



Department
for Transport

Accounting Officer System Statement September 2017

Moving Britain Ahead

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1. Introduction and scope of the system

As the Principal Accounting Officer for the Department for Transport (DfT) this System Statement sets out all of the accountability relationships and processes within my Department, making clear who is accountable for what at all levels of the system.

My Department has policy responsibility for the rail network, high speed rail, aviation and maritime, the road network, transport safety and security and local transport policy. The Secretary of State for Transport and other departmental ministers have a duty to Parliament to account, and be held to account, for the policies, decisions and actions of this Department and its partner organisations including our executive agencies and other delivery bodies such as Network Rail and Highways England. Ministers look to me as the Department's Principal Accounting Officer to delegate within the Department to deliver their decisions and to support them in making policy decisions and handling public funds.

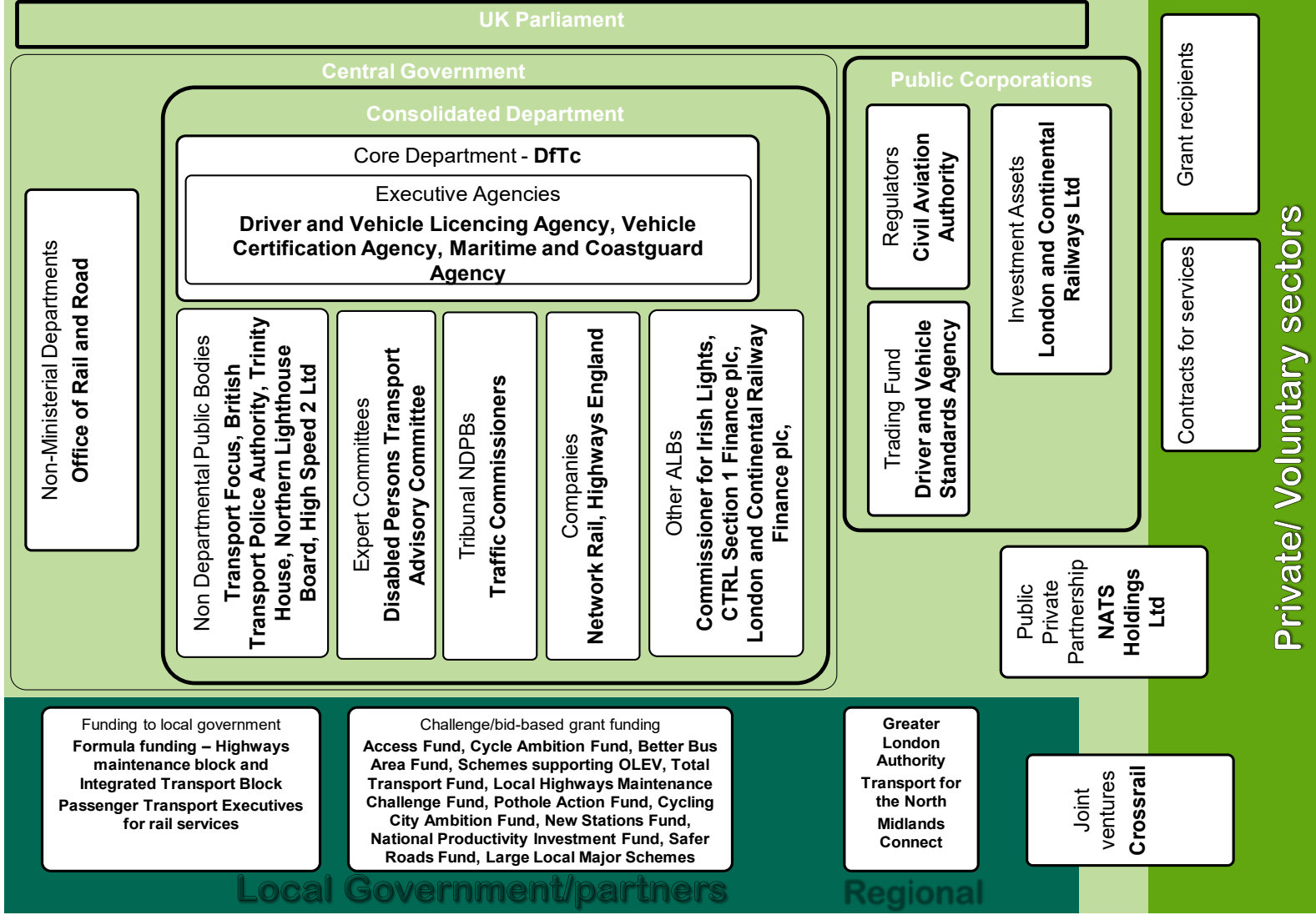
As Principal Accounting Officer, I am personally responsible for safeguarding the public funds for which I have been given charge under the DfT Estimate. I am responsible for the preparation of the Department for Transport accounts, the Directly Operated Railway's Account, the Marine and Aviation Insurance (War Risks) Fund Account, the Civil Aviation Authority and Harbours Authority White Paper Accounts. Where I have appointed additional Accounting Officers, their responsibilities are also set out in this system statement.

