</b>		<b>1,827</b>		<b>10,662</b>

In line with HM Treasury's guidance on Supply Estimates, spending in our arm's length bodies appears net of income, and is denoted by the suffix "(Net)" in the table above.

## SOPS 1.2 Analysis of net capital outturn by section

						2018-19	2017-18
	Gross	Income	Outturn	Estimate	Outturn	Outturn	Outturn
	Net		vs.	Net	vs.	Estimate	Net
	Total		Estimate	Total	Estimate	adjusted	Total
	£m	£m	£m	£m	£m	for	£m
						virements	£m
							Net
							Total
							£m
<b>Spending in Departmental Expenditure Limit (DEL):</b>							
<b>Voted:</b>							
A: Tolled Crossings	-	-	-	1	1	1	(188)
B: Local Authority Transport	1,809	-	1,809	1,807	(2)	-	1,763
C: Highways England (Net)	2,649	-	2,649	2,648	(1)	1	2,309
D: Funding Of Other ALBs (Net)	10	-	10	15	5	-	711
E: Other Railways	35	-	35	40	5	-	196
F: Sustainable Travel	399	-	399	377	(22)	1	365
G: Bus Subsidies & Concessionary Fares	9	(1)	8	9	1	1	9
H: GLA Transport Grants	(81)	-	(81)	(42)	39	39	-
I: Crossrail	515	-	515	550	35	35	-
J: Aviation, Maritime, Security And Safety	93	-	93	129	36	2	59
K: Maritime And Coastguard Agency	12	-	12	12	-	-	19
L: Motoring Agencies	43	(7)	36	(4)	(40)	1	9
M: Science, Research And Support Functions	33	-	33	63	30	2	22
N: Central Administration	7	-	7	4	(3)	1	2
O: Support For Passenger Rail Services	-	-	-	-	-	-	-
P: High Speed Rail	554	-	554	561	7	7	944
Q: Transport Development Fund	139	-	139	140	1	1	2
R: High Speed Two Limited (Net)	2,056	-	2,056	2,190	134	134	-
S: East West Rail Company Limited (Net)	-	-	-	-	-	-	-
<b>Total Spending in Capital DEL</b>	<b>8,282</b>	<b>(8)</b>	<b>8,274</b>	<b>8,500</b>	<b>226</b>	<b>226</b>	<b>6,222</b>



						2018-19	2017-18
			Outturn	Estimate	Outturn	Outturn	
			vs.		vs.	vs. Estimate	adjusted for
			Estimate		Estimate	virements	Outturn
	Gross	Income	Net	Net	Net	Net	Net
	£m	£m	Total	Total	Total	Total	Total
			£m	£m	£m	£m	£m
<b>Spending in Annually Managed Expenditure (AME):</b>							
<b>Voted:</b>							
U: Highways England (Net)	133	-	133	40	(93)	7	3
V: Network Rail (Net)	5,383	-	5,383	5,740	357	257	6,118
W: Funding Of Other ALBs (Net)	-	-	-	-	-	-	230
Y: Aviation, Maritime, Security And Safety	-	(20)	(20)	(20)	-	-	(20)
AC: High Speed Rail	(98)	-	(98)	750	848	848	913
AD: High Speed Two Limited (Net)	(230)	-	(230)	32	262	262	-
<b>Total Spending in Capital AME</b>	<b>5,188</b>	<b>(20)</b>	<b>5,168</b>	<b>6,542</b>	<b>1,374</b>	<b>1,374</b>	<b>7,244</b>
<b>Capital Outturn</b>	<b>13,470</b>	<b>(28)</b>	<b>13,442</b>	<b>15,042</b>	<b>1,600</b>	<b>1,600</b>	<b>13,466</b>

In line with HM Treasury's guidance on Supply Estimates, spending in our arm's length bodies appears net of income, and is denoted by the suffix "(Net)" in the table above.

## Variations

2.238 At the start of each year, the Department estimates the costs for each budget type and the Department monitors these throughout the year. The size and complexity of the budget, along with economic, environmental and social changes means there will inevitably be some variations for the Estimates. Significant variations between Outturn and our Estimates are:

Expenditure Line	Outturn (£m)	Limit (£m)	Variance (£m) (over)/under	Explanation of variance
<b>Resource DEL</b>				
C: Highways England (Net)	2,371	2,713	342	Highways England did not utilise £280m 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.
O: Support for Passenger Rail Services	(186)	(33)	153	The Department recognised more income than expected mainly due to the performance of some train operating companies, and unutilised contingency set aside for various negotiations.
<b>Resource AME</b>				
V: Network Rail (Net)	7,046	8,267	1,221	This underspend is related to derivatives on financial instruments moving £0.2bn in the opposite direction to the £1bn that we held in contingency for such movements.
<b>Capital DEL</b>				
R: High Speed Two Ltd (Net)	2,056	2,190	134	The underspend relates to contingency held for VAT and changes to the profile of Phase 1 spending.
<b>Capital AME</b>				
V: Network Rail (Net)	5,383	5,740	357	This underspend was mainly due to increased asset divestment sales and lower than expected spend on enhancements.
AC: High Speed Rail	(98)	750	848	This underspend was due to provision creation for land and property being lower than anticipated.
AD: High Speed Two Ltd (Net)	(230)	32	262	The underspend relates to the contingency held for the HS2 VAT provision. The provision was reclassified to accruals, which has an equal and opposite impact on Capital DEL. Note 23 provides further information.

## SOPS 2. Reconciliation of outturn to net operating expenditure

Reconciling items between resource outturn and net expenditure comprise the differences between the National Accounts budgeting framework and the IFRS-based FReM accounting framework.

	Note	2018-19 £m	2017-18 £m
<b>Total resource outturn in Statement of Parliamentary Supply</b>	SOPS 1.1	11,358	10,662
Adjustments are:			
Capital grants (net)	4, 5	2,244	2,073
Research and development	4	60	25
EU Grants	4	-	1
Adjustment for Network Rail project costs		(58)	-
Capital income		(50)	(86)
Non-budget accounting adjustments		10	(76)
Non-budget CFER income		(170)	(229)
<b>Net expenditure in the Group Statement of Comprehensive Net Expenditure</b>		<b>13,394</b>	<b>12,370</b>

## SOPS 3. Reconciliation of Net Outturn to Net Cash Requirement

	Note	Estimate £m	Net Outturn £m	Net Outturn vs. Estimate £m
Resource outturn	SOPS 1.1	13,185	11,358	1,827
Capital outturn	SOPS 1.2	15,042	13,442	1,600
<b>Total outturn</b>		<b>28,227</b>	<b>24,800</b>	<b>3,427</b>
<b>Accruals to cash adjustments:</b>				
<i>Adjustments to remove non-cash items:</i>				
Depreciation and other non-current asset movements		(214)	(121)	(93)
New provisions and adjustments to previous provisions		(99)	(333)	234
Other non-cash items		54	(13)	67
<i>Adjustments for arm's length bodies:</i>				
Remove voted resource and capital outturn		(22,065)	(19,813)	(2,252)
Add grants and loans to ALBs		12,735	12,755	(20)
Less repayments from ALBs to DfT		-	(935)	935
<i>Adjustments to reflect movements in working capital balances in Core Department &amp; Agencies</i>				
Increase/(decrease) in receivables		-	742	(742)
(Increase)/decrease in payables		1,250	(86)	1,336
Use of provisions		247	364	(117)
		<b>(8,092)</b>	<b>(7,440)</b>	<b>(652)</b>
<b>Removal of non-voted budget items</b>				
Other adjustments		(24)	(8)	(16)
<b>Net Cash Requirement</b>		<b>20,111</b>	<b>17,352</b>	<b>2,759</b>

## SOPS 4. Income payable to the Consolidated Fund

### SOPS 4.1 Analysis of income payable to the Consolidated Fund

2.239 In addition to income retained by the Department, the following income is payable to the Consolidated Fund (cash receipts being shown in italics):

	2018-19		2017-18	
	£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	179	<i>179</i>	229	<i>229</i>
Operating income outside the ambit of the Estimate – Capital	20	<i>20</i>	20	<i>20</i>
<b>Total income payable to the Consolidated Fund</b>	<b>199</b>	<b><i>199</i></b>	249	<i>249</i>



The income above includes fees of £150m relating to the sale and transfer of personalised registration marks by the Driver and Vehicle Licencing Agency (DVLA) (2017-18: £207m); £23m in loan repayments and interest payments made to the Department from the General Lighthouse Fund (2017-18: £23m) and £13m in Dartford toll crossings (2017-18: £7m).

## SOPS 4.2 Consolidated Fund income

2.240 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:

	2018-19	2017-18
	£m	£m
Licence fees, penalties and fines	102	81
Costs of collection – where deductible	(43)	(14)
<b>Amount payable to the Consolidated Fund</b>	<b>59</b>	<b>67</b>
Balance held at the start of the year	16	5
Payments into the Consolidated Fund	(68)	(56)
<b>Balance held on trust at the end of the year</b>	<b>7</b>	<b>16</b>

2.241 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

	2018-19	2017-18
	£m	£m
<b>Total Resource outturn in the Statement of Parliamentary Supply</b>		
DEL outturn	3,902	3,673
AME outturn	7,456	6,989
<b>Total outturn</b>	<b>11,358</b>	<b>10,662</b>
<i>Adjustments are:</i>		
Capital grants and capital income	2,194	2,073
Research and Development	60	26
Adjustment for Network Rail project costs	(58)	-
EU grants	-	1
Non-budget CFER income	(170)	(229)
Other non-budget elements	10	(163)
<b>Net expenditure in the Group Statement of Comprehensive Net Expenditure</b>	<b>13,394</b>	<b>12,370</b>

## Parliamentary accountability disclosures

2.242 In addition to the Statement of Parliamentary Supply, all of the following sections are subject to audit, i.e. losses and special payments, fees and charges, and remote contingent liabilities.

### Losses and special payments

2.243 This section reports the total number of cases and value of losses and special payments, and details of any losses or special payments that exceed £300,000.

#### Losses statement

2.244 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.

	2018-19		2017-18	
	Total number of cases	Total amount (£000)	Total number of cases	Total amount (£000)
Core Department – Intercity Express Programme	2	53,224	1	42,000
Core Department – termination of freight contracts	1	50,231	-	-
Core Department – River Crossing Scheme	1	45,956	1	52,673
Core Department – other	23	545	11	407
Agencies	18,146	762	14,984	475
<b>Core Department &amp; Agencies</b>	<b>18,173</b>	<b>150,718</b>	<b>14,997</b>	<b>95,555</b>
Highways England	1,052	16,091	1,754	10,385
Network Rail	38,183	3,034	35,013	8,422
Other arm's length bodies	68	157	2,044	184
<b>Departmental Group</b>	<b>57,476</b>	<b>170,000</b>	<b>53,808</b>	<b>114,546</b>

#### Intercity Express Programme

2.245 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.

2.246 Subsequent delays in Great Western electrification impacted 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 £134,693,011 which shall be recognised over the period until all the rolling stock enters service, which is expected to end in 2020. The Department paid £42,042,144 to Agility in 2017-18 and £53,223,730 in 2018-19, which are recognised as constructive losses in the respective years in the table above.

#### Early termination of maritime freight capacity contracts

2.247 In December 2018 the Department entered contracts to provide freight capacity from late March 2019 until the end of September 2019 should the UK leave the EU without a deal. The postponement of the UK's departure from the EU means the capacity was no longer required. On 30 April 2019, the Department reached a negotiated settlement and found ways to minimise costs with the ferry companies. As a result, the Department will pay £50,230,866 to the ferry companies in 2019-20, providing an expected saving of around £27m compared to continuing with the contracts.

## Dartford-Thurrock River Crossing Charging Scheme

2.248 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.

2.249 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.

2.250 The 2018-19 losses include £45,956,000 in relation to 2017-18 Dartford Crossing charges (2017-18: £52,673,000 in relation to 2016-17). Of this, £42,956,000 relates to the write-off of receivables for both road user charges and PCNs that became irrecoverable, and an estimated £3,000,000 relates to PCNs that were not issued (2017-18: £48,673,000 & £4,000,000 respectively in relation to 2016-17). There are a number of circumstances in which PCNs are not issued, including: vehicle keeper details not being available; poor images; mis-read number plates; system errors and illegal activity/evasion (e.g. cloned vehicles).

2.251 The reduction is largely due to the cleansing of PCNs in prior years. The write-offs reported in 2017-18, 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.

## Highways England

2.252 Highways England incurred £4,946,261 of constructive losses when investments made in the A303 and Lower Thames Crossing projects were withdrawn by the Government in November 2018. These losses were a result of exploratory work done under a correct procurement procedure (PF2), but due to a policy change, became nugatory spend.

2.253 Highways England incurs losses due to damage to the road network and traffic management clean-up costs, and theft or vandalism to road network equipment (cables, fencing, barriers, communication equipment, signs or lighting). In these situations, it may not be possible to identify the culprit or viable to pursue the claim. This year Highways England recognised three losses with a value greater than £300,000, which are described below:

- ▶ Highways England incurred losses in the salt reserves worth £613,172 across all of the strategic stockpile locations during 2017-18.
- ▶ Highways England abandoned a claim to recover the costs of third-party remedial work undertaken on the M6 after mining activity by RJB Mining (UK) at the Daw Mill Colliery. The Developer disputed the costs of the remedial work and administration fee for the third party works which amounted to £568,893. The company is in liquidation and following legal advice, all claims are time barred with no realistic prospect of recovery and therefore not considered value for money to pursue.
- ▶ £672,000 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 (2017-18: £592,669).

## Network Rail

2.254 The value of losses incurred by Network Rail increased in 2017-18 due to £5,637,120 of fines and court costs arising from prosecutions under the Health and Safety at Work Act 1974. No cases above the reporting threshold concluded during 2018-19.



## Special Payments

Special payments include extra-contractual, special severance, ex gratia and compensation payments.

	2018-19		2017-18	
	Total number of cases	Total amount (£000)	Total number of cases	Total amount (£000)
Core Department – Eurotunnel	1	33,000	-	-
Core Department – industrial claims	316	12,696	323	12,312
Core Department – other	4	863	9	5
Agencies	1,691	248	1,740	578
<b>Core Department &amp; Agencies</b>	<b>2,012</b>	<b>46,807</b>	<b>2,072</b>	<b>12,895</b>
Arm's Length Bodies	189	3,947	128	1,425
<b>Departmental Group</b>	<b>2,201</b>	<b>50,754</b>	<b>2,200</b>	<b>14,320</b>

### Eurotunnel

2.255 On 28 February 2019, the Department agreed a £33,000,000 out of court settlement with Eurotunnel to end the legal dispute relating to cross channel ferry contracts required for EU exit contingency planning. The NAO's memorandum to the Committee of Public Accounts provides further information: <https://www.nao.org.uk/report/out-of-court-settlement-with-eurotunnel/>.

### Industrial disease and injury claims

2.256 A total of £12,696,241 was paid to settle 316 industrial disease and injury claims from former British Rail employees (2017-18: 323 cases totalling £12,312,229). Five cases for industrial related diseases exceeded £300,000, the highest of which was £484,793. **Note 23** of the financial statements provides further information about these claims.

### Insurance-related claim

2.257 The Department paid £619,064 to settle an insurance related claim and associated costs.

### Highways England

2.258 Highways England obtained HM Treasury approval to acquire the leasehold of a site for the A14 Cambridge to Huntingdon Improvement scheme for £1,500,000, since the scope of works exceeded the Development Consent Order.

### HS2 Ltd

2.259 Compensation payments to third parties for legal expenses totalled £1,060,000. The Department always carefully considers whether it is appropriate to settle cases like these. In this case, the Department determined that settling the claims on the terms secured was in the best interest of taxpayers.

## Fees and charges information

2.260 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, which are within the scope of Managing Public Money, and describes both the income relating to those services, along with the full cost of providing them. It does not constitute an IFRS 8 (Operating Segment Reporting) disclosure.

	2018-19			2017-18		
	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	5	5	-	4	4	-
Registration of ships	1	1	-	1	1	-
Seafarers' examination and certification	3	3	-	2	2	-
<b>Vehicle Certification Agency (VCA)</b>						
Product certification	21	15	6	18	16	2
<b>Driver and Vehicle Licensing Agency (DVLA)</b>						
Fees and charges	416	280	136	414	290	124
	<b>446</b>	<b>304</b>	<b>142</b>	439	313	126

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. As described in Note 2 of [DVLA's Annual Report and Accounts](#), the fees received for cherished transfers are payable to HM Treasury and the core Department.

2.261 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.

2.262 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 [26](#) to the financial statements for the rationale).

## Remote contingent liabilities

2.263 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 (Provisions, Contingent Liabilities and Contingent Assets) criteria for disclosure in the financial statements but are presented here for transparency purposes. These predominantly relate to situations where guarantees or indemnities have been entered into by the Department, but where there are no 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 in [Note 24](#) in the Financial Statements.

### Quantifiable remote contingent liabilities

2.264 This table summarises quantifiable contingent liabilities by their nature and purpose, with the amounts disclosed reflecting the highest reasonable estimate of the possible liability.

	31 March 2019	31 March 2018
	£m	£m
<b>Inter City Express Rolling Stock</b> 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.	6,075	5,900
<b>HS1</b> The HS1 Concession Agreement between the Secretary of State and HS1 Ltd specifies that the Secretary of State would be liable to pay compensation if the contract were terminated due to legal changes, either in the UK or Europe ('Change in Circumstances') or a change directed by another part of the Government ('Government Change'). The amount payable is formalised in the Agreement, but depends on the cause of the termination, and includes capital expenditure, increases in operating costs and losses of revenue.	4,753	4,524
<b>Passenger Rail Franchise Agreements – Rolling Stock</b> 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.	1,914	2,006
<b>Thameslink</b> To support the Thameslink programme, in 2013 the Secretary of State agreed to quantifiable (disclosed) and unquantifiable assurances, warranties, indemnities and potential losses with the major stakeholders: Siemens, Network Rail and Cross London Trains. This reflects assurances, warranties and indemnities covering ongoing contracts between the stakeholders.	1,047	1,179
<b>Passenger Rail Franchise Agreements – Legacy</b> 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.	134	137
<b>Channel Tunnel Restoration</b> 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
<b>Premises for the International Maritime Organization (IMO)</b> The Department provides premises in London for the IMO, a United Nations agency. In view of the fact that government departments generally self-insure, a guarantee has been given to the IMO that should the building be partially or completely destroyed, the Department would be obliged to reconstruct the building, or suspend or reduce the rent for a period of three years and fund alternative accommodation.	91	91
<b>Network Rail</b> Guarantees issued by Network Rail to its affiliate entities which are not consolidated in these accounts. These obligations primarily relate to banking facilities. Further information about the entities can be found in <a href="#">Note 27</a> .	59	-

	31 March 2019	31 March 2018
<b>Business indemnities</b> 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.	20	20
<b>Transport disaster indemnities</b> 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
<b>Non-executive member indemnities</b> Indemnities have been issued to non-executive members of the departmental board, and to civil servants appointed to represent the Department on the boards of other organisations.	2	1
<b>Other contingent liabilities, including legal claims</b>	32	36
<b>Total</b>	<b>14,233</b>	14,000



## Unquantifiable remote contingent liabilities

2.265 The Department has obligations under agreements entered into by the Office of Passenger Rail Franchising (also known as the Director of Passenger Rail Franchising) prior to privatisation which indemnified rolling stock companies for the costs of industrial disease claims, personal injury claims and property damage claims. On abolition of the Office of Passenger Rail Franchising in 2001, the obligation novated to the Strategic Rail Authority. On abolition of the Strategic Rail Authority in 2006, the obligation novated to the Department.

2.266 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.

2.267 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.

2.268 The Department has statutory responsibility for the maintenance of all railway structures. The contingent liability for this responsibility applies to structures that have been sold to, and are controlled by, third parties. There have been no claims and there is no reasonable basis under which to quantify this risk.

## Exiting from the European Union

2.269 On 29 March 2017, the UK Government submitted its notification to leave the EU in accordance with Article 50. The triggering of Article 50 started a negotiation process between the UK and the EU. On 11 April 2019, the government confirmed agreement with the EU on an extension until 31 October 2019 at the latest, with the option to leave earlier as soon as a deal has been ratified.

2.270 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 24**, relating to the Connecting Europe Facility.

### Bernadette Kelly CB

15 July 2019

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 2019 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 2018. 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 2019 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 2019 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.

## Conclusions relating to going concern

I am required to 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 group's and the Department for Transport's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. 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. I have nothing to report in these respects.

## 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.
- ▶ 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, but does not include 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.

### **Gareth Davies**

17 July 2019

Comptroller and Auditor General

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



# Financial Statements







Financial Statements

Financial Statements



# Group Statement of Comprehensive Net Expenditure

for the year ended 31 March 2019

	Note	2018-19		2017-18	
		Core Department & Agencies £m	Departmental Group £m	Core Department & Agencies £m	Departmental Group £m
Income from sale of goods and services	5	(240)	(2,755)	(170)	(2,247)
Other operating income	5	(2,519)	(3,575)	(2,596)	(3,655)
<b>Total Operating Income</b>		<b>(2,759)</b>	<b>(6,330)</b>	<b>(2,766)</b>	<b>(5,902)</b>
Staff costs	3	425	2,498	411	2,372
Purchase of goods and services	4	2,128	5,658	1,584	4,765
Depreciation and impairment charges	4	121	6,922	119	6,540
Provision expense	4	87	102	(122)	(25)
Other operating expenditure	4	17,200	3,212	12,326	3,242
<b>Total Operating Expenditure</b>		<b>19,961</b>	<b>18,392</b>	<b>14,318</b>	<b>16,894</b>
<b>Net Operating Expenditure</b>		<b>17,202</b>	<b>12,062</b>	<b>11,552</b>	<b>10,992</b>
Share of (profit) / loss of associate	5, 15	(40)	(40)	(55)	(55)
Finance income	5	(680)	(24)	(581)	(117)
Finance expense	4	204	1,396	210	1,550
<b>Net expenditure for the year</b>		<b>16,686</b>	<b>13,394</b>	<b>11,126</b>	<b>12,370</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	-	-	-	193
Net (gain) / loss on revaluation of property, plant & equipment	6	(104)	(29,250)	(120)	(10,001)
Net (gain) / loss on revaluation of intangibles	7	-	(11)	-	-
Share of associate's other comprehensive net (income) / expenditure	15	62	62	(180)	(180)
Actuarial (gain) / loss on pension schemes	25	154	173	(385)	(733)
Deferred tax movement	22	-	443	-	152
Reversionary interest on M6 toll road	SoCTE	(2)	(2)	(3)	(3)
<b>Items that will or may subsequently be reclassified to net operating costs:</b>					
Financial assets – net change in fair values	SoCTE	(79)	(97)	13	123
Cash flow hedge – effective portion of fair value change	SoCTE	-	36	-	-
Cash flow hedge – reclassified to profit or loss	SoCTE	-	-	-	1
<b>Total comprehensive net expenditure for the year</b>		<b>16,717</b>	<b>(15,252)</b>	<b>10,451</b>	<b>1,922</b>

The Notes on **pages 186 to 268** form part of these financial statements.



# Group Statement of Financial Position

as at 31 March 2019

	Note	2018-19		2017-18	
		Core Department & Agencies £m	Departmental Group £m	Core Department & Agencies £m	Departmental Group £m
Property, plant and equipment	6	9,075	463,408	8,711	429,337
Investment properties	8	-	233	-	208
Intangible assets	7	42	192	36	161
Loans	11	30,395	500	26,904	155
Investment in equities	12	449	674	369	586
Public dividend capital	13	33	33	33	33
Derivatives	14	-	340	-	269
Investment in associates	15	380	380	431	431
Trade and other receivables	17	686	14	3,777	10
Inventories	16	539	539	431	431
<b>Total non-current assets</b>		<b>41,599</b>	<b>466,313</b>	<b>40,692</b>	<b>431,621</b>
Assets held for sale	9	1	28	1	1,157
Inventories	16	-	277	-	257
Derivatives	14	-	11	-	227
Trade and other receivables	17	413	2,032	646	1,786
Cash and cash equivalents	18	213	814	147	1,133
<b>Total current assets</b>		<b>627</b>	<b>3,162</b>	<b>794</b>	<b>4,560</b>
<b>Total Assets</b>		<b>42,226</b>	<b>469,475</b>	<b>41,486</b>	<b>436,181</b>
Trade and other payables	19	(1,297)	(5,703)	(1,118)	(4,058)
Borrowings	20	(111)	(119)	(109)	(2,099)
Derivatives	14	-	(52)	-	(20)
Provisions	23	(513)	(721)	(485)	(898)
<b>Total current liabilities</b>		<b>(1,921)</b>	<b>(6,595)</b>	<b>(1,712)</b>	<b>(7,075)</b>
<b>Total Assets less net current liabilities</b>		<b>40,305</b>	<b>462,880</b>	<b>39,774</b>	<b>429,106</b>
Provisions	23	(962)	(1,146)	(1,021)	(1,118)
Other payables	19	(1,239)	(2,982)	(1,283)	(3,183)
Borrowings	20	(3,942)	(28,647)	(3,993)	(28,205)
Financial guarantee contracts	21	(4,066)	-	(4,044)	-
Derivatives	14	-	(981)	-	(1,147)
Deferred tax liabilities	22	-	(3,003)	-	(2,508)
<b>Total non-current liabilities</b>		<b>(10,209)</b>	<b>(36,759)</b>	<b>(10,341)</b>	<b>(36,161)</b>
<b>Assets less liabilities excl pension liabilities</b>		<b>30,096</b>	<b>426,121</b>	<b>29,433</b>	<b>392,945</b>
Pension Liability	25	(1,526)	(4,873)	(1,299)	(4,330)
<b>Assets less liabilities</b>		<b>28,570</b>	<b>421,248</b>	<b>28,134</b>	<b>388,615</b>
<b>Taxpayers' equity and other reserves:</b>					
General fund		(25,777)	(77,112)	(25,660)	(73,370)
Revaluation reserve		(2,358)	(343,361)	(2,118)	(314,531)
Hedging reserve		-	8	-	(28)
Financial assets at fair value through OCI reserve		(435)	(783)	(356)	(686)
<b>Total equity and other reserves</b>		<b>(28,570)</b>	<b>(421,248)</b>	<b>(28,134)</b>	<b>(388,615)</b>

The Notes on **pages 186 to 268** form part of these financial statements.

