

# 2006

Annual Report



# Strategic Rail Authority Annual Report 2006

Accounts of the Strategic Rail Authority

Prepared pursuant to Schedule 14, paragraph 12 of the Transport Act 2000,  
for the year ended 31 March 2006 together with the Report of the  
Comptroller and Auditor General thereon.

Prepared pursuant to Schedule 14,  
paragraph 12 of the Transport Act 2000.

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## Chairman's Foreword

By the end of 2005, most of the SRA's functions had been transferred to successor bodies, of which the main ones were the Department for Transport and the Scottish Executive. I expect the SRA to be wound up relatively soon. This Report and Accounts thus reflects both 'business as usual' for part of the year and the subsequent piecemeal transfer process.

The biggest challenge has been to manage the transfers in an orderly way to ensure continuity for the rail industry and its customers; and, at the same time, to support our staff as they both planned their own future careers and enabled us to continue to meet our statutory obligations. In my view, this challenge was met very successfully. How this was done is described more fully below, but my Board colleagues and I are very proud of the dedicated and professional way in which the task was completed.

Successfully winding down a public sector body, responsible for many billions of pounds of public expenditure, is not quite like winning an Oscar; but here we want to pay tribute to those who led the transfers, making the process on our side smooth, professional and efficient. I particularly thank David Quarmby, Chairman throughout the period under review, and Nick Newton, our Chief Executive and Accounting Officer, for their skilled leadership of the SRA at this time. The Board and the Executive worked hand-in-hand to ensure the smooth completion of the project, each contributing very positively to its governance.

Many played crucial roles, but I will mention a few of them by name because of their exceptional contribution. I give grateful thanks to Doug Sutherland, (Managing Director, Finance and Commercial), Jonathan Riley and Colin Sellars (who led the day-to-day co-ordination of the streams of work for transfer), Karen Sanderson and Peter Hawthorne (who managed the accounting and budgeting throughout), and Alex Butt (Head of Risk Assurance i.e. Internal Audit). Over a number of years, I personally benefited from their support in the Audit Committee, which I chaired throughout the life of the SRA.

### **South Eastern Trains**

The last major transfer – the handover of the South Eastern Trains franchise to GoVia – took place at the end of March 2006. After the Connex contract was terminated in 2003, the SRA had responsibility for operating train services in the South East. During that time, performance significantly improved; for example, by March 2006 train punctuality and reliability (PPM) improved from 79.6% to 87% and customer satisfaction improved from 31% to 51%.

### **Southern Region New Trains Programme**

Another major achievement by the industry was the introduction, throughout the Southern Region, of over 2,000 new trains, replacing the Mark 1 'slam door' stock, coupled with a major power upgrade, all completed in November 2005. This project was delivered, in large part, by Network

Rail and the relevant Train Operating Companies; but an SRA team, headed by David Bailey, provided the necessary project leadership. This was an excellent example of the role for which the SRA was created and showed how the industry could work very effectively together when it shared common objectives.

### **Presentation of the Accounts and Financial Reports**

The Board of the SRA wants its Accounts and Financial Reports to be transparent and consistent over time, so their users are able to understand them in a coherent way; this aim does not always sit well with reporting standards for mergers in the public sector – which, of course, formally apply to the SRA and its former responsibilities. These standards are primarily designed to deal with mergers of whole entities whose combined accounts are the sum of its parts. The SRA story is more complex because it has transferred functions to several separate successors, some in the public sector and some not (the Department for Transport, the Scottish Executive, the Office of Rail Regulation, Network Rail, and the British Transport Police); and some functions have been discontinued. The picture has been further complicated by the consolidation into the SRA accounts of Network Rail, whose Balance Sheet and Income and Expenditure have dwarfed the SRA proper. The ensuing expenditure, which has disappeared from the SRA accounts, arising from all these changes, will of course appear in accounts elsewhere, but we decided that it would aid transparency to include pro forma accounts in this Annual Report, capturing the whole picture as far as possible.

### **Financial Performance**

This year's Accounts show that the SRA proper again managed its expenditure within Departmental Expenditure limits, reflecting the consistent financial controls deployed throughout the SRA's life and our tight management of finances, often in a fast-moving environment. The Board takes considerable satisfaction from this record of proper conduct of its business.

### **Governance**

Governance of any institution and the management of risk are more tested during periods of rapid change, especially in the stress of abolition than in a relatively steady state. Once the outcome of the Rail Review was clear, the Board introduced a number of changes in its governance arrangements to ensure a tight grip on the control environment and a conscientious, constructive approach to the transfer of functions to other bodies.

First, the Board revised the terms of reference of our Audit and Remuneration Committees to ensure that they were apt for the task in hand. In turn, the Audit Committee, with the Director of Risk Assurance (Internal Audit), adopted a style of risk assurance appropriate to the fast-changing situation, in order to support the Executive and to ensure that each function was as 'fit for transfer' as we could make it, before being transferred to new owners.

The Board also set up a new Transition Committee to oversee the transition work for the whole SRA, meeting as frequently as needed. We drew on the experience of organisational change management of

Board Members, some of whom had been through similar experiences elsewhere. We arranged periodic evening meetings with the senior executives to review progress in an informal atmosphere, outside the formal framework of Board meetings.

In these ways, we created the 'tools for the job' of proper and diligent governance; I believe that they served us well. These measures were, of course, complemented by similar mechanisms operated by the SRA Executive and described below.

Finally, over the last few months, in the interests of reducing public expenditure, we reduced the size of the Board, as our responsibilities shrank during the year. The dates of retirement of each of the Members of the Board are shown on page 71. By the close of the period under review, we were down to three Members including the Chief Executive/Accounting Officer. I am grateful for the thoughtful and public spirited way in which my former colleagues on the Board all made their contributions to the successful winding down of the SRA.

The SRA was initially set up in shadow form, in 1999, as a Non-Departmental Public Body and, then, under the Transport Act 2000, formally in 2001 – primarily to bring investment and leadership to an industry fragmented by privatisation. It had an active life of only some seven years. It had some undoubted successes (Southern Region New Trains Programme; driving down the cost of the West Coast Main Line upgrade, saving several billions of pounds; and Route Utilisation Strategies). It saw a reduction in the number of Train Operating Companies

and of franchises. But its contribution to the industry also included major improvements in the rigour of certain key processes – for example, reforms of franchise specification and management; performance management; long-term planning; and project delivery. In the future, the rail industry will, I hope, benefit from this enhanced rigour.

## **Envoi**

Those who served the SRA had a deep and passionate belief in the importance of the railways to our society and to our economy. Some of us will continue to serve them in the successor bodies; and others are leaving the industry. Our driving ambition, however, over the last few years, has been to help the industry fulfil its promise. We are proud of what we achieved in a relatively short time. We now wish our successors – especially those in the Department for Transport – every success to the same end.

A handwritten signature in black ink that reads "Pen Kent". The signature is written in a cursive, slightly informal style.

### **Pen Kent**

Chairman

Strategic Rail Authority

## Chief Executive's Report

The previous year's honourable commitment to, and delivery of, the Authority's public service responsibilities in the knowledge of approaching abolition, carried seamlessly in to this new, and effectively final, period.

Whilst the SRA will be finally wound up over the course of this current financial year, March 2006 saw the effective cessation of the Authority's functions and activities. In the period from April to mid-June 2005, work continued across the full range of responsibilities in tandem with the finalisation of the transition to full implementation of the Railways Act 2005.

In early 2005 the approach had been established as a progressive move to abolition and the SRA's Transition Plan was adjusted to deliver this, more pragmatic, programme. Once the staged transfers had been defined to reflect the speed, practicalities and limitations of separation, of what were integrated processes and resources, the Authority's highly developed project management and completion skills were impressively combined with the continuing commitment and professionalism of the critical support functions – Human Resources, Risk Assurance, Legal, Finance and Business Management.

Transfers were completed as follows:

**26 June 2005** – most of Strategy and Planning and part of Freight to DfT Rail, part of Freight to DfT Logistics and Maritime Division and Network Credit arrangements to DfT Rail;

**1 July 2005** – Statistics transferred to the Office of Rail Regulation;

**24 July 2005** – most of Operations (Franchise Procurement and Management excluding Minor Closures), Project Sponsorship and Delivery (except the Southern Region New Trains Programme – SRNTP), Technical, Legal and IT transferred to DfT Rail and Consumer Benefits to the ORR;

**27 July 2005** – new Rail Passengers' Council commenced (subsequently renamed Passenger Focus);

**21 August 2005** – remainder of Strategy and Planning and Operations (excluding Minor Closures) transferred to DfT Rail, BRB (Residuary), Finance, Audit and Procurement transferred to the DfT;

**23 August 2005** – Scottish Strategy and Planning responsibilities transferred to the Scottish Executive;

**16 October 2005** – the Wales and Borders Franchise transferred to DfT Rail and the National Assembly for Wales. BRB (Residuary) assets and SRA buildings and accommodation transferred to DfT;

**18 October 2005** – all other Scottish responsibilities transferred to the Scottish Executive;

**6 January 2006** – the SRA Board confirmed the full delivery of the Authority's SRNTP commitments and the transfer of all residual liabilities to DfT Rail; and

**1 April 2006** – South Eastern Trains transferred to GoVia Limited.

Of the numerous achievements of the SRA throughout this period, a number deserve particular mention:

- The highly successful completion of the Southern Region New Trains Programme – a massive investment and change project by any standards and the largest single train fleet replacement since the days of British Rail; and
- The continued focus on delivery of improved (and improving) customer service on South Eastern Trains – the final four week period to the end of March 2006 was the best operational performance of the entire duration of the SRA's ownership, and the best for a number of years.

Finally, I feel most proud of and satisfied with, the unwavering commitment to, and delivery of, high quality performance and exemplary governance throughout this period of major professional and personal change and challenge for all at the SRA.



**Nick Newton**  
Chief Executive  
Strategic Rail Authority

## SRA Board

### **David Quarmby CBE**

#### **Chairman**

(11 September 2004 – 31 March 2006)

Director, Colin Buchanan and Partners (from January 2006), Chairman, Transport Research Institute, Napier University, Trustee, National Maritime Museum, Governor, University of Greenwich. Formerly Chairman of SeaBritain 2005, of the British Tourist Authority, of the English Tourist Board and the Docklands Light Railway. Former Board Member of Transport for London. David was a main Board Director and Joint Managing Director of Sainsbury's, and earlier a Board Member and Managing Director (Buses) of London Transport.

David took over as Chairman of the Strategic Rail Authority following the departure of Richard Bowker, having been a Board Member since 1999 and Deputy Chairman since 2002. His primary role was to oversee the transition of the SRA into the new rail industry structure and its close down, following the Secretary of State's Review and subsequent legislation.

### **Pen Kent CBE**

**Chairman** (from 1 April 2006)

Senior Independent Board Member. Former Director of the Bank of England and of the Private Finance Initiative with particular reference to transport. Former Executive Chairman of the European Securities Forum. Pen holds a number of non-Executive appointments including non-Executive Director of Schroder & Co Limited and Chairman of F&C Capital and Income Trust PLC.

### **Nick Newton**

#### **Chief Executive**

Nick joined London Transport (LT) in 1970 and pursued a career in procurement. From 1984 he was involved in the development of the LT bus service tendering system, going on to lead its successful implementation. In 1994 Nick joined the Office of Passenger Rail Franchising (OPRAF) and assisted in driving the original railway privatisation. He remained through the changes to the Shadow and then full Strategic Rail Authority, taking particular responsibility for franchise management and replacement.

Nick became Deputy Chief Executive in 2003 and, in November 2003 became Chairman of South Eastern Trains following termination of the Connex franchise. Nick became Chief Executive and a Board Member in September 2004. He had overall executive and Accounting Officer responsibility for all the SRA's activities and took the lead role in the transition process including transfer, terms for the redundancy of staff and the general close down process.

