Resource Accounts

Resource Accounts

Annual report

Scope

Entities consolidated

The Annual Report and Resource Accounts present the consolidated results for the year ended 31 March 2009 for the following entities:

- Department for Transport and:
  - Highways Agency;
  - Maritime and Coastguard Agency;
  - Government Car and Despatch Agency; and
  - Vehicle Certification Agency.

A list of bodies included and those excluded from consolidation is set out in Note 36 to the accounts.

Departmental reporting cycle

The Department's Annual Report 2009 forms Part One of this publication. It provides a comprehensive review of the activities of the Department and its reporting bodies in 2008-09 and the following financial information:

- outturn for 2007-08; and
- expenditure plans for 2008-09 and 2009-10.

This part of the publication, Part Two, is the Department's Resource Accounts for 2008-09.

Management commentary

The Department for Transport is a central government department. Its main role, together with its agencies, is to implement government transport policy and to advise ministers. To achieve this, it works alongside the devolved administrations, local authorities, non-departmental public bodies and other government-sponsored organisations.

Most of its resources are provided by Parliament, which votes funding on an annual basis in the context of HM Treasury's Spending Reviews. It provides grant funding to local government (including the Greater London Authority), Network Rail and other entities that deliver major projects. It contracts with train-operating and freight companies to provide rail services on a franchised basis, maintains and improves motorways and major trunk roads, and develops and implements the Government's maritime safety and environmental protection strategy.

Aim and Departmental strategic plans

Our aim is 'Transport that works for everyone' as we look to promote the benefits of transport and make them available to all, and, at the same time, limit the negative impacts. This is discussed in more detail in Chapters 1 and 2 of the Annual Report.

Key objectives

Following the Eddington and Stern reports we committed ourselves to building a truly sustainable transport system which would continue to support economic growth in a low-carbon world. We set out our initial approach in 2007 in *Towards a Sustainable Transport System*. In November 2008 we published *Delivering a Sustainable Transport System* (DaSTS) which explains how we have developed this into a framework for delivery. We are putting this strategy into action in a way that both tackles our immediate problems and shapes our transport system to meet the longer term challenges.

Our strategic framework is reflected in the five clear goals which form our Departmental Strategic Objectives (DSOs):

- **DSO 1**: To support national economic competitiveness and growth, by delivering reliable and efficient transport networks;
- **DSO 2**: To reduce transport's emissions of carbon dioxide and other greenhouse gases, with the desired outcome of avoiding dangerous climate change;
- **DSO 3**: To contribute to better safety, security and health and longer life-expectancy through reducing the risk of death, injury or illness arising from transport, and through promoting travel modes are beneficial to health;
- **DSO 4**: To promote greater equality of opportunity for all citizens, with the desired outcome of achieving a fairer society; and

- **DSO 5**: To improve quality of life for transport users and non-transport users, and to promote a healthy natural environment.

These goals are not alternatives. Overall, we will be successful only if we deliver against all five. (See Appendix D for details of reporting against DSO indicators and Public Service Agreement targets).

The Department's objectives support government-wide objectives. In October 2007, as part of the Comprehensive Spending Review, the Government published thirty Public Service Agreements (PSAs), which set out its key priorities for the period from April 2008 to March 2011. The new set of PSAs replaces those agreed in previous spending reviews. The Department for Transport leads on one of these:

- **PSA 5**: To deliver reliable and efficient transport networks that support economic growth.

This PSA focuses on supporting sustainable economic growth but does not cover the full range of the Department's responsibilities. Wider priorities for transport policy are included in other cross-government PSAs. The Department will contribute to the delivery of many other PSAs during the CSR07 period. This involves our working with other government departments, including Defra, BIS, CLG, the Home Office and DCSF, on a wide range of issues such as climate change, regional economic performance, housing supply, counter-terrorism and the safety and life chances of children and young people. Details of our PSAs are outlined in Appendix D.

Financial performance

2008-09 Outturn versus Estimate
The Net Resource Outturn reported in Note 2 was £19.88 billion, which is £3.58 below the Estimate of £23.46 billion. The material components of this underspend by Estimate section are explained below.

A: Ports and Shipping Services – £41 million underspend
The majority of this underspend (£37 million) is due to a lower than expected impairment of the International Maritime Organization building.

C: Aviation Services – £20 million underspend
The dividend from the National Air Traffic Services (NATS) was £19 million higher than expected. The dividends were difficult to predict because of economic conditions and industrial relations. NATS is a private company that the Department does not control.

M: Railways – £256 million underspend
This underspend is predominantly due to movements on the Financial Guarantee Contracts provided by the Department to Network Rail. In addition to this, the Department received a non-cash credit in respect of the cost of capital charge on the liability of over £100 million which was not budgeted for.

P: Transformation, Licensing, Logistics and Sponsorship – £17 million overspend and
Q: Vehicle and Operator Services Agency trading fund – £12 million underspend
Enforcement expenditure (£12 million) is now shown against the central Department (Line P) and not VOSA. The remainder on Line P is made up of minor overspends on various programmes.

U: Research, Statistics, Publicity, Consultancies and Other Services for Roads and Local Transport – £35 million underspend
This largely comprises an unexpected Cost of Capital credit of £15 million and slippage of a number projects.

X: Other Transport Grants (Resource) – £25 million underspend
This is mainly due to the franchise payments for passenger rail services being estimated at £330 million, while final outturn was £316 million. Subsidy payments are dependent on revenue, and are, therefore, subject to significant variation.

Z: Highways Agency – £101 million underspend
This is due to revised forecasts in respect of impairments to the national roads network.

AA: Railways and Other Expenditure – £161 million underspend
The resource impact of the revaluation of FRS 17 railways pensions is particularly volatile and the actual amounts are known only at the end of the financial year following Actuarial assessment. Owing to market volatility, provision of £200 million was allowed, though actual outturn was £40 million resulting in an underspend of £160 million.

AB: Driver and Vehicle Licensing Agency trading fund – £39 million underspend
The majority of this variance (£28 million) is due to agreeing with the Treasury not to put forward non-cash adjustments in the Spring Supplementary. The remainder of £11 million is due to various underspends on other activities.

AF: Financial Instruments - £2,383 million underspend
Estimate cover was obtained during 2008-09 to address the Prior Year Adjustments that were anticipated following the first time adoption of FRS 25 and 26, as described in Note 37 under the heading ‘Change in Accounting Policy’. When estimate cover was sought, the expectation was that the Network Rail Financial Guarantee Contract, identified in Note 16.2, would require this coverage for the Prior Year Adjustment. In June, following discussions with the National Audit Office, agreement was reached, whereby the accounting treatment required for this Prior Year Adjustment did not give rise to a net liability. This meant that the estimate cover that had been arranged was not required. The large underspend reported against this Estimate Line has arisen as a consequence of this decision.

AG: London and Continental Railways – £486 million underspend
Estimate cover of £300 million had been arranged during 2008-09 to cover the in-year movements arising from the first time adoption of FRS 25 and 26 in relation to the London and Continental Railways Financial Guarantee Contract. The accounting treatment that had been anticipated when coverage had been sought indicated that an unwinding charge would arise for which estimate cover would be required. At the year end, the need for this cover proved unnecessary. Furthermore, the large Financial Liabilities that were reported in the Balance Sheet in 2008-09 gave rise to a cost of capital credit of £186 million against this estimate line.

Financial position
During the year, the Department's net assets increased by £3 billion. The Department's largest asset remains the strategic road network. Improvements to the road network are typically financed either directly (97.5 per cent of fixed assets by net book value are financed in this way) or via the Private Finance Initiative (PFI). To maximise value for money, the Department retains significant construction risks in relation to its strategic road PFI schemes: hence, they are generally recognised as being on the Department's Balance Sheet.

External stakeholders
The Department works with other government departments to achieve its own objectives and the wider objectives of the Government, such as crime reduction and social inclusion. It works with European Union partners to promote the development of efficient and competitive transport. Further details can be found under the Communications and Marketing section in Chapter 10.

Social responsibility and community relations
The Department is working to demonstrate more accountability and responsiveness to society. In the fourth year of operation of the Freedom of Information Act 2000, the Department responded to requests within the deadline in 91 per cent of the 1,949 cases received. We published responses of wider public interest on the Department's website.

The Department is working to reduce regulatory and enforcement burdens and, in December 2006, published a comprehensive simplification plan, *Transport: Lightening the Load*. This plan was formally updated in 2007 and 2008 as part of a cross-government exercise to reduce administrative burdens on business. The initial plan and its two updates can be reviewed on the Department's website at www.dft.gov.uk/about/simplificationplan/secsimplificationplan/.

The Department has produced and implemented an Equality Impact Assessment Toolkit to support the delivery of its disability, race and gender equality duties, so that potentially adverse impacts of policy and operations can be anticipated and addressed. We launched a new training programme for equality impact assessments this year.

Significant remote contingent liabilities
Government departments are required to report specifically on contingent liabilities arising from guarantees and letters of comfort. The Department has provided such guarantees and letters, where they would benefit the taxpayer and where the benefits outweigh the disadvantages, for example to support private-sector borrowing by Network Rail Limited and London and Continental Railways Limited, and to encourage rail franchisees to invest in new facilities, which would last beyond the franchise terms. Further disclosures are given in Note 32 of these accounts.

During the year, central government implemented the financial instruments standards, FRS 25 and FRS 26. These affect the accounting treatment for guarantees that relate to debt obligations. Such guarantees now need to be recognised on the Balance Sheet at fair value, even if the risk of the Department being required to honour the guarantees is remote. Further details of the changed accounting policies and the valuations of these guarantees are given in Note 1: Accounting Policies, Note 16.2: Financial Liabilities and Note 37: Restatement of Prior Year Balances. This change in accounting treatment does not affect the Department's exposure under the guarantees themselves.

The Department has also adopted FRS 29 for the first time. This Financial Reporting Standard determines the minimal disclosure required for the nature and extent of risk that an entity faces. Further details of this change in accounting policy can be reviewed within Note 1: Accounting Policies and Note 30: Financial Instruments.

Events affecting performance this year
In last year's Resource Accounts, we announced plans to procure a new fleet of rolling stock for the East Coast Mainline and Great Western routes. During the year we awarded the contract to the Agility Consortium. The new rolling stock will come into service from 2015. The Department announced the incorporation of Diesel Trains Limited, to procure new diesel rolling stock to relieve overcrowding in the Thames Valley, around Bristol and on longer distances in northern England, from 2012 onwards. It is expected that this procurement will be taken on by the market in due course. The rail sector committed to acquiring additional rolling stock in other regions, including the lengthening of West Coast Mainline Pendolinos. Congestion in the South East will be alleviated by making the Channel Tunnel Rail Link available to domestic services from late 2009.

In May 2008 Royal Assent was received for legislation – the Channel Tunnel Rail Link (Supplementary Powers) Act – giving necessary powers to undertake the restructuring and sale of London and Continental Railways (LCR) The Department sought State Aid permission from the European Commission for the restructuring process and was, at 31 March 2009, awaiting its response (see Note 41, Post Balance Sheet events). These developments were considered in the context of the carrying values of the associated existing financial guarantees given to the LCR and the holders of the debt issued to support the construction of Channel Tunnel Rail Link which was renamed High Speed One (see Note 31).

The Crossrail Hybrid Bill passed into legislation, giving the Department and Transport for London the powers to deliver this project. Work has already begun, with the acquisition of properties required for construction of the tunnel and the instruction of key technical advisers. Crossrail will provide a high-frequency service, which will need to be integrated into existing Underground, rail and Docklands Light Railway services. This will present significant technical challenges over the next few years.

Last summer customers of XL were left stranded following the collapse of the company. Those covered by the new ATOL charging regime were successfully repatriated and compensated by the Air Travel Trust, with the Department standing ready to assist where required.

Elsewhere in the aviation sector, the Department approved proposals to expand Heathrow, including the construction of a third runway, subject to certain conditions on pollution levels.

The Department has continued to transfer support functions to the Shared Service Centre in Swansea, with the core Department itself starting to use the Centre in April 2008. At the end of the year, the Shared Service Centre, previously directed by DVLA, was transferred to the core Department.

Events affecting future performance

The delivery of transport investment projects will be affected by the current economic downturn. The Department will be bringing forward £700 million investment from 2010-11 into 2009-10 to contribute to its fiscal stimulus programme. Projects brought forward include the acquisition of rolling stock through Diesel Trains Ltd (discussed above), the upgrading of the A46 between Newark and Widmerpool and the start of advanced works for the Highways Agency's managed motorways programme.

During 2009-10 the Southern franchise comes up for renewal. As ticket price increases are limited to fixed amounts over RPI, the recent falls in RPI will limit train operators' revenues and this may not be encouraging to potential new franchisees.

The Competition Commission published its final decision on BAA on 19 March, requiring the airport operator to sell Gatwick, Stansted and either Edinburgh or Glasgow within two years. The sale of Gatwick is already underway.

The Maritime and Coastguard Agency is continuing to work with the MoD to let a PFI contract for a harmonised search and rescue service.

International Financial Reporting Standards

The March 2008 Budget announced that central government would implement International Financial Reporting Standards (IFRS) in 2009-10, with the financial instruments standards (FRSs 25, 26 and 29, equivalent to International Standards IASs 32, 39 and IFRS 7) being implemented in 2008-09. HM Treasury issued a detailed timetable for transition with key dates over this year and next year. All departments, executive agencies, non-departmental public bodies and trading funds are required to prepare shadow IFRS-based accounts for 2008-09 and any necessary changes to budgets as a result of the switch to IFRS should be made in Winter Supplementary Estimates 2009. During the year, the Department met the deadline for preparing its opening IFRS Balance Sheet (as at 31 March 2008) and currently has every expectation of meeting subsequent deadlines, including that for the preparation of the shadow IFRS-based accounts later in 2009.

Public interest

Equal opportunities and recruitment
The Department values equality and diversity in employment and a socially inclusive transport system. It is committed to recruiting, retaining and promoting the best people. Our aim is to ensure that all staff and job applicants are treated equally and fairly, regardless of their sex, gender identity, disability status, marital status, race, ethnic or national origin, sexual orientation, age, religion or belief, employment status, working patterns, caring responsibility and trade union membership, union office or trade union activities. All the Department's advertised jobs are open to part-time working or job-sharing arrangements, unless explicitly stated otherwise in the job advertisement. Wherever possible, we aim to advertise posts in a cross section of media, on the Department's website (www.dft.gov.uk) and, for existing civil servants, on the Civil Service Recruitment Gateway website. Selection and appointment is on merit and in accordance with the guidance laid down in the Civil Service Commissioners Recruitment Code.

Staff relations
The Department has been the subject of strike action during the year, because of pay and job security issues. Two one-day strikes took place which affected the Department and its agencies. The Department continues to manage its pay remit within the bounds of the wider public sector pay policy and has an extremely good record of not implementing compulsory redundancy schemes. Regular meetings take place with its Trade Union side. The Department has reviewed and re-issued the management of sickness absence policies. The policies clearly define line-management responsibilities and include a reduction in sick absence trigger points to ensure action is now taken earlier. The Department has access to occupational health advisers to assist in managing sick absence cases. Employee assistance programmes are available to all staff to help with personal and work-related issues.

Payment of suppliers
The Department's policy is to comply with the Prompt Payment Code. In line with the rest of government, the Department (including its executive agencies) works toward paying 98 per cent of valid, undisputed bills on time (within 30 days of the date of receipt of the invoice at the Shared Service Centre, or within the contractual term, if less). For the year 2008-09, the Department paid 79.39 per cent of invoices on time, a decrease from 2007-08 when 92.90 per cent of bills were paid on time.

The primary reason for this decline was that, on1 April 2008, the Department moved onto a new accounting system and a new purchase to pay (P2P) system based on the concept of self-service, with the expectation that the order and receipt of goods and services would be decentralised. This was a major cultural, process and technical change for the Department and required new ways of working.

As a result of a P2P process review in September 2008, we have introduced various initiatives covering governance and ownership, process, training, reporting and systems. The result has been a steady increase in the number of invoices paid on time, culminating in the Department's seeing over 98 per cent of invoices paid within 30 days during both February and March.

In line with the Prime Minister's directive to attempt to pay small – and medium-sized businesses within 10 days, the Department is working towards settling all invoices within this target. Further measures, together with the improvements identified above, will help improve the capability of the Department in doing so.

Environmental policy

A good transport system is central to a prosperous economy, providing access to goods and services and supporting people's desire for mobility. But measures to support increasing demand for travel must work in tandem with our goals of protecting the environment and improving the quality of life for everyone, whether or not they are travelling. This means seeking solutions that meet our long-term economic, social and environmental goals. We are working to tackle climate change, improve air quality, address wider quality of life issues, limit noise and improve planning, to support better environmental outcomes. More details about our work can be found in Chapter 6 of the Annual Report section.

Euro preparations

Government policy on entry to the Euro continues to be 'prepare and decide', thereby ensuring that the UK retains a genuine option to join the single currency, if the Government, Parliament and the people, in a referendum, decide to do so. The Department has developed and maintained its changeover plan in accordance with HM Treasury's requirements.

Auditors

The Comptroller and Auditor General carries out the audit of the Department's accounts, including agencies, under the Government Resources and Accounts Act 2000, at an annual notional cost of £751,000. The prior year figure was £737,000.

The Department, at HM Treasury's direction, is required to produce the 2009-10 Resource Accounts using International Financial Reporting Standards (IFRS) rather than UK GAAP. In order to satisfy this requirement, it has had to produce a 2007-08 closing Balance Sheet and an entire 'shadow' Resource Account for 2008-09 based upon IFRS. These steps are necessary to enable the Department to produce IFRS-based comparatives for the 2009-10 Resource Accounts. The IFRS-based information it has produced has been subject to review by the

Comptroller and Auditor General and this has led to an additional, annual notional cost of £99,500 being incurred. This cost covers the IFRS-based audit work completed within the Department and its agencies.

The National Audit Office also performs other statutory audit activity, including value for money and assurance work, at no cost to the Department.

Reconciliation of resource expenditure between Estimates, accounts and budgets

	Note	2008-09 £000	2007-08 £000
Net Resource Outturn (Estimates)	3.1	**19,882,067**	**16,115,337**
Adjustments to additionally include:			
Consolidated Fund Extra Receipts in the Operating Cost Statement	3.1	(45,968)	(36,968)
Prior year adjustments (FRS Financial Instruments)	16.2	(5,348,965)	
Prior year adjustments (Other)		180,509	
Net Operating Cost (Accounts)[1]	3.1	**14,667,643**	**16,078,369**
Adjustments to remove:			
Gains/losses from sale of capital assets		–	42
Capital grants		(5,630,739)	(4,264,184)
European Union income related to capital grants		24,603	14,075
Voted expenditure outside the budget		(199,326)	–
Adjustments to additionally include:			
Other Consolidated Fund Extra Receipts		–	2,329
Resource consumption of non departmental public bodies		402,346	16,318
Metronet Grant to Transport for London		–	(1,700,000)
Other adjustments		(16,972)	166,891
Resource Budget Outturn (Budget)		**9,247,555**	**10,313,840**
of which			
Departmental Expenditure Limit (DEL)		5,518,013	6,799,499
Annually Managed Expenditure (AME)		3,729,542	3,514,341

1 The prior year Net Operating Costs have not been restated in line with Note 3 to the financial statements.

Personal data related incidents

Incidents, the disclosure of which would in itself create an unacceptable risk of harm, may be excluded in accordance with the exemptions contained in the Freedom of Information Act 2000 or may be subject to the limitations of other UK information legislation.

Summary of protected personal data related incidents formally reported to the Information Commissioner's Office				
Statement on information risk	I am aware that the handling of information and data is a key risk to the Department. I have issued guidance to all staff on the subject of data handling and I have emphasised the importance of the requirements contained within this guidance. In line with Cabinet Office guidance, information asset owners (IAOs) have been appointed across the Department and data handling is being taken extremely seriously. All staff will undertake a course of training on Protecting Information by the end of 2009 and IAOs and senior managers will have further training to equip them fully to carry out their key roles.			
Date of incident (month)	**Nature of incident**	**Nature of data involved**	**Number of people potentially affected**	**Notification steps**
Since 2003	Unauthorised disclosure of paper documents	Names, bank names (in 3 cases), bank account numbers, credit card number (in two cases)	10	Ministers and individuals notified
May	Unauthorised disclosure of paper documents	Name, business address, business risk score	3	Ministers informed
Further action on information risk	The Department will continue to monitor and assess its information risks in the light of the events noted above, in order to identify and address any weaknesses and ensure continuous improvement of its systems. Following the Cabinet Office's publication of *Data Handling Procedures in Government: Final Report* in June 2008, we implemented new, mandatory minimum measures in relation to data protection across the Department, its agencies and suppliers. We identified information assets and appointed IAOs to manage them. A quarterly risk assessment process ensures that information risks are identified, managed and escalated where necessary, with the senior information risk owner fully involved and reporting to the DfT Board. All staff have completed, or will this year undertake, training on Protecting Information.			