**Bernadette Kelly CB**  
15 July 2019

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

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# Group Statement of Cash Flows

for the year ended 31 March 2019

	Note	2018-19		2017-18	
		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		(16,686)	(13,394)	(11,126)	(12,370)
Adjustments for non-cash transactions other than pension schemes	4, 5	4,214	6,988	(69)	6,849
Adjustments for non-cash transactions related to pension schemes	4, 5	73	368	36	329
(Increase) / decrease in inventories	16	(108)	(128)	(181)	(208)
less movement in inventory relating to items not passing through the Statement of Comprehensive Net Expenditure		(4)	(4)	24	24
(Increase) / decrease in trade and other receivables	17	3,324	(250)	14	118
less movements in receivables relating to items not passing through the Statement of Comprehensive Net Expenditure		(4,064)	(11)	(125)	(223)
Increase / (decrease) in trade & other payables, and borrowings	19, 20	86	(94)	267	(3,046)
less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure		14	(289)	83	192
(Increase) / Decrease in derivative assets	14	-	145	-	607
Increase / (Decrease) in derivative liabilities	14	-	(134)	-	(363)
less movements in derivatives not passing through the SoCNE & OCE		-	(12)	-	(244)
Use of provisions	23	(364)	(449)	(69)	(159)
Adjustment for capital and interest element of PFI payments		2	80	2	76
<b>Net cash outflow from operating activities</b>		<b>(13,513)</b>	<b>(7,184)</b>	<b>(11,144)</b>	<b>(8,418)</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment – additions	6	(368)	(11,835)	(1,709)	(11,279)
Purchase of property, plant and equipment – non-cash additions		2	2	3	23
Adjustments for movement in capital accruals relating to additions		-	229	-	(80)
Purchase of intangible assets – cash additions	7	(14)	(15)	(15)	(27)
Purchase of intangible assets – non-cash additions		-	-	(1)	(1)
Proceeds of disposal of assets and assets held for sale		-	1,478	2	126
Purchase of Other Investments		(1)	(1)	-	-
Purchase of Investment Properties	8	-	-	-	(7)
Proceeds of disposal of investments		-	14	-	6
Capital element of lands provision		245	212	957	1,256
Loans to other bodies	11	(6,450)	(365)	(8,371)	(24)
Repayments from other bodies	11	2,959	20	1,853	218
Repayments to National Loans Fund		(1)	(1)	(1)	(1)
<b>Net cash outflow from investing activities</b>		<b>(3,628)</b>	<b>(10,262)</b>	<b>(7,282)</b>	<b>(9,790)</b>

	Note	2018-19		2017-18	
		Core Department & Agencies £m	Departmental Group £m	Core Department & Agencies £m	Departmental Group £m
<b>Cash flows from financing activities</b>					
From the Consolidated Fund (Supply)		17,429	17,429	18,660	18,660
Repayments of loans from the National Loans Fund		1	1	1	1
Capital element of payments in respect of finance leases		-	(2)	-	(2)
Capital element of payments in respect of on-balance sheet PFI contracts		(2)	(80)	(2)	(76)
<b>Net financing</b>		<b>17,428</b>	<b>17,348</b>	18,659	18,583
<b>Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund</b>					
		<b>287</b>	<b>(98)</b>	233	375
Payments of amounts due to the Consolidated Fund		(221)	(221)	(236)	(236)
<b>Net increase / (decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund</b>					
		<b>66</b>	<b>(319)</b>	(3)	139
<b>Cash and cash equivalents at the beginning of the period</b>					
		<b>147</b>	<b>1,133</b>	150	994
<b>Cash and cash equivalents at the end of the period</b>					
		<b>213</b>	<b>814</b>	147	1,133

The Notes on **pages 186 to 268** form part of these financial statements.

## Group Statement of Changes in Taxpayers' Equity

as at 31 March 2019

	Note	General Fund £m	Revaluation Reserve £m	Hedging Reserve £m	Financial assets at fair value through OCI Reserve £m	Total Reserves £m
Balance at 31 March 2017		(66,417)	(304,778)	10	(810)	(371,995)
Detrunking	6	193	-	-	-	193
Net (gain) / loss on revaluation of property, plant and equipment	6	-	(10,001)	-	-	(10,001)
Reclassified to Statement of Comprehensive Net Expenditure		-	-	-	1	1
Net (gain) / loss on revaluation of investments	12	-	-	-	123	123
Non-cash charges – auditor's remuneration	4	(1)	-	-	-	(1)
Transfers between reserves for excess depreciation		(132)	132	-	-	-
Net expenditure for the year		12,370	-	-	-	12,370
Reversionary interest on M6 toll road		(3)	-	-	-	(3)
Deferred tax movements	22	36	116	-	-	152
Actuarial (gain) / loss recognised in pension scheme	25	(733)	-	-	-	(733)
Share of non-operating income / (expenditure) of associate	15	(180)	-	-	-	(180)
Other movements		(76)	-	(38)	-	(114)
Balance as adjusted by income and expense for 2017-18		(54,943)	(314,531)	(28)	(686)	(370,188)
Net Parliamentary Funding – drawn down		(18,660)	-	-	-	(18,660)
Net Parliamentary Funding – deemed		(124)	-	-	-	(124)
Supply payable / (receivable) adjustment		108	-	-	-	108
CFERs payable to the Consolidated Fund		249	-	-	-	249
Balance at 31 March 2018		(73,370)	(314,531)	(28)	(686)	(388,615)



	Note	General Fund £m	Revaluation Reserve £m	Hedging Reserve £m	Financial assets at fair value through OCI Reserve £m	Total Reserves £m
<b>Balance at 1 April 2018</b>		<b>(73,370)</b>	<b>(314,531)</b>	<b>(28)</b>	<b>(686)</b>	<b>(388,615)</b>
Net (gain) / loss on revaluation of property, plant and equipment	6	-	(29,250)	-	-	(29,250)
Net (gain) / loss on revaluation of intangible assets	7	-	(11)	-	-	(11)
Change in fair value of derivatives		-	-	36	-	36
Net (gain) / loss on revaluation of investments		-	-	-	(97)	(97)
Non-cash charges – auditor's remuneration	4	(1)	-	-	-	(1)
Transfers between reserves for excess depreciation		(125)	125	-	-	-
Net expenditure for the year		13,394	-	-	-	13,394
Reversionary interest on M6 toll road		(2)	-	-	-	(2)
Deferred tax movements	22	-	443	-	-	443
Actuarial (gain) / loss recognised in pension scheme	25	173	-	-	-	173
Share of non-operating (income)/expenditure of associate	15	62	-	-	-	62
Other movements		(91)	(137)	-	-	(228)
<b>Balance as adjusted by income and expense for 2018-19</b>		<b>(59,960)</b>	<b>(343,361)</b>	<b>8</b>	<b>(783)</b>	<b>(404,096)</b>
Net Parliamentary Funding – drawn down		(17,429)	-	-	-	(17,429)
Net Parliamentary Funding – deemed		(108)	-	-	-	(108)
Supply payable / (receivable) adjustment		186	-	-	-	186
CFERs payable to the Consolidated Fund		199	-	-	-	199
<b>Balance at 31 March 2019</b>		<b>(77,112)</b>	<b>(343,361)</b>	<b>8</b>	<b>(783)</b>	<b>(421,248)</b>

The General Fund serves as the chief operating fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. The Revaluation Reserve reflects the unrealised element of the cumulative balance of the revaluation adjustments to property, plant and equipment and intangible assets. The Hedging Reserve records the cumulative fair value gains and losses on certain derivative instruments (to the extent that the hedge is effective). The cumulative gains and losses are recycled to income and expenditure when the hedged transaction affects income and expenditure. The Financial Assets through Other Comprehensive Income (OCI) reserve records the cumulative fair value gains and losses on financial assets held at fair value through OCI. There are no Charitable Fund reserves in the Group.

The Notes on **pages 186 to 268** form part of these financial statements.

# Statement of Changes in Taxpayers' Equity

## Core Department and Agencies

as at 31 March 2019

	Note	General Fund £m	Revaluation Reserve £m	Financial assets at fair value through OCI Reserve £m	Total Reserves £m
Balance at 31 March 2017		(17,789)	(1,999)	(369)	(20,157)
Net (gain) / loss on revaluation of property, plant and equipment	6	-	(120)	-	(120)
Net (gain) / loss on revaluation of investments	12	-	-	13	13
Non-cash charges – auditor's remuneration	4	(1)	-	-	(1)
Transfers between reserves for excess depreciation		(1)	1	-	-
Net expenditure for the year		11,126	-	-	11,126
Reversionary interest on M6 toll road		(3)	-	-	(3)
Actuarial (gain)/loss recognised in pension scheme	25	(385)	-	-	(385)
Share of non-operating income/(expenditure) of associate	15	(180)	-	-	(180)
Balance as adjusted by income and expense for 2017-18		(7,233)	(2,118)	(356)	(9,707)
Net Parliamentary Funding – drawn down		(18,660)	-	-	(18,660)
Net Parliamentary Funding – deemed		(124)	-	-	(124)
Supply (payable)/receivable adjustment		108	-	-	108
CFERs payable to the Consolidated Fund		249	-	-	249
Balance at 31 March 2018		(25,660)	(2,118)	(356)	(28,134)

	Note	General Fund £m	Revaluation Reserve £m	Financial assets at fair value through OCI Reserve £m	Total Reserves £m
<b>Balance at 1 April 2018</b>		<b>(25,660)</b>	<b>(2,118)</b>	<b>(356)</b>	<b>(28,134)</b>
Net (gain) / loss on revaluation of property, plant and equipment	6	-	(104)	-	(104)
Net (gain) / loss on revaluation of investments	12	-	-	(79)	(79)
Non-cash charges – auditor's remuneration	4	(1)	-	-	(1)
Transfers between reserves for excess depreciation		(1)	1	-	-
Net expenditure for the year		16,686	-	-	16,686
Reversionary interest on M6 toll road		(2)	-	-	(2)
Actuarial (gain)/loss recognised in pension scheme	25	154	-	-	154
Share of non-operating (income)/expenditure of associate	15	62	-	-	62
Other movements		137	(137)	-	-
<b>Balance as adjusted by income and expense for 2018-19</b>		<b>(8,625)</b>	<b>(2,358)</b>	<b>(435)</b>	<b>(11,418)</b>
Net Parliamentary Funding – drawn down		(17,429)	-	-	(17,429)
Net Parliamentary Funding – deemed		(108)	-	-	(108)
Supply (payable)/receivable adjustment		186	-	-	186
CFERs payable to the Consolidated Fund		199	-	-	199
<b>Balance at 31 March 2019</b>		<b>(25,777)</b>	<b>(2,358)</b>	<b>(435)</b>	<b>(28,570)</b>

The Notes on **pages 186 to 268** 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 expand 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. Disclosures of critical judgements, accounting estimates and sources of estimation uncertainty are presented within each individual accounting policy note.

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 **Note 1.4** and in **Note 6**.

The balances and transactions that are materially exposed to estimation uncertainties include: property, plant and equipment (and the amount of the depreciation charge); investments in equities; provisions for liabilities and charges; and defined benefit pension deficits (and the amount of actuarial gains and losses). Where the potential impact is significant, estimation uncertainties are discussed in **Note 1** (at 1.4.3, 1.4.4, 1.19.2 and 1.20.2), and sensitivity analyses reflecting the bounds of estimation uncertainty are presented in the relevant Note (**Notes 6, 23** and **25**).

### 1.1 Basis of preparation

These financial statements have been prepared in accordance with the 2018-19 Government Financial Reporting Manual<sup>16</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.

<sup>16</sup> <https://www.gov.uk/government/collections/government-financial-reporting-manual-frem>

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 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 in this document.

The presentational and functional currency is pounds sterling.

IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* have been adopted for the first time in these financial statements. Implementation of these new standards has had no material impact on the Department's transactions and balances.

- ▶ IFRS 9 has required some edits to terminology and to presentation and disclosure in these accounts. However, there is no significant financial impact in these accounts arising from adoption of IFRS 9. Key reasons for this, are: all of the Group's debt meets the IFRS 9 test of being 'solely payments of principal and interest'; derivatives continue to be measured at fair value; and the Group has minimal hedge ineffectiveness. As such, the accounting under IAS 39 in the prior year remains appropriate under IFRS 9 in 2018-19.
- ▶ IFRS 15 requires entities to consider whether revenue should be recognised at a single point in time, or over time. The recognition points for the Group's revenue streams required under IFRS 15 remain consistent with those which were required in the prior year under IAS 18. This is set out in further detail in **Notes 1.23** and **1.24**.

These standards have been adopted by using the cumulative catch-up method, which is described in more detail in **Notes 1.10 – 1.17, 1.23 – 1.24** and **1.27**. As such, the comparatives for 2017-18 reflect the requirements of IAS 39 *Financial Instruments: Recognition and Measurement* in respect of financial instruments and IAS 18 *Revenue* in respect of revenue recognition: therefore, the primary statements and notes for the prior year reflect the categories specified in those IASs.

### 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.

### Valuation bases

Property, plant and equipment is revalued according to a FReM adaptation of IAS 16 (Property, Plant and Equipment), which requires an existing use valuation, typically Depreciated Replacement Cost for specialised assets.

Other types of asset and liability are fair-valued in accordance with IFRS 13, using either a market-based approach, an income approach or a cost approach, depending on which approach maximises the use of relevant observable inputs. The Group evaluates the inputs and the resulting valuation to categorise the valuation within the three-level fair value hierarchy, depending on the lowest-level significant input.

- ▶ A level 1 input is a quoted market price for an identical asset or liability (for example, the price of a bond).
- ▶ A level 2 input is not a quoted price, but is still observable, directly or indirectly (for example, bond yield curves).
- ▶ A level 3 input is unobservable (for example, internally-generated forecast cash flows, or technical specifications).

**Note 30** discloses valuations by their category in this hierarchy.

### Going Concern

The future financing of the Department's liabilities is met by the funding from Parliament. This is through the receipt of Supply financing and future income which are approved annually by Parliament by the passing of the Supply and Appropriation (Main Estimates) Act. The amount for 2019-20 is due to be voted on account when the 2019-20 Bill is put to Parliament. The Department considers there is no reason to believe that future approvals will not be forthcoming. Hence, it is considered appropriate to adopt a going concern basis for the preparation of these financial statements.

## 1.3 Basis of consolidation

In accordance with the FReM, these financial statements comprise a consolidation of the core Department, its agencies (the "Core Department and Agencies") and those other entities which fall within the Departmental boundary as defined by [Statutory Instrument 2018 No 313](#) made under the Government Resources & Accounts Act 2000 (together known as the "Departmental Group"). **Note 26** 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, which are not part of the Departmental Group.

Where two columns are included, the first contains amounts for the core Department and its Agencies and the second 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. Within this note, the terms "the Department" and "the Group" are used to refer to balances, transactions and policies applicable to the core Department and its Agencies and to the Group respectively.

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 **Notes 1.4.2** and **6.3**, Asset Under Construction (AUC). On completion, project costs are transferred out of AUC and into the networked asset.

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:

- ▶ 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;
- ▶ Compensatory processes, such as Statutory Blight: When the owner demonstrates that the requirements are met and the application is accepted;
- ▶ Discretionary processes, such as Need to Sell: When the owner demonstrates that the requirements are met and the application is accepted.

Costs of construction may include the cost for access to adjacent land, where this is required for construction purposes. Access is typically obtained through Temporary Possession and through this process, the owner receives compensation for any losses suffered during the period.

During the construction phase, land and properties that are on the route of the infrastructure are 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, or subject to Statutory Blight in Phase 2B 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 claimants 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 – 6.3**.

##### 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. Therefore, they are presented as a single amount, as assets under construction, until they are brought into use, 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 recognised by the General Lighthouse Authorities

##### 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

Networked assets (the Strategic Road Network and the 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. This valuation approach is based on a FReM adaptation of IAS 16 (Property, Plant and Equipment). The DRC is arrived at by first determining a gross replacement cost for each Network; the gross replacement cost is then adjusted (or “depreciated”) to reflect management’s best estimate of the condition and capacity of the Network; this adjusted gross replacement cost is the depreciated replacement cost. The gross replacement cost is determined in line with guidelines issued by the Royal Institute of Chartered Surveyors. The guidelines require certain assumptions including: a modern equivalent asset which the Group 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. Judgement is required to determine the nature of a modern equivalent asset and the asset’s current condition.

#### The Railway 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, it is required to determine its fair value in accordance with IFRS 13 (Fair Value Measurement). 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 Group. 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 Group 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. A FReM adaptation to IFRS 13 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 for inclusion in the Whole of Government Accounts. It reflects the basis on which public services are funded.

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 Group considers that this higher valuation is recoverable in full by the Department. The Group receives both Network Rail’s income and Parliamentary Supply as part of the Group’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.

##### 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 current economic conditions. In practice, only lines that are already electrified, or where electrification is under construction, 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. 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.

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 appropriate benchmarking studies; the principles and ranges have been reviewed and endorsed by ORR. Costs have been benchmarked against actual costs of recent projects where possible; however, this is less feasible for components that are routinely maintained rather than fully replaced. In 2018-19, the cost data inputs used in the DRC valuation have been reviewed in full by professional experts. This will be used as the baseline cost data for future periods until the date of the next full valuation exercise.

### 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 of -65% 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 by decreasing prices by 32%.

### Cost risk factor

After allowing for known costs in constructing assets there are also unknown and localised costs that are captured using a risk factor of 22.7%. This assumption is subject to a sensitivity analysis based on the range of potential adjustments.

### Sensitivity to estimation uncertainty

The accounting estimates disclosed above are all subject to a material extent to 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
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 +22.7%	10%	Maximum and minimum risk factors of +32.7% and +12.7%

## 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, 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, the Group considers that the approach taken minimises uncertainty by making full use of the data available 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.

### 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 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 to the extrapolation of data to ascertain an estimated standard cost valuation. The most significant index is Road Construction Resource Cost index (ROCOS).

Between valuations values are adjusted with regional land and building indices calculated by engineering consultants acting on behalf of Highways England using RICS Rural Land Market Survey and average house price changes per the Land Registry Office House Price Survey.

### Sensitivity to estimation uncertainty

The accounting estimates disclosed above 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.

### Infrastructure assets – HS1

The infrastructure of the HS1 rail link from the Kent coast to St. Pancras in London was 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, reflecting a reduction in their cost of borrowing, which is not indicative of any benefit that the Group can control.

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 the valuation of the gross book value:

- ▶ 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. There is a corresponding liability in deferred income.
- ▶ For the asset's estimated remaining life (to 2086): £1,860m is an income based valuation reflecting the price paid by Borealis and the Ontario Teachers' Pension Plan in November 2010 to operate the infrastructure until 2040, which remains the best estimate of the concession income the Group 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.

The asset is depreciated on a straight-line basis over its remaining useful economic life.

### Assets under construction

Capital works to networked assets are recognised at cost. However, to achieve consistency with the DRC valuation assumptions, the difference between cost and DRC of assets under construction is reflected in the valuation of the Strategic Road Network or the Railway Network at the year-end. This typically results in a

downwards revaluation, 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 items of 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. 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.

#### The Railway Network: Determining the remaining lives and condition of asset components

The components of the railway network are depreciated over their estimated remaining useful economic lives; these are typically weighted averages for a range of components, given the complexity of these structures. This table gives the weighted averages, based on management judgements of the remaining lives for detailed categorisations of the underlying components.

Type	Remaining Life (Years)
Earthworks	99
Structures	61
Electrification, plant & signals	33
Operational property	32
Track	19
Telecoms	13
Land	-

This is a critical judgement based on the available data, including that used for Network Rail's whole life costing assessments. However, careful judgement is 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 due to inherent uncertainty beyond that period.

#### Sensitivity to estimation uncertainty

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, thus requiring the use of judgement and estimation. This gives rise to a degree 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

### The Strategic Road Network: 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.

### The Strategic Road Network: 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. The rutting survey measures depressions or grooves in the 'black top' of the road surface caused by wear or deformation over time. 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. The 15.5mm level of rutting is an estimate, and therefore gives rise to estimation uncertainty. The Group considers that the bounds of uncertainty is +/-1mm, i.e. the maximum acceptable level of rutting falls within the range of 14.5mm-16.5mm. If these alternative assumptions were used the amount of the depreciation charge would differ, and a sensitivity analysis is given in **Note 6.2**.

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, using asset lives of between 20 and 120 years depending on the structure type.

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.

## 1.5 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 and service concessions

Arrangements that convey the right to use an asset are treated as leases, notwithstanding the legal form of the arrangement. 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.

In addition to its leases, 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 included within non-current assets under Assets Under Construction in **Note 6**.

### 1.6.1 Estimating the allocation of cash payments for leases and service concessions

In accounting for on-balance sheet leases and service concessions, the contractual cash payments must be apportioned between capital, interest and (in the case of most service concessions) services provided by the operator. The contract or other information provided by the operator may delineate the apportionment, by

setting out the value of the asset, the interest rate and the value of services. Otherwise, the apportionment will be estimated, making full use of the information that the operator does provide, but supplementing it with inputs such as determinations of the fair values of the asset and any services, and a cost of capital rate equal to HM Treasury's discount rate for investment appraisal purposes.

## 1.7 Inventories

The most significant type of inventory is land and properties. This comprises assets acquired for the construction of infrastructure, typically under discretionary schemes, but which are not part of an asset under construction, either because:

- ▶ they fall outside the boundary of the infrastructure route (and will therefore not be required for construction);
- ▶ the Group cannot proceed with construction, pending further progress of the legislation, for example, Phase 2B Statutory Blight.

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;
- ▶ Land and properties that may fall within the boundary of an infrastructure route but are recognised as inventory pending further progress of the legislation, are also held at the lower of cost and net realisable value. However, their realisable value is determined on the assumption that they will be re-sold in their current form and in their current condition;
- ▶ 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.

### 1.7.1 Critical judgements

The Group considers that, where land and properties have been acquired for the construction of infrastructure, but where its ability to carry out construction depends on the passing of legislation, it should not recognise an asset under construction until the Second Reading has successfully completed. In the



meantime, the Group classifies the assets as inventory because, if the legislation were not to receive Royal Assent, the assets would be sold in their current form and in their current condition. The net realisable value of these inventories is determined on the assumption that they would be sold in their current form and in their current condition, with the result that the net realisable value will usually be no lower than cost.

### 1.7.2 Use of estimation in the measurement 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 based upon a desk top review supplemented by a full professional revaluation of a rolling 20% sample of the properties.

## 1.8 Investment properties and Assets Held for Sale

IAS 40 (Investment Property) requires that properties are classified as investment properties where they are held for 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.

In accordance with IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations), non-current assets are reclassified as held for sale when they are available for immediate sale in their present condition and are being actively marketed 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.

### 1.8.1 Valuation of investment properties and assets held for sale

Investment properties (including any that were reclassified as assets held for sale during the year) are held at fair value through operating expenditure. The fair value of investment properties at 31 March 2019 is deemed to be market value.

The market values of the Group's investment properties at 31 March 2019 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 8 one-off individual properties (2018: 6), amounting to 36% (2018: 35%) of the total valuation. The balance of the estate was valued under the Beacon method by splitting the portfolio into 18 homogeneous classes (2018: 13) of property and areas, assuming that the rental incomes specified in the existing leases 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.

Investment properties and assets held for sale are derecognised at the point of disposal, which is the point when the recipient obtains control of the asset. If the transaction reflects a sale and leaseback, rather than an outright sale, and the Group retains the risks and rewards of ownership, the asset is transferred from assets held for sale back to its previous category.

## 1.9 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.

## 1.10 Loans, and current and non-current receivables

Loans, trade receivables and accrued income are covered by the financial instruments standards IFRS 9 and, for the comparative year, IAS 39.

These financial assets were previously categorised as loans and receivables under IAS 39 and have been categorised as financial assets held at amortised cost under IFRS 9.