### **Lew Adams OBE**

Former General Secretary of ASLEF. Lew maintains an interest in safety issues for the rail industry as a whole, and is the Chairman of the National Route Crime Group for the industry. He is also a Member of the British Transport Police Authority and Industrial Relations Consultant for UK Trade and Investment (DTI). \*\*

### **Millie Banerjee CBE**

Formerly a Director of British Telecom, Millie holds several non-Executive appointments including directorships of the Cabinet Office Strategy Board and Ofcom. Millie is the Chair of the Carnegie UK Trust and a Commissioner for Judicial Appointments. \*\*

### **Willie Gallagher**

Managing Director of Touchdown Services Limited, specialist consultants to UK and European utilities, and also a non-Executive Board Member of both Lothian Buses PLC and the Scottish Legal Aid Board. Former Scottish Power Director responsible for customer service and for managing the introduction of competition into the energy market. \*\*\*

### **David Grayson CBE**

Principal of the BLU, a virtual 'corporate university' for the UK's small business development sector. A former joint Managing Director, and currently a Director of Business in the Community, David focuses on small businesses, business schools, and international dimensions of responsible business, and is Chairman of the Small Business Consortium.

A patron of the disability charity Scope and former Chairman of the National Disability Council. \*\*

### **Janet Lewis-Jones**

Board Member of British Waterways until October 2004, Commissioner of the Postal Services Commission and Chairman (since its establishment in 2001) of the Membership Selection Panel for Glas Cymru Cyf. Janet is Vice President of the British Board of Film Classification, a Trustee of the Baring Foundation and of the Institute of Rural Health. She was also a member of the British Transport Police Authority until 31 August 2005. \*\*

### **Jeremy Mayhew**

Partner at Spectrum Strategy Consultants (a media and telecommunications strategy firm), a Governor of London Metropolitan University, a Common Councilman in the City of London, and a Trustee of the City Arts Trust and Thames Festival Trust. Between 1995 and 2001 Jeremy was a Director of BBC Worldwide Limited.

### **David Norgrove**

A Trustee of the British Museum and Chairman of the Pensions Regulator. Former Executive Director of Marks & Spencer, Private Secretary to Prime Minister Margaret Thatcher and Assistant Secretary in HM Treasury. David also worked at the First National Bank of Chicago. \*

*Following the passage of the Railways Act 2005, and the transfer of SRA functions to successor bodies, membership of the SRA Board was stepped down as follows:*

\* *Departed 30 April 2005*

\*\* *Departed 31 August 2005*

\*\*\* *Departed 31 October 2005*

## SRA Executive

**Chris Austin**  
Executive Director,  
Community Rail Development

Chris was responsible for the strategy for developing local and rural lines to improve patronage and income, to reduce costs and to secure greater community involvement, with the aim of putting these lines on a sustainable basis for the medium to long-term. The Community Rail Development Strategy was published during 2004. Chris was also responsible for the programme of local and regional engagement around the country by the Chairman and other senior managers.

Chris left the SRA on 29 July 2005 and now works part-time for the Association of Train Operating Companies (ATOC). Community Rail Development transferred to the Department for Transport remit in August 2005.

**Ceri Evans**  
Executive Director, Communications

Ceri was responsible for all aspects of external communication for the SRA. His brief included the promotion of the SRA's leadership role in the industry and its objective of taking forward, through its Strategic Plan, the Government's vision for 'Britain's Railway, Properly Delivered'.

Ceri left the SRA on 30 November 2005. The communications function was transferred to the Department for Transport's Communications team in August 2005.

**Tim Reardon**  
General Legal Counsel

Tim was responsible for ensuring that the legal interests of the SRA were properly protected and undertaken on a sound legal footing. He was the Solicitor to BRB (Residuary) Limited and now works for DfT Rail.

The legal directorate transferred to the Department for Transport remit in July 2005.

**Jonathan Riley**  
Executive Director,  
Freight and Transition

Jonathan was responsible for developing the freight aspects of the SRA's policies and strategies, including long-term planning in terms of growth, network development and promotion of the success of rail freight. He also managed BRB's obligations in respect of the Channel Tunnel Usage Contract whilst developing the strategy, long-term, for cross channel freight. From July 2004, Jonathan assumed responsibility on the Executive Group for the SRA transition resulting from the Government's Rail Review, including the transfer of SRA functions to successor bodies and the placement of SRA staff prior to eventual close down.

Jonathan left the SRA on 30 November 2005. The Freight directorate transferred to DfT Rail in June 2005 with Rail Freight Grants and Policy transferring to DfT Logistics and Maritime at the same time.

## **Nicola Shaw**

### **Managing Director, Operations**

Nicola's role involved responsibility for ensuring the Train Operating Companies (TOCs) delivered their contractual obligations and improved performance, ensuring SRA planning and policy was incorporated into the operating railway. Her responsibilities also included the management of the passenger franchises, their replacement and extension; and leading the development of a customer-focused ethos in the rail industry.

Nicola Shaw left the SRA on 2 May 2005. Iryna Terlecky assumed responsibility for Operations until the directorate transferred to the Department for Transport in July 2005.

## **Jim Steer**

### **Managing Director, Strategic Planning**

Jim developed the strategies and plans which underpinned the SRA's work, including the application of appraisal methodologies and sponsorship of the SRA's project portfolio and of franchises. Chair of the West Coast Project Board, and following the departure of David Waboso in April 2005, responsibility for the SRA's Technical work, until his own departure on 8 July 2005. Richard Davies (and subsequently Stephen Bennett) assumed responsibility for Strategic Planning until its transfer to various successor bodies. Giles Thomas assumed responsibility for Technical until its transfer to the Department for Transport in July 2005.

## **Doug Sutherland**

### **Managing Director, Finance and Commercial**

Doug was responsible for the Finance functions of the SRA together with IT and Procurement. He was also responsible for projects and transactions covering the sourcing, development and delivery of capital investment, including the use of Special Purpose Vehicles (SPVs). In addition, he chairs the British Railways Board (Residuary) Limited and South Eastern Trains (Holdings) Limited.

## **Iryna Terlecky**

### **Acting Managing Director, Operations (from 23 March 2005)**

Iryna was responsible for ensuring that the TOCs delivered against contractual obligations and improved their performance; ensured franchises were successfully replaced and extended, and maintained an effective working relationship with the Department for Transport.

The Operations directorate transferred to the Department for Transport in July 2005.

Iryna left the SRA on 31 January 2006.

## **Peter Trewin**

### **Board Secretary**

Peter supported the Board and its principal Committees in working effectively and efficiently to achieve the SRA's objectives to a high standard of corporate governance.

## **David Waboso**

### **Executive Director, Technical**

David led the Technical directorate whose remit was to set an industry-wide technical strategy that delivered improved performance with effective cost controls. In this role he was responsible for reviewing and evaluating technical issues, providing strategic advice and expertise, and contributing to business decision making. Areas covered by the directorate included safety, standards, interoperability, rolling stock, infrastructure, and systems including ERTMS and GSM-R. David Waboso left the SRA on 8 April 2005.

## Financial Review

### Introduction

The year ended 31 March 2006 has been dominated by the implementation of the Railways Act 2005. This in principle required the transition of SRA functions and activities to successor bodies leading to the eventual closure of the organisation. The process and activities are described in detail in other parts of the report. It is therefore gratifying to report that the most critical activity from a financial and commercial point of view – that of keeping the organisation functioning and delivering whilst reorganising and transferring activities – has been successfully accomplished. Consequently, the SRA has hit its targets both in terms of on-going business and transitional activities.

### Reorganisation – Impact on Financial Strategies

Government accounting principles and guidance require that activities transferred as a result of a ‘machinery of Government change’, are accounted for using merger accounting principles. In practice, this means that the successor body records the total current year’s income and expenditure, and if appropriate related prior year comparatives. Implementation of the Rail Review constitutes such a ‘machinery of Government change’ and consequently the SRA has, this year, adopted merger accounting principles in respect of the transferred functions. The financial statements therefore only show the residual expenditure – i.e. they exclude that attached to the transferred functions. Residual expenditure largely consists of Deed of Grant payments to Network Rail, the results of South Eastern Trains

and remaining SRA running costs. The Government accounting conventions adopted are documented in more detail in the Accounts Direction in Appendix 1. However, in order to provide some transparency around the SRA numbers, we have included in Appendix 2 a set of financial statements prepared before merger accounting adjustments have taken place.

### SRA and Network Rail

Network Rail is a ‘public interest’ company established and operating along commercial lines but with any profits generated, as a not-for-dividend company, being reinvested in the industry. Given the SRA’s relationship with Network Rail, accounting rules dictate that a set of group results is prepared in which Network Rail is treated as a quasi subsidiary of the SRA. However, the implementation of the Rail Review meant that as from 25 June 2006, the SRA’s rights and obligations in respect of Network Rail ceased and consequently their results have been excluded.

### Financial Results – Impact of Timing Differences

The results of the Authority are, as in previous years, significantly affected by ‘timing differences’ which result primarily from the application of Government accounting conventions. These differences reflect the concept that grant received by the Authority, which drives the income line in the Income and Expenditure Statement, is recorded on a cash basis, whereas costs incurred are recorded on an accrued basis. The surplus generated this year in part

reflects the reversal of timing differences recorded last year. The SRA lived within the targets set by the Department for Transport.

### Going Concern

As at 31 March 2006 substantially all of the functions of the SRA have been transferred to successor bodies. With the abolition of the SRA expected to happen later in the year it is no longer appropriate to prepare the accounts on a going concern basis. However, all transfers of assets, rights and liabilities have been at book value and consequently no adjustment is required to the value of assets and liabilities in the accounts.

### South Eastern Trains (SET)

South Eastern Trains continued to make good progress in both operating and financial performance. The key public performance measurement (PPM) reached 87% at March 2006 as opposed to 79.6% in November 2003 when we acquired the business. Revenue totalled £465.3 million. Although there was a loss of £1.3 million, this was after an FRS 17 charge for which no subsidy was paid, totalling £2.7 million. After adjustment for this, the Company made a profit of £1.4 million. The business was successfully returned to the private sector on 1 April 2006 when GoVia Limited (through its subsidiary company London and Southeastern Railway Limited) took over the franchise. A more detailed review of SET is given elsewhere in the accounts.

### Financial Performance

- Income totalled £2,537.5 million of which £2,073.1 million was Government Grant Aid with the balance largely being generated by SET. This represented a reduction of £40.8 million on the previous year, driven by Government Grant reductions offset by increases to revenue in SET.
- Operating expenditure totalled £2,468.5 million, a reduction of £73.9 million on the previous year. The dominant item of expenditure is the Network Grant payment to Network Rail which totalled £1,984.1 million.
- Interest receivable totalled £23.3 million against net interest payments of £17.8 million giving a net receipt of £5.5 million.

### Acquisitions

As detailed in note 11 to the accounts, on 9 November 2003, South Eastern Trains Limited (SET) took over the running of services in Kent, South East London and parts of Sussex, from the previous operator Connex South Eastern. Most of the rights, assets and liabilities of Connex were transferred to SET, a subsidiary of the SRA, with the transfer being treated as an acquisition for accounting purposes.

South Eastern Trains (SET) is a wholly owned subsidiary of South Eastern Trains (Holdings) Limited (SET(H)), which is in itself a wholly owned subsidiary of the SRA. The results of SET have therefore been consolidated into the accounts of the Authority.

### BRB (Residuary) Limited (BRBR)

Ownership of BRBR, which manages the remaining property, rights and liabilities of the British Railways Board, transferred to the Secretary of State for Transport on 21 August 2005. At the time of transfer the organisation had made good progress towards achieving its objectives for the year. More detail will be contained in a separate report and accounts.

### Accounting Policies

There have been no changes in accounting policies during the current financial year other than the adoption of merger accounting in respect of the transferred activities.

### Summary

This is the last full year's report and accounts for the Strategic Rail Authority and it is worth recording that from a financial point of view, our key drive in the industry over the last few years has been to return it to financial stability.

However, establishing such stability only provides a platform from which to continue tackling the key challenges of the industry – improving service quality and steadily driving down costs. Industry performance in 2005/06 continued to improve and we wish our successors well.