Incidents deemed by the data controller not to fall within the criteria for report to the Information Commissioner's Office, but recorded centrally within the Department, are set out in the table below. Small, localised incidents are not recorded centrally and are not cited in these figures.

Summary of other protected personal data related incidents in 2008-09

Category	Nature of incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured government premises	3
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured government premises	3
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	2
IV	Unauthorised disclosure	14
V	Other	1

Remuneration Report

Remuneration policy

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.

SCS remuneration is determined following independent advice from the Review Body on Senior Salaries in an annual report to the Prime Minister. Further information about their work and copies of the annual reports can be found on the Office of Manpower Economics website at www.ome.uk.com.

The Cabinet Office sends the Government's decisions on SCS remuneration to the Department. The Department's SCS Remuneration Committee takes annual pay review decisions for individual members of the SCS within the key pay parameters communicated by the Cabinet Office.

Pay system and performance management

The Department has three levels of senior civil servant below the Permanent Secretary. These are underpinned by a tailored job evaluation scheme, (JESP – Job Evaluation for Senior Posts), which provides a consistent basis for comparing the relative value of jobs within and across departments. Each of these three levels has a pay range.

The base salary rewards value or contribution which is determined using three criteria:

- individual's overall growth in competence;
- challenge associated with the job; informed by job weight and departmental priorities; and
- confidence in the individual's future performance, based on sustained past performance or rigorous assessment of potential.

Individual annual pay award decisions take into account:

- whether there are anomalies between individuals in the SCS that can and should be addressed;
- the full range of possible awards, to reflect and reinforce important messages about contribution;
- that, over time, the strongest contributors should usually be paid higher in the pay band than others; and
- when an individual's pay is at or above an appropriate level in the pay band for their contribution, it is reasonable to consider whether any pay increase is appropriate or not.

Delivery of in-year performance against objectives is rewarded through non-consolidated pay. Individuals who make the biggest contributions receive the largest payments. Individuals who make the weakest contributions receive the smallest payments or none at all.

In order to determine relative performance, SCS members are ranked from strongest to weakest. The rank is then divided into four performance groups:

- **Group 1**: top 25 per cent of performers;
- **Group 2**: next 40 per cent of performers;
- **Group 3**: next 20-25 per cent of performers; and
- **Group 4**: bottom 5-10 per cent of performers. This group should not receive a bonus and have action taken to address under performance or ongoing poor performance, including the drawing up of a performance improvement plan.

All base pay and non-consolidated pay decisions are monitored by gender, ethnicity, disability and working pattern to guard against bias.

Remuneration Committee

This Committee comprises the Department for Transport's Permanent Secretary (as Chairman), all directors general, and a non-executive Board member. For the year to 31 March 2009, its members were:

Robert Devereux	Permanent Secretary, Department for Transport
Steve Gooding (from 2 March 2009)	Director General, Motoring and Freight Services
Richard Hatfield (from 26 August 2008)	Director General, International Networks and Environment
Stephen Hickey (to 25 July 2008)	Director General, Safety, Service Delivery and Logistics
Simon Webb (to 2 March 2009)	Director General, International Networks and Environment
Bronwyn Hill	Director General, City and Regional Networks
Mike Mitchell	Director General, National Networks
Barbara Moorhouse	Director General, Corporate Resources
Anne Hemingway (to 31 July 2008)	Non-Executive Director
Deborah Williams (when the Committee met on 9 December 2008)	Non-Executive Director

The Committee makes pay decisions for directors and divisional managers. The Permanent Secretary decides on pay for directors general, with advice from the Committee's non-executive director.

Service contracts

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit, on the basis of fair and open competition, but also includes the circumstances when appointments may otherwise be made.

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.

Official	Contract period
Archie Robertson[1]	24 November 2006 to 01 July 2008
Mike Mitchell[2]	3 May 2005 to 2 May 2008 3 May 2008 to 31 December 2010

Notes:

1 Archie Robertson's fixed-term contract expired in year.

2 Mike Mitchell is subject to the termination agreements/notice periods as laid out in the standard Senior Civil Service contract for fixed-term appointments.

Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk.

Salary and Pension entitlements

The following sections provide details of the remuneration and pension interests of the ministers and most senior management (ie Board members) of the Department and the remainder of this Remuneration Report has been audited.

Remuneration

Ministers	2008-09 £	2007-08 (restated) £
Geoff Hoon MP – Secretary of State (from 4 October 2008)	32,648	
Full-year equivalent	78,356	
Ruth Kelly MP – Secretary of State (from 29 June 2007 to 3 October 2008)	39,810	58,710*
Full-year equivalent	78,356	77,509
Lord Adonis – Minister of State (from 5 October 2008)	34,601	
Full-year equivalent	83,043	
Rosie Winterton MP – Minister of State (from 30 June 2007 to 5 October 2008)	23,710	30,344*
Full-year equivalent	40,646	40,207

Ministers	2008-09 £	2007-08 (restated) £
Paul Clark MP – Parliamentary Under Secretary of State (from 5 October 2008)	Unpaid	
Tom Harris MP – Parliamentary Under Secretary of State (from 7 September 2006 to 5 October 2008)	15,840	30,518*
Full-year equivalent	30,851	30,518
Jim Fitzpatrick MP – Parliamentary Under Secretary of State (from 30 June 2007)	30,851	23,032*
Full-year equivalent		30,518

* Prior year figures have been restated by £1,395 for these individuals to reflect remuneration that is owed to them.

Officials	2008-09 £000	2007-08 (restated) £000
Robert Devereux – Permanent Secretary (from 31 May 2007)	160 – 165	165 – 170
Richard Hatfield – Director General (from 26 August 2008)	80 – 85	
Full-year equivalent	145 – 150	
Stephen Hickey – Director General[1] (from 2 January 2003 to 25 July 2008)	40 – 45	125 – 130
Full-year equivalent	125 – 130	
Simon Webb – Director General (from 27 September 2004 to 2 March 2009)	140 – 145	155 – 160
Full-year equivalent	150 – 155	
Mike Mitchell – Director General[2] (from 3 May 2005)	230 – 235	220 – 225
Bronwyn Hill – Director General (from 25 June 2007)	145 – 150	100 – 105
Full-year equivalent		130 – 135
Barbara Moorhouse – Director General (from 30 July 2007)	195 – 200	135 – 140
Full-year equivalent		205 – 210
Steve Gooding – Director General (from 2 January 2009)	25 – 30	
Full-year equivalent	115 – 120	
Archie Robertson – Chief Executive[3] (from 24 November 2003 to 1 July 2008)		

Notes:

1 Stephen Hickey received £63,009.61 in compensation on taking early retirement.

2 Mike Mitchell's salary now includes contractual benefits that had previously been classified as benefits in kind. The prior year salary figure has also been restated.

3 Archie Robertson's remuneration is disclosed separately in the Highways Agency accounts.

Benefits in kind are disclosed separately below.

The non-executive directors of the Board received the following remuneration for their services during the year:

Non-executive director	2008-09 £000	2007-08 (Restated) £000
Ed Smith[1] (from 1 January 2009)	5 – 10	
Full-year equivalent	20 – 25	
Alan Cook (from 1 January 2009)	5 – 10	
Full-year equivalent	20 – 25	
Sally Davis (from 1 January 2009)	5 – 10	
Full-year equivalent	20 – 25	
Anne Hemingway[2] (from 5 July 2003 to 31 July 2008)	5 – 10	10 – 15
Full-year equivalent	15 – 20	
Deborah Williams[3] (from 10 October 2005)	20 – 25	20 – 25

Notes:

1 Ed Smith was recruited to be Chair of the Audit Committee. He took over his responsibility on 24 February 2009. His remuneration includes a fee for holding this position.

2 Ann Hemmingway's remuneration includes £2,300 (2007-08: £3,570) additional fees for extra responsibilities, including attendance at the Efficiency Programme Board.

3 Deborah Williams was Chair of the Audit Committee through to the 23 February 2009 and remained on the Board in an advisory capacity. Her remuneration includes a fee for this additional responsibility.

Salary

'Salary' includes gross salary, performance pay or bonuses, 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 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 (£63,291 from 1 April 2008, £61,820 from 1 November 2007, £61,181 from 1 April 2007) and various allowances to which they are entitled are borne centrally. However, the arrangement for ministers in the House of Lords is different, in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the department and is, therefore, shown in full in the figures above.

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. The Permanent Secretary is allowed the private use of a Government car and driver in the circumstances permitted by the Civil Service Management Code. Robert Devereux's benefit relating to the use of this car for the period was £8,753 (2007-08: Robert Devereux £5,710; Sir David Rowlands £1,008). The amounts quoted above include the tax and national insurance liability paid on behalf of the individual by the Department to HM Revenue and Customs. The prior year figures differ to those stated in the 2007-08 Resource Account as they include the tax and national insurance liability. No other ministers or officials received any benefits in kind.

Pension benefits

Ministers	Accrued pension at pension age as at 31/03/09 £000	Real increase in pension at pension age £000	CETV at 31/03/09 £000	CETV at 31/03/08[1] £000	Real increase in CETV £000
Geoff Hoon MP – Secretary of State (from 4 October 2008)	15 – 20	0 – 2.5	257	228	18
Ruth Kelly MP – Secretary of State (from 29 June 2007 to 3 October 2008)	5 – 10	0 – 2.5	72	62	3
Lord Adonis – Minister of State (from 5 October 2008)	5 – 10	0 – 2.5	78	67	5
Rosie Winterton MP – Minister of State (from 30 June 2007 to 5 October 2008)	5 – 10	0 – 2.5	84	74	4
Paul Clark MP – Parliamentary Under Secretary of State (from 5 October 2008)[2]					
Tom Harris MP – Parliamentary Under Secretary of State (from 7 September 2006 to 5 October 2008)	0 – 5	0 – 2.5	20	12	5
Jim Fitzpatrick MP – Parliamentary Under Secretary of State (from 30 June 2007)	5 – 10	0 – 2.5	83	69	7

Notes:

1 The figure may be different from the closing figure in last year's accounts. This is due to the CETV factors being updated to comply with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

2 Unpaid minister therefore no pension disclosure required

Ministerial pensions

Pension benefits for ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is made under statute (the regulations are set out in Statutory Instrument SI 1993 No 3253, as amended).

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). The arrangements for ministers provide benefits on an 'average salary' basis, taking account of all service as a minister. The accrual rate has been 1/40th since 15 July 2002 (or 5 July 2001 for those who chose to backdate the change) but ministers, in common with all other members of the PCPF, can opt for a 1/50th accrual rate and a lower rate of employee contribution.

Benefits for ministers are payable at the same time as their benefits become payable under the PCPF or, for those who are not MPs, on retirement from ministerial office from age 65. Pensions are increased annually in line with changes in the RPI. Members pay contributions of six per cent of their ministerial salary, if they have opted for the 1/50th accrual rate or 10 per cent of salary if they have opted for the 1/40th accrual rate. There is also an employer contribution paid by the Exchequer, representing the balance of cost as advised by the Government Actuary. This is 26.8 per cent of the ministerial salary.

The accrued pension quoted is the pension the minister is entitled to receive when he/she reaches 65, or immediately on ceasing to be an active member of the scheme if he/she is already 65.

Cash Equivalent Transfer Value (CETV)
This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement, when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total ministerial service, not just their current appointment as a minister. CETVs are calculated in accordance with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 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 value of CETV
This is effectively the element of the increase in accrued pension funded by the Exchequer. It excludes increases due to inflation and contributions paid by the minister, and is calculated using common market valuation factors for the start and end of the period.

Officials	Accrued pension at pension age as at 31/03/09 £000	Real increase in pension at pension age £000	CETV at 31/03/09 £000	CETV at 31/03/08[1] £000	Real increase in CETV £000
Robert Devereux – Permanent Secretary (from 31 May 2007)	55 – 60 plus 170 – 175 lump sum	0 – 2.5 plus 5 – 7.5 lump sum	1,098	989	33
Richard Hatfield – Director General (from 26 August 2008)	60 – 65 plus 185 – 190 lump sum	0 – 2.5 plus 0 – 2.5 lump sum	1,335	1,258	2
Stephen Hickey – Director General (from 2 January 2003 to 25 July 2008)	55 – 60 plus 165 – 170 lump sum	0 – 2.5 plus 2.5 – 5 lump sum	1,311	1,202	47
Simon Webb – Director General (from 27 September 2004)	60 – 65 plus 190 – 195 lump sum	0 – 2.5 plus 0 – 2.5 lump sum	1,410	1,318	4
Mike Mitchell – Director General (from 3 May 2005)	5 – 10	0 – 2.5	151	111	34
Bronwyn Hill – Director General (from 25 June 2007)	40 – 45 plus 130 – 135 lump sum	2.5 – 5 plus 10 – 12.5 lump sum	720	615	55
Barbara Moorhouse – Director General (from 30 July 2007)	5 – 10	0 – 2.5	119	85	25
Steve Gooding – Director General (from 2 January 2009)	35 – 40 plus 75 – 80 lump sum	0 – 2.5 plus 2.5 – 5 lump sum	606	566	27

Notes:

1 The figure may be different from the closing figure in last year's accounts. This is due to the CETV factors being updated to comply with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007 civil servants may be in one of four defined benefit schemes: either a 'final salary' scheme (**classic**, **premium** or **classic plus**) or a 'whole career' scheme (**nuvos**). 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** and **nuvos** are increased annually in line with changes in the RPI. Members who joined from October 2002 could opt for either the appropriate, defined benefit arrangement or a good quality 'money purchase' stakeholder pension with a significant employer contribution (**partnership** pension account).

Employee contributions are set at the rate of 1.5 per cent of pensionable earnings for **classic** and 3.5 per cent for **premium**, **classic plus** and **nuvos**. 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' pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** members builds up a pension based on their 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 per cent of their pensionable earnings in that scheme year and, immediately after the scheme year end, the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for 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 three per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of three per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent 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** and 65 for members of **nuvos**.

Further details about the Civil Service pension arrangements can be found at the website at www.civilservice-pensions.gov.uk.

Cash Equivalent Transfer Values (CETV)
A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement, when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are calculated in accordance with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 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 value of 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.

Statement regarding the disclosure of information to the auditors

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

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

Robert Devereux 7th July 2009
Permanent Secretary and Accounting Officer
Department for Transport

Statement of Accounting Officer's responsibilities

Under s5 of the Government Resources and Accounts Act 2000, the Department for Transport is required to prepare resource accounts for each financial year, in conformity with a direction from HM Treasury, detailing the resources acquired, held or disposed of during the year and the use of resources by the Department during the year.

The resource accounts are prepared on an accruals basis, and must give a true and fair view of the state of affairs of the Department, the net resource outturn, resources applied to the objectives, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* (*FReM*) and, in particular, to:

- observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the *FReM*, have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on an ongoing basis.

HM Treasury has appointed the Permanent Head of the Department as Accounting Officer of the Department.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and safeguarding the Department's assets, are set out in the *Accounting Officer's Memorandum* issued by HM Treasury and published in *Managing Public Money*.

Statement on Internal Control

Scope of responsibility

1 As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Department for Transport's policies, aims and objectives, whilst safeguarding the public funds and Departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.

2 The Department's three trading funds (the Driver and Vehicle Licensing Agency, the Driving Standards Agency and the Vehicle and Operator Services Agency), the four executive non-Departmental public bodies, which are referred to as NDPBs (Passenger Focus – formerly the Rail Passengers Council, the Railway Heritage Committee, the British Transport Police and the Renewable Fuels Agency) and the British Railways Board (Residuary) Ltd all fall outside the Departmental accounting boundary and their accounts are not consolidated within the Departmental Resource Account. The direct responsibility for maintaining the system of internal control within these organisations rests with the relevant body. However, should significant control weaknesses arise, it would be reported within this Statement on Internal Control.

3 The Department is connected to a number of public corporations and limited companies. These organisations are listed in Note 36 of these accounts. These organisations contribute to the Department's objectives but weaknesses within their control framework, should any exist, are not commented upon within this the Department's Statement on Internal Control. The annual accounts produced by these bodies are not consolidated within the Departmental Resource Account.

4 The organisations that are within the Department's accounting boundary are the four executive agencies (the Maritime and Coastguard Agency, the Vehicle Certification Agency, the Government Car and Despatch Agency and the Highways Agency), together with the Department's two advisory NDPBs (Commission for Integrated Transport and the Disabled Persons Transport Advisory Committee) and the Department's only tribunal NDPB (Traffic Commissioners and Licensing Authorities).

5 The chief executives of the executive agencies are responsible for the maintenance and operation of their systems of internal control. Each chief executive has signed a Statement on Internal Control relating to that system. These Statements are reproduced in the relevant body's annual accounts. Each agency's annual accounts are consolidated in the Department's Resource Accounts. This Statement reports agency control issues only where they are significant in the context of the whole Department.

6 The Director General of the Safety, Service Delivery and Logistics (SSDL) Group is an Additional Accounting Officer. This group will be known as the Motoring and Freight Services (MFS) Directorate from the beginning of 2009-10. The Group comprises the Driver and Vehicle Licensing Agency (DVLA), the Driving Standards Agency (DSA), the Vehicle Certification Agency (VCA), the Vehicle and Operator Services Agency (VOSA) and the Government Car and Despatch Agency (GCDA). The Group does not produce separate financial statements but provides an additional layer of assurance via the activity of the Additional Accounting Officer.

7 The Director General of the National Networks (NN) Group is an Additional Accounting Officer with responsibility for the resources provided to the NN Group. The focus of the Group is on improving connectivity along national networks; the routes that provide essential transport links between the country's major cities and conurbations. The Group is responsible for implementing the Government's strategy for the country's railways, for letting contracts for train franchises and for securing improved performance and value for money on the rail network. The NN Group also undertakes the sponsorship function for the Highways Agency. The Group does not produce separate financial statements but provides an additional layer of assurance through the operation of its Management Board.

Purpose of the system of internal control

8 The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve Departmental policies, aims and objectives; it can, therefore, provide only reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. Subject to the developments during the year described in the following paragraphs, the system of internal control has been in place in the Department for Transport for the year ended 31 March 2009 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

9 Leadership on risk management is provided by the Department's Board, which monitors performance and risk, making choices (or recommendations to ministers) on priorities and risk appetite across the DfT family. Significant risks to key objectives are identified by managers within the Department and escalated to the Board. At the end of 2008-09, the Department's Board included the five directors general in the central Department and four non-executive members. The following forums help ensure that risks are effectively managed:

- an Executive Committee, which assesses progress on and risks to key deliverables and budgets, and assesses the potential impact on plans of major new initiatives from Ministers or beyond the Department;
- the Management Board of the Safety, Service Delivery and Logistics (SSDL) Group, which monitors delivery against key objectives across the SSDL Group agencies, including risks to their achievement;
- the Management Board of the National Networks Group, which monitors delivery against key objectives across the Group, including the Highways Agency, and the controls for risk management;
- the Management Boards of the Cities and Regional Networks Group and the International Networks and the Environment Group, which monitor delivery against key objectives, including risks to their achievement;
- Directors Group meetings within the Corporate Resource Group (CRG), which are chaired by the CRG Director General and review risk; and
- the Boards of the Maritime and Coastguard Agency, the Highways Agency, the Vehicle and Operator Services Agency, Government Car and Despatch Agency, the Driver and Vehicle Licensing Agency, the Driving Standards Agency and the Vehicle Certification Agency, which monitor and review risks to the delivery of their objectives.

10 The Department's Audit Committee monitors and reviews the processes for managing risk, control, governance and assurance across the DfT family, and includes a non-executive chair, who is also a member of the Board, and three further non-executive members from the wider DfT family. Each Agency has its own Audit Committee, which fulfils a similar function.

11 Officials consult ministers regularly on risk. Submissions to ministers incorporate assessments of key risks including, for example, to the operation of the transport system, including public perceptions, and to the successful delivery of new policies.