Loans (**Note 11**) and receivables (**Note 17**) are recognised initially at fair value, plus transaction costs. Fair value is usually the contractual value of the transaction.

Thereafter, loans (**Note 11**) and receivables (**Note 17**) are held at amortised cost in accordance with IFRS 9 where the Group's business model is to hold them

to collect the cash flows and where the cash flows are solely payments of principal and interest on the outstanding principal. Measurement at amortised cost is achieved by discounting the contractual cash flows by the effective interest rate. This is the rate that, at the start of the arrangement, discounts contractual cash flows back to the initial fair value. Issue costs are typically amortised on a straight-line basis, as this is materially consistent with an amortised cost measurement.

Where material, credit loss allowances are recognised, except for arrangements with other central government departments (including their executive agencies), the Government's Exchequer Funds and the Bank of England, for which the FReM requires that no credit loss allowances should be recognised. It is considered that credit loss allowances for all loans between Group members are immaterial, because the core Department is ultimately responsible for funding all other Group members and would therefore prevent credit losses from arising in practice.

Credit loss allowances for trade receivables and similar arrangements are measured at the lifetime expected credit loss. Credit loss allowances for formal loans are measured at the twelve-month expected credit loss. The Group considers that none of its loans have either experienced a significant increase in credit risk since origination or are credit-impaired in 2018-19.

Loans (**Note 11**) and receivables (**Note 17**) are derecognised under the following circumstances: when the rights to the cash flows expire; when the assets (together with control over those assets and the risks and rewards of ownership) have been transferred; or when the assets have been written off because there is no reasonable expectation of recovering them. A significant modification to the terms and conditions of a receivable may necessitate the derecognition of one asset and, potentially, the recognition of a new financial asset. During the year, the Department has derecognised a material receivable balance, the Financial Indemnity fee due from Network Rail, resulting from a policy decision to remove the fee. This is described in more detail in **Note 17**.

Loans and receivables were defined by IAS 39 as non-derivative financial assets with fixed or determinable payments that were not quoted in an active market, were not held for trading and that the Group did not plan to sell. They included long-term investments as well as trade receivables.

Loans and receivables were held at amortised cost, using the effective interest method to discount future cash flows. Impairments were recognised in accordance with the 'incurred loss' method, reflecting events that had an impact on future cash flows that occurred between the initial recognition of the asset and the end of the comparative reporting period.

## 1.11 Investments in equities

The Group's equity investments in entities that are not classified to central government are financial instruments within the scope of IFRS 9 and, for the comparative period, IAS 39. They are all classified as equity instruments held at fair value through other comprehensive net expenditure (IFRS 9) and available-for-sale financial assets (IAS 39).

As all financial assets previously categorised as available-for-sale financial assets have been re-categorised as equity instruments held at fair value through Other Comprehensive Net Expenditure, there is no difference between the carrying amounts as at 31 March 2018 (representing the end of 2017-18) and 1 April 2018 (representing the start of 2018-19). The change in fair values during the year comprises additional equity investments, and revaluations of these investments.

These assets are recognised initially at fair value plus any transaction costs. The transaction price is regarded as indicating the fair value of the assets at the point of recognition.

After initial recognition, IFRS 9 requires investments in equity instruments to be held at fair value, as the cash flows are not solely payments of principal and interest. The holder may make an irrevocable election to hold them at fair value through other comprehensive income. The Group has made this irrevocable election in respect of all of its equity holdings. These entities include LCR Ltd, Network Rail Insurance Ltd, and additionally, Crossrail International Ltd, London North Eastern Railway Ltd (LNER), and investments in deadlocked joint ventures. These equity instruments are measured at fair value using the fair value hierarchy set out in **Note 1.2**, with gains or losses recognised within Other Comprehensive Net Expenditure. Gains and losses are not reclassified from Other Comprehensive Net Expenditure to Operating Income or Expenditure. On disposal, any cumulative gains or losses are transferred to the General Fund reserve as a transfer between reserves. This is further described in **Note 12.3**.

Under IAS 39, available-for-sale financial assets were non-derivative financial assets that either did not meet the criteria for other categories or were designated as such. This classification was required for non-derivative financial assets that are not classified to any of the preceding categories. The Group's available-for-sale financial assets were typically equity investments in other public sector entities. There was usually an intention to hold these for the longer-term.

After initial recognition, available-for-sale financial assets were measured at fair value, with gains or losses recognised within Other Comprehensive Net Expenditure. In the event of impairment, any cumulative loss was reclassified to Net Operating Expenditure.

Measurement at fair value may require the use of accounting estimates and so may give rise to estimation uncertainty. In valuing instruments 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. These 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 **Note 12**, where sensitivity disclosures are also given.

The estimates and assumptions used in the valuation of these 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.

Shareholdings 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.

## 1.12 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 (Financial Instruments: Presentation) and IFRS 9 (and IAS 39, for the comparative period) to require that Public Dividend Capital is recognised at historical cost and adjusted for impairment where necessary.

Public Dividend Capital is derecognised when it is redeemed.

## 1.13 Derivatives and other financial instruments held at fair value through profit or loss (net operating expenditure) (IFRS 9 and IAS 39)

The Group's financial instruments held at fair value through profit or loss mostly comprise either 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 under IFRS 9), or financial instruments that 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). All items categorised as assets and liabilities held at fair value through profit or loss (net operating expenditure) under IAS 39 continue to be held on this basis under IFRS 9.

These instruments are initially recognised at fair value. The transaction amount is considered to be the best evidence of fair value at the point of initial recognition. Any transaction costs are expensed, and not added to the instrument.

Subsequently, 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. Where they are not actively traded, valuations are estimated. For derivatives and borrowings, estimates are constructed from forecast cash flows, calculated based on forecast interest rates, exchange rates or inflation rates. As a result, there is some sensitivity to estimation uncertainty. The Group considers that its exposure to exchange rates is fully hedged and so does not include a sensitivity analysis for this risk. However, **Note 29.3** 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.

Financial instruments held at fair value through profit or loss are derecognised when all rights to cash flows expire (in the case of assets); or when all obligations are settled (in the case of liabilities); or when control or the risks and rewards of ownership are transferred.

## 1.14 Borrowings

The Group has long-term borrowings in the forms of bonds and notes, mainly issued by Network Rail Infrastructure Finance plc, which is part of the Network Rail group, but also by LCR Finance plc and CTRL Section 1 Finance plc. 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. All three Group members have ceased external borrowing. Some of these instruments are held at fair value to prevent an accounting mismatch, and the accounting treatment of these instruments is set out in **Note 1.13**.

These financial liabilities are recognised initially at fair value, plus transaction costs. The transaction amount is considered to be indicative of fair value at the transaction date. Thereafter, those financial liabilities that are not held at fair value are held at amortised cost in accordance with IFRS 9 (and formerly IAS 39). Issue costs may be amortised on a straight-line basis, where this does not differ materially.

Borrowings are derecognised when all obligations have been satisfied.

## 1.15 Hedge accounting

The Group's hedging arrangements originate from Network Rail, whose legacy borrowings expose it to financial risks, such as interest rate risk and foreign exchange risk. Until the end of Control Period 5 on 31 March 2019, the Office of Rail and Road (ORR) 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 Control Period 5. 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.

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.

Under IFRS 9, an arrangement qualifies for hedge accounting if, at inception, the Group formally designates and documents the hedging relationship, which includes: the risk management objective and strategy for undertaking the hedge; identification of the hedging instrument; the hedged item; the nature of the risk being hedged and how the hedging instrument's effectiveness will be assessed. 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. For the comparative period, "highly effective" was interpreted as falling within a range of 80% to 125%, in accordance with IAS 39. 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 29**, with fair value disclosures provided in **Note 30**.

### 1.15.1 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.

### 1.15.2 Cash flow hedges

Under an arrangement that is designated as and continues to qualify as a cash flow hedge, the hedging instrument (derivative) is held at fair value. The change in its fair value is compared with the change in the fair value of the hedged item and the effective part is recognised in Other Comprehensive Net Expenditure. Any ineffective part is recognised immediately within Net Operating 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.

Almost all the hedged events for Network Rail have now occurred and there will be no new hedging programme. Hedge ineffectiveness was minimal under IAS 39, and IFRS 9 reduces further the requirement to declare hedge ineffectiveness subject to hedging strategy tests, which all of Network Rail's hedges pass since they were entered into fully for risk mitigation purposes. This means that the application of IFRS 9 has not required a change in the underlying model to determine hedge accounting compared to the previous year. The Group



has opted to continue to apply the hedge accounting requirements of IAS 39 until the hedging programme is finalised.

## 1.16 Financial guarantee contracts (IFRS 9 and IAS 39)

Financial guarantee contracts require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. They are initially recognised at fair value. The Department's only material financial guarantee contract is the Financial Indemnity Mechanism (FIM), which covers instruments issued by Network Rail under the Debt Issuance Programme. Network Rail had previously been required to pay a fee for the benefit conferred by the guarantee, which was used in the measurement of the Department's liability. On 25 March, the Secretary of State determined that Network Rail should no longer be required to pay a separate fee, as this would be funded from grants provided by the core Department, and so represents a circular flow of funds. This has resulted in an impairment of the receivable (disclosed further in **Note 17**). However, the Financial Indemnity Mechanism itself remains in place.

Under IFRS 9, financial guarantees are subsequently measured at the higher of the initial amount, less any subsequent amortisation where appropriate or of the credit loss allowance. As the FIM covers debt issued by Network Rail, a Group member, the Department considers that the value of the credit loss allowance for this guarantee is nil, as there are no events that could result in a call on the guarantee because Network Rail can draw on funding from the Department.

Under IAS 39, financial guarantees were subsequently measured at the higher of the initial amount, less any subsequent amortisation where appropriate or of the amount to be recognised in accordance with IAS 37. This latter amount was assessed to be zero, as it was not probable that any payment would be required.

The FIM is therefore measured on the following basis:

The core Department determines the fair value of the financial guarantee to Network Rail (the Financial Indemnity Mechanism), shown in **Note 21**, as the estimated value of the reduction in Network Rail's borrowing costs on its outstanding debt achieved by the FIM. This estimation was prepared for Periodic Review 2013 (covering Control Period 5) by independent experts (Cambridge Economic Policy Associates) for the Office of Rail and Road (ORR); the ORR has confirmed in Periodic Review 2018 that this remains valid for Control Period 6. The liability is amortised to income, to reflect the Department's reducing exposure under the FIM, as the outstanding debt reduces.

## 1.17 Other payables (IFRS 9 and IAS 39)

These are financial liabilities other than those classified as held at fair value through profit or loss (Net Operating Expenditure) and those classified as financial guarantee contracts. They include those trade and other payables (current and non-current) that fall within the scope of the financial instruments standards.

They are valued initially at fair value, with the transaction value regarded as the fair value at the date of initial recognition. Thereafter, where the time value of money is considered to be material, they are held at amortised cost using the effective interest rate to discount future cash flows. They are derecognised when all obligations are settled.

## 1.18 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.

## 1.19 Pensions and other employee benefits

### 1.19.1 Defined benefit plans provided by the Principal Civil Service Pension Scheme

Past and present employees of the core Department and its agencies are generally 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.

### 1.19.2 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 25**, 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, each 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 (Employee Benefits) 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. 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).

The scheme actuaries advise the reasonable bounds for uncertainty and these are presented for the most significant schemes, with a sensitivity analysis, in **Note 25**. Different assumptions may be made for different schemes to reflect differences between the pension benefits offered (some are linked to CPI, others to RPI) and between the ages and life-expectancies of scheme members.

The difference between the value of the pension scheme assets and pension scheme liabilities is either 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.

### 1.19.3 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.

### 1.19.4 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.

## 1.20 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. If the amount of a present obligation cannot be estimated reliably, the obligation will be disclosed as a contingent liability.

Descriptions of the significant provision balances are given in **Note 23**. 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 arise from HMRC reviews of HS2 Ltd's and Highway England's VAT statuses. Specific recognition points for these are disclosed in **Note 23**. Estimates and assumptions made in quantifying these provisions are discussed below. 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 Ltd is a non-departmental public body responsible for developing and promoting the new High Speed Railway Network. Any liabilities arising from its activities will be disclosed under the Group classification.

Some of the Group's provisions relate to purchase transactions, usually the purchase of property, and are classified as provisions solely because the timing or amount of cash consideration is uncertain. The Group's policy is to reclassify these provisions as accruals when the timing and amount of the payment becomes materially, rather than absolutely certain. This may mean that part of the consideration for a specific property is reclassified, leaving a residual amount as a provision. The Group considers that the amount of a payment becomes materially certain when its valuation reaches a high degree of cost maturity. The timing of a payment becomes materially certain when the Group approves a request for an advance payment, or when the Group makes a time-limited offer.

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 its control, unless their likelihood is considered to be remote. The Group's material classes of contingent liabilities include contractual mechanisms to transfer risk, typically to promote investment in railway assets, or to deliver rail infrastructure improvements involving multiple stakeholders.

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 funding might be required.

#### **1.20.1 Classification of contractual risk transferring mechanisms**

Contractual agreements, particularly for the rail sector, frequently contain mechanisms to transfer risk to the party best placed to manage them, often the Group. These mechanisms are analysed to identify specific clauses that transfer risk and to 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, mechanisms 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.

#### **1.20.2 Obligations to purchase land and property: 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 Group is exposed to if the scheme was cancelled, these provisions are valued by surveyors' estimates as at the point that the land and property is deemed to have been acquired from the previous owners. 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.

The provision for land and property is predicated on the most reasonable estimate of claims for both 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 potential land and property acquisitions where there is no current or anticipated claim.

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. Whilst the provision is valued according to the Group's best estimate of the consequences of the obligations existing at the reporting date, including the outcome of the detailed valuations carried out for active cases, this QCRA value (10% of the unadjusted property cost estimate, including irrecoverable VAT, as per the latest approved baseline) provides an indication of the extent of estimation uncertainty affecting both existing and planned Phase 1 land and property obligations.

The Group also has obligations to the owners of land currently subject to temporary possession, which will be returned to the owners. The amount payable includes compensation for losses and the costs of restoration of the land to an agreed condition.

### Sensitivity to estimation of uncertainty of HS2 land and property provisions

This section provides further detail about the key estimation factors affecting the valuation of land and property provisions connected with Compulsory Purchase powers, which represents £743m out of the total £1,003m provision included in **Note 23** (2018: £787m out of £1,099m).

The Compulsory Purchase portfolio consists of “active” and “inactive” cases. By value, the year-end provision is split 51% active, 49% inactive (2018: 46% active, 54% inactive).

2017-18 was the first year of significant acquisition activity under the Compulsory Purchase powers which were granted at Royal Assent to 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 reinstatement; examples of this include village halls or schools. There are also other statutory entitlements which arise, including: compensation for business loss or damage, relocation costs, professional fees, and statutory loss payments. These amounts are estimated using 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.

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 Group 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 in CPO cases 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 Group reliant on its own valuation and assessment of risk, without being able to also factor in a robust counterparty position when forecasting cost outturn.

In all cases the Group 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 on the relevant case on the principles above. Key assumptions, including VAT treatment and development value, are based on the valuers’ advice on a case-by-case basis.

For inactive cases, the Group 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 are regularly updated in line with HS2 business needs. PCE valuations were prepared assuming the market value for a property reflects its existing use, unless specific knowledge existed 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 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 2018-19 actuals for commercial cases, the Group has estimated that 17% of the inactive cases by value will opt to tax (2017-18: 41%). Additionally, because the inactive cases rely on a Property Cost Estimate (PCE) based on 1Q2015 prices, the Group uplifts the PCE values to reflect market movements. In doing so it applies a blended rate of indexation to reflect the different type of properties and their different locations.

For temporary possession claims, the amount ultimately payable reflects compensation for losses (such as loss of rental income or loss of profits from the cultivation of crops) and the costs of restoring the land. The amount of compensation for losses will require estimation of the revenues and expenditure that the landowner would otherwise have experienced. The cost of restoration works will depend on the scope of those works. This will be negotiated with landowners, but ultimately determined by the Secretary of State.

### 1.20.3 Legal claims: classification

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.



#### 1.20.4 Measurement of industrial diseases provision

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.

### 1.21 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 accounting period when these conditions are fulfilled.

## 1.22 Taxation

### 1.22.1 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.

### 1.22.2 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.

## 1.23 Revenue and expenditure from rail franchise agreements

### 1.23.1 Calculation of franchise premia and subsidies

Passenger rail services are provided on a franchised basis. Under rail franchise agreements, train operating companies (also described as “franchisees”) receive the right to deliver rail passenger services on part of the Railway Network for a period of time. Rail franchise agreements also require the franchisee to operate a service at times or under conditions that might not be profitable to the franchisee but provide an essential service to the travelling public. The companies collect revenues, predominantly from passenger ticketing, which offsets their costs.

As well as agreeing an obligation to operate services, and a right to collect these revenues, the Department also agrees with the operator either a subsidy the operator receives from the Group or a premium to be paid to the Group. This premium or subsidy are the key output of a financial model used by the Department and franchise bidders for which inputs include bidder forecasts for revenues, costs and operator profit margin. At the culmination of a procurement, the premium or subsidy will be contractually agreed over the franchise term.

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 or 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.

Rail franchising premia and subsidies are recognised in the financial statements on the same pattern, as this is considered to best reflect the Group's performance during the year. The recognition pattern is consistent with applicable IASB guidance on revenue recognition. IFRS 15 *Revenues from contracts with customers* has been adopted from 1 April 2018 on the cumulative catch-up basis, with the comparatives reflecting IAS 18. The recognition policy has been reviewed following the adoption of IFRS 15 and found to be materially consistent with it. Therefore, there is no adjustment to opening balances as at 1 April 2018 arising from the adoption of IFRS 15. Rail franchise income is not disaggregated in the accounts, due to the commercial nature of this information.

### 1.23.2 Recognition under IFRS 15

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. This applies as follows:

#### Step 1 Identify the contract with the customer

Each franchise agreement is considered to be a single, legally binding contract. Franchise agreements set out mutually agreed assumptions about the operating environment including how it is expected to change during the franchise, and the methods for addressing differences between expected and actual changes. This may involve recalculating the amount of net premium or net subsidy on a basis that reflects the actual operating environment from the point that it diverges from the expected operating environment. This is treated as a termination of the existing contract and the creation of a new contract, because the future service is distinct and because the net premium or net subsidy is calculated on a stand-alone basis. Any modifications are assessed on a case-by-case basis, though given the Group's approach to allocating the transaction price (see below), negligible differences would be likely to arise between treating modifications as affecting an existing contract as opposed to creating a new contract.

#### Step 2 Identify the performance obligations

A franchise agreement gives the franchisee the right to deliver rail franchise services on specified routes for a specified number of "franchisee years", which are periods starting on 1 April and ending on 31 March of each year, regardless of the date when the franchise term begins or ends. "Franchisee years" are therefore co-terminus with the financial year.

While the franchisee is awarded the right to operate the franchise for the entire term, it does not immediately receive full control of that right or the ability to consume the related benefits. Reliability and consistency of the service over time is required by passengers and other stakeholders, and necessitated by the finite capacity of the franchisees' rolling stock fleets, stations and the workforce. These factors are not static, and timetables may be altered during the franchise to better meet the needs of the travelling public. Therefore, availability over time and preparedness to adjust services over time are critical features of rail franchising agreements.

The Group has responsibility for overseeing the rail sector across the life of the franchises and for providing adequately maintained infrastructure to enable train operating companies to run rail services. As described above, the franchisee's performance is assessed over the course of each "franchisee year". The Group therefore considers the "franchisee year" to be a period during which the franchisee simultaneously receives and consumes the service. For these reasons, the Group assesses that the service for each "franchisee year" is distinct, but they are substantially the same and have the same pattern of transfer.

#### Step 3: Determine the transaction price

The transaction price comprises the annual franchise payments or receipts, adjusted for performance (rewards or penalties), inflation and profit-sharing. The transaction price is calculated for each four-week period, with a catch-up adjustment at the end of each "franchisee year". There is no significant financing component. Cash flows for each financial year are not linked to future events to any material extent, though some are linked to an index, or to the profits recognised by a franchisee. Revenue recognised in the current year in respect of performance obligations met in the previous year, is immaterial.

#### Step 4: Allocate the transaction price to the performance obligations in the contracts

As the right to operate passenger rail services in a "franchisee year" is distinct from the rights to operate the services in earlier or later years, the transaction price for each "franchisee year" has been allocated to the performance obligation of operating passenger rail services in that financial year. Within each "franchisee year", the right to operate passenger rail services is transferred over time, because the franchisee simultaneously receives and consumes the service. Progress is measured using a time-based method, as this reflects the way in which the franchisee benefits from the service.

### Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Revenue (and expenditure, for a net subsidy franchise) is recognised as the Group transfers the right to operate the passenger rail services, over the course of each “franchisee year”. As a consequence, the amount of expenditure or income recognised in each financial year does not differ materially from total payments to or receipts from the franchisee during each “franchisee year”, except where there are ongoing contract negotiations which require expenditures to be accrued in one financial year and paid in a subsequent financial year. These amounts are presented as programme expenditure (Support for Passenger Rail Services) and income (Income from Train Operating Companies) respectively.

### Accounting estimates and sources of estimation uncertainty

Some franchise premia or subsidies are linked to indices such as Gross Domestic Product. These are deemed to be embedded derivatives; however since these are closely related to the economic risks of the host franchise contract, following IFRS 9 principles the Group does not account for these mechanisms as separate financial instruments, rather recognising any price adjustment in line with the satisfaction of related performance obligations. Where the relevant indices are not available until after the reporting date, the Group assesses the single most likely outcome under IFRS 15. While the Office for National Statistics has revised some indices at a later date, the most recent index can be the best basis for an estimate, as these revisions have not historically indicated any bias.

Some franchise premia or subsidies are linked to the franchisee’s profits, typically when the profits exceed a certain amount. The exact value of any profit share cannot be measured exactly until the franchisees’ accounts have been audited. In the interests of reliable reporting, and having given consideration to the values involved, the Group reserves adjustment until this point.

In some cases, franchise agreements allow for the premium or subsidy to be adjusted in response to events outside the franchisee’s control. There may be significant uncertainty around the existence of the liability and the timing and amount of any payments, for example, where there are disagreements about whether actual developments meet the criteria, or about the financial impact of such events. In such cases, the Group makes its best estimate on the outcome of the relevant circumstances or events, in line with IAS 37 principles, to amounts whose existence, value or timing are materially uncertain.

## 1.24 Recognition of revenues from other sources

In addition to rail franchising revenues, the Group earns material revenues from track access income, and fees and charges from other government departments and other customers for various types of service. The adoption of IFRS 15, from 1 April 2018, introduced a new approach to the recognition of revenues from contracts with customers. As IFRS 15 has been adopted using the cumulative catch-up method, the comparatives reflect requirements of IAS 18. Both sets of requirements are set out in more detail below.

### 1.24.1 IFRS 15

IFRS 15 (as interpreted by the FReM) covers revenue streams where they arise from contracts with customers; from legislation and regulations which enable the Group to obtain revenue that is not classified as a tax by the Office for National Statistics; or any revenue from taxation, fines and penalties that the Group is permitted to retain by statute or Treasury consent. However, IFRS 15 does not cover the recognition of dividend and interest income (which are instead covered by IFRS 9), the recognition of rental income (which is covered by IAS 17) or receipt of grants from other parts of government.

The types of revenue that are within the scope of IFRS 15 typically relate to the performance of services. For the Group, this includes revenues for access to the railway network, as well as revenues for policing services and for access to river crossings. The transition to IFRS 15 has resulted in no material changes to existing revenue recognition policies.

Franchised network access and freight revenue is recognised each period in the financial year. Performance obligations are based upon fixed and variable volume access to the railway during the relevant year. Performance obligations are satisfied by providing track access over time in accordance with the agreement with the train operating companies. There are no significant judgments applied to determine whether performance obligations have been satisfied. The input method is applied based on time lapsed.

River crossings charges comprise two revenue streams: charges for using the crossing and penalties for non-payment. The former are recognised when the vehicle uses the crossing; the latter are recognised when the payment deadline passes, which is when the penalty notice is raised. Given the historic incidence of non-payment, the amounts recognised reflect the probability that the consideration will be collected.

Income from the sale of registration marks is recognised on receipt of payment for fixed price sales and on the fall of the auctioneer’s hammer for sales at auction.

Uncompleted sales are provided for after 90 days and written out of sales after twelve months, and the related marks become available for resale. Fee income from the assignment, transfer and retention of cherished registration marks and for fee-bearing statutory services is recognised on receipt when the transaction is processed.

### 1.24.2 IAS 18, Revenue (pre-April 2018)

Before 1 April 2018, operating income for 2017-18 was measured in accordance with IAS 18. It was 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 performance of services was recognised on the degree of performance;
- ▶ Interest income was recognised using the effective interest method;
- ▶ Dividends receivable were recognised when the Group became entitled to them;
- ▶ Income from permitting others to use the Group's assets was 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 were used.

### 1.24.3 Accounting estimates and sources of estimation uncertainty

Track access contracts specify targets for railway network availability, and mechanisms for compensating train operators (both franchisees and open access operators) when those targets are not met. This may give rise to variable consideration.

