Department for Transport

Department for Transport
Annual Report and Accounts
2019-20

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(For the year ended 31 M

Accounts presented to the House of
Section 6(4) of the Government Res

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Ordered by the House of Commons

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This is part of a series of departmental publications which, along with the Main Estimates 2019-20 and the document Public Expenditure: Statistical Analyses 2019, present the Government's outturn for 2019-20 and planned expenditure for 2020-21.

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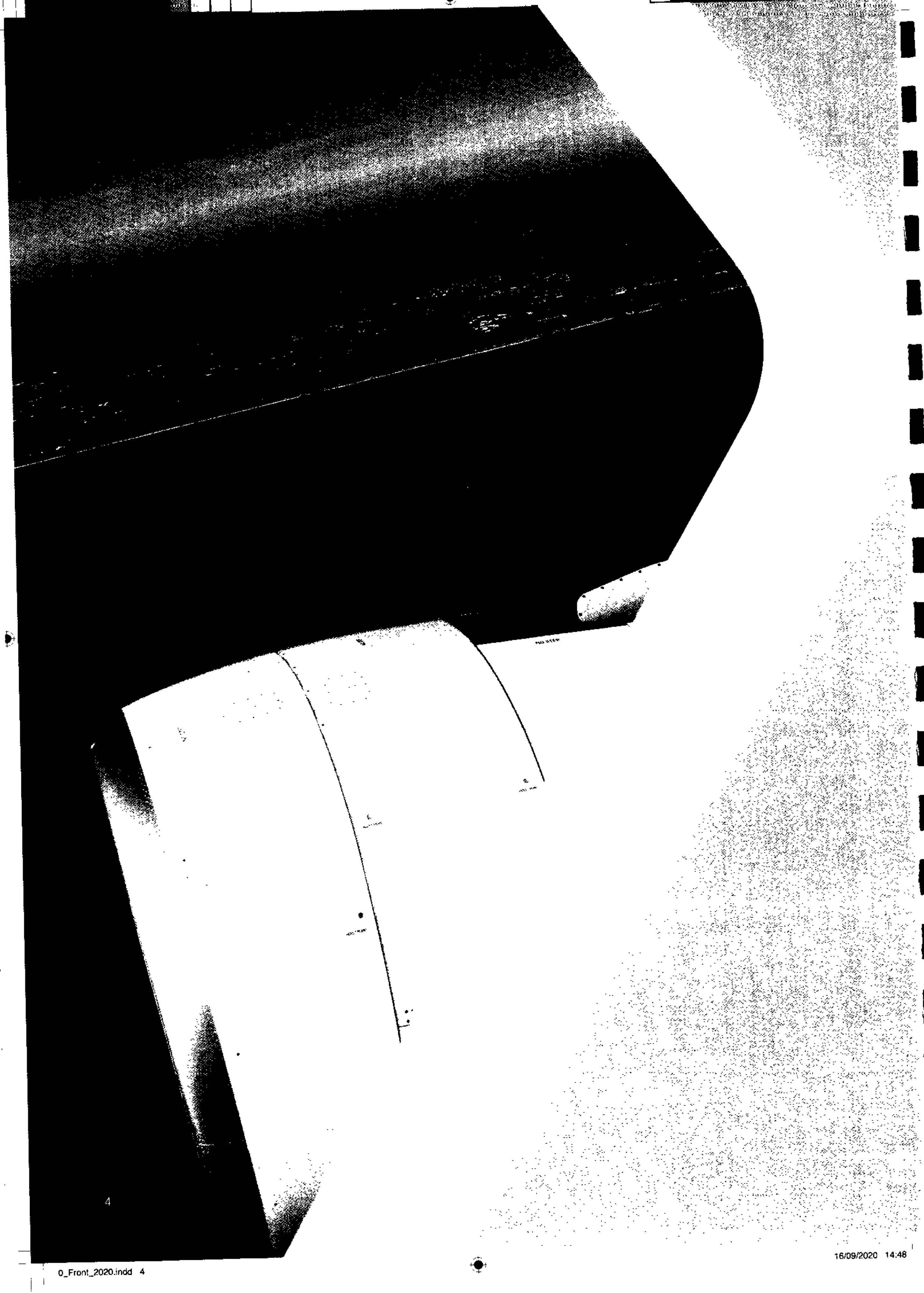


Foreword

Secretary of State for Transport

The past year has been one of the most extraordinary in the Department for Transport's (DfT's) century-long history.

It has been a time of exciting change, led by a new Prime Minister and a reinvigorated, reforming Government. However, there can also be no escaping the fact that 2019-20 has been a period of great challenge for the Department.

The emergence of COVID-19 in the first part of 2020 meant that we had to take unprecedented action to ensure that there was sufficient capacity across the network for crucial frontline workers to travel to their jobs safely.

Our attention is now focused on ensuring green and safe recovery for transport. To that end, we have announced an unprecedented £2 billion investment to boost cycling and walking, along with a £225 million emergency fund to help councils build infrastructure to support active travel. We are also increasing the number of e-scooter trials as we explore whether to legalise this green, alternative form of travel.

I would like to take this opportunity to express my gratitude to all transport workers for their great efforts over the past months. I pay particular tribute to those transport employees who lost their lives to COVID-19. Many had supported us through this crisis by providing food for our tables and helping NHS and care workers travel to their vital jobs. Their sacrifice will never be forgotten.

Sadly, COVID-19 was not the only difficult event involving the Department in recent months. In August 2020, the derailment at Stonehaven cost the lives of three people. My deepest condolences go to the family and friends of the victims of this tragic incident. I am also hugely grateful to all to the emergency services and to the rail workers who responded so quickly in its aftermath.

Our priority has always been, and remains, safety and we will make sure lessons are learnt. Network Rail's interim resilience report was the first step in understanding the impact that poor weather and climate change is having on Britain's network. This report will shape our response and how we act to make our network robust and ensure it remains one of the safest in Europe.

While this year was marred with sadness, it also should be remembered for its enormous advances.

I am particularly proud that over this period we have made some real progress in rolling out pioneering infrastructure projects that will further the Government's levelling-up agenda

Chief among these was our commitment to deliver HS2, as well as an integrated rail plan for the North and Midlands. While this was a landmark moment for a project that will unleash the potential of the whole country, it was clear we also needed to work harder to restore public trust in HS2. That's why our pledge to deliver this railway was accompanied by a firm handle on costs and a laser-like focus on transparency and accountability.

As well as developing major projects that will transform transport in this country for generations to come, we continued to modernise and strengthen our existing network.

Over the past 12 months, we completed the electrification of the Great Western mainline to Cardiff. In February 2020, we granted the planning consents to Phase 2 of the Western Section of East West Rail – work that will dramatically improve connections along the Oxford-Cambridge Arc.

We also remain committed to reforming the rail industry to deliver the things passengers care about - more punctual services, better value fares and excellent customer service.

This was also a year of progress on our roads.

In March 2020, we launched our second Road Investment Strategy. This £27.4 billion spending package builds on other transformative roads projects, including the £1.5 billion A14 upgrade in Cambridgeshire. I was delighted when in December 2019, a 12-mile bypass south of Huntingdon opened to traffic a year ahead of schedule, with the main scheme opening in May 2020.

While we made great strides with planned projects, my team has also had to respond with alacrity to major events. A key example of this was collapse of Thomas Cook last year – an event that required one of the biggest ever repatriations of stranded passengers. Over the course of two weeks, DfT and the Civil Aviation Authority worked around the clock to bring home 140,000 travellers from around the world – an extraordinary effort in the most challenging of circumstances.

It goes without saying that as well as focusing on the country's transport needs today, we must also keep an eye on the demands of tomorrow. Over 2019-20, we made progress with our ground-breaking strategies charting the future of the Aviation and Maritime sectors up until 2050. Earlier this year we launched our work on our Transport Decarbonisation Plan that will set out how the network will play its part in the battle against climate change and achieve this government's 2050 net zero goals. The Inclusive Transport Strategy and work on the Future of Transport strive to create a network that better serves all in the decades ahead.

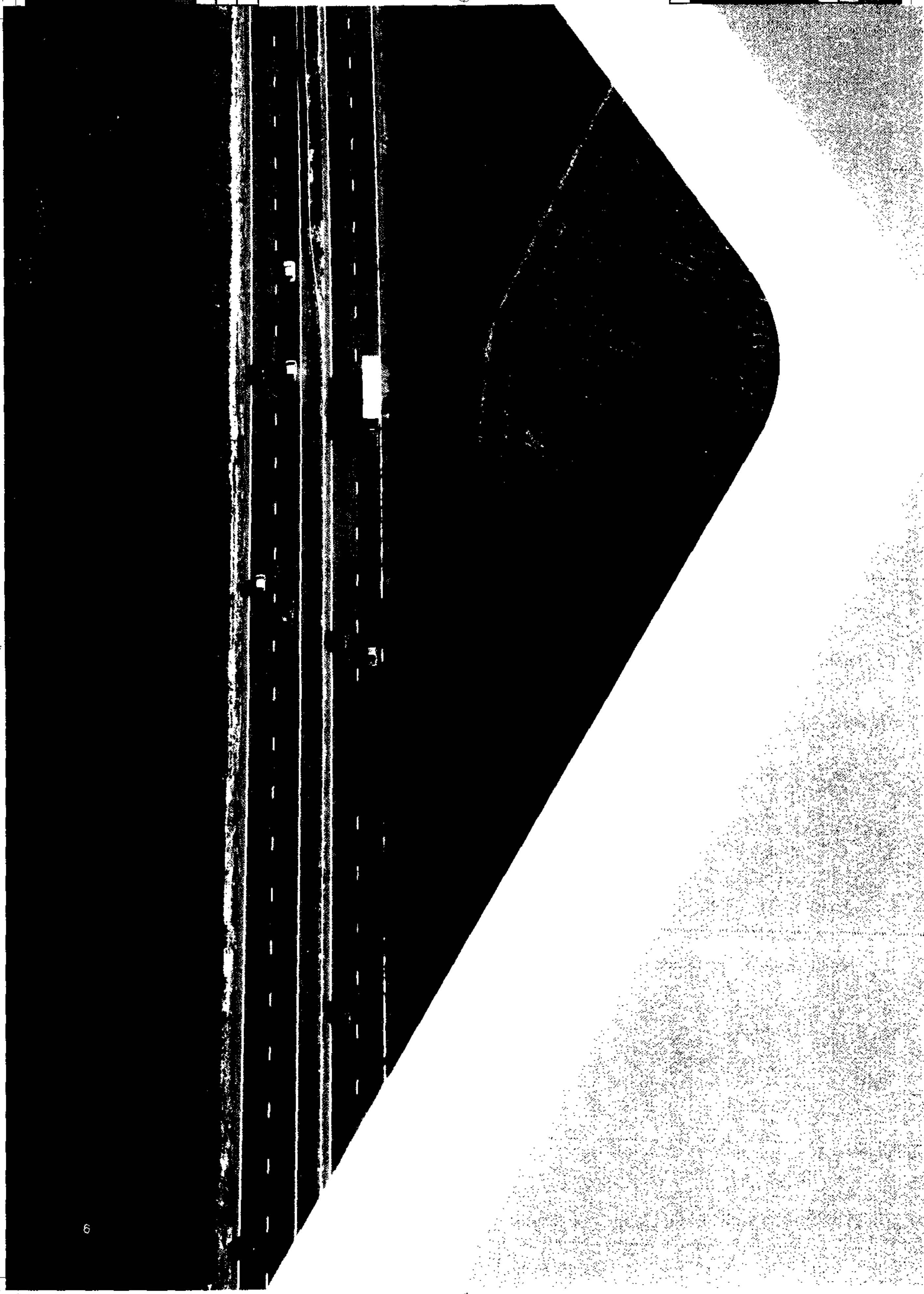
Over the past 12 months we have also been very much focused on another aspect of our future – life outside the European Union. Following our exit on January 31, DfT officials have been actively involved in negotiations surrounding the transport elements of the UK's future relationship – work that continues.

This is of course just a snapshot of all that has been achieved by the Department over the 12 months. None of it could have been accomplished without the dedication and expertise of staff in the Department and its public bodies. I am deeply grateful for all they do.

Another big thank you goes to Britain's transport operators and their workers, who continue to serve this country amid challenging circumstances. I must also express my gratitude to my predecessor, Chris Grayling, for his work in leading this Department during the first part of 2019-20 and before.

Finally, I am enormously appreciative of my hardworking ministers who have given unwavering support to me, during this, my first year as Transport Secretary. Over the course of 2019-20, and this year, we lost ministers: Nusrat Ghani, George Freeman, Paul Maynard, Michael Ellis, Andrew Jones and Kelly Tolhurst. However, I have also been pleased to welcome Chris Heaton-Harris, Andrew Stephenson, Rachel Maclean and Robert Courts to the team, and I am delighted to continue to work with Baroness Vere.

For my own part it continues to be an immense privilege to serve this country in this challenging yet endlessly fascinating role. Over the year to come, I am excited to continue with our work of harnessing the power of transport to transform Britain and improve the lives of its people.



Foreword

Permanent Secretary

Throughout 2019, we celebrated 100 years of the Department of Transport in a series of events with our staff and industry colleagues. As the Secretary of State's Foreword makes clear, our centenary has been a year like no other.

In July 2019, we welcomed a new Secretary of State, the Rt Hon Grant Shapps MP, who returned as Secretary of State, following the December election.

During this autumn, Brexit dominated the headlines and much of the work of the Department. Ultimately, we did not need to activate the extensive preparations we had put in place for a possible No Deal exit. However, the work we did to prepare the transport system for leaving the EU – including the negotiation of Air Service Agreements, including with the US and Canada; the introduction of International Driving Permits, now readily available at Post Offices; and our work to prepare road hauliers for new borders arrangements – will be equally important, as we head towards the end of the transition period on 31 December 2020.

Our operational response capability was also tested with the collapse of Thomas Cook in 2019. Teams rose to the challenge leading the biggest peacetime repatriation of UK citizens. In March 2020 DfT – like the whole of government – faced a challenge on a different scale when COVID-19 struck. In the initial weeks of the crisis, we acted rapidly to maintain vital public transport services across the country, and have subsequently been working across all transport modes on recovery while at the same time ensuring public health is protected.

I am particularly proud of the way our people across the Departmental Group responded. Thousands of people – in the core Department and in our agencies and public bodies – rapidly adjusted to the need to work remotely. Our well-trained Gold Command system snapped into place, and many hundreds of staff were redeployed virtually overnight to support our COVID-19 response work. Key front-line workers in our public bodies and agencies unable to work remotely continued to maintain the roads and railway, protect those in danger at sea, provide essential services, and ensure construction continued on vital projects like HS2.

As we emerge from lockdown, huge challenges remain, including restoring full services in some of our agencies as rapidly as possible, supporting our staff so more people can return gradually to the office while maintaining safe social distancing, and of course ensuring people across the country can travel safely across all modes of transport.

COVID-19 has also had an extensive impact on the Department's finances, as the sharp drop in passenger revenues on public transport has resulted in increased Departmental spending. One consequence of this was that I required a Ministerial Direction in March 2020, which allowed the Department to proceed with putting in place emergency measures and incur urgent expenditure in excess of DfT's cash spending limits to maintain the continuity of key public transport services.

In his foreword, the Secretary of State has highlighted some of the key priorities and achievements for the government over the past year on transport – the decision to proceed on HS2, continued commitment to road and rail investment in support of levelling up, increased funding for active travel and buses, and an increased focus on decarbonisation.

Other important achievements have included rolling out the Blue Badge scheme to tens of thousands of people with non-visible disabilities; announcing bike training for every child; ensuring there are thousands more charge points for electric vehicles; and hosting a successful London International Shipping Week attended by hundreds of global leaders from across the maritime sector. I am also pleased to report that the Department continues to perform strongly on answering Parliamentary Questions and processing Freedom of Information requests.

There have been challenges too, especially on our major projects. In deciding to proceed with HS2, the Government has reset the budget and confirmed that the railway will open later than previously planned. Crossrail has also continued to face cost increases and delays to opening.

We are determined to learn the lessons from these setbacks in the delivery of these and future transport projects. In April 2019, we published a report jointly with the Infrastructure Projects Authority setting out 24 lessons for project delivery which are now being embedded as best practice across our portfolio. We have initiated and implemented a Project Delivery Improvement Plan, led by the Department's lead Non-Executive Director, Ian King, focussed on strengthening governance, culture, capability and portfolio management of our major projects. Our investment committee has been strengthened to ensure it can identify and manage risks early and effectively throughout the lifetime of a new project – some of which span decades – and we have created a new project delivery directorate and Chief Portfolio Officer role.

The Department has continued to work with the transport industry to improve diversity, and especially gender diversity in a sector in which there are still too few female role models. In Summer 2020, we published a Race Action Plan specifically targeted at supporting and progressing Black, Asian and Minority Ethnic (BAME) talent in DfT, increasing representation in the SCS, and ensuring BAME voices are heard in our decision-making bodies. I hope that next year I will be able to report good progress against these plans.

Lastly, can I reiterate my huge thanks to staff right across the Departmental Group for their continued hard work and resilience over the past year in what I know have been difficult times for many both professionally and personally.

Bernadette Kelly

The Performance Report

Overview: How we have performed

Our purpose for this report

1.1 This Performance Report is based on the strategic objectives set out in the Department's Single Departmental Plan (SDP) which was updated in June 2019. This focused on ensuring that the UK has a safe, secure, efficient and reliable transport system that works for the people who depend on it; supporting a strong, productive economy and the jobs and homes people need. **Figure 1** on **page 15** sets out the strategic objectives stated in the July 2019 SDP and how we planned to deliver those objectives.

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

How we are organised

DfT Group comprises the central Department (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 9** DfT Group and Family (organisational classifications) in **page 104**.

DfT Group and Family (accounting boundaries)

Wider Departmental Family

Consolidated Departmental Group

Central Department for Transport (DfTc)
5 Director General-led Groups: Roads, Places and Environment Group; Rail Group; High Speed Rail and Major Projects Group; Aviation, Maritime, International and Security Group (including 3 Accident and Investigation Branches), Resources and Strategy Group and Non-Group comprising of legal, Group communications and Strategy Unit.

Other entities accounted for within the Central department:
Office for Low Emission Vehicles; Centre for Connected and Autonomous Vehicles Disabled Persons' Transport Advisory Committee, Cycling and Walking Investment Strategy Advisory Group, Advisory Group on Education in Transport, Air Insolvency Review, Rail Strategy Advisory Board, DfT Science Advisory Council; Independent Commission on Civil Aviation Noise

Executive Agencies:
Driver and Vehicle Licencing Agency
Vehicle Certification Agency
Maritime and Coastguard Agency

Other Government Owned Companies:
Highways England, Network Rail (including its subsidiaries as listed in Note 26 to the Financial Statements), LCR Finance plc, CTRL Section 1 Finance plc, DfT OLR Holdings Ltd[1] (including its subsidiary Train Fleet (2019) Ltd), Air Safety Support International Ltd

Public Corporation and Regulator:
Civil Aviation Authority

Non-Ministerial Department and Regulator:
Office of Rail and Road

Other Public Corporations:
Trust Ports as listed in Note 26 to the financial statements;
ITSO Ltd and ITSO Services Ltd

Executive Non-Departmental Public Bodies:
Transport Focus (including its subsidiaries Transport Focus Scotland Ltd and Transport Focus Wales Ltd), British Transport Police Authority, Trinity House Lighthouse Service, Northern Lighthouse Board, Commissioners for Irish Lights, High Speed 2 Ltd, Directly Operated Railways Ltd, East West Railway Company Ltd

Other consolidated entities:
Air Travel Trust Fund

Trading Fund and Executive Agency:
Driver and Vehicle Standards Agency (DVSA)[2]

Public Corporation and Government owned company:
London and Continental Railways Ltd, Crossrail International Ltd; LNER Ltd; Northern Trains Ltd

1 In March 2020, ONS reclassified DfT OLR Holdings Ltd to Public Corporation
2 DVSA is an Executive Agency and Trading Fund. In 2020, ONS reclassified DVSA to Central Government. DVSA will be consolidated into the Departmental Group accounts from 1 April 2021, once its Trading Fund status has been formally revoked in legislation. DVSA also consolidates the Traffic Commissioners for Great Britain, which is a Tribunal NDPB.

Our vision

our vision **connecting people & places**

Delivering for Today, Ambitious for Tomorrow:

our priorities necessarily evolve, but making connections will always be at the core of what we do.

A vision statement is the formal expression of an organisation's overarching mission. Our vision needs to simply and succinctly express why we exist and what we are aiming for across all modes of transport.

our values

confidence
to challenge | to take action | to innovate
When DfT is at its best, we are confident - confident in our ability to challenge ourselves and others, to take action and to do things differently where needed

excellence
in our professionalism | in our delivery | in our learning
Staff feedback was full of brilliant words and phrases about our work, our purpose, our impact and our reputation. This evoked a shared standard of excellence when we do the things we are here to deliver.

teamwork
we are inclusive | we collaborate | we support each other
It is our people that ultimately define the culture and success of DfT. Many organisations talk about the value of teamwork. In DfT we truly live it in how we pull together to get things done, whilst also recognising the vital importance of being inclusive and supporting each other.

Values are enduring, passionate and distinctive core beliefs. They guide our conduct, activities and goals. They are about identifying what every person in DfT shares, both in terms of where we are now and where we want to be in the future. DfT's values could therefore only be created based on feedback and input from our people.

Our **values** are the standards and principles that we share, representing what is most important to us and guiding us towards this **vision**. They reflect the best of what we are now and what we aspire to be in the future.

To achieve these aims, our values need to be embedded in everything we do. Our values were co-created with our people and they reflect our activities.

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 objectives. 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 92**.

Figure 2: Overview of the Department's governance structures

Parliament

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

Secretary of State for Transport

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

Permanent Secretary and Principal Accounting Officer

- **Permanent Secretary:** is responsible for the effectiveness and efficiency of the Department's work to support ministerial polices and objectives. She is also responsible for the Department's leadership, management and staffing.
- **Principal Accounting Officer:** 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.

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Looking ahead: Our strategy

The recent General Election and new manifesto commitments, as well as the effects of COVID-19 on policy and delivery and the forthcoming Spending Review, has led us to evolve our objectives. We are focused on connecting people and places through five central objectives:

- **Improving transport for the user:** Work with the sector to build confidence and enhance transport users' experience and make the network safe, reliable and inclusive.
- **Decarbonising transport:** Tackle climate change and improve air quality by decarbonising transport.
- **Levelling-up the economy:** Improve connectivity across the United Kingdom and grow the economy by enhancing the transport network.
- **Increasing our global impact:** Boost our influence and maximise trade by having an outward-facing approach and being a world leader in the future of transport.
- **An excellent Department:** Be a well-run department that focuses on delivery, drives value for money and embodies our values in all that we do.

Figure 1: The Department's strategic objectives

Strategic objective	Supporting aims
Strategic Objective 1: Support the creation of a stronger, cleaner, more productive economy	Deliver infrastructure projects across road, rail and aviation
	Deliver the transport elements of the cross-government Industrial Strategy
	Support the UK's maritime and aviation sectors strategies
Strategic Objective 2: Help to connect people and places, balancing investment across the country	Work across the UK local, regional and devolved partners to meet national and regional ambitions and maximise public investments
	Work to develop the transport network across the country
	Work with MHCLG to support the creation of new housing
Strategic Objective 3: Make journeys easier, modern and reliable	Support the delivery of new digital technology to improve journeys
	Put the citizen and the business user at the heart of a reliable, accessible and cost efficient transport network
	Improve the ticketing systems and information to enable passengers to access the best fares more easily
	Invest in road and rail maintenance and renewals
Strategic Objective 4: Make sure transport is safe, secure and sustainable	Maintain the safety and security of the transport system
	Ensure sustainability underpins future transport investment including promoting new technologies to reduce emissions
	To increase the number of cycling and walking journeys
Strategic Objective 5: Prepare the transport system for technological progress and prosperous future outside the EU	Secure the best possible outcome for transport users and businesses in Brexit negotiations
	Position the UK as a global leader in future mobility technology and services
	Help establish a separate, distinct international trade policy in preparation for leaving the EU
Strategic Objective 6: Promote a culture of efficiency and productivity in everything we do	Ensure culture of efficiency and delivery savings within DfT and its public bodies
	Ensure corporate functions to support DfT work are efficient, effective and secure
	Deliver the cyber security Infrastructure Efficiency Strategy

Our governance

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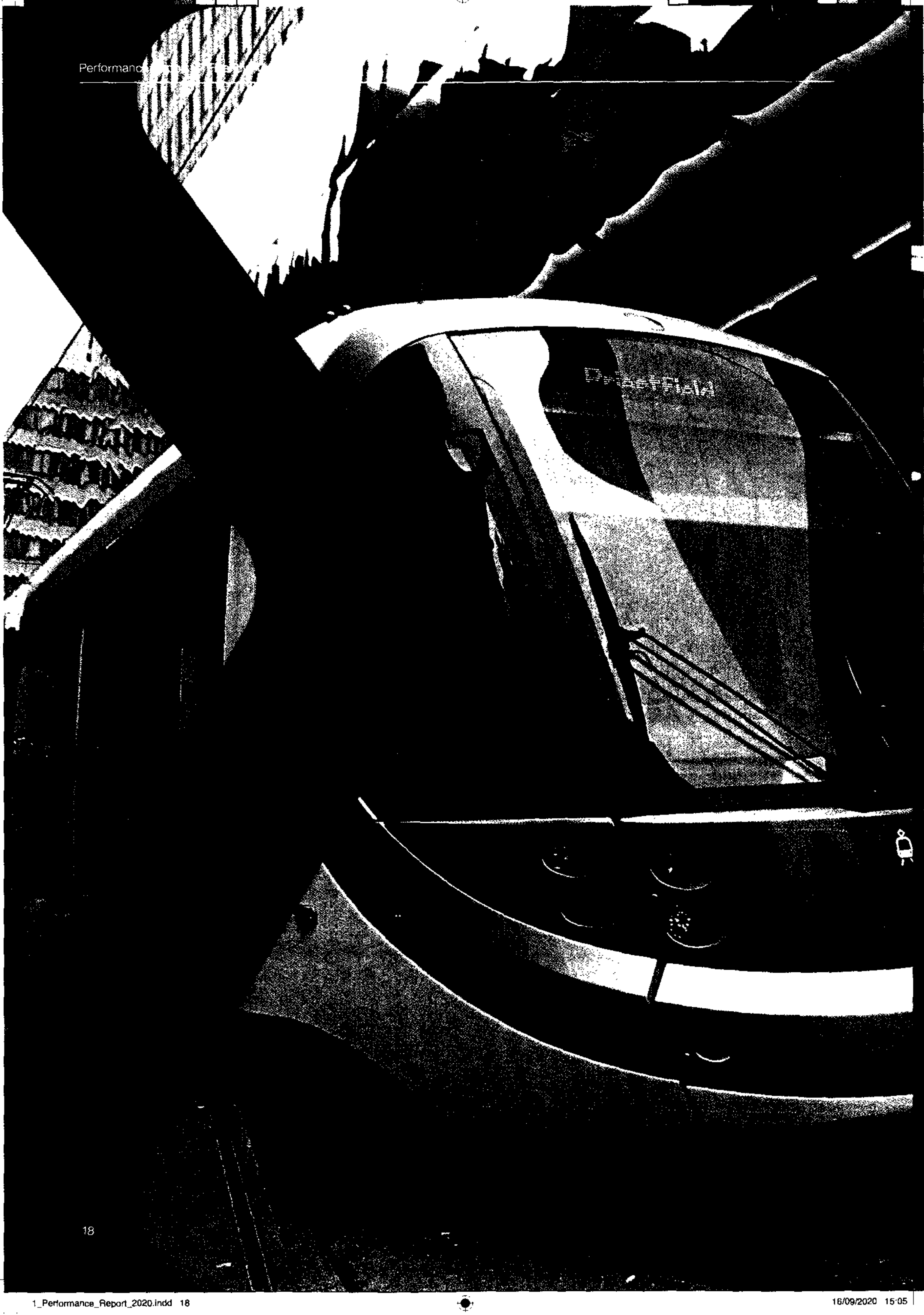
Our risks

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 2019-20. The report includes the actions we are taking to mitigate these risks.



Financial Overview

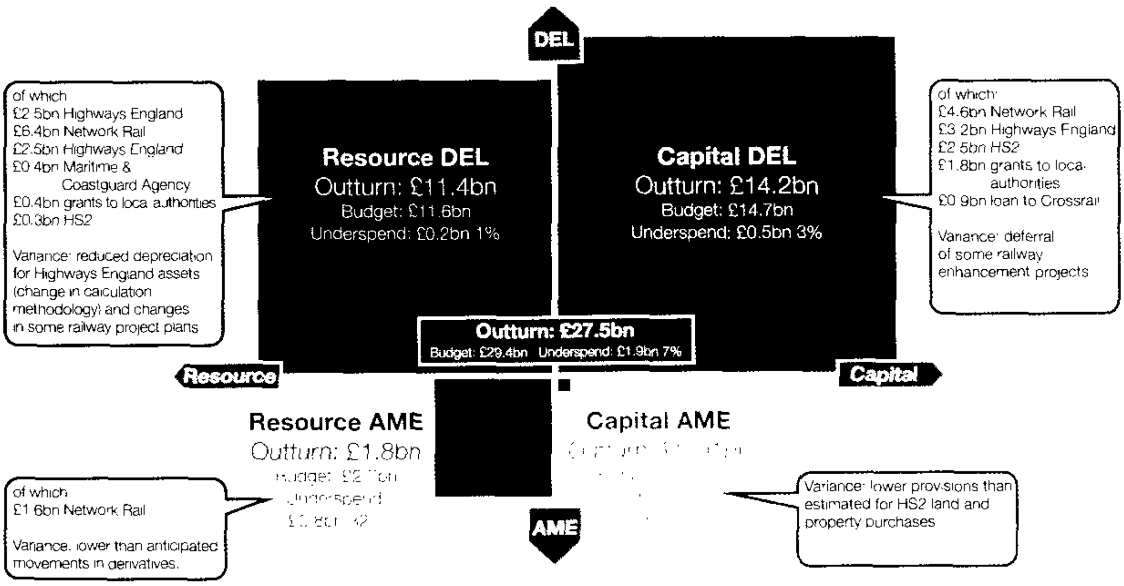
Financial overview from the Director General for Resources and Strategy

Total Managed Expenditure

The Department's spending plans for 2019-20 were based on the fourth and final year of the Spending Review 2015. The Department's Main Estimate in June 2019 set out the plans for 2019-20 and the Supplementary Estimate in March 2020 provided a further update to those plans.

Total Managed Expenditure (TME) represents the total funds available to the Department based on a series of different budget types as detailed in **Figure 3** and these values correspond to the Statement of Parliamentary Supply from **page 162**.

Figure 3: Total Managed Expenditure split by budget type (as defined in Annex A)



Source: Statement of Parliamentary Supply, Total Outturn 2019-20. Figures may not add up due to rounding differences.

Comparison between Budgets and Outturn

Figure 3 and **Table 1** summarise the Department's performance against the Voted budgets authorised by Parliament for 2019-20. At the start of the year we estimate our costs for each budget type and we monitor against these throughout the year. The size and complexity of our budget, along with economic, social and environmental changes means there will inevitably be some variances for our Estimates. Explanations for the underspends shown in **Figure 3** and **Table 1** can be found on **page 168**. A number of the underspends relate to movements in non-cash items, such as depreciation, derivatives and provision movements, rather than underspends on cash spending, such as goods, services and infrastructure. The values correspond to the Voted figures within the Statement of Parliamentary Supply.

Table 1: Outturn against Budgetary Control Totals voted by Parliament

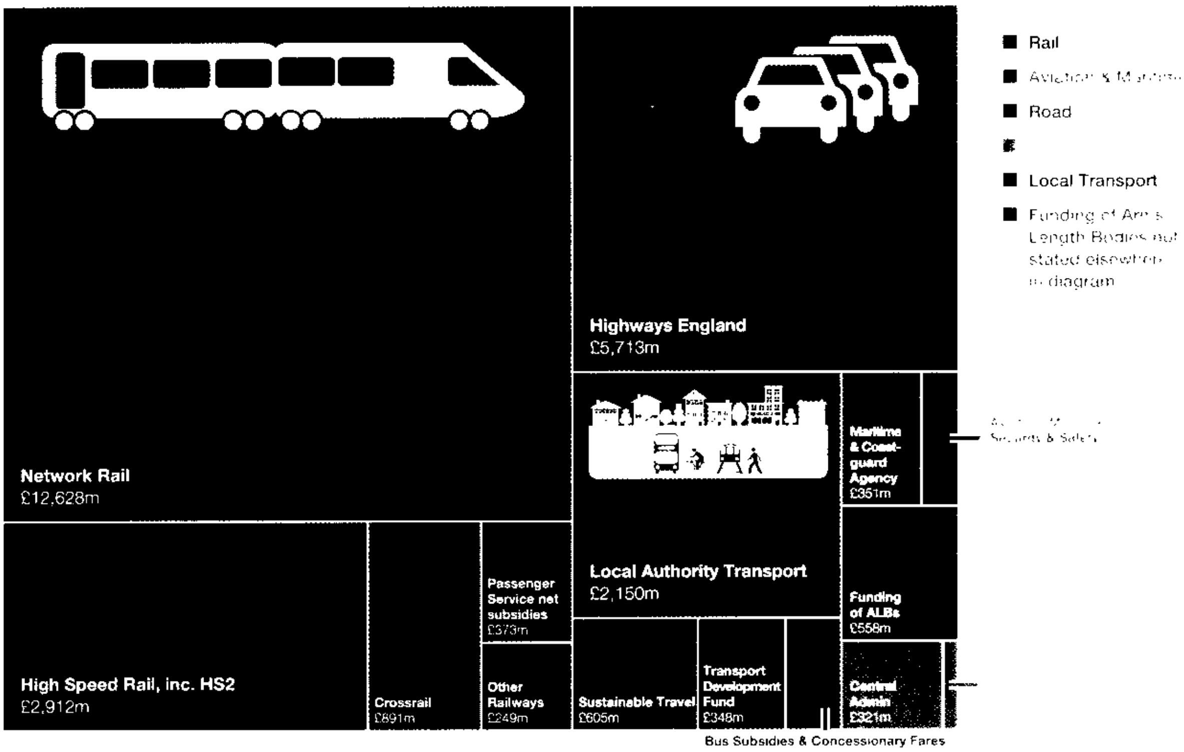
Control total	Budget £m	Outturn £m	Variance £m	%
Resource DEL	11,572	11,426	146	1%
Of which: Administration	*306*	*295*	*11*	*4%*
Capital DEL	14,694	14,242	452	3%
Resource AME	2,658	1,816	842	32%
Capital AME	501	10	491	98%
Net Cash	21,543	20,172	1,371	6%

Source: Statement of Parliamentary Supply, Voted Estimate and Outturn 2019-20.

Where we spent our money

The majority of our budget is used to invest in, maintain and operate national and local transport infrastructure. Spending on road and rail accounts for around 82% of the Department's overall budget. This split of budget to transport sector and/or use elsewhere is shown in **Figure 4**.

Figure 4: Summary of Departmental spending by Estimate line



Source: Statement of 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 then expenditure. The 'Tolled Crossings' Estimate Line is not shown in the diagram as this generated £121m of net income.

Summary of the financial statements

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

Assets

The Department owns £482bn of assets as at 31 March 2020, of which £332bn relates to the Railway Network across Britain and £129bn relates to the Strategic Road Network in England, which are the responsibility of Network Rail and Highways England respectively.

As shown by **Figure 5**, the value of the Department's asset base increased by £13bn between 31 March 2019 and 31 March 2020[1]. This was driven by £11bn of additions and £8bn of revaluation gains to infrastructure assets, which were offset by £7bn of depreciation.

Additions to the railway network included renewals and enhancements that will increase the capacity of the network. Major schemes included improvements on the Midland Main Line between London and Corby, Trans-Pennine improvements, substantial completion of the Great Western Electrification programme and Thameslink, East Coast Main Line improvements, and in Scotland improvements relating to Inverness to Aberdeen and Edinburgh to Glasgow lines. There was c.1,100 km of new and replaced track as well as renewals to signalling, structures, electrification assets, buildings, stations, IT, drainage, and plant and equipment.

Additions to the strategic road network included £2bn on capital enhancements (including investment in major projects, and delivering safety and congestion relief schemes) and £1bn of renewal schemes. Renewal schemes are usually small (less than £10m) and they are usually completed within six to eighteen months. The most significant addition during the period was the continuing work on the M5 Oldbury waterproofing for £53m.

The revaluations gains, which equate to 1.6% of the infrastructure asset base at the start of the year, arise from revaluations relating to the estimated annual increase 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.

Most of the "other" reduction to the Rail Network relates to the transfer of £0.5bn of infrastructure for the Core Valleys line to the Welsh Government.

Loans increased by £1bn as a result of the support package for the Crossrail project agreed in December 2018, which comprised £1.3bn of loans to the Greater London Authority (GLA) and £750m to be made available to Transport for London (TfL). The GLA utilised all of its loan facility between February 2019 and April 2020, whilst TfL has been drawing down loans since April 2020.

Adoption of a new leasing accounting standard (IFRS 16) on 1 April 2019 led to £1bn of right-of-use assets being recognised for the first time on the balance sheet. This is matched by £1bn of lease liabilities, as noted below.

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

Further details may also be found in the following NAO reports that consider assets consolidated in this account:

- A progress report examining the stewardship of HS2, January 2020[2]
- A progress report on the A303 upgrade at Stonehenge, May 2019[3]
- A report evaluating Network Rail's sale of a major part of its commercial real estate portfolio, May 2019[4]
- A report examining the causes of the cost increases and delays to Crossrail, May 2019[5]

1 The asset base includes: property, plant and equipment; intangible assets; right of use (leased) assets; investment properties; inventory and financial assets

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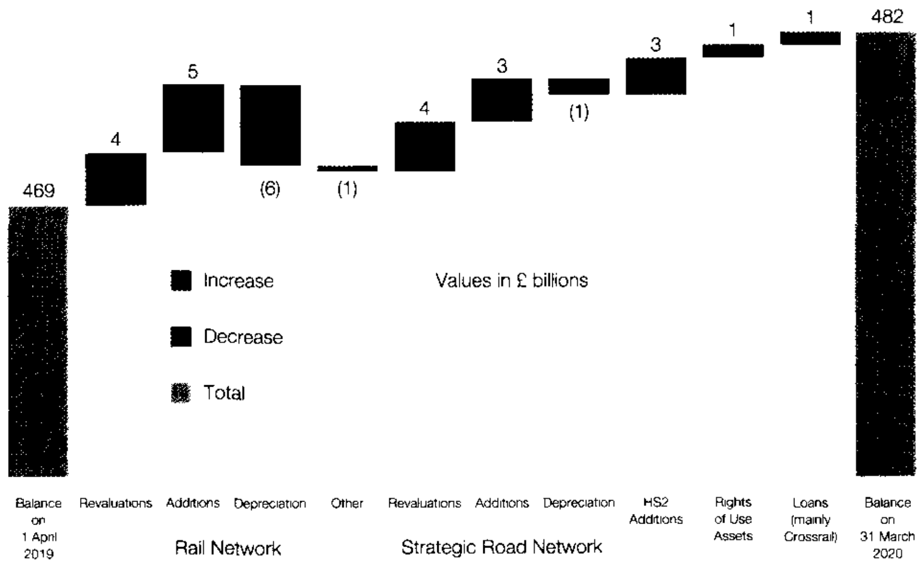
Figure 5: The asset base grew during 2019-20



Liabilities

The Department has £49bn of liabilities as at 31 March 2020 (2019: £48bn), of which the most notable elements are:

- £25bn of debt is payable by Network Rail reflecting third party borrowing entered into before the company joined the departmental group, which is set to be paid off gradually between now and 2052;
- £4bn comprises net pension liabilities relating to employees, which is £1bn less than last year due to changes in financial assumptions, in line with actuarial assessments across government pension schemes;
- £4bn of debt is payable to institutional investors holdings bonds issued by the Department's finance companies (LCR Finance plc and CTRL Section 1 Finance plc);
- £4bn of tax liabilities are deferred, which increased by £1bn due to a change in the corporation tax rate from 17% to 19%;
- £2bn is provided for potential liabilities, of which £1bn is earmarked for land and property purchases along the HS2 route; and
- £1bn is due for the lease of assets which were recognised on the balance sheet for the first time in 2019-20 owing to the adoption of a new leasing accounting standards (IFRS16) on 1 April 2019. As noted above, this was matched by £1bn of right-of-use assets which, when combined, leaves an insignificant impact on net assets.

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

The Department also has £2bn of contingent liabilities and £13bn of remote contingent liabilities, compared to £2bn and £14bn last year, many of which are 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 remining value of the assets, such as rolling stock and depots. It also has a number of contingent liabilities that cannot be quantified.

Further details can be found in Note 24 to the Financial Statements and on page 175 of the section on Parliamentary Accountability.

Income and Funding

The Department recognised £27bn of income and funding in 2019-20, which is £3bn more than 2018-19. The Department received £20bn in Supply funding from HM Treasury, alongside £7bn of income from other sources, principally income from Train Operating Companies (TOCs) (2018-19: £17bn and £6bn respectively).[6]

6 Figures may not add up due to rounding differences

Funding from HM Treasury increased by £3bn to finance increased spending in many areas including passenger rail services, Highways England, HS2, Crossrail, Sustainable Travel, the Transport Development Fund and the repatriation of Thomas Cook customers.

The main reason for the £1bn increase in income from other sources was an increase to the Franchise Track Access income collected by Network Rail from TOCs. Network Rail collected more Franchise Track Access income in order to offset a slight planned reduction in central government subsidy which is in line with the rail regulator's determination of charges.

Other movements in income include £0.2bn paid by insurance companies to the Department (specifically: the Air Travel Trust Fund) to cover the cost of the Thomas Cook collapse (shown in 'Fees & charges to external customers') and a £0.2bn decrease in income from TOCs which was caused by the implementation of the Emergency Measures Agreements in March 2020 in response to COVID-19.

Further details can be found in Note 4 to the Financial Statements and in the NAO's investigation into the Government's response to the collapse of Thomas Cook, March 2020.[7]

Expenditure

The Department recognised £23bn of expenditure in 2019-20 compared to £20bn in the previous year. **Figure 6** shows the breakdown of expenditure and year-on-year changes.

Depreciation continued to increase in proportion with the increasing value of infrastructure assets.

Spending on goods and services included £0.3bn of payments to TOCs following the renewal of some franchises and the COVID-19 Emergency Measures Agreements in March 2020 (impacting the 'Support for Passenger Services' expenditure line).

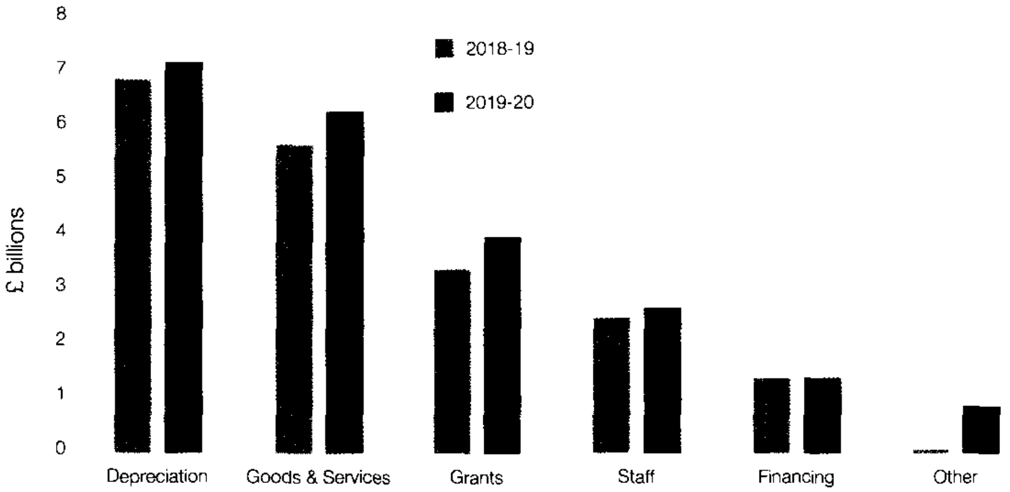
The increase in grant expenditure is mainly due to the transfer of the Core Valleys railway from Network Rail to the Welsh Government as noted in the assets section above.

Other costs increased by almost £1bn due to the change in the corporation tax rate from 17% to 19%, which also led to an increase in deferred tax liabilities, as noted in the liabilities section above. Almost all the deferred tax arises from Network Rail.

Further details can be found in Notes 3 (expenditure) and 22 (deferred tax) to the Financial Statements.

The value of non-cancellable contractual commitments for the Department stood at £7bn on 31 March 2020 (2019: £10bn), which will be payable over a number of years. On 31 March 2019, the Department estimated its commitments to TOCs to be around £3bn, however, the necessity to instigate temporary support measures across the rail sector in response to the COVID-19 pandemic (through Emergency Measures Agreements) and the uncertain short to medium term operating and demand environment have led to a material level of uncertainty in estimating future costs and revenues. The Department paid approximately £600m to £700m every four weeks to the TOCs between March and July 2020. The full cost over the EMA period will depend on the extent to when and how restrictions on travel are lifted, changes in customer behaviour and impacts on costs and revenues.

Figure 6: Categories of expenditure recognised in 2018-19 and 2019-20



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A £1bn decrease in lease commitments, which are now recognised on the balance sheet following the adoption of a new accounting standard for lease (IFRS 16), is offset by a £1bn increase in the amount that Network Rail and Highways England are committing to spend on building and enhancing infrastructure.

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

Within the amounts reported, the Department incurred £150m of Losses and Special Payments in 2019-20 (2018-19: £221m, 2017-18: £129m). Most of the year-on-year variations since 2017-18 have been caused by EU exit contingency planning, which cost £83m in 2018-19 and £27m in 2019-20. These figures comprise:

- £50m paid to ferry companies, when the departure date was postponed from 31 March 2019 to 31 October 2019;
- £33m paid to Eurotunnel;
- £15m for lorry parking facilities in Kent;
- £11m paid to ferry companies, when the departure date was postponed from 31 October 2019 to 31 January 2020; and
- £1m to stand down public information activities that would have been required had the UK left the EU without a deal.

The Department incurred two significant types of loss in 2019-20: £37m on the Dartford Thurrock River Crossing Charging Scheme and £41m on the Intercity Express Programme (2018-19: £46m and £53m respectively). The Department also paid £13m to settle 241 industrial disease and injury claims from former British Rail employees (2018-19: £13m to settle 316 claims).

HMRC charged HS2 Ltd £12m for late payment of VAT. As this represents an internal transfer within Government, it does not change the net cost to the UK taxpayer of delivering HS2.

Further details can be found on page 176 of the section of the Parliamentary Accountability Report and in the NAO's memorandum examining the Department's settlement with Eurotunnel (May 2019)[8] and its report considering the work undertaken at the border to prepare for a no-deal EU exit (October 2019).[9]

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Long term expenditure trends

Figure 7 shows that the Department's net spending (inc. capital expenditure but exc. depreciation) has increased by £9bn or 77% between 2010-11 and 2019-20 and that capital investment in transport infrastructure has driven almost all of that increase; rising from £6bn to £14bn. The impact of COVID-19 on the Department's spending plans for the current 2020-21 financial year has been significant. The Department obtained £3bn of funding via the Main Estimates (included in **Figure 7**) and the Department expects significant adjustments to the Department's budget during the Supplementary Estimates to fund the measures listed in Note 32 to the Financial Statements.

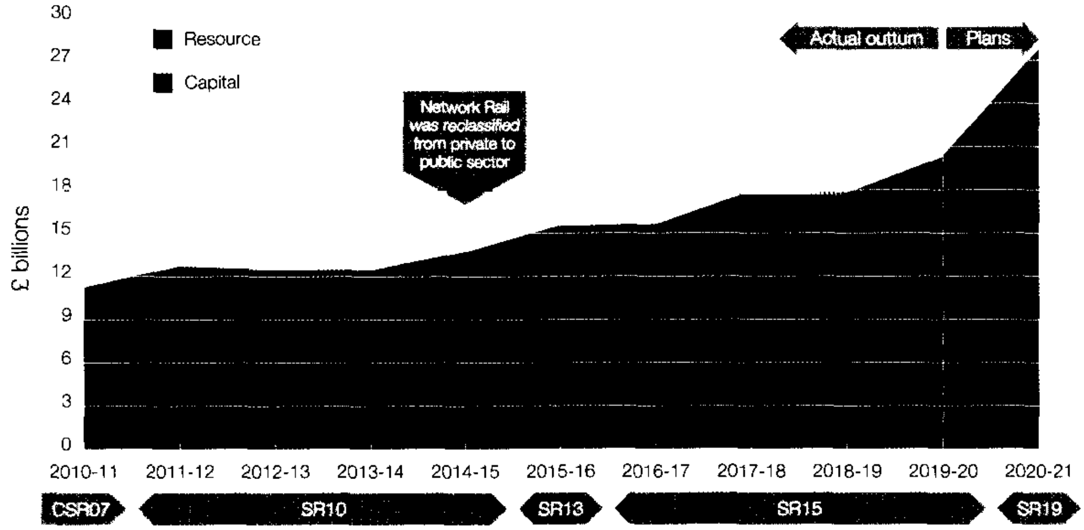
Capital investment

The Department's recent capital investment included the Network Rail enhancements programme, the construction of HS2, and the continued delivery of the Roads Investment Strategy (RIS) by Highways England. It also includes a number of capital projects for various transport modes across the country. The capital investment enables the Department to improve transport for users, level-up opportunities across the country and decarbonise transport. **Figure 8** shows how this increase is split between three main areas of capital spending: Network Rail, Highways England and HS2.

- 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 existing rail network.
- Further details can be found here:

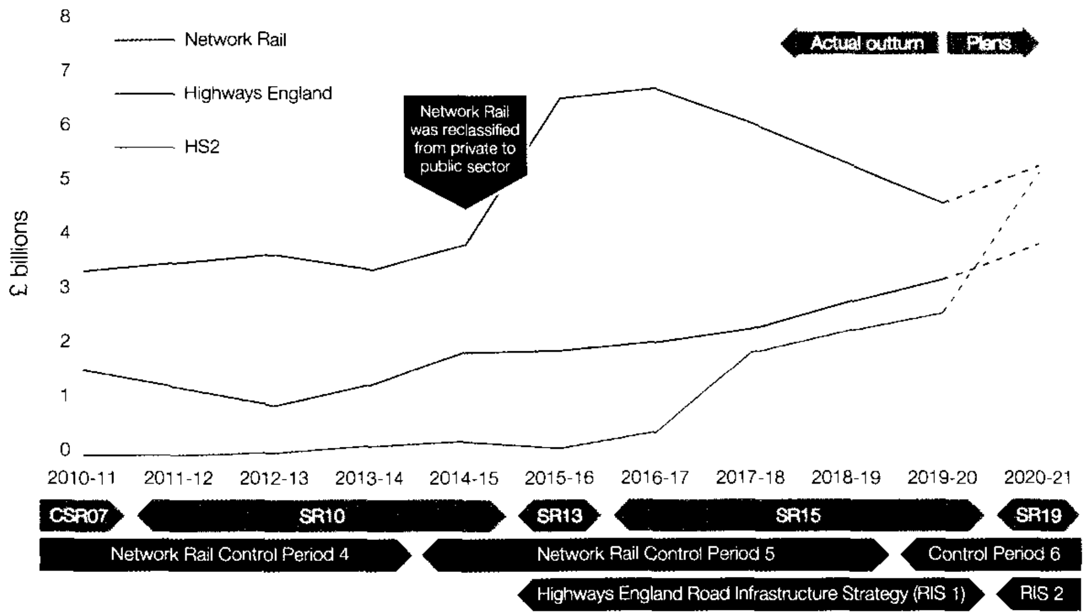
- On 1 April 2020 Highways England began its latest 5-year Road Investment Strategy (known as RIS2) with a commitment to spend £27bn on the strategic road network. The scope of this funding covers operation, maintenance, renewal and enhancement of the strategic road network.
- Further details can be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

Figure 7: Total net expenditure (exc. depreciation) is shown split between capital and resource net expenditure



Sources: 2010-2020 actual outturn– Departmental Financial Statements, 2020-21 plans – Main Estimate. The Main Estimates does not cover the full cost of the Department's response to COVID-19. Further funding will be sought in the Supplementary Estimates to cover the measures listed in Note 32 to the Financial Statements. The Comprehensive Spending Review 2020 will set the resource budget for 2021-22 to 2023-24 and capital budgets for 2021-22 until 2024-25.

Figure 8: Key areas of capital investment



Sources: 2010-2020 actual outturn– Departmental Financial Statements, 2020-21 plans – Main Estimate.

- Spending up to and including 2019-20, as shown in Figure 6, relates to preparation for the Phase 1 route between London and the West Midlands. The start of construction in April 2020 causes the increase in 2020-21 shown in **Figure 7**.

- The Budget will increase following Parliamentary scrutiny of the Hybrid Bills, which will permit Phases 2A (West Midlands to Crewe) and 2B (to Manchester, Leeds and beyond) to go ahead. The High Speed Rail (West Midlands – Crewe) Bill for Phase 2A is proceeding through the House of Lords currently.

The impact of COVID-19 on 2020-21 spending plans

Figure 5 shows a rapid increase in spending in 2020-21 which is partly due to the COVID-19 pandemic. 2020-21 planned spending is based on the Main Estimate that the Department prepared in April 2020 and Parliament approved in July 2020[10]. As outlined in the Department's Memorandum to the Transport Select Committee[11]:

- Resource DEL is increasing primarily due to the emergency measures to support Rail Franchises due to the challenges of the COVID-19 pandemic (which was estimated at £2.9bn but will increase in the Supplementary Estimates); and

- Capital DEL is increasing due to the expected ramping up of delivery for HS2 (£2bn), £1bn more for Highways England reflecting the start of Road Investment Strategy 2 (RIS2) and £1bn for local authority roads.

Since the Main Estimate was prepared, the impact of the COVID-19 pandemic on the rest of the transport sector has become clearer. The Supplementary Estimates, which will be prepared in late 2020, should increase the Department's budget significantly to fund public transport COVID-19 related pressures. This includes Emergency Measure Agreements and their replacements in Rail, grant support to Transport for London, support for bus and light rail operators, and cycling and walking measures.

Spending Reviews

Spending Review 2015 (SR15) was the budget settlement agreed in 2015 with HM Treasury up to and including 2019-20. Additional funding was secured during subsequent fiscal events that provided funding for road related projects, low-emission vehicles, clean air, digital rail signalling, and smart ticketing. The primary objectives of the increased funding are to tackle congestion, reduce our emissions footprint, improve air quality and help keep the UK at the forefront of new transport technology to secure highly skilled and well-paid jobs.

In September 2019 the Chancellor announced the outcome of Spending Round 2019 which set departmental spending plans for 2020-21.[12]

In July 2020 the Chancellor launched the Comprehensive Spending Review 2020. The Review, which will be published in the autumn, will set out the government's spending plans for the parliament.

Statistical reclassifications

The Office for National Statistics (ONS) made a number of decisions that impact the Department's 2019-20 financial statements:

- In 2019, the Department established Train Fleet (2019) Ltd to purchase and operate a fleet of trains under historic contractual arrangements. The ONS designated Train Fleet as central government and therefore Train Fleet is consolidated into the Department's 2019-20 accounts.

- In March 2020, the Secretary of State took the Northern Rail franchise into public ownership and established Northern Trains Ltd (NTL) to operate these rail services. The ONS classified NTL as a public corporation, therefore NTL is recorded an investment of the Department in these 2019-20 financial statements.

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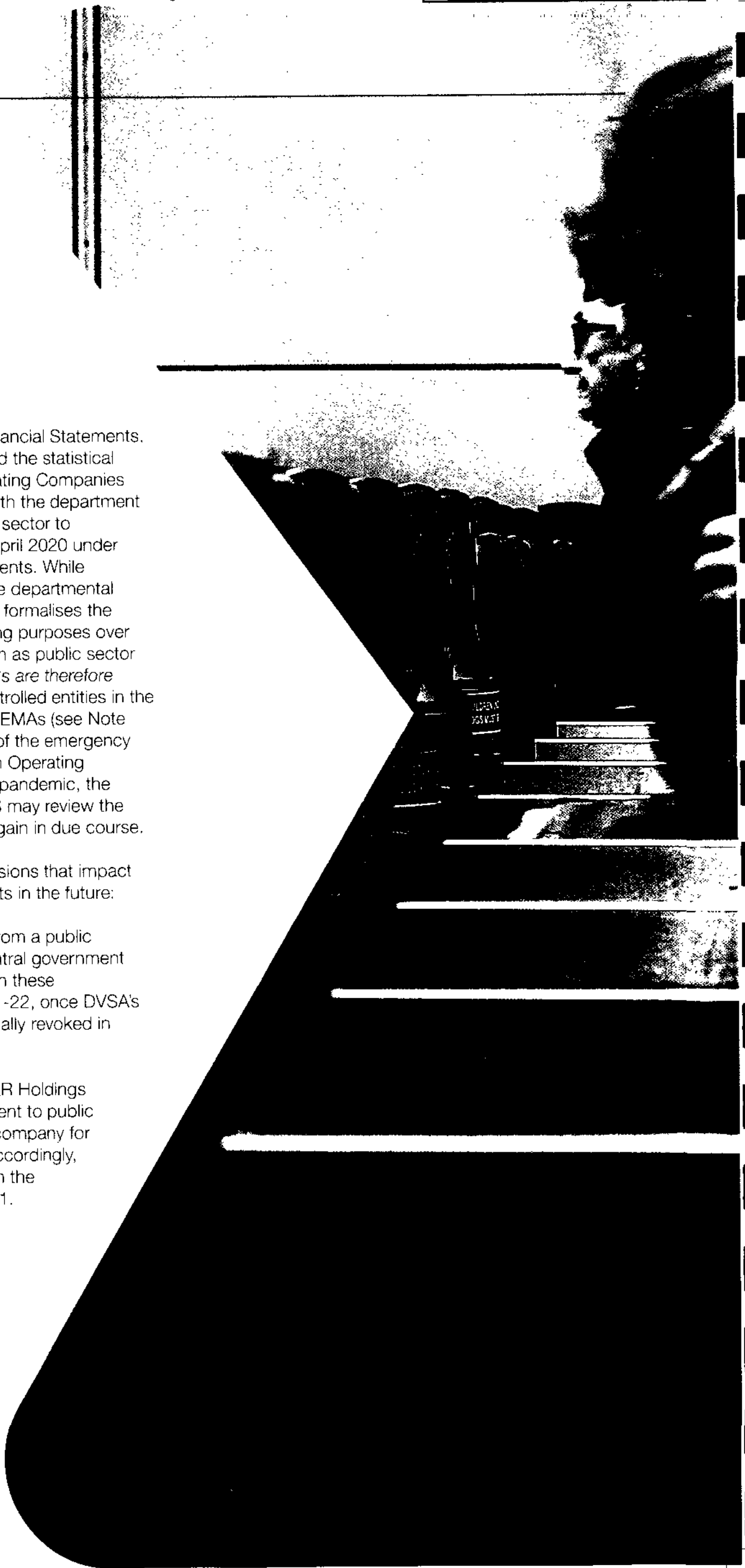

- As described in Note 28 to the Financial Statements, in summer 2020 the ONS reviewed the statistical classification of the 12 Train Operating Companies who hold franchise agreements with the department and reclassified them from private sector to public corporation status from 1 April 2020 under the Emergency Measures Agreements. While public corporations are outside the departmental group boundary, this classification formalises the department's control for accounting purposes over these entities and designates them as public sector entities under the EMAs. The TOCs are therefore included as non-consolidated controlled entities in the departmental accounts under the EMAs (see Note 28). Noting the temporary nature of the emergency contractual arrangements for Train Operating Companies during the COVID-19 pandemic, the Department expects that the ONS may review the statistical classification of TOCs again in due course.

The ONS has also made decisions that impact the Department's financial statements in the future:

- In 2019, ONS reclassified DVSA from a public corporation (trading fund) to a central government body. DVSA will be consolidated in these departmental accounts from 2021-22, once DVSA's trading fund status has been formally revoked in legislation.

- In 2020, ONS reclassified DFT OLR Holdings Ltd (DOHL) from central government to public corporation. DOHL is the parent company for LNER and Northern Trains Ltd. Accordingly, DOHL will be deconsolidated from the departmental accounts in 2020-21.

Nick Joyce
Director General,
Resources and Strategy


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Performance Analysis

This section sets out in more detail how the Department is performing, and reports progress against each of the SDP strategic objectives and supporting sub objectives, and the SDP's indicators as at the end of March 2020 and COVID-19 until 30 June 2020.

Performance Report

In keeping with HM Treasury guidance, the performance report tracks progress against the objectives set out in the SDP for DfT. The SDP was published in June 2019, and sets out the Department's strategic objectives to 31 March 2020 and its plans for achieving them. The overall mission was to continue working to create a safe, secure, efficient and reliable transport system that works for the people who depend on it; supporting a strong, productive economy and the jobs and homes people need.

The Department has had a full, and ambitious programme of delivery designed to support these objectives. A guiding principle at the core of that programme was to put the needs of the road, rail and air transport users at the heart of policy development, decision-making and delivery. The Department will achieve this working collaboratively with the public bodies, including Highways England and Network Rail. with a focus on efficiency and productivity and through an increasingly diverse and inclusive workforce.

Much has happened since the publication of the SDP, not least a new Prime Minister and a general election. This report focuses on the SDP for 2019-20 and reporting on COVID-19: significant areas of activity not covered by the SDP have also been reported.

During March 2020, following the increase in global infections of COVID-19, the government announced a lockdown of the United Kingdom to contain and delay the spread of the virus. Given the significance of these events, this report will open with a report on the activity of the Department in response to the COVID-19, covering activity from March 2020 until the end of June 2020, the first first full quarter of management report. This report will then set out the Department's activity in 2019-20, grouped by SDP indicator. Aside from this COVID-19 section, reporting on other areas of work undertaken in 2020-2021 will be covered in the Annual Report and Account next year.

Responding to COVID-19

Initial response phase

In late January 2020, the Department began to work with Whitehall colleagues to monitor the spread of a new infectious disease originating in Wuhan, China. As the situation evolved rapidly, the Department's Transport Security Operations Centre co-ordinated the Department's response, focussing on the repatriation of British nationals from overseas; supporting industry partners engage with port health measures, and ramping up the Department's modal and departmental pandemic contingency planning.

As COVID-19 spread across the world, the Department's officials were embedded into Foreign and Commonwealth Office (FCO) and Department of Health and Social Care (DHSC), to ensure that the transport position was at the heart of cross-Whitehall decisions. The repatriation of British nationals from the Diamond Princess cruise ship in February 2020 and from Wuhan province in China were the first of many repatriation exercises. The Department was also able to work with DHSC and Public Health England (PHE) to produce guidance for the transport sector and the travelling public on staying safe.

Alongside the response effort, a team began to prepare the Department for the likely effects of a pandemic spreading across Europe and the UK and began to engage with key operators to ensure plans were in place for the disruptive impact of a pandemic.

Department Operations Centre

Following the spread of COVID-19 in the UK, and the implementation of public health measures in mid-March 2020, the Department formally stood up its Departmental Operations Centre (DOC) to co-ordinate its response to COVID-19. Alongside the Operations Cell, focusing on operational management of DOC, information management and production of the daily Situation Reports (SitReps)[13], there was an enhanced Policy Hub, responsible for co-ordinating the policy response across all transport modes and preparing ministers and senior officials for cross-government meetings to manage the whole of government response, along with a transport support unit.

DOC operated from 0700 to 2200 daily for two months, seven days a week and in that time produced 90 SitReps, and significant volumes of ministerial briefing. Over 200 individuals from across the Department worked shifts in DOC, following a significant reprioritisation effort across all work areas.

As the focus moved from an immediate response to economic restart and recovery, the Policy Hub focused on co-ordinating the ongoing efforts working closely with teams across the Department.

The focus throughout the response has been on delivering three key priorities: keeping the transport system moving; supporting the repatriation of British nationals; and supporting companies and organisations in distress.

13 SitReps provides up to date daily intelligence and data on how the transport system is operation, as well as monitoring reports from traditional and social media.

Keeping the transport system moving

Since March the Department has ensured that services have continued for essential travel, such as for critical workers so that they can travel to and from work. In the early phase of the response the Department worked with its partners to put in place arrangements to ensure that rail, bus and other local transport services were sustained at appropriate levels. Drivers' hours rules were relaxed so that supermarkets could complete more home deliveries, and temporary changes were made to the Certificate of Professional Competence (CPC) requirements to maintain driver capacity to keep goods moving throughout the country. Additional freight movements were put in place to support the flow of goods by taking advantage of reduced rail timetables. *Funding worth almost £400 million was committed to protect bus services and light rail services to maintain* capacity for essential journeys including for key workers.

The repatriation of British nationals

The Department worked closely with FCO and the travel sector *to ensure that British nationals could return to the UK. The government repatriated* over 38,000 British nationals on over 180 flights, and supported the repatriation of over 19,000 British nationals from cruise ships. The Department also worked with FCO to support a partnership with airlines to fly home stranded British travellers, which allowed passengers to change tickets at little to no cost, including between operators, where commercial flights could operate. Where commercial flights were not an option, the Department spent £75 million to charter special flights to repatriate British nationals.

Supporting companies and other organisations in distress

The government worked with key transport operators, such as airlines and airports, ferry companies and seaports, and rail, bus and coach companies, to ensure that firms providing vital services remained operational during the pandemic. The Department took a number of measures to support the transport sector including extending time to pay, providing financial support for employees, and encouraging the use of the Bank of England's COVID Corporate Financing Facility (CCFF).

Normal rail franchise agreements were suspended, transferring all revenue and cost risk to the government for an initial six months (more information can be found on **page 285**). The Department is in discussion with TOCs and their Owning Groups about the arrangement that will apply when the initial six-month period ends. The Department worked with the aviation sector to consider the situation of individual firms that needed financial support when all other government schemes had been explored, and all commercial options exhausted, including raising capital from existing investors. The Department designed and *paid out new grants of emergency funding to support bus and light rail operators maintain vital services. This emergency funding ensured services continued by* making up for the substantial fall in revenue experienced by these operators over the lockdown period. **Page 295** lists the funding measures supporting critical transport services.

The Department also took careful steps to help the nation to restart and recover, to reduce the pressure on the public transport system, and influence long term active travel changes. In June 2020, the Department formally created a COVID-19 Directorate to manage the *safe restart of the transport system, and to assist with capacity management on public transport while social distancing was in effect, and to try and lock in long term* health and environmental benefits.

Safe and green restart

The Department produced detailed guidance on how to travel safely during the COVID-19, and from 15 June 2020 made it mandatory for all people travelling on public transport to wear a face covering, unless they have a medical exemption or are under the age of 11. Guidance was also circulated to local authorities on reallocating road space to achieve a more appropriate balance.

A longer-term cycling and walking programme totalling more than £2 billion was announced, as was a £225 million emergency active travel fund to help councils build the infrastructure to support active travellers, including pop-up bike lanes, widened *pavements, and cycle and bus-only corridors. E-scooter trials were increased, to open new ways to travel, as well as easing the burden on the transport network.* A further £25 million was announced to help people get their bikes repaired to help them return to cycling. At 30 railway stations across England, £2.5 million was allocated to 1,180 cycle parking spaces to encourage people to include cycling as part of a longer journey once travel restrictions are relaxed.

Leaders from aviation, environmental groups and government were brought together to form a Jet Zero Council, charged with making net zero emissions possible for future flights.