12 During 2008-09, a new overall DfT Group Risk Management Framework was agreed by the Executive Committee. This Framework included revised criteria for Board-level risks and specified the responsibilities for each of the director general groups in relation to improving risk management within their groups. Resource Management Planning Teams (RMPTs), embedded within each director general group, have continued to support their respective director general on implementing and updating policies and procedures to improve the identification and mitigation of Board – and group-level risks.

13 Along with the new Risk Management Framework, the risk management guidance was updated and made available to staff on Transnet (the Department's intranet system). The RMPTs have also been responsible for ensuring that the appropriate support and training on risk management is

available to staff within the central Department. A new e-learning Risk Management package is currently being developed for release Department wide.

14 Each agency chief executive is responsible for ensuring that appropriate risk management guidance, support and training arrangements are in place within his or her agency which is consistent with the relevant DG Group Risk Management Policy and DfT Group Risk Management Framework.

Risk and control framework

15 The Treasury published its *Code of Good Practice on Corporate Governance in Central Government Departments* in July 2005; the Department's practices are consistent with the principles set out in this Code.

16 The central Department has in place a Corporate Governance Framework, which includes: the framework of accountabilities; the roles and responsibilities of agency chief executives, directors general and directors; and the in-year and end-of-year reporting arrangements. The Corporate Governance Framework includes the risk management framework which is described in paragraph 12; detailing how risks are escalated to the Department's Board for attention. The Framework is supported by delegations from the Accounting Officer to directors general to maintain effective accountability and management of resources.

17 The Department and its agencies have a number of well established programmes for involving the public in managing the risks associated with transport. These include road safety campaigns and work by the Maritime and Coastguard Agency to communicate with the public on improving maritime safety. The Department has also identified its ability to manage major transport disruptions as a key corporate risk, and has in place an active programme, working with partners, to ensure that adequate contingency and emergency plans are maintained, developed and reviewed.

Capability Review

18 In 2006-07 the Department underwent an external assessment by the Cabinet Office, referred to as a Capability Review. The purpose of this review was to determine how well placed the Department was in terms of leadership, strategy and delivery, to meet current and future challenges. The results of this review were published in June 2007 by the Cabinet Office. This year the Department underwent a full external Capability re-Review assessment. The report will be published later this month.

Information and data handling

19 I am aware that the handling of information and data is a key risk to the Department. This is taken extremely seriously and the Department has made significant progress in this area over the last year. I have issued guidance to all staff on the subject of data handling and I have emphasised

the importance of the requirements contained within this guidance. In line with Cabinet Office guidance information asset owners (IAOs) have been appointed across the Department and data handling is being taken extremely seriously. All staff will undertake a course of training on Protecting Information by the end of 2009 and IAOs and senior managers will have further training to equip them fully to carry out their key roles. A full disclosure of incidents that have occurred in 2008-09 can be reviewed within the management commentary.

Review of effectiveness

20 As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the results of my review of the effectiveness of the system of internal control by the Board and the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

21 The Department's Audit and Risk Assurance Division (Internal Audit) operates to standards defined in the Government's Internal Audit Standards. The work of the Audit Risk and Assurance Division is based upon its analysis of the risks to which the Department is exposed and by what the Group Audit Committee identify the key risks to be. The annual audit plan was discussed and endorsed by the Department's Group Audit Committee and approved by me. The work completed in connection with the annual audit plan provides me, as the Department's Principal Accounting Officer, with an independent opinion on control and governance and the effectiveness of the Department's risk management systems. Regular reports are provided to the Department's management, as well as advice on risk and control issues. The Department's assessment of the control environment is also informed by the programme of external audits and value for money studies undertaken by the National Audit Office.

22 Each year the Head of Internal Audit (HIA) provides me with a report on internal audit activity in the Department. This report includes the HIA's independent opinion on the adequacy and effectiveness of the Department's governance, risk management and internal control arrangements. The HIA opinion for 2008-09 concluded that the DfT Group's arrangements for governance, risk management and internal control have been adequate and effective throughout the year. However, two matters of significance were brought to my attention:

- An adequate and effective system of internal control had not been operational at the Department's Shared Service Centre (SSC) throughout the year. The HIA has informed me that the compensating controls introduced by the customers of the SSC throughout the year have mitigated the control weaknesses identified at the SSC; and
- The HIA at VOSA had reported a weak level of assurance based on the programme of system audits undertaken. The Statement on Internal Control contained within the VOSA financial accounts provides further detail on the weakening level of assurance that was highlighted by the HIA and explains that strategies have been developed to improve this situation. I have been informed that no material implications on the financial statements have been identified as a result of these weaknesses.

23 The Group Audit Committee receives summaries of Internal Audit reports and considers the Group Head of Internal Audit's annual opinion on the effectiveness of risk management, control and governance. The Chair of the Group Audit Committee reports regularly to the Departmental Board the Committee's views on the effectiveness of internal control.

24 Directors general and directors have reviewed internal control within their areas of responsibility within the central Department and have completed assurance returns which have been communicated to the Group Audit Committee.

25 All DfT agencies have reviewed the effectiveness of their systems of internal control and prepared Statements on Internal Control. Other than those noted in paragraph 22 above, no significant weaknesses have been identified.

Shared Service Centre

26 In my Statement on Internal Control in 2006-07 I identified that, over the following three years, the Department would be completing the transfer of its financial and HR services to a new shared services platform. Two years into the implementation the central Department together with DVLA and DSA have transferred their financial and HR services onto the new platform. On 1 January 2009 the payroll function of VCA transferred onto the shared service platform and on 1 April 2009 the HR service and the payroll function of HA transferred. A plan is in place to transfer other elements of the Department.

27 Since inception the Shared Service Centre (SSC) has been subject to a comprehensive and continuous programme of internal audit and specialist review. In the first year of operation of the SSC (2007-08) this audit and review activity identified process weaknesses, which represented serious but not fundamental failures in the control framework. The Department's Board and DVLA and DSA's Accounting Officers committed to implementing fully all of the control recommendations from these reviews. It was

recognised that the action the Departments SSC programme had taken to address the identified causes of the weaknesses was ongoing and would continue through 2008-09.

28 During 2007-08 system limitations had a temporary impact on DVLA and DSA's abilities to exercise full financial control and to carry out management reporting. In order to mitigate risks ensuing from these inefficiencies, the Agencies implemented additional extra-systems control processes and detailed monitoring of financial management information. These measures ensured that effective internal controls were maintained within the Agencies throughout the year. During 2008-09 DVLA and DSA continued to employ extra-systems controls in order to maintain effective internal control. Both Agencies recognised that improvements have been achieved during 2008-09 but considered that these improvements were not sufficient to justify the removal of these extra controls.

29 The central Department, in its first year on the shared service platform, identified weaknesses in the financial control and management reporting functions and introduced extra-system controls to mitigate these weaknesses. A programme of improvement during the year has addressed a number of the weaknesses that were identified but the central Department continued to employ manual controls through to the year end in order to reduce the possibility of material error entering the system.

30 In 2008-09, Internal Audit has continued the comprehensive programme of reviews over the SSC's internal control, governance and risk management processes. The reports from this work, provided to the SSC Programme Board and incorporated into the quarterly assurance statements prepared by the Director for Shared Services to the customers of the SSC, have provided assurance that the SSC has actions in place to address the gaps identified in the internal control environment. A number of control weaknesses which internal audit identified as serious during the year were addressed by SSC programme by the year end. No material implications on the financial statements have been identified as a result of these weaknesses.

31 In addition, a number of other assurance mechanisms have been put in place with respect to the SSC during 2008-09 which contribute to the overall assurance provided over the improvement of the internal control environment.

Robert Devereux
Accounting Officer
Department for Transport

7th July 2009

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Department for Transport for the year ended 31 March 2009 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the Statement of Net Operating Costs by Departmental Strategic Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, the information which comprises the Management Commentary, chapter 6 and chapter 11 is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Department's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This contains the remaining information from the Annual Report and the unaudited part of the Remuneration Report. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Department's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2009, and the net cash requirement, net resource outturn, net operating cost, net operating costs applied to departmental strategic objectives, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information which comprises the Management Commentary, chapter 6 and chapter 11 included within the Annual Report, is consistent with the financial statements.

Opinion on Regularity

- In my opinion, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London
SWIW 9SS

13th July 2009

The maintenance and integrity of the Department for Transport's website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Statement of Parliamentary Supply

for the year ended 31 March 2009

Summary of Resources Outturn 2008-09

								2008-09 £000	2007-08 £000
		Estimate			Outturn				Outturn
	Note	Gross Expenditure	A in A	Net Total	Gross Expenditure	A in A	Net Total	Net Total Outturn compared with Estimate: saving/ (excess)	Net Total
Request for Resources 1	2	24,412,964	(954,375)	23,458,589	20,805,862	(923,795)	19,882,067	3,576,522	16,115,337
Total resources	3	24,412,964	(954,375)	23,458,589	20,805,862	(923,795)	19,882,067	3,576,522	16,115,337
Non-operating cost A in A	7			(31,157)			(31,157)	–	(70,191)

Net Cash Requirement 2008-09

				2008-09 £000	2007-08 £000
	Note	Estimate	Outturn	Net Total Outturn compared with Estimate: saving/(excess)	Outturn
Net Cash Requirement	4	12,561,157	12,347,695	213,462	13,239,444

Summary of the income payable to the Consolidated Fund

In addition to appropriations in aid, the following income relates to the Department and is payable to the Consolidated Fund.

		Forecast 2008-09 £000		Outturn 2008-09 £000	
	Note	Income	Receipts	Income	Receipts
Total	5	130,807	*130,807*	201,774	*174,824*

Explanations of variances between Estimate and Outturn are given in the Management Commentary.

The notes on pages 335 to 392 form part of these accounts.

Operating Cost Statement

for the year ended 31 March 2009

				2008-09 £000					2007-08 £000
				Core Department			Consolidated	Core Department (restated)	Consolidated (restated)
	Note	Staff Costs	Other Costs	Income	Staff Costs	Other Costs	Income	Total	Total
Administration Costs									
Staff costs	9	94,989			161,912			90,106	163,001
Other administration costs	10		99,286			144,053		103,582	146,464
Operating income	12			(5,442)			(29,106)	(3,998)	(25,956)
Programme Costs									
Staff costs	9	25,562			140,444			25,233	127,123
Programme costs	11		9,796,681			15,216,167		10,654,380	16,040,126
Income	12			(758,487)			(874,170)	(395,662)	(489,271)
EU Income	12			(25,799)			(27,959)	–	(1,830)
EU Income (acting as agency)	12			–			–	(14,075)	(14,075)
Dividend receivable	12			(26,433)			(26,433)	(5,273)	(5,273)
Interest receivable	12			(22,667)			(37,265)	(36,173)	(43,698)
Totals		120,551	9,895,967	(838,828)	302,356	15,360,220	(994,933)	10,418,120	15,896,611
Net Operating Cost	3, 13			9,177,690			14,667,643	10,418,120	15,896,611

The notes on pages 335 to 392 form part of these accounts.

Statement of Recognised Gains and Losses

for the year ended 31 March 2009

		2008-09 £000		2007-08 £000	
	Note	Core Department	Consolidated	Core Department (restated)	Consolidated (restated)
Net gain on revaluation of tangible/intangible fixed assets	23	(22,100)	3,915,479	(2,610)	3,604,867
Reversionary interest on M6 toll road	22	–	18,746	–	7,240
Actuarial gain recognised in pension scheme	22	(1,055,200)	(1,055,200)	(175,100)	(175,100)
Prior year adjustment	22, 23	27,000	(214,083)	–	225,279
Recognised gains and losses for the financial year		**(1,050,300)**	**(2,664,942)**	**(177,710)**	**(3,662,286)**

The notes on pages 335 to 392 form part of these accounts.

Balance Sheet

as at 31 March 2009

		2008-09 £000		2007-08 £000	
	Note	Core Department	Consolidated	Core Department (restated)	Consolidated (restated)
Fixed assets:					
Tangible assets	14	2,080,195	90,477,368	2,062,265	86,607,404
Intangible assets	15	21,781	27,676	23,476	30,179
Investments	16	647,682	647,682	624,901	624,901
		2,749,658	91,152,726	2,710,642	87,262,484
Debtors falling due after more than one year	18	2,980,844	3,245,915	2,930,580	3,154,481
Current assets:					
Stocks	17	37,223	68,103	–	24,029
Debtors	18	62,797	195,034	88,493	205,363
Cash at bank and in hand	19	163,892	219,254	155,702	101,932
		263,912	482,391	244,195	331,324
Creditors (amounts falling due within one year)	20	(793,847)	(1,458,867)	(833,217)	(1,328,542)
Net current liabilities		(529,935)	(976,476)	(589,022)	(997,218)
Total assets less current liabilities		**5,200,567**	**93,422,165**	**5,052,200**	**89,419,747**
Financial Liabilities	16	(8,333,613)	(8,333,613)	(8,281,538)	(8,281,538)
Creditors (amounts falling due after more than one year)	20	(2,002,938)	(3,304,274)	(1,944,551)	(3,263,552)
Provisions for liabilities and charges	21	(428,103)	(1,068,879)	(520,857)	(1,208,179)
Pension liability	39	(1,299,743)	(1,299,743)	(251,139)	(251,139)
Total		**(6,863,830)**	**79,415,656**	**(5,945,885)**	**76,415,339**
Taxpayers' equity:					
General Fund	22	(6,864,196)	32,008,906	(5,969,985)	32,730,972
Revaluation Reserve	23	366	47,406,750	24,100	43,684,367
Total		**(6,863,830)**	**79,415,656**	**(5,945,885)**	**76,415,339**

Note:
The comparative figures have been restated following the detrunking of non-core roads to local authorities (see Note 37).

Robert Devereux
Permanent Secretary and Accounting Officer
Department for Transport

7th July 2009

The notes on pages 335 to 392 form part of these accounts.

Consolidated Cash Flow Statement

for the year ended 31 March 2009

	Note	2008-09 £000	2007-08 £000
Net cash outflow from operating activities	24.1	(11,217,845)	(12,118,818)
Cost of servicing of finance: interest element of PFI payments		–	–
Capital expenditure and financial investment	24.2	(1,059,543)	(1,006,197)
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		152,585	155,864
Payments of amounts due to the Consolidated Fund		(224,082)	(176,389)
Financing	24.4	12,466,207	13,055,535
Increase/(Decrease) in cash in the period	24.5	117,322	(90,005)

The notes on pages 335 to 392 form part of these accounts.

Consolidated Statement of Net Operating Costs by Departmental Strategic Objectives

for the year ended 31 March 2009

			2008-09			2007-08 (restated)
			£000			£000
	Gross	Income	Net	Gross	Income	Net
Aim[1]						
Objective 1	8,159,006	(486,308)	7,672,698	9,637,156	(285,777)	9,351,379
Objective 2	1,319,777	(26,892)	1,292,885	801,035	(16,872)	784,163
Objective 3	3,509,748	(93,188)	3,416,560	3,474,215	(75,985)	3,398,230
Objective 4	2,536,987	(334,998)	2,201,989	2,510,393	(156,367)	2,354,026
Objective 5	137,058	(53,547)	83,511	53,915	(45,102)	8,813
Net operating costs	**15,662,576**	**(994,933)**	**14,667,643**	**16,476,714**	**(580,103)**	**15,896,611**

Notes:
[1] The Departmental Strategic Objectives changed for 2008-09. The prior year information has been restated in line with these new objectives. This change is described on page 297 of the management commentary.

The Departmental Strategic Objectives are as follows:

- **DSO 1**: To support national economic competitiveness and growth, by delivering reliable and efficient transport networks;
- **DSO 2**: To reduce transport's emissions of carbon dioxide and other greenhouse gases, with the desired outcome of avoiding dangerous climate change;
- **DSO 3**: To contribute to better safety, security and health and longer life-expectancy through reducing the risk of death, injury or illness arising from transport, and through promoting travel modes are beneficial to health;
- **DSO 4**: To promote greater equality of opportunity for all citizens, with the desired outcome of achieving a fairer society; and
- **DSO 5**: To improve quality of life for transport users and non-transport users, and to promote a healthy natural environment.

It should be noted that, although spend is allocated in accordance with its primary objective within this statement, a lot of the Departmental spend achieves more than one objective at any one time.

The notes on pages 335 to 392 form part of these accounts.

Notes to the Departmental Resource Accounts

1 Statement of Accounting Policies

These financial statements have been prepared in accordance with the 2008-09 *Government Financial Reporting Manual* (*FReM*) issued by HM Treasury. The accounting policies contained in the *FReM* follow UK Generally Accepted Accounting Practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

In addition to the primary statements prepared under UK GAAP, the *FReM* also requires the Department to prepare two additional primary statements. The Statement of Parliamentary Supply and supporting notes show Outturn against Estimate in terms of the Net Resource Requirement and the Net Cash Requirement. The Consolidated Statement of Operating Costs by Departmental Aim and Objectives and supporting notes analyse the Department's income and expenditure by the objectives agreed with ministers.

Where the *FReM* permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Department for the purpose of giving a true and fair view has been selected. The Department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention
These accounts have been prepared under the historical cost convention, modified to account for the revaluation of fixed assets and stocks, where material, at their value to the business by reference to their current costs.

1.2 Basis of consolidation
These accounts comprise a consolidation of the core Department, and those entities that fall within the Departmental boundary, as defined in the *FReM* issued by HM Treasury and as listed in Note 36. Transactions between entities included in the consolidation are eliminated.

1.3 Tangible fixed assets
Tangible fixed assets are categorised as network assets and non-network assets. Network assets comprise motorways and trunk roads in England and Wales, which form an integrated network infrastructure. The network consists of carriageways, including earthworks; tunnelling and road pavements; roadside communications; bridges and other structures; and land and buildings within the perimeter of highways. Non-network assets include land and buildings; plant and equipment; and information technology.

The core Department's capitalisation threshold is £5,000. The thresholds in the agencies range from £1,000 to £2,000 for individual or grouped assets; except for land, for which there is no minimum value, and infrastructure construction schemes in the Highways Agency, for which the minimum is £100,000. Assets usually comprise single items. However, those assets included within the road network, ring-fenced relocation projects, or computer equipment which, in substance, form a single asset, are capitalised as grouped assets.

Operating software is capitalised, with the value of the hardware supporting it, as a tangible fixed asset. Applications software is capitalised separately as an intangible fixed asset.

Legal title to the freehold land and buildings shown in the accounts is held in the name of the Secretary of State.

1.4 Valuation

Fixed assets are expressed at their current value through the application of Modified Historic Cost Accounting.

Network assets, which are intended to be maintained at a specific level of service potential by continuing replacement and refurbishment, are valued at depreciated replacement cost. Between valuations, the assets are adjusted annually using ROCOS (resource cost index of road construction) and Valuation Office Agency property market reports. Network assets are valued by reference to internal costings and physical asset records. The estimated unexpired life of the network is reassessed annually and the valuation adjusted, if required.

Freehold land and buildings are restated to current value using professional valuations, in accordance with FRS 15. Such valuations are undertaken every five years. In intervening years, values are adjusted using appropriate methods, including indices, except the freehold land on which the Channel Tunnel Rail Link has been constructed, which has been leased to the operator for 90 years. Reflecting this usage, the land has been valued at the net present value of the lease income, since the land is not unencumbered and the Department's rights are, to that extent, constrained. The reversionary interest of the land and the Link constructed upon it are valued at nil.

Assets held for resale (dwellings), being land and property released from road schemes, are valued at open market value, less provision for selling costs. All other tangible fixed assets are restated to current value each year, using appropriate indices, except database development assets which are stated at cost.

1.5 Depreciation

Network assets (Infrastructure assets)

A modified version of renewals accounting, as described in the *FReM*, is applied, where appropriate. The following network asset components are subject to renewals accounting: surface layer of flexible pavements; sub-pavement layer of determinate life pavements; fencing, drainage, lighting signage, kerbs, footways; road markings and studs; and rigid concrete pavements.

Assets that qualify for renewals accounting are not depreciated. Instead, expenditure incurred in maintaining the operating capacity of assets is expensed as a proxy for depreciation. Further details are disclosed within the accounts of the Highways Agency.

The following network components are considered to have an indefinite life and are not depreciated: freehold land; sub-pavement layer of long-life pavements; and earthworks.