**Doug Sutherland**  
Managing Director,  
Finance and Commercial

# Transition

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## Summary of Process

The Strategic Rail Authority (SRA) Transition, commenced in July 2004 with the announcement by the Secretary of State for Transport, through the White Paper – ‘The Future of Rail’, that the SRA was to be abolished. Although the SRA continued operations until the end of the financial year 2005/06, administering circa £2.5 billion of public subsidy to the industry, the transition process was largely completed by November 2005, although final close down and preparation of the Annual Report and Accounts will not be completed until the end of this financial year.

The implications of the White Paper became clear for the SRA soon after July 2004. It would continue with its current responsibilities until the passage of the Railways Act in 2005 and the consequent transfer of its responsibilities, mainly to the Department for Transport (DfT) and to other successor bodies including the Scottish Executive, the Welsh Assembly Government, the Office of Rail Regulation (ORR) and Network Rail.

Implementation of the White Paper was the responsibility of the DfT, working not only with the SRA but also with other organisations whose responsibilities were due to change as a result of the Government’s Rail Review. In summary, the principal aspects of the White Paper affecting the SRA’s continuing business through the transition and transfer of its responsibilities were:

- The DfT to procure and manage passenger rail franchises for England and Wales, with the possibility of the Welsh Assembly Government and Transport for London playing some role in Wales and London respectively;
- The DfT to be responsible for rail strategy (including technical, community rail, disability and freight) which would be used to inform the Government’s Statement of Reasonable Requirements of Network Rail through the ORR’s Periodic Review process;
- The Scottish Executive to procure a future, and manage the present ScotRail franchise, as well as managing rail strategy for Scotland;
- Network Rail to have overarching accountability for railway performance, taking on the concept of Performance Improvement Plans and monitoring developed by the SRA;
- The DfT (through the White Paper) to manage rail freight grants; and
- The DfT, the Scottish Executive and Network Rail to assume the sponsorship and delivery of rail network enhancement projects.

## Managing the Transition

The SRA refocused its activities in September 2004 under the three headings:

- Delivering ongoing responsibilities – ‘business as usual’;
- The transition to wind down the SRA through transfer of responsibilities and eventual closure; and
- Supporting the DfT, the Scottish Executive, the ORR and Network Rail to implement the White Paper.

It was recognised early on that management of the people issues would be a primary objective for the SRA, and one crucial to the overall success of the project. Current responsibilities needed to be discharged for a further year until replacement by a smaller DfT team. To manage the transition, the SRA appointed an Executive Director – Jonathan Riley – to lead the process and direct the development and implementation of the SRA’s transition plan.

A transition team was put together involving senior managers from Business Management, Finance, Legal, Human Resources, Secretariat and advised by Risk Assurance. This team developed the SRA’s shadow transition plan prior to the production of the DfT’s overall implementation plan for the creation of the new DfT Rail Group. The team were able to determine the milestones and work streams needed to make transition happen, as well as critically, the agreement with successor bodies about the activities to transfer, and the terms under which this would happen and any people who might transfer.

The SRA’s transition team was supported by the Executive Group and a sub-committee of the Board created specifically for transition which included Board Members with experience of change programmes. In addition, the overall approach to risk management was developed to take account of transition so the team was able to provide more dynamic feedback upwards on how key factors were changing. This enabled key risk areas such as transition, people, reputation, finance and relationships with successor bodies to be identified and dealt with in a timely fashion.

The transition programme required the SRA to negotiate individual transfer arrangements, covering both people and functions, with successor bodies. These were designed to ensure that the White Paper was successfully implemented and that wherever possible industry experience was not lost, by matching future staff requirements with current staff availability.

## Implementation of Transition

Once the DfT's implementation plan was produced in March 2005, the SRA developed a much more detailed plan, involving 27 work streams, with people from across the organisation representing the business function and the support teams key to making the transition successful. Of note was the SRA's leading involvement in resolving the major issues around the transferring of finance and IT systems given that the DfT and SRA operated on very different platforms. Each transfer went through the following core process:

1. Agreement reached with successor body about the functions, dates and terms of the transfer, together with the people and contracts involved.
2. Preparation of handover packs which contained the disposition statement setting out the transferred activity in detail, including processes, systems, documents and budget. A 'key issues' analysis was also prepared to ensure that no issues were lost during transfer.

3. For transfers to the DfT, the Scottish Executive and the ORR, preparation by the SRA of the Transfer Scheme made under the Railways Act 2005;
4. Endorsement by the SRA Transition Steering Group, Executive Group and Board that the transfer arrangements and processes were in order to proceed; and
5. Approval and signing of all documents by both the SRA and the successor body.

The detailed transfer dates are contained in the Chief Executive's report on page 6.

# Strategy and Planning

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- 19 Regional Planning Assessments
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## Route Utilisation Strategies

The Strategic Rail Authority's (SRA) Route Utilisation Strategies (RUSs) were concluded with the publication of the Strategies for the Great Western Main Line in June 2005 and the West Midlands in July 2005. The SRA's work to date on the East Coast Main Line (ECML) Strategy was summarised in the ECML Review in June 2005, which was forwarded to the Office of Rail Regulation (ORR) and Network Rail. Network Rail is developing its own programme of RUSs.

The Strategic Planning directorate oversaw the development of the specification for the Greater Western franchise which reflected the principles consulted on in the Great Western RUS early in 2005. In June 2005, the consultation was confirmed by means of an updated Greater Western RUS publication, and was made ready for franchising in the form of a specification

that the Department for Transport (DfT) subsequently consulted on. The specification will, when implemented, lead to an increase in capacity on the crucial route between Reading and London Paddington by introducing greater separation of trains at different speeds. It also suggested that there was a need to explore options on retention of the 'Night Riviera' sleeper service, the 30 minute off-peak service frequency to Cardiff, as well as the frequency of service on some branches. The view we reached was that these options, whilst inevitably controversial, must be examined carefully in an environment in which public expenditure for rail remains tightly constrained. The result of the Greater Western franchise competition was announced by the Secretary of State for Transport in December 2005.

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## Regional Planning Assessments

The Regional Planning Assessment (RPA) programme continued, with the completion of RPAs for the East of England and the North East, which were subsequently published by the DfT. Work was also completed on RPAs for Kent and South East London, the West Midlands and the North West, before handover to the DfT in August 2005. The Southern RPA and the Scotland Planning Assessment were in progress at the time of handover to the DfT and the Scottish Executive, respectively.

The development of the first Regional Planning Assessments represented the most comprehensive assessment of the rail market, and its link with regional spatial and economic trends that have been undertaken since privatisation.

## Railways for All

The SRA published its draft strategy, 'Railways for All' for consultation, in March 2005. There were over 120 responses to the consultation, which closed on 14 June 2005. Funding for the 'Access for All' fund was confirmed and further work on the feasibility of the first tranche of the programme was undertaken to underpin the draft strategy. Responsibility for delivery of the programme was transferred to Network Rail in June 2005. Responsibility for the publication of the final strategy and industry oversight was transferred to the Mobility and Inclusion Unit at the DfT in July 2005.

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## Gauging Policy

During the first quarter of 2005, the SRA held a full consultation on its draft Gauging Policy. The policy set out proposals to allow for the optimal management and use of the rail network in respect of vehicle size and identified long-term target configurations for freight and passenger services.

Following the consultation, the document was reviewed and further liaison was undertaken with the cross industry Vehicle/Structure – System Interface Committee (V/S-SIC) and the DfT. The final Gauging Policy was published on 25 June 2005. Responsibility for the policy was passed to the V/S-SIC which is facilitated by the Railway Safety and Standards Board (RSSB).

## National Rail Travel Survey

Work continued on this major research project. When complete it will hugely improve the quality of data on where and why people make railway journeys. It is being taken forward by the DfT and current indications are that information should be available towards the end of 2006.

# Passenger Operations and Franchising

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## Overview

From April 2005, the Operations directorate focused on the equally important tasks of maintaining the pace and quality of its day-to-day franchise related activities, while preparing for and implementing a smooth and effective transfer of functions to successor bodies.

In relation to ongoing statutory and operational functions, the directorate drove forward the refranchising programme to ensure that the necessary timescales were met, and continued to manage existing

franchises effectively, including substantive negotiations on various franchise issues and changes.

A detailed review was conducted of the financial and productivity performance of the passenger franchises, in particular comparing franchise bids with actuals since 1996/97. This work was done jointly with the Department for Transport (DfT) as a means of transferring the SRA's experience in this area to the Department.

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## Franchising

The key achievements were:

- The new Inter City East Coast franchise, (let to the incumbent Sea Containers), went live on 1 May 2005. This was one of the highest value franchises let, with projected premium payments over the franchise period of £1.3 billion;
- On 31 May 2005, an agreement was concluded with Hitachi to build rolling stock for the new domestic services to run on the high speed Channel Tunnel Rail Link. The agreement is worth around £250 million and will deliver 28 units into service from 2009. This agreement was critical to the further progress of the competition to let the Integrated Kent Franchise. Subsequently, an agreement to build depot facilities was concluded with HSBC/Lloyds in September 2005;
- On 1 June 2005, invitations to tender for the Greater Western and Thameslink/Great Northern franchises were issued, on schedule, to prequalified bidders. First Group were confirmed as operator for both franchises which started on 1 April 2006; and
- Discussions took place with Transport for London (TfL) to prepare an agreement relating to the transfer, to TfL, of Silverlink Metro services.

## Franchise Management

During the period there remained significant activity and monitoring of franchise operational delivery, as well as financial status and associated risk issues.

In addition, franchise managers specifically monitored operator progress towards achieving the industry licence obligation to have timetable information available to the public twelve weeks in advance, ensuring that the nine week pre-booking period was achieved. Additional exercises included the monitoring of operator preparedness, with Network Rail, to cope with hot weather conditions.

Discussions began with Virgin Trains relating to the financial risks around the Virgin CrossCountry franchise, and with National Express on the Midland MainLine and Gatwick Express franchises. Both were taken to the point at which they could be handed over to DfT Rail to conclude.

In addition, the directorate began to process the main closure proposals necessary to allow the Thameslink enhancement project to go ahead.

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## Integrated Kent Franchise

The SRA completed a complex set of transactions prior to the transfer of the project to the DfT in late August 2005. This included the procurement of high speed trains from HSBC Rail and Hitachi, a lease transaction for new depot facilities at Ashford and Folkestone, and agreements relating to ancillary works

and facilitative measures. GoVia (through its subsidiary company London and Southeastern Railway Limited) were announced as the preferred bidder for the Integrated Kent Franchise in November 2005 and took over responsibility for the franchise on 1 April 2006.

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## Closures

Etruria station, close to Stoke-on-Trent on the West Coast Main Line, was closed on 30 September 2005. This followed an SRA-led consultation started under Section 8 of the Railways Act 1993 and the final approval of the Secretary of State for Transport.



# Projects

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## Overview

Since April 2005 the Strategic Rail Authority (SRA) has:

- Managed the transition of the SRA's portfolio of infrastructure projects to successor bodies;
- Managed the development of projects to the point of transition or completion; and
- Supported the strategic direction of portfolio through progress analysis and reporting.

The transition was controlled and managed through a process which defined the responsibilities, status, liabilities and remaining objectives for each project. Industry support for the process was obtained through the Investment Working Group, chaired by the Department for Transport (DfT). Small and medium size projects transferred to Network Rail between April and June 2005, major projects transferred to the DfT in July 2005, and Scottish projects transferred to the Scottish Executive in October 2005. In addition the SRA continued to assist the DfT in the development of other major projects such as Crossrail and Thameslink.

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## West Coast Main Line

Good progress was made in implementing the £7.6 billion West Coast Main Line upgrade, due for completion in 2008, and led by the SRA until its responsibilities for the project passed to the DfT in July 2005.

