Department
for Transport

Department for Transport

Annual Report and Accounts

2020–21

For the period 1 April 2020 to 31 March 2021

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

Ordered by the House of Commons to be printed on 14 September 2021

HC 627

This is part of a series of departmental publications which, along with the Main Estimates 2020-21 and the document Public Expenditure: Statistical Analyses 2020, present the Government's outturn for 2020-21 and planned expenditure for 2021-22.

This publication is available at www.gov.uk/official-documents.

ISBN 978-1-5286-2846-4
E02662309 09/21

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK by HH Associates Ltd. on behalf of the Controller of Her Majesty's Stationery Office

Contents

Foreword

Secretary of State for Transport

Rt Hon Grant Shapps MP

Maintaining a reliable and resilient transport system has always been a fundamental responsibility of government. But at times of crisis, when people's lives and livelihoods are at stake, it becomes even more critical to keep the country moving safely and securely. I am proud to lead a department which has worked tirelessly to achieve that goal over the past year, despite the exceptional demands posed by COVID-19.

From the beginning of 2020-21, the Department for Transport (DfT) was in the frontline of the Government's response to the pandemic. Almost every team across the Department was involved, whether ensuring that key staff could travel safely to their jobs on public transport, or that supplies of food, medicines and Personal Protective Equipment (PPE) could continue to reach their destination. Beyond the provision of transport services, we also provided huge financial aid to the industry, including packages of support allowing goods to continue flowing on many routes between Great Britain, Northern Ireland and mainland Europe.

I must pay tribute to the thousands of transport workers who delivered these services on the ground – the bus, train and truck drivers; staff at ports and airports; people working in logistics, and many more. Their efforts were just as important to the nation as those working for the NHS. Tragically, some lost their lives to the very disease they were helping to fight.

Later in the year, it was the transport sector once again that distributed our world leading vaccine programme. This complex operation was carefully and diligently organised, making sure that the most vulnerable people across the country had protection from the virus as fast as possible.

But 2020-21 was not all about battling COVID-19. People across the Department also worked for months to prepare for the end of the EU transition period. We also made remarkable progress with the rest of our transport programme, helping the country to build back better and greener.

For example, we published the Williams-Shapps Plan for rail, the biggest and most radical shake-up of our railway for a generation in May 2021. Despite the billions we are spending on the network, the past few years have seen too many delays, too much confusion over fares and ticketing, and too many problems with rail franchises. So, the new plan recognised that to really transform our railway, we need to overhaul the industry itself, which is too fragmented, too bureaucratic, and lacking accountability.

The changes mean we will bring management of train and track together under a single national leadership. A new public body, Great British Railways, will run and plan the network – a single brand, accountable to ministers, which will put passengers first, and get trains running on time.

We will sort out ticketing, introducing convenient, modern ways to book and pay using smartphones and contactless. Tickets will be available from a single Great British Railways website. Pay as you go will be accepted more widely. Flexible season tickets will also save money for those not commuting five days a week. We will keep the best elements of private sector involvement to drive innovation and growth. Operator contracts will focus on running punctual, comfortable services that passengers enjoy using. In addition, we will speed up the decarbonisation of the railway, to make the greenest form of public transport even greener.

In fact, green transport was another dominant theme during 2020-21. We launched our Net Zero and Jet Zero boards to speed up transport decarbonisation. We set out a £2 billion active travel plan so half of all journeys in towns and cities are walked or cycled by 2030. We unveiled a new Bus Strategy, which included measures to become a leader in zero-carbon buses. We have also just published the first ever UK cross-transport decarbonisation plan, including a strategy to end the sale of all new non-zero emission road vehicles by 2040, and make our entire transport system net zero by 2050. Not only will we become one of the first countries in the world to achieve such a target; we will also create tens of thousands of jobs through a green transport industrial revolution.

On top of battling COVID-19 crisis, EU exit and domestic reform, we achieved Royal Assent for High Speed 2 (HS2), Phase 2a and will be taking high speed rail to the North of England for the first time. I also set up the Northern Transport Acceleration Council to give Northern leaders direct access to ministers and drive essential improvements to the transport network.

It is thanks to the many dedicated people across the Department and our brilliant public bodies that we were able to accomplish so much in a uniquely difficult year. I am, as ever, extremely grateful for the dedication and professionalism of staff.

I am also indebted to all my ministers for their outstanding work, and for supporting me throughout the year. I'd like to thank Kelly Tolhurst for her significant contribution to the work of the Department. I was delighted to welcome Robert Courts in her place who has ably led the Global Travel Taskforce and a steady return to international travel.

I am privileged to serve this country as Secretary of State for Transport through an immensely difficult but stimulating period. Together, my team and I look forward to the challenges of a new year, and helping the Government make Britain a greener, fairer and more prosperous nation.

Foreword

Permanent Secretary

Bernadette Kelly CB

This is my fifth introduction to our Report and Accounts.

Throughout 2020-2021 we saw COVID-19 affect how we travel in an unprecedented way, and I am extremely proud of how staff across the Department, in our public bodies, and across the transport sector responded, ensuring that critical services were maintained at all times. The dedication, commitment and professionalism they have demonstrated has been exceptional.

Maintaining our transport networks through the pandemic has come at significant cost to the taxpayer. We have sought at all times to ensure that all expenditure is carefully assessed to ensure it is delivering public value. Our focus has been to ensure that essential workers and others who needed to travel could do so safely and reliably; and to protect the flow of critical goods across the country. This has required the rapid introduction of emergency rail contracts as well as the introduction of new subsidies for TfL and bus and light rail operators across the country.

The Department's Investment Portfolio and Delivery Committee (IPDC) has met 60 times to ensure that every intervention is justified and meets the tests of Managing Public Money. We have worked closely with HMT colleagues to ensure the necessary approvals are in place and manage unprecedented volatility in our budgets, and I am pleased that despite the huge challenges we have ended the year within all our budgetary control totals.

Looking ahead, recovering demand, including for international travel as borders reopen, and getting funding of the transport network back onto a sustainable footing, will now form a critical focus for the Department and the sector. We will want as well to build on some of the positive changes the pandemic has helped to accelerate, with greater numbers of people choosing to walk or cycle, or travel at different times of the day.

We have also continued to deliver on our capital investment programme through the pandemic, further embedding the Project Delivery Improvement Project work led by our lead Non-Executive Director Ian King. This aimed at strengthening our delivery of one of the largest and most complex project portfolios in Government, including by strengthening Ministerial oversight, reviewing and improving governance and ensuring greater transparency. This has included establishing new Project Portfolio and Shareholder directorates, and significantly increasing our leadership capability. The results of this work are evident in the good progress now being made in the delivery of our projects including HS2 and Crossrail.

The Secretary of State has highlighted some of the major strategic milestones of the past year, including the publication of our strategies for active travel, improving bus services and reforming the railway. All of these have contributed to our strategic objectives to Grow & Level-up the Economy, Improve Transport for the User, Reduce Environmental Impacts, Increase our Global Impact, Be an Excellent Department. Other important activities included providing funding to local authorities in England to help with the maintenance of the local road network, launching new, and freely available, disability-equality training for transport staff across all modes of transport, and publishing an ambitious vision for our rapid charging infrastructure along strategic roads in England over the next decade – a key step in tackling transport carbon emissions and achieving the Government's net zero ambitions.

We also supported the Government in negotiating the transport-related elements of the UK's future relationship with the EU. This new UK-EU Trade and Co-operation Agreement gives us a legal basis for air, road freight and road passenger transport operations between the UK and EU following our departure from the EU at the end of the Transition Period. Our contingency preparations for exiting the EU, notably our preparations for potential disruption to road haulage across the short straits, were severely tested by the decision of the French Government to close the border due to COVID-19 on 23 December. The rapid response was a credit to all involved.

Like many other Departments and organisations, COVID-19 has also had a huge impact on how we work. Overnight, DfT become an almost entirely virtual employer, and we had to move hundreds of staff onto managing the operational response for transport. Our people responded superbly to the challenge, working relentlessly and providing leadership through the most difficult and intensive period I can ever recall for the Civil Service. I am particularly grateful for the work of our corporate teams delivering IT, HR and other critical services, for making this possible and to our team leaders across the Department, for their immense efforts to maintain morale and wellbeing.

I am also extremely grateful to the many operational staff in our public bodies, for whom remote working was not possible, for their continued efforts to deliver critical services to the public – like issuing driving licences, carrying out driving tests, maintaining our roads and railways, and providing rescue services at sea – throughout this period.

It is clear that COVID-19 will have long lasting impacts on how we work in DfT. So too will the steps we have taken this year to open a second HQ in Birmingham, and a significant new office in Leeds. Our agencies and public bodies are of course already located around the country and looking ahead, we will also see more central Departmental roles outside London. This will give people the opportunity to pursue careers outside London and ensure we are more closely connected to the cities and regions we serve.

It will also support our wider goal to become a more flexible and inclusive Department. Our comprehensive Race Action Plan is already having an impact and I am particularly pleased that in our recent SCS recruitment campaign, 21% of recruits or promotees were from BAME backgrounds. I was very proud to see that both DfT and Network Rail were included in the 2021 Times Top 50 Employers for Women list. For the first time, the central Department (DfTc) has also met the Civil Service apprenticeship target of 2.3% of new starters in 2020-2021 – a positive step for improving diversity and social mobility across our workforce.

The past year has left us with many challenges as we seek to move beyond the pandemic. For parts of the transport sector, the recovery will take time; and we will need in parallel to increase our momentum on the reforms needed to ensure we can deliver greener, better transport to people and communities across the country in the future. However, the past year has also demonstrated the resilience and commitment of people right across the sector and so I would like to conclude by adding my profound thanks and appreciation to that expressed by the Secretary of State.

Performance Report

Overview: How we have performed

The Purpose for this report

This Performance Report is based on the Strategic Priorities set out in Section A of the Department's Outcome Delivery Plan: 2021 to 2022[1].

These Strategic Priorities were developed using the principle of the Public Value Framework, published by HM Treasury in 2019, which is a tool for maximising the value delivered from public spending and improving outcomes for citizens. The Strategic Priorities reflect the manifesto commitments set out during the 2019 General Election and the 2020 Spending Review Settlement, as well as the effects of COVID-19 on policy, delivery and the subsequent programme for recovery.

How we are organised

DfT Group comprises DfTc and a number of public bodies, which are classified according to the level of ministerial control required for them to best perform their functions. Many of these organisations have their own governance structures and publish annual reports, with their accounts consolidated into the Department's Annual Report and Accounts.

Executive agencies act as an arm of DfTc and typically carry out services or functions with a focus on delivering specific outputs, with policy set by ministers. Non-Departmental Public Bodies (NDPBs) and Non-Ministerial Departments (NMDs) are separate legal entities from DfTc. The Department usually sets their strategic framework, 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).

The wider Departmental family includes other public 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 14 DfT Group and Family (organisational classifications) in page 108

1 https://www.gov.uk/government/publications/department-for-transport-outcome-delivery-plan/dft-outcome-delivery-plan-2021-to-2022

Figure 1: DfT Group and family (accounting boundaries)

2 Driver & Vehicle Standards Agency has been reclassified from Trading Fund and Public Corporation to Executive Agency, and will be consolidated in these accounts from 1st April 2021

3 In August 2021, Highways England announced that they will be known as National Highways. This report reflects National Highways name before this announcement.

Looking ahead: Our strategy

The emergence of COVID-19 in the first part of 2020 required an extraordinary response from the transport sector, including action to ensure that there was sufficient capacity across the network. Delivering on our wider commitments for transport is even more important and has an important role to play as we build back better from COVID-19. At this crucial time, our five strategic priorities will guide the work of the Department and deliver on the Government's agenda. Over the next year we will look to make the following progres:

- **Grow and Level-up the Economy:** Improve connectivity across the United Kingdom and grow and level up the economy by enhancing the transport network on time and on budget.
- **Improve Transport for the User:** Build confidence in the transport network as the country recovers from COVID-19 and improve transport users' experience, ensuring that the network is safe, reliable, and inclusive.
- **Reduce Environmental Impacts:** Tackle climate change and improve air quality, including by decarbonising transport.
- **Increase our Global Impact** Boost our influence and maximise trade by having an innovative, outward-facing approach.
- **Be an Excellent Department:** To deliver our Priority Outcomes, we will continue to be a well-run department that focuses on delivery, drives value for money and embodies our values in all that we do.

Our Governance

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 Priorities. The Department is subject to internal and external audits, which ensure that our processes and procedures are robust. These are summarised in Figure 2, below. The full Governance Statement can be found in the Accountability Report, from page 102.

Our risks

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 public bodies.

The Governance Statement contains a full report on our internal controls and risk management approach, and sets out the top risk themes faced by the Department in 2020-21. The report includes the actions we are taking to mitigate these risks.

Our Governance

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 publically and in Parliament.
Permanent Secretary and Principal Accounting Officer	▪ **Permanent Secretary:** is responsible for the effectiveness and efficiency of the Departments work to support ministerial polices and objectives. They are also responsible for the Departments leadership, management and staffing. ▪ **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	▪ Consists of the Permanent Secretary and 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, control 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.

Figure 2: Overview of the Department's governance structures (to be inserted)

Our performance at-a-glance

Growing and Levelling-Up the economy. This year we have:

Announced

£760m

of funding to deliver remaining elements of **Connection Stage 1 of the East-West Rail**

Funded a number of initiatives that support the goal of **creating a more diverse and inclusive aviation sector**, including opportunities to encourage women and girls to be interested in STEM careers

Opened the £1.5 billion scheme to improve the A14 Cambridge to Huntingdon

eight

months early

Supported over

16,000

skilled jobs and created more than **500 apprenticeship** through the HS2 project

Developed and promoted local growth through the

£2.45bn

Transforming Cities Fund

Planned a major rail infrastructure between Manchester Victoria and Stalybridge as part of the **TransPennine Route**

Funded the **Aviation Skills Retention Platform (ASRP)** to help retain key skills in the sector and support its recovery.

Launched **'Bus Back Better: The National Bus Strategy'** in March 2021

Published **'Gear change: A bold vision for cycling and walking'** in July 2020

Focused on prioritising **Rail Network Enhancements Pipeline policy** schemes that support levelling up the economy and **providing better connections for communities**

Announced that the central section of Crossrail between Paddington and Abbey Wood would open in the first half of 2022

Made significant progress on

eight

local authority road schemes with four receiving final approval

Our performance at-a-glance

Improve transport for the user. This year we have:

Delivered the review of roads policing, including the **first inspection of Her Majesty's Inspectorate of Constabulary** in over

20 years

Announced the first transport companies to receive accreditation under the **Inclusive Transport Leaders Scheme**

Continued to engage internationally, including working at the United Nations level on the Resolution for the **next decade of action on road safety**

Completed funding for the Safer Roads Fund, including

£35m

instalment of the total £100 million

Funded

£1bn

in an emergency grant to bus operators, helping **ensure keyworkers could travel to work**

Launched a new Highways England campaign giving drivers **clear advice about what to do in a breakdown**

Committed to making accessibility improvements for bus passengers within **Bus Back Better:** National bus strategy for England, published in March 2021

Provided

£2.7bn

funding to Local Authorities towards the **local road network**

Revised the train timetable to ensure passengers received a **regular and reliable service**

Completed

39 of 74

actions from the **2019 Road Safety Statement**, and started work on a further 33 actions

Launched new, and freely available, **disability equality training** for transport staff across all modes of transport.

Completed recruitment for the Driver 2020 project. **Over 28,000 young drivers** are now engaged in this real-world trial of interventions designed to improve their safety

Our performance at-a-glance

Reduce environmental impacts. This year we have:

Launched the **ZEBRA scheme** which will provide up to

£120m

to support the introduction of **zero emission buses** and associated infrastructure

Established the **UK Emissions Trading Scheme** with a cap

5%

tougher than the EU equivalent

Funded over

130,000

electric vehicle charge points

Established the **Jet Zero Council** in July 2020 in collaboration with BEIS which aims to deliver **zero emission transatlantic flights** within a generation

Launched a

£20m

industry competition to design **zero-emission road freight trials**

Issued over

400,000

of the **£50 bike repair** vouchers across England through the **Fix Your Bike scheme**

Provided over

£20m

of revenue funding to local authorities through the **Access Fund** to get more people **walking and cycling**

Established the

first

Carbon Management Plan across government

Implemented a number of

Clean Air Zones

Planted over

700,000

trees to date as part of phase one of HS2.

Launched a

£20m

Clean Maritime Demonstration Competition, to accelerate the design and development of greener ports

Began running all-electric services for the first time from London Paddington–Cardiff Central, following the completion of the **Great Western Electrification Project**

Our performance at-a-glance

Increase our global impact. This year we have:

Been a key partner in the **Spaceflight Programme** and responsible for the regulatory framework to enable launches to take place from the UK from 2022

Supported the UK's Chief Negotiator, Lord Frost, in negotiating the transport-related elements of the UK's future relationship with the EU

Coordinated a **24-hour** global response to manage the challenges faced in **repatriating foreign national seafarers** in the UK and British national seafarers overseas

Worked closely with the Department of International Trade (DIT) and other departments to **ensure that transport interests are being advanced** through the negotiation of Free Trade Agreements (FTA) with third countries signalling the UK's strong commitment to the principles of free trade

Enhanced our global impact through our work **on developing leading edge transport research** and innovation, particularly in tackling transports contribution to climate change

Supported the roll out of the Freeports initiative ensuring the needs of the transport sector were accurately reflected in policy design

Supported the **smooth running of freight** into and around the UK both during COVID-19 and following the end of the EU transition period.

Introduced a system to test hauliers with Lateral Flow Devices or COVID-19 to minimise the risk of disruption, over

600,000

hauliers have been tested since December across England. The average positivity rate was 0.08 over the period and just

0.02%

in June 2021.

Supported the UK's programme of events at Expo 2020 Dubai including the organisation of the **'How Will We Travel?**' event'

Introduced the Air Traffic Management and Unmanned Aircraft Act into the House of Lords in January 2020

Our performance at-a-glance

Be an excellent department. This year we have:

Ensured that the Department's digital systems allowed staff to pivot to **remote working**

Published a **Race Action Plan** to address inequalities in the representation and experience of DfT BAME staff. This led to the creation of **Ascend** - a Department wide talent programme for **BAME and Disabled staff.**

Implemented a **reverse mentoring scheme** to encourage the sharing of knowledge and experience through all levels of the organisation

Continued strong relationships with our principle stakeholders;

86%

are very satisfied with their relationship with DfT

Announced **plans to grow** the Department's presence in Birmingham and Leeds with an initial

650

roles by 2025

Taken steps to become more data driven, for example through the **Find Transport Data** metadata catalogue.

Implemented a new Apprenticeship strategy enabling DfTc to **achieve the annual apprenticeships headcount target** of

2.3%

Implemented additional support for teams and individuals on topics such as **emotional wellbeing and loneliness**

Achieved a

67%

staff engagement score, an increase of 3 percentage points

Continued to be an active participant of government internships and outreach programmes such as the Summer Diversity Internship Programme to **diversify and strengthen early talent pipelines**

Been accredited as a Disability Confident

Level 3

employer by Ingeus

Financial Overview from the Director General for the Corporate Delivery Group

Introduction

Spending for the Departmental Group in 2020-21 was significantly higher than normal. The onset and impact of COVID-19 necessitated emergency support funding to several transport operators during the year, ensuring public transport continued to operate. In addition, the Department secured key transport routes during the transition period and is continuing to invest in new transport infrastructure for international travel arrangements now that the UK has left the EU. Alongside these measures, throughout 2020-21 the Department continued to maintain and invest in the road and railway networks, and continued spending in support of other statutory responsibilities in the transport sector.

Central Government's future spending plans are agreed with HM Treasury through Spending Review (SR) settlements. Statutory authority for the final budget for the year is voted by Parliament through the Main and Supplementary Estimates under the Government Resources & Accounts Act. These budgets are set in accordance with HM Treasury's budgeting framework for central government bodies. The Department's financial statements are prepared on an accruals basis in accordance with the Government Financial Reporting Manual (FReM), HM Treasury's adaptation of International Financial Reporting Standards for central government bodies in the UK public sector.

This overview provides a high-level analysis of the Department's financial performance during the year, where relevant, comparing this to the prior financial year and outlining the drivers for variations.

The majority of the Department's budget is used to invest in and maintain national and local transport infrastructure, and to support delivery of transport services.

Summary of the financial statements

This section summarises the Department's assets and liabilities at the year end and how these balances have changed since the previous year.

Assets

The Department held £498bn of assets as at 31 March 2021, of which £337bn related to the Railway Network across Great Britain and £135bn related to the Strategic Road Network in England, which are the responsibility of Network Rail and Highways England respectively.

As shown in Figure 4, the value of the Department's asset base increased by £16bn between 31 March 2020 and 31 March 2021. This was driven largely by £13bn increase in additions and £9bn of revaluation gains to infrastructure assets, offset by £7bn of depreciation charges.

Additions to the Rail Network comprised £1.8bn of Enhancements and £3.9bn of Renewals. Major schemes included improvements on the Trans-Pennine line, Midland Main Line between London and Corby, East Coast Main Line and in Scotland the Inverness to Aberdeen and Edinburgh to Glasgow lines. Network Rail renewed or replaced circa 1,224km of track, in addition to investing in signalling and other railway infrastructure.

Analysis of the Department's spending in 2020-21

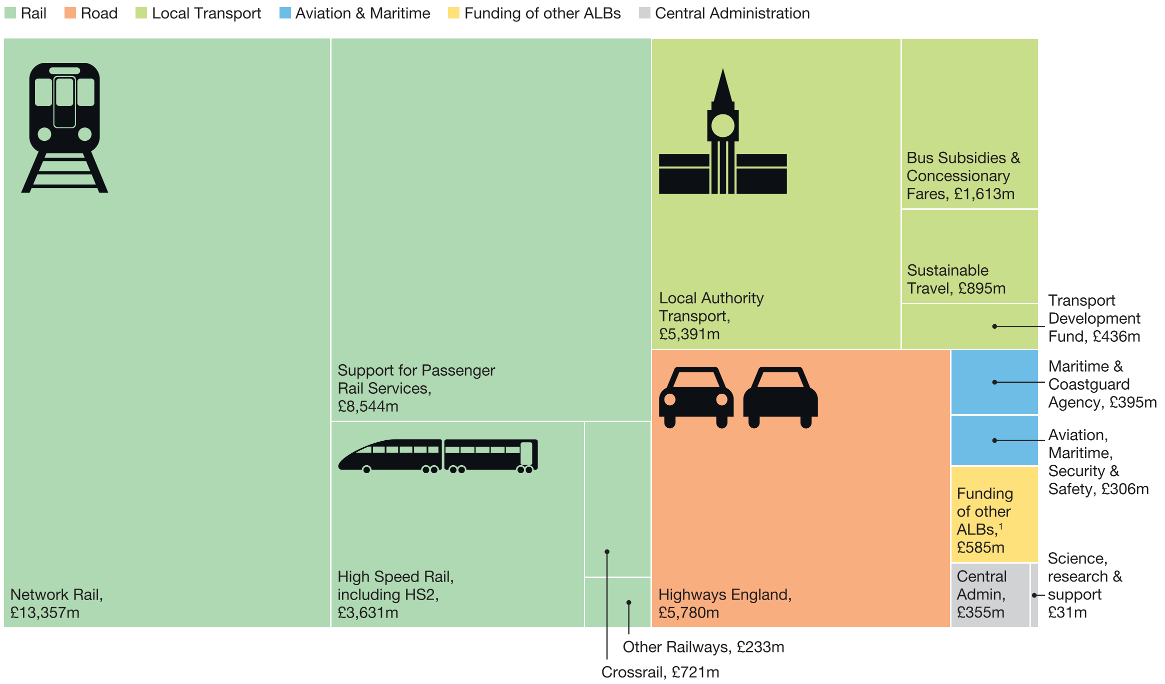


Figure 3: Summary of Departmental spending by Estimate line.

1. This comprises spending by Air Travel Trust Fund, British Transport Police, The Commissions of Irish Lights, Northern Lighthouse Board, Trinity House, Trainfleet and Transport Focus.

Source: Statement of Outturn against Parliamentary Supply. The diagram presents the aggregation of outturn data in Notes 1.1 (Resource spending) and 1.2 (Capital spending) by Estimate line, excluding Estimates lines that generated more income than expenditure. The 'Tolled Crossings' Estimate Line is not shown in the diagram as this generated £78m of net income.

	2020-21	2019-20	Increase /(Decrease)
	£m	£m	£m
ASSETS			
Property, plant & equipment, inc leases & assets held for sale	489,197	475,061	14,136
Receivables	3,014	2,018	996
Loans	2,172	1,541	631
Investments in equities & associate	1,109	1,101	8
Cash	933	872	61
Inventories	986	911	75
Derivatives	387	484	(97)
Investment properties	213	227	(14)
Intangible assets	188	208	(20)
TOTAL ASSETS	**498,199**	482,423	15,776
LIABILITIES			
Borrowings	29,189	30,154	(965)
Payables	8,479	8,135	344
Pensions	5,180	4,066	1,114
Deferred tax	3,350	3,580	(230)
Provisions	1,810	1,805	5
Derivatives	651	895	(244)
TOTAL LIABILITIES	**48,659**	48,635	24
NET ASSETS	**449,540**	433,788	15,752

11059-DfT-Annual Report 2020-21-P1.indb 22 12/09/2021 09:48

Additions to the Strategic Road Network included £2bn of capital enhancements, £0.8bn of asset renewals and £0.2bn on designated funds used to improve the surroundings of the network, supporting sustainability and protecting quality of life and the environment. Significant additions during the period included continuing work on the Lower Thames Crossing costing £0.3bn and £0.2bn invested in improving the M1 in the Midlands. In May 2020, the £1.5bn A14 Cambridge to Huntingdon improvement scheme was opened to traffic and through the year Highways England have continued to make progress on 28 schemes in construction including, for example, the £51m A19 Downhill Lane scheme in Sunderland, providing improved access to the nearby International Advanced Manufacturing Park.

The revaluation gains arose from the estimated annual increase in the cost of building a modern equivalent infrastructure asset. The Department's approach to revaluing these assets and the sources of uncertainty are explained in Notes 1.4.3 and 1.4.4. Given the high value and often specialised nature of the assets, the Department considers these estimates to be subject to a significant amount of uncertainty as shown in Notes 5.1 and 5.2.

Loans increased by £1bn as a result of the support package for the Crossrail project made available to the Greater London Authority (GLA) and Transport for London (TfL).

Trade & other receivables increased by £1bn, largely driven by some significant working capital items relating to the Department's COVID-19 response. Firstly, under the Emergency Recovery Measures Agreement (ERMA) contracts in place at 31st March 2021, the train operating companies (TOCs) were prepaid monthly in advance. TOCs were paid in arrears at 31st March 2020. Secondly, £262m one-off amounts were due from TOCs to terminate their pre-COVID-19 franchise agreements: these amounts are payable to the Department at the end of the ERMA contracts. Thirdly, TFL did not fully utilise its COVID-19-support grant for 2020-21: TFL repaid the unspent funds in July 2021, following the subsequent agreement of a funding deal through to December 2021.

Further details can be found in Notes 5-9 and 11-18 to the Financial Statements.

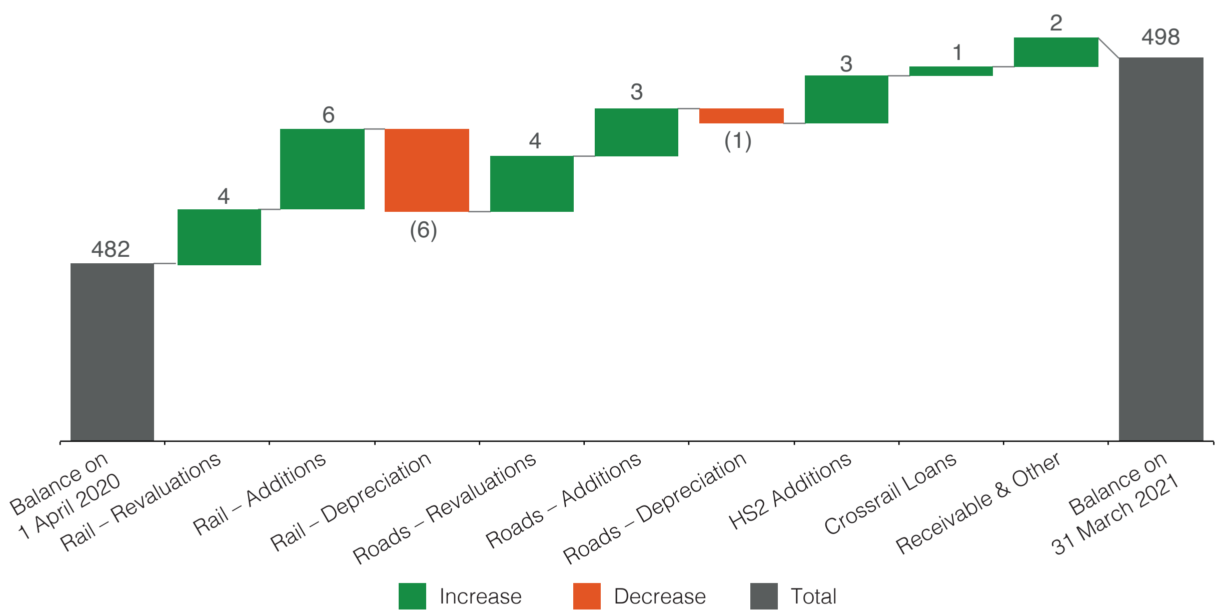


Figure 4: Total Assets increased during 2020-21, £bn.

Liabilities

The Department had £48bn of liabilities as at 31 March 2021 (2020: £49bn), of which the most notable elements were:

- £24bn of debt payable by Network Rail, reflecting third party borrowing entered into before the company joined the Departmental group, and £4bn of debt payable to institutional investors holding bonds issued by the Department's finance companies, LCR Finance plc and CTRL Section 1 Finance plc. This stock of debt matures by 2052.
- £8bn of trade and other payables (2020: £8bn).
- £5bn of net pension liabilities relating to employees, which is £1bn higher than last year due to net effect of changes in key financial assumptions. Although pension scheme assets increased in value, the impact on the liability of movements in forecast inflation and discount rate produced an overall net increase in the pension deficit.
- £3bn of deferred tax liabilities.
- £2bn of provisions, of which £1bn is for land and property purchases along the HS2 route.
- £1bn of lease liabilities in respect of right-of-use assets.

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

The Department had £2bn of contingent liabilities and £12bn of remote contingent liabilities, many of which were designed to promote investment in transport assets by offering guarantees and indemnities to the supply chain in the event that the assets do not produce the expected revenues. The value of the contingent liabilities tends to decrease over time as many are based on the remaining value of the assets, such as rolling stock and depots. The Department also has several contingent liabilities that cannot be quantified.

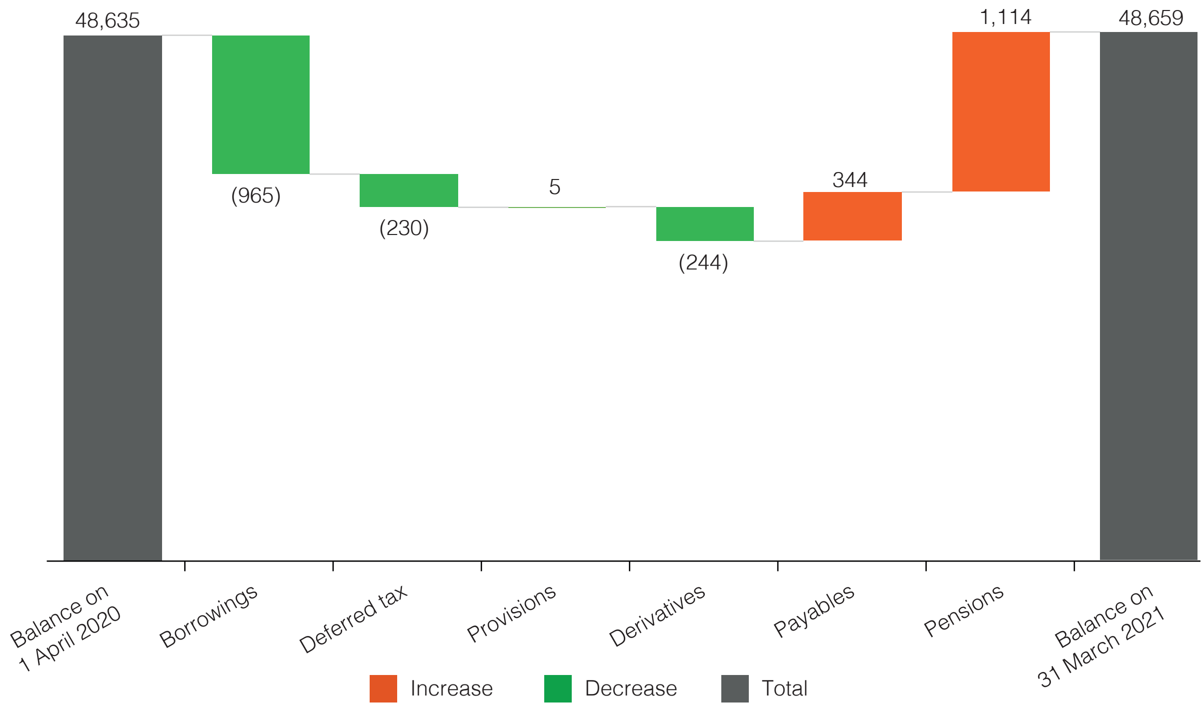


Figure 5: Total Liabilities increased slightly during 2020-21, £m.

Further details can be found in Note 24 to the Financial Statements and in the Parliamentary Accountability Report.

Summary of Consolidated Statement of Comprehensive Net Expenditure

The Department incurred an exceptional level of spending in 2020-21. Headline movements from the prior year in the Statement of Comprehensive Net Expenditure are explained in the table below.

Category	2020-21	2019-20	Increase/ (Decrease)	Commentary on movement between years
	£m	£m	£m	
Sales of goods & services Primarily track access income earned by Network Rail from rail operators under its regulatory agreement with the Office of Rail and Road (ORR).	3,065	2,974	91	Track access income increased by £313m, reflecting the regulatory charges payable from rail operators to Network Rail. This was offset by reductions in other revenue streams during the pandemic, including: tolling income from the Dartford river crossing; and income from ATOL protection contributions which are paid by package holidaymakers into the Air Travel Trust Fund.
Other operating income Primarily premium income, fees and charges collected from users of various modes of transport.	2,582	3,658	(1,076)	Premium income from Train Operating Companies declined to £nil during the pandemic (2019-20: £1,010m).
Total Operating Income	**5,647**	6,632	(985)	
Staff costs Salaries, wages, and employer contributions towards national insurance and pensions.	2,667	2,500	167	Total staff numbers across the Group increased by 5% during the year, largely in response to emerging priorities including EU Exit and COVID-19 response.
Purchase of goods & services This comprises front-line operating expenses for maintenance of the road & rail networks and subsidies to rail operators, in addition to back office costs such as accommodation and IT.	13,624	6,270	7,354	Subsidies to rail operators under their contracts with the Department are included as purchase of goods & services. These costs increased by £7,251m in 2020-21, due to the decline in farebox revenues during the pandemic.

Category	2020-21	2019-20	Increase/ (Decrease)	Commentary on movement between years
	£m	£m	£m	
Grants Payments to bodies to support specific transport initiatives, projects or activities.	8,844	4,049	4,795	The Department provided grant funding to key transport operators to protect services for essential journeys during the pandemic. This included: £2.4bn to Transport for London and £1.6bn to bus operators. In addition, the Department provided increased grant funding to local authorities for improvements to local transport infrastructure, such as pothole repair schemes.
Depreciation & impairments of fixed assets The reduction in the value of fixed assets over their useful life.	7,190	7,240	(50)	Depreciation charges reflect the latest condition assessments of key transport assets in use.
Provisions expense Movements in the estimated cost of liabilities that may need to be paid in the future.	16	531	(515)	The prior year included £488m of new provisions in the Air Travel Trust Fund, largely relating to the major one-off repatriation of Thomas Cook customers under the ATOL protection scheme. Movements in 2020-21 reflected a relatively steady-state in the level of provisions across the Department.
Other operating expenditure Other costs include: derivative costs; pension scheme costs; deferred tax costs.	476	597	(121)	This is the net effect of non-cash movements in derivatives, deferred tax and pension scheme costs.
Total Operating Expenditure	**32,817**	21,187	11,630	
Net finance costs Interest paid on borrowings, less interest & dividends received on loans & investments.	1,091	1,351	(260)	Finance costs are payable on external debt owed by Network Rail, CTRL Section 1 and LCR Finance plc. A more modest increase in RPI in 2020-21 than in 2019-20 resulted in a reduction of finance costs relating to index-linked instruments.
Net expenditure	**28,261**	15,906	12,355	

Income and Funding

The Department recognised £41bn of income and funding in 2020-21, which was £14bn more than 2019-20. The Department received £36bn in Supply funding from HM Treasury, alongside £5bn of income from other sources (2019-20: £20bn and £7bn respectively).

Funding from HM Treasury increased by £16bn to finance increased spending required during the year.

Further details can be found in Note 4 to the Financial Statements.

Expenditure

The Department incurred £34bn of expenditure in 2020-21 compared to £23bn in the previous year. Figure 6 shows the breakdown of expenditure and year-on-year changes.

COVID-19 spending

The increase in the Department's spending in 2020-21 was primarily driven by its COVID-19 response. COVID-19 support costs incurred on the separate transport modes are reflected in Figure 7.

These COVID-19 related costs include new emergency support payments such as grant funding to TFL, and exceptional increases in pre-existing expenditure streams such as subsidies to rail operators. Of the £13bn COVID-19 related support costs in 2020-21, £140m comprises foregone income, rather than increased costs.

In 2019-20, the Department's only material COVID-19 intervention was £337m of subsidies payable to rail operators, following the onset of the pandemic and implementation of the Emergency Measures Agreements with train operating companies from 1st March 2020.

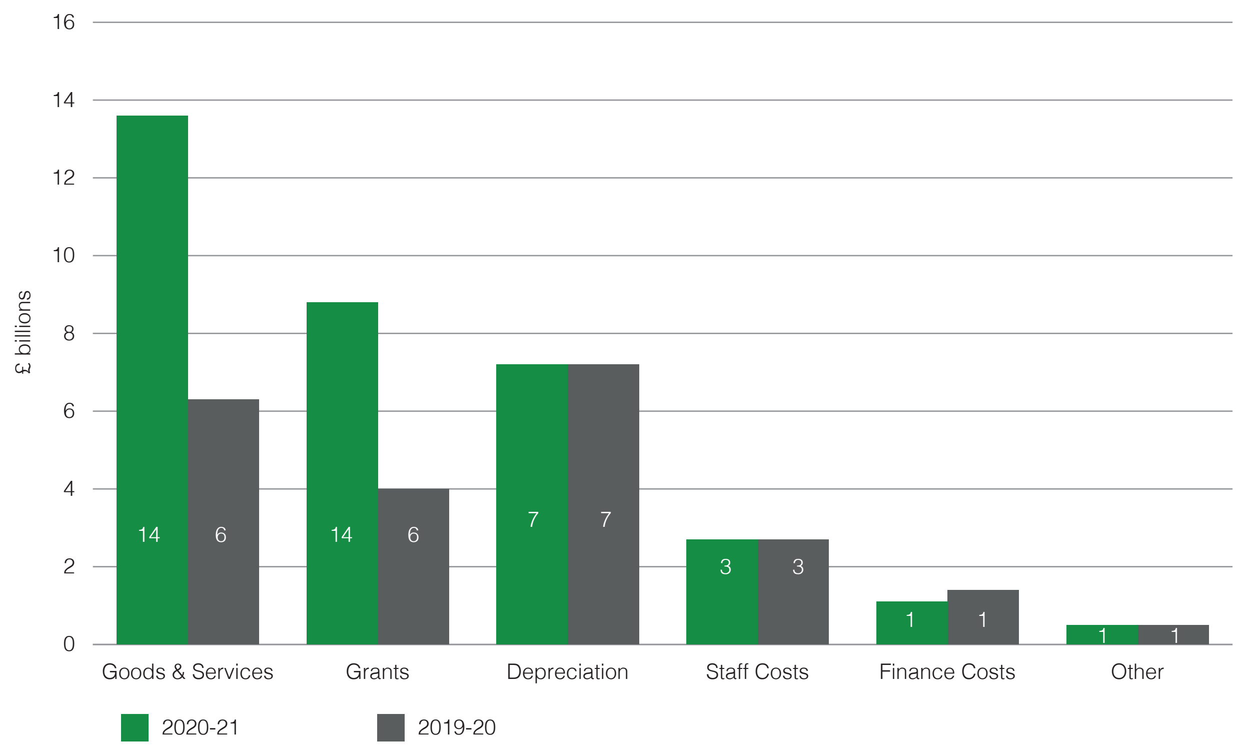


Figure 6: Categories of expenditure recognised in 2019-20 and 2020-21.

Source: Statement of Comprehensive Net Expenditure.

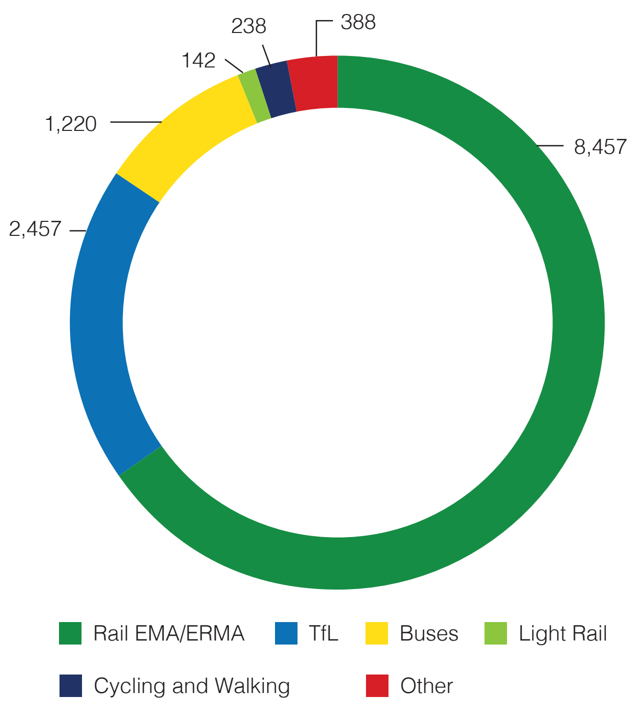


Figure 7: Analysis of COVID-19 related support costs incurred in 2020-21, £m.

Other COVID-19 impacts on the Department's finances

In addition to requiring exceptional spending to support the transport sector, COVID-19 resulted in a number of other impacts on the Department's finances.

Rail Franchise Termination Settlements

The ERMA contracts formally terminated the pre-COVID-19 franchise agreements between the Department and the TOCs. Commercial modelling showed that some TOCs were forecast to make losses from March 2020, the commencement date of the EMA contracts, even if the pandemic had not arisen. In order to ensure that the Department did not subsidise losses through the EMAs and ERMAs which the operators would have incurred under a non-COVID-19 scenario, these TOCs were required to pay a settlement to the Department to terminate their franchise agreements. The Department accrued £262m of income during the year in respect of these termination settlements. These amounts will be remitted to the Exchequer upon receipt of funds at the end of the ERMA contracts.

Obligations to Eurotunnel

The Department is contractually obliged to make fixed fee payments of c.£40m per annum to Eurotunnel until 2052 under the Rail Usage Contract for international rail operations through the Channel Tunnel. Most of these fixed costs are recharged to Eurostar International Ltd, who operates these international rail services. The Department sold its 40% equity stake in Eurostar in 2015. During the pandemic, Eurostar's financial position weakened because of the reduction in international rail services and passenger volumes. As the Department does not have any equity interest in Eurostar, the Department has not provided any capital injections or other subsidies to Eurostar. Eurostar has agreed several financing packages with its lenders and shareholders to protect the company's financial position. Eurostar met its fixed fee recharges to the Department for 2020-21 in full.

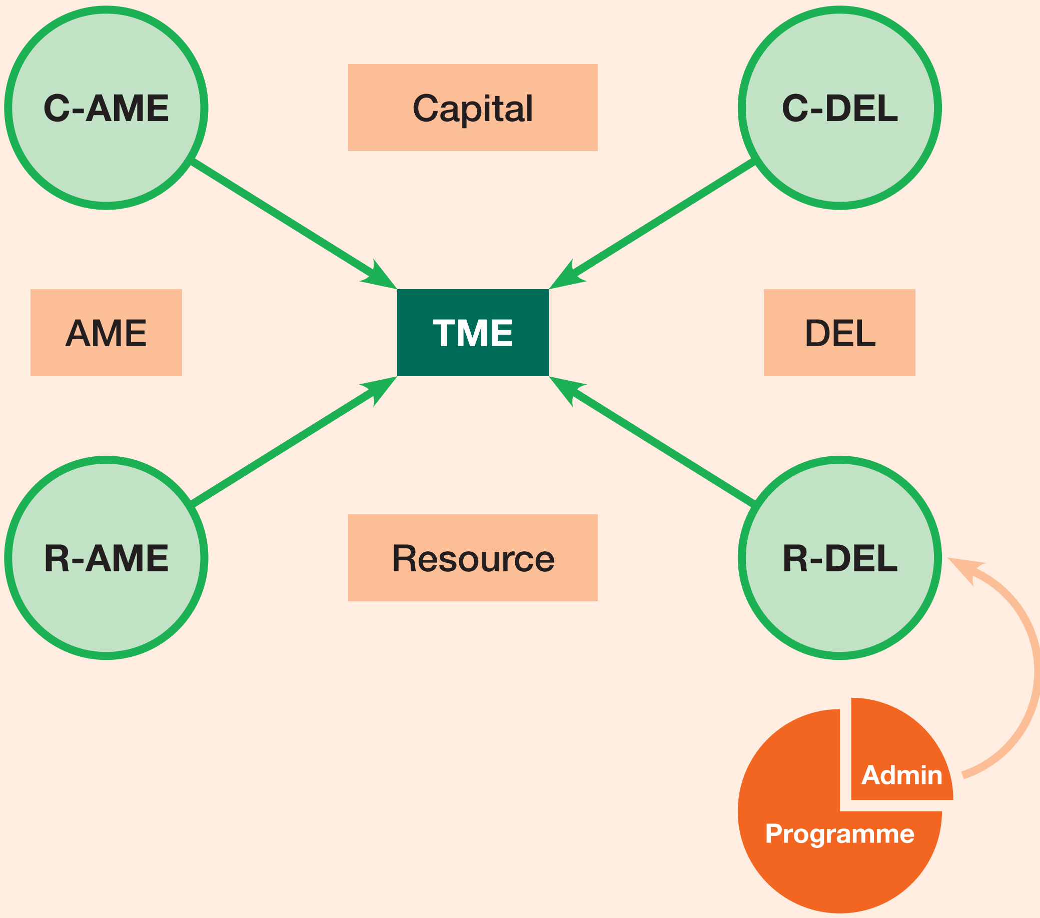
EU exit spending

The Department played a central role in the Government's plans for EU Exit, the transition period and ensuring that post-EU exit border arrangements are fit for purpose.

In 2020-21, the Department incurred £333m on these EU arrangements. These comprised: £281m primarily relating to land purchases, development and running costs in Kent to support the Government's border-readiness preparations; and £52m grants awarded to port authorities to improve their border and maritime facilities through the Port Infrastructure Fund. In addition, the Department paid £38m under contracts with ferry operators to ensure provision of cross-channel freight capacity for essential goods: in 2020-21, these costs were fully reimbursed by other Government

Our budget framework

HM Treasury sets the budgetary framework for government spending.



The total amount the Department spends is referred to as Total Managed Expenditure (TME); which comprises:

- Annually Managed Expenditure (AME) and
- Departmental Expenditure Limit (DEL).

AME expenditure is typically volatile or demand-led. AME budgets are agreed with HM Treasury on an annual basis. DEL expenditure reflects the cost of delivering front-line and back-office activities. Long-term DEL budgets are set through Spending Reviews which usually occur every three to five years.

Budgets are also classified into Resource and Capital.

Resource DEL includes a further split into:

- Programme budgets for frontline service provision, and
- Admin budgets such as back office functions, rent and IT.

Figure 8: Series of different budget types as set by HM Treasury.

Departments, producing nil net overall effect on the Department's finances for the year.

In 2019-20, the Department incurred £170m on EU exit and contingency preparations. These included: £49m costs to improve the resilience of the road network in Kent to support post-EU exit border arrangements; £61m for essential freight capacity as contingency measures for the eventuality of a 'no deal' outcome to negotiations; and other costs required to ensure the Department's statutory readiness for exiting the EU.

Total Managed Expenditure

Total Managed Expenditure (TME) represents the total funds spent by the Department against a series of different budget types as detailed in Figure 9 and these values correspond to the Statement of Outturn against Parliamentary Supply from page 167.

Comparison between Budgets and Outturn

Figures 9 and 10 summarise the Department's performance against the Voted budgets authorised by Parliament for 2020-21. At the start of the year the Department estimates costs for each budget type and monitors spend against these throughout the year. Explanations for the variances shown in Figures 9 and 10 can be found on page 25, the values correspond to the Voted figures within the Statement of Outturn against Parliamentary Supply.

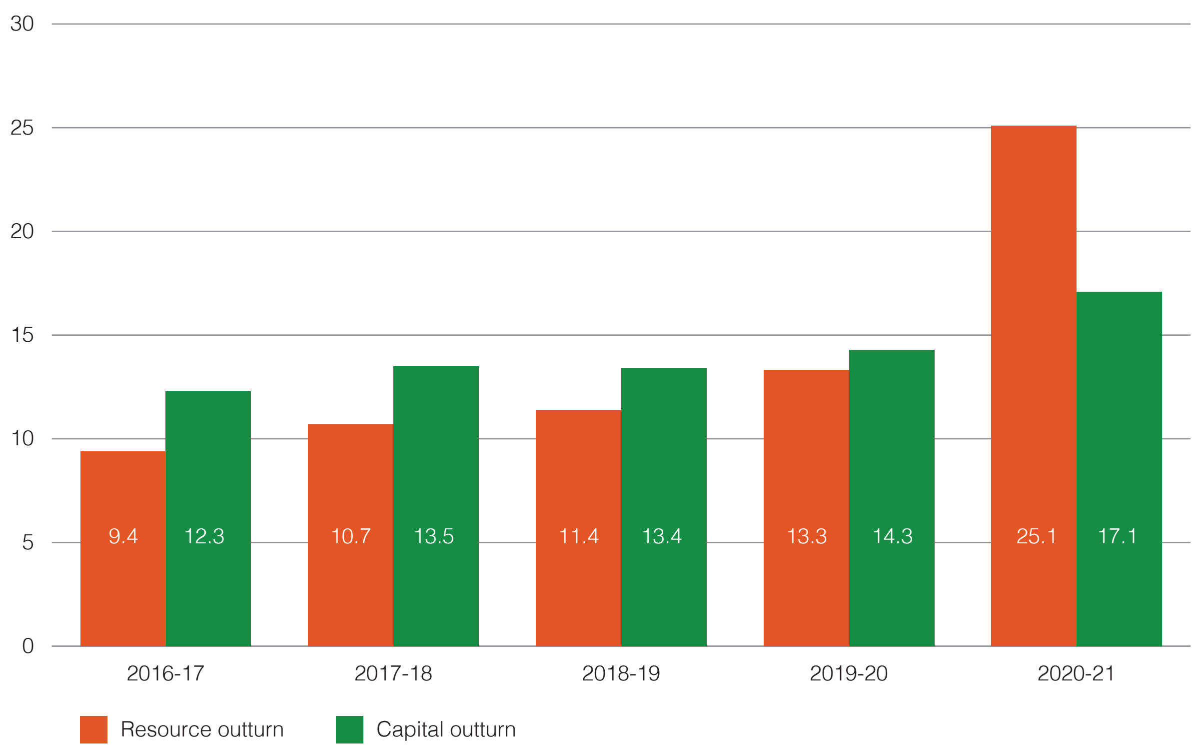


Figure 9: Total Managed Expenditure split by Capital and Resource, £bn.

Source: Statement of Outturn against Parliamentary Supply as published in the Annual Reports and Accounts for each year presented.

VOTED control total	Budget	Outturn	Variance	
	£m	£m	£m	%
Resource DEL	25,099	23,670	1,429	6%
Of which: Administration	312	294	18	5%
Capital DEL	18,265	17,032	1,233	7%
Resource AME	2,409	1,440	969	40%
Capital AME	470	54	416	89%
Net Cash Requirement	40,264	36,229	4,035	10%

Figure 10: Outturn against Budgetary Control Totals voted by Parliament.

Source: Statement of Outturn against Parliamentary Supply, Voted Estimate and Outturn 2020-21.

Long term expenditure trends

Figure 11 shows that the Department's net spending (including capital expenditure but excluding depreciation) increased between 2014-15 and 2019-20, followed by an exceptional increase in expenditure in 2020-21 to support the government's pandemic response. Capital spending has increased during this period, in-line with the Government's investment strategy for key transport networks.

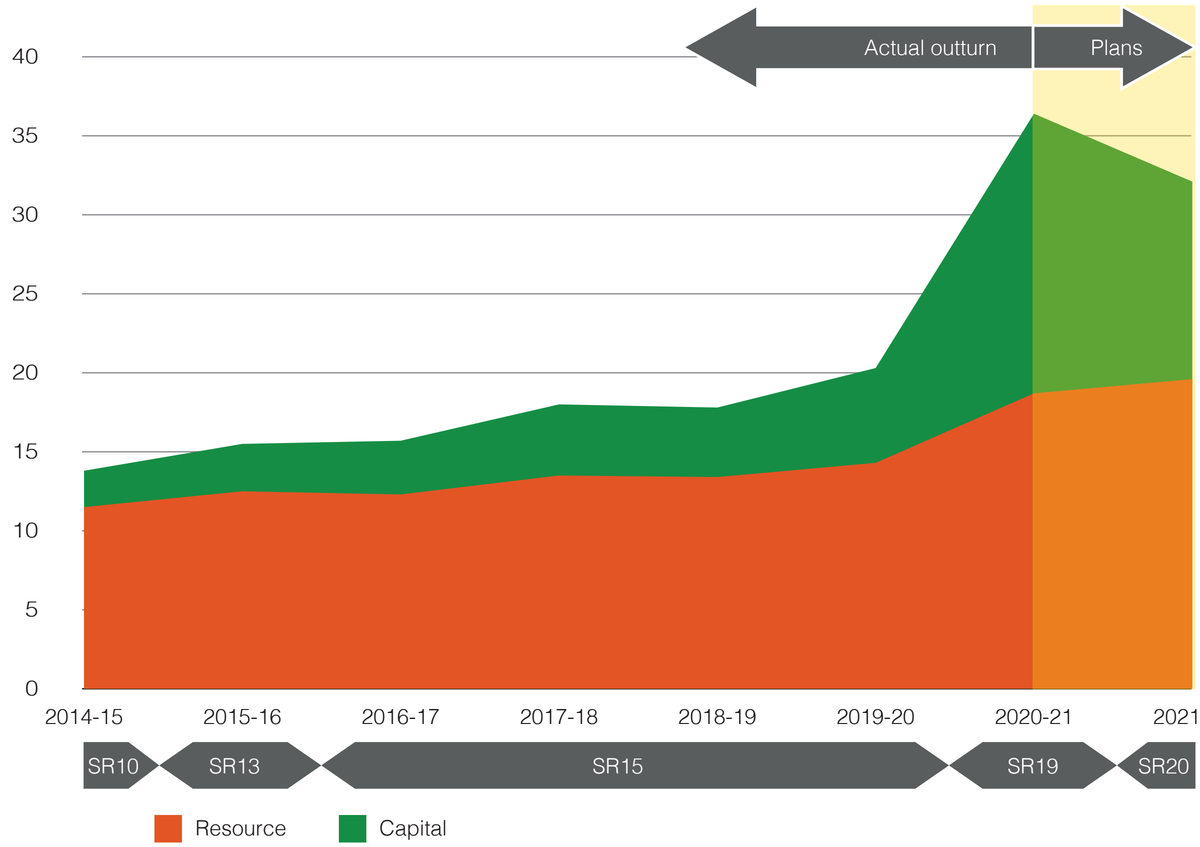


Figure 11: Total net expenditure (exc. depreciation) is shown split between capital and resource net expenditure, £bn.

*Amounts up to 20/21 reflect actual Outturns. Amounts for 21/22 reflect budgeted expenditure for the year authorised under the Main Estimate. Further funding towards COVID-19 support costs in 2021-22 is likely to be agreed with HM Treasury during the year and authorised by Parliament under the Supplementary Estimate.

Sources: 2014-2020 actual outturn– Departmental Financial Statements, 2020-21 plans – Main Estimate.

Capital investment

The Department's recent capital investment included the Network Rail enhancements programme, the ongoing construction of HS2 and the continued delivery of the Roads Investment Strategy (RIS) by Highways England. It also includes several capital projects for various transport modes across the country. Figure 12 shows how this increase is split between the three main areas of capital spending: Network Rail, Highways England and HS2.

Network Rail

On 1 April 2019 Network Rail began its latest 5-year planning cycle (known as Control Period 6 or CP6) 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 rail network[4].

Highways England

On 1 April 2020 Highways England began its latest 5-year Road Investment Strategy (known as RIS2) with a commitment to spend £27bn on the strategic road network. The scope of this funding covers operation, maintenance, renewal and enhancement of the strategic road network[5].

High Speed 2

Spending up to and including 2019-20, as shown in Figure 12, mainly relates to

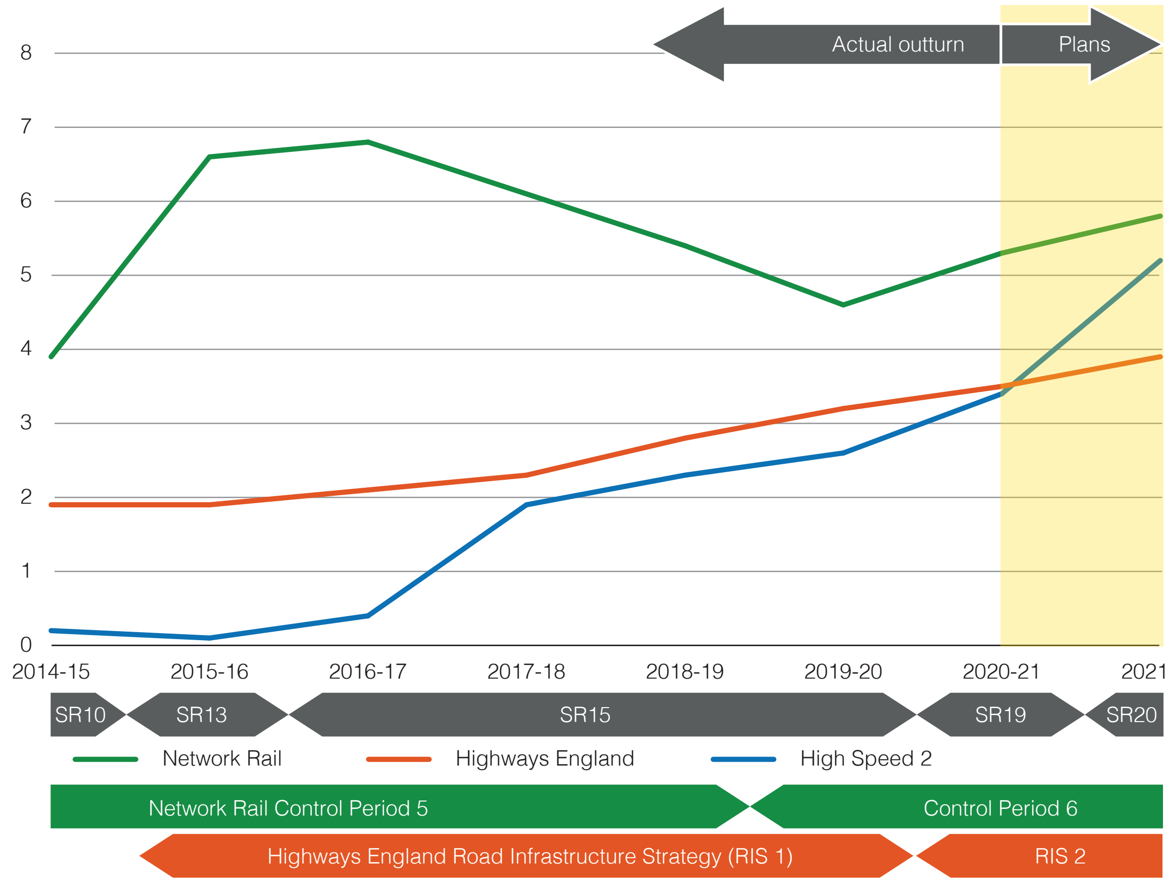


Figure 12: Key areas of capital, £bn.

*Amounts up to 20/21 reflect actual Outturns. Amounts for 21/22 reflect the budget authorised under the Main Estimate
Sources: 2014-2020 actual outturn– Departmental Financial Statements, 2021-22 plans – Main Estimate.

4 https://www.networkrail.co.uk/who-we-are/publications-and-resources/our-delivery-plan-for-2019-2024/
5 https://www.gov.uk/government/publications/road-investment-strategy-2-ris2-2020-to-2025

preparation for the Phase 1 route between London and the West Midlands. Up to this point, Phase 1 construction was limited to certain approved areas of work which have longer lead times, design work and property purchases. A 'Notice to Proceed' was issued in April 2020 which allowed HS2 Ltd to start construction on Phase 1, causing the increase in spending in 2020-21 as shown in Figure 12.

Spending Reviews

As described above, the Department's capital programmes for the rail network, High Speed 2 and road network each have multi-year spending plans agreed with HM Treasury. This approach recognises the importance of planning certainty for major infrastructure investment. Outside of these ringfenced capital funding envelopes, long term government spending plans are agreed through the Spending Review (SR) process.

SR2015 provided a multi-year financial settlement up to and including 2019-20. In the context of the response and early recovery phases to the pandemic, a settlement for financial year 2020-21 was provided for one-year only through SR2019. In July 2020 the Chancellor launched the SR2020, which settled Departmental budgets for a further single financial year, 2021-22.

SR2021 will provide a three-year financial settlement for RDEL and CDEL and is expected to conclude in Autumn 2021. As described above, the Department has already secured multi-year deals for approximately 80% of the Department's CDEL expenditure, covering future capital investment funding for Network Rail, Highways England and HS2.

Statistical reclassifications

The Office for National Statistics (ONS) made several decisions that impacted the Department's 2020-21 financial statements:

- The 12 train operating companies who held franchise agreements with the Department are private companies and were previously classified to the private sector by ONS. Implementation of the EMA contracts at the outset of the pandemic passed substantially all cost and revenue risk from the train companies to the Department. In response to this, ONS reclassified these 12 train operating companies as Public Corporations within the public sector, with effect from 1st April 2020. Public Corporations are outside the departmental accounting boundary as prescribed annually by Parliament under the Government Resources and Accounts Act; accordingly, they are accounted for as investments controlled but not consolidated in the Department's financial statements. Public Corporations are however included in key public sector fiscal metrics and the National Accounts.
- In 2020, ONS reclassified the statistical status of DFT OLR Holdings Ltd (DOHL) from Central Government to Public Corporation. DOHL is the parent company for LNER and Northern Trains Ltd. Accordingly, DOHL has been deconsolidated from these departmental accounts in 2020-21.

The ONS has also made decisions that will impact the Department's financial statements in 2021-22:

- In 2019, ONS reclassified DVSA's statistical status within the public sector from Public Corporation (trading fund) to Central Government. The DVSA's trading fund status was formally revoked in legislation with effect from 1st April 2021. Accordingly, DVSA will be consolidated in these departmental accounts from 2021-22.

Nick Joyce

Director General, Corporate Delivery Group

11059-DfT-Annual Report 2020-21-P1.indb 33 12/09/2021 09:48

Performance Analysis

Background

The emergence of COVID-19 in early 2020 required an extraordinary response from the transport sector, including action to ensure critical journeys made by people and goods could continue to take place in a safe way. Delivering on our wider commitments for transport is now even more important as we strive to build back better from COVID-19. During this crucial time, our five strategic priorities have and will continue to guide the work of the Department and deliver on the government's agenda.

Performance Report

In keeping with HM Treasury (HMT) guidance, the Performance Report tracks progress against the Priority Outcomes agreed for the Department at the 2020 spending review (SR20). For the Department for Transport (DfT) these were closely aligned with Strategic Priorities agreed at the beginning of 2020. The outcome of SR20 was published in November 2020 and feeds directly through to the Department's Outcome Delivery Plan[6].

To contain and delay the spread of COVID-19 throughout the year, significant restrictions were implemented at regional and national levels. These restrictions had a significant impact on the whole transport sector. Ensuring that crucial transport services could continue to operate. This report opens by summarising how the Department responded to COVID-19, and then sets out performance against the Strategic Priorities:

- Grow and Level Up the Economy
- Reduce Environmental Impacts
- Improve Transport for the User
- Increase our Global Impact
- Be an Excellent Department.

6 https://www.gov.uk/government/publications/department-for-transport-outcome-delivery-plan/dft-outcome-delivery-plan-2021-to-2022

COVID-19 Response

In responding to COVID-19, the Department's focus has been to keep the transport system moving. Our priority is to ensure that critical journeys by people and goods can continue to be made safely, and that the transport system can support the government's broader COVID-19 response.

Domestic Transport

At the start of the 2020-21 financial year, the Department was working closely with partners across government to ensure the initial national response to COVID-19 was fully informed by a consideration of transport impacts, and to ensure the transport system continued to support vital services and the economy after the introduction of national measures. For domestic transport the initial focus was on keeping the transport system moving, which included the provision of support to key transport organisations facing financial distress.

At the request of the Secretary of State, a cross-Departmental Safer Transport programme was established under a lead Director General, to ensure that domestic transport supported the government's national response to the pandemic as part of a wider cross-Whitehall Safer Places programme.

Over May and June 2020, the Department established a policy and legal framework to facilitate the safe use of the transport system. This included the creation of regulations to mandate the use of face coverings on public transport and publishing and communicating guidance for transport operators and the travelling public, drawing on close working with the Department of Health and Social Care (DHSC) and Public Health England (PHE). The Department worked closely with operators during this period to maintain service levels for critical workers and goods, including making provisions for PPE in operator contracts and informing wider prioritisation of COVID-19 testing to ensure it included transport workers.

During this period, we engaged broadly across the transport sector, including running several round-table meetings with transport stakeholders to identify priorities for protecting vulnerable workers and disproportionately impacted groups. When taxi drivers were identified by PHE as the most at-risk occupation in the transport sector, we produced specific guidance to improve taxi service safety and amended the regulations so that face coverings became mandatory for their passengers.

Once out of the immediate national response the Department's attention moved to supporting the safe reopening of the transport system, with the approach developing over the year to adapt to the changes in national and local restrictions. Key areas of focus were clear public communications, promoting the use of active travel (walking and cycling), maximising capacity on public transport, supporting social distancing and crowd management on the public transport system.

In September 2020 the Department worked closely with the Department for Education (DfE) to support the safe return of school pupils to education, putting in place a range of mitigations which were effective in getting students back. These included additional funding for operators and local authorities and guidance for schools on how to manage the capacity and demand for public transport.

As transmission rates increased during the autumn and winter of 2020, the Department acted quickly to support the introduction of the national lockdown in November – briefing stakeholders, keeping service levels as high as possible and updating the public messaging. The Department also worked with transport operators to launch six mass testing pilots and support the wider rollout of mass employer testing and implemented plans to enable university students to return home safely over the Christmas period.

11059-DfT-Annual Report 2020-21-P1.indb 36 12/09/2021 09:48

Following the publication of the government's roadmap out of national restrictions in February the Department continued to work with other government departments to inform the national approach. We fed into the social distancing review led by the Cabinet Office, worked on COVID-19 certification, and worked with the Department for Digital, Culture, Media & Sport (DCMS) to ensure transport is a central consideration for piloting the safe return to major events.

Throughout this period, as part of our commitment to ensure transport was functional and available to those who needed it, we also supported transport operators to ensure connectivity was maintained throughout COVID-19 through funding. The most significant interventions during the financial year include:

- Rail Emergency Measures (and the Replacement Measures) totalling £8,457 million in 2020-21.
- Grant support of c£2,457 million provided to TfL in 2020-21.
- £238 million drawn from £2 billion cycling and walking funding.
- £1,220 million for COVID-19 bus support grants. In addition, there was a further £142 million of COVID-19 support for light rail operators.

Total expenditure on COVID-19 approved interventions is c£13 billion for 2020-21.

From the beginning of COVID-19 we have also worked to ensure our interventions were guided by an understanding of the science and broader expertise. The Department established a Science Cell to work closely with the Department's Chief Scientific Advisor (CSA), Scientific Advisory Group for Emergencies (SAGE), the cross-government scientific and analytical community and the transport sector. Statisticians have been developing new and novel sources of data and new approaches to monitoring transport use, which has included data related to hauliers' testing, mass testing, transport workers' absenteeism, the infection rate, and compliance with non-pharmaceutical interventions. In addition, our communications teams have been working with operators to ensure clear public messaging on travelling safely.

Throughout the pandemic the Department has worked closely with our public bodies. Much of this activity will be highlighted in those bodies own Annual Reports we would draw particular attention to these following contributions.

Highways England worked tirelessly to mobilise crisis management plans to ensure the road network remained operational for essential travel. Extensive engagement with key stakeholders including freight and logistics partners, operators and trade bodies provided a better understanding of their needs, allowing Highways England to minimise any disruption from roadworks and closures at critical locations, helping keep freight moving, shelves stocked and the delivery of essential PPE and medical supplies.

Not only has Network Rail kept the railway running to ensure that food, goods and key workers could keep moving, but Network Rail's staff have donated their time to the national effort, helping to set up Nightingale hospitals, giving much-needed equipment to the NHS and delivering food parcels to vulnerable people in their local areas. Sir Peter Hendy CBE played an important role during the period, from overseeing and advising the government on the restart of travel through 2021, to his work on the Union Connectivity review. Working closely with the Devolved Administrations, Sir Peter has been looking at road, rail, air and sea links, and how they could be improved to fuel the UK's recovery from COVID-19. Further details on the Connectivity review can be found on page 38.

HS2's supply chain has responded well to the challenges of continuing to deliver Phase 1 of HS2 despite the pressures of the pandemic, including implementing new ways of working.

HS2 Ltd set up an Incident Management Team to provide organisational advice and guidance to help keep HS2 COVID-19 secure and identify the long-term impacts of COVID-19.

The Driving and Vehicle Licencing Agency (DVLA) adapted its business physically and digitally to continue to deliver services that so many people and businesses up and down the country rely on. Remote working was introduced for the first time in DVLA's history, which saw more than 2,000 staff working from home.

DVLA's online services continued to operate extremely well throughout COVID-19, supported by a communications campaign to raise public awareness of the digital offer and a COVID-19 guidance page on GOV.UK to provide timely information and advice to the public. Online transactions remained efficient and new digital services were quickly developed and launched to further help customers. An important initiative in 2020 was the option to extend the expiry date of driving licences and new services relating to the vehicle registration certificate have seen well over a million completed transactions.

Driver and Vehicle Standards Agency (DVSA) launched a new online booking service in April 2020 for driving and theory tests, ensuring priority testing for people whose work was critical to COVID-19 response (around 12,900 such practical tests were conducted during the 2020-21 lockdown periods). The team that developed this service was 'Highly commended' for their efforts in the 'Improved Outcomes' category of the Brilliant Civil Service Awards. DVSA has enacted a recovery plan to reduce practical test backlogs and waiting times (resulting from the suspension of routine testing during the lockdowns), which is a priority for the organisation in 2021-22.

Since the outbreak of COVID-19, Maritime and Coastguard Agency (MCA) has provided mutual aid support to partner agencies through collaborative working with Local Resilience Forums and partnerships throughout the UK. MCA's Coastguard search and rescue helicopters have provided additional support to the NHS and Coastguard search and rescue functions have continued to be delivered effectively, including during the busiest summer month on record. Arrangements were made to keep ships and seafarers properly certificated, despite a halt to normal seafarer certification and ship survey/inspection functions. Many of MCA's services began to recommence in 2021 and it is anticipated that customer-facing services will begin to return to normal by the end of 2021.

International Travel

Throughout COVID-19, the Department worked closely with other government departments, the devolved administrations and transport operators. The approach was to protect the public from importing new cases into the UK, whilst ensuring the free movement of critical goods and essential workers. Following the initial COVID-19 response phase, we brought forward legislation in June 2020 requiring individuals returning to the UK from outside the Common Travel Area to self-isolate for 14 days.

The Department led a programme to establish travel corridors with countries demonstrating sufficiently low risk of importing COVID-19. With effect from 10 July 2020, people were able to travel abroad for leisure without self-isolating on their return, thereby supporting travel providers to operate on a greater scale over summer.

Towards the end of 2020, as new variants began to emerge, the UK introduced time-limited restrictions on travel from Denmark in response to a variant detected in the Danish mink population. New variants subsequently emerged in several countries, leading to the suspension of all travel corridors in January 2021 and the introduction of pre-departure testing for all travellers aged 11 and over arriving from outside the Common Travel Area. All non-essential outbound international travel was banned in March 2021 at a critical time for the vaccine programme.

The Department has led on establishing and facilitating the Global Travel Taskforce (GTT), to advise the government on the reopening of international travel. The first GTT report was published in November 2020. Following further developments, including new variants of concern and the introduction of restrictions on international travel, GTT was relaunched in March 2021. A second report was published in April 2021 advising the government on a framework to facilitate reopening of international travel. The recommendations are being taken forward – including a new traffic light framework for inbound travel, which was introduced when international travel reopened in May 2021.

Testing and managed quarantine

In November 2020, a voluntary Test to Release scheme was introduced, allowing people arriving into England, who had not visited a red list country in the previous 10 days, to book a COVID-19 test on Day 5 of self-isolation and shortening their self-isolation period. Alongside this, the Department supported DHSC to establish a managed-quarantine service for people arriving from high-risk countries.

To date, freight flows have remained largely unaffected although ongoing work has been required. For example, in response to the December 2020 restrictions introduced by the French government, the UK government introduced pre-departure haulier testing requirements for drivers going from the UK to France. These restrictions have since been removed and the new testing requirements introduced for incoming drivers. As of 30 June 2021, 645,000 hauliers had been tested at DfT's haulier testing sites in England, since December 2020, with an average positivity rate of 0.08% over the period and 0.02% in June[7].

Although much of DfT's time and resource in 2020-21 was taken up with COVID-19 response the Department also managed to take forward work within the five Strategic Priorities.

Working in partnership

Throughout COVID-19, the Department has been working extensively with other government and non-government agencies and with transport operators to keep the travelling public and the transport workforce safe.

We continue to work closely with transport modes and other government departments to ensure that transport considerations inform the Cabinet Office Roadmap and are working with other government departments to support reopening the economy, relaxing restrictions and maintaining appropriate levels of public transport. For example, we have been supporting the Department for Business, Energy & Industrial Strategy (BEIS) with vaccine rollout and supporting DHSC and Ministry of Housing Communities & Local Government (MHCLG) with relaxation of shielding guidance.

Working with HMT, we have supported, and are continuing to support, transport operators through national and local restrictions, providing funding for essential services. We extended emergency grant funding packages for local transport, including bus and light rail operators. Funding packages were also agreed to support the continuation of Union air connectivity and the operators of lifeline service ferry routes.

7 https://www.gov.uk/government/statistics/haulier-coronavirus-testing

Planning for recovery

Much of the Department's activity concerning COVID-19 has been focused on immediate response and restart issues. However, despite significant ongoing uncertainty, including regarding the trajectory of the pandemic, we have also considered the longer-term recovery from COVID-19, particularly as the country progresses through the Roadmap.

Transport will play a key role in COVID-19 Recovery, and the government's Build Back Better, Fairer and Greener agenda. At the same time, in transformational societal and economic impacts of COVID-19 present opportunities and challenges for the UK's domestic and international transport network, and its contribution to strategic government priorities such as decarbonisation and levelling-up. At the most basic level, primarily driven by government advice and restrictions, COVID-19 has had an unprecedented impact upon travel demand, patterns and behaviours.

There have been significant changes in both the overall volume and patterns of transport during the pandemic, and it is too soon to say what the longer term impact on travel patterns will be. To address the uncertainty the Department is building a strong, evidence-based understanding of the impacts on the UK's transport system both now and into the future. This will help our Departmental Recovery strategy underpinned by ambitious policy.

There is also work taking place in parallel to improve the resilience of the transport sector to future pandemics and ensure lessons are learned from the department's operational response. The Department is working with the transport sector and partners across government, academia and industry to develop the evidence base around transmission risks on transport and on mitigations to support future resilience.

Grow and Level-Up the Economy

Improve connectivity across the United Kingdom and grow and level up the economy by enhancing the transport network on time and on budget.

The Prime Minister has committed to levelling-up and uniting the country, so that every corner of the nation can benefit and to ensure that no community is left behind. This will be particularly important as we recover from COVID-19. Transport's role in levelling-up is pivotal. The Department is boosting productivity through large-scale infrastructure as well as shifting the focus of investment towards major projects that link towns, cities and left behind places outside of London and the South East. Delivering major programmes such as HS2, the Integrated Rail Plan, TransPennine Route Upgrade, and the Roads Investment Strategy are fundamental to job creation and so a key lever for economic growth. Whilst the recently published Williams-Shapps Plan to transform the railways in Great Britain will help drive the economic recovery through a more financially sustainable rail system, empowering locally led teams to be more responsive to the needs of local people and places.

Our increased investment in local roads and the delivery of Major Road Network and Large Local Major projects to open housing and employment, maintain connectivity and can improve productivity. Whilst Transforming Cities projects, investment in active travel and our new strategies for cycling and walking tackle the inequalities associated with reliance on public transport – with three quarters of interviewed job seekers not having regular access to a car – and will improve inter-connectivity and journey options.

Progress made by the Department in 2020-21 is summarised next.

Local Transport

Eight local authority major road schemes made significant progress during 2020-21 with four receiving final approval, allowing construction to commence. In July 2020 we published Gear Change: A bold vision for cycling and walking and in March 2021 we launched 'Bus Back Better: The National Bus Strategy'. Further details on local roads, cycling and walking and buses are included in the 'Improve Transport for the User and 'Reduce Environmental Impacts' sections of this report.