All other network assets and definable components, with determinable finite lives, are depreciated at rates calculated to write off the assets over their expected useful lives on a straight-line basis, as follows (for national trunk roads):

Road bridges, tunnels and underpasses, road culverts, retaining walls and gantries	20 to 120 years
Road communications assets	15 to 50 years

Non-network assets

Freehold land is not depreciated. Assets in the course of construction and residual interests in off-Balance Sheet PFI contract assets are not depreciated until the relevant asset is brought into use or reverts to the Department, respectively. Depreciation is provided at rates calculated to write off the value of freehold buildings and other tangible fixed assets on a straight-line basis. Asset lives are normally in the following ranges:

Asset group	Asset life
Land and buildings, including dwellings	up to 60 years or length of lease
Plant and machinery	3 to 25 years
Furniture and fittings	2 to 10 years
Transport equipment	3 to 10 years
Information technology	3 to 10 years
Assets under construction	no depreciation

Assets in storage (for example overhead gantries) become a network asset once issued from stores. These items are kept in controlled conditions and do not deteriorate. They have a design life in excess of 60 years. While not depreciated, they are subject to an annual impairment review.

1.6 Intangible fixed assets

Purchased computer software licences are capitalised as intangible fixed assets. These items are valued at historic cost and are normally amortised over two to five years on a straight-line basis over their useful lives. Expenditure on research is not capitalised. Expenditure on development in connection with a product or service, which is to be supplied on a full cost recovery basis, is capitalised if it meets the criteria specified in the *FReM*. Other development expenditure is capitalised if it meets the criteria specified in the *FReM*. Expenditure that does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred. Fixed assets acquired for use in research and development are depreciated over the life of the associated project, or according to the asset category if the asset is to be used for subsequent production work.

1.7 Financial assets and liabilities

Financial instruments are contractual arrangements that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets are typically cash or rights to receive cash or equity instruments in another entity. Financial liabilities are typically obligations to transfer cash. A contractual right to exchange financial assets or financial liabilities with other entities will also be a financial asset or liability, depending on whether the conditions are potentially favourable or adverse to the reporting entity.

Financial assets

The Department classifies its financial assets in the following categories: assets available for sale and loans and receivables. Management determines the classification of financial assets and liabilities at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available-for sale. Where the debtor is a public sector entity outside the consolidation boundary, such assets are recognised initially at cost; otherwise, assets are initially recognised at fair value. They are subsequently measured at amortised cost using the effective interest method.

Assets available for sale

Available-for-sale financial assets are non-derivative financial assets that are not held for trading, are not loans and receivables or quoted financial assets with fixed or determinable payment dates that the Department intends to hold to maturity. Such assets, typically shares, are generally recognised initially at fair value. However, in accordance with the requirements of the *FReM*, interests in public sector entities, including shares and Public Dividend Capital, are recognised initially at cost. Special or 'golden' shares, being those shares retained in businesses that have been privatised but in which the Department wishes to retain a regulatory interest or reserve power, are not be recognised on the Balance Sheet. Available-for-sale financial assets initially recognised at fair value are subsequently re-measured to fair value at each Balance Sheet date, with any increase recognised in reserves.

Financial liabilities

Financial liabilities are recognised initially at fair value and are subsequently measured at amortised cost. Financial liabilities are derecognised when extinguished.

Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs, because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

Financial guarantees are initially recognised in the financial statements at fair value on the date that the guarantee was given. The Department's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the operating cost statement any income earned over the period, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the Balance Sheet date, in accordance with FRS 12.

Any increase in the liability relating to guarantees to reflect the amount required to settle any obligation arising as a result of the guarantees is recognised in the operating cost statement as Provisions provided for in-year.

Embedded derivatives

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative. Where the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract, and the host contract itself is not carried at fair value through profit or loss, the embedded derivative is bifurcated and reported at fair value with gains and losses being recognised in the operating cost statement. The Department has carried out a review of its contracts and has determined that, as at 31 March 2009, it had no arrangements meeting the criteria to require bifurcation.

Determining fair value

Where the classification of a financial instrument requires it to be stated at fair value, fair value is determined by reference to a quoted market price for that instrument or by using a valuation model. However, investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are shown at cost.

Valuation models are constructed to make greatest use of market inputs wherever possible. For financial guarantee contracts, the preferred approach is to determine the value placed on the guarantee by market participants, measured at the differential between the terms obtained by borrowers for guaranteed debt and the terms that would be obtained for unguaranteed debt. Otherwise, the methodology is to calculate the expected cash flows under the guarantee.

Impairment of financial assets

The Department assesses at each Balance Sheet date whether there is objective evidence that loans and receivables or available-for-sale financial investments are impaired. These are impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the

Balance Sheet date ('a loss event') and that loss event or events has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated.

For loans and receivables, the Department first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Department determines that no objective evidence of impairment exists for an individually assessed loan and receivable, whether significant or not, it includes the asset in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised using an allowance account and recognised in the operating cost statement.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics, taking into account asset type, industry, geographical location, collateral type, overdue status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of loans and receivables that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted, based on current observable data, to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

In the case of available-for-sale financial assets, a significant or prolonged decline in the fair value of the asset below its cost is also considered in determining whether impairment exists. Where there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or because it is an interest in a public sector entity outside the consolidation boundary, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Reversals of impairment of equity shares are not recognised in the operating cost statement, increases in the fair value of equity shares after impairment are recognised directly in equity.

1.8 Financing costs payable and receivable
Interest receivable and payable arising from financial assets and liabilities is calculated using the effective interest method. This is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of a financial asset or financial liability. In the calculation of the effective interest rate, the Department estimates cash flows considering all contractual terms of the financial instruments, but does not consider future credit loses.

Amounts recognised as amortisation of financial guarantee contracts in the operating cost statement reflect the amount earned as fee income under the guarantee during the period. Where no fee is receivable under the guarantee contract, amortisation reflects the portion of the amount initially recognised that can be derecognised at the end of the period, reflecting the reduction in expected cash out flows.

Where the time value of money is material, liabilities under financial guarantee contracts and fees receivable are discounted. Adjustments to the values of asset and liability balances due to the unwinding of the discount are recognised in the operating cost statement.

1.9 Stocks and work in progress
Stock is valued at cost, or replacement cost, if materially different. Long-term stock holdings for special structures (such as tunnels and bridges), where there are no recent purchases, are valued at estimated replacement cost. Where excess or obsolete stock holdings have been identified, a provision has been made to reduce the carrying value to the estimated net realisable value. Work in progress is valued at the lower of cost, including appropriate overheads, and net realisable value.

1.10 Research and development expenditure
Expenditure on research and development has been treated as programme expenditure in the Operating Cost Statement in the year in which it is incurred. Fixed assets acquired for use in research and development are depreciated over the life of the associated research project, or according to the asset category, if the asset is to be used for subsequent production work.

1.11 Operating income

Operating income is income that relates directly to the operating activities of the Department. It includes not only income appropriated in aid of the Estimate, but also income payable to the Consolidated Fund, authorised by HM Treasury to be treated as operating income. It is stated net of VAT.

1.12 Administration and programme expenditure

The Operating Cost Statement is segmented into programme and non-programme expenditure. The classification of expenditure and income as administration or as programme follows the definition of administration costs set by HM Treasury. Programme costs reflect non-administration costs, including payments of grants and other disbursements by the Department. Both the Maritime and Coastguard Agency and the Vehicle Certification Agency have programme expenditure only.

1.13 Capital charge

A charge, reflecting the cost of capital utilised by the Department, is included in operating costs. The charge is calculated at the real rate set by HM Treasury (3.5 per cent) on the average carrying amount of all assets less liabilities, except for:

- tangible and intangible fixed assets, where the cost of capital charge is based on opening values, adjusted pro rata for in-year:
  - additions;
  - disposals as valued in the opening Balance Sheet (plus any subsequent capital expenditure prior to disposal);
  - impairments at the amount of the reduction of the opening Balance Sheet value (plus any subsequent capital expenditure); and
  - depreciation of tangible, and amortisation of intangible, fixed assets.
- cash balances with the Office of the Paymaster General, where the charge is nil; and
- the Department's investments and loans, where the charge is between 3.5 and 7.875 per cent, based on the rate of return on the investment with the exception of the Humber Bridge Board Loan, where the capital charge is set at 7.75 per cent and the interest rate charged on the loan is 4.25 per cent.

1.14 Pensions

Past and present employees of the Department and its Agencies are generally covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which is described in Note 9. The defined benefit scheme is unfunded and is non-contributory, except in respect of dependants' benefits. The Department recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruals basis.

Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the Department recognises the contributions payable for the year.

Pension benefits to ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). Further details are provided in the Remuneration Report. Other schemes are accounted for in accordance with FRS 17.

The Department is also responsible for funding any shortfalls in a small number of historic funded pension arrangements, which relate almost entirely to individuals drawing pensions. Where it is considered more likely than not that the Department has an obligation to make contributions in respect of any deficit, the value of such contributions is recognised as a provision.

The Department has also undertaken to fund the pension of a small number of special post holders including the PPP Arbiter.

1.15 Leases
Rentals under operating leases are charged to the Operating Cost Statement on a straight line basis over the term of the lease. Where the substantial risks and rewards of ownership are borne by the Department, the asset is recorded as a tangible fixed asset and a creditor to the lessor is recorded of the minimum lease payments discounted by the interest rate implicit in the lease. The interest element of the finance lease payment is charged to the Operating Cost Statement over the period of the lease at a constant rate in relation to the balance outstanding.

1.16 Private Finance Initiative (PFI) contracts
PFI transactions have been accounted for in accordance with HM Treasury's *Technical Note No 1 Revised; How to Account for PFI Transactions*.

Where the substance of the transaction is that the risks and rewards of ownership remain with the Department, the assets and liabilities are reported on the Department's Balance Sheet. Unitary charges in respect of on-Balance Sheet PFI deals are apportioned between reduction in the capital obligation and charges to the Operating Cost Statement for service performance and finance cost. Where the balance of risks and rewards of ownership of the PFI property is borne by the PFI operator, the PFI payments are recorded as an operating cost. Where the Department has contributed assets that result in lower service charge payments, a prepayment for their fair value is recognised and subsequently charged as an operating cost over the life of the PFI contract.

1.17 Grants payable
Grants payable are recognised in the period in which the underlying event or activity giving entitlement to the grant occurs. Where conditions, such as a specific milestone attaching to a grant, are waived then the amount is recognised as expenditure.

1.18 Provisions

The Department makes provision for liabilities and charges in accordance with FRS 12 where, at the Balance Sheet date, a legal or constructive liability (ie a present obligation from past events) exists, the transfer of economic benefits is probable and a reasonable estimate can be made. Where the effect of the time value of money is material, the estimated risk-adjusted cash flows are discounted using the HM Treasury model.

1.19 Contingent liabilities

In accordance with FRS 12, the Department discloses as contingent liabilities potential future obligations arising from past obligating events, where the existence of such obligations remains uncertain pending the outcome of future events outside of the Department's control, unless their likelihood is considered to be remote.

In addition to contingent liabilities disclosed in accordance with FRS 12, the Department also discloses for Parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of a transfer of economic benefit is remote.

Where the time value of money is material, contingent liabilities, which are required to be disclosed under FRS 12, are stated at discounted amounts and the amount reported to Parliament is noted separately. Contingent liabilities that are not required to be disclosed by FRS 12 are stated at the amounts reported to Parliament.

1.20 Value added tax

Irrecoverable VAT is charged to the relevant category or, if appropriate, capitalised with additions to fixed assets. Income and expenditure is otherwise shown net of VAT.

1.21 Prior year adjustments

Material adjustments applicable to prior periods arising from machinery of government changes, accounting policy changes, or from the correction of fundamental errors are accounted for as prior year adjustments. Due to trunking and detrunking of the Highways Agency's road network, opening balances and comparative figures for the previous period have been restated.

1.22 Rail franchise agreements

Franchise agreements provide for each train operating company to either pay franchise premia or to receive subsidy in each franchise year. Franchise agreements include mechanisms to adjust the level of premia/subsidy dependent on performance and agreed events. All transactions in respect of premium generating franchises are accounted for wholly through income, all transactions in respect of subsidy-paying franchises are accounted for wholly through programme costs.

1.23 Early departure costs
The Department is required to pay the additional cost of benefits, beyond the normal PCSPS benefits, in respect of employees who retire early, unless the retirements are on approved medical grounds. The Department provides in full for the cost of meeting pensions up to normal retirement age in respect of early retirement programmes announced in the current or previous years.

1.24 Significant estimation techniques
Significant estimation techniques include the valuation of the national trunk road network; the recognition and valuation of provisions; the method of apportionment of lease rentals between capital, interest and service elements of PFI contracts; and, for those pension schemes for which FRS 17 applies, the expected return on scheme assets, as advised by independent actuaries.

2 Analysis of Net Resource Outturn by Section

									2008-09 £000	2007-08 £000
		Admin	Other Current	Grants	Gross Resource Expenditure	A in A	Net Total	Estimate	Net Total compared with Estimate	Net Total (restated)
	Spending in Departmental Expenditure Limits (DEL)									
	Central Government spending									
A	Ports and shipping services		43,647	–	43,647	(1,777)	41,870	83,187	41,317	8,852
B	Maritime and Coastguard Agency		148,181	–	148,181	(16,875)	131,306	129,030	(2,276)	128,560
C	Aviation services, Transport Security and Royal Travel		42,135	56,787	98,922	(72,489)	26,433	46,233	19,800	30,576
D	Accident Investigation Branches		16,472	–	16,472	(93)	16,379	17,533	1,154	14,760
E	Trans–European network payments for transport projects (net)		–	–	–	–	–	3	3	(8)
F	Cleaner Fuels and Vehicles		8,930	7,026	15,956	–	15,956	20,647	4,691	16,357
G	Bus Service Operators Grant		435,877	–	435,877	–	435,877	430,008	(5,869)	409,993
H	Tolled River Crossings		26,103	–	26,103	(84,371)	(58,268)	(60,400)	(2,132)	(57,244)
I	Accessibility & Equalities		1,408	3,569	4,977	–	4,977	8,660	3,683	5,929
J	Support construction of venues and infrastructure related to the Olympic Games		–	75,027	75,027	–	75,027	75,400	373	–
K	Commission for Integrated Transport & Transport Direct		11,723	–	11,723	(666)	11,057	16,796	5,739	942
L	Highways Agency	90,161	1,694,732	–	1,784,893	(75,056)	1,709,837	1,700,325	(9,512)	1,809,917
M	Railways		(30,512)	4,230,902	4,200,390	(605,096)	3,595,294	3,851,328	256,034	3,810,286

									2008-09 £000	2007-08 £000
		Admin	Other Current	Grants	Gross Resource Expenditure	A in A	Net Total	Estimate	Net Total compared with Estimate	Net Total (restated)
N	Government Car & Despatch Agency	21,409	–	–	21,409	(21,271)	138	(196)	(334)	339
O	Freight grants		22,520	(866)	21,654	(1,152)	20,502	29,832	9,330	16,103
P	Transformation, Licensing, Logistics & Sponsorship		23,074	2,000	25,074	(498)	24,576	7,373	(17,203)	15,009
Q	Vehicle and Operator Service Agency trading fund		4,376	–	4,376	(4,098)	278	12,700	12,422	3,265
R	Driving Standards Agency trading fund		2,594	–	2,594	(3,003)	(409)	(1,500)	(1,091)	2,134
S	Vehicle Certification Agency		12,712	–	12,712	(13,498)	(786)	(100)	686	722
T	Central administration	196,681	9,635	–	206,316	(6,510)	199,806	209,127	9,321	218,277
U	Research, statistics, publicity, consultancies & other services for roads and local transport		45,864	1,230	47,094	(962)	46,132	80,830	34,698	52,877
	Support for Local Authorities									
V	Area Based Grants		69	254,501	254,570	–	254,570	249,334	(5,236)	–
W	GLA transport grants (resource)		–	2,505,080	2,505,080	–	2,505,080	2,512,080	7,000	2,396,500
X	Other transport grants (resource)		272	601,206	601,478	–	601,478	626,968	25,490	577,393
Y	Other transport grants (capital)		–	862,847	862,847	–	862,847	859,708	(3,139)	930,388
	Other Grants to GLA									150,000
	Spending in Annually Managed Expenditure (AME)									
	Central Government spending									
Z	Highways Agency		3,678,862	–	3,678,862	–	3,678,862	3,779,603	100,741	3,561,318
A A	Railways and other expenditure		47,600	–	47,600	–	47,600	208,101	160,501	(47,154)

									2008-09 £000	2007-08 £000
		Admin	Other Current	Grants	Gross Resource Expenditure	A in A	Net Total	Estimate	Net Total compared with Estimate	Net Total (restated)
	Non-Budget									
A B	Driver and Vehicle Licensing Agency (trading fund)		1,485	224,334	225,819	(4,924)	220,895	260,200	39,305	225,547
A C	Grant in Aid funding of non-departmental public bodies and public corporations		–	5,964	5,964	(4,931)	1,033	23,120	22,087	133,699
A D	Other Grants to GLA		–	431,000	431,000	–	431,000	431,000	–	1,700,000
A E	Cross London Rail Links Ltd		–	6,525	6,525	(6,525)	–	–	–	–
A F	Financial Instruments		5,168,456	–	5,168,456	–	5,168,456	7,551,659	2,383,203	–
	Spending in Departmental Expenditure Limits (DEL)									
	Central Government spending									
A G	London & Continental Railways		(185,736)	–	(185,736)	–	(185,736)	300,000	485,736	
	Total	**308,251**	**11,230,479**	**9,267,132**	**20,805,862**	**(923,795)**	**19,882,067**	**23,458,589**	**3,576,522**	**16,115,337**

Detailed explanations of significant variances between Estimate and Net Resources Outturn are shown in the management commentary.

3 Reconciliation of Outturn to Net Operating Cost and against Administration Budget

3.1 Reconciliation of Net Resource Outturn to Net Operating Cost

				2008-09 £000	2007-08 (restated) £000
	Note	Outturn	Supply Estimate	Outturn compared with Estimate	Outturn
Net Resource Outturn	2	19,882,067	23,458,589	3,576,522	16,115,337
Prior period adjustments		(5,168,456)	(7,551,659)	(2,383,203)	(181,758)
Non-supply income (CFERs)	5	(45,968)	(18,996)	26,972	(36,968)
Net Operating Cost		14,667,643	15,887,934	1,220,291	15,896,611

3.2 Outturn against Administration Budget

		2008-09 £000	2007-08 £000
	Budget	Outturn	Outturn
Gross Administration Budget	316,430	308,251	306,764
Income allowable against the Administration Budget	(23,304)	(26,397)	(25,756)
Net Outturn against Administration Budget	293,126	281,854	281,008

4 Reconciliation of Resources to Cash Requirement

				2008-09 £000	2007-08 £000
	Note	Estimate	Outturn	Net Total Outturn compared with Estimate: saving/ (excess)	Outturn
Resource Outturn	2	23,458,589	19,882,067	3,576,522	16,115,337
Capital Expenditure	14, 15	1,228,955	1,169,582	59,373	1,128,701
Investments	16	–	37,000	(37,000)	53,800
Non-Operating A in A					
Proceeds from fixed asset disposals		(31,157)	(21,194)	(9,963)	(7,751)
Repayments of investments		–	(11,173)	11,173	(101,535)
Excess Non-Operating A-in-A		–	1,210	(1,210)	39,095
Accruals adjustments:					
Non-cash items	10, 11, 12, 37	(12,433,260)	(8,941,531)	(3,491,729)	(3,970,789)
Changes in working capital other than cash		142,740	60,654	82,086	(194,772)
Use of provision	21	195,290	275,677	(80,387)	328,197
Non-cash movement in provisions		–	(111,695)	111,695	(142,095)
Increase/(decrease) in third-party balances	20	–	(2,228)	2,228	(10,738)
Detrunkings		–	9,326	(9,326)	1,994
Net Cash Requirement		12,561,157	12,347,695	213,462	13,239,444

Notes:
The 2007-08 figures have not been restated as these numbers were previously reported to Parliament.

5 Analysis of income payable to the Consolidated Fund

In addition to Appropriation in Aid (A in A), the following income relates to the Department and is payable to the Consolidated Fund.