## 1.25 Operating segments

**Note 2** discloses the Group's net expenditure by operating segment. The Group considers that its reportable segments are its five Director General-led groups, reflecting the organisation structure, because this is the basis on which financial information is reported to the Board, the Group's Chief Operating Decision Maker.

## 1.26 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 Group 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. During 2018-19, IFRSs 9 and 15 have been implemented using the cumulative catch-up method, with no restatement of comparatives.

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 accordance with IFRS 9, these financial statements adopt a revised format for the Statement of Financial Position, which provides a more granular presentation of financial instrument balances, and this is reflected in the presentation of comparatives. In addition, some disclosures related to financial instruments and financial risks have been presented separately. This change in presentation is not a prior period adjustment.



## 1.27 Adoption of new and revised standards

### 2018-19

The following standards have been adopted by the 2018-19 FReM:

IFRS 9 *Financial Instruments* replaces IAS 39. This has resulted in changes in some accounting terminology, with no material impact on balances and transactions. The detailed accounting policies are disclosed in **Note 1.10-1.17**.

IFRS 15 *Revenue from Contracts with Customers* replaces IAS 11 and IAS 18. It has been implemented by the cumulative catch-up method, meaning that the comparative figures for 2017-18 have not been re-stated. The detailed accounting policies are disclosed in **Note 1.23** and **Note 1.24**.

### 2019-20

IFRS 16 *Leases* 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 is effective in the private sector for accounting periods commencing on or after 1 January 2019. The Group will adopt IFRS 16 in the financial year commencing 1 April 2019, although most government bodies will adopt it during the following year.

IFRS 16 gives a narrower definition of a lease than IAS 17 (*Leases*) and IFRIC 4 (*Determining Whether an Arrangement Contains a Lease*), 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 classified as leases. All existing operating leases will fall within the scope of IFRS 16 under the 'grandfathering' rules mandated in the FReM for the initial transition to 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. Except where modified for revaluation where material, the cost model will be applied to assets for leases other than leases with a peppercorn rental, which will be measured on a depreciated replacement cost basis. As a result, the timing of the recognition of the total costs of leasing will change, as interest costs will be higher at the start of a lease.

HM Treasury propose that IFRS 16 will be implemented using the cumulative catch-up method; as a result, comparatives will not be restated and the measurement of the asset and liability balances recognised with effect from 1 April 2019 will reflect the Group's intentions as at that date. HM Treasury also propose to issue a central internal rate of borrowing for entities to apply, when they cannot obtain the rate implicit in the lease contract.

As IFRS 16 will be implemented using the cumulative catch-up method, comparatives for 2018-19 will not be re-stated, and the adjustment to net assets will be made with effect from 1 April 2019. For the material arrangements within the scope of IFRS 16, the impact of implementation is currently considered to be an increase in assets and liabilities of approximately £1 billion.

The right-of-use assets and leasing obligations have been calculated according to the policy described above.

This assessment indicates that the total discounted value of right-of-use assets and lease liabilities under IFRS 16 is higher than the value of minimum lease commitments under IAS 17, since a number of the leases have tenant break-clauses which the Group does not expect to trigger.

### Subsequent years

IFRS 17 *Insurance Contracts* requires a discounted cash flow approach to accounting for insurance contracts. Subject to EU adoption, it may come into effect for accounting periods commencing on, or after, 1 January 2021 and should be included in the 2021-22 FReM at the earliest. The Group considers that it 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.

## 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 oversight of the East West Rail 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 which is not consolidated in these statements (see **Notes 1.3** and **26** 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 and 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.

	2018-19					
	Rail	Resources and Strategy	International, Security and Environment	Roads, Devolution and Motoring	High Speed Rail & Major Projects	Total
	£m	£m	£m	£m	£m	£m
Gross Expenditure	12,283	469	1,074	5,645	317	19,788
Income	(5,218)	(30)	(204)	(878)	-	(6,330)
<b>Net Expenditure</b>	<b>7,065</b>	<b>439</b>	<b>870</b>	<b>4,767</b>	<b>317</b>	<b>13,458</b>
Share of profit in associate						(40)
Dividend receivable						(8)
Finance Income						(16)
<b>Net expenditure per Statement of Comprehensive Net Expenditure</b>						<b>13,394</b>

	2017-18					
	Rail	Resources and Strategy	International Security and Environment	Roads, Devolution and Motoring	High Speed Rails & Major Projects	Total
	£m	£m	£m	£m	£m	£m
Gross Expenditure	11,434	400	864	5,496	250	18,444
Income	(5,282)	(118)	(108)	(388)	(6)	(5,902)
Net Expenditure	6,152	282	756	5,108	244	12,542
Share of profit in associate						(55)
Dividend receivable						(106)
Finance Income						(11)
Net expenditure per Statement of Comprehensive Net Expenditure						12,370

The Department does not report asset and liability balances to the Board.

### 3. Staff Costs

	2018-19			2017-18
	Permanently employed staff £m	Other staff* £m	Total £m	Total £m
Wages and salaries	2,888	42	2,930	2,776
Social security costs	314	-	314	290
Other pension costs	414	-	414	390
<b>Sub Total</b>	<b>3,616</b>	<b>42</b>	<b>3,658</b>	3,456
Less recoveries in respect of outward secondments	(1)	-	(1)	(1)
Less capitalised staff costs	(1,139)	(20)	(1,159)	(1,083)
<b>Total Net Costs</b>	<b>2,476</b>	<b>22</b>	<b>2,498</b>	2,372
<b>Of the total:</b>				
Core Department & Agencies	410	15	425	411
Departmental Group	2,476	22	2,498	2,372

\*Other staff includes Ministers and special advisors, who were paid £134k and £178k respectively (2017-18: £166k and £112k).

For further information on staff costs, numbers, exit packages and other relevant disclosures (including ministers), please see the People and Remuneration Report in the Accountability Report.



## 4. Expenditure

	2018-19		2017-18	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
<b>Cash items:</b>				
<b>Finance expense – Cash</b>				
Interest charges	204	932	210	789
<b>Other operating expenditure – Cash</b>				
Capital grants	2,748	2,485	2,799	2,318
Current grants	648	648	827	827
Grant in Aid	9,345	-	8,366	-
EU capital grants	-	-	6	1
Subsidies	235	235	228	228
Eurocontrol payments	48	48	49	49
Eurotunnel settlement	33	33	-	-
<b>Purchase of goods and services – Cash</b>				
Rentals under operating leases	14	84	9	68
PFI interest charges	20	129	18	137
Research and development	51	60	22	25
Support for passenger rail services	1,026	1,026	544	544
Road network current maintenance	-	509	-	456
Rail network maintenance	-	1,144	-	937
PFI service charges	-	277	-	324
Search & rescue helicopters	206	206	204	204
Information & communications technology	95	257	93	241
Consultancy	67	112	53	93
Professional services	32	386	24	302
Accommodation	31	464	29	452
Publicity	8	18	8	22
Support services	109	206	102	205
Travel and subsistence	13	57	13	57
Auditors' remuneration and expenses	-	1	-	2
Eurotunnel payments	286	286	276	276
VAT repayment – HS2	-	84	-	-
Other costs	169	351	188	419
<b>Sub Total – Cash items</b>	<b>15,388</b>	<b>10,038</b>	<b>14,068</b>	<b>8,976</b>

	Note	2018-19		2017-18	
		Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
		£m	£m	£m	£m
<b>Total Operating Expenditure – Cash</b>		<b>15,388</b>	<b>10,038</b>	14,068	8,976
<b>Non-cash items:</b>					
<b>Finance expense – Non Cash</b>					
Interest charges		-	464	-	761
<b>Depreciation and impairment charges</b>					
Depreciation	6	108	6,932	102	6,638
Amortisation	7	8	19	17	22
Impairment of PPE and assets held for sale		-	3	-	5
Downward / (upward) movement on PPE and Investment Properties		5	(29)	-	(116)
Downward / (upward) revaluation of joint ventures		-	(3)	-	(9)
<b>Other operating expenditure – Non Cash</b>					
Corporation tax (refund) / charge		-	52	-	(27)
Net ineffectiveness arising from cash flow hedge accounting		-	(1)	-	15
Fair value loss / (gain) on fair value hedges		-	220	-	445
Fair value loss / (gain) on carrying value of fair value hedged debt		-	(226)	-	(449)
Net (increase) / decrease in fair value of non-hedge accounted debt		-	3	-	(21)
Loss / (gain) on derivatives not hedge accounted		-	(214)	-	(274)
Write down in value of inventory		4	4	16	16
Loss / (gain) on disposal of PPE		-	(274)	(1)	(50)
Pension scheme costs		73	199	36	164
Write-off of the FIM fee receivable		4,066	-	-	-
<b>Purchase of goods and services – Non Cash</b>					
Auditors' remuneration and expenses – Non Cash		1	1	1	1
<b>Provision expense</b>					
Provisions (released) / provided in year	23	82	84	(129)	(45)
Unwinding of discount on provisions	23	5	5	7	7
Credit loss allowance		-	13	-	13
<b>Sub Total – Non-cash items</b>		<b>4,352</b>	<b>7,252</b>	49	7,096
<b>Total Expenditure</b>		<b>19,740</b>	<b>17,290</b>	14,117	16,072

## Expenditure analysis

Purchase of goods and services	2,128	5,658	1,584	4,765
Depreciation and impairment charges	121	6,922	119	6,540
Provision expense	87	102	(122)	(25)
Other operating expenditure	17,200	3,212	12,326	3,242
Finance expense	204	1,396	210	1,550
<b>Total Expenditure</b>	<b>19,740</b>	<b>17,290</b>	14,117	16,072

The non-cash expenditure line "Write off of FIM Fee" for the Core Department and Agencies includes an amount of £4,066m that relates to the derecognition of the Financial Indemnity fee receivable in **Note 17**. The receivable reflected amounts due from Network Rail to the core Department, for the benefits conferred by the Financial Indemnity Mechanism ("the FIM"), a financial

guarantee contract recognised in **Note 21**. On 25 March 2019, the Secretary of State determined that Network Rail should no longer be required to pay a separate fee, as this is ultimately funded by grants provided by the core Department, and so represents a circular flow of funds. As the decision to remove the fee was made to simplify the flow of funding around the Group, it results in no financial detriment to the Group or the taxpayer.

## 5. Income

	Note	2018-19		2017-18	
		Core Department & Agencies £m	Departmental Group £m	Core Department & Agencies £m	Departmental Group £m
<b>Cash Items</b>					
<b>Sale of goods and services</b>					
Rental income		(1)	(323)	(1)	(312)
River crossings charges		(239)	(239)	(169)	(169)
Franchised track access income		-	(2,135)	-	(1,713)
Freight income		-	(58)	-	(53)
<b>Other Income</b>					
Transport for Scotland – SLA Receipt		-	(339)	-	(425)
Fees & charges to other public bodies		(280)	(16)	(301)	(21)
Fees & charges to external customers*		(584)	(802)	(572)	(798)
EU income		-	(1)	(6)	(5)
Claims for damages to road network		-	(9)	-	(8)
Income from Train Operating Companies		(1,248)	(1,460)	(1,326)	(1,521)
Capital grant income received		-	(241)	-	(244)
Eurocontrol Receipts		(48)	(48)	(49)	(49)
Eurotunnel Recharge		(272)	(272)	(259)	(259)
Other income*		(33)	(333)	(29)	(271)
<b>Sub Total – Cash items</b>		<b>(2,705)</b>	<b>(6,276)</b>	<b>(2,712)</b>	<b>(5,848)</b>
<b>Non cash items</b>					
Share of associate's operating (profit) / loss	15	(11)	(11)	(28)	(28)
Amortisation of deferred income		(54)	(54)	(54)	(54)
<b>Sub Total – Non cash items</b>		<b>(65)</b>	<b>(65)</b>	<b>(82)</b>	<b>(82)</b>
<b>Operating Income</b>		<b>(2,770)</b>	<b>(6,341)</b>	<b>(2,794)</b>	<b>(5,930)</b>
Share of associate's non-operating (profit) / loss	15	(29)	(29)	(27)	(27)
Dividends receivable		(8)	(8)	(32)	(106)
Interest receivable		(672)	(16)	(549)	(11)
<b>Total income</b>		<b>(3,479)</b>	<b>(6,394)</b>	<b>(3,402)</b>	<b>(6,074)</b>

### Income analysis

Income from sale of goods and services	(240)	(2,755)	(170)	(2,247)
Other operating income	(2,519)	(3,575)	(2,596)	(3,655)
Finance income	(680)	(24)	(581)	(117)
Share of profits / (loss) of associates (comprises of cash settled and non-cash elements above)	(40)	(40)	(55)	(55)
<b>Total income</b>	<b>(3,479)</b>	<b>(6,394)</b>	<b>(3,402)</b>	<b>(6,074)</b>

\*Fees and charges collected by the Air Traffic Trust Fund and the General Lighthouse Authorities are now disclosed as "Fees & charges to external customers" instead of "Other income". To improve comparability, the 2017-18 Departmental Group values for "Fees & charges to external customers" and "Other income" have increased and decreased by £128m respectively.

Where certain Fees and charges that are within the scope of Managing Public Money, further details are provided in the Fees and Charges section of the Parliamentary Accountability Report.

## 6. Property, Plant and Equipment

Group	2018-19						
	Infrastructure assets			AUC	Land, buildings & other		Total £m
	Rail Network £m	Strategic Road Network £m	HS1 £m	Assets under Construction £m	Land and buildings £m	Other assets £m	
<b>Cost or valuation</b>							
At 1 April 2018	445,621	131,384	3,546	8,411	1,180	507	<b>590,649</b>
Additions	-	650	1	11,145	9	30	<b>11,835</b>
Disposals	-	(73)	-	-	(1)	(12)	<b>(86)</b>
Impairments	-	-	-	-	-	(2)	<b>(2)</b>
Transfers	6,283	512	-	(6,843)	4	19	<b>(25)</b>
Reclassifications	-	-	-	(1)	3	1	<b>3</b>
Revaluations (cost)	35,861	4,301	-	(3,448)	(21)	4	<b>36,697</b>
<b>At 31 March 2019</b>	<b>487,765</b>	<b>136,774</b>	<b>3,547</b>	<b>9,264</b>	<b>1,174</b>	<b>547</b>	<b>639,071</b>
<b>Depreciation</b>							
At 1 April 2018	(144,996)	(15,283)	(399)	-	(312)	(322)	<b>(161,312)</b>
Charged in year	(5,591)	(1,231)	(46)	-	(19)	(45)	<b>(6,932)</b>
Disposals	-	16	-	-	1	11	<b>28</b>
Revaluations (depreciation)	(8,364)	894	-	-	18	5	<b>(7,447)</b>
<b>At 31 March 2019</b>	<b>(158,951)</b>	<b>(15,604)</b>	<b>(445)</b>	<b>-</b>	<b>(312)</b>	<b>(351)</b>	<b>(175,663)</b>
<b>Carrying amount at 31 March 2019</b>	<b>328,814</b>	<b>121,170</b>	<b>3,102</b>	<b>9,264</b>	<b>862</b>	<b>196</b>	<b>463,408</b>
<b>Carrying amount at 31 March 2018</b>	300,625	116,101	3,147	8,411	868	185	<b>429,337</b>
<b>Asset financing:</b>							
Owned	328,814	118,522	3,102	9,264	835	168	<b>460,705</b>
Finance Leased	-	-	-	-	1	26	<b>27</b>
PFI & other service concession arrangements	-	2,648	-	-	26	2	<b>2,676</b>
<b>Carrying amount at 31 March 2019</b>	<b>328,814</b>	<b>121,170</b>	<b>3,102</b>	<b>9,264</b>	<b>862</b>	<b>196</b>	<b>463,408</b>
<b>Of the total:</b>							
Core Department	-	2,588	3,101	2,979	243	18	<b>8,929</b>
Agencies	-	-	-	3	101	42	<b>146</b>
Other designated bodies	328,814	118,582	1	6,282	518	136	<b>454,333</b>
<b>Carrying amount at 31 March 2019</b>	<b>328,814</b>	<b>121,170</b>	<b>3,102</b>	<b>9,264</b>	<b>862</b>	<b>196</b>	<b>463,408</b>



Group	2017-18						
	Infrastructure assets			AUC	Land, buildings & other		
	Rail Network	Strategic Road Network	HS1	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	129,218	3,546	7,680	1,073	499	571,674
Detrunings	-	(199)	-	-	-	-	(199)
Additions	-	740	-	10,504	10	25	11,279
Disposals	-	(59)	-	-	(6)	(15)	(80)
Impairments	-	-	-	(3)	-	-	(3)
Transfers	-	489	-	(498)	7	2	-
Reclassifications	6,582	-	-	(6,628)	(3)	(12)	(61)
Revaluations (cost)	9,381	1,195	-	(2,644)	99	8	8,039
<b>At 31 March 2018</b>	<b>445,621</b>	<b>131,384</b>	<b>3,546</b>	<b>8,411</b>	<b>1,180</b>	<b>507</b>	<b>590,649</b>
<b>Depeciation</b>							
At 1 April 2017	(140,752)	(15,028)	(353)	-	(264)	(299)	(156,696)
Detrunings	-	6	-	-	-	-	6
Charged in year	(5,080)	(1,444)	(46)	-	(23)	(45)	(6,638)
Disposals	-	31	-	-	4	13	48
Reclassifications	-	-	-	-	-	6	6
Revaluations (depreciation)	836	1,152	-	-	(29)	3	1,962
<b>At 31 March 2018</b>	<b>(144,996)</b>	<b>(15,283)</b>	<b>(399)</b>	<b>-</b>	<b>(312)</b>	<b>(322)</b>	<b>(161,312)</b>
<b>Carrying amount at 31 March 2018</b>	<b>300,625</b>	<b>116,101</b>	<b>3,147</b>	<b>8,411</b>	<b>868</b>	<b>185</b>	<b>429,337</b>
<b>Carrying amount at 31 March 2017</b>	<b>288,906</b>	<b>114,190</b>	<b>3,193</b>	<b>7,680</b>	<b>809</b>	<b>200</b>	<b>414,978</b>
<b>Asset financing:</b>							
Owned	300,625	115,562	3,147	8,411	841	157	428,743
Finance Leased	-	-	-	-	1	28	29
PFI & other service concession arrangements	-	539	-	-	26	-	565
<b>Carrying amount at 31 March 2018</b>	<b>300,625</b>	<b>116,101</b>	<b>3,147</b>	<b>8,411</b>	<b>868</b>	<b>185</b>	<b>429,337</b>
<b>Of the total:</b>							
Core Department	-	2,764	3,147	2,385	249	15	8,560
Agencies	-	-	-	6	105	40	151
Other designated bodies	300,625	113,337	-	6,020	514	130	420,626
<b>Carrying amount at 31 March 2018</b>	<b>300,625</b>	<b>116,101</b>	<b>3,147</b>	<b>8,411</b>	<b>868</b>	<b>185</b>	<b>429,337</b>

## 6.1 Rail Network

### Details of the valuation adopted by the Department

The Railway Network was valued, as at 31 March 2019, by Network Rail and Turner & Townsend (professional valuers) using data provided by Network Rail.

The key components of this valuation, associated remaining lives and depreciation charges are shown in the table below:

Type	2018-19			2017-18
	Depreciated Replacement Cost	Remaining Life	Depreciation Charge	Depreciation Charge
	£m	Years	£m	£m
Structures	52,627	61	805	730
Earthworks	74,668	99	748	698
Telecoms	3,099	13	236	202
Operational property	24,221	32	755	595
Electrification, plant and signals	46,082	33	1,632	1,700
Track	31,126	19	1,415	1,155
Land	96,991	-	-	-
<b>Total</b>	<b>328,814</b>	<b>-</b>	<b>5,591</b>	<b>5,080</b>

### Sensitivity analysis

The following sensitivity analysis reflects the sources of estimation uncertainty disclosed in **Note 1.4.3**, showing the impact of changes in assumptions at the reasonable boundaries of uncertainty.

#### 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%.

Type	2018-19		
	Depreciated Replacement Cost (-)	Depreciated Replacement Cost	Depreciated Replacement Cost (+)
	£m	£m	£m
Base Case inc 22% risk		328,814	
Scenario 1	305,632		351,997
Scenario 2	322,936		334,693
Scenario 3	324,982		332,648
Scenario 4	308,599		346,386

Type	2018-19		
	Depreciation Charge (-)	Depreciation Charge	Depreciation Charge (+)
	£m	£m	£m
Base Case inc 22% risk		5,591	
Scenario 1	5,513		5,678
Scenario 2	N/A		N/A
Scenario 3	5,435		5,745
Scenario 4	5,103		6,014

## 6.2 Strategic Road Network (SRN)

### 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	2018-19			2017-18
	Depreciated Replacement Cost £m	Asset Life Years	Depreciation Charge £m	Depreciation Charge £m
Roads	74,027	N/A	129	242
Renewals capitalised	-	N/A	648	737
Structures	32,589	20-120	320	342
Technology	1,526	15-50	134	123
Land	13,028	N/A	-	-
	<b>121,170</b>	<b>-</b>	<b>1,231</b>	<b>1,444</b>

### Sensitivity analysis

The valuation relies on the accounting estimates and estimation uncertainties described in **Note 1.4.3**. The following analysis shows the impact on the balance recognised for the SRN (including the part under construction) of alternative estimates, at the boundary levels of estimation uncertainty.

#### Scenario 1

Shows the impact of increasing or decreasing the costing rates by 10%. This produces a range variation for DRC valuation of  $\pm£11,900m$ .

#### Scenario 2

Shows the impact of changing the ROCOS (Road Construction Resource Cost index) by 10 points; the index currently stands at 261. This produces a range variation for DRC valuation of  $\pm£4,600m$ .

#### Scenario 3

Shows the impact of changing the acceptable level of rutting by 1mm, from an estimate of 15.5mm. This produces a range variation for DRC valuation of  $\pm£154m$ .

Type	2018-19		
	Depreciated Replacement Cost (-) £m	Depreciated Replacement Cost £m	Depreciated Replacement Cost (+) £m
Base case		121,170	
Scenario 1	109,270		133,070
Scenario 2	116,570		125,770
Scenario 3	121,016		121,324



## 6.3 Asset under Construction

The material additions to Assets Under Constructions are:

	2018-19	2017-18
	£m	£m
Enhancements to and renewals of the Railway Network	6,921	6,479
Enhancements to the Strategic Road Network	2,159	1,601
Preparatory work for construction of HS2 (core Department and HS2 Ltd elements)	2,116	2,554

As described in **Note 1.4.3**, renewals of the Strategic Road Network are recorded against the strategic road network asset.

### Valuation of Assets under Construction

The Strategic Road Network and the Rail Network are valued using Depreciated Replacement Cost (DRC) methodology, as required under FReM. Elements of these network assets which are in the course of construction are included under the Assets under Construction (AUC). The valuation of AUC for these networked assets is adjusted annually, in line with the key valuation principles of DRC. The valuation of these assets under construction is compared with the gross costs in the following table. All other AUC assets included in the accounts are valued at cost. For each of the significant components included in AUC, the carrying value is compared with the historic cost in the following table.

	2018-19		2017-18	
	Carrying value	Historic cost	Carrying value	Historic cost
	£m	£m	£m	£m
<i>Assets carried at Depreciated Replacement Cost</i>				
Rail Network	1,196	1,759	2,812	4,135
Strategic Road Network	1,687	4,235	1,348	3,333
<i>Assets carried at Historic Cost</i>				
HS2, including Land & Property	6,129	6,129	4,180	4,180
Other assets under construction	252	252	71	71
<b>Total Assets under Construction</b>	<b>9,264</b>	<b>12,375</b>	<b>8,411</b>	<b>11,719</b>

## 7. Intangible Assets

	2018-19			
	Software Licences	Development Expenditure	Assets under Construction	Total
	£m	£m	£m	£m
<b>Cost or valuation</b>				
At 1 April 2018	80	460	18	<b>558</b>
Additions	1	1	13	<b>15</b>
Disposals	(13)	-	-	<b>(13)</b>
Transfers	17	20	(12)	<b>25</b>
Reclassifications	-	6	(7)	<b>(1)</b>
Revaluations (cost)	-	11	-	<b>11</b>
<b>At 31 March 2019</b>	<b>85</b>	<b>498</b>	<b>12</b>	<b>595</b>
<b>Amortisation</b>				
At 1 April 2018	(50)	(347)	-	<b>(397)</b>
Charged in year	(13)	(6)	-	<b>(19)</b>
Disposals	13	-	-	<b>13</b>
<b>At 31 March 2019</b>	<b>(50)</b>	<b>(353)</b>	<b>-</b>	<b>(403)</b>
<b>Carrying amount at 31 March 2019</b>	<b>35</b>	<b>145</b>	<b>12</b>	<b>192</b>
<b>Carrying amount at 31 March 2018</b>	<b>30</b>	<b>113</b>	<b>18</b>	<b>161</b>
<b>Asset financing:</b>				
Owned	22	144	12	<b>178</b>
PFI & other service concession arrangements	13	1	-	<b>14</b>
<b>Carrying amount at 31 March 2019</b>	<b>35</b>	<b>145</b>	<b>12</b>	<b>192</b>
<b>Of the total:</b>				
Core Department	2	-	-	<b>2</b>
Agencies	2	32	6	<b>40</b>
Other designated bodies	31	113	6	<b>150</b>
<b>Carrying amount at 31 March 2019</b>	<b>35</b>	<b>145</b>	<b>12</b>	<b>192</b>

	2017-18			
	Software Licences	Development Expenditure	Assets under Construction	Total
	£m	£m	£m	£m
Cost or valuation				
At 1 April 2017	66	457	6	529
Additions	12	1	14	27
Disposals	(5)	-	-	(5)
Reclassifications	7	2	(2)	7
At 31 March 2018	80	460	18	558
Amortisation				
At 1 April 2017	(39)	(335)	-	(374)
Charged in year	(10)	(12)	-	(22)
Disposals	5	-	-	5
Reclassifications	(6)	-	-	(6)
At 31 March 2018	(50)	(347)	-	(397)
Carrying amount at 31 March 2018	30	113	18	161
Carrying amount at 31 March 2017	27	122	6	155
Asset financing:				
Owned	30	113	18	161
Carrying amount at 31 March 2018	30	113	18	161
Of the total:				
Core Department	3	-	-	3
Agencies	5	10	18	33
Other designated bodies	22	103	-	125
Carrying amount at 31 March 2018	30	113	18	161

## 8. Investment Properties

	Departmental Group
	£m
Balance at 1 April 2017	1,232
Additions	7
Disposals	(6)
Reclassifications	(1,142)
Revaluations (cost)	117
Balance at 31 March 2018	208
Disposals	(14)
Reclassifications	4
Revaluations (cost)	35
<b>Balance at 31 March 2019</b>	<b>233</b>

### Ownership

All material investment properties are controlled by Network Rail.