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

Transport is essential to the United Kingdoms' economy, connecting people and goods to businesses, jobs and commerce. The Department plays a key role in the delivery of many of the government's priorities including levelling-up the economy and is responsible for one of the largest capital budgets in government, and an extensive portfolio of nationally significant infrastructure projects. The sector is in a period of rapid innovation involving new technologies and business models, which are both bringing about and coinciding with significant changes in behaviour.

The UK has a mature transport network, offering generally good connections between our towns, cities, and our gateways to the rest of the world. However, COVID-19 has had a disproportionate impact on communities across the country, with some less well-connected places at risk of being hit hardest by health and economic impacts of COVID-19.

Deliver infrastructure projects across road, rail and aviation

The second Road Investment Strategy (RIS2)

In March 2020 the government announced the second Road Investment Strategy (RIS2), committing £27.4 billion of investment in England's strategic road network between 2020 and 2025. The funding will provide for the operation, maintenance, renewal and enhancement of the network and, in particular:

- A programme of proactive maintenance that fixes ageing roads before they fall into disrepair, and ensures that the network is brought to a more modern, high-performing standard. This includes fixing bridges, renewing safety barriers and starting the retirement of old-style concrete road.
- Completing the work of the first RIS, finishing 48 important upgrades such as upgrading the A428 Black Cat interchange and dualling more of the A1 in Northumberland.
- Ring-fenced funding for specific priority issues: the environment and wellbeing; users and communities; innovation and modernisation; and safety and congestion.
- A number of new enhancement schemes where adding capacity is the best way to address problems of congestion and a lack of resilience in the network. These include dualling the A66, connecting the two dual carriageway sections of the A417 near Birdlip Gloucestershire and upgrading the A46 around Newark.

Highways England is making progress on three major projects along the A303/A358 corridor; the A303 Amesbury to Berwick Down (Stonehenge), the A358 Taunton to Southfields and the A303 Sparkford to Ilchester dualling scheme. The Stonehenge scheme completed its six-month public examination, assessing the environmental, cultural, heritage, and community impacts.

A14 Cambridge to Huntingdon improvement scheme

The A14 is one of the most significant schemes in Highways England portfolio. With an investment of £1.5 billion the scheme will upgrade a 21-mile section of the A14 trunk road and widen part of the A1. This scheme will provide a real transformation for customers, involving a new bypass and widening and installing new link and access roads to turn this route into a safer, more comfortable and less congested journey for motorists. In December 2019, a 12-mile bypass south of Huntingdon opened to traffic, a year ahead of schedule and the main scheme opened on 5 May 2020.

Other work which has progressed includes publishing an 18 -point package of measures to improve safety and public confidence on smart motorways. The package includes abolishing confusing 'dynamic hard shoulder' motorways and substantially speeding up the deployment of 'stopped vehicle detection' – a radar-based system which spots stationary vehicles – so that it is installed across the entire smart motorway network within 36 months.

A new pedestrian and cyclist bridge which will shape the future of Hull and connect key sites in the city is now in place over the A63. The bridge is the first part of the £355 million A63 Castle Street road improvement scheme, which will help link the city's marina with the southern end of Princes Quay Dock. A £78 million upgrade of junction 10 of the M6 to remove bottlenecks and improve safety was started in January 2020.

Highways England is developing a long-term solution to handle traffic disruption on the M20 in Kent and from December 2020, a concrete barrier that can be set up within hours will be available to keep Kent's roads moving.

A66 Northern TransPennine

A key national and regional strategic route, the Department is investing over £1 billion to dual the remaining single carriageway sections of the A66 between the M6 and A1(M) in the North of England. Due to its location stretching across the Pennines, developing the A66 will boost regional and national connectivity, improving tourism and freight journeys. The new scheme will reduce barriers between local communities and provide better links to employment centres. Safety and reliability issues will also be tackled through the creation of a more seamless route.

Network Rail has continued to deliver operations, maintenance, and challenging enhancements across the rail network during 2019-20. Projects have included:

Midland Main Line

Work has continued on Key Output 1 of the Midland Main Line upgrade, which includes electrification to Kettering and Corby, station, track and capacity works along the route (London to Nottingham and Sheffield), and a new sixth path into London. This will enable increased capacity and improved long-distance journey times. The impact of restrictions introduced as a result of COVID-19 has caused the realisation of these benefits, originally scheduled for the December 2020 timetable change, to be delayed to the May 2021 timetable change.

East Coast Main Line (ECML)

Work on the East Coast Main Line Enhancements Programme progressed to plan through the majority of the year but the introduction of COVID-19 social distancing measures in March 2020 has delayed the King's Cross Remodelling, Werrington Grade Separation and Stevenage Turnback projects. A critical power supply upgrade near Doncaster came into use in October 2019, enabling London North Eastern Railway (LNER) to withdraw all their diesel-only rolling stock from service. In addition, the completion of infrastructure works at Harrogate Station allowed LNER to introduce five extra services per day between London and Harrogate in December 2019.

The North of England (NoE)

NoE has made progress with 15 schemes with various stages of development and up to completion over the past financial year. The North-West Electrification Programme enabled electric trains to provide passengers with more seats on the upgraded Manchester to Blackpool route from May 2019. The completion of upgrade works at Liverpool Lime Street station has also enabled more and longer trains to run following the May 2019 timetable change, while Wigan Springs Branch Depot opened in December 2020.

A Cross-Industry Manchester Recovery Task Force was formed in January 2020 to consider options to improve the performance and capacity of the railway and services through Greater Manchester, including a range of potential timetable and infrastructure changes. Capacity and performance options also continue to be assessed in Leeds.

Sheffield to Rotherham Tram Train Pilot

In April 2019, Transport Focus reported that the service had achieved 100% passenger satisfaction for overall experience and journey time; with 92% satisfied with its value for money.

The TransPennine Route Upgrade (TRU)

TRU is a multi-billion-pound investment programme to upgrade the railway between Manchester, Leeds and York. It will deliver increased capacity, reduced journey times and greater service reliability for passengers and is the biggest planned investment on the existing railway in the next five years. Network Rail has continued to develop the scheme ahead of the next investment decision, expected in 2020.

Chase Line

A full electric service was introduced on this line between Rugeley Trent Valley and Birmingham New Street. This marks the successful conclusion of the electrification and platform lengthening programme on the line with enhanced service frequencies and longer trains.

Midlands Rail Hub

Midlands Rail Hub is major scheme aimed at improving links between the key cities in the region, allowing people to access HS2 and creating additional rail capacity in Central Birmingham. The Department, Network Rail and Midlands Connect are working together to develop the proposal.

Elsewhere in the region the Department is working closely with West Midlands Rail Executive on their proposals for new stations on the Camp Hill Line, Willenhall and Darlaston, and the redevelopment of University Station, which delivers benefits across the East and West Midlands (including Nottingham, Leicester, Derby and Birmingham).

East West Rail

The Central Section (Cambridge-Bedford) was designated a Nationally Significant Infrastructure project in 2019 and the preferred route was announced in January 2020. The Western Section (Bicester-Bedford) Transport and Works Act Order was published in February 2020.

Great Western

Both the route infrastructure and rolling stock have been modernised to increase capacity and provide greener, faster and more reliable journeys, while also improving connections across South and South-Western England and South Wales.

As a response to the severe weather in 2014 construction commenced in June 2019 on enhancing the sea wall at Dawlish, with the first stage completed and open to the public in July 2020 and a second phase starting later in 2020 expected to be complete in 2022.

Electrification of the Great Western Main Line to Cardiff

The final sections of electrification are now operational, thereby enabling electric services to operate between Paddington and Cardiff. The Great Western Railway December 2019 timetable change enabled substantial improvements in South Wales to London journey times, with new Intercity Express Trains being able to run at much faster speeds. Additionally, this has provided a 30% increase in high speed GWR services, and 10,000 more seats in the morning peak into Paddington compared to 2015.

Wessex route

Reopening platforms 20-24 of the former Waterloo International Terminal and extending platforms across the network to allow longer 10-car trains to run.

West Anglia Main Line

The West Anglia Main Line capacity enhancement was delivered in May 2019. This included the creation of a third track between Lea Bridge and Meridian Water, a brand-new station at Meridian Water and major upgrades including step free access and additional platforms at Tottenham Hale and Northumberland Park stations. The enhancements have allowed for an additional 2 trains per hour to operate in the peak.

Gatwick Airport Station

A £150 million upgrade started in May 2020 and is currently under construction. It is on course to be completed in 2023, although improvements will be brought on stream sooner as they are completed. The scheme is intended to remodel the airport railway station to provide more capacity for pedestrians.

Cambridge – Kings Lynn line

There has been enhancement of three platforms with extensions at Littleport, Waterbeach and King's Lynn. The construction of new sidings at King's Lynn will allow crowded four car trains to be doubled to eight cars on the full route, removing the need to split the train for services beyond Cambridge. Operation of the eight car services are expected to start from December 2020, relieving capacity constraints between Cambridge and King's Lynn.

[illegible]

In August 2019 the Chairman of HS2 Ltd published his Stocktake identifying significant coast and schedule challenges. In August 2019 the government commissioned Douglas Oakervee to undertake a review of whether and how the scheme should continue.

This reported alongside an NAO update on progress including the Department's updated estimates of the budget and schedule ranges. After careful consideration of the review's conclusions, the Prime Minister confirmed government's support for HS2 in his speech to Parliament on 11 February 2020. This included the delivery of Phases One (West Midlands to London) and 2a (West Midlands to Crewe) of the scheme. In addition, the Prime Minister also announced that an integrated plan for rail (the integrated Rail Plan) in the North and Midlands would be developed to assess how Northern Powerhouse Rail and HS2 Phase 2b (between Crewe and the North on the western leg and West Midlands and the North on the eastern leg) can be delivered better and more effectively, recognising that better East-West connections are a priority for local leaders.

On 15 April 2020, the HS2 Phase One business case was approved by the government, confirming that this part of the scheme would proceed with a significantly increased budget for Phase 1 and delayed entry into service date. Alongside this approval, HS2 Ltd Issued Notice to Proceed to its main works civil contractors, giving the formal 'green-light' for construction along the Phase One route to begin.

As a pre-condition of the decision to proceed, several measures were identified to improve the control and oversight of the project. This included new and enhanced governance arrangements; appointing a full-time minister with specific oversight and accountability for HS2 and Northern Powerhouse Rail; and setting up a new Ministerial Task Force to provide strategic oversight, support and challenge Phases 1 and 2a to the delivery of Phase 1 and 2a to time and budget.

Since April progress has continued to be made on the HS2 project. This has included hybrid bill development for the Phase 2b Western leg route into Manchester (in line with the Oakervee Review conclusion that Phase 2b would be better legislated in more than one Bill); achieving local planning approval for stations at Old Oak common and Birmingham Curzon Street; and further acquisitions of land and property across the three phases of the programme.

Crossrail Stage 5A (services between Paddington and Reading) launched successfully on 15 December 2019 in addition to the services already in operation between Liverpool Street and Shenfield operating as TfL Rail. While reduced-length trains (seven cars) were used initially and were swapped for the full-length nine car trains in March 2020, due to safety issues these were removed from service, and the reduced-length units temporarily reintroduced.

On 21 August Crossrail Ltd (CRL) and TfL announced that the opening of the central section will not occur during the summer 2021 window previously announced on 10 January 2020. The CRL Board's latest assessment, based on the best available programme information at the August Board meeting, is that the central section between Paddington and Abbey Wood will be ready to open in the first half of 2022. The latest cost estimate presented to the Board shows that the cost to complete the Crossrail project could be up to £1.1billion above the Financing Package agreed in December 2018 (£450 million more than the upper end of the range announced in November 2019). Work is ongoing to finalise the cost estimates.

COVID-19 has further exacerbated the schedule pressures due to a pause of physical activity on sites during lockdown to keep the workforce safe and significant constraints on ongoing work and productivity due to the reduced numbers that can work on site to meet strict social distancing requirements. To help recover some of the lost time, Crossrail is undertaking a period of intensive construction activity (referred to as the blockade) during August and September to complete the remaining construction works in the routeway for Trial Running. The construction blockade is progressing well and achieving targeted levels of productivity.

On 3 September 2020, the Intercity Express Programme (IEP) accepted the last train on the East Coast Main Line. This major milestone marks the delivery of 122 new trains, 65 on the East Coast Main Line and 57 on the Great Western Main Line (fleet fully operational since 2018).

With the full fleet delivered, IEP contract will transition to an operational phase for the next 20+ years and will continue to deliver the passenger benefits from associated upgrades including more capacity, improved reliability, reduced journey times and better environmental performance from London to other major terminals in the UK offering through-trains from non-electrified lines without the need to change or attach a locomotive.

The decision to designate the Airports National Policy Statement (ANPS) in 2018 – which set out the needs case for a new runway at Heathrow Airport – was subject to judicial review by both the High Court and the Court of Appeal. The Court of Appeal judgment on 27 February found that the Secretary of State had acted unlawfully in failing to consider the Paris Agreement on climate change, the effect of non-CO_2 aviation emissions, and post-2050 emissions. The Court ordered that the ANPS had no legal effect unless and until the government undertook a review of it under the Planning Act 2008. The government did not seek permission to appeal the judgment.

Deliver on transport elements of the cross government Industrial Strategy

And

And

The Future of Mobility: Urban Strategy, published in March 2019, underpins the government's approach to facilitating and shaping innovation in urban mobility for freight, passengers and services.

The Department continues to support the development of new types of vehicle through the Centre for Connected and Autonomous Vehicles (CCAV), which has invested over £200 million since 2015, match-funded by industry, to accelerate the safe development, testing and deployment of connected and automated vehicle technologies in the UK. The government has also launched a £125 million government investment in the Industrial Strategy Challenge Fund Future Flight Challenge, which will be matched by a £175 million investment from industry.

The Department is also considering new types of vehicle through its reviews of the regulation of innovative transport technologies and business models. Between October 2019 and February 2020, the Law Commission for England and Wales and the Scottish Law Commission ran a second consultation as part of their review to prepare driving laws for self-driving vehicles. The Law Commission published its analysis of responses in May 2020. A third consultation is planned towards the end of 2020. The government is consulting on bringing forward the end to the sale of new petrol and diesel vehicles to 2035, or earlier if a faster transition appears feasible. This consultation closed on 31 July. The Future of Transport Regulatory Review is asking fundamental questions about how transport is regulated. A further call for evidence on regulatory considerations for micromobility, flexible bus services and Mobility as a Service (MaaS) ran from 16 March to 3 July 2020. Responses are being analysed and next steps will be published in autumn 2020.

In addition, the government has also launched trials of rental e-scooters hosted by local authorities. These trials are designed to help understand whether e-scooters reduce motor traffic, as well as their impacts on safety for their users and others.

Data is key to the delivery of new services and to enhancing consumer benefit. To help address the benefits of data access and sharing and foster innovation, the Department is developing a Transport Data Strategy. For consumers, a significant benefit of data sharing is to make journey planning easier. The launch of the bus open data platform in January 2020, for example, will facilitate the development of new passenger-focused apps.

The Future Transport Zones (FTZs) provide an opportunity to test these new approaches in real-world settings. The Department is investing £90 million in four areas for globally significant demonstrators of new digitally enabled mobility services, modes and business models. West Midlands Combined Authority is the pathfinder FTZ. The first stage of applications for funding took place between March and May 2019. Second stage applications closed on 30 September 2019. Winning bids were announced on 16 March. These are West of England Combined Authority, Portsmouth and Southampton, and Derby and Nottingham. These areas, with West Midlands, are the four FTZs.

The Transport Infrastructure Skills Strategy, published in 2016, set clear recommendations to address skills gaps across both infrastructure and transport bodies. These included stretching ambitions to create 30,000 apprenticeships in road and rail bodies. Employers are also being challenged to improve the diversity of the sector, notably to work towards 20% of engineering and technical apprenticeships to be filled by women, and for a 20% increase in BAME representation.

The Strategic Transport Apprenticeship Taskforce (STAT) was set up to enable leading employers to meet these ambitions; it reports annually on progress.

Collaboration across the sector has enabled employers to develop intelligence about skills needs and gaps, share best practice and drive innovative solutions to shared challenges. In July 2019 the 'Transport Infrastructure Skills Strategy: Three Years of Progress' was published. Since STAT began its work:

- 8,200 apprenticeships have been created in road and rail bodies and their supply chain as a direct result of public sector procurement.
- Increase in commitments to thousands more apprenticeships from leading transport employers – notably doubling the number of apprentices at Heathrow to 10,000, linked to expansion of the airport.
- BAME representation now stands at almost 22% of apprentice intake, from a starting point of 14%.
- The proportion of women taking up technical and engineering apprenticeships is now over 15%.

There is also an increase in degree level apprenticeships, with women proportionately better represented at these higher levels than men. Higher level apprenticeships will support efforts to drive productivity in the sector.

In 2019's Annual Report, STAT noted the challenge in driving the volumes of apprenticeships that had been envisaged in the Transport Infrastructure Skills Strategy. Peaks and troughs in the investment cycle have affected recruitment in the sector and specific challenges remain for smaller supply chain businesses. While employers within the STAT membership are investing significantly in apprenticeships through the apprenticeship levy, employers across the economy continue to report concerns about its implementation.

The Annual Report also set out clear commitments by STAT to further develop work on skills in the year ahead to help address challenges, including:

- Promoting commercial models which support closer working with the supply chain to facilitate collaboration on skills and to increase productivity.
- Piloting a pre-employment training programme to support those facing significant barriers to entry into jobs and training.
- Piloting two data based shared apprenticeships to improve digital readiness in the sector (Level 4 and Level 6 Data Analyst/Scientist).

Support the UK's maritime and aviation sector strategies

Maritime 2050 set out a high-level vision for government and industry to maximise the potential for UK's maritime sector to 2050 and beyond. The government's ambition includes: being at the forefront of decision making in international fora; leading the way on clean maritime growth and the transition towards zero emission shipping; and transforming and growing our maritime workforce.

The Department published the "Clean Maritime Plan" in July 2019, setting out how the Department would reach its ambitious decarbonisation targets. The Plan underpins the Department's long-term vision for zero emission shipping, focusing on future clean growth opportunities for and seeking to place the UK as a global leader in clean shipping. In launching the Clean Maritime Plan, the UK was one of the first countries to publish a national action plan to reduce shipping emissions following the agreement of ambitious global decarbonisation targets at the International Maritime Organization. Progress includes:

- Grant support for early stage research projects related to clean maritime.
- The launch at London International Shipping Week 2019 of a biennial maritime green finance forum.
- Took actions to realise the recommendations set out in the Technology and Innovation in UK Maritime Route Map including.
- Providing £1.5 million to support innovative maritime projects through the MarRI-UK Technology and Innovation in UK Maritime Call.
- Supporting the launch of the first Maritime 2050 Innovation Hub at the Port of Tyne.
- Providing regulatory support, through MAR Lab, for the first unmanned crossing of the North-Sea, undertaken by Sea-Kit's USV Maxlimer.

In September 2019, the Department published the "People Route Map" setting out how government and industry will work together to grow the maritime workforce and equip them with the skills needed for the future. Progress includes:

- £300,000 funding to establish a Maritime Skills Commission bringing skills experts and academics together to report on the changing needs of the sector, and chaired by Professor Graham Baldwin.
- £250,000 funding to create of a single industry body known as the Maritime Careers Taskforce, bringing greater coordination and coherence to maritime careers promotion. It is chaired by Catherine Spencer, Chief Executive of Seafarers UK.

- £40 thousand awarded to run the Maritime and Me campaign, highlighting the exciting and rewarding maritime careers on offer, especially to the next generation of young women.

- Establishing an enhanced Diversity in Maritime Taskforce.

The Department announced the Port Infrastructure Fund, a £30 million government scheme to bolster ports across England. £10 million was awarded to 16 successful bidders to the Port Infrastructure Resilience and Connectivity (PIRC) fund. £5 million was awarded to Local Resilience Forums, and £15 million was committed on the development of longer-term projects to boost road and rail links to ports and help more freight can get where it needs to be faster.

In partnership with Associated British Ports (ABP) Port of Southampton, the Department launched the UK's first Port Economic Partnership (PEP). PEPs represent a new approach through which government and the port sector is looking to create a greater cooperation between private and public-sector investment.

London International Shipping Week, held in September 2019, was the leading global maritime event of the year with 20,000 top government and industry decisions makers from across the globe attending 200 plus events. The Department hosted and supported events promoting the UK as a world leading maritime centre and emphasising the government's ambitions for a Global Britain, to the international maritime community. The events included:

- Workshops with domestic and international stakeholders to discuss work on Free Trade Agreements.

- Clean Maritime Plan showcase and announcement of plans for progressing green initiatives by accelerating investment flows towards zero emissions shipping.

- The launch, by Trinity House, of a Vessel Replacement Project to commission the design and build of a vessel to replace THV Patricia.

- A Tech Showcase aboard the RFA Lyme Bay, enabling 30 exhibitors to showcase some of the ground-breaking technology being developed in the UK to the international audience.

- A joint reception with Maritime UK for ministers from across government, industry leaders and international delegates.

Looking forward, the Department was successful in its bid to host the Global Maritime Forum's (GMF) 2020 Annual Summit bringing together maritime top executives, policymakers, experts, NGOs and other influential decision-makers to share their ideas on the challenges facing the maritime industry. Although this is now postponed due to COVID-19, the Department is engaging with GMF on alternative dates for the UK to host the Annual Summit.

The Aviation Strategy aims to set out the government's long-term vision for aviation to 2050 and beyond, emphasising the significance of aviation to regional growth and the UK economy.

Through the first half of 2019 the Department undertook an extensive consultation on the Aviation 2050 green paper, published in December 2018. This green paper set out the government's proposed policy approaches to meet the objectives of the strategy and sought to consult with the aviation industry and wider stakeholders to gain feedback on the options identified. The Department arranged three regional consultation events in Belfast, Inverness and Cardiff to directly hear the views of stakeholders on the proposals in the green paper. 880 responses to the consultation were received by the Department from a wide range of organisations and individuals. The Department analysed the responses in detail and using the feedback to further refine the government's future vision for aviation.

In September 2019, Lord Deben, the Chair of the Committee on Climate Change wrote to the Secretary of State for Transport making several recommendations in respect of aviation, with regard to meeting the Climate Change Act target reduction in emissions by 100% (or net zero) by 2050. It is important that the Department considers these recommendations fully. The Department is planning to consult before the end of the year to update the government's position on aviation and climate change. It is critical aviation plays its part in delivering the Department's net zero ambitions, so that the aviation sector can continue to thrive.

On 15 January, the government announced a review of regional air connectivity to ensure all nations and regions of the UK have the domestic transport connections local communities rely on – including regional airports. This review, led by the Department, will consider all options to ensure good regional air connectivity continues. The Department will work closely with the aviation industry, local regions and devolved nations to identify how to support connectivity.

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

Transport aims to connect people and goods to places, both locally and at a national level. The Department is responsible for developing the transport network to ensure people and goods move efficiently. It works across the UK with local, regional and devolved partners to meet national and regional, ambitions to maximize the value of public investment to improve connectivity.

Part of this is about delivering the government's ambitions for devolving more power to cities. Working with regional partners to agree a more tailored, place-based, approach is critical in meeting local leaders' aspirations for integrated transport. The Local Recovery and Devolution White Paper, setting out the government's strategy for unlocking the potential of England's regions, provides plans for powers for Mayoral Combined Authorities. Working across government, and with the Devolved Administrations, the Department will deliver the long-term solutions the country needs to further increase productivity and recover from the COVID-19 crisis, taking a placed based approach to best meet the needs of communities.

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

Through its network of Area Leads, the Department's Regions Cities & Devolution (RCD) has continued to work constructively with a wide range of partners to support the government's priorities on levelling up and improving local and regional connectivity. This has included working closely with Mayoral Combined Authority areas, and prospective areas, on their plans for future devolution. This has included working to secure a devolution deal for the West Yorkshire Combined Authority which will result in the election of a Metro Mayor in 2021 and local connectivity for the competitive element of the Transforming Cities Fund, as well as co-developing directly with 12 cities their proposals for competitive Transforming Cities Fund.

The Transforming Cities Fund will address weaknesses in city transport systems in order to raise productivity and spread prosperity. It will fund new local transport links, making it easier to travel between often more prosperous city centres and frequently struggling suburbs. This will help make sure people across the country have better options to combine different modes of transport – supporting projects which will improve connectivity, reduce congestion, carbon emissions, and introduce new transport services and technology.

In 2019-20 the Department continued to support places with their ambitions regarding devolution deals. This has included working with HM Treasury and Ministry for Housing Communities and Local Government (MHCLG) in support of devolution with Sheffield City Region (to help unlock the 2015 Sheffield City Deal) and the West Yorkshire Combined Authority in securing its first Devolution Deal at Budget 2020. The Department also supported MHCLG with the delivery of The Greater Manchester Combined Authority (Functions and Amendment) Order 2019, which was made on 3 April 2019, and conferred additional local transport functions onto the Metro Mayor. The North of Tyne devolution deal was also implemented in 2019, with the election of the first Metro Mayor for the region (Jamie Driscoll) in May 2019.

In 2019-20, £190 million was paid to six mayoral combined authorities as devolved settlements from the Transforming Cities Fund. This funding is not ringfenced and it is for Mayors and their Combined Authorities to determine how to invest as part of their Single Pot. Mayoral Combined Authorities are expected to assure schemes locally according to their Single Pot Assurance Framework and publish value for money statements regarding these decisions.

The Department is committed to supporting cities to develop and promote local growth through the £2.5 billion TCF. The fund is aimed at driving up productivity through investments in public and sustainable transport infrastructure in 18 of England's city regions.

Since the launch at 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 (MCAs) on a per capita and devolved basis.

As part of the mayoral allocation, in 2019-20 the Department has received delivery plans in June 2019 from all six MCAs. For example:

- Cambridgeshire and Peterborough decided to allocate £16.4 million to fund Kings Dyke level crossing and £1 million to develop proposals on the A47 Dualling Study.
- Greater Manchester is investing £160 million of their allocation to the iconic cycling and walking Bee Network.
- Liverpool City Region is investing in a new and cleaner Mersey Ferry fleet
- West Midlands is committing £207 million of their allocation to build the Brierley Hill extension to the Midland Metro tram network, expanding the route to Dudley.

The other half of the Fund (£1.28 billion) has been allocated via a two-tranche process to 12 shortlisted city regions. The Department has 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. Since then two further city regions were shortlisted at Budget 2018, making a total of 12 eligible cities for Tranche 2. As part of Tranche 2 of the Fund, in 2019-20 the Department has:

- Invited the 12 shortlisted cities to bid for a share of the remaining £1.22 billion via a process of co-development which sped up the development of business cases and ensured that the schemes were of the highest quality.
- Worked closely with shortlisted city regions to develop programmes of investment via low, medium and high funding 'asks' which are deliverable by 2023, meet the profile of the Fund, and ambition of the area thereby improving access to job, reducing congestion and carbon emissions, and improving air quality.
- Received 12 programme-level Strategic Outline Business Cases (SOBCs) in November from the shortlisted city regions.
- Assessed the 12 SOBCs and provided advice to ministers on the level of funding that each city region should receive.
- At Budget 2020, the Chancellor announced funding levels awarded to nine cities, with three places held back for further work before funding will be released.
- Tranche 2 funding levels awarded at Budget 2020 were as follows:
- £79 million for Bournemouth, Christchurch & Poole, including four new cycle freeways and new bus priority infrastructure.
- £161 million for Derby & Nottingham, including over £25 million for bus rapid transit in Derby and over £10 million for a new cycle route between Nottingham, Derby and East Midlands Airport.
- £33 million for Leicester, including £8 million for the development of a sustainable transport corridor from St Margaret's to Birstall.

- £198 million for the North East, including £95 million for frequency and reliability improvements across the Tyne and Wear Metro system and to complement the government's recent £337 million investment in new rolling stock.
- £51 million for Plymouth, including £36 million for an iconic new Central Park cycling and walking bridge.
- £40 million for Preston City Region, including £25 million for a new station at Cottam Parkway on the Preston-Blackpool line.
- £166 million for Sheffield City Region, including a new Bus Rapid Transit link in Barnsley and a new tram stop on the Tram-Train line to Rotherham at Magna.
- £57 million for Southampton, including new Rapid Bus links.
- £317 million for West Yorkshire, including £39.9 million for Halifax delivering a new bus station, improved rail station and other improvements to complement the revitalisation of the town centre and £30 million for active and sustainable travel across Bradford.
- A further £117 million for Portsmouth City Region, Norwich and Stoke-on-Trent subject to further business case approval, which could fund a range of projects, including a multi-modal transport hub at Stoke-on-Trent station.

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- England's Economic Heartland (pre-statutory basis)
- Midlands Connect (pre statutory basis)
- Transport East (pre-statutory basis)
- Transport for the North (statutory basis since 1 April 2018)
- Transport for the South East (pre-statutory basis, formal application submitted)
- Western Gateway (pre-statutory basis)
- Peninsula Transport (pre-statutory status)

The Department has sponsored seven subnational transport bodies (STBs) across England to identify strategic regional transport investment priorities to inform the Department's decision-making. The Department's sponsorship has focused on ensuring that STBs offer added-value by performing functions that are best suited to being carried out at the regional level: developing a regional evidence base and transport strategy; taking forward the proposals in their transport strategy through area or corridor studies; and agreeing a Strategic Investment Pipeline of priority transport schemes for their region that is credible and evidence-based.

In 2019-20, the Department asked STBs to prioritise funding recommendations for the Major Road Network. STBs have also input to the Road Investment Strategy and Rail Network Enhancements Pipeline, and worked with partners on a range of other priorities. Several STBs have identified decarbonisation and transport innovation as a priority for their region and are exploring options to meet future transport needs while reducing carbon emissions and maintaining and enhancing the quality of our natural environment.

As part of our sponsorship activity in 2019-20 the Department has:

- Met regularly with STBs to review their progress and plans.
- Attended STB Partnership Boards, working groups and other forums where relevant.
- Provided advice and guidance, including analytical support and quality assurance of STB evidence base and developing transport strategies.
- Facilitated join-up with other government departments on areas identified as cross-cutting priorities by STBs.
- Provided funding support to Transport for the North (TfN), Midlands Connect, England's Economic Heartland and Transport for the South East, and considered future funding requirements of other STBs.

To ensure value for public money the Department has adopted an approach that the work of STBs should be regionally specific and not duplicate work underway elsewhere within government. To support this, the STBs have established a Joint STB Liaison Group to work together on areas of common interest.

Transport for the North

The Department has continued to support TfN's aim to boost economic growth across the north and deliver their programmes, including by sponsoring TfN's Integrated and Smart Travel programme and co-clienting the Northern Powerhouse Rail programme. TfN's Integrated and Smart Travel programme is successfully delivering Phases 1 (smart cards on rail) and 2 (bus open data). TfN is currently exploring, with the Department, options for continuing to deliver the benefits of the IST programme into the next Spending Review period.

Work to develop the transport network across the country

The Major Roads Network (MRN) and Large Local Majors (LLM) programme will provide increased focus and funding certainty to the most important local authority roads.

Improving the roads on this network will enable more reliable travel for road users and more capacity for the journeys which are the lifeblood of our economy. MRN will deliver schemes that reduce congestion, support economic growth, unlock housing development and support all road users.

The LLM programme was established in 2016 to fund those exceptionally large local road schemes that are unaffordable from other funding sources. The LLM programme has now been merged with the MRN programme.

In summer 2019, STBs and regional groups submitted their top priority MRN and LLM schemes to the Department for consideration in July 2019.

Schemes submitted included major junction improvements, structural renewals, bypasses and widening of existing roads. Safety improvements and measures which will support increased walking, cycling and bus ridership were included in the schemes submitted.

111 schemes are still in the programme at various stages of development. They range from the A38 Manadon Interchange in Plymouth, the Arborfield Cross Relief Road in Wokingham, to the Tyne Bridge renewal in Newcastle and Gateshead.

The A38 Bromsgrove Route Enhancement Programme

This scheme is designed to upgrade a 7.7 miles corridor on the A38 between the Worcester Road to the south, and M5 Junction 4 to the north, through a package of highway and active travel improvements. The A38 in Bromsgrove is an important corridor for both national and local traffic, but currently suffers from congestion and unreliable journey times and has poor accessibility for cycling and walking. These problems are expected to worsen without any intervention.

Once delivered, the £50 million scheme will reduce congestion and improve journey reliability, improve conditions for cycling and walking, support over 10,000 homes and help to unlock 30 hectares of employment land. The scheme was awarded £850,000 in development funding to enable Worcestershire County Council to develop the scheme.

- STBs and regional groups worked across local authority boundaries to provide the evidence base for investment across their regions. The result was 103 bids for schemes across England, all of which are evidence-led and will meet the key MRN and LLM objectives.
- At Budget 2020, 15 schemes were announced to go forward for further development.
- MRN and LLM prioritisation process has provided a strong pipeline of investment for 2020 to 2025 and beyond.

- £13 million in development funding has been committed to help local authorities work up their schemes.
- 97 schemes of the schemes submitted for consideration by the STBs across England are still under consideration.
- Over 5,500 miles of local roads are eligible to be considered for improvements as part of the MRN programme.

And

The local road network accounts for 98% of roads in England (outside London) and is critical to communities and businesses. Ensuring the safe and effective maintenance of this network remains a key priority for the government. Local authorities are funded to maintain their local road networks, with sustained grant funding (awarded on a needs-based formula) and other incentive-driven competitive schemes. The government is allocating a total of £7.1 billion from 2015-16 to 2020-21, including the £296 million Pothole Action Fund, and £500 million from the new Pothole Fund announced at Budget 2020, to look after the local road network.

In May 2019, the Department launched its £22.9 million funding for research and trials on new surface materials or pothole repair through the ADEPT Live Labs programme. The Pinch Point and Maintenance Challenge Funds were launched in 2019, enabling local authorities to bid for larger local roads and bridges maintenance project funding. £193 million has been allocated to successful Challenge Fund bids in 2020-21.

During 2020-21, the Department has provided £1.88 billion to local authorities in England to help with the maintenance of the local road network through the Transport Infrastructure Investment Fund, of which £0.65 billion is formula distribution of the Highways Maintenance Challenge Fund and the Pothole Fund. This includes £258 million to local authorities in England, outside London, through the Integrated Transport Block for small scale transport schemes, including cycling and walking facilities. There is also £323 million in Private Finance Initiative credits to support 33 street lighting projects, five highway maintenance projects and five major schemes.

These schemes include:

- extending the test of plastic derivatives in road construction (Cumbria).
- the application of gulley sensors to help improve efficiency in highways maintenance (Buckinghamshire).
- testing a "Power Road" solution to use geothermal energy to de-ice car parks/bus stations in sub-zero weather conditions (Central Bedfordshire).
- a local highway asset management technology incubator to enable more efficient highways maintenance service (Kent).

Two of the schemes funded through the Local Growth Fund and Large Local Majors Fund are open including Ely Southern Bypass. 22 schemes are under construction, including Preston Western Distributor, and 17 are in development.

The Oxford-Cambridge Arc presents a unique opportunity for the government and local and regional partners to deliver a transformational economic legacy, with a focus on quality, connected and sustainable placemaking. Transport connectivity, including for east to west journeys, and capacity on some strategic and local networks has been identified as a barrier to achieving transformational growth in the Oxford to Cambridge Arc.

The right infrastructure and interventions are required to make sure communities and businesses are better served, and better connected. Strategic infrastructure in the Arc, including East-West Rail (EWR), will improve access to jobs and services for existing and new communities. To support this the Department has been an active member of the cross-Whitehall Oxford to Cambridge Arc Working Group and Portfolio Board, to provide strategic transport input. Transport has therefore been part of the wider discussion on place making, productivity, connectivity and environment workstreams that the MHCLG is taking forward in collaboration with the Department, the Department for Environment, Food and Rural Affairs (Defra) and local partners.

The government has allocated £920 million between 2019-2024 to EWR Western Section Phase 2, linking Oxford to Milton Keynes and Bedford, and Aylesbury to Milton Keynes, and is working to securing a final investment decision later this year (2020) to go into delivery. The government provided £20 million for the East West Railway Company Limited to develop a Strategic Outline Business Case for a new line and stations between Bedford and Cambridge (EWR Central Section). The government announced in January 2020 the preferred route for the Central Section, which will be taken forward for further development work. This will lead toward to the government making a final decision on whether to take the project forward.

On the Oxford to Cambridge Expressway, the government has investigated the potential for a new high-quality link road between the M1 and M40 which could support growth and examined the costs and benefits of a range of options, taking account of the views of local authorities and residents in the Arc. The government confirmed in March, as part of the second Road Investment Strategy, that further development of this scheme has been paused while it focuses on other potential road projects in the Oxford to Cambridge Arc, and benefit people who live and work there.

The Department has continued to engage on transport projects with Cambridgeshire and Peterborough Combined Authority to support their delivery of the Devolution Deal and with Oxfordshire County Council on their Oxfordshire Housing and Growth Deal.

The Department worked with the Oxfordshire, Buckinghamshire and South-East Midlands Local Enterprise Partnerships and the Business Board of the Cambridgeshire and Peterborough Combined Authority to ensure transport forms a key part of their Local Industrial Strategies to support economic growth.

During 2019-20, the Department has continued working with TfN to develop the business case for Northern Powerhouse Rail (NPR). NPR is the flagship programme of the government's Northern Powerhouse agenda which seeks to transform the economy in the North of England. Its aim is to dramatically improve connectivity across the north by delivering faster and more frequent journeys and improved rail capacity between the north's major cities. This will help drive economic growth by deepening and widening labour markets, improving business to business connectivity and boosting access to Manchester airport.

In July 2019, the Prime Minister announced a strong and clear commitment to the NPR project, with a pledge to bring forward the Manchester – Leeds part of the network. In February 2020, the Prime Minister reaffirmed his commitment to Northern Powerhouse Rail and announced a dedicated minister for NPR and HS2 as well as an integrated plan for rail in the North and Midlands, which will look at how to deliver both Northern Powerhouse Rail. The Integrated Rail Plan, which the Department is developing, will look at how best to sequence, scope and integrate Northern Powerhouse Rail with HS2 Phase 2 and other major projects such as the Transpennine Route Upgrade. The Secretary of State is also setting up a Northern Transport Acceleration Council to press progress with NPR alongside other local schemes.

The Department has invested over £40 million this year to develop infrastructure options (a combination of new lines and upgrades) for NPR. Reflecting the high level of government commitment, NPR has been allocated a budget of £75 million for the 2020-21 financial year, representing a 50% increase on the previous year.

Work with the Ministry of Housing, Communities and Local Government to support the creation of new housing

The Department works closely with MHCLG to unlock new housing developments with good transport connections, in places that people want to live. Transport infrastructure makes a real difference to people's lives and it is vital that new homes are well connected, with transport infrastructure enabling access to jobs and services, allowing the community to thrive.

During 2019-20 the Department has worked with MHCLG to integrate decision making on investments in government funded housing and transport projects. It completed the assessment of bids submitted by local authorities from across England to MHCLG's Housing Infrastructure Fund (HIF), resulting in 34 successful bids funded, including £2.5 billion in transport infrastructure of a total of £4.1 billion. The Department also established working practices with Highways England and Network Rail for the assessment of proposed housing schemes with an impact on the strategic road and rail networks, ensuring all successful schemes have the support of the appropriate delivery bodies.

Evaluations of lessons learnt across the HIF process with counterparts in the public bodies and MHCLG will help ensure even better integration of housing and transport investments in the future. This will inform the Department's input to the development of MHCLG's new Single Housing Infrastructure Fund. Likewise, joining up policies across government and public bodies is essential to embed and promote better integration of sustainable transport and new housing.

During 2019-20 the Department:

- Contributed to the Garden Communities prospectus to ensure high standards of sustainable transport were included, and worked with MHCLG to tailor a support package for these new garden communities which would promote integrated transport planning
- Set up a cross-organisational working group with representatives from the Department, MHCLG, Homes England, Highways England and Network Rail to improve the joint delivery of housing and transport. The working group identified and implemented collaborative processes for planning, analysis and strategy, for an integrated approach to housing and transport schemes across all organisations. For promoters of housing and transport schemes, this will simplify interactions with central government and public bodies, and also help to maximise the benefits of schemes.
- Worked with MHCLG and transport delivery bodies to identify opportunities for housing development at and around railway stations.

As a major landowner, government plays a crucial role in increasing the supply of land for housing. The Department's public bodies continue to work hard to contribute to this objective despite the onset of COVID-19 and challenging property market conditions.

The Department considers future operational requirements before releasing transport land from operational use – especially as increased housing brings an increased demand on transport services. Challenges to the release of land for housing include: planning approvals; regulatory consent; costs of reprovision; and funding, among others.

Since 2015, the Department has collaborated with MHCLG, Homes England, Greater London Authority (GLA), and other stakeholders to overcome barriers to releasing and developing public sector land. Network Rail also signed partnership agreements in 2019 with Homes England and LCR to combine their expertise going forward to maximise the delivery of public land for housing.

The 2015-20 Public Sector Land (PSL) Programme is the Department's key mechanism for releasing surplus land for housing. Working in partnership with its public bodies, land for circa 10,000 new homes has been disposed. The onset of COVID-19 has affected property markets and has hindered preparations for the new programme. However, the Department continues to make progress partnering with stakeholders on new and established schemes to release further land for housing.

- By also facilitating the delivery of homes beyond the Public-Sector Land Programme, Network Rail and the Department's other public bodies have released key pieces of land that have helped third-parties unlock housing developments for over 30,000 homes since 2015.

- The Department's public bodies have raised over £300 million since 2015 through the sale of land to enable housing development. These receipts will support the delivery of key transport services for the public.

- The Department has fed into the development and assessment of Housing Infrastructure Fund schemes to bring forward £2.5 billion of transport infrastructure, unlocking housing across the country.

Make journeys easier, modern and reliable

Improving the transport user experience continues to be a central focus for the Department, as supporting the delivery of new digital technology to improve journeys and work to reform rail and the future of the wider network to improve accessibility, reliability and efficiency. At local levels this includes transformative work on improving buses 'a better deal for bus users', and increasing the network of cycle lanes, whilst at the national level enhancements to the railway network are improving the reliability of trains. The ongoing work to expand pay as you go, and contactless ticketing, in the south east and the North of England will increasingly make transport easier to use.

Making journeys reliable and more attractive for users is also an essential aspect of the recovery from COVID-19. Testing on e-scooters, for example, is now being fast-tracked as a possible clean and convenient form of travel.

Support the delivery of new digital technology to improve journeys

And

The transition to zero emission vehicles will help meet greenhouse gas reduction goals, contribute to reducing poor air quality in our towns and cities and can contribute to economic growth in the UK by providing skilled jobs in the automotive sector.

HM Treasury launched the £400 million Charging Infrastructure Investment Fund (CIIF). The fund will catalyse and diversify investment in public chargepoint infrastructure with £200 million from government to be match funded by private investment. The first investment of £70 million is expected to result in a further 3,000 new rapid chargepoints by 2024. To improve customer experience of recharging, the government announced the ambition for new public rapid chargepoints to offer 'pay as you go' debit or credit card payment from spring 2020. Although, the government acknowledges the improvements that have been made in this area with the majority of newly installed rapid chargepoints now providing contactless card payment, more needs to be done to ensure that consumers can charge efficiently and safely. The government will consult on using its powers under the Automated Electric Vehicles Act to mandate minimum standards, such as requiring contactless payment for rapid chargepoints, to improve the consumer experience.

The Department has consulted on requiring chargepoints to be built in all new homes with a parking space, and on smart requirements of private chargepoints to help manage the impacts on the electricity system. The Department confirmed that funding will be quadrupled to £20 million for the installation on chargepoints on residential streets in 2020-21. This could help fund another 7,200 chargepoints across the country and make charging at home and overnight easier for those without an off-street parking space.

The Budget included £500 million over the next five years to support the rollout of infrastructure for electric vehicles. The Department has set out a vision for a core infrastructure network of rapid and high powered chargepoints along the strategic road network in England. The vision will be supported by a Rapid Charging Fund, which is part of the £500 million commitment for EV charging infrastructure announced at Budget.

In June 2019, the UK became the first major global economy to pass a law that requires us to achieve net zero greenhouse gas (GHG) emissions by 2050, ending the UK's contribution to global warming within the next 30 years. Ending the sale of new conventional petrol and diesel cars and vans is a key part of the answer to our long-term transport air quality and greenhouse gas issues. Cars and vans accounted for 70% of domestic UK transport emissions in 2018. To achieve net-zero emissions in 2050, the Committee on Climate Change recommended an end to sales of new petrol and diesel cars and vans by 2035, and preferably earlier (e.g. 2030). They have subsequently amended their recommendation to 2032 at the latest. They also recommended that all new vehicles sold after that date should be zero emission.

In February 2020 the Prime Minister launched a consultation on bringing forward the end to the sale of new petrol and diesel cars and vans from 2040 to 2035, or earlier if a faster transition appears feasible, as well as including hybrids for the first time. As part of this consultation, the Department is asked what the accompanying package of support will need to be to enable the transition and minimise the impacts on businesses and consumers across the UK, building on the significant demand and supply side measures already in place. The Department concluded the consultation on 31 July 2020. A decision is planned to be announced in due course.

During 2019-20 the Department has taken several steps to increase the uptake of ultra-low and zero emission vehicles, support innovation in zero emission vehicle technology, and create a fit for purpose charging infrastructure network:

- HM Treasury announced that all zero emission models will pay no company car tax in 2020-21, 1% in 2021-22 and 2% in 2022-23 – a significant tax saving for employees and employers. At March Budget the 2% rate was extended by a further two years to 2025.
- The government endorsed the National Franchised Dealers Association (NFDA) Electric Vehicle Approved (EVA) scheme. This includes a set of standards for electric vehicle retail and aftersales to ensure that the automotive industry is prepared for the electrification of the UK car market.
- The Department ran a new Go Ultra Low advertising campaign, 'The car', with a wider consortium of members than ever before, including new vehicle manufacturer members and for the first-time energy providers.
- In June 2020, following consultation, the Department announced Green Number Plates would be introduced for zero emission vehicles to raise awareness and help normalise cleaner vehicles and increase their uptake.
- The March 2019 Budget included over £530 million extra funding to keep plug in vehicle grants for another three years to 2023.

OLEV awarded £25 million through the Integrated Delivery Platform 15 R&D competition in a number of projects focused on power electronics and motors which are key technologies for electric vehicles. The Department is investing almost £40 million in projects to support innovation in wireless and on-street charging technology to encourage uptake of electric vehicles. In addition, it is investing almost £30 million in supporting vehicle to grid technologies that could enable electric vehicles to deliver electricity back to a smart grid and £20 million to demonstrate low emission freight technology.

And

Digital Railway is the industry's plan to modernise the UK railways through targeted use of digital signalling and associated technologies to deliver improvements in safety, performance and capacity.

Manage and control trains better

Digital Railway can increase capacity by allowing trains to run closer together and improve performance by reducing the impact of disruption.

Manage physical infrastructure better

The systems provide data that can be used to operate and maintain these assets in a predict and prevent way, thus reducing disruption of the railways

Provide better information

The open data generated by a digital railway will allow third parties to provide better, more targeted information about delays and real-time detail about the locations of trains between stations to passengers.

The Digital Railway Strategy, which drives introduction of digital signalling and associated technologies, such as Traffic Management, remains a priority for the Department in helping to modernise Great Britain's railway to reduce delays and increase the number of services. The Department has started work to introduce digital signalling on the Northern City Line, between Drayton Park and Moorgate, as a pathfinder scheme for a much larger digital signalling programme on the East Coast Main Line. This pathfinder scheme is expected to commence operation in 2023.

Following on from the Digital Railway Strategy and the publication of the Digital Railway Long-Term Deployment Plan in June 2019, the Department is working with Network Rail to identify the best locations to start the delivery of the plan and are preparing for the plan's commencement in 2024. The Department will soon be entering into a formal agreement with Network Rail to commit to these programmes, to start the detailed planning of the deployment for both track and trains and to establish robust governance arrangements for the plan. This will complement the introduction of digital signalling on HS2 and on other major programmes where digital signalling is being actively considered.

There are now three Traffic Management systems in operation on the network at Cardiff, Upminster and one distributed across Swindon and Didcot. These systems provide high levels of real time information that is enabling signallers and controllers to make better and faster decisions about the operation of the railway, in turn contributing to fewer delays and better performance. Over time these systems will be developed further to increase the level of information available and to enable more proactive management of the network.

The Department has recently announced a significant tranche of funding for the wider East Coast Digital Programme. This funding will enable detailed design work to be undertaken and trains to be fitted with digital signalling equipment, ready for the new system to be introduced later in the decade. The East Coast Digital Programme will act as a catalyst for the roll-out of digital signalling across the GB network, by initiating rolling stock fitment and bearing the brunt of one-off capital costs associated with digital signalling.

This East Coast Digital Programme is supported by a number of key enabling projects. These projects are establishing installation designs for the different types of trains that operate on the route and upgrading a test facility at Melton Mowbray to the latest standards necessary to enable fitted trains to enter service safely.

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

And

Activity in Franchising in 2019-20

The rail franchising programme of competitions was paused while awaiting the outcome of the Williams Rail Review. The Department activated the Operator of Last Resort on the Northern Franchise, taking over services from 1 March 2020, as a result of the existing operator no longer being financially sustainable. Through close working with the Network Rail Timetable Programme Management Office (PMO), the May 2019 and December 2019 changes were delivered smoothly, while the May 2020 timetable change was postponed due to COVID-19 and its effect on the industry.

Putting Passengers First (PPF)

Roll-out of the Putting Passengers First (PPF) programme has continued to make substantial progress over the last 12 months, supporting Network Rail's ambition to have the skills, culture and focus to put passengers and freight users at the core of its business. Multiple phases of the programme have been completed over 2019-20 resulting in the formation of 14 new routes across 5 regions, bringing Network Rail closer to its customers, alongside the building of effective support functions to support the regions, including Network and Route services directorates. All Putting Passengers First programme structural changes are expected to be made by the end of 2020. The Department continues to work closely with Network Rail to ensure that PPF is closely aligned with both Departmental and wider HMG objectives.

Emergency Measures Agreements

In response to the nationwide lockdown, and the consequent fall in passenger demand, the Department and train operators entered into Emergency Measures Agreements (EMAs) on 01 April 2020 (with costs backdated to March 2020) for an initial period of six months. EMAs suspended the normal financial mechanisms of franchise agreements and transferred all revenue and cost risk to the government, with operators continuing to run the day-to-day services for a small, pre-determined management fee. Further information can be found on **page 285**.

By 30 June the level of service had increased to circa 70% of the envisaged May 2020 timetable. From April to June performance was significantly improved, seeing on time performance increase from around 63% in March to a high of approx 88%.

Rail Reform

Keith Williams was commissioned by the government in September 2018 to chair the independent Williams Rail Review, the first comprehensive review into the British Railways in a generation. This provides an opportunity for the Department to accelerate the modernisation of the railway. Keith has been supported throughout by a Departmental secretariat.

COVID-19 has delayed the publication of Keith Williams' recommendations. The Department is now considering how to set the future direction of travel for Rail. While the exact reform priorities are being determined, the Department aims to deliver benefits to passengers and improve the capability of the Railway.

The Access for All programme continues to be successfully delivered. The programme was launched in 2006 and has already delivered more than 200 step free routes, and smaller scale access improvements at a further 1500 stations. The programme has been extended across CP6 (2019-2024) with an additional £350 million of funding, which will deliver more than 100 accessible step free routes by 2024.

Since April 2019, 14 stations have received a step free route. In addition, in February the Department announced a further 124 stations that will get smaller scale access improvements over the next four years, such as accessible toilets and customer information screens.

These improvements form part of the wider Inclusive Transport Strategy and supports the government's ambition of achieving equal access for all on public transport.

Stations improved in since Apil 2019:

- Burnham 28/05/2019
- Cadoxton 23/07/2020
- Carshalton 05/07/2019
- Coulsdon South 28/02/2020
- Ewell West 11/10/2019
- Headingley 29/04/2019
- Kilwinning 23/08/2019
- Lichfield Trent Valley 17/06/2020
- Meols 23/01/2020
- Selhurst 19/06/2020
- Stechford 13/07/2020
- Totnes 14/12/2019
- Tottenham Hale 03/06/2019
- West Hampstead 14/08/2019

In July 2019 the Department published 'The Inclusive Transport Strategy – summary of progress' setting out the commitments achieved during the first year of the Strategy. The Transport Accessibility Minister also wrote to Parliament to provide an update on progress. This included highlighting the invitation issued in April 2019 for Motorway Service Areas to apply for a share of a £2 million fund for the installation of Changing Places toilets – facilities for the more than quarter of a million-disabled people in the UK that cannot use standard accessible toilets. The Department partnered with Muscular Dystrophy UK to award the funding for Changing Places toilets, which are expected to be ready in the early 2020s.

Delivery of the remaining Inclusive Transport Strategy commitments continues, although at a slower rate than hoped due to the impact of COVID-19.

Bikeability is the Department's national cycle training programme for schoolchildren in England, providing the next generation of cyclists with the skills and confidence to cycle independently.

In October 2019, the government announced investment of £13 million to extend the Bikeability programme for the financial year 2020-21, so that even more children at school can enjoy the health benefits of cycling. The Secretary of State marked the occasion by visiting St Philip Howard Primary School in Hatfield where he met with teachers and Bikeability instructors and took part in some training with the children. 2018-19 saw a record year of delivery with more than 411,000 training places delivered. More than three million children have now received Bikeability training since the programme's inception in 2007.

The government has since committed to offer Bikeability training to all schoolchildren. This will see an additional 400,000 training places offered on the scheme each year, providing children with the core skills to cycle safely and confidently on the road.

The Department has delivered a £2 million package of support to 46 local authorities to enable them to develop Local Cycling and Walking Infrastructure Plans (LCWIPs). LCWIPs enable local authorities to take a strategic approach to planning their future infrastructure needs for cycling and walking trip in their local areas. Through this programme local authorities have received support with technical transport planning, training on software tools, and best practice. To date, the Department has received 40 draft plans from local authorities which will help to establish a national pipeline for future scheme investment.

Six strategic studies were announced as part of the first phase of the Road Investment Strategy (RIS1) published in 2014. Strategic studies are a method to tackle problems that are too large to be resolved through one single project; or where the impacts of action are more complex or conditional, and must be considered in ways that are not standard. The development of RIS2 has used this tool to consider what can be done at some of the most difficult points on the network, and the findings have led to committing to complex projects in RIS2. The studies announced with RIS1 are as follows:

- The Trans Pennine Tunnel study looks at the performance of the current route between Greater Manchester and the Sheffield City Region (A57/A628/A616/A61) and the degree to which this is an obstacle to improving journey times on the network and supporting local economic growth.
- Manchester North West Quadrant is looking at ways to ease congestion and make journey times more reliable between junctions 8 to 18 of the M60, currently the second busiest of section of road outside the M25. The scheme is evaluating a series of interventions on the M60 North West Quadrant.
- The A66 is a key East-West route in the North of England linking local communities and supporting a high number of freight trips across the country. In 2019 the project completed research to dual the remaining sections of single carriageway, which will improve journey times and safety. To support the identification of a Preferred Route, a public consultation was held to seek views on the different options.
- The A1 in Bedfordshire has profound impacts on the people who live on or near to it and would limit growth in the area. The study shows that congestion and safety issues on the route are not substantial enough in their own right to justify the full costs of moving the road to a new, more appropriate location. Substantial growth plans could change this, and further work on the project will be considered if development becomes likely.
- The M25 between Junctions 10 and 16 is the busiest section of the UK road network and our study has considered how congestion can be relieved on this route. The study recommends against conventional widening of the existing road but has identified options for getting more capacity out it, which we will review alongside developing plans for Heathrow.
- The Oxford to Cambridge Expressway has concluded that there is not yet a case for building a high-capacity road across the Oxford to Cambridge Arc. However, the current performance of the existing network suggests that road interventions of some kind may be necessary to manage existing issues – notably to the south of Milton Keynes and on the A34 north of Oxford. The Department will now work to identify options to improve existing infrastructure that supports sustainable and integrated transport that works for the benefit of people who live and work there.

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

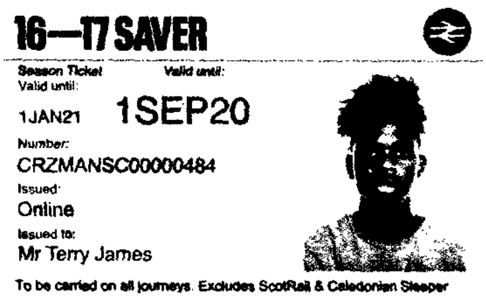
Greater Anglia, Great Western Railway, East Midlands Railway, Avanti West Coast, Southeastern and TransPennine Express all introduced DR15 in 2019-20. This has enabled more passengers across the country to claim compensation for delays of 15 minutes or more.

As a result of the Department's continued roll-out of Delay Repay 15 in 2019-20, over 90% of passenger journeys on DfT-let franchises are now covered by improved compensation for 15-minute delays. The Department is committed to improving delay compensation arrangements for passengers across the rail network. During 2019-20 the Department worked with train operators to:

- continue to implement improved compensation schemes so that more passengers can claim for delays from 15 minutes.
- make it easier for passengers to access the compensation they are entitled to when they experience delays.
- improve the timeliness of compensation payments.

The Department has continued to encourage train operators to increase passenger awareness of Delay Repay. This included supporting operators to introduce automated processes which make it easier for passengers to claim compensation. An additional four train operators introduced automated claims processes in 2019-20: TransPennine Express, East Midlands Railway, Avanti West Coast and South-Western Railway.

The Department worked with the Office of Rail and Road (ORR) and train operators to improve claim processing times and rectify large variations in performance between different operators. ORR published figures show that the number of claims processed within the industry target of one month increased from an average of 95.4% nationally in 2018-19 to 98.6% in 2019-20.



On 2 January 2019 the previous Secretary of State announced that a new railcard would be introduced for young people aged 16 and 17 and that it would provide a 50% discount off most adult fares. This became known as the 16-17 Saver and was launched on 20 August to provide discounted rail travel from 2 September 2019. By 1 February 2020 over 61,500 16-17 Saver cards had been sold.

Delivering the 16-17 Saver was a joint effort between the Department, the Rail Delivery Group (RDG) and train operators. RDG played a key role in developing and implementing the railcard, putting in place agreements with suppliers for the digital and physical railcard, and developing the website and app functionality. The Department negotiated with train operating companies to secure their participation in the new railcard scheme, with this achieved on time and to budget.

In delivering the railcard the Department and train operators had to overcome a number of challenges:

- Timescales – the 16-17 Saver was a novel proposition providing 50% off standard adult tickets including season tickets, with no minimum fare in the peak period. It was a challenging ask to deliver this in under nine months.
- System capacity – following the extremely popular launch of the 26-30 railcard, the 16-17 Saver went on sale a full 10 days before the first day of travel to ensure railcard systems were able to deal with demand from passengers.
- Scope – the project team worked with devolved administrations and open access operators to ensure the railcard was valid across the majority of the GB rail network.
- Ticketing infrastructure upgrades – in addition to the development of the physical cards, the 16-17 Saver project also required upgrades to booking office and ticket purchasing systems such as websites and Ticket Vending Machines.

Invest in road and rail maintenance and renewals

The second Road Investment Strategy (RIS2) was published with the Budget on 11 March 2020. It sets out the performance specification and investment plan for the strategic road network between 2020 and 2025, and the funding available to Highways England to deliver them. It also places this information in the context of a long-term strategic vision for the network looking out towards 2050. It details the ambitions for how the network will provide a better service for road users and local communities, while also minimising its impact on the natural, built and historic environment.

RIS2 is the result of four years' worth of close collaboration with Highways England, ORR and Transport Focus. It also draws on extensive engagement and consultation with people and organisations across the country as we sought to identify the priorities for improving the performance of the network. In response, RIS2 has confirmed:

- £27.4 billion of funding for the operation, maintenance, renewal and enhancement of the strategic road network to ensure it performs to a more modern, high-performing standard.
- Upgrades at more than 100 junctions and work to improve road links to 21 ports and airports.
- Significant enhancements to the A66 across the Pennines, the A46 around Newark and the A303 connecting the South West to London and beyond.
- Dedicated funding to secure benefits for: the environment and wellbeing; users and communities; innovation and modernisation; and safety and congestion.

The government has an ambitious programme of investment to improve and upgrade the rail network between 2019-24. £48 billion of expenditure is committed, with significant spending planned on maintenance and renewals to maintain safety and improve reliability for rail users. ORR's Report into the first year of CP6 ("Annual assessment of Network Rail 2019-20") showed that Network Rail has made good progress in renewing its network, but asset resilience needs to improve. To actively work closely with ORR to monitor Network Rail's delivery of the CP6 settlement, working with Network Rail and ORR to identify any delivery risks early and support corrective action that Network Rail can take, so that it efficiently delivers its commitments to improve our railway. The Department will continue to develop this to adapt to the changing delivery environment, working closely with Network Rail and ORR.

Make sure transport is safe, secure and sustainable

The sustainability of the transport sector is a government priority. The Department has set out the scale of challenge in the published document, 'Decarbonising Transport: Setting the Challenge' and is continuing to work to develop the Transport Decarbonisation Plan. It brings together work to-date on reducing transport emissions and setting out the scale of additional reductions needed to meet carbon budgets and to deliver a net zero economy by 2050. It will provide the input for future decisions on measures which could be implemented to decarbonise the railway. Maintaining the security of the transport system has continued to be a critical priority for government and the Department.

The Department is also working to ensure that sustainability underpins future transport investment including promoting new technologies to reduce emissions in areas such maritime. Reducing carbon emissions supports the global agenda for slowing climate change, whilst reducing particulates in emissions and improving air quality in areas of concentrated traffic directly improves public health. It is therefore also an important priority to promote active travel and increase the number of cycling and walking journeys. COVID-19 has directly impacted delivery of Clean Air Zones, due to pressure placed on the capacity of local authorities caused by the COVID-19. Changes to future behaviours of car and local transport usage, commuting and other trips ceased by COVID-19 may also have a long-term impact on carbon emissions.

Maintain the safety and security of the transport system

[illegible]

The Department is committed to improving the safety of all road users and minimising numbers killed and injured on our roads, which is reflected in the progress that has been made in taking forward actions from the Road Safety Statement. During 2019-20 the Department completed 11 of the 74 actions, started 46 others, with the remaining 17 actions scheduled to commence shortly. Completed actions include:

- supporting the Child Accident Prevention Trust's annual child safety week between 3-9 June 2019, and contributed by providing positive support for the youngest road users.
- refreshing DVSA's 'Learning to Drive' publication and going live with an online driver record on 11 February 2020.
- working with road safety groups to understand who are the car occupants that are not wearing seat belts. The Parliamentary Advisory Council for Transport Safety (PACTS) report 'Seatbelts: The forgotten priority' reveals the problem of seat belt non-wearing in the UK and adds to our evidence base on errant drivers.

The Department undertook to commission an inspection of roads policing and to publish a call for evidence to run alongside that inspection. Good progress was made by working in collaboration with the Home Office, the National Police Chiefs' Council and other agencies including devolved administrations, academics, Traffic Commissioners, as well as DVLA, DVSA and Highways England, who are key members of the Governance Board for the roads policing review.[14] Together the Departmental agreed the contents of a departmental call for evidence on policing document which was published on 13 July 2020 with a closing date of 5 October 2020. We expect to publish the summary responses to the consultation in Spring 2021. The Roads Policing Review Governance Board will then consider any recommendations.

The Department has sponsored the RAC Foundation to conduct a road collision investigation to establish whether there is a business case for putting more resource into the investigation of road crashes and if there is, to identify how best to develop it. The RAC recommendations, together with learning from the ongoing roads policing review will provide the evidence base necessary for an informed assessment to be made.

On 9 May 2020 the Department announced a £2 billion funding commitment to encourage more cycling and walking including measures to improve cycle safety, including pop-up bike lanes with protected space for cycling, wider pavements, safer junctions, and cycle and bus-only corridors. One of the key actions from the CWIS safety review was to review those aspects of The Highway Code which relate to safety for vulnerable road users, including cyclists, pedestrians and horse-riders. In 2019-20 the Department was proactive in agreeing the scope and delivery of this review, which is being conducted in consultation with our stakeholders, according to the Department's usual practice. A formal consultation on the proposed changes will follow the review.

Progress on the commitments in the Cycle and Walking Investment Strategy itself are reported on (see **page 58**).

[illegible]

The Department remains a core part of the UK's national security system. Transport security and resilience work significantly contributes to the UK's economy, prosperity and the UK's international position. Over the last year, the Department has implemented its strategy for working with industry and across government to manage the national security risks to transport, including terrorism, cyber-attack, and civil and natural hazards, balancing this against the need for an efficient and effective transport network.

When significant incidents happen in the UK or overseas, transport is either affected or is a major part of the response. The Transport Security Operations Centre (TSOC) plans for and co-ordinates the Department's response to major incidents affecting the transport network. This year, numerous incidents had a direct effect on the transport sector.

During 2019-20 TSOC and the Department supported:

- Defra in the response to the severe flooding in Lincolnshire.
- The Civil Aviation Authority, to lead the response to the collapse of Thomas Cook, repatriating more than 140,000 people back to the UK over two-week period.
- HMG activity to respond to the seizure of a British oil tanker in the Strait of Hormuz.
- Cross government planning to respond to the emerging COVID-19 threat.

In preparing for Brexit, the Department delivered bespoke crisis response training to over 500 Departmental staff and has developed its crisis response training package for a departmental staff response surge pool.

14 List of all OGD collaborated with: Office of Traffic Commissioner: Association of Police & Crime Commissioners, Forensic Science Regulator, Roads Policing Academic Network, Home Office, Transport Scotland, National Police Chiefs' Council, Highways England, DVLA, DVSA, Crown Prosecution Service, Welsh Government.

Land Transport Security

The Department has responsibility for protective security, compliance inspections and testing of the light and heavy rail networks across the UK. The Department also works with European partners to ensure the security of the Channel Tunnel is maintained. Through collaboration with industry, the Department develops guidance for the bus and coach sector and design proportionate measures to mitigate the risks around the use of vehicles as weapons.

During 2019-20 the Department has:

- Continued to review the National Railways Security Programme to ensure it aligns with the developing threat picture.
- Commenced a root and branch review of the light rail security policy regulations and guidance.
- Worked with European partners in detailed treaty negotiations on security relating to the new Eurostar Amsterdam to London route.
- Launched the Road Transport Security Partnership Programme to set out the framework and regulatory measures for the industry to enhance and improve road transport security.
- Worked with the road transport sector to develop guidance and proportionate measures to mitigate the risks around the vehicle as a weapon threat.
- Continued to improve security culture and embed security best practice within organisations through the Rental Vehicle Security Scheme and accompanying 10-point Code of Practice.

Aviation Security

The Department works with the International Civil Aviation Organization (ICAO) to share knowledge and experience around the world, building the UK's reputation and ability to export its skills, expertise and technology to strengthen inbound aviation security. The Department's diverse work continues to deliver major security improvements to the travelling public. The Department also works overseas to protect the UK, through its network of International Aviation Liaison Officers.

During 2019-20 the Department has:

- Used the Aviation Security Strategy to deliver a major programme of work in partnership with industry to get ahead of the threat to aviation
- Worked closely with international partners, multilateral bodies and industry to strengthen the global aviation security baseline and to address the threat from insiders.
- Worked collaboratively across government to publish the Counter-Unmanned Aircraft Strategy. The Air Traffic Management and Unmanned Aircraft Bill[15] will provide the police with more powers to respond to and investigate malicious unmanned aircraft use.
- Delivered an extensive capacity development programme to improve aviation security standards globally, through the continued provision of 300 explosive trace detection units to enhance detection capabilities.
- Rolled out the Overseas Aviation Security Information System (OASIS) data management system, allowing us to analyse security performance in a flexible way.