New timetables for West Coast trains, taking advantage of the 125 mph line speed enhancement south of Crewe, were introduced in September 2004. There are signs that additional business is being generated. Further line speed improvements were commissioned in June 2005 on the section between Crewe and Preston. Timetables were adjusted to provide improved morning and evening peak services, including further timing accelerations. Work was undertaken to upgrade the line north of Preston ready for the December 2005 timetable change,

generating a reduction in the journey times of many of the Anglo-Scottish services.

100 mph 'Inter Regional' electric units have been introduced into service on time, initially for London – Northampton and Northampton – Birmingham services. They will have much wider deployment in the longer term. Work commenced on a new train maintenance depot at Northampton, which will open in the summer of 2006.

The major scheme to widen 19 kilometres of the Trent Valley route to four tracks, essential to remove a major obstacle to growth of passenger and freight traffic, commenced in the period. The target date for completion is 2008.

## Southern Region New Trains Programme

The Southern Region New Trains Programme (SRNTP) has replaced Mark 1 'slam door' stock across the whole of the Southern Region with new sliding door trains. It was a large and complex programme of work, with an estimated final cost of £2.5 billion, including the capital cost of the new trains and the infrastructure works, primarily the Southern Power Supply Upgrade Project (SPSUP). The Programme was overseen by the SRA.

Delivery of 2,025 new vehicles was completed and all 1,738 Mark 1 vehicles were withdrawn by 30 November 2005, the final date permitted by the Health and Safety Executive (HSE) under an exemption to Railway Safety Regulations (RSR) 1999 legislation granted in October 2004.

The power supply upgrade was completed, with 90 Direct Current (DC) substation sites commissioned and in service. 82 new High Voltage (HV) feeder routes were completed by December 2005, representing 309 kilometres of new cable laid. Most of the DC upgrades were on the busy trunk routes between London and Brighton, and Portsmouth and Southampton. The bulk of the HV feeder upgrade was concentrated in the inner

London area, reinforcing the system's ability to withstand overloads and provide alternative feeding during outages.

The works were a mixture of renewals and enhanced supply: for example, the completed Brighton Main Line upgrade is supplying 50 mega watts (MW) more power than before.

There are 116 stations where the platforms are shorter than the trains calling at them. Following consultation with the HSE, it was agreed that the train-borne Selective Door Operation (SDO) systems could be used at 82 of these stations, reducing capital cost by some £150 million. Platforms at the other 34 stations have been extended where a case was made on performance or operational grounds, or where SDO cannot be used.

Train servicing depots and stabling sidings in all three Train Operating Company (TOC) areas are also being upgraded to meet modern standards and provide the facilities needed to service and maintain the new trains effectively. A small element of this work extended into 2006, mainly because of the need to phase the works to minimise the impact on train maintenance and operations.

## National

### **European Rail Traffic Management System (ERTMS)**

In June 2005 the SRA published the third annual report since they took over leadership of ERTMS, a signalling and train control system promoted by the European Union for use throughout Europe. The report summarised the collective work of the industry in taking this project forward; with initial implementation on the Cambrian route for 2008 and plans for national implementation at a later date on the back of the programme for signal renewal.

Responsibility for development and implementation of ERTMS passed to Network Rail. The DfT has taken over the SRA's role of oversight of the project.

### **Global System for Mobile Telecommunications – Railways (GSM-R)**

Responsibility for the Global System for Mobile Telecommunications – Railways (GSM-R), the new standard for radio communication between trains and signallers, lies with Network Rail. The limited oversight role previously undertaken by the SRA has been taken over by the DfT.

## Scotland

The £150 million Edinburgh Waverley station project, designed to improve capacity at a critical bottleneck in the Scottish rail network and access to the station in the heart of the capital city, has made good progress. The development phase is complete and the project was authorised to proceed to implementation, planned for the end of 2007.

As normal, the project has been subjected to a rigorous review and competitive tendering exercise, resulting in bids for construction being returned well within budget. The City of Edinburgh Council granted formal planning consent for improved access by escalators and lifts on the Waverley Steps. The SRA chaired the project development group until October 2005, when responsibility for the project transferred to the Scottish Executive.

Work to prepare parliamentary bills for submission to the Scottish Parliament for the proposed rail links to Edinburgh and Glasgow airports was concluded.

Progress continued on the Edinburgh Tram Bill, which is being promoted by the City of Edinburgh Council and Transport Initiatives Edinburgh Ltd. The SRA gave evidence to the Parliamentary Committee in order to secure protection for the main line railway. This request was granted.

On behalf of the Scottish Executive, the SRA concluded a full feasibility study for a proposed freight gauge enhancement between Mossend terminal near Glasgow and Elgin via Aberdeen. The enhancement will permit the carriage of a range of inter-modal freight units, opening up new market opportunities for rail freight between the north east of Scotland and the rest of the UK. In addition, the SRA managed the development of a business case report in line with the Scottish Executive's Scottish Transport Appraisal Guidance. This showed a strong positive case for the project and allowed the SRA to assist the Scottish Executive in securing approximately £4 million funding for the implementation of the project which is expected to be completed by summer 2007.

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## Eastern

### East Coast Main Line

The new double track chord and associated replacement signal box at Allington was completed and opened to traffic in October 2005, ahead of programme and to budget.

The study into W10 gauge clearance of the East Coast Main Line between Ipswich and the Yorkshire terminals, partly funded by Hutchison Ports, has been completed.

## Other Projects

### **West London Line**

The SRA has supported arrangements for the construction of two privately financed stations at Imperial Wharf and Shepherd's Bush. It is planned that both stations will open in late 2006. The Silverlink franchise terms have been modified to provide a service to the new stations.

### **Birmingham New Street**

Until August 2005, when the project was transferred to Birmingham City Council and Network Rail, the SRA co-ordinated the activities of funders and stakeholders. It supported Birmingham City Council in leading the development of proposals for the regeneration and redevelopment of Birmingham New Street station and its locality.

### **Aylesbury Vale Parkway Station**

The SRA participated in bringing forward a proposal for an extension of the Chiltern Railways route along an existing freight-only line to a new station to the north of Aylesbury. The scheme was developed to pre-feasibility stage and a formal bid was then submitted to the joint Office of the Deputy Prime Minister (ODPM)/DfT Community Infrastructure Fund for transport. Funding from the ODPM was directed to the project through a grant to the SRA, which also oversaw the development work.

### **Tilbury Loop Platform Extensions**

During 2005 the SRA led the development to pre-feasibility level of a proposal to extend all platforms on the Tilbury Loop to permit 12-carriage operations. The scheme development was funded by the SRA as a candidate for implementation funding from the ODPM/DfT Community Infrastructure Fund. The project is intended to introduce new capacity on the corridor and thus contribute to the facilitation of Thames Gateway housing growth.

The pre-feasibility work involved liaison with the TOC and included an operational assessment and engineering studies of the platform locations, the power supply and the depot. An outline delivery programme and business case was also developed. The successful conclusion of these studies allowed a bid for the full implementation funding to be submitted in September 2005.

# Freight

- 33** Overview
- 33** Freight Support

## Overview

During the year, freight team members worked closely with Strategic Rail Authority (SRA) colleagues, Network Rail and external stakeholders on the design, appraisal and funding arrangements for projects to enhance the capability of rail routes serving deep-sea ports, and to promote strategic development projects to expand container or bulk freight handling capacity. In parallel, a comprehensive analysis of the future capability required to handle projected volumes of coal imported for the electricity supply industry was undertaken. Studies of short and longer term freight capacity requirements on other

key routes, such as those through the London conurbation were also undertaken. This work fed into the SRA's programme of Regional Planning Assessments and Route Utilisation Strategies (transferred to the Department for Transport(DfT)/Network Rail in July 2005) and those conducted by successor bodies. To ensure authoritative input, SRA freight team members developed a systematic approach to analyse actual and planned network capacity utilisation by rail freight operators on key sections of route. This system has now been transferred to Network Rail.

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## Freight Support

The operation of the Company Neutral Revenue Support scheme (CNRS), which supports the movement of freight containers by rail, continued in 2005/06. During the period, CNRS faced tighter budgetary constraints than envisaged at the time of conception, and in the initial stages of the award process. Given continuing interest from rail freight users and operators, during the year, the SRA freight team developed innovative and robust methods to achieve best value for money from the funds available. The value for money achieved and information obtained through this approach have contributed to the comprehensive review of rail freight grant schemes which SRA freight team members have subsequently undertaken on behalf of the DfT. The introduction of CNRS resulted in an increase in the choice of services available to rail freight users and supported a 10%

increase in containers moved by rail in the year. The average benefit to cost ratio of schemes, as suggested in business assessments will be 2.37:1.

During 2004/05, acting on behalf of the British Railways Board (BRB), the SRA reached a commercial agreement with EWS to secure the continuity of Channel Tunnel rail freight services until at least 30 November 2006, the expiry date of the guaranteed Minimum Usage Charge payments made by the railways to Eurotunnel under the terms of the 1987 Railways Usage Contract. The terms of the agreement, which was approved by the European Commission in June 2005, mitigate the financial risks facing BRB and the SRA, and encourage EWS to engage with other stakeholders to seek longer term solutions to improve the economics of Channel Tunnel services.

# Community Rail Development

**35** Overview

**36** Pilot Lines

## Overview

Work continued on the implementation of the Community Rail Development Strategy which had been launched in November 2004. The Strategy was designed to provide a national framework within which greater local autonomy would be possible, with solutions being developed appropriate to local needs – new life for local lines.

The three objectives of the Strategy are:

- Increase passenger numbers and revenue;
- Reduce costs through careful and appropriate specification of requirements; and
- Encourage closer involvement of local communities.

The Strategy is one of the commitments in the Government's 'The Future of Rail' White Paper and work was successfully transferred to the Department for Transport (DfT) in August 2005.

A national steering group established by the SRA and comprising key rail industry parties, local authorities and the Association of Community Rail Partnerships (ACoRP) continued to manage the implementation of the Strategy with a seamless transition to DfT sponsorship.

Achievements in implementation included the designation of the first Community Rail lines. This status gives more freedom to local stakeholders and management to tailor the service to meet their needs whilst furthering the overall objectives of the Community Rail Development Strategy. Prior to the transfer to the DfT, three lines

were designated – St Ives Bay, Watford – St Albans, and Esk Valley Railway (Middlesbrough – Whitby). Additionally, much of the groundwork for the designation of several other lines was completed.

On the ground, the biggest changes were seen on the St Ives Bay Line where services were added and timetables changed to better serve the important park and ride service to St Ives town. Fare levels were also increased for some passengers to improve the financial viability of the service. The net result was more passengers and more revenue and a larger contribution to the economy of south west Cornwall.

We also saw improved promotion of services, station enhancements and a more co-operative relationship between the railway and the community it serves on many lines around the network. Community Rail only works when the whole industry and local stakeholders work together, and it was pleasing that this joint working was a key feature in many places.

## Pilot Lines

The main SRA focus was on the pilot lines – St Ives Bay, Looe Valley, Tamar Valley (Plymouth–Gunnislake), Abbey Line (Watford–St Albans), Poacher Line (Grantham–Skegness), Penistone Line (Huddersfield–Barnsley–Sheffield) and Esk Valley (Middlesbrough–Whitby) – but there was work on many other lines and it was pleasing to see local partnerships being established to support lines in a number of places including Wales, Staffordshire, Lincolnshire and the Isle of Wight.

One particularly pleasing development on a non pilot line was the retention of Mark 1 ‘slam door’ rolling stock on the Lymington Line. This South West Trains initiative was prompted by the Community Rail Development Strategy and brought a number of benefits. Firstly, the Mark 1 trains are now the only ones running on the network and over time are expected to become something of a tourist attraction in their own right. Consequently, the two trains and the stations used on the service have been painted in historical liveries. Secondly, the costs of the trains are significantly lower than the new trains which would otherwise be deployed on the branch. Thirdly, the planning for the launch and operation of this initiative brought together the community served by the line and this should help in maintaining a positive working relationship in future.

In May 2005 the SRA supported the first ‘Community Rail Day’ which was intended to raise the profile of local rail services around the country. Various initiatives took place ranging from on-train treasure hunts to sampling local foods in Cornwall. The day was well received by the local community.