This system statement covers my core Department, our arm's length bodies and other arm's length relationships. An overview showing all parts of the system can be found on page 5. It describes accountability for all expenditure of public money through my Department's Estimate, all public money raised as income, and the management of shareholdings, financial investments and other publicly owned assets for which I am responsible. It also helps me ensure that I am fulfilling my responsibilities as Principal Accounting Officer in accordance with the Treasury's guidance set out in Managing Public Money. This system statement describes the accountability system which is in place at the date of this statement, and which will continue to apply until a revised statement is published.

Bernadette Kelly

Permanent Secretary and Principal Accounting Officer

National Government



2. Responsibilities within the core department

This section sets out how accountability for the spending of the central Department (DfTc) is managed and how I gain assurance.

The Department for Transport is organised into a number of Director General-led groups along with some areas of work which report directly to the Permanent Secretary. A description of these is shown in the Department's Annual Report and Accounts and an organogram is published on .Gov.uk¹

HM Treasury (HMT) issues delegations each year to the Principal Accounting Officer. As part of the delegation the HMT operates 6 'strategic' controls that override any delegated authority. Any spending proposal that falls within the remit of those controls has to be submitted to HMT for approval. The strategic controls cover spending proposals that:

- are novel, contentious or 'repercussive' (transactions that could cause repercussions elsewhere in the public sector, such as all special severance payments);
- could go beyond the agreed budget and estimate limits;
- would mean contractual commitments to significant levels of spending in future years which haven't yet been planned for;
- include items that need primary legislation; and
- could set a potentially expensive precedent.

HMT has agreed that, with one exception, DfT and our agencies have delegated authority to commit resources or spend up to budget for programmes. The exception is local authority public transport schemes, which have a limit of £50 million per scheme.

The Principal Accounting Officer delegates authority to Directors General, who can then delegate to their heads of unit. Heads of unit and divisional managers are responsible for making sure that a record is kept of all delegations and copied to those who need to know them. These delegated authorities, responsibilities and accountabilities are set out in individuals' delegation letters. The Permanent

¹ <https://www.gov.uk/government/publications/department-for-transport-and-ndpb-structure-charts-organisational-and-salary-disclosure-data>

Secretary agrees these with her direct reports, with these individuals then agreeing further delegations within their own areas of the organisation. This is the primary line of responsibility within the organisation. Above all, responsibility rests with individuals, who are clear as to what is expected of them and fulfil their roles to the best of their ability.

3. Relationships with delivery bodies

This section sets out the relationship between the central Department (DfTc) and its delivery bodies and how accountability is delegated to those organisations, the assurance I receive as Principal Accounting Officer that spending and performance is being monitored, and public accountability is maintained.

The Department for Transport (DfT) family comprises the central (core) Department (DfTc) and a number of delivery organisations which operate at arm's length from the central department. These organisations have separate boards and governance structures and publish their own annual reports with their accounts consolidated into the DfT's Annual Report and Accounts. The Principal Accounting Officer has appointed an Accounting Officer within these organisations to be accountable for the funds allocated to it. The Department's Estimate (the legal authority to consume resources and spend cash the government needs to finance department's agreed spending programme) names individual Accounting Officers.²

DfT's Delivery Bodies - Executive Agencies (EAs)

These bodies deliver core functions at arm's length from the Department, led by a Chief Executive. EAs carry out services or functions with a focus on delivering specific outputs, with policy set by Ministers. They are staffed by civil servants but operate with a degree of autonomy. DfTc works in partnership with 4 EAs:

- Driver Vehicle Licensing Agency (DVLA)
- Driver Vehicle Standards Agency (DVSA) (operates as a Trading Fund)
- Vehicle Certification Agency (VCA)
- Maritime & Coastguard Agency (MCA)

Each of these EAs has an Accounting Officer, the Chief Executive who is appointed by the Principal Accounting Officer (the Accounting Officer for DVSA is appointed by the Permanent Secretary to the Treasury). Sponsorship and finance business partner teams in DfTc monitor financial and performance data of these bodies and manage the day-to-day relationships.

DVSA and VCA derive 100% of their income from charges for their services. DVLA charges fees to recover the full costs of its core operations though in addition DVLA receives funding from DfTc to undertake Vehicle Excise Duty collection and

² <https://www.gov.uk/government/publications/supplementary-estimates-2016-17>

enforcement operations on behalf of the Government. These organisations report on their charging schemes in their own annual reports and accounts. The MCA derives 4% of its income from charges for its services and 96% from funding allocated by DfTc (subject to rounding). It also reports on its funding and spend in its annual report and accounts.

DfT's Delivery Bodies - Government Owned Companies

These companies deliver large infrastructure projects on behalf of the Department. These organisations receive grant-in-aid from DfTc and may charge for some services. Each company has an independent board, an Accounting Officer (the Chief Executive) appointed by the Principal Accounting Officer. DfT works in partnership with two Government owned companies:

- Network Rail (NR) - is established as a government owned company limited by guarantee. The Secretary of State is the sole member. It has an independent Board with a non-executive Chair. The Chief Executive is its Accounting Officer. He has a statutory role which includes formal responsibility for the funds allocated to the organisation from the Department.
- Highways England (HE) - is established as a government owned company limited by guarantee. The Secretary of State is the sole member. It has an independent Board with a non-executive Chair. The Chief Executive is its Accounting Officer. He has a statutory role which includes formal responsibility for the funds allocated to the organisation from the Department.