Delivery highlights:

Final approval, allowing construction to begin, was granted to the following schemes:

- Lower Don Valley / A630 Parkway (Rotherham)
- Gt Yarmouth Third River Crossing (Norfolk)
- Lake Lothing Third Crossing, Lowestoft (Suffolk)
- North Devon Link Road (Devon).

The following schemes were also approved to progress to the next stages of development:

- Kex Gill Diversion (North Yorkshire)
- A595 Grizebeck Improvement (Cumbria)
- Birchley Island Imp. Road (Sandwell)
- North Hykeham Relief Road (Lincolnshire).

Transforming Cities Fund

The Department is committed to supporting cities to develop and promote local growth through the £2.45 billion Transforming Cities Fund (TCF). The fund is aimed at driving up connectivity and productivity through investments in public and sustainable transport infrastructure in 18 of England's city regions.

Since the launch at the Autumn Budget 2017, and the expansion of the fund in Budget 2018, the Department has allocated around half of the Fund (£1.08 billion) to six Mayoral Combined Authorities on a per capita and devolved basis. In 2020-21, £250 million was paid to six Mayoral Combined Authorities as devolved settlements from the TCF.

The other half of the Fund (£1.28 billion) has been allocated via a two-tranche process to 12 shortlisted city regions. The Department awarded circa £60 million of this to an initial 10 shortlisted English city regions as part of Tranche 1 of the Fund in 2018-19. Two further city regions were shortlisted at Budget 2018, making a total of 12 eligible cities for Tranche 2. Nine of these 12 cities had funding settlements agreed in March 2020 from the balance of the remaining £1.22 billion. In 2020-21, the Department agreed funding packages for the remaining three cities:

- Portsmouth – £55.6 million, including enhanced bus links and improvements to walking and cycling.
- Norwich – £32.3 million, including urban realm and traffic management improvements to the historic Tombland area of Norwich that will improve the current confused and cluttered layout, to better meet the road space demands for buses, pedestrians and cyclists.
- Stoke-on-Trent – £29 million, including the Stoke station hub scheme.

Delivery highlights:

The award of TCF funding to Tranche 2 cities coincided with the start of COVID-19 in 2020. COVID-19 has had an impact on TCF cities ability to deliver to their original schedules. Some mitigation measures were adopted to bring schemes back on track, however, there is a residual risk that some schemes may not be deliverable by the planned completion date of March 2023. The Department continues to work closely, particularly with the Tranche 2 cities to monitor delivery confidence.

Delivery of some schemes on site is already underway in several Tranche 2 locations. For example, completion of the Tombland scheme in Norwich is forecast for completion in spring 2021. TCF funding also supported and enabled the delivery of the Coventry Ultra Low Emission Bus Scheme.

Intra City Settlements

Building on TCF's progress in supporting local growth, the government has committed to invest £4.2 billion in intra-city transport settlements from 2022-23, through five-year consolidated funding settlements for eight city regions, subject to the creation of appropriate governance arrangements to agree and deliver funding. These settlements will be agreed with the government and based on plans put forward by Mayors.

This year, the government took the first step towards implementing that commitment by confirming capacity funding in 2021-22, to support those city regions with appropriate governance arrangements already in place to begin preparations for settlements. This will enable them to develop integrated investment-ready transport plans that will deliver on local priorities such as tackling congestion and driving productivity.

This capacity funding will pay:

- £8.6 million to Greater Manchester
- £5.6 million to Liverpool City Region
- £5.2 million to Sheffield City Region
- £3.5 million to Tees Valley
- £4.1 million to West of England
- £8.9 million to West Midlands
- £7.4 million to West Yorkshire.

Union Connectivity Review

The government asked Sir Peter Hendy CBE to undertake an independent review of how the quality and availability of transport connectivity can be enhanced to support economic growth and quality of life across the UK. In October 2020, the Union Connectivity Review (UCR)[8] was launched to make recommendations as to whether and how best to improve transport connectivity in the long-term including how to bolster existing connections.

As part of the review, Sir Peter has been asked to consider:

- The quality and reliability of major connections across the UK.
- Likely current and future demand for transport links.
- The environmental impact of policy options (including about climate change).
- Existing work completed by the government on cross-UK connectivity.
- Work across modes to restart and recover from COVID-19, including the Aviation Recovery Plan.

Since October 2020, Sir Peter, with support from the UCR Secretariat (comprised of DfT officials) and an advisory panel, has engaged with over 100 stakeholders, received nearly 150 responses to a public call for evidence

8 https://www.gov.uk/government/publications/union-connectivity-review-terms-of-reference

and undertaken social research to better understand the public perception of the ease and cost of travelling across the UK.

In March 2021, Sir Peter published his Interim Report[9] providing an overview of transport connections across the UK and outlining his early thoughts on how to improve union connectivity, including the potential formation of a UK Strategic Transport Network.

In response, the government announced a £20 million development fund to support transport schemes, which were identified by the review as crucial for cross-border connectivity.

Sir Peter will publish a final report in summer 2021 and will set out his final recommendations for improving transport connectivity across the UK and will include an assessment of the feasibility, cost and timescales of constructing a fixed link between Northern Ireland and Great Britain.

HS2

HS2 is a long-term investment, which will transform rail travel in the UK, building opportunity and boosting the economy through regeneration and widespread jobs creation.

HS2 will act as a catalyst for jobs creation, the development of new homes and will give a step-change in capacity, while almost halving the time it takes to travel between the largest cities. It is at the heart of plans to build back better from COVID-19, and most sites have remained open throughout COVID-19.

At peak construction, the Department is expecting all three phases of HS2 to support around 30,000 jobs, including up to 2,000 new apprenticeships. These roles are not limited to construction and are not just along the line of route – plant nurseries, traffic management companies and occupational health services have all benefited from HS2's investment in the supply chain. Companies from Wales to West Bromwich, Carlisle to Cambridgeshire, have won contracts, supporting jobs far and wide across the UK.

The Department is focused on improving local transport right across the UK, and alongside the commitment to other transformational rail projects such as Northern Powerhouse Rail (NPR) and the TransPennine Upgrade, HS2 will act as a catalyst for wider growth and help level-up the economies of the Midlands and the North. By joining up the North, the Midlands and London, HS2 will allow businesses to invest beyond London whilst retaining ready access to the Capital.

Delivery highlights:

- Achieved Royal Assent of the Phase 2a High Speed Rail (West Midlands to Crew) Bill, cementing the Department's commitment to bring HS2 to the north of England.
- Supported over 16,000 skilled jobs and created more than 500 apprenticeships.
- Announced the formal start of construction in September 2020, following the April 2020 Notice to Proceed.

To date, and following the 20-21 planting season, the total number of trees planted already on Phase 1 is over 700,000.

Integrated Rail Plan

The Integrated Rail Plan (IRP) for the North and Midlands was commissioned following the conclusion of the Oakervee Review of HS2 in February 2020. It will soon set out how best to sequence and deliver HS2 Phase 2b, NPR, and other major rail projects so that the benefits of these investments are delivered to passengers and communities

9 https://www.gov.uk/government/publications/union-connectivity-review-interim-report

more quickly. The schemes within IRP will transform rail connectivity across the North and Midlands, playing a crucial role in driving economic growth and productivity, and bringing people closer to employment and training.

IRP has been informed by the National Infrastructure Commission's (NIC) Rail Needs Assessment, which was published on 16 December 2020, and work by the Infrastructure and Projects Authority (IPA) on lessons from HS2 Phase 1. The Department also engaged and worked closely with stakeholders throughout last year to understand their priorities, and supporting evidence and analysis, for IRP.

IRP was originally planned to be published by the end of 2020. However, due to the pressures brought by COVID-19, a decision was made to publish in 2021, ensuring everything was fully considered based on all the available evidence from the NIC's Rail Needs Assessment, the IPA's work, and stakeholder inputs, ahead of making final decisions.

Northern Powerhouse Rail

Northern Powerhouse Rail (NPR) will aid in levelling up the economy of the North of England by significantly improving the capacity, frequency and journey time of rail links between the region's main economic centres. It will give passengers the opportunity to make an environmentally sustainable transport choice that is fast and reliable. This will deepen and widen labour markets, improve business to business connections, and improve connections to Manchester Airport.

£52.6 million was spent on the programme this year, from a budget of £75 million. Network Rail continued to develop infrastructure options for both new lines and upgrades across the network. This enabled a successful sift of route options enabling the project to focus development on the most promising routes. HS2 Ltd continued to develop interfaces shared between HS2 and NPR. This included a second Design Refinement Consultation to future-proof NPR. The business case and economic modelling of NPR were also strengthened. A further £75 million has been allocated for 2021-22, demonstrating the government's ongoing commitment.

Publication of the IRP for the North and Midlands will precede finalisation of the NPR Strategic Outline Case. This will allow the business case to align with the policy and funding framework set out by the IRP, enable alignment around single route options for the NPR network and the potential to accelerate delivery on some routes to realise benefits for communities in the North of England as soon as possible.

East-West Rail

East West Rail will provide a direct rail link between Oxford and Cambridge and join up key towns and cities across the Oxford to Cambridge Arc. The scheme will not only improve connectivity but support wider economic growth and help unlock future housing ambitions in the area. The project is split into three stages, structured around the phased introduction of passenger services:

- Connection Stage (CS) 1 will reinstate and upgrade railway lines between Bicester and Bletchley, to enable new train services to run between Oxford and Bletchley/Milton Keynes.
- East West Rail services would then extend from Oxford to Bedford, using the existing Marston Vale Line, as part of CS2.
- The final stage, CS3, would involve building new railway to complete the project and will see services run from Oxford to Cambridge.

Delivery highlights:

East West Rail has recently:

- Been awarded £760 million of funding in January 2021, to deliver remaining elements of Connection Stage 1, between Bicester and Bletchley. This will enable passenger services by 2025.
- Launched a non-statutory public consultation on Connection Stages 2 and 3 in March 2021, seeking views on topics such as train service provisions for CS2 and route alignment options for CS3.

Crossrail

In August 2020, Crossrail Limited (CRL) announced that the central section between Paddington and Abbey Wood would now open in the first half of 2022. Following the opening of the central section, CRL has said that full services across the Elizabeth Line will be introduced to align with the National Rail timetable change, which occurs twice yearly in May and December. Crossrail is now in its complex final stages with a comprehensive plan to complete the railway.

CRL's August 2020 announcement included estimates that the cost to complete Crossrail could be up to £1.1 billion more than the funding committed under the Financing Package agreed in December 2018. Following negotiations, the Secretary of State announced on 1 December 2020 that an additional £825 million in borrowing had been made available to the Greater London Authority (GLA).

On 26 March 2021, CRL successfully achieved a key milestone, as it transitioned to an operational railway. Crossrail is now governed by the Railways and Other Guided Transport Systems (Safety) Regulations 2006 – also known as ROGS. Trial Running started on 29 March 2021 (in line with the schedule set out in August 2020). CRL has begun the six-month Trial Running period of intensive operational testing, which involves integrated trials of the railway to prove that it is safe and reliable, and it meets the capacity and performance requirements. CRL will steadily ramp up the number of trains running in the tunnels to allow the railway to be operated as close as possible to an operational timetable.

While stations, including Tottenham Court Road, Farringdon, Whitechapel and Paddington were successfully handed over to TfL, risks remain around Bond Street and Canary Wharf stations.

All Elizabeth Line stations in the central section (with the exception of Bond Street) were scheduled to be completed and handed over to TfL over the summer, but the schedule was compressed and contains substantial risk to achieving that milestone. A planned software update in December will be a key determinant of whether an opening in first half of 2022 is achievable.

The latest forecasts from TfL and CRL show that there is a low probability of the project being completed within the available funding given (the current cost middle estimate shows that an additional c.£150 million may be required), however this shortfall is within the £1.1 billion figure reported in August 2020. We are already looking at options should the risk of further funding needs, within the £1.1 billion, materialise. TfL and CRL are reviewing costs regularly and looking for opportunities to de-risk and reduce Tier 1 contractor usage, which is where much of the cost is arising.

On 1 October 2020, the Crossrail Board voluntarily stood down and new Crossrail governance arrangements were put in place between TfL and the Department and brought CRL within TfL's governance. The Transport Commissioner is now ultimately accountable for the delivery of Crossrail and attends the Department's IPDC quarterly, as part of the new arrangements. The changes protect the Department's investment and ensure appropriate oversight arrangements remain. At the same time the changes give TfL – the long-term Crossrail operator termed the Elizabeth Line – greater control over the project, to bring the line into operation as quickly as possible.

Rail Enhancements

The rail enhancements portfolio contains all enhancement schemes across England and Wales. This encompasses schemes ranging in scale from relatively small interventions (£1 million) for example to improve the passenger environment at stations through to major projects such as the TransPennine Route Upgrade Programme (multi-billion pounds), which will significantly improve rail connections between York and Manchester via Leeds and Huddersfield.

The portfolio employs a rolling investment approach, with schemes committed to in stages in line with their development. This allows the Department to prioritise and adapt what schemes progress in order to suit the available funding envelope, and the needs of the railway and ministerial priorities in line with the Rail Network Enhancements Pipeline policy (RNEP).

The portfolio was able to adapt and continue delivering successes throughout 2020-21 despite the uncertainty for the supply chain and the sector from COVID-19. The pandemic affected many of the worksites around the country, but overall Network Rail was able to manage their activities in a way that delays to enhancement projects were minimal. Indeed, Network Rail was able to accelerate some activity, taking advantage of the reduced rail traffic resulting from COVID-19.

In prioritising schemes within RNEP, the Department has focused on those that support levelling up the economy and providing better connections for communities, and more than 60% of the portfolio's forecast spend is now in the Midlands and North of England. The Restoring Your Railways Fund, launched in March 2020, is a great example of this. This has led to progress on many projects to return railways to passenger use, including the start of work to reopen the Dartmoor Line between Exeter and Okehampton, which will see the restoration of regular passenger services before the end of 2021.

The portfolio contains several transformative rail projects as previously mentioned, as well as improvements to the Midland Main Line and East Coast Main Line, which in the financial year 2020-21 secured the next stage of funding for delivery. The government remains committed to supporting the railway, investing in ambitious improvements to modernise the infrastructure.

Brighton Mainline Upgrade Programme

The Brighton Mainline Upgrade Programme (BMUP) comprises a series of infrastructure enhancements, the most significant of which is the Croydon Area Remodelling Scheme (CARS), which aims to resolve one of the most restrictive bottlenecks on the UK rail network. This constraint imposes inefficient pathing and operations, leading to high levels of delays, longer journey times than other comparable routes into London, and prevents any increases in peak capacity. The scheme also seeks to integrate a major renewal of life-expired assets in the Croydon area.

The development of CARS has been affected by uncertainty around future passenger demand due to COVID-19. Recent development work has identified further work required to support a robust investment case for the scheme.

Given these factors, development of CARS is currently progressing on a 'do-minimum' basis, that will continue to develop the investment case for the scheme in a way that responds to wider constraints and uncertainties.

Further to this, substantial progress has been made on wider BMUP projects, some of which are now in delivery and will begin to provide meaningful benefits for

11059-DfT-Annual Report 2020-21-P1.indb 46 12/09/2021 09:48

passengers in the next year.
These projects include modified signal positions at Clapham Junction to increase capacity, new infrastructure in the Horsham area to provide more operational flexibility and an enhanced track layout in the Gatwick Airport area to enable faster journey times. A scheme to allow 12 car trains to call at Reigate station is being developed by Network Rail.

Kings Lynn project

The King's Lynn Train Lengthening project completed in December 2020, providing additional infrastructure to enable the operation of 8-car trains on the full route between London King's Cross and King's Lynn. The longer trains have doubled capacity on the route between Cambridge and King's Lynn, helping to relieve peak demand on services which were often over capacity pre COVID-19. The project has also had the operational advantage of removing the need to couple/decouple units at Cambridge station, helping improve performance.
Infrastructure changes included platform extensions at Littleport and Waterbeach stations, plus a new siding at King's Lynn.

TransPennine Route

The TransPennine Route Upgrade is a complex multi-billion-pound project and the largest rail investment in the north in the next five years. It aims to tackle the problems of today by delivering a step-change increase in infrastructure to improve the reliability of the route and level up experience and opportunity for a growing population.

The programme will provide:

- Better journey times for passengers; despite the challenging landscape which will always form a constraint for speeding up this route.
- Increased punctuality, reducing the average minute lateness (AML) by up to half.
- An enhanced service with room to grow, with new infrastructure to improve performance.
- Enhanced freight capabilities on the route, shifting road traffic to rail.
- Though parts of the TRU Programme are still being refined in the design process, significant progress was made during 2020-2021 as outlined below:
- £589 million announced by the Secretary of State for Transport in July 2020 to progress development and design of the programme.
- Pledged further £234 million in April 2021 to upgrade one of the busiest stretches of the railway in the north; a section between York and Church Fenton (including a major junction where trains from Leeds join the East Coast Mainline towards York).
- Committed to providing access for all at stations along the North TransPennine Rail route.
- Planned major rail infrastructure between Manchester Victoria and Stalybridge, to renew key sections of track and upgrade railway bridges in August 2021.

Strategic Road Enhancements

Roads enable walking and cycling, support bus, coach, and taxi journeys, help move goods around the country, and of course allow people to use a car where that is the appropriate choice for that trip. These journeys unlock a host of social and economic benefits, including access to education, jobs, healthcare, retail, and leisure. Ensuring that our road infrastructure remains fit for purpose and adapts to the country's changing needs will remain vital for our society and the economy to flourish both now and in a decarbonised future.

11059-DfT-Annual Report 2020-21-P1.indb 47 12/09/2021 09:48

The government's Second Road Investment Strategy (RIS2), was launched in March 2020, and is being delivered by Highways England. Around three quarters of the £27 billion strategy will deliver capital enhancements and will see 69 schemes underway or starting construction by 2025. In SR20, the government also pledged an additional £146 million to accelerate the start of construction for the A66 Northern TransPennine dualling scheme to 2024 and shorten the duration of construction.

Delivery highlights:

A14 Cambridge to Huntingdon improvement.

This £1.5 billion scheme opened to traffic eight months early in May 2020.

- With most of the project now complete, Highways England has delivered many of the anticipated benefits.
- The remaining work, which includes removing the Huntingdon railway viaduct and building three new link roads, is due to complete in 2022.
- This scheme aims to improve safety, tackle congestion, connect people, unlock economic growth and create a positive legacy for future generations.

It includes:

- A major new 12-mile bypass to the south of Huntingdon between Swavesey and Brampton
- A wider A1 between Brampton and Alconbury
- Wider sections of the existing A14 and improved junctions
- An improved Huntingdon town centre
- New local access roads.

A19 Downhill Lane

In September 2020, Highways England started works on the A19 Downhill Lane scheme, six months ahead of schedule. This will support the extension of the nearby International Advanced Manufacturing Park, predicted to create up to 7,850 new jobs and secure £295 million investment by 2026–27.

In July 2020, Highways England completed this scheme, finishing under budget and three months ahead of schedule to improve journey times for the 85,000 drivers that use this road every day.

Aviation Skills

Supporting the aviation workforce is a priority for the Department, which includes the need to support long-term skills shortages, improve diversity and inclusivity in the sector, and attract the next generation of aviators.

The Department also committed to addressing the immediate effects of COVID-19 on the aviation industry, providing support to the highly skilled aviation sector workforce, and ensuring that those skills are available as the sector starts to recover.

Aviation Skills Retention Platform

COVID-19 has, and will have, a significant impact on the aviation industry. The government recognised the impact that this would have on jobs, skills, people and businesses. The aviation sector is home to many highly skilled and highly trained staff who are essential to the recovery and future growth of the sector.

The Department has worked closely with industry to develop measures to help support the sector. This included funding the Aviation Skills Retention Platform (ASRP) to help retain key skills in the sector and support its recovery.

We are also continuing to fund ASRP into 2021-22 to ensure that employers and jobseekers remain connected, and to support the recovery of the sector.

Reach for the Sky Programme

The Department launched the Reach for the Sky Programme in October 2019. The aim of the programme is to deliver a skilled, diverse and sustainable workforce fit to seize the opportunities of the future. It aims to attract under-represented groups, and particularly young people, to careers in aviation by addressing financial and wider social barriers and creating new opportunities in the sector – based on four pillars:

- Raising the profile of the aviation industry
- Outreach programmes
- Career pathways
- Skills and training.

During 2020-21, the Department has funded a number of initiatives that support the goal of creating a more diverse and inclusive aviation sector. These include:

- The Royal Aeronautical Society received a grant to support the development of a Careers in Aerospace website.
- The Air League received a grant to support the Youth Plane Building and Soaring to Success programmes.
- STEMettes received a grant to deliver the She's Sheila Scott Programme. This included running a series of school-based programmes; community events for parents and pupils; and STEM career building opportunities aimed at getting more women and girls interested in STEM careers.
- Education & Employers received a grant to fund the Inspiring Aviation Programme. This brought volunteers from the world of work into the classroom; provided activity resources to teachers; created a campaign webpage; and a series of inspiring aviation events.

We are using feedback from these initiatives to consider the future of the programme and how to best deliver a diverse and sustainable aviation workforce.

Reduce Environmental Impacts

Tackle climate change and improve air quality, including by decarbonising transport

Transport is the largest emitting sector of greenhouse gases in the UK, contributing 27% of domestic emissions in 2019. Our transport system must change to deliver the government's Net Zero ambition and the Department has been driving that change forwards through our long-term green transport agenda. In November, the Prime Minister set out his ten-point plan for a green industrial revolution – to create jobs, unlock investment and cut carbon – and transport is at its heart. Crucial to this work has been the development of the Transport Decarbonisation Plan, which we published in July 2021 and sets out the necessary steps for carbon reductions across all modes of transport.

Preparations within the Department and across Whitehall have also been ongoing for our Presidency of COP26 and to establish international campaigns to accelerate the shift to zero and low carbon transport and push for higher global ambition to decarbonise our sky and seas.

During 2020-2021 the Department continued to work with local authorities to develop air quality plans to tackle roadside nitrogen dioxide concentrations and provided support for the implementation of charging Clean Air Zones, including a launch in the City of Bath in March. To support this, we worked in partnership with Department for Environment Food & Rural Affairs (Defra) and colleagues in DVLA to construct a digital service for vehicle owners to check emissions compliance. The Department has also continued its efforts to address the broader environmental impacts of transport construction, such as embedded carbon and the impacts on biodiversity. We are working with MHCLG and Homes England to support the delivery of housing developments with good access to sustainable transport – especially where these are on sites within the wider DfT estate.

Progress made by the Department in 2020-21 is summarised below.

Delivery highlights

- In June 2020, all-electric services began running for the first time from London Paddington–Cardiff Central, following the electrification of the Severn Tunnel and therefore the completion of the Great Western Electrification Project.
- In May 2021, new electric services ran for the first time from Bedford to Kettering and Corby, following the completion of the first phase of the more than £1.5 billion Midland Main Line (MML) upgrade.
- During April 2020 and March 2021, the government supported nine First of a Kind (FoaK) projects that will help decarbonise the railway or reduce harmful emissions. The Department's funding contribution to these projects was more than £3 million in total.
- In 2020, Network Rail published an Environmental Sustainability Strategy; a Biodiversity Action Plan; and became the world's first railway company to sign up to the United Nations' most ambitious targets in their Science Based Targets initiative[10].

Further details can be found in the Sustainability Report from page 81

Transport Decarbonisation Plan

Work continues across the Department to decarbonise the transport sector and secure the substantial co-benefits. Following several commitments on transport policy in the Prime Minister's Ten Point Plan for a Green Industrial Revolution, the most significant step in this area was the landmark Transport Decarbonisation Plan, published in July 2021. It sets out how the Department will deliver the emissions reductions needed to put transport on a credible pathway to net zero by 2050.

Following publication of Decarbonising Transport: Setting the Challenge in March 2020[11], the Department took forward a wide-ranging programme of policy development and stakeholder engagement to develop the final plan. It details the steps the Department will take to decarbonise the sector in a way that works for transport users and the transport sector.

An extensive schedule of stakeholder engagement included:

- Four meetings of the newly created Net Zero Transport Board chaired by the Parliamentary Under Secretary of State and attended by the Secretary of State. The Board brought together transport stakeholders and green leaders to provide independent, objective and impartial advice on transport decarbonisation.
- A series of virtual workshops attended by around 700 stakeholders across the sector, including climate groups, businesses, and local authorities.
- An online public feedback opportunity, which received over 7,300 responses.

COVID-19 slowed development of the plan with key staff redeployed into critical operational roles. This also allowed more time for stakeholders to properly contribute

10 https://www.networkrail.co.uk/stories/network-rail-launches-new-environmental-sustainability-strategy/

11 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/932122/decarbonising-transport-setting-the-challenge.pdf

to policy development and for COVID-19 impacts to be considered.

The Transport Decarbonisation Plan set out, for the first time, the greenprint for a zero-emission transport future. It identifies clear steps to clean up and decarbonise every form of transport – improving how the individual areas work together within the sector.

The plan built on recent announcements with key commitments including:

- A world leading plan to end the sale of new, polluting, road vehicles, from motorcycles to HGVs.
- A transformative programme for linking local infrastructure funding with solutions to reduce emissions.
- Support to improve public transport and make it greener, including a fully zero emission rail network by 2050 and a green bus revolution.
- Increased support for active travel, so cycling and walking can play a bigger role than ever.
- Support for the UK to become a world leader in zero-emission flight, supported by a thriving domestic sustainable aviation fuel industry.
- Plotting a course to net zero for the UK domestic maritime sector, with indicative targets from 2030 and net zero as early as is feasible.
- Increased use of data and technology to help people take greener journeys.

Cars and Vans (automotive) Decarbonisation

Following extensive consultation, the plan committed the government to going further and faster to decarbonise transport by phasing out the sale of new petrol and diesel cars and vans by 2030 and, from 2035, all new cars and vans must be zero emissions at the tailpipe.

Alongside the new phase-out dates, the government pledged £2.8 billion for a package of measures to support industry and consumers to make the switch to cleaner vehicles. This included up to £1 billion to support the electrification of UK vehicles and their supply chains, £1.3 billion to accelerate the roll out of charging infrastructure and £582 million for plug in vehicle grants.

These new technologies and greener fuels are going to play an even greater role as we kickstart our green transport recovery. Support for low carbon fuels, predominantly in road vehicles, continued under the Renewable Transport Fuel Obligation (RTFO) and in 2019 an average carbon saving of 83% was achieved compared to fossil fuel use through deployment of these renewable fuels. In addition, the Department continued to provide grant funding through a number of schemes to fund the development of UK plants to produce advanced low carbon fuels, including the Future Fuels for Flight and Freight Competition (F4C) and Advanced Biofuels Demonstration Competition (ABDC).

In February 2021, the government announced the introduction of a greener petrol known as E10 at forecourts from September. When combined with proposed RTFO target increases, E10 is expected to save 750,000 tonnes of carbon every year, the equivalent of taking 350,000 cars off the road.

Vehicle Charging Infrastructure

The UK is a global front-runner in supporting provision of charging infrastructure. Between October 2015 and publication of this report there has been a more than six-fold increase in the number of publicly available charging devices, from around 3,600 to over 23,000.

The Department will invest £1.3 billion in accelerating the roll out of charging infrastructure, targeting support on rapid chargepoints on motorways and major roads, and installing more on-street chargepoints near homes and workplaces to make charging as easy as refuelling a petrol or diesel car.

11059-DfT-Annual Report 2020-21-P1.indb 51 12/09/2021 09:48

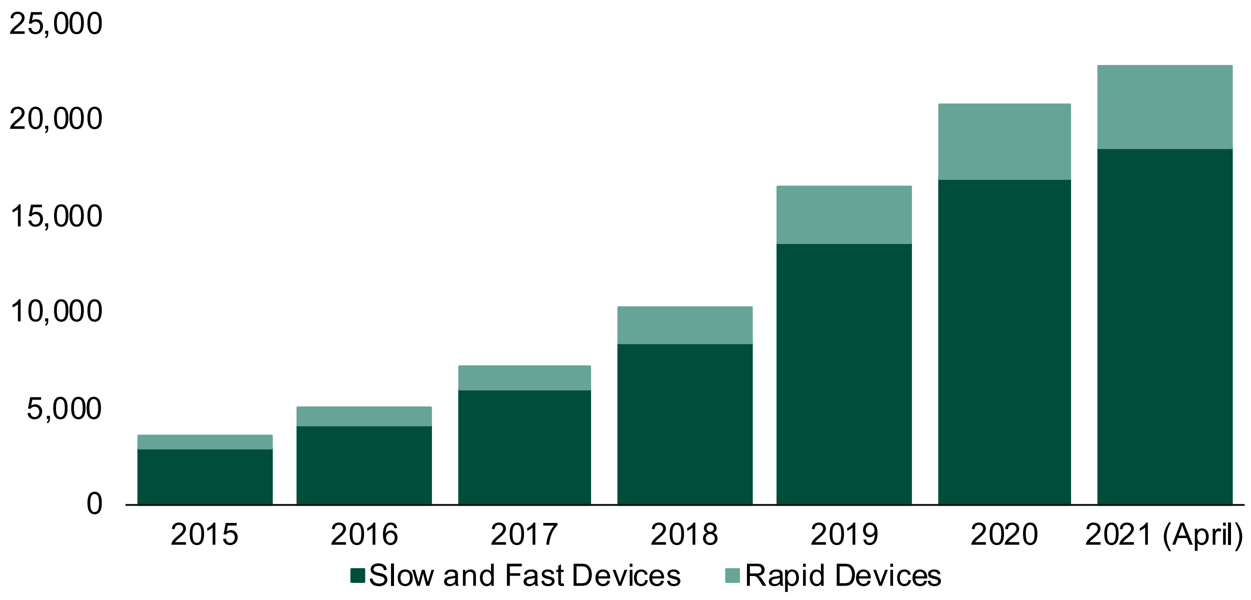


Figure 13: Cumulative Growth of Public Charging Devices since 2015

The Department's grant schemes, and the £400 million Charging Infrastructure Investment Fund will see thousands more electric vehicle charge-points installed across the UK.

The roll out of rapid charging is an opportunity to remove range anxiety for electric vehicle drivers across the roads network. To ensure the private sector can continue to expand the charging network at pace in the 2020s, the government will invest £950 million in future proofing grid capacity along the Strategic Road Network to prepare for 100% uptake of zero emission cars and vans ahead of need.

In May 2020, the Department published an ambitious vision for rapid charging infrastructure along strategic roads in England over the next decade. This vision sets out the number of rapid chargepoints that will be located across motorways and major A roads to meet the future demand for electric vehicles. By 2023, the Department aims to have at least six high powered, open access chargepoints at every motorway service area in England, with some larger sites having as many as 10-12. By 2035, the Department expect the number to increase to around 6,000 high powered chargers across the network

Delivery highlights:

- The Electric Vehicle Homecharge Scheme grant has funded over 155,000 chargepoints.
- The Workplace Charging Scheme has funded the installation of over 16,000 chargepoint sockets.
- Announcing £50 million for the home and workplace charging schemes, including refinements to the criteria to target less well-developed segments of the markets including leaseholders and SMEs, supporting the levelling up agenda.
- Announcing £20 million for the On-street Residential Chargepoint Scheme for 2020-21, to provide up to 75% of funding for local authority projects to install chargepoints.
- The number of chargepoints funded to date by the On-Street Residential Chargepoint Scheme (ORCS) almost doubled in the financial year 2020-21. Since 2017, ORCS has funded the installation of over 1,400 chargepoints across 49 local authorities.

11059-DfT-Annual Report 2020-21-P1.indb 52 12/09/2021 09:48

Funding has also been awarded for over 3,200 more chargepoints across 88 local authorities, with their installations yet to be completed.

- The opening of the first electric vehicle forecourt in Braintree, Essex, supported by OZEV innovation funding.
- The Charging Infrastructure Investment Fund began deploying funding for charging infrastructure with more investment planned.
- In February 2021, consulted on smart charging regulations and published a summary of responses, with regulations to follow later this year.
- Publishing our consultation on improving the consumer experience at public chargepoints.

Between February and April 2021, the Department consulted on using the powers under the Automated and Electric Vehicles Act to mandate minimum standards, such as payment methods, to improve the consumer experience of using public charging.

We acknowledge improvements in this area – for example, the majority of newly installed rapid chargepoints now provide contactless payment – but there is more to do to ensure consumers can charge efficiently and safely when they need to. The government is working with industry to make chargepoint data freely available, helping drivers easily locate and access available chargepoints, and in turn increasing confidence in the charging network and reducing issues around range anxiety.

Maritime Decarbonisation

In March 2021, the Department launched a £20 million Clean Maritime Demonstration Competition, to accelerate the design and development of zero emission vessels in the UK and support cleaner, greener ports. Announced as part of the Prime Minister's Ten Point Plan for a Green Industrial Revolution, this competition will lay the foundations for a network of technology demonstrations and will fund initial technology trials, preparing the groundwork for potential initiatives to accelerate the sector's decarbonisation.

The Clean Maritime Demonstration programme builds on the vision set out in Maritime 2050 and the Clean Maritime Plan and underlines the government's commitment to addressing emissions from the maritime sector. Open to UK-wide applications, this competition will encourage bids from places with existing or developing expertise in clean maritime technology, such as the Orkney Islands and the Teesside Hydrogen Hub.

In November 2020, the Department announced the creation of a Maritime Future Technologies team within MCA. The team will act as a non-regulatory centre of technical expertise in the development of zero emission and autonomous vessel technology. They will facilitate the implementation of emerging technologies on a case-by-case basis, acting as an interface between industry and the policy function by guiding innovators through the regulatory process. Learning from these projects will enable the Maritime Future Technologies team to guide and support regulatory change, scanning future requirements to adapt and evolve regulation to support the market uptake of zero emission technologies.

The creation of the Maritime Future Technologies team implements and builds upon the relevant commitment made in the Clean Maritime Plan.

Aviation Decarbonisation

The Climate Change Committee (CCC) expects the aviation sector to be the second highest residual emitter in 2050. The government recognises the critical role that the aviation sector must play in delivering the UK's net zero commitment and is already supporting a variety of technology, fuel and market-based measures to address aviation emissions. The delivery highlights from the reporting year 2020-21 are summarised below.

Delivery highlights:

- Established the Jet Zero Council in July 2020 in collaboration with BEIS, a partnership between industry and government that brings together senior leaders in aviation, aerospace and academia with the aim of delivering zero emission transatlantic flight within a generation.
- Appointed Emma Gilthorpe, Chief Operating Officer at Heathrow Airport in March 2021, to serve as the Jet Zero Council CEO. Emma will ensure the Council delivers at pace, promote its vision and increase its reach with key stakeholders across the sector.
- Established focused Delivery Groups which reflect the current priorities of the Council of Sustainable Aviation Fuels (SAF) and Zero-Emission Aircraft.
- Launched the 'Green Fuels, Green Skies' competition in March 2021, providing up to £15 million for the development of technologies which will support new technologies to convert household rubbish, waste wood, fuel gases and excess electricity into sustainable aviation fuel. A further £3 million was also committed for a SAF clearing house.
- Launched a Zero Emission Flight Infrastructure research programme in June 2021 to build our understanding of the future requirements for the aviation sector of electric aircraft. Set the sixth carbon budget to include international aviation emissions, as recommended by our independent climate advisors, the Climate Change Committee.
- Consulted on implementing the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) in the UK and committed to a second consultation by the end of 2021.
- Established the UK Emissions Trading Scheme, covering all domestic flights and flights from the UK to the EEA, with a cap 5% tougher than the EU equivalent, and committed to consulting on putting the scheme on a clear net zero trajectory.
- Supported airspace modernisation providing up to £5.5 million funding in years 2020-21 and 2021-22 to support sponsors to continue through stage 2 of the airspace change process.

In addition, in July 2021 we launched a consultation to inform our forthcoming Jet Zero Strategy, which will set out the principles and measures that we will employ to reach net zero aviation by 2050. Internally, to lead and support the delivery of this work, a new Aviation Decarbonisation Division was established in June 2020.

Heavy Goods Vehicles Decarbonisation

The government is committed to reducing emissions from the road freight sector and has been working in the last year to bring a package of policies together for the Transport Decarbonisation Plan.

The Department continued to work closely with the road freight industry to support the reduction in emissions while boosting growth.

Delivery highlights:

- Announced in the Prime Minister's Ten Point Plan for a Green Industrial Revolution that the government will consult on phasing out the sale of new diesel HGVs.
- The Office for Zero Emission Vehicles announced the Plug-in Truck Grant, which will provide extra financial support for purchasing zero emission HGVs.
- In March 2021, the Department launched a £20 million industry competition to design zero emission road freight trials which will support UK industry to develop cost-effective, zero-emission HGVs and their refuelling infrastructure in the UK.

Green public transport, cycling and walking

The Department undertook significant work in 2020-21 across buses, cycling and walking, including the publication of two landmark national strategies. In July 2020, the Prime Minister launched a 33-point plan for cycling and walking setting out a wide range of commitments to improve safety and infrastructure and drive behaviour change so that half of all journeys in towns and cities are cycled or walked by 2030[12].

This was followed in March 2021 by the publication of England's long-term National Bus Strategy, Bus Back Better[13], setting out a bold vision for bus services across the country backed by £3 billion of transformational funding, with a roadmap to decarbonise the bus fleet.

The Department announced over £1 billion of funding to keep buses running during the pandemic to ensure that operators could continue to serve those who rely on them and are working to continue to provide funding to the sector to help them recover post COVID-19.

Coventry's bus system will be transformed into an all-electric fleet as a result of £50 million funding from the All-Electric Bus Town or City scheme. The funding will see up to 300 new electric buses being rolled out on Coventry's roads delivering greener public transport options and reducing air pollution. The scheme will act as a pilot to understand what can be achieved when there is a real commitment to move all buses in an area to zero emission and to understand the challenges, and benefits, or running a wholly electric bus fleet.

Delivery highlights:

- Launched the Zero Emission Buses Regional Areas (ZEBRA) scheme which will provide up to £120 million to support the introduction of zero emission buses and associated infrastructure.
- Launched a consultation process on the ending of the sale of new diesel buses which will look at the support needed to phase out old technologies and support our goal of creating a net zero emission transport sector.
- Provided over £200 million to authorities, via the Active Travel Fund (ATF), to support an active and green recovery from COVID-19. This enabled local authorities to deliver safe and direct walking and cycling measures in their areas, such as protected space for cycling and widened pavements, to cater for the huge numbers of people who discovered, or rediscovered, cycling and walking to get around during periods of restrictions.

12 https://www.gov.uk/government/publications/cycling-and-walking-plan-for-england

13 https://www.gov.uk/government/speeches/local-transport-update-national-bus-strategy-for-england-published

- Issued over 400,000 of the £50 bike repair vouchers across England. The Fix Your Bike voucher scheme allowed hundreds of thousands of people to get their old cycles serviced and roadworthy again.
- Provided £20 million of revenue funding to local authorities to allow them to deliver a wide range of programmes to get more people walking and cycling and access work and educational opportunities through the Access Fund.

Working jointly with Defra, the Department is committed to reducing roadside NO2 levels in the shortest time possible. The 2017 UK Plan for Tackling Roadside NO2 Concentrations outlines how local authorities with air pollution concentrations above legal limits must take robust action to improve air quality.

We work with English local authorities to implement clean air plans including Clean Air Zones to target the pollution affecting their communities. The NO2 Programme has provided over £550 million to date to local authorities to take forward their NO2 plans.

The Department has continued to award grants to local authorities to encourage fleet turnover to newer, less polluting vehicles. Over £80 million has been invested to retrofit vehicles (mainly buses) with pollution reducing technology since 2013. To date over 5,000 buses have been retrofitted as well as over 200 other vehicles.

The general trend in NO_2 concentrations continues to show an improving picture as average concentrations have decreased since 2017. However, there is more to do, and the Department has ring fenced over £880 million to help local authorities take action on NO_2.

Delivery highlights:

- Delivery of new digital service on GOV.UK enabling people to check their vehicle and, if necessary, pay to enter Clean Air Zones.
- Delivery of a Clean Air Zone in Bath on 15 March 2021.
- Delivery of a Clean Air Zone in Birmingham on 1 June 2021.
- Continued delivery of targeted local action, providing funding and support to local authorities to implement NO_2 targeted measures.

Decarbonising infrastructure delivery

During the course of 2020-21, the Department established the first Carbon Management Programme across government. This five-workstream change programme aims to drive reductions in whole life carbon at project and portfolio level, and provide robust data, which will inform investment and project decision making. This includes ‘embodied carbon’ associated with the Department’s infrastructure delivery pipeline, for example emissions from materials, such as steel and concrete. It does not encompass ‘embodied carbon’ emissions that relate to the materials and manufacture of transport vehicles.

The programmes workstreams are as follows:

- **Carbon Assessment**: develop and implement a clear, consistent and enhanced method for assessing the whole life carbon impacts of DfT infrastructure projects.
- **Carbon Assurance**: enhance the role of carbon measures and assurances in Business Cases and DfT Centres of Excellence reviews.
- **Carbon Reporting**: develop reporting structures that provide the Department’s IPDC with portfolio-level oversight of the carbon impacts of transport projects.

- **Carbon Culture**: drive a cultural change around carbon in the Department and improve the Department's staff capability with regards to carbon management.
- **Carbon Reduction**: use the above framework to drive reductions in carbon emissions of transport projects, with a particular focus on Capital Carbon, to support the Department meet organisational and national decarbonisation targets.

Improving Transport for the User

Build confidence in the transport network as the country recovers from COVID-19 and improve transport users' experience, ensuring that the network is safe, reliable, and inclusive.

Alongside the delivery of large scale infrastructure projects, the Department is also making a step change in the quality of local transport – through the implementation of ambitious new plans for buses and cycling in England (Bus Back Better: The National Bus Strategy and Gear Change: A bold vision for cycling and walking) and local roads maintenance.

98% of England's roads are local – with virtually every walking, car, bike and bus journey starting and ending on them – whilst on average we use the bus 50 times a year, compared to 21 trips each year by rail. So local transport is often what matters most to transport users.

This priority puts the needs and expectations of current and potential users (both passengers and freight) at the heart of the operation of the transport system. The Department wants to ensure that the infrastructure and the services that use it meet the varied needs of businesses and the public, and are attractive, affordable and sustainable. In particular, the recent publication of the Williams-Shapps Plan for Rail white paper sets out our aims for a more efficient, financially sustainable railway that meets the needs of passengers and those who rely on rail on a daily basis. The approach focuses on building confidence and improving the public transport experience. This is especially important given the significant impact COVID-19 has had on both usage and perceptions of public transport.

We continue to work to improve the experience for road users and promote efficiency and innovation in the maintenance and management of the roads targeting improvements for longer term resilience and focus on improved travel times and greater network capacity by delivering bus priority infrastructure and cycling links. Further investment in improved accessibility will help ensure we build a transport network that works for everyone.

Continuing to improve the safety, security and resilience of the transport system also remains a key priority, including delivery of the IRP, as we consider the role of transport in national security and international policy.

This section highlights where the Department has been continuing to improve transport for the user on local and strategic roads, through bus and rail reform, by working to improve the passenger experience, accessibility and road safety as well as maintain a secure network during these unique times.

Progress made by the Department in 2020-21 is summarised below.

Bus reform

The National Bus Strategy for England was published in March 2021. It sets out the Department's plans on delivering better bus services for passengers across the country. The goal is to get bus use back to what it was before COVID-19, with ambitions to increase patronage and raise buses' mode share.

The strategy sets out how £3 billion of new money during the current Parliament will start to be invested in:

- New and increased services.
- Giving Local Transport Authorities the skills and people they need to deliver the strategy.
- Bus priority schemes to speed up journeys; and accelerating the delivery of zero emission buses.

Delivery highlights:

- The Department supported bus services throughout COVID-19. To date the Department has announced over £1 billion in emergency grant funding to support bus operators. Providing the services required so the public can continue to travel to access essential services and ensure keyworkers can safely get to their place of work. This unprecedented level of support will ensure that the sector can restart swiftly by working with their local authorities and taking advantage of the opportunities presented in the National Bus Strategy.
- The Public Service Vehicle Open Data Regulations became enforceable from 31 December 2020. This requires bus operators of local bus services across England to provide open, accurate and up to date bus data on timetables, fares and vehicle locations, to the Bus Open Data Service (BODS). Since launching BODS in November 2020, over 4936 operators have registered, with 275 operators providing timetable data and location data feeds for 19,200 of 23,000 in scope vehicles (88%), including all the big five bus operators. This service will help local authorities monitor bus service performance and work towards delivering better services (faster, more frequent) for passengers, using the Analyse Bus Data Service which launched during January 2021.
- The Department has assessed 56 bids from 44 local authorities across England to trial demand-responsive transport solutions within their area to understand whether they can work better for residents of rural and suburban areas than traditional timetabled bus services. The Department has awarded 17 successful bids a share of £20 million from the Rural Mobility Fund, which was first announced in 2019 as part of the Better Deal for Bus Users.

Local roads maintenance and renewals

Ensuring that local authorities can carry out safe and effective maintenance of this network remains a key objective for the government, as it benefits all road users, not just motorists, and is essential for the successful delivery of other local transport strategies. Local authorities are responsible, and therefore funded to help maintain their local road networks, with sustained grant funding (awarded on a needs-based formula) and other incentive-driven competitive schemes.

The main priorities in 2020-21 for the Department were to seek a reformed multi-year spending settlement for local roads that builds on the previous multi-year agreement set out in 2015-16. The Department developed a common data standard for road condition monitoring, and to continue championing and moving towards a risk-based approach to effective asset management of highway infrastructure. Last year saw the largest increase in highways maintenance spend in comparison with previous years.

During 2020-21, the Department provided £2.7 billion to local authorities in England towards the local road network. In addition to the annual £976 million agreed in 2015-16, local authorities also benefited from the first tranche of the Pothole Fund, a Budget 2020

11059-DfT-Annual Report 2020-21-P1.indb 58 12/09/2021 09:48

initiative that provides an additional £500 million a year between 2020-21 to 2024-25, along with the last £50 million tranche of the £296 million Pothole Action Fund.

COVID-19 however, introduced several operational challenges for the sector, most notably through workforce social distancing, spending constraints in tackling COVID-19, and resilience planning during adverse weather events over the winter period. Government guidance[14] for the industry in the wake of COVID-19 encouraged local authorities to maintain as close to a business as usual approach as possible. However, works on the network were expanded to help facilitate and support recovery and underpin active travel and levelling-up goals, drawing away from and deferring some maintenance operations.

COVID-19 also resulted in the subsequent reduction of maintenance funding allocated for 2021-22 (£1.125 billion) at SR20 due to central funding pressures. Unfortunately, given the one-year nature of the SR20 settlement, we were unable this time to provide longer-term funding assurance. Work continued however, at pace to develop the common data standard for road condition monitoring and aims to give authorities the flexibility to choose whichever road surveying technology best supports their asset management strategy, driving innovation in the sector.

Rail Transformation Programme

The Williams-Shapps Plan for Rail, published on 20 May 2021, outlines the Williams Review's recommendations for reform and the government's ambitions for the future of the railway. This includes ending the fragmentation of the past and bringing the network under single national leadership via a new public body, Great British Railways (GBR), who will own the infrastructure, receive the fare revenue, run and plan the network and set most fares and timetables.

The commitments set out in the white paper focus on delivering 10 outcomes, which include: new ways of working with the private sector, with Passenger Service Contracts (PSC) replacing franchising bringing a new focus on reliability, performance and efficiency; ticketing reforms and flexible season tickets; a new offer for freight; and a modern passenger experience, focussing on high quality and consistent services.

The Williams Review, chaired by Keith Williams, was launched by the government in September 2018 to look at the structure of the whole rail industry and the way passenger rail services are delivered. While the review was close to completion in late 2019, the COVID-19 outbreak had a significant impact on the review; most of the Review team were redeployed to support critical work on the Department's initial response to COVID-19 from March 2020 and extensive work has been required to ensure conclusions are appropriate for and would support recovery from COVID-19. Since summer 2020, significant progress has been made in re-establishing the directorate, finalising the Review and publishing the white paper, and setting up the transformation programme to deliver the reforms.

Rail Concession Contracts

In March 2020, in response to the impact of COVID-19 on public transport, the Department implemented Emergency Measures Agreements (EMAs). This was as a result of the rapid revenue loss to train operators, making their existing Franchise Agreements untenable.

The Department made sure rail operators could deliver the services passengers needed and worked with Network Rail and Train Operating Companies (TOCs) to ensure vital rail services continued to operate.

14 https://www.adeptnet.org.uk/system/files/documents/200424%20Letter%20Covid-19%20-%20Highway%20Maintenance%20and%20Construction.pdf

11059-DfT-Annual Report 2020-21-P1.indb 59 12/09/2021 09:48

This collaboration with the rail industry allowed the Department to balance the need to protect the public purse with the requirement to keep the country moving and allow those who needed to travel to do so safely.

EMAs were replaced by the Emergency Recovery Measure Agreements (ERMAs) in September 2020, which amongst other things contain tougher performance targets to aid towards improving passenger performance.

ERMAs will be replaced with National Rail Contracts (NRCs), which are being negotiated through a programme of Direct Awards to TOCs in three tranches, with the final tranche expected to be completed in April 2022.

NRCs will act as a bridge to support a stable transition from the emergency measures to the PSCs, as envisaged by the Williams Review. Both NRCs and PSCs are intended to provide a contractual relationship with private sector TOCs that results in greater collaborative/cross-industry working and enhanced flexibility. They prioritise high quality services for customers, cost efficiency, improved train performance and better social outcomes to support the recovery from COVID-19. PSCs will in time replace NRCs and the design work for PSCs is ongoing.

Performance and passenger experience

The building of new rolling stock was interrupted for a short period while social distancing measures were put in place from the onset of COVID-19.

Significant disruption to services occurred in May 2021, when the Hitachi Class 80X Series trains, including the trains procured by the Department under the Intercity Express Programme were withdrawn from service as a precautionary measure when a number of trains in the fleet exhibited cracks in a localised section of the chassis. The trains that were affected were GWR's 'Intercity Express', LNER's 'Azuma' and TPE's 'Nova 1' trains.

The vast majority of the 182 trains impacted by the withdrawal operated on GWR and LNER services, although a smaller number were used by Hull Trains and TransPennine Express. While disruption was significant, especially on the GWR network, over 90% of services across the national rail network as a whole were unaffected.

Risk assessments were promptly developed by the manufacturer, operators and the ORR which made it possible for many of the trains to progressively return safely into service later in the month.

In the medium term, GWR and LNER were able to mitigate some ongoing cancellations by obtaining additional trains from train leasing companies and from other operators.

From late May 2021, LNER re-introduced three of the Intercity 225 trains, that had previously operated on the East Coast Mainline. It is anticipated that this will increase from September 2021 to support the Azuma fleet and deliver wider timetable enhancements.

In July 2021 GWR temporarily subleased six Gatwick Express Class 387 from GTR trains, which combined with the three trains of a similar type from c2c supported services on the Berks and Hants line between London and Newbury, and on services between London and Bristol Parkway

The Department and the ORR are actively engaging with Hitachi and the Operators of the train to implement a plan to address this issue.

The government and the rail industry also revised the train timetable to ensure passengers received a regular and reliable service. In January 2021, the Department instructed operators to reduce the number of services they run during lockdown to reflect lower demand, deliver better value for taxpayers, and ensure services remain reliable and sufficient to support social distancing guidance. Services dropped to approximately 70 per cent of pre COVID-19 levels and are being restored as demand returns.

In preparation for further easing of restrictions, operators increased provision to approximately 85 per cent of pre COVID-19 service levels, in May 2021. As at the end of June 2021, demand had recovered to around 50 per cent of pre-COVID levels. The recovery has not been evenly distributed with peak periods seeing weaker recovery than the rest of the day. The industry will continue to respond to changing demand patterns as we recover from the pandemic.

Over the last year, while network usage has been at a record low, performance improved substantially. The Department and industry used this opportunity to restore trust in the railway and build back a better railway for passengers. The Department is designing contractual agreements to include a range of performance incentives, for example, for operational performance and customer experience, to ensure performance is maintained and services reflect changes in demand.

Strategic Roads – maintenance and renewals

Throughout COVID-19, Highways England maintained the motorways and major A road services as well as its programme of ongoing maintenance. Highways England also launched its COVID-19 transport toolkit, which collated government guidance and key practical information for professional drivers.

In 2020-21 Highways England began the first of an ambitious five-year programme of renewals of road surfaces, key structures and technology. It took advantage of lower than usual traffic levels to accelerate works through bank holidays when works are usually removed. Around £27 million worth of construction and maintenance work was carried out on the Easter and May 2020 bank holidays alone.

Through the Safety and Congestion Fund, Highways England delivers safety schemes across the network such as on the A64 in Yorkshire to create ‘village gateways’ with improved signage and reduced speed limits where necessary to improve safety for people using and crossing the A64.

Highways England has continued to make improvement in the way it communicates to road users, developing the way it uses Variable Messaging signs, particularly communicating key COVID-19 and EU Exit related messages, and is working towards targets the Department has set to provide more timely information about planned road closures.

Accessible Transport reform

The Inclusive Transport Strategy: Achieving Equal Access for Disabled People remains integral to the Department’s aspiration of realising a fully accessible and inclusive transport system by 2030, with assistance if physical infrastructure remains a barrier. The Department published a report on progress against the strategy in November 2020, detailing the achievements during 2019-20.

During 2020-21 the Department has continued to make progress against the strategy and on further policy initiatives to enhance accessible travel.

Delivery highlights:

- Published details of a new grant funding competition for Small Medium Enterprise (SMEs), designed to develop innovative solutions to accessible travel challenges. This is known as the Accessibility-Technology Research and Innovation Grants (A-TRIGs).
- Announced the first transport companies to receive accreditation under the Inclusive Transport Leaders Scheme.

- Launched new, and freely available, disability-equality training for transport staff and across all modes of transport.
- Committed to making accessibility improvements for bus passengers within Bus Back Better: National bus strategy for England, published in March 2021.
- Entered into contractual arrangements with external suppliers to revise guidance on the accessibility of the public realm, and to review the "reference wheelchair" standard. The Department expects both exercises to be completed during 2021-22.

While we have made progress in the highlights noted, the impact of COVID-19 has meant that the Department had to re-prioritise resources during 2020-21, and some activities have been unavoidably delayed. The Department has paused the internal governance programme for monitoring progress against the strategy, as well as regular engagement with dedicated stakeholder group. The Department also put on hold the public awareness campaign (It's Everyone's Journey) following the first lockdown taking effect and did not carry it over to 2020-21 as originally planned.

Road User Safety

The Department and Highways England are committed to improving the safety of all road users and reducing the number of people killed and injured on the roads.

Highways England have made good progress on taking forward the actions from the Secretary of State's smart motorway safety evidence stocktake and action plan, published in March 2020, including launching a new campaign giving drivers clear advice about what to do in a breakdown. A progress report was published on 20 April 2021.

In March 2021, the Secretary of State for Transport commissioned the ORR to independently review the data concerning the safety of All Lane Running (ALR) motorways to provide further analytical assurance and ensure that the conclusions arrived at in the March 2020 report were robust. He also requested that ORR conducts quality assurance of the data and evidence presented in the stocktake and the one-year-on progress report that Highways England published in April 2021.

During 2020-21 the Department completed 39 of the 74 actions from the 2019 Road Safety Statement, along with relevant actions from the Cycle and Walking Investment Strategy (CWIS). The Department has also started work on a further 33 actions from the Road Safety Statement.

The Department will also bring forward amendments to The Highway Code, to protect vulnerable road users. This follows the 2019-20 commitments, to conduct a review as part of CWIS.

The Department will bring forward legislation, as announced in February 2021, to remove the Vnuk[15] decision from Great Britain law now that the UK is not part of the EU. This will confirm that motor insurance is only required on roads and other public places as defined in the Road Traffic Act 1988.

The Department will also ensure there is ongoing monitoring and evaluation of the Safer Roads Fund's 50 most dangerous A roads.

15 https://www.gov.uk/government/publications/vnuk-decision-the-effect-on-domestic-motor-insurance

Delivery highlights:

- Delivered the review of roads policing, including the first inspection of Her Majesty's Inspectorate of Constabulary in over 20 years.
- Funded six Challenge Fund projects to meet commitments from the 2019 Road Safety Statement.
- Completed funding for the Safer Roads Fund, including £35 million instalment of the total £100 million.
- After six years of engagement with manufacturers, the Home Office, the Defence Science and Technology Lab, and the Department delivered the first modern evidential breath testing device for Home Office type approval testing to prosecute drink driving.
- Continued to engage internationally, including working at the United Nations level on the Resolution for the next decade of action on road safety. This includes extending the goal to 2030 of cutting road deaths by 50% and setting up a path to greater international collaboration, to work towards this goal.
- Completed recruitment for the Driver 2020 project[16]. Over 28,000 young drivers are now engaged in this real-world trial of technological, educational and behavioural interventions designed to improve their safety (the project will report in 2023).

National security and resilience

A secure and resilient transport network connects people and places, increases prosperity and improves people's quality of life. The Department supported the development of Global Britain in a competitive age: The Integrated Review of Security, Defence, Development and Foreign Policy, and is delivering significant security programmes to support its objectives.

The Department takes a robust approach to protecting the travelling public and the critical supply chains, tailoring security requirements and legislation to each mode of transport. We prepare for, and respond effectively to, emergencies and unexpected events affecting all forms of transport – reducing risks for users and when incidents and disruption do occur, keeping people informed and recovering as quickly as possible. The Department has responded to the recent challenges presented by COVID-19 through coordinated action and by taking a strong, but proportionate approach to regulatory requirements, inspection and compliance throughout the pandemic.

We continue to respond to the evolving threats outlined in the Integrated Review, including supporting investment in new science and technology capabilities, working to protect the transport network from cyber-attacks and enhancing our abilities to scrutinise foreign investment into the sector through the new National Security and Investment Act.

Increase our Global Impact

Boost our influence and maximise trade by having an innovative, outward-facing approach

Following the UK's exit from the European Union, an independent Global Britain can take advantage of the opportunities that come with our new status as a fully sovereign trading nation. The Department plays a vital role in increasing the UK's impact and leadership across the global transport system. Central to this has been our work to develop a departmental International Strategic Framework, supporting our work in areas such as cross-modal engagement

16 https://driver2020.co.uk/

with international forums such as the G7 in the UK's Presidency year, supporting Free Trade Agreement negotiations and ongoing work around international engagement opportunities to deliver transport and trade objectives, and implementing transport sanctions. The Department is also supporting the UK's programme of events at Expo 2020 Dubai including the organisation of the 'How Will We Travel?' event.

COVID-19 saw the global transport sector face challenges that it has never seen or experienced before, but nonetheless, it remained crucial that all transport modes continued to function to supply nations with food, medical supplies, and fuel. Maritime, aviation and well-functioning freight and logistics services are a key priority and fundamental to the UK's global trade, whilst our work to boost exports and investment are central to the UK's economic recovery from the pandemic. Since the outbreak of the pandemic, the Department has coordinated a 24-hour global response to manage the challenges faced in repatriating foreign national seafarers in the UK and British national seafarers overseas. The last year has also been hugely significant for the sector with the application of the EU-UK Trade and Co-operation Agreement (TCA). Following the UK's departure from the European Union, the Department has played an important role in managing potential impacts of the transport system arising from new border checks.

The Department has enhanced its global impact through our work on developing leading edge transport research and innovation, particularly in tackling transport's contribution to climate change. The government stated its commitment to make the UK a science superpower by 2030 and the Department has continued this work in areas such as hydrogen transport technology and infrastructure, and reduced emissions technology, such as the launch of Jet Zero to support the innovation of sustainable aviation fuel.

Progress made by the Department in 2020-21 is summarised below.

Agreeing the UK's future relationship with the EU for transport

The Department supported the UK's Chief Negotiator, Lord Frost, in negotiating the transport-related elements of the UK's future relationship with the EU. The new UK-EU Trade and Co-operation Agreement (TCA) provides the legal basis for air, road freight and road passenger transport operations between the UK and EU following EU Exit and the end of the Transition Period.

Delivery highlights:

The Trade and Co-operation Agreement includes:

- Rights for UK airlines to fly between the UK and EU.
- Arrangements for mutual recognition of safety approvals for aviation products.
- Rights for UK hauliers to carry goods between the UK and EU and undertake some business within the EU.
- Provisions that will maintain connectivity for international bus and coach services.
- A chapter on maritime services that will ensure non-discriminatory treatment for UK ships servicing EU ports.
- An annex on automotive standards that will allow for mutual recognition of product approvals against UN standards.

In addition to supporting the negotiations, the Department actively maintained readiness for the end of the Transition Period. This included providing assets to partners in Kent to hold HGVs in the event of disruption to freight traffic supporting their traffic management plans and ensuring uninterrupted supply of critical goods by procuring government secured freight capacity. The Department also developed the inland border facility at

Sevington which enables HMRC and Defra to carry out border checks as well as holding capacity in the event of disruption. The Department also worked closely with Cabinet Office and other relevant Departments on implementation of the Northern Ireland Protocol, including in relation to the regulatory provisions that apply to most transport product sectors.

Supplementary to the TCA, the Department negotiated bilateral agreements with EU/EEA countries to allow the continued mutual recognition of visitors' driving licences and a simple exchange process for residents' driving licences.

The Department has taken the necessary actions to ensure the TCA can be applied and the rights in the agreement exercised.

Trade Policy & Free Trade Agreements

The Department has worked closely with the Department of International Trade (DIT) and other departments to ensure that transport interests are being advanced through the negotiation of Free Trade Agreements (FTA) with third countries. The signing of the UK-Japan FTA in October 2020 was an important milestone for the UK and secured a continuation of the transport rights the UK had in the previous EU-Japan FTA. Since then Agreements in Principle have been reached with the EEA/EFTA states and Australia, signalling the UK's strong commitment to the principles of free trade. Negotiations remain ongoing with the US and New Zealand and work is underway to accede to the Comprehensive & Progressive agreement for Trans-Pacific Partnership (CPTPP).

Freeports

In 2020-21 led by HMT and MHCLG, the Department supported the roll out of the Freeports initiative ensuring the needs of the transport sector were accurately reflected in policy design.

Freeports will:

- Be national hubs for global trade and investment
- Promote regeneration and job creation
- Create hotbeds for innovation.

Delivery highlights:

- Amplifying the Freeports Consultation to ensure the transport stakeholders had opportunities to feedback on the policy design.
- Engagement with a wide range of transport stakeholders at all stages of the process to ensure the initiative aligns with the requirements of the transport sector.
- The announcement of eight Freeport locations in England during the Chancellor for the Exchequer Budget speech. The locations are East Midlands Airport, Felixstowe and Harwich, Humber, Liverpool City Region, Plymouth and South Devon, Solent, Teesside and Thames.

The Freeports initiative supports the Department's ambition for a freight strategy that builds on the UK's status as a global facing port nation. It will amplify UK ports of all modes as hubs for innovation and investment, transforming our freight systems.

The Department will now work with MHCLG to support the development of robust business cases for each Freeport with locations being operational by late 2021. The Department will also support the Freeports initiative in the Devolved Administrations.

Heathrow Expansion

The Heathrow Expansion Programme covers the government's policy activities to enable delivery of a new Northwest runway at Heathrow Airport (subject to the granting of development consent). The funding and delivery of the programme is led by Heathrow Airport Ltd.

In December 2020, the Supreme Court overturned the earlier Court of Appeal decision and declared that the Airports National Policy Statement is lawful. The Department is now considering the appropriate next steps.

Heathrow Airport Ltd suspended all work on expansion at the onset of the pandemic. As passenger numbers recover, the airport's immediate focus is continuing to ensure passenger safety and maintain service levels – it intends to consult with investors, government, airline customers, and regulators on its next steps.

Air Traffic Management and Unmanned Aircraft Act

The Air Traffic Management and Unmanned Aircraft Act was introduced into the House of Lords on 9 January 2020 and received Royal Assent on 29 March 2021.

The Act:

- Allows the Secretary of State to direct an airport or other relevant body to progress or co-operate with an airspace change proposal submitted to CAA to change the design of airspace. Decisions to direct will be appealable.
- Allows CAA to make changes to the licence conditions following consultation with the licence holder, however without requiring their agreement. The modification will be appealable by the licence-holder, airlines and certain airports whose interests are materially affected.
- Provides the Secretary of State with temporary powers until the 2024-25 winter flying season to continue to provide alleviation from the 80:20 – use it or lose it – airport slot usage rule, as a result of COVID-19.
- Provides new police powers to tackle the unlawful use of unmanned aircraft. These include the ability to require a person to land an unmanned aircraft and enhanced stop and search powers where unmanned aircraft related offences have taken place.

Spaceflight Implementation

The Department is a key partner in the Spaceflight Programme and responsible for the regulatory framework to enable launches to take place from the UK from 2022.

Delivery highlights:

- Ran two consultations on the draft Space Industry Regulations and guidance that will implement the Space Industry Act 2018. Published the government response on 5 March 2021[17].
- Prepared the new regulatory framework that will be introduced into Parliament in spring 2021, and the regulations will be in force by the summer 2021. The Civil Aviation Authority will become the commercial spaceflight regulator and will be ready to start accepting licensing applications.
- Ran a consultation from 10 February to 24 March 2021 on the government's environmental objectives, which the spaceflight regulator will take into account when exercising its functions. The response to that consultation will be published in summer 2021.
- On 16 June 2020, the US and the UK concluded the Agreement on Technology Safeguards Associated with US Participation in Space Launches from the UK. This Agreement, upon entry into force, establishes the technical safeguards

17 https://www.gov.uk/government/consultations/spaceport-and-spaceflight-activities-regulations-and-guidance

to support US space launches from the UK. It also ensures the proper handling of sensitive technology consistent with the two nations' long-standing partnership and roles as founding members of the Missile Technology Control Regime.

Maritime & freight supply chain resilience

In 2020-21 the Department supported the smooth running of freight into and around the UK both during COVID-19 and following the end of the EU transition period.

When the first national lockdown put key freight routes at risk, the Department took action to safeguard movement of critical freight including:

- Implementing an unprecedented monitoring and reporting process to capture cross-modal information on the health of the freight network. This required reporting on key issues from freight sectors, and the Department is thankful to the sector, which responded positively and continue to input into the government agenda. The operator data and intelligence contributed to a freight dashboard that helped inform the government decision making on COVID-19 freight response.
- Close engagement between ministers and the freight sector throughout COVID-19 to understand first-hand the issues and what the government could do to assist the sector.
- On 24 April 2020, the Secretary of State for Transport announced a package to support the flow of critical goods on up to 31 routes between Great Britain-Northern Ireland and Great Britain-mainland Europe. The support package included placing Public Service Obligations on 16 routes, and contracts were signed with 6 operators. The Public Service Obligations lasted nine weeks from 11 May and reimbursed operators for fully variable costs plus an appropriate attribution of other costs where they would otherwise have made a loss.

Work across government to agree the reasonable worst-case assumptions for the end of the Transition Period showed that there was a risk of severe short-term disruption. The Government took a number of measures to mitigate this risk including haulier information campaigns and requiring HGV drivers to obtain a Kent Access Permit confirm that they had the correct border documentation before using Kent roads to access Port of Dover and Eurotunnel. These measures reduced the number of HGV drivers that had to be turned back from the ports avoiding the disruption that would otherwise have occurred.

The Department provided additional holding capacity for HGVs. Highways England has put in place a moveable barrier which can be deployed rapidly on the M20 allowing HGVs on international journeys to be held while other traffic can flow both ways on the motorway. The Department secured Manston airfield for 6 months at the end of the Transition Period. These measures together with the development of Sevington Inland Border Facility enabled a rapid response to the closure of the border with France in December 2020 and subsequent requirements for COVID-19 testing of HGV drivers (with COVID-19 testing provided at Manston and Sevington to drivers using these sites).

To mitigate this risk, the Department procured capacity to support the flow of vital Category 1 goods between the UK and the EU. Category 1 goods are critical to the preservation of human and animal welfare and/or national security, such as human and veterinary medicines. Capacity was procured from four freight operators – Brittany Ferries, DFDS, P&O Ferries and Stena Line – operating across nine routes using eight ports in England.

To complement the direct outreach and engagement with hauliers and haulier managers in the UK, EU and rest of world through industry-facing events and exhibitions, the Department set up a network of Information and Advice Sites (IAS) to provide supplementary support to GOV.UK guidance, giving hauliers the opportunity to discuss the border and traffic management changes and enhanced advisory readiness checks with the aim of maintaining smooth freight flow at borders. At its peak there were 47 locations, seeing over 275,000 engagements since their launch on the 2 November 2020. We also developed guidance on printed materials, handbooks, training, and outreach (delivered both face to face and virtually), translated into multiple languages.

When France temporarily closed its borders with the UK in December 2020, and agreement was reached to test hauliers with LFD (Lateral Flow Devices), the Department adapted IAS network to offer testing as well as border readiness advice. This took pressure away from Kent and allowed hauliers to get tested at locations most convenient for them, thereby minimising the risk of disruption and protecting freight flows. Since then, other countries have introduced and eased similar requirements. On 6 April we introduced bespoke haulier testing for those coming into England and staying for more than two days. We currently have 41 testing locations that are still operational to support the bespoke testing regime and respond to any international requirements. Compliance with the testing regime is high, and we have tested over 600,000 hauliers since December across England.

Be an Excellent Department

- The five themes of the People Strategy.
- Proactively and effectively engaging with our stakeholders including our public bodies.
- Striving for improvements and efficiencies in the way we run and manage projects and programmes.
- Exploiting innovation, technology and data including through our scientists and analysts.

People Strategy

Our ambition is to have a highly professional, skilled, diverse and motivated workforce. To support the Department's Strategic Objectives, we have agreed five priority themes for our People Strategy: Building a flexible workforce, Learning for all, Inclusive and supportive workplace, Inspiring leaders and effective managers and people centred systems and policies (the latter two are more fully covered in the People and Remuneration report pages 142 and 143)

Throughout 2020-21, like so many other organisations, the Department relied on the strength, capability and resilience of its people. The digital services team ensured the Department's infrastructure allowed staff to pivot to remote working and continue to work at near full capacity. While staff showed resilience and agility flexing to this new style of working the Executive were acutely aware of the need for strong visible leadership which was reflected in the 2020 People Survey results showing an increase of 3 percentage points in our engagement score, to 67%, with big increases in the percentage of people saying they have confidence in decisions taken and believe leaders are visible.

Home Working and Wellbeing

During 2020-21, COVID-19 made clear the need for comprehensive health and wellbeing services. Workloads increased as the Department responded to the pandemic at the same time as progressing routine business. More than half of staff felt they had an acceptable workload and the percentage of staff who considered they had a good work life balance declined. The Department Wellbeing Team implemented a range of additional support services to ensure staff being able to comfortably and safely work from home was a priority. Support for home working included replicating workplace adjustments, as well as virtual workplace assessments for those needing additional equipment. They also provided additional support for teams and individuals on emotional wellbeing and resilience, stress, isolation, loneliness, and dealing with uncertainty.

In parallel the Department ensured offices were COVID-19 safe for those needing to work from them due to their specific job role or for wellbeing purposes. Appropriate risk assessments have been carried out and procedures put in place to ensure buildings were and continue to be safe for limited staff reoccupation.

Building a flexible workforce

During 2020-21 significant steps were taken to build the resilience and flexibility of the Department's workforce in the face of the huge demand on Departmental resources to support COVID-19 response and the end of the EU transition period.

The Department has strengthened the workforce planning capability which allowed for more informed and timely resourcing decisions across a range of approaches: internal redeployment, hiring temporary and permanent staff and inward secondments. All contributed to the Department delivering a highly effective operational response as well as retaining focus on much of the business-as-usual agenda.

At the peak of the Department's winter response, around 1300 staff were working on either COVID-19 response or EU Transition including a Departmental Operations Centre, a dedicated COVID-19 Directorate and resource embedded across other teams in the Department.

Following success through the year, improved workforce review practices are now embedded across the Department. This includes a move to volume-led recruitment campaigns for policy skills, strengthening the apprenticeship routes, and better access to recruitment markets across the geographic locations.

We continue to be an active participant of government internships and outreach initiatives; including the Summer Diversity Internship and Autism Exchange Programmes to diversify and strengthen early talent pipelines.

Future DfT Programme

The Future DfT Programme was set up in early 2020 to transform where and how we work, delivering the Department's commitment to the Places for Growth Programme and renewing the ways of working to support an increasingly dispersed organisation to operate in a hybrid manner.

On 15 March the Secretary of State announced plans for growing the Department's presence in Birmingham and Leeds, with an initial 650 roles across both locations by 2025.

The Department has already recruited over 100 staff, creating opportunities in the regions of the UK which previously did not exist, embedding our staff closer to the cities and regions we serve.

Learning for all

The Department continues to make a significant investment in building the skills and capability of all staff, ensuring the learning and development curriculum is aligned with the core learning strands set out in the new Government Curriculum. We continue to work with the Government Skills and Curriculum Unit to help shape this work and the implementation

The learning priorities for the year have focused on building:

- core skills
- leadership and management capability
- professional capability (working closely with Heads of Professions across the department to deliver)
- diverse and inclusive teams.

For the first time this year, due to the impact of COVID-19, all learning was delivered virtually. Increasing accessibility and take-up without reducing the range and quality of learning available.

The Department also remains fully committed to supporting the government's pledge to increase the quantity and quality of apprenticeships to drive the development of a diverse, inclusive and productive workforce that meets the skills, capability and delivery needs of the Civil Service.

We have developed and implemented a new Apprenticeship Strategy; moving us towards a cohort-based model of recruitment and enabling DfTc to achieve the annual 2.3% headcount target for apprenticeships during 2020-21.

Inclusive and supportive workplace

The Department aims to be a leader on inclusion in both the Civil Service and the transport sector. In 2017, we published the first Diversity and Inclusion strategy, Different People, One Team, which set out the five shared goals for a more diverse and inclusive workplace by 2021. This strategy will be refreshed for 2021-24[18].

Bernadette Kelly is an Inclusion Champion leading on Socioeconomic Diversity for the Civil Service and the Theme Lead for Locations. Within the Department, there are senior champions who take personal responsibility for leading and supporting their area. The champions are:

- Gender (Rannia Leontaridi)
- Age and carers (David Hughes)
- LGBT+ (Nick Joyce)
- Disability and Wellbeing (Clive Maxwell)
- Race (Emma Ward)
- Faith and belief (Nick Bisson)
- Social Mobility (Gareth Davies).

These champions act as change agents, responsible for reiterating the Department's commitment to becoming one of the leading government departments in promoting good practice on inclusion in employment.

Like many organisations in the aftermath of the death of George Floyd in the United States, the Department needed to demonstrate to its BAME staff that it was listening to their concerns about issues of race in the workplace. Over the course of the summer, staff were engaged in conversations about race and the Department, and in partnership with the staff networks, developed and published a Race Action Plan to address inequalities in the representation and experience of DfT BAME staff. Amongst other milestones achieved, this has resulted in the creation and delivery of a Department-wide talent programme for BAME and Disabled staff 'Ascend". The Ascend programme seeks to improve confidence and increase opportunity for candidates on the programme.

The Department has also put in place a reverse mentoring scheme, focusing on protected characteristics, to match all SCS with a reverse mentor within the department and to encourage the sharing of knowledge and experience through all levels of the organisation.

In March 2021 Ingeus UK accredited the Department as a 'Disability Confident Leader Level 3' employer, and the Department have held this accreditation since 2017. The Disability Confident scheme encourages employers to become more confident about employing disabled staff.

The Disability Confident principles are used to promote a culture of disability inclusion and accessibility. These principles are translated into action plan commitments and monitored for Disability Confident accreditation submissions. For example, during the recruitment process vacancy holders are

18 The Department also publishes its equality monitoring data annually on https://www.gov.uk/government/collections/department-for-transport-s-compliance-with-the-equality-duty

supported to ensure they understand what reasonable adjustments candidates require to perform at their best with Department's hiring managers undergoing 'Inclusion in the Civil Service' training.

The Department supports staff members to keep a record of adjustments on a workplace adjustment passport to capture all agreed workplace adjustment requirements of employees, whether physical or non-physical, to minimise the need to re-negotiate workplace adjustments when a staff member moves post or to another government department or is assigned a new line manager.

There are a range of staff networks in DfTc, providing support in many 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. The networks are strong partners of the Department's diversity and inclusion work, including representing people, and engaging on matters including race, faith, disability, gender, caring responsibilities, sexual orientation and identity, age, social mobility, working pattern, working location and armed forces veterans.

Effectively Engaging with Stakeholders and our Public Bodies

The Performance Report highlights a number of areas where the department has been working across the sector often in partnership with others with communications and stakeholder engagement a key pillar of the department's response to the pandemic, The latest stakeholder survey, conducted by YouGov in March 2021, found that our principal stakeholders believe the Department has adapted well to the challenge of remote engagement and has exploited opportunities and efficiencies. There was a high level of satisfaction with their working relationships with DfT colleagues, and stakeholders understand the Department's priorities and how to work with us.

86% are very satisfied with their relationship with DfT

82% said DfT had adapted well to remote working

83% said people are responsive.

Shareholding and Corporate Sponsorship

As part of the Department's focus and ongoing commitment to promoting good governance, the Shareholding and Corporate Sponsorship Directorate was established in January 2021, for the Department's largest public bodies. It is also home to the Public Bodies Centre of Expertise, which provides corporate governance advice and conducts reviews for new and existing public bodies across the Department. The Directorate seeks to:

- Work with ministers to provide clear objectives for the public bodies, built on clear accountabilities and delegations.
- Support robust ongoing relationships between ministers and the organisations, focused on holding the public bodies to account in delivering effectively and efficiently against ministers' objectives.
- Ensure the public bodies boards are capable and diverse with Directors who are empowered, accountable and effective, including via successful public appointments.
- Work with public bodies to ensure effective governance, controls and risk management.

The Department has worked closely with the public bodies in further strengthening and simplifying delivery objectives, key performance indicators (KPIs) and scorecards. These allow the Department to work closely with the Public Body Boards to oversee and drive performance against key priorities.