		Forecast 2008-09 £000		Outturn 2008-09 £000	
	Note	Income	Receipts	Income	Receipts
Operating income and receipts – Excess A in A		–	–	–	–
Other operating income and receipts not classified as A in A		18,996	*18,996*	45,968	*19,018*
		18,996	*18,996*	45,968	*19,018*
Non-operating income and receipts – Excess A in A	7	–	–	1,210	*1,210*
Other non-operating income and receipts not classified as A in A	8	1,811	*1,811*	2,011	*2,011*
Other amounts collectable on behalf of the Consolidated Fund		110,000	*110,000*	152,585	*152,585*
		130,807	***130,807***	**201,774**	***174,824***

6 Reconciliation of income recorded within the Operating Cost Statement to operating income payable to the Consolidated Fund

	Note	2008-09 £000	2007-08 £000
Operating income	12	994,933	580,103
Income authorised to be Appropriated in Aid	2	(923,795)	(528,424)
Income netted off within Note 2 section Y		(24,602)	(14,075)
Interest to be paid to the National Loans Fund		(568)	(636)
Operating income payable to the Consolidated Fund	5	45,968	36,968

7 Non-operating income – Excess A in A

	2008-09 £000	2007-08 £000
Principal repayments of Voted loans	11,174	101,535
Proceeds on disposals of fixed assets	21,193	7,751
less Non-Operating A in A Cover in Estimate	(31,157)	(70,191)
Non-operating Income – Excess A in A	1,210	39,095

8 Non-operating income not classified as A in A

	Income	Receipts
	£000	£000
Humber Bridge	200	200
Mersey Tunnel	1,811	1,811
Total	2,011	2,011

9 Staff Numbers and Costs

9.1 Staff Costs

Staff costs comprise:

				2008-09	2007-08
	Total	Permanently Employed Staff	Ministers	Special Advisers	Total
	£000	£000	£000	£000	£000
Wages and salaries	234,421	234,127	184	110	224,457
Social security costs	19,631	19,602	16	13	19,703
Other pension costs	45,348	45,316	–	32	46,591
	299,400	299,045	200	155	290,751
Agency and contracted out staff	17,842	17,842			14,121
Inward secondments	1,329	1,329			131
	318,571	318,216	200	155	305,003
Less: amount capitalised	(16,214)	(16,214)			(14,879)
Total Net Costs	302,357	302,002	200	155	290,124
Of which:					
Core Department	120,551	120,196	200	155	115,339

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the Department is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2008-09, employers' contributions of £45,075,979.35 were payable to the PCSPS (2007-08 £41,252,839) at one of four rates in the range 17.1 to 25.5 per cent (2007-08: 17.1 to 25.5 per cent) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions usually every four years following a full scheme valuation. From 2009-10, the rates will be in the range 16.7 per cent to 24.3 per cent. The contribution rates are set to meet the cost of the benefits accruing during 2008-09 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. Employers' contributions of £265,922 (2007-08 £198,652) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3.0 to 12.5 per cent (2007-08: 3.0 to 12.5 per cent) of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £13,855 (0.8 per cent; 2007-08: £9,393, 0.8 per cent) 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.

Ten persons (2007-08: **five** persons) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £14,219.84 (2007-08: £8,428).

9.2 Average Number of Persons Employed

The average number of whole-time equivalent persons employed during the year was as follows. These figures include those working in the Department as well as in agencies and other bodies included within the consolidated departmental resource account:

					2008-09 Number	2007-08 Number (restated)
	Total	Permanent Staff	Other Staff	Ministers	Special Advisers	Total
Objective[1]						
1	2,905.62	2,647.76	256.69	0.80	0.37	3,559.21
2	522.40	450.70	70.53	0.80	0.37	303.87
3	3,314.82	3,168.35	145.30	0.80	0.37	3,221.82
4	393.18	379.83	12.18	0.80	0.37	390.47
5	50.41	41.45	7.79	0.80	0.37	17.76
Total	**7,186.43**	**6,688.09**	**492.49**	**4.00**	**1.85**	**7,493.13**
Of which:						
Core Department	1,930.43	1,620.09	304.49	4.00	1.85	2,325.60

1 The Departmental Objectives changed for 2008-09. The prior year information has been restated in line with these new objectives. This change is described on Page 297 of the management commentary.

10 Other Administration Costs

	2008-09		2007-08	
	Core Department £000	Consolidated £000	Core Department (restated) £000	Consolidated (restated) £000
Rentals under operating leases	17,551	25,281	15,070	23,008
Research and development expenditure	375	405	517	541
Communication and information technology	10,638	12,753	8,910	10,467
Consultancy and professional services[1]	38,064	39,794	49,891	52,060
Accommodation	6,262	14,652	8,439	16,310
Support services	8,570	8,570	5,914	5,914
Travel and subsistence	3,104	6,779	2,989	6,856
Vehicle costs and services	558	4,874	402	3,923
Other costs	10,162	16,088	9,251	15,826
Subtotal – Cash items	**95,284**	**129,196**	**101,383**	**134,905**
Non-cash items:				
Depreciation	3,355	6,612	3,318	7,310
Amortisation	377	1,181	408	1,336
Impairment of fixed assets	–	24	–	5
Write down in value of fixed assets	–	–	–	–
Loss on disposal of fixed assets	132	1,124	112	186
Cost of capital charges	(988)	(520)	(794)	6
Auditors remuneration and expenses	365	851	300	737
Provisions provided for in year	792	5,553	(1,177)	1,883
Provision for bad and doubtful debts	(31)	32	32	96
Subtotal – Non-cash items	**4,002**	**14,857**	**2,199**	**11,559**
Operating Cost Statement	**99,286**	**144,053**	**103,582**	**146,464**

Notes:

1 For both the Core and the Consolidated columns, consultancy costs and professional services cost lines have been combined to form a single line titled 'Consultancy and professional services'.

The introduction of a new SAP accounting system at the beginning of 2008-09 led the Department to undertake a review of how expenditure should be allocated within this Note. This review led to minor changes being introduced. These changes have been reflected in the prior year figures.

11 Programme Costs

	2008-09		2007-08	
	Core Department £000	Consolidated £000	Core Department (restated) £000	Consolidated (restated) £000
Rentals under operating leases	812	1,068	1,153	1,403
Interest charges	24,268	24,784	(36,263)	(36,263)
Interest credits due pension movements	–	–	–	–
PFI service charges	–	72,127	–	74,885
Research and development expenditure	29,571	40,920	28,772	42,564

	2008-09		2007-08	
	Core Department £000	Consolidated £000	Core Department (restated) £000	Consolidated (restated) £000
Metronet Grant to TfL	–	–	1,700,000	1,700,000
Capital grants	5,606,138	5,606,138	4,351,215	4,351,215
Current grants	3,066,406	3,066,406	2,948,759	2,948,759
Grant in Aid	241,901	241,901	221,158	221,158
EU capital grants	24,603	24,603	14,075	14,075
Subsidies	477,893	477,893	467,377	467,377
Support for passenger rail services[1]	330,672	330,672	935,061	935,061
Road network capital maintenance	–	498,237	–	488,572
Road network current maintenance	–	531,487	–	534,713
PFI contract shadow tolls	–	180,646	–	160,528
Eurocontrol payments	47,919	47,919	43,103	43,103
Search and rescue helicopters	–	25,135	–	22,756
Emergency towing vessls	–	11,037	–	11,254
Civil hydrography	–	5,883	–	5,430
Weather bulletins and navigational warnings	–	5,197	–	860
Communication and information technology	9,622	43,336	8,873	16,146
Consultancy and professional services[2]	64,522	67,026	84,913	87,362
Accommodation	1,887	12,567	2,260	11,719
Publicity	30,269	30,269	26,656	26,656
Support services	25,348	25,348	33,146	33,146
Travel and subsistence	2,409	7,172	1,448	5,830
Other costs	25,019	76,523	10,550	93,192
Subtotal – Cash items	**10,009,259**	**11,454,294**	**10,842,256**	**12,261,501**
Non-cash items:				
Depreciation	5,236	311,540	8,271	322,668
Amortisation	414	1,894	414	1,083
Impairment of fixed assets	23,476	34,957	–	1,122
Downward revaluation of fixed assets	–	2,780	–	2,364
Write down in value of fixed assets	–	681,533	–	684,213
Loss on disposal of fixed assets	–	4,083	75	926
Cost of capital charges	(255,063)	2,704,108	(181,218)	2,653,996
Auditors remuneration and expenses	–	–	–	–
Provisions provided for in year	13,244	19,211	(20,912)	105,173
Unwinding of discount on provisions	–	–	–	–
Financial Guarantee charged in year	(242,854)	(242,854)	(237,401)	(237,401)
Unwinding of discount on financial guarantees	242,966	242,966	242,895	242,895
Provision for bad and doubtful debts	3	1,655	–	1,586
Subtotal – Non-cash items	**(212,578)**	**3,761,873**	**(187,876)**	**3,778,625**
Operating Cost Statement	**9,796,681**	**15,216,167**	**10,654,380**	**16,040,126**

Notes:

1 This figure includes income from Train Operating Companies of £1,257 million (2007-08: £600 million). The income relates to a rebate arising from the payment of additional Capital grant from DfT to Network Rail that resulted in a rebate of Track Access Charges from Network Rail to the Train Operating Companies, and subsequently back to the DfT as a rebate on subsidy paid. This is presented in line with HMT guidance.

2 The consultancy costs and professional services cost lines have been combined to form a single line titled 'Consultancy and professional services'.

The introduction of a new SAP accounting system at the beginning of 2008-09 led the Department to undertake a review of how expenditure should be allocated within this Note. This review led to minor changes being introduced. These changes have been reflected in the prior year figures.

12 Income

12.1 Income

	2008-09		2007-08	
	Core Department £000	Consolidated £000	Core Department £000	Consolidated £000
Rental income	1,804	6,301	1,846	5,467
Fees and charges to other government departments	10,676	37,074	4,180	26,555
Fees and charges to external customers	93,387	168,743	1,656	55,457
EU income	25,799	27,959	14,075	15,904
Eurocontrol receipts	51,226	51,226	45,109	45,109
Dividends receivable	26,433	26,433	5,273	5,273
Interest receivable	22,667	37,265	36,173	43,698
Dartford road crossing user charges	69,360	69,360	68,902	68,902
Speed and red-light camera enforcement[1]	–	–	2,813	4,689
Vehicle excise duty	–	–	–	–
Claims for damages to road network	–	16,715	–	12,993
Income from train operating companies[2]	415,947	415,947	129,797	129,797
Transport for Scotland – Service Level Agreement receipt[3]	–	–	139,083	139,083
Profit on disposal of fixed assets (non-cash)	–	3,654	14	1,153
Other	121,529	134,256	6,260	26,023
Operating Cost Statement	**838,828**	**994,933**	**455,181**	**580,103**

Notes:

1 Prior to 2007-08 penalties were collected via the Department for the speed and red light camera enforcement programme. The funds that the Department collected were then transferred to the Treasury. In 2007-08 the process changed with funds being transferred directly to the Treasury.

2 This figure includes expenditure of £2.5 million (2007-08: £2.3 million) being amounts due to Train Operating Companies in respect of operational performance during the financial year. This is presented in line with the accounting policy at Note 1.21.

3 Income from Transport Scotland is no longer reported within the Departmental Resource Accounts. In previous years, both the income from Transport Scotland and the offsetting expenditure made by the Department, on behalf of Transport Scotland, were recognised through the Operating Cost Statement. This change in approach is in accordance with HMT guidance.

12.2 Fees and Charges Information

	2008-09			2007-08		
	Income £000	Full Cost £000	Surplus/ (deficit) £000	Income £000	Full Cost £000	Surplus/ (deficit) £000
Department for Transport						
IT services to Department for Communities and Local Government	–	–	–	994	994	–
Government Car and Despatch Agency						
Government car service	14,955	12,877	2,078	13,806	14,154	(348)
InterDespatch services	5,405	4,189	1,216	4,688	4,623	65
Government mail services	277	182	95	236	236	–
Highways Agency						
Road damage claims	16,715	17,594	(879)	12,993	13,676	(683)
Road contract income (s278 schemes)	21,188	21,188	–	18,218	18,218	–
Rental income	4,497	3,796	701	3,622	4,066	(444)
Maritime and Coastguard Agency						
Marine survey	5,193	3,241	1,952	4,669	5,069	(400)
Registration of ships	1,162	939	223	1,451	870	581
Seafarers' examination and certification	2,453	2,005	448	2,657	2,174	483
Wider market initiatives and EU twinning projects	1,528	973	555	1,234	839	395
Vehicle Certification Agency						
Product certification	6,831	4,645	2,186	5,309	4,054	1,255
Management system certification	1,316	1,645	(329)	1,208	1,395	(187)
	81,520	**73,274**	**8,246**	**71,085**	**70,368**	**717**

Notes:
Additional Information regarding these fees and charges can be found in the published accounts for each of the individual agencies above.

13 Analysis of Net Operating Cost by spending body

	2008-09		2007-08 (restated)
		£000	£000
	Budget	Outturn	Outturn
Spending body:			
Core Department	5,322,349	4,287,982	4,297,006
Government Car and Despatch Agency	(196)	138	339
Highways Agency	5,464,191	5,373,378	5,352,202
Maritime and Coastguard Agency	128,080	130,159	127,417
Vehicle Certification Agency	(100)	(786)	722
Non-departmental public bodies	283,320	221,928	359,246
Local Authorities	4,679,090	4,654,975	5,754,281
Other bodies	11,200	(131)	5,398
Operating Cost Statement	**15,887,934**	**14,667,643**	**15,896,611**

Notes:
The prior year figures have been restated following a review in the current year.

14 Tangible Fixed Assets

Cost or valuation	Infrastructure Assets (restated) £000	Assets under Construction £000	Land and Buildings excluding Dwellings £000	Dwellings £000	Plant and Machinery £000	Furniture and Fittings £000	Transport Equipment £000	Information Technology £000	Total (restated) £000
Balance at 1 April 2008	96,681,252	557,758	2,338,312	49,690	137,692	2,494	5,701	186,773	99,959,672
Detrunkings	(1,115,590)	–	–	–	–	–	–	–	(1,115,590)
Restated balance at 1 April 2008	95,565,662	557,758	2,338,312	49,690	137,692	2,494	5,701	186,773	98,844,082
Prior year balance adjustment	(338,839)	18,746	(634)	131	(3,440)	18	(594)	(464)	(325,076)
Additions	–	1,155,049	2,810	680	2,586	531	1,315	8,848	1,171,819
Write down of capital additions	–	(681,533)	–	–	–	–	–	–	(681,533)
Disposals	–	–	(14,691)	(6,598)	(7,467)	–	(615)	(9,907)	(39,278)
Impairment	–	–	(31,640)	(3,000)	(7)	–	(5)	(332)	(34,984)
Transfers	616,764	(646,571)	2,522	1,982	11,589	–	–	13,714	–
Reclassifications	–	(48,296)	46,824	1,817	184	(173)	4	534	894
Revaluation	5,646,725	–	(57,368)	852	2,249	56	107	(1,302)	5,591,319
CTRL land revaluation	–	–	61,100	–	–	–	–	–	61,100
Balance at 31 March 2009	101,490,312	355,153	2,347,235	45,554	143,386	2,926	5,913	197,864	104,588,343
Depreciation									
Balance at 1 April 2008	12,080,415	–	39,778	–	99,804	1,340	2,989	122,888	12,347,214
Detrunkings	(110,536)	–	–	–	–	–	–	–	(110,536)
Restated balance at 1 April 2008	11,969,879	–	39,778	–	99,804	1,340	2,989	122,888	12,236,678
Prior year balance adjustment	(97,486)	–	(1,253)	–	(3,513)	10	(574)	(325)	(103,141)
Provided in year	274,740	–	8,636	–	6,549	331	1,082	26,814	318,152
Disposals	–	–	(356)	–	(6,994)	–	(405)	(8,799)	(16,554)
Transfers	–	–	–	–	–	–	–	–	–
Revaluation	1,677,382	–	(1,137)	–	985	31	1	(1,422)	1,675,840
Balance at 31 March 2009	13,824,515	–	45,668	–	96,831	1,712	3,093	139,156	14,110,975
NBV at 31 March 2009	**87,665,797**	**355,153**	**2,301,567**	**45,554**	**46,555**	**1,214**	**2,820**	**58,708**	**90,477,368**
NBV at 31 March 2008	**83,595,783**	**557,758**	**2,298,534**	**49,690**	**37,888**	**1,154**	**2,712**	**63,885**	**86,607,404**
Asset financing:									
Freehold	85,582,472	217,514	2,299,872	45,554	46,555	1,214	2,820	46,989	88,242,990
Short-term lease	–	–	–	–	–	–	–	–	–
On-balance sheet PFI contracts	2,083,325	–	1,695	–	–	–	–	11,719	2,096,739
PFI reversionary interest	–	137,639	–	–	–	–	–	–	137,639
NBV at 31 March 2009	**87,665,797**	**355,153**	**2,301,567**	**45,554**	**46,555**	**1,214**	**2,820**	**58,708**	**90,477,368**

Analysis of Tangible Fixed Assets

The net book value at 31 March of tangible fixed assets comprises:

Core Department 2009	£2,080,195,000
Agencies 2009	£88,397,173,000
Core Department 2008	£2,062,265,000
Agencies 2008	£84,545,139,000

14.1 Land and Buildings includes the valuation of the land underneath High Speed One (formerly Channel Tunnel Rail Link – CTRL) (£1,995.9 million). The Department retains the freehold interest in the land on which High Speed One has been constructed. This value is matched exactly by a liability for deferred income, being lease payments due from 2030 to 2086 from the owners of Sections 1 and 2 of the CTRL (See Note 29 for further details). The contract start date for the Development Agreement of High Speed One was 28 February 1996 and the end date of the concession period is 29 July 2086.

14.2 The Department recognises the Transport Direct web portal as a fixed asset, as it is used to deliver a service to the public. Transport Direct became fully functional in January 2005.

14.3 The trunk road network balances at 1 April 2008 have been restated to:

(i) remove the value of trunk road network assets that have been detrunked and transferred to local authorities. Further information is shown in Note 37; and

(ii) reflect amendments to records held on the Highways Agency's road asset databases. These adjustments are routine in nature and do not arise from changes in accounting policy or from corrections of fundamental errors. They comprise:

- a dimensional variance – an adjustment reflecting better information on the dimensions of individual bridges and other structures: (£296.6 million);
- a re-referencing variance to reflect changes arising from a number of schemes capitalised in prior years: £26.4 million; and
- a route variation adjustment due to changes in route management responsibilities: £28.8 million.

14.4 The Assets under Construction balance at 1 April 2008 has been adjusted by £18.7 million, being reversionary interest, based on the current book value (which is projected forward then discounted back) of the M6 toll road.

15 Intangible Fixed Assets

	Software licences £000	Development costs £000	Total £000
Cost or valuation			
At 1 April 2008	20,061	18,934	38,995
Additions	368	1,123	1,491
Transfers	87	(982)	(895)
Disposals	(1,109)	–	(1,109)
At 31 March 2009	**19,407**	**19,705**	**38,482**
Amortisation			
At 1 April 2008	8,816	–	8,816
Charged in year	3,075	–	3,075
Disposals	(1,085)	–	(1,085)
At 31 March 2009	**10,806**	**–**	**10,806**
Net book value:			
31 March 2009 – Balance Sheet	8,601	19,075	27,676
31 March 2008 – Balance Sheet	11,245	18,934	30,179

Analysis of Intangible Fixed Assets
The net book value at 31 March of Intangible Fixed Assets comprises:

Core Department 2009	£21,781,000
Agencies 2009	£5,895,000
Core Department 2008	£23,476,000
Agencies 2008	£6,703,000

16 Investments

16.1 Investments

Public Dividend Capital

	Vehicle and Operator Services Agency £000	Driver and Vehicle Licensing Agency £000	Driving Standards Agency £000	Total £000
Balance at 1 April 2007	28,984	19,048	3,475	51,507
Balance at 31 March 2008	28,984	19,048	3,475	51,507
Balance at 31 March 2009	**28,984**	**19,048**	**3,475**	**51,507**

Loans

	Vehicle and Operator Services Agency £000	Driving Standards Agency £000	Humber Bridge Board £000	Mersey Tunnel £000	NATS Group £000	Total £000
Balance at 1 April 2007	71,537	35,626	333,355	11,635	94,339	546,492
Advances (see Note 24.2)	23,000	30,800	–	–	–	53,800
Repayments (see Note 24.2)	(5,145)	(2,050)	(533)	(1,663)	(94,339)	(103,730)
Balance at 31 March 2008	89,392	64,376	332,822	9,972	–	496,562
Advances (see Note 24.2)	20,000	17,000	–	–	–	37,000
Repayments (see Note 24.2)	(6,678)	(4,496)	(200)	(1,811)	–	(13,185)
Balance at 31 March 2009	**102,714**	**76,880**	**332,622**	**8,161**	**–**	**520,377**

Share Investment

	National Air Traffic Holdings Ltd £000	Total £000
Balance at 1 April 2007	68,761	68,761
Disposals	–	–
Balance at 31 March 2008	68,761	68,761
Disposals	–	–
Balance at 31 March 2009	**68,761**	**68,761**

National Loans Fund	Civil Aviation Authority £000	Kings Lynn Harbour Conservancy £000	Total £000
Balance at 1 April 2007	9,075	47	9,122
Loans repayable within one year transferred to debtors	(1,048)	(3)	(1,051)
Balance at 31 March 2008	8,027	44	8,071
Loans repayable within one year transferred to debtors	(1,030)	(4)	(1,034)
Balance at 31 March 2009	**6,997**	**40**	**7,037**

	£000
Total Investments at 31 March 2009 – Balance Sheet	**647,682**
Total Investments at 31 March 2008 – Balance Sheet	**624,901**
Total Investments at 31 March 2007 – Balance Sheet	**675,882**

The following share investments have not been consolidated into the Department's Resource Accounts because they are outside the Department's consolidation boundary (see Note 36). These investments have been shown at historic cost less any impairment:

- 49 per cent of the share capital in National Air Traffic Services Holdings Limited (NATS). On 26 July 2001, the government sold 46 per cent of the shares in NATS Holdings Limited to the Airline Group Limited. An additional 5 per cent of the shareholding was transferred to the Employee Share Ownership Trust;
- 100 per cent of the issued share capital in SRA Investment Company Limited (SICL), which was purchased at its nominal value of £100. SICL is a holding company for the Secretary of State's 50 per cent shareholding (nominal value £1) in Cross London Rail Links Limited (CLRL). The remaining 50 per cent shareholding in CLRL is held by Transport Trading Limited, a subsidiary of Transport for London;
- one share in British Railways Board (Residuary) Limited (nominal value £1); and
- 100 per cent of the issued share capital in the following companies:
  - Goldings Rail Limited;
  - Hays Rail Limited;
  - OQS Rail Limited;
  - Strutton Rail Limited;
  - Abbey Rail Limited;
  - Orchard Rail Limited;
  - Broadway Rail Limited; and
  - Westminster Rail Limited.