The Community Rail Festival and Awards were held in Norwich in September 2005. This event showed the momentum that has now built up behind the development of Community Rail. The event was organised by ACoRP and was attended by a number of prominent industry figures who saw what could be achieved by the efforts of the industry working with local stakeholders and, in some cases, volunteers. The SRA Community Rail Team, and Chris Austin, the Executive Director in charge of the project, received a special award at the event for work in developing Community Rail.



# Review of BRB (Residuary) Limited

# Review of BRB (Residuary) Limited

**Chairman** G W D Sutherland

**Directors** T A Jenner  
C W W Pierce  
P C Trewin

**Registered Office** Whittles House  
14 Pentonville Road  
London N1 9HF

Up until 20 August 2005, BRB (Residuary) Limited was a wholly owned subsidiary of the Strategic Rail Authority (SRA). It managed the majority of the remaining property, rights and liabilities of the British Railways Board (BRB) that were transferred to the SRA on 1 February 2001. In particular, this included a property estate and any remaining obligations to both former employees of the BRB and businesses sold during the privatisation process.

## Review of the Company's Main Activities

The Company has three main streams of activity; property, residual liabilities and other, of which property is itself divided into the management and sale of non-operational property, the administration of the admin office portfolio and the maintenance and repair of the burdensome estate. Each of these activities is now reviewed in turn.

## Management and Sale of Non-Operational Property

With the separation of Railtrack (now Network Rail) from BRB in April 1994, ownership of operational land (the bulk of the BRB estate) was transferred to Railtrack, the track authority. The BRB retained land and buildings no longer required for the operating railway and it was the remnants of this estate that were passed to the SRA on 1 February 2001 as part of BRB (Residuary) Limited. At the beginning of April 2005 some 735 non-operational sites, with a book value of £126.3 million, formed the Company's estate. The management and sale of

the non-operational estate is achieved through an incentivised property management outsourcing contract with Lambert Smith Hampton.

The Company disposes of land in the context of the SRA's strategies. Sites with a realistic prospect of rail or other transport use in the foreseeable future are retained or sold for those purposes. Building on the work of the Property Advisory Group, the Company and the SRA set up a dedicated resource to appraise the net transport benefit of sites retained for potential transport use. As part of the appraisal, external consultation exercises are undertaken with devolved administrations, Transport for London, Passenger Transport Authorities, local transport authorities, Train Operating Companies and other stakeholders. Consultees are asked to identify possible rail or integrated transport uses for sites. Taking into account the responses, and also responses to earlier external consultation exercises and economic appraisals, the SRA's Property Review Group either authorised the sale of sites, granted conditional release for disposal for transport purposes or requested retention for future transport use.

In respect of those properties authorised for disposal, the Company's policy is to act as quickly as is consistent with deriving best value for the taxpayer. In this task professional external advisers assist the Board of the Company.

The Company continued to be involved with operational, as opposed to non-operational property matters, including the siting of new light maintenance depots on land owned by the Company at

Northampton, and Eastfield in Glasgow together with the resiting of a depot from Thornton's Field in East London to the Lea Valley Interchange.

The Company also invested much time and effort in its relationship with Network Rail so as to ensure that its sales target was achieved and that related property matters were resolved smoothly.

### **Management of the Office Admin Portfolio**

The Company continued to hold some 1.8 million square feet of office space in administration buildings, much of which is rented out to the BRB's former subsidiary companies.

The occupancy rate continued at a high level reflecting the Company's strategy of maximising the rental income from the properties. However, mainly due to the onerous nature of the leases on which the Company holds these properties, the portfolio continues to incur a loss with a provision to cover the onerous nature of those leases standing at £121.5 million at the beginning of April 2005. The Company continues to investigate innovative proposals for reducing the liabilities imposed by these leases, but to a very significant extent it is in the discretion of its lessors as to whether and then when, such proposals can be taken forward. It has however, embarked on a strategic review of the options for the long-term future of the estate.

The estate is managed through an incentivised property management

outsourcing contract with Sanderson Weatherall. As with the non-operational property management contract, this contract gives the agents, within pre-agreed parameters, authority to manage the portfolio for the good of the Company.

### **Burdensome Estate**

The Company has responsibility for some 4,000 structures such as bridges, tunnels and viaducts on closed branch lines. Efforts continue to dispose of these liabilities and whilst a number have been successfully transferred to other bodies, the majority remain a liability of the Company. Its policy is to maintain them in safe condition which costs around £6 million a year on average. In partnership with the Railway Heritage Trust, the Company is helping to restore a number of these structures. The Company is conscious of the need to ensure that these structures do not become a magnet for vandalism and other antisocial activities, and in a number of areas is continuing to work with local authorities, the police and charitable institutions to put in place measures to stop those activities.

### **Residuary Liabilities**

As a major employer for nearly half a century (with up to three-quarters of a million employees at one time) and as an operator of trains, ships and hotels for most of that time, the BRB on privatisation retained responsibility in the great majority of cases for industrial injuries and employment and environment-related claims resulting from its activities during

that period. In some instances claims do not arise until many years after the relevant employment ceases (e.g. medical conditions may not develop until much later).

At the beginning of April 2005, 1,299 such claims were still outstanding against the Company, including 197 mesothelioma claims, 145 asbestosis claims, 255 pleural plaque claims, 363 vibration white finger claims and 311 industrial deafness claims. The cost of meeting such claims is some £12 million annually with a provision for future claims of the order of £250 million.

The Company's policy with regard to the handling of these claims is, that where legal liability rests with the Company, to settle them as expeditiously as possible.

Privatisation involved splitting the BRB into more than 100 different companies and transferring most of them to new private sector owners. Most sales required the BRB to offer certain warranties or indemnities to its new owners, although nearly all of the warranties and a significant number of the indemnities have now expired.

### **Other Activities**

The Company undertakes a number of other activities.

### **Pensions**

The Company was responsible, on behalf of the SRA, for the stewardship of the employer's responsibilities in relation to certain historic Pension Schemes.

## Railway Heritage Committee

The Company, on behalf of the SRA, sponsored the Railway Heritage Committee. The Railway Heritage Committee was established under the Railways Act 1993 and its purpose is to identify and 'designate' railway records and moveable artefacts of historical significance that merit preservation, and to agree their disposal to appropriate archives and museums when no longer required in service. Subsequent legislation has brought the privatised railway and the SRA into scope.

## Staffing

The Company employs some 25 staff. It continues to follow its well-established personnel policies and practices which were designed to promote equal opportunities amongst all its employees regardless of gender, race, colour, marital status or disability.

## Corporate Governance

The main business risks faced by the Company continued to be monitored and the results have been incorporated within the SRA's own risk management strategy. The Board of the Company have placed particular emphasis on ensuring that its safety responsibilities arising out of the maintenance of the burdensome and non-operational estate are understood and met; that since so much of its activities are outsourced, its contracts with those suppliers are properly drawn up and monitored, and finally, that the privatisation

obligations of the BRB, now assumed by the Company, are not increased or adversely modified.

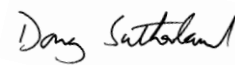
## Government Guarantee

A minute was laid before Parliament on 25 January 2001 concerning the liabilities transferred from the BRB to the Company. Consistent with this minute, the Secretary of State for Transport has given an assurance that the Government will ensure that adequate funds will continue to be made available via the SRA to meet any financial obligations of the Company arising from its present or future liabilities, or liabilities arising out of past transactions, events and circumstances. The provision of any funds necessary to give effect to this assurance would be made under Paragraph 7 of Schedule 14 to the Transport Act 2000 and would be subject to the normal supply procedures.

## The Future; Preparing the Company for New Owners

One of the outcomes of the Government's 2004 Rail Review was the proposal to abolish the SRA. Consequently, it has been decided that the Company should be transferred to the ownership of the Secretary of State for Transport. As a result, the Company has prepared itself for transition, particularly in the areas of critical support service resource and aligning new contracts with the medium-term plans of the Department. The transfer of the Company by statutory transfer scheme to the Secretary of State took effect from 21 August 2005. At the time of

transfer, the Company had made good progress towards achieving its objectives for 2005/06, the key target being to sell £40 million of property in the year to which the sale of the Main Headquarters and West Offices complex in York made a significant contribution.



**Doug Sutherland**  
Chairman  
BRB (Residuary) Limited

# South Eastern Trains Limited

Record of Achievement

9 November 2003 to 31 March 2006

43 Overview

47 Directors and Officers

# Overview

## Introduction

South Eastern Trains Limited (SET) traded as a Train Operating Company (TOC) from 9 November 2003 until 31 March 2006. It was formed by the Strategic Rail Authority (SRA) to provide train services in South East London and Kent following the early termination of the Connex South Eastern (CSE) franchise and whilst a new franchise was let to the private sector. SET ceased to be a Train Operating Company at 02:00 on 1 April 2006 when GoVia Limited became responsible for the franchise through its subsidiary London and Southeastern Railway Limited.

SET inherited many challenges. The priority was to stabilise the Company, put it on a sound business footing and prepare it for re-franchising. Throughout this process it continued to run approximately 1,700 train services per day and carried around 120,000 passengers during each weekday peak (and 400,000 people every weekday), servicing 182 stations and 773 kilometres of track.

This record summarises what was achieved.

## Strategic Objectives

The Strategic Rail Authority discharged its shareholder and stewardship responsibilities for SET through a Subsidiary Company, South Eastern Trains (Holdings) Limited (SET(H)) which determined that SET needed to deliver against three key objectives:

- Stabilise the company and its overall operational and financial performance;

- Deliver cost-effective improvements to its service; and
- Build a company that optimised the potential attractiveness to any new owner whilst delivering for customers the daily requirements.

These strategic objectives were translated into a detailed business plan by SET.

## Management and People

SET was fortunate to inherit Michael Holden as its Managing Director. By November 2003 he was already building his management team, a task that was completed in March 2004. There were no subsequent changes to the senior executive team and their names are recorded at the end of this report.

SET inherited 3,456 employees with a vacancy gap of nearly 8%. This shortfall severely impacted SET's ability to deliver its operational targets and immediate steps were taken to bring the company up to strength. By 31 March 2005 the company employed 3,823 people, and on 31 March 2006 it employed 3,903 people, reducing the vacancy gap to 4.0%.

Actions taken by the management team, including the introduction of Management Core Skills training and work on SET values and behaviours, succeeded in improving staff satisfaction from 22% of employees saying that they had a positive opinion of SET as an employer in 2003, to 38% in 2004 and 51% in 2005.

## Processes

SET improved the underlying financial systems and processes that were inherited from Connex South Eastern, crucially achieving consistency, and introduced a robust internal control framework and financial forecasting processes, including a comprehensive risk register. The National Audit Office concluded in December 2005 'that SET strengthened its financial management as a subsidiary of the SRA'. The business was measured by a set of key performance indicators that covered customer perception, financial performance, operational processes and impact on employees. These measures were cascaded to form the basis of departmental and individual targets and objectives, and were reviewed on a periodic basis by the Executive team and SET Board. In November 2003 there were over 500 projects underway, most without clear documentation or financial assessment. The introduction of a small project support office ensured that from May 2004 all project activity was underpinned by an approved business case and that progress and risks were assessed every four weeks.

An extensive programme of internal audits carried out by Ernst and Young judged that 65% of the activities audited, met or exceeded expectations. The actions from the audits were tracked by SET and by 31 March 2006, 98% of actions had been closed out.

Processes associated with the management of safety are discussed elsewhere in this report.

## Operational Performance

Punctuality and reliability improved substantially during SET's operation. The key Public Performance Measure (PPM) improved from 79.6% in November 2003, to 84.2% in March 2005 and 87%<sup>1</sup> in March 2006. This was achieved by a clear focus on the basics of running the service, successful co-location arrangements with Network Rail in an integrated control centre and Network Rail's improvements in infrastructure delivery.

Customer satisfaction with the reliability of the train service (the percentage of customers saying that reliability was good or very good) rose from 31% in Quarter 3 2003 to 51% in Quarter 3 2005.