2020-21 has seen successful key appointments across the Department's bodies. Dipesh Shah was appointed as Chair of Highways England in September 2020, whilst Sir Peter Hendy's tenure as Chair of Network Rail was extended in March 2021. The Directorate also commenced the search for a new HS2 Ltd Chair. The Directorate has worked with the Williams Shapps Plan team to prepare to develop strong governance of interim delivery arrangements and with the Cabinet Office to ensure an appropriate controls framework for the Department's public bodies, and this work will continue in the coming year.

Continuing to improve Project Delivery

In 2019, the Department launched an ambitious programme to improve how the Department delivers its projects building on the Lessons from Transport for the Sponsorship of Major Projects.[19]

The Project Delivery Improvement Programme (PDIP) was focused on the delivery of improvements against five workstreams:

- Embedding the 24 lessons
- Improving Portfolio Management
- Roles and Responsibilities
- Behaviours and Culture
- Capacity and Capability.

Delivery highlights:

- A redesigned approach to managing the Department's portfolio of projects and programmes, which strengthened the ability to monitor and hold projects to account for delivery.
- Clarity on the roles of senior project leaders, including Senior Responsible Owners, and progress in addressing gaps in senior leadership resourcing gaps, including a new Rail Infrastructure Group.
- A new Shareholder and Sponsorship Directorate that is responsible for working with the Boards of the major public bodies, to ensure that they are aligned to ministers' objectives, capable and well governed, performing strongly and working effectively with the Department.
- Increased awareness of common project delivery pitfalls through the 24 lessons, enabling earlier intervention and establishing a framework for the future, as well as an enhanced understanding of the importance of project delivery behaviours.
- In March 2021, the Department launched the second phase of the program to continue to strengthen its approach to project delivery via the Project Delivery Improvements Programme.

This will continue to build on the successes of PDIP, with a view of targeting the following areas:

- **Workstream 1: Improving Our Portfolio Insight and Analysis** – To ensure decision making is underpinned by accurate data and insightful analysis.

19 https://www.gov.uk/government/publications/lessons-from-transport-for-the-sponsorship-of-major-projects

- **Workstream 2: Setting Up Projects for Success** – To improve the deliverability of projects over the project lifecycle through greater focus on successful project initiation.
- **Workstream 3**: **Improving the impact of Project Assurance** – To support the early identification of delivery risks throughout the project lifecycle, ensuring that they are properly mitigated, and lessons learnt.
- **Workstream 4: Learning from Experience –** To continue PDIP lesson activities to ensure projects are learning from experience throughout the project lifecycle.
- **Workstream 5: Improving understanding of our project professionals and workforce requirements** – To support senior leaders in understanding and responding to current and future project resourcing gaps in DfTc.

Rapid Review of DfT Project Delivery

In addition, the Department has taken forward recommendations made in March 2020 following the rapid review of project delivery as part of Project Speed. The rapid review set out recommendations according to five key thematic areas:

- Planning, consent, and appraisal
- Procurement
- Data, innovation, and Modern Methods of Construction (MMC)
- Supplier, industry transformation
- Governance and portfolio.

In June 2020, following the Prime Minister's announcement launching the Project Speed Infrastructure Delivery Taskforce, the Department quickly established a Project Speed team to take forwards work across the initial priorities which were:

- Planning and environmental reform
- Construction reform
- Governance and accountability
- Project Delivery capability.

Acceleration

The Acceleration Unit was launched later in October 2020 by the Secretary of State, as an extended ministerial office to support the government's agenda to build back better, faster and greener. The Unit works across all modes to accelerate the development and delivery of transport projects and policy. The unit collaborates with teams across the department to ensure delivery and assigns a designated project leader for each prioritised project.

The Acceleration Unit's early priorities as set by the Secretary of State were:

- **National Bus Strategy** supporting the policy development of the Strategy published in March 2021.
- **Northern Transport Acceleration (NTAC)** initially convened in September 2020, as an advisory forum to provide northern leaders with regular and more direct access to ministers. NTAC acts as a mechanism for speeding up key decision making and rapidly progressing projects. Since the Acceleration Unit's involvement in NTAC, 112 schemes have come through the process with three schemes already resolved.
- **Restoring Your Railway programme (RYR).** The unit supported peer reviews, business case interrogation and challenging across the portfolio of RYR. The unit is currently focused on the development of 12 schemes with particular attention on the accelerated delivery of the Dartmoor and Northumberland Lines.

Transport Infrastructure Efficiency Strategy (TIES)

TIES is a collaboration between the Department, East-West Railway Company, Highways England, HS2 Ltd, Network Rail and TfL. It aims to ensure taxpayers get best value for money spent on new transport infrastructure. TIES, which has a strong alignment to the Department's response to Project Speed and the implementation of the Construction Playbook identified Seven Challenges to achieve this goal, grouped into three work programmes:

- Increasing the understanding of the critical data, metrics, and forms of systems integration needed for more effective infrastructure delivery.
- Applying this intelligence to select MMC and digital technology demonstrators that accelerate adoption and achieve wider strategic goals such as net-zero.
- Evolving our business, commercial and decision-making processes so this intelligence improves certainty and assurance around infrastructure delivery.

Given the parallels between TIES (Launched in Late 2017) and those of Project Speed and other more recent government construction improvement initiatives, including the forthcoming IPA's "Transforming Infrastructure Performance – Roadmap to 2030", the department is currently reviewing how best it collectively manages and reports on its extensive infrastructure delivery innovation and efficiency programmes.

Technology, Innovation and Data

Digital and cyber security

The Department's ongoing investment in Digital, Data and Technology services has enabled effective working away from the office during 2020-21. The Department has been able to continue to do its core business with ease, largely unaffected by the impact of COVID-19 while securely accessing all the tools, applications and data required to carry out its roles efficiently and effectively. This is the culmination of a multi-year plan to modernise core technology and move the Department's services to the cloud. This has made the Department a cloud-only organization, not reliant on traditional on-premises data centers and the constraints associated with them. The use of cloud technology has also enabled the Department to deliver digital services in-house, deploy them rapidly and scale appropriately for use by citizens. The Declaration Form for International Travel service is a prime example.

The 2020 Civil Service People Survey results showed 93% of the Department's staff felt they had the right technology to support their work.

Analysis and science

Evidence and analysis are used to inform strategy, policy development, policy delivery, and to evaluate the Department's work. The analytical community is led by the Chief Analyst, who is supported by a network of Senior Analysts.

Project Appraisal

The Department's Transport Analysis Guidance (TAG) represents world-leading guidance on economic appraisal. TAG is publicly available for regions, local authorities and devolved transport bodies, and is regularly updated through consultation with internal and external stakeholders, and advice from the Department's Joint Analysis Development Panel of experts. The latest update to TAG was in May 2021, addressing important national events and uncertainty that came to bear in 2020. The update includes our response to the HMT Green Book Review and how we will improve appraisal in the context of decarbonisation. It incorporates the latest evidence on long-term economic growth, expands on how to measure the long-term effects of transformational investment, and establishes an uncertainty toolkit aimed at making a step-change in how uncertainty is accounted for in business cases.

Social Research and Behavioural Science

Social research informs ministers about how strategic and operational policy decisions will impact citizens. The Department's COVID-19 tracking survey, All Change?, and in-depth qualitative research have provided robust data on people's travel behaviour, their confidence using public transport through the pandemic, how different groups would be impacted and wider societal impacts.

The Department is investing in increasing its capacity and capability in the application of behavioural science. Applications during 2020-21 ranged from identifying ways to increase public confidence in returning to the transport system, encouraging adoption of electric vehicles and influencing travel to meet decarbonisation goals.

Data and Analytics

Good quality, discoverable data is essential for analysis and effective decision making. The provision of robust, real-time data has been central to the Department's response to EU Exit and the pandemic, providing ministers with the evidence needed to respond to rapidly changing circumstances – an example of this is data received from the Urban Observatory at Newcastle University who produced and shared traffic and public transport data for the Newcastle area, which helped towards managing COVID-19 in that area.

Through the development of a Transport Data Strategy and other data workstreams, the Department and wider transport sector are becoming more data driven and raising our capability. Examples include:

- Street Manager, which is a digital tool used by all local authorities and utility companies to plan and manage roadworks. It launched in 2020 and has seen impressive metrics – over 9,000 users from 500 organisations, with two million permits raised.
- The national public transport access nodes (NaPTAN) service is currently being redeveloped and redesigned to improve access to data on transport access points (e.g. bus stops) and improve transport apps.
- Find Transport Data is a metadata catalogue to help improve transport data findability for both open and commercial data – it currently has a sample of over 100 datasets.

The Department is growing its capability in advanced analytics, to provide rapid model development, problem structuring and data science expertise to ensure we can leverage the technological developments occurring in data science machine learning. Within hours of lockdown, we were able to rapidly pivot from existing projects to ingest, analyse and automate delivery of mobility insights to aid our understanding of the impact of the pandemic.

Science

Science provides technological innovation; drives efficiency; helps accelerate progress towards net zero; and has been critical in underpinning our ability to make evidenced based decisions relating to COVID-19. Science in the Department is led by the CSA who sets the strategic direction. A number of key workstreams were delivered in 20-21 and are detailed below.

Over the last year the CSA has been the Department's primary link into SAGE ensuring transport policy and operations were actively considered in overall advice to government on COVID-19. CSA provided independent advice and scientific assurance to the Department's ministers and senior officials to support the Department's response and recovery to COVID-19.

The Science Plan sets the vision for putting science at the heart of decision making in the Department. The Areas of Research Interest (ARI) detail the strategic medium-to-long-term research and evidence needs of the Department and is the primary publication used to build partnerships with academics and industry. Publication of both documents will be in summer 2021.

The external facing Transport Research and Innovation Board (TRIB) brings together the major transport R&D funders including public bodies. It influences R&D investment in the transport sector to align with Department priorities. In 2020, TRIB reviewed the current public spend in research and innovation in transport decarbonisation, mapping it to transport modes and priorities and enabling identification of where TRIB members could strategically coordinate future investment and activity to support transport decarbonisation ambitions.

The Department's Science Advisory Council (SAC) is made up of academic and industry leaders with specialisms relevant to transport. It provides independent expert advice to the Department on a range of science, social research, technology, engineering and mathematics issues relevant to policy areas. In 2020, it provided expert advice on topics including capital carbon of transport infrastructure, influencing sustainable transport user choices and the Department's COVID-19 response which have impacted policy approaches to these areas.

Our newly established Hydrogen Hub, an SR20 commitment, has been laying the groundwork for a Tees Valley Hydrogen Transport Hub which will demonstrate the potential of a hydrogen-based transport system and attract investment from the private sector, levelling up the local economy. This includes through a £2.5 million competition, a study to determine the most effective government interventions and an academic study investigating the wider hydrogen economy.

The Futures Programme aims to improve the Department's decision making so it's more agile to future uncertainty, by providing advice, guidance and training in the use of Futures tools and techniques. In 2020, the programme provided insight into the main areas of risk and opportunity that future transport technologies and services could present for different sections of society which has assisted prioritisation of workstreams of the Future of Transport Regulatory Review.

The Department's central Innovation Programme which includes our Connected Places Catapult (CPC) collaboration has grown over 2020-21, doubling SME funding, with projects including an examination of drone operations, sustainable airfields and HGV decarbonisation. DfT-CPC Collaboration has also been cited in BEIS' Catapult Review as an exemplar of how to drive impact by working together.

Strategic Objective Indicators

As part of the Outcome Delivery Plan (ODP) framework, the Department has identified a suite of metrics that will be used to monitor progress towards the department's priority outcomes. The following tables set out, against the strategic objectives, the latest published position for each of the indicators.

Whilst a range of data are available to monitor progress, both within the Department and across the transport sector, these metrics are typically drawn from Official and National Statistics sources. This is to ensure outcomes are measured using data of the highest quality, even if more timely sources exist.

These metrics are non-exhaustive; are to be considered as part of a suite of wider evidence; are designed to measure progress towards overall outcomes rather than individual DfT programmes; are subject to reporting lags; and are not necessarily published to a consistent schedule. All dates are reported in calendar years, unless otherwise specified.

The Department continues to work with HMT and Cabinet Office to develop a range of additional metrics that are designed to complement those outlined below.

Grow & Level-up the Economy – Improve connectivity across the United Kingdom and grow and level up the economy by enhancing the transport network on time and on budget

Transport infrastructure projects in the Government Major Projects Portfolio that are on track to delivery, as assessed by the IPA (per cent)

82% on track to delivery as of March 2021

The Delivery Confidence Assessment (DCA) gives an overall summary of how likely each project is to deliver its outcomes successfully and is reported via a traffic light system ranging from green (for the projects judged with the lowest risks to success) to red (for those projects facing the most serious challenges).

Travel time to reach nearest large employment centre (region)

Average minimum travel time to reach the nearest large employment centre (5000 or more jobs) by public transport/ walking, region, England

	2015	2016	2017
North East	30.9	31.4	31.6
North West	29.9	30.3	29.4
Yorkshire and the Humber	32.3	32.3	31.6
East Midlands	38.0	37.8	36.2
West Midlands	30.5	30.5	29.7
East	37.7	37.8	38.2
London	23.4	23.6	22.4
South East	34.5	35.0	34.2
South West	41.2	41.2	42.0

Improve Transport for the User: Build confidence in the transport network as the country recovers from COVID-19 and improve transport users' experience, ensuring that the network is safe, reliable, and inclusive

Percentage of users satisfied with their most recent journey, England (Strategic road network and bus)

	2017	2018	2019
Strategic Road Network	89%	88%	89%
Bus	88%	88%	89%

Percentage of non-frequent bus services running on time, England

2016-17	2017-18	2018-19
88.5%	85.6%	83.1%

11059-DfT-Annual Report 2020-21-P1.indb 77 12/09/2021 09:48

Percentage of users very or fairly satisfied with their local roads, England

2016	2017	2018	2019
44%	46%	38%	42%

Percentage of users very or fairly satisfied with provision in their local area, England (cycling, walking)

	2016	2017	2018	2019
Cycling	33%	33%	27%	29%
Walking	76%	77%	67%	68%

Average (mean) delay on local A roads, England

On local 'A' roads for 2020, the average delay is estimated to be **33.9 seconds per vehicle per mile** compared to free flow travel times. This is a **decrease of 22.8%** on 2019.

Percentage of rail journeys rated satisfactory, Great Britain

	National score, (%) Autumn 2016	National score, (%) Autumn 2017	National score, (%) Autumn 2018	National score, (%) Autumn 2019
Overall satisfaction with journey	81	81	79	82
Overall satisfaction with the station	81	81	80	80
Overall satisfaction with the train	80	77	76	78

Percentage of trains running on time, Great Britain

2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3	2019 Q4	**2020 Q1**	**2020 Q2**	**2020 Q3**	**2020 Q4**
64.7%	63.1%	58.8%	66.8%	69.4%	65.0%	59.2%	65.6%	86.4%	79.3%	74.7%	80.4%

Number of people killed or seriously injured in reported road traffic collisions, by road user, Great Britain

	2017	2018	2019
Pedestrians	7,267	7,412	7,158
Pedal cyclists	4,650	4,618	4,433
Motorcycle users	6,762	6,638	6,198
Car occupants	12,418	12,700	12,623
Bus and coach occupants	390	440	359
Goods vehicle occupants	818	861	854
Other vehicles	288	300	272
All road users	32,593	32,970	31,896

Percentage of local authority roads considered for maintenance, England

	2016/2017	2017/2018	2018/2019
'A' roads and motorways	3%	3%	3%
'B' and 'C' roads	6%	6%	6%

Reduce Environmental Impacts: Tackle climate change and improve air quality, including by decarbonising transport

Greenhouse gas emissions from domestic transport, including HGVs (million tonnes of CO^2 equivalent), UK

2017	2018	2019
126.1	124.4	122.2

Total projected greenhouse gas emission savings from estimated DfT policies, inc. in Energy and Emissions Projections (million tonnes of CO2 equivalent)

(2008-12)	(2013-17)	(2018-22)	(2023-27)	(2028-32)
11	21	55	99	158

New registrations of zero and ultra-low emission vehicles, proportion of new registrations, UK (per cent)

2017	2018	2019
1.7%	2.1%	2.7%

Average (mean) number of cycling trips as proportion of total trips, England (per cent)

2017	2018	2019
2%	2%	2%

Total number of cycling stages, England

2017	2018	2019
991	1,006	964

Average (mean) number of walking trips as proportion of total trips, England (per cent)

2017	2018	2019
26%	27%	26%

Average (mean) annual number of walking stages per person, England

2017	**2018**	2019
343	347	332

Sustainability Report

UN Sustainable Development Goals

The government is committed to promoting sustainable growth, education and work opportunities for the country and its citizens, in line with the 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015. Through our work over the last year, the Department is supporting an ambitious programme of work that directly contributes to the delivery of Sustainable Development Goals 8, 9, 11 and 13, as well as broader work that contributes to goals 3, 4 and 15.

Some activities during 2020-21 included:

UN Sustainable Development Goal	DfT activity
3. Good health and well-being Ensure healthy lives and promote well-being for all at all ages	• Promoted active forms of travel as per the vision set out in the Decarbonising Transport: Meeting the Challenge document (May 2020) and Gear Change, the cycling and walking plan (July 2020)[20], which sets out how £2 billion will be invested in active travel over the next five years. DfT activity on promoting and supporting active travel also contributes to making cities and human settlements inclusive, safe, resilient and sustainable. • Gear Change launched plans to boost cycling and walking in England, so that half of all journeys in towns and cities are cycled or walked by 2030. • The first £250 million of the £2 billion funding announced was spent on ‘quick wins’ including the Active Travel Fund – which made over £200 million available to local authorities to deliver safe and direct cycling and walking measures in their areas – and the ‘Fix Your Bike’ voucher scheme. • Supported innovative trials in new transport modes, digital services, fares and ticketing, such as the Future Transport Zones and trials of e-scooters from July 2020. • Reviewed the regulatory framework for new mobility modes and services to ensure new technology allows for flexibility and reflects the diverse needs of people (for example, women, older and disabled people). In November 2020, the Department published research examining equalities and access to opportunity arising from the Future of Transport[21]. • Progressed delivery of the 2018 Inclusive Transport Strategy towards the overall ambition of achieving equal access for disabled people using the transport system by 2030, with assistance if physical infrastructure remains a barrier. Work included: implementing the new Inclusive Transport Leaders Scheme (March 2020), an initiative to improve disabled people’s access to transport. It promotes good practice and provides a framework for transport operators to make services more accessible and awards accreditation to those that do. Successful operators were awarded accreditation in November 2020; launching a disability awareness training package for transport operators in November 2020; and the launch of a first-of-its-kind Accessible Technology Research and Innovation Grant that will invest up to £500,000 in small to medium enterprises, supporting the development of innovative products and services that will improve the ability for disabled people to travel. • Worked closely with Defra, through the Joint Air Quality Unit (JAQU), to improve air quality, including a rapid call for evidence to understand the impact of COVID-19 on air pollutant emissions, concentrations and human exposure[22]. Findings were published in July 2020. • JAQU is working with 61 local authorities specifically to develop and implement measures to address their nitrogen dioxide (NO_2) exceedances in the shortest possible time.

20 https://www.gov.uk/government/publications/cycling-and-walking-plan-for-england
21 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/937223/F13-Future-of-Transport-Equalities-access-to-opportunity-rapid-evidence-review-accessible.pdf
22 https://uk-air.defra.gov.uk/library/reports.php?report_id=1005

UN Sustainable Development Goal	DfT activity
4. Quality education Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	• Working with the Strategic Transport Apprenticeship Taskforce to help industry work together, improve the capacity and capability of the transport workforce and invest in quality skills and training for all. • Connected Places Catapult (CPC) was commissioned by the Department to undertake The Future of Transport Skills project, reporting in 2021. The project is sponsored by the Connected and Autonomous Vehicles (CAV), Zero Emission Vehicles, and Emerging Aviation technologies teams. The project aims to identify the UK skills requirements to support the development and operation of new and emerging transport technologies in the year 2035. The project will develop an evidence base to support targeted skills interventions, enabling the Department to signal the skill needs arising as a result of emerging technology to stakeholders such as the Department for Education.
8. Decent work and economic growth Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	• The HS2 rail programme supports more than 15,000 jobs in the UK and the construction of Phase One will see HS2 create and sustain a further 22,000 jobs over the coming years, with many more in businesses and factories around the country. Over 2,100 companies now have contracts with HS2 Ltd, with 97% of these being UK-based businesses. Regional bodies across England estimate that the programme could create many thousands of new jobs in the longer term across construction and the improved rail services it will deliver. • The Department's £500 million Restoring Your Railway fund aims to start reopening lines and stations in order to reconnect smaller communities, regenerate local economies and improve access to jobs, homes and education. 25 bidders have been successful in their applications across the first two rounds of the Ideas Fund and are now developing a business case. The government has also announced £100,000 of funding for a feasibility study on reinstating the Fleetwood-Poulton line. Over 85 bids from across England and Wales were submitted as part of the third round of the Ideas Fund in March 2021. • Launched a £20 million Clean Maritime Demonstration Competition to develop feasibility studies and initial technology trials underpinning potential future technology demonstrations on innovative zero emission vessels and clean port infrastructure. The government is encouraging scientists and academics to collaborate with UK shipping, ports and shipbuilders to enter ambitious proposals into the competition, driving economic growth, revitalising coastal communities, creating 1000s of jobs and making innovative green maritime a reality, should future technology demonstrations be funded.

UN Sustainable Development Goal	DfT activity
9. Industry, innovation and infrastructure Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation	• As set out in Decarbonising Transport: Setting the Challenge (March 2020), the Department continued to work with the UK's world-leading scientists, business leaders and innovators to position the UK as an internationally recognised leader of environmentally sustainable technology and innovation in transport. • Supporting smart ideas and early stage R&D projects to enable a better transport system in the UK through the Transport-Technology Research Innovation Grants (T-TRIG). The 2020 call funded projects to support COVID-19 resilience, decarbonisation and an open call across all areas[23]. • Conducted a call for evidence in March 2020 to inform the Future of Transport Regulatory Review, ensuring that our regulatory environment is robust but innovative, flexible and data-driven to support the testing and deployment of innovative transport technologies. The Department published a summary of responses in November 2020[24]. • Committed £27.4 billion for the operation, maintenance, renewal and enhancement of strategic roads in England from 2020 to 2025 to improve safety and reliability of journeys across the country. This funding will deliver benefits for all road users, including pedestrians and cyclists; it secures environmental and air quality improvements and includes a dedicated innovation fund. • Committed £318 million from BEIS's Industrial Strategy Fund between March 2018 and March 2022 into the Faraday Battery Challenge to support the research, development and scale-up of world-leading battery technology in the UK.
11. Sustainable cities and communities Make cities and human settlements inclusive, safe, resilient and sustainable	• Fully awarded the £2.45 billion Transforming Cities Fund Programme that is now in the delivery stage. This will drive up productivity through improved connections between urban centres and suburbs[25]. • Published England's long-term National Bus Strategy, Bus Back Better, setting out a bold vision for bus services across the country. The Strategy will deliver better bus services for passengers across England, through ambitious and far-reaching reform of how services are planned and delivered. • Launched the Zero Emission Buses Regional Areas (ZEBRA) scheme which will provide up to £120 million to support the introduction zero emission buses and associated infrastructure. • Announced that government will phase out the sale of new petrol and diesel cars and vans by 2030 and, from 2035, all new cars and vans must be zero emissions at the tailpipe. This is supported by a pledge of up to £2.8 billion for a package of measures to support industry and consumers to make the switch, including: £1 billion to support the electrification of UK vehicles and their supply chains; £1.3 billion to accelerate the roll out of charging infrastructure; and £582 million for plug in vehicle grants. • Introduced green number plates for zero emission vehicles, making them easier to identify, and helping local authorities design and put in place new policies, such as zero emission zones, to incentivise people to own and drive them.

23 https://www.gov.uk/government/publications/transport-technology-research-innovation-grants-t-trig-funding-winners
24 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/938347/FoT-Regulatory-Review-Summary-of-Responses-Accessible.pdf
25 https://www.gov.uk/government/publications/apply-for-the-transforming-cities-fund

UN Sustainable Development Goal	DfT activity
13. Climate action Take urgent action to combat climate change and its impacts	• Published the cross-modal Transport Decarbonisation Plan in May 2021, setting out key commitments and the steps the Department will take to deliver net zero emissions across all modes of transport by 2050. This explored six strategic priorities for transport decarbonisation: accelerating modal shift to public and active transport; decarbonisation of road vehicles; decarbonising how goods are received; place-based solutions for emissions reduction; UK as a hub for green transport technology and innovation; and reducing carbon in a global economy.
15. Life on land Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss	• Worked with Defra to introduce an ambitious environment bill, which will provide the framework for setting new, legally binding long-term environment targets, including on air quality and biodiversity. • Committed Highways England to achieve no net loss for biodiversity across their soft estate by 2025 with a commitment to achieve net-gain by 2040. • Worked with Network Rail to help deliver their Biodiversity Action Plan, which incorporates the Varley recommendations and commits to achieving no net loss in biodiversity across their network by 2024 and net-gain by 2035. • Committed to deliver 10% biodiversity net gain for Connection Stage 1 of East West Rail. • Worked closely with HS2 Ltd to minimise the environmental impacts of construction of Phase 1 (London-West Midlands) and create new habitats and planting to replace affected areas. This will result in No Net Loss to Biodiversity, over seven million new trees being planted and a 30% increase in the amount of habitat area for wildlife once the railway is built. Following the 20-21 planting season, the total number of trees planted on Phase One was over 700,000**.** Following Royal Assent of the Phase 2a Act (West Midlands-Crewe) HS2 Ltd will continue to explore opportunities to enhance its existing No Net Loss objective for that Phase of the programme supported by a new £2 million biodiversity fund. • Local communities impacted by construction of HS2 between London to Crewe are being empowered to realise their own landscape, conservation and environmental objectives. This includes £7 million awarded to local groups in the Chilterns and the Colne Valley, £45 million committed to the Community & Environment (CEF) and Business & Local Economy Funds (BLEF), and £7 million toward a Woodland Fund offering grants to support landowners and communities to create new native woodland and restore plantation on ancient woodland sites which will offset the environmental impacts of HS2 further.

Policy development

Further details on policy delivery during the reporting year can be found in the Performance Report from page 49.

The fight against climate change is one of the greatest and most pressing challenges facing the modern world. The UK was the first major economy to pass a law to reach net zero GHG emissions by 2050 and the Department acknowledges the urgent need to go further and faster to decarbonise the entire transport sector, which in 2019 contributed 27% of domestic emissions[26].

In December 2020, the Prime Minister announced a new ambitious target to reduce the UK's emissions by at least 68% by 2030, compared to 1990 levels. This new target – our Nationally Determined Contribution (NDC) under the Paris Climate Agreement – is among the highest in the world and commits the UK to cutting emissions at the fastest rate of any major economy so far, with transport playing a major role. This was followed in April 2021 by the announcement that, through the Sixth Carbon Budget, we will set in law the world's most ambitious climate change target, cutting emissions by 78% by 2035 compared to 1990 levels. This carbon budget was set to include, for the first time, international aviation and shipping emissions, as recommended by our independent climate advisors the Climate Change Committee. As the incoming COP26 Presidency, throughout 2020-21 the Department continued to press for much greater ambition around the world and has prepared ambitious international campaigns to accelerate the shift to zero and low carbon transport by bringing together governments, cities, industry, businesses and civil society.

The UK's recovery from COVID-19 presents the opportunity to build back greener, so that the economy is more sustainable and resilient, and the Department delivers cleaner air and lower carbon emissions. A decarbonised transport system is at the heart of the Prime Minister's Ten Point Plan for a Green Industrial Revolution. The Plan sets out measures to reduce emissions across the sector through:

- Green public transport
- Increased cycling and walking
- Jet Zero and green ships
- An accelerated transition to zero emission vehicles.

Decarbonising Transport: Meeting the Challenge

In June 2021, the Department published Decarbonising Transport: Meeting the Challenge, setting out the steps we will take to deliver net zero emissions across the sector by 2050. It takes a holistic and cross-modal approach to transport decarbonisation, considering where and how people and goods travel and setting out in detail what will be needed to deliver significant emissions reduction in the sector, including through tailored place-based solutions, the increased deployment of technological solutions, and behavioural change.

The steps and commitments set out in the Transport Decarbonisation Plan will deliver a host of benefits, making towns and cities better places to live, helping to create new jobs, and improving air quality and health, in addition to taking urgent action on climate change. Alongside Defra, improving air quality remains a top priority for the Department and the wider government. The Department has continued to take robust and comprehensive action to improve air quality in the UK and minimise public health impacts.

The Transport Decarbonisation Plan is based around six strategic priorities, set out at figure

26 https://www.gov.uk/government/collections/final-uk-greenhouse-gas-emissions-national-statistics

12. These build on existing work across the Department and we have made progress in many areas throughout the last year.

Publication of the Transport Decarbonisation Plan is the latest development in a series of ambitious policy interventions, incentives and strategic decarbonisation initiatives across the transport sector in 2020-21, as no one single policy measure will deliver the reduction in emissions required to deliver net zero across the economy by 2050. The Department recognises the challenges and contribution of road, railway, aviation, and maritime to decarbonising transport.

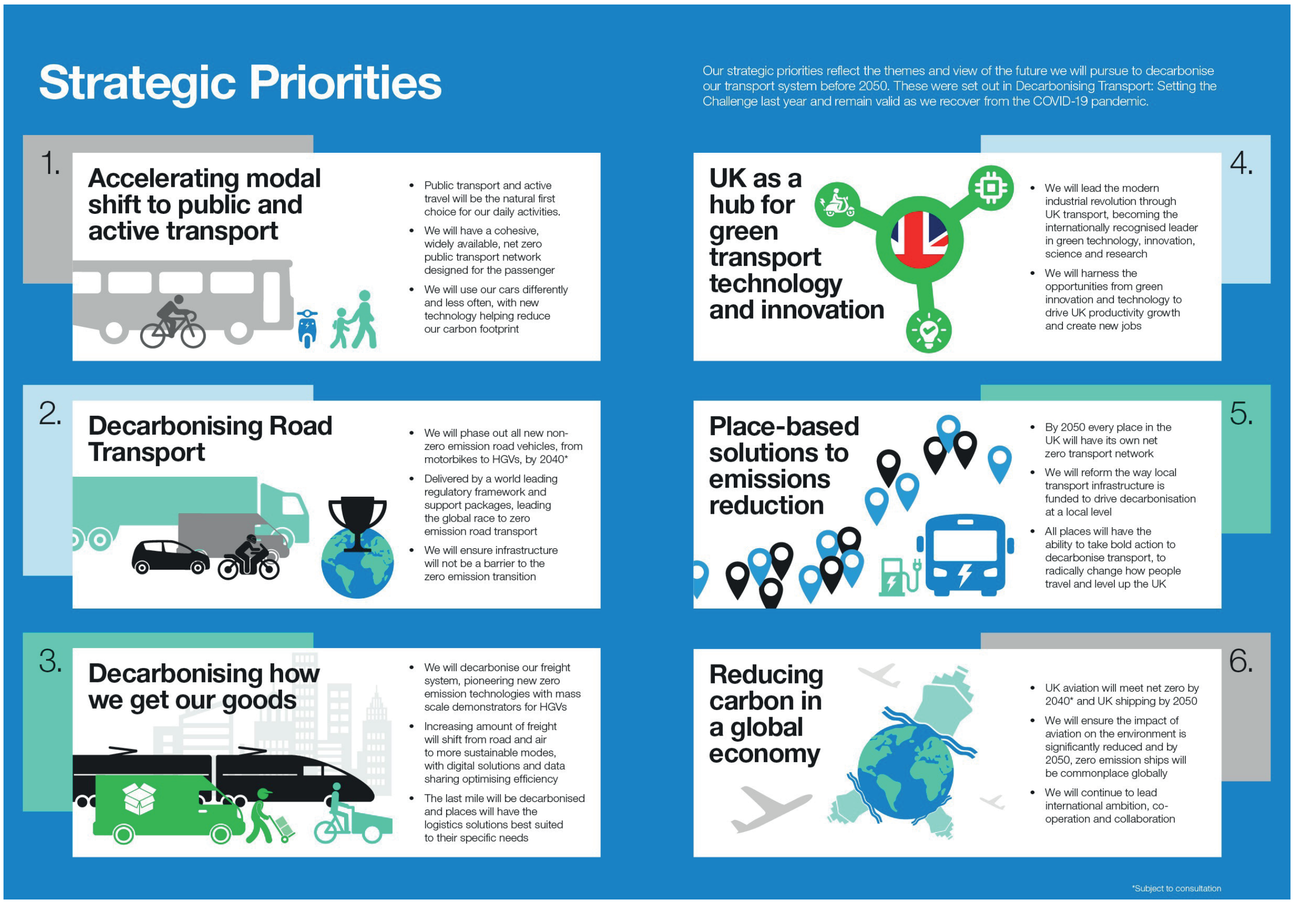


Figure 14: Strategic Priorities

Road transport

Road transport makes up over 90% of domestic transport emissions[27]. Technical measures such as the need for rapid renewal of the road vehicle fleet with zero emission vehicles will deliver substantial reductions in greenhouse gas emissions.

The Prime Minister's Ten Point Plan put the UK on course to be the fastest country in the G7 to decarbonise cars and vans. In May 2020, the Office for Zero Emission Vehicles (OZEV) – a joint unit between the Department and BEIS – published an ambitious vision for rapid charging infrastructure along strategic roads in England over the next decade. Work will continue over the coming years to make this vision a reality.

Grants continue to be available through OZEV for plug in vehicles, as well as funding to support charge point infrastructure at homes, workplaces, on residential streets and across the wider roads network. The accelerated transition to zero emission vehicles will help

27 https://www.gov.uk/government/statistics/final-uk-greenhouse-gas-emissions-national-statistics-1990-to-2019

the Department meet its climate change obligations, improve air quality in towns and cities and support economic growth. It will put the Department at the forefront of the electric vehicle revolution with vehicles built in the UK. Further details of policy delivery on the decarbonisation of road vehicles can be found in the Decarbonising Transport Performance Report from page 51.

As we transition to zero emission vehicles, we are also continuing to reduce greenhouse gas emissions associated with conventional vehicles. The Department supports uptake of low carbon fuels through the Renewable Transport Fuel Obligation (RTFO), contributing a third of the transport emission savings required under current carbon budgets. Work is continuing to maximise carbon savings from low carbon fuels, with measures including RTFO target increases, the introduction of E10 (petrol with up to 10% ethanol), and extra support for advanced fuels for use in harder-to-decarbonise sectors such as aviation and heavy road vehicles.

The Department is committed to increasing the number of people who walk, cycle and use buses, particularly as the UK builds back better out of COVID-19. Accelerating modal shift to active travel and public transport is one of the Department's six strategic priorities for transport decarbonisation, and we want walking, cycling and public transport to be the natural first choices for journeys. The Prime Minister announced a £5 billion funding package in February 2020 for buses, cycling and walking and, in May 2020 during the first lockdown, the Secretary of State announced that £2 billion of this would be used to create a new era for walking and cycling. The Prime Minister published a new cycling and walking plan in July 2020, with a bold new vision that half of all journeys in towns and cities should be walked or cycled by 2030.

In March 2021 the Department published the National Bus Strategy, which will improve bus services for passengers across England. Backed by £3 billion of transformational funding it will make services more reliable, environmentally friendly and with simpler fares, all of which will help encourage more people to take the bus. Further details of delivery of the 'Green public transport, cycling and walking' workstream in 2020-21 can be found in the Decarbonising Transport Performance Report from page 55.

The Department is committed to reducing emissions from the road freight sector while boosting growth. We are developing policy around several key strands including: pioneering the development of zero emission heavy goods vehicle (HGV) technologies; increasing the uptake of commercially available zero emission HGVs; improving the carbon efficiency of the existing road freight fleet; supporting the shift of freight from road to lower carbon forms of transport; and decarbonising the last mile of all deliveries. Further details of delivery of this workstream in 2020-21 can be found in the Decarbonising Transport Performance Report from page 54.

Air Quality

The most immediate air quality challenge is tackling the problem of nitrogen dioxide (NO2) concentrations around roads – the only statutory air quality limit that the UK is currently failing to meet. We keep our national air quality monitoring network under review to ensure it remains fit for purpose.

Air pollution at a national level has reduced significantly since 2010 – emissions of fine particulate matter have fallen by 11% while emissions of nitrogen oxides have fallen by 32%, the lowest since records began. However, the Department is aware there is much more to do. The first Clean Air Zone launched in March 2021 in Bath, with a second followed in Birmingham in June 2021.

The Department has committed to helping local authorities support individuals and businesses impacted by local air quality plans. Local authorities implementing air quality measures as part of a local air quality plan can bid for Clean Air Fund (CAF) funding to support those impacted as a result of their measures. The Clean Air Fund could support a range of measures such as vehicle upgrade schemes, improvements to bus fleets, installation of electric chargepoints, provision of park and ride services, concessionary travel schemes and freight consolidation centres. The Government has ring-fenced £880m to help Local Authorities tackle NO2 exceedances. The exact allocation of this funding between Implementation Funding (IF) and Clean Air Funding (CAF) support depends on each local authority's clean air plan, which are specific to each local authority area. To date we have paid nearly £400m of this funding to LAs, including over £144 million CAF.

We continue to work with several other local authorities to support measures to tackle NO2 exceedances.

Rail

The government is investing £46.9 billion in railway infrastructure in England and Wales during Control Period 6 (from 2019-20 to 2023-24), improving the railway's safety and reliability so it continues to contribute in this way. Funding has also been introduced across England and Wales to reinstate local rail services.

Work continues to reduce carbon emissions through ongoing electrification and introduction of new rolling stock. The Office of Rail and Road (ORR) reports on electrification of rail infrastructure on an annual basis[28]. The Department is working closely with Network Rail and industry stakeholders to further reduce the railway's carbon emissions, including determining which parts of the network where diesel trains currently run are best suited to use hydrogen or battery trains or further electrification. The Department will continue to engage with the sector – including the public and industry stakeholders – in developing the upcoming comprehensive environment plan for the network to ensure decarbonisation, for which Great British Railways will ultimately be held accountable, is delivered in an economically efficient and passenger-oriented way.

The Department and Network Rail are electrifying the entire route from Manchester to York, via Huddersfield and Leeds. This will make a major contribution to decarbonisation in the North, as well as reducing operational costs and improving the local environment, through improving air quality.

Aviation

In Summer 2021, the Department launched a consultation to inform our forthcoming Net Zero Aviation Strategy. The Strategy will set out our vision for reaching net zero aviation by 2050, and the principles and measures that we will employ to get there.

The Department, in collaboration with BEIS, established the Jet Zero Council to take decisive action on our commitments to achieve net zero aviation. The Jet Zero Council is a partnership between industry and government that brings together senior leaders in aviation, aerospace and academia, driving the ambitious delivery of new technologies and innovative ways to cut aviation emissions, with the aim of delivering zero emission transatlantic flight within a generation. Two Delivery Groups have also been established which are working on priority areas for the council: zero emission aircraft and sustainable aviation fuels (SAF). The Department is already supporting work in these priority areas, including by investing £3 million into a Zero Emission Flight Infrastructure research programme and up to £15 million to establish UK SAF production facilities and accelerate the delivery of fuels to market. In addition, £3 million will be used to establish a SAF clearing house, alongside a commitment to consult on a UK SAF blending mandate in 2021.

28 https://dataportal.orr.gov.uk/statistics/infrastructure-and-emissions/rail-infrastructure-and-assets/table-6320-infrastructure-on-the-mainline/

Internationally, the UK has been at the forefront of the development and adoption of CORSIA – the international aviation offsetting scheme – and is also playing a key role in negotiating an ambitious long-term emissions goal through the International Civil Aviation Organization. Our new UK Emissions Trading Scheme, which covers all domestic flights and flights from the UK to the EEA, shows greater climate ambition than the EU equivalent, and we on putting the scheme on a clear net zero trajectory.

Further details of delivery of aviation decarbonisation in 2020-21 can be found in the Decarbonising Transport Performance Report from page 88.

Maritime

The Department's Clean Maritime Plan identifies ways to tackle air pollutants and greenhouse gas emissions while securing growth opportunities, placing the UK at the forefront of the global transition to clean shipping. Shipping is a traditionally 'hard-to-decarbonise' sector, but the technological solutions are beginning to be trialled and tested, and the Department is undertaking work to accelerate their deployment and begin reducing emissions as soon as possible in collaboration with industry and guided by the advice of our Clean Maritime Council – a grouping of sectoral experts who provide advice and challenge on environmental matters, with a focus on decarbonisation and air quality.

Internationally, the UK remains fully committed to the Initial International Maritime Organization (IMO) Strategy. IMO negotiations in Autumn 2020 focused on short-term technical and operational energy efficiency measures for existing vessels. In the coming months and years, the IMO will begin to focus on the mid- and long-term measures needed to drive emissions reduction, and a review of the initial strategy is due in 2023.

Further details of delivery of this workstream in 2020-21 can be found in the Decarbonising Transport Performance Report from page 53.

Biodiversity

Highways England and Network Rail manage the upkeep and maintenance of a significant area of green space alongside England's motorways and railways and are acting to conserve and enhance these national assets in line with the government's 25 Year Environment Plan. In August 2020, Highways England set out its business plan for 2020-25, including a £45 million designated fund for Environment and Wellbeing activity. In December 2020, Network Rail set out its new Biodiversity Action Plan. This document turns the recommendations of the 2018 Varley review into action and makes commitments to achieve no net loss for biodiversity on its lineside estate by 2024 (the end of the current funding period), moving to biodiversity net gain across its lineside estate by 2035.

Sustainable construction

In January 2021 the Department initiated a Carbon Management Programme that will develop and embed an integrated system for managing the whole life carbon impacts of the Department's infrastructure projects. This includes capital carbon, which refers to emissions associated with the construction or major modification of an infrastructure asset. This will complement and guide the Department's public bodies existing and future plans for carbon management. It is being delivered in close collaboration with key initiatives and partners within the Department, such as the Transport Infrastructure Efficiency Strategy and Transport Research and Innovation Board. It is complemented by wider government efforts to reduce emissions from construction, as set out in the National Infrastructure Strategy and Construction Playbook. Reducing the embodied emissions associated with transport, for example the materials used in construction, is being informed by the Industrial Decarbonisation Strategy.

Climate change adaptation and resilience, and impact on rural areas

Transport networks across the UK must be resilient against a wide range of incidents including those exacerbated by climate change. The Department must continue to work on transport policies and adaptation plans that are robust with the aim of ensuring a resilient transport sector for the future.

The National Adaption Programme sets out the Government's adaptation measures, including a range of actions which will increase the resilience of the UK to extreme weather events. The Department works closely with its public bodies, transport operators, stakeholders and the wider sector on climate change risk assessment, mitigation and resilience. For example, the Department liaises with the maritime trade associations regularly to ensure ports are kept aware of the potential effects of climate change, such as more frequent severe weather or increased risks of tidal surge and can assess risk and what mitigation might be needed.

The Department will keep incorporating adaptation into its major plans and strategies, thereby ensuring that infrastructure project management and appraisals take adaptation into account, which will ensure sustainable economic growth. For example, in consultation with the aviation industry, the Department will produce guidance on the minimum expected resilience standards for the aviation sector, and recommendations on how to best future-proof airport operations against severe climate change related events.

The Department has also incorporated Defra's refreshed 2017 National Rural Proofing Guidelines into its appraisal system. Policy makers address questions and actions at each stage of the policy cycle, including 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.

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

Alongside the work to deliver a more sustainable transport system, the Department also recognises the environmental impact that its estate and business operations can have, and the Department works to ensure these are managed in an equally sustainable way.

The Department is part of the Greening Government Commitments (GGCs), which provide the structure, and standard of sustainability performance for all government departments to achieve. The Department reports its performance against GGC targets quarterly to Defra, who publish a cross-government annual report. The data provided to Defra and outlined below covers the operations of DfTc, DVLA, DVSA, MCA, VCA, British Transport Police, Highways England, and HS2 Limited to give a complete picture. More detail on the activities of individual organisations to improve their own sustainable performance can be found in their individual Annual Report and Accounts.

The Department's 2020-21 performance is reported against the 2020 GGC targets, which were extended to 2021, due to COVID-19. A new phase of GGCs will begin from April 2021, which will set new targets for 2025 and add Network Rail, Northern Lighthouse Board, Trinity House, East West Rail Limited, and the Office of Rail and Road to the Department's GGC reporting.

The Department has an Operations Sustainability Strategy that outlines its work to reduce its environmental footprint, and how each organisation will contribute to the achievement of GGCs. A new strategy is being developed for 2021-25 to reflect the new phase of GGCs, and the new organisations within scope will start developing trajectories for the Department's Net Zero operational footprint.

Summary of performance

In 2020-21, the Department met and exceeded four of our five GGC targets, missing only the waste to landfill target, as shown in Table 1.

Measure	Target (compared to 2009-10 Baseline)	Achievement 2020-21
Total greenhouse gas (GHG) emissions	Reduce by 44%	Reduction of 59%
Number of domestic business flights	Reduce by 30%	Reduction of 95%
Percentage waste to landfill	Less than 10%	18%
Water use	Reduce by 9%	Reduction of 27%
Paper use	Reduce by 50%	Reduction of 79%

Table 1: Performance against GGCs

Our performance has been significantly impacted by COVID-19, as we adjusted our working arrangements to deliver Departmental services in line with evolving central government guidance. This will have contributed to the results seen in all areas; however, alongside this, the Department has continued to work to reduce our environmental footprint and a proportion of the positive results will be due to active sustainability measures taken.

For example, Highways England continue to upgrade the Strategic Road Network lighting, which accounts for 59% of all the Department's emissions, to more energy efficient systems. This has reduced our electricity consumption by 6% and associated emissions by 15% from 2019-20. In addition, the Department is working at pace to transition our fleet to Ultra Low Emission Vehicles (ULEVs), in line with the Government Fleet Commitment. We have added over 330 ULEVs to our fleet in 2020-21, replacing over 220 diesel cars, taking our percentage of ULEV cars to 22%.

A full breakdown of our sustainability metrics is provided on page 79, which offer further insight on the effects of COVID-19. There are marked decreases in paper use (down 51%), water use (down 30%), heating (down 23%), and total waste production (down 30%) from 2019-20 levels, all associated with reduced occupancy of our sites. Our office electricity, on the other hand, has increased, which reflects the fact that our sites remained open to essential workers throughout COVID-19 and that our estate has continued to grow with Highways England transitioning more offices and depots into their portfolio as part of the Asset Delivery programme and DVLA taking on additional office space to enable great capacity with social distancing.

Travel emissions have also been significantly impacted with non-essential business travel being restricted for the majority of 2020-21; as is reflected in the non-fleet, public transport, and domestic flight figures. However, a large proportion of our fleet is used for essential duties, which continued and actually increased as guidelines advised staff to travel separately rather than car sharing as would be usual practice.

The proportion of waste sent to landfill has increased to 18% from 14% in 2019-20. This is a result of estimated data for some sites, which is overly conservative and not reflective of the changing circumstances this year. We are working with our facilities management providers to obtain more accurate waste data which should bring the Department's total within the target.

Greenhouse Gas Emissions		2017-18	2018-19	2019-20	**2020-21**
Gross Emissions (tonnes CO2e)25	Scope 1: direct emissions	18,824	21,545	15,403	15,102
	Scope 2: energy indirect emissions	89,163	73,588	62,666	54,976
	Scope 3: business travel emissions	15,817	16,994	14,043	7,059
	Total emissions	123,804	112,127	92,112	77,137
Related Energy Consumption (kWh)	Office gird electricity	50,082,928	48,568,593	48,431,681	51,615,763
	Non-office grid electricity	203,539,267	211,394,658	196,741,827	184,192,821
	Renewable electricity	30,158	30,608	30,867	28,226
	Gas	47,547,575	43,191,262	40,742,328	31,002,525
	Other heating	1,372,415	1,434,872	2,351,580	2,224,983

11059-DfT-Annual Report 2020-21-P1.indb 92 12/09/2021 09:48

Greenhouse Gas Emissions		2017-18	2018-19	2019-20	2020-21
Related business travel	Fleet road travel (litres of fuel)	3,069,426	4,706,323	1,333,338	1,500,983
	Fleet road travel (km)	6,298,840	5,389,957	19,360,160	27,554,509
	Non-fleet road travel (km)	29,105,777	48,381,881	41,357,609	13,619,692
	Public transport (km)	33,809,215	39,125,431	28,639,561	737,125
	Domestic flights (km)	2,924,350	3,102,228	2,957,219	246,392
Financial Indicators	Energy expenditure – office electricity	£4,590,561	£4,695,816	£5,516,445	£5,381,891
	Energy expenditure – non-office electricity	£29,670,651	£31,894,041	£35,237,838	£33,866,555
	Energy expenditure – gas	£1,000,166	£874,271	£1,149,038	£977,795
	Energy expenditure – other heating	£617,377	£221,096	£211,233	£141,537
	Business travel expenditure	£18,357,619	£22,982,943	£22,313,695	£4,984,337
	CRC related expenditure	£1,855,443	£1,696,223	–	–

Table 2: Greenhouse gas emissions

- Scope 1: direct emissions from sources owned or controlled by the Department (i.e. heating consumption in buildings and owned fleet vehicle emissions).
- Scope 2: energy indirect emissions from electricity consumption across our estate (including our buildings and the Strategic Road Network).
- Scope 3: other indirect emissions from business travel by means not owned or controlled by the Department (including private car, hire car, public transport, and domestic flights).
- The Carbon Reduction Commitment (CRC) scheme ended in 2018-19.

Waste		2017-18	2018-19	2019-20	**2020-21**
Non-Financial Indicators	Total waste generated	4,403	3,955	3,010	2,110
	Waste sent to landfill	1,818	1,381	413	377
	Waste recycled	2,099	1,985	1,936	1,367
	Waste incinerated	486	588	662	366
Financial Indicators	Total expenditure on waste	This is not available as waste services are provided as part of a total facilities management contract, so specific spend on waste only is not able to be separated out.			

Table 3: Waste minimisation and management

Finite Resources		2017-18	2018-19	2019-20	**2020-21**
Non-Financial Indicators	Total water consumption (m^3)	226,677	257,464	209,517	147,176
	Office-only water consumption (m3)	225,212	255,652	208,501	145,055
	Office water use per head	8.60	9.58	7.57	5.27
	Paper use (reams A4 equivalent)	61,630	68,020	68,778	33,984
Financial Indicators	Expenditure on water	£718,717	£622,588	£673,594	£622,419
	Expenditure on paper	This is not available as paper is provided as part of a wider office supplies contract, so specific spend on paper only is not able to be separated out.			

Table 4: Finite resource consumption

During 2020-21, the Department has undertaken a review of our sustainability data to identify any gaps and improve data accuracy and granularity. This has resulted in improved, updated data for the past three years, including associated financial data. Therefore, the figures provided in the tables above have been restated and may differ slightly from those included in previous Annual Report and Accounts.

Sustainable Procurement

The Department's procurement function is managed through a collaborative operating model, which includes DfTc, the Executive Agencies, government owned companies and NDPBs. As a group, the Department recognise the significant impact procurement decisions have on sustainability outcomes, therefore the Department is committed to ensuring the supply chain supports sustainable development goals.

The Department is committed to embedding sustainability into its procurement processes, and has developed several tools to support this, including:

- Guidance – available to all procurement and contract management staff on the intranet and 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 executive 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. Group Commercial Directorate, in the DfTc, achieved the CIPS kite mark in March 2021, a statement of our commitment to ethical sourcing and supplier management. This was achieved by 100% of staff with responsibility for sourcing, supplier selection and supplier management having successfully completed the CIPS Ethical Procurement and Supply test within the past 12 months.
- The Department is also liaising with BEIS around future sustainable procurement learning and development opportunities, as they have identified this as a gap across government. Internally, the Government Carbon Literacy Toolkit is an existing toolkit developed by the Carbon Literacy Project and BEIS for use across Government, as a way of targeting this training need.
- The Commercial Lifecycle Assurance function – the team provides assurance of all major procurement processes in the Department, to provide confidence to Investment Boards 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.
- 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 £10 million as part of the Industrial Strategy. In the Department, the Balanced Scorecard is embedded within the commercial case guidance, and the ongoing Commercial Lifecycle Assurance process, thereby helping ensure it is considered at the earliest stages of projects.

Some of the other areas which focus on the Department's continued commitment to sustainable procurement include:

- **Carbon Exclusion measure** – A proposed policy from Cabinet Office received in May 2021, and to come into effect from September 2021. The intention is for the Department contracting authorities to include a selection criterion in the tenders, which will require suppliers to provide a Carbon Reduction Plan and confirm the supplier's commitment to achieving Net Zero by 2050. This draft proposal would mean that suppliers would fail to proceed should they not demonstrate these plans are in place.

- **Social Value** – The changes to the Social Value Act brought in from 1 January 2021 mean all the Department's major procurements will now need to attribute a minimum 10% weighting to a social value outcome as part of the tender evaluation criteria. The Department's recommendation is that a decarbonisation outcome should be selected where appropriate. With a significant factor in winning government work linked to such an outcome, the aim is to drive supplier behaviour to supporting strong decarbonisation initiatives. Initiatives which may be assessed include supplier's ability to work towards net zero emissions, increased biodiversity, improved air quality, creation of green spaces, and a reduction in waste throughout the contract and down the supply chain.
- **The Construction Playbook** – the Construction Playbook is a best-practice principles framework published in 2020, aimed at getting construction projects right from the start as green as possible, through requirements for Net Zero 2050 strategies, whole life carbon cost assessments such as PAS2080 and an emphasis on Modern Methods of Construction and off-site construction where possible, which is much less carbon intensive than traditional construction.
- **Conference of the Parties to the Convention (COP26)** – In time for COP26 in November 2021, BEIS is seeking support from the Department and other departments for UK involvement in an international alliance, including Canada and Sweden, that aims to develop and agree national pledges for procurement targets as part of COP26 to reduce capital/embodied emissions in government projects, specifically around the procuring of steel and concrete.

Small Medium Enterprise

A key area of focus in 2020-21 has been growing spend through SMEs. The Department's SME Action Plan[29] outlines how the Department will meet the government's aspiration of ensuring that 33% of all procurement spend will be with SMEs by 2022.

To deliver this, the Department is working closely with the executive agencies and public bodies, including Network Rail, Highways England and HS2 Ltd, and their supply chains. During 2020-21:

- The Department's SME Working Group hosted two virtual SME/supplier engagement events to enhance visibility of opportunities and share guidance on where and how to bid for and win contracts across the Department.
- The Department's SME Working Group enhanced engagement with Trade Associates, Local Enterprise Partnerships, supply chains and markets through regional and national 'Meet the Buyer' events, where SME businesses are encouraged to bid for emerging opportunities.
- The Department has a full time SME lead, who coordinates and measures the effectiveness of the SME activities against the measures set out in the SME Action Plan.
- The Department worked with tier 1 contractors to share procurement pipelines and ensure advertisement of supply chain opportunities and sub-contracting opportunities on Contracts Finder.

29 https://www.gov.uk/government/publications/department-for-transport-actions-for-improving-business-opportunities-for-small-and-medium-enterprises

During 2019-20, the Department's spend with SMEs was 34.2% against a 31% in-year target.

Payment of suppliers

- The Department complies with the Chartered Institute of Credit Management's Prompt Payment Code. While standard terms and conditions for the supply of goods and services specify payment within 30 days of receipt of a valid invoice, the Department aims to pay all valid invoices within five working days of receipt. In 2020-21, the Department paid 88.4% of undisputed supplier invoices within the five-working day target, and 98.26% within the thirty-day target. The table below shows performance of the DfTc and the executive agencies during 2020-21.

Organisation	Percentage of targets met	
	Within 5 working days (Target: 80%)	Within 30 working days (Target: 100%)
DfTc	88%	98%
DVLA	92%	100%
DVSA	92%	100%
MCA	86%	97%
VCA	87%	100%

Compliance with the Prompt Payment Code 2020-21

Bernadette Kelly CB

7 September 2021

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

The Accountability Report

Report from Lead NEBM, Ian King

COVID-19 has been a significant challenge for the country and for the Department. During 2020-21, DfT has continued to focus on the effective and efficient delivery of its large-scale transport portfolio and on the provision of safe and accessible services to the public and businesses. This has been achieved within the context of the conclusion of the Department's preparations to transition out of the European Union, and the continued response to COVID-19.

The Non-Executive Directors (NEDs) are engaged across the Department providing support, challenge, experience and expertise. We continue in our role of providing additional challenge and scrutiny, as members of the assurance and governance committees of the Board. NEDs have also been engaged in cross Whitehall groups such as the Government Infrastructure Steering Group and the Cross-Government Union forum as well as individual one-off reviews utilising their prior knowledge base.

The Department's Board and Executive and Non-Executive Meetings have considered and reviewed several key areas this year including the impact of COVID-19 and transport and the Department's response to COVID-19, Decarbonisation, Levelling Up, DfT's People, Spending Review, Union Connectivity Review, Future of the Aviation Sector and the Department's Strategic Priorities. This year, I also undertook a Board Effectiveness Review to identify how well the Board was performing and to identify any areas for improvement.

The Department's Investment and IPDC met sixty times in the last year, a notable increase over previous years due to the need to consider and scrutinise COVID-19 related interventions to support the transport system in a fast-paced and dynamic environment. These interventions have included the Emergency Measure Agreements and the subsequent Emergency Recovery Measure Agreements, which ensured the railways continue to support the country's recovery from COVID-19, delivering for passengers, freight and taxpayers.

There have been a number of changes to the Department's NEDs team during the year. Richard Aitken-Davies, who joined in 2017, has ended his term as a DfT NED. Richard provided the benefit of his expertise in a variety of areas including sitting on the Tailored Review Panel and as a member of DfT's Group Audit and Risk Committee. We are grateful to Richard for his contributions during his term and wish him well on his future endeavours.

This year saw the addition of two new NEDs to DfT. Dame Sarah Storey and Ranjit Baxi joined the Department in April 2021 following approval from the Prime Minister and the Secretary of State after an extensive open and fair recruitment process. Dame Sarah is an Active Travel Commissioner for Sheffield City Region, where she has been working with local authorities and key stakeholders to develop active travel infrastructure. Ranjit Baxi is founder of International Recycling Ltd, an international business which exports waste materials from Europe and the USA for recycling into new products in Asia. He is also the Founding President of Global Recycling Foundation. Their collective regional experience and passion with respect to improving travel for the user and sustainability, align with the Department's purpose and priorities going forward, and will be a strong addition to our Board.

The Department has emerged from a challenging period with a renewed focus on delivering on an ambitious agenda and supporting the country in building back better. The NEDs will continue to support the Department's agenda during 21-22.

The relevance of the Department across multiple policy and key services and infrastructure projects is rising and growing. The strategic priorities across Net Zero, grow and Level-up the economy, improving user experience, increasing global impact and be an Excellent Department will require all of our focus, attention and expertise.

Corporate Governance Report

The Corporate Governance Report explains the composition and organisation of the Department's governance structures and shows how they support the achievement of the Department's objectives. It comprises three sections:

- Statement of Principal Accounting Officer's responsibilities
- Directors' Report
- The Governance Statement.

Statement of Principal Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000 (the GRAA), HMT 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 public bodies and other public bodies designated by order made under the GRAA by Statutory Instruments 2020-21 (together known as the 'Departmental group', consisting of the Department and designated bodies listed in Note 26 to the Accounts).

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.

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 applied 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 disclosed and explained any material departures in the Accounts.
- Prepared the Accounts on a going concern basis.

HMT has appointed me as the Principal Accounting Officer for DfT.

I have appointed the chief executive of each sponsored delivery body as the Accounting Officer for their delivery body.

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.

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 DfTc 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 HMT.

As the Principal Accounting Officer, I have taken all necessary steps to make myself aware of any relevant audit information, and to establish that the NAO has been made aware of all relevant information connected with its audit. Insofar as I know, there is no audit information of which the National Audit Office is not aware.

I confirm that the Annual Report and Accounts as a whole are fair, balanced and understandable. I take personal responsibility for the Annual Report and Account and the judgements required for determining that they are fair, balanced and understandable.

Directors report

The Secretary of State for Transport, appointed by the Prime Minister, has overall responsibility for the Department and its public bodies. 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.

The Department's funding sits in several categories, and HMT holds the Department 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 166). The Permanent Secretary is also responsible for the Department's leadership, management and staffing.

Board Members

Rt Hon Grant Shapps MP
Secretary of State

Chris Heaton-Harris MP

Andrew Stephenson MP

Rachel Maclean MP

Baroness Vere
Parliamentary Under Secretary

Robert Courts MP (appointed 8 September 2020)

Kelly Tollhurst MP (left 8 September 2020)

Ian King
Lead NEBM

Richard Keys
NEBM

Tracy Westall
NEBM

Tony Poulter
NEBM


Ranjit Baxi NEBM (appointed 1 April 2021)


Dame Sara Storey NEBM (appointed 1 April 2021)


Richard Atkin-Davies NEBM (left 31 March 2021)


Bernadette Kelly Permanent Secretary


Nick Joyce DG Corporate Delivery


Emma Ward DG Road Places and Environment


Clive Maxwell DG High Speed Rail Group


Gareth Davies DG Aviation, Maritime and Security


David Hughes DG Rail Infrastructure (appointed 18 January 2021)


Conrad Bailey DG Rail Strategy and Services (appointed 1 March 2021 – interim)


Ruth Hannant/ Polly Payne DG Rail Group Payne (left 26 Feb 2021)

Register of interests

The register of ministers' interests is maintained by the Cabinet Office. Non-Executive Board Members (NEBM) are asked to declare any personal or business interests that may cause a conflict of interest; influence or appear to influence their judgment in performing their obligations to the Department, and a central register is maintained by the Department. Details of relevant declared interests are outlined below.

Name	Name of Company or Organisation	Position Held in DfT	Type of Interest (e.g. pay, fees, shareholding)	Other Relevant Information
Richard Keys	NATS Holdings	DfT NEBM and GARAC Chair	Director of NATS Holdings	Registered interest in 2018 and recuses from any discussion relating NATS Holdings and all NATS Group matters.
Tony Poulter	Pensions Infrastructure Platform Ltd (PIP).	DfT NEBM	Non-Executive Chair of the Pensions Infrastructure Platform Ltd (PIP)	Registered interest 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. Mr Poulter recuses from discussions on all local authority PFI contracts at the Department's Investment, Portfolio and Delivery Committee IPDC. In addition, Mr Poulter, through PIP, had an indirect relationship with Red Funnel, the Isle of Wight ferry operator. Mr Poulter recuses from discussions relating to the Department's COVID-19 maritime interventions at IPDC. All potential conflicts of interest related to this position ended on 27 August 2020.
Tony Poulter	London and Continental Railways Ltd	DfT NEBM	Special Director	Registered interest in April 2021 and recuses from any discussion on London Continental Railways Ltd.

Special advisers

In line with the current Declaration of Interests policy for special advisers, all special advisers have declared any relevant interests or confirmed they do not consider they have any relevant interests. The Permanent Secretary considered the returns and the following relevant interests are set out in public:

Name	Interest
Neil Tweedie	Mr Tweedie holds a paid role as a Company Director of Edwin Street Media. Since taking up his role as a special adviser with the Department, Mr Tweedie has not been active in this capacity and has not undertaken any work on behalf of Edwin Street Media. The company is in the process of being wound down.

Civil servants

All employees are required to disclose any possible conflict of interest that may arise from business organisation (including any professional practice) in which they knowingly have an interest in and follow Departmental instructions regarding the management of such interest.

During 2020-21 there were no conflicts of interest declared by DfT Senior Civil Servants. Declarations for all other staff are handled by local management.

The Department has in place a clear conflicts of interest policy, however there is no central database where conflicts of interest are recorded and no collation of information in years prior to 2021. Prior to 2021, employees were required to declare any conflicts of interest with their line manager, who would note the interest and take any appropriate actions.

The Departmental family

The organisational structure, as set out in Figure 14, consists of the central Department and its public bodies which deliver, regulate or advise on a broad portfolio of functions. The Cabinet Office and Office for National Statistics (ONS) classify public bodies into three broad categories:

In compliance with business appointment rules, the Department is transparent in the advice given to individual applications for senior staff, including special advisers. A summary of this advice is provided to the Audit and Risk Committee on a regular basis. Advice regarding specific business appointments has been published on Gov.uk.[30]

Central Government:

Executive Agencies, Non-Departmental Public Bodies, and Non-Ministerial Departments (NMDs). These are collectively known as Arm Length Bodies (ALBs).

Public Corporations:

Market bodies controlled by either central government or local government. Market bodies are defined as entities that gain over 50% of their income from purely commercial activities.

Local Government:

Public administrative bodies that cover a specific locality and any non-market bodies controlled and mainly financed by them.

The Department works in partnership with several other entities such as expert committees and advisory groups. These entities operate independently but are accountable to the Department.

Introduction

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

Senior decision-making fora

The Secretary of State is supported by the Permanent Secretary, ministers, Non-Executive Board Members, and directors general. The structure of these fora is set out in figure 15. The composition of the Board is set-out from page 104.

Overview of the DfTc groups, as of 31 March 2021

The Department is organised into six 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 below.

30 https://www.gov.uk/government/publications/dft-business-appointment-rules-advice-2021

DfT Public Bodies Landscape

Central Government: Arm's Length Bodies

Public Sector Organisations: Public Corporations, Local Government and other entities*

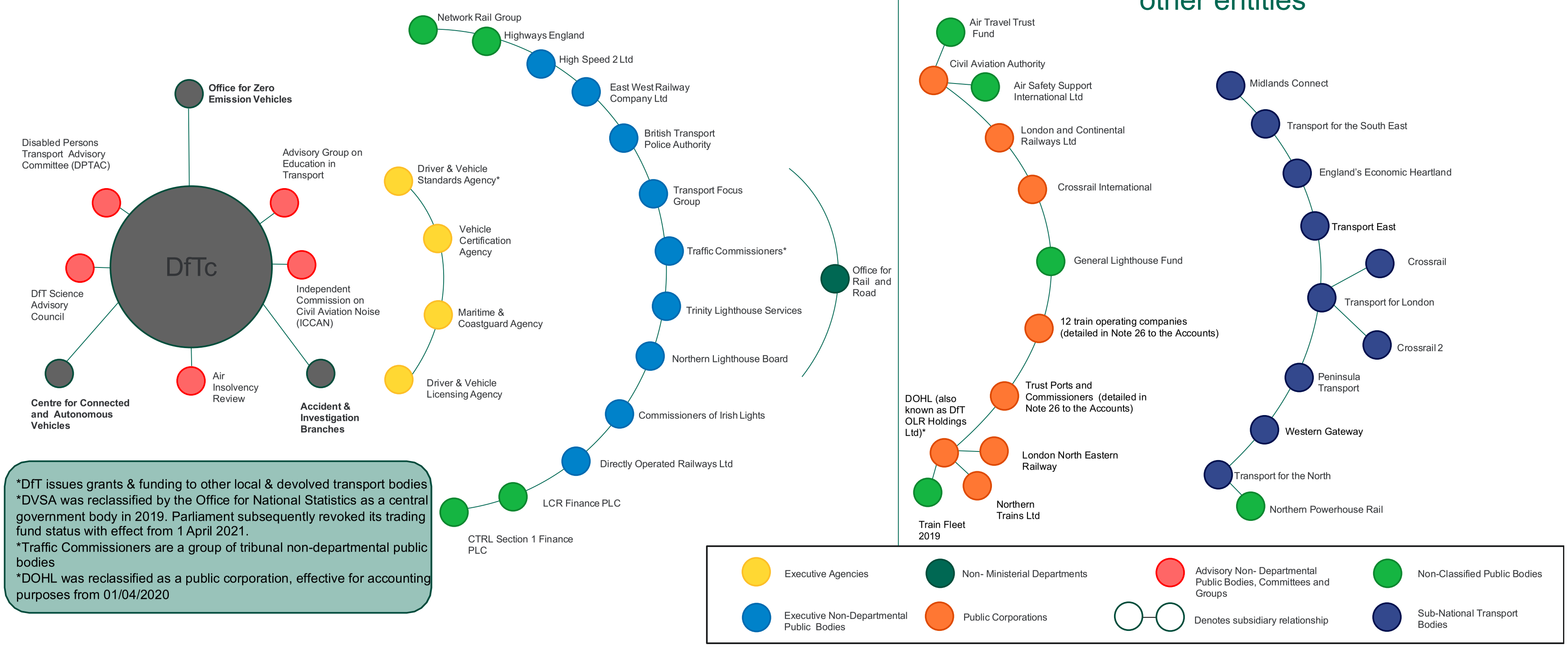


Figure 15: DfT organisational classification

Rail Strategy and Services Group	Rail Infrastructure Group
Leads on: • Rail Strategy Analysis • Rail Workforce and Pensions • One Railway and Security • Rail Reform • Passenger Services • Markets South	Leads on: • Rail Infrastructure South • Rail Infrastructure North • Rail Infrastructure Central
High Speed Rail Group	**Roads, Places and Environment Group**
Includes: • Euston Project • HS2 Phases 1, 2a, and2b • Programme Integration	Includes: • Driving and Vehicle Standards Agency • Driver & Vehicle Licensing Agency • Vehicle Certification Agency • Energy, Technology and Innovation • Road Safety, Standards and Services • Local Transport • Regions, Cities and Devolution • Strategic Roads, Economics and Statistics • Domestic COVID–19 Directorate
Corporate Delivery Group	**Aviation, Maritime, International and Security Group**
Leads on: • Portfolio and Project Delivery • Corporate Finance and Property • Shareholding and Corporate Sponsorship • Group Finance • Group Commercial • Group Human Resources • Group Assurance and Digital • Group Communications	Leads on: • Analysis and Science • Chief Scientific Adviser • Strategy and Private Office • International • International COVID–19 • Transport Security, Resilience and Response • Airports, Infrastructure and Commercial Interventions • Aviation • Maritime • Accident Investigation Branches • Acceleration Unit • Maritime and Coastguard Agency
Non – Group	
Comprised of Legal	

During December 2020, the Department restructured its Rail Group to form two new groups, the Rail Infrastructure Group (RIG) and the Rail Strategy and Services Group (RSSG). RIG is responsible for overseeing the Department's portfolio of major rail investment projects (excluding HS2), and RSSG is responsible for rail strategy and policy, reform, passenger services, safety and security and integration of the railway, including ensuring infrastructure investment and train services fully align. The High Speed and Major Rail Projects Group, responsible for HS2 was renamed to High Speed Rail Group.

The system of corporate governance, management and internal control

The Department is governed by:

- The Secretary of State's overall responsibility for the Department.
- The Permanent Secretary's responsibilities, 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.
- Providing layers of control, scrutiny and assurance to ensure that the Department is achieving its aims and objectives with an appropriate level of control.

The system of control includes the Departmental Board sub-committees, the Executive Committee and its sub-committees, and the Department's public bodies. These are governed by the control framework, which is supported by internal and external assurance processes. Figure 16 provides an illustration of the Board and the sub-committee structure in the Department and the chair of each committee.

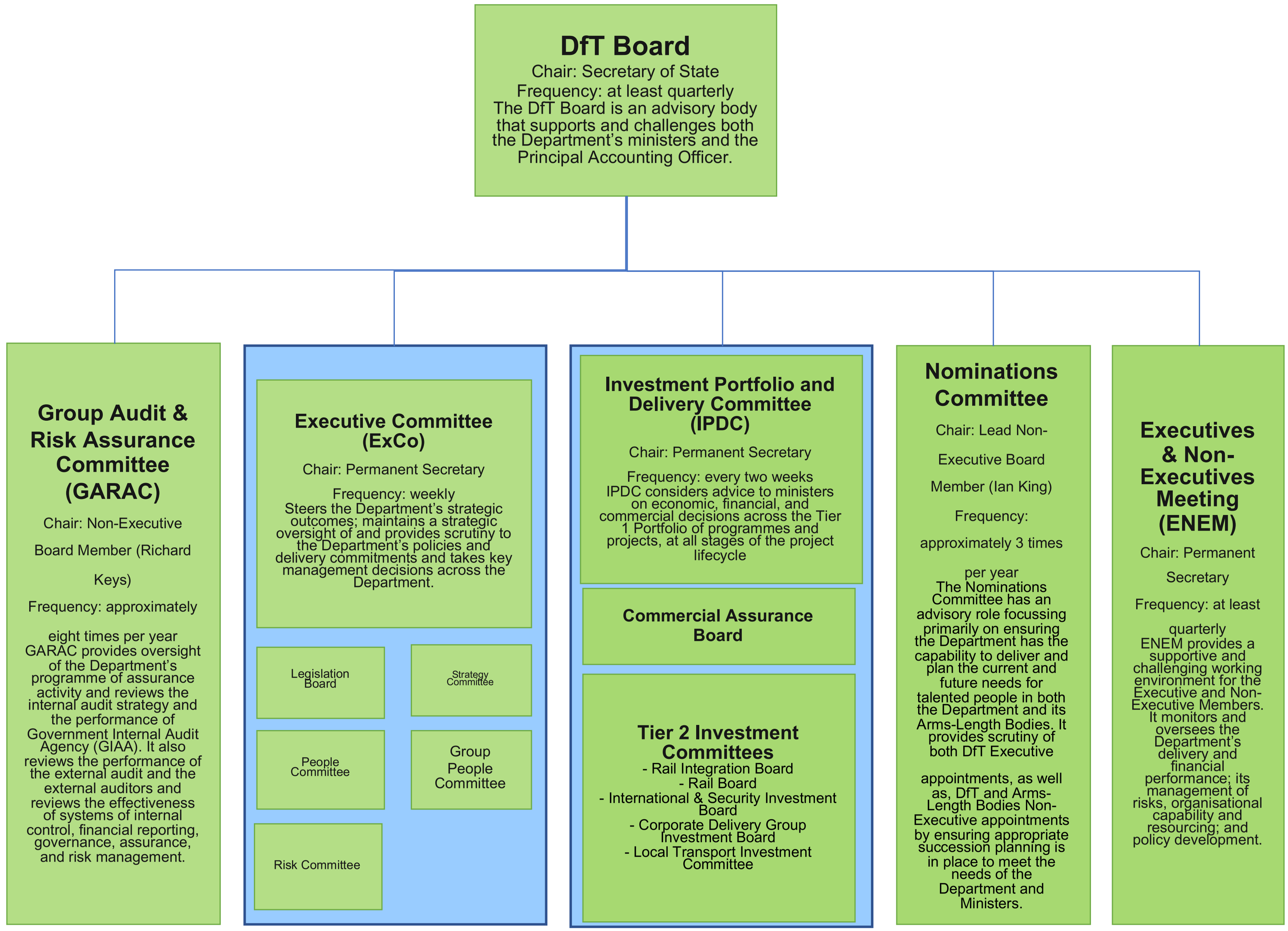


Figure 16: Governance bodies – board and sub-committee structure

Departmental Board

The Secretary of State chairs the Departmental Board. The Board has oversight of five main areas, as outlined in table 5.

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.

During 2020-21, the Board met five times. A summary of the discussions during 2020-21 is provided in table 5.

Responsibilities of the Board		Topics discussed 2020-2021
Performance	• Agreeing the Output Delivery Plan (ODP) • Scrutinising the performance of the Department's public bodies • Setting standards and values	• Milestones and delivery were discussed at each meeting as part of the Management Information report
Strategy	• Setting the priority outcomes and ensuring activities contribute towards them • Advising on major policies, projects and programmes	• The Department's COVID-19 response • EU Transition • Decarbonisation • Growing the economy • Union Connectivity
Resources	• Ensuring sound financial management • Considering the appropriate allocation of Departmental resources.	• The Board discussed resourcing and its allocation across the Department as part of the standing management information update to the Board
Capability	• Ensuring the Department has the capability to deliver • Ensuring the Department plans to meet current and future needs	• The Management Information report provides an overview of the Department's resources and capabilities • Business Planning 21-22
Risk	• Setting the risk appetite • Reviewing key Departmental risks • Ensuring controls are in place to manage risk	Aspects delegated to ExCo and GARAC conducted a series of deep dives on key risks on behalf of the Board. These key risks included the risks the Department faces in meeting its commitments to address climate change by decarbonising transport, cyber and information risk, and transport recovery.

Table 5: Overview of the Board's discussions

Executive Committee (ExCo)

The Committee met 49 times between April 2020 and March 2021 and held regular discussions around key areas including:

- COVID-19 health risk planning and recovery
- Departmental Strategy
- Diversity and Inclusion
- Management Information
- Primary Legislation
- Union Connectivity
- DfT Science Plan
- Reform Investment Appraisal
- EU Transition
- Resourcing and Pay
- Future Location Strategy
- Future of the Critical Freight Taskforce
- Decarbonisation activities
- Acceleration Unit
- International Strategic Framework
- Security
- Rail and HS2
- Business Planning.

Executive and Non-Executive Meeting (ENEM)

Considered:

- Management Information
- DfT People – Pulse Survey
- Levelling Up – Strategic approach
- The Department's activities to improve Diversity and Inclusion, including developing a Race Action Plan
- Future of DfT Board
- SR20
- Future Location Strategy
- Future of the Aviation Sector.

Investment Portfolio and Delivery Committee (IPDC)

In response to the need to manage the effects COVID-19 had on the Department and wider transport sector; the Committee increased the frequency with which it sat. This enabled it to make sure that assurance and controls were maintained on decisions on investments and other financial interventions, considered business cases in a timely manner, reviewed procurement activity across several different areas, and managed the Department's project portfolio and scrutinising projects during their delivery phase. Projects and programmes considered during 2020-21 included:

- COVID-19 reactive projects and programmes including supporting the Motorway Service Area Industry, Suspension of Liquated Damages from Train Manufacturers, Local Transport response programmes, impacts on timetables changes for Major Rail Projects, Tier 1 updates, Lifeline Services, funding for Bus and light Rail, Ports and Cruise company updates and COVID-19 trackers.
- Emergency Measures Arrangement Exit, Heathrow and Gatwick Financial Contributions, TfL Funding package and Cross-Country Contract Award, the TransPennine Route Upgrade, Midland Mainline programme, Eurostar and COVID-19, and the Rail Industry.
- The High-Speed Rail 2 portfolio – including scope options, market engagement, Euston, procurement strategy, rolling stock procurement interactions, lessons learned, project lifecycle and baseline approvals, and scrutiny on costs, schedule and affordability.
- Major Transport Schemes, such as Intercity Express Programme closure and lessons learned, Thameslink, Crossrail and the Oxford to Cambridge Expressway.
- Highways England's Roads Investment Strategy, including major road schemes such as the Lower Thames Crossing, projects on the A358, A428, A303, A12, A14, Smart Motorways, Cycling and Walking and the TransPennine Tunnel.
- Aviation interventions, freight capacity, Road Haulage and UK Search and Rescue 2nd Generation.
- Portfolio reporting for the Department's Tier 1 and Tier 2 investments, as well Highways England's Capital Portfolio and Delivery Framework.
- Interdependencies in scheme appraisal, common analytical scenarios, the Transforming Cities Fund, benefits management and evaluation.