16.2 Financial Liabilities

Financial Guarantee Contracts

	London & Continental Railways £000	Network Rail £000	Other Financial Guarantees £000	Total £000
Balance at 1 April 2007	(5,348,965)	(2,874,146)	–	(8,223,111)
Prior period adjustments	–	–	–	–
Charged in year	–	–	(3,371)	(3,371)
Released	240,772	91,667	–	332,439
Unwinding of the discount	(242,895)	(144,600)	–	(387,495)
Balance at 31 March 2008	(5,351,088)	(2,927,079)	(3,371)	(8,281,538)
Prior period adjustments	–	–	–	–
Charged in year	–	–	–	–
Released	241,387	91,667	1,467	334,521
Unwinding of the discount	(242,966)	(143,630)	–	(386,596)
Balance at 31 March 2009	**(5,352,667)**	**(2,979,042)**	**(1,904)**	**(8,333,613)**

The items above are valued initially at fair value and, thereafter, at the higher of the amortised initial cost or the best estimate of the expenditure required to settle any financial obligation, as described in Note 1. This valuation does not affect the Department's potential exposure under the guarantees or any amounts previously reported to Parliament. The Department's maximum potential exposure and any amounts previously reported to Parliament are disclosed in Note 32.

16.3 Other investments

The Secretary of State holds the following shares.

- One special share of £1 in NATS Holdings Limited, which confers certain rights upon the Secretary of State, restricting the creation, issuing, purchase and redemption of shares, and any changes to the rights of the issued share capital, entitling the special shareholder to certain rights on the winding up of the company and preventing the removal of any director appointed by a Crown representative. All the shares are held directly.
- One redeemable special share of £1 in Eurostar (UK) Limited (EUKL). The special share provides the Secretary of State with certain consent rights in respect of EUKL, including amendments to its Memorandum and Articles of Association which affect such rights, resolutions for the winding up of EUKL, the carrying on of any business other than the management and operation of international passenger train services through the Channel Tunnel, and the entry into any agreements by EUKL, which would or might breach the ringfencing obligations in respect of EUKL.
- One special share of 25p in London and Continental Railways Limited (LCR). The share confers certain rights in relation to LCR and its group, including certain changes to the LCR Memorandum and Articles of Association, winding-up processes, payment of distributions, transfers and issues of shares in LCR and variations to share rights. The special share allows the

Secretary of State to require a sale or listing of all of the shares in LCR. The special share also entitles the Secretary of State to appoint a director to the Board of LCR and LCR Finance plc.

- One redeemable special share of £1 in HS1 Ltd (formerly Union Railways (North) Limited), which is a subsidiary of LCR. The share carries the right to appoint a director and certain prior consent rights in relation to the business of HS1 Ltd. This share was transferred from Railtrack Group plc in summer 2002, as a result of a restructuring of the Channel Tunnel Rail Link arrangements.
- One redeemable special participating share of £1 in Inter-Capital and Regional Rail Limited (which is the manager of the Eurostar UK business). The share carries the right to five per cent of the dividends or other distributions declared as payable on the ordinary shares of that company.

The Secretary of State is a member of Network Rail and has certain special membership rights under Network Rail's Articles of Association. As a company limited by guarantee, Network Rail has no share capital and, therefore, no shareholders. Members of Network Rail do not receive dividends (Note 38).

Further information about all of the Department's investments can be found in each entity's audited annual reports and accounts.

16.4 Humber Bridge Loan

The Secretary of State for Transport provided debt finance for the construction of the Humber Bridge, which is owned and managed by the Humber Bridge Board (a joint local authority board). The bridge was completed in 1981. In 1998 the Department agreed to a restructuring of the loan arrangement with the Board so that, under the Humber Bridge (Debts) Order 1998, interest on £240 million of the £359 million principal due was suspended on 1 April 1998; thereafter, the proportion of the debt being charged with interest increased each year until the whole principal again became subject to the interest charge, which would happen on 1 April 2014. At 31 March 2006, the amount of suspended debt was £153 million out of a total of £334 million.

Under the Humber Bridge (Debts) Order 2007 (No: 1828), the rate of interest was set at 4.25 per cent effective from 1 April 2006. A five-yearly review will take place to inform a new order from 1 April 2011.

17 Stocks and work in progress

	2008-09 Consolidated £000	2007-08 Consolidated £000
Stocks	67,869	23,996
Work-in-progress	234	33
Total – Balance Sheet	**68,103**	**24,029**

18 Debtors

18.1 Analysis by type

	2008-09		2007-08	
	Core Department	Consolidated	Core Department (restated)	Consolidated (restated)
	£000	£000	£000	£000
Amounts falling due within one year:				
Trade debtors	6,305	20,505	4,508	16,623
Deposits and advances	764	8,461	597	9,110
VAT debtors	9,209	89,144	6,881	92,111
Other debtors	2,853	13,848	9,000	11,292
Prepayments and accrued income	42,632	62,042	66,455	74,719
Current part of National Loans Fund loan	1,034	1,034	1,052	1,052
Amount due from Consolidated Fund – supply not drawn down	–	–	–	–
Amounts due in respect of Consolidated Fund Extra Receipts	–	–	–	456
Total – Balance Sheet	**62,797**	**195,034**	**88,493**	**205,363**
Amounts falling due after more than one year:				
Deposits and advances	–	67	–	71
Other debtors	2,980,844	3,207,785	2,930,580	3,123,911
Prepayments and accrued income	–	38,063	–	30,499
Total – Balance Sheet	**2,980,844**	**3,245,915**	**2,930,580**	**3,154,481**

18.2 Intra-governmental balances

	2008-09	2007-08	2008-09	2007-08 (restated)
	Amounts falling due within one year		Amounts falling due after more than one year	
	£000	£000	£000	£000
Balances with:				
Other central government bodies	94,877	107,258	1,800	3,500
Local authorities	1,659	1,894	–	–
NHS trusts	81	807	–	–
Public corporations and trading funds	203	3,073	–	–
Bodies external to government	98,214	92,331	3,244,115	3,150,981
Total debtors at 31 March – Balance Sheet	**195,034**	**205,363**	**3,245,915**	**3,154,481**

19 Cash at bank in hand

	2008-09		2007-08	
	Core Department £000	Consolidated £000	Core Department £000	Consolidated £000
Balance at 1 April	155,702	101,932	190,705	191,937
Net change in cash balances	8,190	117,322	(35,003)	(90,005)
Balance at 31 March – Balance Sheet	**163,892**	**219,254**	**155,702**	**101,932**
The following balances at 31 March were held at:				
Office of HM Paymaster General	163,756	216,851	155,561	99,815
Commercial banks and cash in hand	136	2,403	141	2,117
Balance at 31 March – Balance Sheet	**163,892**	**219,254**	**155,702**	**101,932**

20 Creditors

20.1 Analysis by type

	2008-09		2007-08	
	Core Department £000	Consolidated £000	Core Department £000	Consolidated £000
Amounts falling due within one year:				
VAT creditor	–	653	–	566
Other taxation and social security	2,456	2,816	2,490	2,775
Trade creditors	46,418	131,588	174	22,838
Other creditors	50,202	57,215	14,770	21,034
Accruals and deferred income	510,459	987,040	643,721	1,125,697
Current part of imputed finance lease element of on-balance sheet PFI contracts	–	52,164	–	49,167
Current part of National Loans Fund loan	1,034	1,034	1,052	1,052
Third-party creditors	1	1	2,228	2,229
Central payroll	7,104	7,104	–	–
Amounts owed to the Contingency Fund	–	–	3,500	3,500
Amounts issued from the Consolidated Fund for Supply but not spent at 31 March	172,638	206,315	108,636	34,004
Amounts issued from the Consolidated Fund for Supply not authorised but spent at 31 March	–	–	3,025	3,025
Consolidated Fund Extra Receipts and other amounts not yet paid to the Consolidated Fund:				
Received	3,535	12,937	53,621	62,199
Receivable	–	–	–	456
Total – Balance Sheet	**793,847**	**1,458,867**	**833,217**	**1,328,542**
Amounts falling due after more than one year:				
Imputed finance lease element of on-balance sheet PFI contracts	–	1,107,591	–	1,159,830
National Loans Fund loans	7,038	7,038	8,071	8,071
Consolidated Fund Extra Receipts creditors	–	82,181	–	54,775
Other creditors	–	111,564	1,680	106,076
Channel Tunnel Rail Link land creditor	1,995,900	1,995,900	1,934,800	1,934,800
Total – Balance Sheet	**2,002,938**	**3,304,274**	**1,944,551**	**3,263,552**

20.2 Intra-governmental balances

	2008-09	2007-08 (restated)	2008-09	2007-08
	Amounts falling due within one year		Amounts falling due after more than one year	
	£000	£000	£000	£000
Balances with:				
Other central government bodies	222,496	135,392	177,919	155,061
Local authorities	347,282	366,706	–	–
NHS trusts	–	1	–	–
Public corporations and trading funds	4,677	1,138	7,038	–
Bodies external to government	884,412	825,305	3,119,317	3,108,491
Total creditors at 31 March – Balance Sheet	**1,458,867**	**1,328,542**	**3,304,274**	**3,263,552**

20.3 National Loans Fund (NLF) loans

			2008-09	2007-08
	Civil Aviation Authority Fixed Rates	Kings Lynn Harbour Conservancy Fixed Rates	Total	Total
	£000	£000	£000	£000
Within one year	1,030	4	1,034	1,051
Over one and under two years	1,007	5	1,012	1,033
Over two and under five years	3,477	16	3,493	3,261
More than five years	2,513	19	2,532	3,777
Total	**8,027**	**44**	**8,071**	**9,122**

The loans are repayable at interest rates varying between 4.3 per cent and 7.875 per cent.

21 Provisions for liabilities and charges

	Early Departure	Greater London Authority	National Freight Company	Channel Tunnel Rail	Highways Schemes	Other	Total
	1	2	3	4	5	6	
	£000	£000	£000	£000	£000	£000	£000
Core Department							
Balance at 1 April 2008	26,944	124,000	59,700	238,220	–	71,993	520,857
Prior year adjustment	–	–	–	(4,300)	–	4,300	–
Provided in year	849	–	3,269	27,201	–	1,706	33,025
Provisions released	(2,670)	–	–	(14,844)	–	(1,473)	(18,987)
Provisions utilised in year	(4,662)	(62,000)	(7,769)	(29,056)	–	(3,305)	(106,792)
Unwinding of discount	–	–	–	–	–	–	–
Provisions reclassified	–	–	–	–	–	–	–
Balance at 31 March 2009	**20,461**	**62,000**	**55,200**	**217,221**	**–**	**73,221**	**428,103**

	Early Departure	Greater London Authority	National Freight Company	Channel Tunnel Rail	Highways Schemes	Other	Total
	1	2	3	4	5	6	
	£000	£000	£000	£000	£000	£000	£000
Consolidated							
Balance at 1 April 2008	32,747	124,000	59,700	238,220	666,077	87,435	1,208,179
Prior year adjustment	(56)	–	–	(4,300)	–	4,273	(83)
Provided in year	1,013	–	3,269	27,201	169,803	6,761	208,047
Provisions released	(2,670)	–	–	(14,844)	(52,377)	(1,783)	(71,674)
Provisions utilised in year	(7,216)	(62,000)	(7,769)	(29,056)	(163,636)	(6,000)	(275,677)
Unwinding of discount	–	–	–	–	–	–	–
Provisions reclassified	87	–	–	–	8,966	(8,966)	87
Balance at 31 March 2009	**23,905**	**62,000**	**55,200**	**217,221**	**628,833**	**81,720**	**1,068,879**

1 Early departure
These amounts relate to former staff who left the Department's employment before their formal retirement age of 60, and in respect of whom the Department and its agencies are responsible for making payments until their retirement age. It is assumed that all recipients will survive to their retirement age.

2 Greater London Authority
In 2003, the then Secretary of State gave a commitment to TfL to take account of the need to meet shortfalls in the valuation of the London Regional Transport/London Underground pension schemes and the costs of pension administration. This was reflected in TfL's Spending Review 2004 settlement. A provision was recognised for this element of the grant, as reported to Parliament in the Department's Spring Supplementary Estimate 2007 and set out in the Appropriation Act 2007.

In accordance with the profile set out in the grant, disbursements of £124 million were made in 2006-07 and 2007-08, and a disbursement of £62 million was made in 2008-09 a further £62 million should be made in 2009-10.

3 National Freight Company
- National Freight Company plc (NFC) pension trustee (1 April 2008 – £42.7 million; 31 March 2009 – £39.8 million) – reimbursement to NFC pension trustees in respect of payments covering unfunded pension service with NFC before 1 April 1975 (Part III, Transport Act 1980).
- NFC travel concession (1 April 2008 – £17 million; 31 March 2009 – £15.4 million) – reimbursements to NFC and its subsidiaries for providing travel concession to staff previously employed by the road transport division of British Rail (s21, Transport Act 1978 and Schedule 6 to the Transport Act 1980).

4 Channel Tunnel Rail Link

- De-risked grants (1 April 2008 – £190 million; 31 March 2009 – £217.2 million) – grants payable to London and Continental Railways Limited (LCR) up to 2022, as a result of the 2003 Securitisation Framework Agreement between the Secretary of State for Transport and CTRL UK Ltd., to facilitate the raising of finance by LCR.
- Schedule 2 (1 April 2008 – £48.2 million; 31 March 2009 – £0) – relates to claims on both sections of the Channel Tunnel Rail Link route that are made by contractors and other parties under the main construction agreement for Section 1 and Section 2 of the rail link. All known claims have now been settled, and the remaining provision released during the financial year. There remains a possibility of future claims and is therefore disclosed as a contingent liability.

5 Highways Schemes

This provision covers planning blight, resulting from the announcement of plans to enhance the road network; discretionary and compulsory acquisition of property required for road schemes and compensation for property owners arising from construction of a road scheme; disputed contractual claims, including compensation for delays, prolongation, liquidated damages, employer's changes, specification issues and the cost of work necessary following the opening of roads for traffic; and work to strengthen bridges in order to comply with minimum legal requirements of 40 tonnes, as established by European Union legislation.

6 Other

This heading covers a range of smaller provisions, including:

- Southeastern Trains (SET) (1 April 2008 – £14.8 million; 31 March 2009 – £13.5 million) – covers the potential liability faced by the Department upon the transfer of the previous SET franchise to the incoming franchisee, Govia;
- British Railways Board's ex-employees' pensions (1 April 2008 – £22.4 million; 31 March 2009 – £21.6 million) – reimbursement to trustees of railway pension schemes in respect of pension payments, covering the unfunded proportion of pensions deriving from service with British Railways Board before 1 January 1975 (Part III, Transport Act 1980);
- dilapidations of core Department buildings (1 April 2008 – £8.6 million; 31 March 2009 – £8.678 million) – the Department recognises as a provision its best estimate as at the Balance Sheet date of the costs of reversing the accumulated wear and tear on the properties it occupies as a tenant, where this is a requirement under the relevant tenancy agreements; and
- Highways Agency compensation claims (1 April 2008 – £3.4 million; 31 March 2009 – £3.1 million) – third parties who have suffered damage or injury as a result of the road network being damaged and are entitled to submit a claim to the Highways Agency for compensation.

22 General Fund

	2008-09		2007-08	
	Core Department	Consolidated	Core Department (restated)	Consolidated (restated)
	£000	£000	£000	£000
Balance at 1 April	(5,969,985)	33,370,488	(5,670,589)	33,854,476
Prior period adjustment				
Detrunking (see Note 37)	–	(639,516)	–	(480,895)
Restated opening balance	**(5,969,985)**	**32,730,972**	**(5,670,589)**	**33,373,581**
Net Parliamentary Funding				
Drawn down	9,642,750	12,520,000	10,463,000	13,103,000
Deemed	108,636	34,004	183,715	170,447
Deemed – Unauthorised 2007-08	3,025	3,025	–	–
Contingencies Fund	–	–	(3,500)	(3,500)
Year end adjustment:				
Supply creditor/debtor – current year	(172,638)	(206,315)	(108,636)	(34,004)
Supply creditor – Unauthorised supply	–	–	(3,025)	(3,025)
Net transfer from operating activities:				
Net Operating Cost	(9,177,690)	(14,667,643)	(10,418,120)	(15,896,611)
CFERs repayable to Consolidated Fund	(19,787)	(49,189)	(56,021)	(78,259)
Non-cash charges:				
Cost of capital	(256,051)	2,703,588	(182,012)	2,654,002
Auditor's remuneration	365	851	300	737
Transfer from Revaluation Reserve	1,634	109,010	–	99,743
In-year adjustments relating to prior year transactions:				
Reversionary interest on M6 toll road	–	18,746	–	7,240
Road network	–	–	–	155,917
Non-network assets	–	–	–	–
Highways Agency stock	–	–	–	–
Prior period adjustments – Financial Guarantees	–	–	–	–
Other prior year adjustments	27,000	(127,217)	–	(3,062)
In-year spend on detrunked roads	–	(9,326)	–	(1,994)
Actuarial gain recognised in pension scheme	(1,055,200)	(1,055,200)	(175,100)	(175,100)
Other movements	3,745	3,600	3	1,376
Total – Balance Sheet	**(6,864,196)**	**32,008,906**	**(5,969,985)**	**33,370,488**

23 Revaluation Reserve

	2008-09		2007-08	
	Core Department	Consolidated	Core Department	Consolidated
	£000	£000	£000	£000
Balance at 1 April	24,100	44,049,905	26,710	40,744,866
Prior period adjustment				
Detrunking (see Note 37)	–	(365,538)	–	(274,873)
Restated opening balance	**24,100**	**43,684,367**	**26,710**	**40,469,993**
Arising on revaluation during year – net	(22,100)	3,915,479	(2,610)	3,604,867
Amounts released to Operating Cost Statement	–	2,780	–	2,364
In-year adjustments relating to prior year transactions:				
Road network	–	–	–	89,120
Other prior year adjustments	–	(86,866)	–	(16,696)
Transferred to General Fund in respect of realised element of Revaluation Reserve	(1,634)	(109,010)	–	(99,743)
Total – Balance Sheet	**366**	**47,406,750**	**24,100**	**44,049,905**