## Income

Farebox income increased by 5.2% year on year. This was despite a £4 million loss of income following the terrorist attacks in London during July 2005, which resulted in a significant decrease in leisure travel and discretionary business travel. This income growth further narrowed the gap between SET and the London and South Eastern TOC average fare growth. SET growth at March 2006 was 0.6% points lower compared to 6% points lower in November 2003.

An integrated marketing campaign launched in June 2005, and developed throughout the year, was instrumental in driving an increase in income from leisure travel by 8.6%.

## Passengers

Passenger satisfaction with the service offered by SET improved steadily after November 2003 when only 51% were positive about the train service or the stations. This rose to 77% satisfaction with the train service and 75% with the stations in March 2006.

One aspect showing marked improvement was the quality of passenger information, with an increase from 42% in November 2003 to 55% of passengers saying information was good or very good in March 2006. This was achieved by new customer information displays being installed across nearly all stations, information controllers relocated to the new service delivery centre to sit with their colleagues running the train service, a revamped website which provided more accurate and timely information and links with National Rail Enquiries and Radio Kent to make all information accessible to the greatest number of passengers.

In March 2005 SET introduced an in-house Customer Relations department and an out-sourced call centre to handle customer service, improving customer satisfaction with how their complaints were dealt with from 42% saying it was handled well or very well, up to 57%.

## Fleet

SET delivered a number of successes in terms of fleet management, including; the first recent 100% on time and to budget train refurbishment in the industry,

<sup>1</sup> This is 0.3% higher than published in National Rail Trends due to averaging differences.

completing SET's 'New Trains' introduction programme on time, improving the reliability of the fleet of Networkers by 100% and that of Electrostars by more than 200%, while reducing the delay minutes attributable to fleet by around 40% compared to levels two years previously.

Several long-term structural changes were firmly embedded in the fleet management organisation, namely the use of 'War Rooms', the quarterly strategic planning and action-oriented review cycle, the execution of Engineering Process Checks by Competency Assessors, the management and control of rolling stock risk through a project oriented risk register, and the management of projects according to structured project management techniques. Whilst the focus during the SET custodianship was on the recovery and re-establishment of fleet management practices, the foundation was established allowing for further business improvement initiatives to build on these successes.

The presentation of the fleet was improved and the percentage of vehicles receiving an overnight clean increased from 45% in November 2003, 80% in March 2005 to 92% in March 2006. Measures were taken to combat graffiti and vandalism, including use of anti-graffiti paint and scratch-resistant film on windows. Where possible, offenders were caught and prosecuted, one particular case leading to a custodial sentence being imposed.

The percentage of passengers saying that the cleanliness of the train was good or very good increased from 20% in November 2003 to 40% in March 2006.

## Station Improvements

SET made the improvement of the station environment a major focus. All stations were deep cleaned at least once with 63% being repainted. There were improvements in the maintenance and repair of stations, including the provision of waiting shelters, cycle parking, toilets, and seating. Customer information systems and 24 hour centrally monitored CCTV, with high specification lighting, were introduced on 43 metro stations. A completely new station was opened at Hastings in 2005 and a major refurbishment was completed at Chatham in 2006. The refurbishment of Dover Priory was under way as of 31 March 2006.

The percentage of passengers saying the upkeep and repair of stations was good or very good, increased from 23% in November 2003 to 36% in the customer satisfaction survey in December 2005.

The facilities for purchasing tickets were improved, with the introduction of new ticket issuing machines in the ticket offices at all staffed stations, and new self-service ticket machines at 104 stations. SET was the first TOC to introduce the renewal of monthly season tickets at self-service machines, reducing the Monday morning ticket office queues.

## Revenue Protection

The introduction of a dedicated conductor management team delivered a step change in the performance of conductors. The improved visibility, as measured by customer surveys and SET internal measures, resulted in improved customer

satisfaction with the helpfulness of staff on trains. It has also facilitated an increase in income from conductor ticket sales, rising from £10 million in 2003/04, £11.6 million in 2004/05 to £12.9 million in 2005/06.

SET intensified its revenue protection activity by staffing gatelines for extended periods at all its gated stations, and using mobile Revenue Protection Officers to tackle fare evasion. SET extended the penalty fare areas across Kent from March 2005. The number of penalty fares increased from 43,000 in 2003/04, just under 56,000 in 2004/05 to just over 56,000 in 2005/06.

## Information Technology

Since November 2003, SET replaced or upgraded the entire IT infrastructure. A converged network, carrying voice, data and video/CCTV, was developed linking 162 sites to replace an unreliable network linking only 32 sites. Two new data centres were established to deliver applications to users with over 99.99% reliability and with continuity down to less than 30 minutes to restore all key operational systems.

This improvement in IT systems and networks was instrumental in enabling SET to deliver service and customer satisfaction improvements by providing the core capability that over 100 improvement projects have required.

## Safety and Security

SET performed well against its safety targets and saw improvements in most measures. This was achieved by a major

reorganisation of the approach to safety management, and an audit of the SET Safety Case revealed no non-compliance. In the last full year of operation, Connex South Eastern had seven 'Signals Passed at Danger' (SPADs) with greatest potential harm. This was reduced to one in the last year of SET operation. The emphasis on safety made SET a safer place to work, with workforce injuries, which resulted in lost time, reduced from 38 in the year up to November 2003, to 16 in the year up to March 2006. It is particularly gratifying to note that there were no staff or passenger fatalities.

Following the Madrid bombings a capability was put in place to respond to major security issues and SET therefore coped well with the aftermath of the London Bombings in July 2005.

Improving passenger and staff security was of key importance to SET, and the introduction of a centralised CCTV monitoring suite, covering most of its stations within Greater London, integrated within the service delivery centre, enabled efforts to combat crime to be effectively co-ordinated. Integral to the security strategy was the introduction of 40 Rail Enforcement Officers. These were specially trained staff accredited by the British Transport Police, with powers to enforce railway byelaws, who provided a reassuring presence to passengers at times and places where they felt most vulnerable.

### Subsidy and Financial

SET operated in accordance with an agreed three year Business Plan,

with budgets and subsidy annually approved by the SRA/DfT. The subsidy was set at:

Financial Year	Subsidy £ million
2003/04	51.6
2004/05	80.7
2005/06	80.2

The planned increase in subsidy was as a result of increased Track Access Charges and associated regulatory changes, together with investments SET made in its core business e.g. additional staff, new fleet and tackling a backlog of cleaning and repairs.

Against these budget targets, SET consistently delivered a strong set of financial results reflecting reductions in the rolling stock lease charges, related compensation payments and good operational control. In addition, farebox income was strengthened by focused marketing. Consequently the subsidy required by SET was reduced by £10.6 million during its period of ownership, to

Financial Year	Subsidy £ million
2003/04	50.7
2004/05	68.7
2005/06	82.5

The National Audit Office Report in December 2005 concluded that 'SET's costs to the taxpayer have therefore been well controlled to keep them within the SRA's original estimate'.

### Integrated Kent Franchise (IKF)

SET worked with the SRA to maximise the value and attractiveness of SET, to support the IKF refranchising and to provide a smooth and efficient transfer to new ownership in April 2006.

### Conclusion

The three key objectives set for SET were met, and this stands as a testament to the hard work and dedication of the management and staff involved, together with suppliers – in particular Network Rail. An inherited loss-making organisation, with poor customer satisfaction, reliability and punctuality levels, has been turned round.

Whilst at the point of transfer there is still much to do, SET during its two and a half years existence did deliver steady and continuous improvement to the rail services in South East London and Kent. It has handed over to GoVia Limited a company that is well placed to build on the foundations that have been laid and we wish our successors well.



**Doug Sutherland**

Chairman

South Eastern Trains (Holdings) Limited

# Directors and Officers

9 November 2003 to 31 March 2006

## South Eastern Trains (Holdings) Limited

### Company Board

Doug Sutherland  
John Nelson  
Cedric Pierce  
Frank Johnson  
Peter Trewin

Chairman  
Non-Executive Director  
Business Development Director  
Finance Director (until June 2004)  
Company Secretary

## South Eastern Trains Limited

### Company Board

Nick Newton  
Michael Holden  
Chris Cornthwaite  
David Rayner  
Tony Roche  
Kathryn Devereux

Chairman  
Managing Director  
Finance Director  
Non-Executive Director  
Non-Executive Director  
Company Secretary

## South Eastern Trains Limited

### Executive Team

Michael Holden  
Andy Byford  
Gary Cooper  
Chris Cornthwaite  
Nigel Cotton  
Janet Somerville  
Phil Verster  
Alex Warner

Managing Director  
Operations and Safety Director  
Change Director  
Finance Director  
Human Resources Director  
Commercial Director  
Engineering Director  
Retail Director

# Accounts

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# Foreword

We have pleasure in presenting the report and audited financial statements for the year ended 31 March 2006.

## History of the SRA and its Statutory Background

The Strategic Rail Authority (SRA) is a Non-Departmental Public Body created by the Transport Act 2000. The following were vested to the SRA either as part of the Transport Act 2000 or under transfer schemes empowered by this Act on 1 February 2001:

- The activities, assets, rights and liabilities of OPRAF (Office of Passenger Rail Franchising). The legal powers of the Franchising Director were transferred to the Authority;
- The activities, assets, rights and liabilities of the British Transport Police (BTP);
- All of the subsidiaries of the British Railways Board which includes BRB (Residuary) Limited, the subsidiary which contains the assets and liabilities (other than cash and debt) which historically belonged to the British Railways Board;
- The assets, rights and liabilities of the consumer licensing functions formerly undertaken by the Office of Rail Regulation (ORR);
- The assets, rights and liabilities of the Rail Passengers' Council (RPC) and its regional committee structure formerly undertaken by the ORR; and

- The assets, rights and liabilities of the freight grants section formerly provided by the predecessors to the Department for Transport (DfT).

Network Rail Limited acquired Railtrack plc on 3 October 2002. As part of the arrangements for establishing Network Rail, the SRA had certain rights and obligations relating to Network Rail. Compliance with UK accounting standards has led to the inclusion of Network Rail as a quasi subsidiary of the SRA in previous years.

The SRA issued a notice to terminate the Connex South Eastern franchise in June 2003. On 9 November 2003 the SRA took over the activities of Connex South Eastern by virtue of a transfer scheme in accordance with the Transport Act 2000. These activities were operated by a subsidiary called South Eastern Trains Limited, which is wholly owned by South Eastern Trains (Holdings) Limited, which is itself wholly owned by the SRA.

On 1 July 2004 the functions and activities of the BTP were transferred to the British Transport Police Authority. This is a new Non-Departmental Public Body, sponsored by the DfT.

On 7 April 2005 the Railways Act 2005 was passed. This paved the way for the abolition of the SRA. During 2005/06 functions were transferred from the SRA to successor bodies. This included the majority of the subsidiaries of the SRA, and the RPC whose activities have transferred to a new Non-Departmental Public Body sponsored by the Department for Transport.

As per the Accounts Direction, for the purpose of these accounts the term Authority is used to describe the SRA and its subsidiaries.

### Accounting Requirements

The accounts have been prepared in accordance with the Accounts Direction set out in Appendix 1 of this document. These require that Government guidance on the preparation of accounts is followed. This guidance provides that where there is a machinery of Government change, the transfer of balances should be accounted for under merger accounting principles. The abolition of the SRA and the transfer of substantially all of its functions has been considered a machinery of Government change, and therefore these accounts have been prepared under merger accounting principles.

### Going Concern

As at 31 March 2006, substantially all of the functions of the SRA have been transferred to successor bodies. With the abolition of the SRA now imminent, it is no longer appropriate to prepare the accounts on a going concern basis. However, as the assets, rights and liabilities of the SRA have been transferred to successor bodies at their value on date of transfer, unless balances relate to activity not transferring, there has been no adjustment to the value of assets and liabilities in the accounts. Balances at 31 March 2006 will be transferred to successor bodies under a statutory transfer scheme.