Nominations Committee

The Nominations Committee provides assurance to the Board that the Department has the capability to delivery and to plan to meet current and future needs for talented people. It has an advisory role in scrutinising and challenging processes for developing talent, succession planning for both DfT executive appointments, as well as, DfT and public bodies non-executive appointments, anchored in a broad understanding of the Department's overall people strategy.

Key areas the committee considered were:

- Key public appointment activity, processes and succession planning across the Department and public bodies.
- Public appointment diversity strategy.
- Increased Non-Executive ALB engagement and the implementation of a new Shareholder/Sponsorship directorate to deliver this.
- Directors General and Director talent and succession planning.
- DfT Board Effectiveness Evaluation results.

Group Audit and Risk Assurance Committee (GARAC)

Key areas the committee considered were:

- Annual Report and Accounts
- Risk Committee update
- DfT Audit Plan (included updates from the Risk Committee, and reviewing the Risk Management process)
- Decarbonising transport
- Cyber and Information Security risks
- COVID-19 risks, response, restart and recovery
- Strategic Workforce Planning
- Supply Chain Management
- HS2 Risks
- Controls and counter-fraud
- Raising a concern (formerly Whistleblowing).

Table 6 Board Sub Committee summary

Board Member	DfT Board	Executive and Non-Executive Meeting (ENEM)	Executive Committee (ExCo)	Group Audit and Risk Assurance Committee (GARAC) – There were also deep dive sessions scheduled for select members for particular topics of interest.	Investment Portfolio Delivery Committee (IPDC) includes 30 extra IPDC	Nominations and Governance Committee (NGC)
Rt Hon Grant Shapps	3/4					
Chris Heaton-Harris MP	4/4					
Andrew Stephenson MP	4/4					
Baroness Vere	4/4					
Rachel Maclean MP	4/4					
Kelly Tolhurst MP	1/1					
Robert Courts MP	2/3					
Ian King	4/4	6/6			57/60	3/3
Tony Poulter	4/4	6/6			54/60	
Richard Keys	3/4	4/6		8/8		
Richard Aitken-Davies	4/4	6/6		8/8		
Tracy Westall	4/4	6/6				3/3
Bernadette Kelly	4/4	6/6	45/49	5/8	44/60	3/3
Gareth Davies	4/4	3/6	44/49		46/60	
Nick Joyce	4/4	5/6	47/49	7/8	50/60	3/3
Clive Maxwell	4/4	6/6	46/49		51/60	
Polly Payne/Ruth Hannant	4/4	6/6	44/44		49/55	
Emma Ward	3/4	5/6	43/49		9/60[31]	
David Hughes	1/1	0/0	11/11		10/10	
Conrad Bailey – interim			5/5		5/5	
Bridget Rosewell				3/3		
Amarjit Atkar				8/8		
Kathryn Cearns				7/8		
Mark Bayley				2/2		

Table 7: Overview of Board and sub-committee attendance up to 31 March 2021

31 Delegated 15 meetings to the directors of Roads due to responsibilities following the impact of COVID-19.

Compliance with HM Treasury's Corporate Governance Code

The Department has assessed its compliance with the Corporate Governance Code for central government departments and is committed to the code and remained compliant with the spirit and principles of the Code. Due to the end of the EU Transition Period in December 2020 an independent Board effectiveness review did not take place in 2020-21. The Department completed an internal effectiveness review in April 2021, and this will be followed by a fuller and independent effectiveness evaluation in the last quarter of 2021-22.

Governance of public bodies

Much of the Department's business is conducted with and through its public bodies. Within the Department a sponsor team – or separate client and shareholder teams in the case of government-owned companies, manage the relationship with public bodies at working level by following the principles set out in a framework document.

Framework Documents

There is a framework document in place with each of the Department's public bodies, in line with HMT's guidance set out in Managing Public Money.

These framework documents are developed in collaboration with the public bodies, which set out the responsibilities, accountabilities, governance, financial management, management assurance and relationship between the public bodies and the Department. Additionally, relevant controls set out by the Department, HMT or Cabinet Office that define the parameters within which the organisation must operate are captured in framework documents. The Department's Public Bodies Centre of Expertise supports sponsor and shareholder teams in ensuring that all framework documents are fit for purpose and regularly reviewed, in line with HMT policy.

The Department published an updated framework document for East West Railway Company Ltd, which was published in November 2020.

Public Body Review

In September 2020 the Department published its report and recommendations following a Tailored Review of Transport Focus[32].

The Review and Sponsor teams have since worked with Transport Focus to support implementation of the review's recommendations.

During 2020-21 Cabinet Office brought to an end the requirement for departments to conduct Tailored Reviews of their public bodies. It is expected that Cabinet Office will launch a new programme of public body review in 2021-22.

Non-Executive Board appointments and diversity

Ministers appoint around 150 Non-Executive Board members including chairs to the Department's executive agencies and public bodies each year. These appointments cover a wide range of the transport sector, including HS2, Network Rail, Highways England, Office of Rail and Road, Civil Aviation Authority, British Transport Authority, and the Maritime and Coastguard Agency. These roles provide a link between the Department and its public bodies, providing their Boards with the required expertise and experience to enable delivery of government objectives. Non-Executive Board members also provide constructive challenge to the public bodies Boards, to ensure good governance is in place, and to raise the performance of

32 (www.gov.uk/government/publications/transport-focus-tailored-review)

bodies. Most 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.

The Government has set an aspiration that by 2022, 50% of all public appointees across government should be female and that 14% of appointments should be from BAME backgrounds. As of March 2021, 33% and 8% of the Department's public appointees were female and BAME respectively. This is an increase from the previous year in which 30% were female and 4% BAME.

To meet this challenge the Department's Public Appointments Team has developed a strategy for diversity in public appointments aiming to improve data, attract more diverse talent, developing a more inclusive application processes, and provide more ongoing candidate support.

The Department also continued; to build a talent pool of credible and diverse candidates, with a range of skills and experience; promoting the non-executive roles among diversity networks; and participating in cross-government initiatives aimed at attracting candidates and raising awareness of public appointments.

These efforts have been reflected in increased diversity of applicants for roles; those progressing to the later stages of competitions and actual appointments. For example, a campaign for the Civil Aviation Authority had 11% BAME applicants and the campaign for East West Rail Chair had three BAME and two female candidates on the shortlist of six, with Neil Sachdev appointed. The Department's work on diversity is strengthened by its sponsorship of the Disabled Peoples Transport Advisory Committee (DPTAC), which has a majority disabled membership and a strong record of attracting disabled candidates. Accordingly, the Department has 11.3% of appointees declaring a disability, which is the highest proportionally across Whitehall.

Our approach to risk

The Department's Risk Management Policy promotes a no surprises, no blame culture, where well managed risk taking is encouraged and managers are asked to lead by example. Risk management behaviours should be embedded into all Departmental activities. The Department's leadership understands that considered and well-managed risk taking is necessary to deliver business objectives. As a result, there is regular monthly reporting of the top risks to ExCo, IPDC and additional reporting to ENEM and the Board.

The Department is fully engaged on cross government improvement work to strengthen risk management – this is led by the Government Finance Function. The Departmental Risk Lead and Chief Internal Auditor both sat on this cross-government 'Heads of Risk Network', where best practice on risk management, including on the response to COVID-19, was identified and promulgated. Throughout this period, the DfT Risk Lead ensured the approaches taken in the Department reflected best practice as they also chaired the cross-government Risk Improvement Group.

The Department recognises that a lot of risks are carried by our public bodies and works with them to ensure that risks are widely understood, and opportunities are taken to collectively manage them, as part of the shareholder role. The risk escalation protocol promulgated in 2018 continues to give direction to the public bodies on what they need to escalate to the Department and when.

This past year has brought many challenges and as a result, the Department devised and has begun taking forward a Risk Action Plan to further address and strengthen risk management. This plan is agreed and supported by the DfT Risk Committee (incorporating Departmental Risk Champions) as well as by ExCo and GARAC. Key elements of the Plan include more consistency with how risks are managed by the top boards, strengthening the feedback loops across the whole Department and renewing the commitment to build staff capability. Increased, dedicated, risk management training for staff is to be taken forward during the coming year.

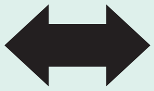
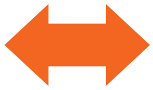
Top-level risks

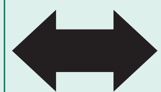
Table 8 sets out the top-level risk themes that the Department managed during the year. These risk themes represent the Department's view on the overall risk profile at that time, taking into account the risks carried and managed by the public bodies.

This year marked a very challenging year for the Department with COVID-19 outbreak. In risk terms the impact of COVID-19 has been to increase the severity of some of the existing risks as well as creating some new ones.

More information on the Department's response to COVID-19 can be found at the start of the Performance Report from page 36.

As well as handling COVID-19 outbreak and lockdown restrictions, the Department has also worked hard to manage the risks around the UK's transition from the EU and how this has affected our freight, trade and passenger travel to the EU, particularly through our channel ports.

	Risk	Mitigating activities taken during 2020-21 included:	Direction of risk trend at year end
1. COVID-19	i. The entire UK Transport System including freight severely impacted by spikes of COVID-19, which has implications for delivery of Government's wider COVID-19 recovery strategy.	The Department • Hosted the Freight Strategy Advisory Group (FSAG) which discussed COVID-19/Recovery and provided industry with an opportunity to raise their concerns. • Developed a governance process with HM Treasury which aimed to speed up senior strategic decision making.	
	ii. The UK's international travel arrangements are unviable due to COVID-19, resulting in negative impacts on the aviation, maritime and travel industries as well as the wider economy.	• Used an independent review team in PwC to stress test our operational planning and resourcing against assumptions.	
	iii. DfT is unable to revise/rescope and ensure long-term viability of infrastructure programmes at the pace required to take account of potential changes to the UK public's travel habits/ patterns post-pandemic.	• Fulfilled, at pace, COVID-19 and EU transition needs using a variety of resourcing routes. Range of requirements spanned operational response, Project Delivery, Policy, Analysts and Corporate roles.	
2.	Departmental priorities cannot be delivered in the medium to long-term due to spending pressures, resulting from COVID-19 and DfT providing significant financial support to the rail sector.	The Department: • Worked with, HMT, CO, BEIS and OGDs on their Priority Outcomes which supported the 2020 Spending Review and formed the backbone of the ODP outlining the Department's workplan for 2021-22. • Worked with HMT to consider the efficiencies and savings already being achieved by the companies; explored options for further efficiency savings. • Prepared a medium-term fiscal plan ahead of the spending review in 2021. It was expected that this would take place against a backdrop of tight fiscal constraint, so the Department prioritised its spending plans and sought to secure HMT support for any new ambitions. • Ongoing engagement with, rail sector and BEIS with regards to rail suppliers and their supply chains exhibiting signs of financial distress. • Continued to carefully monitor costs and schedules by Project and Programme Boards and of the Portfolio by IPDC.	

Risk	Mitigating activities taken during 2020-21 included:	Direction of risk trend at year end
3. Adverse impact on the environment and public health if UK Government's 'net zero' and air quality targets are not met.	The Department: • Set to work on developing the Transport Decarbonisation Plan 'Setting The Challenge', which lays out the scale of additional reductions needed, alongside the commitments, actions and policies to deliver them. The 'greenprint' 'Decarbonising Transport: A Better, Greener Britain' was published in July 2021. • Began work on its Zero Emission Vehicle Delivery Plan to support delivery of the 'Ten point plan for a green industrial revolution", which earmarked more than £1.2 billion of new investments for nuclear, hydrogen and carbon capture technologies, as well as a number of new commitments in transport. • Laid the Road Vehicle Carbon Dioxide Emission Performance Standards (Cars and Vans) (Amendment) (EU Exit) Regulations 2020. This ensured that, as the UK left the EU, our regulatory standards for the reduction of CO2 emissions from cars, vans and trucks are at least as ambitious of those of the EU. The New Heavy Duty Vehicles (Carbon Dioxide Emission Performance Standards) (Amendment) (EU Exit) Regulations 2020 were also made in December 2020. • Continued delivery of the government's programme to reduce roadside NO2 concentrations by launching Bath's Clean Air Zone (CAZ). We also launched Birmingham's CAZ and plan to launch 7 further CAZs in the next few year's.	
4. Risk of harm to the public and disruption to our transport network either as a result of a public/ transport worker accident, natural hazard occurrence or deliberate malicious attack.	The Department: • Tested training and exercise plans through robust programmes including table top exercises, cross DfT and National Exercises. • Delivered response familiarisation training to increase the quantity and quality of personal available to support a crisis response. • Continues to work with ORR, RSSB and RAIB to maintain and improve safety regulation and culture.	

Risk	Mitigating activities taken during 2020-21 included:	Direction of risk trend at year end
5. Failure to deliver the benefits of future, strategic transport projects for the public if key programmes, such as major rail projects – e.g. HS2, Crossrail – or major road programmes e.g. – RIS2 – are not delivered to time and cost.	The Department: • Continued to work closely with delivery bodies to monitor progress and ensure delivery. In particular monitoring performance and progress across all the Major Rail Projects and worked with Highways England to do the same for RIS2 related work. • Monitored portfolio delivery performance and risks formally through monthly client meetings, quarterly monitoring and reporting by ORR and scrutiny by IPDC. • Created the new centralised Portfolio and Projects Delivery Directorate headed by the Chief Portfolio Officer, a newly created role, which oversaw the delivery of the first phase, and launched the second, of the Department's Project Delivery Improvement Programme. It also leads the Department's contribution to Project Speed which aims to deliver projects "better, greener, faster".	
6. Failure to deliver effective and efficient public transport services should a major travel provider or major supply chain fail.	The Department: • Invested in technology and tools providing an independent market assessment and early warning signals ahead of financial alerts. • Established forums for current operational and future strategic issues that would impact on a supplier's ability and appetite to bid for and deliver DfT projects. • Continued to have DfT DG/Director meetings with supplier Board members to ensure DfT fully utilised our relationship leverage with suppliers. • Continued to evaluate the 15 strategic suppliers to ensure that critical suppliers and supply chain dependencies across DfT Group are managed. • Actively identified operators that may need financial support. This enabled the Department to target interventions to protect services such as the provision of a minimum level of public transport for key workers and securing critical freight supplies to and within the United Kingdom during COVID-19. • Continued to review robust contingency plans across DfT Group.	

Risk	Mitigating activities taken during 2020-21 included:	Direction of risk trend at year end
7. Disruption to transport services – passengers and freight; associated industries; and the wider economy – caused by EU transition arrangements.	The Department: • Actively managed the risk of disruption to transport services during and after the Transition Period. • Had close involvement with Border Delivery Group and undertook proactive contingency planning together with OGDs while acknowledging continuing uncertainty. • Oversaw contingency planning through Programme Boards, reporting to senior leaders. Milestones, risks and delivery timelines were scrutinised to ensure effective delivery. • Dedicated resources to establish a Departmental Operations Centre. • Had ongoing engagement with our public bodies confirming post-EU transition readiness assessments, including financial stability assessments of their strategic and critical suppliers.	↔
8. Service delivery to the public is seriously impacted should there be control failures in DfT's delivery bodies, such as Network Rail, Highways England or HS2 Ltd, if DfT fails to provide clear frameworks and delegations or exercise robust oversight of the bodies.	The Department: • Continued to have an ongoing programme of updates to Framework Agreements that reflecting the Cabinet Office and HM Treasury guidance with the Department working with Cabinet Office to ensure that future 'central controls' took account of operational requirements. • Held Shareholder/finance meetings with delivery bodies and cycle of governance meetings between Board members and senior DfT officials/Ministers which reviewed and challenged delivery bodies' own governance and decision-making. • Continued to have shareholder-appointed Non-Executive Directors at Highways England, HS2 Ltd and Network Rail Boards who worked with the Department's shareholder teams to scrutinize and challenge Board reporting. • Remained in-step with the Delivery Body Boards large change and transformation agendas e.g., Williams Review and crisis management. • Carried out the annual management assurance exercises by each delivery body checking that the controls in place were robust, being followed and that steps were put in place to manage risk. • Worked with ALBs through our shareholders to understand the implications of moving to a one-year Spending Review, identifying major delivery risks and how to plan effectively for a future longer term Spending Review in 2021.	↔

Table 8: DfT's top-level risks for 2020-21

Framework of internal control

Robust control arrangements within the Department provide assurance to the Board, the Principal Accounting Officer and ministers that public money and resources are used properly and efficiently.

The Department's COVID-19 response involved a number of interventions which included, clear governance/cross-stakeholder engagement to support right decisions prior to any interventions. Guidance was provided to business areas to ensure controls were strengthened and were not compromised whilst we worked at pace. The Controls Network Group provided oversight and reviewed risks and delivery of controls and compliance.

Financial governance, management and control

The Department's business planning process allocates the budget voted by Parliament to all parts of the organisation. Financial plans are agreed between the Department and HMT through the Spending Review process.

At the commencement of each financial year, Parliament provides statutory authority for the Department's budget through the Main Estimate. In parallel, the accounting officer formally delegates budgets to directors general and the department's public bodies. The Department, through its Executive Committee, reviews the actual and forecast outturns each month to ensure that spending is managed in-line with approved budgets. This monitoring is designed to ensure that the Department does not breach any of the control total spending limits approved by Parliament, while also providing advice on options to ensure the best use of available resources to ministers and the Board in order to deliver the Departments outcomes.

Requests for budget changes are agreed with HMT during the year alongside strategic decisions made by ministers and the Board. The Department seeks statutory authority from Parliament for changes to budgets in-year through the Supplementary Estimate. In parallel, final budget delegations for the year are issued to directors general and public bodies. Actual spending for the year is compared with the final budgets approved by Parliament in the Statement of Outturn against Parliamentary Supply from page 166.

Spending on COVID-19 interventions

The Department's spending requirements on interventions across the transport sector in response to COVID-19 were uncertain at the outset of the 2020-21 financial year. In-line with the approach agreed with all major departments leading on the government's COVID-19 response, the budgets for these costs were authorised by HMT on a rolling, periodic basis throughout the year. Accordingly, these costs were met during the year from amounts advanced by HMT from the Contingencies Fund. Exco monitored these costs monthly against forecasts which were updated throughout the year as the spending requirements arising from COVID-19 developed. Parliament formally approved these spending requirements on COVID-19 interventions through the Supplementary Estimate. In accordance with Managing Public Money, upon royal assent of the Supplementary Estimate, all amounts advanced from the Contingencies Fund were repaid.

Ministerial directions

There were no ministerial directions during 2020-21.

Financial control, counter fraud and raising a concern

The Department continued to raise awareness of the importance of the control's framework. The Control Network Group (CNG), comprising senior Subject Matter Experts from Group Finance, Commercial, Governance, HR and Internal Audit met throughout 2020-21 to ensure oversight and delivery of robust controls, counter fraud activity and driving compliance with HM Treasury, Cabinet Office and internal controls.

DfTc has clear online guidance setting out the Cabinet Office, HMT and internal controls framework. Assurance is provided through the Management Assurance activity on the control's framework and CNG provide strategic oversight on key risks and any retrospective approvals.

The Department has a 'zero-tolerance' attitude towards fraud, bribery and corruption. Any such acts are investigated fully and where appropriate, disciplinary and/or legal actions are taken, in line with Cabinet Office guidelines. The Department delivered against the Counter Fraud, Bribery and Corruption strategy, a two-year plan launched in 2019 in countering fraud, reducing risk and raising awareness across the Department. The Department participated in the Fraud Awareness Week by working with NatWest Bank, Group HR and Cyber Security to help raise awareness of counter fraud and reporting of fraud, bribery and corruption. There was also an increase in the detection activity and senior management engagement and support for counter fraud activity, resulting in awareness messages delivered to staff by the Finance Director and the Accounting Officer.

DfTc will continue to actively identify areas of risk as part of its business as usual work that require further investigation and detection of fraud or error. For example, fraud risk assessments and the use of Spotlight, a due diligence tool are now encouraged for new grants and other areas of risk.

Quarterly meetings were held within the Fraud, Error and Debt (FED) Group, comprising senior fraud officers and other representatives from the Department, and its public bodies. It considered 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 FED Group to raise awareness of counter fraud activity across the Department, and significant progress has been made in meeting the government's Counter Fraud Functional Standards. The fraud action plan sets out key priorities to support continuous improvement against these standards and the way these are managed in the fraud landscape.

All staff in the Department are required to take annual online fraud awareness training.

The Department continues to participate in the Cabinet Office's cross-government internal fraud policy where those who commit fraud, bribery or corruption are dismissed, placed on the Cabinet Office register and are not re-employed in the Civil Service for a period of five years. The Department has had no cases fall within scope of this policy in 2020-21.

In 2020-21, there were no cases of reported fraud in the Department that resulted in financial loss. Where appropriate, any cases of reported fraud during the same period within the Department's public bodies are noted in their own Governance Statements.

The Department remains committed to building a culture where people feel safe to speak up and report a concern in the knowledge that we will listen and take their concern seriously.

Similarly, the Department continues to encourage employees to raise concerns about perceived wrongdoing and to 'Speak Up' to challenge inappropriate behaviour in the workplace, including bullying, harassment and discrimination.

During the year, the following activities have helped to support an increase in employee awareness of the importance of raising concerns and the routes available to them:

- The Department' Whistleblowing policy was refreshed and rebranded in August 2020 as 'Raising a Concern' with the updated policy more accessible and supportive in terminology and tone, acknowledging that deciding to speak up can be a worrying and stressful time for employees.
- The creation of a single Departmental Intranet hub bringing information and guidance on all the routes available to raise concerns, including bullying, harassment and discrimination. Targeted learning events on internal fraud awareness, the Civil Service Code and how to raise concerns were developed and delivered for teams and line managers.
- As part of the 2020 People Survey 67% of the Department's employees responded positively to indicate they were aware of how to raise a concern under the Civil Service Code. This was an improvement of 4% points on 2019, and 1% point below the Civil Service benchmark. 77% of employees indicated that they were confident that if they raised a concern under the Code that it would be properly investigated, this was an improvement of 2% points on 2019 and in line with the Civil Service benchmark.

A total of 20 concerns have been raised in the Department over the last year, which fall into the scope of whistleblowing, with no common themes identified.

Looking ahead to 2021-22, the Department plans to:

- Continue the focus on increasing awareness of how to raise concern and the routes available to employees.

Review the role of Nominated Officer and supporting process, explore options to build and strengthen the network and put in place necessary changes.

COVID-19 response

The Department worked collaboratively with key stakeholders, including the Cabinet Office and other government departments, to ensure clear governance and to help manage new and emerging fraud risks as we moved to different ways of working in our response to COVID-19. The provision of emergency relief and services created inherent risk of fraud which resulted in the Department developing a clear action plan of activity to mitigate the risk. This included targeted activity in terms of understanding the changes to the risk profile by undertaking fraud risk assessments for high-risk grant areas and raising awareness through the Department and its public bodies to make sure control procedures were reviewed and assessed for continuing effectiveness.

Management Assurance

The 2020-21 Management Assurance review of the DfTc identified an overall opinion of just within the Substantial range, with overall 19 of the 36 areas of internal control reported by business units as Substantial (with the remainder being reported overall as Moderate). There was one individual Unsatisfactory rating identified in one category for one business unit of the DfTc in 2020-21. Year-on-year, the process is bringing greater visibility to the importance of controls and requirements. Results are reported to ExCo and GARAC focusing on the lower scoring categories, with action plans identifying improvements with a number of actions already undertaken. Noting that while these are the lowest scoring categories, they are in the Moderate range and therefore are not flagged as 'urgent action required':

- Business Continuity (lowest scoring)
- Knowledge and Information Management
- Line Manager Development
- Project Delivery
- Absence Management & T&S Checks.

Project Assurance

Capable project delivery professionals are a critical component of successful project delivery. The Department remains committed to supporting all staff to ensure they have the necessary project delivery capabilities. Steered by the head of profession and supported by the Project Delivery Profession Board, the Department has continued to make ongoing investment in individuals continued professional development. This includes investing not only in those that are experienced through funding of places for the Major Projects Leadership Academy, Project Leadership Programme, and also Chartership applications, but also the Department has continued to develop a pipeline of talent through the Project Delivery Development Programme (PDDP), so that the Department has the project leaders of tomorrow. The ongoing commitment to improving project delivery continued to build on the 'Lessons from transport for the sponsorship of major projects' report, with the Department committed to delivering the next phase of the PDIP.

The Department continues to work closely with the IPA this includes continued contributions to cross-government workstreams, and the continued professionalisation of project delivery. This included supporting the rollout of central initiatives such as the Government Project Delivery Framework and updating of the Government Functional Standard for Project Delivery. The Department's Project Delivery Centre of Excellence provided a central source of advice, guidance and support to the Department's project delivery community. The Centre of Excellence also provided expert project assurance to support the monitoring of projects, and further to inform the Department's investment decision making processes. This was also supplemented by our Lessons Team and further though our established community of practice, which shared project delivery lessons, and best practice through a series of events held over the course of the year.

The Department operated a tiering system, which provided assurance through governance boards, who monitored and made investment decisions at set points in a project's lifecycle. The scale or scope, level of strategic risk and expected costs determined the level of governance oversight a project requires. The Department's major projects portfolio of (comprising 34 projects at March 21) consisted of the largest, riskiest, and most costly projects. The Tier 1 Portfolio reported to the Department's topmost investment decision making board – IPDC. A sub-set of this portfolio of projects (25 projects) formed part of the Government Major Projects Portfolio and was reported quarterly to the IPA. An overview of our tiering system is provided in Figure 16.

DfT group investment approvals structure

Investment approvals apply whenever there is a contract award or investment. Projects are split into tiers, and approval must be gained from the appropriate investment board. All Tier 1 projects must undergo independent project assurance reviews at particular stages in their lifecycle aligned to these investment approvals, and those reviews carried out this year by IPA accredited reviewers are provided in Figure 15.

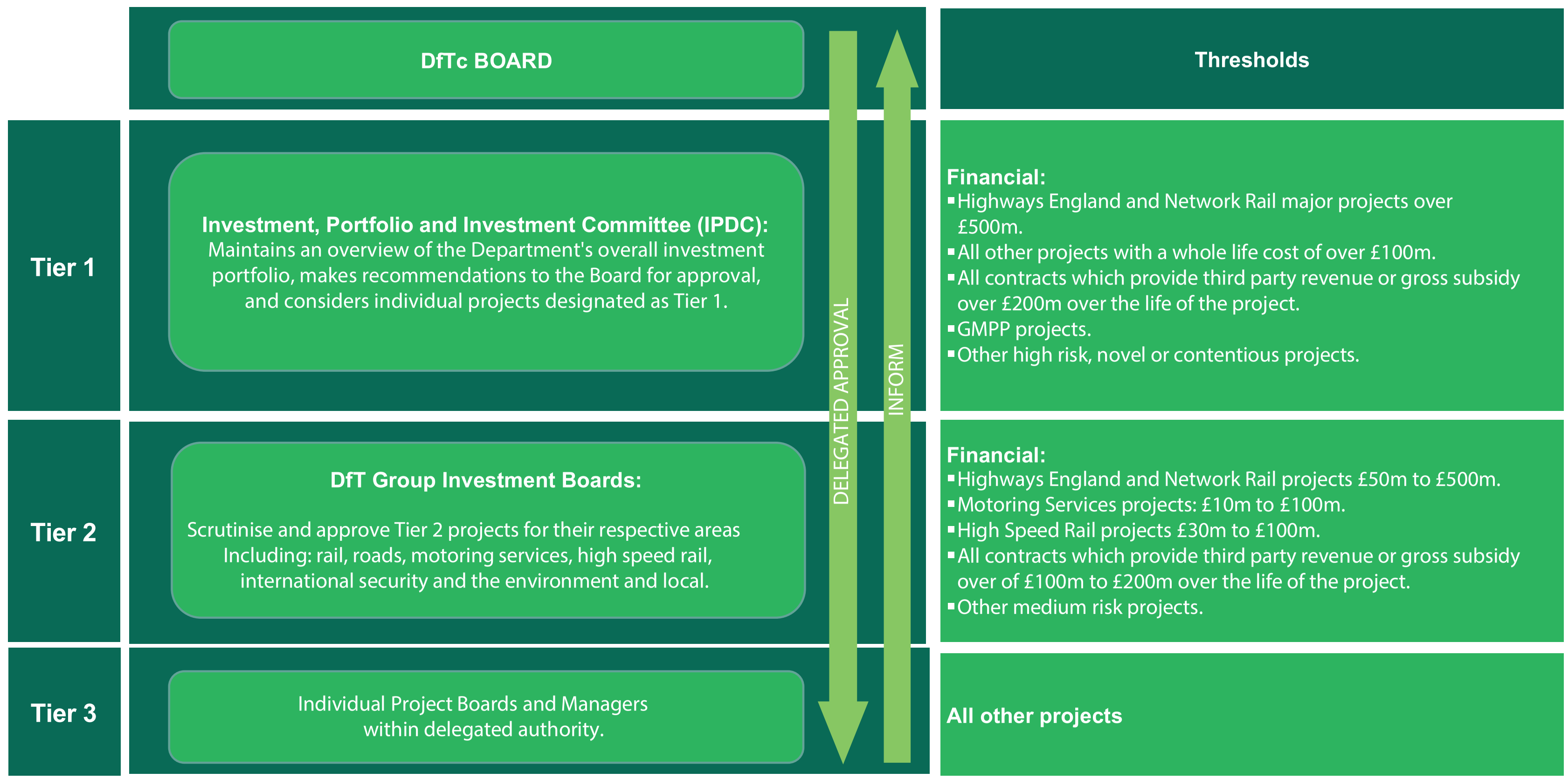


Figure 17: Investment Approvals – Structure

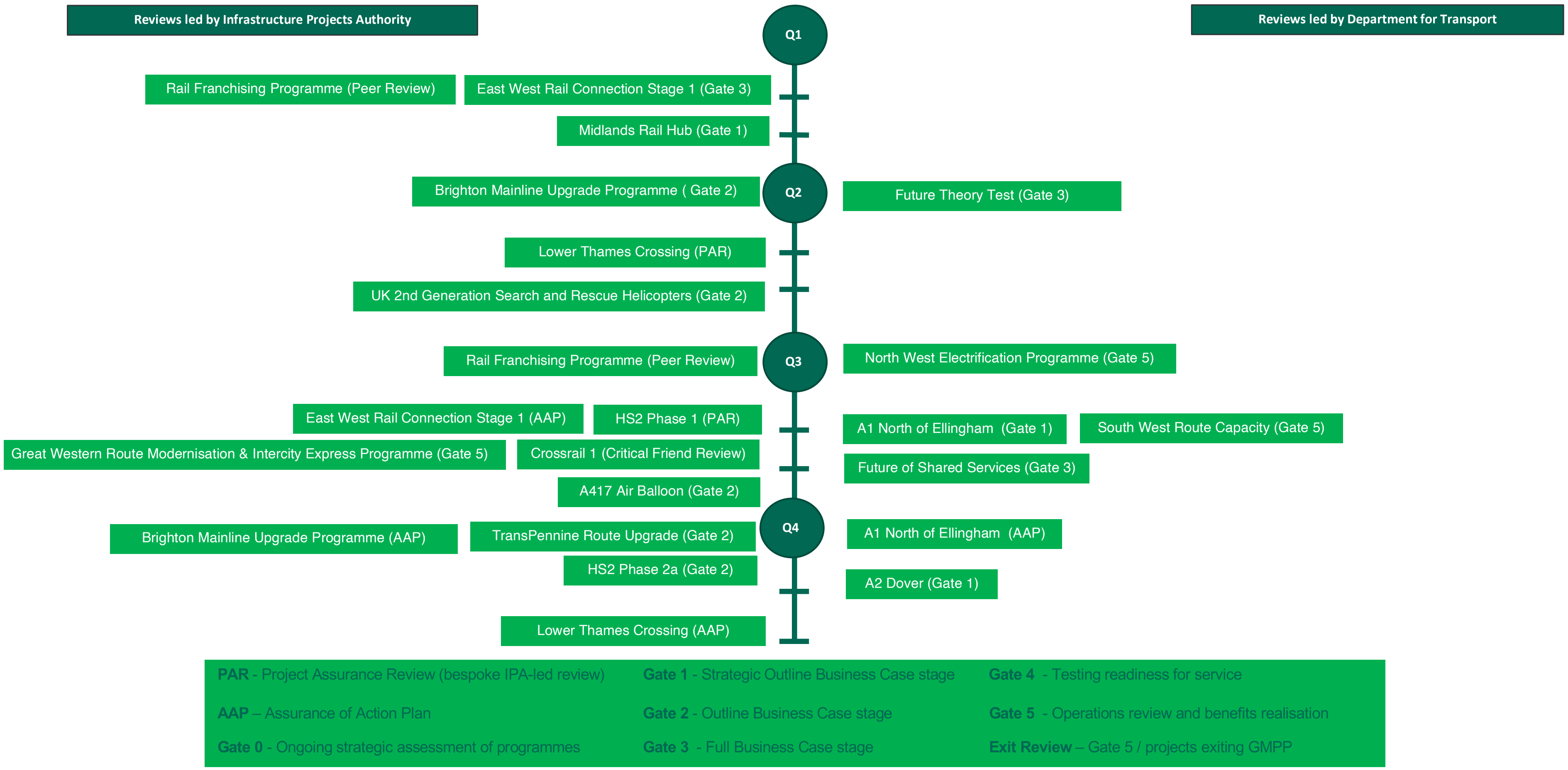


Figure 18: Overview of Tier 1 project assurance reviews in 2020 - 21

Procurement Assurance

The Department's supply chain management capability continues to develop as we seek to protect the group in support of the Department's Line of Defence model. Working closely with strategic suppliers, industry bodies, the executive agencies, public bodies, Cabinet Office, BEIS and DIT, the Department works proactively to assure supply chain resilience and to better understand capability and capacity.

The Department has an established commercial lifecycle assurance function that considers procurement and contract management processes against best practice at key stages throughout the commercial lifecycle. These processes are subject to continuous review and improvement and were once again enhanced this year which enabled the Department to continue to drive improvements in market, risk and contingency strategies for their commercial activities.

During the reporting period the Commercial Assurance Board (CAB) supported by the business case review teams in the Centre of Excellence, and the Commercial Lifecycle Assurance Team endorsed or challenged several significant Tier 1 commercial activities including:

- DVSA Future Theory Test Services contract award.
- Highways England A303 – Amesbury to Berwick Down.
- Highways England Lower Thames Crossing.
- Trinity House and Northern Lighthouse Board Vessel Replacements.

Maritime and Coastguard Agency Search and Rescue Helicopters procurement.

The Department's 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.

Contract and Supplier assurance

The Department is committed to ensuring proportionate arrangements are in place to manage its 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 the Department to measure performance throughout the contract lifecycle, develop collaborative relationships with suppliers, and have the information to build forward-looking procurement pipelines and plans. With the focus on project delivery improvements the commercial focus on contract management helps ensure the Department tracks and monitors performance and delivery.

There are two key strands to contract management, which enabled the Department to feed into new commercial cycles and keep track of how the suppliers were performing and ensured that contract assets delivered as intended:

- An individual contract management: we included key performance indicators in all high-risk and high-value contracts, which were specific to the agreement.

A strategic supplier relationship management: The Department's top 15 strategic suppliers were managed by a dedicated team monitoring targets: this included actively monitoring government-wide sustainable procurement targets.

Analytical Assurance

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 Department. It is now well embedded within the Department and its executive agencies.

As part of the framework, the Department maintains and publishes 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 have robust governance regimes in place to assure against errors which could cause serious financial, legal and/or reputational damage to the Department.

There are currently 121 Business Critical Models used across the Department and its executive agencies, 67 of which are based in the Department.

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 make sure all relevant information has been communicated, and the extent to which the analysis is considered reasonable and robust is clear.

Analytical Assurance in public bodies

There is good governance and assurance of analysis produced by public bodies to inform decisions taken by the Department, facilitated by strong working relationships between analysts across the organisations. Where responsibility for decision-making is delegated to public bodies, responsibility for AQA is also delegated. The Department's Community of Practice brings together colleagues responsible for AQA from the Department and the executive 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

DfT'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 between July and October 2020. 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, GARAC and, to the Executive Committee.

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 2020-21. This report summarises each of the individual Head of Internal Audit annual opinions for the Department and its ALBs; movement from 2019-20 and provides the Permanent Secretary with the Group HIA's independent opinion for 2020- 21 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. The report showed that across the Department and its ALBs, Internal Audit found evidence that the control environment established over recent years has broadly been sustained. All the HIA of DfT bodies reported a Moderate opinion or above. As a result, the Group Audit Opinion for 2020-21 is 'Moderate'.

Looking ahead, the DfT Group is subject to high levels of challenge as COVID-19 decisions are reviewed and uncertainties managed; these sit alongside the fundamental rail restructure and creation of the new accountable public sector body 'Great British Railways', progressing crosscutting efforts in Decarbonisation and supporting Project Speed (Build Back Better). With senior management focus directed to these as part of a wider programme it remains also important that there is adequate oversight and capacity across the core areas to help ensure the control environment established over recent years can be maintained and enhanced to meet these challenges.

External Reviews

The Department was the subject of six NAO reports during 2020-21. The Permanent Secretary and members of her leadership team attended five hearings at the Public Accounts Committee (PAC) to give evidence on recent policy developments. An overview of the reports published by the Committee is summarised in Table 9. This table includes the PAC's report 'HS2: Spring 2020 update', published on 17 May 2020, which was also included in the Department's 2019-20 Annual Report and Accounts. Further detail can be found in PAC and NAO websites[33].

Title	PAC report publication date	Purpose of the review	Number of recommendations made by PAC	Number of recommendations outstanding at year end
HS2 Spring 2020 update	17 May 2020	To hear from officials about the government's current vision for the project, the challenges in getting Phase One into construction, and what it is being done to manage the cost and schedule estimates for Phase Two of the project.	9	All recommendations implemented
Department for Transport recall: recent policy developments	15 October 2020	The Committee recalled the Department for questions on progress since their report on the progress of the HS2 rail projects and on other major transport policy developments	8	1
Low emission cars	11 March 2021	The committee were looking at efforts to encourage people to switch from petrol and diesel vehicles to low emission alternatives.	5	5

Table 9: Summary of PAC

33 https://committees.parliament.uk/committee/127/public-accounts-committee/ www.nao.org.uk and https://www.nao.org.uk

Accounting Officer System Statement

The Department intends to publish the Accounting Officer System Statement before the end of this calendar year.

Correspondence

The volumes of correspondence received by the Department doubled during the year due to COVID-19. The Department aims to respond to correspondence from members of the public in 20 working days. In 2020-21 21,428 cases were received, and 81% of replies were sent on time. The target response time for correspondence from MPs, Peers and ministerial correspondence cases is seven working days. The Department received 16,724 cases in 2020-21 and 55% of replies were sent by the target deadline.

Information rights

The Department and its executive agencies received 2512 requests for information under either the Freedom of Information (FOI) Act or the Environmental Information Regulations (EIR). The Department met the 20 working-day statutory response deadlines in 95% of these cases.

The Department also answered 13,174 valid requests from individuals exercising their rights under data protection legislation. These consisted mainly of subject access requests, 91% of which were answered within the statutory deadline despite changes to our physical working arrangements necessitated by COVID-19.

The Department publishes a list of FOIs and EIR responses where some or all the requested information has been disclosed[34].

Personal data related incidents

The Department holds personal data on millions of the UK population, including drivers, vehicle keepers, those taking driving tests, driving instructors, and seafarers. Every year we process millions of transactions involving this and other personal data and take very seriously our responsibility to keep the data secure.

The Department notified 16 separate breaches to the Information Commissioner's Office (ICO), most of which involved only one person's data. The Department continues to take steps to reduce the number of all kinds of personal data related incidents.

Complaints handling

The DfTc is committed to responding to complaints within 20 working days. The Department's public bodies, including executive agencies have their own complaints procedures and timescales. The number of complaints handled by the Department and its public bodies during 2020-21 and the previous three years is provided in Table 10. These show fluctuations primarily due to COVID-19, however there were reductions in the motoring agencies, which due to much reduced services due to COVID-19, where driver testing at DVSA was postponed for a large part of 2020. COVID-19 also impacted on staff ability to process business for example in DVLA including handling complaints during that period. There were increases in complaints at Highways England and HS2 in general.

34 The list can be viewed at https://www.gov.uk/search/transparency-and-freedom-of-information-releases?keywords=DfT&order=relevance

Year	2020-21	2019-20	2018-19	2017-18
BTPA	0	0	0	2
CAA	153	105	195	131
DfTc	12	7	5	8
DVLA	4,462	3,348	4,106	3,987
DVSA	5,985	8,809[35]	9,100	6,435
Highways England Ltd	4,242	5,457	5,022	5,031
HS2 Ltd	1,841	867	518	64
MCA	84	70	80	34
Network Rail[36]	1,636	1,834	2,405	2,089
ORR[37]	1,257	1,722	1,638	1,434
VCA	11	9	3	9
Total	**19,683**	22,228	23,072	19,224

Table 10: Number of complaints

Lessons from complaints handling and improvements made during 2020-21

DVLA

In response to COVID-19, lockdown and less staff available, DVLA prioritised critical and key workers, providing a bespoke process to help maintain services initially. DVLA adapted, in stages, in line with government guidance as changes were introduced and provided regular updates on Gov.uk to help explain the current operational position and utilised multi-skilled staff to focus on priorities.

Drivers whose photocard driving licence or entitlement to drive ran out between 1 February 2020 and 31 December 2020 had their entitlement automatically extended from the expiry date, for a period of 11 months without the need to re-apply to renew their licence, until they receive a reminder before their extension expires. To help drivers obtain information quicker and reduce calls to the Contact Centre, DVLA introduced Chatbot to its Driving Licence Online service.

To help vocational drivers who were unable to get a D4 medical examination to progress their application, DVLA implemented temporary provisions for bus and lorry drivers aged 45 and over to forego the need for a D4 medical in order to renew their driving entitlement subject to set criteria being met.

For vehicle keepers, DVLA introduced an online system to notify change of address, which removed the requirement for them to return their V5C Registration Certificate.

DVSA

COVID-19 dominated the year 2020-21. During the first lockdown, all customer-facing driver and vehicle DVSA services, aside from those for critical workers, were suspended. While vehicle services resumed as lockdown eased, driver services remained either severely curtailed or suspended for much of the year.

Since driver services comprise the largest number of complaints, it is understandable DVSA received fewer complaints than would otherwise have been the case, given throughout of practical tests, the service that generates most complaints, was reduced so significantly. DVSA efforts turned heavily to making services available for critical workers during periods of lockdown and restrictions, and then preparing for restarts of testing on three occasions.

During this extraordinary time, DVSA has continued to try to resolve as many of the complaints it has been dealing with at first contact. It has also tried to improve the quality of how it investigates complaints to get a better, earlier outcome for the customer. DVSA is planning further continuous improvement during 2021-22.

35 DVSA theory test complaint data for 2020 – not available at the time of publication from the contractor due to COVID-19.
36 Network Rail figures includes executive correspondence only.
37 ORR Complaints/enquires about rail (e.g. H&S, services), and for road operations (e.g. DartCharge, SMART motorways) – only 8 formal complaints against ORR.

Highways England

Highways England has seen lower contact volumes over the last year, with 22% fewer customer complaints compared to the previous year. Highways England is continually improving its policy and guidance to support our people to provide polite, professional, and friendly responses to customer contact.

In 2020-21, Highways England completed all actions from an internal audit of its complaints process, with the review and update of the complaints process, along with the development of customer correspondence training and standard operating procedures to improve the quality and timeliness of responses to customer contact.

HS2

During 2020[38] HS2 saw an increase in complaints of 170% compared to 2019 with a total of 1,694. A few key events through the year generated peaks, mainly linked to traffic and transport concerns. HS2 'Notice to Proceed' (NTP) has increased construction hours and increase in construction complaints. With the country in lockdown, communities have been more conscious of works and noise from sites. Social media protest activity has also had an impact on the volume of complaints received with instances of events being live streamed. This form of media does not always give a true representation of either the situation reported nor what may be of concern personally to most people affected by HS2.

HS2 learns from complaints, particularly where a large number of complaints about the same issue are received, by quickly compiling a summary of issues raised to identify common causes and solutions for early implementation, ensuring a bespoke response is sent to each complainant is provided.

The construction complaints are spread relatively evenly across Phase One, with 34% attributed to the north of the route, 24% central and 32% south. The top three causes of construction complaints in Phase One are:

- Traffic and Transport 38%
- Site Operations 28%
- Noise and Vibration 16%.

Of the 1,694 complaints received last year, 92% were resolved within 20 working days or fewer and >99% were concluded at the first stage of the complaints process.

Network Rail

Network Rail introduced a more streamlined, controlled, and efficient process for responding to executive correspondence mid-way through the financial year with a reduced timescale for responses. We expect to see a further reduction in cases that miss the new response deadline in the year ahead.

ORR

- In 2020-21 ORR received 1,257 complaints and general enquiries, which represents a decrease of 465 cases, or 27% on the previous year. Of these 147 (12%) complaints relate to COVID-19 and the effect of global and national lockdown which severely impacted on the public's ability to travel and use the railways. Complaints to ORR tend to stem from the activities of services ORR regulate (Network Rail, rail operators, or Highways England), and are primarily based on the management of that complaint rather than the functions of ORR.

38 data is captured by calendar year.

Complaints received by Independent Complaints Assessors

The Department's Independent Complaints Assessor (CAs), are appointed by ministers to act independently of officials to review a complaint that has been finalised by the Department or one of its public bodies, but not to the complainant's satisfaction. Where a complainant feels that their complaint has not been handled properly or is not satisfied with the response, they can have the matter reviewed by a DfT ICA.

The Department's 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 resolution process.

The number of complaints received for review by the ICAs in 2020-21 and the previous three years is shown in Table 11. The effect of COVID-19 can be seen in the reduction in our caseload. Some 323 new cases were referred to us, compared to 386 in 2019-20. This amounts to a 16% decrease year-on-year, albeit the volume of incoming work has still more than doubled from our first year in post in 2013-14.

Year	2020-21	2019-20	2018-19	2017-18
CAA	2	4	5	3
DfTc	4	3	2	3
DVLA	193	282	211	165
DVSA	72	47	59	45
Highways England	42	46	49	32
HS2 Ltd	4	1	13	3
MCA	3	2	7	1
Network Rail[39]	2	1	0	0
VCA	1	0	-	-
Total	**323**	386	346	252

Table 11: Number of complaints received by ICAs

The Parliamentary and Health Service Ombudsman (PHSO) investigates complaints about the Department and its public bodies when referred to them by a Member of Parliament on behalf of a complainant. Generally, PHSO will expect DfT ICAs to have reviewed the matter before they consider investigating.

Where PHSO believes there is evidence of maladministration, unfair treatment, or poor service, it will investigate, review the remedy provided and handling administratively, and may recommend further actions to resolve the matter. Recommendations made by PHSO were implemented in the year.

PHSO records a complaint at various stages and each of these dates can fall either side of a financial reporting year. Also, there can be several recommendations made to resolve a complaint, and the time between the conclusion of an investigation; issue of a report with recommendations, and when those recommendations are complied with or not so the total numbers do not necessarily fall in this reporting year.

39 Network Rail (use DfT ICA's on a selected basis)

Organisation	Complaints accepted for investigation		Investigations upheld or partly upheld		Investigations not upheld	
	2020-21	2019-20	**2020-21**	2019-20	**2020-21**	2019-20
CAA	-	-	-	-	-	-
DfTc	1	-	-	-	-	-
DVLA	13	10	3	3	9	7
DVSA	-	-	-	-	-	-
HE	-	1	-	-	-	-
HS2 Ltd	-	-	-	-	-	-
ICAs[40]	-	-	1	-	-	-
MCA	-	-	-	-	-	-
VCA	-	-	-	-	-	-
Total	**14**	11	**4**	3	**9**	7

Table 12 includes the number of recommendations made by PHSO and those complied with in 2020-21.

DfTc or Public body	No. of cases with recommendations		No. of recommendations		Closed: complied with		Open: in compliance	
	2020-21	2019-20	2020-21	2019-20	2020-21	2019-20	2020-21	2019-20
DVLA	3	3	6	8	6	8[41]	0	0[42]
	-	-	-	-	-	-	-	-

Table 13: Investigations completed in 2020-21 by PHSO

Better regulation

The Department has continued to ensure that regulation in the transport sector is proportionate and does not impose unwarranted burdens on business. The Department will continue to assess the proportionality of its regulations on an ongoing basis and seek opportunities for regulatory reform, including where there are additional regulatory freedoms following the end of the EU Exit Transition Period.

In addition, the Department has made a number of regulatory restrictions and easements relating to COVID-19. The Department has ensured these decisions have been informed by a proportionate level of evidence and have been brought forward in compliance with our duties in the Small Business, Enterprise and Employment Act 2015.

For all regulatory policies, resources have focused on measures with the highest impact to ensure that burdens are minimised. Small and micro business assessments are carried out for all regulatory measures to avoid those businesses being disproportionately affected by regulation where possible.

The Better Regulation Unit ensures the effects of the Department's regulations on innovation in the transport sector are considered and impact assessments are conducted to a consistently high standard.

40 See above section titled Complaints received by Independent Complaints Assessors
41 It was reported in 2019-20 as seven recommendations complied with and one remained open – all have now been complied with.
42 https://www.ombudsman.org.uk/

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

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

Auditors

This section sets out the costs of auditing the Departmental 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 (C&AG) General carries out the audit of the consolidated accounts of the DfT Group, as well as the audits of the following executive agencies:

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

These audits are conducted under the Government Resources and Accounts Act 2000, at an annual notional cost of £761,000 (2019-20: £675,000).

The audits of the following entities are completed by the Comptroller and Auditor General, but incur a cash or real charge of £1,327,500 (2019-20: £1,218,000):

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

Network Rail's audit fee of £596,500 includes £60,000 for other audit-related services including the audit of the Network Rail Regulatory accounts.

In addition to these entities, the C&AG audits 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 2020-21 is £102,500 (2019-20: £100,000).

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 £182,000 (2019-20: £162,000):

- Smaller Network Rail subsidiary bodies
- Train Fleet (2019) Ltd.

Directly Operated Railways Limited is exempt from audit of its account by virtue of s479A of Companies Act 2010.

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 £75,000 (2019-20: £100,000):

- Air Travel Trust Fund.

BDO LLP 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 £8,400 (2019-20: £6,500):

- Air Safety Support International Ltd.

- 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.

Shared Services

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) platforms, including hosting, licensing and service management. This arrangement provides services to over 18,000 users for the Department and its executive agencies. The Department will implement a replacement ERP system which is more intuitive, ahead of establishing new shared service arrangements as part of the new Government Shared Services strategy.

Health and Safety

Health and safety remain a top priority for the Department and its Executive Agencies. Health and Safety teams played an integral role during our response to COVID-19, by ensuring locations and frontline activities were assessed against government requirements. Making sure controls and arrangements were implemented for staff and visitor safety, so activities and services continued wherever possible.

Table 14 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 2020-21 and previous years. The figures also include those involving a member of the public taking their Module 1 motorcycle riding test on a DVSA site and MCA volunteers, during their activities.

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 Head of Internal Audits (HIA) to ensure that continuous improvement is in place.

Organisation	**2020-21**	2019-20	2018-19	2017-18
DfTc	0	0	0	0
DVLA	4	8	9	8
DVSA[43]	2 staff 1 non-staff	2 staff 4 non-staff	2 staff 7 non-staff	12 staff 19 non-staff
MCA[44]	1 staff 7 non-staff	8	7	6
VCA	0	0	0	0
TOTAL	**15**	22	21	45

Table 14: Number of RIDDOR reportable incidents

43 Non-staff includes those who have an injury on one of our sites, such as a visitor or contractor, a DVSA motorcycle test candidate, or an MCA volunteer. Under some circumstances, these become RIDDOR reportable.
44 Ibid.

This includes improving the operation and implementation of key controls across the Department. As part of the improvements identified last year, I am pleased that the Department's Risk Committee is up and running with the remit to challenge and direct risk management approaches.

Given the difficult and unique circumstances over the last year I am content that the GIAA opinion remained at moderate this year and the difference between this and the internal management assurance review noting that it's just within the substantial range is appropriate. 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

Our ambition is to have a highly professional, skilled, diverse and motivated workforce and a culture which reflects our values of Confidence, Excellence and Teamwork.

Achieving this ambition for our people, supports the Department to deliver our Strategic Objectives.

During this year we have agreed five priority themes for our People Strategy:

- Building a flexible workforce (see Be an Excellent Department page 68)
- Learning for all (see Be an Excellent Department page 68)
- Inspiring leaders and effective managers
- Inclusive and supportive workplace (see Be an Excellent Department page 70)
- People centred systems and policies.

Inspiring leaders and effective managers

We continue to participate in cross-government leadership schemes such as the Future Leaders Scheme and the Senior Leaders Scheme, developing high potential talent to progress into future leadership roles. Leadership and management development will continue to be a priority for us in the year ahead, and forms a key strand of the new Government Curriculum. Over the coming months we will continue to work closely with the Government Skills and Curriculum Unit to help shape the government-wide approach to leadership and management development (including the introduction of common management standards) and ensure that our leaders benefit from the development opportunities provided by the new curriculum.

This year we have also undertaken a significant programme of work to build line management capability. We have introduced a new modular management development programme, with workshops for new and more experienced line managers and a new package of online resources to support line managers. New communications channels have also been introduced to facilitate the sharing of skills, knowledge and experience amongst line managers within the Department.

We have also put in place initiatives to help us to diversify the talent pipeline into more senior leadership roles including the launch of Ascend, a career and leadership development programme aimed at BAME and disabled staff at all grades to provide support with future career development and progression.

We have also put in place a reverse mentoring scheme to match all SCS with a reverse mentor within the Department, to encourage the sharing of knowledge and experience through all levels of the organisation.

Gender Pay Gap reporting

The Department's gender pay gap information is published as part of the Department's Gender Pay Gap Report. The median gender pay gap (GPG) is 13% (2019-20: 13.8%) and the mean pay gap is 15.2% (2019-20: 13.8%).

The Department's 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 the Department has an inclusive culture where women can thrive; remove barriers in attraction and recruitment; and support women to develop and progress.

The Department was this year recognised in the Times Top 50 Employers for Women due to the work being done in this area and we are confident that it will continue to have a positive effect on the GPG.

Employee Engagement

The annual Civil Service People Survey looks at civil servants' attitudes to, and experience of working in government departments.

Every year, a Civil Service benchmark report is published along with a summary of main department scores.

The Civil Service People Survey engagement score for the Department increased by 3% percentage points to 64% in 2020.

This improvement was driven by increases in engagement scores of 5 percentage points (pp) at DVSA and VCA and 3pp increases at MCA and DfTc. The engagement score at DVLA remained unchanged at 63%

The Department improved its score for all 8 themes including by 6pp for Pay and Benefits and 5pp for Leadership, Management and Change.

Engagement Index (%)	2020	2019	2018	2017	2016
Civil Service	66	63	62	61	58
DfTc and agencies	64	61	59	59	58
DfTc	67	64	64	65	63
DVLA	63	63	61	62	63
DVSA	62	57	52	49	43
MCA	68	65	65	65	64
VCA	68	63	64	61	62

Table 15: Civil Service People Survey engagement scores 2016 to 2020

People Centred Systems and Policies

The Department is committed to providing people centred systems and policies our people.

People centred systems

The current Future Of Shared Services (FoSS) programme, which will run until 2023, aims to produce a 'Tell Us Once' suite of cohesive systems covering HR, Finances and Expenses, and Commercial for our people to use.

In 2020-21, the FoSS Programme delivered:

- A set of cohesively designed systems across the DfT family (the core Department and Agencies).
- A new Learning and Development system across the whole Department
- A new training, communications and change microsite

A number of HR systems have been designed this year, in preparation for a phased roll-out across the DfT family in 2021-2023. These cover employee information, time and attendance recording, expenses, payroll and a new documentation system.

These new systems will enable:

- Better self-service, with reduced reliance on talking to someone, or raising a service ticket
- Increased reporting ability, allowing users to quickly access information about themselves

- Better standardisation, making sure everyone's career journey in DfT is consistent

The new Learning and Development system, implemented in March 2021, integrates information about an individual's talent, performance and learning & development activity. It provides improved reporting, so we can fully understand the impact and uptake of mandatory training amongst our people. It now provides a single gateway to access a range of learning and development options including Civil Service wide learning.

To make a successful change to these new systems, in April 2021 the FoSS Programme launched an internal microsite. This site has been developed to support staff access information, training and communications in one place, ensuring that all staff, regardless of working pattern and location, have access to the right systems training at the right time, and right pace.

People Centred Policies

To support the workforce and resourcing demands working through COVID-19 response and EU transition period a series of new or revised policies were delivered during 2020-21.

- Facilitating working from home through efficient and effective IT services provision, including the ability to purchase additional equipment
- Providing reasonable adjustments to support a safe home working environment
- Implementing policies and procedures early on to understand which members of staff had COVID-19 symptoms or a positive COVID-19 test and supporting Line Managers of those individuals.
- Creating overtime provision in our systems to support COVID-19 operational response
- Working with relevant estates and locations projects teams to support staff needing to attend office locations
- Developing an overseas working policy in line with the needs of the Department, travel restrictions and individual circumstances

These policies have ensured that staff feel safe and secure, either working from home, or from continued office locations.

Trade Unions

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

In 2020-21 the Department engaged with its trade union representatives over a number of issues, the most important being the Department's response to COVID-19 and the requirement for the majority of DfT staff to work from home from March 2020 onwards.

The Department and its agencies held weekly briefing sessions with union representatives to keep them up to date and consult on such matters as how to manage ongoing dispute resolution and absence management while managers and their staff were unable to meet face to face. The unions were also invited to conduct health and safety inspections to confirm compliance with social distancing and other safety measures for those workplaces staff were required to attend during COVID-19, and made a valuable contribution by providing additional challenge and reassurance to this safety process.

A dispute with the PCS union did arise over workplace conditions and the numbers of staff still required to attend the main DVLA workplace, resulting in a ballot for industrial action at the end of the period. No industrial action was held in DfT during 2020-21 but the ballot has led to strike action in DVLA early in 2021-22.

The unions were also involved in pay negotiations which resulted in a pay award being implemented in November 2020, and in discussions to resolve the outstanding issue of holiday pay and overtime arising from the decision in Dudley Metropolitan Borough Council v Mr G Willetts and Others which we expect to be settled early in 2021-22.

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. Paid time off is permitted for TUD and unpaid time off for TUA. Trade union representatives must have an official role that will normally take up at least 50% of their paid time.

Facility time usage is significantly down on previous years. The reduction of travel time through increased use of video-conferencing has been a factor in this. It is also noted that some members of staff spent periods on special leave through being unable to carry out duties during lockdown, and were not been required to record union time (TUA or TUD) during these absences.

Number of employees who were relevant union officials during the relevant period	FTE employee number
145	137.4

Table 16: TU representation – The number of TU representatives employed by the Department and the cost of facility time is set out below.

Percentage of time	Number of employees
0%	44
1-50%	101
51%-99%	0
100%	0

Table 17: Percentage of time spent on facility time – How employees who were TU representatives' officials employed during the relevant period spent their time

Total cost of facility time	0.12m
Total pay bill	709,433m[1]
Percentage of the total pay bill spent on facility time, calculated as: (total cost of facility time ÷ total pay bill) x 100	0.02%

Table 18: 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.

1 Based on payroll data April 2020- March 2021 for DfT(core), DVLA, DVSA, MCA and VCA only.

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%

Table 19: 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.

No paid time is given for Trade Union activities.

5.8 average working days were lost to sickness absence for the 12-month period ending 31 March 2021 for the central Department and its executive agencies.

This is a decrease of 2.3 days on the year to 31 March 2020. Absences caused by COVID-19 have not been included in average working days lost reporting for the Department and are therefore excluded from this figure.

The decrease in average working days lost is attributed to most of the workforce working from home during 2020-21, contributing to a large decrease in absences from coughs, colds and flu which are usually a significant proportion of staff absences during the year. In addition, a proportion of the workforce were unable to work for some of the year due to COVID-19 restrictions.

All absence is reviewed to ensure that support is offered and occupational health reports, action plans and interventions are progressed as appropriate. Absences have continued to be actively managed during 2020-21 even where staff and their line manager have needed to do this remotely. The Department is focused on improving wellbeing, with a range of support in place that staff can access.

Our Staff Numbers

The tables on staff numbers and staff costs 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.

Average number of staff	Permanently employed Staff	Others	Ministers	Special advisers[2]	2020-21 Total	2019-2020 Total
Average number of persons employed	65,511	2,138	6	3	67,658	64,574
Of which						
DfTc	3,109	27	6	3	3,145	2,820
Agencies[1]	6,600	290	–	–	6,890	6,793
Other delivery bodies	55,802	1,821	–	–	57,623	54,961

Table 20: Staff numbers (Departmental Group including delivery bodies)

1. Agencies – excluding DVSA, which is outside the accounting boundary
2. 'Special Advisors' – special adviser numbers are taken on a snapshot date of 31 March 2021 and are not an average

During 2019-20, responsibility for the salaries and other costs of special advisors was passed to the Cabinet Office. This change took place between July and September 2019, and special advisors are no longer employed by the Department.

	Permanently employed staff	Other staff	2020-21 total	2019-20 total (restated)[45]
	£m	£m	£m	£m
Wages and salaries	3,218	54	3,272	3,099
Social security costs	340	1	341	333
Other pension costs	297	1	298	279
Sub Total	**3,855**	**56**	**3,911**	3,711
Less: recoveries in respect of outward secondments	(2)	0	(2)	(2)
Less: staff costs capitalised	(1,225)	(17)	(1,242)	(1,209)
Total staff costs recognised in the Group Financial Statements	**2,628**	**39**	**2,667**	2,500
Of which:				
Core Department & Agencies	489	26	515	469

Table 21: Staff costs (Departmental Group including public bodies bodies)

45 In the 2019/20 published accounts, £188m of non-cash pension costs relating to defined benefit schemes were included as 'Other pension costs' within Staff Costs in the table above. These costs have now been reclassified to 'Pension Scheme Costs' within Other Operating Expenditure in the 2019/20 prior year comparatives in note 3.6 to the financial statements.

'Other staff' includes ministers and special advisers, who were paid £274k and £0k respectively (2019-20: £217k and £59k).

Ministerial pay has increased due to the addition of one ministerial post this year, and an increase in the number of ministers claiming the ministerial salary to which they are entitled over and above their parliamentary salary.

Special Advisers are temporary civil servants. In order to improve efficiency, the administration of staff costs for all Special Advisers across government was moved to the Cabinet Office in July 2019, with corresponding budget cover transfers. Therefore, special adviser costs are now reported in the Cabinet Office Annual Report and Accounts. Special Advisers remain employed by the respective Departments of their appointing Minister.

No staff costs in 2020-21 were covered using the Coronavirus Job Retention Scheme.

	31 March 2021		31 March 2020	
	Men	Women	Men	Women
Number of persons of each sex who were directors of the entity Permanent Secretary and Directors General	4	2	3	3
Number of persons of each sex who were senior managers of the entity Members of the Senior Civil Service (excluding above)	121	96	97	62
Number of persons of each sex who were employees of the entity Employees in (i) DfTc and (ii) DfT agencies[46]	i) 1,976 ii) 3,357	i) 1,538 i) 4,317	i) 1,564 ii) 3,291	i) 1,116 i) 4,297

Table 22: Number of persons of each sex who were employees of the Department and its executive agencies as at 31 March 2021

Staff Movement

This data refers to the central department only.

The Departmental turnover rate at 31 March 2021 was 11.6%. This is a reduction on turnover rate when compared to the 30 April 2020[47] rate of 15.5%. This reduction in leavers from the Department is attributed to the impact on COVID-19 on the wider UK job market meaning staff are more likely to remain in their current roles. It is anticipated there will be an increase in turnover as the UK job market recovers.

Staff Loaned in to DfT	Total loaned in	Loaned in short term (6 months or less)	Loaned in long term (more than 6 months)	Average loan in (months)
EO	0	–	–	–
HEO	22	20	2	4
SEO	0	–	–	–
Grade 7	12	11	1	4
Grade 6	5	5	–	2
SCS	3	1	2	6
Total	42	37	5	4

Table 23: staff loaned into DfT

46 'Agencies' – excluding DVSA, which is outside the accounting boundary
47 1 April 2020 data has been used as a comparator for Departmental turnover rate in lieu of March 2020. This is due to a technical fault with the data upload in March of that year which resulted in the data being unavailable.

Staff loaned in are classed as an administration cost. The cost of staff on loan to the Department in 2020-21 is £762k (2019-20: £605k). There were no staff on loan to the Department where the Department did not pay their salary costs.

During 2020-21, there was decrease in the number of loans into the Department but an increase to the number of loans which have been paid for by the Department, resulting in the increase to overall cost of loans. Loans have been used largely as a short-term solution for resourcing priority areas, including COVID-19 response.

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)
EO	2	1	1	6
HEO	–	–	–	–
SEO	1	1	–	6
Grade 7	1	1	–	3
Grade 6	1	–	1	10
SCS	1	1	–	3
Totals	6	4	2	6

Table 24: staff loaned out of DfT

Resourcing

The Department and its executive agencies have control systems requiring recruitment to be approved by Departmental HR Directors and controlled from a single point. 1201 posts recruited externally during 2020-21.

During the reporting year, there were 46 exceptions to the general recruitment principles in relation to fair and open competition. These were spread among the executive agencies and the central Department in a manner consistent with recruitment volume. Temporary appointments of up to two years remain the most common use of exception, accounting for over half of the total (25).

Service contracts

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit based on fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

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.

Further information about the work of the Civil Service Commission[48].

48 www.civilservicecommission.org.uk

Remuneration

Remuneration policy – Senior Civil Service

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 across government departments.

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 its annual reports can be found on SSRB's website[49].

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 – Senior Civil Service – SCS team reviewed

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.

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

The annual value of non-consolidated performance pay and base pay is set within the limits determined by the government's response to the recommendations of the Review Body on Senior Salaries. In 2019-20, base pay increases were available for members of the SCS who were in the 'top' and 'achieving' performance groups, in line with SCS Pay Policy determined by the Cabinet Office.

Number of Senior Civil Service staff by band

The number of SCS employed by the Department, including its executive agencies, as at 31 March 2021, is disaggregated in Table 25. This table is subject to audit.

Salary Range[2]	Staff numbers[3]
£70,000-£74,999	55
£75,000-£79,999	48
£80,000-£84,999	26
£85,000-£89,999	13
£90,000-£94,999	20
£95,000-£99,999	9
£100,000-£104,999	6
£105,000-£109,999	12
£110,000-£114,999	5
£115,000-£119,999	9
£120,000-£124,999	2
£125,000-£129,999	4
£130,000-£134,999	2
£135,000-£139,999	1
£140,000-£144,999	2
£145,000-£149,999	1
£150,000-£154,999	1
£155,000-£159,999	0
£160,000-£164,999	0
£165,000-£169,999	0
£170,000-£174,999	1
£260,000-£264,999	1
Total SCS Staff Numbers	**218**

Table 25: Distribution of senior civil service salaries within the Department

1 Information is for all SCS in the Department and its executive agencies as at 31 March 2021, including those on fixed-term contracts, and paid loans in (excluding outward loans and secondments). Salary is the basic annual full-time equivalent salary effective from 31 March 2021, and excludes non-consolidated performance related pay.

2 The minimum annual salary for SCS is £71,000.

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

49 https://www.gov.uk/government/organisations/review-body-on-senior-salaries

Pay and Performance Committee

This Committee comprises the Department's Permanent Secretary (as Chair), all Director Generals, and the Group HR Director. For the year to 31 March 2021, its members were:

The Committee's remit includes making pay and talent decisions for directors and deputy directors. The Permanent Secretary decides on pay for Directors General.

Bernadette Kelly	Permanent Secretary, Department for Transport
Gareth Davies	Director General, Aviation, Maritime, International and Security
Clive Maxwell	Director General, High Speed Rail
Nick Joyce	Director General, Corporate Delivery
Polly Payne & Ruth Hannant (to 28/02/2021)	Directors General, Rail
Emma Ward	Director General, Roads, Places & Environment
David Hughes (from 18/01/2021)	Director General, Rail Infrastructure
Conrad Bailey (from 23/02/2021)	Temporary Director General, Rail Strategy & Services (renamed Rail)
Christina Duncan	Group HR Director

Remuneration (including salary) and pension entitlements

The following sections on executive Board members' remuneration and pension disclosures are subject to audit.

Executive members of the DfT Board

Salary

'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.

Bonus

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 previous year, in which it is payable to the individual. The bonuses reported in 2020-21 relate to performance in 2019-20 and the comparative bonuses reported for 2019-20 relate to the performance in 2018-19.

Benefits in Kind

The monetary value of benefits in kind covers any benefits provided by the Department and treated by HM Revenue and Customs as a taxable emolument. There were no benefits in kind reported in 2020-21 or 2019-20 for executive board members.

11059-DfT-Annual Report 2020-21-P1.indb 150 12/09/2021 09:49

Officials	2020-21				2019-20			
	Salary (£000)	**Bonus Payments (£000)**	**Pension Benefits (£000)**	**Total Benefits (£000)**	Salary (£000)	Bonus Payments (£000)	Pension Benefits (£000)	Total Benefits (£000)
Bernadette Kelly[1] (Permanent Secretary)	170–175	–	67	240–245	165–170	–	78	245–250
Nick Joyce (Director General)	140–145	5–10	63	210–215	135–140	5–10	57	200–205
Clive Maxwell (Director General)	150–155	10–15	74	235–240	145–150	5–10	52	205–210
Ruth Hannant[2] (Director General) to 28 February 2021 *Full Year and Full Time Equivalent*	80–85 *130–135*	5–10	41	130–135	75–80 *130–135*	–	40	115–120
Polly Payne[2] (Director General) to 28 February 2021 *Full Year and Full Time Equivalent*	80–85 *130–135*	5–10	40	125–130	75–80 *130–135*	–	38	115–120
Gareth Davies (Director General) From 7 May 2019 *Full Year Equivalent*	135–140	10–15	61	205–210	120–125 *130–135*	5–10	37	160–165
Emma Ward[4] (Director General) From 1 April 2020	125–130	–	100	225–230				
David Hughes (Director General) From 18 January 2021 *Full Year Equivalent*	30–35 *145–150*	–	12	40–45				
Conrad Bailey[3] (Temporary Director General) From 23 February 2021 *Full Year Equivalent*	10 – 15 *120–125*	–	83	95-100				
Lucy Chadwick (Director General) to 01 May 2019 *Full Year Equivalent*					10–15 *135–140*	10–15	26	50 – 55
Patricia Hayes (Director General) to 24 February 2020 *Full Year Equivalent*					115–120 *130–135*	10–15	59	190–195

Table 26: Officials' remuneration

1. From 1 December 2020 Bernadette Kelly changed her pension scheme from Alpha to the Partnership pension arrangement.
2. Ruth Hannant and Polly Payne shared a Director General role. Individual remuneration figures reflect part-time working arrangements.
3. Conrad Bailey pension disclosure is from 01.04.2020 - 31.03.2021, covering the full year not only the time in post as a Director General at DfT.
4. Emma Ward was appointed as DG at DfT, effective 17 March 2020. Her outgoing department met her salary costs prior to 1 April 2020. During this period the costs were £0-5k covering her salary.
5. 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.

11059-DfT-Annual Report 2020-21-P1.indb 151 12/09/2021 09:49

Officials	Accrued pension at Pension age as at 31/3/2021 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31/3/2021	CETV at 31/3/2020	Real increase in CETV
	(£000)	(£000)	(£000)	(£000)	(£000)
Bernadette Kelly Permanent Secretary[1,2]	70-75 Lump sum 190-195	2.5-5 Lump sum 0-2.5	1,568	1,513	41
Nick Joyce Director General	40-45	2.5-5	649	582	37
Clive Maxwell Director General	60-65 Lump sum 125-130	2.5-5 Lump sum 0-2.5	1,071	988	42
Ruth Hannant Director General (to 28 February 2021)	35-40 Lump sum 75-80	0-2.5 Lump sum 0-2.5	570	526	22
Polly Payne Director General (to 28 February 2021)	30-35 Lump sum 60-65	0-2.5 Lump sum 0-2.5	534	489	24
Gareth Davies Director General	50-55	2.5-5	739	677	32
Emma Ward Director General	35-40 Lump sum 65-70	5-7.5 Lump sum 5-7.5	586	498	64
David Hughes Director General From 18 January 2021	0-5	0-2.5	8	0	6
Conrad Bailey Temporary Director General From 23 February 2021[3]	45-50	2.5-5	700	622	51

Table 27: Officials' pension benefits

1 From 1 December 2020 Bernadette Kelly changed her pension scheme from Alpha to the Partnership pension arrangement.

2 Bernedette Kelly CETV restated as 1513 in 20-21 Pension Disclosure Sheet.

3 Conrad Bailey pension disclosure is from 01.04.2020–31.03.2021, covering the full year not only the time in post as a Director General at DfT.

4 From 17 January 2020 GMP adjustment factors are no longer applied in calculations for members who reach State Pension age on or after 06 April 2016.

Civil Service Pensions

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.

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 switched into alpha sometime between 1 June 2015 and 1 February 2022. In 2018, the Court of Appeal found that some of the rules put in place back in 2015 to protect older workers by allowing them to remain in their original scheme, were discriminatory based on age. As a result, steps are being taken to remedy those 2015 reforms, making the scheme fair to all affected members. Many active members will start seeing changes in their pensions from April 2022. This may affect the Cash Equivalent Transfer Values shown in this report – see below). 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 could opt for either the appropriate defined benefit arrangement or a defined contribution (money purchase) pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 4.6% and 8.05% 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. 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 in 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.

The partnership pension account is an occupational defined contribution pension arrangement which is part of the Legal & General Mastertrust. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member). 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).

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.)

Further details about the Civil Service pension arrangements can be found at the website[50].

Cash Equivalent Transfer Values

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

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

Real increase in the value of the CETV

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

Pay multiples for DfT and its executive agencies (including agency staff and secondees)

The following section on pay multiples is subject to audit.

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 2020-21 was £170,000-£175,000 (2019-20: £165,000-170,000). This was 6.2 times the median remuneration of the workforce, which was £27,641 (2019-20: 6.2 times and £26,830).

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 the central Department, DVLA, MCA and VCA. DVSA is not included as it is outside the consolidation boundary.

In 2020-21 one employee (2019-20: one employee) received remuneration more than the highest paid executive board member. Remuneration ranged from £14,687 to £260,000 (2019-20: £17,275 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.

50 http://www.civilservicepensionscheme.org.uk

Pension arrangements across the Departmental Group

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 Financial Statements. 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.

The PCSPS is an unfunded multi-employer defined benefit scheme but the DfT is unable to identify its share of the underlying liabilities. A full actuarial valuation was carried out in 2016. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation[51].

For 2020-21, employers' contributions of £90 million were payable to the PCSPS (2019-20: £83 million) at one of four rates in the range 26.6% to 30.3% (2019-20: 26.6% to 30.3%) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2021-22 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account (a stakeholder pension with an employer contribution). For 2020-21, employers' contributions of £871,181 (2019-20: £752,869) were paid to Legal and General. Employer contributions are age-related and range from 8% to 14.75% of pensionable pay.

Employers also match employee contributions up to 3% of pensionable pay.

In addition, employer contributions of £23,628, 0.5% (2019-20: £25,756, 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.

The core Department and its executive agencies (excluding DVSA which is outside the accounting boundary) neither owed or had prepaid any contributions to partnership pension providers as at 31 March 2020 and 2021.

There were 15 early retirements as a result of ill-health (2019-20: nine).

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 2020-21, the current service cost was £266 million (2019-20: £283 million).

On 1 April 2004, a defined contribution pension scheme was introduced, 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 2020-21 employers' contributions of £24 million were payable into this scheme (2019-20: £23 million).

51 www.civilservicepensionscheme.org.uk

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.

As this is a defined contribution scheme, Highways England incurs no liability for future pension costs of members of the pension plan. For 2020-2021, employers' contributions of £13 million (2019-20: £11 million) were payable to the plan.

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 £0.6 million were paid to FPP during 2020-21 (2019-20: £0.5 million). The contribution rates were set based on an actuarial valuation of the scheme at inception in July 2016.

British Transport Police has two defined benefit pension schemes; the British Transport Police Force Superannuation Fund ("Police Officer scheme") and the British Transport Police Shared Cost Section of the Railways Pension Scheme ("Staff scheme"). Both schemes registered pension schemes are intended to be a fully funded providing benefits on a "defined benefit" basis. For 2020-21, the current service cost for both schemes was £65 million (2019-20: £77 million).

Ministers

The following sections on ministerial remuneration and pension disclosures are subject to audit.

Salary

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

In respect of Ministers in the House of Commons, departments bear only the cost of the additional Ministerial remuneration; the salary for their services as an MP £81,932 (from 1 April 2020) and various allowances to which they are entitled are borne centrally.

However, the arrangement for Ministers in the House of Lords is different in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their Ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and is therefore shown in full in the figures below.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the Department, and treated by HM Revenue and Customs as a taxable emolument. There were no benefits in kind reported in 2020-21 for ministers.

Compensation for loss of office

There were no compensation payments for loss of office in 2020-21.