Maritime Security

The UK's National Strategy for Maritime Security drives the advancement and protection of the UK's national interests, at home and abroad, through the active management of risks and opportunities in and from the maritime domain to strengthen and extend the UK's prosperity, security and resilience and to help shape a stable world. The maritime security team deliver this via a range of programmes, working with partners in government and industry.

During 2019-20 the Department has:

- Provided guidance to the shipping and port sectors on mitigations and response actions to counter-terrorism risks.
- Conducted port security inspections at over 400 port facilities, 14 British Overseas Territories and four Crown Dependencies.
- Worked with industry and partners e.g. Border Force and the police, to reduce terrorism risk to UK ports by reviewing security measures and ensuring vital infrastructure remains protected.
- Worked with priority countries to advise and assist in building capability, supporting their improvement of port security, reducing the risk from terrorism.
- Played a lead role in managing risks to the shipping industry operating in the Gulf region.
- Coordinated the maritime security Brexit response through the Joint Maritime Security Centre (JMSC), providing risk assessments, prioritisation and coordination of assets and surveillance.

15 Paused because of COVID-19 and will be back on track in September 2020.

National Security Science and Research

The Department's scientific research programme supports all this work and continues to contribute to the safety and security of our transport system using evidence and the provision of advice to policy teams. During 2019-20 the Department:

- Focused our research on understanding the impact of threats, risks and hazards through the application of new technologies to further improve our capability to protect transport systems.
- Continued to fund a range of innovative research projects through the Department's science and technology programme.
- Continued to support the £25.5 million Future Aviation Security Solutions programme which seeks new solutions to strengthen Aviation security.

The Department leads the government's international work to strengthen aviation security for inbound flights to the UK. Since April 2019, the Department has undertaken 87 assessments in 25 countries and 55 last points of departure. The Department used the results of these assessments to inform our strategic activities in the Host States.

The Department manages a capacity development programme to assist in mitigating identified vulnerabilities and has provided training, equipment and strategic support to improve aviation security standards globally. In addition, provided over 280 explosive trace detection units to enhance detection capabilities and in 2019-20 have delivered over 100 courses and trained over 1900 security personnel. The training delivered also included activities towards sustainable improvement in Host State capabilities, including mentoring, aviation security animated training films and work to support the implementation of International Civil Aviation Organization's (ICAO's) Global Aviation Security Plan.

The success of the international engagement is reflected through the reassurance from the programme to support the resumption of British Airways flights from Islamabad in 2019 and the removal of the restrictions on direct flights to the UK from Sharm el-Sheikh. The regular engagement on HMG priorities through the programme activities also assisted in ensuring a security focus to the 2019 ICAO Assembly. The Department's aviation programme and security capability continues to be among the best in the world, showing an upward trajectory of performance, building confidence for the travelling public and improving passenger perception at locations of heightened risk. The cooperative approach to working with host states means we remain a credible global partner in aviation security with host states.

COVID-19 curtailed a small amount of Capacity Development work at the end of the financial year and the impact on more usual activities is anticipated to continue for the foreseeable future. However, innovative ways of delivering support and assurance are being prioritised.

The Department's cyber security team support the delivery of the government's National Cyber Security Strategy, helping to mitigate and respond to the threat to the transport sector. Alongside this, the Department's cyber compliance team ensure transport operators of essential services are compliant with the Network and Information Security (NIS) Regulations 2018. During 2019-20 the Department has:

- Continued implementation of the NIS Regulations 2018 across the transport sector by supporting operators of essential services to self-assess their cyber resilience.
- Delivered the annual cyber work programme, including projects to improve our understanding of the cyber security of critical systems in the transport sector.
- Through a cyber incident response exercise programme, tested response plans to cyber incidents across all modes of transport.
- Worked across the Department and sector to raise cyber security awareness including through a number of publications and internal communications channels.
- Continued to work collaboratively with international partners to develop global regulations for cyber security for automated motor vehicles.
- Established an agreement with the United States' Transport Security Administration for the secondment of UK and US technical experts with the aim of strengthen UK-US Transport Security collaborations in the area of security equipment research and development.
- Launched the Transport Security and Resilience Science & Technology Strategy to ensure effective exploitation of science and technology to assure the security and resilience of transport networks.

The Air Traffic Management and Unmanned Aircraft Bill (formerly the Drones Bill) was introduced into the House of Lords on 9 January 2020. The Department has worked with the police and other government departments to prepare the Bill which completed Committee Stage in the House of Lords in February 2020. The Bill will make journeys quicker, quieter and cleaner through modernisation of our airspace and improve public safety through greater police enforcement powers, deterring unlawful use of unmanned aircraft and ensuring that offenders are quickly dealt with in the appropriate manner.

The Bill provides:

- Power for the Secretary of State (delegable to the Civil Aviation Authority - CAA) to direct airports and other persons involved in airspace change to bring forward an airspace change proposal where this has been identified as important through the overall Airspace Modernisation Strategy.
- Measures to modernise the licensing framework for en-route air traffic control to enable the CAA to regulate NERL (NATS En Route Plc) more efficiently to deliver change.
- The power for the police to require an unmanned aircraft to be grounded.
- Stop and search powers for the police when certain offences (specified within the Bill) are committed using an unmanned aircraft.
- Police powers of entry and search of premises under warrant, and seizure, in respect of certain offences relating to or involving unmanned aircraft.
- The power for an 'authorising officer' (as defined in the Bill) to authorise property interference or interference with wireless telegraphy at airports, nuclear sites and prisons (only custodial institutions), for example, in order to prevent or detect specific offences involving the unlawful use of unmanned aircraft that do not fall within the definition of 'serious crime'.
- Police powers relating to requirements under the Air Navigation Order 2016 (ANO 2016) regarding mandatory registration and competency testing which came into force in November 2019.
- The power for the police to request provision of evidence of permissions and exemptions as provided for under the ANO 2016.
- The power to issue fixed penalty notices for certain offences relating to or involving unmanned aircraft.

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

Following the UK's departure from the EU, the Department is playing an important part in ensuring the UK is able to secure good trade deals with the EU and across the world. This includes work on future agreements with EU in areas such as road haulage and new traffic management arrangements. This work also involves close work with other Department across government and partners across the sector, to make sure the Department builds an outward facing union, including by supporting negotiations on free trade agreements with countries around the world and securing the best possible outcome for transport users and businesses in Brexit negotiations.

Work to increase our global impact is a priority for the Department. The International Strategic Framework and development programme now also takes account of the current international focus on COVID-19. In particular, the UK is continuing to position itself as a global leader in future transport technology and services.

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

The Department has maintained its preparedness for negotiations throughout the year, with roles identified and a programme of training and development undertaken. Following the UK's formal exit from the EU on 31 January 2020, the government published its approach to negotiations on the UK's future relationship with the EU, which included the negotiating position for transport. Negotiations are being led by the government's Chief Negotiator and his team, with the active involvement of the Department's officials on the transport elements. Arrangements have been established to ensure the approach to negotiations is fully co-ordinated both within the Department and with other parts of government.

Ahead of the UK's exit from the EU on 31 January 2020, the Department did not identify any new immediate primary legislative needs. During the transition period, the scope of potential primary legislation is dependent upon the details and nature of the future relationship between the UK and EU.

77 Brexit related Statutory Instruments (SIs) were laid by the Department ahead of 31 January 2020. These SIs were required to ensure that UK law continued to function correctly in all exit scenarios and no regulatory gaps existed. Scoping work was completed in the first part of 2020 to identify the SIs that may be required in order to prepare the UK for the end of the transition period.

Following 31 January 2020, the Department laid 12 EU Transition Related SIs, with a further 23 SIs remaining to be laid ahead of the end of the Transition Period. As officials continue to work to combine SIs and indeed as negotiations develop further, it is conceivable that this number may change.

Position the UK as a global leader in future mobility technology and services

In the Future of Mobility: Urban Strategy, published 19 March 2019, the Department launched a wide-ranging Regulatory Review. The Review asks fundamental questions about how we regulate transport across eight initial areas of focus:

- Zero Emission Vehicles
- Self-Driving Vehicles (through an existing project with the Law Commissions)
- Drones and Future Flight
- Innovation in Maritime
- Micromobility Vehicles
- Transport Data
- Mobility as a Service (MaaS)
- Buses, Taxis and Private Hire Vehicles.

A number of consultations have been published on elements of the Zero Emissions Vehicles, Self-Driving Vehicles and Innovation in Maritime workstreams. These addressed, for example, the regulation of automated passenger services, and electric vehicle smart chargepoints. In the Future of Transport Regulatory Review, a further call for evidence on regulatory considerations for micromobility, flexible bus services and MaaS ran from 16 March to 3 July. Responses are being analysed and next steps will be published in autumn, which could lead to changes to legislation.

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

The Department is fully involved in the development of the UK's trade policy, working with the Department of International Trade (DIT) to ensure the interests of transport stakeholders are met in future Free Trade Agreements (FTAs). To deliver this ambition, there is a Transport Services Working Group attended by departments with an interest in this area to ensure coordinated policy development. A Transport Expert Trade Advisory Group (ETAG) is jointly chaired by DIT and the Department to gather the views of stakeholders. To embed trade policy development in the Department a DfT Trade Policy Working Group which develops trade policy for each of the transport modes and gets clearance for this work through the International Strategy Board was set up.

The Department has also been working closely with DIT, DExEU and FCO to deliver continuity of trade and non-trade agreements, ensuring continuity and stability for businesses, consumers and investors. Efforts are now primarily focused on the negotiation and implementation of new FTAs which will deliver benefits for the UK transport sector by reducing barriers to trade and investment and helping businesses to access markets they previously were not able to.

Alongside work on trade policy, the Department continued to develop our role on export promotion. We have initiated engagement with a number of Her Majesty's Trade Commissioners (HMTCs), sharing our knowledge of the strengths of the UK transport and infrastructure supply chain and building an understanding of the HMTCs' priorities in their own geographical areas.

Working with DIT and the British Aviation Group the Department has established an Aviation Exports Board to enable strategic engagement between government departments and senior industry representatives within the aviation sector to facilitate growth of UK exports.

16 Micromobility Vehicles (small devices designed to carry one or two people, or for last mile deliveries E-scooters are an example of micromobility vehicles)

The Department has a leading role in showcasing UK transport innovation as part of the UK's participation at Dubai Expo 2020. Expo has been postponed until October 2021, and the UK pavilion will host a "how we will travel" event during the Expo event, which will provide the opportunity to show how the UK is stimulating innovation, creating new markets and securing a 21st century transport system. Over the course of 2019, the Department supported UK expertise and innovation at international trade events such as the 26th World Road Congress 2019 in Abu Dhabi, London International Shipping Week 2019 and TRAKO 2019 to name a few.

Crossrail International (CI) was established in September 2017 to boost UK transport and infrastructure exports and to help cities around the world provide world-class transport networks by leveraging the expertise developed through the Crossrail programme. Managed by a small core team, CI utilises experts from Crossrail to provide advisory and consultancy services to governments and transport authorities globally. Through utilising the Crossrail brand and forming consortia with UK based firms, CI works closely with the supply chain in the delivery of its services to maximise benefits to the UK.

CI is now a supplier on six multi-contract frameworks and has secured consultancy contracts to support major infrastructure projects in a wide variety of international cities including Auckland, Hong Kong, Lima, Melbourne, San Francisco, Sydney and Toronto. CI's consortia approach and international engagement has helped UK based companies, both larger firms and SMEs, secure over £45 million in contracts internationally. The past year has also seen a significant increase in international engagement; with recent inward visits including ministers from Canada and Indonesia, as well as delegations from Israel, Mexico and Serbia.

As CI continues to expand its international engagement and offer, the Company is working to derive greater benefits from the opportunities created by its consultancy work. In line with the government's ambitions for UK exporters, over the next year CI and the Department are seeking to complete internal preparations for a complementary operating model that would target larger, longer-term contracts for the UK transport and infrastructure supply chain. If successful, this model will enhance HMG's support for the sector and strengthen our global competitiveness.

Crossrail International – *Professional and Consulting* Services, Greater Toronto Airports Authority, Ontario, Canada

The Greater Toronto Airports Authority (GTAA), operator of Toronto Pearson International Airport, Canada's largest airport and North America's second largest international passenger airport, is planning a new Regional Transportation and Passenger Centre, a multi-modal transportation hub and passenger facility to be located at the airport.

CI was instrumental in assembling a UK consortium offer that has been selected for inclusion on GTAA's Consultant Roster for providing professional and consulting services on an 'as-and-when' basis in support of the airport's new facility.

The team, led by transport advisers Direx Solutions, comprises CI, London and Continental Railways (LCR), Manchester Airports Group (MAG) and Volterra Partners. The synergies between the teams will provide significant additional value to GTAA through cross-functional integration and sharing of international good practice, benchmarking and lessons learned.

The strength of the UK consortia facilitated by CI for GTAA highlights the Company's support for the Government's export ambitions and for strengthening the UK infrastructure supply chain.

Promote a culture of efficiency and productivity in everything we do

The Department continues to work towards efficiency and excellence in the way it works. Across the sector work continues to speed up the delivery of major infrastructure projects and to improve working practices through the delivery of the Transport Infrastructure Efficiency Strategy. In the way the Department works, values of Confidence, Excellence and Teamwork have become a central to the staff culture, in areas such as attraction and recruitment, learning & development, reward and recognition and health and wellbeing. Empowerment and inclusivity also run throughout the Department's vision, values and are another way in which health and wellbeing of all colleagues is prioritised, including within its public bodies.

New ways of working, aligned with the government's COVID-19 advice and the advice provided by the NHS, and building on developments in digital services and infrastructure, has enabled the Department to respond rapidly to the crisis and to work closely with the sector and other government departments and delivery partners to restart transport in the UK.

Embed a culture of efficiency and delivery savings within DfT and its arm's length bodies

[illegible]

The Transport Infrastructure Efficiency Strategy (TIES) is a collaboration between the Department, Transport for London, Highways England, HS2 Ltd. Network Rail, and East-West Rail. Through this collaboration, it aims to ensure transport users and taxpayers get the best possible returns on every pound spent on infrastructure by improving the setting up of projects to deliver better outcomes; building our shared benchmarking capability to enable a deeper understanding of whole life project performance and costs; and enabling the wider adoption of innovation, technology, and modern methods of construction to drive up productivity and secure greater strategic benefits.

TIES is part of the suite of interconnected government and sector wide initiatives aimed at transforming the construction sector and driving the post-COVID 19 economic recovery. It's 'Living Lab demonstrator' is operationalising this strategy and offers a strategic, scalable, sector-wide approach to maximise the opportunities to drive efficiency savings, tackle the systemic issues that inhibit change, establish best practice and enable the delivery of key strategic objectives such as levelling up and net zero.

The 'Living Lab' is a transformative collaboration that also aims to harness the vast quantities of intelligence that UK infrastructure projects generate to help identify those modern methods of construction that will drive down infrastructure delivery times, reduce our carbon footprint and improve safety and skills for construction workers. Its consortium comprises clients, the supply chain and academic partners and is part-funded through the Transforming Construction Industrial Strategy Challenge Fund. Over the next two years these partners will invest more than £16 million in new tools, processes and data systems to build on, and establish, best practice in the way we design, build and integrate innovations within transport assets.

Highlights from Year two included the ministerial launch of TIES 'Living Lab', the completion of a high-impact benchmarking programme to address the needs of ongoing infrastructure programmes, and the piloting of a new challenge panel activity to embed TIES themes within existing projects. Progress will be detailed in the TIES 'Two Years On' report, intended for publication in the Autumn. This will outline the Strategy's Year 3 commitments, which will include the Living Lab's Year 1 milestones.

The Department's SME Action Plan was published in August 2018. The Action Plan outlines how the Department will meet its aspiration of ensuring that 33% of all procurement spend will be with SMEs by the end of 2022. The Action Plan includes incremental in-year targets of spend with SMEs, see **Table 2** for actual and forecasted performance. The Department has an SME Lead, who coordinates and measures the effectiveness of the SME activities against the measures set out in the Department's SME Action Plan. The Department's SME Working Group includes representatives from DfT(c), its executive agencies, its public bodies and trade associates, who meet to share good working practices and resolve issues to eliminate barriers to SME take up.

To increase the visibility of supply chain opportunities and enhance visibility of spend with SMEs in its supply chains, the government published Procurement Policy Note (PPN) 01/18: Supply Chain Visibility. The Department's standard Terms and Conditions have been amended to incorporate the additional clauses recommended by PPN, and the recommendations set out in the Note have been cascaded across the Department and discussed at the Department's Procurement Knowledge Networks. The Department's SME Lead identifies in-scope opportunities to measure compliance.

Table 2 SME Action Plan performance of the central Department and our Executive Agencies during 2019-20

Within	SME Spend Target %	SME Actual Performance %	Direct Spend Actual/ Forecast %	Direct Spend Actual/ Forecast	Indirect Spend Actual/ Forecast %	Indirect Spend Actual/ Forecast
2015-16	22%	23.8%	*11.00%*	*£1.3bn*	*12.80%*	*£1.5bn*
2016-17	24%	29.9%	*11.00%*	*£1.2bn*	*19.00%*	*£2.1bn*
2017-18	26%	31.3%	*10.50%*	*£1.2bn*	*20.80%*	*£2.4bn*
2018-19	29%	32.6%	*12.60%*	*£1.7bn*	*20.00%*	*£2.7bn*
2019-20[1]	31%		*10.50%*	*£1.5bn (approx)*	*20.50%*	*£2.95bn (approx)*
2020-21	32%		*10.75%*	*£1.6bn (approx)*	*21.25%*	*£3.2bn (approx)*
2021-22	33%		*11.00%*	*£1.7bn (approx)*	*22.00%*	*£3.3bn (approx)*

1 Due to COVID-19, Cabinet Office has postponed the collation of the FY 2019-20 data until October 2020. The information will be available January 2021.

Where possible, and where on balance it makes good commercial sense to do so, the Department disaggregates contracts into smaller lots to make them more accessible to SMEs. For those contracts where disaggregation is not possible the Department encourages SME involvement within the supply chain, for example through consideration in procurement evaluation processes of SME involvement. The Department's spend with SMEs for 2018-19 was 32.6%, against an in-year target of 29%. This represented an overall increase of 1.3% on our previous 2017-2018 spend with SMEs (31.3%).

Regular cashflow is crucial for a SME; the Department's standard Terms and Conditions for the supply of goods and services specify payment within 30 days of receipt of a valid invoice, and the Department's aim is to pay all valid invoices within five working days of receipt. In 2019-20, the Department paid 95% of undisputed supplier invoices within the five-working day target, and 99% within the thirty-day target. **Table 3** shows performance of the central Department and our executive agencies during 2019-20.

2016's Transport Infrastructure Skills Strategy set clear recommendations to address skills gaps across infrastructure and transport bodies. These included stretching ambitions to create 30,000 apprenticeships in road and rail bodies. Employers are also being challenged to improve the diversity of the sector, notably to work towards 20% of engineering and technical apprenticeships to be filled by women, and for a 20% increase in BAME representation.

The Strategic Transport Apprenticeship Taskforce (STAT) was set up to enable leading employers to work collaboratively to meet these ambitions and reports on progress annually. Working collaboratively across the sector has enabled employers to develop intelligence about skills needs and gaps, share best practice and drive innovative solutions to shared challenges. In July, the 'Transport Infrastructure Skills Strategy: Three Years of Progress' was published. Since STAT began its work:

- 8,200 apprenticeships have been created in road and rail bodies and their supply chain as a direct result of public sector procurement.
- The Department has seen commitments to thousands more apprenticeships from leading transport employers – notably doubling the number of apprentices at Heathrow to 10,000, linked to expansion of the airport.
- BAME representation now stands at almost 22% of the Department's apprentice intake, from a starting point of 14%.
- The proportion of women taking up technical and engineering apprenticeships is now over 15%.
- The Department has also seen an increase in degree level apprenticeships, with women proportionately better represented at these higher levels than men. Higher level apprenticeships will support efforts to drive productivity in the sector.

In 2019's annual report, STAT noted the challenge in driving the volumes of apprenticeships that had been envisaged in the Transport Infrastructure Skills Strategy. Peaks and troughs in the investment cycle have had an impact on recruitment in the sector and specific challenges remain for smaller supply chain businesses. While employers within the STAT membership are investing significant sums in apprenticeships through the apprenticeship levy, employers across the economy continue to report concerns about its implementation.

Table 3: Compliance with the SME Prompt Payment Policy 2019-20

Organisation	Percentage of targets met	
	Within 5 working days (Target: 80%)	Within 30 working days (Target: 100%)
DfTc	96%	99%
DVLA	94%	100%
DVSA	96%	100%
VCA	94%	100%
MCA	93%	99%

STAT annual report also set out clear commitments to further develop work on skills in the year ahead to help address challenges, including:

- Promoting commercial models which support closer working with the supply chain to facilitate collaboration on skills and to increase productivity.
- Piloting a pre-employment training programme to support those facing significant barriers to entry into jobs and training.
- Piloting two data based shared apprenticeships to improve digital readiness in the sector (Level 4 and Level 6 Data Analyst/Scientist).

Ensure corporate functions that support the DfT's work are efficient, effective and secure

The Department invests in the learning and development of all its people and across all professions, and continued to strengthen the pipeline of commercial skills with a further cohort of successful Commercial Development Programme. As part of the wider Project Delivery Improvement Programme the Department is now focused on both buying and growing more project delivery skills, as well as ensuring we have the right skills to support our work.

The Department career pathways and associated competency frameworks guide individuals in their professional development, and offer professional qualifications and accreditation. A Head of Profession is responsible for ensuring those within their profession are appropriately skilled and qualified – linking in to cross government professions, professional bodies and academia. The Department also has active participants in cross-government talent and diversity schemes.

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The Department values diversity and inclusion in our workforce culture and is actively working to develop a socially inclusive transport system. The Department is committed to developing an organisation that is diverse and inclusive, where the staff are treated fairly and feel able to be themselves. These aims are central to the Department's business and working relationships. The work to progress the Diversity and Inclusion Strategy ensures that as an organisation the Department is working to support these values. In 2019, the Department agreed new organisational values: Confidence, Excellence and Teamwork. Becoming the most inclusive employer, the Department can be, is at the core of these values.

The 2019 Gender Pay Gap report was published in January 2020. The mean and median gender pay gap for 2019 across the Departmental family, including our executive agencies, is 13.8%, a 1.8 percentage point deduction from 2018. The mean bonus gap is 17% and the median bonus gap is 15%. In the core Department the mean pay gap is 8%, the median pay gap is 9.7%. The mean bonus gap is, -1.3%, and median bonus gap is -6.2%, both in favour of women. Each organisation is focused on a number of actions to tackle the gender pay gap.

Cross government talent and development programmes	Cross government early talent and diversity programmes
• Future Leaders Scheme (FLS), Senior Leaders Scheme (SLS) and High Potential Development Scheme (HPDS). In 2019 19 individuals were selected for FLS, 4 SLS and 1 HPDS. • In 2019 we developed a refreshed departmental apprenticeship strategy.	The Department offered 20 placements on the following programmes: • Civil Service Work Experience – as part of the civil service schools outreach work, we had five students from lower socio-economic backgrounds. • Autism Exchange Programme. • Summer Diversity Internship Programme.

It is important that the Department operates within an internal control environment that enables timely and effective decision making while safeguarding taxpayers' money. Although all those in management roles across the Department have a responsibility in ensuring compliance with internal controls, the Commercial and finance professionals aim to facilitate this by placing themselves at the heart of decision making.

The Commercial and Finance functions review and advise on all significant investment decisions and support the Investment, Portfolio and Delivery Committee (the committee responsible for approving high value and/or high-risk investment proposals (see **page 70**)). The functions ensure that the Board members are aware of the key issues including; providing Accounting Officer assessments (where necessary); and evaluation of proposals with reference to Managing Public Money and other HM Treasury guidance. During the year, the Committee has considered several significant investment proposals including issues surrounding the collapse of Thomas Cook, the Northern Rail franchise agreement as well as a range of interventions related to COVID-19.

The commercial and finance functions also ensure that there is a high level of input and control over the work that all government departments are required to undertake. This includes; working with budget managers to populate the Main and Supplementary Estimates, working closely with HM Treasury throughout the year across a whole range of resource and governance issues, providing managers with Delegation of Responsibilities letters so that they understand their budgets, resources and the control environment in which they must operate.

The Department is making good progress in developing a replacement to the existing enterprise reporting planning. This will enable staff across the Department and its agencies to access a wide range of modern financial, Human Resources and commercial support services that are essential for the day to day operations of the organisation.

The Department has taken steps to improve its understanding and response to cyber security threats, and in addition changed its approach to IT service continuity. The cyber security landscape changes continually and to ensure we remain able to defend against threats the Department has initiated security improvement programme, with three main goals:

- Alignment to best-practice cyber security standards.
- Policy review to ensure appropriate risk-based policies are in place.
- Training, education and awareness for staff on cyber threat.

Investment has been made in the modernisation of core technologies and extension of available capability from existing suppliers. The intent has been to reduce legacy IT risk and exploit new technologies that allow us to adopt a changed posture in the face of new threats. Alongside this, the Department continues to build its Information and Cyber Security capability.

Improvements have also been made in IT service continuity with significant investment in new equipment and online services. During March 2020, as a result of the UK-wide lockdown in response to COVID-19, the Department moved to a remote-working mode with the majority of its staff working away from the office. Improvements made in the IT service provision meant that the Department was able to run seamlessly and staff continued to deliver their work without disruption.

In April 2019, the Department co-published a report with the Infrastructure and Projects Authority (IPA)– 'Lessons from transport for the sponsorship of major projects'. This identified 24 practical lessons across five major themes to increase confidence that future transport, infrastructure and wider government projects are delivered with control, predictability and professional excellence. The key themes arising from the report were:

- Accountability must be unambiguous
- Behaviour matters more than process
- Control schedule and benefits as well as costs
- Deal with systems integration
- Enter service cautiously.

Following this, the Department, in collaboration with IPA, invested resource and expertise into the Project Delivery Improvement Programme (PDIP) to implement and embed the lessons learned. To date the Department has:

- Supported delivery organisations that deliver nine of the Department's major projects, including HS2 Ltd and Crossrail Ltd, to have undertaken a review of their activities against the 24 lessons and started to make changes accordingly.
- Launched a new investment oversight process – an *Investment, Portfolio and Delivery Committee (IPDC)* – which considers the Department's major project portfolio, and the delivery of in-flight projects.
- Developed key principles for the governance of major projects, including designing three main archetypes for governance structures, and providing guidance for roles and responsibilities – in particular, the role of the Department, and the expectations of the public bodies, client sponsors and shareholders.
- Developed behavioural expectations for the Project Delivery Profession, aligned to the Department's corporate values.
- Begun training internal facilitators to run workshops that aim to instil positive behaviours and promote a culture of active challenge in the way the Department runs projects.
- Developed an initial action plan to meet capacity and capability gaps, building on the existing Project Delivery Profession strategy in the Department.

The focus is now on improving project delivery and the new Portfolio and Project Delivery Directorate will lead a transformation programme that monitors, embeds and expands on the key lessons to ensure the Department is in the strongest possible position to oversee successful delivery of significant portfolios.

During 2019-20, the Department produced 11 Management Information (MI) packs to update the Board and the Executive Committee on the Department's financial position; workforce; priority milestones; key risks; and external obligations.

Financial information is provided to enable the management of the Department's budget through central case forecasting and the monitoring of financial risks and opportunities. Information on key Departmental risks and mitigations completes a robust system of risk monitoring and moderation, including updates from the Department's new risk committee.

Milestones are monitored and rated on deliverability throughout the year, to monitor delivery against objectives. Workforce information is considered, consisting of actual, forecast and budgeted FTE and pay costs, and average working days lost across the central Department and its executive agencies. The report also covers performance information on *Freedom of Information requests, Ministerial and official* correspondence, Parliamentary Questions and prompt payments.

The Department also has a portfolio management reporting process for major projects, which provides clear metrics on the costs, schedules and benefits of projects and the overall portfolio. In addition, delivery confidence assessments are provided by project SROs.

Single Departmental Plan Indicators

The following tables set out, against the SDP objectives, the latest published position for each of the SDP indicators. This year's current and previous data vary between indicators description for each table.

Table 4: Support the creation of a stronger, cleaner, more productive economy

SDP indicator	Current	Previous
Value for money		
DfT appraised project spend assessed to be high or very high vfm (current = data not yet published, previous = 2018)	n/a	78%
Number of public funded transport infrastructure programmes in construction		
Number of transport schemes from NICP currently in construction in England (current = NICP was not updated in 2019, previous = end 2018)	n/a	123 programmes and 33 projects
Boosting skills: number of apprenticeships delivered		
Number of apprenticeships in road and rail – TISS progress to 2022[1]		
annual figure (current = March 2020, previous = June 2019)	3,238	2,900
cumulative figure (current = March 2020, previous = March 2019)	11,254	8,200
Savings to business as a result of deregulation since beginning of this Parliament, £[2] (current = since 12 December 2019, previous = 8 June 2017-11 December 2019)	no qualifying measures to date	no qualifying measures in the life of the Parliament

1 Apprenticeship numbers are not comparable year on year due to the clarification of apprentice starts, with some figures moving from year to year

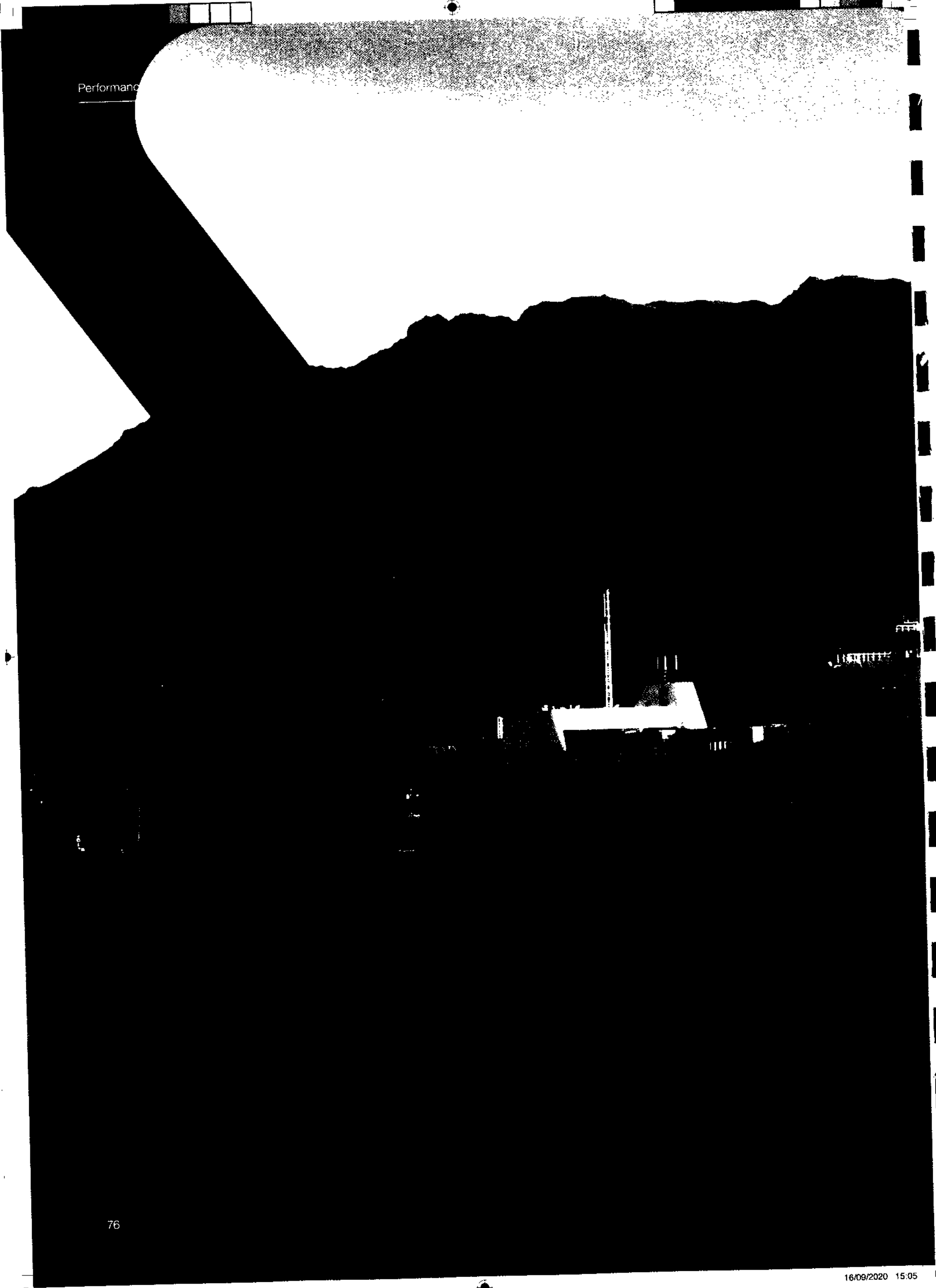
2 The BIT is a cross-government target for the reduction of regulation on business. The Department had no qualifying measures in either 2018-19 or 2019-20. Figures represent the cumulative total measures against the BIT in the the life of the Parliament. No qualifying measures were noted in the previous or in the current Parliament to date

Table 5: Help to connect people and places, balancing investment across the country

	Current	Previous
Total passenger kilometres travelled (all modes)		
DfT Passenger transport by mode statistics – km. billion	808	807
Average minimum travel time to key services in England		
DfT Journey time statistics: 2017 (revised) – (current = 2017, previous = 2016)		
(i) Public transport/walking	18	18
(ii) Pedal cycle	15	15
(iii) Car	11	11

Table 6: Make journeys easier, modern and reliable

	Current	Previous
National Rail Passenger Survey, Great Britain: passengers satisfied with their journey (%)		
(current = autumn 2019, previous = autumn 2018)		
(i) Journey	82%	79%
(ii) Station	80%	80%
(iii) Train	78%	76%
National Road User Sastisfaction Survey (replaced by Strategic Roads User Survey)		
(current = March 2020, previous = 2018-19)		
(i) Strategic Road Network	81%	88%
(ii) Very or fairly satisfied with		
(a) Safety	92%	90%
(b) Upkeep (previous): Surface quality (current)	83%	85%
(c) Information provision (replaced by (d) and (e) below)	n/a	92%
(d) Permanent Signs (replaces (c) above)	91%	n/a
(e) Electronic Signs	85%	n/a
(f) Journey Time	79%	87%
(g) Roadworks management	68%	61%
Percentage of trains running on time		
The key statistic for train performance was previously the Public Performance Measure (PPM), which measures punctuality within 10 minutes of a train's scheduled arrival at its destination. The 'On-Time' measure which measures train punctuality to within one minute at each recorded scheduled stop was introduced in April 2019 and is now the main statistic used to assess rail performance.		
Public Performance Measure	86.2%	86.3%
On-Time	64.8%	63.4%
(current = 2019-20, previous = 2018-19)		
Proportion of non-frequent bus services running on time, England		
On Time punctuality measure: early or less than one minute after the scheduled time (current = data not published, previous = 2018-19)	n/a	83%
Average delay on strategic roads and average delay on local 'A'roads, England, minutes		
(current = 2019-20, previous = 2018-19)		
(i) SRN	9.3	9.4
(ii) Local A Roads	43.7	43.1
Proportion of flights on time (early to within 15 minutes), UK (%)[1]		
(current = 2019, previous = 2018)	75%	71%
Use of smartphones/apps for journey planning		
(current = question not asked since previous, previous = December 2018)	n/a	86%



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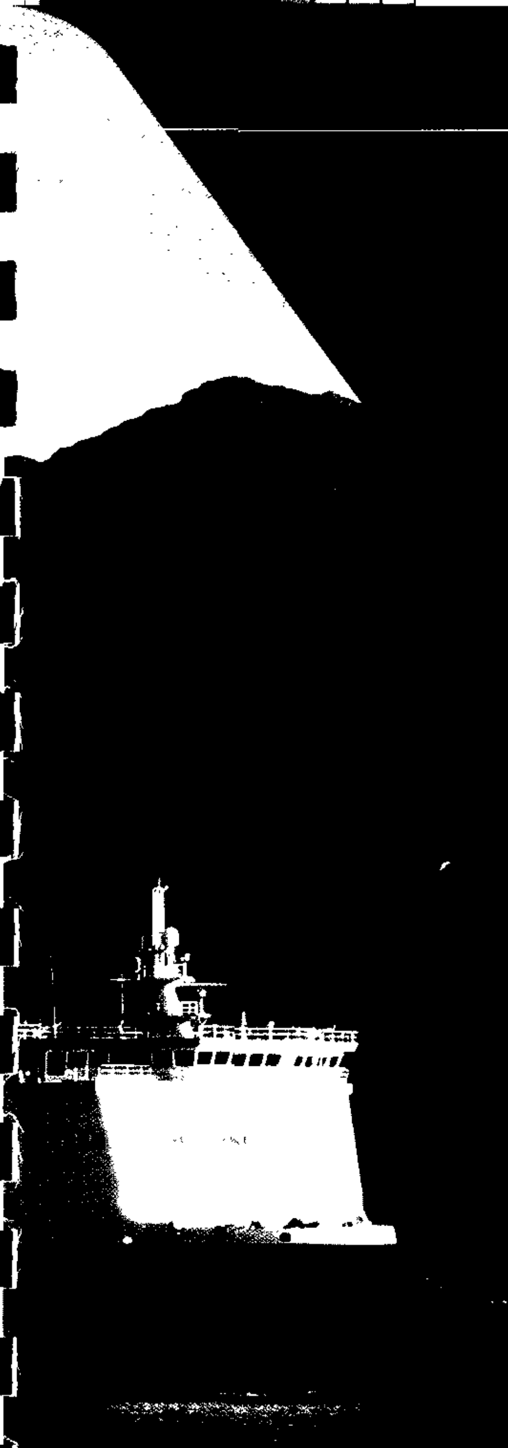

Sustainability Report

The current work the Department is undertaking to develop a Transport Decarbonisation Plan and accelerate the shift to zero carbon transport builds on a series of policy interventions, incentives and strategic decarbonisation initiatives the government has implemented over the past couple of years. Some examples of this work have been listed below.

Road transport

Road transport makes up nearly 90% of domestic transport emissions. It is therefore vital that the UK remains at the forefront of the transition to zero emission vehicles. The Office for Low Emission Vehicles (OLEV) is a joint unit between the Department and BEIS which in March 2020 was allocated over £1 billion at Budget to support the transition to zero emission transport on the UK roads. Funding includes over £500 million to keep plug in vehicle grants to 2023 and £500 million over the next five years to support the roll out of charging infrastructure. As a result, OLEV is now investing nearly £2.5 billion to support the uptake of zero emission vehicles, with grants available for plug-in vehicles (cars, vans, taxis, trucks, buses and motorbikes) and associated charging infrastructure (at home, at the workplace, for taxis and private-hire vehicles, on residential streets and across the key strategic road network). OLEV led a consultation which closed on 31 July on bringing forward the end to the sale of new petrol and diesel cars and vans from 2040 to 2035, or earlier if a faster transition appears feasible, as well as including hybrids for the first time. OLEV are considering responses to the consultation in detail and the government response will be published in due course.

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, but the Department is also working proactively to consider how people and goods travel to help deliver the carbon emissions reductions needed to meet carbon budgets and net zero.

In February 2020, a £5 billion package of new funding for buses, cycling and walking was announced. This investment will complement numerous projects and funds already available. These include the £20 million fund to support demand-responsive bus services in rural and suburban areas, part of a wider bus package announced in September 2019; the £2.5 billion Transforming Cities Fund to tackle congestion and foster public transport networks; and the £10 billion Single Housing Infrastructure Fund to support local authorities in the delivery of their cycling and walking infrastructure priority and plans.

Further investment priorities were set out in the long-term cycling and walking plan, published in July 2020, which includes a range of actions to increase active travel, including through £2 billion of dedicated investment over the next five years, to meet existing aims and targets to double cycling, increase walking activity and increase the percentage of children that usually walk to school by 2025. Actions cover a range of infrastructure and behaviour change interventions, including provision of safe and direct cycling and walking networks and cycle training. The £5 billion package also includes a commitment to at least 4,000 zero-emission buses, to make greener travel the convenient option.

The Department is also working with the freight industry to promote practical action that heavy goods vehicles operators can take to improve efficiency and meet their voluntary commitment to reducing greenhouse gas emission by 15% by 2025, based on 2015 levels.

The Department is investing in the existing strategic road network to secure safer and more reliable journeys for all users, be they pedestrians or cyclists, drivers or passengers, for work, leisure or transporting freight. Additional capacity is being created where necessary to create more resilient and free-flowing links, especially at key junctions. These enhancements can help reduce emissions by minimising the amount of stationary traffic with its associated braking and acceleration.

The Department expects the additional contribution to greenhouse gases of the new road schemes funded by the second Road Investment Strategy will be around 0.27 $MtCO_2e$ through to the end of 2032 (for reference, domestic greenhouse gas emissions from transport in 2018 were 124.4 $MtCO_2e$).

These additional greenhouse gas emissions are expected to be offset by the significant emissions reduction expected to be achieved through the other elements of the Department's plan to decarbonise road transport.

UN Sustainable Development Goal	DfT activity
8. Decent work and economic growth *Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all*	› Commissioned and considered the independent advice of the Oakervee Review and confirmed in February 2020 that the HS2 project will go ahead, helping to improve connectivity and rebalance the economy. The evidence makes clear that the scheme will contribute towards sustainable growth, spreading prosperity and opportunity more evenly. https://www.gov.uk/government/publications/oakervee-review-of-hs2 › Introduced a £500 million fund to reinstate local rail services in England and Wales, and reopen train stations. Ten bidders have been successful in their application during the first round of funding and are now developing a business case. 50 bids from across England and Wales were submitted as part of the second round of funding in June 2020. https://www.gov.uk/government/publications/re-opening-beeching-era-lines-and-stations/re-opening-beeching-era-lines-and-stations › Working with interested local authorities to determine how the Bus Services Act 2017 powers, including open data powers, can best support bus networks and operators in their areas. › Alongside BEIS, announced £36.7 million (March 2020) to foster a green supply chain for the transport manufacturing industry and create four new, cutting-edge centres of excellence – based in Newport, Nottingham, Strathclyde and Sunderland – which will bring together climate change pioneers to electrify transport machines, such as planes, ships and cars, and their components. https://www.gov.uk/government/news/government-backs-cleaner-planes-ships-and-automobiles-with-37-million-boost
9. Industry, innovation and infrastructure *Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation*	› As set out in the Decarbonising Transport: Setting the Challenge document (March 2020), continued to work to utilise 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. › Announced £300 million of joint investment with industry, through the Future Flight Challenge (August 2019) to support the development of innovative aviation systems, the infrastructure, and regulations needed to support them. https://www.gov.uk/government/news/pm-accelerates-towards-greener-travel-with-new-300-million-investment › Awarded over £1.6 million of funding to a range of rail decarbonisation projects in 2019 and 2020, including the Hydro FLEX project that will see the UK's first operating hydrogen train tested on Network Rail's mainline infrastructure. › Awarded £6.5 million to two innovative renewable fuel projects through the Future Fuels for Flight and Freight Competition (December 2019). https://www.gov.uk/government/news/orange-peel-rubbish-and-fatbergs-the-fuels-behind-the-future-of-green-transport › Announced a £3.4 million investment in trials for wireless charging of electric taxis in Nottingham (January 2020). https://www.gov.uk/government/news/electric-taxis-to-go-wireless-thanks-to-new-charging-tech-trial › 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). https://www.gov.uk/government/publications/transport-technology-research-innovation-grants-t-trig-funding-winners › Provided £2.6 million for the Clean Maritime Awards, supporting clean maritime innovation through MarRI-UK. › Launched a call for evidence (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 call for evidence closed in July 2020 and the Department is reviewing responses. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/873363/future-of-transport-regulatory-review-call-for-evidence.pdf › 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.

UN Sustainable Development Goal	DfT activity
11. Sustainable cities and communities *Make cities and human settlements inclusive, safe, resilient and sustainable*	› Running the £2.45 billion Transforming Cities Fund to drive up productivity through improved connections between urban centres and suburbs. Supplementary guidance for shortlisted cities was published in March 2019. https://www.gov.uk/government/publications/apply-for-the-transforming-cities-fund › Announced £5 billion in February 2020 to support bus services, cycling and walking and make every day journeys easier, greener and more convenient. The first stage of this investment was allocated to local authorities in July 2020 as an Emergency Active Travel Fund (£250 million) to support, among other initiatives, the deployment of pop-up bike lanes with protected space for cycling, wider pavements, safer junctions and cycle and bus-only corridors. https://www.gov.uk/government/publications/emergency-active-travel-fund-local-transport-authority-allocations Announced a multimillion deal for bus users (September 2019), which includes plans for Britain's first all-electric bus town for which local authorities were invited to bid for funding from February to June 2020. https://www.gov.uk/government/publications/a-better-deal-for-bus-users/a-better-deal-for-bus-users › Supported the registration of over 240,000 ultra-low emission vehicles (ULEVs) since 2010 on UK roads, helping make the UK the third largest market for ULEVs in Europe in 2019. › Consulted on amending building regulations to include requirements for electric vehicle chargepoint in new residential and new and existing non-residential buildings (2019). https://www.gov.uk/government/consultations/electric-vehicle-chargepoints-in-residential-and-non-residential-buildings › Supported 66 local authorities to date in the roll-out of electric vehicle chargepoints through a boost to the On Street Residential Chargepoint Scheme (now £20 million) and continuing to support local authorities in the deployment of zero emission buses through the £48 million Ultra-Low Emission Bus Scheme. https://www.gov.uk/government/news/funding-for-on-street-chargepoints-doubled-to-help-charge-up-electric-vehicle-revolution › With other Government departments, put in place a £3.8 billion plan to reduce harmful emissions from road transport, including £880 million to help local authorities to develop and implement local air quality plans. › Alongside Defra, we are providing financial and expert support to 61 local authorities to develop innovative plans to improve air quality, including Clean Air Zones (CAZs). › Published the Future of Mobility: Urban Strategy (February 2019) to set out the Government's approach to maximising the benefits from transport innovation in cities and towns.
13. Climate action *Take urgent action to combat climate change and its impacts*	› Developing a comprehensive and cross-modal Transport Decarbonisation Plan to look at how the transport sector can be decarbonised. › Published 'Decarbonising Transport: Setting the Challenge' document (March 2020) which sets out the scale of the action needed for a net zero transport system in the UK by 2050, building on previous work undertaken by the Department to foster green transport, including the 2019 Clean Maritime Plan, the 2018 Road to Zero Strategy, the 2018 Aviation Green Paper and the 2017 Cycling and Walking Investment Strategy. https://www.gov.uk/government/publications/creating-the-transport-decarbonisation-plan › Running the Renewable Transport Fuel Obligation (RTFO), a certificate trading scheme to support low carbon fuels, which saved 2.88 million tonnes of CO_2 emissions in just the last three quarters of 2018 (the equivalent of taking 1.8 million vehicles off the road for a full year) and expected to save further nearly 85 million tonnes of CO_2 from 2017 to 2032. › Working with Defra and transport operators to look at the interdependencies and potential for cascading failures from more severe and frequent climate events (e.g. flooding). › Commissioned the Met Office to review the worst-case scenarios behind the Department climate change risk assessment models, to ensure these are robust. › Supporting local Highways Authorities through the £578 million Local Highway Maintenance Incentive Fund to improve behaviours and efficiently address emerging climate change issues. › Advocating for ambitious and global cooperation at the International Civil Aviation Organisation (ICAO) and International Maritime Organisation (IMO), aiming to reduce carbon in a global economy, one of our strategic priorities set out in the Decarbonising Transport: Setting the Challenge document

UN Sustainable Development Goal	DfT activity
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*	› Working 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. › Committing Highways England and Network Rail to achieve no net loss in biodiversity across their existing enhancement projects and roadside estate by 2025 and to achieve biodiversity net gain by 2040. › Announcing a £345 million Environment and Wellbeing ring-fenced fund to invest in measures to improve environmental outcomes as part of the Road Investment Strategy 2020-2025 (March 2020). https://www.gov.uk/government/publications/road-investment-strategy-2-ris2-2020-to-2025 › Working closely with HS2 Ltd to realise no net loss to biodiversity and minimise the impact HS2 will have on the environment by creating 33 square kilometres of new and existing wildlife habitat (an increase of around 30%), planting seven million new trees and creating or translocating at least 400 kilometres of hedgerows. › Empowering local communities to realise their own landscape, conservation and environmental objectives. This includes £7 million awarded to local groups in the Chilterns and the Colne Valley, £40 million committed to the Community & Environment (CEF) and Business & Local Economy Funds (BLEF), and a £7 million 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

Transport is the largest emitting sector in the UK, contributing 28% of domestic greenhouse gas (GHG) emissions in 2018. Transport emissions are 3% lower than in 1990. The Department acknowledges the urgent need to tackle GHG emissions from the sector.

In June 2019, the UK passed a law to reach net zero GHG emissions by 2050. In response to the net zero legislation in October 2019, the Secretary of State for Transport announced that the Department would develop a Transport Decarbonisation Plan. The plan will take a holistic and cross-modal approach to transport decarbonisation. It will consider where and how people and goods travel and sets out in detail what will be needed to deliver significant emissions reduction in the sector, including through place-based solutions and the use of technology.

In March 2020, 'Decarbonising Transport: Setting the Challenge' was published. This document is the first step to developing the policy proposals of the full Transport Decarbonisation Plan. The cross-modal document presents transport modes and their current GHG emissions, the existing strategies and policies already in place to deliver against our current targets and any future activity or work already committed or underway. The document sets a vision for a net zero transport system and six cross-cutting strategic priorities (**figure 1**).

The 'Decarbonising Transport: Setting the Challenge' document marked the start of a comprehensive stakeholder engagement process to assist the development of the full Transport Decarbonisation Plan and its vision for a net zero transport system in the UK. It also announced the launch of net zero Transport Board, which convened for the first time in June 2020, to offer external advice on the Department's approach to transport decarbonisation.

The Department is working with other government departments, all communities and industry around the country to develop the Transport Decarbonisation Plan – to make our towns and cities better places to live, help to create new jobs, improve air quality and our health, as well as taking urgent action on climate change. Alongside Defra, improving air quality also remains a top priority for the Department. The Department continues to take robust and comprehensive action to improve air quality in the UK and minimise public health impacts, especially during the recovery from COVID-19, aiming to use the power of transport to make Britain a better and greener place to live.

Working closely with BEIS, FCO and Cabinet Office, the Department is also making strides to strengthen international cooperation with foreign governments, cities, industry, businesses and civil society, aiming to coordinate global action, align transport decarbonisation policy and targets and accelerate the shift to net zero transport ahead of COP26 in Glasgow in November 2021.

Figure 9: Strategic Priorities

Accelerating modal shift to public and active transport

- Help make public transport and active travel the natural first choice for daily activities
- Support fewer car trips through a coherent, convenient and cost-effective public network; and explore how we might use cars differently in future
- Encourage cycling and walking for short journeys
- Explore how to best support the behaviour change required

Decarbonisation of road vehicles

- Support the transition to zero emission road vehicles through:
  - regulatory framework
  - strong consumer base
  - market conditions
  - vehicle supply
  - refuelling and recharging infrastructure
  - energy system readiness
- Maximise benefits through investment in innovative technology development, and development of sustainable supply chains

Decarbonising how we get our goods

- Consider future demand and changing consumer behaviour for goods
- Transform 'last-mile' deliveries – developing an integrated, clean and sustainable delivery system
- Optimise logistics efficiency and explore innovative digitally-enabled solutions, data sharing and collaborative platforms

Place-based solutions

- Consider where, how and why emissions occur in specific locations
- Acknowledge a single solution will not be appropriate for every location
- Address emissions at a local level through local management of transport solutions
- Target support for local areas, considering regional diversity and different solutions

UK as a hub for green transport technology and innovation

- Utilise 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
- Build on expertise in the UK for technology developments and capitalise on near market quick wins

Reducing carbon in a global economy

- Lead international efforts in transport emissions reduction
- Recognise aviation and maritime are international by nature and require international solutions
- Harness the UK as a global centre of expertise, driving low carbon innovation and global leadership, boosting the UK economy

The current work the Department is undertaking to develop a Transport Decarbonisation Plan and accelerate the shift to zero carbon transport builds on a series of policy interventions, incentives and strategic decarbonisation initiatives the government has implemented over the past couple of years. Some examples of this work have been listed below.

Road transport

Road transport makes up nearly 90% of domestic transport emissions. It is therefore vital that the UK remains at the forefront of the transition to zero emission vehicles. The Office for Low Emission Vehicles (OLEV) is a joint unit between the Department and BEIS which in March 2020 was allocated over £1 billion at Budget to support the transition to zero emission transport on the UK roads. Funding includes over £500 million to keep plug in vehicle grants to 2023 and £500 million over the next five years to support the roll out of charging infrastructure. As a result, OLEV is now investing nearly £2.5 billion to support the uptake of zero emission vehicles, with grants available for plug-in vehicles (cars, vans, taxis, trucks, buses and motorbikes) and associated charging infrastructure (at home, at the workplace, for taxis and private-hire vehicles, on residential streets and across the key strategic road network). OLEV led a consultation which closed on 31 July on bringing forward the end to the sale of new petrol and diesel cars and vans from 2040 to 2035, or earlier if a faster transition appears feasible, as well as including hybrids for the first time. OLEV are considering responses to the consultation in detail and the government response will be published in due course.

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Further investment priorities were set out in the long-term cycling and walking plan, published in July 2020, which includes a range of actions to increase active travel, including through £2 billion of dedicated investment over the next five years, to meet existing aims and targets to double cycling, increase walking activity and increase the percentage of children that usually walk to school by 2025. Actions cover a range of infrastructure and behaviour change interventions, including provision of safe and direct cycling and walking networks and cycle training. The £5 billion package also includes a commitment to at least 4,000 zero-emission buses, to make greener travel the convenient option.

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The Department is investing in the existing strategic road network to secure safer and more reliable journeys for all users, be they pedestrians or cyclists, drivers or passengers, for work, leisure or transporting freight. Additional capacity is being created where necessary to create more resilient and free-flowing links, especially at key junctions. These enhancements can help reduce emissions by minimising the amount of stationary traffic with its associated braking and acceleration.

The Department expects the additional contribution to greenhouse gases of the new road schemes funded by the second Road Investment Strategy will be around 0.27 MtCO2e through to the end of 2032 (for reference, domestic greenhouse gas emissions from transport in 2018 were 124.4 MtCO2e). These additional greenhouse gas emissions are expected to be offset by the significant emissions reduction expected to be achieved through the other elements of the Department's plan to decarbonise road transport.

Air Quality

The most immediate air quality challenge is tackling the problem of nitrogen dioxide (NO_2) concentrations around roads – the only statutory air quality limit that the UK is currently failing to meet. The 2017 UK Plan for Tackling Roadside Nitrogen Dioxide Concentrations sets out how we will achieve compliance in the shortest possible time. Alongside Defra, the Department, through the Joint Air Quality Unit, is working closely with 61 English local authorities and has placed legal duties on them to tackle their NO_2 exceedances. This work is being supported by government investment of £880 million and through the provision of financial and expert support to local authorities to develop innovative plans that include measures such as traffic management, charging zones and support for vehicle upgrades/retrofitting.

Rail

The Department recognises the contribution of the railway to decarbonising transport by attracting passengers and goods from more polluting forms of transport. The Department will spend £48 billion on the railway between 2019 and 2024, improving its 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 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 of hydrogen or battery trains, or further electrification.

Aviation

The Department is considering the aviation advice of the Committee on Climate Change received in September 2019. The government's position on aviation and net zero will be published for consultation later this year.

The Department is investing £1.95 billion from 2013 to 2026 in aerospace R&D, but also supporting the development of the infrastructure and systems needed to foster aviation innovation. In August 2019 the Department announced £300 million of joint investment with industry, through the Future Flight Challenge. This will support the development of innovative aviation systems, and the infrastructure and regulations needed to support them.

The aviation industry's decarbonisation roadmap suggests that air traffic management and operational improvements are likely to reduce CO_2 emissions from UK aviation by around 4.6% by 2050 relative to 2016, with the potential for additional savings from future innovations. As we develop alternative technology, the Department recognises that airspace modernisation can play a key role in reaching net zero by 2050. More direct routes, faster climbs and reduced need for holding stacks can bring capacity benefits for airports, reduce costs for airlines and reduce delays for passengers, while creating opportunities to reduce carbon emissions and noise. The Department is working closely with the UK Civil Aviation Authority (CAA) to promote airspace modernisation and is currently reviewing the recommendations of the Airspace Change Organising Group (ACOG)'s report to understand what changes to existing regulation and policy may be needed, especially after the challenges to the aviation sector brought about by the COVID-19 pandemic.

Shipping

In 2019 the Department published its Clean Maritime Plan, which set out the UK's pathway to zero emissions shipping. It 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. In publishing the plan, the UK became one of the first countries to publish a strategy on domestic action to reduce shipping emissions.

Implementation of the Clean Maritime Plan is underway. The Department has funded two competitions for early stage innovation projects in clean maritime, and will launch soon a consultation, on whether and how the RTFO could be used to encourage the uptake of low carbon fuels in maritime, and a call for evidence on the role of economic instruments in supporting the transition to zero emission shipping.

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 caused as a result of climate change. We 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 published in July 2018 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-proofing 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 particular 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

The Department continues to strive to deliver a more sustainable transport system, recognising its own estate, and business travel should be managed in an equally sustainable manner. There are government drivers in the form of the Greening Government Commitments (GGC), which provides the structure and standard of sustainability performance to be achieved.

The Department has an Operations Sustainability Strategy that encompasses the central Department and its public bodies (excluding Network Rail). This details how each organisation will contribute to the achievement of GGC targets. A new five-year Strategy will be developed in 2020-21, to show how the Department proposes to deliver on the next iteration of GGC targets, due to start in April 2021, and start the development of a trajectory towards net zero for the Department's estate and business travel.

ExCo receives regular updates on the Department 's performance against GGC measures The Department also report performance against GGC targets on a quarterly basis to Defra, who collate returns across central government, to produce a consolidated picture of performance. The data provided in this report covers the central Department, DVLA, VCA, DVSA, Highways England, MCA, British Transport Police and HS2 Ltd. While this report will highlight some of the activities undertaken by these public bodies, to improve sustainable performance, more detail can be found in the individual Annual Reports and Accounts for each organisation.

Network Rail will come within the scope of GGC reporting from the next iteration of GGC targets, due to start in 2021.

Summary of performance

In 2019-20, the Department made very good progress in three GGC target areas:

- Reducing Greenhouse Gas Emissions
- Reducing Domestic Business Flights
- Reducing Paper Usage.

The Department is on track to meet the 2021 targets for Greenhouse Gas Emissions, Domestic Business Flights, and Paper Use. There has also been improved performance against the Waste to Landfill, and Water targets in comparison to 2018-19, although the Department is currently achieving the target in either of these categories. Details of the Department's sustainability performance metrics are set out in **tables 10-13**.

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

	Progress to Date
Reduce Greenhouse Gas (GHG) emissions by 44%	48.30%
Reduce domestic business flights by 37%	45.22%
Reduce the amount of waste going to landfill by 10%	14.40%
Reduce total estate water consumption by 9%	Increase of 4.13%
Reduce paper use by 56%	58.40%

Table 11: Greenhouse gas emissions

Greenhouse Gas (GHG) Emissions		2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Gross Emissions (tonnes CO_2e)[1]	Scope 1: Direct emissions	16,595	19,618	20,481	18,667	22,831	19,978
	Scope 2: Indirect emissions	125,493	104,944	94,437	93,836	74,096	64,759
	Scope 3: Business Travel emissions	6,927	8,217	8,705	9,682	13,367	13,642
	Total Emissions	149,015	132,779	123,623	122,185	110,294	**98,379**
Related Consumption Data	Estates electricity (kWh)	67,014,564	66,302,021	62,280,588	62,560,792	53,890,162	50,875,679
	kWh per head	2,683	2,478	2,271	2,198	1,995	1,857
	Estates (HE road network) electricity (kWh)	172,988,659	165,494,778	175,280,000	188,760,000	206,503,380	202,486,564
	Private car usage (million road miles)	5.74	8.43	6.47	8.35	14.61	14.36
	Hire car usage (million road miles)	11.90	10.76	10.22	9.93	14.51	14.75
Financial Indicators	Total energy expenditure	£37,240,817	£31,056,916	£32,151,988	£35,975,506	£43,175,106	£44,545,675
	CRC related expenditure	£2,432,242	£2,463,084	£2,001,105	£1,855,443	£1,696,223	
	Expenditure on business travel	£11,043,926	£12,589,336	£11,601,809	£12,297,647	£11,535,754	£11,773,080

Direct Impacts

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

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

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

Indirect Impacts

Road transport accounts for the largest share of the UK's transport greenhouse gas emissions. The Department and its public bodies are working to reduce this impact through policy change that encourages the use of zero emissions vehicles, promotes the installation of electric vehicle chargepoints and supports the modal shift to active travel and public transport.

1 tonnesCO_2e = tonnes of carbon dioxide equivalent emissions

The Department's consumption across many indicators has decreased when compared to 2018-19, as reduction measures and initiatives implemented in previous years begin to take effect. The Department continually seek to improve the management; and understanding of water and energy use with the aim of reducing both overall and FTE consumption.

The volume of waste generated from administrative estate increased slightly when compared to 2018-19. The increase is attributed to construction waste, from projects that are providing a more flexible and adaptable working environment, which negated what would otherwise have been a 1% decrease in waste generated.

Table 12: Water sustainability

Water		2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Non – Financial Indicators	Estates water	170,743	199,706	204,027	220,937	233,029	**209,499**
	m^3 per head	6.84	7.46	7.44	7.76	8.49	**7.59**
	Emissions from water consumption (tonnes CO_2e)	58.75	68.72	70.21	76.02	80.16	**72.07**

Table 13: Waste sustainability

Waste		2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Non – Financial Indicators	Total admin waste	3,774.65	3,932.02	4,740.68	4,648.68	3,710.75	**3,726.57**
	Recycled waste	2,361.42	2,373.76	2,702.56	2,743.66	2,694.91	**2763.99**
	Kg per head	137.96	131.09	156.44	163.29	136.25	**136.01**
	Percentage recycled	62.56%	60.37%	57.01%	59.02%	72.62%	**74.17%**
Direct and Indirect Impacts							
Highways England continues to collect more than 150,000 sacks of litter each year on the Strategic Road Network.							

Approximately 74% of our waste generated was sent for recycling. We continually seek to minimise the amount of waste that goes to landfill by segregating waste at our sites and working with facilities management providers and waste contractors to understand exactly which non-landfill waste streams they are utilising for disposal.

Sustainable procurement

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

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

- Guidance – available to all procurement and contract management staff on the Department's extranet, the Knowledge Hub, the Procurement Professionals Library. This is regularly checked and updated when policy changes.
- Training – all staff involved in procurement have access to the Sustainable Development eLearning on Civil Service Learning and are actively encouraged to undertake it. Some 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.
- 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 taken into account at the earliest stages of projects.

An area of focus in 2019-20 has been growing spend through Small and Medium Enterprises (SMEs). The Department's SME Action Plan (published August 2018) outlines how the Department will meet the government's aspiration of ensuring that 33% of all procurement spend will be with SMEs by 2022. The Action Plan includes incremental in-year targets of spend with SMEs.

To deliver this, the Department is working closely with the public bodies and their supply chains, including Network Rail, Highways England and HS2 Ltd. During 2019-20 the Department has:

- Introduced a DfT SME Working Group to enhance strong engagement across the supply chains; markets through 'Meet the Buyer', and Trade events, engaging with Trade Associates and Local Enterprise Partnerships; holding regional and national events, where local 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 Department's SME Action Plan.
- Disaggregated contracts and frameworks into smaller lots where possible.

- Worked with tier 1 contractors to share procurement pipelines and advertisement of supply chain opportunities and sub-contracting opportunities on Contracts Finder.

During 2018-19, the Department's spend with SMEs was 32.6% against a 29% in-year target.

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 2019-20, the Department paid 95% of undisputed supplier invoices within the five-working day target, and 99% within the thirty-day target. **Table 14** shows performance of the central Department and our executive agencies during 2019-20.

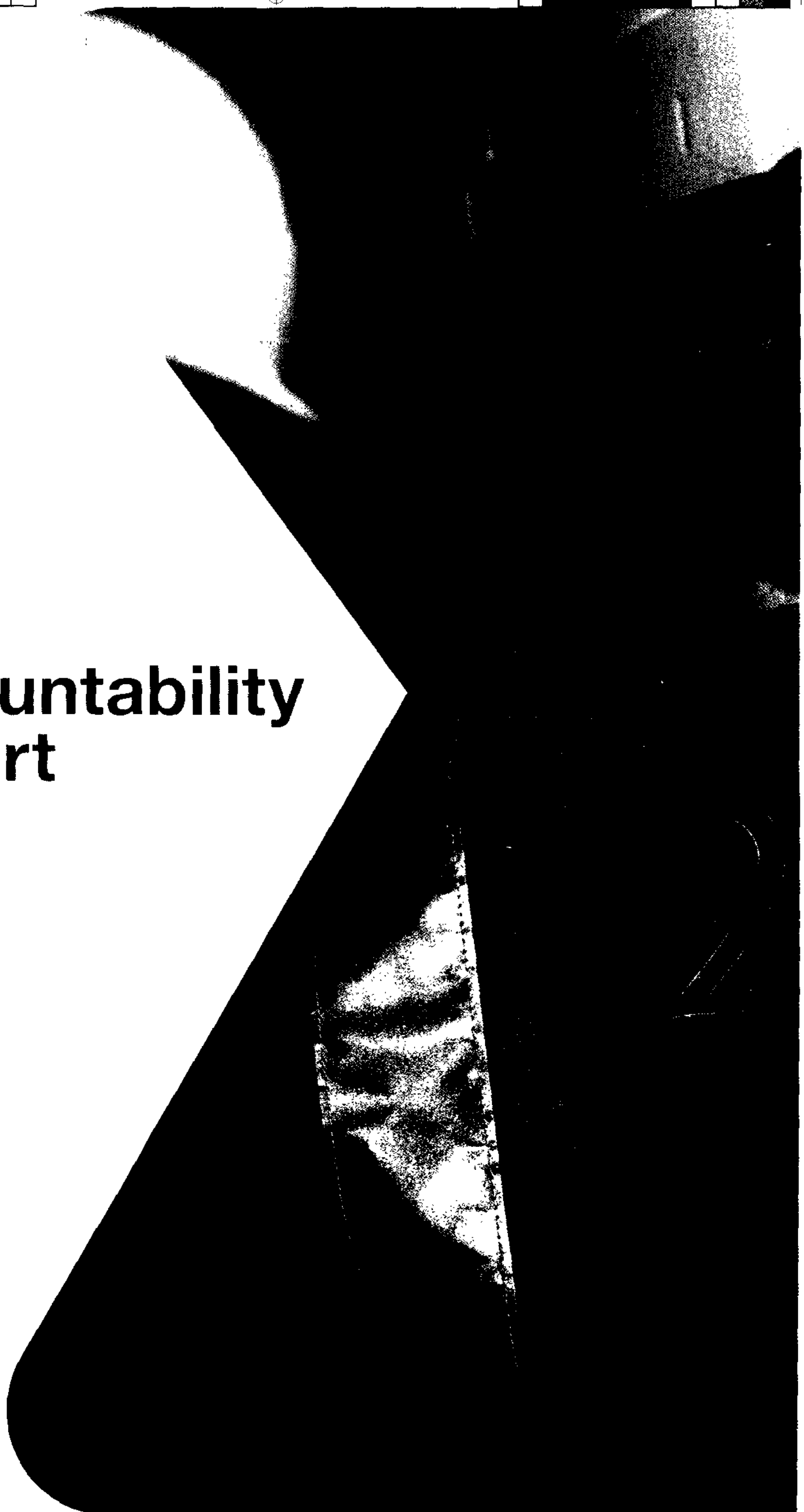
Table 14: Compliance with the Prompt Payment Code 2019-20

Organisation	Percentage of targets met	
	Within 5 working days (Target: 80%)	Within 30 working days (Target: 100%)
DfTc	96%	99%
DVLA	94%	100%
DVSA	96%	100%
VCA	94%	100%
MCA	93%	99%

Bernadette Kelly CB
10 September 2020

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

The Accountability Report




Stay

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

Ian King
Lead Non-Executive Board Member

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

Non-Executive Directors are engaged across the Department in providing, support, challenge, experience and expertise. They also offer an independent voice across governance and assurance, business improvement, policy development, investment cases and project delivery.