DfT's Delivery Bodies - Non-Departmental Public Bodies (NDPBs)

These bodies have a role in the process of national government but are not part of a Government Department. They operate at arm's length from Ministers, although the Minister will need to answer to Parliament for the NDPB. Each NDPB has an independent Board and an accounting officer, normally the Chief Executive. DfT works in partnership with a range of NDPBs including:

- High Speed 2 Ltd (HS2 Ltd) - is established as a government owned company limited by guarantee. The Secretary of State is the sole member. It has an independent Board with a non-executive Chair. The Chief Executive is its Accounting Officer. He has a statutory role which includes formal responsibility for the funds allocated to the organisation from the Department.
- British Transport Police Authority (BTPA)
- Transport Focus (TF)
- Northern Lighthouse Board (NLB)
- Trinity House Lighthouse Service (THLS)
- Commissioners of Irish Lights (CIL)

Regulators

These bodies oversee a particular industry or business activity. They are commonly set-up to enforce standards and safety, some perform investigations or audits. They usually have substantial day-to-day operating independence and employ their own staff. DfT works with two regulators:

Office of Rail and Road (ORR)

This organisation is classified as a Non-Ministerial Department. It has an Accounting Officer, the Chief Executive, who is accountable directly to Parliament rather than through the DfT. The rail work of the organisation is funded through fees levied on the rail industry, while its roads work is funded by a grant from DfT. ORR's performance is monitored through regular Ministerial and senior official engagement with its Chair and Chief Executive and through its direct accountability to Parliamentary Select Committees – e.g. the Public Accounts Committee and the Transport Committee.

Civil Aviation Authority (CAA)

This statutory corporation is an independent regulator operating at arm's length from the government. The Principal Accounting Officer is responsible for CAA's income from government sources (some 10%). The current review of the Framework Agreement with the CAA is considering separate arrangements for the Air Travel Trust Fund which is classified as a tax.

The work of the CAA is otherwise funded from borrowing (with government agreement) and through fees levied on the aviation sector. Performance is monitored by the CAA Board, the Chair and Non-Executives of which are appointed by the Transport Secretary.

4. Local funding arrangements

This section contains information about allocation of funding from the Department to local government. Much of this funding is not ring-fenced, that is the local authority has flexibility for what the funding is spent on. There is no direct line of accountability to the Department therefore other arrangements are in place to ensure that I as Principal Accounting Officer can fulfil my responsibilities whilst respecting local accountability arrangements.

Grants to Local Authorities

DfT distributes a number of grants to local government from its Departmental Expenditure Limit (DEL). The Department for Communities and Local Government (DCLG) Accounting Officer's System Statement for Local Government³, says that the DCLG Accounting Officer is the lead Accounting Officer in central government with respect to local government and that:

“The core system for local government is supplemented by additional accountability arrangements for some of the services provided by local government. These systems are owned by government departments and are set out by them in their respective accountability statements. The main additional systems cover...transport (Department for Transport)...”

Grants to Local Government can be classified into six broad groups: formulaic grants, challenge or bid-based grants, grants under the Local Growth Fund, the Greater London Authority's transport grant⁴ (TfL's block grant), the Crossrail grant and payments to local government in relation to rail services. Each of these six groups and the individual grants within them is described further below.

Formula Funding

The Department provides two grant streams to local government (outside of London) via formula - the Highways Maintenance Block and the Integrated Transport Block.^{5 6} Each formula is based on the relevant transport needs that the funding stream aims to provide for, and has been constructed in conjunction with the sector.

³ <https://www.gov.uk/government/publications/dclg-accounting-officer-system-statement>

⁴ As set out at [section 101 of the Greater London Authority Act 1999](#)

⁵ Explanatory notes for [IT Block funding](#) and [Highways Maintenance](#)

⁶ The Department has on occasions provided other formula funding but these are not regular annual grants. Similar accountability arrangements apply to these funds.

The total amount of each block is set by the Department and then individual allocations are paid to local authorities based on the formula calculation. In line with the Government's policies for such grants, the funds are not ring-fenced. This provides local authorities with flexibility to spend the funding according to local priorities and be accountable to local communities.

DCLG's Accounting Officer, as lead Accounting Officer across central Government with respect to local government, provides the assurance that a core framework is in place that requires local authorities to act with regularity, propriety and value for money in the use of all of their resources. They also provides assurance, at paragraph 1.18, that central Government departments can "rely on this framework for accountability arrangements for unringfenced funds allocated to local authorities"

Within this core framework, local authorities are responsible and accountable for the legal use of funds and every local authority has a responsibility to make arrangements for the proper administration of their financial affairs and to secure that one of their officers has responsibility for the administration of those affairs. A system of legal duties requires councillors to spend money with regularity and propriety.