11059-DfT-Annual Report 2020-21-P1.indb 156 12/09/2021 09:49

Ministers	Salary (£) 2020-21	Pension benefits (to nearest £1000) 2020-21	Total benefits (to nearest £1000) 2020-21	Salary (£) 2019-20	Pension benefits (to nearest £1000) 2019-20	Total benefits (to nearest £1000) 2019-20
Rt Hon Grant Shapps MP Secretary of State (from 24 July 2019) *Full year equivalent salary*	67,505	17,000	85,000	46,273 *67,505*	11,000	58,000
Chris Heaton-Harris MP Minister of State (from 25 July 2019) *Full year equivalent salary*	31,680	8,000	40,000	21,545 *31,680*	5,000	27,000
Andrew Stephenson MP Minister of State (from 13 February 2020) *Full year equivalent salary*	31,680	8,000	40,000	4,096 *31,680*	1,000	5,000
Baroness Vere[1] Parliamentary Under Secretary of State (From 23 April 2019 to 1 August 2019 unpaid) Parliamentary Under Secretary of State (from 2 August 2019 paid) *Full year equivalent salary*	70,969	17,000	88,000	47,121 *70,969*	16,000	63,000
Rachel Maclean MP Parliamentary Under Secretary of State (from 13 February 2020) *Full year equivalent salary*	22,375	5,000	27,000	2,893 *22,375*	1,000	4,000
Robert Courts MP Parliamentary Under Secretary of State (from 8 September 2020) *Full year equivalent salary*	11,188 *22,375*	3,000	14,000	– –	–	–
Kelly Tolhurst MP Parliamentary Under Secretary of State (from 13 February 2020 to 8 September 2020) *Full year equivalent salary*	11,188 *22,375*	2,000	13,000	2,893 *22,375*	1,000	4,000
Rt Hon Chris Grayling MP Secretary of State (from 14 July 2016 to 24 July 2019) *Full year equivalent salary*	– –	–	–	21,231 *67,505*	6,000	27,000
George Freeman MP Minister of State (from 26 July 2019 to 13 February 2020) *Full year equivalent salary*	– –	–	–	17,449 *31,680*	9,000	26,000
Rt Hon Michael Ellis QC Minister of State (from 23 May 2019 to 24 July 2019) *Full year equivalent salary*	– –	–	–	5,505 *31,680*	1,000	7,000
Rt Hon Jesse Norman MP Parliamentary Under Secretary of State (from 14 June 2017 to 11 November 2018) and Minister of State from (12 November 2018 to 23 May 2019) *Full year equivalent salary*[2]	– –	–	–	4,513 *31,680*	1,000	6,000
Nusrat Ghani MP Assistant Chief Whip and Parliamentary Under Secretary of State (from 10 January 2018 to 13 February 2020) *Full year equivalent salary*	– –	–	–	3,602 *22,375*	4,000	8,000

Ministers	2020-21 Salary (£)	2020-21 Pension benefits (to nearest £1000)	2020-21 Total benefits (to nearest £1000)	2019-20 Salary (£)	2019-20 Pension benefits (to nearest £1000)	2019-20 Total benefits (to nearest £1000)
Paul Maynard MP Parliamentary Under Secretary of State (from 26 July 2019 to 13 February 2020)	–	–	–	12,401	3,000	15,000
Full year equivalent salary	–			*22,375*		
Andrew Jones MP Parliamentary Under Secretary of State (from 12 November 2018 to 26 July 2019)	–	–	–	7,157	2,000	9,000
Full year equivalent salary	–			*22,375*		
Baroness Sugg CBE[3] Parliamentary Under Secretary of State (from 27 October 2017 to 25 April 2019)	–	–	–	–	1,000	1,000
Full year equivalent salary	–			–		

Table 28: Ministers' remuneration

1 Baroness Vere role prior to 2 August 2019 was unpaid

2 The Full Year Equivalent value provided is for Jesse Norman's role as Minister of State for Transport

3 Baroness Sugg's role at DfT was unpaid

4 'Pensions Benefit' – The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) less (the contributions made by the individual). The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.

Ministerial Pensions

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[52].

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 MPs and aged 55 or older on 1 April 2013 have transitional protection to remain in the previous MP's final salary pension scheme.

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.

The figure shown for pension value includes the total pension payable to the member under both the pre- and post-2015 Ministerial pension schemes.

52 http://qna.files.parliament.uk/ws-attachments/170890/original/PCPF%20MINISTERIAL%20SCHEME%20FINAL%20RULES.doc

Ministers	Accrued pension at age 65 as at 31/3/2021 £000	Real increase in pension at age 65 £000	CETV at 31/03/2021 £000	CETV at 31/03/2020 £000	Real increase in CETV funded by taxpayer £000
Rt Hon Grant Shapps MP Secretary of State (from 24 July 2019)	0-5	0-2.5	70	52	9
Chris Heaton-Harris MP Minister of State (from 25 July 2019)	0-5	0-2.5	26	18	4
Andrew Stephenson MP Minister of State (from 13 February 2020)	0-5	0-2.5	17	11	2
Baroness Vere Parliamentary Under Secretary of State (from 23 April 2019 to 1 August 2019 unpaid) Parliamentary Under Secretary of State (from 2 August 2019 paid)	0-5	0-2.5	63	45	9
Rachel Maclean MP Parliamentary Under Secretary of State (from 13 February 2020)	0-5	0-2.5	7	1	3
Kelly Tolhurst MP Parliamentary Under Secretary of State (from 13 February 2020 to 8 September 2020)	0-5	0-2.5	11	9	1
Robert Courts MP Parliamentary Under Secretary of State (from 8 September 2020)	0-5	0-2.5	2	0	1

Table 29: Ministerial Pensions

Cash equivalent transfer values

This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total Ministerial service, not just their current appointment as a Minister. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in the value of the CETV

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

11059-DfT-Annual Report 2020-21-P1.indb 159 12/09/2021 09:49

Non-Executive Board Members

The following section on Non-Executive Board Members' (NEBM) remuneration is subject to audit.

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). Richard Aitken-Davies appointment ended on 31 March 2021. The Department has appointed two new NEBMs Ranjit Baxi and Dame Sarah Storey who started on 01 April 2021.

Ian King, as the lead NEBM, receives an additional £5,000 in recognition of this role.

Similarly, 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 DfT has a 48.9% investment stake in (see page 308 of the financial statements for further information).

NEBMs are appointed on fixed terms. Their fees for 2020-21 are set out in the table below. In addition, the membership of the GARAC includes Amarjit Atkar, Kathryn Cearns and Mark Bayley, who receive a fee for attending and preparing for meetings.

Non-Executive Board Member	2020-21 (£000)	2019-20 (£000)
Ian King	20-25	20-25
Richard Keys	20-25	20-25
Tracy Westall	15-20	15-20
Anthony Poulter	15-20	15-20
Richard Aitken-Davies (to 31 March 2021)	15-20	15-20

Group Audit and Risk Assurance Committee member	2020-21 (£000)	2019-20 (£000)
Bridget Rosewell (to 30 September 2020)	0-5	0-5
Kathryn Cearns[53]	0-5	0-5
Amarjit Atkar	0-5	0-5
Mark Bayley (from 1 October 2020)	0-5	–

Table 30: Non-Executive Board Members' fees, 2020-21

Off-payroll engagements

The following section on Off-payroll engagements is subject to audit

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 public bodies were asked to report on their off-payroll engagements. Data on these appointments are set out in tables 31 to 33.

53 Kathryn Cearns is also remunerated by the Department for her work as an Elizabeth Line Special Representative, this disclosure relates to her role on GARAC

	DfTc	BTPa	DVSA	DVLA	Highways England	HS2 Ltd	MCA	Network Rail	VCA	East West Rail co	Total
No. of existing engagements as of 31 March 2021[54]	35	3	20	17	6	205	37	1070	7	59	1,459
Of which:											
No. that have existed for less than one year at time of reporting	26	1	12	11	4	103	23	680	4	50	914
No. that have existed for between one and two years at time of reporting	7	2	7	6	2	49	7	263	3	4	350
No. that have existed for between two and three years at time of reporting	2	–	1	–	–	25	–	86	–	5	119
No. that have existed for between three and four years at time of reporting	–	–	–	–	–	15	5	22	–	–	42
No. that have existed for four or more years at time of reporting	–	–	–	–	–	13	2	19	–	–	34

Table 31: Off-payroll engagements as at 31 March 2021, earning £245 per day or greater

The Department, its executive agencies, and public bodies have clearly defined governance and challenge processes in place to ensure they are compliant with the off-payroll (IR35) working rules. The Departmental Approvals Committee provides independent challenge and seeks assurance from the Core Department and Executive Agencies 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. Similar governance arrangements exist within the arm's length bodies.

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 32 below, shows the number of engagements that were reassessed for consistency purposes during the 2020-21 financial year.

The Department confirms that all the engagements reported in table 31 and table 32 have been considered using HMRC's IR35 assessment tool, apart from those in HS2 Ltd, which automatically assessed all roles as being in scope of the off-payroll working rules. The assessment tool is then only used when a role is identified to be out of scope, to assess its compliance against the legislation.

54 The above table reflects changes in HM Treasury guidance and scope of reporting. Organisations with a nil return are not included in this table

	DfTc	BTPa	DVSA	DVLA	Highways England	HS2 Ltd	MCA	Network Rail	VCA	East West Rail co	Total
No. of new engagements, or those that reached six months in duration, between 1 April 2020 and 31 March 2021[55]	82	19	39	25	15	281	46	1323	18	64	1912
Of which:											
No. not subject to off-payoll legislation	17	–	6	25	–	–	–	977	–	–	1,025
No. assessed as in scope of IR35	62	18	31	–	15	251	6	316	3	64	766
No.assessed as out of scope of IR35	3	1	2	–	–	30	40	33	15	–	124
No. of engagements reassessed for consistency/assurance purposes during the year[56]	5	1	4	6	–	13	46	8	11	–	94
No. of engagements whose IR35 status changed following reassessment	1	–	2	–	–	13	4	5	–	–	25

Table 32: All off-payroll engaged at any point between 1 April 2020 and 31 March 2021, earning £245 per day or greater

DfTc: 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 source. Five engagements were reassessed for consistency and compliance purposes, resulting in one with a change to its initial status.

BTPA: a robust governance process is in place to challenge and control the use of off-payroll engagements and ensure compliance. Only one engagement was deemed to be out-of-scope of the IR35 legislation. This was reassessed for consistency and compliance without resulting in a change to its initial status.

DVSA: all engagements assessed out-of-scope of the IR35 legislation are monitored and challenged prior to recruitment. Only two engagements were deemed out-of-scope of the IR35 legislation. Four engagements were reassessed for consistency and compliance, resulting in two changes to the initial status.

DVLA: all engagements are assessed for compliance prior to recruitment. Quarterly reviews were undertaken to assess engagements both in scope and out of scope of the IR35 legislation for consistency. Six engagements were reassessed for consistency and assurance purposes, without resulting in a change to their initial status.

Highways England: a robust governance process was in place to challenge and control the use of off-payroll engagements and ensure compliance. All engagements were deemed to be in-scope of the IR35 legislation. No sample tests were undertaken to reassess for consistency and compliance.

HS2: a central recruitment authorisation panel ensured governance and challenge for the recruitment off-payroll workers. A process was also in place to provide independent assessment of engagements deemed out-of-scope of the IR35 legislation to ensure compliance. Changes were implemented during the year to strengthen the process for assessing off-payroll engagements. Thirteen engagements were reassessed for

55 The above table reflects changes in HM Treasury guidance and scope of reporting. Organisations with a nil return are not included in this table

56 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.

consistency and compliance, resulting in changes to the initial status.

MCA: a robust recruitment process was in place to challenge business on the use of off-payroll engagements. Hiring managers critically consider alternative resourcing options including looking at in-house capability before off-payroll engagements are approved. Forty-six engagements were reassessed for consistency and compliance, resulting in four changes to the initial status.

Network Rail: robust processes and procedures were in place to determine the status of off-payroll engagements against the IR35 legislation. Random reviews of determinations are carried out during the year to ensure accuracy. This provides assurance that all workers engaged in the business are being correctly paid and fulfilling all income tax and national insurance obligations.

VCA: a process was in pace to assess compliance with the IR35 legislation. The majority of off-payroll engagements were for ongoing ICT Transformation, which required a varied and high-level skillset to meet the demand. Once this skills demand curtails, the number of contractors will decrease. Eleven engagements were reassessed for consistency and compliance, without resulting in a change to their initial status.

EWR: a robust process is in place to manage compliance and recruitment of off-payroll engagements. All requests for, and extensions of, off-payroll engagements go through the Spend Approvals Committee, chaired by the CEO, for authorisation. All engagements are scrutinised and, if approved, are arranged on the basis of being in scope of IR35.

	DfTc	BTPa	Directly Operated Railways Ltd	DVSA	DVLA	Highways England	HS2 Ltd	MCA	Northern Lighthouse Board	Network Rail	Transport Focus	Trinity House Lighthouse Services	VCA	East West Rail co	Total
No. of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year	–	–	–	–	–	–	1	–	–	–	–	–	–	1	**2**
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	63	10	–[57]	6	9	13	33	12	3	21	12	4	5	6	**197**

Table 33: Off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2020 and 31 March 2021

57 Directly Operated Railways Ltd does not have any officials; all financial decision making is undertaken by DfT officials.

Details of the exceptional circumstances that led to the above off-payroll engagements with significant financial responsibility, and the duration of the engagement is as follows:

HS2 – from 1 April – 25 June 2020, a Phase Two Delivery Director was engaged to cover the gap created due to a resignation. Accounting Officer approval was obtained for the temporary engagement.

EWR – from 11 February – 31 March 2021, an interim Customer Service Director was engaged to cover the gap created due to the previous post-holder leaving the organisation and while a campaign to permanently fill the role was conducted. Accounting Officer approval was obtained for the temporary engagement.

Consultancy and temporary staff costs

The following section on consultancy and temporary staff costs is subject to audit

During 2020-21, the Department and its delivery bodies employed a number of consultancy and temporary staff.

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 inhouse 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.

Consultancy costs are incurred primarily on specialist transport-related activities across the Group, notably in Network Rail and the Core Department.

Temporary staff costs are incurred when staff are brought in to supplement the existing workforce, this could be due to a surge in demand, to address a short-term resourcing need or in a temporary capacity for specialist skills.

Temporary staff costs are incurred primarily in major infrastructure programme across the Group, notably in Network Rail, HS2 and East West Rail. Increases in spend in HS2 reflect the current stage of the programme with mobilisation and the start of civil works.
In East West Rail, temporary staff were used to deliver essential planning work until HMT & the Department increased their headcount cap in late 2020-21.

	Consultancy	Temporary staff	Total
Network Rail	77,220,737	119,908,740	197,129,477
DfTC	81,578,516	8,312,151	89,890,667
High Speed 2	70,619	17,859,336	17,929,955
East West Rail	5,474,402	7,720,783	13,195,185
DVLA	2,991,427	3,876,371	6,867,798
Highways England	3,200,000	2,300,000	5,500,000
BTP	504,640	1,022,337	1,526,977
MCA	3,527,642	3,161,081	6,688,723
VCA	1,071,633	2,884,953	3,956,586
Northern Lighthouse Board	0	548,266	548,266
Trinity House	0	406,329	406,329
Transport Focus	0	184,000	184,000
Commission for Irish Lights	4,456	50,446	54,902
ATTF	0	0	0
Directly Operated Railways Ltd	0	0	0
LCR Finance Company	0	0	0
CTRL Finance Company	0	0	0
Air Safety Support International	0	0	0
Trainfleet	76,768	136,398	213,166
Department Total	**175,720,840**	**168,371,191**	**344,092,031**

Table 34: Expenditure on consultancy and temporary staff

Exit packages

The following section on exit packages is subject to audit

	Core Department and Agencies[1]						Departmental Group					
	Compulsory redundancies		Other departures agreed		Exit packages by cost band		Compulsory redundancies		Other departures agreed		Exit packages by cost band	
Exit package cost band	2020-21	2019-20	2020-21	2019-20	2020-21	2019-20	2020-21	2019-20	2020-21	2019-20	2020-21	2019-20
<£10,000	–	–	12	27	12	27	99	104	15	50	114	154
£10,000–£25,000	–	–	4	11	4	11	81	91	13	39	94	130
£25,000–£50,000	–	–	3	3	3	3	141	114	14	32	155	146
£50,000–£100,000	–	–	5	10	5	10	36	37	8	25	44	62
£100,000–£150,000	–	–	2	1	2	1	3	5	3	5	6	10
£150,000–200,000	–	–	–	–	–	–	6	5	–	–	6	5
>£200,000	–	–	–	–	–	–	5	4	–	–	5	4
Total number of exit packages	0	0	26	52	26	52	371	360	53	151	424	511
2020-21												
Total cost/£		0		777,549		777,549		11,745,056		1,654,233		13,399,289
2019-20 Total cost/£		0		1,220,284		1,220,284		11,360,674		4,255,624		15,616,298

Table 35: Reporting of Civil Service and other compensation schemes – exit packages

1 Excluding DVSA who are outside of the accounting boundary

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.

In line with the Constitutional Reform and Governance Act 2010 and the Model Contract for Special Advisers, a Special Adviser's appointment automatically ends when their appointing Minister leaves office. Special Advisers are not entitled to a notice period but receive contractual termination benefits to compensate for this. Termination benefits are based on length of service and capped at six months' salary. If a Special Adviser returns to work for HM Government following the receipt of a severance payment, the payment is required to be repaid, less a deduction in lieu of wages for the period until their return. Termination costs for special advisers are reported in the Cabinet Office Annual Report and Accounts.

Statement of Outturn against Parliamentary Supply

In addition to the primary statements prepared under IFRS, the Government Financial Reporting Manual (FReM) requires the Department to prepare a Statement of Outturn against Parliamentary Supply (SOPS) and supporting notes. The SOPS and supporting Notes are a key accountability statement that show, in detail, how an entity has spent against their Supply Estimate.

Supply is the monetary provision (for resource and capital purposes) and cash (drawn primarily from the Consolidated Fund) that Parliament gives statutory authority for entities to utilise. The Estimate details Supply and is voted on by Parliament at the start of the financial year through the Main Estimate and updated later in the financial year through the Supplementary Estimate. The format of the SOPS mirrors the Supply Estimates, published on gov.uk, to enable comparability between what Parliament approves and the final outturn.

The SOPS and related notes are subject to audit, as detailed in the Certificate and Report of the Comptroller and Auditor General to the House of Commons.

The SOPS contain a summary table, detailing performance against the control limits on which Parliament has voted on, cash spent (budgets are compiled on an accruals basis and so outturn will not exactly agree to cash spent) and administration.

Government departments are not authorised to 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 a qualified audit opinion due to an Excess Vote.

The supporting notes detail the following:

- Outturn by Estimate line, providing a more detailed breakdown (SOPS 1);
- a reconciliation of outturn to net operating expenditure in the Statement of Comprehensive Net Expenditure, to tie the SOPS to the financial statements (SOPS 2);
- a reconciliation of outturn to net cash requirement (SOPS 3); and
- an analysis of income payable to the Consolidated Fund (SOPS 4).

The SOPS and Estimates are compiled against the budgeting framework, which is similar to, but different from, IFRS. An understanding of the budgeting framework and an explanation of key terms is provided in the Financial Overview on page 21. Further information on the Public Spending Framework and the reasons why budgeting rules are different from IFRS can also be found in chapter 1 of the Consolidated Budgeting Guidance, available on gov.uk. A glossary of these financial terms can also be found in Annex A.

In SOPS 1, 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. These spending categories include: cash expenditure for transactions that require the transfer of money; and, non-cash expenditure relating to changes in the valuation of assets (depreciation, pensions etc.).

AME includes areas of spending that HM Treasury deems unpredictable, difficult to control and of a size that departments would have difficulty managing within DEL budgets.

DEL is usually set for the term of the Spending Review, whereas AME is forecast on a yearly basis. Departments are set annual budgets split between resource/capital and DEL/AME.

Summary of Resource and Capital Outturn 2020-21

Type of spend	SoPS note	Outturn Voted £m	Outturn Non-Voted £m	Outturn Total £m	Estimate Voted £m	Estimate Non-Voted £m	Estimate Total £m	2020-21 Outturn vs. Estimate saving/(excess) Voted £m	2019-20 Prior Year Outturn Total £m
Departmental Expenditure Limit (DEL)									
Resource	1.1	23,656	14	23,670	25,085	14	25,099	1,429	11,439
Capital	1.2	17,032	–	17,032	18,265	–	18,265	1,233	14,242
Total		**40,688**	**14**	**40,702**	**43,350**	**14**	**43,364**	**2,662**	25,681
Annually Managed Expenditure (AME)									
Resource	1.1	1,440	–	1,440	2,409	–	2,409	969	1,827
Capital	1.2	54	–	54	470	–	470	416	10
Total		**1,494**	**–**	**1,494**	**2,879**	**–**	**2,879**	**1,385**	1,837
Total Budget									
Resource	1.1	25,096	14	25,110	27,494	14	27,508	2,398	13,266
Capital	1.2	17,086	–	17,086	18,735	–	18,735	1,649	14,252
Total Budget Expenditure		**42,182**	**14**	**42,196**	**46,229**	**14**	**46,243**	**4,047**	**27,518**

Figures in the columns labelled “Voted” cover the control limits voted by Parliament. Further information about the Supply process and control limits voted by Parliament can be found in The Estimates Manual[58].

Detailed explanations of significant variances between Estimate and Net Resource Outturn are shown after SOPS Note 1.2.

Net Cash Requirement

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.

	Note	2020-21 £m	2019-20 £m
Estimate		40,264	21,543
Outturn	SOPS 3	36,229	20,172
Under/(over) spend against Estimate		**4,035**	**1,371**

58 https://www.gov.uk/government/publications/supply-estimates-guidance-manual

Administration Costs

The Administration Budget is a Treasury control on resources consumed by the Department and forms part of the Departmental Expenditure Limit (DEL). The administration budget is not a separate voted limit, but any breach of this limit will also result in an Excess Vote. Administration costs include items not directly associated with frontline service delivery.

	Note	**2020-21** £m	2019-20 £m
Estimate		312	306
Outturn	SOPS 1.1	294	295
Under/(over) spend against Estimate		**18**	11

The SOPS Notes on pages 170 to 178 form part of these financial statements.

The total Estimate columns include virements. Virements are the reallocation of provision in the Estimates that do not require parliamentary authority (as Parliament does not vote to that level of detail and delegates this power to HM Treasury). Further information on virements can be found in The Estimates Manual[59].

The "Outturn vs Estimate" column is based on the total including virements. The Estimate total prior to virements is included to provide comparison to the Estimates as laid before Parliament.

In line with HM Treasury's guidance on Supply Estimates, spending in arm's length bodies appears net of income, and is denoted by the suffix "(net)" in the table above.

59 https://www.gov.uk/government/publications/supply-estimates-guidance-manual

SOPS 1. Net outturn by Estimate line

SOPS 1.1 Analysis of net resource outturn by Estimate line

		2020-21												2019-20
		Resource Outturn							Estimate			Outturn vs. Estimate,		Prior year Outturn
		Administration			Programme									
		Gross £m	Income £m	Net £m	Gross £m	Income £m	Net £m	Net Total £m	Total £m	Virements £m	Total inc. virements £m	saving/ (excess) £m		Total, 2019–20 £m
Spending in Departmental Expenditure Limit (DEL):														
	Voted:													
A:	Tolled Crossings	–	–	–	38	(116)	(78)	(78)	(82)	5	(77)	1		(119)
B:	Local Authority Transport	–	–	–	519	–	519	519	534	(5)	529	10		374
C:	Highways England (net)	43	–	43	2,249	–	2,249	2,292	2,750	–	2,750	458		2,533
D:	Funding of other ALBs (net)	1	–	1	15	–	15	16	38	–	38	22		169
E:	Other Railways	–	–	–	229	(142)	87	87	125	–	125	38		38
F:	Sustainable Travel	–	–	–	187	(4)	183	183	184	–	184	1		127
G:	Bus Subsidies & Concessionary Fares	–	–	–	1,535	(3)	1,532	1,532	1,591	–	1,591	59		256
H:	GLA Transport Grants	–	–	–	2,460	–	2,460	2,460	2,702	–	2,702	242		28
I:	Crossrail	–	–	–	2	(3)	(1)	(1)	2	–	2	3		2
J:	Aviation, Maritime, Security and Safety	–	–	–	338	(78)	260	260	261	–	261	1		238
K:	Maritime and Coastguard Agency	8	(1)	7	378	(13)	365	372	377	–	377	5		357
L:	Motoring Agencies	–	–	–	758	(565)	193	193	269	–	269	76		65
M:	Science, Research and Support Functions	–	–	–	24	(1)	23	23	26	–	26	3		24
N:	Central Administration	258	(17)	241	79	(32)	47	288	406	–	406	118		278
O:	Support For Passenger Rail Services	–	–	–	8,464	(5)	8,459	8,459	8,627	–	8,627	168		373
P:	High Speed Rail	–	–	–	67	–	67	67	77	–	77	10		54
Q:	Transport Development Fund	–	–	–	–	–	–	–	–	–	–	–		4
R:	High Speed Two Limited (net)	2	–	2	105	–	105	107	114	–	114	7		246
S:	East West Rail Company Limited (net)	–	–	–	36	–	36	36	36	–	36	–		22
T:	Network Rail (net)	–	–	–	6,841	–	6,841	6,841	7,048	–	7,048	207		6,357
Total Voted Resource DEL		**312**	**(18)**	**294**	**24,324**	**(962)**	**23,362**	**23,656**	**25,085**	**–**	**25,085**	**1,429**		11,426

		2020-21											2019-20
		Resource Outturn							Estimate			Outturn vs. Estimate,	Prior year Outturn
		Administration			Programme								
		Gross	Income	Net	Gross	Income	Net	Net Total	Total	Virements	Total inc. virements	saving/ (excess)	Total, 2019–20
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Non-Voted:													
U:	Funding of ALBs (net)	–	–	–	14	–	14	14	14	–	14	–	13
Total Resource DEL		**312**	**(18)**	**294**	**24,338**	**(962)**	**23,376**	**23,670**	**25,099**	**–**	**25,099**	**1,429**	11,439
Spending in Annually Managed Expenditure (AME):													
	Voted:												
V:	Highways England (net)	–	–	–	22	–	22	22	8	15	23	1	(43)
W:	Network Rail (net)	–	–	–	1,235	–	1,235	1,235	2,056	(19)	2,037	802	1,649
X:	Funding of other ALBs (net)	–	–	–	30	–	30	30	78	–	78	48	123
Y:	Other Railways	–	–	–	311	(179)	132	132	176	–	176	44	137
Z:	Aviation, Maritime, Security and Safety	–	–	–	–	(2)	(2)	(2)	(2)	–	(2)	–	(52)
AA:	Maritime and Coastguard Agency	–	–	–	1	–	1	1	1	–	1	–	1
AB:	Motoring Agencies	–	–	–	(2)	–	(2)	(2)	(2)	–	(2)	–	(2)
AC:	Central Administration	–	–	–	22	–	22	22	95	–	95	73	2
AD:	High Speed Rail	–	–	–	(1)	–	(1)	(1)	(1)	–	(1)	–	–
AE:	High Speed Two Limited (net)	–	–	–	3	–	3	3	–	4	4	1	1
AF:	East West Rail Company Limited (net)	–	–	–	–	–	–	–	–	–	–	–	–
Total Voted Resource AME		**–**	**–**	**–**	**1,621**	**(181)**	**1,440**	**1,440**	**2,409**	**–**	**2,409**	**969**	1,816
	Non-Voted:												
AG:	Funding of ALBs (net)	–	–	–	–	–	–	–	–	–	–	–	11
Total Resource AME		**–**	**–**	**–**	**1,621**	**(181)**	**1,440**	**1,440**	**2,409**	**–**	**2,409**	**969**	1,827
Total Resource Outturn		**312**	**(18)**	**294**	**25,959**	**(1,143)**	**24,816**	**25,110**	**27,508**	**–**	**27,508**	**2,398**	13,266

SOPS 1.2 Analysis of net capital outturn by Estimate line

							2020-21	2019-20
	Outturn			Estimate			Outturn vs. Estimate, saving/ (excess)	Prior year outturn Total 2019-20
	Gross £m	Income £m	Net total £m	Total £m	Virements £m	Total inc. virements £m	£m	£m
Spending in Departmental Expenditure Limit (DEL):								
Voted:								
A: Tolled Crossings	–	–	–	–	–	–	–	(2)
B: Local Authority Transport	2,412	–	2,412	2,402	10	2,412	–	1,758
C: Highways England (net)	3,295	–	3,295	3,455	–	3,455	160	3,232
D: Funding of other ALBs (net)	119	–	119	97	23	120	1	144
E: Other Railways	14	–	14	116	–	116	102	74
F: Sustainable Travel	713	(2)	711	764	(38)	726	15	478
G: Bus Subsidies & Concessionary Fares	82	–	82	81	1	82	–	10
H: GLA Transport Grants	–	–	–	–	–	–	–	(10)
I: Crossrail	722	–	722	796	–	796	74	889
J: Aviation, Maritime, Security and Safety	68	–	68	66	2	68	–	53
K: Maritime and Coastguard Agency	23	–	23	43	–	43	20	(7)
L: Motoring Agencies	255	(41)	214	226	–	226	12	34
M: Science, Research and Support Functions	8	–	8	30	–	30	22	32
N: Central Administration	45	–	45	45	–	45	–	41
O: Support For Passenger Rail Services	155	(70)	85	387	–	387	302	–
P: High Speed Rail	265	–	265	467	–	467	202	303
Q: Transport Development Fund	436	–	436	436	–	436	–	344
R: High Speed Two Limited (net)	3,250	–	3,250	3,248	2	3,250	–	2,246
S: East West Rail Company Limited (net)	2	–	2	2	–	2	–	1
T: Network Rail (net)	5,281	–	5,281	5,604	–	5,604	323	4,622
Total Voted DEL	**17,145**	**(113)**	**17,032**	**18,265**	**–**	**18,265**	**1,233**	14,242
Non-Voted:								
U: Funding of ALBs (net)	–	–	–	–	–	–	–	–
Total Capital DEL	**17,145**	**(113)**	**17,032**	**18,265**	**–**	**18,265**	**1,233**	14,242

							2020-21	2019-20
	Outturn			Estimate			Outturn vs. Estimate, saving/ (excess)	Prior year outturn Total 2019-20
	Gross £m	Income £m	Net total £m	Total £m	Virements £m	Total inc. virements £m	£m	£m
Spending in Annually Managed Expenditure (AME):								
Voted:								
V: Highways England (net)	171	–	171	132	40	172	1	(9)
Y: Other Railways	–	–	–	–	–	–	–	–
Z: Aviation, Maritime, Security and Safety	–	(20)	(20)	(20)	–	(20)	–	(20)
AD: High Speed Rail	(99)	–	(99)	357	(41)	316	415	37
AE: High Speed Two Limited (net)	2	–	2	1	1	2	–	2
Total Capital AME	**74**	**(20)**	**54**	**470**	**–**	**470**	**416**	10
Total Capital Outturn	**17,219**	**(133)**	**17,086**	**18,735**	**–**	**18,735**	**1,649**	14,252

Variances

At the start of each year, the Department estimates the costs for each budget type and 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 variance against Estimates. In 2020-21 the Department faced significant economic uncertainty due to COVID-19 – see Financial Overview for further detail. Significant variances between Outturn and Estimates before virements are:

Expenditure Line	Outturn £m	Estimate £m	Variance £m (over)/ under	Explanation of variance
Resource DEL				
Highways England	2,292	2,750	458	Depreciation on the Strategic Road Network was lower than forecast, arising from recent changes in the estimation methodology for depreciation balances.
Bus subsidies & Concessionary Fares	1,532	1,591	59	Support funding requirements to bus operators during the pandemic were lower than the maximum authorised under the Estimate.
GLA Transport Grants	2,460	2,702	242	Support funding for TFL during the pandemic was below the maximum authorised under the Estimate.
Motoring Agencies	193	269	76	Income generated by the motoring agencies during the pandemic outperformed the levels anticipated in the Estimate.
Central Administration	288	406	118	The non-cash impairment expense for the adjustment of Land & Property inventory assets to net realisable value was lower than the maximum authorised under the Estimate.
Support for Passenger Rail Services	8,459	8,627	168	Funding requirements for the provision of rail services during the pandemic under the EMAs and ERMAs were lower than the total rail budget authorised in the Estimate.

Expenditure Line	Outturn	Estimate	Variance £m (over)/ under	Explanation of variance
	£m	£m		
Network Rail	6,841	7,048	207	Schedule 4 & 8 costs and depreciation on the railway network were lower than anticipated in the Estimate.
Resource AME				
Network Rail (net)	1,235	2,056	821	Variance caused by inherent volatility in Network Rail's financial instruments and interest movements.
Central Administration	22	95	73	Valuation of railway pension liabilities was lower than anticipated.
Capital DEL				
Highways England (net)	3,295	3,455	160	Underspend caused by delays in receiving Development Consent Orders and COVID-19 impacts on suppliers of the Road Network Capital Investment Programme.
Support for Passenger Rail Services	85	387	302	Following ONS' reclassification of Train Operating Companies as Public Corporations, the Department obtained budget for Public Corporation borrowing rules. Due to the extension of the ERMA contracts, this risk did not crystallise in 2020-21. In addition, subsidies towards rail operators' costs were lower than the maximum authorised.
Other Railways	14	116	102	
Sustainable Travel	711	764	53	Underspend on the subsidy the Department makes towards clean vehicles.
Crossrail	722	796	74	Loan requirements for the Crossrail project during the year were below the maximum authorised.
High Speed Rail	265	467	202	Utilisation of provisions for land & property acquisitions, in support of the HS2 project, were lower than expected.
Network Rail (net)	5,281	5,604	323	Delay in the capital investment programme towards the end of the year, largely due to COVID-19 impacts on workforce and supply chain.
Capital AME				
High Speed Rail	(99)	357	456	New provisions for land & property compulsory purchase orders, in support of the HS2 project, were lower than anticipated. Negative outturns arise where utilisation of provisions exceeds the new provisions recognised.

11059-DfT-Annual Report 2020-21-P1.indb 174 12/09/2021 09:49

SOPS 2. Reconciliation of outturn to net operating expenditure

As noted in the introduction to the SOPS above, outturn and the Estimates are compiled against the budgeting framework, which is related to the IFRS-based FReM accounting framework. Therefore, this reconciliation bridges the gap between the resource outturn and net operating expenditure, linking the SOPS to the financial statements.

			2020-21	2019-20 (restated)
		Note	£m	£m
Total resource outturn in Statement of Parliamentary Supply		SOPS 1.1	**25,110**	13,266
Add:	Capital Grants	3.3	3,856	3,125
	Research and development	3.2	57	54
	Research and development grants	3.3	14	13
	EU Grants	3.3	1	12
	Capital subsidies for Rail Operators		135	-
	NATS non-budget movements		56	1
	Other adjustments		(6)	61
less:	Capital income		(526)	(432)
	Non-Budget CFER income		(436)	(194)
Net expenditure in the Group Statement of Comprehensive Expediture		SOCNE	**28,261**	15,906

Capital Grants, Research and development and EU Grants are budgeted for as C-DEL but accounted for as expenditure in the SOCNE, and therefore function as a reconciling item between Resource and Net Operating Expenditure. Following the Train Operating Companies' reclassification to Public Corporation status from 1st April 2020, HMT confirmed that subsidies towards their capital costs under the EMAs and ERMAs should be recorded in budgets against Capital DEL.

Capital Income is budgeted for as C-DEL but accounted for as income in the SOCNE, and therefore functions as a reconciling item between Resource and Net Operating Expenditure. Network Rail and Highways England received material levels of capital income: these relate to contributions from other bodies towards capital projects.

The Non-Budget CFER income of £436m in 2020-21 comprises £458m of CFERs (as shown on the face of the SOCTE) less £20m of General Lighthouse Fund loan repayments credited to the balance sheet (see Note 11) and £2m of loan interest that is classified as R-AME.

NATS non-budget movements of £56m represent the Department's non-cash share of profit or loss of associate as presented in Note 4.

Other adjustments of £61m in 2019-20 comprises: £5m as disclosed in the 2019-20 Accounts; £56m of additional costs arising from the prior year restatement in the 2020-21 Accounts (as described in accounting policy note 1.27). Budget outturns for the prior period have not been restated because the restatement arises in respect of a statistical reclassification by the ONS – the Department confirmed with HM Treasury that the additional expenditure in the prior period does not comprise a Non-Budget Outturn in 2020-21.

11059-DfT-Annual Report 2020-21-P1.indb 175 12/09/2021 09:49

SOPS 3. Reconciliation of Net Outturn to Net Cash Requirement

As noted in the introduction to the SOPS above, outturn and the Estimates are compiled against the budgeting framework, not on a cash basis. Therefore, this reconciliation bridges the gap between the resource and capital outturn and the net cash requirement.

	Note	Net Outturn £m	Estimate £m	Net Outturn vs Estimate £m
Resource outturn	SOPS 1.1	25,110	27,507	2,397
Capital outturn	SOPS 1.2	17,086	18,735	1,649
Total outturn		**42,196**	**46,242**	**4,046**
Accruals to cash adjustments for Core Department & Agencies				
Depreciation, amortisation and impairments	3.4	(180)	(288)	(108)
Provisions (non-cash movements)	23	(118)	(123)	(5)
Other non-cash items	3, 4	(39)	58	97
Adjustments to reflect movements in working capital balances in Core Department & Agencies				
Increase/(decrease) in receivables	17	1,067	260	(807)
(Increase)/decrease in payables	19, 20	(160)	1,228	1,388
Utilisation of provisions	23	279	389	110
Adjustments for arm's length bodies:				
Remove: voted resource and capital		(22,604)	(24,667)	(2,063)
Add: Grant-in-Aid, grants and loans to ALBs	3.3, 11	26,268	17,179	(9,089)
Less: repayments from ALBs to DfT	11	(10,488)		10,488
Removal of non-voted budget items				
Remove non-voted spending		(14)	(14)	-
CFER income included in budgets		22	-	(22)
Net Cash Requirement		**36,229**	**40,264**	**4,035**

SOPS 4. Income payable to the Consolidated Fund

SOPS 4.1 Analysis of income payable to the Consolidated Fund

In addition to income retained by the Department, the following income is payable to the Consolidated Fund (cash receipts being shown in italics):

	2020-21		2019-20	
	Income accrued £m	**Cash received £m**	Income accrued £m	Cash received £m
Operating income outside the ambit of the Estimate – Resource	438	*177*	196	*195*
Operating income outside the ambit of the Estimate – Capital	20	*20*	20	*20*
Total income payable to the Consolidated Fund	**458**	***197***	216	*215*

The income above includes:

- £262m of rail franchise termination payments (2019-20: nil). These amounts are accrued in 2020-21, in-line with the accounting policies set out in note 1.24:
- £150m of fees relating to the sale and transfer of personalised registration marks by the Driver and Vehicle Licensing Agency (2019-20: £150m). Amounts earned by DVLA above £150m are retained by the Department and are reinvested in transport activities;
- £24m in loan interest payments made to the Department in respect of Crossrail (2019-20: £14m); and
- £22m in loan repayments and interest payments made to the Department from the General Lighthouse Fund (2019-20: £22m).

SOPS 4.2 Consolidated Fund income

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:

	2020-21	2019-20
	£m	£m
Licence fees, penalties and fines	81	98
Costs of collection – where deductible	(18)	(40)
Amounts payable to the Consolidated Fund	63	58
Balance held at the start of the year	5	7
Payments into the Consolidated Fund	(62)	(60)
Balance held on trust at the end of the year	6	5

The amount payable to the Consolidated Fund (net income) above includes:

- £43m raised from the Renewable Transport Fuels Obligation scheme run by the Department (2019-20: nil); and
- £16m of late licensing penalties and enforcement activities (net of cost of collection) relating to the Vehicle Excise Duty collected by the DVLA (2019-20: £53m). The decrease is largely due to reduced enforcement activity by DVLA because of COVID-19 restrictions.

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.

Parliamentary accountability disclosures

In addition to the Statement of Outturn against 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

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

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.

	2020-21		2019-20	
	Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
Total number of cases	10,857	41,751	16,181	59,082
Total amount £000	**41,796**	**112,759**	111,478	134,097

Dartford-Thurrock River Crossing Charging Scheme

The Department suffers losses due to motorists’ failure to pay amounts due on the Dartford-Thurrock River Crossing Charging Scheme following the introduction of a free-flowing scheme from 1 December 2014 to reduce congestion. Until 30 November 2014, drivers using the Dartford-Thurrock River Crossing had to stop at barriers 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 operator will issue a Penalty Charge Notice (PCN). If required, penalty and recovery processes are employed to enforce the charging scheme and collection of charges.

After a period of time, when the scheme operator considers that it is no longer able to collect against the PCN, it then regards the charge as being ‘irrecoverable’ and writes off the amount that was due.

The 2020-21 losses include £34,954,000 in relation to 2019-20 Dartford Crossing charges (2019-20: £36,777,000 in relation to 2018-19). Of this, £32,754,000 relates to the write-off of receivables for both road user charges and PCNs that became irrecoverable, and an estimated amount of up to £2,200,000 relates to PCNs that were not issued (2019-20: £34,477,000 & £2,300,000 respectively in relation to 2018-19). There are several 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).

Write-offs have reduced due to improvements in PCN recovery rates and a reduction in the number of cases assessed for write-off

11059-DfT-Annual Report 2020-21-P1.indb 179 12/09/2021 09:49

(e.g. cases relating to foreign vehicles) within the financial year.

EU exit – contingency planning

During 2019-20 and 2020-21, contingency measures were put in place to handle potential for disruption to haulage following the UK's departure from the EU. These included rental, security and staffing of additional lorry parking facilities near Ashford. As this border readiness measure was not operationally required for most of the year, the associated costs during that period (£5,387,400) are recognised as constructive losses in the table above.

Intercity Express Programme

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.

Subsequent delays in Great Western electrification impacted the introduction of IEP trains into passenger service. 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 amounts totalling £134,693,011 to be recognised over the period until all the rolling stock enters service. The Department paid £626,573 to Agility this year (2019-20: £41,119,000); this was the final payment as the rolling stock entered service in 2020.

Network Rail

Following its reclassification to the Central Government sector by ONS, Network Rail was consolidated into these departmental accounts from 2015-16. In 2014, prior to joining the departmental group, Network Rail entered into a joint venture with Doddle Ltd. – a click & collect service with collection points located at rail stations. In 2015, Network Rail sold its shareholding in Doddle and converted its investment into debt of £22m. The debt was fully impaired at that point of the original transaction. In 2020-21, Network Rail formally concluded that the loan was no longer recoverable and should be written-off. The total value of the write off, including accrued interest, was £31,400,000.

Highways England

Highways England incurred total losses of £35,018,000 in the period to 31 March 2021. This amount included three losses greater than £300,000. The first (£4.5m) related to aged unreconciled VAT balances. The second (£323k) was an abandoned claim relating to section 278 of the Highways Act 1980. The third (£18m) related to roadside technology write-offs. Further details on these items is provided in Highways England's accounts. Other losses, which were below £300,000, mostly related to claims abandoned for clean-up costs where the culprit is unknown and it is not viable to pursue, and to store losses relating to theft and vandalism of the road network where the culprit is not known.

HS2

As part of supporting the National College of Advanced Transport and Infrastructure (NCATI) to complete its planned merger, HS2 Ltd agreed to forego £0.3m of future interest income, covering the period 2021-22 to 2024-25. The loan principal and historic interest accrued is expected to be recovered in full.

Special Payments

Special payments include extra-contractual, special severance, ex gratia and compensation payments.

	2020-21		2019-20	
	Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
Total number of cases	1,003	1,163	1,865	2,053
Total amount £000	**13,338**	**16,396**	13,635	16,012

Core Department – Industrial disease and injury claims

A total of £13,000,996 was paid to settle 194 industrial disease and injury claims from former British Rail employees (2019-20: 241 cases totalling £13,222,056), of which 5 cases exceeded £300,000 (2019-20: 5 cases). Note 23 of the financial statements provides further information about these claims.

Highways England

There was one special payment with a value greater than £300,000 which relates to the relocation of a solar farm substation as part of the Lower Thames Crossing project (£1.1m).

Fees and charges information

The majority of the Departmental Group's income, described at Note 4, 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.

	2020–21			2019–20		
	Income £m	**Full Cost** £m	**Surplus/ (Deficit)** £m	Income £m	Full Cost £m	Surplus/ (Deficit) £m
Maritime and Coastguard Agency						
Marine surveys	3	2	1	6	6	0
Registration of ships	1	1	0	1	1	0
Seafarers' examination and certification	1	2	(1)	2	2	0
Vehicle Certification Agency						
Product certification	20	22	(2)	23	23	0
Driver and Vehicle Licensing Agency						
Fees and charges	365	285	80	414	291	123
	390	**312**	**78**	446	323	123

MCA and VCA fees and charges are set in line with a full cost recovery objective. DVLA is required to target full cost recovery of its fees and charges on a pooled basis for core service delivered. As described in Note 2 of DVLA's Annual Report and Accounts[60], the fees received for cherished transfers (personalised registrations) are payable to HM Treasury and the core Department.

Additional information regarding these fees and charges (including the financial objective and performance against this) can be found in the published financial statements for each of the individual agencies.

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 until 1 April 2021 (see Notes 1.3 and 26 to the financial statements).

Remote contingent liabilities

Contingent liabilities are presented here where the likelihood of a transfer of economic benefit in settlement is judged remote. 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 significant 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

This table summarises quantifiable remote contingent liabilities by their nature and purpose, with the amounts disclosed reflecting the highest reasonable estimate of the possible liability.

	31 March 2021	31 March 2020
	£m	£m
Inter City Express Rolling Stock 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 previously with Network Rail, covering the termination of the contract due to force majeure events and unavailability of commercial insurance. They expire in 2043.	5,900	5,900
HS1 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.	4,037	4,705

60 https://www.gov.uk/government/collections/dvla-annual-reports-and-accounts

	31 March 2021 £m	31 March 2020 £m
Passenger Rail Franchise Agreements – Rolling Stock The Railways Act 1993 and Transport Act 2000 permit the Secretary of State to give guarantees to promote investments in railway assets, which include undertakings within passenger rail franchise agreements and guarantees to leasing companies. The value of this liability is based on the remaining value of rolling stock and depots covered by these guarantees, which tend to decrease over time. This liability could increase if new rolling stock or depots are introduced, where these are covered by guarantees.	907	1,275
Thameslink 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.	724	774
Passenger Rail Franchise Agreements – Legacy 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.	149	132
Channel Tunnel Restoration 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
Premises for the International Maritime Organization (IMO) 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
Network Rail 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 Note 27.	51	50
Business indemnities 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.	10	20
Transport disaster indemnities 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
Non-executive member indemnities 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	2
Other contingent liabilities, including legal claims	15	12
Total	**11,992**	13,067

11059-DfT-Annual Report 2020-21-P1.indb 183 12/09/2021 09:49

Unquantifiable remote contingent liabilities

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.

Highways England holds indemnities embedded within some procurement contracts. These indemnities are a promise by the company to compensate another for losses (such as asset damage, contamination or loss of income) suffered as a consequence of works undertaken on the strategic road network. The most significant indemnities relate to construction that occurs near to gas and electricity infrastructure, or requires infrastructure to be moved. The approximate value of these indemnities is dependent upon the outcome of uncertain events and as such they cannot be accurately estimated. There have been no claims made against Highways England since its formation in 2015.

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.

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.

The Department has statutory responsibility for the maintenance of all railway structures. The contingent liability for this responsibility applies to legacy structures that have been sold to, and are controlled by, external parties. There have been no claims and there is no reasonable basis under which to quantify this risk.

Grants paid to Merseytravel

The Department provides an annual Special Rail Grant to The Merseyside Passenger Transport Executive ("Merseytravel") in support of local transport in the Liverpool City Region Combined Authority. Merseytravel is classified to the Local Government sector by the Office for National Statistics. In 2019, the Department's internal assurance processes identified that in the period from 2009 to 2019, overstated RPI-inflationary assumptions in the algorithm used to calculate the Department's grant subsidy towards regulatory Track Access Charges, had resulted in total cumulative payments to Merseytravel of an estimated £45,460,000 above the minimum baseline amount as per the Department's stated methodology.
This resulted in commitments above the minimum baseline amount being set out in grant letters provided and paid to Merseytravel for the same period.
The Department is satisfied that these grant payments were properly used by Merseytravel under the terms of its agreement with the Department and therefore does not consider these payments are a loss within the definition of Managing Public Money.
Amounts paid since 2019 have been corrected prospectively for the issue identified.

COVID-19 Pandemic

In November 2019 a novel strain of coronavirus was detected and spread rapidly, leading the World Health Organisation to declare a pandemic on 11 March 2020. The pandemic continued to cause significant economic disruption for the 2020-21 reporting period.

The ongoing disruption caused by the pandemic has created significant economic uncertainty, and this uncertainty is expected to continue.

The most significant impact on the Departmental Group's financial statements has been the continued need to support the transport sector through grant funding (note 3.3). Most notably this has meant: increased payments to Train Operating Companies (Notes 1.24.3 and 3.2 refer) as passenger numbers remained low; payments to support continued operations for Transport for London; and support to local bus operators. No contingent liability existed on 31 March 2021 in respect of the pandemic. Note 10 provides details of measures agreed during the year for 2021-22 and Note 32 provides an overview of measures agreed since 1 April 2021.

Bernadette Kelly 7 September 2021
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 2021 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 The Government Resources and Accounts Act 2000 (Estimates and Accounts) (Amendment) (No. 2) Order 2020. 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. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards as interpreted by HM Treasury's Government Financial Reporting Manual.

I have also audited the Statement of Outturn against 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 2021 and of the Department's net expenditure and Departmental Group's net operating expenditure for the year then ended; and
- 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 Outturn against Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2021 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 for opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), applicable law 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 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the Department for Transport in accordance with the ethical requirements that are relevant to my audit of 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.

The framework of authorities described in the table below has been considered in the context of my opinion on regularity.

Framework of authorities	
Authorising legislation	Government Resources and Accounts Act 2000
Parliamentary authorities	Supply and Appropriation Act
HM Treasury and related authorities	Managing Public Money

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the Department for Transport's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Department for Transport's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue. My responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for the Department for Transport is adopted in consideration of the requirements set out in HM Treasury's Government Financial Reporting Manual, which requires entities to adopt the going concern basis of accounting in the preparation of the financial statements where it anticipated that the services which they provide will continue into the future.

Overview of my audit approach

Key audit matters

Key audit matters are those matters that, in my professional judgment, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditor, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon. I do not provide a separate opinion on these matters.

I consider the following areas of particular audit focus to be those areas that had the greatest effect on my overall audit strategy, the allocation of resources in my audit and directing the efforts of the audit team in the current year. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by my audit but only those areas that had the greatest effect on my overall audit strategy, allocation of resources and direction of effort. I have not, for example, included information relating to the work I have performed in response to the mandatory audit risk, on the potential for management override, or the risk in respect of Parliamentary Control Totals; in both areas my work has not identified any matters to report.

The areas of focus were discussed with the Group Audit and Risk Committee; their report on matters that they considered to be significant to the financial statements is set out in the governance statement.

In this year's report the following changes to the risks identified have been made compared to my prior year report:

I did not include the following risks as significant risks for my audit; 'first time adoption of IFRS 16 – leases' as a significant risk for my audit this year as this occurred in 2019-20; 'Highways England PFI contract review' as there have been no contract changes and 'Impacts of COVID-19 pandemic including property valuations'. This risk covered both property valuations and expected credit losses to assets and loan balances. As the material uncertainty clauses in respect of property valuations have been removed in 2020-21 and as a result of a more stable market the risk on expected credit losses has reduced. I no longer consider these risks to be a key audit matter.

I have changed my risk in respect of Train Operating Companies (TOCs) as a result of the contractual changes noted at the end of 2019-20 where the Department took on the financial risks. I have updated the risk below and still consider this a key audit matter.

1. Infrastructure asset valuations

Description of risk

The Departmental group directly owns significant operational transport infrastructure, including the Strategic Road Network (England) and national Rail Network (Great Britain). These do not include infrastructure networks owned by other authorities (e.g. local authority roads, London Underground, the Core Valley Lines) or dealt with separately under infrastructure-inclusive concession arrangements (HS1). The Strategic Road Network (SRN) includes in these accounts the Severn River Crossing and M6 Toll, as well as those assets reported on the same basis in the accounts of Highways England.

The infrastructure networks on the Departmental group's Statement of Financial Position are – as described in notes 1.4.3 and 5 – valued in these financial statements using Depreciated Replacement Cost (DRC). This provides a proxy for their fair value in the absence of income- or market-based sources. At 31 March 2021, the Department valued the SRN at £134.6bn and the Rail Network at £336.8bn.

The valuations are significant estimates, built up on the basis of the replacement cost of the current network functionality on a modern equivalent basis, adjusted using a measurement of their actual condition. Management discusses the nature and extent of estimation uncertainty, which is a continuing feature of these accounts, in notes 1.4.3 and 5. Uncertainty arises principally in respect of the appropriateness of costing rates and the condition adjustment, since the quantities of assets required in the replacement can be based on the known configuration of the network.

Revaluation of Strategic Road Network (SRN)

The valuation comprises an estimate of the depreciated replacement cost of the SRN, as a proxy for its fair value in the absence of income or market-based sources. The estimate uses the best information available on the actual cost of recent schemes, together with records about the number, type and condition of physical assets.

Several assumptions are implicit in determining the SRN valuation, the validity of which needs keeping under review; for example, whether costing rates for material SRN elements remain a reasonable basis for valuing a modern equivalent asset.

As at 31 March 2021, management carried out the quinquennial revaluation of special structures. The valuation approach was developed by management's expert, which involved an exercise to identify comparable cost data for such recently built structures. Due to the lack of equivalent 'special' structures being built in recent years, and the limited availability of any related and suitable cost data, it was agreed that the revaluation would require a theoretical approach. A family of structures approach (sub-division into 6 asset groups) was adopted, allowing complexity to be considered and structural approaches to be valued differently depending on the type of structure. A tool has then been applied that uses key volumetric data for the structures in the valuation together with considerations for key variables such as ground conditions, which permits a rate to be applied to volumes and adjusted accordingly where variations exist, allowing for an estimated cost for the assets.

In the 2020-21 financial year, the structures database was migrated to a new system ('IAMIS'), with this new system used as a data source supporting the SRN valuation for the first time.

The SRN valuation therefore contains multiple areas of judgement and estimation uncertainty. I treat this area as a significant matter for audit because of the inherent complexity and estimation uncertainty. I further consider the risk to be enhanced by the underlying data migration to the structures database.

Revaluation of the Rail Network

The valuation comprises an estimate of the depreciated replacement cost of the rail network, as a proxy for its fair value in the absence of income or market-based sources. A full valuation is completed every 5 years, most recently for the 2018-19 financial statements. This requires management to determine the design of the modern equivalent asset, for example standard stations designs, and calculating unit costs for constructing each component.

An interim valuation has been performed for 2020-21 in which the focus is identifying those changes made to the existing network which are required to be incorporated into the valuation, for example, new assets that have become operational during the year. Changes from year to year are generally small in the context of the overall railway network. However, management refreshes its asset volumes calculations and estimates of remaining asset lives each year and incorporates identified changes in the DRC valuation. This is a complex exercise and there is a risk that changes are not identified or properly reflected in the valuation.

How the scope of my audit responded to the risk

My procedures on both valuations are geared towards evaluating the reasonableness of management's estimate of its value, to assess:

- the quality of source data in the underlying databases;
- the reasonableness of costing rates and cost indexation factors applied in-year;
- the adjustments made in respect of the network's condition based on the available evidence from asset management activities, amongst other key assumptions; and
- whether there are any indications of management bias.

Road network – specific items

I engaged an expert to review the special structures valuation methodology, and I have asked for their view on a sample of specific special structure valuations to give assurance that the methodology has been appropriately and consistently applied. I also engaged my expert to review the structures depreciation method and road conditions.

I have reviewed the migration of data to the new structures database, and the design and implementation of the controls around the transfer.

Rail network – specific items

A full revaluation of costing rates for the Rail Network was last performed as at 31 March 2019, at which point I performed enhanced audit work supported by an auditor's expert. My team continues to rely on this work, and has evaluated the Department's assertions on the continued appropriateness of underlying assumptions – including on the nature of a modern equivalent.

I also evaluated the reasonableness of the asset condition assessment for key network components based on Network Rail's own data drawn from operational systems, following an enhanced exercise in 2019. I also reviewed the consistency of these estimates against service performance data and regulatory publications.

Key observations

Road network

During the year, the net SRN valuation increased by £3.8 billion. There were several drivers of this increase, with the most key factors being the increase in the underlying HECI index adopted for roads, structures and technology assets (£1.8bn), and the full revaluation of Special Structures (£1.0bn).

The expert evaluated the assumption implicit in the use of an average unit cost, given that unit costs and structure types vary largely within the designated sub-groups. An assumption that unit rates would decrease with structure span might address this issue and our expert advised this would also represent a reasonable point in a valuation range, but also that the HE averaging approach represented a reasonable lower bound of the valuation range given the uncertainty in deriving that relationship, and given other factors in play. The sensitivity in the financial statements for this assumption is approximately £0.9bn, below our overall materiality.

In concluding my audit work on the SRN, including my review of the special structures valuation and the reasonableness of indices applied, I did not identify any material misstatements in the valuation of the road network recognised and disclosed in the financial statements.

Rail network

During the year, the Rail Network valuation has been relatively stable, with an increase of 1.5% the net result of incremental indexation, additions, depreciation and a revision to an assumption used to uplift land valuations for compensation costs. Testing results were satisfactory.

2. Defined Benefit Pension Schemes – valuation of deficit

Description of risk

The group is party to several pension schemes. Based on risk and value, I focused my work most heavily on the Network Rail section of the Railway Pensions Scheme ('RPS'), and secondarily on the ex British Rail 1994 Section and British Transport Police Force Superannuation Fund. All of these are funded schemes with significant assets managed by RPMI Railpen, for which gross and net positions are described in note 25. The pension schemes of the Train Operating Companies, which are not consolidated in the Department's accounts, are not included here but are discussed at note 28 – my work on these falls within the scope of Key Audit Matter 3.

There is significant complexity, and inherent estimation uncertainty, in the valuation of the net position of the recognised schemes, in respect of both the underlying assets and liabilities. I have focused on the valuation of harder-to-value scheme assets this year, especially unquoted private equity instruments. Last year the market volatility caused by the global spread of Covid-19 caused me to increase my focus, given threats to reliable and relevant valuations arising from timing lags in the provision of evidence for private equity holdings. I have seen an increase in valuation of scheme assets, however the impact has been more than offset by an increase in scheme liabilities primarily as a result of changes in assumptions, particularly future inflation and a decrease in discount rate. The net result of which is an increased financial statements deficit across the group as at 31 March 2021 of £5,180m (31 March 2020: £4,066m).

Scheme movements are presented on an aggregated basis in note 25. For some schemes – including Network Rail's – the responsibility for addressing any funding deficit is shared between the employer and members on a 60:40 basis. Where scheme management supports a shared cost basis, figures in note 25 and below are reduced accordingly to reflect the employer's share of assets and liabilities only.

Scheme liabilities

As with all defined benefit pension schemes, an actuarial estimate of the liability reflecting amounts to be paid out to scheme members in the future (£14,793 million for all group pension schemes as at 31 March 2021) involves significant estimation, for example in respect of key financial assumptions.

Scheme assets

In respect of assets, an accurate and timely valuation is needed of the various asset classes held in the pension funds administered on the group's behalf (£9,613 million as at 31 March 2021).

The standard practice of the scheme assets manager is to value investments using the most recent valuation, and if this is for a date earlier than the Balance Sheet date, to adjust for subsequent cash flows where necessary. This can lead to differences due to use of non-coterminous valuations and following the COVID-19 driven volatility of the prior year, I worked with the Department and the asset manager to determine enhancements which would take better account of market conditions at the year end.

The valuation of the property held by the scheme is valued by RPMI's professional valuers as at the Balance sheet date and the material uncertainty that was recognised last year has been removed following subsequent movement in the property market.

How the scope of my audit responded to the risk

Scheme liabilities

I contacted the relevant actuaries to obtain an up to date understanding of the methodology used to calculate the main financial assumptions, and to understand the methodology and level of uncertainty involved in roll-forward calculations.

I engaged an actuarially qualified auditor's expert to examine the assumptions, methodology and source data used to value the obligations. With this expert, I:

- evaluated the reasonableness of assumptions and methodology applied by key components on advice from their actuaries, including on whether financial assumptions were within reasonable ranges; and
- considered the integrity of membership data, including in respect of roll-forwards.

Scheme assets

My work on scheme assets is informed by the results of the statutory audit of the RPS financial statements, which is independently performed by another firm based on a year end of 31 December 2020, and also a set of direct substantive procedures to validate the asset valuations at the year end. These included sample testing over the asset valuations as at 31 March 2021 on distinctive asset classes within the Funds in which Network Rail is invested, as follows:

- for quoted and actively traded assets, I independently agreed valuations to observable market prices;
- for pooled investment assets, I agreed valuations to the investment manager valuation report and reviewed relevant observable active market data to evaluate its reliability, as well as considering potential indicators of impairment; and
- for directly held property investments, I have reviewed the independent third party property valuation performed for the scheme asset manager and reviewed the valuation movements against those in similar property sectors to confirm that the movements are in line with the wider market.

Additionally, for private equity and non-exchange-traded pooled investment vehicles, I used post year-end data to confirm expectations of asset valuations to verify the subsequent valuation movements recorded by the asset manager in relation to valuations as at the reporting date. I performed sample testing to validate the valuation included at the balance sheet date and where applicable, any subsequent valuations received relating to the balance sheet reporting date. I also undertook procedures to understand the nature of the investment as well as consideration for indicators of impairment.

Key observations

In the course of completing this work, I did not identify any material misstatements in the valuation of defined benefit obligations in the financial statements. I identified a £199 million understatement in the valuation of the pension scheme assets recognised in the financial statements based on the Departmental Group defined benefit pension schemes. This was adjusted to reflect the valuations received post year-end relating to the investment value as at the balance sheet reporting date.

3.Train Operating Companies – Emergency Measures Agreements & Emergency Recovery Measures Agreements

Description of risk

The Department contracts with Train Operating Companies (TOCs) for the provision of most passenger rail services on Network Rail's infrastructure. As reported in the previous year, decreased ridership during the pandemic has made rail franchises financially unsustainable, leading the Department to enter into Emergency Measures Agreements (EMAs) with those TOCs not already directly operated by the Secretary of State through the Operator of Last Resort (OLR), which came into effect in the last period of 2019-20. These suspended the normal financial mechanisms of franchise agreements, which resulted in the Department bearing the costs and revenues of rail operators, with operators receiving a management fee.

In September 2020 these were replaced with Emergency Recovery Measures Agreements (ERMAs) which lowered the management fees and includes provisions to bring the current franchises to an end when they expire. In the prior year, I assessed the accounting treatment in respect of control and timing of recognition for the related expenditure due to the revised arrangements under the EMA, I have re-visited this in 2020-21 under the ERMA arrangements.

The increased spend as a result of the EMA/ERMA contractual arrangement led to an increased audit risk. The ERMAs also resulted in the termination of the pre-COVID franchise agreements and as a result, depending on the financial position of the TOC, a settlement payment was due to the Department to ensure TOCs did not benefit from the early termination of the pre-COVID franchise agreements.

This led me to focus my risk assessment on the regularity of the expenditure recognised by the Department in respect of TOCs, ensuring the correct treatment of disallowable costs. I also considered any potential disputes between the Department and TOCs and considered the implications for the financial statements. In addition, I also assessed the risk around correctly accounting for the termination sums and reviewed the termination sums agreed.

The Department reported total expenditure in respect of TOCs relating to the EMA/ERMA contracts of £8,457m in 2020-21 (note 28) and income in respect of termination settlement of £262m in 2020-21 (note 4).

How the scope of my audit responded to the risk

I have documented the design and implementation of the controls the Department has in place to identify and monitor disallowable costs; the process for payment and the overarching governance in place under both the EMA and ERMA agreements.

In respect of expenditure recognised, I:

- reviewed the EMA and ERMA contracts in place with the TOCs to assess for disallowable costs, performing a detailed substantive analytical procedure; and
- carried out procedures to ensure that accruals accurately reflected the state of commercial relations in respect of the management fees.

Following on from review of the EMAs in my prior year report and the conclusions reached, I have reviewed the ERMAs in detail to assess whether the conclusion remained extant. As a result of my review, I considered this to remain appropriate in respect of the ERMAs. While the TOCs remain subject to separate legal control by their directors and parent companies, both the EMAs and ERMAs substantially limit the variability of their return as investees, following the transfer of risk and reward to the Department also reflecting the reporting requirements on the Department from HM Treasury's Government Financial Reporting Manual (FReM).

I reviewed the terms of the ERMA with specific focus on the settlement fee arrangements. I exchanged technical papers with the Department based on an assessment of the recognition point for the termination fees under IFRS.

I have reviewed the termination contract and settlement agreement for all operators and reviewed the calculation for reasonableness to verify whether a termination settlement payment was due based on the operators' financial position. Where a termination payment was due, I have performed a high-level review of the model to confirm arithmetic accuracy.

Key observations

In the course of completing this work, I did not identify any material misstatements.

The settled position following the discussions on recognition point was that the signing of the ERMA created a financial instrument as a result of the contractual right to cash (the termination sum, payable at the end of the ERMA contract) once agreed, and that the financial instrument should be recognised at the point of the ERMA being contracted. This advanced the Department's recognition of income by £109 million. This has been adjusted for in the Group accounts.

4. Valuation of HS2 CPO land and property

Description of risk

Working through HS2 Limited, the Department is in the middle of a significant programme of compulsory acquisition for land and property along the London – West Midlands HS2 corridor. The Secretary of State acts as the acquiring authority, and the related balances appear in the Core Department and Agencies Statement of Financial Position, with HS2 Limited acting as agent.

As described in accounting policy note 1.21.2, obligation for compulsory purchases arises fully at the point of a General Vesting Declaration (GVD) being served on the counterparty. Serving a GVD is a statutory trigger point for the Department to pay the counterparty 90% of the Department's own valuation of the property at issue. However, especially in complex cases, there can be significant uncertainty at this point over how much the acquisition will ultimately settle for, and therefore on the best estimate of economic outflow required as the basis of provision measurement. Management base valuations on the assessment for the holding in the most recent Property Cost Estimate for this phase of the HS2 route, or – where available – a more detailed surveyors' estimate. I assessed an audit risk resulting from the measurement uncertainty for both provisions (note 23) and the related asset under construction (note 5.3). At 31 March 2021, the Department valued HS2 Land and Property provisions at £940m (31 March 2020: £1,041m).

The Department also acquires HS2 land and property through other routes including discretionary schemes which give rise to inventory (note 16) measured at the lower of cost and net realisable value. The Department valued this inventory at 31 March 2021 at £650m. While I covered these items in the course of my audit, they are outside the scope of this key audit matter because of the reduced estimation uncertainty arising from their measurement basis, and the fact that they relate to completed transactions rather than live negotiations with counterparties.

How the scope of my audit responded to the risk

My procedures included:

- testing of the reconciliations between operational acquisition records and financial records;
- detailed review of valuation evidence for a sample of compulsory purchase orders where final settlement had not been reached;
- use of an auditor's expert to assess a sub-sample of detailed valuation reports, as well as to support continued reliance on the most recent Property Cost Estimate, which my expert assessed for the first time in 2019;
- a 'back testing' review, comparing the results of detailed valuations to the assessment made in the previous Property Cost Estimate;
- detailed inquiry in respect of the progress of high value cases; and
- a consideration of the impact of the market volatility resulting from the COVID-19 pandemic.

Key observations

The results of my testing in this area were satisfactory.

Application of materiality

Materiality

I applied the concept of materiality in both planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. A matter is material if its omission or misstatement would, in the judgement of the auditor, reasonably influence the decisions of users of the financial statements.

In addition to group and parent materiality, I used a lower materiality threshold at group level to guide the extent of my testing. This is based on my assessment that as well as having an interest in the valuations of infrastructure assets which dominate the accounts in value terms and inform my overall group materiality, financial statements users have an additional interest in the aspects of the Departmental group's accounts which reflect taxpayer-backed financial activity. I apply this additional materiality to substantially all of my testing outside my work on the valuation of the infrastructure asset, including applying it to the testing of capital additions on the infrastructure networks.

Based on my professional judgement, I determined overall materiality for the Department's financial statements as a whole as follows:

	Group materiality	Additional group materiality	Parent materiality
Overall materiality	£4,700m	£278m	£240m
How I determined it	Approximately 1% of net book value of the infrastructure assets (note 5)	Approximately 0.75% of group gross expenditure excluding depreciation and impairment, and including capital additions	0.75% of gross expenditure
Why I chose this benchmark	The infrastructure assets are the largest item in the Departmental group Statement of Financial Position. Significant economic activity relies on the road and rail networks, and there is significant user interest in the extent and condition of those networks.	To reflect the sensitivity of financial statements users to transactions and balances reflecting taxpayer-backed financial activity. Capital additions are included since these reflect cash spending, and depreciation is excluded to avoid double-counting.	Aside from intra-Departmental loan balances, expenditure is the most significant financial statements element for the parent and a fair proxy for user sensitivity given DfT's role as a spending Department.

My overall materiality percentage has decreased to reflect the balance between pandemic-driven increase in expenditure and the precision required by users of the account.

Performance Materiality

I set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 75% of Additional Group materiality for the 2020-2021 audit (2019-20: 75%). In determining performance materiality, we have also considered the uncorrected misstatements identified in the previous period.

Other Materiality Considerations

As well as quantitative materiality there are certain matters that, by their very nature, would if not corrected influence the decisions of users, for example, any errors reported in the Accountability Report. Assessment of such matters would need to have regard to the nature of the misstatement and the applicable legal and reporting framework, as well as the size of the misstatement.

I applied the same concept of materiality to my audit of regularity. In planning and performing audit work in support of my opinion on regularity and evaluating the impact of any irregular transactions, I took into account both quantitative and qualitative aspects that I consider would reasonably influence the decisions of users of the financial statements.

Error Reporting Threshold

I agreed with the Group Audit and Risk Assurance Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £300,000, as well as differences below this threshold that in my view warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Total unadjusted audit differences reported to the Audit Committee have decreased net assets by £288m.

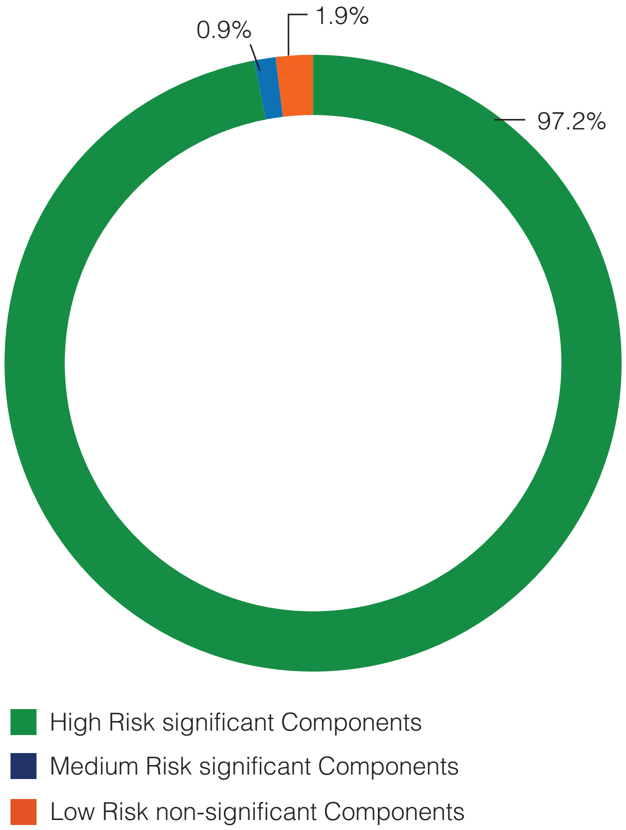
Audit scope

The scope of my Group audit was determined by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

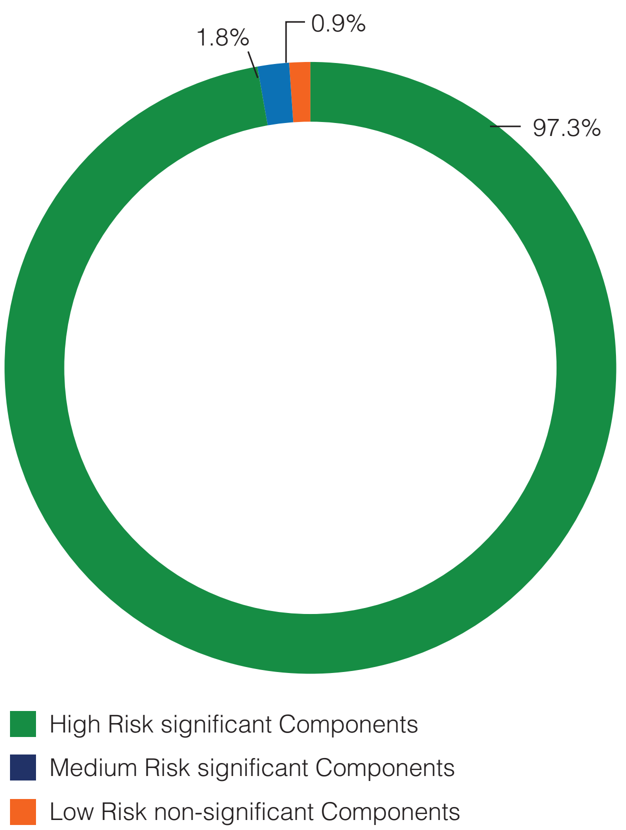
The Department for Transport Group has total assets of £498bn. The group's largest components are the Network Rail Limited group (excluding Network Rail Insurance Limited which in accordance with the FReM is not consolidated) and Highways England Company Limited. These components hold the two key infrastructure assets.

I have audited the full financial information of the Core Department, as well as the group consolidation. The audits of all significant components, which are overseen by the same engagement director, were complete at the time of my completion of the group audit. As group auditor, I have gained assurance from the auditors of the significant and material components and engaged regularly on the group significant risks such as valuation of the infrastructure assets and the pension schemes.

I covered 97.2% of the group's gross expenditure and 97.3% of the groups' gross assets through audit work on significant components, with the remainder covered by analytical procedures performed on non-significant components. For most of these non-significant components, audit of the financial information was complete or well progressed at the point of my analytical procedures. Together with audit work on consolidation adjustments, for example on the transformation of the rail network valuation from the separate basis used in Network Rail's statutory accounts, this work gave me the evidence I needed for my opinion on the group financial statements as a whole.



Gross expenditure



Gross assets

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 certificate thereon. The Accounting Officer is responsible for the other information. My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my certificate, 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 I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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, based on the work undertaken in the course of the audit:

- 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; 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

In the light of the knowledge and understanding of the Department for Transport Group and its environment obtained in the course of the audit, I have not identified material misstatements in the performance and Accountability report. 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
- certain disclosures of remuneration specified by HM Treasury's Government Financial Reporting Manual are not made; 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.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for:

- the preparation of the financial statements in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;

- internal controls as the Accounting Officer determines is necessary to enable the preparation of the financial statements to be free from material misstatement, whether due to fraud or error.
- assessing the Department for Transport Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer anticipates that the services provided by the Department for Transport Group will not continue to be provided in the future.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. 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.

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud. My procedures included the following:

- Inquiring of management, the Department for Transport Group's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the Department for Transport Group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Department for Transport Group's controls relating to the Government Resources and Accounts Act 2000; Supply and Appropriation (Anticipation and Adjustments) Act 2021 and; Managing Public Money.
- discussing among the engagement team including significant component audit teams and involving relevant internal and external specialists, including actuaries and land valuation experts regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: revenue recognition; posting of unusual journals, and bias in management estimates.
- obtaining an understanding of Department for Transport and group's framework of authority as well as other legal and regulatory frameworks that the Department for Transport and Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Department for Transport and Group. The key laws and regulations I considered in this context included the Government Resources and Accounts Act 2000, Supply and Appropriation (Anticipation and Adjustments) Act 2021, Managing Public Money, Transport legislation, Health & Safety legislation, and relevant employment law and taxation legislation.

- specific risk assessments performed in respect of significant risks relating to non-compliance with laws and regulations and fraud, including: risk-based sampling of manual journals to identify those presenting higher risk of fraud, informed by planning risk assessment and review of the Statement of Outturn Against Parliamentary Supply; reviewing the Department's approach to material estimates presented within the accounts including the assumptions used in pension scheme liability valuation, valuation of infrastructure assets and HS2 land and property; and
- obtaining an understanding of how the COVID-19 pandemic affected the Department's control environment and identifying where measures taken in response may have resulted in an increased risk of fraud in expenditure.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Board;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business;
- reviewing the processes, verifying the data used and the appropriateness of the assumptions and judgements applied for material estimates presented within the accounts. This covered the pension scheme liability valuation, valuation of infrastructure assets and HS2 land and property.
- to address non-compliance with Managing Public Money where relevant to my audit of the financial statements, and of the parts of the Accountability Report that are described in that report as having been audited. I confirmed that relevant approvals required under Managing Public Money have been obtained by management and that the disclosures required by Managing Public Money are complete and have been appropriately included within the financial statements; and
- confirming that the department has complied with the parliamentary control totals set out in the Supply and Appropriation (Anticipation and Adjustments) Act 2021 by confirming that outturn is within the limits approved by Parliament, that the allocation of amounts to those parliamentary control categories is appropriate and that management have not vired amounts inappropriately between control totals approved by Parliament. I performed work to confirm that journals which move amounts in favourable directions, from a parliamentary control total perspective, were appropriate and did not indicate fraud through management override of controls. I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal and external specialists and significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Outturn against 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.

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.

Report

I have no observations to make on these financial statements.

Gareth Davies
10 September 2021

Comptroller and Auditor General

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

Financial Statements

Group Statement of Comprehensive Net Expenditure

for the year ended 31 March 2021

This Statement summarises the expenditure and income generated and consumed on an accruals basis. It also includes other comprehensive income and expenditure, which include changes to the values of non-current assets and other financial instruments that cannot yet be recognised as income or expenditure.