24 Notes to the Cash Flow Statement

24.1 Reconciliation of operating cost to operating cash flows

	Note	2008-09	2007-08
		£000	£000
Net Operating Cost		(14,667,643)	(15,896,611)
Adjustment for non-cash transactions	10, 11, 12	3,773,076	3,789,031
Adjustment for non-cash transactions related to pension schemes		20,400	(40,000)
(Increase)/decrease in stock		(44,074)	3,405
Decrease in debtors		(81,105)	42,178
less: movements in debtors relating to items not passing through the Operating Cost Statement		50,130	(4,228)
Increase in creditors		171,047	251,847
less: movements in creditors relating to items not passing through the Operating Cost Statement		(204,002)	(58,986)
Use of provision	21	(275,677)	(328,197)
Non-cash movement in classification of provision	21	87	78,256
In-year spend on detrunkings		(9,326)	(1,994)
Adjustment for capital and interest element of PFI payments		49,242	46,481
Net cash flow from operating activities		**(11,217,845)**	**(12,118,818)**

24.2 Reconciliation of capital expenditure and financial investment

	Note	2008-09	2007-08
		£000	£000
Tangible fixed asset additions	14	(1,168,104)	(1,124,174)
Intangible fixed asset additions	15	(1,476)	(4,527)
Proceeds of disposal of fixed assets		21,193	7,751
Capital element of lands provision		111,608	63,839
Advances of investments	16	(37,000)	(53,800)
Repayments of investments	16	13,185	103,730
Repayments of loans for National Loans Fund		1,051	984
Net cash flow from capital expenditure and financial investment		**(1,059,543)**	**(1,006,197)**

24.3 Analysis of the Department's capital expenditure, and financial investment and associated appropriations in aid

				2008-09
	Capital Expenditure	Loans	Appropriation in Aid	Net Total
	£000	£000	£000	£000
Request for Resources 1	1,173,310	37,000	(31,157)	1,179,153
Total	**1,173,310**	**37,000**	**(31,157)**	**1,179,153**
				2007-08
Request for Resources 1	1,128,701	(49,930)	(7,751)	1,071,020
Total	**1,128,701**	**(49,930)**	**(7,751)**	**1,071,020**

24.4 Analysis of financing

	2008-09	2007-08
	£000	£000
From Consolidated Fund (Supply): current year	12,520,000	13,103,000
Advances from the Contingencies Fund	1,500,000	1,700,000
Repayments to the Contingencies Fund	(1,503,500)	(1,700,000)
Loans received from the National Loans Fund	–	–
Repayments of loans from the National Loans Fund	(1,051)	(984)
Capital element of payments in respect of on-balance sheet PFI contracts	(49,242)	(46,481)
Net Financing	**12,466,207**	**13,055,535**

24.5 Reconciliation of Net Cash Requirement to increase/(decrease) in cash

	2008-09	2007-08
	£000	£000
Net Cash Requirement (see Note 4)	(12,347,695)	(13,239,444)
From the Consolidated Fund (Supply) – current year	12,520,000	13,103,000
From the Contingencies Fund	(3,500)	–
Amounts due to the Consolidated Fund – received in a prior year and paid over	(53,791)	(5,022)
Amounts due to the Consolidated Fund – received in a prior year and not paid over	(8,401)	–
Amounts due to the Consolidated Fund – received and not paid over	12,937	62,199
Decrease in third party balances	(2,228)	(10,738)
Decrease in cash	**117,322**	**(90,005)**

25 Notes to the Statement of Operating Costs by Departmental Aim and Objectives

25.1 Programme grants and other current expenditure have been allocated as follows:

	2008-09	2007-08 (restated)
	£000	£000
Main objective[1]		
Objective 1	7,867,158	9,379,173
Objective 2	1,323,200	796,898
Objective 3	3,386,364	3,335,815
Objective 4	2,501,390	2,474,360
Objective 5	138,055	53,880
	15,216,167	**16,040,126**

Notes:

1 The Departmental Objectives changed for 2008-09. The prior year information has been restated in line with these new objectives. This change is described on Page 297 of the management commentary.

25.2 Capital employed by Departmental aim and objectives during the year

	2008-09	2007-08 (restated)
	£000	£000
Main objective[1]		
Objective 1	38,010,085	35,543,770
Objective 2	2,543,106	2,464,733
Objective 3	39,756,506	38,799,799
Objective 4	(906,211)	(395,368)
Objective 5	12,170	2,403
	79,415,656	**76,415,337**

Notes:

1 The Departmental Objectives changed for 2008-09. The prior year information has been restated in line with these new objectives, described in the management commentary, and the restatement of prior year balances, described in Note 37.

26 Capital commitments

	2008-09		2007-08	
	Core Department	Consolidated	Core Department	Consolidated
	£000	£000	£000	£000
Contracted capital commitments at 31 March for which no provision has been made	–	1,141,263	483	1,118,126
	–	**1,141,263**	**483**	**1,118,126**

27 Commitments under leases

27.1 Operating leases

Commitments under operating leases to pay rentals during the following year are analysed according to the period in which the lease expires, as follows:

	2008-09		2007-08	
	Core Department	Consolidated	Core Department	Consolidated (restated)
	£000	£000	£000	£000
Land and buildings:				
Expiry within 1 year	169	829	290	1,614
Expiry after 1 year but within 5 years	3,132	5,460	3,173	4,477
Expiry thereafter	10,228	20,416	10,363	20,289
	13,529	26,705	13,826	26,380
Other:				
Expiry within 1 year		570		733
Expiry after 1 year but within 5 years		1,588		2,924
Expiry thereafter		–		–
		2,158		**3,657**

27.2 Finance leases

Obligations under finance leases are as follows

	2008-09		2007-08	
	Core Department	Consolidated	Core Department	Consolidated
	£000	£000	£000	£000
Obligation under finance leases comprise:				
Rental due within 1 year	–	174	–	–
Rental due between 1 to 5 years	–	1,804	–	–
Rental due thereafter	–	1,107	–	–
	–	3,085	–	–
Less interest element	–	(107)	–	–
		2,978		

28 Commitments under PFI contracts

28.1 On-Balance Sheet

The Highways Agency has entered into the following on – Balance Sheet PFI contracts for the design, build, finance and operation of sections of the network:

M1-A1	Yorkshire link
A1 (M)	Alconbury to Peterborough
A419/A417	Swindon to Gloucester
A50/A564	Stoke-Derby link
M40	Junctions 1-15
A19	Dishforth to Tyne Tunnel
A30/A35	Exeter to Bere Regis
A69	Carlisle to Newcastle
A1(M)	Darrington to Dishforth
A249	Iwade to Queenborough
	National Traffic Control Centre
	National Roads Telecommunications Services

The substance of the PFI contract is that the Highways Agency has a finance lease, with the asset being recognised as a fixed asset of that Agency. Payments under PFI contracts comprise two elements – imputed finance lease charges and services charges.

	2008-09	2007-08
	£000	£000
Imputed finance lease obligation under on-Balance Sheet PFI contracts comprise:		
Rentals due within 1 year	121,369	121,246
Rentals due after 1 year but not more than 5 years	450,688	456,540
Rentals due after 5 years	1,364,167	1,552,885
	1,936,224	**2,130,671**
Interest element	(776,469)	(921,674)
	1,159,755	**1,208,997**

28.2 Charges to the Operating Cost Statement and future commitments

The total amount charged in the Operating Cost Statement in respect of the service element of on – Balance Sheet PFI transactions was £180.6 million (2007-08: £160.5 million).

Service elements to which the Highways Agency is committed during 2008-09 are shown in the table below, analysed by the period during which the commitment expires.

	2008-09	2007-08
	£000	£000
Expiry within 2 to 5 years	20,706	20,706
Expiry within 6 to 15 years	52,428	52,428
Expiry within 16 to 20 years	127,707	127,586
Expiry within 21 to 25 years	4,039	–
Expiry within 26 to 30 years	6,150	10,190
	211,030	**210,910**

29 Other financial commitments

In accordance with the Deed of Grant agreed in December 2008, the Department is committed to paying a grant of £16,582 million to Network Rail spread over the financial years 2009-10 – 2013-14.

At 31 March 2009, 17 franchise agreements had been entered into for the provision of train services. The Strategic Rail Authority had entered into 12 of these agreements, which have been transferred to the Department. Subsequent to this transfer, the Department has entered into five franchise agreements with train operating companies for the provision of train services.

The amounts falling due in the year to 31 March 2009 are as follows:

	2008-09	2007-08
	£000	£000
Expiry within 1 year	4,667,676	3,873,695
Expiry after 1 year but within 5 years	16,584,300	4,578,462
Expiry thereafter	62,681	113,239
	21,314,657	**8,565,396**

30 Financial instruments

FRS 29*,* which supersedes the requirements of FRS 13 and FRS 25*,* requires specified minimum disclosures about the nature and extent of credit risk, liquidity risk and market risk that the Department faces in undertaking its activities.

Owing to the largely non-trading nature of its activities and the way in which government departments are financed, the Department is not exposed to the degree of financial risk faced by many business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 29 mainly applies. The Department has very limited powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Department in undertaking its activities.

Credit risk
Credit risk is the risk of suffering financial loss, should any of the Department's customers or counterparties fail to fulfil their contractual obligations to the Department.

A significant number of the Department's customers and counterparties are other public sector organisations. No credit risk arises from these organisations.

For those customers and counter parties that are not public sector organisations, the Department has policies and procedures in place to ensure credit risk is kept to a minimum.

The Department is not exposed to material Credit Risk.

Liquidity risk
This is the risk that the Department is unable to meet its obligations when they fall due and to replace funds when they are withdrawn.

The Department is a central government organisation and this risk is, therefore, negligible.

Short-term liquidity is managed by the draw-down of funds from the Office of the Paymaster General.

Market risk
Some of the Department's rights and obligations under its financial instruments are linked to movements in the RPI. These are the Domestic Capacity Charge provision, payable to London and Continental Railways, and the Financial Indemnity memorandum (and related fee) in respect of Network Rail. In addition, part of the debt covered by the financial guarantee contract to London and Continental Railways is also index-linked.

Under central government funding regimes, increases in a liability owing to an increase in RPI score as expenditure, and this expenditure needs to be funded through the Estimates process. The Department manages this risk by recalculating these liabilities at prevailing RPI rates before each Estimate and by making prudent forecasts about expected changes in RPI for the remainder of that year.

The Department has minimal transactions or balances that are either denominated in foreign currency, linked to a floating interest rate, or linked to any other market price. It considers, therefore, that changes in exchange rates, interest rates or other market prices would represent a negligible risk.

31 Contingent liabilities

In accordance with government policy, no buildings included in tangible fixed assets in the Balance Sheet are insured. Other contingent liabilities are shown below.

The value shown is the best estimate of the expected cost of settling the liability, in the unlikely event that the contingent liability becomes an actual liability.

	31 March 2009	31 March 2008
	£m	£m
31.1 Channel Tunnel Rail Link – Government guarantee in respect of bonds issued by London and Continental Railways Limited (LCR). The bonds are repayable in 2010, 2028, 2038 and 2051. The risk of a call on the guarantee depends on LCR's financial performance.	3,750	3,750
31.2 Channel Tunnel Rail Link – Guarantee issued in respect of track access payments, to support securitisation of this revenue stream to finance Section 2. Track access charges are payable over approximately 50 years. The probability of a call will depend on LCR's cash flow performance over that period.	1,527	630
31.3 Other contingent liabilities.[1, 2]	1,006	1,213
31.4 Possible obligations in relation to land and property acquisition.	362	391
31.5 Possible obligations in relation to engineering and construction services.	5	8
31.6 Third-party claims.	9	8
31.7 General Lighthouse Authorities' pension fund deficiency.	348	348

Notes:

1 This includes contingent liabilities where disclosure of details could prejudice the outcome of the case.

2 A contingent liability of £760 million for the metrication of traffic signs (speed and distance) lapsed when EU Directive 2009/3/EC came into force on 27 May 2009 amending Council Directive 80/181/EEC on the approximation of the laws of the Member States relating to units of measurement.

The Department has responsibility for a number of legacy pension schemes formerly part of the British Railways Board. The Department is required to fund the employer's share of any deficits arising on these schemes (see Note 39).

Some of the amounts above relate to guarantees that are financial guarantee contracts. For these guarantees, the fair values, as calculated in accordance with the accounting policies note, are disclosed in note 16.2. These valuations do not affect the Department's potential exposure or the amounts previously reported to Parliament, which are given above.

32 Contingent liabilities not required to be disclosed under FRS 12 but included for Parliamentary reporting and accountability

	1 April 2008	Increase/ (decrease) in year	Liabilities crystallised in year	Obligation expired in year	31 March 2009	Amount reported to Parliament[1]
	£000	£000	£000	£000	£000	£000
Guarantees (listed)	160,000		–	–	160,000	Unquantified
Letters of comfort (listed)	7,900,000	1,800,000	–	(5,700,000)	4,000,000	Unquantified
Indemnity (listed)	14,800,000	8,230,000	–	–	23,030,000	22,730,000

Notes:

1 Note that not all quantifiable items were quantified when the item was reported to Parliament. See below for more details.

The Department has entered into the following quantifiable contingent liabilities by offering guarantees, indemnities or by giving letters of comfort. None of these items is a contingent liability within the meaning of FRS 12 and the amounts shown are as reported to Parliament.

32.1 Quantifiable guarantees and indemnities

	31 March 2009	31 March 2008	Amount reported to Parliament by Departmental minute
	£m	£m	£m
Guarantees			
Should the International Maritime Organization building be partially or completely destroyed, the Government would be obliged to reconstruct the building, suspend or reduce the rent for a period of three years and fund alternative accommodation.	69	69	Unquantified
A guarantee has been offered to the Air Travel Trust Fund to enable the trustees to borrow to meet the claims of package holiday makers in the event of the failure of tour operators.	31	31	31
A guarantee in respect of lease obligations of Eurostar (UK) Limited at Ashford International Passenger Station to 2022.	60	60	133
Letters of comfort			
Letters of comfort were originally issued to the Strategic Rail Authority in relation to financial support for Network Rail's borrowing. Subsequently, these responsibilities transferred to the Secretary of State. The credit support arrangements comprise standby credit facilities and financial indemnity in support of Network Rail's Debt Issuance Programme. As at 31 March 2009, the arrangements supported Network Rail's net debt of £22.3 billion (prior year restated from £19.8 billion to £18.7 billion as per prior year breakdown provided).			
A standby credit facility and related agreements to enable Network Rail to raise medium-term notes for its short and medium-term financing requirements. The support arrangements expired on 31 March 2009.	0	3,900	10,000
A standby credit facility, with a term of 50 years, to act as a long-term contingency buffer.	4,000	4,000	4,000
Letters of indemnity have been issued in respect of non-statutory liabilities incurred by staff appointed as directors of Cross London Rail Links Limited (CLRL) and as a director or company secretary of SRA Investment Company Limited.	–	–	Unquantified
Indemnity			
The Department has provided a financial indemnity in support of Network Rail's Debt Issuance Programme.	22,300	14,800	22,000
Indemnities in respect of Crossrail funding arrangements set out in the Crossrail Sponsors' Agreement and the Project Development Agreement.	730	0	730

Some of the amounts above relate to guarantees that are financial guarantee contracts. For these guarantees, the fair values, as calculated in accordance with the accounting policies note, are disclosed in Note 16.2. These valuations do not affect the Department's potential exposure or the amounts previously reported to Parliament, which are given above.

Non-statutory liabilities in respect of Crossrail agreements
In 2008 the Secretary of State entered into quantifiable and unquantifiable contingent liabilities on signing the Crossrail Sponsors' Agreement (between DfT and TfL) and the Project Development agreement (setting out the relationship between DfT and TfL as joint sponsors and Cross London Rail Links, the Project Delivery Agent (now re-named Crossrail Limited)).

Elements of the Crossrail funding package envisage that monies will be raised through developers under existing legislation and the new Community Infrastructure Levy (CIL), which requires new secondary legislation to be implemented. There are risks associated with the implementation of new legislation and should legislation enabling the GLA to raise funds under the CIL not be put in place by an agreed date or if it impinges on the GLA's ability to raise funds under the existing developer contributions arrangements the Government would be liable for any funding shortfall, over the period the funding is to be raised. The Government's obligation to fund any shortfall where legislation is not in place by an agreed date is capped at £300 million. Where the Government is called upon to meet a funding shortfall relating to CIL, there are arrangements in the Sponsors' Agreement for TfL to reimburse or procure the reimbursement of the Government.

In addition, direct contributions towards project costs have been agreed with some of the project's key beneficiaries in line with the Government's position that those benefitting from the Crossrail Project should make a contribution accordingly. If contributions are not received or secured in full the Government would also be liable for the funding shortfall for the City of London Corporation and voluntary contributions from London businesses (up to a limit of £250 million) and BAA contributions (up to £180 million).

Some of the amounts above relate to guarantees that are financial guarantee contracts. For these guarantees, the fair values, as calculated in accordance with the accounting policies (Note 1), are disclosed in Note 16.2. These valuations do not affect the Department's potential exposure or the amounts previously reported to Parliament, which are given above.

32.2 Unquantifiable guarantees and indemnities
Statutory guarantees
Agreements were entered into by the Director of Passenger Rail Franchising (novated to the Strategic Rail Authority and then to the Department), prior to the privatisation of each of the three rolling-stock companies (ROSCOs). It is not possible to quantify the liabilities associated with these agreements because they will depend on the circumstances that arise at the time.

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. It is not possible to quantify the potential liability that might arise as a result of these undertakings.

Guarantees were given in respect of certain legacy pension schemes from the British Railways Board that any shortfalls would be met. Details are disclosed in Note 39.

Non-statutory liabilities in respect of Crossrail agreements
Both sponsors of the project have reserved the right to review whether or not to proceed with the project at defined review points. In these circumstances, the financial consequences of the decision not to proceed would fall on DfT and TfL.

Subsequent to the project passing these review points the Crossrail sponsors, TfL and DfT have reserved certain rights which, when exercised, could expose the Government to additional liabilities. In certain circumstances, these rights provide for government to take control of the project through taking back (or having put to government) ownership of Crossrail Limited, in which circumstances it is likely that the Government would acquire substantial liabilities associated with the project. If it proves necessary or appropriate for the Government to take over full control of the project, and Government were to elect to abandon the project after having taken full control, the Department for Transport would also be responsible for funding winding down costs.

Elements of the Crossrail funding package also envisage that monies will be raised by the GLA through Business Rate Supplements (BRS). There are risks associated with the BRS legislation and should any legislation enabling the GLA to raise the BRS necessary to fund Crossrail not be in place by an agreed date, or if the legislation contains certain restrictions, the Government would, in certain circumstances, be liable for the funding shortfall. Where the Government is called upon to meet a funding shortfall, there are arrangements in the Sponsors' Agreement for TfL to reimburse or procure the reimbursement of the Government.

Letters of comfort
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, following major transport disasters.

A letter of comfort is in issuance in support of the London Underground PPP Tubelines contract, clarifying the Secretary of State's role in relation to the Greater London Authority and Transport for London.

A letter of comfort has been issued to the British Transport Police Authority in relation to a pension liability indentified in their accounts.

Other
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.

Details on restricted contingent liabilities are not shown due to their sensitivity to commercial confidentiality and national security.

33 Losses and special payments

33.1 Losses statement

	2008-09	2007-08
Total number of cases	3,011	3,847
	£000	£000
Total amount	8,355	9,203

Managing Public Money requires a statement showing losses and special payments by value and by type to be shown where they exceed £250,000 in total and those that, individually, exceed £250,000.

In 2008-09 there was one case in excess of £250,000. This is recorded in the Highways Agency accounts. It was a book-keeping error of £430,663 relating to an advance made for work carried out by a local authority.

33.2 Special payments

	2008-09	2007-08
Total number of cases	29	41
	£000	£000
Total amount	178	786

34 Related party transactions

The Department is the parent of the Highways Agency, the Maritime and Coastguard Agency, the Government Car and Despatch Agency, the Vehicle Certification Agency and a number of sponsored bodies listed in Note 36. These bodies are regarded as related parties with which the Department has had various material transactions during the year.

In addition, the Department has had a small number of transactions with other government departments, principally the Communities and Local Government, Treasury Solicitors, the Department of Constitutional Affairs, the Department for Trade and Industry, the Valuation Office Agency, the Ministry of Defence, NATS Holdings Limited, Cross London Rail Link and a number of local authorities.

Some Board members and key managerial staff, within agencies that have been consolidated into these accounts, are related to persons employed by bodies with which it has had financial dealings. These related party relationships, although between two organisations which have had financial dealings, do not in themselves involve any personal financial gain by the individuals concerned. No Board members or key managerial staff had any direct interest in organisations or suppliers in receipt of grants or other payments.

No Board members, key managerial staff or other related parties have undertaken any material transactions with the Department during the year other than those reported.