Local authorities are required to have an annual external audit, and the certification of local authorities' annual accounts by the auditor provides general assurance that the totality of their expenditure is within their legal powers. Auditors also assess whether arrangements are in place to ensure that authorities have used their resources effectively and efficiently as part of their annual audit of accounts. Ultimately local authorities are accountable to their local electorate.

The DCLG Accounting Officer System Statement also sets out, at paragraph 2.14, the minimum data local authorities should be publishing, which will allow comparisons of performance between different authorities and types of authorities, as a means of strengthening local accountability.

The DfT working, with the Local Government Association (LGA) and others, ensures that relevant transport data and performance is included in the LG Inform tool. This includes data on road condition and expenditure and allows the public to compare these factors by region and by local highway authority.⁷

Increased transparency for local decisions is one element of a wider drive to improve highways sector performance through the Highways Maintenance Efficiency Programme (HMEP).⁸ The HMEP supports sector-led initiatives to maximise returns from local highways maintenance investment and deliver on efficiencies. This includes improving asset management, smarter procurement and promoting collaborative working between authorities and the private sector. It was recently passed from the stewardship of the DfT over to four delivery partners:

⁷<http://lginform.local.gov.uk/search>

⁸ [Highways Maintenance Efficiency Programme](#)

- Local Partnerships (LPs)
- The Local Government Association (LGA)
- The National Highways and Transport Network (NHT)
- The Chartered Institute of Highways and Transportation (CIHT)

The Integrated Transport Block is typically used by local authorities to fund a wide variety of small scale improvements to local transport networks such as improving road safety, reducing congestion, traffic management, walking and cycling schemes, improving accessibility and public transport. Alongside reviewing the formula for this funding stream, the Department is keen to work with the local transport sector to improve transparency of local spending decisions and evidence on outcomes, as a means of further strengthening local accountability. The Highways Maintenance Incentive Element encourages local authorities to identify the appropriate competencies required for highway infrastructure asset management and any further training that may be required.

Challenge / Bid-based Funding

The Department provides bid-based grants to local government for a number of specific transport purposes. The following grants were in operation in 2016-17:

- Access Fund
- Cycle Ambition Fund
- Better Bus Area Fund
- Grant schemes supporting Office for Low Emission Vehicles (OLEV)
- Total Transport Fund
- Local Highways Maintenance Challenge Fund
- Pothole Action Fund
- Cycling City Ambition Fund
- New Stations Fund
- National Productivity Investment Fund⁹
- Safer Roads Fund
- Large Local Major Schemes

In each case the process involves the Department appraising and assessing bids on various criteria relevant to that fund, including value for money. Mechanisms are in place to ensure the propriety of the funding, i.e. that the funding has been spent for the purpose for which it was intended. The specific nature of these grants means that the Department's assurance processes for these funds are in addition to the Government's core accountability system for local government.

⁹ The National Productivity Investment Fund (NPIF) is was distributed by formula in 2016-17 but is planned to be allocated via a bid-based competition from 2017/18

Local Growth Fund grants

The accountability arrangements for the Local Growth Fund as a whole are set out in the following statement from the DCLG Accounting Officer in the Accountability System Statement for The Local Growth Fund¹⁰.

“I will be the single accounting officer for the Local Growth Programme. I am accountable to Parliament for the allocation and distribution of Local Growth Fund resources. Whilst I maintain responsibility for overarching policy decisions in respect of the Fund and accountability for the financial distribution of it, those elements of the Fund which remain on other Department’s Departmental Expenditure Limits (DEL) will be subject to their own funding and oversight mechanisms.”

In DfT’s case this means that the Principal Accounting Officer retains responsibility for decisions on the funding of individual schemes within the Local Growth Fund in the following two categories:-

(a) the ‘tail’ of existing DfT major schemes

These schemes were all granted initial funding approval by DfT (“Programme Entry”) through a competitive process following the Comprehensive Spending Review in 2010 (and are commonly referred to as Supported Pool and Development Pool schemes); and have spending in whole or in part from 2015-16 onwards. These were assessed against published criteria and the release of funding is subject to final approval by Ministers at Full Business Case stage. Payment of grant funding is based on actual costs incurred. Grant certification checks take place to ensure that claims for costs incurred are genuine.

We completed the majority of grant payments to these schemes by the end of 2016-17.

(b) some larger LGF schemes for which ministers have agreed that funding will be retained by DfT.

It was agreed by Ministers that the funding for some of the larger transport schemes identified in the Growth Deals published in July 2014 and subsequent expansions would be retained by the Department for Transport.¹¹ These are commonly known as the ‘Portfolio’ schemes. Decisions on release of funding rests with DfT Ministers and is usually subject to Full Business Case assessment. Once approved, funding for the scheme is provided annually in advance to the Accountable Body of the relevant Local Enterprise Partnership.

Grants for schemes in both of the above categories are paid through Section 31 of the Local Government Act 2003. The scheme promoters are required to undertake proportionate monitoring and evaluation to assess whether the schemes have

¹⁰ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/418079/bis-15-183-Accountability-systems-statement.pdf

¹¹ In the majority of cases these are schemes with LGF funding of £10m or over and a total project cost of £20m or over

delivered value for money and to ensure that lessons are learnt for further investment decisions. A Monitoring and Evaluation Framework has been published for local authority major transport schemes to support scheme promoters in delivering these.¹² For Portfolio schemes DfT will be working with individual scheme promoters to agree specific scheme-by-scheme proposals for monitoring and evaluation.