		2020–21		2019–20 (re-stated)	
	Note	**Core Department & Agencies** £m	**Departmental Group** £m	Core Department & Agencies £m	Departmental Group £m
Income from sale of goods and services	4	(115)	(3,065)	(165)	(2,974)
Other operating income	4	(1,358)	(2,582)	(2,323)	(3,658)
Total Operating Income		**(1,473)**	**(5,647)**	(2,488)	(6,632)
Staff costs	3.1	515	2,667	469	2,500
Purchase of goods and services	3.2	9,601	13,624	2,549	6,270
Grants	3.3	24,269	8,844	19,227	4,049
Depreciation and impairment charges	3.4	180	7,190	187	7,240
Provision expense	3.5	(41)	16	(51)	531
Other operating expenditure	3.6	81	476	65	597
Total Operating Expenditure		**34,605**	**32,817**	22,446	21,187
Net Operating Expenditure		**33,132**	**27,170**	19,958	14,555
Share of (profit)/loss of associate	4, 15	56	56	(30)	(30)
Finance income	4	(695)	(58)	(733)	(53)
Finance expense	3.7	252	1,093	346	1,434
Net expenditure		**32,745**	**28,261**	19,541	15,906
Other Comprehensive Net Expenditure					
Items that will not be reclassified to net operating costs:					
First-time adoption of IFRS 16		–	–	(5)	(2)
Net (gain)/loss on revaluation of property, plant & equipment	5	114	(8,533)	(249)	(7,463)
Net (gain)/loss on revaluation of intangibles		–	20	–	1
Share of associate's other comprehensive net (income)/expenditure	15	(15)	(15)	43	43

		2020–21		2019–20 (re-stated)	
	Note	**Core Department & Agencies** £m	**Departmental Group** £m	Core Department & Agencies £m	Departmental Group £m
Actuarial (gain)/loss on pension schemes	25	(205)	820	(117)	(1,134)
Impairments through Revaluation Reserve	6	–	–	–	4
Deferred tax movement	22	–	(462)	–	181
Reversionary interest on M6 toll road	SoCTE	(18)	(18)	(21)	(21)
Items that will or may subsequently be reclassified to net operating costs:					
Financial assets – net change in fair values	SoCTE	(54)	(48)	(53)	(79)
Cash flow hedge – effective portion of fair value change	SoCTE	–	(3)	–	(5)
Total comprehensive net expenditure		**32,567**	**20,022**	19,139	7,431

The Notes on pages 211 to 317 form part of these financial statements.

Note 1.27 describes why the 2019-20 values have been re-stated and the impact of the change.

Group Statement of Financial Position

as at 31 March 2021

This statement presents the financial position of the Department. It comprises three main components: assets owned or controlled; liabilities owed to other bodies; and equity, the remaining value of the Department.

		2020–21		2019–20 (re-stated)	
	Note	**Core Department & Agencies** £m	**Departmental Group** £m	Core Department & Agencies £m	Departmental Group £m
Property, plant and equipment	5	9,680	488,256	9,538	474,095
Investment properties	8	–	213	–	227
Right of use assets	7	303	811	365	930
Intangible assets	6	64	188	58	208
Loans	11	32,595	2,172	30,964	1,541
Investment in equities	12	559	812	503	763
Public dividend capital	13	–	–	33	33
Derivatives	14	–	191	–	474
Investment in associates	15	297	297	338	338
Trade and other receivables	17	289	40	433	32
Inventories	16	655	655	596	596
Total non-current assets		**44,442**	**493,635**	42,828	479,237
Assets held for sale	9	–	130	–	36
Inventories	16	–	331	–	315
Derivatives	14	–	196	–	10
Trade and other receivables	17	1,549	2,974	338	1,953
Cash and cash equivalents	18	418	933	531	872
Total current assets		**1,967**	**4,564**	869	3,186
Total Assets		**46,409**	**498,199**	43,697	482,423
Trade and other payables	19	(2,259)	(5,999)	(2,009)	(5,295)
Borrowings	20	(99)	(679)	(172)	(1,297)
Derivatives	14	–	(85)	–	(48)
Provisions	23	(526)	(898)	(577)	(864)
Total current liabilities		**(2,884)**	**(7,661)**	(2,758)	(7,504)
Total Assets less net current liabilities		**43,525**	**490,538**	40,939	474,919
Provisions	23	(667)	(912)	(777)	(941)
Other payables	19	(1,087)	(2,480)	(1,162)	(2,840)
Borrowings	20	(4,200)	(28,510)	(4,258)	(28,857)
Financial guarantee contracts	21	(3,736)	–	(3,938)	–
Derivatives	14	–	(566)	–	(847)
Deferred tax liabilities	22	–	(3,350)	–	(3,580)
Total non-current liabilities		**(9,690)**	**(35,818)**	(10,135)	(37,065)

		2020–21		2019–20 (re-stated)	
	Note	**Core Department & Agencies** £m	**Departmental Group** £m	Core Department & Agencies £m	Departmental Group £m
Assets less liabilities excl pension liabilities		**33,835**	**454,720**	30,804	437,854
Pension liability	25	(1,242)	(5,180)	(1,416)	(4,066)
Assets less liabilities		**32,593**	**449,540**	29,388	433,788
Taxpayers' equity and other reserves:					
General fund		(29,560)	(89,477)	(26,294)	(82,385)
Revaluation reserve		(2,491)	(359,153)	(2,606)	(350,544)
Hedging reserve		–	–	–	3
Financial assets at fair value through OCI reserve		(542)	(910)	(488)	(862)
Total equity and other reserves		**(32,593)**	**(449,540)**	(29,388)	(433,788)

The Notes on pages 211 to 317 form part of these financial statements.

Note 1.27 describes why the 31 March 2020 values have been re-stated and the impact of the change.

Bernadette Kelly CB 7 September 2021
Permanent Secretary and Principal Accounting Officer

Department for Transport
Great Minster House
33 Horseferry Road
London
SW1P 4DR

11059-DfT-Annual Report 2020-21-P1.indb 204 12/09/2021 09:49

Group Statement of Cash Flows

for the year ended 31 March 2021

The Statement of Cash Flows shows the changes in cash and cash equivalents of the Department during the reporting period. The statement shows how the Department generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of service costs and the extent to which these operations are funded by way of income from the recipients of services provided by the Department. Investing activities represent the extent to which cash inflows and outflows have been made for resources which are intended to contribute to the Department's future public service delivery.

			2020–21		2019–20 (re-stated)
	Note	**Core Department & Agencies £m**	**Departmental Group £m**	Core Department & Agencies £m	Departmental Group £m
Cash flows from operating activities					
Net expenditure for year		(32,745)	(28,261)	(19,541)	(15,906)
Adjustments for non-cash transacitons	3, 4	(25)	7,854	(29)	8,780
(Increase)/decrease in inventories, before impairment	16	(69)	(85)	(72)	(110)
(Increase)/decrease in trade and other receivables	17	(1,067)	(1,028)	330	56
less movements in receivables relating to items not passing through the Statement of Comprehensive Net Expenditure		1	(25)	21	5
Increase/(decrease) in trade and other payables and borrowings	19, 20	111	(520)	583	(52)
less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure		(96)	(308)	(257)	(106)
Use of provisions	23	(279)	(385)	(369)	(1,039)
Adjustment for capital and interest element of PFI payments		3	84	3	84
Net cash outflow from operating activities		**(34,166)**	**(22,674)**	(19,331)	(8,288)
Cash flows from investing activities					
Purchase of property, plant and equipment – additions	5	(372)	(12,771)	(340)	(10,915)
Purchase of property, plant and equipment – non-cash additions		18	18	21	20
Adjustments for movement in capital accruals relating to additions		3	26	1	(676)
Purchase of intangible assets – cash additions	6	(11)	(16)	(22)	(34)

11059-DfT-Annual Report 2020-21-P1.indb 205 12/09/2021 09:49

		2020–21		2019–20 (re-stated)	
	Note	Core Department & Agencies £m	Departmental Group £m	Core Department & Agencies £m	Departmental Group £m
Proceeds of disposal of assets and assets held for sale	9	1	36	6	546
Purchase of Other Investments		(1)	(1)	(1)	(1)
Purchase of Investment Properties	8	–	(6)	–	–
Proceeds on disposal of investments and Public Dividend Capital		32	44	–	8
Capital element of lands provision		159	400	331	463
Loans to other bodies	11	(11,562)	(722)	(12,618)	(1,061)
Repayments from other bodies	11	9,931	90	12,049	20
Net cash outflow from investing activities		**(1,802)**	**(12,902)**	(573)	(11,630)
Cash flows from financing activities					
From the Consolidated Fund (Supply) – current year		36,144	36,144	20,487	20,487
Advances from the Contingencies Fund		16,808	16,808	3,600	3,600
Repayments to the Contingencies Fund		(16,808)	(16,808)	(3,600)	(3,600)
Repayments of principal on leases		(62)	(199)	(48)	(173)
Capital element of payments in respect of on-balance sheet PFI contracts		(3)	(84)	(3)	(84)
Net financing		**36,079**	**35,861**	20,436	20,230
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**111**	**285**	532	312
Payments of amounts due to the Consolidated Fund		(224)	(224)	(214)	(214)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		**(113)**	**61**	318	98
Cash and cash equivalents at the beginning of the period		**531**	**872**	213	774
Cash and cash equivalents at the end of the period		**418**	**933**	531	872

The Notes on pages 211 to 317 form part of these financial statements.

Note 1.27 describes why the 2019-20 values have been re-stated and the impact of the change.

The net cash outflow from operating activities for 2020-21 includes £1,077m repayments of principal on borrowings (2019-20: £74m). A fuller analysis of changes in borrowings is given at the end of Note 20.

Group Statement of Changes in Taxpayers' Equity

as at 31 March 2021

	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 2019		(77,112)	(343,360)	8	(783)	(421,247)
First-time adoption of IFRS 16		(2)	–	–	–	(2)
Net (gain)/loss on revaluation of property, plant and equipment	5	–	(7,463)	–	–	(7,463)
Net (gain)/loss on revaluation of intangible assets	6	–	1	–	–	1
Change in fair value of derivatives	14	–	–	(5)	–	(5)
Net (gain)/loss on revaluation of investments	12	–	–	–	(79)	(79)
Non-cash charges – auditor's remuneration	3.2	(1)	–	–	–	(1)
Transfers between reserves		(254)	254	–	–	–
Net expenditure for the year		15,906	–	–	–	15,906
Reversionary interest on M6 toll road		(21)	–	–	–	(21)
Deferred tax movements	22	160	21	–	–	181
Actuarial (gain)/loss recognised in pension scheme	25	(1,134)	–	–	–	(1,134)
Impairments through Revaluation Reserve		–	4	–	–	4
Share of non-operating (income)/ expenditure of associate	15	43	–	–	–	43
Other movements		(16)	(1)	–	–	(17)
Balance as adjusted by income and expense for 2019-20		(62,431)	(350,544)	3	(862)	(413,834)
Net Parliamentary Funding – drawn down		(20,487)	–	–	–	(20,487)
Net Parliamentary Funding – deemed		(186)	–	–	–	(186)
Advances from the Contingencies Fund		(3,600)				(3,600)
Advances repayable to the Contingencies Fund		3,600				3,600
Supply (payable)/receivable adjustment		503	–	–	–	503
CFERs payable to the Consolidated Fund		216	–	–	–	216
Balance at 31 March 2020		(82,385)	(350,544)	3	(862)	(433,788)

	Note	General Fund £m	Revaluation Reserve £m	Hedging Reserve £m	Financial assets at fair value through OCI reserve £m	Total Reserves £m
Balance at 1 April 2020		(82,385)	(350,544)	3	(862)	(433,788)
Net (gain)/loss on revaluation of property, plant and equipment	5	–	(8,533)	–	–	(8,533)
Net (gain)/loss on revaluation of intangible assets	6	–	20	–	–	20
Change in fair value of derivatives	14	–	–	(3)	–	(3)
Net (gain)/loss on revaluation of investments	12	–	–	–	(48)	(48)
Non-cash charges – auditor's remuneration	3.2	(1)	–	–	–	(1)
Transfers between reserves		(248)	248	–	–	–
Net expenditure for the year		28,261	–	–	–	28,261
Reversionary interest on M6 toll road		(18)	–	–	–	(18)
Deferred tax movements	22	(118)	(344)	–	–	(462)
Actuarial (gain)/loss recognised in pension scheme	25	820	–	–	–	820
Share of non-operating (income)/ expenditure of associate	15	(15)	–	–	–	(15)
Other movements		(2)	–	–	–	(2)
Balance as adjusted by income and expense for 2020-21		**(53,706)**	**(359,153)**	**–**	**(910)**	**(413,769)**
Net Parliamentary Funding – drawn down		(36,144)	–	–	–	(36,144)
Net Parliamentary Funding – deemed		(503)	–	–	–	(503)
Advances from the Contingencies Fund		(16,808)	–	–	–	(16,808)
Advances repayable to the Contingencies Fund		16,808	–	–	–	16,808
Supply payable adjustment		418	–	–	–	418
CFERs payable to the Consolidated Fund		458	–	–	–	458
Balance at 31 March 2021		**(89,477)**	**(359,153)**	**–**	**(910)**	**(449,540)**

The Notes on pages 211 to 317 form part of these financial statements.

Note 1.27 describes why the 2019-20 values have been re-stated and the impact of the change.

11059-DfT-Annual Report 2020-21-P1.indb 208 12/09/2021 09:49

Statement of Changes in Taxpayers' Equity

Core Department and Agencies
as at 31 March 2021

	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 2019		(25,777)	(2,358)	–	(435)	(28,570)
First-time adoption of IFRS 16		(5)	–	–	–	(5)
Net (gain)/loss on revaluation of property, plant and equipment	5	–	(249)	–	–	(249)
Net (gain)/loss on revaluation of investments	12	–	–	–	(53)	(53)
Non-cash charges – auditor's remuneration	3	(1)	–	–	–	(1)
Transfers between reserves for excess depreciation		(1)	1	–	–	–
Net expenditure for the year		19,541	–	–	–	19,541
Reversionary interest on M6 toll road		(21)	–	–	–	(21)
Actuarial (gain)/loss recognised in pension scheme	25	(117)	–	–	–	(117)
Share of non-operating (income)/ expenditure of associate	15	43	–	–	–	43
Other movements		(2)	–	–	–	(2)
Balance as adjusted by income and expense for 2019-20		(6,340)	(2,606)	–	(488)	(9,434)
Net Parliamentary Funding – drawn down		(20,487)	–	–	–	(20,487)
Net Parliamentary Funding – deemed		(186)	–	–	–	(186)
Advances from the Contingencies Fund		(3,600)	–	–	–	(3,600)
Advances repayable to the Contingencies Fund		3,600	–	–	–	3,600
Supply payable/(receivable) adjustment		503	–	–	–	503
CFERs payable to the Consolidated Fund		216	–	–	–	216
Balance at 31 March 2020 (re-stated)		(26,294)	(2,606)	–	(488)	(29,388)
Balance at 1 April 2020		(26,294)	(2,606)	–	(488)	(29,388)
Net (gain)/loss on revaluation of property, plant and equipment	5	–	114	–	–	114
Net (gain)/loss on revaluation of investments	12	–	–	–	(54)	(54)
Non-cash charges – auditor's remuneration	3.2	(1)	–	–	–	(1)
Transfers between reserves		(1)	1	–	–	–
Net expenditure for the year		32,745	–	–	–	32,745

	Note	General Fund £m	Revaluation Reserve £m	Hedging Reserve £m	Financial assets at fair value through OCI reserve £m	Total Reserves £m
Reversionary interest on M6 toll road		(18)	–	–	–	(18)
Actuarial (gain)/loss recognised in pension scheme	25	(205)	–	–	–	(205)
Share of other comprehensive net (income)/expenditure of associate	15	(15)	–	–	–	(15)
Balance as adjusted by income and expense for 2020-21		**6,211**	**(2,491)**	**–**	**(542)**	**3,178**
Net Parliamentary Funding – drawn down		(36,144)	–	–	–	(36,144)
Net Parliamentary Funding – deemed		(503)	–	–	–	(503)
Advances from the Contingencies Fund		(16,808)	–	–	–	(16,808)
Advances repayable to the Contingencies Fund		16,808	–	–	–	16,808
Supply payable/(receivable) adjustment		418	–	–	–	418
CFERs payable to the Consolidated Fund		458	–	–	–	458
Balance at 31 March 2021		**(29,560)**	**(2,491)**	**–**	**(542)**	**(32,593)**

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 gains and losses on financial assets held at fair value through OCI respectively.

There are no Charitable Fund reserves in the Group.

The Notes on pages 211 to 317 form part of these financial statements.

Note 1.27 describes why the 2019-20 values have been re-stated and the impact of the change.

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 in Note 1.

1. Statement of significant accounting policies

This Note sets out the accounting policies determining the recognition and valuation of material assets, liabilities, income and expenditure. Disclosures of critical judgements, accounting estimates and sources of estimation uncertainty are presented within each accounting policy note.

As the Statement of Financial Position and Note 5 indicate, the Departmental Group's most material assets are the Strategic Road Network and the Railway Network. The related depreciation and maintenance costs, disclosed in Note 4, are also material. These assets are both specialised and complex, so their valuation requires significant use of judgement and estimation. Estimation uncertainties may therefore cause material adjustments in future accounting periods to the assets' values and the amount of depreciation recognised. These issues are discussed further in Note 1.4 and in Note 5.

Other balances and transactions that are materially exposed to estimation uncertainties include: investments in equities; provisions; and defined benefit pension deficits (and the related actuarial gains and losses). These uncertainties are discussed in Note 1 (at 1.4.3, 1.4.4, 1.20.2 and 1.21.2) where their potential impact is significant; sensitivity analyses reflecting the bounds of estimation uncertainty are presented in the relevant Note (Notes 5 and 25).

1.1 Basis of preparation

These financial statements have been prepared in accordance with the 2020-21 Government Financial Reporting Manual (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. While the FReM defers adoption of IFRS 16 until 2022-23, it permitted departments to adopt it from 2019-20 if material group components prepare their own accounts in accordance with IFRS rather than the FReM. The Department took this option.

Where the FReM permits a choice of accounting policies, the Department has selected those judged most appropriate to give a true and fair view of the Group's circumstances. They have been applied consistently in dealing with items considered material to the financial statements.

In addition to the primary statements prepared under IFRS, the FReM requires a Statement of Outturn against Parliamentary Supply and supporting Notes, showing the outturn against Estimates for the net resource requirement and the net cash requirement. These are included within the Parliamentary Accountability section in this document.

The presentation and functional currency is pounds sterling.

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 non-current assets and financial instruments categories.

Valuation bases

Property, plant and equipment and intangible assets are revalued, to produce comparable and current values for assets and their components that have been accumulated over many decades or, sometimes, centuries, whose costs would be materially affected by inflation. Revaluation incentivises good asset management and enables the reader to assess the leadership team's performance against this objective.

Under IFRS 13, assets and liabilities are fair-valued using a market-based approach, an income approach or a cost approach, determined by which approach maximises the use of relevant observable inputs. The consequences are:

Assets held for their service potential are valued on an existing use basis. For specialised assets this necessitates the use of depreciated replacement cost ("DRC"). The most significant examples are the Strategic Road Network and the Railway Network, as discussed in Note 1.4. This valuation basis is a cost approach, representing the maximum amount that an acquirer would pay. It addresses the issue that specialised assets are rarely sold on an arm's length basis or acquired and held to generate income. This is consistent with the FReM and is applied by all government departments for inclusion in the Whole of Government Accounts. It reflects the basis on which public services are funded.

Certain balances and transactions are underpinned by surveyors' valuations of land and buildings, including the Department's significant land and buildings (Note 5), and part of its investment in LCR Ltd (Notes 12.2 and 27.1), and pension assets (Note 25). For the comparative period, surveyors reported that COVID-19 is a source of "material valuation uncertainty" as defined by the Royal Institute of Chartered Surveyors (RICS) Valuation – Global Standards, effective 31 January 2020. The following inference is made: that this does not mean that the valuations cannot be relied upon, but rather that less certainty should be attached to them. The Department does not consider the impact of uncertainty on the total value of these balances to be material. As at 31 March 2021, surveyors reported the valuations were not reported as being subject to "material valuation uncertainty", but included the following explanatory note for reasons of transparency: that COVID-19 and the measures taken to tackle it continued to affect economies and real estate markets globally. Nevertheless, as at the valuation date some property markets were deemed to have started to function again, with transaction volumes and other relevant evidence at levels where an adequate quantum of market evidence existed upon which to base opinions of value.

The Group evaluates the valuation inputs and outcomes 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 31 discloses valuations by their category in this hierarchy.

Going concern basis

The future financing of the Department's liabilities is met by Supply funding voted by Parliament and income, which are approved annually by the passing of the Supply and Appropriation (Main Estimates) Act. Parliament approved the Act for 2021-22 and it received Royal Assent in July 2021. The Department considers there is no reason to believe that future approvals will not be forthcoming. Hence, the going concern basis is considered appropriate.

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 falling within the Departmental boundary defined by Statutory Instrument 2020 No. 1530 made under the Government Resources & Accounts Act 2000 (together known as the "Departmental Group"). The Departmental boundary typically covers bodies classified to the central government sector by the Office for National Statistics ("ONS"), because the Department controls them and because they are not market bodies. Note 26 lists all the entities within the boundary, and separately lists entities that are sponsored by the Department but not consolidated, including public corporations and trading funds.

Public corporations are bodies that the ONS considers are controlled by the Department, but are market bodies. Consequently, they are not designated for consolidation. The Department has invested in some, but not all, of these bodies, for example, by purchasing equity shares or public dividend capital. These are accounted for using the policies described in Notes 1.12 and 1.13. The disclosures required by IFRS 12 for entities that are controlled but not consolidated are set out in Notes 27 and 28.

In 2020, ONS released classification decisions for various bodies in the transport sector:

- London North Eastern Railway Limited ("LNER") and Northern Trains Limited were confirmed to be public corporations, and their immediate parent, DfT OLR Holdings Ltd ("DOHL") was reclassified as a public corporation. Consequently, DOHL has been de-consolidated using the absorption method described below, with effect from 1 April 2019, as described in Note 1.27. The Department's shareholding in DOHL is accounted for as an equity investment.
- Train Fleet (2019) Limited ("Trainfleet") was classified to the central government sector. The company continues to be consolidated into these accounts.
- Twelve train operating companies were reclassified as public corporations, with effect from 1 April 2020. These companies held franchise agreements with the Department to deliver passenger rail services and subsequently entered Emergency Measures Agreements ("EMAs"). The reclassification decision assessed that the EMAs conferred sufficient additional powers on the Department to give it control over these companies for accounting purposes, even without any equity stake or other voting rights.
- ONS reclassified the Driver and Vehicle Standards Agency (DVSA) to the central government sector in October 2019. The DVSA was a trading fund and was previously classified as a public corporation. DVSA's trading status was revoked with effect from 1 April 2021. It will be added to the Designation Order from 1 April 2021 and will then be consolidated retrospectively in the 2021-22 financial statements.

Transfer by Absorption accounting is applied to all transfers of functions (and entities) with local government, with public corporations and within a departmental group. Consequently, the values of assets and liabilities are not adjusted to fair value, and there is no recognition of goodwill.

Where the accounting notes present two columns, the first contains amounts for the core Department and its Agencies and the second contains amounts for the Departmental Group (the Group). Accounting policies are harmonised across the Group and 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.

1.4 Property, plant and equipment

Property, plant and equipment is described and analysed in Note 5.

11059-DfT-Annual Report 2020-21-P1.indb 214 12/09/2021 09:49

1.4.1 Recognition

Assets are recognised initially at cost, comprising purchase price or construction cost and any costs directly attributable to bringing the assets into the location and condition necessary for them to be capable of operating in the manner intended by the Group.

For proposed infrastructure projects, costs are expensed until the project becomes reasonably certain to go ahead; thereafter, capitalisation commences. Further information is given in Notes 1.4.2 and 5.3, Assets Under Construction.

Land and property required to construct new infrastructure assets is acquired through several legal processes. It is recognised as an asset when the Group has an obligation to purchase it. The timing depends on the process used and context of the relevant scheme, as described in note 1.21.2.

Construction costs include consideration for access to adjacent land when it is required for construction. Access is typically obtained through Temporary Possession; which entitles the landowner to compensation for any losses suffered.

During construction, land and properties on the route of the infrastructure are recognised as part of an asset under construction. Those outside this boundary, or acquired under discretionary purchase schemes, or subject to Statutory Blight in Phase 2B are classified as inventory.

On recognition, the balancing liability is recognised as a provision, where the timing or amount of the payment is subject to material uncertainty, or as an accrual. Liabilities relating to capital expenditure occasionally persist for some time, for example, where there are legal disputes over the amount of compensation due to the former owners after a compulsory purchase.

1.4.2 Classification

The Group categorises property, plant and equipment into Infrastructure Assets, Assets Under Construction, Land and Buildings, and Other Assets. Brief descriptions are given below, with fuller disclosures in Note 5.

Infrastructure Assets (including renewal and enhancement works in progress)

This category comprises the Railway Network, the Strategic Road Network and the HS1 concession. They are Networked Assets, which are integrated networks serving a significant geographical area. They display some or all the following characteristics:

- They are specialised in nature with no alternative uses;
- They are immovable; and
- They may be subject to constraints on disposal.

Given the integrated nature of these assets, renewal and enhancement works in progress on the Strategic Road Network and the Railway Network are recorded against the Strategic Road Network Asset and the Railway Network Asset respectively from the works' commencement. The reversionary interest in the M6 Toll is also presented under the heading of the Strategic Road Network.

The Strategic Road Network (SRN) comprises England's motorways and all-purpose trunk roads. It consists of: 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 comprises the infrastructure supporting the operation of Great Britain's national rail system. It consists of: track; earthworks; signalling; power; plant; telecommunications; bridges; fencing; coastal defences; stations and operational property and land. It includes only those assets controlled by Network Rail. Other railways, including the Core Valley Lines, London

Underground and other regional systems, and heritage lines are recorded 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 5.1 – 5.3.

Assets under Construction

This category represents discrete items or projects, outside the footprint of the networked infrastructure assets. The most significant item comprises preparatory work for construction of HS2.

Land and Buildings

This includes properties outside the networks' perimeters and lighthouses recognised by the General Lighthouse Authorities.

Other Assets

This includes Plant and Machinery; Fixtures and Fittings; and IT Hardware.

1.4.3 Valuation

The valuation approach used for specific assets depends on their function and materiality.

Infrastructure assets – Networked assets (including renewals and enhancements)

The Group's main networked assets (the Strategic Road Network and the Railway Network, but not HS1) are valued at DRC, which aims to reflect the cost in today's money of constructing a new network that could deliver the same service capacity as the existing asset. This involves three significant sets of judgements:

1. the type of asset that would be constructed;
2. the cost of constructing that asset; and
3. the service capacity of the existing asset.

The DRC is calculated by determining a gross replacement cost for the network (reflecting the first two sets of judgements) which is then adjusted (or "depreciated") to reflect the network's condition and capacity (reflecting the third set of judgements), as described below. The gross replacement cost is determined according to RICS guidelines. These guidelines require certain assumptions, including: a modern equivalent asset, which the Group considers to be a network identical in function, scale and connectivity, but constructed using modern specifications and methods; and instantaneous build on a greenfield site. The adjustment to DRC reflects management's best estimate of the network's condition and capacity. A full valuation is commissioned every five years at least; in interim years, this is updated by using input indices selected specifically for each network and described in the relevant section to adjust a standard price list of network components.

Renewals and enhancements are recognised initially at cost. However, to comply with DRC valuation assumptions, the difference between the cost and DRC of works in progress is reflected in the valuation of the relevant network at each year-end. This typically produces a downwards revaluation, due to DRC costing assumptions and the inherent challenge of adding value to a complex, integrated live asset; i.e. it is more expensive to upgrade infrastructure whilst maintaining normal service levels than to close routes temporarily or build from scratch on a green-field site. The reduction is recognised in Other Comprehensive Net Expenditure to the extent that a revaluation surplus is available and is presented as "Adjustment of renewal and enhancement works in progress to DRC" in Note 5.

The Railway Network (including renewal and enhancement works in progress)

Differences in accounting framework relating to the Railway Network

Network Rail's own financial statements hold the Railway Network at fair value using an income approach, which differs significantly from the DRC of the Railway Network included here. The differing treatments are considered reasonable because the nature of Network Rail's interest in the Railway Network varies from that of the Group's interest, for the following reasons.

Network Rail uses an income approach because it is a regulated entity that prepares financial statements under un-adapted IFRS, in accordance with the Companies Act. ORR sets Network Rail's income levels calculated as a return on a valuation of the infrastructure known as the Regulatory Asset Base ("RAB"), which is derived from the initial market capitalisation of Railtrack (Network Rail's predecessor) plus subsequent qualifying capital expenditure. RAB-based income setting is widely used in regulated industries and has been applied to the Railway Network since privatisation. Network Rail has elected to measure the Railway Network on a revaluation basis, so must determine the Network's fair value in accordance with IFRS 13. The income approach is considered most appropriate because it reflects the position of any entity holding a railway network licence. It reflects the discounted future cash flows that the rail network is expected to generate, including an assessment of under- and outperformance against the current 5-year regulatory determination. Regulated income comprises track access payments from train operating companies under the network licence, and grants from the Group and Transport Scotland. There is insufficient observable data for a market approach, and a replacement cost approach would produce a higher valuation.

The higher DRC valuation includes the cost of significant elements funded before the RAB was introduced and not wholly reflected in Railtrack's initial market capitalisation, such as earthworks, long-life structures, and operational land. Together, they comprise much of the DRC and are essential to the operation of the railway network. This cost approach therefore measures the significant economic benefits of the entire network to Great Britain, which exceed the monetary returns accruing under the railway network licence.

Defining the modern equivalent asset for the Railway Network

A modern equivalent asset – a network identical in function, scale and connectivity to the actual network – is deemed to contain the same quantity of track and termini as the actual network. It is also assumed to use standardised assets, systems and technologies wherever possible. Alternative designs are assumed only where standardisation is deemed impossible, following review by a qualified engineer. These standardised assets, systems and technologies constitute repeatable components, or "building blocks", which are aggregated to form the network. Finally, the modern equivalent network reflects technological advances only where they represent value for money. For example, electrification is assumed only where the benefits would exceed the costs under current economic conditions. In practice, it is assumed only for lines that are already or are currently being electrified. This is reflected by defining categories for different technologies then allocating the modern equivalent network's components into those categories.

Costing the modern equivalent asset for the Railway Network

Costings are taken from various sources, involving estimation. The sources include: final costs of recent projects; contractors' Framework Rates; Project Cost plans; first-principle estimation techniques; and actual costs from other UK contracts. Indirect construction costs come from appropriate benchmarking studies; ORR has reviewed and endorsed the principles and ranges. 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 were comprehensively reviewed by professional experts and will form the baseline cost data, adjusted for changes in inflation indices such as the Retail Price Index until the next full valuation exercise.

Estimates are adjusted to reflect a risk allowance consistent with project maturity and contingencies for costs that vary between projects. The risk allowance assumes a high initial understanding of the project scope. In some cases, a modern equivalent component costs no more than the actual component.

Accounting estimates in the valuation of the Railway Network

Land compensation

The land valuation includes an assessment of land purchase compensation costs. As Network Rail rarely purchases large parcels of land, this estimate of -69% is based on Highways England's experience.

Green-field assumption

Finding comparative costs for constructions on green-field sites may be difficult, so it is sometimes necessary to start with a comparative cost for construction in a live operational environment, which is more expensive, and reduce it to a greenfield cost by an estimate of 32%. The basis for selecting this estimated reduction is given in Note 5.2.

Cost risk factor

After allowing for known construction costs, there remain 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. The basis for selecting this risk factor is given in Note 5.2.

Sensitivity to estimation uncertainty in the valuation of the Railway Network

These accounting estimates are subject to material estimation uncertainty. The following boundaries indicate the range of reasonably possible outcomes and are used in the Sensitivity Analysis in Note 5.1 to indicate the potential impact of the given level of uncertainty:

Accounting estimate	Boundary (+/-)	Comment
Land compensation adjustment (normally -69%)	10%	Maximum and minimum compensation adjustments of -79% and -59%
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 (including renewal and enhancement works in progress)

Defining the modern equivalent asset for the Strategic Road Network

Judgement is required to adjust the gross replacement cost of a modern equivalent road network that includes some use of "smart" technologies, to DRC. This is done by categorisation: the road pavement's composition is a standardised design; a "smart" motorway is categorised as a standard pavement, supplemented by traffic management systems, which are categorised as separate components.

Costing the modern equivalent asset for the Strategic Road Network

The Group considers that the best costing approach is to use rates derived from actual construction costs, for schemes completed recently. At each full revaluation, costing rates are derived for specific asset types, for example, bridges classified by width and length according to their function. Using this data requires judgements on its relevance and contemporaneity, considering the type of scheme, its location, and the amount of time subsequently elapsed. If there is no recent data for a specific road type, it is produced by extrapolating data for other road types, based on known costing relationships.
For non-standard structures, actual costs are updated using professional judgement.

Full and interim valuations of the Strategic Road Network

During 2020-21, a quinquennial review of the valuation of special structures was performed, which produced a new approach to their valuation. Special structures are unique to the network, leading to difficulties in obtaining costing data. The new valuation approach replaces the use of costing rates from recent schemes with a bottom-up method which develops costing rates for each class of special structures. Further amendments may then be made to reflect an individual structure's complexities, based on professional judgement. The next quinquennial reviews, covering structures, technology and pavements and lands are due in March 2023, March 2024 and March 2025 respectively

Between revaluations, values are adjusted using indices. Several construction-related indices are applied to the costing rates for various elements of the SRN, both in full revaluation exercises to update actual scheme information to current cost and in interim valuations to revalue overall SRN components. The Group chooses the indices which, in its view, are most relevant to the components' replacement costs and to the extrapolation of data to produce an estimated standard cost valuation. These include regional land and building indices calculated by Highways England's engineering consultants, using the Royal Agricultural University rural land indices and the Land Registry Office House Price Survey urban land indices, and the Highways England Capital Enhancement Cost Index (HECI, which is produced biannually by RICS.

Sensitivity to estimation uncertainty in the valuation of the Strategic Road Network

These accounting estimates are subject to material estimation uncertainty. The following boundaries indicate the range of reasonably possible outcomes and are used in the sensitivity analysis in Note 5.2 to indicate the potential impact of the given level of uncertainty:

Accounting estimate	Boundary (+/-)	Comment
Costing rates	10%	Sensitivity to extrapolations is limited since recent actual costs are usually available for the most commonly used asset types, which represent a large proportion of the asset value.
HECI	10 points	The valuation is sensitive to other indices, but HECI is the most significant because it is used for roads and structures.

Infrastructure assets – HS1

The HS1 rail link infrastructure was originally constructed by HS1 Ltd(then a subsidiary of London and Continental Railways Limited) under a 99-year Private Finance Initiative concession. The Secretary of State acquired London and Continental Railways Ltd in June 2009 to restructure the business and renegotiate the concession. HS1 Ltd was sold to Borealis and the Ontario Teachers' Pension Plan in November 2010 and continues to operate the infrastructure. It is classified to the private sector by ONS.

Under the renegotiated concession, now ending in 2040, HS1 Ltd maintains the infrastructure and generates track access charges from domestic and international Train Operating Companies as determined by ORR with no further public subsidy. At the end of the concession, the infrastructure reverts to the Group, with the expectation that a further concession will then be granted.

The infrastructure is held to maximise returns to the Group, and so is valued on an income basis. The gross book value is the sum of:

- £1,686m for the current concession period, based on the impaired value-in-use of the asset, reported in London and Continental Railways Limited's financial statements as at 31 December 2009. This value reflects the net present value of future cash flows up to 2040. A corresponding liability was recognised in deferred income.

- £1,860m for the infrastructure's estimated remaining life (to 2086): reflecting the estimated present value of proceeds from subsequent concessions, based on the price paid by Borealis and the Ontario Teachers' Pension Plan for HS1 Ltd and the concession, which remains the best estimate of the income the Group will receive in 2040 and beyond.

This asset has not been revalued, as no subsequent changes have occurred that would increase the benefits that the Group can control. For the current concession period, while HS1 Ltd subsequently reversed part of the 2009 impairment, this reflected a reduction in the company's borrowing costs and therefore produces no benefits to the Group. For the remainder of the asset's life, the Department considers it premature to review the valuation, given the current state of engineering knowledge about the infrastructure, which is still relatively new.

The asset is depreciated on a straight-line basis over its remaining useful economic life, judged to be the length of the original concession ending in 2086.

Assets under Construction (other than carried as part of a network asset)

Assets under Construction are typically held at cost until completion. HS2 is held at cost until its future operating model becomes sufficiently clear to adopt an alternative basis. Some components of these costs represent best estimates pending the conclusion of commercial negotiations; the related liabilities are therefore recognised initially as provisions. The approach for testing assets under construction for impairment is described in Note 1.5.

Other assets, including Land and Buildings

Non-networked assets are held either at fair value or DRC through regular formal valuation or the application of indices and estimated asset lives. The approach used for specific assets depends on their function and value.

If the carrying value has increased, the gain is recognised in Other Comprehensive Net Expenditure and accumulated in equity in the Revaluation Reserve. If the net asset value has decreased, the causes of the decrease are analysed to determine whether it arises from a clear consumption of economic benefits, which 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. Decreases 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 in Net Operating Expenditure, then transferred from the General Fund to the Revaluation Reserve, within Taxpayers' Equity. Other decreases are recognised in Other Comprehensive Net Expenditure.

1.4.4 Depreciation

Assets or definable components with determinable useful economic lives are depreciated on a straight-line basis at rates calculated to write off their value over their expected useful economic lives. Freehold land is not depreciated. Note 5 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 or more (for some freehold structures), to three years (for some IT assets). Where material, lives are reviewed annually to reflect the latest engineering trends.

The calculation of depreciation for the Networked assets is described below.

The Railway Network: Determining the remaining lives and condition of asset components

Given the complexity of the Network's structures, the estimated remaining useful economic lives in the table below are typically 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	30
Operational property	34
Track	18
Telecoms	9
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 sometimes required, especially for components that are rarely replaced, such as structures and earthworks. Some 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 several methods, including physical inspection and data from electronic sensors. However, for some component types, the amount of available data is limited, thus requiring the use of judgement and estimation. This causes a degree of estimation uncertainty. The following boundaries are used in the Sensitivity Analysis in Note 5.1 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 5.1

The Strategic Road Network: Determining the remaining lives and conditions of significant asset components

The road pavement comprises a surface layer ('black top') and supporting sub-layers. Experience shows that if the surface layer remains in good condition, the sub-layers do not deteriorate.

The Strategic Road Network: Calculating the depreciation charge

The Group considers that depreciation of the SRN cannot be measured accurately using conventional methods. Instead, the method that best reflects the expected pattern of consumption of the resulting future economic benefits is firstly to expense the value of renewals performed during the year, and then adjust it to reflect changes in the asset's condition.

The depreciable element of roads has been calculated as 17.55% of the total value, based on the proportion of cost related to the elements regularly renewed, including the surface layer; drainage; road marking and studs; and rigid concrete roads. The remainder relates to elements (including sublayers) that have useful lives long enough, subject to regular renewal of the surface layer, that the depreciation charge and accumulated depreciation would be immaterial. The in-year depreciation charge is based on measurements of the deterioration of the wearable element of the road, reflecting four factors: rutting, texture, fretting and longitudinal profile metrics obtained from Traffic Speed Road Assessment Condition Surveys (TRACS) performed by WDM Limited and assured by TRL Limited. The actual condition of the road is compared to the carrying value of the road (after adjusting for renewals) and any movement is taken to depreciation as a charge or credit depending on whether the condition has deteriorated or improved.

The depreciable element of structures is calculated as 69.89% of the gross replacement cost, and includes the substructure and superstructures, rails, fences and surface preparation such as waterproofing. Firstly, the cost of renewals performed during the year is expensed, and then depreciation is applied to reflect changes in condition. Structures are depreciated via a depreciation factor, which is calculated based on the condition of each element of the structure using the Element

Condition Score (ECS) obtained from structure inspections. The ECS for each element is applied to a deterioration curve and averaged using a calculated replacement cost for that element. This results in a weighted average proportion of service life consumed which as applied to the asset's depreciable element.

Other components are depreciated over a useful economic life, determined using assumptions about the period during which they will provide service potential. As shown in Note 5.2, estimates are made of the Useful Economic Life of structures and technology equipment, based on historic trends and expert knowledge.

1.5 Impairment of non-current assets

The Group tests all non-current assets for impairment annually, including assets under construction. Their carrying value is compared with their recoverable amount. For specialised assets held to deliver a service to the public, this is deemed to be the cost of replacing the service capacity currently used. For other assets, it is the higher of the value in use and the fair value, less selling costs. Where appropriate, losses are charged to the relevant revaluation reserve; any subsequent reversal of the impairment would be credited either against operating expenditure or to the relevant revaluation reserve to the extent permitted for that type of asset.

In assessing the recoverable amount of the HS2 asset under construction the Group determines its fair value as permitted by IFRS 13 as the cost that the potential purchaser would consider itself to have avoided by purchasing the asset rather than building it for itself. Recognising that design work on major projects is by nature iterative, the Group judges that a potential purchaser would consider impairment indicators to include only significant changes in the planned location, nature or capability of major asset components.

1.6 Leases

1.6.1 Scope and classification

Government bodies typically lease properties used for administrative purposes, to maximise efficiency and flexibility. The Departmental Group also benefits from leases of land which it could not have purchased, under arrangements with peppercorn or no consideration. Other types of asset may be leased if the Departmental Group determines this represents value for money; this typically depends on whether the underlying asset is required for its entire life or a more limited period, and on the markets for specific asset types: a significant example is airframes, where there is an active leasing market.

The Group classifies as leases contracts, or parts of a contract that convey the right to use an asset in exchange for consideration. The FReM expands the scope of IFRS 16 to include arrangements with nil consideration. The Group also applies the standard to accommodation sharing arrangements with other government departments.

The Group identifies contracts or parts of contract that are leases in substance by evaluating its contracts for services to determine whether they convey the right to control the use of an identified asset, as represented by rights both to obtain substantially all the economic benefits from that asset and to direct its use. . Areas of particular focus include construction contracts using specialist equipment.

The Group excludes contracts for low-value items, defined as items costing less than £5,000 when new, provided they are not highly dependent on or integrated with other items; and contracts with a term shorter than twelve months (comprising the non-cancellable period plus any extension options that the Group is reasonably certain to exercise and any termination options that the Group is reasonably certain not to exercise).

1.6.2 Initial recognition

At the commencement of a lease (or the IFRS 16 transition date, if later), the Group recognises a right-of-use asset and a lease liability.

The lease liability is measured at the payments for the remaining lease term (as defined above), net of irrecoverable value added tax, discounted either by the rate implicit in the lease, or, where this cannot be determined, the Group's incremental cost of borrowing. The liability includes payments that are fixed or in-substance fixed, excluding, for example, changes arising from future rent reviews or changes in an index. For most Group members, the incremental cost of borrowing is the rate advised by HM Treasury for that calendar year (1.99% for 2019, 1.27% for 2020 and 0.91% for 2021); however, Network Rail undertakes external borrowing independently of the Exchequer and their incremental cost of borrowing is calculated to reflect this. The lease liability is presented within the Borrowings note.

The right-of-use asset is measured at the value of the liability, adjusted for: any payments made or amounts accrued before the commencement date; lease incentives received; incremental costs of obtaining the lease; and any disposal costs at the end of the lease. However, for peppercorn or nil consideration leases, the asset is measured at its existing use value.

1.6.3 Subsequent measurement

The asset is subsequently measured using the fair value model. The Group considers the cost model to be a reasonable proxy except for leases of land and property without regular rent reviews. For these leases, the asset is carried at a revalued amount. In these financial statements, right-of-use assets held under index-linked leases have been adjusted for changes in the relevant index, while assets held under peppercorn or nil consideration have been valued using market prices or rentals for equivalent land and properties.

The liability is adjusted for the accrual of interest, repayments, and reassessments and modifications. These are measured by re-discounting the revised cash flows; the impact is reflected in the liability and either in the asset valuation or expenditure as follows:

Scenario	Discount rate	Asset or expenditure
Reassessment		
The Group becomes or ceases to be reasonably certain to exercise an extension or termination option, due to a significant event or change in circumstances	Revised	Asset*
The non-cancellable period changes	Revised	Asset*
The amount payable under a residual value guarantee changes	Original	Asset*
There is a movement in an index or rate that will alter the cash flows (except for floating-rate arrangements)	Original	Asset* (with an adjustment to any revaluation surplus where a change in the liability has already been reflected in the value of the asset)
There is a change in the variable lease payments, that was not included in the measurement of the lease payments during the period in which the triggering event occurred	Original	Expenditure

Scenario	Discount rate	Asset or expenditure
Modification		
Other leased assets are included, priced on a standalone basis	New	Asset (this is presented as the creation of new right-of-use assets and lease liabilities, discounted by a new rate)
The scope is decreased	Revised	Asset and Expenditure (the asset is remeasured proportionate to the reduction in scope; any difference between the change in the value of the asset and liability is recognised as a gain or loss)
The lease term is increased	Revised	Asset*
The consideration is changed	Revised	Asset*

* Where the amount of a reduction to the asset exceeds the asset's carrying value, the excess amount is recognised in expenditure.

1.6.4 Lease expenditure

Expenditure includes interest, straight-line depreciation, any asset impairments and changes in variable lease payments not included in the measurement of the liability during the period in which the triggering event occurred. Lease payments are debited against the liability. Rental payments for leases of low-value items or shorter than twelve months are expensed.

1.6.5 The Group as lessor

For these arrangements, the Group assesses whether the leases are finance or operating leases. For finance leases, it derecognises the asset and recognises a receivable. Interest is accrued throughout the financial year and recognised in income. For operating leases, rental income is recognised on a systematic basis, usually straight-line, over the lease term.

1.6.6 Estimates and judgements

The Group determines the amounts to be recognised as the right-of-use asset and lease liability for embedded leases based on the stand-alone price of the lease and non-lease component or components. This determination reflects prices for leases of the underlying asset, where these are observable; otherwise, it maximises the use of other observable data, including the fair values of similar assets, or prices of contracts for similar non-lease components.

Some contracts cover both a lease of land which the lessee controls and access rights through adjacent land which the lessee does not control. In more remote locations, where stand-alone prices are not readily observable, the Group treats the entire contract as a lease as a practical expedient.

The FReM requires right-of-use assets held under "peppercorn" leases to be measured at existing use value. These leases include historic, long-term leases as well as more recent arrangements. To identify such leases, the Group has distinguished between nominal consideration and consideration that is low, but proportionate to the asset's value (for example, the lease of a small area of land with few alternative uses). This distinction reflects, so far as possible, recent, observable market arrangements for comparable assets (for example, current rentals); otherwise, based on the Group's own arrangements.

Existing use values are calculated to reflect the term of the arrangement: for example, the existing use value of assets under long-term leases will reflect purchase price, while the value of assets under shorter-term leases will reflect the present value of market rentals for comparable assets, where data is available.

1.7 Service concessions

The Group has contracts under which private-sector entities develop, finance, operate and maintain infrastructure used to deliver services to the public, directly or indirectly. The accounting treatment is determined by the extent of control that the Group has over the infrastructure, and 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 Group recognises the infrastructure as an asset, with a matching liability, in accordance with IFRIC 12. The asset is presented as property plant and equipment. The liability is presented either as a right to receive consideration from the Group or, less commonly, as a right to charge the public, as follows:

- Where the operator has a right to receive consideration from the Group (usually as unitary charges) the Group recognises a financial liability. Interest on the liability and expenditure on services provided under the concession are recognised in Net Operating Expenditure as they accrue. Unitary charges are apportioned between three elements: payments for services; payments of interest on the liability; and repayments of the initial liability.
- Where the operator has a right to charge service users, (for example, the HS1 concession) the Group recognises a deferred income balance, which is amortised to Net Operating Expenditure over the concession term.

The Group neither controls nor regulates the M6 Toll Motorway, so the concession is outside the scope of IFRIC 12. However, the Group controls a significant residual interest in it, which will revert to the Group at the end of the concession for no consideration. The Group did not recognise the infrastructure as an asset from the concession's inception, but recognises the expected fair value of the residual interest incrementally through Other Comprehensive Net Expenditure over the concession term, as an increase in the value of the Strategic Road Network in Note 5. This ensures the proper allocation of payments between the cost of services under the contract and acquisition of the residual interest.

1.7.1 Estimating the allocation of cash payments for service concessions

The contractual payments must be apportioned between capital, interest and (for most service concessions) services provided by the operator. If the contract or other information provided by the operator does not delineate the apportionment, by setting out the interest rate and the value of the asset and services, the apportionment is estimated, making full use of the information that the operator provides, supplemented with inputs including determinations of the fair values of the asset and any services, using the Treasury discount rate for investment appraisal purposes.

1.8 Inventories

The most significant inventory type is land and properties, comprising: assets acquired – typically under discretionary schemes – for the construction of infrastructure but which are not reflected in the asset under construction, because either:

- They are not required for construction (as they fall outside the route boundary); or
- Construction cannot proceed, pending further progress of the legislation, for example, HS2 Phase 2B Statutory Blight. The Group considers that land and properties acquired for construction of the infrastructure should not be classified as an asset under construction until the Second Reading for the enabling legislation has successfully completed,

which is the point at which the legislation is substantively enacted. Until then, the Group classifies them as inventory because, if the legislation did not receive Royal Assent, they would be sold. As their net realisable value is determined on the assumption that they would be sold in their current form and condition, it is usually no lower than cost.

Professional valuation of land and property inventories is performed by the Valuation Office Agency.

The most significant valuation bases by value are as follows:

- Land and properties outside the boundary of the infrastructure route are valued at the lower of cost and net realisable value, and are classified as inventory because the Group intends to sell them post-completion; and
- 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, based on the assumption that they will be sold in their current form and condition.

For other inventories, the cost is determined using the weighted average cost method.

1.8.1 Use of estimation in the measurement of land inventories

Land inventories comprise individual properties held over a dispersed area. Their net realisable value is determined by professional valuation, being a desk-top review supplemented by a full revaluation of a rolling 20% sample.

1.9 Investment properties and assets held for sale

Properties are classified as investment properties where they are held for capital appreciation, to earn rentals, or both. They are held at fair value, with changes recognised in Net Operating Expenditure.

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 held at the lower of their carrying amount at the point of transfer or fair value less material selling costs and are not depreciated.

1.9.1 Valuation of investment properties and assets held for sale

The market values of the Group's investment properties at 31 March 2021 are determined from a valuation performed as at that date by Jones Lang LaSalle. Their fair value is deemed to be the market value.

The valuation, conforming to International Valuation Standards, was performed by splitting the portfolio between one-off properties, which are valued individually (11 properties, representing 48% of the total value; 2020: 11 properties, representing 46% of the total value) and the remainder, which are valued under the Beacon method, which stratifies them by type and location, then applies appropriate yields to the rental incomes specified by existing leases (assumed to reflect market rents).

They are derecognised on disposal, when the recipient obtains control of them.

1.10 Investments in associates and joint arrangements

Where the Group has significant influence or joint control over an investee which is classified to the private sector, it is presented as an associate or a joint arrangement using equity accounting.

11059-DfT-Annual Report 2020-21-P1.indb 226 12/09/2021 09:49

The Group recognises its share of the investee's profits and other comprehensive income in its Statement of Comprehensive Net Expenditure. The investment is recognised initially at cost, then adjusted for the Group's share of the profits or losses and other comprehensive income, and any distributions. The carrying value of the investment is reviewed annually for impairment.

1.11 Loans, and current and non-current receivables

Loans (Note 11) and receivables (Note 17) are recognised initially at fair value (usually the contractual value), plus transaction costs.

They are subsequently held at amortised cost where the cash flows are solely payments of principal and interest on the outstanding principal, because the Group's business model is to hold them to collect the cash flows. 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, which is materially consistent with an amortised cost measurement.

They are derecognised 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 they 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.

Credit risk is analysed in line with IFRS 9, considering the chance of default, amongst other factors. Credit risk is considered low, and credit loss allowances are not recognised, for loans between Group members where the core Department is ultimately responsible for funding other Group members and would prevent credit losses from arising in practice, as long as the Department's expectation remains that the repayment of the loan will be enforced. Any credit loss allowances are recognised where material.

Credit loss allowances for trade receivables and similar arrangements are measured at the lifetime expected credit loss. Those for formal loans are measured at the twelve-month expected credit loss in line with low credit risk. The Group considers that none of its loans has experienced a significant increase in credit risk since origination or become credit-impaired in 2019-20 or 2020-21 and the 12-month expected credit loss is considered to be immaterial.

1.12 Investments in equities

The Group's equity investments in non-consolidated investees, other than associates, are financial instruments. All are classified as equity instruments held at fair value through other comprehensive net expenditure, because they are held for strategic purposes in delivering the Group's policy objectives rather than to produce increases in the value of the investments as an end in itself. Therefore the valuation changes do not reflect the Group's performance during the year.

They are recognised initially at fair value plus any transaction costs. The transaction price is regarded as indicating the fair value at the point of recognition.

Thereafter, they are held at fair value, as the cash flows are not solely payments of principal and interest. For all equity investments, the Group has made an irrevocable election to recognise changes in fair value through other comprehensive income. Investees include LCR Ltd, Network Rail Insurance Ltd, DOHL (including its subsidiaries LNER Ltd and Northern Trains Ltd), and investments in deadlocked joint ventures. Fair values are classified using the fair value hierarchy set out in Note 1.2. On disposal, any cumulative balance is transferred to the General Fund as a transfer between reserves and not reclassified through the Statement of Comprehensive Net Expenditure. This is further described in Note 12.3.

In valuing instruments for which there is no active market, the Group uses estimation techniques which reflect, so far as practicable, those that market participants would use, making maximum use of observable inputs. The investees operate in many sectors; therefore, various techniques are used, which are described more fully in Note 12, accompanied by sensitivity disclosures. The use of accounting estimates gives rise to estimation uncertainty. While a change in assumptions could affect the value recognised, the impact is considered immaterial.

The Group derecognises these assets when its rights to receive cash flows expire or have been transferred, provided that substantially all the risks and rewards of ownership and control of asset have also been transferred.

1.13 Public dividend capital

Public dividend capital is a central government form of redeemable investment in public-sector bodies, such as trading funds, which yields dividends based on the investee's financial performance. The FReM interprets IFRS 9 to require that it should be recognised at historical cost, less any subsequent impairment. It is derecognised on redemption.

1.14 Derivatives and other financial instruments held at fair value through profit or loss (net operating expenditure)

The Group's financial instruments held at fair value through profit or loss comprise:

- those required to be held at fair value through profit or loss because they are classified as held for trading (predominantly derivatives not designated and effective as hedging instruments under IFRS 9), or
- those 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 changes in fair value that tend to offset each other).

They are initially recognised at fair value. The transaction amount is deemed to be the best evidence of fair value at initial recognition. Any transaction costs are expensed.

They are remeasured at 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, covered in Note 1.16. Where they are not actively traded, valuations are estimated. Estimates are constructed from predicted cash flows, reflecting forecast interest rates, exchange rates or inflation rates. This entails some sensitivity to estimation uncertainty. Note 30.3 includes a sensitivity analysis of the impact of changes in foreign exchange rates, interest rates and inflation rates of ±1 percentage point, 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 (for assets); or when all obligations are settled (for liabilities); or when control or the risks and rewards of ownership are transferred.

During the year, HS2 Ltd commenced a foreign exchange forward contracts purchasing programme to manage foreign exchange risk along its supply chain. This was not designed to qualify for hedge accounting, however it serves the objective of transferring risk to the party that could manage it at the lowest cost.

1.15 Borrowings

The Group has long-term borrowings in the forms of bonds and notes, mainly issued by Network Rail Infrastructure Finance plc within the Network Rail group, but also by LCR Finance plc and CTRL Section 1 Finance plc. All have ceased external borrowing. Prior to Network Rail's reclassification to the central government sector, so before it became a member of the Group, it issued bonds under the Debt Issuance Programme. Some borrowing instruments are held at fair value to prevent an accounting mismatch; their accounting treatment is described in Note 1.14.

These instruments are recognised initially at fair value, plus transaction costs. The transaction amount is considered indicative of fair value at the transaction date. Thereafter, those not held at fair value are held at amortised cost. Issue costs may be amortised on a straight-line basis, where this is materially approximate to the effective interest method. Finance costs are disclosed in Note 3.7 as cash interest; for index-linked debt, accretion on the outstanding principal is disclosed as a non-cash cost.

Borrowings are derecognised when all obligations are satisfied.

1.16 Hedge accounting

The Group's hedging arrangements originate from Network Rail, whose legacy borrowings expose it to interest rate risk and foreign exchange risk. To manage those risks and comply with its capital management target set by ORR, which applied until the end of Control Period 5 on 31 March 2019, Network Rail purchased derivatives to cover debt to be raised during that Control Period. This portfolio of derivatives is being allowed to unwind. However, Network Rail may purchase derivatives to manage the risks on other less material transaction types, mostly purchases of equipment in foreign currencies. A more comprehensive analysis of Network Rail's performance against its capital management target is presented in its own financial statements.

Some of these arrangements qualify for hedge accounting in Network Rail's financial statements. However, in these statements, hedge accounting cannot be applied to derivatives hedging loans from the Department, as these are eliminated on consolidation, so the derivatives are held at fair value through profit or loss. Therefore, at a Group level, hedge accounting primarily covers Network Rail's external debt.

An arrangement qualifies for hedge accounting if, at inception, the Group formally designates and documents the hedging relationship, including: 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 hedge's effectiveness will be assessed. To continue to qualify for hedge accounting, it must remain highly effective in offsetting changes in fair value or cash flows of the hedged item. The Group has fair value hedges and cash flow hedges. Their accounting treatment is described below.

If the arrangement is not highly effective, it does not qualify for hedge accounting. If the intended hedged item is a financial instrument, such as a bond liability, the Group may designate it as held at fair value through profit and loss, where this treatment will provide more relevant information. Both the derivative and the financial instrument will be fair-valued, potentially achieving a degree of offsetting.

Disclosures of financial risks and how they are managed are presented in Note 30, with fair value disclosures provided in Note 31.

1.16.1 Fair value hedges

Under a fair value hedge, both the hedging instrument and the hedged item are held at fair value. Changes in the fair values of the hedging instrument and the hedged item attributable to the hedged risk are recognised as gains or losses in Net Expenditure.

1.16.2 Cash flow hedges

Under a cash flow hedge, the hedging instrument 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 in Net Operating Expenditure. The material hedged events for Network Rail have now occurred and no further debt hedging programmes are envisaged. The cumulative gain or loss on the hedging instrument held in equity is reclassified to Net Expenditure over the period in which the hedged transaction affects Net Expenditure.

Cash flow hedge accounting ceases when the hedging instrument expires, is sold, terminated, exercised or no longer meets the criteria for hedge accounting. The accounting treatment depends on the reason for cessation:

- 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 while the hedge was effective is retained in equity until the forecast transaction occurs;
- Where the forecast transaction is no longer expected to occur, the cumulative gain or loss on the hedging instrument that was recognised directly in equity while the hedge was effective is reclassified immediately to Net Expenditure.

1.17 Financial guarantee contracts

Financial guarantee contracts require the issuer to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment when due according to the terms of a debt instrument. The Department considers and accounts for financial guarantee contracts as financial instruments rather than insurance contracts,The Department's only material financial guarantee contract is the Financial Indemnity Mechanism (FIM), a non-cancellable arrangement which covers both fixed and index-linked debt instruments issued under Network Rail's Debt Issuance Programme, maturing in October 2052.

Recognised initially at fair value, they are subsequently measured at the higher of the initial amount less, when appropriate, cumulative income recognised in accordance with the principles of IFRS 15, or of the credit loss allowance. As the FIM covers debt issued by a Group member, the Department considers the value of the credit loss allowance to be nil, because the Department would provide funding to avoid a call. The carrying amount is therefore measured at the initial fair value less cumulative income.

The Department provides a service of credit enhancement to Network Rail, allowing it to obtain a lower cost of borrowing, and to its lenders, which is performed over time. The service is priced at the credit spread between the yields on the guaranteed debt instruments and those on comparable non-guaranteed instruments. The initial fair value was calculated as the present value of that credit spread over the remaining terms of those instruments, discounted by the rate prescribed by HM Treasury for financial instruments. The remaining balance at the end of the year reflects the performance obligation to be satisfied in future periods. It is calculated as the latest forecast of outstanding debt over the remaining term of the Debt Issuance Programme, multiplied by the credit spread. This produces a fixed income stream for fixed-rate debt instruments and an income stream that rises in line with inflation for index-linked debt instruments. The forecast income is then discounted by a nominal rate to reflect the materiality of the time value of money.

11059-DfT-Annual Report 2020-21-P1.indb 230 12/09/2021 09:49

The amount of income recognised in each period is measured to reflect the progress towards satisfaction of the performance obligation, which is to support the debt outstanding during each year, and is therefore calculated as the average amount of debt multiplied by the credit spread. The impact of financing is presented separately as an interest cost.

Estimates and judgements

The measurement of the credit spread is based on ORR's assessment as at the point when Network Rail ceased new external borrowing; in July 2014. The discount rate is updated to reflect any changes in the rate prescribed by HM Treasury. The carrying value of the liability is also influenced by differences between actual and forecast borrowings, particularly in respect of index-linked debt.

1.18 Other payables

These are financial liabilities other than those classified as held at fair value through profit or loss (Net Operating Expenditure) and financial guarantee contracts, mostly comprising trade payables and accruals.

They are recognised initially at fair value, typically the transaction price. Thereafter, where the time value of money is material, they are held at amortised cost, and derecognised when all obligations are settled.

1.19 Cash and cash equivalents

Cash and cash equivalents comprise: bank balances held; commercial paper and money market deposit investments at varying rates. Their carrying amount approximates to their fair value.

1.20 Pensions and other employee benefits

1.20.1 Defined benefit plans provided by the Principal Civil Service Pension Scheme

Past and present employees of the core Department and its agencies are generally members of the Principal Civil Service Pension Scheme (PCSPS), which is an unfunded multi-employer defined benefit scheme. It 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 expense the contributions payable to the PCSPS as incurred. The PCSPS pays pension benefits and accounts for the liability.

Ministerial pension benefits are provided by the Parliamentary Contributory Pension Fund.

The People and Remuneration Report in the Accountability section provides further details for both schemes.

1.20.2 Other defined benefit plans

Past and present employees of other consolidated entities may be members of defined benefit arrangements. As shown in Note 25, there are currently 8 such arrangements, provided through funded schemes that are legally separate from the Group. On retirement, members' pensions are paid from these funds. The Group makes cash contributions to the funds in advance of members' retirement. Some are "shared cost" arrangements, where contributions are typically shared between the employer and the members on a basis specified in the scheme rules.

Every three years, each scheme receives a full actuarial funding valuation using the projected unit method reflecting assumptions that the employer and the actuary agree to be appropriate. Separate valuations are prepared for the financial statements as at the reporting date in accordance with IAS 19: liabilities are measured using the projected unit method reflecting neutral assumptions; assets are measured at fair value, using current market bid values. The projected unit method estimates the ultimate cost of the pension benefits earned in the current and prior years. This requires: determining how much pension benefit is attributable to the current and prior years; estimating (making actuarial assumptions) demographic variables (such as mortality) and financial variables (including changes in earnings and inflation) that will affect the cost of the pension benefit. The obligations are discounted using the current yield on a high-quality corporate bond of equivalent term and currency to the obligation. The assumptions that materially affect this valuation are:

- price inflation (for pensions linked to RPI or CPI);
- discount rates (selected to match the expected duration of the liabilities and therefore influenced by mortality assumptions);
- mortality assumptions (which affect the total amount and timing of payments); and
- earnings assumptions (reflecting linkages to final or average salaries).

The scheme actuaries advise the reasonable bounds for uncertainty; those for the most significant schemes are presented in Note 25, with a sensitivity analysis. The assumptions vary between the schemes, reflecting differences between the 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 scheme assets and liabilities represents either a surplus or a deficit. A surplus is recognised as an asset to the extent that it is recoverable, and a deficit is recognised in full as a liability. Under a "shared cost" arrangement, the Group's liability may be calculated as the part of the deficit equivalent to the employer's share of the contributions, subject to the scheme rules.

Changes in the surplus or deficit are categorised between: (a) service cost (including current and past service costs); (b) net interest expense or income and (c) re-measurement.

The Group presents the first two components in Net Expenditure. Past service costs are recognised in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net surplus or deficit.

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", which is not reclassified to "Net Operating Expenditure".

1.20.3 Early retirement

If employees retire early, other than on approved medical ground, the Group is required to pay (as termination benefits) the cost of benefits, beyond the normal PCSPS pensions. 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 them.

1.20.4 Defined contribution plans

Some employees are members of defined contribution plans, including the Network Rail Defined Contribution Scheme. These are post-employment benefit plans under which the employer pays fixed contributions into a separate entity and has no further legal or constructive obligation. Contributions are recognised as an employee benefit expense in "Net Operating Expenditure" in the periods during which services are rendered by employees.

11059-DfT-Annual Report 2020-21-P1.indb 232 12/09/2021 09:49

1.21 Provisions and contingent liabilities

The Group recognises provisions where, at the reporting date, it has, or considers it more likely than not that it has, a legal or constructive obligation to transfer resources, arising from a past event and where a reliable estimate of the amount can be made. If a reliable estimate cannot be made, the obligation is disclosed as a contingent liability.

Descriptions of the significant provision balances are given in Note 23. These include compensation for industrial diseases and purchases of land and property for the High Speed 2 programme. Their specific recognition points are also disclosed in Note 23. Estimates and assumptions made in quantification are discussed below. Land and properties purchased for the HS2 project are owned by the Secretary of State; consequently, liabilities arising from these purchases are disclosed under the Core & Agencies classification. HS2 Ltd is a non-departmental public body, so liabilities arising from its activities are disclosed under the Group classification.

Some purchase transactions, usually property-related, are classified as provisions where the timing or amount of payment is uncertain. The Group reclassifies them to accruals when the timing and amount of the payment become materially, rather than absolutely, certain. Consequently, part of the consideration for a specific property may be reclassified, leaving the remainder as a provision. The Group judges that the amount becomes materially certain when its valuation reaches a high degree of cost maturity, which occurs when the Group approves an advance payment request, or makes a time-limited offer.

The Group discloses potential future obligations arising from past obligating events as contingent liabilities, where their existence remains uncertain pending the outcome of future events outside of its control. The Group's material classes of contingent liabilities include contractual mechanisms transferring risk to the Department. They are typically used for rail improvement projects involving multiple stakeholders, who rely on the others fulfilling their obligations. The Department may accept the risk of non-performance to maximise value for money, rather than have each stakeholder reflect it in contract prices.

Contingent liabilities whose likelihood is greater than remote are disclosed in Note 24 as required by IAS 37. Remote contingent liabilities are disclosed in the Accountability Report so that Parliament remains aware of all arrangements that may require funding. They include guarantees, indemnities and letters of comfort reported to Parliament as required by Managing Public Money.

1.21.1 Classification of contractual mechanisms transferring risk

Many of the Group's contracts transfer some financial risk to it. Where the financial risk relates to the price of future services, this is reflected in the financial statements when those services are received, unless the contract is onerous. However, mechanisms that compensate the contractor for the adverse impact of third-party actions have the substance of guarantees or indemnities, and are classified as contingent liabilities.

1.21.2 Obligations to purchase land and property: recognition, measurement and classification

Full provisions for compulsory purchase of land and property are recognised at different points depending on scheme features, based on an IAS 37 analysis of the relevant scheme and process.

- For many schemes, especially road schemes, enabling powers for specific acquisition areas are provided by the making of a Compulsory Purchase Order (CPO) or Development Consent Order (DCO). For schemes which are part of a significant portfolio with a high evidence base for the making of a CPO/DCO leading to the completion of a set of compulsory purchases, the Group treats that CPO/DCO on issue as creating a constructive obligation. This takes account of the valid expectations of counterparties to the identified land, in light of the extent of available precedent. This principle is applied on the majority of Highways England schemes.

- For schemes where this precedent-based approach is not appropriate given features such as unusual scale, complexity or because the scheme is relatively stand-alone, the recognition point is the point at which the Group is legally unable to withdraw from the obligation. This is the principle applied for HS2 land and property acquisitions. The legal obligation is generally assessed as being at the point a General Vesting Declaration is executed.

The amount typically represents surveyors' estimates of the land and property values at the point that it is deemed to have been acquired. The actual amounts required to settle the obligation are uncertain due to inherent valuation factors (such as the judgemental assessment of a property's development potential) and the broader assessment of how differences between government and counterparty valuation positions will ultimately be resolved.

Prior to the obligation arising for full compulsory purchase, the Group may be exposed to obligations to compensate householders for statutory planning blight. This occurs when a value of a property is, in specific legal circumstances, substantially reduced because of a detailed proposal to carry out works and the owner is unable to sell the property at a scheme-unaffected price. Obligations for blight are recognised starting from the point of the event which legally gives rise to eligible claims, such as the safeguarding or announcement of a preferred route, but specifically when the Secretary of State confirms that the property owner meets the scheme's eligibility requirements.

The amount typically represents surveyors' estimates of the land and property values at the point that it is deemed to have been acquired. However, provisions for specific agreements are measured at the minimum value to which the Group is exposed if the scheme was cancelled. The actual amounts required to settle the obligation are uncertain, as property owners may submit their own surveyors' estimates, and ultimately proceed to the Lands Tribunal.

The provision for land and property reflects the most reasonable estimate of claims for active and inactive cases. Active cases are those where a claim is live or HS2 Ltd has commenced valuation in anticipation of a claim. The remainder are inactive.

For active cases, detailed out-turn forecasts are created, and for inactive cases, the Property Cost Estimates ("PCEs") adjusted to reflect market conditions, are used. Claims for both types of case could ultimately settle for a different amount than the provision balance. The Group manages this risk at a portfolio level, and undertakes a quantified cost risk assessment (QCRA) at each baseline. This QCRA allowance (10% of the PCE, including irrecoverable VAT, according to the latest approved baseline) forms part of the HS2 funding envelope and values the contingency required for Phase 1 property acquisitions. While the provision is valued at the Group's best estimate of the consequences of its obligations at the reporting date, including the outcome of detailed valuations for active cases, this QCRA value indicates the extent of estimation uncertainty affecting both existing and planned Phase 1 obligations.

The Group also has obligations to the owners of land under temporary possession. The amount payable includes compensation for losses and the costs of restoring the land to an agreed condition.

Sensitivity to estimation of uncertainty of HS2 land and property provisions

Valuing land and property provisions connected with Compulsory Purchase powers, which represents the majority of the HS2 provision included in Note 23, requires significant use of estimation.

Under Compulsory Purchase, owners are entitled to receive market value for their interest; for the small number of specialised properties that have no market value, compensation is assessed on a re-instatement basis. Other statutory entitlements may arise, including: compensation for business loss or damage; relocation costs; professional fees; and statutory loss. These are estimated using agreed assumptions which provide a consistent approach across high volumes of cases, enabling risk to be measured and contingencies carried until knowledge of individual cases improves. These assumptions are based on specific legislative requirements; for example, that market value assessment excludes the effect of the scheme for which the compulsory purchase is made.

Estimation of both the quantum and timing of compensation claims is inherently uncertain. Uncertainties include: the extent to which the Group will bear irrecoverable VAT because counterparties ‘opted to tax’; the timing and extent of construction requirements; the acquisition method; the underlying land use; and any proposals for development. Inherent uncertainty is also higher in cases where a CPO has been issued, but no claim has been received, or the claim provides insufficient supporting detail; in either situation, the Group must rely on its own valuation and risk assessment, in the absence of a robust counterparty position.

The Group assesses risk and bases provisions on its view of a most likely settlement value, informed by professional valuations.

For active cases, this reflects detailed valuation work performed after a CPO on the relevant case, following the principles above. Key assumptions, including VAT treatment and development value, reflect the valuers’ advice on a case-by-case basis.

For inactive cases, the Group relies on desktop valuations prepared to inform the PCE. PCE valuations are produced for the entire expected population of acquisitions for Phase 1, and are regularly updated. The valuations assume that a property’s market value reflects its existing use, unless it is known that development value is appropriate. HS2 Ltd staff review the PCE line-by-line to contribute to development-value assessments and to ensure that appropriate adjustments are made. 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 2019-20 actuals for commercial cases, the Group estimates that 24.5% of the inactive cases by value will opt to tax (2019-20: 24.5%). Additionally, because the PCE for inactive cases is based on 1Q2015 prices, the Group uplifts them to reflect market movements, by applying a blended rate of indexation to reflect the mix of property prices and locations.

For temporary possession claims, the amount ultimately payable reflects compensation for losses (including loss of rental income or profits from crop cultivation) and land restoration costs. Quantifying compensation for losses requires estimation of the revenues and expenditure that the landowner would otherwise have experienced. The cost of restoration depends on the scope of the works. This is negotiated with landowners, but ultimately determined by the Secretary of State.

11059-DfT-Annual Report 2020-21-P1.indb 235 12/09/2021 09:49

1.21.3 Legal claims: classification

The classification of legal claims as contingent liabilities or provisions, their valuation, and presentation as current or non-current provisions reflects legal and other professional advice.

1.21.4 Measurement of industrial diseases provision

Obligations to compensate former British Rail employees for industrial diseases contracted during that employment are valued using a model developed by independent actuaries, based on the average cost of previous settlements over the last recent years and assumptions about the diseases' incidence and impact across different industrial sectors and over time. Actuarial forecasts reflect a bell curve of claims arising over time; given the ages of those at risk and the differing latency periods of specific industrial diseases, the incidence of claims is likely to peak over different timescales. Therefore, judgement is required in assessing how many years of past claims should be reflected in the average, to avoid an over- or under-estimate. During the year, the Department has reviewed the numbers of claims received over time and adjusted the number of years of past claims reflected in its estimates.

1.22 Grants payable

Grants payable are recognised when the underlying event or activity giving entitlement to the grant occurs. Where the recipient must provide a specified form of verification, to evidence compliance with grant terms and conditions, any subsequent adjustments are recognised in the period when these conditions are fulfilled.

1.23 Taxation

1.23.1 Corporation Tax

Some Group members most significantly, Network Rail make taxable profits liable to corporation tax. The tax expense comprises current and deferred tax. The current tax liability is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

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 adverse or favourable tax effects on the realisation of assets or settlement of liabilities.

Deferred tax is calculated using the tax rates expected to be applied to temporary differences when they reverse, based on legislation that has been enacted or substantively enacted by the reporting date. 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. Liabilities are recognised for all taxable temporary differences. The valuation of the Railway Network to DRC 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 "Operating Expenditure" unless it relates to items charged or credited directly to Other Comprehensive Net Expenditure, when the deferred tax is also recognised in "Other Comprehensive Net Expenditure".

1.23.2 Value Added Tax

The VAT rules for central government bodies differ from those for companies. Government bodies may recover VAT on specified goods and services only. Irrecoverable VAT is deemed to be a levy within the scope of IFRIC 21 and is recognised at the point specified in legislation, typically the point when the goods or services are received.

It is presented as follows:

- Where the recognition point specified in legislation is the point when the goods or services are received, it is charged to the relevant expenditure category and accruals balance;
- Where another standard requires it to be included in the cost of an asset, such as inventories or property, plant and equipment, it is recognised on that basis;
- Otherwise, it is presented as separate expenditure line and accruals balance. This predominantly relates to VAT on leases.

Income and expenditure is otherwise shown net of VAT.

Other types of income and expenditure, including grants or rail passenger service contracts, are outside the scope of VAT.

1.24 Revenue and expenditure from rail passenger services contracts

During the two years reflected in these financial statements, three different contractual mechanisms have been used to deliver rail passenger services: franchise agreements (until the beginning of March 2020); rail emergency measures agreements (from the beginning of March 2020 until September 2020); and rail emergency recovery measures agreements (from September 2020). Following the Williams Review, the Department has decided to move away from the franchising model.

1.24.1 Franchising

Calculation of franchise premia and subsidies

Under franchising agreements, train operating companies (also described as “franchisees”) received the right to deliver passenger services on part of the Railway Network for a period of time. The franchisee was also required to operate services at times or under conditions that might not be profitable but provided an essential public service. Franchisees collected revenues, predominantly from passenger ticketing, which offset their costs.

Through the procurement of the franchise agreement, the Department and the franchisee negotiated either a subsidy (received from the Group) or a premium (paid to the Group). This premium or subsidy was the key output of a financial model used by the Department and franchise bidders to award the contract; model inputs included bidder forecasts for revenues, costs and the profit margin. At the culmination of the procurement, the premium or subsidy was contractualised over the franchise term. Whether a franchise operated on a net subsidy or net premium basis usually reflected the region and market conditions in which the service was provided rather than differences in the services themselves.

The amount of premium or subsidy for a financial year was adjusted to reflect the franchisee’s performance and agreed events during that year, based on mechanisms set out in the franchise agreement: for example, the subsidy or premium for a month was adjusted to reflect cancellations or delays during that month. Cash transactions between the Department and the franchisee were made on a net basis. It was possible for a net premium franchise to become a net subsidy franchise, and vice versa. Rail franchising premia and subsidies were recognised in the financial statements on the same pattern, as the Group considered this best reflected its performance during the year. This was consistent with IFRS 15.

The franchise premium or subsidy method of funding passenger services was suspended on 1 March 2020 through the implementation of EMAs and will not resume. Expenditure for the final month of 2019-20 was calculated in accordance with the EMAs, as explained in Note 1.24.2.

Recognition

The Group used the IFRS 15 five-step model to account for revenue arising from contracts with customers, which 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 customers. This was applied to both net premium and net subsidy franchises.

The Group exercised judgement, considering all relevant facts and circumstances when applying each step of the model, with the following implications:

Step 1: Identify the contract with the customer

Each franchise agreement was deemed to be a single, legally binding contract. Franchise agreements set out mutually agreed assumptions about the operating environment including changes expected during the franchise, and the methods for addressing differences between expected and actual changes. Modifications were assessed on a case-by-case basis to determine whether they should be treated as a change to an existing contract or creation of a new contract, though given the Group's approach to allocating the transaction price (see below), the differences between alternative assessments would have been negligible.