During 2019-20, the Department continued to focus on the efficient and effective delivery of its large-scale transport portfolio and on the provision of safe and accessible services to the public and businesses.

This was set against the backdrop of preparations for the new relationship with the EU and the UK's other trading partners including implementing contingency plans to manage potential disruption to the transport systems both within the UK and its borders, and the Department's COVID-19 response.

The Rt Hon Grant Shapps MP was appointed as the Secretary of State in July 2019, and during the year the Department saw significant changes with the Ministerial team. The current ministers are Andrew Stephenson (MP), Chris Heaton-Harris (MP), Robert Courts (MP), Rachel Maclean (MP) and Baroness Vere of Norbiton.

The Non-Executive Directors have not changed since last year, helping to provide continuity and support to the Department. We continue in our role of providing additional challenge and scrutiny, as well as being members of the assurance and governance committees of the Board.

In addition to the above, we have acted as independent members of interview panels as well as supporting officials on a wide range of activities including Rail Franchising, the Williams Rail Review, HS2 main work civils procurement, HS2 capability and the Future of Transport Advisory Group.

A key area of focus has also been the Project Delivery Improvement Programme (PDIP) and the cross-Whitehall Infrastructure Steering Group. The Group Audit and Risk Assurance Committee (GARAC) has also been engaged on the Department's risk management, internal control and group assurance processes.

At the executive level, Patricia Hayes took up a position in the Home Office in February 2020 and Emma Ward took over Patricia's role as Director General (DG) for Roads, Places and the Environment.

A key priority of the Department is to strengthen and improve its project delivery capability given the government's ambitions across Infrastructure, Levelling Up and Decarbonisation, in all of which the Department is heavily engaged.

The Board Investment Commercial Committee (BICC) was reset in January 2020, as the Investment, Portfolio and Delivery Committee (IPDC), a reflection on the need to cover both the Investment and Delivery phases of programmes as well as the overall Portfolio of the Department. This committee is responsible for taking investment decisions, scrutinising programme performance and reviewing the Department's portfolio.

BICC and IPDC met 29 times in the year, and covered a diverse range of projects from HS2, Crossrail, Rail Franchises, Airport Capacity, Road Enhancements, Brexit, the repatriation of Thomas Cook customers, and the COVID-19 pandemic.

The Board, Executives and Non- Executives Meeting (ENEM) and IPDC are provided with management information (MI) by the Department to help enable advice, scrutiny and challenge on the Department's strategic direction and operational and business effectiveness.

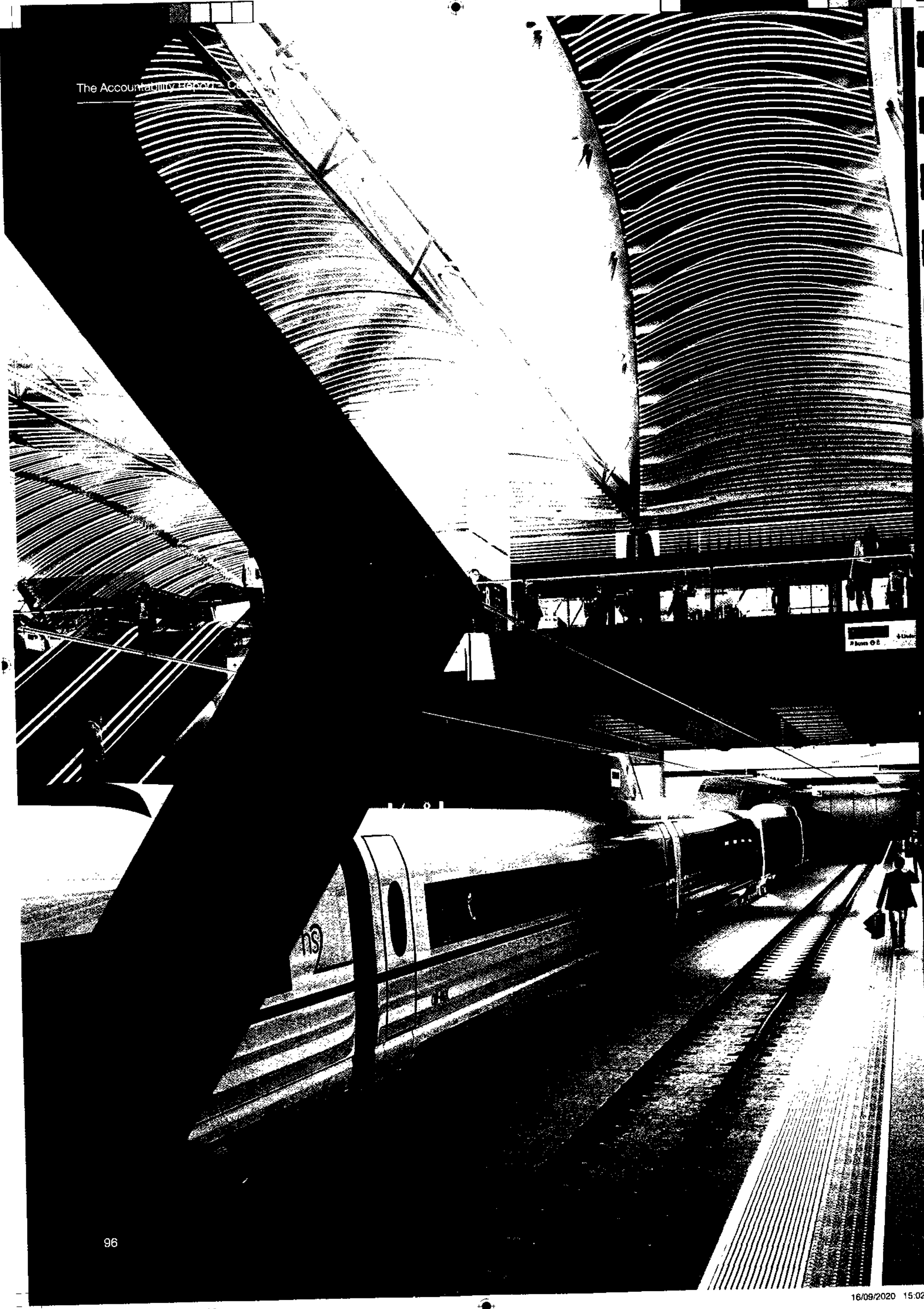
The Management Information report continues to develop and improve with emphasis currently on portfolio dependencies as well as on project schedule, cost and benefits.

The Board and ENEM have considered and reviewed several key areas this year including the impact and response to COVID-19, Brexit planning, climate change, and strategic programmes.

The Department has a key role in the government's response to COVID-19, and has processes in place to deal with the crisis. Resources have been reallocated, and other projects reprioritised to support the phases covering operational response, interventions required to ensure critical transport and freight capacity and restart. The overall impact of COVID-19 on the Department's broad portfolio is currently being assessed but will be significant.

The Department is realistic about the challenges ahead, including planning and resourcing to deal with its broad portfolio, against a backdrop of striking new trading relationships and the current volatile economic and operational environments, balancing the need for staff to return to the office and work from home, making sure staff welfare is considered before making any decision.

The year ahead will require continued diligence, resolve and focus.



Corporate Governance Report

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

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

Corporate Governance Report

Directors' Report

How we were structured

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 106**.

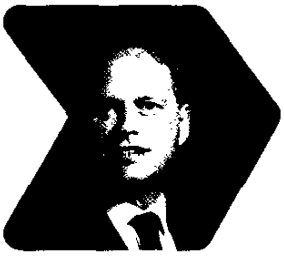
The Department's funding sits in several categories and HM Treasury holds the Department accountable to agreed funding limits for each category. Detail of outturn against these funding limits is shown in the Statement of Parliamentary Supply (from **page 162**). The Permanent Secretary is also responsible for the Department's leadership, management and staffing.

Senior decision-making fora

The Secretary of State is supported by the Permanent Secretary, ministers, Non-Executive Board Members and executive directors general. The structure of these fora is set out in **figure 10**. The composition of the Board is set-out on **page 100**.

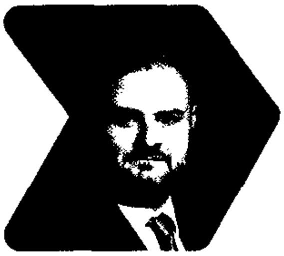
Departmental Board members as at 31 March 2020

Ministers



Rt Hon Grant Shapps MP
Secretary of State for Transport
25 July 2019 – present

Chris Heaton-Harris MP
Minister of State
25 July 2019 – present



Andrew Stephenson MP
Minister of State
13 Feb 2020 – present

Baroness Vere of Norbiton
Parliamentary Under Secretary
23 Apr 2019 – present

Ministers

Racheal Maclean MP
Parliamentary Under Secretary
14 Feb 2020 – present

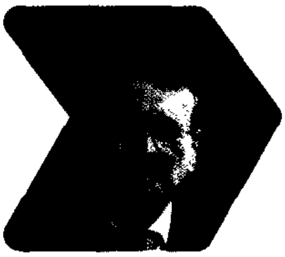
Kelly Tolhurst MP
Parliamentary Under Secretary
30 Feb 2020 – 8 September 2020

Non-Executive Board Members

Ian King
Non-Executive Director
20 Sep 2016 – present

Tony Poulter
Non-Executive Director
Oct 2016 – present

Non-Executive Board Members



Richard Keys
Non-Executive Director
1 Dec 2017 – present

Richard Aitken-Davies
Non-Executive Director
1 Nov 2017 – present

Tracy Westall
Non-Executive Director
1 Nov 2017 – present

Executive Board Members

Bernadette Kelly CB
Permanent Secretary
18 April 2017 – present

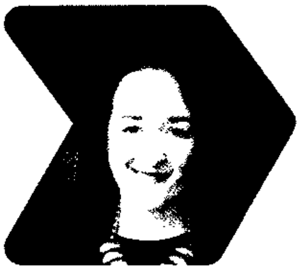
Gareth Davies
Director General Aviation Maritime International and Security Group
May 2019 – present

Nick Joyce
Director General Corporate Delivery Group
18 Dec 2017 – present

Clive Maxwell
Director General High-Speed Rail Projects Group
20 Nov 2017 – present

Executive Board Members

Polly Payne
Director General Rail Group/Job Share
Dec 2017 – present



Ruth Hannant
Director General Group Job Share
Dec 2017 – present

Emma Ward
Director General Roads, places
March 2020 – present

Other DfT Board Members who served during 2019-20

Rt Hon Chris Grayling MP
Secretary of State for Transport
14 July 2016 – 24 July 2019

Jesse Norman MP
Minister of State for Transport
12 Nov 2018 – 23 May 2019

Nusrat Ghani MP
Parliamentary Under Secretary of State for Transport
9 Jan 2018 – 13 Feb 2019

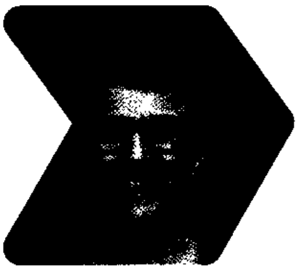
Rt Hon Michael Ellis QC MP
Minister of State for Transport
23 May 2019 – 24 July 2019

Andrew Jones MP
Parliamentary Under Secretary for Transport
12 Nov 2018 – 26 Jul 2019

Baroness Sugg CBE
Parliamentary Under Secretary of State
27 Oct 2019 – 23 Apr 2019

Paul Maynard
Parliamentary Under Secretary of State for Transport
26 July 2019 – 13 Feb 2020

Lucy Chadwick
Director General, International Security and Environment Group
2012- 30 April 2019



Patricia Hayes
Director General, Roads Places and Environment
2016 – Feb 2020

Biographies for each board member are available on: **Department for Transport GOV.UK**

The Departmental family

The Departmental family, as set out in **Figure 9**, consists of the central Department and its public bodies that deliver, regulate or advise on a vast portfolio of functions. The Cabinet Office and Office for National Statistic (ONS) classify public bodies into three broad categories:

1. Central Government: Includes Executive Agencies (EAs), Executive Non-Departmental Public Bodies (Executive NDPBs), Advisory Non-Departmental Public Bodies (Advisory NDPBs) and Non-Ministerial Departments (NMDs). These are also collectively known as public bodies.

2. Public Corporations: Market bodies controlled by either Central Government or Local Government. These include any type of public entity that is a market body. Market bodies are defined as entities that gain over 50% of their income from purely commercial activities.

3. Local Government: Includes those types of public administration that only cover a specific locality and any non-market bodies controlled and mainly financed by them.

The Department also works in partnership with several other entities such as expert committees and advisory groups. These bodies/entities operate independently but are accountable to the central Department. The central Department is organised into five groups, each led by a director general (Rail Group is led by a job share), with some areas of work reporting directly to the Permanent Secretary. The main responsibilities for these groups are set out in ***Figure 8***.

During July 2020, the Department restructured its Resources and Strategy Group to become the Corporate Delivery Group, which now includes Group Communications which previously reported to the Permanent Secretary. Strategy and Private Office, Analysis and Science, and the Chief Scientific Adviser's Office have joined a new COVID-19 directorate within the Aviation, Maritime, International and Security Group.

The Department operates in a broad and complex landscape, with large infrastructure and ministerial priorities, and much of its business is conducted with and through its public bodies. Within the central Department, sponsor, client and shareholder teams manage the relationship with the public bodies at a working level by following the principles set out in framework documents.

Figure 8: Overview of the Department's organisational groups, as of 31 March 2019

Rail Group

Leads on overall strategy for rail, working with Network Rail on major rail projects and delivering our franchising programme. Manages our relationships with the Office of Rail and Road, the British Transport Police Authority and Transport Focus.

Aviation, Maritime, International and Security Group

Leads on aviation, maritime, safety and security, and our departure from the EU. The Group includes our independent accident and investigation branches (for Rail, Air and Marine), and manages our relationship with the Maritime and Coastguard Agency, General Lighthouse Authorities and CAA.

High Speed Rail and Major Rail Projects

Responsible for oversight of the High-Speed Rail programme, working closely with High Speed 2 Ltd. Supports the development of major projects including Crossrail 2 and East West Rail.

Resources and Strategy Group[1]

Leads on finance, human resources, digital governance, commercial, property and analytical matters. Manages the corporate governance relationship with Network Rail, HS2 Ltd and Highways England. Includes Strategy Unit and Private Office.

Roads, Places and Environment Group

Leads on driving and roads related activities, including our relationship with the motoring services agencies (DVLA, DVSA and VCA) and Highways England. Manages our relationship with local Government, including sub-national transport bodies and devolved administrations. Leads on environment and technology policy.

Non-Group

Comprised of Legal and Group Communications.

1 From 6 July 2020, Resources and Strategy Group was renamed Corporate Delivery Group, when Group Communications moved from Non-Group

Register of interests

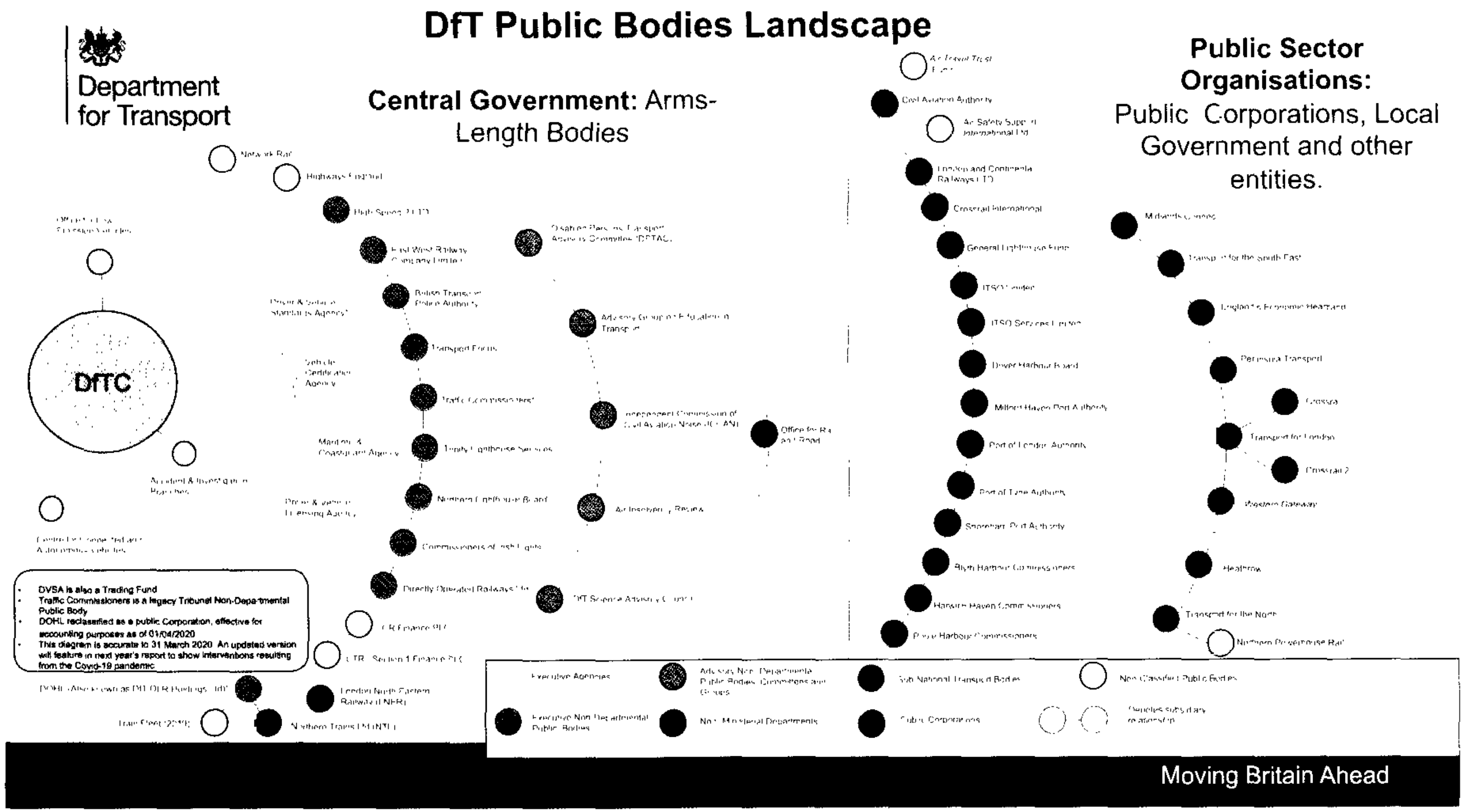
The register of ministers' interests is maintained by the Cabinet Office. Non-Executive Board Members are asked to declare any personal or business interests that may cause a conflict of interest; influence or appear to influence their judgment in performing their obligations to the Department, and a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

Richard Keys is a Director of NATS Holdings. He registered the conflict formally with the Department in 2018, and, in his capacity as a Departmental non-executive director recused himself from discussions within and by the Department in connection with or concerning NATS and does not receive associated papers or minutes.

Tony Poulter is the Non-Executive Chair of the Pensions Infrastructure Platform Ltd (PIP). He notified the Department in mid-2017 of a possible acquisition by PIP of a portfolio of assets that included minority stakes in two project companies that were each party to a local authority highways PFI contract. He registered the conflict formally with the Department and recuses himself from discussions of the projects at PIP. Mr Poulter also recuses himself from discussions on all local authority PFI contracts at the Department's Investment, Portfolio and Delivery Committee and does not receive associated papers or minutes. In addition, Mr Poulter, through PIP, has an indirect relationship with Red Funnel, the Isle of Wight ferry operator. In view of this Mr Poulter recuses himself from discussions in relation to the Department's COVID-19 Maritime Interventions at IPDC, and does not receive associated papers or minutes.

No other members of the Board have informed the Department of company directorships, or other significant interests that could conflict with their departmental responsibilities in 2019-20.

Figure 9: DfT Group and family (organisational classification)



Personal data related incidents

The Department holds personal data on many 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.

This year the Department engaged with the Information Commissioner's Office (ICO) on reporting requirements for data breaches, within DfTc and all its executive agencies, and consequently reviewed and documented our revised approach. The Department submitted a total of 199 breach notifications to the ICO, who did not require the Department to take further action on any of them.

The Department continues to take proactive steps with the aim of reducing the number of all kinds of personal data related incidents, whether they need to be notified to the ICO or not.

Auditors

- This section sets out the costs of auditing the DfT Group accounts along with the costs of auditing the organisations which form part of the DfT Group. Audit fees are not included in this section for other entities who are outside the Department's consolidation boundary. The Comptroller and Auditor General carries out the audit of the consolidated accounts of the Departmental group (including DfTc), 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 £675,000 (2018-19: £719,000).

The audits of the following entities are completed by the Comptroller and Auditor General, but incur a cash or real charge of £1,218,000[17] (2018-19: £1,146,500):

- 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.

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 £162,000 (2018-19: £100,550):

- Directly Operated Railways Ltd
- Smaller Network Rail subsidiary bodies
- DFT OLR Holdings Ltd, including its subsidiary Train Fleet (2019) Ltd.

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 £100,000 (2018-19: £63,000):

- 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 £6,500 (2018-19:[18] £6,000):

- 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.

17 In addition to these entities the C&AG audit the accounts of the General Lighthouse Fund (GLF), which consolidates the General Lighthouse Authorities (GLAs). While the GLAs are consolidated into the DfT group, the GLF is not consolidated As such, the audit fee for the GLF is not included in this total. The audit fee for the GLF for 2019-20 is £100,000 (2018-19· £90,000).

18 Network Rail's audit fee of £571,000 includes £60 000 for other audit-related services including the audit of the Network Rail Regulatory accounts

Statement of Principal Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000 (the GRAA), HM Treasury has directed me, Bernadette Kelly, to prepare for each financial year, consolidated accounts detailing the resources acquired, used or disposed of, during the year by my Department (including its executive agencies, sponsored non-Departmental and other public bodies designated by order made under the GRAA by Statutory Instruments 2020/17 (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 apply suitable accounting policies on a consistent basis
- ensured that the Department has in place appropriate and reliable systems and procedures to carry out the consolidation process
- made judgements and estimates on a reasonable basis, including those judgements involved in consolidating the accounting information provided by non- departmental and other delivery bodies
- stated whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the Accounts
- prepared the Accounts on a going concern basis.

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

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

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 central Department or non-Departmental and other delivery bodies for which the principal accounting officer is responsible, are set out in full in section 3.3.3 of 'Managing Public Money' published by HM Treasury.

Disclosure of information to the auditors

As Principal Accounting Officer, I have taken all the necessary steps to make myself aware of any relevant audit information, and to establish that the National Audit Office has been made aware of all relevant information connected with its audit.

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

Fair, balanced and understandable requirement

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

Bernadette Kelly CB

10 September 2020

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

The Governance Statement

Introduction

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

The system of corporate governance, management and internal control

We are governed by:

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

The system of control includes the Departmental Board sub-committees, the executive team and its sub-committees and the Department's delivery bodies. These are governed by our control framework, which is supported by internal and external assurance processes. **Figure 10** provides an illustration of the top-level committees that operate in the Department and the chair of each committee.

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

DfT Board

Chair: Secretary of State
Frequency: at least quarterly

The DfT Board is an advisory body that supports and challenges both the Department's Ministers and the Principal Accounting Officer.

Group Audit & Risk Assurance Committee (GARAC)

Chair: Non-Executive Board Member (Richard Keys)

GARAC provides oversight of the DfT programme of assurance activity and of the steps taken by management to ensure there are effective systems for internal control, financial reporting, governance, assurance and risk management. It reviews the performance of internal audit including its strategy and programme and the performance of GIAA. It also reviews the performance of external audit and the reports received from the NAO for its consideration

Executive Committee (ExCo)

Chair: Permanent Secretary
Frequency: weekly

Steers the Department's strategic vision; maintains a strategic oversight of and provides scrutiny to the Department's policies and delivery commitments, and takes key management decisions across the Department

Legislation Board

Strategy Committee

People Committee

Group People Committee

Risk Committee

Investment Portfolio and Delivery Committee (IPDC)

Chair: Permanent Secretary
Frequency: every two weeks

IPDC considers advice to Ministers on economic, financial and commercial decisions across the Tier 1 Portfolio of programmes and projects, at all stages of the project lifecycle

Procurement Assurance Board

Tier 2 Investment Committees

- Rail Investment Board
- High Speed Rail/Major Projects Investment Board
- International & Security Investment Board
- Resources & Strategy Investment Board
- Local Transport Investment Committee

Nominations Committee (Noms)

Chair: Lead Non-Executive Board Member (Ian King)
Frequency: approximately 3 times per year

NOMs is responsible for ensuring satisfactory systems for developing leadership and identifying high potential individuals, alongside scrutinising the incentive structure and succession planning on behalf of the DfT Board.

Executives & Non-Executives Meeting (ENEM)

Chair: Permanent Secretary
Frequency: at least quarterly

ENEM provides a supportive and challenging working environment for the Executive and Non-Executive Members. It monitors and oversees the Department's delivery and financial performance; its management of risks, organisational capability and resourcing; and policy development.

Departmental Board

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

- Performance
- Strategy
- Resources
- Capability
- Risk.

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 2019-20, the Departmental Board met three times; due to the government's reshuffle in February 2020, and the availability of ministers due to Parliamentary business, the final planned Board meeting of 2019-20 did not take place. One Board meeting has taken place in 2020-21 to date. A summary of the Board's discussions during 2019-20 is provided in **Table 11**.

Table 11: Overview of the Board's activity

Responsibilities of the Board		Summary of discussions in 2019-20
Performance	Agreeing the Single Departmental Plan and overseeing progress	Milestones and delivery are discussed at each meeting as part of the Management Information report
	Scrutinising the performance of DfT's delivery bodies	Corporate Governance Framework refresh
	Setting standards and values	
Strategy	Setting the vision and ensuring activities contribute towards it	Strategies and major policies including:
	Advising on major policies, projects and programmes	Williams Rail Review
		Brexit
		Publication of Road to Zero (July 2018)
		International Strategy
		Vision Strategy
		Heathrow Expansion
		High Speed 2
		Local and Regional Transport
Resources	Ensuring sound financial management	Key financial data are discussed at each meeting as part of the Management Information Report
	Considering the appropriate allocation of Departmental resources	The 2020 Spending Review
		The 2019-20 Business Plan
Capability	Ensuring we have the capability to deliver	People and resourcing data are discussed at each meeting as part of the Management Information report
	Ensuring we plan to meet current and future needs	
Risk	Setting the risk appetite	Department's top-level risks and updates from the GARAC
	Reviewing key Departmental risks	Key Rail issues – this discussion highlighted the key risks in the sector
	Ensuring controls are in place to manage risk	Decarbonisation
	COVID-19	Updates on COVID-19 began at the final Board meeting of 2019-20

Table 12: Board Sub-Committee activity

Sub-committee	Summary of discussions in 2019-20
Executive Committee (ExCo)	ExCo met between April 2019 and March 2020 and held regular discussions around key themes including: › Brexit › Departmental strategy › Budget and finances › Management information › Sub-committee updates › Rail & HS2 reviews › Road projects › The relationships with our agencies › Security › Decarbonisation activities › Climate commitments › Pandemic Health Risk Planning
Executive and Non-Executive Meeting (ENEM)	› Management Information › Brexit Readiness and Lessons Learned › Post Brexit Relationship Preparations › Briefing from Science Advisory Council › Decarbonisation, Climate Change and Environmental Strategy › HS2 Review › Societal Trends › Strategic Purpose and Priorities › Board Investment and Commercial
Committee (BICC)/ Investment, Portfolio and Delivery Committee (IPDC) from January 2020	BICC considered business cases, investment decisions, and procurement activity across several different areas. After a review of BICC, the committee has changed to the Investment, Portfolio and Delivery Committee (IPDC); it has taken a greater role in managing the Department's project portfolio by scrutinising projects during their delivery phase. Projects and programmes considered during 2019-20 included: › Rail franchising, digital railway signalling and mobile connectivity on trains, rail asset divestment, the Nexus Tyne and Wear Metro, Midlands rail hub, rolling stock ownership, 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 with IEP, lessons learned, project lifecycle and baseline approvals, and scrutiny on costs, schedule and affordability › Major transport schemes, such as Intercity Express Programme, Thameslink, Crossrail and Crossrail 2 and the Oxford to Cambridge Expressway › HE's delivery of the Road Investment Strategy, including major road schemes such as the Lower Thames Crossing, projects on the A358, A428, A303, A12, A417, Smart Motorways, and the Transpennine Tunnel › Heathrow Expansion Programme, freight capacity and UK Search and Rescue Helicopter Service › Portfolio reporting for the Department's Tier 1 and Tier 2 › Investments, as well Highways England's Capital Portfolio › Interdependencies in scheme appraisal, common analytical scenarios, the Transforming Cities Fund, benefits management and evaluation

Table 12: Board Sub-Committee activity

Sub-committee	Summary of discussions in 2019-20
Nominations Committee	The Nominations Committee is a sub-committee of the Department's Board and provides assurance to the Board that the Department has the capability to deliver 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, deciding reward and incentive strategies, anchored in a broad understanding of the Department's overall people strategy. The committee is responsible for: › Scrutinising plans for implementing significant reforms to organisational structure › Scrutinising systems for identifying, attracting and selecting the most skilled and talented people to work in the Department. › Holding the senior team to account for excellent talent management that champions diversity and inclusion. This includes involvement in and contribution to the annual talent reviews for the Directors General and Directors. › Supporting the development of functions and professions within the Department. › Scrutinising plans for orderly succession of appointments of senior management, in order to maintain an appropriate balance of skills and experience. › Building a robust and diverse pipeline for the most senior roles in the Department (DG and above), CEOs and leaders of the largest ALBs (HE, HS2 Ltd and NR) as well as developing a candidate pool for Non-Executive Directors across the Group. › Building capability across all boards within the DfT Group and public bodies. › Scrutinising incentives and rewards for executive board members and senior officials, and advising on the extent to which these arrangements are effective at improving performance. The Committee is advisory and will make recommendations to ministers and to the Permanent Secretary. It does not have a role in deciding individual cases (for example the level of reward of a senior executive).
Group Audit and Risk Assurance Committee (GARAC)	GARAC considered: › Government Internal Audit Agency (GIAA) and National Audit Office updates, including final opinions for the previous year. › Interim financial audit results, Management Assurance and Annual Report and Accounts. › Analytical assurance including report prepared for GIAA by Government Actuaries. › Vehicle Excise Duty compliance. › Risk and the Department's risk management processes. › Counter Fraud. › Supply chain and procurement risks. › Workforce planning risks.

Table 13: Overview of Board and sub-committee attendance up to 31 March 2020

Name of Board Member	DfT Board	Executive and Non-Executive Meeting (ENEM)	Executive Committee (ExCo)	Group Audit and Risk Assurance Committee (GARAC)	Investment Portfolio Delivery Committee (IPDC)	Nominations and Governance Committee (NGC)
Rt Hon Chris Grayling MP[1]	2/2					
Jesse Norman MP[2]	1/1					
Nusrat Ghani MP[3]	1/2					
Michael Ellis MP[4]	1/1					
Andrew Jones MP[5]	2/2					
Rt Hon Grant Shapps[6]	1/1					
Chris Heaton-Harris MP[7]	1/1					
Andrew Stephenson MP[8]	1/1					
Baroness Vere[9]	2/3					
Rachel Maclean MP[10]	1/1					
Kelly Tolhurst MP[11]	1/1					
Ian King	2/3	4/4			23/26	2/2
Tony Poulter	3/3	4/4			25/26	
Richard Keys	3/3	3/4		7/8		
Richard Aitken-Davies	3/3	2/4		8/8		
Tracy Westall	3/3	3/4				2/2
Bernadette Kelly	3/3	4/4	36/46	1/8	23/26	2/2
Lucy Chadwick[12]	0/0	0/0	3/3			
Gareth Davies[13]	3/3	3/3	33/41		19/23	
Patricia Hayes[14]	2/2	2/4	36/39		18/21	
Nick Joyce	3/3	4/4	41/46	8/8	24/26	2/2
Clive Maxwell	2/3	4/4	41/46		21/26	
Polly Payne/Ruth Hannant	3/3	3/4	44/46		25/26	
Emma Ward[15]	0/1	0/0	3/3		2/2	
Bridget Rosewell (GARAC member only)				6/8		
Amarjit Atkar (GARAC member only)				7/8		
Kathryn Cearns (GARAC member only)				5/8		

1 Left 24 July 2019
2 Left 23 May 2019
3 Left February 2020
4 23 May to 24 July 2019
5 Left 26 July 2019
6 Appointed 25 July 2019
7 Appointed 25 July 2019
8 Appointed 13 February 2020
9 Appointed 23 April 2019
10 Appointed 14 February 2020
11 Appointed 13 February 2020 (left 9 September 2020)
12 Left 18 April 2019
13 Appointed 7 May 2019
14 Left 14 February 2020
15 Appointed 7 March 2020
Notes: Robert Courts MP appointed 9 September 2020
Baroness Sugg left 23 April 2019

The Accountability Report

Compliance with HMT's Corporate Governance Code

The Department has assessed its compliance with the Corporate Governance Code for Central Government Departments and is compliant with the spirit and principles of the Code. Due to the timing of the change in Board members and the focus of the new Board on COVID-19, the Department did not conduct a Board Effectiveness review in the last quarter of 2019-20. It will conduct a full review in January 2021.

There is a framework document in place with each of the Department's public bodies, in line with HM Treasury's guidance set out in Managing Public Money and emphasis placed by the UK Corporate Governance Code on the relationships between companies, shareholders and other stakeholders. Framework documents set out the purpose of the relationship, the governance and accountability, decision making and terms for financial management. In 2018-19 the Department began a programme of work to review the suite of framework documents which set out its relationship with its public bodies. During 2019-20 updated framework documents were agreed for VCA and Network Rail.

Work continues in 2020-21 to update framework documents between the Department and its public bodies, including London and Continental Railways, the Civil Aviation Authority, East West Railway Company, Highways England, DfT OLR Holdings Ltd and the Independent Commission on Civil Aviation Noise.

Board appointments and diversity

Ministers appoint around 150 non-executive board members including chairs to the Department's executive agencies and public bodies. 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. The appointments to these Boards provide a link between the Department and its public bodies, and are key to ensuring the government and the Department's objectives are delivered. These ministerial appointments provide additional independent expertise, encouraging constructive challenge to ensure good governance, and to raise the performance of bodies and their Boards to enable delivery of government objectives.

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

As many public bodies have a big impact on local communities, as well as nationally, the government expects that these boards should be more representative of the public they serve, and 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. This would bring representation from under-represented groups in line with the population of England and Wales. A cross-government aspiration for appointing candidates with disabilities will be set when a stronger set of data is available to base a target on. As of March, 30% and 4% of the Department's public appointees were female and BAME respectively.

The historic lack of diversity in the transport sector makes meeting the government's target challenging, but one that the Department is fully engaged to deliver. To meet this challenge the Department's Public Appointments Team has developed a talent pool of credible and diverse candidates with a range of skills and experience that can enhance the performance of boards; promoting the non-executive roles among diversity networks; and participating in cross-government initiatives aimed at attracting candidates and raising awareness of public appointments. The talent pool consists of around 100 individuals, currently 50% female and over 10% from BAME backgrounds. Members of the pool are notified of live and upcoming roles, and offered advice on the appointment process.

This has been reflected in an increased diversity of both applicants for roles; those progressing to the later stages of competitions and actual appointments. For example, a recently concluded campaign for HS2 Ltd had 15% BAME and 11% disabled applicants. For the Department's high-profile chair roles, the campaign for the Civil Aviation Authority had two female candidates on the shortlist of six, while that for Highways England had two BAME and two female candidates on the shortlist of five. Dipesh Shah OBE was appointed the new Chair of Highways England.

The Department has an important role to play in this due to its sponsorship of the Disabled Peoples Transport Advisory Committee (DPTAC), which has a majority disabled membership and a strong record of attracting disabled candidates. DPTAC's experience helped to inform the 2018 review by Lord Holmes of Richmond into opening appointments to disabled people. Accordingly, the Department has 11.5% of appointees declaring a disability, which is the highest proportionally across Whitehall.

DfT's Risk Management Policy

The Department's Risk Management Policy outlines a 'no surprises, no blame' culture, where well managed risk taking is encouraged and managers *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 our top risks to ExCo and also 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 sit on this cross-government 'Heads of Risk Network', where best practice on risk management, including on the response to COVID-19, is identified and promulgated. The DfT Risk Lead also chairs the cross-government Risk Improvement Group, which works closely with the Heads of Risk Network.

The commitment to build staff capability continues, with dedicated risk management training being carried out during the year. This year there was a focus on programme and project management specialists.

The Department continues to work closely with the public bodies, to ensure clarity on where risks are managed, and the role of the Department in risk *management. The risk escalation protocol promulgated* in 2018 continues to give direction to the public bodies on what they need to escalate to the Central Department and when.

DfT Risk Committee

In 2019, ExCo directed that a new sub-committee, chaired by a director general, should be set up to strengthen the 'second line of defence' in risk management. The DfT Risk Committee was established. The role of this new committee is to review how well the Department is coping with the risks it faces day-to-day, as well as anticipating and countering problems going forward, so that the Department will not be surprised by things that could and should have been foreseen. The Risk Committee is responsible for:

- Conducting deep dives into our top, cross-cutting, risks.
- Reviewing the risks carried by each Group to ensure the effectiveness of the mitigations and contingencies in place.
- Looking at ways to improve how the Department undertakes risk management and identifying what needs to be put in place to strengthen capability.
- Reporting to ExCo and the Board.

DfT Risk Committee started meeting in January 2020 rolling out a programme of deep dives into our top cross-cutting risks to establish whether the Department is ready to meet these new and existing challenges, how robust the contingency plans are and identifying improvements to be made. Each Group sends a dedicated Risk Champion to the Risk Committee, who provides feedback on good practice.

GARAC

GARAC provides oversight of the risk management process as a third line of defence on behalf of the Board. The Risk Committee reports to both GARAC and ExCo on a regular basis.

Top-level risks themes

Table 14 DfT's top-level risk themes for 2019-20, sets out the top-level risk themes that the Department managed during the year. These risk themes represent the Central Department's view on the overall risk profile of the Department at that time, taking into account the risks carried and managed by the public bodies.

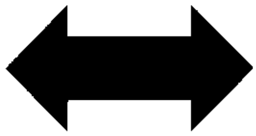
A critical risk, COVID-19, crystallised during 2020. In risk terms the impact of COVID-19 has been to increase the severity of some of the existing risks as well as creating some new ones, including risk 1 in the table below. This report covers the risk themes that impacted on the Department throughout the period of the accounts, i.e. from April 2019 till end March 2020, additional COVID-19 related risks will be covered in the 20-21 Annual Report. More information on the Department's immediate response to COVID-19 can be found at the start of the Performance Report on **page 33**.

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

Table 14: DfT's top-level risk themes for 2019-20

Risk	Mitigating activities taken during 2019-20	Direction of risk trend at year end and *explanation of rating and trend*
1. The Public Transport System is severely impacted by the COVID-19 pandemic, is unable to support HMG's restart & recovery agenda, and/or is insufficiently prepared to respond to further outbreaks of infection	**Maximising Capacity:** › Service levels were initially cut to coincide with reduced demand during lockdown. Restart planning was informed by behavioural science and PHE guidance. › Urgent funding provisions for the transport network in the event of lockdown were identified. A rail industry support package was put in place by 31 March 2020. Support packages for other modes were also developed during this time. **Managing Demand:** › Explicit communications to avoid public transport to manage demand as lockdown started. › DfT provided guidance for using the network safely during lockdown. **Social Distancing & Protective Measures:** › A Departmental Operations Centre (DOC) comprising a multimodal team of policy experts was established. Actions were based on carefully balanced judgements informed by data and analysis, including daily situation reports and monitoring of the transport network, to ensure prompt and appropriate responses to developments. › Worked with operators to ensure they had the PPE and other supplies needed to keep their workforce and passengers safe. › Provided guidance on implementing plans and strategies for social distancing in stations and services.	↑ The COVID-19 pandemic remains the most pressing challenge that the Department faces currently. The unprecedented nature of the outbreak means it is difficult to predict how the public will respond to policy changes or how long the virus will remain prevalent for, meaning demand forecasting and design of targeted policy interventions is challenging; we will continue to closely monitor developments to ensure we are prepared to respond appropriately.
2. Adverse impact on the environment and public health if UK Government's 'Clean Air' and De-carbonisation targets, greenhouse gas emissions (GHG) and air quality targets are not met.	› Published "Decarbonising Transport: Setting the Challenge" (March 2020) to start work on a cross-modal plan for decarbonizing transport for publication by end 2020. › Additional funding including £1bn to support the transition to zero emission vehicles (on top of existing £1.5bn package), £5bn for active travel and public transport, including funding for 4,000 zero emission buses. › Consulted on bringing forward the phase out date for petrol and diesel cars and vans including hybrids to 2035 or earlier, to accelerate move to zero emission vehicles (July 2020). › Launched the net zero Transport Board (July 2020), with experts in behavioural change, business, academia and policy advising on a green recovery from COVID-19, the creation of the Transport Decarbonisation Plan, and wider decarbonisation policy. › Continued delivery of the 2017 Air Quality Plan for Nitrogen Dioxide and transport elements of the 2019 Clean Air Strategy. › Supported introduction of the Environment Bill (Jan 2020).	↔ We continue to work hard to deliver our ambitions for cleaner air and lower carbon emissions. Domestic transport emissions in 2018 (124.4 Mt CO2e) decreased 1% over 2017 but transport remains the largest emitting sector in the UK. We are stepping up the pace of progress of decarbonisation work across the Department, to deliver an ambitious Transport Decarbonisation Plan. This plan will put the transport sector on the right path to meet our legally binding carbon budgets and the 2050 net zero greenhouse gas emissions target, set in legislation in 2019. COVID-19 could see a drop in carbon emissions (as well as cleaner air) as a result of reductions in car journeys during the pandemic lockdown, but this could well be balanced against reduced use pf public transport and greater use of cars longer term. The Department is working to put a green recovery for transport at the heart of our decisions, whilst levelling up the economy for the benefit of the people and communities that need it most.

Table 14: DfT's top-level risk themes for 2019-20

Risk	Mitigating activities taken during 2019-20	Direction of risk trend at year end and explanation of rating and trend
3. Risk of harm to the public and disruption to our transport system as a result of a deliberate malicious attack on our transport network.	› A proportionate risk-informed approach to prioritising DfT and transport sector's work on National Security threats, drawing on information from all stakeholders (DfT, other government departments, security community, police and industry). › Large risk-informed science and technology research programme to improve security standards. › Modal specific protective and reactive National Security programmes including for counter-terrorism and cyber. › Public awareness campaigns such as 'See it, Say it, Sorted' coordinated with Home Office and police forces. › Regular contingency planning and associated exercises to ensure we are best placed to respond to the variety of incidents that could impact on transport.	The likelihood of attack, whilst varied across the modes and types of attacks, remains high in certain aspects. Industry must continue to implement effectively mature, modal regimes to manage the resultant risks. We continue to consider and review our approach and regimes so that they meet changes to the threat - lessons are being learned from previous attacks to increase resilience and set policy direction, including working with other government departments and operational partners.
4. Adverse impacts on transport services – both passengers and freight; associated industries; and the wider economy arising from leaving the EU, in the event of a no-deal scenario.	› Milestones, risks and delivery timelines developed for no-deal projects. › Portfolio boards established to oversee negotiations, legislation and contingency planning, reporting to senior leaders. Regular scrutiny of progress, risk registers and dependencies to ensure effective delivery. › Close involvement with Border Delivery Group and proactive contingency planning together with other government departments.[1] › Dedicated resources to establish a Departmental Operations Centre in the event of no deal.	 The UK left the EU on 31 January 2020, under the terms of the Withdrawal Agreement, which removed the risk of a 'no deal' Brexit. The Department continues to actively manage the risk of disruption to transport services in the event of no further agreement with the EU by the end of the Transition Period. The Department works across Government to influence negotiations and deliver contingency plans, acknowledging continuing uncertainty.
5. Failure to deliver the benefits of future, strategic, transport projects for the public if key programmes, such as UK airport expansion and major rail projects – e.g. HS2/ Crossrail – are not be delivered to time and cost.	› Put in place effective controls to ensure effective monitoring of performance and progress across all the Major Rail Projects. Ensured application of sound programme and project management methodologies in all aspects of the projects to maximise chances of meeting time, quality and cost requirements. › Worked closely with the delivery organisations to ensure the target prices for all Major Rail Projects are feasible and that risk is managed across the portfolio › Maintaining focus on all Major Projects being an integral part of the future railway network as per the 'One Railway' strategy and ensuring that risks that emerge due to integration with the conventional railway network are managed. › We have worked with stakeholders to consider delivery risks to Heathrow Expansion and proposals for appropriate community compensation. Stakeholders involved in these discussions include Heathrow Airport Limited (HAL), the Civil Aviation Authority, Heathrow Community Engagement Board, Heathrow Strategic Planning Group, community groups and airlines. These discussions have promoted constructive engagement on expansion proposals.	 The Department for Transport is working closely with service providers to monitor progress and ensure delivery. The Court of Appeal ruled in February 2020 that when designating the Airports National Policy Statement the previous Government did not take account of the Paris Agreement, non-CO2 emissions and emissions post 2050; and that the Airports National Policy Statement is therefore of no legal effect unless and until the government carries out a review under the Planning Act 2008. HAL, as private promoter of the scheme, are appealing the decision in the Supreme Court.

1 Border Delivery Group moved from HMRC to Cabinet Office in June 2020 and was renamed the Border Delivery and Protocol Group

Table 14: DfT's top-level risk themes for 2019-20

Risk	Mitigating activities taken during 2019-20	Direction of risk trend at year end and explanation of rating and trend
6: Failure to deliver effective and efficient public transport should a major travel provider or major supply chain fail.	› Ongoing evaluation of top 15 strategic suppliers to ensure that critical suppliers and supply chain dependencies across DfT Group are managed. › Active engagement across modes with an outreach program to identify operators that may need financial support. This has 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.[1] › Reviewing and commissioning robust contingency plans across DfT Group. › Further work is underway to review DfT Group supply chains to increase visibility of the potential aggregate impact of strategic supplier failure and the supply chain that sits beneath them.	↔ The onset of COVID-19 created challenging conditions for businesses across the transport sector. The Department has shown an ability to respond to short-term challenges to ensure that critical transport services continue. Current work is focused on continued engagement with industry to ensure active monitoring of the sector continues while the outlook for a return to pre-COVID-19 passenger levels remains highly uncertain over the short-term. This work also takes account of the end of the transition period following the UK's exit from the European Union. Further work proposed on the increased use of market intelligence tools and monthly pipeline reviews with public bodies and Cabinet Office to assure market health.
7. The disruption of effective and efficient rail services to the public, resulting from either a failure to manage new rail timetabling schedules or if Network Rail's (NR) programme of enhancements becomes unaffordable and difficult to deliver.	› As part of the pre-timetable change planning process, the NR Timetable Programme Office (PMO) scrutinizes bids to ensure proposition are viable. › The NR Timetable PMO assurance process is working well and ensured May 2019 and December 2019 changes were delivered smoothly. The PMO continues to provide assurance for timetabling changes. › Ongoing monitoring of infrastructure and rolling stock delivery to ensure these are completed as planned, and any issues mitigated. › For Control Period 6, we adopted an incremental pipeline approach to rail enhancements. This allows response to affordability challenges by slowing down or stopping projects at one of three investment gateways, where overall affordability is explicitly considered by the joint DfT/NR Portfolio Board. › Existing and forthcoming projects have been categorised and rated in the rail network enhancements pipeline to allow quick and clear recommendations to ministers to facilitate funding prioritisation decisions.	The NR Timetable Programme Office (PMO) will continue to provide assurance for timetable changes, which remain a complex undertaking requiring close monitoring by the Department going forward. Infrastructure have not encountered any significant affordability constraints to date in Control Period 6. However, an underspend in 2019-20 and forecasted underspend in 2020-21 could lead to significant funding pressures in the final three years of Control Period 6.
8. Delivery of future rail services to the public is adversely affected as a result of the impact of the Rail Reform Programme or if a rail partnership/ franchise fails, or if the partnership/ franchising programme is not delivered or proceeded with.	› DfT closely monitored Train Operating Companies (TOCs) and actively engaged with owning groups to maintain incentives to deliver benefits for passengers, including better accessibility and a more reliable service. › Analysis to understand the drivers of demand for rail services to better meet the needs of the passenger and encourage a competitive market. › Contingency measures are in place to ensure the continued provision of rail services. For example, the introduction of Emergency Measures Agreement (EMAs) in response to COVID-19 until September 2020, which ensured the continued running of a critical level of services and to minimise longer-term disruption to the rail sector. › Work continues to progress on finalizing the conclusions of the Rail Review.	↑ Despite the challenging economic climate, there is continued market engagement in new and alternative delivery methods. The focus is on ensuring that interest remains robust with UK rail infrastructure and operations remaining stable going forward.

1 DfT Group includes DfT and associated Public Bodies, including Network Rail and Highways England

Table 14: DfT's top-level risk themes for 2019-20

Risk	Mitigating activities taken during 2019-20	Direction of risk trend at year end and explanation of rating and trend
9. The reliability of future roads and road services could be affected if one or both of the Road Investment Strategies (RIS1 and 2) is not delivered to the scale and pace expected.	› During 2019-20 we completed the sign off and publication of the second Road Investment Strategy, learning lessons from RIS1. The new strategy has a significantly more robust and transparent baseline, a contingency reserve for unforeseen risks and a more systematic approach for developing potential future RIS schemes. › We continued to oversee the final year of the delivery of RIS1, improving and streamlining working arrangements with Highways England in order to identify and address specific challenges, for example related to deliverability or value for money. › Highways England's Central Programme Management function was significantly developed during RIS1. › Portfolio Delivery performance and risks are monitored formally through monthly client meetings, quarterly monitoring and reporting by ORR and biannual scrutiny by IPDC.	Highways England's 5-year Delivery Plan sets the baseline by which performance will be measured in RIS2 and we will continue to develop our monitoring and risk management strategies to ensure they are effective. Going forward, regular risk reviews in appropriate fora are key, to check that necessary mitigating action is being taken and ministers kept informed of progress.
10. Service delivery to the public is seriously impacted should there be control failures in our delivery bodies, such as Network Rail, Highways England or HS2 Ltd if we fail to provide clear frameworks and delegations or exercise robust oversight of them.	› DfT has in place governance and oversight arrangements for the delivery bodies which include: › Framework Agreements that reflect current Cabinet Office and HM Treasury guidance, and that we monitor and update regularly › Quarterly shareholder/finance meetings with delivery bodies and cycle of governance meetings between Board members and senior DfT officials/Ministers to review and challenge delivery bodies' own governance and decision-making. › Highways England, HS2 Ltd and Network Rail Boards have shareholder-appointed Non-Executive Directors who work with DfT shareholder teams to scrutinize and challenge Board reporting. › Annual management assurance exercises carried out by each delivery body checks that the controls in place are robust, being followed and steps put in place to manage risk. › Delivery bodies risk registers, reported to DfT, are reviewed and monitored regularly in line with our own risk registers. The steps in place ensure Boards are focused on the requirement to adhere to controls, whilst DfT monitor effectiveness and closely work with bodies to ensure compliance: › Improvements to internal sponsorship fora to share best practice and support sponsorship function, working with Finance and HR to raise awareness and increase the skills-base of sponsors in DfT and its public bodies. › Shared new risk management escalation protocol to ensure a two-way dialogue on delivery body risks.	 Departmental sponsorship and shareholding functions are continuing to mature with a focus on sharing best practice, coordinated by DfT's centre of excellence. DfT's governance frameworks and oversight arrangements provide the controls environment clarity for delivery bodies.

COVID-19

The Department responded to the COVID-19 quickly, as set out in the Performance Report (see **page 33**). This had a significant effect on both the Department's resources and the focus of those resources. The crisis response team evolved into a wider policy and delivery team, which has now become a COVID-19 Directorate. The programme of interventions was governed at a strategic level by ExCo; the Board was kept informed at every meeting, and individual interventions with an investment or commercial element were scrutinised by IPDC.

ExCo has held weekly items on progress and developments across the response, restart and recovery programmes, examining both the Department's corporate response as an employer, and the interventions made in the transport sector. IPDC has scrutinised all interventions through an increased meeting frequency; this has allowed projects to seek assurance more quickly than in normal times. The ENEM and Board have monitored the Department's policy and corporate response, and the GARAC had considered the changes to the risk profile and appetite, as well taking the internal and external auditors' views. While decision-making is being taken at pace, assurance and controls remain in place to ensure value for money and propriety.

Page 295 lists the funding measures supporting critical transport services. As mentioned in **page 120**, the Accounting Officer sought a direction for the spending required on the Emergency Measures Agreements for rail. The Department's Accounting Officer System Statement will be revised to consider the interventions during this period.

Accounting Officer System Statement

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

The Department's current Accounting Officer System Statement can be found

. It is being reviewed during 2020-21.

The Department aims to respond to correspondence from members of the public in 20 working days. In 2019-20 10,600 cases were responded to, and 91% of replies were sent by the target deadline.

The target response time for correspondence from MPs, Peers and key stakeholders (ministerial correspondence cases) was reduced from 20 working days to 7 working days in September 2019. The Department received just over 8,000 cases during the year and 74% of replies were sent by the target deadline.

During 2019-20, the Department and its executive agencies received 2,195 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 94% of these cases.

The Department also answered 18,121 valid requests from individuals exercising their rights under data protection legislation. These consisted mainly of subject access requests, more than 98% of which were answered within the statutory deadline.

The central Department publishes a list of FOIs and EIR responses where some or all of the requested information has been disclosed. The list can be viewed on the website under Transparency and freedom of information releases.

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

The Better Regulation Unit is ensuring the effects of the Department's regulations on innovation in the transport sector are considered and impact assessments are conducted to a consistent and high standard.

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 ensure the regulations are proportionate and do not impose unwarranted burdens on business in line with the Better Regulation Framework.

The Department has outsourced its Shared Services arrangements with Arvato until May 2023. This platform covers finance, human resources, procurement and payroll transactions, and the supporting Enterprise Resource Planning (ERP) platform, including hosting, licensing and service management. This arrangement provides services to over 18,000 users for the central Department and its executive agencies. The Department will implement a replacement ERP system which is more intuitive, ahead of establishing new shared service arrangements from May 2023.

The central Department is committed to responding to complaints within twenty working days. Public bodies, including executive agencies have their own complaints procedure. The number of complaints handled by the Department and its public bodies during 2019-20 and the previous three years is provided in **Table 16**. These show no major fluctuation overall, however there were reductions in the motoring agencies, which is likely to be due to data not being available from the Theory Test contractor to DVSA. The impact of COVID-19 in the last month of 2019-20 might also have impacted on staff ability to process and record complaints during that period. There were increases in complaints at HE and HS2 in general.

Table 16: Number of complaints

Year	2019-20	2018-19	2017-18	2016-17
DfTc	7	5	8	23
DVLA	3,348	4,106	3,987	4,495
DVSA	8,809[1]	9,100	6,435	11,553
VCA	9	3	9	8
MCA	70	80	34	15
Highways England	5,457	5,022	5,031	4,880
HS2 Ltd	867	518	64	56
CAA	105	195	131	178
Network Rail	1,834	2,405	2,089	1,917
ORR[2]	1,722	1,638	1,434	1,472
BTPA	0	0	2	1
Total	**22,228**	23,072	19,224	24,598

1 DVSA theory test complaint data for 2020 – not available at the time of publication from the contractor due to COVID-19.

2 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.

Lessons from complaints handling and improvements made during 2019-20

The Complaints Team staff have focused on improving the customer experience rather than just acting as a 2nd line of defence, through reviewing the customer journey following a complaint, identifying the root cause and working with the business areas to implement improvements that reduce poor service occurring that causes complaints.

DVLA's complaints team monitors the time cases take to resolve and identifies those that remain unresolved longest, so as to concentrate their efforts. This has in turn reduced waiting times for fitness-to-drive cases that require reference to medically qualified personnel. This has in turn speeded up the decision making for Drivers Medical cases for individual drivers.

DVSA has recognised a need to change their approach to correspondence, by taking a customer service orientated approach ensuring they acknowledge error (where there is one), apologising immediately for any service failure and seeking an early resolution.

Correspondence is now written in accordance with Clearly DVSA – an internal standard to support clear, useful and trusted written communication standards, developed to improve the quality of communication which has made it easier to understand and reduce misunderstanding that has previously led to complaints. This has resolved complaints more quickly and reduced the numbers going to the Department's Independent Complaints Assessors.

Highways England has undertaken an internal audit of its complaints process and are implementing changes to give clearer roles and responsibilities for handling complaints across the business. Highways England has developed a new customer service standard to improve the quality and timeliness of how they respond to their customers, in line with key drivers and industry best practice.

The remit of the Independent Construction Commissioner (see below) has been extended to cover Phase 2a works which should ensure speedy resolution of any complaints.

Where a complainant feels that their complaint has not been handled properly and is not satisfied with the response, they can have the matter reviewed by an Independent Complaints Assessor (ICA). ICAs are individuals experienced in resolving complaints through reviewing the issues and recommending solutions to remedy a complaint satisfactorily as a final stage in the Department's complaint handling process.

The number of complaints received for review by the ICAs in 2019-20 and the previous three years is shown in **Table 17**. This shows a rise over 2018-19 of 10%, though it is likely to have been greater. It is possible that COVID-19 meant cases from the Department's public bodies did not get passed on as quickly as usual in March. This is likely to show in the data for 2020-21 when referrals catch-up.

Table 17: Number of complaints reviewed by ICAs

Year	2019-20	2018-19	2017-18	2016-17
DfTc	3	2	3	4
DVLA	282	211	165	188
DVSA	47	59	45	42
VCA	0	-	-	-
MCA	2	7	1	3
Highways England	46	49	32	24
HS2 Ltd	1	13	3	8
CAA	4	5	3	4
Network Rail[1]	1	0	0	0
Total	**386**	346	252	273

1 Network Rail only use the Department's ICAs on a selected basis

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

Where the PHSO believes there is evidence that there has been maladministration, unfair treatment, or poor service, it will investigate the issues, review the remedy provided, and may recommend further actions to resolve the matter. All recommendations made by the PHSO were implemented in the year by the Department.

When PHSO concludes an investigation, it may do so in the year(s) following when it was initiated. In addition, there can be several recommendations made to the Department or its public bodies 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 can fall into a subsequent year. **Table 19** includes the number of recommendations made by PHSO and those complied with in 2019-20.

Table 18: Investigations by the PHSO[1]

Organisation	Complaints accepted for investigation		Investigations upheld or partly upheld		Investigations not upheld	
	2019-20	2018-19	2019-20	2018-19	2019-20	2018-19
DfTc	-	1	-	-	-	-
DVLA	10	13	3	7	7	-
DVSA	-	3	-	-	-	1
VCA	-	-	-	-	-	-
MCA	-	-	-	-	-	-
HE	1	-	-	-	-	-
HS2 Ltd	-	-	-	-	-	-
CAA	-	-	-	-	-	-
ICAs	-	-	-	1	-	-
Total	**11**	17	**3**	8	**7**	1

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

Table 19: Recommendation made by PHSO

Agency	No. of Cases with Recommendations	No. of Recommendations	Closed: Complied With	Open: In Compliance
DVLA	3	8	7	1

Health and Safety

Health and safety remains a top priority for the Department and its executive agencies. **Table 20** 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 2019-20 and previous years. The figures for DVSA remain in decline and have been year on year for several years due to continuous improvements. The figure also includes accident figures involving members of the public taking their Module 1 motorcycle riding tests on DVSA sites.

Table 20: Number of RIDDOR reportable

Organisation	2019-20	2018-19	2017-18	2015-16
DfTc	0	0	0	3
DVLA	8	9	8	8
DVSA	2 (staff) 4 (non staff[1])	2 (staff) 7 (third party[2])	12 (staff) 194 (non staff[1])	21
MCA	8	7	6	5
VCA	0	0	0	0
Total	**22**	21	45	37

1 Non staff includes those who have an injury on one of our sites, such as a visitor/contractor.

2 Third party is used in accident scenarios where for example, a driving test vehicle is involved in an incident with a third party vehicle – for example, not the driving test car.

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.

This includes improving the operation and implementation of key controls across the group, setting-up the DfT Risk Committee to challenge and direct risk management approaches and a continued focus on delivery body governance. I am pleased that the opinion remained at moderate this year. I am encouraged by the recognition that progress has been made, and I am committed to continuing improvements over the coming year.

Bernadette Kelly CB

Permanent Secretary and
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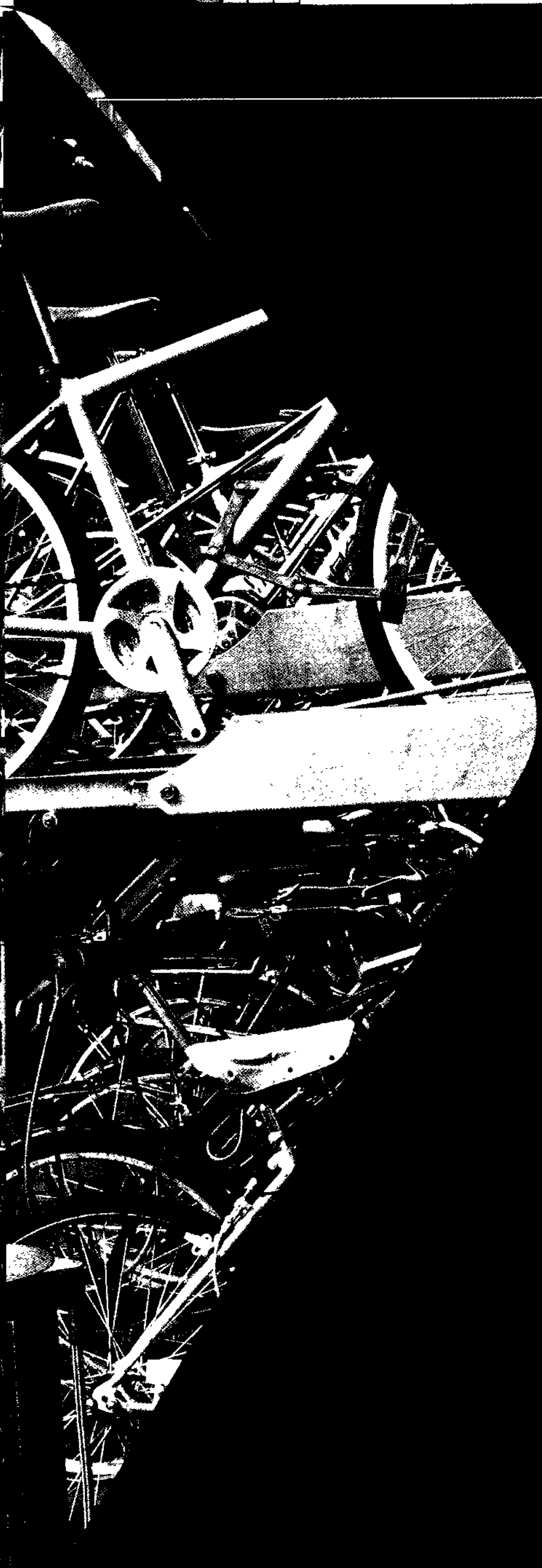

People and Remuneration Report

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.

Our top people priorities in 19-20 were to:

- Ensure we have the right capacity to deliver our departmental priorities
- Build our skills and professional capability
- Support the wellbeing and engagement of our people
- Drive Diversity and Inclusion.

Ensuring we have the right capacity to deliver our priorities

In 2019-20 the Department faced significant demands on our people which included Brexit, COVID-19 response, and the large Thomas Cook repatriation, which brought with it people risks around capacity, wellbeing, and engagement. Interventions have included:

- Training of 1200 staff in crisis response, to support Brexit contingency planning. The Department also developed comprehensive plans to ensure we had the right level of resourcing pipelines, and the right reward interventions and wellbeing support in place.
- A huge Departmental wide resourcing effort to support the COVID-19 response. This included the rapid deployment of people across the Department, as well as providing support to other department's COVID-19 resourcing demands. We enabled remote working for the majority of our people in the core Department to ensure no impact on productivity.

Building our Skills and Professional Capability

We have made a significant investment in building the skills and capability of all our people.

Our learning and development priorities for the year have been:

- Core skills: learning opportunities encompassing the wide range of skills that all our people need to perform well in our roles.
- Leading through change.
- Building leadership and management capability in creating a diverse and inclusive culture.
- Attracting and growing professional capability with a focus on commercial, project delivery and digital skills.

We have delivered a Commercial Development Programme aimed at developing future leaders with a range of commercial skills, and supported a range of development programmes for Project Delivery professionals at all levels. This is to ensure we are growing a critical pipeline to support the Department's varied and critical work in major transport infrastructure projects. In addition, we are an active participant of government talent schemes, the fast stream, apprenticeships and the summer diversity internship programmes.

Supporting the Wellbeing and Engagement of our People

We implemented a new wellbeing strategy in 2019-20. This included a comprehensive employee assistance offering, a network of wellbeing support across the organisation, and implementation of interventions including flu vouchers.

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 to 61% in 2019.

This improvement was achieved through a 5 percentage points (pp) improvement at DVSA and a 2pp improvement at DVLA.

The core Department remained a high performer for the 'My Work', 'Inclusion and Fair Treatment', 'Learning and Development', and 'Leadership and Managing Change' themes.

Table 21: Civil Service People Survey engagement scores 2015 to 2019

Engagement Index (%)	2019	2018	2017	2016	2015
Civil Service	63	62	61	58	58
DfTc and agencies	61	59	59	58	54
DfTc	64	64	65	63	61
DVLA	63	61	62	63	59
DVSA	57	52	49	43	40
MCA	65	65	65	64	59
VCA	63	64	61	62	62

Our staff numbers

The following sections on staff numbers and 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:

Table 22: Staff numbers (Departmental Group including delivery bodies)[1]

					2019-20	2018-19
Average number of staff	Permanently employed Staff	Others	Ministers	Special advisers	Total	Total
Average number of persons employed	63,185	1,382	5	2	64,574	61.889
Of which						
DfTc	2,784	29	5	2	2,820	2,618
Agencies	6,649	144	-	-	6,793	6.575
Other delivery bodies	53,752	1,209	-	-	54,961	52,696

1 Excluding DVSA which is outside of the accounting boundary

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.

Table 23: Staff costs (Departmental Group including delivery bodies)

	Permanently employed Staff £m	Other Staff £m	2019-20 Total £m	2018-19 Total £m
Wages and salaries	3,061	38	3,099	2,930
Social security costs	333	-	333	314
Other pension costs	467	-	467	414
Sub-total	**3,861**	**38**	**3,889**	**3,658**
Less recoveries in respect of outward secondments	(2)	-	(2)	(1)
Less: staff costs capitalised	(1,193)	(16)	(1,209)	(1,159)
Total staff costs recognised in the Group Financial Statements	**2,666**	**22**	**2,688**	**2,498**
Of which: Core Department & Agencies	457	12	469	425

'Other staff' includes ministers and special advisers, who were paid £217k and £59k respectively (2018-19: £134k and £178k). 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 adviser pay has decreased as responsibility for their pay was centralised and transferred to the Cabinet Office in-year.