Greater London Authority Fund

The Department is obliged under section 101 of the Greater London Authority Act to provide a transport grant to the Greater London Authority (GLA) which it in turn is obliged to pass this to Transport for London (TfL). The Department cannot direct the London Mayor as to what purposes this funding can be used for but remains concerned to ensure that regularity, propriety and value for money in the use of these resources is achieved. It does this in a number of ways.

The Department retains high level oversight of TfL at official level, including through monitoring of TfL's Business Plan and Budget, as well as progress in delivery of the investment programme. Linked to this are specific milestones at Annex B in the 2017 TfL settlement letter, which the Department will monitor over the course of the spending period.

The Department's grant to TfL has been split into an investment grant (capital) and a general grant (resource). From April 2017, the investment grant has been included in the business rates retention scheme. The Department no longer pays this grant, instead the GLA receives a higher proportion of business rates income. In line with the 2013 Spending Review, the revenue grant has been gradually decreasing and will be £0 from April 2018.

Detailed scrutiny of TfL's investment programme is provided by the Independent Investment Programme Advisory Group (IIPAG). IIPAG's remit includes all aspects of the investment programme, including the Tube upgrades, both project-specific and systemic issues, benchmarking and asset management, but does not cover day to day operations or Crossrail.

In common with local authorities, TfL and the Mayor of London are responsible for the use of funds and the proper administration of their financial affairs. This includes external audit and certification of TfL's accounts as for local authorities. Furthermore, as a democratically elected representative, the Mayor of London is accountable to the electorate and also to the London Assembly.

Transport for London (LOROL) Grant

Under the terms of an agreement between the Secretary of State and TfL, the Department makes an annual grant to TfL in respect of services provided by TfL on the London Overground.

¹² <https://www.gov.uk/government/publications/monitoring-and-evaluation-framework-for-local-authority-major-schemes>

The annual payment (which is made in 13 4-weekly instalments) is set out in the 2006 transfer agreement for transfer of part of the former Silverlink network to TfL, which is now operated by LOROL under concession to TfL under the London Overground brand.

As confirmed in the 2015 spending review, payments in respect of London Overground will cease after 2019-20.

Crossrail

Under the terms of a Project Development Agreement (PDA) signed in 2008, the Secretary of State paid grants to Crossrail Ltd, a wholly-owned subsidiary of TfL, towards the costs of building Crossrail. Additional grant payments are also made by TfL. A schedule to the PDA sets out the time profile of the total grant payments that each of the project sponsors (the Secretary of State and TfL) will make. The final scheduled payment by the Secretary of State was made on 1 January 2016.

Crossrail Ltd is responsible for the management and delivery of the Crossrail project, subject to detailed governance and accountability arrangements set out in the PDA. These include the provision of “construction reports” to the sponsors on progress with the project as well as updated forecasts of costs.

The relationship between the two sponsors is governed by a parallel Sponsors Agreement (also signed in 2008). This establishes a Sponsor Board, on which DfT and TfL have equal representation, that acts on behalf of both sponsors, as well as a working-level Joint Sponsor Team. The sponsors are supported by a jointly-appointed Project Representative, which has full audit rights over the performance of Crossrail Ltd under the project agreements.

In addition to the specific accountability and reporting requirements set out in the PDA Crossrail Ltd is subject to the normal legal requirements of any local authority-owned company for the administration of its financial affairs, accounting and audit.

Local Government and Rail Services

The Department makes various grants and payments to local authorities in order for them to pay for the operation of rail services. This includes grants to Passenger Transport Executives (PTEs) to cover their costs of administering local rail services and a grant to Rail North to cover their costs of managing the Northern and TPE franchises.

The PTEs in receipt of admin grants from the Department are Transport for Greater Manchester, Nexus, Merseytravel, Metro and South Yorkshire PTE.

The Department also makes specific additional payments to Transport for Greater Manchester and Nexus (the operator of the Tyne & Wear Metro) for provision of certain tram and rail services not covered by Franchise Agreements or the admin grant funding.

Merseyrail Grant

Under Section 157 of the Transport Act 2000 the Department makes grants to the Merseyside Integrated Transport Authority (Merseytravel) for the operation of passenger rail services on the Merseyrail Electrics Network. Rail services are operated under a Concession arrangement; the concession runs for a period of 25 years from 2003.

Annual grant payments cover the eligible contract costs plus the administrative costs incurred by Merseytravel connected with the provision of rail services in the integrated transport area. The amount of grant is variable, subject to indexation, and calculated in accordance with the formula set out in the Funding Agreement between the Department and Merseytravel. Grant funding arrangements are reviewed on a 5 yearly cycle.

The Funding Agreement requires Merseytravel to provide an audited certificate of the eligible costs of railway services signed by an independent auditor.