Step 2: Identify the performance obligations

A franchise agreement gave the franchisee the right to deliver services on specified routes for a specified number of "franchisee years", being periods starting each 1 April and ending each 31 March, regardless of when the franchise term began or ended. "Franchisee years" were therefore co-terminus with financial years.

While the franchisee was awarded the right to operate the franchise for the entire term, it did 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 rolling stock fleets, stations and the workforce. These factors are not static, and timetables could be altered during the franchise to better meet passengers' needs. Therefore, availability over time and preparedness to adjust services were critical features of franchises.

The Group was responsible for overseeing the rail sector across the entire franchise term and providing adequately maintained infrastructure to enable franchisees to run services. As the franchisee's performance was assessed over the course of each "franchisee year", the Group considers the "franchisee year" was a period during which the franchisee simultaneously received and consumed the service. Consequently, the Group assessed that the service for each "franchisee year" was distinct, but substantially the same and had the same pattern of transfer.

Step 3: Determine the transaction price

The transaction price comprised the annual franchise payments or receipts, adjusted for performance, inflation and profit-sharing. It was calculated for each four-week period, with a catch-up adjustment at the end of each "franchisee year". There was no significant financing component. Some cash flows for each financial year were linked to future events, such as an index, or to the franchisee's profits, but not to any material extent. Revenue recognised in 2019-20 for performance obligations met in previous years was 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" was distinct from the rights to operate them in other years, the transaction price for each "franchisee year" was allocated to the performance obligation of operating the services in that financial year. Within each "franchisee year", the right to operate the services was transferred over time, because the franchisee simultaneously received and consumed it. Progress was measured using a time-based method, to reflect the way in which the franchisee benefited from the service.

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

As revenue (and expenditure, for a net subsidy franchise) was recognised over the course of each "franchisee year", the amount of expenditure or income recognised in each financial year did not differ materially from total payments or receipts during the year, except where there were ongoing contract negotiations which required expenditures to be accrued in one year and paid in a subsequent 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 premia or subsidies were linked to indices including Gross Domestic Product. These were deemed to be embedded derivatives; however, the Group did not account for them as separate financial instruments since they were closely related to the economic risks of the host contract, and instead recognised any price adjustment in line with the satisfaction of related performance obligations. While the possibility existed that an index might be unavailable at the year-end, or revised thereafter, all potential uncertainties have now been resolved.

Some premia or subsidies were linked to the franchisee's profits, typically when the profits exceeded a certain amount. The exact value could not be measured until the franchisees' accounts have been audited. In the interests of reliable reporting, having considered the values involved, the Group reserves adjustment until this point.

Some franchise agreements allowed for the premium or subsidy to be adjusted for specified events outside the franchisee's control. There was potential for significant uncertainty around the existence of the liability and the timing and amount of any payments. In such cases, the Group made its best estimate of the outcome, in line with IAS 37 principles, where the uncertainty is material.

1.24.2 Rail Emergency Measures Agreements

The Rail Emergency Measures Agreements ("EMAs") were implemented from 1 March to 20 September 2020. They responded to the change in operating requirements necessitated by COVID-19. They amended the pre-existing rail franchise agreements (described in Note 1.24.1) and were structured to prevent any financial overlap between the EMAs and those franchise agreements. Train operating companies ran train services in accordance with the franchise agreement where prudent, to permit social distancing, and provided additional services, such as more frequent cleaning to protect service users. They also had a duty to control costs. In return, the Department covered their net costs with additional payments or repayments to enable the train operating companies to maintain adequate cash balances until the end of the EMAs and, at that point, paid a management fee. A performance fee was implemented to reflect the quality of services delivered from 1 April.

As the services provided under the EMAs were distinct from those provided under the franchising agreements, and were priced on a stand-alone basis, they have been accounted for as separate contracts These financial statements reflect expenditure for the current year consisting of six month's net costs and management fees, and the performance fee for the period from April to September 2020, and one month's net costs and management fees in the comparative year, with no accrual of performance fees.

1.24.3 Rail Emergency Recovery Measures Agreements

The Rail Emergency Measures Recovery Agreements ("ERMAs") were implemented in September 2020 and are intended to run for up to eighteen months from that date. Train operating companies were offered a choice between accepting the ERMA or resuming the franchise agreement, albeit with the expectation of lower passenger revenues. Companies accepting the ERMA would potentially be required to make a termination payment, which is discussed below.

Under the ERMA, payments continue to be calculated on a reimbursement basis, so the Department retains revenue and expenditure risks. ERMAs also include a management fee and performance fee. However, performance criteria are more closely defined, and the total management fee and performance fee will be no greater than 1.5% of the cost base. The ERMAs are priced on a stand-alone basis from the EMAs and the franchise agreements, and so are accounted for as separate contracts. Given the pricing structure, the calculation of expenditure under the Agreements is not considered to be subject to material estimation uncertainty.

Franchise termination payments

As the Department has moved away from the franchising model, the franchise agreements must be terminated equitably. Some companies transitioning to the ERMA are required to make a termination payment to the Department. The payment reflects losses that, but for the EMA and ERMA, they would have made had the pre-existing franchise run its course without the COVID-19 outbreak. It ensures that, by the end of rail franchising, these companies will not receive unapproved State Aid. Transition to the ERMA was therefore conditional on both the Department and the company agreeing the amount of any termination payment; due to financial support measures provided by the companies' shareholders, this amount will be substantially recoverable even if the ERMA is subsequently terminated.

The Department became contractually entitled to receive these amounts at the point when the ERMA was agreed and has no further performance obligations. It therefore recognises financial assets, measured initially at fair value and thereafter at fair value through profit or loss (operating expenditure) because the cash amounts do not consist solely of principal and interest. As at 31 March 2021, the assets had a carrying value of £262m, which we consider is the amount an independent third party would pay for the Department's rights under current conditions.

Accounting estimates and sources of estimation uncertainty

The timing and amount of the cash receipts are uncertain: the amount will reflect the unwinding of the company's balance sheet as at 1 March 2020 over the period to the end of the ERMA. An immaterial part of the cash will be paid at the end of the ERMA (and thus of the franchise agreement), which could be extended. While there is some remaining uncertainty, this is not considered to be immaterial. These are level 3 valuations.

1.25 Recognition of revenues from other sources

The Group also earns material revenues from other types of service including revenues for access to the railway network, policing services, revenues from the UK's participation in Eurocontrol and access to river crossings.

IFRS 15 (as interpreted by the FReM) covers revenues arising from: contracts with customers; legislation and regulations which enable the Group to obtain revenue that is not classified as taxation by the ONS; or taxation, fines and penalties that the Group is permitted to retain by statute or Treasury consent. It does not cover dividend and interest income (to which IFRS 9 applies), rental income (IFRS 16) or grants receivable from other government bodies.

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 under agreements 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 types: charges for using the crossing and penalties for non-payment. The former are recognised when the vehicle uses the crossing; the latter when the payment deadline passes, at which point the penalty notice is raised. The amounts recognised reflect the probability that the consideration will be collected, based on experience of non-payment.

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 auction sales. Payment is immediate for online transactions and within five days of auction. Uncompleted sales are provided for after 90 days and written off after twelve months, when 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, which is the point when the customer obtains control of the right to display the mark.

1.25.1 Accounting estimates and sources of estimation uncertainty

Track access contracts specify targets for railway network availability, and mechanisms for compensating train operators (franchisees and open access operators) when those targets are not met. This may result in variable consideration.

1.26 Operating segments

Note 2 discloses the Group's net expenditure by operating segments. The reportable segments are the Director General-led groups, reflecting the organisation structure, because financial information is reported to the Executive Committee and the Board on this basis.

1.27 Prior period adjustments

Items are restated retrospectively to:

- correct a material prior year error;
- apply a material change in accounting policy; or
- reflect some types of change in consolidation boundaries.

If it is impracticable to determine the period-specific or cumulative effects of a policy change or error, re-statements are made to the earliest practical period.

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.

Where an accounting policy has been changed, 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 policy had always been applied, unless the new standard or FReM interpretation requires or permits different approaches.

Changes in consolidation boundaries include: transfers of functions between government departments and retrospective reclassifications by the ONS (reclassifying a body to, or from, central government with effect from a date before the start of the reporting 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 changes to the Statutory Instrument list of entities required to be consolidated for a year, subject to HM Treasury's agreement. The Group will start or cease to consolidate the entity in that year's financial statements, but the effective date of consolidation will be that specified by ONS.

As described in Note 1.3 DFT OLR Holdings Ltd (DOHL) was part of the Departmental Group in 2019-20 until it was reclassified as a public corporation, which means it can no longer be consolidated as part of the Group in 2020-21. The prior year results have been restated, which involved derecognising the assets and liabilities of DOHL, recognising any balances or transactions that had been eliminated as intra-group items, and recognising the core Department's equity stake in DOHL. The impact of the restatement across the financial statements is shown below.

		Core & Agencies				Group
All values in £m	As previously stated	Re-statement	As re-stated	As previously stated	Re-statement	As re-stated
Statement of Financial Position as at 31 March 2020						
Non-current assets	42,788	40	42,828	479,035	202	479,237
Current assets	869	–	869	3,295	(109)	3,186
Total assets	**43,657**	**40**	**43,697**	**482,330**	**93**	**482,423**
Current liabilities	(2,758)	–	(2,758)	(7,520)	16	(7,504)
Non-current liabilities	(10,135)	–	(10,135)	(36,956)	(109)	(37,065)
Pension liability	(1,416)	–	(1,416)	(4,066)	–	(4,066)
Assets less liabilities	**29,348**	**40**	**29,388**	**433,788**	**–**	**433,788**
Equity and reserves	**(29,348)**	**(40)**	**(29,388)**	**(433,788)**	**–**	**(433,788)**
Statement of Changes in Taxpayers' Equity 2019-20						
Financial assets at fair value through OCI reserve	(448)	(40)	(488)	(822)	(40)	(862)
Total equity	(29,348)	(40)	(29,388	(433,788)	–	(433,788)
Statement of Comprehensive Net Expenditure 2019-20						
Net expenditure	19,541	–	19,541	15,850	56	15,906
Total comprehensive net expenditure for the year	19,179	(40)	19,139	7,415	16	7,431
Notes to the accounts						
Note 12, Investment in equities						
Train Companies & Franchises	87	40	127	87	40	127

The restated balances for the Statement of Financial Position as at 1 April 2019 and the 2019-20 Statement of Cash Flows have not been disclosed here as the impact is not material.

1.28 Adoption of new and revised standards

IFRS 17 Insurance Contracts becomes effective, subject to adoption, for accounting periods commencing on, or after, 1 January 2023 and should be included in the 2023-24 FReM. It requires a discounted cash flow approach to measuring insurance liabilities. The Group is monitoring its contingent liabilities and similar arrangements to identify any that meet the definition of insurance contracts. It will continue to treat financial guarantee contracts as financial instruments rather than as insurance contracts.

The Group does not expect any other new, or revised standard, or interpretation to have a material impact.

2. Statement of Operating Costs by Operating Segment

The core 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 Director General-led groups, with some functions 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.

During the year the Department announced the reconfiguration of the Rail Group and the High Speed & Major Projects Group into the Rail Strategy & Services Group, the Rail Infrastructure Group and the High Speed Rail Group. The formal changes in accountability and reporting came into effect from April 2021, therefore the revised departmental structure will be reflected in this disclosure of Operating Segments in the 2021-22 accounts.

Rail

The key activities of this group are: support for passenger rail services; oversight of Network Rail's enhancement portfolio; developing the strategy and policy for rail; and sponsorship of Thameslink and the Intercity Express Programme.

High Speed & Major Projects

This group supports the development of the HS2 programme. In addition, the group is responsible for: the Northern Powerhouse Rail project; the Department's joint work with Transport for London on the development of Crossrail 2; oversight of the East West Rail Company that plans to reinstate a direct rail link between Oxford and Cambridge; and the Integrated Rail Plan that scopes and phases major rail projects in the Midlands and the North.

Roads, Places and Environment

This group is responsible for local transport, driving and roads related activities and leads on our environment strategy and future mobility.
It oversees the agencies that deliver services relating to driving and vehicles, including the Driver and Vehicle Standards Agency. The group also includes sponsorship of Highways England and sub-national transport bodies as well as overseeing grants for Transport for London.

Aviation, Maritime, International and Security

Key activities of this group are aviation policy including airports, environment, consumer protection and security and safety; maritime policy including infrastructure, environment, security and trade; security and safety of the transport network; international negotiations with other governments and international transport organisations; Accident Investigation Branches; and sponsorship of relevant arm's-length bodies including the CAA, Air Travel Trust Fund, Maritime and Coastguard Agency and the General Lighthouse Authorities.

Corporate Delivery

This group supports the activities of the other groups. It leads on: finance; human resources; procurement; communications; corporate finance; property; assurance; digital, sponsorship of the Department's legal advisors and the Secretary of State's shareholding interests in arm's length bodies such as Network Rail, Highways England and HS2 Ltd.

The Board considers capital spending and liabilities by monitoring outturn against the budgetary control totals shown in the Statement of Outturn against Parliamentary Supply. Consequently, the Department does not report asset and liability balances on an IFRS-basis to the Board.

						2020-21
	Rail	**Roads, Places and Environment**	**Aviation, Maritime, International and Security**	**Corporate Delivery**	**High Speed and Major Rail Projects**	**Total**
	£m	£m	£m	£m	£m	£m
Gross	20,991	11,454	946	353	222	33,966
Income	(4,743)	(744)	(171)	(47)	–	(5,705)
Net Expenditure	**16,248**	**10,710**	**775**	**306**	**222**	**28,261**

						2019-20 (restated)
	Rail	**Roads, Places and Environment**	**Aviation, Maritime, International and Security**	**Corporate Delivery**	**High Speed and Major Rail Projects**	**Total**
	£m	£m	£m	£m	£m	£m
Gross	14,076	6,476	1,344	432	325	22,653
Income	(5,431)	(769)	(410)	(123)	(14)	(6,747)
Net Expenditure	8,645	5,707	934	309	311	15,906

3. Expenditure

3.1 Staff costs

Information on staff numbers, exit packages and other relevant disclosures (including Ministers) is included in the People and Remuneration Report in the Accountability Report.

			2020-21	2019-20 (re-stated)
	Permanently employed staff	Other Staff	Total	Total
	£m	£m	£m	£m
Wages and salaries	3,218	54	3,272	3,099
Social security costs	340	1	341	333
Other pension costs	297	1	298	279
Sub Total	**3,855**	**56**	**3,911**	3,711
Less recoveries in respect of outward secondments	(2)	-	(2)	(2)
Less capitalised staff costs	(1,225)	(17)	(1,242)	(1,209)
Total Net Costs	**2,628**	**39**	**2,667**	2,500
Of the total:				
Core Department & Agencies	489	26	515	469
Departmental Group	2,628	39	2,667	2,500

Other staff includes Ministers and Special Advisers, who were paid £274k and £nil respectively (2019-20: £217k and £59k). Special Adviser pay was centralised and responsibility was transferred to the Cabinet Office during Summer 2019.

In 2019-20, £188m of non-cash pension costs relating to defined benefit schemes were included as 'Other pension costs' within Staff Costs. For comparability between years, these costs have now been reclassified to 'Pension Scheme Costs' within Other Operating Expenditure in the 2019-20 prior year comparatives.

3.2 Purchase of goods and services

	2020-21		2019-20 (re-stated)	
	Core Department & Agencies £m	**Departmental Group £m**	Core Department & Agencies £m	Departmental Group £m
Cash items:				
Support for passenger rail services	8,570	8,570	1,319	1,319
Rail network maintenance	–	1,347	–	1,279
Accommodation	55	587	64	485
Road network current maintenance	–	542	–	532
Professional services	40	283	50	344
Support services	181	356	191	328
PFI service charges	21	344	19	344
Eurotunnel payments	114	114	284	284
Information & communications technology	84	341	85	281
Consultancy	86	176	75	164
Search & rescue helicopters	162	162	161	161
PFI interest charges	1	102	1	136
Research and development expenditure	44	57	43	54
Travel and subsistence	4	17	10	53
VAT repayment	–	–	14	49
Publicity	34	47	17	28
Auditors' remuneration and expenses	–	4	–	2
Rental costs	4	14	2	8
Other costs	200	560	213	418
Non-cash items:				
Auditors' remuneration and expenses	1	1	1	1
	9,601	**13,624**	2,549	6,270

The increase in Support for Passenger Rail Services is driven by the Department's support of rail operators in England following the onset of the pandemic. For the twelve rail franchise operators, this support took the form of Emergency Measures Agreements (EMAs) between March 2020 and September 2020, and Emergency Recovery Measures Agreements (ERMAs) since September 2020. Rail services in England operated by the Secretary of State are not within the scope of these EMA contracts, but their costs are included in the figure above. Total subsidies to rail operators in 2020-21 were £8,457m, which included £157m management and performance fees payable to the operators. Other costs within Support for passenger rail services include funding paid to devolved rail bodies. Estimated income from rail operators accrued in respect of rail franchise settlements of £262m is accounted for within Other Income and is disclosed in Note 4.

Eurotunnel payments in this note and Eurotunnel recharges in Note 4 (Income) decreased as travel restrictions related to the pandemic reduced cross-Channel travel. Eurotunnel payments include both fixed costs and variable amounts.

11059-DfT-Annual Report 2020-21-P1.indb 246 12/09/2021 09:49

3.3 Grants

	2020-21		2019-20 (re-stated)	
	Core Department & Agencies £m	Departmental Group £m	Core Department & Agencies £m	Departmental Group £m
Local roads	2,690	2,690	2,146	2,146
Subsidies for Transport for London	2,457	2,457	17	17
Subsidies to the bus sector	1,598	1,598	249	249
Low emission motoring	534	534	518	518
Other local transport	532	532	335	335
Cycling and walking	314	314	47	47
Local and regional rail initiatives	196	196	668	668
Road safety, standards and services	159	159	33	33
Subsidies to the light rail sector	142	142	–	–
Aviation	134	134	4	4
Maritime	66	66	13	13
Other	18	22	18	19
Grant in Aid and other grants to ALBs	15,429	–	15,179	–
Total	**24,269**	**8,844**	19,227	4,049
of which:				
Capital	5,283	3,871	4,995	3,150
Current	6,445	4,973	2,432	899
Grant in Aid	12,541	–	11,800	–
Total	**24,269**	**8,844**	19,227	4,049

The Department provided financial support packages across the transport sector following the onset of COVID-19 pandemic:

- Subsidies for Transport for London, Subsidies to the bus sector and Subsidies to the light rail sector: The Department subsidised key transport services to maintain operations through the pandemic despite a reduction in passenger volumes.
- Cycling and walking: The Department increased spending on cycling and walking schemes in order to meet the Active Travel commitment.
- Road safety, standards and services: Departmental funding of the DVSA increased as the pandemic reduced income from services.
- Aviation: The Department supported the Civil Aviation Authority and other logistical and infrastructure service providers in the aviation sector.
- Maritime: The Department supported ports and ferry operators in the maritime sector.

These grants ensured ongoing service continuity during the pandemic in financial year 2020-21. Grants already awarded to support ongoing service continuity beyond 31st March 2021 in response to the pandemic, are disclosed in notes 10.3 and 32.

Other year on year changes reflect enhanced local and regional investment:

- Other local transport: This increase arises from the Transforming Cities and Major Road Network & Large Local Majors investment programmes.
- Local roads: The Department provided additional funding via the Pothole Action Fund.
- Local and regional rail initiatives: The cost for 2019-20 included a one-off £470m capital grant to the Welsh Government to support the transfer of the Core Valleys Line.
- Grant in Aid and other grants to ALBs increased to meet the planned increase in HS2 activity.

3.4 Depreciation and impairment charges

		2020-21		2019-20 (re-stated)	
	Note	**Core Department & Agencies £m**	**Departmental Group £m**	Core Department & Agencies £m	Departmental Group £m
Non-cash items:					
Depreciation	5	108	6,905	107	7,019
Depreciation on right-of-use assets		61	183	59	163
Amortisation	6	10	21	6	17
Impairment of PPE and assets held for sale		–	75	15	55
Downward/(upward) revaluation of PPE & Investment Properties		1	6	–	(3)
Downward/(upward) revaluation of joint ventures		–	–	–	(11)
		180	**7,190**	187	7,240

3.5 Provision expenses

		2020-21		2019-20	
	Note	**Core Department & Agencies £m**	**Departmental Group £m**	Core Department & Agencies £m	Departmental Group £m
Non-cash items:					
Provisions (released)/provided in year	23	(46)	(14)	(56)	509
Unwinding of discount on provisions	23	5	5	5	5
Credit loss allowance		–	25	–	17
		(41)	**16**	(51)	531

3.6 Other operating expenditure

	2020-21		2019-20 (re-stated)	
	Core Department & Agencies £m	**Departmental Group** £m	Core Department & Agencies £m	Departmental Group £m
Cash items:				
Eurocontrol payments	42	42	45	45
Non-cash items:				
Fair value loss/(gain) on fair value hedges	–	4	–	–
Net increase/(decrease) in fair value of non-hedge accounted debt	–	(30)	–	4
Loss/(gain) on derivatives not hedge accounted	–	(128)	–	(236)
Net ineffectiveness arising from cash flow hedge accounting	–	(20)	-	19
Loss/(gain) on disposal of PPE	–	28	(2)	27
Pension scheme costs	30	295	7	327
Corporation tax (credit)/charge	–	276	–	396
Write down in value of inventory	9	9	15	15
	81	**476**	65	597

In 2019-20, £188m of non-cash pension costs relating to defined benefit schemes were included as 'Other pension costs' within Staff Costs. For comparability between years, these costs have now been reclassified to 'Pension Scheme Costs' within Other Operating Expenditure in the 2019-20 prior year comparatives.

3.7 Finance expenses

Finance expenses include interest accruing on borrowings, leases and the Financial Indemnity Mechanism (FIM).

The core Department incurred a £63m non-cash interest charge in 2020-21 (2019-20: £138m) which reflects changes in the value of the Financial Guarantee Contract in Note 21. The changes predominantly reflect the unwinding of the discount on the liability, offset by the impact of reductions in forecast future amounts of debt covered by the guarantee. As these amounts are intragroup, they are eliminated in the Departmental Group. Amounts shown as non-cash items in the Departmental Group column reflect RPI accretion on Network Rail's portfolio of external debt.

	2020-21		2019-20	
	Core Department & Agencies £m	**Departmental Group** £m	Core Department & Agencies £m	Departmental Group £m
Cash items:				
Finance expense	189	837	208	939
Non-cash items:				
Finance expense	63	256	138	495
	252	**1,093**	346	1,434

11059-DfT-Annual Report 2020-21-P1.indb 249 12/09/2021 09:49

4. Income

		2020-21		2019-20 (re-stated)	
	Note	Core Department & Agencies £m	Departmental Group £m	Core Department & Agencies £m	Departmental Group £m
Cash Items					
Sale of good and services					
Franchised track access income		–	(2,817)	–	(2,504)
Rental income		–	(87)	–	(262)
River crossings charges		(115)	(116)	(165)	(165)
Freight income		–	(45)	–	(43)
Other Income					
Income from Train Operating Companies			–	(1,010)	(1,010)
Rail franchise settlements		(262)	(262)		
Income from rail policing services			(215)		(209)
Fees & charges to external customers		(570)	(714)	(602)	(999)
Transport for Scotland – SLA Receipt		–	(632)	–	(486)
Eurotunnel Recharge		(74)	(74)	(274)	(274)
Capital grant income received		–	(226)	–	(238)
Eurocontrol Receipts		(24)	(24)	(45)	(45)
EU income		(2)	(2)	(26)	(29)
Claims for damages to road network		–	(15)	–	(7)
Fees & charges to other public bodies		(76)	(77)	(17)	(18)
Other income		(30)	(286)	(28)	(289)
Sub Total – Cash items		**(1,153)**	**(5,592)**	(2,167)	(6,578)
Non cash items					
Amortisation of deferred income		(320)	(55)	(321)	(54)
Share of associate's operating (profit)/loss	15	56	56	(1)	(1)
Sub Total – Non cash items		**(264)**	**1**	(322)	(55)
Operating Income		**(1,417)**	**(5,591)**	(2,489)	(6,633)
Share of associate's non-operating (profit)/loss	15	–	–	(29)	(29)
Dividends receivable		(18)	(18)	(26)	(26)
Interest receivable		(677)	(40)	(707)	(27)
Total income		**(2,112)**	**(5,649)**	(3,251)	(6,715)

Income from Train Operating Companies has reduced to £nil in 2020-21 because they have been subsidised by the Department under the EMAs and ERMAs since March 2020. Further details can be found in Note 3.2, Purchase of Goods and Services.

Income received by the British Transport Police Authority from Train Operating Companies for policing services and income from Train Operating Companies have been dis-aggregated to aid the understanding of different transaction streams.

Rail franchise settlements represent amounts payable by train operating companies to terminate their franchise agreements with the Department.

Eurotunnel recharges in this note and Eurotunnel payments in Note 3.2 decreased because travel restrictions related to the pandemic reduced cross-Channel travel.

5. Property, Plant and Equipment

	2020-21						
	Infrastructure assets			Assets under Construction	Land, buildings & other		
	Rail Network	Strategic Road Network	HS1	AUC including HS2	Land and buildings	Other assets	Total
	£m	£m	£m	£m	£m	£m	£m
Cost or valuation							
At 1 April 2020	497,218	146,401	3,547	8,969	1,254	650	658,039
Detrunkings	–	–	–	–	–	–	–
Additions	5,670	3,327	–	3,684	61	29	12,771
Adjustment of renewal and enhancement works in progress to Depreciated Replacement Cost	(1,815)	(2,317)	–	–	–	–	(4,132)
Write-down of capital additions	–	–	–	–	–	–	–
Disposals	(30)	(27)	–	–	(21)	(13)	(91)
Impairments	–	–	–	(71)	(79)	(1)	(151)
Transfers	–	–	–	–	–	–	–
Reclassifications	–	(62)	–	(30)	7	(23)	(108)
Revaluations (cost)	4,966	4,361	–	2	54	2	9,385
At 31 March 2021	**506,009**	**151,683**	**3,547**	**12,554**	**1,276**	**644**	**675,713**
Depreciation							
At 1 April 2020	(164,940)	(17,852)	(492)	–	(313)	(347)	(183,944)
Prior year adjustments	–	–	–	–	–	–	–
Charged in year	(5,772)	(1,014)	(46)	–	(29)	(44)	(6,905)
Disposals	–	9	–	–	10	12	31
Impairments	–	–	–	–	76	–	76
Transfers	–	–	–	–	–	–	–
Reclassifications	–	–	–	–	–	7	7
Revaluations (depreciation)	1,509	1,755	–	–	11	3	3,278
At 31 March 2021	**(169,203)**	**(17,102)**	**(538)**	**–**	**(245)**	**(369)**	**(187,457)**
Carrying amount at 31 March 2021	**336,806**	**134,581**	**3,009**	**12,554**	**1,031**	**275**	**488,256**

							2020-21
	Infrastructure assets			Assets under Construction	Land, buildings & other		
	Rail Network	Strategic Road Network	HS1	AUC including HS2	Land and buildings	Other assets	Total
	£m	£m	£m	£m	£m	£m	£m
Carrying amount at 31 March 2020	332,278	128,549	3,055	8,969	941	303	474,095
Asset financing:							
Owned	336,806	109,296	3,009	12,554	1,009	274	462,948
PFI & other service concession arrangements	–	25,285	–	–	22	1	25,308
Carrying amount at 31 March 2021	**336,806**	**134,581**	**3,009**	**12,554**	**1,031**	**275**	**488,256**
Ownership:							
Core Department	–	2,799	3,009	3,271	428	15	9,522
Agencies	–	–	–	26	93	39	158
Other designated bodies	336,806	131,782	–	9,257	510	221	478,576
Carrying amount at 31 March 2021	**336,806**	**134,581**	**3,009**	**12,554**	**1,031**	**275**	**488,256**

"Infrastructure assets" comprise the railway in Great Britain and the strategic road network in England. These are each treated as single assets for accounting purposes, due to the integrated nature of these networks. High Speed 1 is accounted for as a distinct asset, reflecting the service concession agreement between the Department and HS1 Ltd.

"Assets under construction" comprise assets which are not yet operationally live. This category includes: construction works undertaken to-date by HS2 Ltd, land & property acquired by the Core Department in support of HS2 construction, and other routine assets in the course of construction which are not yet complete. See Note 5.3.

"Land, buildings & other" comprise other items of Property, Plant and Equipment. These chiefly comprise operational land and buildings held by the Group in support of its activities.

							2019-20 (re-stated)
	Infrastructure assets			Assets under Construction	Land, buildings & other		
	Rail Network £m	Strategic Road Network £m	HS1 Infrastructure Asset £m	AUC including HS2 £m	Land and buildings £m	Other assets £m	Total £m
Cost or valuation							
At 1 April 2019	488,781	138,676	3,547	6,347	1,174	546	639,071
Detrunkings	–	–	–	–	–	–	–
Prior year adjustments	–	–	–	–	–	–	–
Additions	4,954	3,171	–	2,636	3	150	10,914
Adjustment of renewal and enhancement works in progress to Depreciated Replacement Cost	(1,561)	(1,288)	–	–	–	–	(2,849)
Write-down of capital additions	–	–	–	–	–	–	–
Disposals	(517)	(36)	–	–	(12)	(26)	(591)
Impairments	–	–	–	(41)	(5)	(18)	(64)
Transfers	–	2	–	(2)	–	–	–
Reclassifications	(24)	(19)	–	(36)	(11)	(10)	(100)
Revaluations (cost)	5,585	5,895	–	65	105	8	11,658
At 31 March 2020	**497,218**	**146,401**	**3,547**	**8,969**	**1,254**	**650**	**658,039**
Depreciation							
At 1 April 2019	(158,950)	(15,605)	(445)	–	(312)	(351)	(175,663)
Detrunkings	–	–	–	–	–	–	–
Prior year adjustments	–	–	–	–	–	–	–
Charged in year	(5,722)	(1,174)	(47)	–	(23)	(53)	(7,019)
Disposals	–	7	–	–	5	24	36
Impairments	–	–	–	–	1	4	5
Transfers	–	–	–	–	–	–	–
Reclassifications	–	–	–	–	17	26	43
Revaluations (depreciation)	(268)	(1,080)	–	–	(1)	3	(1,346)
At 31 March 2020	**(164,940)**	**(17,852)**	**(492)**	**–**	**(313)**	**(347)**	**(183,944)**
Carrying amount at 31 March 2020	**332,278**	**128,549**	**3,055**	**8,969**	**941**	**303**	**474,095**
Carrying amount at 31 March 2019	329,831	123,071	3,102	6,347	862	195	463,408
Asset financing:							
Owned	332,278	125,436	3,055	8,969	919	302	470,959
Finance Leased	–	–	–	–	–	–	–
PFI & other service concession arrangements	–	3,113	–	–	22	1	3,136

							2019-20 (re-stated)
		Infrastructure assets		Assets under Construction	Land, buildings & other		
	Rail Network	Strategic Road Network	HS1 Infrastructure Asset	AUC including HS2	Land and buildings	Other assets	Total
	£m	£m	£m	£m	£m	£m	£m
Carrying amount at 31 March 2020	**332,278**	**128,549**	**3,055**	**8,969**	**941**	**303**	**474,095**
Of the total:							
Core Department	–	2,982	3,055	3,016	327	15	9,395
Agencies	–	–	–	4	97	42	143
Other designated bodies	332,278	125,567	–	5,949	517	246	464,557
Carrying amount at 31 March 2020	**332,278**	**128,549**	**3,055**	**8,969**	**941**	**303**	**474,095**

5.1 Rail Network

In 2020-21 the overall increase in the value of the Railway Network by £4.5bn reflected in these accounts is driven by the following factors. Capital additions were £5.7bn, in-line with Network Rail's investment programme for control period 6. This was broadly offset by £5.8bn depreciation expense on the rail network. The total revaluation movement for 2020-21 was £4.7bn. This revaluation movement comprises £6.5bn revaluation increase in respect of cost indexation and condition assessment, and £1.8bn downwards revaluation reflecting the adjustment of assets under construction values to a DRC-basis.

Details of the valuation adopted by the Department

The Railway Network was valued 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:

			2020-21
Type	**Depreciated Replacement Cost** £m	**Remaining Life** Years	**Depreciation Charge** £m
Asset Under Construction	243	-	-
Structures	55,219	61	844
Earthworks	75,540	99	772
Telecoms	2,149	9	241
Operational property	26,381	34	792
Electrification, plant and signals	45,423	30	1,684
Track	30,419	18	1,439
Land	101,432	-	-
TOTAL	**336,806**	**-**	**5,772**

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. This analysis demonstrates that the valuation of the rail network is materially sensitive to these assumptions. As these assumptions function independently within the overall valuation, the scenarios described below are not mutually exclusive and so more than one of these scenarios could arise simultaneously.

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 69%) were to increase or decrease by 10%; i.e. a compensation adjustment of 79% or 59% respectively.

Scenario 3

Shows the impact if the adjustment for building on a greenfield site rather than in an operational environment (normally 32%) were to increase or decrease by 10%, showing the impact of an adjustment at 42% and 22%. This adjustment applies only to costing rates built up using a methodology not already reflecting greenfield build.

Scenario 4

Shows the impact of an adjustment to the risk factor applied to the overall DRC valuations, currently 22%, by an increase or decrease of 10%, effectively showing risk factors of 32% and 12%.

Depreciated Replacement Cost

			2020-21
Type	Depreciated Replacement Cost (-) £m	Depreciated Replacement Cost £m	Depreciated Replacement Cost (+) £m
Base Case inc 22% risk	–	336,806	–
Scenario 1	313,292	–	360,319
Scenario 2	330,811	–	342,800
Scenario 3	342,676	–	330,935
Scenario 4	317,642	–	355,969

Depreciation Charge

			2020-21
Type	Depreciation Charge (-) £m	Depreciation Charge £m	Depreciation Charge (+) £m
Base Case inc 22% risk	–	5,772	–
Scenario 1	5,693	–	5,862
Scenario 2	5,772	–	5,772
Scenario 3	5,987	–	5,557
Scenario 4	5,302	–	6,242

11059-DfT-Annual Report 2020-21-P1.indb 255 12/09/2021 09:49

5.2 Strategic Road Network (SRN)

In 2020-21 the overall increase in the value of the Strategic Road Network by £6.0bn was driven by the following factors. Highways England invested in additions into the Strategic Road Network of £3.3bn in line with their capital investment program, offset by £1.0bn of depreciation reflecting the latest condition of the network. The overall revaluation movement on the network was £3.8bn, which included: £1.0bn arising from full professional revaluation of Special Structures; £1.7bn arising from refinement in estimation approach towards structures, and £0.8bn for increase in the HECI index.

Valuation approach

The Strategic Road Network (SRN) is valued using a DRC 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:

			2020-21
Type	**Depreciated Replacement Cost** £m	**Asset Life** Years	**Depreciation Charge** £m
Assets Under Construction	2,205	N/A	–
Roads	80,272	N/A	658
Renewals capitalised	–	N/A	–
Structures	36,791	20-120 years	214
Technology	1,520	15-20	142
Land	13,793	N/A	–
	134,581		**1,014**

The Road Network is valued by Atkins (professional valuers) using data provided by Highways England.

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.

- The impact of increasing or decreasing the costing rates by 10%, would increase or decrease the DRC valuation by £13,000m.

- The impact of increasing the Highways England Capital Enhancement Cost Index (HECI) by 10 points would increase the DRC valuation by £11,400m.

5.3 Assets under Construction

The material balances included in assets under construction were:

	31 March 2021	31 March 2020
	£m	£m
Preparatory work for construction of HS2 (core Department & HS2 Ltd elements)	12,134	8,793
Highways England (non SRN)	193	129
Sites in support of EU Transition	116	–
Other	111	47
Total	**12,554**	8,969

The material additions to assets under construction were:

	2020-21	2019-20
	£m	£m
Preparatory work for construction of HS2 (core Department & HS2 Ltd elements)	3,341	2,503
Highways England (non SRN)	152	92
Sites in support of EU Transition	116	–
Other	75	41
Total	**3,684**	2,636

In 2020-21 the Department commenced acquisition & development of new sites in Kent to support the Government's EU Transition Plan and subsequent arrangements.

6. Intangible Assets

				2020-21
	Software Licences £m	Development Expenditure £m	Assets under Construction £m	Total £m
Cost or valuation				
At 1 April 2020	126	441	26	593
Additions	8	-	8	16
Disposals	(7)	(1)	-	(8)
Transfers	-	-	-	-
Reclassifications	12	13	(20)	5
Revaluations (cost)	1	(20)	-	(19)
At 31 March 2021	**140**	**433**	**14**	**587**
Amortisation				
At 1 April 2020	(85)	(300)	-	(385)
Charged in year	(13)	(8)	-	(21)
Disposals	7	1	-	8
Transfers	-	-	-	-
Reclassifications	-	-	-	-
Revaluations (depreciation)	(1)	–	–	(1)
At 31 March 2021	**(92)**	**(307)**	**-**	**(399)**
Carrying amount at 31 March 2021	**48**	**126**	**14**	**188**
Carrying amount at 31 March 2020	41	141	26	208
Asset financing:				
Owned	48	126	14	188
PFI & other service concession arrangements	–	–	–	-
Carrying amount at 31 March 2021	**48**	**126**	**14**	**188**
Of the total:				
Core Department	12	–	–	12
Agencies	3	40	9	52
Other designated bodies	33	86	5	124
Carrying amount at 31 March 2021	**48**	**126**	**14**	**188**

				2019-20
	Software Licences	Development Expenditure	Assets under Construction	Total
	£m	£m	£m	£m
Cost or valuation				
At 1 April 2019	85	498	12	595
Additions	14	1	18	33
Disposals	–	(63)	–	(63)
Transfers	–	–	–	–
Reclassifications	27	6	(4)	29
Revaluations (cost)	–	(1)	–	(1)
At 31 March 2020	126	441	26	593
Amortisation				
At 1 April 2019	(50)	(353)	–	(403)
Charged in year	(10)	(7)	–	(17)
Disposals	–	61	–	61
Transfers	–	–	–	–
Reclassifications	(25)	(1)	–	(26)
Revaluations (depreciation)	–	–	–	–
At 31 March 2020	(85)	(300)	–	(385)
Carrying amount at 31 March 2020	41	141	26	208
Carrying amount at 31 March 2019	35	145	12	192
Asset financing:				
Owned	41	141	26	208
Finance Leased	–	–	–	–
On Balance Sheet (SoFP) PFI & other service concession arrangements	–	–	–	–
Carrying amount at 31 March 2020	**41**	**141**	**26**	**208**
Of the total:				
Core Department	4	–	7	11
Agencies	2	32	13	47
Other designated bodies	35	109	6	150
Carrying amount at 31 March 2020	**41**	**141**	**26**	**208**

7. Leases

The Group's lease contracts comprise leases of operational land and buildings, plant and machinery and motor vehicles. Most are individually insignificant. Three elements, however, are significant in their own right:

- The Core Department's most significant lease relates to its main headquarters building: this lease commenced in December 2018 for a term of twenty-five years with no extension options. Rentals increase annually in line with the consumer price index, subject to a cap and floor. The value of the asset as at 31 March 2021 was £73m (2020: £78m).
- The MCA provides UK-wide services from ten bases operating under the UK Search and Rescue Helicopter Service contract. This contract also includes non-lease components. The value of the right of use asset as at 31 March 2021 was £196m (2020: £238m).
- Network Rail holds £204m of property leases and £177m of other leases (2020: £230m and £181m respectively).

Right-of-use lease assets

						2020–21
	Land and buildings £m	Other assets £m	Core & Agencies Total £m	Land and buildings £m	Other assets £m	Group Total £m
Cost or valuation						
At 1 April 2020	131	293	424	410	257	1,091
Additions	1	2	3	39	59	101
Impairments	–	–	–	–	(1)	(1)
Transfers	–	–	–	–	–	–
Reclassifications	–	–	–	–	–	–
Revaluations (cost)	–	–	–	–	(3)	(3)
Derecognition	(7)	(1)	(8)	(8)	–	(16)
Remeasurement	2	–	2	(20)	(3)	(21)
At 31 March 2021	**127**	**294**	**421**	**421**	**309**	**1,151**
Depreciation						
At 1 April 2020	(13)	(46)	(59)	(56)	(46)	(161)
Recognition	–	–	–			–
Charged in year	(15)	(46)	(61)	(63)	(59)	(183)
Transfers	–	–	–	–	–	–
Reclassifications	–	–	–	–	–	–
Revaluations (depreciation)	–	–	–	–	2	2
De-recognition	2	–	2	–	–	2
At 31 March 2021	**(26)**	**(92)**	**(118)**	**(119)**	**(103)**	**(340)**
Carrying amount at 31 March 2021	**101**	**202**	**303**	**302**	**206**	**811**

11059-DfT-Annual Report 2020-21-P1.indb 260 12/09/2021 09:49

						2020–21
	Land and buildings £m	Other assets £m	Core & Agencies Total £m	Land and buildings £m	Other assets £m	Group Total £m
Cost or valuation						
At 1 April 2019	–	–	–	–	–	–
Recognition	110	311	421	345	167	933
Reclassifications	–	–	–	–	26	26
Additions	18	1	19	66	66	151
Revaluations (cost)	–	–	–	–	(2)	(2)
Derecognition	–	(19)	(19)	–	–	(19)
Remeasurement	3	–	3	(1)	–	2
At 31 March 2020	**131**	**293**	**424**	**410**	**257**	**1091**
Depreciation						
Charged in year	(13)	(46)	(59)	(56)	(48)	(163)
Revaluations (depreciation)	–	–	–	–	2	2
At 31 March 2020	**(13)**	**(46)**	**(59)**	**(56)**	**(46)**	**(161)**
Carrying amount at 31 March 2020	**118**	**247**	**365**	**354**	**211**	**930**

Lease liabilities

Leases are recognised within Note 20, Borrowings.

A maturity analysis of contractual undiscounted cash flows relating to lease liabilities is given below. The cash flows and balances are presented net of irrecoverable VAT.

	2020–21		2019–20	
	Core Department & Agencies £m	**Departmental Group £m**	Core Department & Agencies £m	Departmental Group £m
Amounts falling due:				
Not later than one year	(65)	(194)	(70)	(186)
Later than one year and not later than five years	(220)	(494)	(262)	(590)
Later than five years	(134)	(281)	(161)	(299)
	(419)	(969)	(493)	(1,075)
Less: Unaccrued interest	52	128	66	138
Balance as at 31 March	**(367)**	**(841)**	(427)	(937)
Current	(57)	(181)	(62)	(176)
Non-current	(310)	(660)	(365)	(761)
	(367)	**(841)**	(427)	(937)

Amounts recognised in the Statement of Comprehensive Net Expenditure

	2020–21		2019–20	
	Core Department & Agencies £m	**Departmental Group** £m	Core Department & Agencies £m	Departmental Group £m
Depreciation	61	183	59	163
Interest expense	8	21	9	25
Low value and short term leases	1	5	2	7
	70	**209**	70	195

Amounts recognised in the Statement of Cash Flows

	2020–21		2019–20	
	Core Department & Agencies £m	**Departmental Group** £m	Core Department & Agencies £m	Departmental Group £m
Interest expense	8	21	9	25
Repayments of principal on leases	62	199	48	173
	70	**220**	57	198

Group as a lessor

Network Rail has material amounts receivable from operating leases, which are disclosed in the table below. Other amounts receivable under operating leases or finance leases are not material to the Group and therefore not included.

	31 March 2021	31 March 2020
	£m	£m
Within 1 year	426	433
Between 1 and 2 years	342	385
Between 2 and 5 years	685	761
After 5 years	2,027	2,184
Total	**3,480**	**3,763**

8. Investment Properties

	£m
Balance at 1 April 2019	233
Disposals	(8)
Reclassifications	(1)
Revaluations (cost)	3
Balance at 31 March 2020	227
Balance at 1 April 2020	227
Additions	6
Disposals	(11)
Reclassifications	(4)
Revaluations (cost)	(5)
Balance at 31 March 2021	**213**

All material investment properties are controlled by Network Rail. The rental income earned from investment properties amounted to £10m (2019-20: £16m). Direct operating expenses incurred on the properties during the year amounted to £3m (2019-20: £3m). The properties are let on a tenant repairing basis. The maintenance obligations are limited to common areas and vacant property units.

9. Assets Held for Sale

	Core Department & Agencies £m	Departmental Group £m
Cost or Valuation		
Balance at 1 April 2019	1	28
Additions	–	–
Disposals	(1)	(17)
Impairments	–	–
Reclassifications	–	25
Revaluations (cost)	–	–
Balance at 31 March 2020	–	36
Balance at 1 April 2020	**–**	**36**
Additions	–	–
Disposals	–	(4)
Impairments	–	(1)
Reclassifications	–	99
Revaluations (cost)	–	–
Balance at 31 March 2021	**–**	**130**

11059-DfT-Annual Report 2020-21-P1.indb 263 12/09/2021 09:49

10. Commitments

Commitment Type	Note	2020–21 Core Department & Agencies £m	2020–21 Departmental Group £m	2019-20 (restated) Core Department & Agencies £m	2019-20 (restated) Departmental Group £m
Capital	10.1	56	6,175	3	6,211
The capital element under on balance sheet PFI contracts comprises:	10.2	12	1,363	15	1,448
Other financial	10.3	23,796	962	29,207	210
Total		**23,864**	**8,500**	29,225	7,869

10.1 Capital commitments

Contracted and approved commitments at 31 March not otherwise included in these financial statements:

	2020–21 Core Department & Agencies £m	2020–21 Departmental Group £m	2019-20 (restated) Core Department & Agencies £m	2019-20 (restated) Departmental Group £m
Property, plant and equipment	55	6,173	2	6,210
Intangible assets	1	2	1	1
	56	**6,175**	3	6,211

10.2 Commitments under PFI and other service concession arrangements

Highways England and DVLA have obligations under on-balance sheet PFI contracts. 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 2021 was £1,352m (2020: £1,433m). Lease charge commitments under these contracts comprise this capital element, future interest charges of £915m (2020: £1,016m) and future service charges of £7,248m (2020: £7,767m).

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 2021 was £803m (2020: £822m). Commitments under this contract comprise this capital element; future interest charges of

£733m (2020: £797m); and future service charges of £5,990m (2020: £6,216m).

Barring legal changes, government sequester or force majeure, all Highways England PFI contracts will terminate automatically at the end of the contractual term. Upon cessation PFI contract assets will be returned to Highways England in an as new condition, ensuring no cost to company in returning the road to a serviceable standard.

PFI commitments in the Core Department & Agencies column relate to DVLA. DVLA entered into a 20-year service concession agreement with Telereal Trillium (formerly Land Securities Trillium) in 2005, 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 2021 was £12.5m (2020: £15m).

The future total imputed 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 obligations under on balance sheet PFI contracts comprise:

	2020–21		2019–20	
	Core Department & Agencies £m	**Departmental Group** £m	Core Department & Agencies £m	Departmental Group £m
Rentals due:				
Not later than one year	3	185	3	185
Later than one year and not later than five years	10	738	14	742
Later than five years	–	1,357	–	1,539
	13	**2,280**	17	2,466
Less: interest element	(1)	(917)	(2)	(1,018)
	12	**1,363**	15	1,448

The capital element under on balance sheet PFI contracts comprises:

	2020–21		2019–20	
	Core Department & Agencies £m	**Departmental Group** £m	Core Department & Agencies £m	Departmental Group £m
Not later than one year	3	89	1	84
Later than one year and not later than five years	9	414	14	393
Later than five years	-	860	–	971
	12	**1,363**	15	1,448

The interest element under on balance sheet PFI contracts comprises:

	2020–21		2019–20	
	Core Department & Agencies £m	Departmental Group £m	Core Department & Agencies £m	Departmental Group £m
Not later than one year	1	96	1	101
Later than one year and not later than five years	1	324	1	349
Later than five years	–	497	–	568
	2	**917**	2	1,018

Future charges to the Statement of Comprehensive Net Expenditure

	2020–21		2019–20	
	Core Department & Agencies £m	Departmental Group £m	Core Department & Agencies £m	Departmental Group £m
Not later than one year	22	377	22	422
Later than one year and not later than five years	67	1,752	93	1,717
Later than five years	–	5,207	–	5,743
	89	**7,336**	115	7,882

10.3 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 is committed and which have not been provided for in these accounts, are as follows:

	31 March 2021		31 March 2020	
	Core Department & Agencies £m	Departmental Group £m	Core Department & Agencies £m	Departmental Group £m
Not later than one year	7,830	860	6,813	78
Later than one year and not later than five years	15,966	102	22,374	112
Later than five years	–	–	20	20
	23,796	**962**	29,207	210

11059-DfT-Annual Report 2020-21-P1.indb 266 12/09/2021 09:49

Of which:

Train Operating Companies for the term of their ERMA contract	Unquantified (see narrative below)			
Transport for London to 18 May 2021	485	485	–	–
Bus operators to 26 May 2021	216	216	–	–
Light rail operators to 21 June 2021	33	33	–	–
Airport and ground operations support scheme to 30 September 2021	44	44	–	–
Civil Aviation Authority to 31 March 2022	25	25	–	–
COVID-19 support measures sub-total	803	803	–	–
Grants to Network Rail for remainder of Control Period 6	22,846	–	29,091	–
Other	147	159	116	210
	23,796	**962**	29,207	210

Core Departmental commitment to Train Operating Companies (TOCs)

The Secretary of State has statutory responsibilities under the Railways Act for provision of passenger rail services. During the pandemic, the Department implemented EMA and ERMA contracts with the TOCs to ensure that services continued to operate. Under these arrangements, the Department assesses the validity of the TOCs' costs against the contractual provisions of the EMA and ERMA. The Department then subsidises the TOCs' allowable costs, net of operating revenues. The value of the Department's commitment is considered to be unquantifiable, because the level of subsidy is dependent upon uncertain future passenger volumes and revenues. The ERMAs are scheduled to end in tranches during financial year 2021-22. Further details on these contracts and on TOCs' revenues and costs are provided in Note 28.

COVID-19 support measures

The COVID-19 support measures comprise estimated costs of future funding packages formally agreed as at 31 March 2021. Those payments support essential transport operations during the pandemic. Additional COVID-19 funding packages agreed after the end of the financial year are described in Note 32: Events after the reporting period.

Core Departmental commitment to Network Rail

In October 2018, the Office of Rail and Road announced how much the Department would fund Network Rail in each year of Control Period 6. This funding is excluded from the Group total as it is intra-group.

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 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 lending.

In December 2018, the Department agreed a funding package for the Crossrail project, comprising loans of £1.3bn to the Greater London Authority (GLA) and £750m to be made available to Transport for London (TfL). The GLA received its loan funding between February 2019 and April 2020, whilst TfL drew down its loans between April 2020 and April 2021. The Department committed to provide the GLA with an additional £825m loan facility, to be drawn down from May 2021 onwards. Following a thorough evaluation of the probability of default and losses given default, the Department considers there is no material impairment of the balance or the £825m loan commitment as at 31 March 2021, because both entities retain strong sub-sovereign credit ratings, and the GLA has the power to levy taxation for the purposes of funding the project.

In 2020-21, the Department provided grant funding of £2,457m to TfL, to maintain key transport services through the pandemic as result of reduced passenger volumes. The Department has committed to provide further grant funding in 2021-22 as set-out in the June 2021 settlement letter. In October 2020, the settlement letter required TfL to produce a trajectory plan as to how financial sustainability could be achieved by 2023. The financial sustainability plan sets out how TfL plan to achieve this. Considering the financial sustainability plan options for TfL and GLA's tax raising abilities, whilst acknowledging the protective impact on TfL's near-term financial position of the Department's emergency grant funding, the Department considers the Crossrail loan to be of low credit risk at the reporting date under IFRS 9.

The Department has no plans to write off or forgive this debt and has stress tested TfL's revenue forecasts to confirm its confidence in recoverability through the financial sustainability plan.

	General Lighthouse Fund £m	Crossrail £m	DOHL £m	Other loans £m	Departmental Group £m
Balance at 1 April 2019	110	365	–	25	500
Impairments	–	–	–	–	–
Reclassifications	–	–	–	–	–
Advances	–	889	172	–	1,061
Repayments	(20)	–	–	–	(20)
Balance at 31 March 2020 (re-stated)	90	1,254	172	25	1,541
Impairments	–	–	–	(1)	(1)
Reclassifications	–	–	–	–	–
Advances	–	722	–	–	722
Repayments	(20)	–	(70)	–	(90)
Balance at 31 March 2021	**70**	**1,976**	**102**	**24**	**2,172**

	Core Department external loans £m	Network Rail £m	Core Department & Agencies £m
Balance at 1 April 2019	500	29,895	30,395
Impairments	–	–	–
Reclassifications	–	–	–
Advances	1,061	11,557	12,618
Repayments	(20)	(12,029)	(12,049)
Balance at 31 March 2020 (re-stated)	1,541	29,423	30,964
Impairments	–	–	–
Reclassifications	–	–	–
Advances	722	10,840	11,562
Repayments	(90)	(9,841)	(9,931)
Balance at 31 March 2021	**2,173**	**30,422**	**32,595**

The Departmental Group total reflects all external loans issued by the Group. The Core Department external loans column reflects external loans issued by the Core Department, excluding loans issued by Arm's Length Bodies.

Additionally, following the year end, the Department committed to provide up to £825m additional loans to the Greater London Authority (GLA) in support of completing the Crossrail project. This debt is not recognised in the Statement of Financial Position since it is available in 2021-22. GLA's primary funding streams for repayment of this debt include the Crossrail Business Rate Supplement and the Mayoral Community Infrastructure Levy. In the event that these future taxation streams are insufficient to support full repayment by 2045, DFT has agreed to forgive up to £325m of these new loans. This commitment relates only to future loans not yet drawn at 31st March 2021. The Department would reasonably expect GLA to use its tax-raising powers to meet its existing and future contractual debt obligations. Accordingly, the arrangements for this future commitment are not considered to represent an increase to the existing credit risk on the loan drawn-down as at 31st March 2021.

12. Equity Investments

	LCR Ltd £m	DOHL £m	Other Subsidiaries £m	Core Department & Agencies Total £m	Network Rail Insurance Ltd £m	Interests in jointly controlled entities £m	Group Total £m
Balance at 1 April 2019	368	68	13	**449**	200	25	**674**
Additions	–	–	1	**1**	–	–	**1**
Revaluations (cost)	(6)	59	–	**53**	34	1	**88**
Balance at 31 March 2020 (re-stated)	362	127	14	**503**	234	26	**763**
Balance at 1 April 2020	362	127	14	**503**	234	26	**763**
Additions	–	–	1	**1**	–	–	**1**
Disposals	–	–	–	**–**	–	–	**–**
Impairments	–	–	–	**–**	–	–	**–**
Revaluations (cost)	(67)	122	–	**55**	–	(7)	**48**
Profit/(Loss) share	–	–	–	**–**	–	–	**–**
Balance at 31 March 2021	**295**	**249**	**15**	**559**	**234**	**19**	**812**

12.1 Valuation methodologies and techniques

The following equity investments: LCR Ltd, DOHL 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 is recognised at fair value as at 31 March 2021 and 31 March 2020. The valuation is based on four components: investment properties; cash and working capital; property development around Stratford (through its joint venture, Stratford City Business District Ltd); and property development of the Manchester Mayfield site. The disclosures in Note 27.1 indicate the carrying values of these components in LCR Ltd's annual report and accounts. On the implementation of IFRS 9, the DfT reviewed the classification of this asset and concluded that it was an equity investment, held at fair value. The Department made an irrevocable election to hold it at fair value through other comprehensive income.

The valuation was performed by selecting, for each component, the valuation techniques that a knowledgeable investor would use. For the most part, particularly for the investment property portfolio, 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. As at 31 March 2021, surveyors reported the valuations were not reported as being subject to "material valuation uncertainty", as they had been as at 31 March 2020, but included the following explanatory note for reasons of transparency: that COVID-19 and the measures taken to tackle it continued to affect economies and real estate markets globally. Nevertheless, as at the valuation date some property markets were deemed to have started to function again, with transaction volumes and other relevant evidence at levels where an adequate quantum of market evidence existed upon which to base opinions of value. Given the valuation approach, the resulting valuation is considered to be at level 3 in the IFRS 13 hierarchy.

The valuation identified the following changes of value, which have been recognised through the other comprehensive income:

2020-21: £(67)m
2019-20: £(6)m

The reduction in fair value between 31 March 2020 and 31 March 2021 of £67m was mostly driven by the impact of COVID-19 on the investment property portfolio.

12.3 DFT OLR Holdings Limited (DOHL)

DOHL was reclassified as a public corporation with effect for accounting purposes from 1st April 2020. The company was previously consolidated in these financial statements, but has been deconsolidated from the effective date of its reclassification. The Department's shareholding is therefore recognised as an equity investment. The company is considered to be a portfolio of investments in London North Eastern Railway Ltd and Northern Trains Ltd. Each of these component companies has been measured at its net assets, which is considered to approximate to fair value. These net assets chiefly comprise working capital balances and IFRS 16 balances. The assets and liabilities held directly by DOHL are included at their book value.

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:

2020-21: £122m
2019-20: £59m

Further information on DOHL is provided in note 27.2.

12.4 Network Rail Insurance Limited

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 Network Rail 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 using the Adjusted Book Value (ABV) approach as at 31 March 2015, which has been updated for changes in net assets between 1 April 2015 and 31 March 2021. 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 27.3.

The valuation identified the following changes of value, which have been recognised through either operating expenditure or other comprehensive net expenditure:

2020-21: £0m
2019-20: £34m

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 £19m at 31 March 2021 (2020: £26m) and updated for changes in net assets between 1 April 2020 and 31 March 2021. Most of the net assets comprise properties that are revalued annually. This resulted in a downwards revaluation of £7m in 2020-21 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 invested £33m in DVSA as PDC. PDC is a concept which is unique to trading funds. Following the ONS decision to reclassify DVSA's public sector status from Public Corporation to Central Government, DVSA's trading fund status was revoked and DVSA repaid the PDC to the core Department on 31 March 2021. Accordingly, DVSA joined the Group on 1 April 2021 as an executive agency; further details about this can be found in Note 26. In accordance with the FReM, PDC was carried at historical cost.

14. Derivatives

Materially all of the Group's derivatives are held by Network Rail. 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 before it was financed by loans and grants from the Department.
Network Rail now purchases derivatives only to manage risks related to the purchase of goods or services. Note 30.2 shows when derivatives mature.

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

	2020-21		2019-20	
	Departmental Group		Departmental Group	
	Fair Value £m	Notional amounts £m	Fair Value £m	Notional amounts £m
Cash flow hedges				
Cross-currency swaps to hedge debt issued under the debt issuance programme	109	128	138	128
Fair value hedges	–	–	–	–
Cross-currency swaps to hedge debt issued under the debt issuance programme	–	–	–	–
Non-hedge accounted derivatives	–	–	–	–
Cross-currency swaps to hedge debt issued under the debt issuance programme	67	198	98	198
Interest rate swaps	211	9,140	245	10,670
Forward foreign exchange contracts	–	–	3	1
	387	**9,466**	484	10,997
Included in non-current assets	191	6,716	474	9,396
Included in current assets	196	2,750	10	1,601
	387	**9,466**	484	10,997

Financial liabilities held at fair value through the SOCNE

	2020-21		2019-20	
	Departmental Group		Departmental Group	
	Fair Value £m	Notional amounts £m	Fair Value £m	Notional amounts £m
Derivative financial instrument liabilities				
Cash flow hedges				
Interest rate swaps	(6)	(130)	(11)	130
Forward starting interest rate swaps	–	–	–	–
Non-hedge accounted				
Interest rate swaps to hedge debt issued under the Debt Issuance Programme	(641)	(9,140)	(883)	12,380
Forward foreign exchange contracts	(4)	49	(1)	22
	(651)	**(9,221)**	(895)	12,532
Included in non-current liability	(566)	(6,660)	(847)	9,343
Included in current liability	(85)	(2,561)	(48)	3,189
	(651)	**(9,221)**	(895)	12,532

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 thirteen UK airports. NATS is accounted for as an associate as the Department holds minority voting rights in NATS (31 March 2020 and 2021: 48.9%).

	NATS Holdings Ltd £m
Balance at 1 April 2019	380
Share of profit/(loss)	30
Share of other comprehensive net income/(expenditure)	(43)
Share of other movements, inc. dividend paid from NATS to DFT	(29)
Balance at 31 March 2020	338
Balance at 1 April 2020	338
Share of profit/(loss)	(56)
Share of other comprehensive net income/(expenditure)	15
Dividends paid from NATS to DFT	–
Balance at 31 March 2021	**297**

Carrying value as at 31 March 2021

The value recognised on the Statement of Financial Position represents the Department's share of NATS' net assets as presented in NATS' audited financial statements for the year to 31 March 2021.

Carrying value as at 31 March 2020

The value recognised on the Statement of Financial Position and in the Department's financial statements for the year ended 31 March 2020 represents the Department's share of NATS' net assets as presented in NATS' unaudited interim financial statements for the six months to 30 September 2019, adjusted for a subsequent dividend receipt. No adjustment was made for subsequent profits or losses or other items of comprehensive net expenditure. This approach was adopted because publication of the Department's accounts preceded publication of NATS' own financial statements for 2019-20. The Department was content that subsequent movements in NATS' audited financial statements would not have a material impact on the carrying value of the investment in the Departmental Group.

Movement recognised during 2020-21

The movements recognised in these financial statements comprise two components: (1) the difference between amounts previously recognised for the year ended 31 March 2020 and amounts based on NATS' audited financial statements for that year; and (2) amounts based on NATS' audited financial statements for 2020-21:

All values in £m	(1) Estimates updated in line with NATS' audited financial statements to 31 March 2020			(2)	
	Previously recognised in 2019-20	Amounts based on audited financial statements	Difference	Department's share of results in the year to 31 March 2021	Total recognised by Departmental Group in 2020-21 (1+2)
Share of profit/(loss)	30	(1)	(31)	(25)	(56)
Share of other comprehensive net income/(expenditure)	(43)	94	137	(121)	16
Share of other movements, inc. dividend paid from NATS to DFT	(29)	(29)	–	–	–

Financial results of associate

	2020–21	2019-20l (restated)
	£m	£m
Balance at 31 March		
Non current assets	1,662	1,625
Current assets	403	745
Current liabilities	(340)	(267)
Non current liabilities	(1,116)	(1,194)
Net assets	**609**	909
Total revenue and regulatory allowances	823	892
Profit/(loss) for the year	(51)	(1)
Other comprehensive income/(expenditure) for the year	(250)	192
Dividends paid during the year	–	(59)

The amounts shown above for 2019-20 are the audited results for the year published by NATS. For the reasons described above, the Department's 2019-20 accounts included an estimate of these figures based on NATS' interim accounts for the year.

The adjustment for the difference between amounts previously recognised in these departmental accounts for the year ended 31 March 2020 and the amounts based on NATS' audited financial statements for that year represents the correction of an accounting estimate, and is therefore recognised prospectively. The difference in the share of other comprehensive net income / (expenditure) was driven by larger than expected actuarial gains, and the difference in the share of profits / (loss) was driven by an impairment to Goodwill.

Following the requirements of IAS 28, the Department is required to assess whether the carrying value of this investment asset, calculated using the equity method, exceeds its recoverable amount. NATS' revenues are regulated by the Civil Aviation Authority (the CAA) using a Regulatory Asset Base (RAB) method. The regulatory settlement is intended to cover efficient costs and to permit a return on the RAB that reflects a market-consistent cost of debt and equity. The Department expects this principle will be upheld in the CAA's future regulatory determinations. The current control period ends in 2023: the CAA is consulting now on the next regulatory settlement after this date. The reduction in NATS' net assets presented in its own financial statements for the year ended 31 March 2021 and reflected in the carrying value of the Department's investment includes an impairment of goodwill assets:

this reflects a more cautious set of assumptions over the future returns expected from the RAB. The Department considers that the assumptions around the recovery of the sector from the pandemic, which NATS has used in assessing goodwill for impairment in its own financial statements, are reasonable. Accordingly, the Department concluded that any additional impairment to its own investment in NATS would not be material.

Note 4 analyses the Department's share of the associate's net profits/losses between operating income/expenditure – which represents the profit/loss other than the dividend received (2020-21: loss of £56m; 2019-20: profit of £1m) and non-operating income – which represents the dividend received from NATS (2020-21: £nil; 2019-20: £29m).

16. Inventories

	2020–21		2019–20	
	Core Department & Agencies £m	**Departmental Group £m**	Core Department & Agencies £m	Departmental Group £m
Raw materials, consumables & work-in-progress	–	331	–	315
Current assets	**–**	**331**	–	315
Properties acquired under the HS2 exceptional hardship and related schemes	650	650	591	591
Raw materials, consumables & work-in-progress	5	5	5	5
Non-current assets	**655**	**655**	596	596

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 of the programme and will be reclassified to AUC when the criteria for capitalisation have been met and legislation has progressed sufficiently.

17. Trade and Other Receivables

	2020–21		2019–20 (re-stated)	
	Core Department & Agencies £m	**Departmental Group £m**	Core Department & Agencies £m	Departmental Group £m
Amounts falling due within one year:				
Trade receivables	74	47	24	62
Trade receivables - contracts with customers	–	370	4	438
Deposits and advances	–	68	1	47
VAT receivables	7	435	10	350
Other receivables	645	606	112	87
Collateral placed with banking counterparties	–	369	–	534
Prepayments and accrued income	823	1,079	187	435
Current part of NLF loan	–	–	–	–
Amounts due from the Consolidated Fund in respect of supply	–	–	–	–
Total current	**1,549**	**2,974**	338	1,953
Amounts falling due after more than one year:				
Trade receivables	20	21	21	20
Other receivables	9	8	2	1
Network Rail Collateral Facility	260	–	410	–
Prepayments and accrued income	–	11	–	11
Total non-current	**289**	**40**	433	32
Total current and non-current	**1,838**	**3,014**	771	1,985

Prepayments includes £687m paid to Train Operating Companies at the end of March, as payments under the ERMA are issued monthly in advance. There were no such prepayments at 31st March 2020 under the EMAs.

Other receivables includes £260m due from Transport for London in respect of unspent grant funds provided during 2020-21 which were repayable to the Department, and £262m due from Train Operating Companies at the end of the ERMA in respect of franchise termination settlements.

18. Cash and Cash Equivalents

	2020–21		2019–20 (re-stated)	
	Core Department & Agencies £m	**Departmental Group £m**	Core Department & Agencies £m	Departmental Group £m
At 1 April	531	872	213	774
Net change in cash and cash equivalents	(113)	61	318	98
At 31 March	**418**	**933**	531	872
The following balances were held at:				
Government Banking Service	412	552	526	585
Commercial banks and cash in hand	6	381	5	287
At 31 March	**418**	**933**	531	872

19. Trade and Other Payables

	2020–21		2019–20 (re–stated)	
	Core Department & Agencies £m	**Departmental Group £m**	Core Department & Agencies £m	Departmental Group £m
Amounts falling due within one year:				
Trade payables	(55)	(788)	(320)	(959)
Other payables	(28)	(406)	(26)	(302)
VAT, other taxation and social security	(11)	(99)	(7)	(91)
Accruals	(1,420)	(3,637)	(1,051)	(3,057)
Deferred income	(62)	(195)	(71)	(151)
PFI and other service concession arrangements	(3)	(89)	(3)	(84)
Collateral received from banking counterparties	–	(105)	–	(120)
Amounts issued from the Consolidated Fund for supply but not spent at year end	(418)	(418)	(503)	(503)
Consolidated Fund Extra Receipts due to the Consolidated Fund	(262)	(262)	(28)	(28)
Total current	**(2,259)**	**(5,999)**	(2,009)	(5,295)
Amounts falling due after more than one year:				
Other payables	(33)	(92)	(51)	(256)
Deferred income	(1,045)	(1,113)	(1,099)	(1,220)
PFI and other service concession arrangements	(9)	(1,275)	(12)	(1,364)
Total non-current	**(1,087)**	**(2,480)**	(1,162)	(2,840)
Total current and non-current	**(3,346)**	**(8,479)**	(3,171)	(8,135)

Consolidated Fund Extra Receipts due to the Consolidated Fund of £262m are receivable at 31 March 2021. Amounts recognised at 31 March 2020 were received in 2019-20.

Deferred income includes £257m for contract balances in respect of deferred revenue from contracts under IFRS 15 (2020: £265m). £97m of this contract liability balance at the beginning of the year was recognised as revenue in 2020-21.

20. Borrowings

Financial liabilities

Balances in the Core Department and Agencies column relate 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.

Lease liabilities

Following the adoption of IFRS 16 on 1 April 2019 the majority of the Group's leases are recognised on-balance sheet as right-of-use assets (Note 7) and lease liabilities. Lease liabilities are presented under borrowings, because they have similar characteristics: they are interest-bearing and have long-term maturities. However, they are not financial instruments within the scope of IFRS 9, and therefore are not subject to all of the disclosure requirements.

Interest costs are disclosed in Note 3.7.

	2020–21		2019–20	
Note	**Core Department & Agencies** £m	**Departmental Group** £m	Core Department & Agencies £m	Departmental Group £m
1.085% sterling index linked bond due 2052	–	(143)	–	(141)
0% sterling index linked bond due 2052	–	(157)	–	(154)
2.334% Asset Backed Index Linked Notes due 2051	(817)	(823)	(814)	(811)
5.1% sterling bond due 2051	(1,101)	(1,101)	(1,101)	(1,101)
1.003% sterling index linked bond due 2051	–	(27)	–	(27)
0.53% sterling index linked bond due 2051	–	(138)	–	(136)
0.517% sterling index linked bond due 2051	–	(138)	–	(136)
0% sterling index linked bond due 2051	–	(158)	–	(154)
0.678% sterling index linked bond due 2048	–	(136)	–	(134)
1.125% sterling index linked bond due 2047	–	(5,887)	–	(5,819)
0% sterling index linked bond due 2047	–	(101)	–	(99)
1.1335% sterling index linked bond due 2045	–	(55)	–	(55)
1.5646% sterling index linked bond due 2044	–	(313)	–	(308)
1.1565% sterling index linked bond due 2043	–	(62)	–	(61)
1.1795% sterling index linked bond due 2041	–	(76)	–	(75)
1.2219% sterling index linked bond due 2040	–	(307)	–	(302)
1.2025% sterling index linked bond due 2039	–	(83)	–	(82)
4.5% sterling bond due 2038	(429)	(429)	(428)	(428)
4.6535% sterling bond due 2038	–	(100)	–	(100)
1.375% sterling index linked bond due 2037	–	(5,789)	–	(5,717)
5.234% Asset Backed Fixed Rate Notes due 2035	(349)	(363)	(424)	(441)
4.75% sterling bond due 2035	–	(1,235)	–	(1,234)
1.6492% sterling index linked bond due 2035	–	(467)	–	(459)
4.375% sterling bond due 2030	–	(872)	–	(872)
4.5% sterling bond due 2028	(1,236)	(1,236)	(1,236)	(1,236)
1.75% sterling index linked bond due 2027	–	(5,599)	–	(5,548)
4.615% Norwegian krone bond due 2026	–	(49)	–	(47)
4.57% Norwegian krone bond due 2026	–	(14)	–	(13)
1.9618% sterling index linked bond due 2025	–	(395)	–	(389)
4.75% sterling bond due 2024	–	(745)	–	(743)
3% sterling bond due 2023	–	(399)	–	(399)
2.76% Swiss franc bond due 2021	–	(231)	–	(251)
2.315% Japanese yen bond due 2021	–	(66)	–	(77)
2.28% Japanese yen bond due 2021	–	(66)	–	(77)
2.15% Japanese yen bond due 2021	–	(66)	–	(77)

		2020–21		2019–20	
	Note	Core Department & Agencies £m	Departmental Group £m	Core Department & Agencies £m	Departmental Group £m
4.625% sterling bond due 2020		–	–	–	(1,000)
Index-linked European Investment Bank due 2036 (£243m) and 2037 (£241m)		–	(522)	–	(514)
Financial liabilities		**(3,932)**	**(28,348)**	(4,003)	(29,217)
Lease liabilities	7	**(367)**	**(841)**	(427)	(937)
Total borrowings		**(4,299)**	**(29,189)**	(4,430)	(30,154)
Of which;					
Current		(99)	(679)	(172)	(1,297)
Non-current		(4,200)	(28,510)	(4,258)	(28,857)
		(4,299)	**(29,189)**	(4,430)	(30,154)

Current borrowings include bonds maturing in the next 12 months plus stage repayments of other bonds, and lease liabilities due within the next 12 months.

The following table analyses the Department's exposure to interest and inflation risk on the financial liabilities above. Note 31 analyses the financial liabilities by IFRS 9 treatment and the fair value hierarchy.

	2020–21		2019–20	
	Core Department & Agencies £m	Departmental Group £m	Core Department & Agencies £m	Departmental Group £m
Analysis by interest rate and inflation risk exposure				
Nominal	(3,115)	(6,972)	(3,188)	(8,096)
Index-linked	(817)	(21,376)	(814)	(21,121)
	(3,932)	**(28,348)**	(4,002)	(29,217)

	£m
At 1 April 2019	(28,766)
Net cash payments	74
Non-cash movements	
Capital accretion	(535)
Exchange differences	(19)
Fair value and other movements	29
Change in lease liabilities	(937)
At 31 March 2020	(30,154)
Net cash payments	1,077
Non-cash movements	
Capital accretion	(291)
Exchange differences	20
Fair value and other movements	63
Change in lease liabilities	96
At 31 March 2021	**(29,189)**

21. Financial guarantee contracts

The Department has given an indemnity to Network Rail's debt holders covering the total outstanding debt as at 31 March 2021 of £23,874m (2020: £24,686m). The indemnity expires in 2052 and is recognised as a financial guarantee contract. The indemnity reduces the cost of borrowing for Network Rail. The table below shows the carrying value calculated in accordance with the accounting policies in Note 1.17. The amount amortised to income reflects the amount of debt supported, multiplied by the credit spread. The impact of financing is presented separately as an interest cost. The amount charged or released during the year is mostly driven by the difference between forecast and actual RPI accretion during the year.

	Core Department & Agencies £m
Balance at 1 April 2019	(4,066)
Release in year	12
Amortised to income	266
Unwinding of discount	(150)
Balance at 31 March 2020	(3,938)
Release in year	80
Amortised to income	265
Unwinding of discount	(143)
Balance at 31 March 2021	**(3,736)**

22. Deferred Taxation

Deferred tax relates to the activities of Network Rail only. 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 to DRC in these financial statements. 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.

UK corporation tax is calculated at 19% (2020: 19%).

	2020-21	2019-20
	Departmental Group £m	Departmental Group £m
At 1 April	(3,580)	(3,003)
Prior year adjustments	–	–
Operating gain/(loss)	(232)	(396)
Other comprehensive income/(expenditure)	462	(181)
At 31 March	**(3,350)**	(3,580)
Some deferred tax assets and liabilities have been offset. The following is the analysis of the gross deferred tax balances.		
Deferred tax liabilities	(3,524)	(3,605)
Deferred tax assets	174	25
	(3,350)	(3,580)

Deferred tax assets of £174m recognised in the Table above relate to: short-term timing differences including retirement benefit obligations, and derivatives. Under IAS12 deferred tax assets can only be recognised where it is probable that taxable profits will be available against which the deferred tax asset can be utilised. As in 2020, it remains improbable that Network Rail will produce a level of taxable profits that will allow for recognition of a deferred tax asset relating to the trading losses carried forward. Network Rail uses all its profits to fund capital expenditure. Following the Budget in March 2021, Network Rail will be able to claim the “super allowance” deduction on certain capital expenditure. Management’s current assessment is that it is likely that these capital allowances will mean there is no significant taxable income for the two years to 31 March 2023. In these 2 years, capital allowances will cover the taxable profit and mean that there is no expected need for use of losses. Beyond the current funding regime, there is no certainty over the funding mechanism of Network Rail and hence the use of any losses.

Network Rail has utilised the asset for surplus ACT asset brought forward of £36.9m in the financial year.

The change in corporation tax rates, to 25% from 19% (effective from April 2023), was substantively enacted in the Finance Act 2021 after the balance sheet date. It is estimated that this will increase the deferred tax liability by £1.0bn and will be reflected in next year’s accounts.

23. Provisions for Liabilities and Charges

	High Speed 2 Land & Property £m	Industrial disease claims £m	National Freight Company Pension £m	Others £m	Core Department & Agencies £m	Highways England Land & Property £m	VAT £m	ATTF £m	Others £m	Departmental Group £m
Balance at 1 April 2019	(1,003)	(279)	(50)	(143)	**(1,475)**	(233)	(98)	(2)	(59)	**(1,867)**
Provided in year	(486)	(66)	–	(2)	**(554)**	(167)	(139)	(489)	(65)	**(1,414)**
Provision written back	151	96	3	30	**280**	91	50	1	20	**442**
Provision utilised	297	13	4	55	**369**	71	143	437	19	**1,039**
Unwinding of discount	–	(5)	–	–	**(5)**	–	–	–	–	**(5)**
Transfers	–	–	–	31	**31**	–	–	–	(31)	**–**
Reclassifications	–	–	–	–	**–**	–	–	–	–	**–**
Balance at 31 March 2020	(1,041)	(241)	(43)	(29)	**(1,354)**	(238)	(44)	(53)	(116)	**(1,805)**
Provided in year	(194)	–	–	(7)	**(201)**	(332)	(27)	(17)	(73)	**(650)**
Provision written back	35	45	3	5	**88**	124	–	27	26	**265**
Provision utilised	260	13	3	3	**279**	65	–	16	25	**385**
Unwinding of discount	–	(5)	–	–	**(5)**	–	–	–	–	**(5)**
Transfers	–	–	–	–	**–**	–	–	–	–	**–**
Reclassifications	–	–	–	–	**–**	–	–	–	–	**–**
Balance at 31 March 2021	**(940)**	**(188)**	**(37)**	**(28)**	**(1,193)**	**(381)**	**(71)**	**(27)**	**(138)**	**(1,810)**
Of which:										
Later than five years	–	(135)	(23)	(5)	**(163)**	–	–	–	(1)	**(164)**
Between one and five years	(443)	(40)	(11)	(10)	**(504)**	(229)	–	–	(15)	**(748)**
Non-current	(443)	(175)	(34)	(15)	**(667)**	(229)	–	–	(16)	**(912)**
Current/within one year	(497)	(13)	(3)	(13)	**(526)**	(152)	(71)	(27)	(122)	**(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) and was responsible for industrial injuries, and other employment- and environment-related claims resulting from its activities. Some industrial diseases are slow to develop, and therefore the claims do not arise until many years after the relevant employment ceases. In 2001, following privatisation, the responsibility and liability for these claims transferred to British Railways Board (Residuary) Ltd (BRBR), and when BRBR was abolished in 2013, they passed to the DfT.