Table 24: Number of persons of each sex who were employees of the Department and its executive agencies as at 31 March 2020

	31 March 2020		31 March 2019	
	Men	Women	Men	Women
Number of persons of each sex who were directors of the entity Permanent Secretary and Directors General	3	3	3	4
Number of persons of each sex who were senior managers of the entity Members of the Senior Civil Service (excluding above)	97	62	112	68
Number of persons of each sex who were employees of the entity Employees in (i) DfTc and (ii) DfT including agencies[1]	i) 1,564 ii) 3,291	i) 1,116 ii) 4,297	i)1,639 ii) 4,866	i) 1,148 ii) 5,358

1 Excluding DVSA, which is outside the accounting boundary.

Staff redeployments

This data relates to the central Department only.

Table 25: 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	1	-	1	9
HEO	45	35	10	6
SEO	3	2	1	6
Grade 7	12	12	-	4
Grade 6	3	2	1	6
SCS	6	1	5	8
Total	**70**	**52**	**18**	**6**

Staff loaned in are classed as an administration cost. The cost of staff on loan to the Department in 2019-20 is £605k (2018-19: £379k). Of the staff loaned in to the department, 42 not paid by DfT. During 2019-20, there was an increasing number and duration of loans into DfT, largely driven by additional resourcing requirements to support Brexit.

Table 26: 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	-	-	-	-
HEO	-	-	-	-
SEO	-	-	-	-
Grade 7	1	1	-	-
Grade 6	-	-	-	-
SCS	-	-	-	-
Totals	**1**	**1**	**-**	**5**

Diversity and Inclusion at DfT

The Civil Service is committed to becoming the most inclusive employer in the UK, and the Department for Transport wants to lead the way in this commitment. We are dedicated to understanding, respecting and representing as broad a range of views and backgrounds as we have in UK society. We know that diverse perspectives and experiences are critical to an effective, modern Civil Service.

We know we need to go much further and faster in tackling racial inequalities and have developed action plans to address these very specific issues.

This year we:

- Completed the Race at Work Charter at DfTc which commits employers to driving. improvements in the recruitment and progression of ethnic minority employees.
- Launched the Ascend Sponsorship Programme for ethnic minority and disabled Grade 6 and 7's with an SCS sponsor.
- Achieved the Carer Confident Benchmark Level 2.

The publication of our actions plan is only the start, but will not be enough on its own. Success and real change requires sustained, active leadership on the part of us all and our Action Plans have a large focus on building leadership and management capability, ensuring we have strong and effective leaders and managers who can create a culture around our values of Confidence. Excellence and Teamwork, and where individuals. from any background, are supported to thrive.

The Department publishes its equality monitoring data annually on [illegible]

Bernadette Kelly is the Social Mobility Champion for the Civil Service. At Executive Committee level the Departmental senior champions take personal responsibility for leading and supporting their area. The champions are:

- Gender, age and carers (Ruth Hannant and Polly Payne)
- LGBT+ (Nick Joyce)
- Disability and wellbeing (Clive Maxwell)
- Race (Emma Ward, was Patricia Hayes)
- Faith and belief (Nick Bisson)
- Social Mobility (Gareth Davies).

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

Race

The Department launched a Race Action Plan 2019-20, which builds on the D&I action plan. The Race Action Plan sets out a set of measures specifically targeted to:

- Support and progress BAME talent in the Department.
- Increase overall representation at senior levels and ensure BAME voices are heard in our decision-making bodies.
- Ensure that all BAME staff are treated fairly.

To drive delivery and ensure that momentum is not lost, implementation of this action plan is overseen by a new DfT Race Board, chaired by the DG level Race Champion. The Race Board is responsible for monitoring progress against the action plan and those areas of the D&I plan identified as being important for making progress on race equality.

This year the Department will appointment Race Champions within DG groups to help deliver these commitments, and to recruit more Race Allies amongst at all levels and from all backgrounds.

Exco is updated quarterly on progress in delivery of the Race Action Plan, along with the D&I Dashboard. All steps are taken to collect and analyse data by ethnic group to feed into the implementation plan.

Staff networks

There are a range of staff networks in the central Department, 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.

Gender Pay Gap reporting

The Department's gender pay gap information is published as part of the Department's Gender Pay Gap Report. The mean gender pay gap (GPG) is 13.8% (2018-19: 15.6%) and the median pay gap is 13.8% (2018-19: 15.6%).

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.

Promoting DfT as a Disability Confident Employer

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

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

During the recruitment process applications are welcomed from individuals, and the recruitment team makes sure to understand what adjustments candidates require to perform at their best. In 2019, the Department launched the new careers pages [illegible] on the Civil Service Careers website, to showcase what it is like to work in the Department and opportunities available. Following the completion of an Inclusion Audit of recruitment processes by The Clear Company, all staff in the Departmental Resourcing Group are now Accredited Recruiters, having completed The Clear Company's Inclusive Recruitment and Selection programme. The Department's hiring managers also undergo unconscious bias training and becoming disability confident training.

The Department wants to ensure that anyone with a disability can develop, prosper and fulfil their potential on a level playing field. The Workplace Adjustment team and Occupational Health provider are available to help individuals identify what workplaces adjustments they may require. It is also good practice to consider a workplace adjustment for everyone who might experience a barrier or difficulty at work, not just those with a disability. These adjustments may be equipment or specialist software, or involve redesigning roles around the needs of a specific disability.

During the COVID-19 response, the workplace adjustments team worked with an external contractor to deliver specialist office equipment from the workplace to employees' homes. A trained assessor set the equipment to the required specifications. To protect staff classified as vulnerable adults, or those shielding during COVID-19, the Department offers virtual assessments for home working environments.

The Department supports staff members to keep a record of adjustments on a workplace adjustment passport. The purpose of the passport is 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 disability networks across the DfT family, each championed locally by a board-level champion. In the core Department, the Ability Network and the Neurodiversity Network work to ensure maximum exposure of messaging across the organisation and have provided support on disability, workplace adjustments and accessible technology. Part of the activities the Ability Network and Neurodiversity Network deliver include learning sessions, speakers and other development for their members to build their skills and confidence.

The Department launched a Race Action Plan this year, which builds on the D&I action plan. The Race Action Plan sets out a set of measures specifically targeted to:

- Support and progress BAME talent in the Department.
- Increase overall representation at senior levels and ensure BAME voices are heard in our decision-making bodies.
- Ensure that all Black, Asian and Minority Ethnic staff are treated fairly.

To drive delivery and ensure that momentum is not lost, implementation of this action plan is overseen by a new DfT Race Board, chaired by the DG level Race Champion. The Race Board is responsible for monitoring progress against the action plan and those areas of the D&I plan identified as being important for making progress on race equality.

This year the Department will appointment Race Champions within director general groups to help deliver these commitments, and to recruit more Race Allies amongst at all levels and from all backgrounds.

Exco is updated quarterly on progress in delivery of the Race Action Plan, along with the D&I Dashboard. All steps are taken to collect and analyse data by ethnic group to feed into the implementation plan.

Employee Policy

The Department regularly consults with its trade union representatives over the development and implementation of employee policy, including the introduction of a new dispute resolution policy. This aims to resolve employee grievances more quickly and satisfactorily. The unions were engaged over plans to support the management of Brexit and to help repatriate British holidaymakers following the collapse of Thomas Cook.

Negotiations also took place over the annual delegated pay award, and despite good progress being made, two unions decided to reject the eventual pay offer, which was implemented without agreement in November 2019.

The Department was not confronted with any large scale industrial action over the period, although limited numbers of staff took part in strike action over a range of local issues with the Driver and Vehicle Standards Agency between August and December 2019. The action was managed in such a way as to minimise the impact on public services.

The Trade Union Side in the Department is made up of the FDA, PCS, and Prospect unions. In addition, drivers in the Government Car Service are represented by Unite. 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 as set out in the Staff Handbook. Paid time off is permitted for TUD and unpaid time off for TUA. Trade union representatives must also have an official role that will normally take up at least 50% of their paid time.

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

Number of employees who were relevant union officials during the relevant period	FTE[1] employee number
144	133.6

1 Full Time Equivalent

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

Percentage of time	Number of employees
0%	28
1-50%	115
51%-99%	1
100%	0

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

Total cost of facility time	£0.23m
Total pay bill	£673,191m[1]
Percentage of the total pay bill spent on facility time, calculated as: (total cost of facility time ÷ total pay bill) x 100	0.03%

1 *Based on payroll data March 2019-April 2020 for DfT(core), DVLA, DVSA, MCA and VCA only.*

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

Time spent on paid TU activities as a percentage of total paid facility time hours calculated as: (total hours spent on paid TU activities by TU representatives during the relevant period ÷ total paid facility time hours) x 100	0%

1 Departmental policy is that Trade Union Activity does not attract paid facility time.

8.1 average working days were lost to sickness absence for the 12-month period ending 31 March 2020 for the central Department and its executive agencies. This is a small increase of 0.1 days on the year to 31 March 2019. All absence is reviewed to ensure that support is offered and occupational health reports, action plans and interventions are progressed as appropriate. The Department is focused on improving wellbeing, with a range of support in place that staff can access.

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. 1,781 posts recruited externally during 2019-20. During the reporting year, there were 52 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 nearly half of the total (22).

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 can be found at

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 at: [illegible]

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

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 2020, is disaggregated in **Table 27**.

Table 27: Number of Senior Civil Service (SCS) staff within the Department and its agencies by salary range

Distribution of senior civil service salaries within the Department[1]			
Salary Range[2]	**Staff numbers[3]**	**Salary Range[2]**	**Staff numbers[3]**
£65,000-£69,999	0	£115,000-£119,999	5
£70,000-£74,999	43	£120,000-£124,999	3
£75,000-£79,999	44	£125,000-£129,999	2
£80,000-£84,999	24	£130,000-£134,999	6
£85,000-£89,999	12	£135,000-£139,999	1
£90,000-£94,999	19	£140,000-£145,999	1
£95,000-£99,999	7	£145,000-£149,999	1
£100,000-£104,999	10	£165,000-£169,999	1
£105,000-£109,999	7	£260,000-£264,999	1
£110,000-£114,999	8	**Total SCS Staff Numbers**	**195**

1 Information is for all SCS in the Department and its executive agencies as at 31 March 2020, 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 2020, and excludes non-consolidated performance related pay.
2 The minimum annual salary for SCS is £70,000.
3 Staff numbers are actual, not full-time equivalents, so a part-time member of staff counts as 1.

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 2020, its members were:

Bernadette Kelly	Permanent Secretary, Department for Transport
Lucy Chadwick (to 01/05/2019)	Director General, International, Security and Environment
Gareth Davies (from 07/05/19)[1]	Director General, Aviation, Maritime, International and Security
Clive Maxwell	Director General, High Speed and Rail Major Projects
Nick Joyce	Director General, Resources & Strategy
Polly Payne & Ruth Hannant	Directors General, Rail
Patricia Hayes (to 24/02/2020)	Director General, Roads, Devolution & Motoring
Christina Duncan	Group HR Director

1 Gareth Davies replaced Lucy Chadwick and the role title was changed during 2019-20

The Committee's remit includes making pay and talent decisions for directors and deputy directors. The Permanent Secretary decides on pay for Directors General.

Remuneration (including salary) and pension entitlements

The following sections on executive board members' remuneration and pension disclosures are subject to audit.

Executive members of the DfT Board

'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.

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 2019-20 relate to performance in 2018-19 and the comparative bonuses reported for 2018-19 relate to the performance in 2017-18.

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 2019-20 or 2018-19 for executive board members.

Table 28: Officials' remuneration[1]

	2019-20				2018-19			
Officials	Salary (£000)	Bonus Payments (£000)	Pension Benefits (£000)	Total Benefits (£000)	Salary (£000)	Bonus Payments (£000)	Pension Benefits (£000)	Total Benefits (£000)
Bernadette Kelly (Permanent Secretary)	165-170	-	78	245-250	160-165	-	74	235-240
Lucy Chadwick (Director General) to 1 May 2019	10-15	10-15	26	50 - 55	135-140	15-20	55	205-210
Full Year Equivalent	*135-140*				-			
Patricia Hayes (Director General) to 24 February 2020	115-120	10-15	59	190-195	130-135	15-20	43	185-190
Full Year Equivalent	*130-135*				-			
Nick Joyce (Director General)	140-145	5-10	57	200-205	135-140	5-10	63	205-210
Clive Maxwell (Director General)	145-150	5-10	52	205-210	145-150	5-10	44	190-195
Ruth Hannant[2] (Director General)	75-80	-	40	115-120	75-80	-	134	210-215
Full Time Equivalent	130-135				*125-130*			
Polly Payne[2] (Director General)	75-80	-	38	115-120	75-80	-	111	190-195
Full Time Equivalent	*130-135*				*125-130*			
Gareth Davies (Director General) From 7 May 2019	120-125	5-10	37	160-165	-	-	-	-
Full Year Equivalent	*130-135*				-			

1 Pension data is provided by My CSP. The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights.

2 Ruth Hannant and Polly Payne share a Director General role. Individual remuneration figures reflect part-time working arrangements.

Table 29: Pension benefits (officials)

Officials	Accrued pension at Pension age as at 31/3/2020 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31/3/2020 £000	CETV at 31/3/2019 £000	Real increase in CETV £000
Bernadette Kelly Permanent Secretary	70-75 *Lump sum* *185-190*	2.5-5 *Lump sum* *0-2.5*	1,511	1,389	52
Lucy Chadwick Director General to 1 May 2019	65-70	0-2.5	1,098	1,071	21
Patricia Hayes Director General to February 2020	55-60 *Lump sum* *125-130*	2.5-5 *Lump sum* *0-2.5*	1,054	970	38
Nick Joyce Director General	35-40	2.5-5	582	519	31
Clive Maxwell Director General	55-60 *Lump sum* *125-130*	2.5-5 *Lump sum* *0*	988	916	23
Ruth Hannant Director General	30-35 *Lump sum* *75-80*	0-2.5 *Lump sum* *0-2.5*	526	480	21
Polly Payne Director General	25-30 *Lump sum* *55-60*	0-2.5 *Lump sum* *0-2.5*	489	442[1]	23
Gareth Davies Director General from 7 May 2019	45-50	0-2.5	677	629	15

1 Polly Payne CETV updated for 31/03/2019 due to a retrospective change in service history

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: three 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 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 5 months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

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 a hybrid of classic and premium with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 calculated as in premium.

In nuvos, a member builds up a pension based on 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 a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from the appointed provider, Legal & General. 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

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. CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued because of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement, which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member because of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008, and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax, which may be due when pension benefits are taken.

Real increase in the value of the CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Ministers

The following sections on ministerial remuneration and pension disclosures are subject to audit.

Salary

'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 (£79,468 from April 2019) and various allowances to which they are entitled are borne centrally.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the Department, and treated by HM Revenue and Customs as a taxable emolument. There were no benefits in kind reported in 2019-20 for ministers.

Compensation for loss of office

Chris Grayling MP left the government on 24 July 2019. He received a compensation payment of £16,876. Andrew Jones MP left the government on 26 July 2019. He received a compensation payment of £5,594.

Table 30: Ministers' remuneration

Ministers	2019-20 Salary (£)	2019-20 Pension benefits (to nearest £1000)	2019-20 Total benefits (to nearest £1000)	2018-19 Salary (£)	2018-19 Pension benefits (to nearest £1000)	2018-19 Total benefits (to nearest £1000)
Rt Hon Grant Shapps MP Secretary of State (from 24 July 2019)	46,273	11,000	58,000	-	-	-
Full year equivalent salary	*67,505*			-		
Rt Hon Chris Grayling MP Secretary of State (from 14 July 2016 to 24 July 2019)	21,231	6,000	27,000	67,505	14,000	82,000
Full year equivalent salary	*67,505*			-		
Chris Heaton-Harris MP Minister of State (from 25 July 2019)	21,545	5,000	27,000	-	-	-
Full year equivalent salary	*31,680*			-		
Andrew Stephenson MP Minister of State (from 13 February 2020)	4,096	1,000	5,000	-	-	-
Full year equivalent salary	*31,680*			-		
George Freeman MP Minister of State (from 26 July 2019 to 13 February 2020)	17,449	9,000	26,000	-	-	-
Full year equivalent salary	*31,680*			-		
Rt Hon Michael Ellis QC Minister of State (from 23 May 2019 to 24 July 2019)	5,505	1,000	7,000	-	-	-
Full year equivalent salary	*31,680*			-		
Rt Hon Jesse Norman MP PUSS (from 14 June 2017 to 11 November 2018); MoS (from (12 November 2018 to 23 May 2019)	4,513	1,000	6,000	25,968	6,000	32,000
Full year equivalent salary	*31,680*[1]			*25,968*		
Rt Hon Jo Johnson MP Minister of State (from 10 January to 9 November 2018)	-	-	-	19,272	4,000	24,000
Full year equivalent salary	-			*31,680*		
Baroness Vere Parliamentary Under Secretary of State (unpaid)[2] (from 23 April 2019 to 1 August 2019)	-	-	-	-	-	-
Parliamentary Under Secretary of State (paid) (from 2 August 2019)	47,121	16,000	63,000	-	-	-
Full year equivalent salary	*70,969*			-		

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Table 30 (continued): Ministers' remuneration

Ministers	2019-20 Salary (£)	2019-20 Pension benefits (to nearest £1000)	2019-20 Total benefits (to nearest £1000)	2018-19 Salary (£)	2018-19 Pension benefits (to nearest £1000)	2018-19 Total benefits (to nearest £1000)
Kelly Tolhurst MP Parliamentary Under Secretary of State (from 13 February 2020)	2,893	1,000	4,000	-	-	-
Full year equivalent salary	*22,375*			-		
Nusrat Ghani MP Assistant Chief Whip and Parliamentary Under Secretary of State[3] (from 10 January 2018 to 13 February 2020)	3,602	4,000	8,000	-	4,000	4,000
Full year equivalent salary	*22,375*			-		
Paul Maynard MP Parliamentary Under Secretary of State (from 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	8,639	2,000	11,000
Full year equivalent salary	*22,375*			*22,375*		
Baroness Sugg CBE Parliamentary Under Secretary of State (from 27 October 2017 to 25 April 2019)	-[4]	1,000	1,000	-	15,000	15,000
Full year equivalent salary	-			-		

1 The Full Year Equivalent value provided for Jesse Norman's role as Minister of State for Transport.
2 Baroness Vere role prior to 2 August 2019 was unpaid.
3 Nusrat Ghani was until December 2019 remunerated by HM Treasury as a government whip and was not paid by the Department. Salary and full-time equivalent amounts listed above relate to the period between December 2019 and February 2020 when she was paid for her departmental role only.
4 Baroness Sugg's role at DfT was unpaid

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, available at:

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 in May 2015: members who were MPs and aged 55 or older on 1 April 2013 have transitional protection to remain in the previous MPs' 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.

Table 31: Pension benefits (ministers)

Ministers	Accrued pension at age 65 as at 31/3/2019 £000	Real increase in pension at age 65 £000	CETV at 31/03/2020 £000	CETV at 31/03/2019 £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	52	40	6
Rt Hon Chris Grayling MP Secretary of State (from 14 July 2016 to 24 July 2019)	10-15	0-2.5	216	204	4
Chris Heaton-Harris MP Minister of State (from 25 July 2019)	0-5	0-2.5	18	12	3
Andrew Stephenson MP Minister of State (from 13 February 2020)	0-5	0-2.5	11	10	0
George Freeman MP Minister of State (from 26 July 2019 to 13 February 2020)	0-5	0-2.5	19	12	5
Rt Hon Michael Ellis QC Minister of State (from 23 May 2019 to 26 July 2019)	0-5	0-2.5	16	15	1

Table 31 (continued): Pension benefits (ministers)

Ministers	Accrued pension at age 65 as at 31/3/2019 £000	Real increase in pension at age 65 £000	CETV at 31/03/2020 £000	CETV at 31/03/2019 £000	Real increase in CETV funded by taxpayer £000
Rt Hon Jesse Norman MP Parliamentary Under Secretary of State (PUSS from 14 June 2017 to 11 November 2018); MoS (from 12 November 2018 to 23 May 2019)	0-5	0-2.5	19	18	1
Baroness Vere Parliamentary Under Secretary of State Parliamentary Under Secretary of State (unpaid) (from 23 April 2019 to 1 August 2019) Parliamentary Under Secretary of State (paid) (from 2 August 2019)	0-5	0-2.5	45	29	8
Rachel Maclean MP Parliamentary Under Secretary of State (from 13 February 2020)	0-5	0-2.5	1	0	1
Kelly Tolhurst MP Parliamentary Under Secretary of State (from 13 February 2020)	0-5	0-2.5	9	8	0
Nusrat Ghani MP Assistant Chief Whip and Parliamentary Under Secretary of State (from 10 January 2018 to 13 February 2020)	0-5	0-2.5	8	5	2
Paul Maynard MP Parliamentary Under Secretary of State (from 26 July 2019 to 13 February 2020)	0-5	0-2.5	16	13	1
Andrew Jones MP Parliamentary Under Secretary of State (from 12 November 2018 to 26 July 2019)	0-5	0-2.5	20	18	1
Baroness Sugg CBE Parliamentary Under Secretary of State (from 27 October 2017 to 15 April 2019)	0-5	0-2.5	24	23	1

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 because 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 into account 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 (including the value of any benefits transferred from another pension scheme or arrangement). It is worked out using common market valuation factors for the start and end of the period.

Non-Executive Board Members

The following sections on Non-Executive Board Members' (NEBM) remuneration and pension disclosures are 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).

Ian King, as the lead NEBM, receives an additional £5,000 in recognition of his role. Richard Keys, as Chair of the Department's Group Audit and Risk Assurance Committee (GARAC), receives an additional £5,000 per annum in recognition of this role. 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 257** of the financial statements for further information).

NEBMs are appointed on fixed terms. Their fees for 2019-20 are set out in the table below. In addition, the membership of the GARAC includes the Chair of the Highways England Audit Committee, the Chair of the DVSA Board, and an independent member, who receive a fee for attending and preparing for meetings.

Table 32: Non-Executive Board Members' fees, 2019-20

Non-Executive Board Member	2019-20 (£000)	2018-19 (£000)
Mr Ian King	20-25	20-25
Mr Richard Keys	20-25	20-25
Mrs Tracy Westall	15-20	15-20
Mr Anthony Poulter	15-20	15-20
Mr Richard Aitken Davies	15-20	15-20
Group Audit and Risk Assurance Committee member	**2019-20 (£000)**	**2018-19 (£000)**
Bridget Rosewell	0-5	0-5
Kathryn Cearns (appointment began 17 October 2018)	0-5	0-5
Amarjit Atkar	0-5	0-5
David Hughes (appointment ended 31 August 2018)	0-5	0-5

Pay multiples for DfTc and its executive agencies (including agency staff and secondees)

The following section 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 2019-20 was £165,000-170,000 (2018-19: £160,000-165,000). This was 6.2 times the median remuneration of the workforce, which was £26,830 (2018-19: 6.3 times and £26,227).

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 2019-20 one employee (2018- 19: one employee) received remuneration more than the highest paid executive board member. Remuneration ranged from £17,275 to £260,000 (2018-19: £16,684 to £260,000). Total remuneration includes salary, non-consolidated performance-related pay and benefits in kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

Pension arrangements 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 Department for Transport is unable to identify its share of the underlying liabilities. A full actuarial valuation was carried out as at 31 March 2012. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation

For 2019-20, employers' contributions of £83 million were payable to the PCSPS (2018-19: £61 million) at one of four rates in the range 26.6% to 30.3% (2018-19: 20.0% to 24.5%) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2020-21 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 2019-20, employers' contributions of £752,869 (2018-19: £688,594) 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 £25,756, 0.5% (2018-19: £15,716, 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 2019 and 2020.

There were nine early retirements as a result of ill-health (2018-19: six).

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 2019-20, the current service cost was £283 million (2018-19: £257 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 2019-20 employers' contributions of £23 million were payable into this scheme (2018-19: £20 million).

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 2019-20, employers' contributions of £11 million (2018-19: £9 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 £0.2 million were paid to FPP during 2019-20 (2018-19: £0.2 million). The contribution rates were set based on an actuarial valuation of the scheme at inception in July 2016.

Severn River Crossing Pension Plan – In 2018-19 the company started a transitional arrangement for the staff transferred from Severn River Crossing plc. These staff contributed to an existing private pension scheme whilst arrangements were sought to bring them into one of the existing three plans. The scheme closed during 2019-20. Employer's contributions to the scheme during the year were £0.1 million (2018-19: £0.4 million).

Table 33: Expenditure on consultancy and temporary staff

	Consultancy £	Temporary Staff £	Total
Network Rail	78,689,642	83,936,164	162,625,806
DfTC	73,838,432	5,882,719	79,721,152
High Speed 2	238,604	12,107,742	12,346,346
East West Rail	6,671,343	2,270,268	8,941,611
DVLA	2,064,447	2,300,343	4,364,790
Highways England	2,800,000	3,100,000	5,900,000
BTP	2,443,115	1,052,220	3,495,335
MCA	988,661	1,589,929	2,578,590
VCA	631,729	1,104,512	1,736,241
Northern Lighthouse Board	-	667,748	667,748
Trinity House	-	323,182	323,182
Passenger Focus	-	184,404	184,404
DfT OLR Holdings Limited	16,500	95,089	111,589
Commission for Irish Lights	8,180	50,888	59,068
ATTF	-	-	-
Directly Operated Railways Ltd	-	-	-
LCR Finance Company	-	-	-
CTRL Finance Company	-	-	-
Air Safety Support International	-	-	-
Department Total	**168,390,654**	**114,665,208**	**283,055,862**

During 2019-20, the Department and its delivery bodies used consultancy services and employed a number of 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 primarily in major infrastructure programmes across the Group, notably in Network Rail and High Speed 2.

Off-payroll appointees

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 34** to **36**.

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 Group 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.

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 34** below, shows the number of engagements that were reassessed for consistency purposes during the 2019-20 financial year.

The Department confirms that all the engagements reported in **Table 34** and **Table 35** 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 and that it only used the assessment tool when a role was identified to be out of scope to assess its compliance against the legislation.

Table 34: Off-payroll engagements as of 31 March 2020, for more than £245 per day and that last for longer than six months

	DfTc	BTPa	DVSA	DVLA	HE	HS2 Ltd	MCA	NR	VCA	EWRco	Total
No. of existing engagements as of 31 March 2020	35	14	31	10	8	60	23	771	14	10	976
Of which:											
No. that have existed for less than one year at time of reporting	18	10	26	7	7	40	11	553	4	3	679
No. that have existed for between one and two years at time of reporting	9	4	2	3	1	16	-	175	8	7	225
No. that have existed for between two and three years at time of reporting	7	-	3	-	-	3	6	18	2	-	39
No. that have existed for between three and four years at time of reporting	1	-	-	-	-	-	5	15	-	-	21
No. that have existed for four or more years at time of reporting	-	-	-	-	-	1	1	10	-	-	12

Table 35: New off-payroll engagements, or those that reached six months in duration, between 1 April 2019 and 31 March 2020, for more than £245 per day and lasts longer than six months

	DfTc	BTPa	DVSA	DVLA	HE	HS2 Ltd	MCA	NR	VCA	EWRco	Total
No. of new engagements, or those that reached six months in duration, between 1 April 2018 and 31 March 2019	23	16	12	10	7	60	8	538	4	10	688
Of which:											
No. assessed in scope of IR35	21	15	11	10	7	53	-	534	-	10	661
No. assessed as out of scope of IR35	2	1	1	-	-	7	8	4	4	-	27
No. engaged directly (via a personal service company contracted to the Department) and are on the Department's payroll	-	-	-	-	-	-	-	-	-	-	-
No. of engagements reassessed for consistency / assurance purposes during the year *	10	2	3	3	7	50	8	2	-	10	95
No. of engagements whose IR35 status changed following reassessment	-	1	1	-	-	2	3	-	-	-	7

* These figures represent the number of new engagements, or those that reached six months in duration, between 1 April 2019 and 31 March 2020, which were reassessed during the period to ensure compliance with the IR35 legislation.

DfTc – all engagements deemed in-scope of the legislation are recruited through the Public-Sector Resourcing framework and placed on the payroll of the Department's chosen commercial framework supplier to ensure tax deductions are taken at the source. Ten engagements were reassessed for consistency and compliance without resulting in a change to their initial status.

DVLA – quarterly reviews were undertaken by DVLA to assess all engagements deemed out-of-scope of the IR35 legislation. Three engagements were reassessed for consistency and assurance purposes, without resulting in a change to their initial status.

DVSA – all engagements assessed out-of-scope of the legislation are monitored and challenged prior to recruitment. During the financial year 2019-20, DVSA identified one out-of-scope engagement. This assessment went through two levels of internal challenge, which included re-assessment and a submission to the Departmental Approvals Committee for a further review. Three engagements were reassessed for consistency and assurance, which resulted in one being brought into scope of IR35 legislation.

MCA – the agency operates a robust recruitment process where the business is challenged on the use of off-payroll engagements. This requires managers to critically consider alternative resourcing options including, looking at in-house capability before off-payroll engagements are approved. Eight engagements were re-assessed for consistency and assurance purposes, resulting in three with a change to their initial status. The MCA have updated their processes to have a monthly check on IR35 to ensure continuity and re-assess where necessary.

VCA – of the fourteen engagements at year-end for VCA, the majority were for the ongoing ICT Transformation. This requires a varied and high-level skillset which is why contractors have been hired to meet this demand. Once this skills demand curtails, the number of contractors will decrease.

BTPA – All engagements deemed to be out-of-scope of the IR35 legislation are usually referred for legal advice as part of the assurance process. Two engagements were reassessed for consistency, and compliance which resulted in one being reclassified as outside of the scope of IR35 legislation.

EWR – all requests for, and extensions of, off payroll engagements have to be submitted to EWR Cabinet Office Spend Approvals Committee for authorisation. This committee is chaired by the CEO. All engagements are scrutinised and, if approved, are arranged on the basis of being inside IR35. Ten engagements were reassessed for consistency and assurance, 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. Seven engagements were reassessed for consistency and assurance, without resulting in a change to their initial status.

HS2 – a central recruitment authorisation panel ensured robust governance and challenge for the recruitment of off-payroll workers. A process was also in place to provide independent assessment of roles proposed as outside IR35 to ensure compliance. Fifty engagements were reassessed for consistency and assurance, which resulted in two being brought into scope of IR35 legislation

Network Rail – Network Rail uses robust processes and procedures to determine the status of off-payroll workers within the IR35 legislation, which have been shared and agreed with HMRC. Random reviews of determinations are carried out during the year to ensure accuracy. This provides assurance to NR that all workers engaged in the business are being correctly paid and fulfilling all income tax and national insurance obligations. Two engagements were reassessed for consistency and assurance purposes, without resulting in a change to their initial status.

Table 36: Off-payroll engagements of board members, and / or, senior officials with significant financial responsibility, between 1 April 2019 and 31 March 2020

	DfTc	BTPa	DOR	DVSA	DVLA	HE	HS2 Ltd	MCA	NLB	NR	TF	THLS	VCA	EWRco	Total
No. of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year	-	-	-	-	-	1	2	-	-	-	-	-	-	-	3
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	41	9	-*	5	9	11	41	13	8	20	9	4	5	6	181

* DOR 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 engagement with significant financial responsibility, and the duration of the engagement are as follows:

Highways England – from 30 September 2019 to 31 March 2020, the post-holder was appointed on an interim basis due to the urgency in filling the Chief Information Officer role while Highways England conducted a campaign to permanently fill the role. Accounting Officer approval was received for the temporary engagement.

HS2 – from 29 July 2019 to 31 December 2019, an Interim Chief Information Officer 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 received for the temporary engagement.

From 19 July 2019 to 31 March 2020, the initial engagement for six months was extended due to ongoing review and evolving requirements for Phase Two delivery. Accounting Officer approval was received for the temporary engagement.

Exit packages

The following section is subject to audit

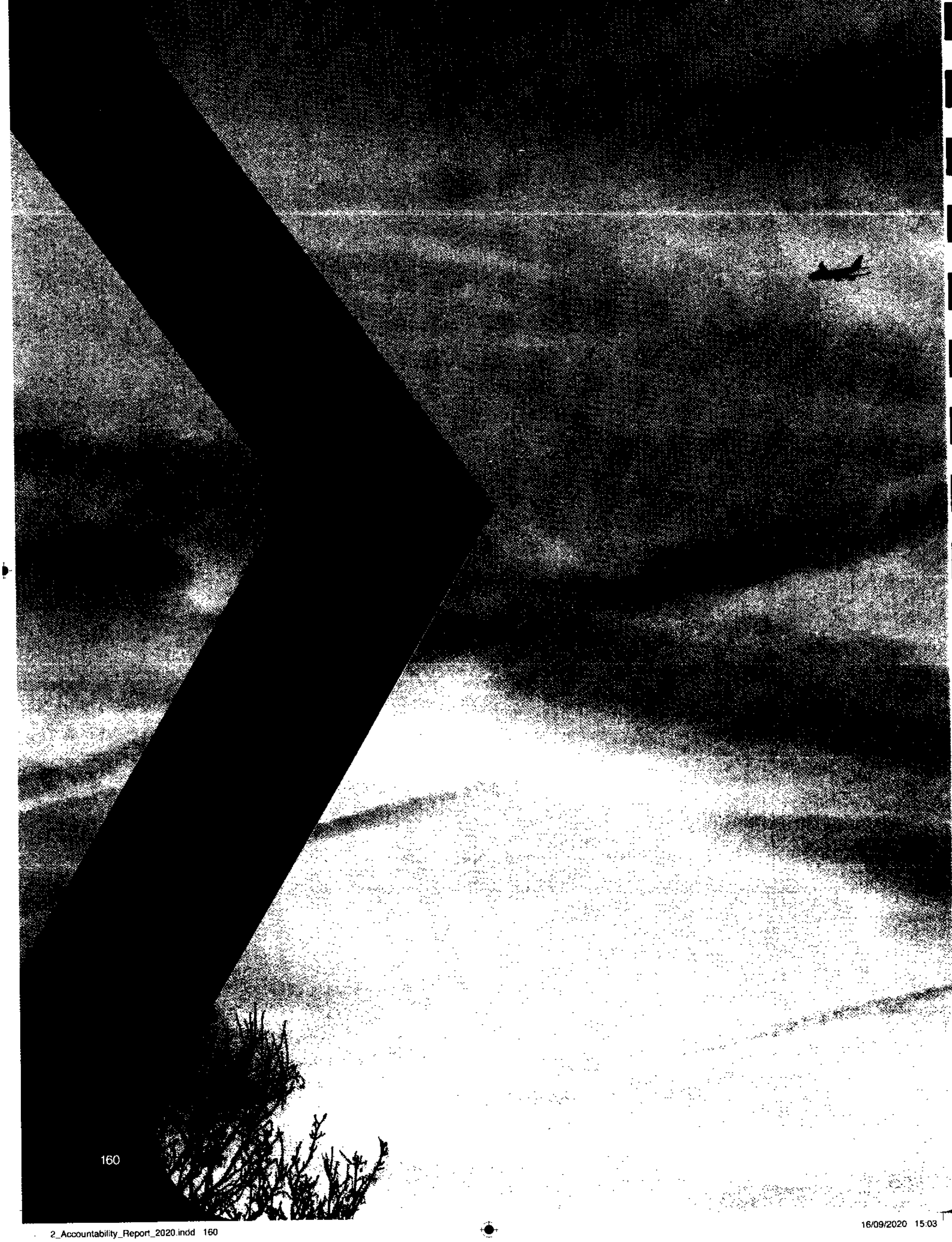
Table 37: Reporting of Civil Service and other compensation schemes – exit packages

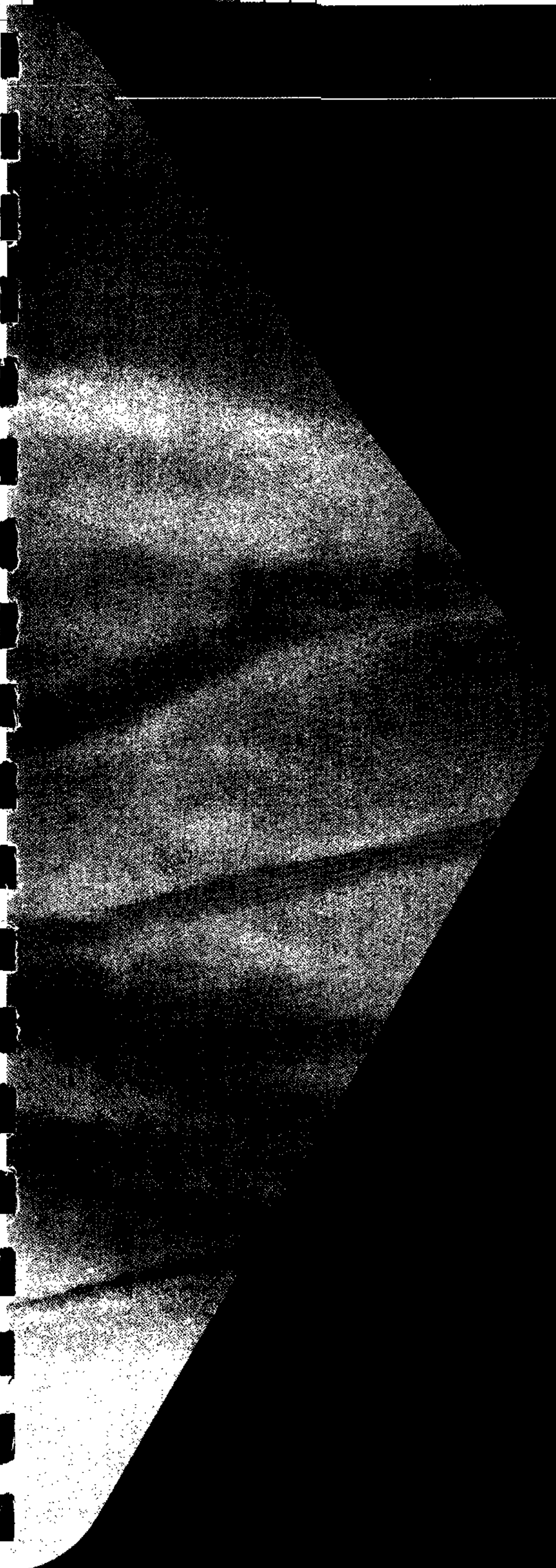
	Core Department and Agencies[1]						Departmental Group					
	Compulsory redundancies		Other departures agreed		Exit packages by cost band		Compulsory redundancies		Other departures agreed		Exit packages by cost band	
Exit package cost band	**2019-20**	**2018-19**	**2019-20**	**2018-19**	**2019-20**	**2018-19**	**2019-20**	**2018-19**	**2019-20**	**2018-19**	**2019-20**	**2018-19**
<£10,000	-		27	3	27	3	104	134	50	15	154	149
£10,000-£25,000	-	1	11	5	11	6	91	142	39	26	130	168
£25,000-£50,000	-	-	3	6	3	6	114	123	32	72	146	195
£50,000-£100,000	-	-	10	8	10	8	37	25	25	38	62	63
£100,000-£150,000	-		1	1	1	1	5	4	5	3	10	7
£150,000-£200,000	-		-		-	-	5		-	-	5	-
>£200,000	-	-	-	-	-		4	-	-		4	
Total number of exit packages	-	1	52	23	52	24	360	428	151	154	511	582
2019-20 Total cost /£	**-**		**1,220,284**		**1,220,284**		**11,360,674**		**4,255,624**		**15,616,298**	
2018-19		22,176		1,040,553		1,062,772		9,268,568		6,167,692		15,436,260

1 Excluding DVSA who are outside of the accounting boundary

Following the changes to Cabinet Ministers in July 2019 and the Dissolution of Parliament in November 2019, special advisors were entitled to receive a severance payment in line with the terms of their contract.

One severance payment was made to a central Department special advisor during 2019-20, this was within the £10,000–£25,000 exit payment band.





Parliamentary Accountability and Audit Report

Statement of Parliamentary Supply

The Government Financial Reporting Manual (FReM) requires the Department to prepare financial statements under an IFRS-based accounting framework, and a Statement of Parliamentary Supply (SOPS). The SOPS and supporting Notes are key accountability statements 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. 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 that Parliament have voted on, cash spent (budgets are compiled on an accruals basis and so outturn won't exactly tie to cash spent) and administration.

Government departments should not exceed the values that Parliament authorises in the Supply Estimate. These voted totals, or budgetary control totals, are outlined in the tables below. Any breach of these control totals will result in a qualified audit opinion due to an Excess Vote. Non-voted expenditure does not require additional Parliamentary authority but is included for completeness.

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).

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.

AME includes areas of spending that HM Treasury deems unpredictable, difficult to control and of a size that departments would have difficulty managing within DEL budgets.

DEL is usually set over a four-year period at the spending review, whereas AME is forecast on a yearly basis. Departments are set annual budgets split between resource/capital and DEL/AME.

A glossary of these financial terms can be found in Annex A.

Summary of Resource and Capital Outturn 2019-20

								2019-20	2018-19
								Outturn vs. Estimate saving/ (excess)	Prior Year Outturn
			Outturn				Estimate		
		Voted	Non-Voted	Total	Voted	Non-Voted	Total	Voted	Total
	SOPS note	£m	£m	£m	£m	£m	£m	£m	£m
Departmental Expenditure Limit (DEL)									
– Resource	1.1	11,426	13	11,439	11,572	13	11,585	146	3,902
– Capital	1.2	14,242	-	14,242	14,694	2	14,696	452	8,274
Total		**25,668**	**13**	**25,681**	**26,266**	**15**	**26,281**	**598**	**12,176**
Annually Managed Expenditure (AME)									
– Resource	1.1	1,816	11	1,827	2,658	11	2,669	842	7,456
– Capital	1.2	10	-	10	501	-	501	491	5,168
Total		**1,826**	**11**	**1,837**	**3,159**	**11**	**3,170**	**1,333**	12,624
– Resource	1.1	13,242	24	13,266	14,230	24	14,254	988	11,358
– Capital	1.2	14,252	-	14,252	15,195	2	15,197	943	13,442
Total Budget Expenditure		**27,494**	**24**	**27,518**	**29,425**	**26**	**29,451**	**1,931**	24,800

Figures in the areas outlined in thick line cover the voted control limits voted by Parliament. Further information about the Supply process and control limits voted by Parliament can be found in The Estimates Manual.

Detailed explanations of significant variances between Estimate and Net Resource Outturn are shown after SOPS Note 1.2.

Net Cash Requirement 2019-20

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.

		2019-20	2018-19
	SOPS note	£m	£m
Estimate		21,543	20,111
Outturn	3	20,172	17,352
Under/(over) spend against Estimate		**1,371**	**2,759**

Administration Costs 2019-20

The Administration Budget is a Treasury control on resources consumed by the Department that 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 such as staff costs, accommodation and utilities.

		2019-20	2018-19
	SOPS note	£m	£m
Estimate		306	282
Outturn	1.1	295	279
Under/(over) spend against Estimate		**11**	**3**

The SOPS Notes on **pages 164 to 171** form part of these statements.

SOPS 1. Net outturn by Estimate line

SOPS 1.1 Analysis of net resource outturn by Estimate line

											2019-20	2018-19
	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
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Spending in Departmental Expenditure Limit (DEL):												
Voted:												
A: Tolled Crossings	-	-	-	38	(157)	(119)	(119)	(111)	5	(106)	13	(190)
B: Local Authority Transport	-	-	-	374	-	374	374	377	-	377	3	374
C: Highways England (net)	44	-	44	2,489	-	2,489	2,533	2,736	(202)	2,534	1	2,371
D: Funding of other ALBs (net)	1	-	1	168	-	168	169	173	-	173	4	(38)
E: Other Railways	-	-	-	384	(346)	38	38	(2)	42	40	2	63
F: Sustainable Travel	-	-	-	127	-	127	127	125	3	128	1	108
G: Bus Subsidies & Concessionary Fares	-	-	-	256	-	256	256	262	-	262	6	255
H: GLA Transport Grants	-	-	-	28	-	28	28	29	-	29	1	29
I: Crossrail	-	-	-	3	(1)	2	2	2	1	3	1	2
J: Aviation, Maritime, Security and Safety	-	-	-	293	(55)	238	238	203	41	244	6	103
K: Maritime and Coastguard Agency	8	(1)	7	366	(16)	350	357	365	-	365	8	338
L: Motoring Agencies	-	-	-	554	(489)	65	65	89	-	89	24	41
M: Science, Research and Support Functions	-	-	-	25	(1)	24	24	25	1	26	2	19
N: Central Administration	250	(9)	241	102	(65)	37	278	363	(48)	315	37	246
O: Support For Passenger Rail Services	-	-	-	1,381	(1,008)	373	373	85	291	376	3	(186)
P: High Speed Rail	-	-	-	53	1	54	54	65	-	65	11	59
Q: Transport Development Fund	-	-	-	4	-	4	4	11	-	11	7	1
R: High Speed Two Limited (net)	2	-	2	244	-	244	246	259	-	259	13	286
S: East West Rail Company Limited (net)	-	-	-	22	-	22	22	23	-	23	1	8
T: Network Rail (net)	-	-	-	6,357	-	6,357	6,357	6,493	(134)	6,359	2	-
Total Voted Resource DEL	**305**	**(10)**	**295**	**13,268**	**(2,137)**	**11,131**	**11,426**	**11,572**	**-**	**11,572**	**146**	3,889

											2019-20	2018-19
	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
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Non-Voted:												
U: Funding of ALBs (net)	-	-	-	13	-	13	13	13	-	13	-	13
Total Resource DEL	**305**	**(10)**	**295**	**13,281**	**(2,137)**	**11,144**	**11,439**	**11,585**	**-**	**11,585**	**146**	3,902
Spending in Annually Managed Expenditure (AME):												
Voted:												
V: Highways England (net)	-	-	-	(43)	-	(43)	(43)	(45)	2	(43)	-	42
W: Network Rail (net)	-	-	-	1,649	-	1,649	1,649	2,328	-	2,328	679	7,046
X: Funding of other ALBs (net)	-	-	-	123	-	123	123	101	23	124	1	70
Y: Other Railways	-	-	-	335	(198)	137	137	180	-	180	43	227
Z: Aviation, Maritime, Security and Safety	-	-	-	(50)	(2)	(52)	(52)	(2)	-	(2)	50	51
AA: Maritime and Coastguard Agency	-	-	-	1	-	1	1	1	-	1	-	5
AB: Motoring Agencies	-	-	-	(2)	-	(2)	(2)	(2)	1	(1)	1	(2)
AC: Central Administration	-	-	-	2	-	2	2	95	(28)	67	65	65
AD: High Speed Rail	-	-	-	-	-	-	-	1	-	1	1	1
AE: High Speed Two Limited (net)	-	-	-	1	-	1	1	-	2	2	1	(49)
AF: East West Rail Company Limited (net)	-	-	-	-	-	-	-	1	-	1	1	-
Total Voted Resource AME	**-**	**-**	**-**	**2,016**	**(200)**	**1,816**	**1,816**	**2,658**	**-**	**2,658**	**842**	7,456
Non-Voted:												
AG: Funding Of ALBs (net)	-	-	-	11	-	11	11	11	-	11	-	-
Total Resource AME	**-**	**-**	**-**	**2,027**	**(200)**	**1,827**	**1,827**	**2,669**	**-**	**2,669**	**842**	7,456
Total Resource	**305**	**(10)**	**295**	**15,308**	**(2,337)**	**12,971**	**13,266**	**14,254**	**-**	**14,254**	**988**	11,358

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 to HM Treasury). Further information on virements can be found in The Estimates Manual.

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.

SOPS 1.2 Analysis of net capital outturn by Estimate line

	Outturn			Estimate			Outturn vs. Estimate	Prior Year Outturn
							2019-20	2018-19
	Gross	Income	Net Total	Total	Virements	Total inc. virements	saving/ (excess)	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Spending in Departmental Expenditure Limit (DEL):								
Voted:								
A: Tolled Crossings	(2)	-	(2)	-	-	-	2	-
B: Local Authority Transport	1,758	-	1,758	1,749	10	1,759	1	1,809
C: Highways England (net)	3,232	-	3,232	3,215	18	3,233	1	2,649
D: Funding of other ALBs (net)	144	-	144	217	(72)	145	1	10
E: Other Railways	544	(470)	74	98	-	98	24	35
F: Sustainable Travel	491	(13)	478	482	-	482	4	399
G: Bus Subsidies & Concessionary Fares	10	-	10	10	1	11	1	8
H: GLA Transport Grants	(10)	-	(10)	34	(3)	31	41	(81)
I: Crossrail	889	-	889	855	35	890	1	515
J: Aviation, Maritime, Security and Safety	53	-	53	69	-	69	16	93
K: Maritime and Coastguard Agency	(7)	-	(7)	16	-	16	23	12
L: Motoring Agencies	42	(8)	34	26	9	35	1	36
M: Science, Research and Support Functions	32	-	32	33	-	33	1	33
N: Central Administration	41	-	41	41	1	42	1	7
O: Support For Passenger Rail Services	-	-	-	-	1	1	1	-
P: High Speed Rail	303	-	303	406	-	406	103	554
Q: Transport Development Fund	344	-	344	360	-	360	16	139
R: High Speed Two Limited (net)	2,246	-	2,246	2,311	-	2,311	65	2,056
S: East West Rail Company Limited (net)	1	-	1	4	-	4	3	-
T: Network Rail (net)	4,622	-	4,622	4,768	-	4,768	146	-
Total Voted Capital DEL	**14,733**	**(491)**	**14,242**	**14,694**	**-**	**14,694**	**452**	**8,274**
Non-Voted:								
U: Funding of ALBs (net)	-	-	-	2	-	2	2	-
Total Capital DEL	**14,733**	**(491)**	**14,242**	**14,696**	**-**	**14,696**	**454**	8,274

	Outturn			Estimate			2019-20 Outturn vs. Estimate	2018-19 Prior Year Outturn
	Gross	Income	Net Total	Total	Virements	Total inc. virements	saving/ (excess)	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Spending in Annually Managed Expenditure (AME):								
Voted:								
V: Highways England (net)	(9)		(9)	45	-	45	54	133
Y Other Railways	-	-	-	-	-	-	-	-
Z: Aviation, Maritime, Security and Safety	-	(20)	(20)	(20)	-	(20)	-	(20)
AD: High Speed Rail	37	-	37	475	(2)	473	436	(98)
AE: High Speed Two Limited (net)	2	-	2	1	2	3	1	(230)
Network Rail (net)	-	-	-	-	-	-	-	5,383
Total Capital AME	**30**	**(20)**	**10**	**501**	**-**	**501**	**491**	5,168
Total Capital	**14,763**	**(511)**	**14,252**	**15,197**	**-**	**15,197**	**945**	13,442

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 to HM Treasury). Further information on virements can be found in **The Estimates Manual**.

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.

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. Significant variances between Outturn and Estimates before virements are:

Expenditure Line	Outturn (£m)	Estimate (£m)	Variance (£m) (over)/ under	Explanation of variance
Resource DEL				
C: Highways England (net)	2,533	2,736	203	The variance was primarily driven by changes to the method used to calculate depreciation.
N: Central Administration	278	363	85	Funding held for potential HS2 property impairments was not required in year.
O: Support for Passenger Services	373	85	(288)	During March, the Department provided support to Train Operating Companies under the Emergency Measures Agreements as part of the Government's response to the COVID-19 outbreak. The spend was properly authorised but occurred too late in the financial year for adjustments to budgets and funding.
T: Network Rail	6,357	6,493	136	Funding held for potential projects was not required in year.
Resource AME				
W: Network Rail (net)	1,649	2,328	679	This underspend is related to derivatives on financial instruments moving £720m less than the funding set aside for such movements.
Z: Aviation, Maritime, Security and Safety	(52)	(2)	50	Utilisation of the freight capacity provision resulted in a £50m credit to AME and £50m debit to DEL.
AC: Central Administration	2	95	93	The underspend relates to valuations of Railway Pension liabilities being lower than anticipated.
Capital DEL				
D: Funding of other ALBs (net)	144	217	73	Re-profiling of project and programme activity in light of the COVID-19 outbreak resulted in underspends in year.
P: High Speed Rail	303	406	103	The underspend relates to funding held against Departmental risks that did not materialise.
R: High Speed Two Limited (net)	2,246	2,311	65	The Notice to Proceed and procurement activities with long lead times were finalised after the cautious assumptions used for budget setting which led to a modest underspend against budget.
T: Network Rail (net)	4,622	4,768	146	Enhancement projects were re-profiled to the next financial year.
Capital AME				
V: Highways England (net)	(9)	45	54	The underspend is due to write back of capital provisions.
AD: High Speed Rail	37	475	438	The underspend is due to movements in provisions for land and property being lower than anticipated.

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 similar to, but different from, the IFRS-based FReM accounting framework. Therefore, this reconciliation bridges the resource outturn to net operating expenditure, linking the SOPS to the financial statements.

		Note	2019-20 £m	2018-19 £m
Total resource outturn in Statement of Parliamentary Supply		1.1	13,266	11,358
Add:	Capital Grants	3.3	3,125	2,485
	Research and development	3.2	54	60
	Research and development grants	3.3	13	-
	EU Grants	3.3	12	-
	NATS non-budget movements		1	-
	Other adjustments		5	-
less:	Capital income		(432)	(291)
	Non-Budget CFER income		(194)	(170)
	Other adjustments		-	(48)
Net expenditure in the Group Statement of Comprehensive Expenditure		SOCNE	**15,850**	13,394

· Capital Grants, Research and development and EU Grants are budgeted for as C-DEL but accounted for as spend on the face of the SOCNE, and therefore function as a reconciling item between Resource and Net Operating Expenditure. *Material capital grants were issued to Local Authorities and to the Welsh Government for the transfer* of the Core Valleys Line (see **Note 3.3** and **5.1**).

· Capital Income is budgeted for as C-DEL but accounted for as spend on the face of 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.

· The Non-Budget CFER income of £194m comprises £216m of CFERs (as shown on the face of the SOCTE) less £20m of General Lighthouse Fund loan repayments on the balance sheet (see **Note 11)** and £2m of loan interest that are classified as R-AME.

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 resource and capital outturn to the net cash requirement.

		Estimate	Net Outturn	Net Outturn vs. Estimate
	Note	£m	£m	£m
Resource outturn	SOPS 1.1	14,254	13,266	988
Capital outturn	SOPS 1.2	15,197	14,252	945
Total outturn		**29,451**	**27,518**	**1,933**
Accruals to cash adjustments for Core Department & Agencies				
Depreciation, amortisation and impairments	3 4	(283)	(187)	(96)
Provisions (non-cash movements)	23	(981)	(279)	(702)
Other non-cash items	3, 4	(7)	(20)	13
Adjustments to reflect movements in working capital balances in Core Department & Agencies				
Increase/(decrease) in receivables	17	-	(328)	328
(Increase)/decrease in payables	19, 20	248	(694)	446
Utilisation of provisions	23	425	369	56
IFRS 16 adjustment		-	436	(436)
Adjustments for arm's length bodies:				
Remove: voted resource and capital		(22,555)	(21,322)	(1,233)
Add: Grant-in-Aid, grants and loans to ALBs	3.3, 11	15,271	26,924	(11,653)
Less: repayments from ALBs to DfT	11	-	(12,246)	12,246
Removal of non-voted budget items				
Remove non-voted spending		(26)	(24)	(2)
CFER income included in budgets		-	22	(22)
Other adjustments		-	3	(3)
Net Cash Requirement		**21,543**	**20,172**	**1,371**

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):

	2019-20		2018-19	
	£m	£m	£m	£m
	Income	***Receipts***	**Income**	***Receipts***
Operating income outside the ambit of the Estimate – Resource	196	*195*	179	179
Operating income outside the ambit of the Estimate – Capital	20	*20*	20	20
Total income payable to the Consolidated Fund	**216**	***215***	199	199

The income above includes fees of £150m relating to the sale and transfer of personalised registration marks by the Driver and Vehicle Licensing Agency (2018-19: £150m); £22m in loan repayments and interest payments made to the Department from the General Lighthouse Fund (2018-19: £23m), £14m in loan interest payments made to the Department in respect of Crossrail (2018-19: n/a) and £8m in penalties charged on the Dartford toll crossing (2018-19: £13m)

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:

	2019-20	2018-19
	£m	£m
Licence fees, penalties and fines	98	102
Costs of collection – where deductible	(40)	(43)
Amounts payable to the Consolidated Fund	**58**	59
Balance held at the start of the year	7	16
Payments into the Consolidated Fund	(60)	(68)
Balance held on trust at the end of the year	**5**	7

Most of the income arises from late licensing penalties and enforcement activities relating the Vehicle Excise Duty collected by the DVLA. 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 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.

	2019-20		2018-19	
	Total number of cases	**Total amount (£000)**	Total number of cases	Total amount (£000)
Core Department – Intercity Express Programme	1	41,119	2	53,224
Core Department – River Crossing Scheme	1	36,777	1	45,956
Core Department – EU Exit Contingency Planning	4	27,441	1	50,231
Core Department – other	6	5,347	23	545
Agencies	16,169	794	18,146	762
Core Department & Agencies	**16,181**	**111,478**	18,173	150,718
Highways England	543	4,324	1,052	16,091
Network Rail	42,286	5,450	38,183	3,034
HS2	7	12,525	6	78
Other arm's length bodies	65	320	62	79
Departmental Group	**59,082**	**134,097**	57,476	170,000

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 payments totalling £134,693,011 to be recognised over the period until all the rolling stock enters service (expected to end in 2020). The Department paid £41,119,000 to Agility this year (2018-19: £53,223,730).

Dartford-Thurrock River Crossing Charging Scheme

Until 30 November 2014, drivers using the Dartford-Thurrock River Crossing had to stop at barriers in order to pay the road-user charge, which resulted in significant levels of congestion. From 1 December 2014, a new scheme was introduced, which was a key deliverable in the Department's Business Plan for 2012-2015. The scheme introduced a barrier-less, free-flowing charging operation (Dart Charge) which requires drivers to pay for their crossing during chargeable hours, either in advance or by midnight the day after using the crossing. Road users have access to a variety of methods to pay the charge including: payments online; via phone; at retail outlets, or by registered customer accounts. If a payment is not made in the allotted time, the scheme 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. In November 2014, the predecessor to Highways England, the Highways Agency, awarded a 7 year contract for collecting and enforcing payment of road user charges to Emovis Operations Leeds Ltd.

After a period of time, when the scheme operator considers that it is no longer able to collect the PCN, it then regards the charge as being 'irrecoverable' and writes off the amount that was due.

The 2019-20 losses include £36,777,000 in relation to 2018-19 Dartford Crossing charges (2018-19: £45,956,000 in relation to 2017-18). Of this, £34,477,000 relates to the write-off of receivables for both road user charges and PCNs that became irrecoverable, and an estimated £2,300,000 relates to PCNs that were not issued (2018-19: £42,956,000 & £3,000,000 respectively in relation to 2017-18). 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 (e.g. cases relating to foreign vehicles) within the financial year.

EU exit – contingency planning

During 2018-19 and 2019-20 the Department entered into contracts to provide additional freight capacity should the UK leave the EU without a deal. The postponements of the UK's departure from the EU meant the capacity was no longer required at that time. The Department reached negotiated settlements for the termination of these contracts resulting in a £50,230,866 payment to the ferry companies in 2018-19 when the departure date was postponed from 31 March 2019 to 31 October 2019, and £11,434,000 in 2019-20 when the departure date was postponed from 31 October 2019 to 31 January 2020.

During 2019-20 measures were put in place to deal with the potential for disruption to haulage in the event of a no deal exit from the EU. These included rental, security and staffing of additional lorry parking near Ashford (£6,724,913) and Manston (£7,807,804) as well as certain costs for pop-up advice centres to provide advice to hauliers and others on the changes at the border and the different documentation requirements had the UK left the EU without a deal (£1,475,685). As a no deal exit did not transpire, these parks and centres were not required and these are recognised as constructive losses in the table above.

Core Department – Other

Four bidders that were disqualified from tendering for rail passenger service franchises began legal action against the Department. The Department settled one claim, brought by Arriva, for £5m before trial. The agreed settlement represented a very small proportion of the losses claimed by Arriva. Despite our confidence in the processes followed in these franchise competitions, it is both pragmatic and sensible for government to explore alternative dispute resolution to deliver value for money and act in the best interests of taxpayers. We remained confident in our franchise competition process and subsequently successfully defended the claims by the remaining three bidders.

Network Rail

Network Rail incurred three losses exceeding £300,000 in 2019-20. Network Rail obtained confirmation that it would not receive any of the £856,486 owed to it by a firm that went into liquidation. The second case relates to the abandonment of a claim against a supplier for £774,562 as the costs associated with pursuing the claim were estimated to exceed any amount awarded by a court. The third case relates to equipment stolen from a depot with an estimated cost of £400,000.

Highways England

Highways England incurred two constructive losses over £300,000 in 2019-20. The first relates to non-refundable deposits on hotel bookings in preparation for EU exit in October 2019, which cost £497,315. The second relates to a border readiness contract to provide personnel and check vehicles, which cost £495,613.

High Speed 2

HMRC charged HS2 Ltd £12,486,000 for late payment of VAT following its change of VAT status. As this represents an internal transfer within Government, it does not change the net cost to the UK taxpayer of delivering HS2.

Special Payments

Special payments include extra-contractual, special severance, ex gratia and compensation payments..

	2019-20		2018-19	
	Total number of cases	**Total amount (£000)**	*Total number of cases*	Total amount (£000)
Core Department – Eurotunnel	-	-	*1*	33,000
Core Department – industrial claims	*241*	13,222	*316*	12,696
Core Department – other	*15*	85	*4*	863
Agencies	*1,609*	328	*1,691*	248
Core Department & Agencies	***1,865***	**13,635**	*2,012*	46,807
Arm's Length Bodies	*188*	2,377	*189*	3,947
Departmental Group	***2,053***	**16,012**	*2,201*	50,754

Industrial disease and injury claims

A total of £13,222,056 was paid to settle 241 industrial disease and injury claims from former British Rail employees (2018-19: 316 cases totalling £12,696,241). 5 cases for industrial related diseases exceeded £300,000, the highest of which was £529,000. **Note 23** of the financial statements provides further information about these claims.

Highways England

Highways England incurred two special payments more than £300,000 in 2019-20. The first for £320,000 related to the infringing of a Development Consent Order on the A14 Cambridge to Huntingdon scheme. The second for £300,000 related to an environmental stipulation of a project to buy land to sow crops for migratory birds which is outside the contractual terms for building the road.

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.

	2019-20			2018-19		
	Income	**Full Cost**	**Surplus/ (Deficit)**	Income	Full Cost	Surplus/ (Deficit)
	£m	£m	£m	£m	£m	£m
Maritime and Coastguard Agency (MCA)						
Marine surveys	6	6	-	5	5	-
Registration of ships	1	1	-	1	1	-
Seafarers' examination and certification	2	2	-	3	3	-
Vehicle Certification Agency (VCA)						
Product certification	23	23	-	21	15	6
Driver and Vehicle Licensing Agency (DVLA)						
Fees and charges	414	291	123	416	280	136
	446	**323**	**123**	446	304	142

MCA and VCA fees and charges are set in line with a full cost recovery objective. In line with The Department for Transport (Driver Licensing and Vehicle Registration Fees) Order 2003 DVLA is required to target full cost recovery of its fees and charges on a pooled basis for core service delivered. As described in Note 2 of the fees received for cherished transfers are payable to HM Treasury and the core Department

Additional information regarding these fees and charges (including the financial objective and performance against financial objective) can be found in the published financial statements for each of the individual agencies.

Information is also available for Driver and Vehicle Standards Agency (DVSA) in respect of driving tests and HGV testing charges, and published in its financial statements, but not summarised here since DVSA is outside the Department's accounting boundary (see **Notes 1.3** and **26** to the financial statements for the rationale).

Remote contingent liabilities

Contingent liabilities are presented here where the likelihood of a transfer of economic benefit in settlement is judged remote. Because of this, they do not meet the IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) criteria for disclosure in the financial statements but are presented here for transparency purposes. These predominantly relate to situations where guarantees or indemnities have been entered into by the Department, but where there are no indications that these will be drawn upon. While all mitigating actions have been and will be taken to minimise the risk and exposure, the risk cannot be removed altogether. Contingent liabilities for which the probability of crystallisation is rated as greater than remote are disclosed in **Note 24** in the Financial Statements..

Quantifiable remote contingent liabilities

This table summarises quantifiable contingent liabilities by their nature and purpose, with the amounts disclosed reflecting the highest reasonable estimate of the possible liability.

	31 March 2020	31 March 2019
	£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 Network Rail, which decrease steadily until they expire in 2043.	5,900	6,075
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.	4,705	4,753
Passenger Rail Franchise Agreements – Rolling Stock Railways Act 1993, Transport Act 2000: Contingent liabilities arise from signing of new, replacement and extended passenger rail franchise agreements, along with other agreements to encourage railways investment. The value of this liability is based on the remaining value of rolling stock and depots, which tend to decrease over time. This liability could increase if new rolling stock or depots are introduced.	1,275	1,914
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	774	1,047
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.	132	134

	31 March 2020	31 March 2019
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**.	50	59
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	20	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	12	32
Total	**13,067**	14,233

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.

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 structures that have been sold to, and are controlled by, third parties. There have been no claims and there is no reasonable basis under which to quantify this risk.

Exiting from the European Union

On 29 March 2017, the UK Government submitted its notification to leave the EU in accordance with Article 50. On 31 January 2020, the Withdrawal Agreement between the UK and the EU became legally binding and the UK left the EU. The future relationship between the EU and the UK will be determined by negotiations taking place during a transition period ending 31 December 2020.

Any subsequent changes in legislation, regulation and funding arrangements are subject to the outcome of the negotiations. As a result, an unquantifiable contingent liability is disclosed in **Note 24**, relating to the Connecting Europe Facility.

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 caused significant economic disruption just before the financial year end.

The ongoing disruption caused by the pandemic has created significant economic uncertainty, and this uncertainty is expected to continue throughout 2020. The most significant impacts on the Departmental Group's financial statements include uncertainty over the valuation of property and certain debt instruments (**Notes 1, 12.2** and **25** refer), the rate used to discount pension liabilities (**Note 25** refers) and increased payments to Train Operating Companies (**Notes 1.24.3** and **3.2** refer). No contingent liability existed on 31 March 2020 in respect of the pandemic. **Note 32** provides an overview of measures provided since 1 April 2020.

Bernadette Kelly CB
10 September 2020

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 (DfT) and of its Departmental Group for the year ended 31 March 2020 under the Government Resources and Accounts Act 2000. The Department comprises the Core Department and its agencies. The Departmental Group consists of the Department and the bodies designated for inclusion under the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2019. The financial statements comprise: the Department's and Departmental Group's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Accountability Report that is described in that report as having been audited.

In my opinion the financial statements:

- give a true and fair view of the state of the Department for Transport's and the Departmental Group's affairs as at 31 March 2020 and of the Department's net expenditure and Departmental Group's net expenditure for the year then ended;
- have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2020 and shows that those totals have not been exceeded; and
- 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.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the Department for Transport's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Department for Transport have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Department for Transport in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

The regularity framework described in the table below has been applied.

Regularity Framework	
Authorising legislation	Government Resources and Accounts Act
Parliamentary authorities	Supply and Appropriations Act
HM Treasury and related authorities	Managing Public Money

Overview of my audit approach

Key audit matters

Key audit matters are those matters that, in my professional judgment, were of most significance in my 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) that I identified.

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.

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 transferred in year to the Welsh Government) 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 2020, the Department valued the SRN at £128.5bn and the Rail Network at £332.3bn.