Nexus Grant

Since February 2010 the Department has provided Nexus funding support under Section 6 of the Railways Act 2005. This takes two forms: a revenue grant (£203m – subject to indexation) to contribute towards the direct cost of running the Metro for the period from 2010/11 to 2018/19 and a capital grant (up to £350m – subject to affordability and indexation) to contribute towards Nexus' Asset Renewal Plan for the period from 2010/11 to 2020/21.

The capital grant funding sum was subject to review as part of the Spending Review 2015 and the Department confirmed in December 2015 that the revised funding for the period to 2020/21 was £317m.

System Failure and Intervention

Transport statutory duties leave local authorities with some discretion over the level and type of service they provide. Local authorities choose how to organise their operations based on their responsibilities and needs. As a result, the Department does not have a singular definition of minimum service standards, instead general transport service guidance is given.

Monitoring of transport statistics and information provides the Department with early warning of failure or significant drops in performance, which enables appropriate action to be considered. The Department monitors data using various tools such as

LG Inform.¹³ This tool organises transport related data such as, transport expenditure, service provision road conditions and accidents for all local authorities. If data is not publicly available the Secretary of State may direct a local traffic authority to provide information on the performance of its network management duties.

Other methods used to monitor transport data and information include regular engagement with the local transport sector. This allows the local engagement teams to identify any concerns and working with the local authority are able to address any issues before it becomes a transport failure.

For specific DfT grants (such as Local Highways Maintenance Challenge Fund) which are made to address a specific need, (for example for a time-limited project or piloting new approaches or policies) value-for-money is scrutinised in the relevant approval process, progress and spend are closely monitored and outcomes are often specified explicitly in the agreement process. Where funding allocated to local authority is un-ringfenced the money spent is monitored by internal and external auditors.

Unlike failure in other Departments such as Education and Health, transport failure in most instances occurs over a relatively long period of time, consequently, the Department's approach is to monitor and provide assistance to local authorities before ultimate failure occurs and DfT intervenes. For example, the Department identified the shortcomings in highways maintenance and put remedial actions into place in conjunction with the sector via a £6 million Highways Maintenance Efficiency Programme (HMEP). This DfT funded and sector-led programme provides best practice, tools and resources to help transform the delivery of roads and services through greater efficiencies.

The Department minimises failure risk by adhering to the Transport Resilience Plan.¹⁴ The plan outlines the protocols that are expected to be followed in certain situations such as extreme weather events. For example, DfT's salt protocol instructs Highways England to build up an emergency salt reserve to ensure national resilience for the winter season. The Department developed an electronic web-portal system to monitor local highway authority salt stocks throughout the winter season, which allowed the efficient allocation of salt from the emergency salt reserve, if and when required.

If a local authority is failing to deliver its statutory duties the Secretary of State can take action by issuing an intervention notice. If the response to the intervention notice is unsatisfactory and the authority is still failing to perform its duties, as a last resort an intervention order can be issued to appoint a traffic director for that authority.

¹³ LG Inform <http://lginform.local.gov.uk/>

¹⁴ Transport Resilience Review. A review of the resilience of the transport network to extreme weather events (2014)
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/335115/transport-resilience-review-web.pdf

DfT's system of accountability for funds it provides to local government is based on the DCLG Accounting Officer's core framework for the accountability of local government as a whole, the additional Departmental mechanisms in place for its bid based funding, and the systems which have been established by TfL, both individually and jointly with the Department. This system allows me, as Accounting Officer, to provide the assurance that DfT will spend its money in line with the principles set out in Managing Public Money.

Sub-National Transport Bodies (STBs)

The Department is in the process of creating STBs in statute. These will be independent bodies, spanning regions, which can take on bespoke functions and responsibilities to give local people a greater say in strategic transport planning. Following the submission of a formal proposal, in March 2017 the Secretary of State confirmed the intention to establish Transport for the North (TfN) in statute. The Department is expecting Midlands Connect (MC) to come forward with a proposal in 2018; and other sub-national regions of England are also in the process of developing proposals.

Transport for the North

Following the Secretary of State's agreement to take forward TfN's establishment, a draft Order is being developed that will provide the body with functions and responsibilities, and set out its constitutional arrangements. In parallel, government and local officials are working together on drafting a Partnership Agreement. This will set out the governance and accountability arrangements, once TfN is a statutory body. In advance of TfN's establishment, accountability for TfN's funding is maintained through a document setting out principles for joint working between the Department and TfN, and a Dual-Key agreement that ensures DfT retains control over spending.

Midlands Connect

A revised principles document is in the process of being signed-off by DfT and MC. As with TfN, this sets out the principles for joint-working and provides DfT with assurances on spending. This follows the announcement of further funding to support MC up until 2019-20, and reflects the change in MC's financial status and its new responsibilities. The principles document will remain in place, subject to periodic review, until such a time when MC is established in statute. This will be dependent on MC coming forward with formal proposals and these being agreed by the Department.

5. Grants to private and voluntary sector bodies

Central Government Departments provide grants for specific purposes to private sector and voluntary sector organisations. These are made under statute and with specific conditions, for example about project terms. This section sets out the accountability and assurance arrangements in place to ensure that I as Principal Accounting Officer gain certainty over regularity, propriety and value for money.