### Results for the Year

The Annual Report and Accounts have been prepared to meet the requirements of the Railways Act 1993, section 75 and the Transport Act 2000. Details of the financial results are set out on pages 59 to 90 and a review of the year's performance is included in the Financial Review on pages 12 to 13. The result was a surplus for the year of £75.9 million. These results have arisen largely due to timing differences. After adjusting for timing differences, the Authority lived within the targets laid down by the Department for Transport.

### Activities

Full details of the Authority's activities, key events and changes during the year are contained in the Chairman's and Chief Executive's statements and Finance Director's report. This report should also be read in conjunction with the Business Review on pages 14 to 36 and the Statement on Internal Control on pages 54 to 57.

### Research and Development

During the year the Authority has transferred its work in a number of areas which support the overall development of the railway industry.

### Charitable Donations

The Authority has adopted the policy of supporting administratively, individually sponsored fund raising in the SRA offices, limiting this to four national charity events

per annum. The Authority does not make corporate donations to charity.

### Members and their Interests

The present Board Members are listed on pages 8 and 9. Details of the Members' service agreements are given on page 71.

### Chairman and Chief Executive

David Quarmby was part-time Chairman of the Board 2005/06. Following his departure on 31 March 2006, Pen Kent was appointed as Chairman of a significantly reduced Board. Nick Newton is Chief Executive. The Chief Executive is a member of the Board.

The Chief Executive of the Authority is also the Accounting Officer. The responsibilities of the Accounting Officer are set out in the Authority's Financial Framework which is available on the website ([www.sra.gov.uk](http://www.sra.gov.uk)).

### Statement of Board Members' Responsibilities

Together with the Chairman, the Board has the following responsibilities:

- Maintain regularity, propriety and value for money in the Authority's activities;
- Ensure that high standards of corporate governance are observed;
- Establish the overall strategic direction of the organisation (however this has been focused around the closure of the SRA in the financial year);

- Ensure that the organisation operates within its overall limits of authority, and has taken account of any guidance issued by the Government; and
- In preparing the accounts, select suitable accounting policies and ensure that these are applied correctly, consistently and using reasonable judgements and estimates.

### **Audit Committee**

Formally, all non-Executive Members of the SRA Board are ex-officio members of the SRA Audit Committee. However, the SRA Board has appointed from its non-Executive Members not less than two Members to sit on the Audit Committee. The Committee Members during 2005/06 were Pen Kent, Willie Gallagher, Janet Lewis-Jones and David Quarmby, with Janet Lewis-Jones leaving the Board and Audit Committee in August 2005, and Willie Gallagher leaving the Board and Audit Committee in October 2005. The Committee was chaired by Pen Kent. The terms of reference for the Audit Committee were amended to reflect the need to address transition related risks. The Committee's role is to assist Board Members to discharge their responsibilities for ensuring that:

- Proper accounting records are maintained to provide accurate and up-to-date information on the Authority and the Group's financial position;
- The published financial statements are a true and fair reflection of the Authority and the Group's financial position;

- Appropriate accounting policies and financial controls are in place; and
- An appropriate and effective framework for identifying and managing the material risks to the business is in place.

Throughout the period, external and internal auditors had independent access to the Chairman and Members of the Committee.

### **Auditors**

The Comptroller and Auditor General is the statutory auditor of the Authority. The audit of the Authority is undertaken by PricewaterhouseCoopers LLP on behalf of the Comptroller and Auditor General.

### **Remuneration Committee**

Terms and conditions for Board Members were set by the Secretary of State for Transport. The Secretary of State appointed the Chairman and, after consultation with the Chairman, other Members of the Authority. The Authority had a Remuneration Committee under the chairmanship of Pen Kent. Other Committee Members were Willie Gallagher, David Grayson and David Quarmby. All Committee Members, except Pen Kent, had left the Board by 31 March 2006. It made recommendations to the Board as to the pay, terms and conditions of employment of the Chief Executive which were subject to the approval of the Secretary of State. In addition it kept under review the structure of remuneration in the Authority and the remuneration arrangements for Executive Directors, including terms of retention payments to

key members of staff whose contribution was critical to the meeting of the SRA's reducing statutory responsibilities and to the orderly winding down of activities.

Current contracts of Board Members comply with the provision in the Combined Code regarding remuneration policy, service contracts and compensation with the exception of performance related pay and notice periods. Full details of Board Members' remuneration, benefits and contract expiry dates are given in note 5 (e) to the financial statements.

### **Investment and Procurement Committee**

This Committee approved all investment expenditure between £250,000 and £50 million and all procurement contracts let over £0.5 million. The Board approved all expenditure over £50 million. The Committee was chaired by the Chairman of the Board, David Quarmby who, together with Jeremy Mayhew, Jim Steer and Doug Sutherland, made up the Committee. Jim Steer left the organisation in July 2005. The Committee operated throughout the year.

### **Franchise Committee**

This Committee considered issues relevant to the replacement of franchises, including franchise strategy and significant issues of franchise policy. Nick Newton, Lew Adams, David Grayson, Millie Banerjee and Willie Gallagher sat on this Committee which was chaired by David Quarmby. This Committee ceased to operate when the final franchises transferred in October 2005.

### **Equal Opportunities and Employee Involvement**

The Authority valued its employees and recognised their role in enabling the organisation to achieve its objectives. This was reflected in the Board's commitment to effective employee communications and equal opportunities. The Authority had a staff council which acted as a focal point for staff concerns and overarching development, which was crucial during this period of significant staff change.

The Authority's policy was to recruit, employ and develop staff on the basis of the suitability of their qualifications and experience for the work to be performed, regardless of sex, marital status, creed, race, nationality or disability.

### **Environmental Management Policy**

The Authority had environmental management policies in place during the year and recognised the role of business in contributing to increased environmental awareness. Features during the period included:

- Paper and cardboard recycling;
- Waste compaction;
- Green Travel; and
- PC recycling.

### **Better Payment Practice**

The Authority's policy was to pay bills in accordance with agreed settlement terms in line with the principles of the CBI Prompt Payers Code, which aims to encourage best practice in dealing with the payment of bills. Average creditor days in 2005/06 were 22 days.

Signed for and on behalf of the Board on 6 July 2006.



**Nick Newton**  
Chief Executive  
Strategic Rail Authority

# Statement of Accounting Officer's Responsibilities

The Chief Executive is responsible to the Board for the day-to-day operations and management of the SRA. The Chief Executive has been designated by the Accounting Officer of the Department for Transport as the Accounting Officer for the SRA. The Accounting Officer is responsible for ensuring regularity, propriety and good value for money in the management of public funds and all other resources for which he is responsible; and for the day-to-day operations and management of the SRA.

The Accounting Officer of the SRA is responsible for preparing financial statements which give a true and fair view, and for making available to the auditors all relevant information for their purposes. So far as the Accounting Officer is aware, there is no relevant audit information of which the SRA's Auditors are unaware. Further, the Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information, and to establish that the SRA's auditors are aware of that information.

In exercising these responsibilities, the Accounting Officer is required to:

- In accordance with the Financial Framework between the Authority and the Department for Transport, to meet the requirements of the Transport Act 2000 and to follow the Accounts Direction.

- In accordance with the Transport Act 2000, to prepare in respect of each financial year, a statement of accounts giving a true and fair view of the state of affairs and the income and expenditure of the Authority.
- Ensure that the relevant guidance for Non-Departmental Public Bodies is followed, including the Financial Reporting Manual.

In preparing the accounts, the Accounting Officer is required to comply with the Accounts Direction, and in particular to:

- a) Observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- b) Make judgements and estimates on a reasonable basis;
- c) State whether applicable accounting standards have been followed, and disclose and explain any material departures in the accounts; and
- d) Prepare the accounts on a going concern basis.

## Statement on Internal Control

### 1. Scope of Responsibility

As Accounting Officer during this transitional period to closure of the SRA, I continue to share with the rest of the Board of the SRA, responsibility for maintaining a sound system of internal control. I also safeguard the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

The Board and I are accordingly making a joint statement on internal control within the SRA. I am Chief Executive as well as Accounting Officer. Hereafter 'the Board' includes myself, in both roles, as well as the rest of the Members of the Board.

The statement that follows relates to the SRA group including South Eastern Trains Limited (SET). Sections 2 to 5 relate to the core SRA operation and its wholly owned subsidiaries other than SET, Sections 6 to 7 refer specifically to Network Rail (responsibility for which transferred in June 2005 to the Department for Transport), and the Rail Passengers' Council (RPC) (which became a separate Non-Departmental Public Body in July 2005). Due to the application of merger accounting principles, as specified within the Financial Reporting Manual issued by the Financial Reporting Advisory Board, neither Network Rail nor the RPC has been included within the consolidated accounts. Their results have been included in the SRA's supplementary accounts for the period up to transfer to successor bodies in order to provide a record of the SRA's stewardship and as set out in Appendix 2

on pages 98 to 105. Section 8 relates specifically to SET.

### 2. The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risks of failure to achieve the policies, aims and objectives of the SRA; it can therefore provide reasonable but not absolute assurance of effectiveness. The system of internal control is based on a continuous process, designed to identify and prioritise the risks to the achievement of the SRA's 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. The system of internal control has been in place in the SRA for the whole of the transition year ended 31 March 2006 and up to the date of approval of the Annual Report and Accounts, and accords with Treasury guidance. As mentioned in Section 8, SET had in place a system of internal control for the year to 31 March 2006 but its primary franchise assets were sold to GoVia Limited on 1 April 2006.

### 3. Capacity to Handle Risk

During this transition year, the main responsibilities and functions of the SRA, including people, were transferred to successor bodies. The Executive Group

continued to lead the risk management process and is primarily responsible for the effectiveness of the risk management and internal control framework that delivers the Board's policies on risk management and internal control.

The Executive Director of Business Management and Transition provided leadership and co-ordination for risk management at all levels of the organisation, including the transition programme. This leadership was supplemented by the Transition Steering Group and the various Transition Working Groups which managed transition and transfer risks at a working level. The transition teams were supported by the Transition Committee of the Board which included Board members with specific experience of change programmes.

Leadership training continued to be provided for employees, with an emphasis on managing transition issues and achievement of objectives.

#### 4. The Risk and Control Framework

The SRA transition programme, which provided a framework for managing the orderly transfer of SRA functions and activities to successor bodies (under the provisions of the Railways Act 2005) in 2005/06, required governance and control mechanisms additional to the existing risk management framework. The key elements of the overall framework were as follows:

- The Board and Executive Group refocused the SRA's activities and objectives under three broad headings:
  - Delivering its ongoing 'business as usual' responsibilities;
  - Effecting the orderly wind down of the SRA to transfer functions to successor bodies and to ensure proper treatment of staff;
  - Supporting the Department for Transport, the Scottish Executive, Network Rail and the Office of Rail Regulation to implement the White Paper;
- A risk management policy, framework and transition plan approved by the Board;
- The Executive Group delegated governance and monitoring responsibility for the SRA transition programme to the Transition Steering Group which oversaw individual transition work streams responsible for their own transfer plans. The Transition Steering Group monitored and managed risks relating to transition work streams and the overall transition programme and reported to the Executive Group and Board via the Executive Director of Business Management and Transition. The Transition Committee advised the Board in relation to transition issues and the management of transition risks;
- Each SRA function, transferring to a successor body, set up a working group to identify, evaluate and manage risks and issues relating to each transfer. The key risks were escalated by each working group to the Transition Steering Group, Executive Group and Board, as appropriate. Risks and key issues were also highlighted for successor bodies to take forward in the formal transfer packs prepared for each functional transfer;
- The Executive Group formally reviewed key risks relating to transition and ongoing responsibilities during the period leading up to the last functional transfer in October 2005. Residual risks relating to the remaining responsibilities of the SRA continued to be managed on a more informal, but equally effective basis during the remainder of the year;
- Risk Assurance provided embedded 'real time' assurance as part of their direct involvement in the transition process; and
- As Chief Executive I reported on a regular basis to the Board, along with the Executive Director of Business Management and Transition, the key SRA transition-related risks and the effectiveness of the management of those risks during the period leading up to the transfer of functions in October 2005. These key risks were discussed by the Executive Group on a regular basis, and the frequency increased during transition. A key risk register was presented to the Board for discussion and approval during the transition period.