During 2020-21, the value of this provision has decreased from £241m to £188m. There has been a 19% decrease in the number of outstanding claims (from 216 to 176 during 2020-21), which is offset by unwinding the discount, resulting in a £41m credit to the SOCNE (2020: £25m). £13m was paid out in settlement of such claims during the year (2020: £13m).

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 2021: £30m; 2020: £35m) – 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 2021: £7m; 2020: £8m) – 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 2021: £940m; 2020: £1,041m). These include: compulsory purchase orders (£751m); statutory blight legislation (£84m); the Need to Sell scheme (£25m); Rural Support Zone Scheme (£3m) and specific agreements with various corporate entities (£77m). 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. By value, the year-end provision for Compulsory Purchases covers 63% “active” and 37% “inactive” cases (2020: 62% active, 38% inactive). Note 1.21.2 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

The £27m increase in VAT provision during 2020-21 represents amounts due from Highways England to HMRC for the historic over-recovery of VAT on hybrid scheme pre-construction works.

Highways England Land & Property

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 2021: £381m; 2020: £238m).

Air Travel Trust Fund (ATTF)

These financial statements disclose as a separate category the balances and movements on the ATTF's obligations to the customers of failed tour operators. The ATTF's purpose, set out in its trust deed, is to compensate customers who have purchased package holidays or "flight plus" holidays from a tour operator that holds an ATOL (air travel organiser's licence) issued by the Civil Aviation Authority. These customers pay an ATOL Protection Contribution to the ATTF, which entitles them to complete their holiday and then be repatriated (if their holiday has commenced) or to be refunded (if it has not commenced); these costs are met from monies held by the ATTF. When a tour operator fails, the ATTF recognises a provision of the expected costs, as the timing and amount of payments are uncertain.

On 23 September 2019, Thomas Cook went into liquidation, and all flights and holiday bookings were cancelled, with an estimated 150,000 Thomas Cook customers overseas at the time. The Trust provided £489m for the estimated costs of repatriation and refunds. The Trust paid £437m to settle this obligation in 2019-20 and £16m in 2020-21; and it released £27m of the provision that was no longer required.

The remaining balance reported in the table above relates to claims and fees arising from Thomas Cook (£10m) and other tour operators. The settlement was delayed during 2020-21 due to the impact of the pandemic on the tourism industry.

Other

These headings cover a range of smaller provisions, including:

- British Railways Board's (BRB) ex-employees' pensions (31 March 2021: £7m; 2020: £8m) – 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 opposed to the construction of HS2 (31 March 2021: £4m; 2020: £8m).
- HS2 has provided for supplier incentive and fee moderation costs (£1.72 million) that are payable dependent on specific criteria being met, in addition to legal cases and disputed supplier costs (£0.09 million). These are for amounts where the likelihood of payment has been assessed as probable.
- Highways England has provided for other liabilities totalling £10m (2020: £8m). 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.
- Other material balances included under 'Other' include: £94m in respect of Network Rail (2019-20: £78m), £13m in respect of Highways England (2019-20: £8m) and £10m in respect of High Speed 2 (2019-20: £9m). Those entities own accounts provide further details.

24. Contingent Liabilities

Contingent liabilities may result in an obligation to transfer cash in the future depending on future developments outside the Group's control. They are not recognised in the Statement for Financial Position unless it becomes probable that the group will need to transfer cash, and are monitored carefully in the meantime. As a government department, the DfT discloses contingent liabilities under requirements that are broader than those applicable to commercial entities. This Note discloses contingent liabilities for which the risk of crystallisation is higher than remote but not probable in accordance with IAS 37. 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 2021 £m	31 March 2020 £m
Mersey Gateway Commitment by the Department to fund any shortfall of toll revenue from the Mersey Gateway Bridge to meet Halton Council's financial obligations under the Demand Management Participation Agreement.	1,306	1,364
HS2 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. Additional undertakings and assurances were given in respect of Phase 2a in 2020-21.	382	280
HS1 The HS1 Concession Agreement between the Secretary of State and HS1 Ltd specifies that the Secretary of State would be liable to pay compensation following potential changes to the Railways (Interoperability) Regulations.	150	90
Network Rail Guarantees issued by Network Rail to financial institutions in respect of its own activities and the activities of businesses it wholly or partially owns.	120	125
Legal claims From time to time, the Departmental Group experiences legal claims and challenges which it defends wherever appropriate. The change in exposure reflects changes in the volume and values of active cases during the year.	131	114
Guarantees to promote investment in railway assets 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. Progress towards achieving major milestones (in particular, on the Intercity Express Programme) has removed a component of the risk that the guarantees were issued to manage.	17	96
Business indemnities 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. These indemnities have different expiry dates and cover risks such as industrial diseases and environmental issues. As at 31 March 2020, they were collectively assessed as having remote risk and were disclosed on that basis. During the year, all but one of the indemnities for industrial disease risk expired and the remaining indemnity was assessed to be of more than remote risk; it is therefore now disclosed here.	3	–
Total	**2,109**	2,069

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 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.
- Under the HS1 Concession Agreement, the Secretary of State would be liable for compensation in the event of changes in law or other events equivalent to increases in operating costs or loss of revenues. It is considered impracticable to provide a reliable single-point estimate. However, the maximum potential exposure during the remaining term of the current Control Period is considered not to exceed £100m.
- 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.
- From time to time, the Departmental Group experiences legal claims and challenges which it defends wherever appropriate. Some claims may have a sufficiently broad range of potential outcomes as to be unquantifiable for practical purposes.

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 Principal 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.

The Department applies IAS 19 to all these schemes; consequently, 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 acts as designated employer for the other four 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 minus 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)*	Pre-2007 and 2007-2015 schemes: closed to new members. Post-2015 scheme: open to eligible members.	All schemes: Shared cost (employer's share 60%) *Pre-2007 scheme:* final salary-based. 2007-2015 scheme: final salary-based. *Post-2015 scheme:* career average revalued earnings, linked to CPI.	Pre-2007 scheme: 1/45 less 1/30 the basic state pension). 2007-2015 scheme: 1/70 final salary. Post-2015 scheme: 1/55.3.	Pre-2007 scheme: 55. 2007-2015 scheme: 55 or 65 depending on circumstances. Post-2015 scheme: 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.

11059-DfT-Annual Report 2020-21-P1.indb 289 12/09/2021 09:49

Formal actuarial valuations

Scheme	Actuary	Effective date of funding valuation	Valuation report date	Effective date of next funding valuation
1994 Section	WTW & GAD	31-Dec-19	12-Feb-21	31-Dec-22
BR Shared Cost Section	WTW & GAD	31-Dec-19	Waiting for member consultation to be completed	31-Dec-22
British Railways Superannuation Fund	WTW & GAD	31-Dec-19	28-May-21	31-Dec-22
Network Rail schemes	WTW	31-Dec-19	23-Dec-20	31-Dec-22
British Transport Police Force Superannuation Fund	XPS	31-Dec-18	Not yet agreed	31-Dec-21
British Transport Police Railways Pension Scheme	WTW & XPS	31-Dec-19	07-Apr-21	31-Dec-22

GAD: Government Actuaries Department.
WTW: Willis Towers Watson

All valuations were undertaken using the projected unit method.

The 2019 actuarial valuation of the BTP section of the RPS scheme reported a shortfall of £6m. BTP has agreed to meet the shortfall through annual lump sum payments of £1m from 2021 to 2026. Contribution rates will increase to the future service joint contribution rate; with the share of this increase to be met by BTP until 1 April 2022. All other material schemes within the Group were in surplus at the date of their most recent valuations and so no additional funding contributions were required. However, the 31 December 2018 valuation for BTPFSF has not yet been agreed.

The weighted average scheme duration for each of the Group's material defined benefit schemes, is:

- 1994 Section: 8 years
- Network Rail Railway Pensions Scheme: 21 years
- Network Rail CARE scheme: 37 years
- British Transport Police Force Superannuation Fund: 23 years
- British Transport Police Railway Pensions Scheme: 25 years

Across the Group, expected employer contributions in 2021/22 are c.£160m.

The net pension liability by scheme

The deficit comprises the following balances:

	2020–21		2019–20	
	Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
NR (RPS and CARE)	–	(2,899)	–	(2,070)
1994 Section	(1,173)	(1,173)	(1,369)	(1,369)
BR Shared Cost Section	(65)	(65)	(33)	(33)
British Railways Superannuation Fund (BRSF)	(1)	(1)	(11)	(11)
BR (1974) Pension Fund	(3)	(3)	(3)	(3)
BTP Force Superannuation Fund (BTPFSF)	–	(846)	–	(480)
BTP Section of the Railways Pension Scheme (RPS)	–	(193)	–	(100)
Total deficit at the end of the period	**(1,242)**	**(5,180)**	(1,416)	(4,066)

11059-DfT-Annual Report 2020-21-P1.indb 290 12/09/2021 09:49

Network Rail's RPS and CARE schemes, in addition to the BR Shared Cost Section, are shared cost in nature. The cost of benefits earned and of funding any shortfall in the schemes are normally split in the proportion 60:40 between the employer and the members. The deficit recognised in these statements is the proportion relating to the employer only.

Reconciliation of net pension liability

	Core Department & Agencies	Departmental Group		
	Deficit	Asset	Liabilities	Deficit
	£m	£m	£m	£m
At 1 April 2019	(1,526)	8,472	(13,345)	(4,873)
Current service cost including members' share	(2)	–	(378)	(378)
Past service costs	23	–	23	23
Interest on pension deficit	(30)	182	(288)	(106)
Administration expenses	–	(11)	–	(11)
Return on plan assets greater than the discount rate	(100)	(155)	–	(155)
Section amendment	–	–	–	–
Actuarial gain/(loss) arising from changes in financial assumption	246	–	1,062	1,062
Actuarial gain/(loss) on defined benefit obligation due to demographic assumptions	–	–	162	162
Actuarial gain/(loss) arising from experience adjustments	(29)	–	65	65
Regular contributions by employer	2	145	–	145
Contributions by employees	–	16	(16)	–
Benefits paid	–	(505)	505	–
As at 31 March 2020	(1,416)	8,144	(12,210)	(4,066)
Current service cost including members' share	(1)	–	(346)	(346)
Past service costs	–	–	–	–
Interest on pension deficit	(32)	178	(267)	(89)
Administration expenses	–	(12)	–	(12)
Return on plan assets greater than the discount rate	483	1,645	–	1,645
Section amendment	–	–	–	–
Actuarial gain/(loss) arising from changes in financial assumption	(291)	–	(2,569)	(2,569)
Actuarial gain/(loss) on defined benefit obligation due to demographic assumptions	–	–	15	15
Actuarial gain/(loss) arising from experience adjustments	13	–	89	89
Regular contributions by employer	2	153	–	153
Contributions by employees	–	17	(17)	–
Benefits paid	–	(512)	512	–
As at 31 March 2021	**(1,242)**	**9,613**	**(14,793)**	**(5,180)**

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 being more or less than that assumed.

The "return on plan assets" represents the interest and gains or losses generated by the assets that the scheme invests in.

Past service costs or credits 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 made allowances of up to 1% of the total liabilities in 2018-19 for the cost of GMP equalisation. These allowances were revised down to 0.4% in 2019-20, which resulted in a past service credit being recognised in 2019-20. Analysis of recent benefit payments including interest indicate that these allowances remain appropriate and therefore no past service cost or credit is recognised in 2020-21.

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.

Impact of COVID-19

Pension valuations at 31 March 2020 were significantly affected by the pandemic. The valuations of pension scheme assets in private equity and infrastructure funds experienced a higher than normal degree of estimation uncertainty at 31 March 2020. This degree of estimation uncertainty decreased at 31 March 2021. As shown in the sensitivity analysis below, discount rates in March and April 2020 were more volatile than normal. Discount rates demonstrated a more typical level volatility in March and April 2021.

At 31 March 2021, the long-term impact of COVID-19 on life expectancy remains uncertain. In-line with established industry practice, no additional adjustment is made to mortality assumptions in these financial statements in respect of COVID-19.

Analysis of scheme assets

The asset values disclosed reflect the Departmental Group's exposure to underlying asset classes through holdings of units of the pooled funds in which the underlying assets are held. Underlying assets are managed by the pension administrator, RPMI, and the control over economic benefits for Departmental entities is established through the unitisation of those funds. The table below illustrates the underlying assets proportional to the Departmental entities' unit holdings in various pooled funds, and their position in the fair value hierarchy as defined by IFRS 13 of the underlying assets.

Level 1 and 2 assets include diversified exchange-traded funds valued at open trading prices. Level 3 includes property, private equity and equity in non-exchange-traded pooled investment vehicles, which are measured using valuation techniques that include inputs based on unobservable market data (unobservable inputs) and therefore are inherently more subjective than Level 1 and 2 assets.

Analysis of assets in significant schemes, £m

	2020–21				2019–20
	Level 1	Level 2	Level 3	Total	Total
Cash and current assets	1,062	–	–	1,062	1,125
Derivatives – Futures	7	–	–	7	29
Derivatives – FX Contracts	–	–	–	–	(110)
Equities	3,751	–	64	3,815	2,825
Fixed Interest Securities	279	170	14	463	499
Index Linked Securities	217	6	–	223	232
Pooled Investment Vehicles	–	676	–	676	590
UK Property	–	–	562	562	512
Private equity and non-exchange traded pooled investment vehicles	–	–	2,250	2,250	1,963
Other	–	–	7	7	6
Total	**5,316**	**852**	**2,897**	**9,065**	7,671
Assets in minor schemes:					
Other – DFT Core, minor schemes				345	319
Other – NR CARE				203	154
Fair value of plan assets (departmental Group)				**9,613**	8,144

Pension scheme assets classified as Level 3 have an inherently greater level of estimation uncertainty than those classified as Level 1 or Level 2. A movement of 5% in the value of these Level 3 assets would increase or decrease the Group's defined pension deficit by £145m.

In 2019-20, pension scheme assets in the major schemes included level 3 investments of £2,540m. These comprised: £1,963m private equity and non-exchange traded Pooled Investment Vehicles; £43m in equities; £22m fixed interest securities; and £512m in Property. The value of these level 3 investments accounted for 31% of total pension assets held.

Amounts charged to operating costs

	2020–21		2019–20	
	Core Department & Agencies £m	**Departmental Group £m**	Core Department & Agencies £m	Departmental Group £m
Current service cost	1	346	2	378
Past service cost	–	–	(23)	(23)
Net interest expense/(income)	32	89	30	106
Administrative costs and taxes	–	12	–	11
Total	**33**	**447**	9	472
Of which:				
Employer contributions included in Note 3.1	3	152	2	145
Pension scheme costs per Note 3.6	30	295	7	327

Amounts recognised in other comprehensive expenditure

	2020–21		2019–20	
	Core Department & Agencies £m	**Departmental Group** £m	Core Department & Agencies £m	Departmental Group £m
Return on plan assets greater than the discount rate	483	1,645	(100)	(155)
Actuarial gain/(loss) arising from changes in assumptions	(291)	(2,554)	246	1,224
Actuarial gain/(loss) arising from experience adjustments	13	89	(29)	65
Total gain/(loss)	**205**	**(820)**	117	1,134

The key assumptions used in the calculation of the pension deficit are shown in the table below. The discount rate is based on market yields on high quality corporate bonds at the end of the reporting period. Inflation represents the projected increases to pensions in payment. At present, CPI is the government's inflation measure for increases under the Pension (Increase) 1971. The net gain or loss in OCI is mainly driven by the balance of the movement in net discount rate assumption (net of CPI) and the return on assets in excess of the discount rate at the beginning of the year.

For the 1994 Section, the net discount rate (calculated as discount rate less CPI) reduced from 0.25% to -0.70% over the year, causing a loss in OCI. This loss was offset by a gain on scheme assets in excess of the discount rate at the beginning of the year, producing an overall actuarial gain in the 1994 Section. The reduction in the net discount rate was higher in BTPFSF and Network Rail than in the 1994 Section. In BTPFSF, the net discount rate reduced from 0.80% to -0.80%. In Network Rail (RPS), the net discount rate reduced from 0.40% to -0.70%. The gain on plan assets was broadly consistent across all schemes. This resulted in an actuarial loss arising in respect of BTPFSF and Network Rail. Accordingly, despite an actuarial gain for the Core department in respect of the 1994 Section, there was a net actuarial loss for the full departmental group.

Principal actuarial assumptions at the reporting date (expressed as weighted average):

	NR (RPS)	**NR (CARE)**	**1994 Section**	**BTP Force Superannuation Fund (BTPFSF)**
2019-20				
Discount rate	2.20%	2.20%	2.25%	2.30%
Future pension increases	1.80%	1.80%	2.00%	1.50%
Future prices increase (CPI unless otherwise stated)	1.80%	1.80%*	2.00%	1.50%
Rate of increase in salaries	2.50%	2.50%	3.00%	2.40%
2020-21				
Discount rate	2.10%	2.10%	1.70%	1.95%
Future pension increases	2.80%	2.80%	2.40%	2.75%
Future prices increase (CPI unless otherwise stated)	2.80%	2.80%*	2.40%	2.75%
Rate of increase in salaries	3.20%	3.20%	3.20%	2.75%

11059-DfT-Annual Report 2020-21-P1.indb 294 12/09/2021 09:49

The majority of the Group's pension obligation are linked to inflation, where higher inflation will lead to higher value being placed on the obligation. Some of the scheme assets are either unaffected by inflation or loosely correlated with inflation (e.g. growth assets), however an increase in inflation will generally increase the pension scheme deficit. On 4 September 2019, the Government and UK Statistics Authority (UKSA) published correspondence relating to the future of RPI.

Following the consultation, in November 2020 UKSA noted their intention that from 2030 RPI will be aligned with CPIH. CPIH reflects CPI including owner occupiers' housing costs and Council Tax: it has historically been closely aligned with CPI. The implications of these developments during the year are reflected in the assessment of the most suitable CPI assumptions for each scheme at 31st March 2021.

* The detailed arrangements for CPI/RPI indexation of this scheme are set out on page 289.

	Average life expectancy on retirement			
	Members aged 45		Members aged 65	
Scheme	**Males**	**Females**	**Males**	**Females**
1994 Section	n/a	n/a	21.3	23.4
Network Rail (RPS and CARE)	22.7	24.9	21.1	22.7
BTPFSF	23.6	26.1	22.3	24.6

At this stage, the impact of the COVID-19 pandemic on life expectancy is not known and will remain uncertain until the effects on underlying population health are known. There is a lag for mortality data to be processed to revise the models on which future mortality expectations are based. As yet, there are no firm conclusions on the impact on mortality, but this is expected to emerge as more data is collected. Please see the section below for the sensitivity of the results to changes in mortality assumptions.

Sensitivity Analysis

The table below shows the impact of changes to assumptions on the net deficit of schemes where economic and actuarial assumptions have a material impact on the financial statements. Increases to the deficit are presented as positive numbers. Decreases to the deficit are shown in brackets as negative numbers.

	31 March 2021			31 March 2020		
	NR (RPS & CARE) £m	**1994 Section £m**	**BTPFSF £m**	NR (RPS & CARE) £m	1994 Section £m	BTPFSF £m
Discount rate						
+0.25%	(721)	(90)	(130)	(547)	(90)	(86)
-0.25%	780	90	141	590	90	93
Life expectancy						
+1 year	534	190	96	322	150	53
-1 year	(534)	(200)	(96)	(322)	(150)	(53)
Earnings increase						
+0.25%	217	n/a	n/a	152	n/a	n/a
-0.25%	(209)	n/a	n/a	(147)	n/a	n/a
Price inflation						
+0.25%	541	70	112	555	70	88
-0.25%	(484)	(70)	(100)	(517)	(70)	(82)
+0.50%	1,082	140	224	n/a	n/a	n/a
-0.50%	(968)	(140)	(200)	n/a	n/a	n/a

For 2020-21, the sensitivity analysis includes a variation of +/- 0.50% in respect of price inflation; given the volatility in market rates experienced during the year, these changes were considered reasonably possible as at 31 March 2021.

The pandemic led to an increased level of volatility in the discount rate which was used to value the pension scheme deficit on 31 March 2020. The tables below show the lower and upper bound of the fluctuation between 1 March and 30 April 2020, and 1 March and 30 April 2021 on the same indices reported in the Principal Actuarial Assumptions section above, and what the scheme liabilities would be for each scheme if they were valued using these alternative discount rates. The tables demonstrate that the implied discount rate was considerably less volatile over March and April 2021 compared to the same period in 2020.

Scheme	Actual discount rate used at 31st March 2020	Liability using actual discount rate	Lower bound discount rate	Liability when using lower bound discount rate	Upper bound discount rate	Liability when using upper bound discount rate
		£m		£m		£m
NR (RPS & CARE)	2.20%	6,241	1.40%	7,374	2.90%	5,322
1994 Section	2.00%	3,510	1.55%	3,672	2.75%	3,240
BTPFSF	2.30%	1,819	1.55%	2,098	2.85%	1,630

Scheme	Actual discount rate used at 31 March 2021	Liability using actual discount rate	Lower bound discount rate	Liability when using lower bound discount rate	Upper bound discount rate	Liability when using upper bound discount rate
		£m		£m		£m
NR (RPS & CARE)	2.10%	8,022	1.90%	8,572	2.10%	8,022
1994 Section	1.70%	3,530	1.60%	3,620	1.75%	3,485
BTPFSF	1.95%	2,418	1.75%	2,531	1.99%	2,397

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 of the employer participants in the schemes. Shared cost arrangements result in a restriction of net deficit recognition to the employer's share, unless there is a pattern of evidence of the employer accepting responsibility, on a discretionary basis, for deficits arising beyond their nominal share.

Potential obligation to Merchant Navy Officers' Pension Fund

As described in the staff costs disclosures, the General Lighthouse Authorities were Participating Employers of the now closed Merchant Navy Officers Pension Fund (MNOPF), a defined benefit scheme providing benefits based on final pensionable salary.

The MNOPF scheme was closed on 31 March 2016 by its trustees, therefore the Authorities' employees no longer participate in the scheme. However, the Authorities could be liable to contribute towards historic deficits along with all employers who have ever participated in the fund.

The MNOPF publishes full actuarial valuations on a triennial basis and is unable to determine the proportion of gross deficit attributable to the Authorities. The MNOPF's last full valuation reported a gross deficit of £73m as at 31 March 2018 and expected deficit contributions of £64m, resulting in a net deficit of £9m. The trustees published a recovery plan on 26 March 2019 in which an assumption was made for the Fund's assets to exceed the average discount rate by 0.1%, eliminating the deficit by 30 September 2023. Accordingly, the MNOPF trustees determined that no additional contributions would be required in order to eliminate the deficit.

Fund assets have been moved away from equities to more secure asset types as part of the winding-down of the scheme, this shields the fund from global market volatility and the impact of the COVID-19 pandemic.

An (interim) actuarial report as at 31 March 2020, and published September 2020, estimates the gross deficit has improved to £4m. Taking into account expected deficit contributions of £18m the report estimates a net surplus of £14m.

The trustees will review the need for additional deficit contributions as part of the 31 March 2021 valuation which is likely to be published in early 2022.

26. Entities within and outside the departmental boundary

Within the Departmental Accounting boundary

The following entities were within the Departmental boundary during 2020-21 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[61].

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*)
East West Railway Company Limited
High Speed Two (HS2) Limited
The Commissioners of Irish Lights
The Commissioners of Northern Lighthouses
Trinity House Lighthouse Service
Transport Focus

Arm's Length Bodies (Other than Non-Departmental Public Bodies)

Network Rail Group (Network Rail Limited and its UK subsidiaries)
Highways England Company Limited
CTRL Section 1 Finance plc
LCR Finance plc
Air Safety Support International Limited
Air Travel Trust Fund

61 https://www.gov.uk/government/collections/dft-annual-reports-and-accounts

11059-DfT-Annual Report 2020-21-P1.indb 297 12/09/2021 09:49

Train Fleet (2019) Limited (commenced operations in August 2019)
Transport Focus Wales Limited (commenced operations in September 2019)
Transport Focus Scotland Limited (incorporated in October 2019 but not yet operating)

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

DFT OLR Holdings Limited (*reclassified with effect for accounting purposes from 1 April 2020*, see Notes 12.3 and 27.2 for further information)
London North Eastern Railway Limited (see Notes 12.3 and 27.2 for further information)
Northern Trains Limited (see Notes 12.3 and 27.2 for further information)

As described in Note 28 the remaining 12 Train Operating Companies not controlled by DOHL were reclassified as Public Corporations with effect from 1 April 2020.

London and Continental Railways Limited (see Notes 12.2 and 27.1 for further information)
Crossrail International Limited
Civil Aviation Authority
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

Non-Ministerial Department and Regulator

Office of Rail and Road

Other Entities

Network Rail Insurance Limited (Guernsey) (see Notes 12.4 and 27.3 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.

Trading Funds

Driving and Vehicle Standards Agency
The Office for National Statistics reclassified DVSA as a central government body in 2019 and Parliament revoked its trading fund status with effect from 1 April 2021, therefore the DVSA will be consolidated into these accounts from 2021-22.

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 London & Continental Railways Limited (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 in 2009 because the Department had taken the majority of the project risk. 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 2021. These are prepared in accordance with IFRS, and all items are measured on the same basis as applied by the Department.

	2020-21	2019-20
	£m	£m
Stratford City	10	64
Investment properties and PPE	218	232
Non-current receivables from related parties	20	18
Current assets	90	90
Current liabilities	(15)	(15)
Non-current liabilities	(36)	(41)
Net assets	**287**	348
Revenue	37	32
Cost of sales	(11)	(11)
Administrative expenses	(8)	(9)
Gain/(loss) on revaluation of investment properties	(71)	(23)
Net finance income	(1)	–
Share of gains of associates and joint venture	(1)	–
Profit/(loss) before tax	**(55)**	(11)
Tax	5	(2)
Profit/(loss) for the year and Total comprehensive income	**(50)**	(13)

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

During 2020-21 LCR Ltd paid a dividend of £10m to the Department (2019-20: £18m). There were no other material transactions with the group in 2020-21 and 2019-20. 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 £295m as at 31 March 2021 (2020: £362m).

27.2 DFT OLR Holdings Limited (DOHL)

Strategic role

DOHL was set up by the Department to act as an immediate parent to any active companies performing operator of last resort (OLR) roles in the rail sector. Its active OLR subsidiaries during the year comprise LNER Ltd and Northern Trains Ltd. DOHL also acts as a parent to Train Fleet (2019) Ltd, however Train Fleet (2019) Ltd is consolidated in these financial statements and is therefore not reflected in the valuation of the investment in Note 12. DOHL performs an oversight role for these companies, making investments of debt and equity in them and thus setting performance criteria for them.

Financial performance and position

The following analysis and disclosure reflects DOHL's consolidated accounts, which also include Train Fleet (2019) Ltd. 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.

	2020-21	2019-20
	£m	£m
Non-current assets	847	742
Current trade and other receivables	161	114
Cash and cash equivalents	201	229
Other current assets	8	9
Current trade and other payables	(571)	(646)
Non-current liabilities	(397)	(321)
Net assets	**249**	127
Revenue	1,635	919
Other operating costs	(1,587)	(917)
Net finance income/(charge)	(36)	(10)
Profit before tax	**12**	(8)
Tax	(3)	(1)
Profit for the year	**9**	(9)

The amounts related to Trainfleet (2019) Limited in the table above include £93m assets held for sale (31 March 2020: £102m, presented under non-current assets) and £105m current trade and other payables (31 March 2020: £107m non-current liabilities). The company's other balances and transactions were immaterial to the group position. The liability balances were owed to DOHL.

Transactions with the consolidated group

During the year, the Department had the following balances and transactions with members of the DOHL group:

- DOHL made repayments on a loan from the Department, disclosed in Note 11;
- The Department paid subsidies to LNER Ltd and Northern Trains Ltd, as disclosed in Note 28.

Carrying value of the Group's investment in DOHL

The Group's investment in DOHL is held at fair value (see Note 12.3), with a carrying value of £249m as at 31 March 2021 (2020: £127m).

27.3 Network Rail Insurance Limited

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.

	2020-21	2019-20
	£m	£m
Cash and cash equivalents	297	291
Receivables from insurance contracts	2	8
Trade and other payables	(3)	(7)
Liabilities from insurance contracts	(74)	(70)
Net assets	**222**	222
Premium revenue	9	11
Insurance claims	5	26
Administrative expenses	(1)	(1)
Net gain before tax	**13**	36

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 £234m as at 31 March 2021 (2020: £234m).

27.4 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. Entities controlled but not consolidated: Train Operating Companies for which no investment is recognised in the Statement of Financial Position

Train operating companies

On 31 July 2020, the Office for National Statistics (ONS) reclassified the twelve train operating companies which were contracted to the Department under franchise agreements. They were reclassified to the public sector as Public Corporations, with effect from 1 April 2020, following the commencement of the Emergency Measures Agreements (EMAs). This reflected ONS' view that the EMAs gave the Department control over the companies, as defined under the ESA 10 National Accounts framework. In particular, the ONS noted that the EMAs imposed constraints on the TOCs' ability to raise funds, set ticket prices and workforce levels, and required them to maintain service levels when open access operators, which were more exposed to market forces, suspended operations. The ONS concluded that almost all of the financial risks were borne by government. In parallel, the Department had evaluated the nature of the powers it had obtained under the EMAs against the criteria set out in IFRS 10, and similarly concluded that it had obtained control for accounting purposes over those companies. EMAs did not provide the Department with legal control over these companies, and the legal arrangements for those companies remained unchanged by the EMAs. The Department has no other powers or basis for control over the companies, for example, it does not hold any equity instruments or other voting rights. Each of these companies is a special purpose vehicle owned by its respective owner group.

In September 2020, the EMAs were succeeded by the Emergency Recovery Measures Agreements (ERMAs). Under the ERMAs, the Department continues to hold the same powers that led to the reclassification of the TOCs by the ONS.

Ordinarily, an investor consolidates those investees that it controls. However, in accordance with the FReM, government departments consolidate only those bodies that have been classified to the central government sector and have been included on the Designation Order for the relevant year. As this is not the case for 2020-21 or 2019-20, the companies have not been consolidated in these accounts. As noted above, the Department does not hold any equity instruments in the companies; while the EMAs and ERMAs expose the Department to the costs and revenues of the companies' operations, they do not give us a residual interest in the companies' net assets, such as a right to a distribution on liquidation. Accordingly, the Department does not recognise any investment in these entities in its Statement of Financial Position. This treatment of ERMAs and EMAs differs from the accounting requirements for the Department's shareholdings in LNER and Northern Trains Ltd (NTL), for which the Department has a 100% equity interest and full rights to any dividends or capital appreciation: accordingly, our interests in LNER and NTL are recorded as investment assets measured at fair value. Within these financial statements, the ERMA and EMA costs have been recognised as expenditure, following the accounting policy disclosed in Note 1.24.3.

In order to meet the transparency requirements of IFRS 12, the Department presents the disclosures required by IFRS 12 for unconsolidated structured entities, which it considers to be the best fit for these circumstances.

Transactions and balances between the Department and the Train Operating Companies under the Emergency Measures Agreements (1 March 2020 to 20 September 2020) and the Emergency Recovery Measures Agreements (21 September 2020 onwards)

The table below gives a list of the companies affected by the ERMAs and EMAs and the contacts they operate. The table sets out the Department's balances and transactions with the companies under both types of agreement since 1 March 2020 as the mechanism that transferred control for accounting purposes to the Department. Although LNER and NTL operate under different agreements with the Department, the transactions between the Department and these companies have been significantly impacted by COVID-19. Transactions with LNER & NTL are therefore included in the table for reference. This table provides an overview the costs incurred by the Department to support the passenger services rail sector during the contract period of the EMAs and ERMAs to 31 March 2021.

Given the similarity of the EMAs and ERMAs, the amounts paid under the different agreements for 2020-21 are not separated.

Transactions and balances between the Department and TOCs under the EMAs and ERMAs

Company name	Operating contract	Contract types with DFT in 2020-21	Departmental expenditure on EMA/ ERMA for 2020-21 (£m)	Department's prepayment/ accrual balance as at 31 March 2021 (£m)	Departmental expenditure on EMA for 2019-20 (£m) (March 2020 only)	Department's prepayment/ accrual balance as at 31 March 2020 (£m)
The Chiltern Railway Company Limited	Chiltern	EMA and ERMA	171	18	6	-6
XC Trains Limited	Cross Country	EMA and Operating Contract Franchise Agreement*	443	37	19	-19
Abellio East Anglia Limited	East Anglia	EMA and ERMA	428	109	4	-4
Abellio East Midlands Limited	East Midlands	EMA and ERMA	341	36	15	-15
Trenitalia c2c Limited	Essex Thameside	EMA and ERMA	115	9	3	-3
First Greater Western Limited	Great Western	EMA**	1,100	138	70	-35
London and South Eastern Railway Limited	South Eastern	EMA**	873	72	39	-39

Company name	Operating contract	Contract types with DFT in 2020-21	Departmental expenditure on EMA/ ERMA for 2020-21 (£m)	Department's prepayment/ accrual balance as at 31 March 2021 (£m)	Departmental expenditure on EMA for 2019-20 (£m) (March 2020 only)	Department's prepayment/ accrual balance as at 31 March 2020 (£m)
First MTR South Western Trains Limited	South Western	EMA and ERMA	804	20	34	-34
Govia Thameslink Railway Limited	Thameslink, Southern and Great Northern	EMA and ERMA	1,306	61	46	-46
First TransPennine Express Limited	TransPennine Express	EMA and ERMA	335	44	18	-18
First Trenitalia West Coast Rail Limited	West Coast Partnership	EMA and ERMA	742	30	10	-10
West Midlands Trains Limited	West Midlands	EMA and ERMA	449	44	25	-25
Sub-total, companies under ERMAs/EMAs			7,107	618	289	-254
Northern Trains Limited	Northern	Services Agreement	772	95	51	10
LNER Limited	East Coast	Services Agreement	578	40	-3	-19
Grand total, ERMAs/EMAs and State-owned rail companies			8,457	753	337	-263

*Following the cessation of the EMA, XC Trains Limited operated under an Operating Contract Franchise Agreement (OCFA) rather than an ERMA, as the original franchise was due to end during the 2020-21 financial year. The OCFA is economically similar to the ERMA contracts.

** First Greater Western Limited and London and South Eastern Railway Limited previously operated under franchise agreements that expired on 31 March 2020. In 2020-21, these companies operated under new franchise agreements, beginning on 1 April 2020, that were signed alongside their EMAs in late March.

As disclosed in Note 1.24.2, the Department is also entitled to receive termination payments from some companies under the ERMAs. The aggregate amount presented in Note 4 for 2020-21 is £262m. These amounts are not included in the table above.

Historic information on Train Operating Companies' financial position and financial performance

The table on the next page provides relevant data from the TOCs' most recent published, audited accounts. Most TOCs have not yet published their accounts for 2020-21, and many TOCs do not have a 31 March year-end for their own statutory accounts. As such, the period for which the most recent published accounts are available differs by TOC: details of the most recent relevant period and the financial year-end is included for each company in the table on the next page.

Company name	Operating contract	Reporting basis	Year ended	Net assets/ (liabilities) (£m)	Employer's share of pension scheme surplus/ (deficit) before service period adjustment (£m)	Employer's share of pension scheme assets before service period adjustment	Employer's share of pension scheme liabilities before service period adjustment	Gross revenues: turnover and other operating income (£m)	Gross expenditures: cost of sales and other operating costs (£m)	Operating profits/ (losses) (£m)	Employer's share of pension scheme costs before service period adjustment (current service cost, interest etc) (£m)
2020-21											
Current companies participating in ERMAs (and EMAs to 20 September 2020)											
The Chiltern Railway Company Limited	Chiltern	FRS 101	31-Dec-19	29	-65	116	-181	262	-259	3	10
XC Trains Limited	Cross Country	FRS 101	31-Dec-19	34	-155	268	-423	588	-554	34	20
Abellio East Anglia Limited	East Anglia	FRS 101	31-Mar-20	-299	-114	272	-386	768	-1,075	-307	16
Abellio East Midlands Limited	East Midlands	FRS 101	31-Mar-20	3	-93	228	-321	283	-254	29	11
Trenitalia c2c Limited	Essex Thameside	FRS 101	31-Dec-19	9	-52	78	-130	192	-205	-13	6
First Greater Western Limited	Great Western	FRS 102	31-Mar-20	21	-311	602	-913	1,440	-1,387	53	58
London and South Eastern Railway Limited	South Eastern	FRS 101	27-Jun-20	83	-760	533	-1,293	1,057	-1,029	28	47
First MTR South Western Trains Limited	South Western	FRS 102	31-Mar-20	-133	-302	549	-851	1,087	-1,088	-1	49
Govia Thameslink Railway Limited	Thameslink, Southern and Great Northern	FRS 101	27-Jun-20	29	-1,166	772	-1,938	1,790	-1,758	32	79
First TransPennine Express Limited	TransPennine Express	FRS 102	31-Mar-19	-95	-84	100	-184	269	-269	–	12
First Trenitalia West Coast Rail Limited	West Coast Partnership	FRS 102	31-Mar-20	12	-183	417	-600	331	-316	15	12
West Midlands Trains Limited	West Midlands	FRS 101	31-Mar-19	-162	-129	311	-440	570	-540	30	25
Sub-total				-469	-3,414	4,246	-7,660	8,637	-8,734	-97	345

Company name	Operating contract	Reporting basis	Year ended	Net assets/ (liabilities) (£m)	Employer's share of pension scheme surplus/ (deficit) before service period adjustment (£m)	Employer's share of pension scheme assets before service period adjustment	Employer's share of pension scheme liabilities before service period adjustment	Gross revenues: turnover and other operating income (£m)	Gross expenditures: cost of sales and other operating costs (£m)	Operating profits/ (losses) (£m)	Employer's share of pension scheme costs before service period adjustment (current service cost, interest etc) (£m)
DfT-owned companies											
These companies operate the their contracts under Operator of Last Resort arrangements and are not participating in EMAs. Both had implemented IFRS 16 during the year ended 31 March 2020 and the net assets and operating profit data disclosed reflects the related adjustments made.											
London North Eastern Railway Limited	East Coast Mainline	FRS 101	31-Mar-21	68	-220	409	-629	730	-693	37	24
Northern Trains Limited	Northern	FRS 101	31-Mar-21	139	-427	741	-1,168	894	-884	10	53
Sub-total				207	-647	1,150	-1,797	1,624	-1,577	47	77
Grand Total				**-262**	**-4,061**	**5,396**	**-9,457**	**10,261**	**-10,311**	**-50**	**422**

Certain employees of the TOCs are members of a section of the Railways Pension Scheme (RPS). These sections are defined benefit, shared-cost arrangements. Defined benefit arrangements are usually accounted for by recognising the net surplus/(deficit) on balance sheet, and recognising the cost of the additional benefits earned during the year and net interest income/(expenditure) on the surplus/(deficit). Train operating companies modify this accounting approach, to reflect the term of their franchise agreement or operating contract, by recognising a service period adjustment, with the effect that only the employer's contributions over the franchise or contract term are recognised in the primary statements. The net surplus/(deficit) disclosed in the table on the prior page is therefore not recognised on the TOC's balance sheet, and only a proportion of the pension scheme costs is recognised in profit or loss. The employer's share of the pension deficits and employer's pension costs before service period adjustment are shown in the table. The balances disclosed represent 60% of the full deficit of the relevant sections of the RPS, in accordance with trustee guidelines which detail how the scheme surpluses and shortfalls are shared between the employer and scheme members. These amounts represent the deficit as calculated for accounting purposes only by TOCs in their most recent financial statement disclosures in accordance with IAS 19: these amounts may differ from the level of actuarial surplus or deficit as assessed by the scheme's trustee and actuary.

29. Related-party transactions

The DfT 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 DfT has had various material transactions with other public sector bodies. Most transactions have been with the Greater London Authority, Transport for London, HMRC, Transport Scotland and HM Treasury.

As disclosed in Note 26, the Department is the sponsor of various bodies that it is deemed to control which are classified as public corporations because they are market bodies, typically covering at least half of their costs through external revenues. The Department's material routine transactions with these bodies are disclosed in Notes 13, 27 and 28. During 2020-21, the Department also provided the following grants, to address COVID-19-related shortfalls in the recipients' external revenues:

- The Civil Aviation Authority: £37m
- The Driving and Vehicle Standards Agency (DVSA): £119m

During the year, no Minister, board member, key manager or other related party has undertaken any material transactions with the DfT except for the item reported below.

Richard Keys serves as a non-executive member at the DfT 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 and its subsidiaries, and has agreed to pay £0.4m in 2021-22:

	2020-21	2019-20
	£m	£m
Investment held by the Department in NATS Holdings Ltd	298	338
Dividends received by the Department from NATS Holdings Ltd	–	29
Amounts paid by the Department to NATS Holdings Ltd	0.5	0.5
Amounts paid from Eurocontrol to NATS via the Department	244	–

On 1 April 2021, Tony Poulter was appointed non-executive director of LCR Ltd, a company owned by the Department. Transactions between the Department and LCR Ltd are disclosed in Note 27.

Kathryn Cearns is a non-executive member of the Group Audit and Risk Assurance Committee (GARAC), a sub-committee of the Departmental Executive Committee. She is also the government's representative on the Elizabeth Line Committee, a special purpose committee of TFL. As these committees are both advisory in nature, these roles are not assessed to create a related party relationship between the Department and TFL under IAS 24.

30. 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 30.1); Liquidity risk (described in Note 30.2) and Market risk (including interest rate risk) (described in Note 30.3).

This table summarises the material sources of financial risk in the Group.

Entity	Funding mechanism	Risk	Downside Impact	Residual Risk
Core Department	Supply and cash drawn down from Consolidated Fund (voted by Parliament) with further access to the Contingencies Fund, Income from Train Operating Companies	Liquidity risk.	When entities experience any shortfall in income or financing, they need to consider reducing their costs where appropriate before seeking 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 Outturn against Parliamentary Supply.	Low
Network Rail, Vehicle Certification Authority, Driver & Vehicle Licensing Agency, British Transport Police Authority	Income from delivery of services, and grants from the core Department.	Liquidity risk; credit risk.		
Air Travel Trust Fund and the general lighthouse authorities	Taxation and levies	Liquidity risk		
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.		
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.		

30.1 Credit Risk

Credit risk relates to financial assets. It is a risk that entities will suffer a financial loss due to counterparties failing to pay obligations.

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. Ordinarily, the Department is exposed to credit risk on receivables from some Train Operating Companies (TOCs), but under the Emergency Measures Agreements and the Emergency Recovery Measures Agreements, the Department has no premium income due from the TOCs. None of the loans disclosed in Note 11 are past due and there has been no significant 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 30.3. 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. 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 the market expectations of macro-economic and sovereign debt rating. Note 3 shows that the re-measurement of FVTPL debt items resulted in a £30m gain (2020: £4m loss), which are all attributable to changes in market risk.

The management of credit risk on Network Rail's derivatives varies depending on when the agreements were signed.

- 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 2021 the fair value of collateral held was £105m (2020: £120m). 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 2021 was £369m (2020: £534m).

The group considers its maximum exposure to credit risk to be the sum of its financial assets, as set out in Notes 11 and 17, together with the undrawn loan commitment to the GLA of £825m disclosed in Note 11.

30.2 Liquidity Risk

Liquidity risk is the risk that entities will face difficulties meeting their obligations from financial and lease liabilities to be settled with cash.

As shown in the comparative period in Note 4, the Department received material levels of income from some Train Operating Companies (TOCs) prior to the pandemic, which was contingent upon various factors but primarily passenger numbers.

The Department is exposed to liquidity risk through its trade and other payables balances, leases, borrowings and requirements to place collateral under derivative arrangements. As described above, the Department can draw down cash from the Consolidated Fund and Contingencies Fund so its liquidity risk is low. The Department called on additional funding from the Contingencies Fund three times during 2020-21 because Departmental spending exceeded the limits set in the Vote on Account and Main Estimates. At the time of submitting the Vote on Account and finalising the Main Estimate, the full cost for the year that the Department would need to incur in response to the pandemic was unknown, hence the need to access the Contingencies Fund with Parliamentary approval.

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 borrowing facilities 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 lead to uncertainty in short-term cash requirements, the treasury function is managed at a departmental group level.

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.

					31 March 2021
Group	**Within one year** £m	**1–2 years** £m	**2–5 years** £m	**5+ years** £m	**Total** £m
Non-derivative financial liabilities					
Bank loans and overdrafts	(6)	(6)	(18)	(591)	(621)
Bonds issued under the NR Debt Issuance Programme					
– Sterling denominated bonds	(150)	(150)	(1,505)	(3,068)	(4,873)
– Sterling denominated index-linked bonds	(275)	(279)	(1,288)	(27,811)	(29,653)
– Foreign currency denominated bonds	(441)	(3)	(8)	(57)	(509)
Bonds issued by LCR Finance plc and CTRL Section 1 Finance plc					
– Sterling denominated bonds	(160)	(177)	(477)	(4,933)	(5,747)
– Sterling denominated index-linked bonds	(19)	(19)	(58)	(1,156)	(1,252)
– Trade and other payables	–	–	–	–	–
Derivative financial liabilities					
Net settled derivative contracts	(177)	(120)	(126)	(14)	(437)
Gross settled derivative contracts – receipts	712	29	88	29	858
Gross settled derivative contracts – payments	(1)	–	–	(1)	(2)
Total	**(517)**	**(725)**	**(3,392)**	**(37,602)**	**(42,236)**

Group	Within one year £m	1–2 years £m	2–5 years £m	5+ years £m	Total £m
					31 March 2020
Non-derivative financial liabilities					
Bank loans and overdrafts	–	–	(1)	(522)	(523)
Bonds issued under the NR Debt Issuance Programme					
– Sterling denominated bonds	(1,196)	(150)	(1,552)	(3,171)	(6,069)
– Sterling denominated index-linked bonds	(276)	(284)	(900)	(34,900)	(36,360)
– Foreign currency denominated bonds	(14)	(453)	(8)	(62)	(537)
Bonds issued by LCR Finance plc and CTRL Section 1 Finance plc					
– Sterling denominated bonds	(229)	(160)	(509)	(5,078)	(5,976)
– Sterling denominated index-linked bonds	(19)	(19)	(61)	(1,934)	(2,033)
– Trade and other payables	–	–	–	–	–
Derivative financial liabilities					
Net settled derivative contracts	(189)	(113)	(149)	(34)	(485)
Gross settled derivative contracts – receipts	14	453	8	62	537
Gross settled derivative contracts – payments	(3)	(276)	(3)	(58)	(340)
Total	(1,912)	(1,002)	(3,175)	(45,697)	(51,786)

30.3 Market Risk

30.3.1 Foreign exchange risk

The most 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 ten 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.

In addition, HS2 Ltd commenced a programme of purchasing forward contracts during 2020-21 to manage foreign exchange risk in its supply chain. These do not qualify for hedge accounting.

30.3.2 Interest rate and inflation risk

Network Rail is exposed to changes in interest rates from funds 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 issued by the Department is eliminated.

Network Rail has arranged or swapped debt with a carrying value of £18,410m (2020: £23,320m) 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.

11059-DfT-Annual Report 2020-21-P1.indb 312 12/09/2021 09:49

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 level of risk to the core Department is immaterial therefore mitigation of this risk does not represent value for money.

In November 2020, HM Treasury and the UK Statistics Authority published their response to the "Consultation on the Reform to Retail Prices Index (RPI) Methodology". It was concluded that the methods and data sources used to calculate the Consumer Prices Index including owner occupiers' housing costs (CPIH)) should be brought into the calculation of changes in the RPI from 2030. This change in methodology should result in lower rates of change in the RPI. The transaction documents determine how issuers should respond to changes in the RPI. For some instruments, changes to the RPI index could trigger contractual provisions that protect the anticipated investor returns.

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 percentage point (pp) increase or decrease represents management's assessment of the reasonably possible changes in average interest rates and inflation.

A one pp 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 pp 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 2021		31 March 2020	
	Impact on net expenditure	**Impact on taxpayers' equity**	Impact on net expenditure	Impact on taxpayers' equity
	£m	£m	£m	£m
1pp increase in the interest rate	213	3	344	3
1pp increase in GBP RPI on index linked bonds	(194)	(8)	(193)	(8)

11059-DfT-Annual Report 2020-21-P1.indb 313 12/09/2021 09:49

30.3.3 Other market risk

The Departmental Group has material investments in entities involved in the property sector. As discussed in Note 12, and particularly Note 12.2, the valuations of these investments are based on expert valuations of their property assets, which have been impacted by COVID-19, as described in Note 1.2. 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 level of estimation uncertainty in these valuations at 31st March 2020 and 31st March 2021 can be assessed from the disclosed valuation method discussed in Note 12.2 and the carrying values disclosed in Note 27.1.

30.3.4 Offsetting financial assets and liabilities

Financial assets

The following financial assets are subject to offsetting, enforceable master netting arrangements and similar agreements. The balances have not been presented on a net basis in the financial statements.

	Gross amounts of financial assets	Gross amounts of recognised financial liabilities set off in the SoFP	Net amount of financial assets in the SoFP	Related amounts not set off in the SoFP		Net amount
				Financial instruments	Cash collateral received	
	£m	£m	£m	£m	£m	£m
31 March 2021	387	–	387	(283)	235	339
31 March 2020	484	–	484	(369)	438	553

Financial liabilities

The following financial liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements. The balances have not been presented on a net basis in the financial statements.

	Gross amounts of financial liabilities	Gross amounts of recognised financial assets set off in the SoFP	Net amount of financial liabilities in the SoFP	Related amounts not set off in the SoFP		Net amount
				Financial instruments	Cash collateral paid	
	£m	£m	£m	£m	£m	£m
31 March 2021	(649)	–	(649)	283	28	(338)
31 March 2020	(895)	–	(895)	369	(24)	(550)

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.

31. 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. Since the Group's bonds and notes are traded with varying frequency, valuations are derived with reference to both directly observed activity on the instruments themselves and to observations of frequently traded reference gilts which have similar characteristics. The instruments' values are therefore classified as Level 2. A review of the categorisation of financial instruments into the three levels is made at each reporting date. There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements in the current or prior years.

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.

							31 March 2021
		Recognised at Basis	**Carrying Amount**	**Fair Value Total**	**Level 1**	**Level 2**	**Level 3**
Group	Note		£m	£m	£m	£m	£m
Assets							
Property, plant and equipment	5	Fair value	488,256	488,256			488,256
Investment properties	8	Fair value	213	213			213
Intangible assets	6	Fair value	188	188			188
Financial assets							
Loans and non-current receivables	11,17	Amortised cost	2,212	2,212		2,212	
Investments in equities	12	Fair value	812	812			812
Derivatives (note b)	14	Fair value	387	387		387	
Rail termination settlements receivable	17	Fair value	262	262			262
Financial liabilities							
Borrowings	20	Amortised cost	(28,087)	(46,689)	(14,222)	(32,467)	
Borrowings (note a)	20	Fair value	(261)	(261)		(261)	
Derivatives (note b)	14	Fair value	(651)	(651)		(651)	

							31 March 2020 (re-stated)
	Note	Recognised at Basis	Carrying Amount £m	Fair Value Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Assets							
Property, plant and equipment	5	Fair value	474,095	474,095	–	–	474,095
Investment properties	8	Fair value	227	227	–	–	227
Intangible assets	6	Fair value	208	208	–	–	208
Financial assets							
Loans and non-current receivables	11,17	Amortised cost	1,573	1,573	–	1,573	–
Investments in equities	12	Fair value	763	763	–	–	763
Derivatives (note b)	14	Fair value	484	484	–	484	–
Financial liabilities							
Borrowings	20	Amortised cost	(28,926)	(47,604)	(5,424)	(42,180)	–
Borrowings (note a)	20	Fair value	(291)	(291)	–	(291)	–
Derivatives (note b)	14	Fair value	(895)	(895)	–	(895)	–

During the current year it was identified that when valuing certain index linked borrowings, the full value attributed to the index linked features of the instruments had not been included in previous valuations as a result of the use, without adjustments, of a third party pricing function which provides quotations excluding these elements of value. The valuation disclosed in this note was then understated by this amount, resulting in an upward restatement of the 31 March 2020 fair value of borrowings by £9,201m. The Balance Sheet was unaffected since the relevant instruments are carried at amortised cost.

32. Events after the reporting period

Post-Balance Sheet Events

There have been no adjusting events between 31 March 2021 and the date the financial statements were authorised for issue requiring an adjustment to the financial statements.

As described in Note 22, it was announced in Budget 2021 the corporation tax rate will increase to 25% with effect from 1 April 2023. This amendment was substantively enacted for the purpose of these financial statements on 24th May, when the House of Commons approved the third reading of the Finance Bill, and is therefore a non-adjusting event. The impact of the increase to the corporation tax rate will be to increase the deferred tax liability by approximately £1bn.

COVID-19 support measures for the transport sector agreed after 31st March 2021, are set out in the table below. Support measures for 2021-22 already in-place as at 31st March 2021 are described in note 10.3.

11059-DfT-Annual Report 2020-21-P1.indb 316 12/09/2021 09:49

Transport Mode	Description of support measure	Period of support	Estimated value (£m)
Transport for London (TfL)	The H2 funding package was extended from 18 May to 28 May at an estimated cost of £65m. Subsequently, the third extraordinary funding package for Transport for London was confirmed, based on a series of conditions and commencing on 29 May at an estimated cost of £1,080m.	18 May 2021 – 11 December 2021	1,145
COVID-19 Bus Service Support Grant and Bus Recovery Funding Scheme	Extension of COVID-19 Bus Service Support Grant funding and successor Bus Recovery Funding scheme	Extended to 31 March 2022	299
Light Rail	Extension to the funding agreed to support local Light Rail services.	Extended to 31st March 2022	64

The A303 Stonehenge (Amesbury to Berwick Down) scheme was granted consent by the Secretary of State in November 2020. The scheme is the first, and most significant, of a series of upgrades on the congested A303/A358 corridor in the South West. Following the High Court judgement in July 2021 against the Secretary of State's decision, the Development Consent Order was quashed. Preliminary work, including archaeology, has therefore now been delayed. Land and property provisions of £27m relating to this scheme are accounted for in note 23 and have not been adjusted in these financial statements. Evaluation of the bids for the main construction is continuing while the Department decides what action to take following the ruling.

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.

11059-DfT-Annual Report 2020-21-P1.indb 317 12/09/2021 09:49

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		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. 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. 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’.
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[61].
General Lighthouse Fund	GLF	The GLF was created by statute in 1898 to provide funding for the three General Lighthouse Authorities (GLAs): Trinity House (TH), the Commissioners of Northern Lighthouses (known as the Northern Lighthouse Board or NLB) and the Commissioners of Irish Lights (known as Irish Lights or IL).
Government Actuaries Department	GAD	The Government department responsible for providing actuarial valuations and advice for public sector pension schemes; advice to the Government on occupational pension schemes, social security and on private pensions policy; and advice on insurance, contingent liabilities and on the pricing and management of risk.
Greater London Authority	GLA	The GLA is the devolved regional governance body of London with powers over transport, policing, economic development and fire and emergency planning. TfL reports to the GLA.
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.

61 https://www.gov.uk/government/collections/government-financial-reporting-manual-frem

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 10.2s for dealing with resources used by public sector bodies[62].
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[63].
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). NDPB's 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.

62 https://www.gov.uk/government/publications/managing-public-money
63 https://www.nao.org.uk/

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.
Transport for London	TfL	Transport for London is a local government body responsible for the transport system in Greater London, England. TfL has responsibility for London's network of principal road routes, for various rail networks including the London Underground, London Overground, Docklands Light Railway and TfL Rail. TfL is also responsible, jointly with the national DfT, for commissioning the construction of the new Crossrail line, and will be responsible for franchising its operation once completed.
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

Government financial reporting forms part of a larger system of financial management and control, with the ultimate aim of delivering better value for money for the taxpayer. The other elements of this system are outlined in the table below, with links to source documentation and recent reports. The table also provides links to many other types of statistical data about the Department, its financial and non-financial performance. 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 management and control system can be found in:

- The government financial reporting review published by HM Treasury in March 2021 https://www.gov.uk/government/publications/government-financial-reporting-review-best-practice-examples-from-2019-20
- The government's planning & performance framework published by HM Treasury and the Cabinet Office in December 2017 and most recently updated in June 2021 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 2020	https://www.gov.uk/government/publications/spending-review-2020-documents
	Single Departmental Plan, superseded by:	Single departmental plans set out a department's objectives, resource allocations, how its risk will be managed, and its performance measured.	DFT, June 2019	https://www.gov.uk/government/publications/department-for-transport-single-departmental-plan/department-for-transport-single-departmental-plan--2
	Department for Transport Outcome Delivery Plan	The outcome delivery plan sets out the Department's priority outcomes and strategic enablers and how we will achieve them.	DfT, 15 July 2021	https://www.gov.uk/government/publications/department-for-transport-outcome-delivery-plan
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, Mar 2021	https://www.gov.uk/government/publications/budget-2021-documents

11059-DfT-Annual Report 2020-21-P1.indb 322 12/09/2021 09:49

Category	Product	Description	Produced by	Link
	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	https://obr.uk/
	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. They include 'Main Estimates' and 'Supplementary Estimates'.	HMT, May 2020 for 2020-21 Feb 2021 for 2020-21. May 2021 for 2021-22.	https://www.gov.uk/government/collections/hmt-main-estimates https://www.gov.uk/government/publications/main-supply-estimates-2020-to-2021 https://www.gov.uk/government/collections/hmt-supplementary-estimates https://www.gov.uk/government/publications/supplementary-estimates-2020-21 https://www.gov.uk/government/collections/hmt-main-estimates https://www.gov.uk/government/publications/main-supply-estimates-2021-to-22
	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, June 2020 Mar 2021 June 2021	https://committees.parliament.uk/committee/153/transport-committee/publications/10/estimate-memoranda/ https://committees.parliament.uk/publications/1674/documents/16398/default/ https://committees.parliament.uk/publications/4919/documents/49235/default/ https://committees.parliament.uk/publications/6526/documents/70820/default/
	Parliamentary Scrutiny Unit visualisations	The visualisations show spending trends, changes since last year and how current plans for 2019-20 compare to original proposals in the 2015 Spending Review, together with some context. Also, an interactive spending chart showing all government spend.	PSU	https://www.parliament.uk/mps-lords-and-offices/offices/commons/scrutinyunit/reports-and-publications/
	Accounting Officer System Statements	Accounting Officer System Statements set out to Parliament all of the accountability relationships and processes within a department.	DFT (2017)	https://www.gov.uk/government/collections/accounting-officer-system-statements

Category	Product	Description	Produced by	Link
	Government Transparency data	Wide range of transparency data published by individual departments including Central government spending over £25k, ePCS spending over £500 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	https://www.gov.uk/search/advanced?group=transparency&topic=%2Ftransport and https://data.gov.uk/search?q=&filters%5Bpublisher%5D=Department+for+Transport&filters%5Btopic%5D=&filters%5Bformat%5D=&sort=best https://data.gov.uk/dataset/804be0c6-ae01-4899-bbb9-2317dff1a4f9/spend-over-25-000-in-the-department-for-transport-and-its-arms-length-bodies https://www.gov.uk/government/collections/dft-spending-over-500 https://www.gov.uk/government/publications/dft-gender-pay-gap-report-and-data-2020/dft-gender-pay-gap-report-and-data-2020 https://www.gov.uk/government/collections/dft-ministerial-gifts-hospitality-travel-and-meetings https://www.gov.uk/government/collections/dft-workforce-management-information
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	https://www.gov.uk/government/collections/hmt-oscar-publishing-from-the-database
	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	https://www.gov.uk/government/statistics/public-sector-finances-bulletin
	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	https://www.gov.uk/government/collections/national-statistics-release

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	https://www.gov.uk/government/collections/public-expenditure-statistical-analyses-pesa
	ONS Civil Service Statistics	Employment statistics for the Civil Service population, providing regional analyses, diversity and earnings data.	ONS	https://www.gov.uk/government/collections/civil-service-statistics
	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 2021	https://www.gov.uk/government/publications/infrastructure-and-projects-authority-annual-report-2021
	Departmental statistics	National and official statistics relating to the department's policies and priorities.	DFT	https://www.gov.uk/government/organisations/department-for-transport/about/statistics
	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	https://www.nao.org.uk/search/department/department-for-transport/
	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	https://www.nao.org.uk/report/departmental-overview-2019-20-department-for-transport/

Annex C: Expenditure Tables

These tables present actual expenditure by the Department for the years 2016-17 to 2020-21 and planned expenditure for 2021-22. 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. Please note that totals may not sum due to rounding.

All values in £k	2016-17 Outturn	2017-18 Outturn	2018-19 Outturn	2019-20 Outturn	**2020-21 Outturn**	2021-22 Plans
Resource DEL						
A: Tolled Crossings	-95,004	-132,223	-189,568	-119,197	-77,560	-104,542
B: Local Authority Transport	334,992	365,545	374,085	373,719	519,395	380,921
C: Highways England (net)	2,205,683	2,548,248	2,370,747	2,533,396	2,291,640	2,554,300
D: Funding of Other ALBs (net)	103,800	190,415	-37,649	169,165	15,619	-20,273
E: Other railways	124,600	106,685	63,182	38,355	86,679	154,941
F: Sustainable Travel	91,600	87,097	107,742	126,588	183,175	143,937
G: Bus Subsidies & Concessionary Fares	248,165	244,922	255,239	256,298	1,531,819	574,209
H: GLA transport grants	474,369	255,071	29,071	28,071	2,459,882	500,000
I: Crossrail	1,270	1,654	1,435	1,794	-899	–
J: Aviation, Maritime, Security and Safety	55,300	108,774	103,104	238,181	259,831	134,202
K: Maritime and Coastguard Agency	315,707	327,611	337,856	356,645	371,754	386,386
L: Motoring Agencies	104,500	98,643	40,839	64,686	193,380	143,995
M: Science, research and support functions	17,597	14,886	19,436	24,408	23,095	26,797
N: Central Administration	191,967	197,247	245,515	277,586	287,902	367,544
O: Support for Passenger Rail Services	-1,289,400	-778,107	-185,990	373,239	8,459,067	4,074,466
High Speed Two	26,324	9,140	–	–	–	–
P: High Speed Rail	–	–	59,250	53,836	67,167	17,147
Q: Transport Development Fund	13,700	24,749	500	3,974	300	50,000
R: High Speed Two Limited (net)	–	–	286,132	245,805	106,785	207,576
S: East West Rail Company Limited (net)	–	–	7,966	22,356	36,293	72,120
T: Network Rail (net)	–	–	-	6,357,167	6,841,392	7,756,162
U: Funding of Other ALBs (net)	1,444	2,724	12,858	12,773	14,144	–
Total Resource DEL	2,926,615	3,673,080	3,901,750	11,438,845	**23,670,860**	17,419,888
Of which:						
Staff costs (Note C)	697,780	726,724	724,807	2,445,710	2,625,484	2,943,702
Purchase of goods and services (Note C)	1,977,800	2,214,081	2,489,804	5,387,701	5,188,822	6,096,238
Income from sales of goods and services	-328,937	-358,072	-431,543	-497,234	-485,453	-763,847
Current grants to local government (net)	1,019,904	819,715	619,154	527,418	3,368,925	1,549,960
Current grants to persons and non-profit bodies (net)	32,630	28,821	34,864	375,645	83,827	29,082
Current grants abroad (net)	2,949	3,192	3,135	3,237	20,742	-49,889

All values in £k	2016-17 Outturn	2017-18 Outturn	2018-19 Outturn	2019-20 Outturn	**2020-21 Outturn**	2021-22 Plans
Subsidies to private sector companies	594,953	634,960	1,173,169	1,580,261	9,778,934	4,201,878
Subsidies to public corporations	-170	-	-	-	60,344	707
Net public service pensions (Note B)	5,006	7,402	2,009	4,798	17,189	16,930
Rentals (Note C)	7,038	-336	-5,070	-277,195	-112,845	-194,437
Depreciation (Notes A & C)	1,342,307	1,596,878	1,422,846	7,335,790	7,413,426	8,086,556
Change in pension scheme liabilities	238	234	238	236	203	258
Other resource	-2,424,883	-2,000,520	-2,131,508	-5,447,618	-4,288,707	-4,497,950
Take up of provisions	–	–	–	96	-31	–
Release of provision	–	–	-155	–	–	700
Resource AME						
V: Highways England (net)	-200	-3,646	41,815	-42,629	22,113	10,000
W: Network Rail (net)	6,079,500	6,882,390	7,046,148	1,649,152	1,234,751	2,829,289
X: Funding of Other ALBs (net)	53,200	93,580	70,097	123,124	29,808	78,849
Y: Other Railways	314,700	27,619	226,761	137,086	132,247	174,908
Z: Aviation, Maritime, Security and Safety	-3,350	-2,945	51,448	-51,963	-1,726	-1,320
AA: Maritime and Coastguard Agency	-94	899	4,643	575	613	1,000
AB: Motoring Agencies	-2,296	-1,175	-2,218	-1,785	-1,569	-2,788
AC: Central Administration	15,500	-7,402	65,205	1,765	21,705	95,800
AD: High Speed Rail	–	–	1,346	–	-1,188	-187
AE: High Speed Two Limited (net)	–	–	-49,122	1,000	2,906	–
AF: East West Rail Company Limited (net)	–	–	–	–	11	6,000
AG: Funding of ALBs (net)	–	–	-24	10,989	-356	–
Total Resource AME	6,456,960	6,989,321	7,456,099	1,827,314	**1,439,315**	3,191,551
Of which:						
Staff costs (Note C)	1,226,107	1,383,815	1,540,721	–	–	450
Purchase of goods and services (Note C)	1,820,194	2,097,952	2,358,270	726	793	-228
Current grants to/from local government (net)	-463,590	-425,354	-338,956	–	–	–
Rentals (Note C)	-292,368	-306,321	-317,471	–	–	–
Depreciation (Notes A & C)	4,677,389	4,604,849	5,547,646	-259,551	-147,582	1,361,324
Take up of provisions	198,227	48,963	93,137	466,144	193,692	131,750
Release of provision	-65,820	-92,042	-35,034	-556,703	-23,323	-39,156
Change in pension scheme liabilities	94,549	231,116	313,437	268,863	250,554	252,900
Unwinding of the discount rate on pension scheme liabilities	44,999	57,000	55,000	58,000	44,004	58,967
Other resource	-782,727	-610,657	-1,760,652	1,849,835	1,121,177	1,425,544
Total Resource Budget	9,383,575	10,662,401	11,357,850	13,266,159	**25,110,175**	20,611,439
Of which:						
Depreciation (Note A)	6,019,696	6,201,727	6,970,492	7,076,239	7,265,844	9,447,880

All values in £k	2016-17 Outturn	2017-18 Outturn	2018-19 Outturn	2019-20 Outturn	**2020-21 Outturn**	2021-22 Plans
Capital DEL						
A: Tolled Crossings	968	-188,393	372	-1,738	255	750
B: Local Authority Transport	1,550,793	1,763,031	1,808,654	1,757,625	2,411,593	1,685,555
C: Highways England (net)	2,020,728	2,308,700	2,649,466	3,231,792	3,295,075	3,816,561
D: Funding of Other ALBs (net)	407,100	711,324	9,573	143,657	119,368	16,321
E: Other railways	72,700	195,840	34,581	74,491	13,959	126,970
F: Sustainable Travel	212,455	365,310	398,648	477,952	711,455	821,725
G: Bus Subsidies & Concessionary Fares	7,134	9,064	8,294	9,955	81,535	139,860
H: GLA transport grants	943,997	–	-81,000	-9,645	–	–
I: Crossrail	-200,000	–	515,000	889,000	722,349	610,000
J: Aviation, Maritime, Security and Safety	18,500	59,285	93,467	53,060	67,784	164,266
K: Maritime and Coastguard Agency	12,709	19,339	11,669	-7,193	23,069	61,100
L: Motoring Agencies	-5,905	8,358	35,956	34,041	214,495	107,216
M: Science, research and support functions	29,883	21,800	33,253	32,291	8,113	22,093
N: Central Administration	236	2,192	7,368	41,361	45,448	111,182
O: Support for Passenger Rail Services	451	–	243	–	84,686	9,200
High Speed Two	340,700	943,326	–	–	–	–
P: High Speed Rail	–	–	554,056	302,570	264,619	737,968
Q: Transport Development Fund	–	2,304	138,800	343,850	436,070	850,000
R: High Speed Two Limited (net)	–	–	2,055,597	2,245,648	3,250,079	4,423,538
National Productivity Investment Fund	–	–	180	–	–	–
S: East West Rail Company Limited (net)	–	–	91	1,308	1,640	185
T: Network Rail (net)	–	–	-	4,621,957	5,280,812	5,790,999
U: Funding of ALBs (net)	6,800	–	–	–	-2	–
Total Capital DEL	5,419,249	6,221,480	8,274,268	14,241,982	**17,032,402**	19,495,489
Of which:						
Purchase of goods and services	17,528	28,232	43,083	61,671	48,719	108,619
Current grants to persons and non-profit bodies (net)	23,999	14,604	11,952	2,479	13,618	23,630
Capital support for local government (net)	2,390,470	1,935,344	2,583,243	3,006,836	3,634,737	3,505,901
Capital grants to persons & non-profit bodies (net)	-1,255	–	-7	13624	19,858	29,815
Capital grants to private sector companies (net)	498,846	1,253,257	450,963	233,749	265,235	185,724
Capital grants abroad (net)	-27,184	-5,806	–	-12,229	-1,509	–
Capital support for public corporations	2,672	33,319	69,654	9,803	152,479	–
Purchase of assets (Note C)	2,458,140	3,128,535	5,129,214	11,222,429	13,065,557	15,787,676
Income from sales of assets	-8,192	-13,620	-8,162	-13,098	-4,747	–
Net lending to the private sector and abroad	-9,629	-197,248	4,708	–	–	–
Other capital	73,854	44,863	-10,380	-283,282	-161,545	-145,876

All values in £k	2016-17 Outturn	2017-18 Outturn	2018-19 Outturn	2019-20 Outturn	**2020-21 Outturn**	2021-22 Plans
Capital AME						
V: Highways England (net)	30,245	3,492	132,970	-8,994	171,294	100,000
Network Rail (net)	6,761,884	6,117,800	5,382,855	–	–	–
Funding of Other ALBs (net)	–	230,329	–	–	-	–
Other Railways	–	–	-10	-	-11	–
Z: Aviation, Maritime, Security and Safety	-20,000	-20,000	-20,000	-20,000	-20,000	-20,000
Central Administration	–	–	–	–	–	–
High Speed Two	83,026	912,567	–	–	–	–
AD: High Speed Rail	–	–	-97,781	37,318	-99,331	5,245
AE: High Speed Two Limited (net)	–	–	-229,964	2,055	1,998	–
Total Capital AME	6,855,155	7,244,187	5,168,070	10,379	**53,950**	85,245
Of which:						
Take up of provisions	–	230,767	-229,964	2,055	1,998	–
Release of provision	-67,266	-108,914	-394,047	-527,714	-322,633	-623,932
Capital support for local government (net)	-45,324	-308,438	-301,230	–	394,596	729,177
Purchase of assets (Note C)	6,987,745	7,202,192	7,220,105	556,048	–	–
Income from sales of assets	-929	-35,431	-1,126,784	–	–	–
Other capital	-19,071	264,011	-10	-20,010	-20,011	-20,000
Total Capital Budget	12,274,405	13,465,667	13,442,338	14,252,361	**17,086,352**	19,580,734
Total departmental spending (Note D)	15,638,283	17,926,341	17,829,695	20,442,281	**34,949,311**	30,744,293
Of which:						
Total DEL	7,003,557	8,297,682	10,753,172	18,345,037	33,308,453	28,828,821
Total AME	8,634,726	9,628,659	7,076,523	2,097,244	1,640,858	1,915,472

Notes:

A . Includes impairments and non-cash movement in derivatives.

B . Pension schemes reported under IAS 19 accounting requirements. These figures include cash payments made, as well as certain non-cash items.

C. Until 31 March 2019, the classification of Network Rail's spending was classified to AME. Since the start of Control Period 6 on 1 April 2019, most of Network Rail's spending has been classified as DEL.

D . 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.

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	2016-17 OUTTURN	2017-18 OUTTURN	2018-19 OUTTURN	2019-20 OUTTURN	**2020-21 OUTTURN**	2021-22 PLANS
Resource DEL						
Highways England (net)	47,983	48,491	46,575	43,566	43,002	45,000
Funding of Other ALBs (net)	1,475	1,586	942	967	1,018	1,046
Maritime and Coastguard Agency	7,207	7,324	7,011	7,163	6,857	8,520
Central Administration	193,671	198,338	222,185	240,991	241,459	302,478
High Speed Two Limited (net)	1,817	2,968	2,135	2,030	1,976	3,000
East West Rail Company Limited (net)	–	–	116	223	185	268
Funding of Other ALBs (net)	6,653	6,057	33	34	14	–
Total administration budget	**258,806**	**264,764**	**278,997**	**294,974**	**294,511**	**360,312**
Of which:						
Staff costs	151,653	155,954	155,573	205,546	184,746	199,175
Purchase of goods and services	103,512	103,499	118,521	86,582	107,143	136,105
Income from sales of goods and services	-9,701	-7,535	-9,895	-10,127	-15,362	-6,797
Subsidies to private sector companies	–	-1	–	–	–	–
Rentals	7,117	-1,833	8,852	147	–	-1,008
Depreciation	4,109	6,350	5,901	11,447	13,425	26,301
Other resource	2,116	8,330	45	1,283	4,590	6,536
Take up of provisions	–	–	–	96	-31	–

Annex D: Information on Agencies and Arm's Length Bodies

This table shows the Department's, Agencies' and ALBs' contributions to the group financial performance, in accordance with PES(2021)03 issued on 13 May 2021.

Total operating income, total operating expenditure and net expenditure reported here will be inconsistent with the financial statements of individual Agencies and ALBs because:

- There are differences in the way the Department and the individual Agencies and ALBs present certain categories of income, expenditure, assets and liabilities. The Department has classified them on a consistent basis for the Departmental Group financial statements, which assists comparability here;
- There are differences in certain accounting policies adopted by the Department and the individual Agencies and ALBs. The Department has applied consistent policies to all entities in the Departmental Group financial statements;
- The values are after intra-group transactions and balances that are eliminated on consolidation; and
- There are immaterial audit adjustments for smaller entities whose accounts are audited after the Departmental Group financial statements are published.

This annex is not subject to audit.

	Total Operating Income	Total Operating Expenditure	Net Expenditure (including financing)	Permanently employed staff Number of employees	Permanently employed staff Staff costs	Other staff Number of employees	Other staff Staff costs
	£m	£m	£m	FTE	£m	FTE	£m
Department for Transport	(613)	18,379	17,766	2,784	217	29	13
Driver and Vehicle Licencing Agency	(554)	395	(158)	5,317	202	151	7
Maritime and Coastguard Agency	(12)	379	371	1,083	59	72	3
Vehicle Certification Agency	(18)	21	4	200	11	67	4
Network Rail	(4,089)	10,681	7,492	43,144	1,672	1,212	*1
Highways England	(58)	2,367	2,311	5,800	159	10	1
High Speed 2	–	104	105	1,347	12	132	3
British Transport Police	(220)	385	165	4,789	255	404	1
Trinity House Lighthouse Board	(35)	39	5	294	17	14	–
Northern Lighthouse Board	(24)	24	–	179	11	8	1
Commissioners of Irish Lights	(2)	2	–	115	1	8	–
Train Fleet (2019) Ltd	(2)	3	1	–	–	2	–
Directly Operated Railways	–	–	–	–	–	–	–

	Total Operating Income £m	Total Operating Expenditure £m	Net Expenditure (including financing) £m	Permanently employed staff Number of employees FTE	Permanently employed staff Staff costs £m	Other staff Number of employees FTE	Other staff Staff costs £m
Transport Focus	(1)	7	6	40	3	3	–
Air Safety Support International	–	2	2	22	2	–	–
Air Travel Trust Fund	(19)	(7)	(26)	–	–	–	–
CTRL Section 1 Finance plc	–	–	50	–	–	–	–
LCR Finance plc	–	–	131	–	–	–	–
East West Rail	–	36	36	72	7	28	6
TOTALS	(5,647)	32,817	28,261	65,186	2,628	2,140	39

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)		Pages in the performance report
Central functions		
M	Science, research & support functions	63, 67, 74
N, AC	Central Administration	68 – 73, 76
Local		
A	Tolled crossings	179
B	Local Authority Transport	36, 37, 40 – 43
F	Sustainable Travel	41-42
G	Bus Subsidies & Concessionary Fares	37, 39, 55, 57-60
H	GLA transport grants	45
Q	Transport Development Fund	–
Rail		
T, W	Network Rail	37, 44, 46, 47, 50, 59, 72 – 74, 84
P, R, AD, AE	High Speed Two Ltd and High Speed Rail	37, 38, 40, 43, 44, 72, 74
I	Crossrail	45
S, AF	East West Rail	44
O	Support for Passenger Rail Services	59- 61
E, Y	Other railways	–
Road		
C, V	Highways England	37, 40, 41, 48, 61, 62, 67, 72, 74
L, AB	Motoring agencies	38, 49
Aviation, maritime, security and safety		
J, Z	Aviation, maritime, security & safety	48, 49, 53, 65, 66
K, AA	Maritime & Coastguard Agency	38
Funding of other ALBs not referred to above		
D, U, X, AG	Funding of other ALBs	–