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 costing rates

As well as the factors above, which affect both networks, specific audit risk arose this year in respect of the SRN due to a full revaluation of the costing rates used to build up the DRC for the pavement (road) construction component, which forms the majority of the SRN asset. Land was also revalued but due to the level of risk and balance of audit effort falls outside the scope of this key audit matter. Highways England construct these rates by analysing previous scheme costs and making adjustments in line with DRC principles, such as the use of a greenfield basis, as well as adjusting for different network features (e.g. through an uplift to costs for Smart Motorways to reflect their higher build cost). Management also consider other evidence on cost estimation as they apply the new rates.

How the scope of my audit responded to the risk

My procedures on the infrastructure valuations are geared towards evaluating the reasonableness of management's estimate of the networks' DRC values, including reviews of:

- the reasonableness of costing rates and cost indexation factors applied in-year; and
- the adjustments made in respect of the network's condition based on the available evidence from asset management activities, amongst other key assumptions.

I also considered whether any of my findings were indicative of management bias, and test whether volumes / quantities to which costing rates are applied reflect the current states of each network.

Costing rates

The greatest part of my audit effort was directed towards the complex revaluation of road costing rates for the SRN asset. On this, my team:

- engaged an auditor's expert to review the appropriateness of the costing rates and the main uplifts applied;
- assessed the reasonableness of management's statistical analysis which transforms historically derived rates for the most common road types to the full set of road types;
- with the assistance of the auditor's expert, evaluated the appropriateness of 'modern equivalent' costing rates in the context of actual network characteristics, principally in valuing the technical valuation adjustment in respect of central reservation barriers; and
- reperformed management's calculation of the costing rates from underlying data and their application in the valuation model.

A full revaluation of costing rates for the Rail Network was last performed in 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 – and confirmed these where appropriate with the independent regulator.

Condition adjustments

For the Rail Network, I 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.

For the SRN, I assessed the reasonableness of the use of new condition indicators in the valuation of the road network, as well as addressing the reliability of key source data. In respect of SRN structures, following a change in methodology, I engaged a civil engineering focused auditor's expert to assist me in respect of the reasonableness of management's transformation of its inspection data into a financial adjustment.

Key observations

During the year, the Rail Network valuation has been relatively stable, with an increase of 0.8% the net result of incremental indexation, additions, depreciation and the disposal of the Core Valley Lines. Testing results were satisfactory.

The SRN valuation increased by 4.4%, driven by the full revaluation of the road asset and having taken audit findings into account. In the course of completing my work, I found that the valuation required adjustment to properly reflect the overall network, to reflect both the specific features of schemes used to construct costing rates, and where the modern equivalent differed from the features of the actual network. Following these adjustments, I concluded 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 particularly on the valuation of the scheme assets this year following the onset of the COVID-19 pandemic and the market volatility which followed in Q4. The impact of that volatility on asset values has been more than compensated for by a decrease in scheme liabilities, caused principally by changes in assumptions for future inflation, the net result of which is a reduced financial statements deficit across the group as at 31 March 2020 of £4,066m (31 March 2019: £4,873m).

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 (£12,210 million for all group pension schemes as at 31 March 2020) 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 the group's behalf (£8,144 million as at 31 March 2020).

This has been further impacted as a result of COVID-19, particularly for assets classified at Level 3 in the fair value hierarchy (i.e. those whose prices are not readily determinable based on observations of an active market). **Note 25** includes an analysis showing the extent of these assets.

The valuation of the property held by the scheme is also affected by potentially material uncertainty following the market reaction to COVID-19 which was highlighted to the group's pension fund managers by professional valuers.

How the scope of my audit responded to the risk	

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 the 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 31 December statutory audit of the results RPS financial statements, which are independently performed by another firm, but I derive most of my assurance from direct substantive procedures to validate 31 March valuations. These included extensive sample testing over the distinctive asset classes within the Funds in which group entities are 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. I have also considered potential indicators of unrecognised fair value movements in the asset valuation.
- For directly held property investments, I have reviewed the independent third party property valuation performed for the scheme asset manager, and made direct inquiries with their valuation experts to enable me to understand the nature of the material uncertainty and the basis on which valuations were derived on a best estimate basis.

Additionally, for private equity and non-exchange-traded pooled investment vehicles, I challenged management's expert on the extent to which standard valuation practice would take account of COVID-19 since there was the potential for variance arising from non-coterminous fund manager or professional valuations. This resulted in additional work undertaken by the asset manager to model an impact for assets which they had not yet received a valuation. I performed sample testing to validate the valuation methodology undertaken and understand the nature of the investment as well as consideration for indicators of unrecognised fair value movements.

Key observations

My testing results were satisfactory.

3. Train Operating Company arrangements including Emergency Measures Arrangements

Description of risk

The Department contracts with Train Operating Companies (TOCs) for the provision of most passenger rail services on Network Rail's infrastructure. TOCs lease rolling stock, employ train crews and other operational and support staff, and discharge pension obligations. In the past, most TOCs have retained passenger revenues, and following commercial negotiation with the Department either pay a premium or receive a subsidy in return for the rights and obligations associated with running a particular franchise to the Department's specification. Contracts typically last around seven years, subject to early termination through events of default, such as operator insolvency. In such cases the contract can be re-let, or its rights and obligations transferred to an Operator of Last Resort (OLR) company directly owned by the Department.

During the pandemic, rail franchises became financially unsustainable in their current form due to a collapse in demand for rail services, leading the Department to enter into Emergency Measures Agreements (EMAs) with non-OLR TOCs. Under these agreements, which started in March 2020, the Department has assumed all revenue and cost risk, with the operator continuing to run passenger services in return for a predetermined management fee. In the 2020-21 financial year, operators will also be able to earn an additional performance payment, subject to their performance against a set of criteria.

Given the significant realignment of the Department's relationship with TOCs in March, I recognised in my risk assessment the need to consider the appropriateness of management's treatment of these revised arrangements in terms of control and the timing of recognition for the related expenditure. As in previous years, I also assessed a risk around correctly accounting for revenue (and subsidy) recognition in respect of these contracts, particularly around the year-end accruals position and the judgement the Department makes in respect of ongoing commercial negotiations.

The Department reported Income from TOCs related to these contracts for 2019-20 of £1,010m (**Note 4**) and support for TOCs of £1,319m (**Note 3.2**) giving a net subsidy position of £309m (2018-19: net premium of £222m). The financial impacts of the pandemic account for the majority of the £531m adverse movement, including direct cost of the EMAs described in **Note 3.2** as well as other movements in premium/subsidy on both OLR and non-OLR TOCs.

How the scope of my audit responded to the risk	I reviewed the terms of the EMAs in detail and exchanged technical papers with the Department based on IFRS analysis of whether the TOCs should now be treated as controlled by the Department for financial reporting purposes. While the TOCs remain subject to separate legal control by their directors and parent companies, the EMAs substantially limit the variability of their return as investees, following the transfer of risk and reward to the Department. These discussions also took into account the reporting requirements on the Department from HM Treasury's Financial Reporting Manual (FReM). Following the conclusion of these discussions, I worked with the Department to ensure sufficient and accurate disclosure to inform users of the financial statements about the nature and impact of the change. I performed a focused review of the disclosures in **Note 28** using the published accounts of the relevant companies, and considering the completeness of disclosures based on known franchise change events. In respect of income and expenditure recognised, I: › reviewed passenger rail contracts with the TOCs and used specific clauses as well as published indexation sources to form an expectation of the majority of income and expenditure streams, informing a detailed substantive analytical procedure; › used sampling for any contract elements not susceptible to this approach; and › carried out procedures to ensure that accruals accurately reflected the state of commercial relations, using both internal and external evidence sources. **Key observations** Following our exchanges, management have classified the EMA TOCs as non-consolidated controlled entities in these financial statements, alongside the OLR TOCs legally controlled by the Department. Neither class of TOC is consolidated into the group financial statements, since they are not included on the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2019 which forms the basis of the Departmental consolidation boundaries as required in the FReM. **Note 28** also provides important disclosure on the variable cost of the EMAs; and on items on the TOCs' Balance Sheets, including pension liabilities, which are not consolidated on the Departmental Group Statement of Financial Position but which represent a financial exposure. Having considered these enhanced disclosures, I concluded that the results of testing in this area was satisfactory.

4. Valuation of HS2 compulsory land acquisition balances

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 & 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 previous 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 resulting measurement uncertainty for both provisions (**Note 23**) and the related asset under construction (**Note 5.3**). At 31 March 2020, the Department valued HS2 Land and Property provisions at £1,041m (31 March 2019: £1,003m).

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 2020 at £591m. 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 which followed the onset of the COVID-19 pandemic.

Key observations

The results of my testing in this area were satisfactory.

5. Highways England PFI contract review

Description of risk

Following recognition in previous years, the group has on its Statement of Financial Position £1,448m of PFI liabilities as at 31 March 2020 (31 March 2019: £1,467m). Material items within this balance relate to Highways England contracts. In 2018-19, I performed a detailed periodic review of the three largest – M25, A1(M1) and A1 Darrington to Dishforth – to ensure that the accounting models continued to reflect available evidence and IFRS requirements. During 2019-20, Highways England reviewed their accounting model for the remainder for any anomalies, and against the financial close models which describe the basis on which unitary payment streams were originally set. A number of these contracts are nearly 25 years old and management was required to make judgements using the best information available.

Further information on PFI contracts is included in **Note 10.2**.

How the scope of my audit responded to the risk

In respect of PFI contracts on which I had not performed a detailed periodic review in the prior year, I:

- reviewed the financial close models, and using information from these, calculated an auditor's range for the plausible closing balance obligations at 31 March 2019 and 31 March 2020 for each contract (the key variable being the extent of apportionment of the contractor's profit element to capital elements of the contract); and
- reviewed the disclosures made in the financial statements against each model and supporting information.

Key observations

I identified for some contracts for which the end dates per Highways England's accounting models were not consistent with the financial close model, or the company's forecast payment schedule. Management made an adjustment to correct this.

Following adjustment for the above issue, and having considered whether there was material prior year error arising as a result of the incorrect end dates, I considered my testing results satisfactory.

6. First time adoption of IFRS 16 Leases

Description of risk

Across the group, management implemented the new IFRS 16 'Leases' accounting standard this year. The new standard requires lessees to recognise nearly all leases on the Statement of Financial Position which will reflect their right of use of an asset for a period of time and the associated liability for the payments. The Departmental group recognised a material balance of £987m of lease liabilities on transition, together with associated right of use assets, as described in **Note 7**.

Implementation challenges have varied across the group. The Core Department and Agencies have a relatively low number of high value leases relating to key buildings and the Maritime and Coastguard Agency's search and rescue helicopters; whereas Network Rail's analysis has had to cover a large number of property and operational asset leasing arrangements. Especially in these circumstances, the implementation is data-intensive, with management having to identify all applicable arrangements, collate data and make judgements, for example, on the appropriate incremental borrowing rate; and whether they are reasonably certain that break/extension clauses will be enacted to determine the lease term.

How the scope of my audit responded to the risk

Completeness

Based on my risk assessment, I focused work on the high value items in the Core Department and Agencies, and at Network Rail on completeness since Network Rail's interactions with suppliers take place both within central delivery units and the decentralised Regions.

I reviewed the process and controls that Network Rail implemented to capture and assess arrangements that could contain a lease. I then investigated high-risk areas of business using assets that could be leased, to better understand the contractual arrangements with third parties. This was combined by a data analytics led approach to sample contracts displaying lease-like attributes. These samples did not identify any issues, but supplementary work identified two omitted leases – immaterial in total – across the organisation.

Application and Judgements

Outside my focus on completeness at Network Rail, I performed a risk-based sample test of leases both at transition and newly entered into during the year, in all significant components and at the Maritime and Coastguard Agency. I also reviewed management's judgements around the applicability of IFRS 16 (e.g. the terms of potential substitutions) as well as lease terms, including the relative certainty surrounding the use of break clauses. I also reviewed the appropriateness of the incremental borrowing rate, which for Network Rail is driven by actual borrowing arrangements, and for the rest of the Department is informed by HM Treasury's rate.

Key observations

The results of my testing in this area were satisfactory.

7. Impacts of COVID-19 pandemic including property valuations

As group auditor I recognised during Q4 2019-20 the significant potential for financial statements impact from the market volatility and government interventions resulting from the pandemic and have worked with component auditors to ensure these impacts are properly addressed.

In addition to the risks already described above in respect of pension assets and the Emergency Measures Agreements with train operators – which had the greatest impact on my audit – I also assessed risk arising in respect of the following.

a Non-HS2 property valuations, as a result of material uncertainty clauses provided by many valuers as a result of limited transaction volumes around the year end. Assets potentially exposed to this uncertainty include land and buildings with a net book value of £941m (**Note 5**); Network Rail investment properties valued at £227m (**Note 8**); and the £362m investment valuation of property-heavy LCR Ltd (**Note 12**); as well as pension balances already described above. As the Department describes at **Note 1.2**, these clauses describe only a reduced certainty attached to valuations, rather than suggesting they cannot be relied upon.

b The potential for changes in the Department's expected credit losses on its assets including loans (**Note 11** – £1,379m) and receivables (**Note 17** – £1,992m). The Department describes its credit risk at **Note 30.1**.

How the scope of my audit responded to the risk

Property valuations

The majority of property balances arise in group entities. As group auditor I relied on the results of component audits acting under the same engagement director, each of which considered the impact of material uncertainty clauses from valuers.

At group level I have considered the results of component testing, considered the completeness of management disclosures principally at **Notes 1.2 and 12.2**, and performed specific inquiries of non-NAO component auditors in respect of the LCR investment.

Expected credit losses

I updated my understanding of the Department's credit risk following the year end, and evaluated judgements on key balances by reference to the post-pandemic situation of counterparties.

Key observations

The results of my testing in this area were satisfactory.

Application of 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 use an additional materiality 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.

	Group materiality	Additional group materiality	Parent materiality
Overall materiality	£4,700m	£240m	£220m
How I determined it	*Approximately 1% of net book* value of the infrastructure assets (**Note 5**)	*Approximately 1% of group* gross expenditure excluding depreciation and impairment, and including capital additions	*1.4% 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. I tolerate a higher % than at group level since in my judgement the typical user is agnostic to *whether money is spent at* parent or group level.

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.

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.

Total unadjusted audit differences reported to the Audit Committee for the Departmental Group would:

- in respect of the infrastructure asset valuations, decrease net assets by £540m, with this difference affecting revaluation surplus and having no impact on net expenditure; and
- in respect of transactions and balances affected by my additional materiality, increase net assets and decrease net expenditure by £9m.

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 and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the Department for Transport's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the group financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

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 £482bn. 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 holding the two key infrastructure assets.

I have audited the full financial information of the Core Department, as well as the group consolidation. 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 94.4% of the group's gross expenditure through audit of the 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 statements 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.

Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the annual report, but does not include the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- in light of the knowledge and understanding of the group and the parent and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and
- the information given in the Performance and Accountability Reports for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my staff;
- the financial statements and the part of the Accountability Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit.
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

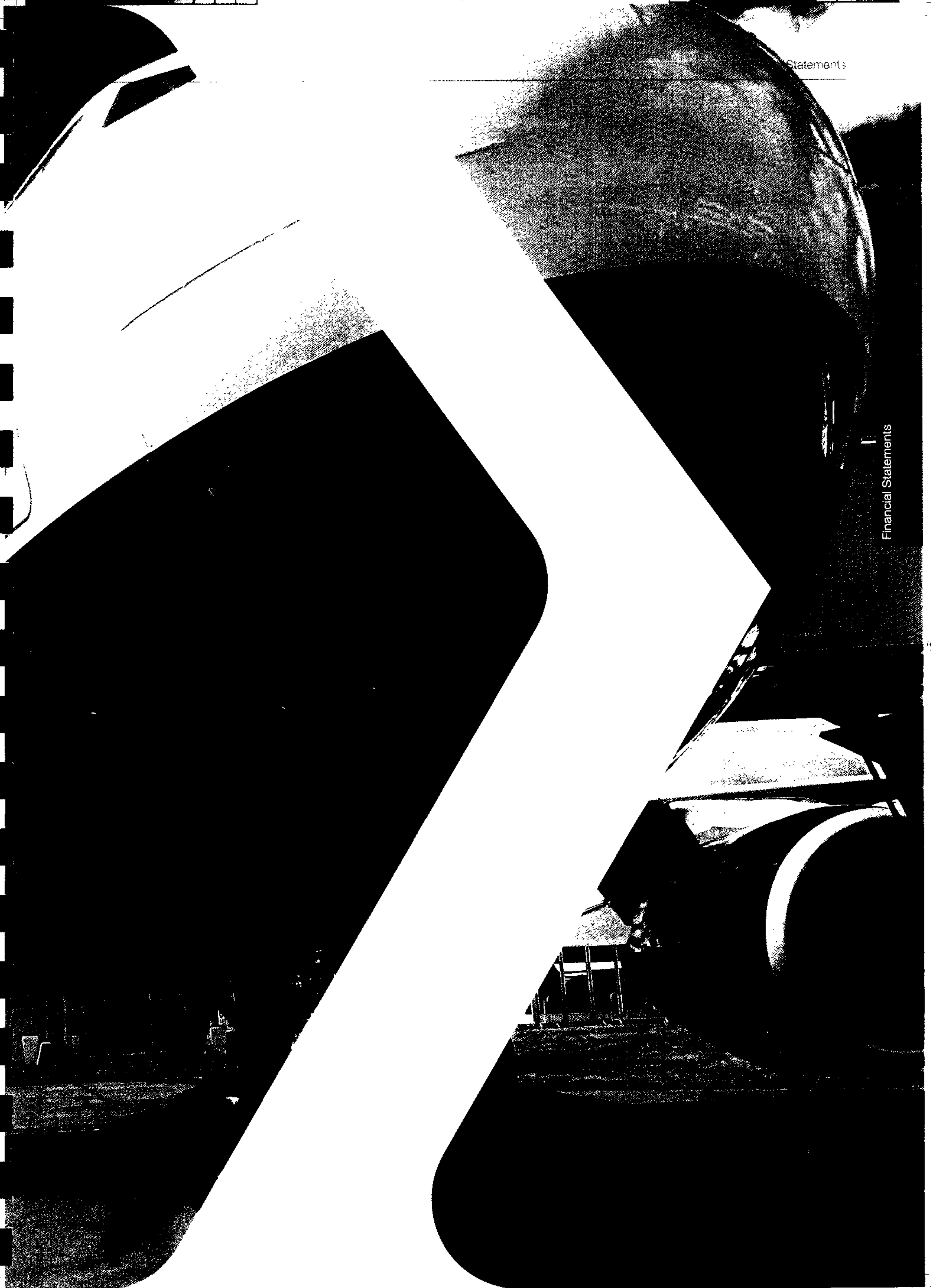
Gareth Davies

16 September 2020

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 2020

		2019-20		2018-19	
	Note	**Core Department & Agencies** £m	**Departmental Group** £m	Core Department & Agencies £m	Departmental Group £m
Income from sale of goods and services	4	(165)	(2,974)	(240)	(2,755)
Other operating income	4	(2,323)	(3,658)	(2,519)	(3,575)
Total Operating Income		**(2,488)**	**(6,632)**	(2,759)	(6,330)
Staff costs	3.1	469	2,688	425	2,498
Purchase of goods and services	3.2	2,549	6,270	2,128	5,658
Grants	3.3	19,227	4,033	12,976	3,368
Depreciation and impairment charges	3.4	187	7,240	121	6,922
Provision expense	3.5	(51)	531	87	102
Other operating expenditure	3.6	65	409	4,224	(156)
Total Operating Expenditure		**22,446**	**21,171**	19,961	18,392
Net Operating Expenditure		**19,958**	**14,539**	17,202	12,062
Share of (profit) / loss of associate	4, 15	(30)	(30)	(40)	(40)
Finance income	4	(733)	(93)	(680)	(24)
Finance expense	3.7	346	1,434	204	1,396
Net Expenditure		**19,541**	**15,850**	16,686	13,394
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	(249)	(7,463)	(104)	(29,250)
Net (gain) / loss on revaluation of intangibles	6	-	1	-	(11)
Share of associate's other comprehensive net (income) / expenditure	15	43	43	62	62
Actuarial (gain) / loss on pension schemes	25	(117)	(1,134)	154	173
Impairments through Revaluation Reserve	5	-	4	-	-
Deferred tax movement	22	-	181	-	443
Reversionary interest on M6 toll road	SoCTE	(21)	(21)	(2)	(2)
Items that will or may subsequently be reclassified to net operating costs:					
Financial assets – net change in fair values	SoCTE	(13)	(39)	(79)	(97)
Cash flow hedge – effective portion of fair value change	SoCTE	-	(5)	-	36
Total Comprehensive Net Expenditure		**19,179**	**7,415**	16,717	(15,252)

Grants were classified under "*Other operating expenditure*" in the 2018-19 Annual Report and Accounts.

The Notes on **pages 204 to 296** form part of these financial statements.

Group Statement of Financial Position

as at 31 March 2020

		2019-20		2018-19	
	Note	**Core Department & Agencies** £m	**Departmental Group** £m	Core Department & Agencies £m	Departmental Group £m
Property, plant and equipment	5	9,538	474,095	9,075	463,408
Investment properties	8	-	227	-	233
Right of use assets	7	365	930	-	-
Intangible assets	6	58	208	42	192
Loans	11	30,964	1,379	30,395	500
Investment in equities	12	463	723	449	674
Public dividend capital	13	33	33	33	33
Derivatives	14	-	474	-	340
Investment in associates	15	338	338	380	380
Trade and other receivables	17	433	32	686	14
Inventories	16	596	596	539	539
Total non-current assets		**42,788**	**479,035**	41,599	466,313
Assets held for sale	9	-	36	1	28
Inventories	16	-	315	-	277
Derivatives	14	-	10	-	11
Trade and other receivables	17	338	1,960	413	2,032
Cash and cash equivalents	18	531	974	213	814
Total current assets		**869**	**3,295**	627	3,162
Total Assets		**43,657**	**482,330**	42,226	469,475
Trade and other payables	19	(2,009)	(5,311)	(1,297)	(5,703)
Borrowings	20	(172)	(1,297)	(111)	(119)
Derivatives	14	-	(48)	-	(52)
Provisions	23	(577)	(864)	(513)	(721)
Total current liabilities		**(2,758)**	**(7,520)**	(1,921)	(6,595)
Total Assets less net current liabilities		**40,899**	**474,810**	40,305	462,880
Provisions	23	(777)	(941)	(962)	(1,146)
Other payables	19	(1,162)	(2,731)	(1,239)	(2,982)
Borrowings	20	(4,258)	(28,857)	(3,942)	(28,647)
Financial guarantee contracts	21	(3,938)	-	(4,066)	-
Derivatives	14	-	(847)	-	(981)
Deferred tax liabilities	22	-	(3,580)	-	(3,003)
Total non-current liabilities		**(10,135)**	**(36,956)**	(10,209)	(36,759)
Assets less liabilities excl. pension liabilities		**30,764**	**437,854**	30,096	426,121
Pension liability	25	(1,416)	(4,066)	(1,526)	(4,873)
Assets less liabilities		**29,348**	**433,788**	28,570	421,248
Taxpayers' equity and other reserves:					
General fund		(26,294)	(82,425)	(25,777)	(77,112)
Revaluation reserve		(2,606)	(350,544)	(2,358)	(343,361)
Hedging reserve		-	3	-	8
Financial assets at fair value through OCI reserve		(448)	(822)	(435)	(783)
Total equity and other reserves		**(29,348)**	**(433,788)**	(28,570)	(421,248)

The Group has adopted IFRS 16 'Leases' from 1 April 2019. As permitted by the FReM, the Group has implemented it prospectively, without restating prior year figures. **Note 1.6** contains further information on the impact of the change in accounting policies.

The Notes on **pages 204 to 296** form part of these financial statements.

Bernadette Kelly CB
10 September 2020

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

Group Statement of Cash Flows

for the year ended 31 March 2020

		2019-20		2018-19	
	Note	**Core Department & Agencies** £m	**Departmental Group** £m	Core Department & Agencies £m	Departmental Group £m
Cash flows from operating activities					
Net expenditure for year		(19,541)	(15,850)	(16,686)	(13,394)
Adjustments for non-cash transactions other than pension schemes	3, 4	(36)	8,437	4,214	6,988
Adjustments for non-cash transactions related to pension schemes	3, 4	7	327	73	368
(Increase) / decrease in inventories	16	(57)	(95)	(108)	(128)
less impairment of inventory		(15)	(15)	(4)	(4)
(Increase) / decrease in trade and other receivables	17	329	54	3,324	(250)
less movements in receivables relating to items not passing through the Statement of Comprehensive Net Expenditure		20	4	(4,064)	(11)
Increase / (decrease) in trade and other payables and borrowings	19, 20	583	(191)	86	(94)
less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure		(256)	(104)	14	(289)
(Increase) / decrease in derivative assets	14	-	(133)	-	145
Increase / (decrease) in derivative liabilities	14	-	(138)	-	(134)
less non-cash movements in derivatives		-	271	-	(12)
Use of provisions	23	(369)	(1,039)	(364)	(449)
Adjustment for capital and interest element of PFI payments		3	19	2	80
Net cash outflow from operating activities		**(19,332)**	**(8,453)**	(13,513)	(7,184)
Cash flows from investing activities					
Purchase of property, plant and equipment – additions	5	(340)	(10,915)	(368)	(11,835)
Purchase of property, plant and equipment – non-cash additions		21	20	2	2
Adjustments for movement in capital accruals relating to additions		1	(676)	-	229
Purchase of intangible assets – cash additions	6	(22)	(34)	(14)	(15)
Proceeds of disposal of assets and assets held for sale	9	6	546	-	1,478
Purchase of other investments		(1)	(1)	(1)	(1)
Proceeds of disposal of investments and investment property		-	8	-	14
Capital element of lands provision		331	463	245	212
Loans to other bodies	11	(12,618)	(899)	(6,450)	(365)
Repayments from other bodies	11	12,049	20	2,959	20
Repayments to National Loans Fund		-	-	(1)	(1)
Net cash outflow from investing activities		**(573)**	**(11,468)**	(3,628)	(10,262)

	Note	2019-20 Core Department & Agencies £m	2019-20 Departmental Group £m	2018-19 Core Department & Agencies £m	2018-19 Departmental Group £m
Cash flows from financing activities					
From the Consolidated Fund (Supply) – current year		20,487	20,487	17,429	17,429
Advances from the Contingencies Fund		3,600	3,600	-	-
Repayments to the Contingencies Fund		(3,600)	(3,600)	-	-
Repayments of loans from the National Loans Fund		-	-	1	1
Repayments of principal on leases		(48)	(174)	-	-
Capital element of payments in respect of finance leases		-	-	-	(2)
Capital element of payments in respect of on-balance sheet PFI contracts		(3)	(19)	(2)	(80)
Net financing		**20,436**	**20,294**	17,428	17,348
Net increase / (decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the *Consolidated* Fund		***531***	**373**	*287*	*(98)*
Payments of amounts due to the Consolidated Fund		(213)	(213)	(221)	(221)
Net increase / (decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		**318**	**160**	66	(319)
Cash and cash equivalents at the beginning of the period		**213**	**814**	147	1,133
Cash and cash equivalents at the end of the period		**531**	**974**	213	814

The Notes on **pages 204 to 296** form part of these financial statements.

Financial Statements

Group Statement of Changes in Taxpayers' Equity

as at 31 March 2020

	Note	General Fund	Revaluation Reserve	Hedging Reserve	*Financial* assets at fair value through OCI Reserve	Total Reserves
		£m	£m	£m	£m	£m
Balance at 31 March 2018		(73,370)	(314,531)	(28)	(686)	(388,615)
Net (gain) / loss on revaluation of property, plant and equipment	5	-	(29,250)	-	-	(29,250)
Net (gain) / loss on revaluation of intangible assets	6	-	(11)	-	-	(11)
Change in fair value of derivatives	14	-	-	36	-	36
Net (gain) / loss on revaluation of investments	15, 3.4	-	-	-	(97)	(97)
Non-cash charges – auditor's remuneration	3.2	(1)	-	-	-	(1)
Transfers between reserves for excess depreciation		(125)	125	-	-	-
Net expenditure for the year		13,394	-	-	-	13,394
Reversionary interest on M6 toll road		(2)	-	-	-	(2)
Deferred tax movements	22	-	443	-	-	443
Actuarial (gain) / loss recognised in *pension scheme*	25	173	-	-	-	173
Share of other comprehensive net (income) / expenditure of associate	15	62	-	-	-	62
Other movements		(91)	(137)	-	-	(228)
Balance as adjusted by income and expense for 2018-19		(59,960)	(343,361)	8	(783)	(404,096)
Net Parliamentary Funding – drawn down		(17,429)	-	-	-	(17,429)
Net Parliamentary Funding – deemed		(108)	-	-	-	(108)
Supply payable / (receivable) adjustment		186	-	-	-	186
CFERs payable to the Consolidated Fund		199	-	-	-	199
Balance at 31 March 2019		(77,112)	(343,361)	8	(783)	(421,248)

	Note	General Fund	Revaluation Reserve	Hedging Reserve	Financial assets at fair value through OCI Reserve	Total Reserves
		£m	£m	£m	£m	£m
Balance at 1 April 2019		**(77,112)**	**(343,361)**	**8**	**(783)**	**(421,248)**
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	15, 3.4	-	-	-	(39)	(39)
Non-cash charges – auditor's remuneration	3.2	(1)	-	-	-	(1)
Transfers between reserves		(254)	254	-	-	-
Net expenditure for the year		15,850	-	-	-	15,850
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	5	-	4	-	-	4
Share of other comprehensive net (income) / *expenditure of associate*	15	43	-	-	-	43
Balance as adjusted by income and expense for 2019-20		**(62,471)**	**(350,544)**	**3**	**(822)**	**(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)
Repayments to the Contingencies Fund		3,600	-	-	-	3,600
Supply payable adjustment		503	-	-	-	503
CFERs payable to the Consolidated Fund		216	-	-	-	216
Balance at 31 March 2020		**(82,425)**	**(350,544)**	**3**	**(822)**	**(433,788)**

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 204 to 296** form part of these financial statements.

Financial Statements

Statement of Changes in Taxpayers' Equity

Core Department and Agencies

as at 31 March 2020

	Note	General Fund £m	Revaluation Reserve £m	Financial assets at fair value through OCI Reserve £m	Total Reserves £m
Balance at 31 March 2018		(25,660)	(2,118)	(356)	(28,134)
Net (gain) / loss on revaluation of property, plant and equipment	5	-	(104)	-	(104)
Net (gain) / loss on revaluation of investments	12	-	-	(79)	(79)
Non-cash charges – auditor's remuneration	3.2	(1)	-	-	(1)
Transfers between reserves for excess depreciation		(1)	1	-	-
Net expenditure for the year		16,686	-	-	16,686
Reversionary interest on M6 toll road		(2)	-	-	(2)
Actuarial (gain) / loss recognised in pension scheme	25	154	-	-	154
Share of other comprehensive net (income) / expenditure of associate	15	62	-	-	62
Other movements		137	(137)	-	-
Balance as adjusted by income and expense for 2018-19		(8,625)	(2,358)	(435)	(11,418)
Net Parliamentary Funding – drawn down		(17,429)	-	-	(17,429)
Net Parliamentary Funding – deemed		(108)	-	-	(108)
Supply payable / (receivable) adjustment		186	-	-	186
CFERs payable to the Consolidated Fund		199	-	-	199
Balance at 31 March 2019		*(25,777)*	*(2,358)*	*(435)*	*(28,570)*

	Note	General Fund £m	Revaluation Reserve £m	Financial assets at fair value through OCI Reserve £m	Total Reserves £m
Balance at 1 April 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	-	-	(13)	(13)
Non-cash charges – auditor's remuneration	3.2	(1)	-	-	(1)
Transfers between reserves		(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 other comprehensive net (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)**	**(448)**	**(9,394)**
Net Parliamentary Funding – drawn down		(20,487)	-	-	(20,487)
Net Parliamentary Funding – deemed		(186)	-	-	(186)
Advances from the Contingencies Fund		(3,600)	-	-	(3,600)
Repayments 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		**(26,294)**	**(2,606)**	**(448)**	**(29,348)**

The Notes on **pages 204 to 296** form part of these financial statements.

Financial Statements

Notes to the Financial Statements

Notes to the financial statements provide additional information required by statute and accounting standards to explain a particular feature of the financial statements. The Notes which follow will also provide explanations and additional disclosure to assist readers' understanding and interpretation of the financial statements and expand upon the accounting policies in **Note 1**.

Note	
1	[illegible]
2	[illegible]
3	[illegible]
4	[illegible]
5	[illegible]
6	[illegible]
7	[illegible]
8	[illegible]
9	[illegible]
10	[illegible]
11	[illegible]
12	[illegible]
13	[illegible]
14	[illegible]
15	[illegible]
16	[illegible]
17	[illegible]
18	[illegible]
19	[illegible]
20	[illegible]
21	[illegible]
22	[illegible]
23	[illegible]
24	[illegible]
25	[illegible]
26	[illegible]
27	[illegible]
28	[illegible]
29	[illegible]
30	[illegible]
31	[illegible]
32	[illegible]

1. Statement of Significant Accounting Policies

This Note sets out the accounting policies that determine 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. Depreciation and maintenance of those assets, disclosed in **Note 4**, are also material expenditure items. These assets are both specialised and complex and so their valuation requires a significant degree of judgement and use of estimates. Estimation uncertainties may therefore result in material adjustments to the values of the assets and the amount of depreciation recognised in future accounting periods. These issues are discussed further in **Note 1.4** and in **Note 5**.

The balances and transactions that are materially exposed to estimation uncertainties include: property, plant and equipment (and the resulting depreciation charge); investments in equities; provisions; and defined benefi t pension deficits (and the related actuarial gains and losses). Where their potential impact is significant these uncertainties are discussed in **Note 1** (at 1.4.3, 1.4.4, 1.20.2 and 1.21.2); sensitivity analyses reflecting the bounds of estimation uncertainty are presented in the relevant Notes (**Notes 5** and **25**).

1.1 Basis of preparation

These financial statements have been prepared in accordance with the 2019-20 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 a public sector context.

Where the FReM permits a choice of accounting policy, the Department has selected the policies which are judged to be most appropriate to give a true and fair view of the circumstances of the Department for Transport Group. They have been applied consistently in dealing with items that are considered material to the financial statements.

In addition to the primary statements prepared under IFRS, the FReM requires the Department to prepare a Statement of Parliamentary Supply and supporting Notes showing the outturn against 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.

IFRS 16 Leases became effective for periods beginning on or after 1 January 2019, however the FReM deferred adoption until 2021. The Department for Transport and the Department for Digital, Culture, Media & Sport contain material components that prepare their accounts in accordance with IFRS rather than the FReM, therefore the components had to adopt IFRS 16 this year. To ease preparation of these group accounts, HM Treasury permitted these Departments to adopt IFRS 16 in 2019-20. The cumulative catch-up method has been used; this is described in more detail in **Note 1.6.** Consequently, the comparatives for 2018-19 reflect the requirements of *IAS 17 Leases*.

1.2 Accounting convention

These financial statements have been prepared on a going concern basis under the historical cost convention modified by the revaluation of certain categories of non-current assets and financial instruments.

Valuation bases

Property, plant and equipment and intangible assets are held at revalued amounts, to produce comparable and current values for assets and their components that have been accumulated over many decades or, in some cases, centuries, whose costs would be materially affected by inflation. This incentivises good asset management and enables the reader to assess the performance of the leadership team against this objective.

Certain balances and transactions in these statements are underpinned by surveyors' valuations of land and buildings, including £232m of the investment in LCR Ltd (**Notes 12.2** and **27.1**); significant land and buildings (**Note 5**), and £499m of pension assets (**Note 25**). Surveyors have 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 their valuations cannot be relied upon, but rather that less certainty should be attached to those valuations. The Department does not consider the limit of uncertainty on the total value of these balances to be material.

Where assets are held for their service potential, they are valued on an existing use basis, which necessitates the use of depreciated replacement cost for specialised assets, most significantly the Strategic Road Network and the Railway Network, as discussed in **Note 1.4**. This valuation basis is a cost approach, as defined by IFRS 13, and gives the maximum amount that an acquirer would pay. It reflects the fact that specialised assets are rarely sold on an arm's length basis and rarely acquired and held to generate income. This is consistent with the FReM.

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 Group evaluates the inputs and the resulting valuation to categorise the valuation within the three-level fair value hierarchy, depending on the lowest-level significant input.

- A level 1 input is a quoted market price for an identical asset or liability (for example, the price of a bond).
- A level 2 input is not a quoted price, but is still observable, directly or indirectly (for example, bond yield curves).
- A level 3 input is unobservable (for example, internally-generated forecast cash flows, or technical specifications).

Note 31 discloses valuations by their category in this hierarchy.

Going Concern

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. The Act for 2020-21 was approved by Parliament and received Royal Assent in July 2020. The Department considers there is no reason to believe that future approvals will not be forthcoming. Hence, the going concern basis is considered appropriate for these financial statements.

1.3 Basis of consolidation

In accordance with the FReM, these financial statements comprise a consolidation of the core Department, its agencies (the "Core Department and Agencies") and those other entities which fall within the Departmental boundary defined by Statutory Instrument 2020 No. 17 made under the Government Resources & Accounts Act 2000 (together known as the "Departmental Group"). **Note 26** lists all the entities within the boundary, and separately lists entities that are sponsored by the Department but are not consolidated, including Public Corporations and Trading Funds.

On 31 July 2020, the Office for National Statistics reclassified twelve Train Operating Companies as Public Corporations, with effect from 1 April 2020. These companies were contracted to deliver passenger rail services under franchise agreements with the Department. The reclassification decision assessed that the additional powers the Department obtained under the Emergency Measures Agreements gave it control for accounting purposes over these companies. However, the companies do not meet the criteria for consolidation as set out in the FReM and summarised above. Instead, these accounts provide the disclosures required by IFRS 12 for entities that are controlled but not consolidated. These are set out in **Note 28**.

On 31 July 2020, the Office for National Statistics reclassified twelve Train Operating Companies as Public Corporations, with effect from 1 April 2020. These companies were contracted to deliver passenger rail services under franchise agreements with the Department. The reclassification decision assessed that the additional powers the Department obtained under the Emergency Measures Agreements gave it control for accounting purposes over these companies. However, the companies do not meet the criteria for consolidation as set out in the FReM and summarised above. Instead, these accounts provide the disclosures required by IFRS 12 for entities that are controlled but not consolidated. These are set out in **Note 28**.

Where two columns are included in the accounting notes, 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.

Following the FReM, Transfer by Absorption accounting is applied to all transfers of functions (and entities) between public-sector bodies, including those 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.

1.4 Property, plant and equipment

Property, plant and equipment is described and analysed in **Note 5**.

1.4.1 Recognition

Assets are recognised initially at cost, which comprises purchase price or construction cost, 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 new infrastructure projects, costs are expensed until reasonable certainty of go-ahead is achieved: 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 recognition points depend on the process used; the most significant processes and recognition points are:

- Compulsory purchase – General Vesting Declaration: Signature of the General Vesting Declaration by the Secretary of State, simultaneously with service of notice on the property owner;
- Compulsory purchase – Notice to Treat: Service of the Notice of Entry on the owner;
- Compensatory processes, such as Statutory Blight: The owner's demonstration of compliance with the requirements and acceptance of the owner's application;
- Discretionary processes, such as Need to Sell: The owner's demonstration of compliance with the requirements and acceptance of the owner's application.

Costs of construction include the cost of access to adjacent land, where this is required for construction purposes. Access is typically obtained through Temporary Possession; under this process, the owner receives compensation for any losses suffered.

During construction, land and properties that are on the route of the infrastructure are recognised as part of an asset under construction. Those that are either outside of this boundary, acquired under discretionary purchase schemes rather than for construction, or are subject to Statutory Blight in Phase 2B are classified as inventory.

At the recognition point, a balancing amount is also recognised as a liability; either as a provision, where the timing or amount of the payment is subject to material uncertainty, or otherwise as an accrual. In some cases, liabilities relating to capital expenditure will persist for some time, for example, pending the final settlement of 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 on the next page, 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 servicing 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.

With effect from 1 April 2018, 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 commencement of the works; previously, enhancements to the Strategic Road Network and renewals and enhancements of the Railway Network were recorded as Assets under Construction. Similarly, the reversionary interest in the M6 Toll, which was also previously presented under Assets under Construction, is now also presented under the heading of the Strategic Road Network. This change is considered to better reflect the integrated nature of these networked assets.

The Strategic Road Network (SRN) comprises the motorways and all-purpose trunk roads in England, which form a single integrated network. 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 assets including London Underground and other regional systems, and heritage railway 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

Assets under Construction represents discrete items or projects, outside the footprint of the networked infrastructure assets. The most significant item comprises preparatory work for construction of HS2.

Renewal and enhancement works in progress to the Infrastructure Assets are now recorded against the strategic road network asset and the railway network asset from the commencement of those works.

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 Information Technology 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 Depreciated Replacement Cost (DRC), because they are specialised and are used to deliver a service to the public. DRC 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:

- the type of asset that would be constructed;
- the cost of constructing that asset; and
- the service capacity of the existing asset.

The DRC is calculated by determining a gross replacement cost (reflecting the first two sets of judgements) for each Network which is then adjusted (or "depreciated") to reflect the Network's condition and capacity (reflecting the third set of judgements), as described below. The determination of the gross replacement cost follows guidelines issued by the Royal Institute of Chartered Surveyors. 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 green-field 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 periods, it is updated by adjusting a standard price list of the Network's components using input indices.

Renewals and enhancements to networked assets are recognised initially at cost. However, to conform to DRC valuation assumptions, the difference between the cost and DRC of renewal and enhancement works in progress is reflected in the valuation of the relevant Network at each year-end. This typically results in a downwards revaluation, due to the specific costing assumptions required for DRC valuations and the inherent difficulty of adding value to a complex, integrated live asset; i.e. it is more expensive to upgrade infrastructure whilst maintaining a full timetable than it would to close lines temporarily or build lines from scratch on a greenfield site. This is recognised in Other Comprehensive Net Expenditure to the extent that a revaluation surplus is available. This 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

Network Rail's own financial statements hold the Railway Network at fair value using an income approach. This differs significantly from the DRC of the Railway Network included here. This is considered appropriate for the following reasons.

Network Rail uses an income-based approach because it is a regulated entity that prepares financial statements under un-adapted IFRS, in accordance with the Companies Act. Having elected to account for the Railway Network on a revaluation basis, it must determine the Network's fair value on an IFRS 13 basis. The income approach assesses the discounted future cash flows that are expected to be generated by the rail network, including an assessment of under and outperformance against the current 5-year regulatory determination. The RAB is, however, lower than the replacement cost of the Network. This method of setting charges has been applied to the Railway Network since privatisation and is widely used in other regulated industries. This regulated income comprises track access payments from Train Operating Companies, under the network licence, and a grant from the Group.

The Group values Infrastructure Assets, including the Railway Network, using DRC, which is mandated by the FReM and applied by all government departments for inclusion in the Whole of Government Accounts. It reflects the basis on which public services are funded.

Applying a DRC valuation to the Railway Network in these financial statements results in a higher carrying value than Network Rail's income-based valuation, as it reflects the replacement cost for the entire network. This includes significant elements funded before the RAB was introduced, such as earthworks, long-life structures, and operational land. Together, they comprise much of the value for DRC purposes and are essential to the operation of the railway network. This cost-based approach therefore measures the significant economic benefits of the entire network to Great Britain, which exceed the monetary returns receivable by the holder of the railway network licence.

In 2019-20 the overall upwards revaluation of the Railway Network of £3.8bn in these accounts is driven by the following factors. Upwards movements of £7.3bn are caused by increases in costing rates. Offsetting downwards revaluation movements are caused by: write-down of the Core Valleys line from DRC value to its RAB-based market value upon transfer to the Welsh Government (£1.9bn); and write down of AUC to its *proxy-DRC value* (£1.6bn).

Defining the modern equivalent asset

A modern equivalent asset that is 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 the standard designs are 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 electrified, or where electrification is underway. This is reflected by defining categories for different technologies and allocating the modern equivalent network's components into those categories.

Costing the modern equivalent asset

Costings are taken from a range of sources, involving estimation. 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, the cost of a modern equivalent component may not be more expensive than the actual component.

The sources for costings 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 until the next full valuation exercise.

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 -65% reflects the experience of Highways England.

Greenfield assumption

Comparative costs for constructions on greenfield sites may be difficult to find, 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%.

Cost risk factor

After allowing for known costs in constructing assets 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.

Sensitivity to estimation uncertainty

These accounting estimates are subject to material 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
Land compensation adjustment (normally -65%)	10%	Maximum and minimum compensation adjustments of -75% and -55%
Greenfield assumption adjustment (normally -32%)	10%	Maximum and minimum adjustments of -42% and -22%
Cost risk factor, currently +22.7%	10%	Maximum and minimum risk factors of +32.7% and +12.7%

The Strategic Road Network (including renewal and enhancement works in progress)

Defining the modern equivalent asset

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.

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Costing the modern equivalent asset

The Group considers that the best costing approach for the modern equivalent asset 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 cost data is updated using professional judgement.

Full and interim valuations

During the year, a quinquennial review of the valuation of pavements and lands was performed. This resulted in an improved valuation methodology as well as updated costing rates. 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. One significant output of the review was the use of the Highways England Capital Enhancement Cost Index (HECI) which replaced the Road Construction Resource Cost index (ROCOS). HECI will be produced biannually by RICS and more accurately reflects the costs experienced by Highways England. Further quinquennial reviews of other elements of the SRN, including structures and technology, will take place in future years.

Between revaluations, values are adjusted using regional land and building indices calculated by engineering consultants on behalf of Highways England, using the Royal Agricultural University rural land indices (previously the RICS Rural Land Market Survey) and the Land Registry Office House Price Survey urban land indices.

The adoption of HECI to replace ROCOS, and of the Royal Agricultural University rural land indices to replace the RICS Rural Land Market Survey are regarded as changes in accounting estimates and are therefore reflected prospectively in these financial statements.

In 2019-20 the overall upwards revaluation of the Strategic Road Network of £3.5bn is driven by the following factors. Upwards movements are caused by: the quinquennial review of pavements and lands (£9.9bn); and movement in the ROCOS index (£0.9bn). Offsetting downwards revaluation movements are caused by: technical valuation adjustment reflecting modern specification of the central reservation (£3.4bn); reductions in the location factors applied to construction costs (£2.6bn); and write down of AUC to proxy-DRC value (£1.3bn).

Sensitivity to estimation uncertainty

These accounting estimates are subject to material estimation uncertainty. The following boundaries 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 of the valuation 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 asset valuation is sensitive to other indices, but HECI is the most significant.

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 the Office for National Statistics.

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 with no 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 to acquire 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 remaining part of the asset's life, we consider that it is 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, which is 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 and the related liabilities are therefore recognised in the provisions note initially.

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 net asset 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, with the reduction 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 a determinable useful economic life 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 are typically weighted averages, based on management judgements of the remaining lives for detailed categorisations of the underlying components. They are disclosed in the table below:

Type	Remaining Life (Years)
Earthworks	99
Structures	61
Electrification, plant & signals	33
Operational property	32
Track	19
Telecoms	13
Land	-

This is a critical judgement based on the available data, including that used for Network Rail's whole-life costing assessments. However, careful judgement is 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 a range of methods, including physical inspection and the use of electronic sensors. However, for some types of component there is only a limited amount of data available, 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:

1.6.4 Lease expenditure

Expenditure includes interest, straight-line depreciation, any asset impairments and any change 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 for those shorter than twelve months are expensed.

1.6.5 The Group as lessor

Where the Group acts as lessor, it assesses whether those 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 is recognised in income. For operating leases, rental income is recognised on a systematic basis, usually straight-line, over the lease term.

1.6.6 Transitional arrangements

The Group has made the following determinations:

- To adopt IFRS 16 retrospectively, without restatement of comparative balances. Consequently, the Statement of Comprehensive Net Expenditure and the Statement of Financial Position for 2018-19 reflect the requirements of IAS 17;
- Not to reassess the classification of contracts previously classified as leases or service contracts under IAS 17 and IFRIC 4. However, new contracts have been classified using the IFRS 16 criteria;
- For leases previously treated as operating leases:
  - To measure the liability at the present value of the remaining payments, discounted by the incremental cost of borrowing as at the transition date;
  - To measure the asset at an amount equal to the liability, adjusted for any prepayment or accrual balances previously recognised for that lease;
  - To exclude leases whose term ends within twelve months of first adoption;
  - To use hindsight in assessing remaining lease terms;
  - For leases previously identified as onerous and provided for, to use the practical expedient of adjusting the right-of-use asset by the amount of that provision.
- For leases previously treated as finance leases:
  - To use the carrying amount of the lease asset and liability measured immediately before first adoption under IAS 17 as the carrying value of the right-of-use asset and lease liability as at first adoption.
- Where the group is an intermediate lessor, to re-assess the classification of the sub-lease as an operating or finance lease. Arrangements previously treated as operating leases now found to be finance leases have been treated as new leases, commencing at first adoption.

In addition, the Group has made the following determination:

- Not to adjust for leases previously treated as operating leases, where the asset was an investment property measured using the IAS 40 fair value model.

1.6.7 Estimates and judgements

For embedded leases, the Group determines the amounts to be recognised as the right-of-use asset and lease liability based on the stand-alone price of the lease component and the non-lease component or components. This determination reflects the 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 rights of access through adjacent land which the lessee does not control. In more remote locations, where stand-alone prices are not readily observable, the Group has elected to take the practical expedient of treating the entire contract as a lease.

The FReM requires that right-of-use asset held under "peppercorn" leases should 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 consideration that is nominal from 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.

Where an existing use value is required, it is 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.

1.6.8 Accounting for leases under IAS 17 (2018-19)

Arrangements conveying the right to use an asset are treated as leases, regardless of their legal form. Leases are classified as finance leases if the risks and rewards of ownership are transferred to the lessee.

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 payments included in the liability are those that are fixed or in-substance fixed, excluding changes arising, for example, 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 which is set on a calendar year basis (1.99% for 2019 and 1.27% for 2020); however, Network Rail undertake external borrowing independently of the Exchequer and their incremental cost of borrowing is calculated to reflect this (2019-20: 2.245%). The lease liability is presented within the Borrowings note to the accounts.

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, where the lease requires nominal consideration (a type of arrangement often described as a "peppercorn" lease), 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 that the cost model is a reasonable proxy for the fair value model for leases of items other than land and property, and for leases of land and property with regular rent reviews. For other 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, reassessments and modifications. Reassessments and modifications 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
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 carrying value of the asset, the excess amount is recognised in expenditure

1.6.4 Lease expenditure

Expenditure includes interest, straight-line depreciation, any asset impairments and any change 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 for those shorter than twelve months are expensed.

1.6.5 The Group as lessor

Where the Group acts as lessor, it assesses whether those 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 is recognised in income. For operating leases, rental income is recognised on a systematic basis, usually straight-line, over the lease term.

1.6.6 Transitional arrangements

The Group has made the following determinations:

- To adopt IFRS 16 retrospectively, without restatement of comparative balances. Consequently, the Statement of Comprehensive Net Expenditure and the Statement of Financial Position for 2018-19 reflect the requirements of IAS 17;
- Not to reassess the classification of contracts previously classified as leases or service contracts under IAS 17 and IFRIC 4. However, new contracts have been classified using the IFRS 16 criteria;
- For leases previously treated as operating leases:
  - To measure the liability at the present value of the remaining payments, discounted by the incremental cost of borrowing as at the transition date;
  - To measure the asset at an amount equal to the liability, adjusted for any prepayment or accrual balances previously recognised for that lease;
  - To exclude leases whose term ends within twelve months of first adoption;
  - To use hindsight in assessing remaining lease terms;
  - For leases previously identified as onerous and provided for, to use the practical expedient of adjusting the right-of-use asset by the amount of that provision.
- For leases previously treated as finance leases:
  - To use the carrying amount of the lease asset and liability measured immediately before first adoption under IAS 17 as the carrying value of the right-of-use asset and lease liability as at first adoption.
- Where the group is an intermediate lessor, to re-assess the classification of the sub-lease as an operating or finance lease. Arrangements previously treated as operating leases now found to be finance leases have been treated as new leases, commencing at first adoption.

In addition, the Group has made the following determination:

- Not to adjust for leases previously treated as operating leases, where the asset was an investment property measured using the IAS 40 fair value model.

1.6.7 Estimates and judgements

For embedded leases, the Group determines the amounts to be recognised as the right-of-use asset and lease liability based on the stand-alone price of the lease component and the non-lease component or components. This determination reflects the 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 rights of access through adjacent land which the lessee does not control. In more remote locations, where stand-alone prices are not readily observable, the Group has elected to take the practical expedient of treating the entire contract as a lease.

The FReM requires that right-of-use asset held under "peppercorn" leases should 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 consideration that is nominal from 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.

Where an existing use value is required, it is 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.

1.6.8 Accounting for leases under IAS 17 (2018-19)

Arrangements conveying the right to use an asset are treated as leases, regardless of their legal form. Leases are classified as finance leases if the risks and rewards of ownership are transferred to the lessee.

Finance leases are capitalised at the commencement of the lease term at the lower of the fair value of the leased item or the present value of the minimum lease payments. Finance charges are allocated between periods to achieve a constant rate of interest on the remaining liability balance and are charged directly against operating expenditure. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Other leases are classified as operating leases. Operating lease payments are recognised as an expense in Net Operating Expenditure on a straight-line basis over the lease term.

1.7 Service concessions

The Group has other contracts under which private-sector entities develop, finance, operate and maintain an 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, IFRIC 12 Service Concession Arrangements applies. The Group *recognises the infrastructure as an asset, with a* matching liability. The asset is accounted for as property plant and equipment. The treatment of the liability is determined by the basis on which the private sector operator recovers its investment, either as a right to receive consideration from the Group or, less commonly, as a right to charge the public.

- 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 the public, (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 does not control or regulate the M6 Toll Motorway, therefore this concession is outside the scope of IFRIC 12. However, the Group controls a significant residual interest in it. 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 that reverts to the Group at the end of the concession for no consideration 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. This comprises assets acquired for the construction of infrastructure, typically under discretionary schemes, but which are not reflected in the asset under construction, because either:

- They are not required for construction (because they fall outside the boundary of an infrastructure route): or

- the Group cannot proceed with construction, pending further progress of the legislation, for example, HS2 Phase 2B Statutory Blight.

The most significant valuation bases by value are as follows:

- Land and properties which fall 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 intention is that they will ultimately be sold.

- Land and properties that may fall within the boundary of an infrastructure route but are recognised as inventory pending further progress of the legislation are also held at the lower of cost and net realisable value, but this is determined on the assumption that they will be re-sold in their current form and condition.

- Long-term inventories of special structures (such as tunnels and bridges) are valued at estimated replacement cost.

- The carrying value of excess or obsolete inventory holdings is reduced to the estimated net realisable value.

1.8.1 Critical judgements

The Group considers that, where its ability to carry out construction of an infrastructure depends on further progress of legislation, it should not recognise an asset under construction until the Second Reading has successfully completed. In the meantime, the Group classifies land and properties already acquired 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, their net realisable value is usually no lower than cost.

1.8.2 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, or 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 and 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 2020 are determined from a valuation performed as at that date with Jones Lang LaSalle. Their fair value is deemed to be the market value.

The valuation, which conforms to International Valuation Standards, was performed by splitting the portfolio between one-off individual properties, which are valued separately (11 properties, representing 46% of the total value; 2019: 8 properties, representing 36% of the total value) and the remainder, which are valued under the Beacon method, a process that stratifies them by type and location, and applies appropriate yields to the rental incomes specified by existing leases (assumed to reflect market rents).

These assets are derecognised at the point of disposal, when the recipient obtains control of the asset. If the transaction reflects a sale and leaseback, the asset is transferred from assets held for sale back to its previous category.

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, the investee is accounted for as an associate or a joint arrangement using equity accounting.

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 received.

1.11 Loans, and current and non-current receivables

Loans, trade receivables and accrued income are covered by the financial instruments standard IFRS 9.

Loans (**Note 11**) and receivables (**Note 17**) are recognised initially at fair value, plus transaction costs. Fair value is usually the contractual value.

Thereafter, these assets are held at amortised cost where the Group's business model is to hold them to collect the cash flows and where the cash flows are solely payments of principal and interest on the outstanding principal. Measurement at amortised cost is achieved by discounting the contractual cash flows by the effective interest rate. This is the rate that, at the start of the arrangement, discounts contractual cash flows back to the initial fair value. Issue costs are typically amortised on a straight-line basis, 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 the assets have been written off because there is no reasonable expectation of recovering them. A significant modification to the terms and conditions of a receivable may necessitate the derecognition of one asset and, potentially, the recognition of a new financial asset. During 2018-19, the Department derecognised a material receivable balance, the Financial Indemnity fee due from Network Rail, following a policy decision to remove the fee. This is described in more detail in **Note 17**.

No credit loss allowances are recognised for arrangements with other central government departments (including their executive agencies), the Government's Exchequer Funds and the Bank of England. The Group considers that credit loss allowances for loans between Group members are immaterial, because the core Department is ultimately responsible for funding all other Group members and would therefore prevent credit losses from arising in practice. For other arrangements, 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. The Group considers that none of its loans have either experienced a significant increase in credit risk since origination or are credit-impaired in 2019-20 (2018-19: nil).

1.12 Investments in equities

The Group's equity investments in non-consolidated investees, other than those classified as associates, are financial instruments within the scope of IFRS 9. All are classified as equity instruments held at fair value through other comprehensive net expenditure.

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, equity investments 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, London North Eastern Railway Ltd (LNER), and investments in deadlocked joint ventures. These instruments are measured at fair value using the fair value hierarchy set out in **Note 1.2**. Gains and losses are not reclassified from Other Comprehensive Net Expenditure to Operating Income or Expenditure. On disposal, any cumulative balance is transferred to the General Fund as a transfer between reserves. 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 would be used by market participants, making maximum use of observable inputs. The investees operate in many sectors, therefore a range of techniques are used. They 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 the 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 the transaction also transfers substantially all the risks and rewards of ownership and control of asset.

1.13 Public Dividend Capital

Public Dividend Capital is a form of redeemable investment in public-sector bodies, such as trading funds, which yields dividends based on the investee's financial performance.

As it is found only in central government, the FReM interprets the financial instrument standards, and requires 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 mostly comprise:

- financial instruments that are 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
- financial instruments 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).

These instruments 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 re-stated to fair value at the end of each reporting period. The change is typically recognised in Net Operating Expenditure, except for derivatives used in a hedge of cash flows, covered in **Note 1.16**. Where they are not actively traded, valuations are estimated. Estimates for derivatives and borrowings are constructed from predicted cash flows, reflecting forecast interest rates, exchange rates or inflation rates. This entails some sensitivity to estimation uncertainty. The Group considers that its exposure to exchange rates is fully hedged and so does not include a sensitivity analysis for this risk. However, **Note 30.3** includes a sensitivity analysis of the impact of changes in interest rates and inflation rates of ±1%, which is considered to be reasonably possible.

Financial instruments held at fair value through profit or loss are derecognised when all rights to cash flows expire (for assets); or when all obligations are settled (for liabilities); or when control or the risks and rewards of ownership are transferred.

1.15 Borrowings

The Group has long-term borrowings in the forms of bonds and notes, mainly issued by Network Rail Infrastructure Finance plc, which is part of the Network Rail group, but also by LCR Finance plc and CTRL Section 1 Finance plc. Network Rail is predominantly debt-financed. Prior to its reclassification to the central government sector, and therefore before it became a member of the Group, it raised debt finance by issuing bonds under the Debt Issuance Programme. All three Group members have ceased external borrowing. Some of these instruments are held at fair value to prevent an accounting mismatch, and their accounting treatment is set out in **Note 1.14**.

These financial liabilities are recognised initially at fair value, plus transaction costs. The transaction amount is deemed to be indicative of fair value at the transaction date. Thereafter, any that are not held at fair value are held at amortised cost. Issue costs may be amortised on a straight-line basis, where this does not differ materially from 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 have been satisfied.

1.16 Hedge accounting

The Group's hedging arrangements originate from Network Rail, whose legacy borrowings expose it to financial risks, such as interest rate risk and foreign exchange risk. To manage those risks and to comply with its capital management target set by ORR and applicable to the end of Control Period 5 on 31 March 2019, Network Rail purchased derivatives to cover debt to be raised during Control Period 5. Network Rail's pre-existing portfolio of derivatives to hedge borrowings is being allowed to unwind. However, it may continue to purchase derivatives to manage the risks on other transaction types, mostly purchases of equipment in foreign currencies, with a lower level of materiality. 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, hedge accounting cannot be applied in these statements to derivatives hedging loans from the Department, as the hedged items are eliminated on consolidation, so these derivatives are held at fair value through profit or loss. Therefore, at a Group level, hedge accounting primarily covers Network Rail's external debt.

Under IFRS 9, an arrangement qualifies for hedge accounting if, at inception, the Group formally designates and documents the hedging relationship, which includes: the risk management objective and strategy for undertaking the hedge; identification of the hedging instrument; the hedged item; the nature of the risk being hedged and how the hedge's effectiveness will be assessed. To continue to qualify for hedge accounting, the hedge must remain highly effective in offsetting changes in fair value or cash flows of the hedged item. There are two types of hedge accounting: fair value hedges and cash flow hedges. Their accounting treatment is described as follows.

If a hedging arrangement is not highly effective, it does not qualify for hedge accounting. If the item attributable to the hedged risk is a financial instrument, such as a bond liability, the Group may designate that financial instrument 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 (the derivative) and the hedged item are held at fair value. The change in the fair value of both 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 (derivative) is held at fair value. The change in its fair value is compared with the change in the fair value of the hedged item and the effective part is recognised in Other Comprehensive Net Expenditure. Any ineffective part is recognised immediately in Net Operating Expenditure. The material hedged events for Network Rail have now occurred and there will be no new debt hedging programme. The cumulative gain or loss on the hedging instrument that was recognised directly 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 whether the hedging instrument ceases to meet the criteria or the forecast transaction is no longer expected to occur:

- Where the hedging instrument no longer meets the criteria for hedge accounting, the cumulative gain or loss on the hedging instrument that was recognised directly in equity when the hedge was effective is retained in equity until the forecast transaction occurs;
- Where cash flow hedge accounting is discontinued because the forecast transaction is no longer expected to occur, the cumulative gain or loss on the hedging instrument that was recognised directly in equity when the hedge was effective is reclassified immediately to Net Expenditure.

1.17 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. They are recognised initially at fair value. The Department's only material financial guarantee contract is the Financial Indemnity Mechanism (FIM), which covers instruments issued under Network Rail's Debt Issuance Programme. Network Rail was required to pay a fee for the benefit conferred by the guarantee; this was used to measure the Department's liability. On 25 March 2019, the Secretary of State determined that Network Rail should no longer be required to pay this fee, as it would be funded from grants provided by the core Department, representing a circular flow of funds. This resulted in an impairment of the receivable during 2018-19 (disclosed further in **Note 17**).

Financial guarantees are subsequently measured at the higher of the initial amount, less any subsequent amortisation where appropriate, or of the credit loss allowance. As the FIM covers debt issued by a Group member, the Department considers that the value of the credit loss allowance for this guarantee is nil, because the Department would provide funding to avoid a call.

The core Department determines the fair value of this financial guarantee, shown in **Note 21**, as the estimated value of the reduction in Network Rail's borrowing costs achieved by the FIM. This estimation was prepared by independent experts (Cambridge Economic Policy Associates) for the ORR's Periodic Review 2013 (covering Control Period 5); the ORR confirmed in Periodic Review 2018 that this remains valid for Control Period 6. The liability is amortised to income, to reflect the Department's reducing exposure under the FIM, as the outstanding debt reduces.

1.18 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. They are 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 recognise the contributions payable to the PCSPS, which are expensed 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, all of which are 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.

Every three years, each scheme is subject to a full actuarial funding valuation using the projected unit method based on assumptions agreed between the employer and the actuary to be appropriate for this purpose. Separate valuations are prepared for accounting purposes on an IAS 19 basis as at the balance sheet date, under which the liabilities are measured using the projected unit method based on neutral assumptions and the assets at fair value, using current market bid values. The projected unit credit method estimates the ultimate cost of the pension benefit that employees have earned in the current and prior years. This requires: the determination of how much pension benefit is attributable to the current year and to prior years; the estimation (making actuarial assumptions) of 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 at the current yield on a high-quality corporate bond of equivalent term and currency to the defined benefit obligation. The assumptions that have a material impact on 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 pension payments); and
- earnings assumptions (reflecting the linkage 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, to reflect 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 pension scheme assets and pension scheme liabilities represents either a surplus or a deficit. A pension scheme surplus is recognised as an asset to the extent that it is recoverable, and a pension scheme deficit is recognised in full as a liability.

Changes in the surplus or deficit are categorised between: (a) service cost (including current service cost, past service cost, and gains and losses on curtailments and settlements); (b) net interest expense or income and (c) re-measurement.

The Group presents the first two components in Net Expenditure. Past service costs (including curtailment gains and losses) 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 liability or asset.

Re-measurements, comprising actuarial gains and losses and the return on plan assets (excluding interest), are reflected immediately in the balance sheet with a charge or credit recognised in "Other Comprehensive Net Expenditure", 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.

1.21 Provisions and contingent liabilities

The Group recognises provisions where, at the reporting date, it has a legal or constructive obligation arising from a past event and where a reliable estimate of the amount can be made. If the amount of a present obligation cannot be estimated reliably, 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. Specific recognition points for these are 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 provisions relate to purchase transactions, usually for property, and are classified as provisions solely because the timing or amount of cash consideration is uncertain. The Group reclassifies these provisions as 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 a residual amount as a provision. The Group considers that the amount becomes materially certain when its valuation reaches a high degree of cost maturity. This 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 to accept risk, typically to promote investment in railway assets, by delivering rail infrastructure improvements with multiple stakeholders. Contingent liabilities whose likelihood is other than remote are disclosed in **Note 24** as required by IAS 37. Remote contingent liabilities are disclosed in the Accountability Report to ensure that Parliament remains aware of all arrangements that may require funding. These include guarantees, indemnities and letters of comfort reported to Parliament in accordance with Managing Public Money.

1.21.1 Classification of contractual risk-transferring mechanisms

The Group analyses contracts to identify clauses that transfer risk and to determine their accounting treatment. Where a mechanism adjusts the price of future services, the impact will be recognised in the relevant year, since future operating costs in respect of executory contracts are outside the scope of IAS 37. However, mechanisms that have the substance of a guarantee or indemnity, for example, requiring compensation for the adverse impact of third-party actions, are within its scope.

1.21.2 Obligations to purchase land and property: recognition, measurement and classification

Provisions are recognised at the point when the Secretary of State cannot withdraw from the obligation. This point depends on the scheme or process. For example, obligations arise for compulsory purchases when General Vesting Declarations are signed and served; and for statutory blight when the Secretary of State confirms that the property owner meets the scheme's eligibility requirements.

Provisions are typically measured at surveyors' estimates of the land and property values at the point that it is deemed to have been acquired from the previous owners. However, provisions for specific agreements are measured at the minimum value that the Group is exposed to if the scheme was cancelled. The actual amounts that will be 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 both active and inactive cases. Active cases are those where a claim is live or HS2 Ltd has commenced valuation activity in anticipation of a claim. Inactive cases are all other potential acquisitions.