### 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 are leased out under operating leases, amounted to £18m (2017-18: £96m). Direct operating expenses arising on the investment properties in the year amounted to £4m (2017-18: £8m). 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 2017-18 investment properties were transferred to Assets Held for Sale (**Note 9** below) as part of Network Rail's asset divestment programme. Most properties were sold in January 2019, those that were not sold and where there is no intention of future sale have been reclassified back to Investment Properties.



## 9. Assets Held for Sale

	Core Department & Agencies	Departmental Group
	£m	£m
Balance at 1 April 2017	1	18
Additions	1	4
Disposals	-	(8)
Impairments	-	(1)
Reclassifications	(1)	1,144
Balance at 31 March 2018	1	1,157
Additions	-	22
Disposals	-	(1,146)
Reclassifications	-	(5)
<b>Balance at 31 March 2019</b>	<b>1</b>	<b>28</b>

### Re-classification

In November 2017 Network Rail received approval from Her Majesty's Government to progress the sale of a substantial part of its commercial property portfolio, at which point the assets were reclassified from Investment Properties (**Note 8** above) to Assets Held for Sale (this Note).

### Valuation

The assets were transferred between Investment Properties and Assets Held for Sale at their carrying value in November 2017.

### Disposal – Sale

The largest transaction within disposals of £1,146m was the sale of the Network Rail commercial estate portfolio.

On 10 September 2018 Network Rail announced that it had agreed terms with Telereal Trillium and Blackstone Property Partners ('The Arch Company') to sell the commercial estate portfolio for £1,460m. The portfolio consists of 5,261 rental spaces across England and Wales that Network Rail judged are not essential for running the railway.

On 4 February 2019 Network Rail completed the sale and received proceeds of £1,419m, which generated net returns above the carrying value of £247m. The difference between the actual proceeds and original announcement is due to the net effect of changes in rent deposits and amounts paid on account by tenants, amounts overdue from tenants, enhancements made to properties, valuation adjustments and certain properties not being ready for transfer (currently expected to occur in 2019-20). As at 31 March 2019, £10m relates to the remaining commercial property disposal.

The National Audit Office completed a value for money report on the sale of the portfolio:  
<https://www.nao.org.uk/wp-content/uploads/2019/05/Network-Rails-sale-of-railway-arches.pdf>

## 10. Commitments

Commitment Type	Note	2018-19		2017-18	
		Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
		£m	£m	£m	£m
Capital	10.1	1	5,059	2	5,667
Operating leases	10.2	466	878	548	975
Finance leases		-	13	-	17
PFI & other service concession arrangements	10.3	17	1,467	20	1,548
Other financial	10.4	38,111	2,969	40,524	2,057
		<b>38,595</b>	<b>10,386</b>	41,094	10,264

### 10.1 Capital commitments

Contracted and approved commitments at 31 March not otherwise included in these financial statements:

Commitment Type	2018-19		2017-18	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Property, plant and equipment	1	5,059	2	5,663
Intangible assets	-	-	-	4
	<b>1</b>	<b>5,059</b>	2	5,667

## 10.2 Lease commitments

Total future minimum lease payments under operating leases for each of the following periods are:

	2018-19		2017-18	
	Core Department & Agencies £m	Departmental Group £m	Core Department & Agencies £m	Departmental Group £m
<b>Land</b>				
Not later than one year	-	1	-	-
Later than one year and not later than five years	1	1	-	1
Later than five years	2	4	-	2
<b>Total future lease payments</b>	<b>3</b>	<b>6</b>	<b>-</b>	<b>3</b>
<b>Buildings</b>				
Not later than one year	12	39	5	63
Later than one year and not later than five years	41	130	39	215
Later than five years	72	117	122	304
<b>Total future lease payments</b>	<b>125</b>	<b>286</b>	<b>166</b>	<b>582</b>
<b>Other</b>				
Not later than one year	60	103	56	58
Later than one year and not later than five years	225	328	228	234
Later than five years	53	155	98	98
<b>Total future lease payments</b>	<b>338</b>	<b>586</b>	<b>382</b>	<b>390</b>

## 10.3 Commitments under PFI and other service concession arrangements

The obligations under on-Balance Sheet PFI contracts are held by Highways England and DVLA. 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.

Highways England has 11 PFI contracts for the design, build, financing and operation of sections of the strategic road network. The on-Balance Sheet capital element as at 31 March 2019 was £1,450m (2018: £1,527m). Lease charge commitments under these contracts comprise this capital element, future interest charges of £1,088m (2018: £1,457m) and future service charges of £8,121m (2018: £7,621m). The most significant PFI contract 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.

For the M25 contract specifically, the on-Balance Sheet capital element as at 31 March 2019 was £840m (2018: £857m). Lease charge commitments for the M25 contract comprise this capital element, future interest charges of £862m (2018: £1,190m) and future service charges of £6,362m (2018: £5,823m). During the year the M25 contract was refinanced. The refinancing of debt was performed by a Special Purpose Vehicle (SPV), but Highways England benefits from this due to a partial gain share in the contract. A remodelling exercise was undertaken to reflect the impact of reduced interest rates on Highways England's liability resulting in a reduction to the interest liability of £149m. This reduction is being recognised over the remaining life of the PFI rather than via a one-off gain. Though not specifically covered by accounting standards the company has chosen this approach as it is in line with comparable standards and appropriately reflects the economic substance of the transaction, in that the SPV refinancing exercise has reduced the future finance costs of Highways England.

PFI commitments in the Core Department & Agencies column relate to DVLA commitments. 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 2019 was £20m (2018: £24m), which includes an interest element of £3m (2018: £4m).

The future total imputed finance lease charges under on-Balance Sheet PFIs to which the Department is committed are given in the table below, analysed according to the period in which the commitment expires.

**Imputed finance lease obligations under on balance sheet PFI contracts comprise:**

	2018-19		2017-18	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
<b>Rentals due:</b>				
Not later than one year	3	188	3	191
Later than one year and not later than five years	14	748	14	765
Later than five years	3	1,622	7	2,053
	<b>20</b>	<b>2,558</b>	<b>24</b>	<b>3,009</b>
Less: interest element	(3)	(1,091)	(4)	(1,461)
	<b>17</b>	<b>1,467</b>	20	1,548

**The capital element under on balance sheet PFI contracts comprises:**

	2018-19		2017-18	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Not later than one year	3	86	2	76
Later than one year and not later than five years	14	396	18	364
Later than five years	-	985	-	1,108
	<b>17</b>	<b>1,467</b>	20	1,548

**The interest element under on balance sheet PFI contracts comprises:**

	2018-19		2017-18	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Not later than one year	1	103	1	115
Later than one year and not later than five years	2	355	3	408
Later than five years	-	633	-	938
	<b>3</b>	<b>1,091</b>	4	1,461



**Future charges to the Statement of Comprehensive Net Expenditure**

	2018-19		2017-18	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Not later than one year	21	352	20	321
Later than one year and not later than five years	90	1,628	88	1,500
Later than five years	24	6,277	48	5,956
	<b>135</b>	<b>8,257</b>	156	7,777

**10.4 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, which have not been provided for, are as follows:

	2018-19		2017-18	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Not later than one year	6,624	896	4,537	769
Later than one year and not later than five years	31,098	1,684	28,803	1,044
Later than five years	389	389	7,184	244
	<b>38,111</b>	<b>2,969</b>	40,524	2,057

Of which:

	2018-19		2017-18	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Network Rail – Control Period 5	-	-	3,786	-
Network Rail – Control Period 6	35,166	-	34,700	-
<b>Network Rail – total</b>	<b>35,166</b>	-	<b>38,486</b>	-
Train Operating Companies	2,824	2,824	2,001	2,001
Other	121	145	37	56
	<b>38,111</b>	<b>2,969</b>	40,524	2,057

**Core Departmental commitment to Network Rail**

In October 2018, the Office of Rail and Road announced the exact amounts to be paid in each year of Control Period 6 and increased the total grant to £35,166m,

with £5,750m allocated to 2019-20 and the remaining amount allocated over the subsequent 4 years. 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 2019, the Department had 14 franchise contracts with TOCs for the provision of rail services (2018: 15). This includes London North Eastern Railways Limited (formerly: Virgin Trains East Coast) for which the franchise agreement on the East Coast Mainline was transferred to public sector ownership on 24 June 2018.

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 subsidies paid 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).

## 11. Loans

The Department has provided interest-bearing loans when the borrower is expected to be able to service and repay the debt and where the borrower's customers should cover the full cost (including financing).

The first table shows the loans external to the Group whilst the second table shows all loans external to the Core Department and Agencies. The second table shows that there is significant intra-group borrowing. The balance of the National Loans Fund loan due from the Civil Aviation Authority has been transferred to receivables in **Note 17**.

In December 2018, the Department agreed a new funding package for the Crossrail project, comprising loans of £1.3bn to the Greater London Authority (GLA) and £750m contingency to be made available to Transport for London. The GLA started to draw down loans in February 2019 and will continue to do so next year. In previous years the Department disclosed indemnities in respect of Crossrail funding and delivery, which were reported as contingent liabilities in **Note 24**.

	DVSA	GLF	Crossrail	Other Loans	Departmental Group Total
	£m	£m	£m	£m	£m
Balance at 1 April 2017	8	150	-	184	342
Reclassifications	-	-	-	7	7
Advances	-	-	-	24	24
Repayments	(8)	(20)	-	(190)	(218)
Balance at 31 March 2018	-	130	-	25	155
Advances	-	-	365	-	365
Repayments	-	(20)	-	-	(20)
<b>Balance at 31 March 2019</b>	<b>-</b>	<b>110</b>	<b>365</b>	<b>25</b>	<b>500</b>

	Non-core Department loans	Other	Loans to Network Rail	Core Department & Agencies Total
	£m	£m	£m	£m
Balance at 1 April 2017	342	2	20,037	20,381
Reclassifications	7	-	(2)	5
Advances	24	(2)	8,349	8,371
Repayments	(218)	-	(1,635)	(1,853)
Balance at 31 March 2018	155	-	26,749	26,904
Advances	365	80	6,005	6,450
Repayments	(20)	(80)	(2,859)	(2,959)
<b>Balance at 31 March 2019</b>	<b>500</b>	<b>-</b>	<b>29,895</b>	<b>30,395</b>

## 12. Equity Investments

	LCR Ltd	LNER	Direct Subsidiaries	Core Department & Agencies Total	Network Rail Insurance Ltd	Interests in jointly controlled entities	Departmental Group Total
	£m	£m	£m	£m	£m	£m	£m
At 1 April 2017 – IAS 39 available for sale financial assets	370	-	12	<b>382</b>	282	45	<b>709</b>
Revaluations (cost)	(13)	-	-	<b>(13)</b>	(112)	2	<b>(123)</b>
At 31 March 2018 – IAS 39 available for sale financial assets	357	-	12	<b>369</b>	170	47	<b>586</b>
At 1 April 2018 – IFRS 9 equity investments held at fair value through other comprehensive income	357	-	12	<b>369</b>	170	47	<b>586</b>
Additions	-	-	1	<b>1</b>	-	-	<b>1</b>
Revaluations (cost)	11	68	-	<b>79</b>	30	(22)	<b>87</b>
<b>At 31 March 2019</b>	<b>368</b>	<b>68</b>	<b>13</b>	<b>449</b>	<b>200</b>	<b>25</b>	<b>674</b>

### 12.1 Valuation methodologies and techniques

The following equity investments: LCR Ltd, LNER Ltd and Network Rail Insurance Ltd, are held at fair value and have been measured using valuation techniques, because the instruments are not regularly traded on an active market.

### 12.2 London & Continental Railways Limited (LCR Ltd)

LCR Ltd is recognised at fair value as at 31 March 2019 and 31 March 2018. The valuation is based on four 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.

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.

The valuation identified the following changes of value, which have been recognised in other comprehensive net expenditure:

2018-19:	£11m
2017-18:	(£13m)



The increase in fair value between 31 March 2018 and 31 March 2019 of £11m reflects profits generated by Stratford City Business District Ltd. Summarised accounts for LCR Ltd can be found in **Note 27.2**.

### 12.3 London North Eastern Railway Limited (LNER Ltd)

London North Eastern Railway Ltd (LNER) is a wholly-owned subsidiary of DFT OLR Holdings Ltd (DOHL). The Secretary of State terminated the passenger service franchise agreement with Virgin Trains East Coast to operate the East Coast Mainline on 24 June 2018. On that day, DOHL took control of the franchise, Virgin Trains East Coast transferred assets and liabilities related to the franchise with a net asset value of £nil, and the East Coast Mainline was rebranded as the London North Eastern Railway. Since that date, LNER has operated the franchise under a contract with the Secretary of State, which expires in June 2020.

Given the remaining duration of that contract, the shareholding in LNER has been valued at the company's net assets, which is considered to approximate to fair value. These net assets chiefly comprise cash and receivable and payable balances. Summarised accounts for LNER Ltd can be found in **Note 27.1**. We consider that the resulting valuation is level 3 in the IFRS 13 hierarchy. The Group has elected to account for fair value movements through other comprehensive expenditure, as permitted under IFRS 9.

The valuation identified the following changes of value, which have been recognised in other comprehensive net expenditure:

2018-19:	£68m
2017-18:	n/a

### 12.4 Network Rail Insurance Ltd

Network Rail Insurance Ltd was established by Network Rail to act as a "captive" insurance company, to have direct access to reinsurance markets, minimising the volatility of insurance premia and retaining profits within the Group.

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 2019. 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. Summarised accounts for Network Rail Insurance Ltd can be found in **Note 27.4**.

The valuation identified the following changes of value, which have been recognised through either operating expenditure or other comprehensive net expenditure:

2018-19:	£30m
2017-18:	(£112m)

This is considered to be a level 3 valuation.

### 12.5 Interests in jointly controlled entities

Network Rail's joint venture investments in the Station Office Network, West Hampstead Square, and Solum were valued at an aggregated amount of £25m at 31 March 2019 (£47m at 31 March 2018) and updated for changes in net assets between 1 April 2018 and 31 March 2019. This resulted in a downwards revaluation of £22m in 2018-19 that has been recognised in other comprehensive net expenditure. This is considered to be a level 3 valuation.

## 13. Public Dividend Capital (PDC)

The core Department has lent £33m to DVSA as PDC (2018: £33m). In accordance with the FReM, PDC is carried at historical cost less any impairment. There is no indication of impairment as at 31 March 2019.

## 14. Derivatives

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 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.

The fair value of derivatives is estimated by discounting the future contractual cash flows using appropriate yield curves based on quoted market rates as at the current financial year end. These are considered to be level 2 valuations.

### Financial assets held at fair value through the SOCNE

	2018-19		2017-18	
	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	126	128	125	128
<b>Fair value hedges</b>				
Cross-currency swaps to hedge debt issued under the debt issuance programme	-	-	217	1,738
<b>Non-hedge accounted derivatives</b>				
Cross-currency swaps to hedge debt issued under the debt issuance programme	95	198	97	198
Interest rate swaps	130	10,711	57	4,531
Forward foreign exchange contracts	-	2	-	11
	<b>351</b>	<b>11,039</b>	496	6,606
Included in non-current assets	340	9,550	269	3,497
Included in current assets	11	1,489	227	3,109
	<b>351</b>	<b>11,039</b>	496	6,606

## Financial liabilities held at fair value through the SOCNE

	2018-19		2017-18	
	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	(15)	130	(19)	130
Forward starting interest rate swaps	-	-	(242)	2,695
<b>Non-hedge accounted</b>				
Interest rate swaps to hedge debt issued under the Debt Issuance Programme	(1,016)	19,852	(905)	22,590
Forward foreign exchange contracts	(2)	48	(1)	66
	<b>(1,033)</b>	<b>20,030</b>	<b>(1,167)</b>	<b>25,481</b>
Included in non-current liability	(981)	15,055	(1,147)	23,080
Included in current liability	(52)	4,975	(20)	2,401
	<b>(1,033)</b>	<b>20,030</b>	<b>(1,167)</b>	<b>25,481</b>

## 15. Investment in Associate

The Department holds an investment in NATS Holdings Ltd (NATS). NATS 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.

NATS is accounted for as an associate as the Department holds the minority voting rights in NATS (31 March 2018 and 2019: 48.9%). The value of the Department's investment is shown below, followed by a summary of NATS's financial results.

NATS has chosen not to restate 2017-18 on initial application at 1 April 2018 of IFRS 9: Financial Instruments and IFRS 15: Revenue from Contracts with Customers. This adjustment has been netted off against the Department's share of other comprehensive net expenditure in the Statement of Comprehensive Net Expenditure and the Statement of Changes in Taxpayer's Equity.

**Note 5** discloses the share of the associate's non-operating and operating income as £29m and £11m respectively. The £29m represents the dividend paid by NATS to the Department as shown below, and the £11m represents the share of profits reported below (£40m) less the dividend paid (£29m).

The Statement of Changes in Taxpayers' Equity discloses the share of non-operating expenditure of associate of £62m. The £62m represents the share of comprehensive net expenditure of £67m and the £5m impact of applying new accounting standards for the first time.

### NATS Holdings Ltd

	£m
Balance at 1 April 2017	224
Share of profits / (loss)	55
Share of other comprehensive net income / (expenditure)	180
Share of other movements, inc. dividend paid from NATS to DFT	(28)
Balance at 31 March 2018	431
Share of profits / (loss)	40
Share of impact of initial application of IFRS 9 and IFRS 15	5
Share of other comprehensive net income / (expenditure)	(67)
Share of other movements, inc. dividend paid from NATS to DFT	(29)
<b>Balance at 31 March 2019</b>	<b>380</b>

Financial results of NATS Holdings Ltd	2018-19	2017-18
	£m	£m
Current assets	441	492
Non current assets	1,370	1,409
Current liabilities	(322)	(274)
Non current liabilities	(711)	(746)
<b>Net assets at 31 March</b>	<b>778</b>	881
Revenue	886	913
Profit for the year	82	113
Other comprehensive income/(expenditure) for the year	(137)	368
Dividends paid during the year	(59)	(57)



## 16. Inventories

	2018-19		2017-18	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
<b>Current assets</b>				
Raw materials, consumables & work-in-progress	-	277	-	257
	-	<b>277</b>	-	257
<b>Non-current assets</b>				
Raw materials, consumables & work-in-progress	4	4	4	4
Properties acquired under the HS2 exceptional hardship and related schemes	535	535	427	427
	<b>539</b>	<b>539</b>	431	431

The inventories disclosed under Core Department & Agencies for HS2 relate to land and properties acquired during the construction of High Speed 2. Inventories are classified as non-current assets because:

- ▶ there is no intention to sell the land and properties in the short-term, or
- ▶ they relate to Phase 2B and should be reclassified to AUC when the criteria for capitalisation have been met and legislation has progressed sufficiently.

## 17. Trade and Other Receivables

	2018-19		2017-18	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
<b>Amounts falling due within one year:</b>				
Trade receivables	38	412	28	315
Deposits and advances	1	22	1	24
VAT receivables	6	331	5	275
Other receivables	152	41	103	63
Collateral placed with banking counterparties	-	727	-	750
Financial indemnity fee	-	-	269	-
Prepayments and accrued income	215	498	239	358
Current part of NLF loan	1	1	1	1
	<b>413</b>	<b>2,032</b>	646	1,786
<b>Amounts falling due after more than one year:</b>				
Other receivables	1	2	2	-
Financial indemnity fee	-	-	3,775	-
Network Rail Collateral Facility	685	-	-	-
Prepayments and accrued income	-	12	-	10
	<b>686</b>	<b>14</b>	3,777	10
<b>Total current and non-current</b>	<b>1,099</b>	<b>2,046</b>	4,423	1,796

Significant contracts with customers under IFRS 15 are held in the Group by the core Department, Network Rail and British Transport Police. Included in trade receivables at the end of the year are £200m contract assets in respect of these entities' contract revenues (2017-18: £124m).

The table above includes current and non-current receivables in respect of the Financial Indemnity fee, valued at £269m and £3,775m respectively as at 31 March 2018. These values reflected amounts that Network Rail would be required to pay to the Department for the benefit conferred by the Financial Indemnity Mechanism ("the FIM"), a financial guarantee contract recognised in **Note 21**. As disclosed in **Note 1.10 and 1.16**, on 25 March 2019, the Secretary of State determined that Network Rail should no longer be required to pay a separate fee, as this is funded from grants provided by the core Department and so represents a circular flow of funds, therefore the receivables have been derecognised. As the decision to remove the fee was made to simplify the flow of funding around the Group, it results in no financial detriment to the Group or the taxpayer. The Financial Indemnity Mechanism itself remains in place.

## 18. Cash and Cash Equivalents

	2018-19		2017-18	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
At 1 April	147	1,133	150	994
Net change in cash and cash equivalents	66	(319)	(3)	139
<b>At 31 March</b>	<b>213</b>	<b>814</b>	147	1,133
<b>The following balances were held at:</b>				
Government Banking Service	207	284	143	182
Commercial banks and cash in hand	6	530	4	951
<b>At 31 March</b>	<b>213</b>	<b>814</b>	147	1,133

## 19. Trade and Other Payables

	2018-19		2017-18	
	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	(6)	(82)	(8)	(87)
Trade payables	(109)	(946)	(65)	(606)
Other payables	(25)	(231)	(23)	(252)
Accruals and deferred income	(941)	(4,101)	(872)	(2,797)
Finance leases	-	(6)	-	(6)
PFI and other service concession arrangements	(3)	(86)	(3)	(76)
Collateral received from banking counterparties	-	(38)	-	(87)
National Loan Fund loans	-	-	(1)	(1)
Amounts issued from the Consolidated Fund for supply but not spent at year end	(186)	(186)	(108)	(108)
Consolidated Fund Extra Receipts due to the Consolidated Fund (Received)	(27)	(27)	(38)	(38)
	<b>(1,297)</b>	<b>(5,703)</b>	(1,118)	(4,058)
<b>Amounts falling due after more than one year:</b>				
Other payables	(69)	(261)	(56)	(347)
Deferred income	(1,154)	(1,329)	(1,208)	(1,351)
Finance leases	-	(9)	-	(13)
PFI and other service concession arrangements	(15)	(1,382)	(18)	(1,471)
National Loan Fund loans	(1)	(1)	(1)	(1)
	<b>(1,239)</b>	<b>(2,982)</b>	(1,283)	(3,183)
<b>Total current and non-current</b>	<b>(2,536)</b>	<b>(8,685)</b>	(2,401)	(7,241)

Included in deferred income at the end of the year is £266m for contract balances in respect of deferred revenue from contracts under IFRS 15 (2017-18: £109m). £63m of this contract liability balance at the beginning of the year was recognised as revenue in 2018-19.

£569m of accruals relates to a balance that HS2 Ltd was expected to pay HMRC in respect of an impending ruling regarding HS2's VAT status. Last year, HS2 Ltd provided for this balance; **Note 23** (Provisions) provides further information.

Obligations in respect of the Channel Tunnel Rail Link and Network Rail totalling £30,304m were reported as part of Trade and Other Payables last year. This year we have reclassified them to a new Borrowings note (**Note 20**).