35 Third-party assets

The Highways Agency, under Section 278 of the Highways Act 1980, receives payment in advance of works. These amounts are paid into interest bearing Escrow Accounts at Lloyds TSB Bank.

The Highways Agency is acting as a co-ordinator for a new Co-ordination Action under the EU Sixth Framework Programme. It holds a Euro Lloyds TSB bank account where funding from the EU is deposited and subsequently distributed to eleven partners across Europe. Over the three year duration of the project total funding provided by Brussels will be up to 2.5 million euros. A small portion of the funding will be to reimburse costs incurred by the Highways Agency in this collaboration action.

Monies are drawn down from the Escrow accounts by the Highways Agency as work progresses.

These are not Agency assets and are not, therefore, included in the accounts.

The amounts held are shown in the table below:

	31 March 2008	Gross Inflows	Gross Outflows	31 March 2009
	£000	£000	£000	£000
Lloyds TSB Escrow bank accounts	14,446	4,192	10,233	8,405
Lloyds TSB Euro bank account	275	500	740	35
	14,721	**4,692**	**10,973**	**8,440**

36 Entities within and outside the Departmental boundary

36.1 The following executive agencies, advisory bodies and tribunals have been consolidated within these accounts:

Executive agencies
Highways Agency
Maritime and Coastguard Agency
Government Car and Despatch Agency
Vehicle Certification Agency

Advisory bodies
Commission for Integrated Transport
Disabled Persons' Transport Advisory Committee

Advisory NDPBs are expert bodies normally established to advise ministers and officials on specific policy areas for which expertise does not exist within the Department. Most members of such bodies are unpaid, although chairmen and members of several bodies' receive a daily fee for attendance at meetings and other work.

Tribunals
Traffic Commissioners and Licensing Authorities (Traffic Areas).

36.2 The following bodies have not been consolidated within the accounts for the Department. Financial information for these bodies can be obtained from their separately published annual reports and accounts.

Trading funds
Driving Standards Agency
Driver and Vehicle Licensing Agency
Vehicle and Operator Services Agency

Public corporations
Aberdeen Harbour Board
Civil Aviation Authority
Dover Harbour Board
General Lighthouse Fund, incorporating:
- Commissioner for Irish Lights;
- Northern Lighthouse Board; and
- Trinity House Lighthouse Service

Milford Haven Port Authority
Poole Harbour Commissioners
Port of London Authority
Port of Tyne Authority
Shoreham Port Authority

Executive non-Departmental public bodies
British Transport Police
Passenger Focus
Railway Heritage Committee
Renewable Fuels Agency

Other entities
British Railways Board (Residuary) Limited
Channel Tunnel Rail Link Complaints Commissioner
Cross London Rail Links Limited
London and Continental Railways Limited
Marine and Aviation Insurance (War Risks) Fund
NATS Holdings Limited
Network Rail Limited
Office of the PPP Arbiter
SRA Investments Company Limited

37 Restatement of prior year balances

Highways Agency
The trunk road network balance at 1 April 2008 has been restated by £1,005 million due to detrunking of parts of the road network, in accordance with merger accounting principles.

These prior year adjustments gave rise to the following restatement of balances at 31 March 2008:

	As previously stated	Adjustment	As restated
	£000	£000	£000
Trunk road network – cost	96,681,252	(1,115,590)	95,565,662
Trunk road network – depreciation	(12,080,415)	110,536	(11,969,879)
	84,600,837	**(1,005,054)**	**83,595,783**
General Fund	33,370,488	(639,516)	32,730,972
Revaluation Reserve	44,049,905	(365,538)	43,684,367

Change in accounting policy
FRSs 25 and 26, which deal with financial instruments, have been implemented from 1 April 2007. The adoption of new accounting standards is recognised as a change in accounting policy and in accordance with the requirements of FRS 18 has been applied to the preceding year. The impact of this change on the Balance Sheet as at 1 April 2007 is as follows:

	1 April 2007 Before restatement	Accounting policy change	1 April 2007 As restated
	£m	£m	£m
Debtors: amounts falling due after more than one year	227	2,874	3,101
Financial Liabilities	0	(8,223)	(8,223)
General fund	39,203	(5,349)	33,854

The accounting policy change reflects the following specific changes:

- the recognition of financial guarantee contracts as liabilities (rather than disclosure as contingent liabilities) at fair value, adjusted for subsequent amortisation and to include amounts expected to be paid to settle the Department's obligations;
- the recognition of financial guarantee premia as financial assets; and
- remeasurement of debtors using the effective interest rate method.

38 Network Rail

38.1 Body outside the consolidation boundary
Many functions of the Strategic Rail Authority transferred to the Department in 2005-06. This included a transfer of the lead responsibility for the Government's relationship with Network Rail Limited (Network Rail), a private company limited by guarantee, which is the parent company of the Network Rail Group of companies. Network Rail owns and operates the main rail network in Great Britain. Its primary aim is to provide a safe, reliable and efficient rail infrastructure. The main focus of Network Rail is on the operation, maintenance and renewal of Britain's railway, and facilitating enhancements. Whilst operating on a commercial

basis, Network Rail is a not-for-dividend company and all profits made are reinvested in the industry. Its members include the train operating companies and other stakeholders. The Secretary of State is a Special Member. The Secretary of State has no rights to any dividend or other distribution.

The Department's principal financial interest in Network Rail arises from indemnities issued in support of Network Rail's debt. Agreements were made between the Department and Network Rail in connection with the acquisition of Railtrack plc by Network Rail, which relate to the financial support provided to Network Rail, together with its output and enhancement obligations. These agreements operate alongside the contractual arrangements that exist between the Department and Network Rail. The Department considers that the likelihood of Network Rail having to rely upon these letters for financial support is remote. Consequently, these agreements represent contingent liabilities and are disclosed under Note 32, Contingent liabilities not required to be disclosed under FRS 12 but included for parliamentary reporting and accountability.

The support facilities for Network Rail's borrowings consist of a financial indemnity mechanism (FIM) in respect of borrowings of Network Rail Infrastructure Finance PLC (NRIF) under which £22.3 billion had been borrowed at 31 March 2009. The FIM is available until 2052. The indemnity also covers guarantees provided by NRIF in respect of certain financial obligations of Network Rail Infrastructure Limited.

Network Rail is outside the Department's resource accounting boundary and is not consolidated in these accounts. In order to maintain openness and transparency regarding the relationship between the Department and Network Rail, the summary results and other details concerning Network Rail are shown below. For further details, of Network Rail, copies of the financial statements of Network Rail Limited can be obtained from the Company Secretary, Kings Place, 90 York Way, London, N1 9AG. In addition, Network Rail's annual report and financial statements are available by visiting www.networkrail.co.uk

Network Rail reports to its members in the manner of a listed PLC and therefore follows European Union regulations requiring companies listed in any member state to adopt International Financial Reporting Standards (IFRS) for financial years commencing on or after 1 January 2005. Therefore, the financial information shown below taken directly from Network Rail's accounts is prepared and presented in accordance with the requirements of IFRS. The figures shown below are an extract from the published accounts of Network Rail.

38.2 Key financial figures

Profit and loss account for year ended 31 March 2009.

	2008-09	2007-08
	£m	£m
Revenue[1]	6,160	5,960
Operating costs	(3,604)	(3,536)
Operating profit	2,556	2,424
Revaluation gains and profits on disposals of properties	(138)	34
Net investment and finance costs	(906)	(870)
Profit/(loss) before tax	1,512	1,588
Taxation	(911)	(405)
Profit/(loss) for the year	**601**	**1,183**

Notes:

1 Turnover includes £3,899m (2008: £3,050 million) received directly from the Department for Transport and £1,781 million (2008: £2,301 million) received from train operating companies (TOCs) for access charges.

Balance Sheet as at 31 March 2009.

	2008-09	2007-08
	£m	£m
Non-current assets		
Intangible assets	73	74
Property plant and equipment – the railway network	34,925	31,443
Investment property	700	949
Financial assets	783	110
	36,481	32,576
Current assets	3,257	1,656
Current liabilities	(5,534)	(7,547)
Non-current liabilities	(27,582)	(20,134)
Net assets	**6,622**	**6,551**
Equity		
Revaluation reserve	3,657	3,870
Retained earnings	3,034	2,504
Other reserves	(69)	177
	6,622	**6,551**

39 Pension schemes

The Department participates in the following defined benefit pension schemes. Some of the Department's employees are members of the BR Shared Cost Section of the Railways Pension Scheme. The Department is the scheme employer for the 1994 Section of the Railways Pension Scheme. It applies FRS 17 to these sections. It has also offered a guarantee to the British Railways Superannuation Fund, a legacy defined benefit scheme from the British Railways Board (BRB), in which the Department has no employees participating. It applies FRS 17 to any scheme that is in deficit. In accordance with FRS 17, the share of any deficits or recoverable surplus in the pension funds is recognised on the Balance Sheet. Interim valuations have been carried out as at 31 March 2009 by the Government Actuary's Department on the Department's defined benefit schemes, for the purpose of providing these disclosures.

Analysis of pension liability recognised on the Balance Sheet

The Department is responsible for funding the British Railways Superannuation Fund (BRSF), which for the first time moved into deficit at the most recent actuarial valuation as at 31 March 2009. In accordance with FRS 17, disclosures were not required for the BRSF in previous years while the scheme was in surplus. The 2008-09 opening balance of the Department's deficit (on the table below) has been restated to include the BRSF surplus balance of £27 million as at 31 March 2008 (the time of the last actuarial valuation).

	Restated 2008-09	2007-08
	£m	£m
Deficit at beginning of period	(224.2)	(116.0)
Contributions paid	4.0	3.9
Current service cost	(0.7)	(0.8)
Other finance income	(23.7)	36.9
Employees share of deficit	–	–
Actuarial gain	(1,055.2)	(175.1)
Deficit at end of period	**(1,299.8)**	**(251.1)**

The deficit comprises the following balances:

	2008-09	2007-08
	£m	£m
Scheme:		
BR Shared Cost Section	(13.6)	0.3
1974 Section	(13.0)	(15.1)
1994 Section	(1,237.9)	(236.0)
Great Western Railway Salaried Staff Widows' and Orphans' Pension Society	(0.3)	(0.3)
British Railways Superannuation Fund (BRSF)	(35.0)	27.0
Total deficit at the end of the period	**(1,299.8)**	**(224.1)**

1994 Section

The 1994 Pensioners Section is a defined benefit scheme representing the majority, by value, of the Department's financial relationships with pension schemes.

Pensioners and deferred pensioners in the BR Pension Scheme on 30 September 2004 were transferred into a separate section of the RPS – the 1994 Pensioners Section. On 30 December 2000 there was a transfer of pensioners and deferred pensioners from the BR Section to the 1994 Pensioners Section. On 31 July 2007 members from seven historic railway pension schemes were transferred into the 1994 Section. All the assets and the liability to pay pensions from these historic schemes were also transferred to the 1994 Pensioners Section. Six of these schemes (The London and North Western Railway Provident Society for providing pensions for widows and orphans of the salaried staff; Great Western Railway Supplemental Pensions Reserve Fund; The Great Western Railway Salaried Staff Widows' and Orphans' Pension Society; The Great Northern Railway Superannuation Fund; and The Great Western Railway Inspectors and Foremen's Special Pension Fund) formerly benefited from a guarantee from the Department. These schemes have now been wound up. Where a member had rights under one of the historic funds and also had supplementary pension rights under the 1974 Fund, those rights under the 1974 Fund were also transferred into the 1994 Pensioners Section.

Although the 1994 Pensioners Section is part of the industry-wide RPS, its assets and liabilities are identified separately from the remainder of the scheme. Further details are shown below.

The last actuarial review for funding purposes is being carried out as at 31 December 2007 by the RPS Scheme Actuary, Watson Wyatt Partners. Assets and accrued liabilities were valued using the market-related method.

Financial assumptions

The latest actuarial valuation for the section as at 31 December 2007 was updated to 31 March 2009 by the Government Actuary's Department:

The amounts recognised in the balance sheet are as follows:

	31 March 2009	31 March 2008
	£m	£m
Present value of funded obligations	4,452	4,785
Fair value of plan assets	(3,215)	(4,550)
Net liability	1,237	235
Amounts in the balance sheet		
Liabilities	1,237	235
Assets	–	–
Net liability	1,237	235

The amounts recognised in the operating cost statement are as follows:

	31 March 2009	31 March 2008
	£m	£m
Interest on obligation	316	260
Expected return on plan assets	(294)	(297)
Total	22	(37)
Actual return on plan assets	(1,221)	(257)

The amounts recognised in the Statement of Recognised Gains and Losses are as follows:

	31 March 2009	31 March 2008
	£m	£m
Gain/(loss) on assets	(1,221)	(257)
Experience gain/(loss) on liabilities	12	111
Gain/(loss) on change of assumptions	230	(30)
Total gain/(loss)	(979)	(176)

Changes in the present value of the defined benefit obligation are as follows:

	31 March 2009	31 March 2008
	£m	£m
Opening defined benefit obligation	4,785	5,015
Interest cost	316	260
Experience gain/(loss) on liabilities	(12)	(111)
Actuarial gain/(loss)	(637)	(379)
Closing defined benefit obligation	4,452	4,785

Changes in the fair value of plan assets are as follows:

	31 March 2009	31 March 2008
	£m	£m
Opening fair value of plan assets	4,549	4,918
Expected return	294	297
Gain/(loss) on assets	(1,221)	(256)
Contributions by employer	–	–
Actuarial gain/(loss)	(407)	(409)
Closing fair value of plan assets	3,215	4,550

The major categories of plan assets as a percentage of total plan assets are as follows:

	31 March 2009	31 March 2008
	£m	£m
Equities	1,362	2,201
Bonds	1,241	1,616
Properties	248	322
Other	364	411
	3,215	4,550

Principal actuarial assumptions at the balance sheet date (expressed as weighted average):

	31 March 2009	31 March 2008
Discount rate at 31 March	6.9%	6.9%
Expected return on plan assets at 31 March	*	6.8%
Future pension increases	3.0%	3.7%
Inflation	3.0%	3.7%
Rate of increase for deferred pensions	3.0%	3.7%

*In the opinion of the actuaries, the volatility of market conditions as at 31 March 2009 precludes the calculation of a meaningful Expected Rate of Return. On this basis, no figure has been included in the above table.

Amounts for the current and previous four periods are as follows:

	2009	2008	2007	2006	2005
	£m	£m	£m	£m	£m
Defined benefit obligation	(4,452)	(4,785)	(5,015)	(5,245)	(5,080)
Plan assets	3,215	4,549	4,918	4,899	4,450
Surplus/(deficit)	(1,237)	(236)	(97)	(346)	(630)
Experience adjustments on plan liabilities	12	111	(67)	(39)	(63)
Experience adjustments on plan assets	(1,221)	(258)	112	545	92

Other schemes

The Department's relationships with other schemes are described below. Given the relatively low value of the balances and transactions in respect of these schemes, detailed disclosures are not provided.

Railways Pension Scheme: BR Shared Cost Section

The BR Shared Cost Section of the RPS is a defined benefit scheme that covers most of BRB (Residuary) Limited's employees and some former Strategic Rail Authority employees. In March 2007 the OPRAF Shared Cost Section covering some of the former Strategic Rail Authority's employees, primarily those who were formerly employed by the franchising director was merged with the BR Shared Cost Section, by transferring the assets and liabilities of the OPRAF Section into the BR Section.

The last actuarial review for funding purposes was performed at 31 December 2007 by the RPS Scheme Actuary, Watson Wyatt Partners, using the projected unit method. Assets and accrued liabilities were valued using the market-related method.

The market value of assets, net of additional voluntary contribution (AVC) amounts, of the BR Section at 31 December 2004 was £34.192 million. This is approximately 1.5 per cent lower than the corresponding value of the projected accrued liabilities (after allowing for future salary increases but before allowing for agreed future contribution reductions and AVC matching by the Department). In this calculation, an investment return of 6.8 per cent on existing assets was assumed over the 20 year future mean term of liabilities.

The actuary estimated the ongoing funding cost of the BR Section for future years to be met by both the employees and the employer at 29.3 per cent of Section pay, defined as pensionable pay, less 150 per cent of the basic state pension. Over the eight months to 30 November 2006, member contributions were 9.2 per cent of Section Pay, and employer contributions were suspended on actuarial advice. Over the four months to 31 March 2007, member contributions were 12.0 per cent of Section Pay, and employer contributions were 18.0 per cent of Section Pay, in respect of most members.

The Fund is closed to new members.

British Railways Superannuation Fund
The Department is also responsible for funding the British Railways Superannuation Fund. This is a defined benefit scheme which the Department has inherited from the BRB. The Department has no employees participating in it. The latest actuarial valuation of this fund was carried out 31 December 2004 by the Scheme Actuary, Watson Wyatt Partners.

40 Shared Service Centre

The Department for Transport (DfT) Shared Service Centre (SSC) is based in Swansea and was set up during 2006-07. The SSC provides a range of human resources, finance and payroll services to the core Department and a number of its agencies.

Throughout 2008-09 DVLA has taken the lead on maintaining the accounting records for the SSC. In this year, as in the prior year, revenue and capital costs were ring-fenced within the DVLA ledgers, with the DVLA receiving funding from the Department or user agencies via Service Level Agreements. A summary of this information can be found within a Note within the DVLA accounts.

From its inception through to October 2008 the Shared Service Centre operated as a directorate of DVLA. Since October 2008 the governance arrangements surrounding the SSC have changed with the Shared Service Customer Board (attended by Accounting Officers of agencies using the SSC or their representatives) taking over responsibility for the governance of the Centre, with line responsibility for SSC management passing directly to the DfT Director General for Resources.

Moving forward, the intention is for the governance and reporting framework to be specifically overseen by the Shared Services Customer Board or an evolution of such a Board.

At 31 March 2008 SSC assets were recognised in DVLA's accounts. As part of the changes in governance referred to above, these were transferred to DfT on 31 March 2009. Given that the governance arrangements continued to evolve throughout 2008-09, the income and expenditure associated with the Shared Services Centre has been accounted for on a consistent basis with the 2007-08 accounts in the Department for Transport, DVLA and DSA. The accounting treatment for reporting the shared service costs will be reviewed in the context of the new governance arrangements, when finalised.

41 Post Balance Sheet events

Non-adjusting post-Balance Sheet event: Restructuring of London and Continental Railways Ltd
On 14 May 2009, the European Commission gave the UK Government State Aid Clearance for a financial restructuring of London and Continental Railways Ltd (LCR), the owner and operator of High Speed One (formerly the Channel Tunnel Rail Link) and the UK operator of the Eurostar passenger services through the Channel Tunnel. On 6 June 2009, this restructuring process was commenced. Ownership of LCR's finance subsidiaries, which are together liable for £5.169 billion of debt in the form of bonds and securitised notes, has been transferred to the Department. The obligations of LCR and its other subsidiaries to the finance companies, under inter-company loan and other agreements, were novated to the Department. Separately, the Department purchased, for a nominal sum, the shares of LCR taking it into direct government ownership. As part of the suite of contractual arrangements involved in these transactions, various guarantees previously issued to LCR have been cancelled.

The effect of these arrangements is to replace the existing financial guarantee contract liabilities and the FRS 12 provisions for other guarantees issued with respect to LCR with liabilities to provide the finance subsidiaries with resources to meet debt repayments. As LCR was already classified as a Public Corporation for National Accounts purposes, the restructuring of the company and its liabilities has no impact on Public Sector Net Debt. As the transaction had not occurred as at the Balance Sheet date, the Department has not recognised the shareholdings in LCR and in the finance subsidiaries as assets as at the Balance Sheet date. However, as the decision to acquire the finance subsidiaries was made because the Department had evidence that LCR could not support their liabilities, the Department has therefore valued its financial guarantees to LCR at the value of the finance subsidiaries' outstanding debt as at the Balance Sheet date.

The aim of the restructuring is to separate HS1 Ltd (the infrastructure operator) and Eurostar UK Ltd (the service operator) from the construction liabilities for High Speed One. This will enable both companies to operate on a sustainable commercial basis, meaning that the best return for the taxpayer from previous public investment can be realised through the intended sale of a long-term concession in High Speed One. It will also mean that use of High Speed One can be opened up to more competition, resulting in further benefits for passengers in terms of more and new products and services.

Authorised for issue
These Financial Statements are laid before the Houses of Parliament by the HM Treasury. Financial Reporting Standard (FRS) 21 requires the Department to disclose the date on which the accounts are authorised for issue. This is the date that the Comptroller and Auditor General signs the audit certificate. The authorised date for issue is 13 July 2009.