For active cases, a detailed out-turn forecast is created, and for inactive cases, the property cost estimate, adjusted to reflect market conditions, is used. Claims for both types of case could ultimately settle for a lower or higher value than the provision balance. This risk is managed at a portfolio level, and a quantified cost risk assessment (QCRA) is undertaken at each baseline. This QCRA allowance forms part of the HS2 funding envelope and values the contingency required for Phase 1 property acquisitions. While the provision is valued according to the Group's best estimate of the consequences of the obligations existing at the reporting date, including the outcome of detailed valuations performed for active cases, this QCRA value (10% of the unadjusted property cost estimate, including irrecoverable VAT, according to the latest approved baseline) provides an indication of 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, which will be returned to them. 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

This section provides further detail about the key estimation factors affecting the valuation of land and property provisions connected with Compulsory Purchase powers, which represents the majority of the HS2 provision included in **Note 23**.

Under Compulsory Purchase, owners are entitled to receive market value for their interest. A small number of properties, such as village halls or schools, will not have a market value, so compensation will be 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 consistency of 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.

There is inherent uncertainty in estimating both the quantum and timing of compensation claims. The causes 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 received provides very limited supporting detail; in either situation, the Group must rely on its own valuation and risk assessment, unable also to reflect 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 is based on 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 HS2 Property Cost Estimate (PCE). PCE valuations are prepared, covering the entire expected population of acquisitions for Phase 1, and are regularly updated in line with HS2 business needs. The valuations assume that the market value for a property 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 2018-19 actuals for commercial cases, the Group estimates that 24.5% of the inactive cases by value will opt to tax (2018-19: 17%). 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 works depends on the scope of those works. This is negotiated with landowners, but ultimately determined by the Secretary of State.

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, is based on 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 settlements over the last 3 years and assumptions about the diseases' incidence and impact.

1.22 Grants payable

Grants payable are recognised when the underlying event or activity giving entitlement to the grant occurs. Where the grants' conditions require a specified form of verification from the recipient, to evidence compliance with grant terms and conditions, any subsequent adjustments are recognised in the accounting period when these conditions are fulfilled.

1.23 Taxation

1.23.1 Corporation Tax

Some Group members are liable to corporation tax on their taxable profits; most significantly, Network Rail. 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 the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets are recognised on all deductible temporary differences to the extent that it is probable that there will be taxable profits available against which the temporary timing differences can be utilised. Deferred tax liabilities are recognised for all taxable temporary differences. The valuation of the Railway Network to 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" except when 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, which will typically be 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 within the scope of IFRS 16.

Income and expenditure is otherwise shown net of VAT.

Other types of income and expenditure, including grants or rail franchising premia and subsidies, are outside the scope of VAT.

1.24 Revenue and expenditure from rail franchise agreements

1.24.1 Calculation of franchise premia and subsidies

Passenger rail services are provided on a franchised basis. Under franchise agreements, train operating companies (also described as "franchisees") receive the right to deliver passenger services on part of the Railway Network for a period of time. Franchise agreements also require the franchisee to operate services at times or under conditions that might not be profitable, but provide an essential public service. Franchisees collect revenues, predominantly from passenger ticketing, which offset their costs.

The Department also agrees with the franchisee either a subsidy that it receives from the Group or a premium it pays to the Group. This premium or subsidy is the key output of a financial model used by the Department and franchise bidders; model inputs include bidder forecasts for revenues, costs and the profit margin. At the culmination of a procurement, the premium or subsidy is contractually agreed over the franchise term. Whether a franchise operates on a net subsidy or net premium basis usually reflects the region and market conditions in which the service is provided rather than any differences in the service that is provided.

The amount of premium or subsidy for a financial year is adjusted to reflect the franchisee's performance during that year. Franchise agreements include mechanisms to adjust the premium or subsidy to reflect performance and agreed events. For example, the subsidy or premium for a month is adjusted to reflect cancellations or delays during that month, and cash transactions are made on a net basis. Rail franchising premia and subsidies are recognised in the financial statements on the same pattern, as to the Group considers this best reflects its performance during the year. This pattern is consistent with applicable IASB guidance on revenue recognition, contained in IFRS 15.

At the end of March 2020, the Department and the train operating companies signed Emergency Measures Agreements to ensure the continued delivery of safe passenger services in light of the COVID-19 outbreak. Expenditure for the final month of the year has been calculated in accordance with these Agreements, and the accounting treatment is explained in **Note 1.24.3**.

1.24.2 Recognition

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to customers.

The Group has exercised judgement, considering all relevant facts and circumstances when applying each step of the model; this has the following implications:

Step 1: Identify the contract with the customer

Each franchise agreement is 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. The amount of net premium or net subsidy may need to be recalculated to reflect the actual operating environment from the point that it diverges from expectations. This is treated as a termination of the existing contract and the creation of a new one, because the future service is distinct and the net premium or subsidy is calculated on a stand-alone basis. Modifications are assessed on a case-by-case basis, though given the Group's approach to allocating the transaction price (see below), the differences between treating modifications as affecting an existing contract rather than creating a new one would likely be negligible.

Step 2: Identify the performance obligations

A franchise agreement gives the franchisee the right to deliver services on specified routes for a specified number of "franchisee years", which are periods starting each 1 April and ending each 31 March, regardless of when the franchise term begins or ends. "Franchisee years" are therefore co-terminus with financial years.

While the franchisee is awarded the right to operate the franchise for the entire term, it does not immediately receive full control of that right or the ability to consume the related benefits. Reliability and consistency of the service over time is required by passengers and other stakeholders, and necessitated by the finite capacity of rolling stock fleets, stations and the workforce. These factors are not static, and timetables may be altered during the franchise to better meet passengers' needs. Therefore, availability over time and preparedness to adjust services are critical features of franchises.

The Group is 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 is assessed over the course of each "franchisee year", the Group considers the "franchisee year" to be a period during which the franchisee simultaneously receives and consumes the service. Consequently, the Group assesses that the service for each "franchisee year" is distinct, but they are substantially the same and have the same pattern of transfer.

Step 3: Determine the transaction price

The transaction price comprises the annual franchise payments or receipts, adjusted for performance, inflation and profit-sharing. It is calculated for each four-week period, with a catch-up adjustment at the end of each "franchisee year". There is no significant financing component. Some cash flows for each financial year are linked to future events, such as an index, or to the franchisee's profits, but not to any material extent. Revenue recognised in the current year for performance obligations met in previous years is immaterial.

Step 4: Allocate the transaction price to the performance obligations in the contracts

As the right to operate passenger rail services in a "franchisee year" is distinct from the rights to operate them in earlier or later years, the transaction price for each "franchisee year" has been allocated to the performance obligation of operating the services in that financial year. Within each "franchisee year", the right to operate the services is transferred over time, because the franchisee simultaneously receives and consumes it. Progress is measured using a time-based method, to reflect the way in which the franchisee benefits 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) is recognised over the course of each "franchisee year", the amount of expenditure or income recognised in each financial year does not differ materially from total payments or receipts during the year, except where there are ongoing contract negotiations which require 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 are linked to indices including Gross Domestic Product. These are deemed to be embedded derivatives; however, the Group does not account for them as separate financial instruments since they are closely related to the economic risks of the host contract, and instead recognises any price adjustment in line with the satisfaction of related performance obligations. Where the indices are unavailable at the reporting date, the Group assesses the single most likely outcome. While the ONS has revised some indices subsequently, the most recent index remains the best estimation basis, as these revisions have not historically indicated any bias.

Some premia or subsidies are linked to the franchisee's profits, typically when the profits exceed a certain amount. The exact value cannot be measured until the franchisees' accounts have been audited. In the interests of reliable reporting, and having considered the values involved, the Group reserves adjustment until this point.

Some franchise agreements allow for the premium or subsidy to be adjusted for events outside the franchisee's control. There may be significant uncertainty around the existence of the liability and the timing and amount of any payments, for example, where it is debatable whether the events meet the criteria, or the amount of their financial impact. In such cases, the Group makes its best estimate of the outcome, in line with IAS 37 principles, where the uncertainty is material.

1.24.3 Recognition of expenditure under the Rail Emergency Measures Agreements

The Rail Emergency Measures Agreements are designed to reflect the change in operating requirements to address the risks arising from COVID-19. They amend the existing rail franchise agreements, and have been structured so that there is no overlap between the Agreements and existing franchise agreements: for example, a train operating company that performs well is rewarded either in accordance with the franchise agreement or with the Emergency Measures Agreement, but not both. Train operating companies are running train services in accordance with the existing franchise agreement where it is prudent to do so, to permit social distancing, and are providing additional services, such as more frequent cleaning to protect service users. They also have a duty to control costs. In return, the Department is covering their net costs and, at the conclusion of the Agreements, will pay a management fee, with additional payments or repayments to enable the train operating companies to maintain adequate cash balances until the end of the Agreements. A performance fee is also being implemented subject to the quality of service delivered from 1 April onwards.

These financial statements recognise expenditure consisting of one month's net costs and management fee. No accrual has been made for the performance fees, as these do not reflect performance during 2019-20.

1.25 Recognition of revenues from other sources

In addition to rail franchising revenues, the Group earns material revenues from track access income, and fees and charges from other government departments and other customers for various types of service.

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. However, it does not cover dividend and interest income (to which IFRS 9 applies), the recognition of rental income (IFRS 16 or IAS 17) or grants receivable from other government bodies.

For the Group, the revenues within the scope of IFRS 15 typically relate to the performance of services, including revenues for access to the railway network, policing services and access to river crossings.

Franchised network access and freight revenue is recognised each period in the financial year. Performance obligations are based upon fixed and variable volume access to the railway during the relevant year. Performance obligations are satisfied by providing track access over time in accordance with the agreement with the train operating companies. There are no significant judgments applied to determine whether performance obligations have been satisfied. The input method is applied based on time lapsed.

River crossings charges comprise two 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. 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.

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 segment. The Group considers that its reportable segments are its five Director General-led groups, reflecting the organisation structure, because this is the basis on which financial information is reported to the Executive Committee and the Board.

1.27 Prior period adjustments

Items are restated retrospectively to:

- correct a material prior year error;
- to apply a material change in accounting policy; or
- to reflect some types of change in consolidation boundaries.

Changes in consolidation boundaries include: transfers of functions between government departments and retrospective reclassifications by the ONS (reclassifying a body to, or from, central government with effect from a date before the start of the comparative period). Transfers of functions are reflected by recognising or derecognising the related assets and liabilities from the start of the comparative period. Retrospective reclassifications will result in an entity being added to, or removed from, the Statutory Instrument list of entities required to be consolidated for a year, subject to agreement with HM Treasury. The Group will start or cease to consolidate the entity in the financial statements for that year, but the effective date of consolidation will be that specified by ONS.

Where 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, except where a new accounting standard or FReM interpretation requires or permits different approaches. During 2019-20, IFRS 16 has been implemented using the cumulative catch-up method, with no restatement of comparatives.

Where a material prior year error is identified, it is corrected by restating the comparative amounts for the prior years presented in which the error occurred, or, where the error occurred before the earliest period presented, by restating the opening balances for the earliest prior year presented. If it is impracticable to determine the period-specific or cumulative effects of the policy change or error, re-statements are made to the earliest practical period, which may be the current period.

These financial statements adopt a revised format for the Statement of Cash Flows, which provides a more granular disclosure of debt repayments, in the financing cash flows section. This change in presentation is not a prior period adjustment.

1.28 Adoption of new and revised standards

2019-20

IFRS 16 will be adopted by the 2021-22 FReM, however HM Treasury has permitted the Department to adopt it in 2019-20 as an early adopter to avoid a misalignment of accounting standards across the Group because some Group members are limited companies that must adopt it this year. The detailed accounting policies are disclosed in **Note 1.6**.

Subsequent years

IFRS 17 Insurance Contracts requires a discounted cash flow approach to accounting for insurance contracts. Subject to adoption, it may become effective for accounting periods commencing on, or after, 1 January 2021 and should be included in the 2021-22 FReM at the earliest. The Group considers that it has no contracts which meet the definition of insurance contracts and intends to treat its financial guarantee contracts as financial instruments rather than insurance contracts.

The Group does not consider that any other new, or revised standard, or interpretation will have a material impact.

2. Statement of Operating Costs by Operating Segment

The 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 five Director General-led groups, with some areas of work reporting directly to the Permanent Secretary. The main reportable segments combine outturn information of the core Department and its arm's length bodies for each segment. No operating segments have been aggregated. The groups and associated delivery bodies are described in more detail in the Directors' report. During the year, the Department reallocated some functions between two groups: the group named Roads, Places and Environment includes the functions previously included under the Roads, Devolution and Motoring, with the addition of the Environment division; the group named Aviation, Maritime, International and Security includes the functions previously included under International, Security & Environment, other than the Environment division. The comparative Statement of Operating Costs by Operating Segment has been re-stated on this basis.

All income and expenditure has been attributed to the relevant groups this year. To allow comparability, the prior year figures have been restated.

The Board considers capital spending and liabilities by monitoring outturn against the budgetary control totals shown in the Statement of Parliamentary Supply; for example, PPE additions score against capital budgets and the utilisation of provisions causes an opposite and equal impact on DEL and AME budgets. As a consequence, the Department does not report asset and liability balances on an IFRS-basis to the Board.

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 Crossrail, Thameslink and the Intercity Express Programme.

High Speed and 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, and oversight of the East West Rail Company that plans to reinstate a direct rail link from Oxford to Cambridge.

Roads, Places and Environment

This group is responsible for driving and roads related activities and leads on our transport energy and environment strategy. It oversees the agencies that deliver services relating to driving and vehicles, including the Driver and Vehicle Standards Agency which is not consolidated in these statements (see **Notes 1.3** and **26** for the rationale). The group also includes oversight of Highways England and Sub-National Transport Bodies.

Aviation, Maritime, International and Security

This group is responsible for activity regarding: transport security; accident investigation; implementing the Brexit strategy; aviation and maritime, including oversight of the Air Travel Trust Fund; the Maritime and Coastguard Agency and the General Lighthouse Authorities.

Resources and Strategy

This group supports the activities of the other groups. It leads on: finance; human resources; procurement; property; digital, analytical matters and the Secretary of State's shareholder interests in arm's length bodies such as Network Rail, Highways England and HS2 Ltd. For this analysis, this Group also includes units that report directly to the Permanent Secretary, such as Private Office, Legal and Strategy & Communications. As noted in more detail in paragraph 2.6 of the Corporate Governance Report, the Department restructured its Resources and Strategy Group in July 2020.

	Rail	Roads, Places and Environment	Aviation, Maritime, International and Security	Resources and Strategy	High Speed and Major Rail Projects	Total
2019-20						
	£m	£m	£m	£m	£m	£m
Gross	14,028	6,476	1,344	432	325	22,605
Income	(5,439)	(769)	(410)	(123)	(14)	(6,755)
Net Expenditure	**8,589**	**5,707**	**934**	**309**	**311**	**15,850**

	Rail	Roads, Places and Environment	Aviation, Maritime, International and Security	Resources and Strategy	High Speed and Major Rail Projects	Total
2018-19 (restated)						
	£m	£m	£m	£m	£m	£m
Gross Expenditure	12,283	5,645	1,074	469	317	19,788
Income	(5,218)	(886)	(244)	(46)	-	(6,394)
Net Expenditure	7,065	4,759	830	423	317	13,394

3. Expenditure

The expenditure note has been re-presented, to align with the classifications in the SoCNE and to provide greater clarity over the Group's expenditure and operations. An additional category for Grants has been included (previously included in Other expenditure). Prior year values have not been restated.

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.

			2019-20	2018-19
	Permanently employed staff	**Other staff***	**Total**	Total
	£m	£m	£m	£m
Wages and salaries	3,061	38	3,099	2,930
Social security costs	333	-	333	314
Other pension costs	467	-	467	414
Sub Total	**3,861**	**38**	**3,899**	3,658
Less recoveries in respect of outward secondments	(2)	-	(2)	(1)
Less capitalised staff costs	(1,193)	(16)	(1,209)	(1,159)
Total Net Costs	**2,666**	**22**	**2,688**	2,498
Of the total:				
Core Department & Agencies	457	12	469	425
Departmental Group	2,666	22	2,688	2,498

*Other staff includes Ministers and special advisers, who were paid £217k and £59k respectively (2018-19: £134k and £178k). 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 adviser pay has decreased as responsibility for their pay was centralised and transferred to the Cabinet Office during Summer 2019.

3.2 Purchase of goods and services

Following the adoption of IFRS 16 with effect from 1 April 2019, as explained in **Note 1.6**, "Rentals costs" has significantly reduced compared to 2018-19 when it disclosed the cost of all rentals under operating leases. **Note 3.4** includes a new line "depreciation on right-of-use assets", while **Note 3.7** reflects the increased interest costs. Further disclosure is provided in **Note 7**.

"Support for Passenger Rail Services" includes £289m of contractual costs under the Emergency Measures Agreements (EMAs). The financial provisions of these contracts took effect on 1 March 2020. The Department agreed measures with 12 of the 14 rail franchise operators in England. Rail services operated by the Secretary of State and rail services under the responsibility of the devolved administrations in Wales and Scotland are not in-scope of these EMA contracts.

Following the collapse of Thomas Cook in September 2019, the Government repatriated an estimated 150,000 Thomas Cook customers, including those without ATOL protection. The Air Travel Organiser's Licence (ATOL) scheme assists the failed company's ATOL-protected customers only. These costs are disclosed separately in these accounts:

- Repatriation costs of those customers who were covered by the ATOL scheme are funded from the Air Travel Trust Fund, and are reported in these accounts as utilisation of provision in **Note 23**.
- Repatriation costs of non-ATOL protected customers and liquidation costs totalling £96m are shown against "Support Services" below.

		2019-20		2018-19
	Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Cash items:				
Support for passenger rail services	1,319	1,319	1,026	1,026
Rail network maintenance	-	1,279	-	1,144
Accommodation	64	485	31	464
Road network current maintenance	-	532	-	509
Professional services	50	344	32	386
Support services	191	328	109	206
PFI service charges	19	344	-	277
Eurotunnel payments	284	284	286	286
Information & communications technology	85	281	95	257
Consultancy	75	164	67	112
Search & rescue helicopters	161	161	206	206
PFI interest charges	1	136	20	129
Research and development expenditure	43	54	51	60
Travel and subsistence	10	53	13	57
VAT repayment	14	49	-	84
Publicity	17	28	8	18
Auditors' remuneration and expenses	-	2	-	1
Rental costs	2	8	14	84
Other costs	213	418	169	351
Non-cash items:				
Auditors' remuneration and expenses	1	1	1	1
	2,549	**6,270**	2,128	5,658

3.3 Grants

Grant expenditure incurred by the core Department has increased since 1 April 2019 due to a change in funding arrangements with Network Rail. In 2019-20, the core Department paid Network Rail £7,607m (£4,228m in Grant in Aid, £1,533m in current grants and £1,846m in capital grants); whereas in 2018-19 the core Department paid £4,050m as grants and £3,146m as loans (**Note 11**).

The Group transferred control of the Core Valley Lines (CVL) rail asset from Network Rail to Transport for Wales, a subsidiary of the Welsh Government, on 28 March 2020, enabling the Welsh Government to oversee and control infrastructure investment and services. The Group provided a capital grant to the Welsh Government of £470m which was used to purchase the Core Valleys railway from Network Rail. The asset transfer is shown as a disposal in **Note 5**, Property, Plant & Equipment.

	2019-20		2018-19	
	Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Cash items:				
Grant in Aid	11,816	-	9,345	-
Capital grants	4,970	3,125	2,748	2,485
Current grants	2,153	620	648	648
Subsidies	263	263	235	235
Research and development grants	13	13	-	-
EU capital grants	12	12	-	-
	19,227	**4,033**	12,976	3,368

3.4 Depreciation and impairment charges

Following the adoption of IFRS 16, the majority of the Group's leases are recognised on-balance sheet as right-of-use assets and lease liabilities. Right-of-use assets are depreciated on a straight-line basis, over the term of the lease. Interest on the lease liabilities is included in **Note 3.7**. Further disclosure is provided in **Note 7**. As explained in **Note 1.6**, the Group has adopted IFRS 16 'Leases' from 1 April 2019. As permitted by the FReM, the Group has implemented it prospectively, without restating prior year figures. Most leases recognised as operating leases until 31 March 2019 (as shown in **Notes 3.2** and **10.2**) are now recognised as lease assets and liabilities in **Notes 7** and **20**, with the associated costs being recognised in **Notes 3.4** and **3.7**.

		2019-20		2018-19	
		Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
	Note	£m	£m	£m	£m
Non-cash items:					
Depreciation	5	107	7,019	108	6,932
Depreciation on right-of-use assets	7.1	59	163	-	-
Amortisation	6	6	17	8	19
Impairment of PPE and assets held for sale		15	55	-	3
Downward / (upward) revaluation of PPE & Investment Properties		-	(3)	5	(29)
Downward / (upward) revaluation of joint ventures		-	(11)	-	(3)
		187	**7,240**	121	6,922

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3.5 Provision expenses

		2019-20		2018-19	
		Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
	Note	£m	£m	£m	£m
Non-cash items:					
Provisions (released) / provided in year	23	(56)	509	82	84
Unwinding of discount on provisions	23	5	5	5	5
Credit loss allowance		-	17	-	13
		(51)	**531**	87	102

3.6 Other operating expenditure

	2019-20		2018-19	
	Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Cash items:				
Eurocontrol payments	45	45	48	48
Eurotunnel settlement	-	-	33	33
Non-cash items:				
Fair value loss / (gain) on fair value hedges	-	-	-	220
Fair value loss / (gain) on carrying value of fair value hedged debt	-	-	-	(226)
Net (increase) / decrease in fair value of non-hedge accounted debt	-	4	-	3
Loss / (gain) on derivatives not hedge accounted	-	(236)	-	(214)
Net ineffectiveness arising from cash flow hedge accounting	-	19	-	(1)
Loss / (gain) on disposal of PPE	(2)	27	-	(274)
Pension scheme costs	7	139	73	199
Corporation tax (refund) / charge	-	396	-	52
Write down in value of inventory	15	15	4	4
Write-off of the FIM fee receivable	-	-	4,066	-
	65	**409**	4,224	(156)

The non-cash expenditure line "Write-off of FIM Fee" for the Core Department and Agencies during 2018-19 reflects the derecognition of the Financial Indemnity fee receivable in **Note 17**. Further details were disclosed in *the 2018-19 Financial Statements.*

3.7 Finance expenses

Finance expenses include interest arising from borrowings, leases and the Financial Indemnity Mechanism (FIM).

Following the adoption of IFRS 16 with effect from 1 April 2019, the majority of the Group's leases are recognised on-balance sheet as right-of-use assets and lease liabilities. Interest on the lease liabilities is reflected below. Further disclosure is provided in **Note 7** and **Note 20**.

The core Department has incurred a £138m non-cash interest charge in 2019-20 (2018-19: £nil) which reflects changes in the value of the Financial Guarantee Contract in **Note 21**. In previous years, these changes were posted to the offsetting FIM fee receivable, which was calculated on the same basis. The receivable was written off in 2018-19 and therefore any changes in the liability since that date are now reflected in expenditure. The changes predominantly reflect the unwinding of the discount on the liability, but also changes in the forecast future amounts of debt covered by the guarantee. As these amounts are intragroup, they eliminate to nil in the Departmental Group. Amounts shown as non-cash items in the Departmental Group column reflect capital accretion on Network Rail's portfolio of external debt.

	2019-20		2018-19	
	Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Cash items:				
Finance expense	208	939	204	932
Non-cash items:				
Finance expense	138	495	-	464
	346	**1,434**	204	1,396

4. Income

"Amortisation of deferred income" in 2019-20 includes £267m in respect of the core Department's Financial Guarantee Contract (**Note 21**). In previous years, this was presented as "Fees and charges to other public sector bodies". The cash fee was waived with effect from this financial year, and therefore the reduction in value of the financial guarantee contract liability reflects the reduction in the remaining term of the contract and is presented as a non-cash amount.

		2019-20		2018-19	
		Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
	Note	£m	£m	£m	£m
Cash Items					
Sale of good and services					
Franchised track access income		-	(2,504)	-	(2,135)
Rental income		-	(262)	(1)	(323)
River crossings charges		(165)	(165)	(239)	(239)
Freight income		-	(43)	-	(58)
Other Income					
Income from Train Operating Companies		(1,010)	(1,219)	(1,248)	(1,460)
Fees & charges to external customers		(602)	(999)	(584)	(802)
Transport for Scotland – SLA Receipt		-	(486)	-	(339)
Eurotunnel Recharge		(274)	(274)	(272)	(272)
Capital grant income received		-	(238)	-	(241)
Eurocontrol Receipts		(45)	(45)	(48)	(48)
EU income		(26)	(29)	-	(1)
Claims for damages to road network		-	(7)	-	(9)
Fees & charges to other public bodies		(17)	(18)	(280)	(16)
Other income		(28)	(289)	(33)	(333)
Sub Total - Cash items		(2,167)	(6,578)	(2,705)	(6,276)
Non cash items					
Amortisation of deferred income		(321)	(54)	(54)	(54)
Share of associate's operating (profit) / loss	15	(1)	(1)	(11)	(11)
Sub Total - Non cash items		**(322)**	**(55)**	(65)	(65)
Operating Income		**(2,489)**	**(6,633)**	(2,770)	(6,341)
Share of associate's non-operating (profit) / loss	15	(29)	(29)	(29)	(29)
Dividends receivable		(26)	(66)	(8)	(8)
Interest receivable		(707)	(27)	(672)	(16)
Total income		**(3,251)**	**(6,755)**	(3,479)	(6,394)

Income analysis

Sale of goods and services		(165)	(2,974)	(240)	(2,755)
Other operating income		(2,323)	(3,658)	(2,519)	(3,575)
Finance income		(733)	(93)	(680)	(24)
Share of profits / (loss) of associate's (comprises of cash settled and non-cash *elements above*)	15	(30)	(30)	(40)	(40)
Total income		**(3,251)**	**(6,755)**	(3,479)	(6,394)

5. Property, Plant and Equipment

Following the adoption of IFRS 16 with effect from 1 April 2019, as explained in **Note 1.6**, assets previously classified as property, plant and equipment held under finance leases have been re-classified as right-of-use assets and are disclosed under **Note 7**.

The presentation of assets under construction related to the Rail and the Strategic Road networks has changed since last year's account. As described in **Note 1.4.3**, renewals of these assets are valued at depreciated replacement cost, they are disclosed under the "Rail Network" and "Strategic Road Network" headings in the table below. All other assets under construction, which are valued at historic cost, are disclosed under the "Assets under Construction" heading, which is predominantly the HS2 project. The prior year figures have been restated to show the effect of this presentational change since 1 April 2018. There is no impact on the total net book value of Property, Plant and Equipment. The revaluation amount shown within "Assets under Construction" is an adjustment to historic balances.

							2019-20
Group	**Infrastructure assets**			**AUC**	**Land, buildings & other**		
	Rail Network	**Strategic Road Network**	**HS1**	**Assets under Construction**	**Land and buildings**	**Other assets**	**Total**
	£m	£m	£m	£m	£m	£m	£m
Cost or valuation							
At 1 April 2019	488,781	138,676	3,547	6,347	1,174	546	**639,071**
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)**
Disposals	(517)	(36)	-	-	(12)	(26)	**(591)**
Impairments	-	-	-	(41)	(5)	(18)	**(64)**
Reclassifications	(24)	(17)	-	(38)	(11)	(10)	**(100)**
Revaluations	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)**
Charged in year	(5,722)	(1,174)	(47)	-	(23)	(53)	**(7,019)**
Disposals	-	7	-	-	5	24	**36**
Impairments	-	-	-	-	1	4	**5**
Reclassifications	-	-	-	-	17	26	**43**
Revaluations	(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**

Group	Infrastructure assets			AUC	Land, buildings & other		2019-20
	Rail Network	**Strategic Road Network**	**HS1**	**Assets under Construction**	**Land and buildings**	**Other assets**	***Total***
	£m	£m	£m	£m	£m	£m	£m
Asset financing:							
Owned	332,278	125,436	3,055	8,969	919	302	**470,959**
PFI & other service concession arrangements	-	3,113	-	-	22	1	**3,136**
Carrying amount at 31 March 2020	**332,278**	**128,549**	**3,055**	**8,969**	**941**	**303**	**474,095**
Ownership:							
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**

							2018-19
Group	Infrastructure assets			AUC	Land, buildings & other		
	Rail Network	Strategic Road Network	HS1	Assets under Construction	Land and buildings	Other assets	Total
	£m	£m	£m	£m	£m	£m	£m
Cost or valuation							
At 1 April 2018	448,303	132,924	3,546	4,189	1,180	507	590,649
Additions	6,814	2,734	1	2,247	9	30	11,835
Adjustment of renewal and enhancement works in progress to Depreciated Replacement Cost	(2,197)	(1,206)	-	-	-	-	(3,403)
Disposals	-	(73)	-	-	(1)	(12)	(86)
Impairments	-	-	-	-	-	(2)	(2)
Transfers	-	(1)	-	(46)	4	18	(25)
Reclassifications	-	-	-	(1)	3	1	3
Revaluations	35,861	4,298	-	(42)	(21)	4	40,100
At 31 March 2019	488,781	138,676	3,547	6,347	1,174	546	639,071
Depeciation							
At 1 April 2018	(144,996)	(15,283)	(399)	-	(312)	(322)	(161,312)
Charged in year	(5,590)	(1,232)	(46)	-	(19)	(45)	(6,932)
Disposals	-	16	-	-	1	11	28
Revaluations	(8,364)	894	-	-	18	5	(7,447)
At 31 March 2019	(158,950)	(15,605)	(445)	-	(312)	(351)	(175,663)
Carrying amount at 31 March 2019	329,831	123,071	3,102	6,347	862	195	463,408
Carrying amount at 31 March 2018	303,307	117,641	3,147	4,189	868	185	429,337
Asset financing:							
Owned	329,831	120,423	3,102	6,347	835	167	460,705
Finance Leased	-	-	-	-	1	26	27
PFI & other service concession arrangements	-	2,648	-	-	26	2	2,676
Carrying amount at 31 March 2019	329,831	123,071	3,102	6,347	862	195	463,408
Ownership:							
Core Department	-	2,834	3,101	2,733	243	18	8,929
Agencies	-	-	-	3	101	42	146
Other designated bodies	329,831	120,237	1	3,611	518	135	454,333
Carrying amount at 31 March 2019	329,831	123,071	3,102	6,347	862	195	463,408

5.1 Rail Network

Disposal

The Group transferred control of the Core Valley Lines (CVL) rail asset from Network Rail to Transport for Wales, a subsidiary of the Welsh Government, on 28 March 2020, enabling the Welsh Government to oversee and control infrastructure investment and services. Whilst the net depreciated replacement cost of CVL was £2,359m, £470m is shown as a disposal in the table above as this is the valuation in Network Rail's financial statements. The difference is classified as revaluations as permitted by the FReM. **Note 1.4.3** explains the difference in valuation methodologies adopted by the Department and Network Rail.

Details of the valuation adopted by the Department

The Railway Network was valued, as at 31 March 2020, 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:

			2019-20
Type	**Depreciated Replacement Cost**	***Remaining* Life**	***Depreciation* Charge**
	£m	Years	£m
Asset Under Construction	578	N/A	-
Structures	54,466	59	840
Earthworks	75,647	103	763
Telecoms	2,494	12	239
Operational property	25,664	33	792
Electrification, plant and signals	45,093	29	1,661
Track	30,242	20	1,427
Land	98,094	N/A	-
TOTAL	**332,278**	-	**5,722**

Sensitivity analysis

The following sensitivity analysis reflects the sources of estimation uncertainty disclosed in **Note 1.4.3**, showing the impact of changes in assumptions at the reasonable boundaries of uncertainty.

Scenario 1

Shows the impact of increasing or decreasing the remaining asset lives of the components of the modern equivalent railway network by 10%.

Scenario 2

Shows the impact if the land compensation adjustment (normally 65%) were to increase or decrease by 10%; i.e. a compensation adjustment of 75% or 55% respectively.

Scenario 3

Shows the impact if the adjustment for building on a greenfield site rather than in an operational environment (normally 32%) were to increase or decrease by 10%, showing the impact of an adjustment at 42% and 22%. This adjustment applies only to costing rates built up using a methodology not already reflecting greenfield build.

Scenario 4

Shows the impact of an adjustment to the risk factor applied to the overall DRC valuations, currently 22%, by an increase or decrease of 10%, effectively showing risk factors of 32% and 12%.

Depreciated Replacement Cost

Type	Depreciated Replacement Cost (-)	Depreciated Replacement Cost	Depreciated Replacement Cost (+)
	2019-20		
	£m	£m	£m
Base Case inc 22% risk	-	332,278	-
Scenario 1	308,918	-	355,639
Scenario 2	326,333	-	338,223
Scenario 3	328,481	-	336,076
Scenario 4	313,240	-	351,317

Depreciation Charge

Type	Depreciation Charge (-)	Depreciation Charge	Depreciation Charge (+)
	2019-20		
	£m	£m	£m
Base Case inc 22% risk	-	5,722	-
Scenario 1	5,644	-	5,812
Scenario 2	5,722	-	5,722
Scenario 3	5,565	-	5,880
Scenario 4	5,256	-	6,189

5.2 Strategic Road Network (SRN)

Valuation approach

The Strategic Road Network (SRN) is valued using a Depreciated Replacement Cost approach. The valuation is principally built up using: an understanding of the extent of the network and its component parts on a modern equivalent basis; the application of a number of costing rates for those component parts, by type; and the condition of the network. Key components of the SRN, their valuations, asset lives and associated depreciation charges are included in the table below:

			2019-20
Type	Depreciated Replacement Cost	Asset Life	Depreciation Charge
	£m	Years	£m
Assets Under Construction	2,372	N/A	-
Roads	78,510	N/A	706
Structures	33,385	20-120	334
Technology	1,496	15-20	134
Land	12,786	N/A	-
	128,549	-	**1,174**

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 £13,400m.
- The impact of increasing the Highways England Capital Enhancement Cost Index (HECI) by 10 points (which currently stands at 263) would increase the DRC valuation by £10,700m.

5.3 Asset under Construction

The material balances included in assets under construction were:

	31 March 2020	31 March 2019
	£m	£m
Preparatory work for construction of HS2 (core Department & HS2 Ltd elements)	8,793	6.129
Highways England (non SRN)	129	30
Other	47	188
Total	**8,969**	6,347

The material additions to assets under construction were:

	2019-20	2018-19
	£m	£m
Preparatory work for construction of HS2 (core Department & HS2 Ltd elements)	2,503	2,116
Highways England (non SRN)	92	77
Other	41	54
Total	**2,636**	2,247

6. Intangible Assets

	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)**
Reclassifications	27	6	(4)	**29**
Revaluations	-	(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**
Reclassifications	(25)	(1)	-	**(26)**
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**
Ownership:				
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**

All intangible assets are owned outright by the Departmental Group, and none are financed by lease or PFI arrangements.

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				2018-19
	Software Licences	Development Expenditure	Assets under Construction	Total
	£m	£m	£m	£m
Cost or valuation				
At 1 April 2018	80	460	18	558
Additions	1	1	13	15
Disposals	(13)	-	-	(13)
Transfers	17	20	(12)	25
Reclassifications	-	6	(7)	(1)
Revaluations	-	11	-	11
At 31 March 2019	85	498	12	595
Amortisation				
At 1 April 2018	(50)	(347)	-	(397)
Charged in year	(13)	(6)	-	(19)
Disposals	13	-	-	13
At 31 March 2019	(50)	(353)	-	(403)
Carrying amount at 31 March 2019	35	145	12	192
Carrying amount at 31 March 2018	30	113	18	161
Asset financing:				
Owned	22	144	12	178
PFI & other service concession arrangements	13	1	-	14
Carrying amount at 31 March 2019	35	145	12	192
Ownership:				
Core Department	2	-	-	2
Agencies	2	32	6	40
Other designated bodies	31	113	6	150
Carrying amount at 31 March 2019	35	145	12	192

7. Leases

As explained in **Note 1.6**, the Group has adopted IFRS 16 'Leases' from 1 April 2019. As permitted by the FReM, the Group has implemented it using the cumulative catch-up method, without restating prior year figures. Most leases recognised as operating leases until 31 March 2019 (as shown in **Notes 3.2** and **10**) are now recognised as right-of-use lease assets and borrowings in **Notes 7** and **20**, with the associated costs being recognised in **Notes 3.4** and **3.7**.

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 fifteen 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 2020 was £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 asset as at 31 March 2020 was £238m.
- Network Rail holds £230m of property leases and £181m of other leases.

Right-of-use lease assets

						2019-20
	Land and buildings	**Other assets**	**Core & Agencies**	**Land and buildings**	**Other assets**	**Departmental Group**
	£m	£m	£m	£m	£m	£m
Cost or valuation						
Initial recognition	110	311	**421**	345	167	**933**
Reclassifications from PPE	-	-	**-**	-	26	**26**
Additions	18	1	**19**	66	66	**151**
Revaluations	-	-	**-**	-	(2)	**(2)**
Derecognition	-	(19)	**(19)**	-	-	**(19)**
Remeasurement	3	-	**3**	(1)	-	**2**
At 31 March 2020	**131**	**293**	**424**	**410**	**257**	**1,091**
Depreciation						
Charged in year	(13)	(46)	**(59)**	(56)	(48)	**(163)**
Revaluations	-	-	**-**	-	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 presented below. *The cash flows and balances are presented net of* irrecoverable VAT.

		2019-20
	Core Department & Agencies	Departmental Group
	£m	£m
Amounts falling due:		
Not later than one year	(70)	(186)
Later than one year and not later than five years	(262)	(590)
Later than five years	(161)	(299)
	(493)	**(1,075)**
Less: Unaccrued interest	66	138
Balance as at 31 March 2020	**(427)**	**(937)**
Current	(62)	(176)
Non-current	(365)	(761)
	(427)	**(937)**

Amounts recognised in the Statement of Comprehensive Net Expenditure

		2019-20
	Core Department & Agencies	Departmental Group
	£m	£m
Depreciation	59	163
Interest expense	9	25
Low value and short term leases	2	7
	70	**195**

Amounts recognised in the Statement of Cash Flows

		2019-20
	Core Department & Agencies	Departmental Group
	£m	£m
Cash flows	9	25
Interest expense	48	174
Repayments of principal on leases	**57**	**199**

Group as a lessor

Network Rail has material operating lease payments receivable: these are disclosed in the table below. Other operating lease payments receivable, and finance lease payments receivable, are not material to the Group.

	£m
Within 1 year	433
Between 1 and 2 years	385
Between 2 and 5 years	761
After 5 years	2,184
Total	**3,763**

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Reconciliation from the IAS 17 operating lease commitment on 31 March 2019 to the IFRS 16 opening lease liability on 1 April 2019

This table reconciles the amount of the Group's operating lease commitments as at 31 March 2019, shown in **Note 10** to the lease liabilities as at 1 April 2019, immediately following adoption of IFRS 16. The operating lease commitments figure has been restated for arrangements not previously identified as leases. Thereafter, the material reconciling items are an adjustment for the impact of discounting and for the differing assessments of the lease term (the previous operating lease commitment reflected amounts payable during the non-cancellable lease period, while the IFRS 16 lease term reflects the Group's assessment of the likelihood that it will exercise lease extension or cancellation options).

Opening lease liabilities are greater than opening right-of-use assets because some properties are sub-let so the asset is classified as a receivable, and operating lease accruals recognised under IAS 17 are de-recognised and deducted from the right-of-use asset upon implementation of IFRS 16.

	£m	£m
Operating leases disclosed at 31 March 2019	878	
Adjustments to leases, IAS 17 basis	222	
Re-stated operating lease commitments as at 31 March 2019		**1,100**
Adjustments from IAS 17 to IFRS 16:		
Finance lease liabilities as at 31 March 2019	34	
Impact of discounting	(159)	
Assessments of lease extension periods and break clauses	133	
Low value and short term lease commitments	(39)	
Service charges and other elements outside the scope of IFRS 16	(18)	
Adjustment for irrecoverable VAT reported within IAS17	(64)	
Sub-total, reconciling items		(113)
IFRS 16 opening balance lease liabilities		**987**

8. Investment Properties

	Departmental Group £m
Balance at 1 April 2018	208
Disposals	(14)
Reclassifications	4
Revaluations	35
Balance at 31 March 2019	233
Disposals	(8)
Reclassifications	(1)
Revaluations	3
Balance at 31 March 2020	**227**

Ownership

All material investment properties are controlled by Network Rail.

Rental net income

The property rental income earned by the Group from its investment properties amounted to £16m (2018-19: £18m). Direct operating expenses arising on the investment properties in the year amounted to £3m (2018-19: £4m).

The Group's investment properties are let on a tenant repairing basis. The Group's maintenance obligations are limited to common areas and vacant property units.

9. Assets Held for Sale

	Core Department & Agencies	Departmental Group
	£m	£m
Balance at 1 April 2018	1	1,157
Additions	-	22
Disposals	-	(1,146)
Reclassifications	-	(5)
Balance at 31 March 2019	1	28
Disposals	(1)	(17)
Reclassifications	-	25
Balance at 31 March 2020	**-**	**36**

Disposal – Sale

During 2018-19 Network Rail sold £1,146m of its commercial estate portfolio for £1,419m, which generated net returns above the carrying value of £247m.

10. Commitments

		2019-20		2018-19	
		Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
	Note	£m	£m	£m	£m
Commitment Type					
Capital	10 1	3	5,659	1	5,059
Operating Leases		-	-	466	878
Finance Leases		-	-	-	13
PFI & other service concession arrangements	10.2	15	1,448	17	1,467
Other financial	10.3	29,207	210	38,111	2,969
Total		**29,225**	**7,317**	38,595	10,386

Following the adoption of IFRS 16 with effect from 1 April 2019, the majority of the Group's leases are now recognised on-balance sheet as right-of-use assets and lease liabilities in **Note 7**. A small portfolio of short-term and low-value leases are not recognised on-balance sheet. As there have not been any significant changes to this portfolio, the cost disclosed in **Note 3.2** represents a similar level of annual commitment going forward.

10.1 Capital commitments

Contracted and approved commitments at 31 March not otherwise included in these financial statements:

	2019-20		2018-19	
	Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Property, plant and equipment	2	5,658	1	5,059
Intangible assets	1	1	-	-
	3	**5,659**	1	5,059

10.2 Commitments under PFI and other service concession arrangements

The obligations under on-balance sheet PFI contracts are held by Highways England and DVLA. These arrangements fall within the scope of IFRIC 12 Service Concession Arrangements. Consequently, a PFI liability has been created to reflect the work capitalised. This liability is reduced over the life of the contract as payments are made. In accordance with FReM requirements, the interest element of the unitary charge relating to the assets capitalised has been calculated using the actuarial method.

Highways England has 11 PFI contracts for the design, build, financing and operation of sections of the strategic road network. The on-balance sheet capital element as at 31 March 2020 was £1,433m (2019: £1,450m). Lease charge commitments under these contracts comprise this capital element, future interest charges of £1,016m (2019: £1,088m) and future service charges of £7,767m (2019: £8,121m). During the year Highways England reviewed its models to ensure that the end of the obligation was correctly reflected. Amendments were required to the current obligation: the effect of this has been accounted in year by adjusting the level of interest, service payment and capital repayment.

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 2020 was £822m (2019: £840m). Commitments under this contract comprise this capital element; future interest charges of £797m (2019: £862m); and future service charges of £6,216m (2019: £6,362m).

PFI commitments in the Core Department & Agencies column relate to DVLA. On 4 April 2005, DVLA entered into a 20-year service concession agreement with Telereal Trillium (formerly Land Securities Trillium), to provide property outsourcing solutions, including: buildings management, maintenance and services to DVLA. Revenue expenditure is recorded as a service charge in the Statement of Comprehensive Net Expenditure. The liability as at 31 March 2020 was £15m (2019: £17m).

The future total imputed charges under on-balance sheet PFIs to which the Department is committed are given in the table on next page, analysed according to the period in which the commitment expires.

Imputed obligations under on balance sheet PFI contracts comprise:

	2019-20		2018-19	
	Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Rentals due:				
Not later than one year	3	185	3	188
Later than one year and not later than five years	14	742	14	748
Later than five years	-	1,539	3	1,622
	17	2,466	20	2,558
Less: interest element	(2)	(1,018)	(3)	(1,091)
	15	**1,448**	17	1,467

The capital element under on balance sheet PFI contracts comprises:

	2019-20		2018-19	
	Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Not later than one year	1	84	3	86
Later than one year and not later than five years	14	393	14	396
Later than five years	-	971	-	985
	15	**1,448**	17	1,467

The interest element under on balance sheet PFI contracts comprises:

	2019-20		2018-19	
	Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Not later than one year	1	101	1	103
Later than one year and not later than five years	1	349	2	355
Later than five years	-	568	-	633
	2	**1,018**	3	1,091

Future charges to the Statement of Comprehensive Net Expenditure

	2019-20		2018-19	
	Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Not later than one year	22	422	21	352
Later than one year and not later than five years	93	1,717	90	1,628
Later than five years	-	5,743	24	6,277
	115	**7,882**	135	8,257

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 2020		31 March 2019	
	Core Department & Agencies	**Departmental Group**	*Core Department & Agencies*	*Departmental Group*
	£m	£m	£m	£m
Not later than one year	6,813	78	6,624	896
Later than one year and not later than five years	22,374	112	31,098	1,684
Later than five years	20	20	389	389
	29,207	**210**	38,111	2,969

Of which:

Network Rail	29,091	-	35,166	-
Train Operating Companies (see below)	-	-	2,824	2,824
Other	116	210	121	145
	29,207	**210**	38,111	2,969

Core Departmental commitment to Network Rail

In October 2018, the Office of Rail and Road announced how much the core 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.

Train Operating Companies (TOCs)

The Department announced the temporary suspension of its franchise agreements with TOCs on 23 March 2020, and transferred them onto Emergency Measures Agreements (EMA) from 1 April 2020 for an initial period of 6 months, with options for further extension or earlier cancellation. The financial provisions of the EMAs were backdated to 1 March 2020. The EMAs transferred all revenue and cost risk to the Department as part of the approach to maintaining transport services following the COVID-19 outbreak. Operators ran services for a small, pre-determined management fee with the potential to earn a performance payment intended to incentivise reliability, punctuality and other targets. The financial commitments for EMAs are subject to an ongoing level of uncertainty, as costs are agreed at the end of each rail period in arrears between the Department and the TOCs. Average EMA costs in rail periods 1-3 of financial year 2020-21 are disclosed in **Note 28**. The full cost over the EMA period will depend on the extent to when and how restrictions on travel are lifted, changes in customer behaviour and impacts on costs and revenues.

The EMAs were implemented specifically in response to the COVID-19 pandemic and are temporary in nature. *For most TOCs, the EMAs end on 20 September 2020.* The Department has statutory obligations under the Railways Act 1993 to ensure ongoing provision of rail services. The arrangements for continuing to meet these statutory obligations beyond the initial EMA-contract term, are currently under commercial negotiation.

When the franchise agreements were suspended the Department had 14 franchise contracts with TOCs for the provision of rail services, including 2 franchises under public sector ownership. These contracts are not leases or PFI contracts and are only cancellable prior to their expiry or break date in certain circumstances, normally following an event of default under an individual contract. The figures in the table for 31 March 2019 include the contract payments committed by the Department under the suite of franchise agreements that it has entered into. Further information on these commitments can be found in the accounts for 2018-19. The annual amount of subsidies paid and premiums received in respect of the TOC contracts is shown respectively in the Core & *Agencies numbers in:*

- **Note 3.2** (support for passenger rail services); and
- **Note 4** (income from Train Operating Companies).

11. Loans

The Department has provided interest-bearing loans when the borrower is expected to be able to service and repay the debt and where the borrower's customers should cover the full cost (including financing).

The first table shows the loans external to the Group whilst the second table shows all loans external to the Core Department and Agencies. The second table shows that there is significant intra-group borrowing.

In December 2018, the Department agreed a new funding package for the Crossrail project, comprising loans of £1.3bn to the Greater London Authority (GLA) and £750m to be made available to Transport for London (TfL). The GLA received its loan funding between February 2019 and April 2020, whilst TfL has been drawing down loans since April 2020. The Department does not consider there is any material impairment of this loan as at 31 March 2020.

In August 2019, the Department loaned £114m to DFT OLR Holdings Ltd (DOHL) to purchase a fleet of trains from a rolling stock company. DOHL bought the fleet because the government had given an undertaking, as part of the 1990s privatisation agreement, that it would repurchase that fleet if certain conditions were met; which occurred during 2019-20. The remaining £58m was loaned to DOHL to support its Train Operating Companies.

	General Lighthouse Fund	Crossrail	Other Loans	Departmental Group Total
	£m	£m	£m	£m
Balance at 1 April 2018	130	-	25	155
Advances	-	365	-	365
Repayments	(20)	-	-	(20)
Balance at 31 March 2019	110	365	25	500
Advances	-	889	10	899
Repayments	(20)	-	-	(20)
Balance at 31 March 2020	**90**	**1,254**	**35**	**1,379**

	Core Department external loans	Other	DOHL	Network Rail	Core Department & Agencies
	£m	£m	£m	£m	£m
Balance at 1 April 2018	155	-	-	26,749	26,904
Advances	365	80	-	6,005	6,450
Repayments	(20)	(80)	-	(2,859)	(2,959)
Balance at 31 March 2019	500	-	-	29,895	30,395
Advances	889	-	172	11,557	12,618
Repayments	(20)	-	-	(12,029)	(12,049)
Balance at 31 March 2020	**1,369**	**-**	**172**	**29,423**	**30,964**

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.

12. Equity Investments

	LCR Ltd	Train Companies	Direct Subsidiaries	Core Department & Agencies Total	Network Rail Insurance Ltd	Interests in jointly controlled entities	Departmental Group Total
	£m	£m	£m	**£m**	£m	£m	**£m**
Balance at 1 April 2019	357	-	12	**369**	170	47	**586**
Additions	-	-	1	**1**	-	-	**1**
Revaluations	11	68	-	**79**	30	(22)	**87**
Balance at 31 March 2019	368	68	13	**449**	200	25	**674**
Additions	-	-	1	**1**	-	-	**1**
Revaluations	(6)	19	-	**13**	34	1	**48**
Balance at 31 March 2020	**362**	**87**	**14**	**463**	**234**	**26**	**723**

12.1 Valuation methodologies and techniques

The following equity investments: LCR Ltd, LNER Ltd, Northern Trains Ltd and Network Rail Insurance Ltd, *are held at fair value and have been measured using* valuation techniques because the instruments are not regularly traded on an active market.

12.2 London & Continental Railways Limited (LCR Ltd)

LCR Ltd is recognised at fair value as at 31 March 2020 and 31 March 2019. 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 the Manchester Mayfield site.

The valuation was performed by selecting the valuation techniques for each component that a knowledgeable investor would use. For the most part, these reflect surveyors' valuations of properties. In performing these valuations, surveyors make estimates and assumptions around rental yields, voids, occupancy rates and rent-free periods. Changes in these assumptions could increase or decrease the reported valuations. It is considered that all properties and developments are currently being held or developed for their highest and best use.

The surveyors' valuations have identified COVID-19 as a source of "material valuation uncertainty" as defined by the RICS Valuation – Global Standards, effective 31 January 2020. The surveyors make the following inference: that this does not mean that their valuations cannot be relied upon, but rather that less certainty should be attached to those valuations. For example, recent transactions for a specific type of property in a specific location may not form as reliable a precedent for a property's current value as under normal circumstances. Given the valuation approach, we consider that the resulting valuation is level 3 in the IFRS 13 hierarchy.

The valuation identified the following change of value, which has been recognised in other comprehensive net expenditure. The change in fair value in 2019-20 reflects a dividend to the Department, offset by gains on the sale of investment properties and inventories.

2019-20: (£6m)

2018-19: £11m

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12.3 Train Companies – London North Eastern Railway Limited

London North Eastern Railway Ltd (LNER) is a wholly-owned subsidiary of DOHL. The Secretary of State terminated the passenger service franchise agreement with Virgin Trains East Coast to operate the East Coast Mainline on 24 June 2018. On that day, DOHL took control of the franchise, Virgin Trains East Coast transferred assets and liabilities related to the franchise and the East Coast Mainline was rebranded as the London North Eastern Railway. Since that date, LNER has operated the franchise under a contract with the Secretary of State, which expires in June 2023.

Given the remaining duration of that contract, the shareholding in LNER has been valued at the company's net assets, which is considered to approximate to fair value. These net assets chiefly comprise working capital balances. Summarised accounts for LNER Ltd can be found in **Note 27.2**. We consider that the resulting valuation is level 3 in the IFRS 13 hierarchy. The Group has elected to account for fair value movements through other comprehensive expenditure.

The valuation identified the following changes of value, which have been recognised in other comprehensive net expenditure:

2019-20:	(£16m)
2018-19:	£68m

12.4 Train Companies – Northern Trains Limited

Northern Trains Ltd (NT) is a wholly-owned subsidiary of DOHL. The Secretary of State terminated the passenger service franchise agreement with Arriva Rail North Ltd to operate the Northern network on 1 March 2020. On that day, DOHL took control of the franchise, Arriva Rail North Ltd transferred assets and liabilities related to the franchise. Since that date, NT has operated the franchise under a contract with the Secretary of State, which expires in June 2023.

Given the remaining duration of that contract, the shareholding in NT has been valued at the company's net assets, which is considered to approximate to fair value. These net assets chiefly comprise lease assets and liabilities, and working capital balances. Summarised accounts for NT can be found in **Note 27.3**. We consider that the resulting valuation is level 3 in the IFRS 13 hierarchy. The Group has elected to account for fair value movements through other comprehensive expenditure.

The valuation identified the following changes of value, which have been recognised in other comprehensive net expenditure:

2019-20:	£35m
2018-19:	n/a

12.5 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 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 2020. 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 27.5**.

The valuation identified the following changes of value, which have been recognised through either operating expenditure or other comprehensive net expenditure:

2019-20:	£34m
2018-19:	£30m

This is considered to be a level 3 valuation.

12.6 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 £26m at 31 March 2020 (2019: £25m) and updated for changes in net assets between 1 April 2019 and 31 March 2020. Most of the net assets comprise properties that are revalued annually. This resulted in an upwards revaluation of £2m in 2019-20 that has been recognised in other comprehensive net expenditure.

This is considered to be a level 3 valuation.

13. Public Dividend Capital (PDC)

The core Department has invested £33m in DVSA as PDC (2019: £33m). In accordance with the FReM, PDC is carried at historical cost less any impairment. There is no indication of impairment as at 31 March 2020.

14. Derivatives

Before Network Rail was reclassified to the central government sector in 2014, it raised debt finance principally through the sale of bonds. To manage the associated risks, such as foreign currency exchange risk and interest-rate risk, it purchased derivatives which fix the exchange rate or interest rate. Similarly, it purchased derivatives to manage risks associated with the purchase of goods or services. It uses hedge accounting for these arrangements where appropriate. *Its portfolio of derivatives includes those purchased* for debt raised during Control Period 5 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

	2019-20		2018-19	
	Departmental Group		Departmental Group	
	Fair Value	**Notional amounts**	Fair Value	Notional amounts
	£m	£m	£m	£m
Cash flow hedges				
Cross-currency swaps to hedge debt issued under the Debt Issurance Programme	138	128	126	128
Non-hedge accounted derivatives				
Cross-currency swaps to hedge debt issued under the Debt Issurance Programme	98	198	95	198
Interest rate swaps	245	10,670	130	10,711
Forward foreign exchange contractss	3	1	-	2
	484	**10,997**	351	11,039
Included in non-current assets	474	9,396	340	9.550
Included in current assets	10	1,601	11	1.489
	484	**10,997**	351	11,039

Financial liabilities held at fair value through the SOCNE

	2019-20		2018-19	
	Departmental Group		Departmental Group	
	Fair Value	**Notional amounts**	Fair Value	Notional amounts
	£m	£m	£m	£m
Derivative financial instrument liabilities				
Cash flow hedges				
Interest rate swaps	(11)	(130)	(15)	(130)
Non-hedge accounted				
Interest rate swaps to hedge debt issued under the Debt Issurance Programme	(883)	(12,380)	(1,016)	(19,852)
Forward foreign exchange contracts	(1)	(22)	(2)	(48)
	(895)	**(12,532)**	(1,033)	(20,030)
Included in non-current liability	(847)	(9,343)	(981)	(15,055)
Included in current liability	(48)	(3,189)	(52)	(4,975)
	(895)	**12,532**	(1,033)	(20,030)

15. Investment in Associate

The Department holds an investment in NATS Holdings Ltd (NATS). NATS is the sole provider of en-route air traffic control services to flights within the UK Flight Information Regions and the Shanwick Oceanic Control Area and provides air traffic control services to fourteen UK airports. NATS is accounted for as an associate as the Department holds the minority voting rights in NATS (31 March 2019 and 2020: 48.9%).

In previous years, the Department recognised its share of net assets, profits and other comprehensive net income / expenditure based on the audited financial statements published by NATS. NATS has not published its 2019-20 financial statements to-date and therefore the Department has estimated the full year performance and position based on the unaudited interim financial statements available to shareholders. Using the net asset position as at 30 September 2019, and movements to that date, the Department has then adjusted for the interim dividend paid subsequently. Given the significant uncertainties faced by the aviation sector from March 2020 onwards in the context of the COVID-19 pandemic, and the ongoing work of NATS, the CAA and the Competitions and Markets Authority to finalise NATS' regulatory settlement, the Department has not made any estimate of profits or items of other comprehensive income arising after 30 September. NATS' accounts for recent financial periods demonstrate that it typically generates most of its profits in first 6 months of the year. Whilst the Department recognises there will be additional movements in NATS' Statement of Financial Position between 30 September 2019 and 31 March 2020 which may be significant to NATS at an individual entity-level, these are not expected to be material to the Department's investment and these Departmental Group accounts. NATS' actual financial results for the year will be published by the end of 2020. The value of the Department's investment is shown on next page, followed by the Department's estimated financial results for NATS (2018-19: actual audited results).

The Department has made an assessment of whether the carrying amount exceeds the investment's recoverable amount and has concluded that no impairment is required. In forming this conclusion, the Department has considered the strategic importance of air traffic control to the UK and the basis on which NATS' revenues are regulated, to achieve an efficient return on its regulatory asset base.

Note 4 discloses the share of the associate's non-operating and operating income/(expenditure) as £29m and £1m respectively. The £29m represents the dividend paid by NATS to the Department, and the £1m represents the share of the profit/loss reported (£30m) and the dividend paid (£29m).

	£m
Balance at 1 April 2018	*431*
Share of profits / (loss)	40
Share of impact of initial application of IFRS 9 and IFRS 15	5
Share of other comprehensive net income / (expenditure)	(67)
Share of other movements, inc. dividend paid from NATS to DfT	(29)
Balance at 31 March 2019	380
Share of profits / (loss)	30
Share of other comprehensive net income / (expenditure)	(43)
Dividends paid from NATS to DfT	(29)
Balance at 31 March 2020	**338**

Financial results of associate	**2019-20**	2018-19
	(September 2019 position, adjusted *for dividend* payments to March 2020)	(actual audited amounts)
	£m	£m
Balance at 31 March		
Non current assets	1,445	441
Current assets	407	1,370
Current liabilities	(305)	(322)
Non current liabilities	(856)	(711)
Net assets	**691**	778
Profit for the year*	62	82
Other comprehensive income/(expenditure) for the year	(89)	(137)
Dividends paid during the year	(59)	(59)

* The Department estimates NATS' full-year revenues for 2019-20 are materially similar to those for 2018-19 of £886m

16. Inventories

	2019-20		2018-19	
	Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Raw materials, consumables & work-in-progress	-	315	-	277
Current assets	**-**	**315**	-	277
Properties acquired under the HS2 exceptional hardship and related schemes	591	591	535	535
Raw materials, consumables & work-in-progress	5	5	4	4
Non-current assets	**596**	**596**	539	539

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 should be reclassified to AUC when the criteria for capitalisation have been met and legislation has progressed sufficiently.

17. Trade and Other Receivables

	2019-20		2018-19	
	Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Amounts falling due within one year:				
Trade receivables	24	53	32	212
Trade receivables - contracts with customers	4	438	6	200
Deposits and advances	1	47	1	22
VAT receivables	10	366	6	331
Other receivables	112	87	152	41
Collateral placed with banking counterparties	-	534	-	727
Prepayments and accrued income	187	435	215	498
Current part of NLF loan	-	-	1	1
Total current	**338**	**1,960**	413	2,032
Amounts falling due after more than one year:				
Trade receivables	21	20	-	-
Other receivables	2	1	1	2
Network Rail Collateral Facility	410	-	685	-
Prepayments and accrued income	-	11	-	12
Total non-current	**433**	**32**	686	14
Total current and non-current	**771**	**1,992**	1,099	2,046

18. Cash and Cash Equivalents

	2019-20		2018-19	
	Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
At 1 April	213	814	147	1,133
Net change in cash and cash equivalents	318	160	66	(319)
At 31 March	**531**	**974**	213	814

The following balances were held at:				
Government Banking Service	526	585	207	284
Commercial banks and cash in hand	5	389	6	530
At 31 March	**531**	**974**	213	814

The core Department sought additional Supply funding in March 2020 to meet the cost of the Group's response to the COVID-19 pandemic at the end of March. The payments for some of these responses, such as the Emergency Measure Agreements (see **Note 3.2**), occurred at the start of April. As a consequence, the core Department carried a larger cash balance at 31 March 2020 than it normally does. The balance is offset by a liability in **Note 19**, "Amounts issued from the Consolidated Fund for Supply but not spent at year-end", which is also higher than normal.

19. Trade and Other Payables

	2019-20		2018-19	
	Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Amounts falling due within one year:				
Trade payables	(320)	(959)	(109)	(946)
Other payables	(26)	(317)	(25)	(231)
VAT, other taxation and social security	(7)	(91)	(6)	(82)
Accruals	(1,051)	(3,057)	(862)	(3,941)
Deferred income	(71)	(152)	(79)	(160)
Finance leases	-	-	-	(6)
PFI and other service concession arrangements	(3)	(84)	(3)	(86)
Collateral received from banking counterparties	-	(120)	-	(38)
Amounts issued from the Consolidated Fund for supply but not spent at year end	(503)	(503)	(186)	(186)
Consolidated Fund Extra Receipts due to the Consolidated Fund (Received)	(28)	(28)	(27)	(27)
Total current	**(2,009)**	**(5,311)**	(1,297)	(5,703)
Amounts falling due after more than one year:				
Other payables	(51)	(147)	(69)	(261)
Deferred income	(1,099)	(1,220)	(1,154)	(1,329)
Finance leases	-	-	-	(9)
PFI and other service concession arrangements	(12)	(1,364)	(15)	(1,382)
National Loan Fund loans	-	-	(1)	(1)
Total non-current	**(1,162)**	**(2,731)**	(1,239)	(2,982)
Total current and non-current	**(3,171)**	**(8,042)**	(2,536)	(8,685)

"Accruals" and "Deferred income" were presented in aggregate in prior years. Deferred income includes £424m for contract balances in respect of deferred revenue from contracts under IFRS 15 (2019: £266m).

During 2019-20 HS2 Ltd paid £569m to HMRC (which had been accrued on 31 March 2019) following their ruling on HS2's VAT status.

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 with effect from 1 April 2019, as explained in **Note 1.6**, the majority of the Group's leases, treated as operating leases until 31 March 2019 (as shown in **Notes 3.2** and **10.2**), are recognised on-balance sheet as right-of-use assets and lease liabilities. Further disclosure is provided in **Note 7**. 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 the disclosure requirements. Interest costs are disclosed in **Note 3.7**.

	2019-20		2018-19	
	Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
1.085% sterling index linked bond due 2052	-	(141)	-	(137)
0% sterling index linked bond due 2052	-	(154)	-	(149)
2.334% Asset Backed Index Linked Notes due 2051	(814)	(811)	(791)	(789)
5.1% sterling bond due 2051	(1,101)	(1,101)	(1,101)	(1,101)
1.003% sterling index linked bond due 2051	-	(27)	-	(26)
0.53% sterling index linked bond due 2051	-	(136)	-	(133)
0.517% sterling index linked bond due 2051	-	(136)	-	(133)
0% sterling index linked bond due 2051	-	(154)	-	(149)
0.678% sterling index linked bond due 2048	-	(134)	-	(131)
1.125% sterling index linked bond due 2047	-	(5,819)	-	(5,685)
0% sterling index linked bond due 2047	-	(99)	-	(95)
1.1335% sterling index linked bond due 2045	-	(55)	-	(53)
1.5646% sterling index linked bond due 2044	-	(308)	-	(299)
1.1565% sterling index linked bond due 2043	-	(61)	-	(60)
1.1795% sterling index linked bond due 2041	-	(75)	-	(73)
1.2219% sterling index linked bond due 2040	-	(302)	-	(294)
1.2025% sterling index linked bond due 2039	-	(82)	-	(80)
4.5% sterling bond due 2038	(428)	(428)	(428)	(428)
4.6535% sterling bond due 2038	-	(100)	-	(100)
1.375% sterling index linked bond due 2037	-	(5,717)	-	(5,578)
5.234% Asset Backed Fixed Rate Notes due 2035	(424)	(441)	(498)	(516)
4.75% sterling bond due 2035	-	(1,234)	-	(1,232)
1.6492% sterling index linked bond due 2035	-	(459)	-	(447)
4.375% sterling bond due 2030	-	(872)	-	(872)
4.5% sterling bond due 2028	(1,236)	(1,236)	(1,235)	(1,235)
1.75% sterling index linked bond due 2027	-	(5,548)	-	(5,435)
4.615% Norwegian krone bond due 2026	-	(47)	-	(53)
4.57% Norwegian krone bond due 2026	-	(13)	-	(15)
1.9618% sterling index linked bond due 2025	-	(389)	-	(378)
4.75% sterling bond due 2024	-	(743)	-	(742)
3% sterling bond due 2023	-	(399)	-	(398)

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		2019-20		2018-19
	Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
	£m	**£m**	£m	£m
2.76% Swiss franc bond due 2021	-	(251)	-	(231)
2.315% Japanese yen bond due 2021	-	(77)	-	(73)
2.28% Japanese yen bond due 2021	-	(77)	-	(73)
2.15% Japanese yen bond due 2021	-	(77)	-	(73)
4.625% sterling bond due 2020	-	(1,000)	-	(1,000)
Index-linked European Investment Bank due 2036 (£243m) and 2037 (£241m)	-	(514)	-	(500)
Financial liabilities	(4,003)	(29,217)	(4,053)	(28,766)
Lease liabilities 7	(427)	(937)	-	-
Total borrowings	**(4,430)**	**(30,154)**	(4,053)	(28,766)
Of which:				
Current	(172)	(1,297)	(111)	(119)
Non-current	(4,258)	(28,857)	(3,942)	(28,647)
	(4,430)	**(30,154)**	(4,053)	(28,766)

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.

		2019-20		2018-19
	Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Analysis by interest rate and inflation risk exposure				
Nominal	(3,189)	(8,096)	(3,262)	(8,142)
Index-linked	(814)	(21,121)	(791)	(20,624)
	(4,003)	**(29,217)**	(4,053)	(28,766)

	£m
At 1 April 2018	(30,304)
Net cash payments	1,809
Non-cash movements	
Capital accretion	(520)
Exchange differences	(9)
Fair value and other movements	258
At 31 March 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)**

21. Financial guarantee contracts

The Department has given an indemnity to Network Rail's debt holders, with a total outstanding debt as at 31 March 2020 of £24,686m (2019: £24,196m). The indemnity expires in 2052 and is recognised as a financial guarantee contract. The indemnity reduces the cost of borrowing for Network Rail. Network Rail paid a fee to the Department until 31 March 2019 for the equivalent benefit of reduced interest charges on its commercial debt. The discounted value of the indemnity over the remaining period is calculated to be as shown in the table below.