## 20. Borrowings

	2018-19		2017-18	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
1.085% sterling index linked bond due 2052	-	(137)	-	(134)
0% sterling index linked bond due 2052	-	(149)	-	(144)
2.334% Asset Backed Index Linked Notes due 2051	(791)	(789)	(767)	(765)
5.1% sterling bond due 2051	(1,101)	(1,101)	(1,101)	(1,101)
1.003% sterling index linked bond due 2051	-	(26)	-	(25)
0.53% sterling index linked bond due 2051	-	(133)	-	(129)
0.517% sterling index linked bond due 2051	-	(133)	-	(130)
0% sterling index linked bond due 2051	-	(149)	-	(144)
0.678% sterling index linked bond due 2048	-	(131)	-	(127)
1.125% sterling index linked bond due 2047	-	(5,685)	-	(5,560)
0% sterling index linked bond due 2047	-	(95)	-	(91)
1.1335% sterling index linked bond due 2045	-	(53)	-	(52)
1.5646% sterling index linked bond due 2044	-	(299)	-	(290)
1.1565% sterling index linked bond due 2043	-	(60)	-	(58)
1.1795% sterling index linked bond due 2041	-	(73)	-	(71)
1.2219% sterling index linked bond due 2040	-	(294)	-	(285)
1.2025% sterling index linked bond due 2039	-	(80)	-	(78)
4.5% sterling bond due 2038	(428)	(428)	(428)	(428)
4.6535% sterling bond due 2038	-	(100)	-	(100)
1.375% sterling index linked bond due 2037	-	(5,578)	-	(5,447)
5.234% Asset Backed Fixed Rate Notes due 2035	(498)	(516)	(572)	(589)
4.75% sterling bond due 2035	-	(1,232)	-	(1,231)
1.6492% sterling index linked bond due 2035	-	(447)	-	(433)
4.375% sterling bond due 2030	-	(872)	-	(872)
4.5% sterling bond due 2028	(1,235)	(1,235)	(1,234)	(1,234)
1.75% sterling index linked bond due 2027	-	(5,435)	-	(5,328)
4.615% Norwegian krone bond due 2026	-	(53)	-	(53)
4.57% Norwegian krone bond due 2026	-	(15)	-	(15)
1.9618% sterling index linked bond due 2025	-	(378)	-	(366)
4.75% sterling bond due 2024	-	(742)	-	(740)
3% sterling bond due 2023	-	(398)	-	(398)
2.76% Swiss franc bond due 2021	-	(231)	-	(224)
2.315% Japanese yen bond due 2021	-	(73)	-	(71)
2.28% Japanese yen bond due 2021	-	(73)	-	(71)
2.15% Japanese yen bond due 2021	-	(73)	-	(72)
4.625% sterling bond due 2020	-	(1,000)	-	(999)
1.75% US dollar bond due 2019	-	-	-	(717)

	2018-19		2017-18	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
0.875% US dollar bond due 2018	-	-	-	(1,248)
<b>Bank loans are analysed as follows:</b>				
Index-linked European Investment Bank due 2036 (£243m) and 2037 (£241m)	-	(500)	-	(484)
	<b>(4,053)</b>	<b>(28,766)</b>	(4,102)	(30,304)
<b>Analysis by SoFP presentation</b>				
Current	(111)	(119)	(109)	(2,099)
Non-current	(3,942)	(28,647)	(3,993)	(28,205)
	<b>(4,053)</b>	<b>(28,766)</b>	(4,102)	(30,304)
<b>Analysis by IFRS 9 category</b>				
Bonds treated as fair value through profit and loss	-	(287)	-	(282)
Bonds in a fair value hedge arrangement	-	-	-	(1,965)
Bonds held at amortised cost	(4,053)	(28,479)	(4,102)	(28,057)
	<b>(4,053)</b>	<b>(28,766)</b>	(4,102)	(30,304)

Current borrowings include bonds maturing in the next 12 months plus stage repayments of other bonds. Balances in Core Department and Agencies relates to the core Department's obligations to CTRL Section 1 Finance plc and LCR Finance plc for their external borrowings. These obligations are eliminated on consolidation.

Departmental Group borrowings are instruments issued by Network Rail, CTRL Section 1 Finance plc and LCR Finance plc. Further information of the movement of borrowings is available in the financial statements of Network Rail, CTRL Section 1 Finance plc and LCR Finance plc.

	Balance as at 31 March 2018	Net cash payments	Non-cash movements			Balance as at 31 March 2019
			Capital accretion	Exchange differences	Fair value and other movements	
	£m	£m	£m	£m	£m	£m
Group borrowings	(30,304)	1,809	(520)	(9)	258	(28,766)

## 21. Financial guarantee contracts

The Department has given an indemnity to Network Rail's debt holders, with a total outstanding debt as at 31 March 2019 of £24,196m (2018: £25,702m). The indemnity expires in 2052 and is recognised as a financial guarantee contract in accordance with IFRS 9 (2017-18: IAS 39). The indemnity reduces the cost of borrowing for Network Rail. Network Rail paid a fee to the Department until 31 March 2019 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 below.

	Core Department and Agencies
	£m
Balance at 1 April 2017	(4,142)
Charge in year	(29)
Amortised to income	281
Unwinding of discount	(154)
Balance at 31 March 2018	(4,044)
Charge in year	(133)
Amortised to income	266
Unwinding of discount	(155)
<b>Balance at 31 March 2019</b>	<b>(4,066)</b>

## 22. Deferred Taxation

	2018-19	2017-18
	Departmental Group	Departmental Group
	£m	£m
At 1 April	(2,508)	(2,381)
Prior year adjustments	-	(4)
Operating gain / (loss)	(52)	29
Other comprehensive income/(expenditure)	(443)	(152)
<b>At 31 March</b>	<b>(3,003)</b>	<b>(2,508)</b>

Some deferred tax assets and liabilities have been offset. The following is the analysis of the gross deferred tax balances.

Deferred tax liabilities	(3,123)	(2,583)
Deferred tax assets	120	75
	<b>(3,003)</b>	<b>(2,508)</b>

Deferred tax relates to the activities of Network Rail only.

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.

No other deferred tax is recognised as the majority of the Departmental Group's activities are classified as non-business

During 2018-19, a deferred tax asset in respect of current year losses on derivatives of £29m has been derecognised.



## 23. Provisions for Liabilities and Charges

	Industrial disease claims £m	National Freight Company Pension £m	High Speed 2 Land & Property £m	Others £m	Core & Agencies Total £m	VAT £m	Highways England Land & Property £m	Others £m	Group Total £m
Balance at 1 April 2018	(284)	(57)	(1,099)	(66)	(1,506)	(275)	(155)	(80)	(2,016)
Provided in year	(3)	-	(247)	(81)	(331)	(392)	(178)	(40)	(941)
Provision written back	-	2	-	1	3	-	48	26	77
Provision utilised	13	5	343	3	364	-	52	33	449
Unwinding of discount	(5)	-	-	-	(5)	-	-	-	(5)
Reclassifications	-	-	-	-	-	569	-	-	569
<b>Balance at 31 March 2019</b>	<b>(279)</b>	<b>(50)</b>	<b>(1,003)</b>	<b>(143)</b>	<b>(1,475)</b>	<b>(98)</b>	<b>(233)</b>	<b>(61)</b>	<b>(1,867)</b>
<i>Of which:</i>									
More than five years	(202)	(31)	-	(35)	(268)	-	-	-	(268)
Between one and five years	(63)	(15)	(592)	(24)	(694)	-	(143)	(41)	(878)
Non-current	(265)	(46)	(592)	(59)	(962)	-	(143)	(41)	(1,146)
Current / within one year	(14)	(4)	(411)	(84)	(513)	(98)	(90)	(20)	(721)
Balance at 1 April 2017	(285)	(64)	(186)	(204)	(739)	-	(152)	(58)	(949)
Provided in year	(16)	(1)	(1,003)	(2)	(1,022)	(275)	(69)	(47)	(1,413)
Provision written back	12	-	45	136	193	-	-	1	194
Provision utilised	12	8	45	4	69	-	60	30	159
Unwinding of discount	(7)	-	-	-	(7)	-	-	-	(7)
Reclassifications	-	-	-	-	-	-	6	(6)	-
<b>Balance at 31 March 2018</b>	<b>(284)</b>	<b>(57)</b>	<b>(1,099)</b>	<b>(66)</b>	<b>(1,506)</b>	<b>(275)</b>	<b>(155)</b>	<b>(80)</b>	<b>(2,016)</b>
<i>Of which:</i>									
Non-current	(270)	(51)	(641)	(59)	(1,021)	-	(89)	(8)	(1,118)
Current / within one year	(14)	(6)	(458)	(7)	(485)	(275)	(66)	(72)	(898)

## 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 (Residual) Ltd (BRBR), and when BRBR was abolished in 2013, they passed to the Department for Transport.

The value of this provision has decreased from £284m on 31 March 2018 to £279m on 31 March 2019. There has been a 36% decrease in the number of outstanding disease and injury claims, from 459 to 294 during 2018-19, which is offset by unwinding the discount rate, resulting in a £8m cost to the SOCNE (2018: £11m cost). £13m was paid out in settlement of such claims during the year (2018: £12m).

## 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 2019: £41m; 2018: £47m) – 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 2019: £9m; 2018: £10m) – reimbursements to NFC and its subsidiaries for providing travel concessions to staff previously employed by the road transport division of British Rail (s21, Transport Act 1978 and Schedule 6 to the Transport Act 1980).

## HS2 Land & Property

The Department holds various provisions to cover the purchase of land and properties acquired under different HS2 schemes and processes (31 March 2019: £1,003m; 2018: £1,099m). These include: compulsory purchase orders (£743m); statutory blight legislation (£148m); the Need to Sell scheme (£39m); Rural Support Zone Scheme (£8m) and specific agreements with various corporate entities (£65m). The HS2 project will be delivered in three phases. The provision for compulsory purchases currently relates to the first phase, whereas the provisions for statutory blight, the Need to Sell scheme and Rural Support Zone cover all three phases. **Note 1.20.2** describes the key estimation factors affecting the valuation of land and property provisions connected with compulsory purchase orders, which represent the majority of this balance.

## VAT

In 2017-18 HS2 Ltd provided for the over recovery of VAT, however, as the likelihood of HMRC ruling in HS2's favour has reduced, the amount was transferred from provisions to accruals during 2018-19.

In 2018-19 Highways England provided for the over recovery of VAT.

More details are provided below.

### HS2 Ltd VAT

HS2 Ltd registered for VAT with effect from April 2014. In 2017-18 HMRC started to review how VAT is applied to HS2 Ltd's activities. As at 31 March 2018, following ongoing discussions with HMRC, HS2 considered that the recognition of a provision covering the VAT reclaimed to date (£275m) was appropriate. As at 31 March 2019, based on current information, HS2 Ltd has recognised an accrual in the Financial Statements as the likelihood of HMRC ruling in HS2's favour has reduced. The total accrual of £569m is included within **Note 19** under the heading Accruals. This change in VAT status represents an internal transfer within Government and does not change the net cost to the UK taxpayer of delivering HS2.

### Highways England VAT

Highways England has provided £98m for an outstanding HMRC ruling on specific tax regulations governing its ability to reclaim VAT on work that is either outside of the boundary of the current network or on structures.

## 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 2019: £233m; 2018: £155m).

## Other

These headings also cover a range of smaller provisions, including:

- ▶ Onerous contract provisions for £50m relating to freight capacity from late March 2019 until the end of September 2019 in case the UK leaves the EU without a deal. Further information can be found in the Losses and Special Payments section of the Parliamentary Accountability section of this Report.
- ▶ An onerous contract with a rolling stock lessor that may oblige the Department to take ownership of a fleet of trains originally procured by the British Railway Board, if certain conditions are met. The risk profile of this obligation increased during the year, resulting in an estimated provision of £30m.
- ▶ An onerous lease on arches in Leake Street beneath Waterloo station (31 March 2019: £30m; 2018: £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 2019: £8m; 2018: £10m) – 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).
- ▶ Undertakings and assurances that could arise from petitions raised by individuals and organisations objected to the construction of HS2 (31 March 2019: £6m; 2018: £9m).
- ▶ Highways England has provided for other liabilities totalling £11m (31 March 2018: £11m). The majority of this is an estimate of the value of claims received that will require settlement. Claims arise from 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.

## 24. Contingent Liabilities

Contingent liabilities do not represent a current liability to the Departmental Group at 31 March 2019, but some will result in an obligation to transfer cash in the future depending on one or more relevant events occurring. They are not recognised in the Statement for Financial Position, but are monitored to ensure that a provision is made when a possible obligation or transfer of economic benefits has become probable. As a government department, the Department for Transport discloses contingent liabilities under requirements that are broader than those applicable to commercial entities. In accordance with IAS 37, it discloses contingent liabilities for which the risk of crystallisation is greater than remote but not probable. Where these can be quantified they are disclosed in the table below; where they cannot be quantified with any degree of accuracy, they are disclosed in the paragraphs after the table below.

## 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 2019	31 March 2018
	£m	£m
<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. Toll revenue to date and forecasts indicate that this commitment is unlikely to be called upon.	1,422	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, including possible obligations in relation to land and property acquisitions. The liability has increased due to various large schemes commencing such as the trans Pennine scheme.	1,163	682
<b>Legal claims – rest of the Group</b> From time to time, the Departmental Group experiences legal claims and challenges which it defends wherever appropriate.	143	43
<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.	440	347
<b>HS2 – Undertakings and Assurances</b> HS2 Ltd has given a number of undertakings and assurances where there is an uncertainty over whether a 'present obligation' (as defined by IAS37) exists at year end that could lead to expenditure by HS2 Ltd.	238	115
<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.	35	25
<b>HS1</b> The HS1 Concession Agreement between the Secretary of State and HS1 Ltd specifies that the Secretary of State would be liable to pay compensation if the contract were terminated due to legal changes, either in the UK or Europe ('Change in Circumstances') or a change directed by another part of the Government ('Government Change'). The amount payable is formalised in the Agreement, but depends on the cause of the termination, and includes capital expenditure, increases in operating costs and losses of revenue.	20	20
<b>Indemnities in respect of Crossrail funding and delivery</b> To support delivery of the Crossrail project, the Department provided indemnities and assurances to parties carrying risks that they would be unable to bear. These risks crystallised during 2018. In December 2018, the Department agreed a new funding package for the project, comprising loans of £1.3bn to the Greater London Authority (GLA) and £750m contingency to be made available to Transport for London. The GLA started to draw down loans in February 2019, the balance of which can be found in <b>Note 11</b> . The loan package agreed that the indemnities would be removed from the Sponsors Agreement. The values disclosed as a contingent liability in prior years represents the maximum quantifiable exposure, which was realised to be £2.05bn during 2018-19. Further details can be found at: <a href="https://www.nao.org.uk/report/crossrail/">https://www.nao.org.uk/report/crossrail/</a>	-	5,136
<b>Thameslink</b> To support delivery of the Thameslink project, the Department provided indemnities to parties carrying risks that they would be unable to bear. These indemnities have now lapsed.	-	75
<b>Total</b>	<b>3,461</b>	<b>7,989</b>



Some members of the Departmental Group provide guarantees to other entities consolidated into the Departmental Group; as these items are intra-group, they are eliminated on consolidation and not shown in the table above, for example, the core Department provides a guarantee to British Transport Police Authority to cover the pension liabilities, which are shown in **Note 25**, Pensions.

## Unquantifiable contingent liabilities

The following guarantees, indemnities, statutory obligations and letters of comfort cannot be quantified with any degree of accuracy:

- ▶ In furtherance of transport infrastructure projects, the Secretary of State has incurred liabilities for statutory blight. This includes obligations in respect of Crossrail 2 and, since June 2018, Heathrow expansion. Property owners within the affected areas may be eligible to serve a Blight Notice asking the Secretary of State to buy their property. As this is unquantifiable, it is presented as a contingent liability.
- ▶ The Department issued safeguarding orders in 2013 and 2017 for the proposed route of HS2. This creates an obligation on the Department to purchase properties which have been blighted. A provision has been recognised for the cost of properties the Department has accepted as blighted, and where the purchase price has been substantially agreed. Any remaining liability is classed as a contingent liability.
- ▶ As part of the normal course of business, HS2 Ltd has given indemnities to individuals and companies who could be impacted by the construction of HS2. A number of Protective Provision Agreements have been made with either special status or utility companies that include indemnities in relation to HS2 Ltd's work as Nominated Undertaker for constructing HS2. These agreements go no further than the provisions made in the Phase 1 Hybrid Act and the Phase 2A Hybrid Bill that provide for protection, repair, compensation and indemnification from third party claims.
- ▶ 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. In recent years the Department has administered variable amounts under this facility between £4m and £13m per annum.

## 25. Pension Schemes

Past and present employees of the core Department and its agencies are generally covered by the provisions of the Principal Civil Service Pension Scheme. The Principle Civil Service Pension Scheme and defined contribution retirement benefit schemes are described in the People and Remuneration Report in the Accountability Report.

### Overview of the schemes

This Note provides disclosures on the Departmental Group's obligations in respect of the defined benefit pension arrangements for which it is the designated employer. All of the schemes are funded.

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.

Network Rail and the British Transport Police Authority are the designated employers for their own defined benefit pension schemes, and the Secretary of State for Transport fulfils the role of the 'designated employer' for the other four defined benefit schemes listed below.

Key data				
Scheme	Open/closed	Basis	Accrual Rate	Normal retirement age
Network Rail (RPS) (includes RPS 60 and RPS 65)*	Open to employees with five years' service (RPS 60 closed to new joiners from 1 July 2012).	Shared cost (employer's share: 60%) final salary-based (subject to capping); linked to CPI.	1/60 (RPS 60 and RPS 65) average final pensionable salary <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)*	Open to all employees.	Shared cost (employer's share: 60%) career average revalued earnings, linked to RPI up to 31 March 2016 and CPI thereafter.	1/60 average pensionable salary.	65
1994 Section (RPS)	Closed to new members and accruals: members are those who were pensioners and preserved pensioners of BR at the time of privatisation.	Final salary-based, linked to CPI.	Not applicable, as scheme is closed to new accruals.	60
British Railways Superannuation Fund (BRSF)	Closed to new members and accruals.		Not applicable, as scheme is closed to new accruals.	60
British Railways Shared Cost Section (RPS)	Open to eligible members.	Shared cost (employer's share: 60%), final-salary based, linked to CPI.	1/60 final salary.	60
British Railways (1974) Pension Fund	Closed to new members and accruals.	Supplementary to other RPS schemes.	Not applicable, as scheme is closed to new accruals.	60
British Transport Police Force Superannuation Fund (BTPFSF)*	<i>Pre-2007 and 2007-2015 schemes:</i> closed to new members. <i>Post-2015 scheme:</i> open to eligible members.	<i>All schemes:</i> Shared cost (employer's share 60%) <i>Pre-2007 scheme:</i> final salary-based. <i>2007-2015 scheme:</i> final salary-based. <i>Post-2015 scheme:</i> career average revalued earnings, linked to CPI.	<i>Pre-2007 scheme:</i> 1/45 less 1/30 the basic state pension). <i>2007-2015 scheme:</i> 1/70 final salary. <i>Post-2015 scheme:</i> 1/55.3.	<i>Pre-2007 scheme:</i> 55. <i>2007-2015 scheme:</i> 55 or 65 depending on circumstances. <i>Post-2015 scheme:</i> 60 or 65 depending on circumstances.
British Transport Police Section of the Railways Pension Scheme (RPS)*	Open to new members.	Shared cost (employer's share: 60%), final-salary based, linked to CPI.	1/60 final average salary less 1/40 of the basic state pension.	60

\*More details about these schemes can be found in the accounts of Network Rail and the British Transport Police.

## Formal actuarial valuations

A formal actuarial valuation of the 1994 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 final valuation report was published on 1 June 2018. 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.

A formal actuarial valuation of the Network Rail schemes was undertaken by Willis Towers Watson using the projected unit method with a valuation date as at 31 December 2016.

## The net pension liability by scheme

	2018-19		2017-18	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
NR (RPS and CARE)	-	(2,566)	-	(2,311)
1994 Section	(1,461)	(1,461)	(1,254)	(1,254)
BR Shared Cost Section	(47)	(47)	(34)	(34)
British Railways Superannuation Fund (BRSF)	(14)	(14)	(7)	(7)
BR (1974) Pension Fund	(4)	(4)	(4)	(4)
BTP Force Superannuation Fund (BTPFSF)	-	(641)	-	(601)
BTP Section of the Railways Pension Scheme (RPS)	-	(140)	-	(119)
<b>Total deficit at the end of the period</b>	<b>(1,526)</b>	<b>(4,873)</b>	<b>(1,299)</b>	<b>(4,330)</b>

The liability has increased due to decreases in the net discount rates (disclosed below under principal actuarial assumptions).

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	Asset	Liabilities	Deficit
	£m	£m	£m	£m
At 1 April 2017	(1,648)	8,311	(13,046)	(4,735)
Current service cost including members' share	(3)	-	(341)	(341)
Interest on pension deficit	(36)	194	(306)	(112)
Administration expenses	-	(9)	-	(9)
Return on plan assets greater than the discount rate	67	138	-	138
Actuarial gain/(loss) arising from changes in financial assumption	259	-	329	329
Actuarial gains/(losses) on defined benefit obligation due to demographic assumptions	-	-	183	183
Actuarial gain/(loss) arising from experience adjustments	59	-	83	83
Regular contributions by employer	3	92	-	92
Contributions by employees	-	58	(16)	42
Benefits paid	-	(511)	511	-
<b>As at 31 March 2018</b>	<b>(1,299)</b>	<b>8,273</b>	<b>(12,603)</b>	<b>(4,330)</b>
Current service cost including members' share	(2)	-	(342)	(342)
Past service costs	(43)	-	(53)	(53)
Interest on pension deficit	(31)	194	(297)	(103)
Administration expenses	-	(10)	-	(10)
Return on plan assets greater than the discount rate	99	372	-	372
Actuarial gain/(loss) arising from changes in financial assumption	(246)	-	(638)	(638)
Actuarial gains/(losses) on defined benefit obligation due to demographic assumptions	-	-	40	40
Actuarial gain/(loss) arising from experience adjustments	(7)	-	53	53
Regular contributions by employer	3	94	-	94
Contributions by employees	-	59	(15)	44
Benefits paid	-	(510)	510	-
<b>As at 31 March 2019</b>	<b>(1,526)</b>	<b>8,472</b>	<b>(13,345)</b>	<b>(4,873)</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
- ▶ past 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.

Past service costs arise when an employer undertakes to provide a different level of benefits than previously promised. Following the Lloyds judgement in October 2018, pension schemes are required to equalise in respect of Guaranteed Minimum Pensions (GMP) accrued after 17 May 1990. Analyses of the scheme memberships in the Group found that only a low

number of members are within the scope of this initiative, therefore, the schemes have made allowances of up to 1% of the total liabilities for the cost of GMP equalisation, however this is subject to change. This impact has been recognised as a past service cost.

Current service costs are an estimate made by actuaries of the benefit earned by employees in the year, calculated using assumptions in line with IAS 19.

Net interest costs reflect the increase in the present value of the pension liability during the year because the benefits are one period closer to settlement. The financing cost is based on the discount rate (including inflation) at the start of the year and is calculated on the gross liability of unfunded schemes and the net liability of funded schemes. The expense from unwinding the discount rate is recognised against net expenditure.

## Analysis of scheme assets

	2018-19		2017-18	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Cash and cash equivalents	75	212	305	435
Equity instruments and funds	2,256	6,600	2,389	6,461
Debt instruments – Government	346	1,012	166	775
Debt instruments – Non-Government	32	172	-	159
Property	-	123	-	117
Other	105	353	111	326
<b>Fair value of plan assets</b>	<b>2,814</b>	<b>8,472</b>	2,971	8,273
Present value of funded obligations	(4,340)	(13,345)	(4,270)	(12,603)
<b>Total deficit at the end of the period</b>	<b>(1,526)</b>	<b>(4,873)</b>	(1,299)	(4,330)

## Amounts charged to operating costs

	2018-19		2017-18	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Current service cost	2	342	3	341
Past service cost	43	53	-	-
Net interest expense / (income)	31	103	36	112
Administrative costs	-	10	-	9
<b>Total</b>	<b>76</b>	<b>508</b>	<b>39</b>	<b>462</b>
<i>Of which:</i>				
Pension scheme costs per Note 3	3	309	3	298
Pension scheme costs per Note 4	73	199	36	164

## Amounts recognised in other comprehensive expenditure

	2018-19		2017-18	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Return on plan assets greater than the discount rate	(99)	(372)	(67)	(138)
Actuarial gain / (loss) arising from changes in assumptions	246	598	(259)	(512)
Actuarial gain / (loss) arising from experience adjustments	7	(53)	(59)	(83)
<b>Total gain / (loss)</b>	<b>154</b>	<b>173</b>	<b>(385)</b>	<b>(733)</b>

## Principal actuarial assumptions at the reporting date (expressed as weighted average):

	NR (RPS)	NR (CARE)	1994 Section	BTP Force Superannuation Fund (BTPFSF)
<b>2018-19</b>				
Discount rate	2.3%	2.3%	2.0%	2.35%
Future pension increases	2.2%	2.2%	2.4%	2.2%
Future prices increase (CPI unless otherwise stated)	2.2%	2.2%	2.4%	2.2%
Rate of increase in salaries	3.2%	3.2%	3.4%	3.2%
<b>2017-18</b>				
Discount rate	2.4%	2.4%	2.35%	2.5%
Future pension increases	2.1%	2.1%	2.15%	2.1%
Future prices increase (CPI unless otherwise stated)	2.1%	2.1%	2.15%	2.1%
Rate of increase in salaries	3.1%	3.1%	3.15%	3.1%

Scheme	Average life expectancy on retirement			
	Members aged 45		Members aged 65	
	Males	Females	Males	Females
1994 Section*	n/a	n/a	21.3	23.4
Network Rail (RPS and CARE)	23.9	25.6	22.2	23.8
BTPFSF	22.7	25.2	21.3	23.7

\*An assessment of the Schemes' liabilities has been carried out using a roll forward approach based on full membership data provided as at 31 December 2017. Accounts data detailing the value of the assets at 31 March 2019 and the pensions paid and contributions received over the year to 31 December 2018 and the quarter to 31 March 2019 have also been provided. This additional data has been incorporated into the roll forward to assess the Scheme's liabilities as at 31 March 2019.