The DfT publishes the grant schemes it operates within the Government grants register which is published annually.¹⁵ Each year the Secretary of State also publishes a report which sets out the organisations and projects which received funding to deliver Departmental objectives under section 70 of the Charities Act 2006.¹⁶ The report sets out the name of the third party delivery body, the amount of funding it received and a summary of the objectives that the funding was expected to deliver along with an assessment of the performance.

The Principal Accounting Officer is responsible for ensuring that the Department uses its resources efficiently, economically and effectively, avoiding waste and extravagance. The Cabinet Office published guidance in December 2016 on a grants standards process to ensure best practice is managed across all government departments, which the DfT has adopted.¹⁷

Grants form a significant part of the DfT's expenditure. The Principal Accounting Officer is therefore responsible for ensuring that:

- any grant awarded contributes to and achieves value for money on behalf of the taxpayer;
- the grant is for a proper transport-related cause (in line with DfT policy);
- the recipient is competent to manage the grant;
- the funds are allocated and spent as per the grant offer letter; and
- the DfT has evidence that the works or services provided have been completed satisfactorily.

Each letter of award sets out the responsibilities and conditions under which the applicant can make a claim, along with the documentation required as supporting

¹⁵ www.gov.uk/government/publications/government-grants-register

¹⁶ <https://www.gov.uk/government/publications/dft-use-of-powers-under-section-70-of-the-charities-act-2006-february-2017>

¹⁷ www.gov.uk/government/publications/grants-standards

evidence. The letter also contains a statement about the weight DfT places on investigating and dealing with any actual or suspected fraud.

Corporate governance

The DfT is committed to the pursuit of proper corporate governance throughout its businesses and services. Accordingly, the PAO is required to sign the annual Statement on Internal Control to confirm that a sound system of internal controls has been maintained which supports the DfT's policies, aims and objectives, whilst safeguarding public funds and the DfT's assets. This means for example that grants are accounted for on a consistent basis and that systems and processes are in place to ensure their regularity and propriety.

The DfT's Corporate Governance Framework describes the network of organisational responsibilities, authorities and accountabilities that are specified for staff.

Fraud policy

The DfT is committed to ensuring effective control and monitoring of its financial processes. DfT's Fraud Policy identifies the circumstances that may expose DfT to the risk of loss through fraud, corruption, error or other eventualities. Within the Department and its agencies, any suspected cases of fraud or corruption are investigated fully and disciplinary and/or legal action is taken where appropriate. The Department holds quarterly meetings of its Fraud, Error and Debt Group, comprising fraud officers and other representatives from business units across the Department, its agencies and other arm's length bodies. The DfT's Annual Report and Accounts details any cases of grant fraud which are identified.

6. Major contracts and outsourced services

The Department delivers part of its core services through a contract with a third party supplier. This section details the scale and significance of those contracts and a summary of the arrangements in place to ensure that I as Principal Accounting Officer can gain assurance that the money committed to these services is achieving value for money and assurance on performance and outcomes as the service is delivered.

The Department has many major contracts with third parties that deliver services directly to the public or who support the delivery of public services. These include, but are not limited to:

- rail franchises operated by Train Operating Companies;
- search and rescue helicopters;
- coastguard communications infrastructure;
- driver and vehicle testing and licensing, and vehicle excise duty, which uses outsourced ICT infrastructure; and
- strategic road and railway network maintenance and enhancement.

The Department by the nature of its remit is a commercial department. It is therefore structured around ensuring effective commercial decisions, and enabling and assuring effective delivery. This cumulates in the Department's Board Investment and Commercial Committee (BICC), a sub-committee of the Departmental Board. BICC is the Department's highest investment board, chaired by Permanent Secretary (Principal Accounting Officer) and membership includes the Executive Committee (Directors General and General Counsel), the Lead Non-Executive Director, and heads of professional functions including the commercial function.

The commercial function operates a Group Operating Model (GOM), which is governed by a Heads of Procurement Board that reports to BICC. The GOM is a virtual 'Group wide' team comprising the collective of procurement and contract management teams in the DfTc, executive agencies and arm's length bodies. It is led by the Director of Group Procurement, based in DfTc.

Procurement policy and processes are developed collaboratively by the GOM, for example, a virtual procurement policy team is led by DfTc and comprises membership from each of the Department's executive agencies and arm's length bodies, who come together to agree procurement policy for adoption across the DfT Group. A procurement and contract management assurance team reviews contracts

at each stage of their lifecycle from pre-procurement to contract delivery and exit. The assurance process cumulates in a Procurement and Contract Management Assurance Board, which also reports to BICC, thereby providing the PAO with confidence that major contracts with third parties are procured and managed properly.

Accountability for outsourced delivery of public services ultimately rests with the Principle Accounting Officer and Secretary of State, however, third parties remain accountable for the safe delivery of public services in accordance with their contracts.

7. Investments and companies

The Department owns in full or part a number of other companies and assets which are described in this section of the Statement along with details about how I as the Principal Accounting Officer gains assurance for the regularity, propriety and value for money for the investment.

London and Continental Railways Ltd (LCR) is a company limited by shares wholly owned by the Secretary of State for Transport and sponsored by the Department for Transport (DfT). A framework document sets out the accountability arrangements between the Department and the company, including the governance principles it should follow.