	Core Department and Agencies
	£m
Balance at 1 April 2018	(4,044)
Charge in year	(133)
Amortised to income	266
Unwinding of discount	(155)
Balance at 31 March 2019	(4,066)
Charge in year	12
Amortised to income	266
Unwinding of discount	(150)
Balance at 31 March 2020	**(3,938)**

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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 in these financial statements to Depreciated Replacement Cost. The Department believes that the valuation of the Railway Network in Network Rail's financial statements (on which the deferred tax workings are based) provides the best basis for assessing temporary differences that would affect the future assessment of tax if the relevant assets were realised.

No other deferred tax is recognised as the majority of the Departmental Group's activities are classified as non-business.

Deferred tax at 31 March 2020 is calculated at a rate of 19% (2019: 17%) based on tax rate expected to prevail based on legislative enactments at the point temporary differences resolve. The amount at which temporary differences crystallise is sensitive to the decisions on future tax laws to be taken by Parliament.

UK corporation tax is calculated at 19% (2019: 19%).

	2019-20	2018-19
	Departmental Group	Departmental Group
	£m	£m
At 1 April	(3,003)	(2,508)
Operating gain / (loss)	(396)	(52)
Other comprehensive income/(expenditure)	(181)	(443)
At 31 March	**(3,580)**	(3,003)

Some deferred tax assets and liabilities have been offset. The following is the analysis of the gross deferred tax balances.

Deferred tax liabilities	(3,605)	(3,123)
Deferred tax assets	25	120
	(3,580)	(3,003)

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 2019, 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. Additionally, whilst taxable income does not exceed allowable deductions in the year, Network Rail claims only the capital allowances sufficient to claim for group relief and available tax credits. The deferred tax asset on Network Rail's tax losses of £3,142m (2019: £3,144m) and surplus advanced corporation tax of £37m (2019: £37m) has not been recognised as it has not been possible to forecast future profits with sufficient certainty.

23. Provisions for Liabilities and Charges

	High Speed 2 Land & Property	Industrial disease claims	National Freight Company Pension	Others	Core Department & Agencies	Highways England Land & Property	VAT	ATTF	Others	Departmental Group
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 April 2018	(1,099)	(284)	(57)	(66)	**(1,506)**	(155)	(275)	(7)	(73)	**(2,016)**
Provided in year	(247)	(3)	-	(81)	**(331)**	(178)	(392)	(3)	(37)	**(941)**
Provision written back	-	-	2	1	**3**	48	-	-	26	**77**
Provision utilised	343	13	5	3	**364**	52	-	8	25	**449**
Unwinding of discount	-	(5)	-	-	**(5)**	-	-	-	-	**(5)**
Reclassifications	-	-	-	-	**-**	-	569	-	-	**569**
Balance at 31 March 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)**
Reclassifications	-	-	-	31	**31**	-	-	-	(31)	**-**
Balance at 31 March 2020	**(1,041)**	**(241)**	**(43)**	**(29)**	**(1,354)**	**(238)**	**(44)**	**(53)**	**(116)**	**(1,805)**
Of which:										
Later than five years	-	(175)	(26)	(5)	**(206)**	-	-	-	(1)	**(207)**
Between one and five years	(493)	(55)	(13)	(10)	**(571)**	(126)	-	(3)	(34)	**(734)**
Non-current	(493)	(230)	(39)	(15)	**(777)**	(126)	-	(3)	(35)	**(941)**
Current / within one year	(548)	(11)	(4)	(14)	**(577)**	(112)	(44)	(50)	(81)	**(864)**

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 Department for Transport.

During 2019-20, the value of this provision has decreased from £279m to £241m. There has been a 27% decrease in the number of outstanding disease and injury claims (from 294 to 216 during 2019-20), which is offset by unwinding the discount rate, resulting in a £25m credit to the SOCNE (2019: £8m). £13m was paid out in settlement of such claims during the year (2019: £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 2020: £35m; 2019: £41m) – 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 2020: £8m; 2019: £9m) – 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 2020: £1,041m; 2019: £1,003m). These include: compulsory purchase orders (£824m); statutory blight legislation (£107m); the Need to Sell scheme (£26m); Rural Support Zone Scheme (£5m) and specific agreements with various corporate entities (£79m). 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 62% "active" and 38% "inactive" cases (2019: 51% active, 49% 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

During 2018-19, Highways England provided £98m for outstanding HMRC rulings on specific tax regulations governing its ability to reclaim VAT on 'Design-Build-Finance-Operate' schemes (£42m), Hybrid schemes (£34m) and the National Roads Telecommunications Service contract (£18m). During 2019-20 Highways England settled liabilities of £31m, £56m and £42m for each of those programmes above. The £44m provision at 31 March 2020 relates to the potential over recovery of VAT for preliminary works on Hybrid schemes.

The balance recognised for HS2 Ltd as at 31 March 2018 was transferred to accruals during 2018-19, and settled in July 2019. HS2 Ltd settled the final £12m of VAT and interest charges after HMRC issued its final assessment notice in February 2020. The Company has successfully re-registered for VAT on non-business activity effective 1 April 2020. A Statutory Instrument is now in place to allow HS2 to reclaim VAT from 1 April 2020, initially under a HM Treasury Interim Direction as agreed with HMRC.

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 2020: £238m; 2019: £233m).

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, which became a material category this year. 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. The provision balance and movements have previously been immaterial in the context of the group accounts, and have therefore been reflected within "Other provisions". 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. As at 31 March 2020, the Trust had paid £437m in settlement of this obligation, and expect to compensate all remaining customers within the coming months. The cost of repatriating passengers stranded abroad who had purchased flights only and therefore not covered by the ATTF scheme, was incurred by the core Department on a discretionary basis. This cost is disclosed in **Note 3.2** and does not form part of this provision.

Other

These headings also cover a range of smaller provisions, including:

- In 2018-19 the Department provided £50m for onerous contracts relating to freight capacity in case the UK left the EU without a deal at the end of 2019. This was realised on 30 April 2019 when the Department reached a negotiated settlement with the ferry companies. Further information can be found in the Losses and Special Payments section of the Parliamentary Accountability section of this Report.
- In 2018-19 the Department provided £30m for an onerous contract with a rolling stock lessor that obliged the Department to purchase a fleet of trains originally procured by the British Railway Board, subject to certain conditions. During August 2019, those condition were met and the Group purchased the fleet, thus satisfying the obligation.
- Until 2019-20, the Department recorded an onerous lease on railway arches in Leake Street beneath Waterloo station at a value of £31m. On adoption of IFRS 16 on 1 April 2019, the balance was transferred from provisions to reduce the value of the right-of-use asset recognised for this property.
- British Railways Board's (BRB) ex-employees' pensions (31 March 2020: £8m; 2019: £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 2020: £8m; 2019: £6m).
- Highways England has provided for other liabilities totalling £8m (2019: £11m). The majority of this is an estimate of the value of claims received that will require settlement. Claims arise from third parties who have suffered damage or injury due to the road network being damaged and are entitled to submit a claim to Highways England for compensation.

24. Contingent Liabilities

Contingent liabilities 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 Department for Transport 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 2020	31 March 2019
	£m	£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.	1,364	1,422
HS2 – *Undertakings* and Assurances 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.	280	238
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.	90	20
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.	125	35
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.	114	168
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. Significant progress was made towards achieving major milestones during 2019-20 (in particular, on the Intercity Express Programme), thus removing significant components of the risk that the guarantees were issued to manage.	96	440
Total	**2,069**	2,323

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.

During 2019-20 Highways England changed its policy with regards to the disclosure of contingent liabilities relating to land and property acquisitions. Highways England was recognising potential claims before a preferred route had been announced, which led to the value of contingent liabilities being inflated by £1,138m on 31 March 2019.

Unquantifiable contingent liabilities

The following guarantees, indemnities, statutory obligations and letters of comfort cannot be quantified with any degree of accuracy:

- In furtherance of transport infrastructure projects, the Secretary of State has incurred liabilities for statutory blight. This includes obligations in respect of Crossrail 2 and, since June 2018, Heathrow expansion. Property owners within the affected areas may be eligible to serve a Blight Notice asking the Secretary of State to buy their property. As this is unquantifiable, it is presented as a contingent liability.
- 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. This has been reclassified from being a remote contingent liability as at 31 March 2019.
- The Department issued safeguarding orders in 2013 and 2017 for the proposed route of HS2. This creates an obligation on the Department to purchase properties which have been blighted. A provision has been recognised for the cost of properties the Department has accepted as blighted, and where the purchase price has been substantially agreed. Any remaining liability is classed as a contingent liability.
- As part of the normal course of business, HS2 Ltd has given indemnities to individuals and companies who could be impacted by the construction of HS2. A number of Protective Provision Agreements have been made with either special status or utility companies that include indemnities in relation to HS2 Ltd's work as Nominated Undertaker for constructing HS2. These agreements go no further than the provisions made in the Phase 1 Hybrid Act and the Phase 2A Hybrid Bill that provide for protection, repair, compensation and indemnification from third party claims.
- Following the UK's decision to leave the European Union, the Government announced in August and October 2016 that EU funding streams would be guaranteed. For the Department this covers its activities under the Connecting Europe Facility. In recent years the Department has administered variable amounts under this facility between £4m and £13m per annum.

25. Pension Schemes

Past and present employees of the core Department and its agencies are generally covered by the provisions of the Principal Civil Service Pension Scheme. The 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. All of the schemes are funded.

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 fulfils the role of the 'designated employer' for the other four schemes listed on the next page.

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

Formal actuarial valuations

A formal actuarial valuation of the 1994 Section as at 31 December 2019 will be undertaken by the joint actuaries (Willis Towers Watson and the Government Actuaries Department (GAD)) over the course of 2020. The report relating to the previous actuarial valuation as at 31 December 2016 was published on 31 December 2019.

A formal actuarial valuation of the BR Shared Cost Section for funding purposes was undertaken by the joint actuaries (Willis Towers Watson and GAD) using the projected unit method with a valuation date as at 31 December 2016. The final valuation report was published on 1 June 2018. The next actuarial valuation as at 31 December 2019 is underway.

A formal actuarial valuation of the British Railways Superannuation Fund for funding purposes was undertaken by the joint actuaries (Willis Towers Watson and GAD) using the projected unit method with a valuation date as at 31 December 2016. The final valuation report was published on 25 October 2017. The next actuarial valuation as at 31 December 2019 is underway.

A formal actuarial valuation of the Network Rail schemes was undertaken by Willis Towers Watson using the projected unit method with a valuation date as at 31 December 2016.

The net pension liability by scheme

	2019-20		2018-19	
	Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
NR (RPS and CARE)	-	(2,070)	-	(2,566)
1994 Section	(1,369)	(1,369)	(1,461)	(1,461)
BR Shared Cost Section	(33)	(33)	(47)	(47)
British Railways Superannuation Fund (BRSF)	(11)	(11)	(14)	(14)
BR (1974) Pension Fund	(3)	(3)	(4)	(4)
BTP Force Superannuation Fund (BTPFSF)	-	(480)	-	(641)
BTP Section of the Railways Pension Scheme (RPS)	-	(100)	-	(140)
Total deficit at the end of the period	**(1,416)**	**(4,066)**	(1,526)	(4,873)

Shared cost schemes are accounted for using 100% of the assets, liabilities and deficit positions are included in measuring pension-related balances except where the scheme's rules and other circumstances fully support an assumption that the employer will be liable only for their share of the deficit. The disclosures in this Note use the 100% basis with the exception of balances relating to Network Rail.

Network Rail's RPS and CARE schemes are both shared cost in nature, so the cost of benefits being earned and the cost of funding any shortfall in the schemes are normally split in the proportion 60:40 between Network Rail and the members. These financial statements consolidate the proportion that relates to Network Rail only.

Reconciliation of net pension liability

	Core Department & Agencies	Departmental Group		
	Deficit	**Asset**	**Liabilities**	**Deficit**
	£m	£m	£m	£m
At 1 April 2018	(1,299)	8,273	(12,603)	(4,330)
Current service cost including members' share	(2)	-	(342)	(342)
Past service costs	(43)	-	(53)	(53)
Interest on pension deficit	(31)	194	(297)	(103)
Administration expenses	-	(10)	-	(10)
Return on plan assets greater than the discount rate	99	372	-	372
Actuarial gain/(loss) arising from changes in financial assumption	(246)	-	(638)	(638)
Actuarial gains/(losses) on defined benefit obligation due to demographic assumptions	-	-	40	40
Actuarial gain/(loss) arising from experience adjustments	(7)	-	53	53
Regular contributions by employer	3	94	-	94
Contributions by employees	-	59	(15)	44
Benefits paid	-	(510)	510	-
As at 31 March 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)
Actuarial gain/(loss) arising from changes in financial assumption	246	-	1,062	1,062
Actuarial gains/(losses) 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	**(1,418)**	**8,144**	**(12,210)**	**(4,066)**

As shown in the table above, the change in the net pension liability is largely dictated by four factors:

- actuarial gains or losses, which reduce or increase the liability
- return on plan assets greater than the discount rate, which reduce or increase the liability
- past service costs, which reduce or increase the liability
- *net interest costs, which increase the liability*

The volatility of actuarial gains or losses is predominantly *due to changes in assumptions, in particular the* discount rate net of inflation and demographic assumptions, such as life expectancy. The "experience adjustments" are caused by experience in the scheme being different from that expected; such as the number of retirements is more or less than that assumed.

The "return on plan assets" represents the interest and gains or losses generated on assets that the scheme invests in.

Past service costs arise when an employer undertakes to provide a different level of benefits than previously promised. Following the Lloyds judgement in October 2018, pension schemes are required to equalise in respect of Guaranteed Minimum Pensions (GMP) accrued after 17 May 1990. *Analyses of the scheme memberships in* the Group found that only a low number of members are within the scope of this initiative, therefore, the schemes *made allowances of up to 1% of the total liabilities in 2018-19* for the cost of GMP equalisation. As stated last year, the 1% was subject to change and in 2019-20 the allowance has been revised down to 0.4% based analysis of recent benefit payments including interest. This impact was recognised as a past service cost in 2018-19 and as a past service credit in 2019-20 to reflect the updated estimate.

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 may be affected by risks arising from the impact of the COVID-19 pandemic, in particular: discount rate assumptions, life expectancy and certain pension scheme assets. The value of private equity and infrastructure funds at 31 March 2020 may not fully reflect the impact of the current COVID-19 pandemic as these assets experience a lag in terms of their valuation. While *the full impact of the COVID-19 pandemic is not known* and will remain uncertain until further evidence has been established, more information is provided in the relevant sections below, including sensitivity analysis.

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 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.

				2019-20
	Level 1	**Level 2**	**Level 3**	**Total**
	£m	£m	£m	£m
Analysis of assets in significant schemes:				
Equities	2,715	-	39	2,754
Private equity and non-exchange-traded pooled investment vehicles	-	-	1,666	1,666
Cash and current assets	1,099	-	-	1,099
Pooled investment vehicles	-	835	-	835
UK property	-	-	499	499
Fixed interest securities	404	66	21	491
Index linked securities	224	-	-	224
Derivatives-futures	28	-	-	28
Derivatives-FX contracts	-	(107)	-	(107)
Other	7	-	-	7
	4,477	794	2,225	7,496
Assets in minor schemes:				
Network Rail CARE				154
Former British Rail schemes exc. 1994 Section				319
BTP RPS				175
Fair value of plan assets (Departmental Group)				**8,144**

As a result of the economic uncertainty following measures undertaken in response to the global pandemic, the valuation of assets held in UK property and Private equity and non-exchange traded pooled investment vehicles is subject to an increased level of estimation uncertainty at 31 March 2020. If the valuation of these assets was 5% higher or lower this would decrease/increase the defined benefit obligation by £108m.

Amounts charged to operating costs

	2019-20		2018-19	
	Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Current service cost	2	378	2	342
Past service cost	(23)	(23)	43	53
Net interest expense / (income)	30	106	31	103
Administrative costs and taxes	-	11	-	10
Total	**9**	**472**	76	508
Of which:				
Employer pension costs included in **Note 3.1** 'other pension costs'	2	333	3	309
Pension scheme costs per **Note 3.6**	7	139	73	199

Amounts recognised in other comprehensive expenditure

	2019-20		2018-19	
	Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
	£m	£m	£m	£m
Return on plan assets greater than the discount rate	(100)	(155)	(99)	(372)
Actuarial gain / (loss) arising from changes in assumptions	246	1,224	246	598
Actuarial gain / (loss) arising from experience adjustments	(29)	65	7	(53)
Total gain / (loss)	**117**	**1,134**	154	173

Principal actuarial assumptions at the reporting date (expressed as weighted average):

	NR (RPS)	NR (CARE)	1994 Section	BTP Force Superannuation Fund (BTPFSF)
2018-19				
Discount rate	2.30%	2.30%	2.00%	2.35%
Future pension increases	2.20%	2.20%	2.40%	2.20%
Future prices increase (CPI unless otherwise stated)	2.20%	2.20%	2.40%	2.20%
Rate of increase in salaries	3.20%	3.20%	3.40%	3.20%
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%

Scheme	Average life expectancy on retirement			
	Members aged 45		Members aged 65	
	Males	Females	Males	Females
1994 Section*	n/a	n/a	21.3	23.4
Network Rail (RPS and CARE)	22.8	24.6	21.1	22.7
BTPFSF	23.6	26.0	22.3	24.6

At this stage, the impact of the COVID-19 pandemic on life expectations 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. The sensitivity analysis on the next page estimates the impact of changes to mortality assumptions.

*The 1994 Section liabilities have been calculated using full membership data provided as at 31 December 2017 which has not yet been updated. This data was used to calculate the liabilities as at 31 March 2018, 2019 and 2020. The 1994 Section deficit calculation also reflects:

1) asset valuations as at 31 March 2020 (31 March 2019);

2) contributions received by the Section between 1 January 2018 and 31 March 2020; and

3) pension benefits paid over the same timeframe.

Sensitivity Analysis

The table below shows the impact of changes to assumptions on the net pension deficit.

	31 March 2020			31 March 2019		
	NR (RPS & CARE)	**1994 Section**	**BTPFSF**	NR (RPS & CARE)	1994 Section	BTPFSF
	£m	£m	£m	£m	£m	£m
Discount rate						
+0.25%	(547)	(90)	(86)	(603)	(120)	(101)
-0.25%	590	90	93	651	120	102
Life expectancy						
+1 year	322	150	53	332	180	54
-1 year	(322)	(150)	(53)	(329)	(180)	(54)
Earnings increase						
+0.25%	152	-	-	172	-	-
-0.25%	(147)	-	-	(166)	-	-
Price inflation						
+0.25%	555	70	88	619	120	97
-0.25%	(517)	(70)	(82)	(576)	(120)	(97)

It is considered that none of the other schemes expose the Department to risk of material changes in balances and transactions arising from factors surrounding the actuarial assumptions and their sensitivities. As a result, this data is not provided for those schemes.

The COVID-19 pandemic led to an increased level of volatility in the discount rate which is used to value the pension scheme deficit. The table below shows the lower and upper bound of the fluctuation between 1 March and 30 April 2020 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.

	Actual discount rate used at 31 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

Risk analysis

Defined benefit scheme liabilities expose the Departmental Group to material financial uncertainty, arising from factors such as changes in life expectancy and in the amount of pensions payable. Some scheme investments, such as equities, should offer long-term growth more than inflation, but are typically more volatile in the shorter term than government bonds.

The cost of financing defined benefit pension deficits is borne by a number of parties. For shared cost schemes, such as the RPS shared cost sections, any increase in contributions will be met in part by the employees and this element of the deficit is not recorded as a liability on the balance sheet. In the case of the employer's contributions to both the NR and BTP schemes, any deficits will be met by increased contributions by all the employer participants of the schemes. 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. Allowing for the present value of deficit contributions due after this date, a net deficit of £9m is reported. The trustees published a recovery plan on 26 March 2019 in which an assumption has been made for the Fund's assets to exceed the average discount rate by 0.1%, eliminating the deficit by 30 September 2023. Accordingly, the MNOPF trustees determined that no additional contributions would be required in order to eliminate the deficit. The trustees will review the need for additional deficit contributions as part of the 31 March 2021 valuation.

26. Entities within and outside the departmental boundary

Within the Departmental Accounting boundary

The following entities were within the Departmental boundary during 2019-20 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

Executive Agencies

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

Arm's Length Bodies (Executive Non-Departmental Public Bodies)

British Transport Police Authority
Directly Operated Railways Limited *(This company (06950819) is exempt from audit of its account by virtue of s479A of Companies Act 2010)*
DFT OLR Holdings Limited *(reclassified in March 2020 as a Public Corporation by the Office for National Statistics, which will take effect from 1 April 2020 for accounting purposes)*
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
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)

Financial Statements

Not reported within the Departmental Accounting boundary

Financial information for the following entities can be obtained from their separately published annual reports and accounts.

Public Corporations

London and Continental Railways Limited
(see **Notes 12.2** and **27.1** for further information)

London North Eastern Railway Limited
(see **Notes 12.3** and **27.2** for further information)

Northern Trains Limited
(see **Notes 12.4** and **27.3** for further information)

Crossrail International Limited
(see **Note 27.4** for further information)

Civil Aviation Authority
ITSO Limited
ITSO Services Limited
Dover Harbour Board
Milford Haven Port Authority
Port of London Authority
Port of Tyne Authority
Shoreham Port Authority
Blyth Harbour Commissioners
Harwich Haven Commissioners
Poole Harbour Commissioners

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.

Non-Ministerial Department and Regulator

Office of Rail and Road

Other Entities

Network Rail Insurance Limited (Guernsey)
(see **Notes 12.5** and **27.5** 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

Trading funds are typically public corporations. However, the Office for National Statistics reclassified DVSA as a central government body in 2019. It will be consolidated into this account from 2021-22, once DVSA's trading fund status is formally revoked in legislation.

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 LCR Ltd

Strategic role

LCR Ltd was established by a consortium of investors to deliver the Channel Tunnel Rail Link (HS1) project. It was brought into the public sector because the Department had taken the majority of the project risk. The original investors were bought out in 2008 to restructure the project finances and the company now manages and develops properties with historic associations with the rail sector (HS1 and former British Rail sites) to maximise the commercial benefits to the taxpayer.

Financial performance and position

LCR Ltd's most significant assets are investments in property development partnerships, investment properties and cash realised from property sales. These in turn drive the most material components of its profits. The data below comes from the company's financial statements for the year ending 31 March 2020. These are prepared in accordance with IFRS, and all items are measured on the same basis as applied by the Department.

	2019-20	2018-19
	£m	£m
Stratford City	64	69
Investment properties and PPE	232	210
Non-current receivables from related parties	18	18
Current assets	90	117
Current liabilities	(15)	(19)
Non-current liabilities	(41)	(16)
Net assets	**348**	379
Revenue	32	32
Cost of sales	(11)	(13)
Administrative expenses	(9)	(6)
Gain/(loss) on revaluation of investment properties	(23)	(23)
Increase/(decrease) in provisions	-	40
Net finance income	-	1
Share of gains of associates and joint venture	-	17
Profit before tax	**(11)**	48
Tax	(2)	(15)
Profit for the year and Total comprehensive income	**(13)**	33

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 2019-20 LCR Ltd paid a dividend of £18m to the Department (2018-19: £nil). There were no other material transactions with the group in 2018-19 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 £362m as at 31 March 2020 (2019: £368m).

27.2 LNER Ltd

Strategic role

LNER Ltd was established by the Department to act as an operator of last resort for a rail franchise. It is wholly owned by DfT OLR Holdings Ltd and consolidated in that company's financial statements. It has operated the east coast mainline franchise since June 2018. The franchise is expected to be re-tendered in due course.

Financial performance and position

The company's most significant assets are trade and other receivables; cash and cash equivalents; property, plant and equipment; and a defined benefit pension asset. Most franchise assets are held under operating leases. Its most significant liabilities are borrowings from its parent, and trade and other payables. Significant items of income and expenditure include passenger income, staff costs and lease rentals. The data below comes from the company's most recent financial statements. These are prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006 and therefore all material items are measured on the same basis as applied by the Department.

	2019-20	2018-19
	£m	£m
Non-current assets	407	75
Current trade and other receivables	83	137
Cash and cash equivalents	93	33
Other current assets	3	2
Current trade and other payables	(313)	(173)
Non-current liabilities	(221)	(6)
Net assets	**52**	68
Revenue	839	681
Other operating costs	(823)	(628)
Net finance income/(charge)	(8)	1
Profit before tax	**8**	54
Tax	(1)	(12)
Profit for the year and Total comprehensive income	**7**	42

Transactions with the consolidated group

Under the Services Agreement LNER is required to pay a financial premium to the Department, which for the year to the 31 March 2020, amounted to £94m (2018-19: £128m).

During 2019-20, LNER Ltd purchased £1m of services from DfT OLR Holdings Ltd. LNER Ltd received £1m of capital project contributions from the Department (2018-19: £7m and £2m respectively). In addition, LNER paid a dividend of £40m to DfT OLR Holdings Ltd.

As at 31 March 2020, LNER Ltd has a receivable of £19m and a payable of £0.02m relating to DfT OLR Holdings Ltd (2019: £41m and £4m respectively).

A full list of the transactions between LNER Ltd and the consolidated group can be found in their accounts, which are filed at Companies House.

Carrying value of the Group's investment in LNER Ltd

The Group's investment in LNER Ltd is held at fair value (see **Note 12.3**).

27.3 Northern Trains Ltd

Strategic role

Northern Trains Ltd was established by the Department to act as an operator of last resort for the Northern rail franchise. It is wholly owned by DFT OLR Holdings Ltd and consolidated in that company's financial statements. It has operated the northern network franchise since March 2020.

Financial performance and position

The company's most significant assets are trade and other receivables; cash and cash equivalents; leased assets, property, plant and equipment; and a defined benefit pension asset. Most franchise assets are held under leases. Its most significant liabilities are borrowings from its parent, trade and other payables and lease liabilities. Significant items of income and expenditure include passenger income and staff costs. *The data below comes from the company's most recent* financial statements. These are prepared in accordance with IFRS and the Companies Act 2006 and therefore items are measured on the same basis the Department.

	2019-20
	£m
Non-current assets	232
Current trade and other receivables	62
Cash and cash equivalents	29
Other current assets	6
Current trade and other payables	(203)
Non-current liabilities	(91)
Net assets	**35**
Revenue	75
Other operating costs	(74)
Net finance income/(charge)	-
Profit before tax	**1**
Tax	-
Profit for the year and Total comprehensive income	**1**

Transactions with the consolidated group

Under the Services Agreement Northern Trains receives a "Fixed service payment" from the Department, which for the year to the 31 March 2020, amounted to £52m.

As at 31 March 2020, Northern Trains Ltd has a payable of £10m relating to DfT OLR Holdings Ltd.

A full list of the transactions between Northern Trains Ltd and the consolidated group can be found in their accounts, which are filed at Companies House.

Carrying value of the Group's investment in Northern Trains Ltd

The Group's investment in Northern Trains Ltd is held at fair value (see **Note 12.4**).

27.4 Crossrail International Ltd

Strategic role

Crossrail International Ltd was established by the Department in September 2017 to share the knowledge, expertise and lessons learned during the Crossrail Project with International transport projects.

Transactions with the consolidated group

At 31 March 2020, Crossrail International's share capitalisation was £2m, with a further £1m formally issued shortly after the year-end. CRI has not paid a dividend.

Carrying value of the Group's investment in Crossrail International Ltd

The Group's investment in Crossrail International Ltd is held at fair value (under Direct Subsidiaries in **Note 12**), with a carrying value of £2m as at 31 March 2020 (2019: £1m).

27.5 Network Rail Insurance Ltd

Strategic role

Network Rail Insurance Limited was established by Network Rail to act as a "captive" insurance company, to have direct access to reinsurance markets, minimising the volatility of insurance premia and retaining profits within the Group.

Financial performance and position

The company's most significant assets are financial assets held to meet insurance claims from the Network Rail Group. Trade and other payables include the company's liabilities under insurance contracts. Premia are calculated to match the costs of settling insurance liabilities, with minimal profit margins. The data in the table above 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.

	2019-20	2018-19
	£m	£m
Cash and cash equivalents	291	273
Receivables from insurance contracts	8	11
Trade and other payables	(7)	(2)
Liabilities from insurance contracts	(70)	(95)
Net assets	**222**	187
Premium revenue	11	31
Insurance claims	26	-
Administrative expenses	(1)	(1)
Net gain before tax	**36**	30

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 12.5**), with a carrying value of £234m as at 31 March 2020 (2019: £200m).

27.6 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

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 reflects 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 notes that the EMAs impose constraints on the TOCs' ability to raise funds, set ticket prices and workforce levels, and require them to maintain service levels when open access operators, which are 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 do not provide the Department with legal control over these companies, and the legal arrangements for those companies remains 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.

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 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 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 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 investment assets measured at fair value. Within these financial statements, the 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

The table on the next page gives a list of the companies affected by the EMAs and the franchises they operate. The table sets out the Department's balances and transactions with the companies under the EMAs since 1 March 2020 as the mechanism that transferred control for accounting purposes to the Department. Although LNER and NTL do not have EMAs 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 EMA contract period.

Upon implementation, the financial provisions of the EMAs were backdated to 1 March 2020. Rail passenger numbers declined from 97% of their normal levels in the first week of March 2020, to 5% by 31 March 2020. Consequently, the Department's EMA costs for March are not typical of the EMA costs incurred subsequently during the EMA contract term. The table therefore also shows the average monthly EMA cost for rail periods 1-3 of 2020-21. This provides additional context of the EMA costs to the Department over the EMA contract term.

For most TOCs, the EMAs expire on 20 September 2020. The arrangements for ensuring ongoing provision of rail services beyond this date is currently under commercial negotiation. Further information regarding the Department's post-year end contractual commitments towards the rail sector is set out in **Note 10.3**.

In the Supplementary Estimate for 2019-20, Support for Passenger Rail Services was expected to produce a net cost to the Department for the year of £85m, representing an average cost of c.£7m per 4-week rail period. As shown in the table on the next page, EMA costs (including transactions with LNER & Northern) for March 2020 were £337m and in rail periods 1-3 of 2020-21 average monthly costs were £668m. Rail passenger numbers for rail periods 1-3 of financial year 2020-21 averaged 8% of their normal levels.

Financial Statements

Franchisee name	Rail franchise	Departmental expenditure on EMA for 2019-20 (1-31 March 2020)	Department's prepayment/ (accrual) balance in respect of EMA, as at 31 March 2020	Average EMA subsidy in rail periods 1-3 of 2020-21
		£m	£m	£m
The Chiltern Railway Company Limited	Chiltern	6	(6)	14
XC Trains Limited	Cross Country	19	(19)	37
Abellio East Anglia Limited	East Anglia	4	(4)	28
Abellio East Midlands Limited	East Midlands	15	(15)	28
Trenitalia c2c Limited	Essex Thameside	3	(3)	9
First Greater Western Limited	Great Western	70	(35)	91
London and South Eastern Railway Limited	South Eastern	39	(39)	56
First MTR South Western Trains Limited	South Western	34	(34)	65
Govia Thameslink Railway Limited	Thameslink, Southern and Great Northern	46	(46)	108
First TransPennine Express Limited	TransPennine Express	18	(18)	27
First Trenitalia West Coast Rail Limited	West Coast Partnership	10	(10)	59
West Midlands Trains Limited	West Midlands	25	(25)	35
Sub-total, companies under EMAs		**289**	**(254)**	**557**
Northern Trains Limited	Northern	51	10	60
LNER Limited	East Coast	(3)	(19)	51
Grand total, EMAs and State-owned rail companies		**337**	**(263)**	**668**

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. These most recent published accounts pre-date the EMAs, which may have a significant impact on TOCs' own financial results. Most TOCs have not yet published their accounts for 2019-20, 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. For franchises awarded during the year, the franchisee may not yet have issued its first set of accounts; in this case, data is not yet available and as such the most recent results of the predecessor franchise are included separately.

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, by recognising a franchise adjustment, with the effect that only the employer's contributions over the franchise term are recognised in the primary statements. The net surplus/deficit disclosed in the table on the next 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 franchise 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.

Franchisee name	Franchise details (e.g. region, start to end dates)	Reporting basis	Year ended	Net assets/ (liabilities)	Employer's share of pension scheme surplus/ (deficit) before franchising adjustment	Employer's share of pension scheme assets before franchising adjustment	Employer's share of pension scheme liabilities before franchising adjustment	Gross revenues: turnover and other operating income	Gross expenditures: cost of sales and other operating costs	Operating profits/ (losses)	Employer's share of pension scheme costs before franchising adjustment (current service cost, interest etc)
Current franchisees participating in EMAs				£m	£m	£m	£m	£m	£m	£m	£m
The Chiltern Railway Company Limited	Chiltern franchise (March 2002 December 2021)	FRS 101	31 Dec-18	26	(55)	98	(154)	246	(243)	3	10
XC Trains Limited	Cross Country franchise (October 2016 October 2020)	FRS 101	31 Dec 18	31	(133)	231	(363)	553	(525)	29	20
Abellio East Anglia Limited	East Anglia franchise (October 2016 October 2025	FRS 101	31 Mar 19	22	(105)	271	(376)	701	(695)	7	16
Abellio East Midlands Limited	East Midlands franchise (August 2019 August 2027)		*Financial statements not yet available as the franchise commenced during the year*								
Trenitalia c2c Limited	Essex Thameside franchise (November 2014 November 2029)	FRS 101	31 Dec 18	19	(33)	68	(100)	187	(193)	(7)	6
First Greater Western Limited	Great Western franchise (October 2013 March 2023)*	FRS 102	31 Mar 19	16	(377)	595	(972)	1,257	(1,203)	54	51
London and South Eastern Railway Limited	South Eastern franchise (October 2014 - October 2021)*	FRS 101	29 Jun-19	91	(615)	505	(1,120)	1,016	(958)	58	39
First MTR South Western Trains Limited	South Western franchise (August 2017 August 2024)	FRS 102	31 Mar 19	(129)	(360)	547	(906)	1,109	(1,246)	(138)	43
Govia Thameslink Railway Limited	Thameslink, Southern and Great Northern franchise (September 2014 September 2021)	FRS 101	29 Jun-19	11	(944)	726	(1,670)	1,841	(1,841)		66
First TransPennine Express Limited	TransPennine Express franchise (April 2016 March 2023)	FRS 102	31 Mar 19	(95)	(84)	100	(184)	269	(269)		12
First Trenitalia West Coast Rail Limited	West Coast Partnership franchise (December 2019 March 2031)		*Financial statements not yet available as the franchise commenced during the year*								
West Midlands Trains Limited	West Midlands franchise (December 2017 March 2026)	FRS 101	31 Mar 19	44	(117)	307	(424)	563	(521)	42	21
				36	(2,823)	3,448	(6,269)	7,742	(7,694)	48	284
Predecessor franchisees											
Where franchises commenced during the year we disclose data for the predecessor franchisees for comparison purposes noting that they did not operate under EMAs											
East Midlands Trains Limited	East Midlands franchise (September 2015 August 2019)	FRS 101	27 Apr 19	7	(72)	231	(303)	438	(416)	22	15
West Coast Trains Limited	West Coast franchise (February 2018 December 2019)	FRS 101	31 Mar 19	61	(225)	415	(640)	1,318	(1,266)	51	30
				68	(297)	646	(943)	1,756	(1,682)	73	45
DfT-owned franchisees											
These companies operate the their franchises 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 franchise (June 2018 June 2023)	FRS 101	31 Mar 20	52	(174)	342	(516)	839	(822)	17	22
Northern Trains Limited	Northern franchise (March 2020 March 2022)	FRS 101	31 Mar-20	35	(290)	611	(901)	75	(74)	1	5
				87	(464)	953	(1,417)	914	(896)	18	27
Grand Total				**191**	**(3,584)**	**5,047**	**(8,629)**	**10,412**	**(10,272)**	**139**	**356**

*For these companies the start date shown represents the commencement of the first directly awarded franchise agreement. Since those start dates, the Department has entered into updated direct award contracts with these companies and the end date shown represents the end-date of the most recent direct award contract

29. Related-party transactions

The Department for Transport is a parent of the executive agencies listed at **Note 26** and a sponsor of the non-departmental public bodies and other central government organisations listed there.

These bodies are regarded as related parties with which the Department has had various material transactions during the year.

In addition, the Department for Transport has had various material transactions with other public sector bodies. Most transactions have been with the Greater London Authority, Transport for London, HMRC and HM Treasury.

During the year, no minister, board member, key manager or other related party has undertaken any material transactions with the Department for Transport except for the item reported below.

Richard Keys serves as a non-executive member at the Department for Transport and was also appointed by the Secretary of State for Transport as a non-executive director of NATS Holdings Ltd, in which the Department owns a minority shareholding, as shown in **Note 15**. The Department undertook the following transactions with NATS Holdings Ltd and its subsidiaries, and has agreed to pay £0.5m in 2020-21:

	2019-20	2018-19
	£m	£m
Investment held by the Department in NATS Holdings Ltd	338	380
Dividends received by the Department from NATS Holding Ltd	29	29
Amounts paid by the Department to NATS Holdings Ltd	0.5	0.8

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**).

<table>
<tr><th>Entity</th><th>Funding mechanism</th><th>Risk</th><th>Downside Impact</th><th>Residual Risk</th></tr>
<tr><td>Core Department</td><td>Supply and cash drawn down from Consolidated Fund (voted by Parliament) with further access to the Contingencies Fund as required, Income from Train Operating Companies</td><td>Liquidity risk.</td><td rowspan="5">When entities experience any shortfall in income or financing, they need to consider reducing their costs 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 Parliamentary Supply.</td><td rowspan="5">Low</td></tr>
<tr><td>Network Rail, Vehicle Certification Authority, Driver & Vehicle Licensing Agency, British Transport Police Authority</td><td>Income from delivery of services, and grants from the core Department.</td><td>Liquidity risk; credit risk.</td></tr>
<tr><td>Air Travel Trust Fund and the general lighthouse authorities</td><td>Taxation and levies.</td><td>Liquidity risk</td></tr>
<tr><td>Network Rail</td><td>Debt financing (from core Department and external lenders); use of derivatives for hedging.</td><td>Liquidity risk; credit risk; market risk on index-linked borrowings; market risk on ineffectual hedges; foreign exchange risk; counterparty risk.</td></tr>
<tr><td>LCR Finance plc; CTRL Section 1 Finance plc.</td><td>Interest income from core Department to cover interest expenditure.</td><td>Liquidity risk; credit risk; market risk on index-linked borrowings.</td></tr>
</table>

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, particularly in the case of receivables where the balance is not material. Ordinarily, the Department is exposed to credit risk on receivables from some Train Operating Companies (TOCs), but under the Emergency Measures Agreements, the Department has no outstanding balances 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 £4m loss (2019: £3m loss), which are all attributable to changes in market risk.

The credit risk regarding all classes of derivative financial instruments entered into before 1 January 2013, is limited because Network Rail has arrangements in place which limit each bank to a threshold (based on credit ratings), which, if breached requires the bank to post collateral in cash or eligible securities. The members of the banking Group are required to post collateral on positive mark-to-market swaps above the threshold. In December 2012 Network Rail entered into new collateral agreements in respect of derivative trades entered into after 1 January 2013. Under the terms of the 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 2020 the fair value of collateral held was £120m (2019: £38m). 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 2020 was £534m (2019: £727m).

30.2 Liquidity Risk

Liquidity risk relates to financial and lease liabilities. It is the risk that entities will not meet their obligations from financial and lease liabilities to be settled with cash.

As shown in **Note 4**, the Department receives material levels of income from some Train Operating Companies (TOCs), which is contingent upon various factors but primarily passenger numbers.

The Department is exposed to liquidity risk through its trade and other payables balances, 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.

Liquidity risk within Network Rail is managed on a standalone basis for historical reasons to ensure that the price of delivering the Railway Network is allocated in accordance with ORR expectations. Network Rail employs an appropriate liquidity risk management framework covering its short, medium and long-term funding and liquidity management requirements. Their treasury committee establishes policies and provides oversight designed to ensure liquidity is managed to meet Network Rail's needs, while reducing financial risks and prudently maximising interest receivable and minimising credit risk on surplus cash. Network Rail manages liquidity risk by maintaining sufficient cash and facilities (in the form of loans from the core department) to cover at least one year's working capital requirement by continuously monitoring forecast and actual cash flows.

As noted above, Network Rail is required to post collateral on adverse net derivative positions at the full fair value of net "out-of-the-money" positions. Collateral placed is disclosed in **Note 17** and collateral held is disclosed in **Note 19**. Whilst this may 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.

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)**

Group	Within one year £m	1-2 years £m	2-5 years £m	5+ years £m	Total £m
					31 March 2019
Non-derivative financial liabilities					
Bank loans and overdrafts	(6)	(6)	(18)	(582)	(612)
Bonds issued under the NR Debt Issuance Programme					
– Sterling denominated bonds	(196)	(1,196)	(1,600)	(3,273)	(6,265)
– Sterling denominated index-linked bonds	(268)	(276)	(852)	(40,993)	(42,389)
– Foreign currency denominated bonds	(14)	(14)	(459)	(65)	(552)
Bonds issued by LCR Finance plc and CTRL Section 1 Finance plc					
– Sterling denominated bonds	(230)	(229)	(522)	(5,225)	(6,206)
– Sterling denominated index-linked bonds	(18)	(19)	(59)	(1,956)	(2,052)
– Trade and other payables					
Derivative financial liabilities					
Net settled derivative contracts	(231)	(137)	(247)	(44)	(659)
Gross settled derivative contracts – receipts	14	14	459	65	552
Gross settled derivative contracts – payments	(3)	(6)	(278)	(60)	(347)
Total	(952)	(1,869)	(3,576)	(52,133)	(58,530)

30.3 Market Risk

30.3.1 Foreign exchange risk

The only material exposure to foreign exchange risk comes from Network Rail, through its investing, financing and operating activities. Foreign exchange risk is managed using forward exchange contracts and currency swaps to limit the effects of movements in exchange rates on foreign currency denominated liabilities.

As this risk arises from arrangements with external counterparties, the position remains hedged on consolidation. It is estimated that a general increase of up to 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.

30.3.2 Interest rate and inflation risk

Network Rail is exposed to changes in interest rates as funds are borrowed at both fixed and floating interest rates. The hedging strategy approved by the treasury committee defines the appropriate mix between fixed and floating borrowings. Cross-currency and interest rate swap contracts are used to manage the fixed/floating ratio. On consolidation, debt issued by the Department is eliminated.

Network Rail has arranged or swapped debt with a carrying value of £23,320m (2019: £30,592m) 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.

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.

Sensitivity analysis

The sensitivity analysis shown in the table below 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 below 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 2020		31 March 2019	
	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	344	3	504	-
1pp increase in GBP RPI on index linked bonds	(193)	(8)	(190)	(8)

30.3.3 Other market risk

The Departmental Group has material investments in entities involved in the property sector. As discussed in **Note 27.1**, the valuations of these investments are based on expert valuations of their property assets, which highlight that valuations as at 31 March 2020 are subject to increased uncertainty resulting from the COVID-19 pandemic. 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.

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 2020	**484**	**-**	**484**	**(369)**	**438**	**553**
31 March 2019	351	-	351	(307)	413	457

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 2020	**(895)**	**-**	**(895)**	**369**	**(24)**	**(550)**
31 March 2019	(1,033)	-	(1,033)	307	276	(450)

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.

							31 March 2020
		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	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	1,411	1,411	-	1,411	-
Investments in equities	12	Fair value	723	723	-	-	723
Derivatives (note b)	14	Fair value	484	484	-	484	-
Financial liabilities							
Borrowings	20	Amortised cost	(28,926)	(38,403)	(7,175)	(31,228)	-
Borrowings (note a)	20	Fair value	(291)	(291)	-	(291)	-
Derivatives (note b)	14	Fair value	(895)	(895)	-	(895)	-

							31 March 2019
Assets							
Property, plant and equipment	5	Fair value	463,408	463,408	-	-	463,408
Investment properties	8	Fair value	233	233	-	-	233
Intangible assets	6	Fair value	192	192	-	-	192
Financial assets							
Loans and non-current receivables	11,17	Amortised cost	514	514	-	514	-
Investments in equities	12	*Fair value*	674	674	-	-	674
Derivatives (note b)	14	Fair value	351	351	-	351	-
Financial liabilities							
Borrowings	20	Amortised cost	(28,479)	(37,068)	(6,697)	(30,371)	-
Borrowings (note a)	20	Fair value	(287)	(287)	-	(287)	-
Derivatives (note b)	14	Fair value	(1,033)	(1,033)	-	(1,033)	-

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**.

32. Events after the reporting period

Post-Balance Sheet Events

There have been no adjusting events between 31 March 2020 and the date the financial statements were authorised for issue requiring an adjustment to the financial statements.

On 11 March 2020, the World Health Organization declared COVID-19 a pandemic. The Government announced social distancing measures on 16 March and unprecedented 'stay at home' restrictions began on 23 March. The government provided the following bespoke funding measures across the transport sector to protect critical transport services. In addition to these measures, the Department has provided funding for a number of greener, active transport initiatives since 1 April 2020.

Transport Mode	Description of support measure	Period of support in 2020	Value of support measure announced to date (£m)
Rail	The Department put in place Emergency Measures Agreements with Train Operating Companies to support rail services from March 2020 for an initial period of 6 months (see **Notes 10.3** and **28**). The Department has statutory obligations to ensure the ongoing provision of rail services. The arrangements for continuing to meet these obligations beyond 20 September are currently under commercial negotiation.	1 March – 20 September	c.600-700 per 4 week rail period
Transport for London (TfL)	The Government granted TfL up to £1,095m via the Department and a loan of up to £505m via the Public Works Loan Board, which must be drawn pro rata to any grant taken, assuming a total funding shortfall of £1.6bn. The package covers the TfL rail periods 1-7 ending 17 October.	1 April – 17 October	1,095
Buses	The Department established a grant to support operators and maintain commercially unviable appropriate levels of service.	24 March – 3 October	639
Light Rail	Similar to buses, the Department established grants to support services and maintain commercially unviable appropriate levels of service. Services included: Greater Manchester, Sheffield, Nottingham, West Midlands and Tyne and Wear.	17 March – 31 October	93
Ferries	The Department established grants to support specific lifeline services and maintain certain commercially unviable minimum service levels.	Varies according to route: from April to July 2020 or March 2021	12
Maritime freight	The Department established grants to support services and maintain commercially unviable minimum service levels to ensure the vital supply of freight and medicines.	11 May – 19 July	10
Civil Aviation Authority	HM Treasury has permitted the Department to provide support of up to £51m to the CAA to ensure service continuity.	1 April 2020 – 31 March 2021	51
Airports	Working in collaboration with the Northern Ireland Executive, the Department supported certain commercially unviable routes between Northern Ireland and Great Britain, and Northern Irish airports.	30 April – 30 July	2
Electric cars	The Department offered grants to local authorities to install up to 7,200 on-street residential charge-points, which will encourage drivers to purchase an electric car.		10
Cycling	The Department brought-forward a package of measures to improve cycling and walking infrastructure, most of which will be delivered via local authorities.		250

As described in **Note 28** the remaining 12 Train Operating Companies not controlled by DfT OLR Holdings Ltd were reclassified as Public Corporations from 1 April 2020.

On 12 August 2020, a passenger train derailed near Stonehaven causing three fatalities. At the time of this publication, the Rail Accident Investigation Branch continues to review evidence.

Authorised for issue

These financial statements are laid before the Houses of Parliament by HM Treasury. The Accounting Officer has authorised these financial statements to be issued on the same day as the Comptroller and Auditor General signs the audit certificate.

Annex A: Glossary of financial terms

Accounting Officer		A person appointed by HM Treasury or designated by a department to be accountable for the operations of an organisation and the preparation of its accounts. The appointee is, by convention, usually the head of a department or other organisation, or the Chief Executive of a non-departmental public body.
Administration budget		A Treasury budgetary control that forms part of the resource Departmental Expenditure Limit. It is normally spent on the running costs of the Department and its agencies, including back office staff, accommodation and ICT.
Annually Managed Expenditure	AME	A Treasury budgetary control. AME is spending included in Total Managed Expenditure, which does not fall within Departmental Expenditure Limits (DEL). Expenditure in AME is generally less predictable and controllable than expenditure in DEL.
Arm's length body	ALB	An NDPB, company in which the department has a significant shareholding, or other sponsored body.
Budgetary controls		The means by which government plans and controls expenditure to meet its objectives.
Capital		Capital is for spending on assets and investment. By having a separate total for Capital DEL, funding for capital investment is both protected and controlled.
Consolidated Fund		The Government's current account, operated by HM Treasury, through which pass most government payments and receipts.
Consolidated Fund Extra Receipt	CFER	*Income, or related cash, received by a department that it is not authorised to retain and* which are surrendered/paid over to the Consolidated Fund.
Departmental Expenditure Limit	DEL	A Treasury budgetary control. DEL spending forms part of Total Managed Expenditure and includes that expenditure which is generally within the departments control and can be managed with fixed multi-year limits. Some elements may be largely demand led.
Estimate		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.
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.

Annexes

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.
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.
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.
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.
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 Department for Transport, 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

The main forms of Departmental and HM Treasury financial reporting are outlined in the table below. While the collection of reports set out in the table is extensive, it is not exhaustive. Further details on each of the reports and how they work together to make up the government financial reporting landscape can be found in:

- The government financial reporting review published by HM Treasury in April 2019
  [illegible]
- The government's planning & performance framework published by HM Treasury & the Cabinet Office in December 2017
  [illegible]

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 2019	https://www.gov.uk/government/publications/spending-round-2019/document/spending-round-2019
	Single Departmental Plan	Single departmental plans set out a department's objectives, resource allocations, how its risk will be managed, and its performance measured.	DFT, June 2019	https://www.gov.uk/government/publications/department-for-transport-single-departmental-plan/department-for-transport-single-departmental-plan--2

Category	Product	Description	Produced by	Link
Annual Planning	Budget	The Budget is a statement the Chancellor of the Exchequer makes to the House of Commons on the nation's finances and the government's proposals for changes to taxation and spending. The Budget also includes forecasts for the economy by the Office for Budget Responsibility.	HMT, Mar 2020	https://www.gov.uk/government/publications/budget-2020-documents/budget-2020
	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. This covers 'Main Estimates' and 'Supplementary Estimates'.	HMT, May 2019 & Feb 2020 for 2019-20. May 2020 for 2020-21.	https://www.gov.uk/government/collections/hmt-main-estimates https://www.gov.uk/government/collections/hmt-supplementary-estimates
	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, May 2019, Mar 2020	https://www.parliament.uk/documents/commons-committees/transport/DfT-memorandum-for-main-estimate-2019-20.pdf https://committees.parliament.uk/committee/153/transport-committee/publications/10/estimate-memoranda
	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, Oct 2017	https://www.gov.uk/government/collections/accounting-officer-system-statements
	Government Transparency data	Wide range of transparency data published by individual departments including Central government spending over £25k, contracts over £10k and Gender Pay Gap information. Cabinet Office also produce cross-government data on Civil Service sickness and absence data, Ministers' interest declarations, Ministers' salary data, Senior civil servants' names, grades, job titles and annual pay rates, Special advisers' names, grades and annual pay. GOV.UK registers provide structured datasets of government information	DFT + CO	https://www.gov.uk/search/advanced?group=transparency&topic=%2Ftransport https://www.gov.uk/government/collections/dft-spending-over-500 https://www.gov.uk/government/publications/dft-gender-pay-gap-report-and-data-2018 https://www.gov.uk/government/collections/dft-ministerial-gifts-hospitality-travel-and-meetings https://www.gov.uk/government/collections/dft-workforce-management-information

Category	Product	Description	Produced by	Link
In-year Reporting	OSCAR data	The dataset provides quarterly updates to monthly outturn data. The outturn information is taken from OSCAR data submitted by departments. The public will be able to see monthly patterns in spend by organisations reporting data on OSCAR. At the same time, users will be able to drill down beneath previously released high-level aggregates.	DFT via HMT	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
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 2020	https://www.gov.uk/government/publications/infrastructure-and-projects-authority-annual-report-2020
	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-department-for-transport-2019/

Annex C: Expenditure Tables

These Tables present actual expenditure by the Department for the years 2015-16 to 2019-20 and planned expenditure for 2020-21. The data relates to the Department's expenditure on an Estimate and budgeting basis. The data is available in an Excel file, which can be found via the Department's Annual Report and Accounts web-page.

Table 1 Total Departmental Spending – summarises expenditure on functions administered by the Department. Consumption of resources includes programme and administration costs. Total Departmental expenditure is analysed by Departmental Supply Estimates, and any unallocated provision. Please note that totals may not sum due to rounding.

All values in £k	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	Outturn	Outturn	Outturn	Outturn	Outturn	Plans
Resource DEL						
A: Tolled Crossings	-101,134	-95,004	-132,223	-189,568	-119,197	-114,698
B: Local Authority Transport	343,263	334,992	365,545	374,085	373,719	372,060
C: Highways England (net)	1,998,800	2,205,683	2,548,248	2,370,747	2,533,396	2,740,000
D: Funding of Other ALBs (net)	66,525	103,800	190,415	-37,649	169,165	-12,253
E: Other railways	221,383	124,600	106,685	63,182	38,355	-322,553
F: Sustainable Travel	159,706	91,600	87,097	107,742	126,588	114,116
G: Bus Subsidies & Concessionary Fares	261,025	248,165	244,922	255,239	256,298	486,878
H: GLA transport grants	591,419	474,369	255,071	29,071	28,071	3,000
I: Crossrail	28,714	1,270	1,654	1,435	1,794	2,577
J: Aviation, Maritime, Security and Safety	65,800	55,300	108,774	103,104	238,181	98,147
K: Maritime and Coastguard Agency	284,445	315,707	327,611	337,856	356,645	395,985
L: Motoring Agencies	130,728	104,500	98,643	40,839	64,686	66,872
M: Science, research and support functions	53,769	17,597	14,886	19,436	24,408	25,791
N: Central Administration	177,919	191,967	197,247	245,515	277,586	293,694
O: Support for Passenger Rail Services	-1,245,333	-1,289,400	-778,107	-185,990	373,239	2,859,899
High Speed Two	15,647	26,324	9,140	-	-	-
P: High Speed Rail	-	-	-	59,250	53,836	101,734
Q: Transport Development Fund	-	13,700	24,749	500	3,974	-
R: High Speed Two Limited (net)	-	-	-	286,132	245,805	254,706
S: East West Rail Company Limited (net)	-	-	-	7,966	22,356	35,876
T: Network Rail (net)	-	-	-	-	6,357,167	6,790,441
U: Funding of Other ALBs (net)	16,746	1,444	2,724	12,858	12,773	-
Total Resource DEL	3,069,420	2,926,615	3,673,080	3,901,750	**11,438,845**	14,192,272
Of which:						
Staff costs (Note C)	585,969	697,780	726,724	724,807	2,445,710	2,591,858
Purchase of goods and services (Note C)	2,061,722	1,977,800	2,214,081	2,489,804	5,387,701	5,875,145
Income from sales of goods and services	-330,299	-328,937	-358,072	-431,543	-497,234	-477,663
Current grants to local government (net)	1,356,288	1,019,904	819,715	619,154	527,418	877,708
Current grants to persons and non-profit bodies (net)	36,248	32,630	28,821	34,864	375,645	25,888
Current grants abroad (net)	3,063	2,949	3,192	3,135	3,237	-49,889

Annexes

All values in £k	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	Outturn	Outturn	Outturn	Outturn	Outturn	Plans
Subsidies to private sector companies	504,997	594,953	634,960	1,173,169	1,580,261	4,251,904
Subsidies to public corporations	-1,058	-170	-	-	-	18,307
Net public service pensions (Note B)	9,153	5,006	7,402	2,009	4,798	18,352
Rentals (Note C)	8,610	7,038	-336	-5,070	-277,195	-257,750
Depreciation (Notes A & C)	1,114,649	1,342,307	1,596,878	1,422,846	7,335,790	7,290,254
Change in pension scheme liabilities	239	238	234	238	236	252
Other resource	-2,280,161	-2,424,883	-2,000,520	-2,131,508	-5,447,618	-5,972,094
Take up of provisions	-	-	-	-	96	-
Release of provision	-	-	-	-155	-	-
Resource AME						
V: Highways England (net)	2,721	-200	-3,646	41,815	-42,629	10,000
W: Network Rail (net)	5,387,309	6,079,500	6,882,390	7,046,148	1,649,152	2,036,019
X: Funding of Other ALBs (net)	56,481	53,200	93,580	70,097	123,124	82,195
Y: Other Railways	251,278	314,700	27,619	226,761	137,086	180,148
Z: Aviation, Maritime, Security and Safety	-3,757	-3,350	-2,945	51,448	-51,963	-1,726
AA: Maritime and Coastguard Agency	-2,077	-94	899	4,643	575	2,430
AB: Motoring Agencies	-4,792	-2,296	-1,175	-2,218	-1,785	-1,591
AC: Central Administration	-7,260	15,500	-7,402	65,205	1,765	95,048
AD: High Speed Rail	-	-	-	1,346	-	1,000
AE: High Speed Two Limited (net)	-	-	-	-49,122	1,000	-
AF: East West Rail Company Limited (net)	-	-	-	-	-	5,000
AG. Funding of ALBs (net)	-236	-	-	-24	10,989	-
Total Resource AME	**5,679,668**	**6,456,960**	**6,989,321**	**7,456,099**	**1,827,314**	**2,408,523**
Of which:						
Staff costs (Note C)	1,242,349	1,226,107	1,383,815	1,540,721	-	-
Purchase of goods and services (Note C)	1,565,692	1,820,194	2,097,952	2,358,270	726	811
Current grants to/from local government (net)	-445,365	-463,590	-425,354	-338,956	-	-
Rentals (Note C)	-271,859	-292,368	-306,321	-317,471	-	-
Depreciation (Notes A & C)	4,595,335	4,677,389	4,604,849	5,547,646	-259,551	431,501
Take up of provisions	2,011	198,227	48,963	93,137	466,144	132,521
Release of provision	-40,719	-65,820	-92,042	-35,034	-556,703	-36,169
Change in pension scheme liabilities	58,858	94,549	231,116	313,437	268,863	287,789
Unwinding of the discount rate on pension scheme liabilities	-	44,999	57,000	55,000	58,000	52,945
Other resource	-1,026,634	-782,727	-610,657	-1,760,652	1,849,835	1,539,125
Total Resource Budget	**8,749,089**	**9,383,575**	**10,662,401**	**11,357,850**	**13,266,159**	**16,600,795**
Of which:						
Depreciation (Note A)	*5,709,984*	*6,019,696*	*6,201,727*	*6,970,492*	*7,076,239*	*7,721,755*

All values in £k	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	Outturn	Outturn	Outturn	Outturn	Outturn	Plans
Capital DEL						
A: Tolled Crossings	-286,127	968	-188,393	372	-1,738	750
B: Local Authority Transport	1,754,268	1,550,793	1,763,031	1,808,654	1,757,625	2,616,440
C: Highways England (net)	1,931,009	2,020,728	2,308,700	2,649,466	3,231,792	3,831,000
D: Funding of Other ALBs (net)	332,959	407,100	711,324	9,573	143,657	99,800
E: Other railways	65,549	72,700	195,840	34,581	74,491	103,751
F: Sustainable Travel	295,241	212,455	365,310	398,648	477,952	617,432
G: Bus Subsidies & Concessionary Fares	28,845	7,134	9,064	8,294	9,955	4,860
H: GLA transport grants	925,000	943,997	-	-81,000	-9,645	-
I: Crossrail	799,974	-200,000	-	515,000	889,000	-
J: Aviation, Maritime, Security and Safety	7,190	18,500	59,285	93,467	53,060	33,065
K: Maritime and Coastguard Agency	10,184	12,709	19,339	11,669	-7,193	104,560
L: Motoring Agencies	-14,946	-5,905	8,358	35,956	34,041	57,512
M: Science, research and support functions	199	29,883	21,800	33,253	32,291	32,071
N: Central Administration	3,158	236	2,192	7,368	41,361	35,728
O: Support for Passenger Rail Services	-	451	-	243	-	-
High Speed Two	102,536	340,700	943,326	-	-	-
P: High Speed Rail	-	-	-	554,056	302,570	711,530
Q: Transport Development Fund	-	-	2,304	138,800	343,850	430,721
R: High Speed Two Limited (net)	-	-	-	2,055,597	2,245,648	4,056,500
National Productivity Investment Fund	-	-	-	180	-	-
S: East West Rail Company Limited (net)	-	-	-	91	1,308	900
T: Network Rail (net)	-	-	-	-	4,621,957	5,327,138
U: Funding of ALBs (net)	5,556	6,800	-	-	-	-
Total Capital DEL	5,960,594	5,419,249	6,221,480	8,274,268	**14,241,982**	18,063,758
Of which:						
Purchase of goods and services	-	17,528	28,232	43,083	61,671	43,715
Current grants to persons and non-profit bodies (net)	-	23,999	14,604	11,952	2,479	7,500
Capital support for local government (net)	3,582,851	2,390,470	1,935,344	2,583,243	3,006,836	2,932,661
Capital grants to persons & non-profit bodies (net)	2,526	-1,255	-	-7	13624	22,123
Capital grants to private sector companies (net)	310,820	498,846	1,253,257	450,963	233,749	-99,900
Capital grants abroad (net)	293	-27,184	-5,806	-	-12,229	-
Capital support for public corporations	1,129	2,672	33,319	69,654	9,803	-5,000
Purchase of assets (Note C)	2,363,796	2,458,140	3,128,535	5,129,214	11,222,429	15,128,690
Income from sales of assets	-5,613	-8,192	-13,620	-8,162	-13,098	-
Net lending to the private sector and abroad	-317,404	-9,629	-197,248	4,708	-	360
Other capital	22,196	73,854	44,863	-10,380	-283,282	33,609

All values in £k	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	Outturn	Outturn	Outturn	Outturn	Outturn	Plans
Capital AME						
V: Highways England (net)	-23,755	30,245	3,492	132,970	-8,994	50,000
Network Rail (net)	6,600,451	6,761,884	6,117,800	5,382,855	-	-
Funding of Other ALBs (net)	-	-	230,329	-	-	-
Other Railways	-	-	-	-10	-	-
Z: Aviation, Maritime, Security and Safety	-20,000	-20,000	20,000	-20,000	-20,000	-20,000
Central Administration	-7,260	-	-	-	-	-
High Speed Two	-4,975	83,026	912,567	-	-	-
AD: High Speed Rail	-	-	-	-97,781	37,318	439,600
AE: High Speed Two Limited (net)	-	-	-	-229,964	2,055	-
Total Capital AME	6,544,462	6,855,155	7,244,187	5,168,070	**10,379**	469,600
Of which:						
Take up of provisions	54,121	-	230,767	-229,964	2,055	23000
Release of provision	-90,111	-67,266	-108,914	-394,047	-527,714	-770,430
Capital support for local government (net)	-250,668	-45,324	-308,438	-301,230	-	-
Purchase of assets (Note C)	6,851,119	6,987,745	7,202,192	7,220,105	556,048	1,237,030
Income from sales of assets	-	-929	-35,431	-1,126,784	-	-
Other capital	-19,999	-19,071	264,011	-10	-20010	-20,000
Total Capital Budget	12,505,055	12,274,405	13,465,667	13,442,338	**14,252,361**	18,533,358
Total departmental spending (Note D)	15,544,160	15,638,283	17,926,341	17,829,695	**20,442,281**	27,412,398
Of which:						
Total DEL	7,915,365	7,003,557	8,297,682	10,753,172	18,345,037	24,965,776
Total AME	7,628,795	8,634,726	9,628,659	7,076,523	2,097,244	2,446,622

Notes:

A. Includes impairments.

B. Pension schemes report under IAS 19 accounting requirements. These figures therefore include cash payments made and contributions received, as well as certain non-cash items.

C. Until 31 March 2019, the classification of Network Rail's spending was split between AME and DEL. Since the start of Control Period 6 on 1 April 2019, almost all 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.

Core tables do not include Voted Non-budget items such as prior period adjustments.

Table 2 Administration Costs – provides a more detailed analysis of the administration costs of the Department. It retains the high level functional analysis used in Table 1. Please note that totals may not sum due to rounding.

All values in £k	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	Outturn	Outturn	Outturn	Outturn	Outturn	Plans
Resource DEL						
Highways England (net)	55,955	47,983	48,491	46,575	43,566	43,917
Funding of Other ALBs (net)	1,508	1,475	1,586	942	967	952
Maritime and Coastguard Agency	6,711	7,207	7,324	7,011	7,163	7,289
Central Administration	197,584	193,671	198,338	222,185	240,991	251,522
High Speed Two Limited (net)	2,119	1,817	2,968	2,135	2,030	2,000
East West Rail Company Limited (net)	-	-	-	116	223	245
Funding of Other ALBs (net)	3,208	6,653	6,057	33	34	-
Total administration budget	267,085	258,806	264,764	278,997	**294,974**	305,925
Of which:						
Staff costs	140,914	151,653	155,954	155,573	205,546	207,391
Purchase of goods and services	118,990	103,512	103,499	118,521	86,582	90,324
Income from sales of goods and services	-8,656	-9,701	-7,535	-9,895	-10,127	-8,279
Subsidies to private sector companies	-20	-	-1	-	–	–
Rentals	6,971	7,117	-1,833	8,852	147	308
Depreciation	6,049	4,109	6,350	5,901	11,447	16,856
Other resource	2,837	2,116	8,330	45	1,283	-675
Take up of provisions	–	–	–	–	96	–

Spending and Performance

The table below links the spending information in the tables above to the service and performance information in the performance report. Activities denoted by an asterisk are not referred to explicitly in the Performance Report.

Activity (the letters correspond to rows in the tables above)		Paragraphs in the performance report
Central functions		
M	Science, research & support functions	1.231, 1.236, 2.6
N, AC	Central administration	1.261 1.285
Local		
A	Tolled crossings	2.286
B	Local authority transport	1.43, 1.143, 2.10
F	Sustainable travel	1.28, 1.137
G	Bus subsidies & concessionary fares	1.208
H	GLA transport grants	-
Q	Transport Development Fund	1.28
Rail		
T, W	Network Rail	1.16. 1.24, 1.25, 1.29, 1.34, 1.35, 1.37, 1.42, 1.51, 1.78, 1.84, 1.86, 1.164, 1.169, 1.183, 1.187, 1.188, 1.213, 1.257, 1.304, 1.316, 1.318, 1.327, 2.16, 2.17, 2.35, 2.37, 2.226, 2.227, 2.228, 2.248
P, R, AD, AE	High Speed Two Ltd and High Speed Rail	1.25, 1.28, 1.40, 1.42, 1.43, 1.85, 1.96, 1.97, 1.98, 1.99, 1.161, 1.183,1.257, 1.280, 1.317, 1.327, 2.37, 2.41
I	Crossrail	1.22, 1.28, 1.100, 1.101, 1.102, 1.252, 1.280
S, AF	East West Rail	1.88, 1.155, 1.156, 1.257, 2.16, 2.36
O	Support for Passenger Rail Services	1.27, 1.36, 1.48, 1.64, 1.189, 2.58, 2.313
E, Y	Other railways	-
Road		
C, V	Highways England	1.16, 1.28, 1.37, 1.42, 1.43, 1.51, 1.72, 1.73, 1.76, 1.164, 1.211, 1.212, 1.217, 1.327, 2.16, 2.36, 2.37, 2.41, 2.117
L, AB	Motoring agencies	2.112-2.116
Aviation, maritime, security and safety		
J, Z	Aviation, maritime, security & safety	1.64, 1.68, 1.105, 1.24, 1.125, 1.227, 1.228, 1.231, 1.232, 1.233, 1.234, 1.238, 1.250, 1.312, 2.6, 2.36, 2.37, 2.41
K, AA	Maritime & Coastguard Agency	-
Funding of other ALBs not referred to above		
D, U, X, AG	Funding of other ALBs	-