## Sensitivity Analysis

The table below shows the impact of changes to assumptions on the net pension deficit.

	31 March 2019			31 March 2018		
	NR (RPS & CARE)	1994 Section	BTPFSF	NR (RPS & CARE)	1994 Section	BTPFSF
	£m	£m	£m	£m	£m	£m
<b>Discount rate</b>						
+0.25%	(603)	(120)	(101)	(529)	(110)	(92)
-0.25%	651	120	102	571	110	99
<b>Life expectancy</b>						
+1 year	332	180	54	287	170	51
-1 year	(329)	(180)	(54)	(278)	(170)	(51)
<b>Earnings increase</b>						
+0.25%	172	-	-	164	-	-
-0.25%	(166)	-	-	(159)	-	-
<b>Price inflation</b>						
+0.25%	619	120	97	541	110	94
-0.25%	(576)	(120)	(97)	(505)	(110)	(88)

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 more than inflation, but are typically more volatile in the shorter term than government bonds.

The cost of financing defined benefit pension deficits is borne by a number of parties. For shared cost schemes, such as the RPS shared cost sections, any increase in contributions will be met in part by the employees and this element of the deficit is not recorded as a liability on the balance sheet. In the case of the employer's contributions to both the NR and BTP schemes, any deficits will be met by increased contributions by all 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) were Participating Employers of the now closed Merchant Navy Officers Pension Fund (MNOF), a defined benefit scheme providing benefits based on final pensionable salary.

The MNOF scheme was closed on 31 March 2016 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 MNOF 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. MNOF's last full valuation reported a gross deficit of £73m as at 31 March 2018. Allowing for the present value of deficit contributions due after this date, a net deficit of £9m is reported. The trustees published a recovery plan on 26 March 2019 in which an assumption has been made for the Fund's assets to exceed the average discount rate by 0.1%, eliminating the deficit by 30 September 2023. Accordingly, the MNOF trustees determined that no additional contributions would be required in order to eliminate the deficit at this time. The trustees will review the need for additional deficit contributions as part of the 31 March 2021 valuation.



## 26. Entities within and outside the departmental boundary

### Within the Departmental Accounting boundary

The following entities were within the Departmental boundary during 2018-19 and are reported as part of the Department's financial statements. All these entities publish their own annual report and accounts too. Many of these can be accessed from <https://www.gov.uk/government/collections/dft-annual-reports-and-accounts>.

#### Executive 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 (This company (06950819) is exempt from audit of its account by virtue of s479A of Companies Act 2010)  
DFT OLR Holdings Limited (commenced operations in March 2018)  
East West Railway Company Limited (commenced operations on 10 September 2018)  
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

### Not reported within the Departmental Accounting boundary

Financial information for the following entities can be obtained from their separately published annual reports and accounts.

#### Public Corporations

London North Eastern Railway Limited (operator of the East Coast franchise since 24 June 2018. See **Notes 12.3** and **27.1** for further information)

Crossrail International Limited (established in September 2017. See **Note 27.3** for further information)

London and Continental Railways Limited (see **Notes 12.2** and **27.2** for further information)

Civil Aviation Authority  
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

Network Rail Insurance Limited (Guernsey) (see **Notes 12.4** and **27.4** for further information)  
NATS Holdings Limited (see **Note 15** for further information)  
Marine and Aviation Insurance (War Risks) Fund  
Crossrail Complaints Commissioner  
General Lighthouse Fund  
VCA Southern Europe Srl. (registered in January 2019)

## 27. Investments in controlled entities that are not consolidated

IFRS 10 requires the consolidation of all investees controlled by the entity. Control gives the entity the ability to deploy assets and liabilities and allocate financial risks and benefits between investees, to maximise the success of the Group as a whole. Consolidation ensures that the financial statements reflect this process transparently. Control is commonly evidenced by ownership of the majority of voting shares in the investee. However, for central government departments, consolidation boundaries are defined by ONS sector classifications, which are reflected in the Statutory Instrument that dictates which entities are consolidated. This departure from IFRSs 3 (Business Combinations) and 10 (Consolidated Financial Statements) is in accordance with the FReM; see **Note 1.3** for more details.

In some cases, the Department holds controlling shareholdings in entities that are not consolidated in its financial statements, typically because the ONS has classified them to sectors other than central government. This could, in theory, permit the Department to re-allocate financial risks or benefits to these entities in a manner that results in a materially different presentation of the financial performance and position reflected in its consolidated financial statements.

This Note provides a disclosure of these entities' strategic role, their financial performance and position, and their transactions with the consolidated group.

### 27.1 LNER Ltd

#### Strategic role

LNER Ltd was established by the Department to act as an operator of last resort for a rail franchise. It is wholly owned by DfT OLR Holdings Ltd and consolidated in that company's financial statements. It has operated the east coast mainline franchise since June 2018. The franchise is expected to be re-tendered in due course.

#### Financial performance and position

The company's most significant assets are trade and other receivables; cash and cash equivalents; property, plant and equipment; and a defined benefit pension asset. Most franchise assets are held under operating leases. Its most significant liabilities are borrowings from its parent, and trade and other payables. Significant items of income and expenditure include passenger income, staff costs and operating lease rentals. The data below comes from the company's most recent

financial statements. These are prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006 and therefore all material items are measured on the same basis as applied by the Department.

	2018-19
	£m
Non-current assets	75
Current trade and other receivables	137
Cash and cash equivalents	33
Other current assets	2
Current trade and other payables	(173)
Non-current liabilities	(6)
<b>Net assets</b>	<b>68</b>
Revenue	681
Other operating costs	(628)
Finance income	1
<b>Profit before tax</b>	<b>54</b>
Tax	(12)
<b>Profit for the year and Total comprehensive income</b>	<b>42</b>

#### Transactions with the consolidated group

Under the Services Agreement London North Eastern Railway is required to pay a financial premium to the Department, which for the year to the 31 March 2019, amounted to £128m.

During 2018-19, LNER Ltd purchased £7m of services from DfT OLR Holdings Ltd, including mobilisations costs. LNER Ltd received £2m of capital project contributions from the Department.

As at 31 March 2019, LNER Ltd has a receivable of £41m and a payable of £4m relating to DfT OLR Holdings Ltd.

A full list of the transactions between LNER Ltd and the consolidated group can be found in their accounts, which are filed at Companies House.

#### Carrying value of the Group's investment in LNER Ltd

The Group's investment in LNER Ltd is held at fair value (see **Note 12.3**), with a carrying value of £68m as at 31 March 2019.

## 27.2 LCR Ltd

### Strategic role

LCR Ltd was established by a consortium of investors to deliver the Channel Tunnel Rail Link (HS1) project. It was brought into the public sector because the Department had taken the majority of the project risk. The original investors were bought out in 2008 to restructure the project finances and the company now manages and develops properties with historic associations with the rail sector (HS1 and former British Rail sites) to maximise the commercial benefits to the taxpayer.

### Financial performance and position

LCR Ltd's most significant assets are investments in property development partnerships, investment properties and cash realised from property sales. These in turn drive the most material components of its profits. The data below comes from the company's financial statements for the year ending 31 March 2019. These are prepared in accordance with IFRS, and all items are measured on the same basis as applied by the Department.

	2018-19	2017-18*
	£m	£m
Stratford City	69	51
Investment properties	210	166
Non-current receivables from related parties	18	18
Current assets	117	179
Current liabilities	(19)	(22)
Non-current liabilities	(16)	(46)
<b>Net assets</b>	<b>379</b>	<b>346</b>
Revenue	32	20
Cost of sales	(13)	(8)
Administrative expenses	(6)	(10)
Gain/(loss) on revaluation of investment properties	(23)	4
(Increase)/decrease in provisions	40	(2)
Net finance income	1	-
Share of gains of associates and joint venture	17	15
<b>Profit before tax</b>	<b>48</b>	<b>19</b>
Tax	(15)	-
<b>Profit for the year and Total comprehensive income</b>	<b>33</b>	<b>19</b>

\*The values for 2017-18 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.

## Transactions with the consolidated group

LCR Ltd had no material transaction with the group (2017-18: the only significant transaction was a dividend of £25m).

The company does not benefit from any guarantees from the Department, and there are no material financial commitments with the Department.

## Carrying value of the Group's investment in LCR Ltd

The Group's investment in LCR Ltd is held at fair value (see **Note 12.2**), with a carrying value of £368m as at 31 March 2019 (2018: £357m).

## 27.3 Crossrail International Ltd

### Strategic role

Crossrail International Ltd was established by the Department in September 2017 to share the knowledge, expertise and lessons learned during the Crossrail Project with International transport projects.

### Transactions with the consolidated group

During the year, the company has received £1m of share capital from the Department and has not paid a dividend.

## Carrying value of the Group's investment in Crossrail International Ltd

The Group's investment in Crossrail International Ltd is held at fair value (under Direct Subsidiaries in **Note 12**), with a carrying value of £1m as at 31 March 2019.

## 27.4 Network Rail Insurance Ltd

### Strategic role

Network Rail Insurance Limited was established by Network Rail to act as a "captive" insurance company, to have direct access to reinsurance markets, minimising the volatility of insurance premia and retaining profits within the Group.

### Financial performance and position

The company's most significant assets are financial assets held to meet insurance claims from the Network Rail Group. Trade and other payables include the company's liabilities under insurance contracts. Premia are calculated to match the costs of settling insurance liabilities, with minimal profit margins. The data below comes from the company's most recent financial statements. These are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and therefore all material items are measured on the same basis as applied by the Department.

	2018-19	2017-18
	£m	£m
Cash and cash equivalents	273	290
Receivables from insurance contracts	11	16
<b>Total assets</b>	<b>284</b>	<b>306</b>
Trade and other payables	(2)	(3)
Liabilities from insurance contracts	(95)	(145)
<b>Total liabilities</b>	<b>(97)</b>	<b>(148)</b>
<b>Net assets</b>	<b>187</b>	<b>158</b>
Premium revenue	31	23
Insurance claims	-	-
Administrative expenses	(1)	(1)
<b>Net gain before tax</b>	<b>30</b>	<b>22</b>

## Transactions with the consolidated group

The entirety of the company's premium revenue and insurance claims are transactions with the consolidated group. In addition, the counterparty to all liabilities under insurance contracts is the consolidated group.

The company participates in cross-guarantees on banking and other arrangements with other members of the Network Rail group.

## Carrying value of the Group's investment in Network Rail Insurance Ltd

The Group's investment in Network Rail Insurance Ltd is held at fair value (see **Note 12.4**), with a carrying value of £200m as at 31 March 2019 (2018: £170m).





## 27.5 Joint Ventures

Network Rail has joint control over several entities, including the Station Office Network and West Hampstead Square, which are also presented in the available-for-sale financial assets disclosure. Network Rail's investment in these entities does not give rise to material financial risk to the group.

No other investees give rise to material financial risks or benefits to the group as a whole.



## 28. Related-party transactions

The Department for Transport is a parent of the executive agencies listed at **Note 26** 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, HMRC 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 except for the item reported below.

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 15**. The Department undertook the following transactions with NATS Holdings Ltd:

	2018-19	2017-18
	£m	£m
Dividends received by the Department from NATS Holding Ltd	29	28
Amounts paid by the Department to NATS Holdings Ltd	-	1
Investment held by the Department in NATS Holdings Ltd	380	431

Baroness Valentine was a non-executive director for HS2 Ltd at the same time as being the Vice-Chair of the Council of University College London (UCL). HS2 Ltd and the Department work closely on a number of arrangements that impact on the core Department's financial statements. One such arrangement is with UCL for the relocation of UCL facilities in Euston, London as a result of HS2. DFT and HS2 Ltd have similar agreements with other organisations where there is no related party. Arrangements were put in place in HS2 Ltd to ensure Baroness Valentine was not a party to materials or decisions relating to the arrangements with UCL. The Department undertook the following transactions with UCL:

	2018-19	2017-18
	£m	£m
Amounts paid to UCL from the Department	3	27
Balances due to UCL from the Department at year-end	11	3

## 29. Financial Risks

This Note describes the nature and extent of risks arising from financial instruments to which the Departmental Group was exposed during the period and at the end of the reporting period, and how those risks were managed. The specific financial risks borne by the Departmental Group are: Credit risk (described in **Note 29.1**); Liquidity risk (described in **Note 29.2**) and Market risk (including interest rate risk) (described in **Note 29.3**).

Entity	Funding mechanism	Risk	Downside Impact	Residual Risk
Core Department	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.	Any shortfall in income from train operating companies would need additional funding from the Exchequer; were such funding not available from Voted budgets, this could lead to an excess vote and receiving a qualified audit opinion over the Statement of Parliamentary Supply.	Medium
Network Rail, Vehicle Certification Authority, Driver & Vehicle Licensing Agency, British Transport Police Authority	Income from delivery of services.	Liquidity risk; credit risk.	Entities would need additional funding from the Exchequer; were such funding not available from Voted budgets, this could lead to an excess vote and receiving a qualified audit opinion over the Statement of Parliamentary Supply.	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.	Entities would need additional funding from Exchequer; were such funding not available from Voted budgets, this could lead to an excess vote and receiving a qualified audit opinion over the Statement of Parliamentary Supply.	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.	Entities would need additional funding from core Exchequer; were such funding not available from Voted budgets, this could lead to an excess vote and receiving a qualified audit opinion over the Statement of Parliamentary Supply.	Low

### 29.1 Credit Risk

The Departmental Group is exposed to credit risk through the loan balances disclosed in **Note 11** and trade and other receivables disclosed in **Note 17**. 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 **Notes 11** and **17** 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 **Note 14**. 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 29.3**. 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 IFRS 9 (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 significant changes in the group's credit risk. The fair value is sensitive to changes in the market expectations of macro-economic and sovereign debt rating. **Note 4** shows that the re-measurement of FVTPL debt items resulted in a £3m loss (2018: £21m gain), 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 2012 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 2019 the fair value of collateral held was £38m (2018: £87m). 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 2019 was £727m (2018: £750m).

## 29.2 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.

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 17** and collateral held is disclosed in **Note 19**. 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 the Departmental Group's remaining contractual maturity for its financial liabilities. The values reflect the undiscounted cash flows of financial liabilities, based on the earliest date on which the Group can be required to pay and therefore differs from both the carrying value and the fair value. The table includes both interest and principal cash flows.



Group	31 March 2019				
	Within 1 year	1-2 years	2-5 years	5+ years	Total
	£m	£m	£m	£m	£m
<b>Non-derivative financial liabilities</b>					
Non-derivative financial liabilities	(6)	(6)	(18)	(582)	(612)
<b>Bonds issued under the Network Rail debt issuance programme</b>					
Sterling denominated bonds	(196)	(1,196)	(1,600)	(3,273)	(6,265)
Sterling denominated index-linked bonds	(268)	(276)	(852)	(40,993)	(42,389)
Foreign currency denominated bonds	(14)	(14)	(459)	(65)	(552)
<b>Bonds issued by LCR Finance plc and CTRL Section 1 Finance plc</b>					
Sterling denominated bonds	(230)	(229)	(522)	(5,225)	(6,206)
Sterling denominated index-linked bonds	(18)	(19)	(59)	(1,956)	(2,052)
<b>Derivative financial liabilities</b>					
Net settled derivative contracts	(231)	(137)	(247)	(44)	(659)
Gross settled derivative contracts – receipts	14	14	459	65	552
Gross settled derivative contracts – payments	(3)	(6)	(278)	(60)	(347)
<b>Total</b>	<b>(952)</b>	<b>(1,869)</b>	<b>(3,576)</b>	<b>(52,133)</b>	<b>(58,530)</b>

Group	31 March 2018				
	Within 1 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)	(5)	(14)	(483)	(507)
<b>Bonds issued under the Network Rail debt issuance programme</b>					
Sterling denominated bonds	(196)	(196)	(1,496)	(4,573)	(6,461)
Sterling denominated index-linked bonds	(256)	(264)	(839)	(38,849)	(40,208)
Foreign currency denominated bonds	(1,993)	(13)	(454)	(69)	(2,529)
<b>Bonds issued by LCR Finance plc and CTRL Section 1 Finance plc</b>					
Sterling denominated bonds	(101)	(99)	(174)	(584)	(958)
Sterling denominated index-linked bonds	(18)	(18)	(58)	(1,977)	(2,071)
<b>Derivative financial liabilities</b>					
Net settled derivative contracts	(191)	(177)	(372)	(104)	(844)
Gross settled derivative contracts – receipts	1,993	13	454	69	2,529
Gross settled derivative contracts – payments	(1,757)	(5)	(282)	(61)	(2,105)
<b>Total</b>	<b>(2,524)</b>	<b>(764)</b>	<b>(3,235)</b>	<b>(46,631)</b>	<b>(53,154)</b>

## 29.3 Market Risk

### 29.3.1 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 Network Rail's profit before tax or equity, due to all currency positions being 100% hedged so no sensitivity analysis is produced.

### 29.3.2 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 (excluding intra-group debt) with a carrying value of £6,130m (2018: £8,375m) into fixed interest rates. Network Rail has no more forward starting interest rate swaps. These were used to hedge the interest rate on borrowings in Control Period 5. The fair value movement on all of Network Rail's interest rate swaps during the year was £39m (2018: £41m).

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 Network Rail'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 reporting date. A one per cent increase or decrease represents management's assessment of the reasonably possible changes in average interest rates and inflation.

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 reporting date to the carrying value of the index linked bonds issued by both Network Rail and CTRL Section 1 Finance plc.

	31 March 2019		31 March 2018	
	Impact on net expenditure	Impact on taxpayers' equity	Impact on net expenditure	Impact on taxpayers' equity
	£m	£m	£m	£m
1% increase in the interest rate	504	-	341	-20
1% increase in GBP RPI on index linked bonds	-190	-8	-186	-7

For Network Rail, it is considered that the above analysis is unrepresentative of the risks inherent in issuing index-linked debt. Franchised track access and grants from the core Department constitute £6,268m (2018: £6,187m) of revenue which is far more than an index-linked interest expense of £257m (2018: £243m). 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.

### 29.3.3 Other market risk

The Departmental Group has material investments in entities involved in the property sector. As discussed in **Note 27.2**, 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.

### 29.3.4 Offsetting financial assets and liabilities

#### Financial assets

The following financial assets are subject to offsetting, enforceable master netting arrangements and similar agreements.

	Gross amounts of financial assets £m	Gross amounts of recognised financial liabilities set off in the SoFP £m	Net amount of financial assets in the SoFP £m	Related amounts not set off in the SoFP		Net amount £m
				Financial instruments* £m	Cash collateral received* £m	
<b>31 March 2019</b>	<b>351</b>	<b>-</b>	<b>351</b>	<b>(307)</b>	<b>413</b>	<b>457</b>
31 March 2018	496	-	496	(406)	123	213

\* Financial instruments and cash collateral received are related amounts not set off in the Statement of Financial Position.

#### Financial liabilities

The following financial liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements.

	Gross amounts of financial liabilities £m	Gross amounts of recognised financial assets set off in the SoFP £m	Net amount of financial liabilities in the SoFP £m	Related amounts not set off in the SoFP		Net amount £m
				Financial instruments* £m	Cash collateral paid* £m	
<b>31 March 2019</b>	<b>(1,033)</b>	<b>-</b>	<b>(1,033)</b>	<b>307</b>	<b>276</b>	<b>(450)</b>
31 March 2018	(1,167)	-	(1,167)	406	540	(221)

\* Financial instruments and cash collateral received are related amounts not set off in the Statement of Financial Position.

#### 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 **Note 20**.

## 30. Fair value disclosures

These financial statements include assets and liabilities which are measured at fair value, and others which are measured on an alternative basis, but whose fair value is disclosed to enable the reader to assess historic and future financial performance of the entity and its management.

This Note summarises the fair values disclosed or recognised in these financial statements, their classification in the fair value hierarchy, providing comparability with carrying values where these are measured on a different basis.

Group	Note	Carrying Amount £m	Fair Value Total £m	31 March 2019		
				Level 1 £m	Level 2 £m	Level 3 £m
<b>Non-financial assets</b>						
Property, plant and equipment	6	472,397	472,397	-	-	472,397
Investment properties	8	233	233	-	-	233
Intangible assets	7	192	192	-	-	192
<b>Financial assets</b>						
<i>Financial assets held at amortised cost</i>						
Loans and non-current receivables	11,17	514	514	-	514	-
<i>Financial assets held at fair value through OCI by irrevocable election</i>						
Investments in equities	12	674	674	-	-	674
Gross settled derivative contracts – payments		(3)	(6)	(278)	(60)	(347)
<i>Financial assets held at fair value through profit &amp; loss</i>						
Derivatives (note b)	14	351	351	-	351	-
<b>Financial liabilities</b>						
<i>Financial liabilities held at amortised cost</i>						
Borrowings	20	(28,479)	(37,068)	(36,215)	(853)	-
<i>Financial liabilities held at fair value through profit &amp; loss</i>						
Borrowings (note a)	20	(287)	(287)	(287)	-	-
Derivatives (note b)	14	(1,033)	(1,033)	-	(1,033)	-



Group		Carrying Amount £m	Fair Value Total £m	31 March 2018*		
				Level 1 £m	Level 2 £m	Level 3 £m
Non-financial assets						
Property, plant and equipment	6	429,337	429,337	-	-	429,337
Investment properties	8	208	208	-	-	208
Intangible assets	7	161	161	-	-	161
Financial assets						
<i>Financial assets held at amortised cost</i>						
Loans and non-current receivables	11,17	165	165	-	165	-
<i>Financial assets held at fair value through OCI by irrevocable election</i>						
Investments in equities	12	586	586	-	-	586
<i>Financial assets held at fair value through profit &amp; loss</i>						
Derivatives (note b)	14	351	351	-	351	-
Financial liabilities						
<i>Financial liabilities held at amortised cost</i>						
Borrowings	20	(30,022)	(37,976)	(37,165)	(811)	-
<i>Financial liabilities held at fair value through profit &amp; loss</i>						
Borrowings (note a)	20	(283)	(283)	(283)	-	-
Derivatives (note b)	14	(1,165)	(1,165)	-	(1,165)	-

Note a: These instruments are designated as fair value through profit and loss upon initial recognition.

Note b: These instruments either meet the IFRS 9 definition of held for trading or are designated and effective hedging instruments. The fair values are disaggregated in Note 14.

\*Some values reported for 2017-18 have been updated since last year's Annual Report and Account to exclude intra-group borrowing.

## 31. Events after the reporting period

### Post-Balance Sheet Events

There have been no events between 31 March 2019 and the date the financial statements were authorised for issue requiring an adjustment to the financial statements.

### 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 2018-19, February 2019:  <a href="https://www.gov.uk/government/publications/supplementary-estimates-2018-19">https://www.gov.uk/government/publications/supplementary-estimates-2018-19</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	A technical guide for producing the accounts of public bodies. <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>
Grant		Payment made by a department, or other public body, to outside bodies to reimburse expenditure on agreed items or functions, and often paid only on statutory conditions being met. May be made for resource or for capital purposes.
Grant in Aid	GiA	Financing payment made by a department to an NDPB or other arm's length body.
Hybrid Bills		These are public bills that have a significant impact on the private interests of a particular person, group or organisation. They are a hybrid of: public bills that involve the general interests of the people at large or of the whole community; and private bills that involve the private interests of a particular person, group or organisation.