NATS Holdings Ltd is the main air navigation service provider in the United Kingdom and is a private company. The Secretary of State for Transport owns 48.9% and of the remaining shares, 42% are owned by a consortium of private investors ("The Airline Group"), with the balance owned by employees. DfT's relationship with the Company and the other shareholders is defined in the shareholders' agreement. In particular, DfT has a right to appoint 3 directors to the Board, to approve the appointment of the Chairman, and to block major strategic decisions. The Board abides by the Corporate Governance Code.

The DfT Accounting Officer gains assurance over DfT's investment in NATS in the following ways:

- The Board provides competent oversight of the Company. It is composed of subcommittees covering audit, remuneration, nominations, safety and technical. The Company abides by the Corporate Governance Code.
- DfT's shareholder representative meets with DfT's appointed directors before each Board to discuss areas of major interest or concern. Its directors have a duty as per the shareholders' agreement to inform DfT of any issue that could impact on the value of DfT's investment. The DfT shareholder representative receives all Board papers prior to each Board meeting and meeting with DfT's directors.
- NATS is not within the public sector accounting perimeter and not subject to Departmental spending controls. However, its accounts are audited.

LCR Finance plc and **CTRL Section 1 Finance plc** are companies owned by the Secretary of State. The role of these companies is to service the legacy debt for the construction of the High Speed 1 rail link.

Trust Ports are ports that are administered by an independent statutory body set up by an Act of Parliament. The largest trust ports are classified as public corporations. Like most public corporations the Trust Ports are outside of the Department's accounting boundary however any borrowing they make requires cover in DfT's budget. The DfT does not have any day to day interest in the running of Trust Ports though for five of them it is able to appoint non-executive board members. The largest Trust Ports are:

- Dover Harbour Board
- Harwich Haven Commissioners
- Milford Haven Port Authority
- Port of London Authority
- Port of Tyne Authority
- Blythe Harbour Authority
- Poole Harbour Commissioners
- Shoreham Port Authority

Other DfT owned companies

A list of the companies the Department owns or has an interest in is listed at Annex A. The list includes Companies House registration numbers and notes whether the company is dormant or not currently trading.

8. Annex A - list of registered companies owned by the Department

Name of Company	Company Number	Company Type	Notes
Air Safety Support International Ltd	04104063	Private Limited Company	A subsidiary of the Civil Aviation Authority (CAA)
British Transport Hotels Limited	00735306	Private limited Company	Dormant
CAA International Ltd	04104068	Private limited Company	A subsidiary of the Civil Aviation Authority (CAA)
CTRL Section 1 Finance plc	04868980	Public Limited Company	Finance vehicles related to building of HS1
High Speed Five (HS5) Limited	06791652	Private company limited by guarantee without share capital	Dormant
High Speed Four (HS4) Limited	06791708	Private company limited by guarantee without share capital	Dormant
High Speed Rail Limited	06045666	Private limited Company	Dormant
High Speed Six (HS6) Limited	06791619	Private company limited by guarantee without share capital	Dormant
High Speed Three (HS3) Limited	06791731	Private company	Dormant

		limited by guarantee without share capital	
High Speed Two (HS2) Ltd	06791686	Private company limited by guarantee without share capital	Developing and promoting the high speed rail network
HS2 Ltd	07963188	Private limited Company	Dormant
Inter-Capital and Regional Rail Ltd (Special share)	03565312	Private limited Company	Dormant
ITSO Ltd	04115311	Private company limited by guarantee without share capital	Public corporation
ITSO Services Ltd	06317074	Private company limited by guarantee without share capital	Public corporation
LCR Finance plc	03608329	Public Limited Company	Finance vehicles related to building of HS1
London & Continental Railways Ltd	02966054	Private limited Company	Property management company
NATS Holdings Ltd	04138218	Private limited Company	Air navigation service provider
Network Rail Ltd	04402220	Private company limited by guarantee without share capital	Owner and manager of rail infrastructure
RFD (Channel Tunnel) Limited	01014180	Private limited Company	Dormant
The Pullman Car Company Limited	00141798	Private limited Company	Dormant
Grand Union Railway Ltd.	10434457	Private limited Company	Dormant
British Rail Engineering Limited	965219	Private limited Company	Dormant

British Rail Limited	3159175	Private limited Company	Dormant
British Railways Board Limited	3159054	Private limited Company	Dormant
British Railways Limited	3019758	Private limited Company	Dormant
Directly Operated Railways Ltd	06950819	Private limited Company	Not trading/inactive
West Coast Main Line Company Limited - DOR	4659516	Private limited Company	Dormant
Transpennine Express Limited - DOR	4661194	Private limited Company	Dormant
Thameslink Limited - DOR	3266760	Private limited Company	Dormant
London Midland Trains Limited - DOR	4659669	Private limited Company	Dormant
EM Trains Limited - DOR	3076444	Private limited Company	Dormant
DfT OLR Holdings Limited	7141122	Private limited Company	Dormant
Cross Country Trains Limited	3266762	Private limited Company	Dormant
DFT OLR1 Limited	4659712	Private limited Company	Dormant