Managing Public Money	MPM	A publication produced by HM Treasury which is concerned with regularity and propriety and sets out the main principles for dealing with resources used by public sector bodies. <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: DFT's Financial Reporting Landscape

The main forms of Departmental and HM Treasury financial reporting are outlined in the table below. While the collection of reports set out in the table below is extensive, it is not exhaustive. Further details on each of the reports and how they work together to make up the government financial reporting landscape can be found in:

- ▶ The government financial reporting review published by HM Treasury in April 2019 <https://www.gov.uk/government/publications/the-government-financial-reporting-review>
- ▶ The government's planning & performance framework published by HM Treasury & the Cabinet Office in December 2017 <https://www.gov.uk/government/publications/planning-and-performance-framework/the-governments-planning-and-performance-framework#Spending-reviews>

Category	Product	Description	Produced by	Link
Medium term Planning	Spending Review	The Treasury carries out Spending Reviews to determine how to spend public money – usually over a multiyear period – in line with the government's priorities.	HMT, Nov 2015	<a href="https://www.gov.uk/government/publications/spending-review-and-autumn-statement-2015-documents/spending-review-and-autumn-statement-2015">https://www.gov.uk/government/publications/spending-review-and-autumn-statement-2015-documents/spending-review-and-autumn-statement-2015</a>
	Single Departmental Plan	Single departmental plans set out a department's objectives, resource allocations, how its risk will be managed, and its performance measured.	DFT, June 2019	<a href="https://www.gov.uk/government/publications/department-for-transport-single-departmental-plan/department-for-transport-single-departmental-plan--2">https://www.gov.uk/government/publications/department-for-transport-single-departmental-plan/department-for-transport-single-departmental-plan--2</a>

Category	Product	Description	Produced by	Link
Annual Planning	Budget	The Budget is a statement the Chancellor of the Exchequer makes to the House of Commons on the nation's finances and the government's proposals for changes to taxation and spending. The Budget also includes forecasts for the economy by the Office for Budget Responsibility.	HMT, Oct 2018	<a href="https://www.gov.uk/government/topical-events/budget-2018">https://www.gov.uk/government/topical-events/budget-2018</a>
	OBR Reports	Economic & fiscal outlook: Five year forecasts for the UK economy and public finances and an assessment of whether the Government is likely to achieve its fiscal targets.  Fiscal sustainability report: Long-term projections of the UK public finances and public sector balance sheet analysis.	OBR	<a href="https://obr.uk/">https://obr.uk/</a>
	Estimates	Supply Estimates are the bi-annual process by which the Treasury presents the government's spending plans, based on departmental settlements allocated at the Spending Review, to Parliament for approval. This covers 'Main Estimates' and 'Supplementary Estimates'.	HMT, Apr 2018 & Feb 2019 for 2018-19. Apr 2019 for 2019-20.	<a href="https://www.gov.uk/government/collections/hmt-main-estimates">https://www.gov.uk/government/collections/hmt-main-estimates</a>  <a href="https://www.gov.uk/government/collections/hmt-supplementary-estimates">https://www.gov.uk/government/collections/hmt-supplementary-estimates</a>
	Estimates memorandum	Government departments are required to produce an Estimates Memorandum for the relevant select committee to explain what is proposed in their Main Estimate and how proposals compare to past spending plans.	DFT, Apr 2018, Feb 2019	<a href="https://www.parliament.uk/documents/commons-committees/transport/Department-for-Transport-Memorandum-on-the-Main-Estimate-2018-19.pdf">https://www.parliament.uk/documents/commons-committees/transport/Department-for-Transport-Memorandum-on-the-Main-Estimate-2018-19.pdf</a>  <a href="https://www.parliament.uk/documents/commons-committees/transport/DfT-Memorandum-for-Supplementary-Estimate-2018-19.pdf">https://www.parliament.uk/documents/commons-committees/transport/DfT-Memorandum-for-Supplementary-Estimate-2018-19.pdf</a>
	Parliamentary Scrutiny Unit visualisations	The visualisations show spending trends, changes since last year and how current plans for 2018-19 compare to original proposals in the 2015 Spending Review, together with some context. Also, an interactive spending chart showing all government spend.	PSU	<a href="https://www.parliament.uk/mps-lords-and-offices/offices/commons/scrutinyunit/reports-and-publications/">https://www.parliament.uk/mps-lords-and-offices/offices/commons/scrutinyunit/reports-and-publications/</a>
	Accounting Officer System Statements	Accounting Officer System Statements set out to Parliament all of the accountability relationships and processes within a department.	DFT, Oct 2017	<a href="https://www.gov.uk/government/collections/accounting-officer-system-statements">https://www.gov.uk/government/collections/accounting-officer-system-statements</a>
	Government Transparency data	Wide range of transparency data published by individual departments including Central government spending over £25k, contracts over £10k and Gender Pay Gap information. Cabinet Office also produce cross-government data on Civil Service sickness and absence data, Ministers' interest declarations, Ministers' salary data, Senior civil servants' names, grades, job titles and annual pay rates, Special advisers' names, grades and annual pay. GOV.UK registers provide structured datasets of government information	DFT + CO	<a href="https://www.gov.uk/search/advanced?group=transparency&amp;topic=%2Ftransport">https://www.gov.uk/search/advanced?group=transparency&amp;topic=%2Ftransport</a>  <a href="https://www.gov.uk/government/collections/dft-spending-over-500">https://www.gov.uk/government/collections/dft-spending-over-500</a>  <a href="https://www.gov.uk/government/publications/dft-gender-pay-gap-report-and-data-2018">https://www.gov.uk/government/publications/dft-gender-pay-gap-report-and-data-2018</a>  <a href="https://www.gov.uk/government/collections/dft-ministerial-gifts-hospitality-travel-and-meetings">https://www.gov.uk/government/collections/dft-ministerial-gifts-hospitality-travel-and-meetings</a>  <a href="https://www.gov.uk/government/collections/dft-workforce-management-information">https://www.gov.uk/government/collections/dft-workforce-management-information</a>

Category	Product	Description	Produced by	Link
In-year Reporting	OSCAR data	The dataset provides quarterly updates to monthly outturn data. The outturn information is taken from OSCAR data submitted by departments. The public will be able to see monthly patterns in spend by organisations reporting data on OSCAR. At the same time, users will be able to drill down beneath previously released high-level aggregates.	DFT via HMT	<a href="https://www.gov.uk/government/collections/hmt-oscar-publishing-from-the-database">https://www.gov.uk/government/collections/hmt-oscar-publishing-from-the-database</a>
	Public Sector Finances Bulletin	The public sector finances statistical bulletin is published jointly by the Office for National Statistics and the Treasury on a monthly basis and provides the latest available estimates for key public sector finance statistics, such as public sector net borrowing, public sector net debt and public sector current budget deficit/surplus.	ONS + HMT	<a href="https://www.gov.uk/government/statistics/public-sector-finances-bulletin">https://www.gov.uk/government/statistics/public-sector-finances-bulletin</a>
	Public Sector Spending Statistics	Treasury Public Spending Statistics provide a range of information about public spending, showing central government spending by department on a budgetary basis over 5 years, public sector spending by service over 5 years, and public sector spending by function and economic category over 21 years.	HMT	<a href="https://www.gov.uk/government/collections/national-statistics-release">https://www.gov.uk/government/collections/national-statistics-release</a>

Category	Product	Description	Produced by	Link
Outturn Reporting	Public Expenditure Statistical Analyses	Public Expenditure Statistical Analyses is the yearly publication of information on government spending. It brings together recent outturn data, estimates for the latest year, and spending plans for the rest of the current spending review period. It also shows spending by region.	HMT	<a href="https://www.gov.uk/government/collections/public-expenditure-statistical-analyses-pesa">https://www.gov.uk/government/collections/public-expenditure-statistical-analyses-pesa</a>
	ONS Civil Service Statistics	Employment statistics for the Civil Service population, providing regional analyses, diversity and earnings data.	ONS	<a href="https://www.gov.uk/government/collections/civil-service-statistics">https://www.gov.uk/government/collections/civil-service-statistics</a>
	Infrastructure and Projects Authority Major Projects Report	The Infrastructure & Projects Authority Annual Report publishes the whole life cycle costs on projects in the Government Major Projects Portfolio which comprises the most complex and strategically significant projects and programmes across government.	Infrastructure & Projects Authority, July 2018	<a href="https://www.gov.uk/government/publications/infrastructure-and-projects-authority-annual-report-2018">https://www.gov.uk/government/publications/infrastructure-and-projects-authority-annual-report-2018</a>
	Departmental statistics	National and official statistics relating to the department's policies and priorities.	DFT	<a href="https://www.gov.uk/government/organisations/department-for-transport/about/statistics">https://www.gov.uk/government/organisations/department-for-transport/about/statistics</a>
	National Audit Office Value for Money Studies	Each study examines a major area of government expenditure, and forms a judgement on whether value for money has been achieved, which Parliament use to hold government to account for how it spends public money.	NAO	<a href="https://www.nao.org.uk/search/department/department-for-transport/">https://www.nao.org.uk/search/department/department-for-transport/</a>
	National Audit Office Departmental overview	Departmental Overviews focus on the Department's responsibilities and how it spends its money, key developments in its areas of work and findings from our recent reports.	NAO	<a href="https://www.nao.org.uk/report/departmental-overview-department-for-transport-2017-18/">https://www.nao.org.uk/report/departmental-overview-department-for-transport-2017-18/</a>



# Annex C: Expenditure Tables

These Tables present actual expenditure by the Department for the years 2014-15 to 2018-19 and planned expenditure for 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.

All values in £k	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	Outturn	Outturn	Outturn	Outturn	Outturn	Plans
<b>Resource DEL</b>						
A: Tolled Crossings	-101,429	-101,134	-95,004	-132,223	-189,568	-115,298
B: Local Authority Transport	334,398	343,263	334,992	365,545	374,085	367,863
Highways Agency	1,861,643	-	-	-	-	-
C: Highways England (net)	-11,323	1,998,800	2,205,683	2,548,248	2,370,747	2,324,437
Network Rail	-361,538	-	-	-	-	-
D: Funding of Other ALBs (net)	19,889	66,525	103,800	190,415	-37,649	-23,202
E: Other railways	265,422	221,383	124,600	106,685	63,182	35,090
F: Sustainable Travel	96,835	159,706	91,600	87,097	107,742	111,696
G: Bus Subsidies & Concessionary Fares	262,032	261,025	248,165	244,922	255,239	269,053
H: GLA transport grants	1,777,465	591,419	474,369	255,071	29,071	29,081
I: Crossrail	-	28,714	1,270	1,654	1,435	2,577
J: Aviation, Maritime, Security and Safety	-39,424	65,800	55,300	108,774	103,104	79,476
K: Maritime and Coastguard Agency	166,951	284,445	315,707	327,611	337,856	358,498
L: Motoring Agencies	113,663	130,728	104,500	98,643	40,839	54,146
M: Science, research and support functions	48,256	53,769	17,597	14,886	19,436	25,919
N: Central Administration	215,264	177,919	191,967	197,247	245,515	264,871
Departmental Unallocated Provision	-	-	-	-	-	-
O: Support for Passenger Rail Services	-1,209,529	-1,245,333	-1,289,400	-778,107	-185,990	23,780
High Speed Two	13,556	15,647	26,324	9,140	-	-
P: High Speed Rail (New in ME 18-19)	-	-	-	-	59,250	72,968
Q: Transport Development Fund	-	-	13,700	24,749	500	18,445
R: High Speed Two Limited (New in ME 18-19)	-	-	-	-	286,132	246,054
S: East West Rail Company Limited (net)	-	-	-	-	7,966	35,427
Network Rail (net) (New in ME 19-20)	-	-	-	-	-	6,516,078
T: Funding of Other ALBs (net)	7,770	16,746	1,444	2,724	12,858	13,233
<b>Total Resource DEL</b>	<b>3,459,901</b>	<b>3,069,420</b>	<b>2,926,615</b>	<b>3,673,080</b>	<b>3,901,750</b>	<b>10,710,192</b>

<b>All values in £k</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>
	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>	<b>Outturn</b>	<b>Plans</b>
<i>Of which:</i>						
Staff costs	610,566	585,969	697,780	726,724	724,807	2,439,540
Purchase of goods and services	1,747,228	2,061,722	1,977,800	2,214,081	2,489,804	5,258,760
Income from sales of goods and services	-692,598	-330,299	-328,937	-358,072	-431,543	-407,192
Current grants to local government (net)	2,455,915	1,356,288	1,019,904	819,715	619,154	279,959
Current grants to persons and non-profit bodies (net)	32,259	36,248	32,630	28,821	34,864	31,345
Current grants abroad (net)	5,304	3,063	2,949	3,192	3,135	-50,009
Subsidies to private sector companies	562,384	504,997	594,953	634,960	1,173,169	571,774
Subsidies to public corporations	27,555	-1,058	-170	-	-	17,610
Net public service pensions Note 2	7,624	9,153	5,006	7,402	2,009	16,470
Rentals	9,933	8,610	7,038	-336	-5,070	-234,349
Depreciation Note 1	991,768	1,114,649	1,342,307	1,596,878	1,422,846	7,117,953
Change in pension scheme liabilities	63,475	239	238	234	238	246
Other resource	-2,361,512	-2,280,161	-2,424,883	-2,000,520	-2,131,508	-4,331,915
Unallocated funds – resource	-	-	-	-	-155	-
<b>Resource AME</b>						
Highways Agency	9,516	-	-	-	-	-
U: Highways England (net)	-	2,721	-200	-3,646	41,815	10,000
Network Rail	-22,681	-	-	-	-	-
V: Network Rail (net)	-	5,387,309	6,079,500	6,882,390	7,046,148	2,286,533
W: Funding of Other ALBs (net)	180	56,481	53,200	93,580	70,097	84,367
X: Other Railways	193,383	251,278	314,700	27,619	226,761	187,105
GLA transport grants	-10	-	-	-	-	-
Y: Aviation, Maritime, Security and Safety	-2,030	-3,757	-3,350	-2,945	51,448	-2,131
Z: Maritime and Coastguard Agency	-390	-2,077	-94	899	4,643	3,860
AA: Motoring Agencies	-5,965	-4,792	-2,296	-1,175	-2,218	-1,941
AB: Central Administration	-16,629	-7,260	15,500	-7,402	65,205	94,070
AC: High Speed Rail	-	-	-	-	1,346	-
AD: High Speed Two Limited (net)	-	-	-	-	-49,122	-
AF: Funding of Other ALBs (net)	-418,975	-236	-	-	-24	-6
AE: East West Rail Company Limited (net) (ME 19-20)	-	-	-	-	-	1,000
<b>Total Resource AME</b>	<b>-263,601</b>	<b>5,679,668</b>	<b>6,456,960</b>	<b>6,989,321</b>	<b>7,456,099</b>	<b>2,662,857</b>

All values in £k	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	Outturn	Outturn	Outturn	Outturn	Outturn	Plans
<i>Of which:</i>						
Staff costs	-322	1,242,349	1,226,107	1,383,815	1,540,721	-
Purchase of goods and services	-1,919	1,565,692	1,820,194	2,097,952	2,358,270	248,111
Current grants to/from local government (net)	-	-445,365	-463,590	-425,354	-338,956	-
Rentals	-	-271,859	-292,368	-306,321	-317,471	-
Depreciation Note 1	3,275	4,595,335	4,677,389	4,604,849	5,547,646	514,276
Take up of provisions	-42,294	2,011	198,227	48,963	93,137	127,520
Release of provision	-42,656	-40,719	-65,820	-92,042	-35,034	-32,470
Change in pension scheme liabilities	23,172	58,858	94,549	231,116	313,437	184,755
Unwinding of the discount rate on pension scheme liabilities	-	-	44,999	57,000	55,000	51,428
Other resource	-202,857	-1,026,634	-782,727	-610,657	-1,760,652	1,569,237
<b>Total Resource Budget</b>	<b>3,196,300</b>	<b>8,749,089</b>	<b>9,383,575</b>	<b>10,662,401</b>	<b>11,357,850</b>	<b>13,373,049</b>
<i>Of which:</i>						
Depreciation Note 1	995,043	5,709,984	6,019,696	6,201,727	6,970,492	7,632,229
<b>Capital DEL</b>						
A: Tolled Crossings	-4,220	-286,127	968	-188,393	372	750
B: Local Authority Transport	1,962,257	1,754,268	1,550,793	1,763,031	1,808,654	1,764,386
Highways Agency	1,859,541	-	-	-	-	-
C: Highways England (net)	11,323	1,931,009	2,020,728	2,308,700	2,649,466	3,179,500
Network Rail	3,862,411	-	-	-	-	-
D: Funding of Other ALBs (net)	145,295	332,959	407,100	711,324	9,573	14,030
E: Other railways	22,602	65,549	72,700	195,840	34,581	141,686
F: Sustainable Travel	274,763	295,241	212,455	365,310	398,648	498,175
G: Bus Subsidies & Concessionary Fares	3,901	28,845	7,134	9,064	8,294	2,652
H: GLA transport grants	30,000	925,000	943,997	-	-81,000	34,000
I: Crossrail	1,082,200	799,974	-200,000	-	515,000	-120,000
J: Aviation, Maritime, Security and Safety	16,160	7,190	18,500	59,285	93,467	24,162
K: Maritime and Coastguard Agency	7,902	10,184	12,709	19,339	11,669	29,060
L: Motoring Agencies	-18,979	-14,946	-5,905	8,358	35,956	12,081
M: Science, research and support functions	3,226	199	29,883	21,800	33,253	39,807
N: Central Administration	1,362	3,158	236	2,192	7,368	26,063
Departmental Unallocated Provision	-	-	-	-	-	-
O: Support for Passenger Rail Services	-	-	451	-	243	-
High Speed Two	180,883	102,536	340,700	943,326	-	-
P: High Speed Rail (New in ME 18-19)	-	-	-	-	554,056	936,140
Q: Transport Development Fund	-	-	-	2,304	138,800	336,400
R: High Speed Two Limited (New in ME 18-19)	-	-	-	-	2,055,597	3,507,692
National Productivity Investment Fund (ME 19-20)	-	-	-	-	180	105,000
S: East West Rail Company Limited (net)	-	-	-	-	91	210
Network Rail (net) (New in ME 19-20)	-	-	-	-	-	4,792,000
T: Funding of other ALBs	5,653	5,556	6,800	-	-	-
<b>Total Capital DEL</b>	<b>9,446,280</b>	<b>5,960,594</b>	<b>5,419,249</b>	<b>6,221,480</b>	<b>8,274,268</b>	<b>15,323,794</b>

All values in £k	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	Outturn	Outturn	Outturn	Outturn	Outturn	Plans
<i>Of which:</i>						
Purchase of goods and services	83,691	-	17,528	28,232	43,083	152,875
Current grants to persons and non-profit bodies (net)	-	-	23,999	14,604	11,952	26,800
Capital support for local government (net)	3,187,772	3,582,851	2,390,470	1,935,344	2,583,243	1,281,396
Capital grants to persons & non-profit bodies (net)	1,241	2,526	-1,255	-	-7	5,000
Capital grants to private sector companies (net)	4,098,630	310,820	498,846	1,253,257	450,963	266,236
Capital grants abroad (net)	-24,326	293	-27,184	-5,806	-	-10,000
Capital support for public corporations	-378,444	1,129	2,672	33,319	69,654	-5,000
Purchase of assets	2,135,125	2,363,796	2,458,140	3,128,535	5,129,214	13,376,809
Income from sales of assets	-15,638	-5,613	-8,192	-13,620	-8,162	-
Net lending to the private sector and abroad	-360	-317,404	-9,629	-197,248	4,708	1
Other capital	358,589	22,196	73,854	44,863	-10,380	226,817
Unallocated Capital	-	-	-	-	-	2,860
<b>Capital AME</b>						
Highways Agency	15,425	-	-	-	-	-
U: Highways England (net)	-	-23,755	30,245	3,492	132,970	40,000
Network Rail	6,450,000	-	-	-	-	-
V: Network Rail (net)	-	6,600,451	6,761,884	6,117,800	5,382,855	-
W: Funding of Other ALBs (net)	-9,907	-	-	230,329	-	-
X: Other Railways	-7	-	-	-	-10	-
Y: Aviation, Maritime, Security and Safety	190,000	-20,000	-20,000	-20,000	-20,000	-20,000
AB: Central Administration	-	-7,260	-	-	-	-
High Speed Two	49,802	-4,975	83,026	912,567	-	-
AC: High Speed Rail (New in ME 18-19)	-	-	-	-	-97,781	-375,310
AD: High Speed Two Limited (net)	-	-	-	-	-229,964	-
<b>Total Capital AME</b>	<b>6,695,313</b>	<b>6,544,462</b>	<b>6,855,155</b>	<b>7,244,187</b>	<b>5,168,070</b>	<b>-355,310</b>



All values in £k	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	Outturn	Outturn	Outturn	Outturn	Outturn	Plans
<i>Of which:</i>						
Take up of provisions	138,869	54,121	-	230,767	-229,964	-
Release of provision	-73,642	-90,111	-67,266	-108,914	-394,047	-835,200
Capital support for local government (net)	-	-250,668	-45,324	-308,438	-301,230	-
Purchase of assets	-	6,851,119	6,987,745	7,202,192	7,220,105	499,890
Income from sales of assets	-9,907	-	-929	-35,431	-1,126,784	-
Other capital	6,639,993	-19,999	-19,071	264,011	-10	-20,000
<b>Total Capital Budget</b>	<b>16,141,593</b>	<b>12,505,055</b>	<b>12,274,405</b>	<b>13,465,667</b>	<b>13,442,338</b>	<b>14,968,484</b>
<b>Total departmental spending Note 3</b>	<b>18,342,850</b>	<b>15,544,160</b>	<b>15,638,283</b>	<b>17,926,341</b>	<b>17,829,695</b>	<b>20,709,304</b>
<i>Of which:</i>						
Total DEL	11,914,413	7,915,365	7,003,557	8,297,682	10,753,172	18,916,033
Total AME	6,428,437	7,628,795	8,634,726	9,628,659	7,076,523	1,793,271

### Notes

1. Includes impairments.
2. Pension schemes report under IAS 19 accounting requirements. These figures therefore include cash payments made and contributions received, as well as certain non-cash items.
3. Total departmental spending is the sum of the resource budget and the capital budget less depreciation. Similarly, total DEL is the sum of the resource budget DEL and capital budget DEL less depreciation in DEL, and total AME is the sum of resource budget AME and capital budget AME less depreciation in AME.

Dedicated estimate lines for High Speed Rail and High Speed Two Limited have been added to permit closer scrutiny of the programme. As a result, all HS2 element have been deducted from line "Funding of other ALBs".

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.

Figures for 2015-16 have been completed in line with consolidated budgeting guidance 2015-16 (including Research and Development).

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.

Figures for 2013-14 and 2014-15 (AME) include Prior Year Adjustments to reflect corrected treatment of impairments.

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.

All values in £k	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	Outturn	Outturn	Outturn	Outturn	Outturn	Plans
<b>Resource DEL</b>						
Highways Agency	68,855	-	-	-	-	-
Highways England (net)	-	55,955	47,983	48,491	46,575	34,937
Funding of Other ALBs (net)	6,457	1,508	1,475	1,586	942	897
Maritime and Coastguard Agency	7,504	6,711	7,207	7,324	7,011	8,001
Central Administration	176,968	197,584	193,671	198,338	222,185	253,450
High Speed Two Limited (net)	4,612	2,119	1,817	2,968	2,135	2,580
East West Rail Company Limited (net)	-	-	-	-	116	310
Funding of Other ALBs (net)	6,980	3,208	6,653	6,057	33	80
<b>Total administration budget</b>	<b>271,376</b>	<b>267,085</b>	<b>258,806</b>	<b>264,764</b>	<b>278,997</b>	<b>300,255</b>
<i>Of which:</i>						
Staff costs	142,474	140,914	151,653	155,954	155,573	213,942
Purchase of goods and services	125,694	118,990	103,512	103,499	118,521	78,570
Income from sales of goods and services	-16,411	-8,656	-9,701	-7,535	-9,895	-7,363
Subsidies to private sector companies	-	-20	-	-1	-	-
Subsidies to public corporations	3,532	-	-	-	-	-
Rentals	7,746	6,971	7,117	-1,833	8,852	6,758
Depreciation	4,377	6,049	4,109	6,350	5,901	7,000
Other resource	3,964	2,837	2,116	8,330	45	1,348

## 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 tables above)		Paragraphs in the performance report
<b>Central functions</b>		
M	Science, research & support functions	1.118-1.120; 1.200-1.201
N, AB	Central administration	1.244-1.274
<b>Local</b>		
A	Tolled crossings	1.167
B	Local authority transport	1.105-1.117; 1.121-1.129
F	Sustainable travel	1.204-1.226
G	Bus subsidies & concessionary fares	1.159-1.164
H	GLA transport grants	*
Q	Transport Development Fund	*
<b>Rail</b>		
V	Network Rail	1.48-1.49; 1.59-1.66; 1.109; 1.138-1.140; 1.141-1.144; 1.166; 1.175-1.178; 1.254-1.255; 1.280
P, R, AC, AD	High Speed Two	1.67-1.71
I	Crossrail	1.72-1.73
S, AE	East West Rail	1.130-1.131; 1.140
O	Support for Passenger Rail Services	1.47-1.58; 1.165-1.166; 1.168-1.174
E, X	Other railways	*
<b>Road</b>		
C, U	Highways England	1.42-1.46
L, AA	Motoring agencies	1.147; 1.206
<b>Aviation, maritime, security and safety</b>		
J, Y	Aviation, maritime, security & safety	1.182-1.203
K, Z	Maritime & Coastguard Agency	*
<b>Funding of other ALBs not referred to above</b>		
D, T, W, AF	Funding of other ALBs	*