The principles and specific aspects of HM Treasury's Risk Management Assessment Framework were integrated within the annual corporate governance

assessments I received from my executive managers for the period up to the transfer of functions to successor bodies.

## 5. Review of Effectiveness of Internal Control

As Accounting Officer of the SRA, I have continuing responsibility for reviewing the effectiveness of the SRA's system of internal control during transition and leading up to closure of the SRA. Although that responsibility did not extend to Network Rail, the SRA Board and I did have to assure ourselves about Network Rail's corporate governance (see Section 6) up to the date of transfer of this responsibility to the Department for Transport in June 2005. My review of the effectiveness of the SRA's system of internal control is informed by the work of the Risk Assurance department (Internal Audit) and the Audit Committee, the executive managers within the SRA who had 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.

The following framework existed to assist in maintaining and reviewing the effectiveness of the system of internal control:

- Executive Directors of the SRA and Chairmen of subsidiaries completed an annual 'Letter of Assurance' up to the date of transfer to the relevant successor body. This included the provision of assurances to me in respect of their risk management and internal control responsibilities and steps taken to

improve controls where this is still relevant;

- Assurances from the SRA Transition Director in respect of the controls, risk management and governance processes around the transition programme;
- Director of Risk Assurance (Internal Audit) – who has provided me with regular reports and an overall annual opinion on risk management, control and governance within the SRA. Risk Assurance completed a risk-based assurance programme for the year including an independent review of the transition risk management process at executive level. The Director of Risk Assurance also advised me, the Executive Group, the Audit Committee and the Transition Steering Group on key transition related risks and issues;
- External auditors – who continued to provide comments and recommendations on internal control in their management letter and other reports;
- The Audit Committee – which met regularly to receive reports from our internal and external assurance functions and considered the appropriateness of our corporate governance and transition programme arrangements, reporting their conclusions to the full Board; and
- Regular trilateral meetings with the Chairman of the Board and Chairman of the Audit Committee at which we reviewed the effectiveness of risk management.

Internal controls and risk management across the SRA continued to improve during the period leading to functional transfers. This was reflected both in the output of Risk Assurance reports showing controls meeting expectations but also in an 'above expectation' rating by Risk Assurance for executive level risk management during transition. In the period following functional transfers I believe we have maintained a reasonable level of internal control, commensurate with a small residual organisation facing imminent closure.

## 6. Network Rail Limited (Network Rail)

As stated in Section 1, the application of merger accounting principles has meant that Network Rail has not been included within the consolidated accounts of the SRA. However, its results have been included in the SRA's supplementary accounts for the period up to the transfer date of June 2005. From this date, the SRA's role as the supporter of Network Rail's financing transferred to the Department for Transport as well as the SRA's governance responsibilities over Network Rail.

The powers and rights held by the SRA relating to Network Rail require me, as the SRA's Accounting Officer, and the Board to assure ourselves that, for the period up to transfer, the governance arrangements of Network Rail are appropriate and in line with HM Treasury guidance. During this period of just under three months, the SRA

has continued to follow the agreed procedures:

- Attendance at the Network Rail Audit Committee meetings by the SRA Special Director of the Network Rail Board, following which he provided me with appropriate updates on the proceedings, including a monthly report to the SRA Board;
- Inclusion of significant corporate governance issues in the liaison meetings that occurred between the SRA and Network Rail; and
- Regular meetings between the SRA Director of Risk Assurance and Network Rail Head of Internal Audit continued through the period of transition and up to the end of the year, focusing on risk management and control issues.

As reported last year, Network Rail continued to maintain the key elements of an internal control and risk management framework, although further work is still required to fully embed risk management across all decision making processes.

## 7. Rail Passengers' Council (RPC)

From 26 July 2005, under the provisions of the Railways Act 2005, the RPC became a Non-Departmental Public Body responsible to the Department for Transport. The SRA continued to provide support to their staff and the RPC transition programme until November 2005 by which time staff had

either joined the new RPC or served their notice periods and left.

Until 26 July 2005, key aspects of the RPC's governance and control framework, including its own transition programme, continued to be maintained within the SRA's control structure and transition monitoring arrangements. In addition, the SRA Director of Risk Assurance continued to attend the Scrutiny and Audit Committee meetings of the RPC and provided advice and support in respect of the risks and issues facing the Council up to transfer.

## 8. South Eastern Trains Limited (SET)

SET had in place an adequate system of internal control and risk management framework for the year to 31 March 2006. Its operating responsibilities and its primary franchise assets were transferred to London and Southeastern Railway Limited, a subsidiary of GoVia Limited on 1 April 2006 as part of the establishment of the Integrated Kent Franchise.

After the marked improvement in controls and risk management last year, 2005/06 was a period of consolidation and embedding of controls and risk management practices across the organisation.

The risk management policy and process matured and has been used to identify and manage risks against business objectives. These risks were formally reviewed three

times during the year. The key risk register was reviewed by the SET Board and linked to the consolidated risk register which is updated regularly. A full Risk Assurance programme of risk-based audit work was implemented during 2005/06. Certain control weaknesses identified during the year were either rectified or there were clear management action plans to address them.



**Nick Newton**  
Accounting Officer  
Strategic Rail Authority

# The Certificate and Report of the Comptroller and Auditor General

## to the Houses of Parliament and the Strategic Rail Authority

I have audited the financial statements for the year ended 31 March 2006 on pages 59 to 90 under the Transport Act 2000. These comprise the Income and Expenditure account, the Balance Sheet, the Cashflow Statement, the Statement of Total Recognised Gains and Losses, the Statement of Historical Cost Surpluses and Deficits, the Statement of Accounting Policies and the related notes. These financial statements have been prepared under the accounting policies set out within them.

### Respective responsibilities of the Strategic Rail Authority, the Chief Executive and Auditors

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The Authority and Chief Executive are responsible for the preparation of the annual report and the financial statements in accordance with the Transport Act 2000 and the Secretary of State's 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 in accordance with relevant legal and regulatory requirements and 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 have been properly prepared in accordance with the provisions of the Transport Act 2000 and the Secretary of State's directions made thereunder. 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. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Authority 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 relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 54 to 57 reflects the Authority's compliance with HM Treasury's guidance on the Statement of Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statement on internal control covers all risks and controls, or form an opinion on the effectiveness of the Authority'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. The other information comprises only the Chairman and Chief Executive's statement, Finance Director's review. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

The Authority have, for the reasons shown in the Basis of Preparation on page 98, prepared Supplementary Information for the year ended 31 March 2006 on pages 100 to 105, which I have reviewed. The Supplementary Information comprises the Income and Expenditure account and Balance Sheet prepared on the basis described on page 98. The evidence available for my review of the Income and Expenditure account in the Supplementary Information was limited in respect of the first three periods of Network Rail's results, which are consolidated into the Supplementary Information, as the results are derived solely from unaudited Network Rail management returns. This limitation did not affect my review of the Balance Sheet in the Supplementary Information.

### Basis of audit opinion

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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. It also includes an assessment of the significant estimates and judgements made by the Authority and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority'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 us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error and that, in all material respects, the expenditure and income reported within the financial statements 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 have also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

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In my opinion:

- The financial statements give a true and fair view, in accordance with the Transport Act 2000 and directions made thereunder by the Secretary of State, of the state of the Authority's affairs as at 31 March 2006 and of the surplus for the year then ended;
- The financial statements have been properly prepared in accordance with the Transport Act 2000 and the directions made thereunder by the Secretary of State; and
- 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.

I have no observations to make on these financial statements.



**John Bourn**  
Comptroller and Auditor General  
12 July 2006

National Audit Office  
157-197 Buckingham Palace Road  
Victoria, London SW1W 9SP

# Authority Income and Expenditure Account

for year ended 31 March 2006

	Note	Total <sup>1</sup> 2006 £m	Total 2005 £m
<b>Income</b>			
Trading income	2 (a)	464.4	444.3
Government Grant (including share of joint venture)	2 (b)	2,073.1	2,134.0
	3	2,537.5	2,578.3
<b>Operating expenditure</b>	4	(2,468.5)	(2,542.4)
<b>Authority surplus</b>	3, 5	69.0	35.9
Provision for loss on termination of operations	6	-	(13.9)
Profit/(loss) on disposal of fixed assets		1.4	(2.2)
Notional cost of capital		2.4	5.9
<b>Surplus on ordinary activities before interest</b>		72.8	25.7
Net interest	7	5.5	8.0
<b>Surplus on ordinary activities before taxation</b>		78.3	33.7
Taxation	8	-	-
<b>Surplus on ordinary activities after taxation</b>		78.3	33.7
Less notional cost of capital		(2.4)	(5.9)
<b>Result for the year</b>	18	75.9	27.8

<b>Statement of Total Recognised Gains and Losses</b>	2006 £m	2005 £m
Result for the year	75.9	27.8
Deferred tax on pension asset/liability	2.0	5.0
Actuarial gain/(loss) recognised in the pension scheme	9.4	(12.8)
<b>Total gain recognised relating to the year</b>	<b>87.3</b>	<b>20.0</b>

<sup>1</sup> As a result of the Railways Act 2005, the majority of the SRA's activities have been transferred to other public bodies. Due to its imminent closure all activities have been treated as discontinued operations.

# Balance Sheet

as at 31 March 2006

	Note	2006 £m	2005 £m
<b>Fixed assets</b>			
Tangible assets	9	43.3	46.5
Intangible assets			
Intellectual property	10	0.0	0.1
Goodwill	10	0.0	0.4
<b>Total fixed assets</b>		<b>43.3</b>	<b>47.0</b>
<b>Current assets</b>			
Stocks	12	4.3	2.0
Debtors falling due within one year	13	47.6	26.2
Cash at bank and in hand		6.0	4.9
		<b>57.9</b>	<b>33.1</b>
Less:			
Creditors falling due within one year	14 (a)	(88.6)	(136.1)
<b>Net current liabilities</b>		<b>(30.7)</b>	<b>(103.0)</b>
<b>Total assets less current liabilities</b>		<b>12.6</b>	<b>(56.0)</b>
Less:			
Creditors falling due after more than one year	14 (b)	(5.2)	(6.3)
Provisions for liabilities and charges	15	(18.8)	(25.3)
<b>Net liabilities</b>		<b>(11.4)</b>	<b>(87.6)</b>
Pension liability	22	(17.7)	(22.4)
<b>Total net liability</b>		<b>(29.1)</b>	<b>(110.0)</b>
<b>Reserves</b>			
Income and Expenditure reserve	18 (a), 19	(29.1)	(110.9)
Capital Grant Reserve	18 (b), 19	-	0.9
<b>Total capital reserve</b>		<b>(29.1)</b>	<b>(110.0)</b>

Signed on behalf of the Board on 6 July 2006



Nick Newton  
Chief Executive



Doug Sutherland  
Managing Director, Finance and Commercial

# Cash Flow Statement

	Note	Total 2006 £m	Total 2005 £m
<b>Net cash inflow/(outflow) from operating activities</b>	20 (a)	<b>8.2</b>	<b>(19.8)</b>
<b>Returns on investments and servicing of finance</b>			
Other interest received		3.8	4.7
Interest paid in respect of finance leases		(0.2)	-
Other interest paid		(1.3)	(1.7)
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>2.3</b>	<b>3.0</b>
<b>Capital expenditure and financial investment</b>			
Purchase of assets		(10.9)	(11.5)
Sale of assets		2.7	1.2
Capital receipts from leasing debtors		-	1.0
<b>Net cash inflow from capital expenditure and financial investment</b>		<b>(8.2)</b>	<b>(9.3)</b>
<b>Acquisitions and disposals</b>			
Net cash transferred on disposal <sup>1</sup>		-	6.6
<b>Net cash inflow from acquisitions</b>		<b>-</b>	<b>6.6</b>
<b>Management of liquid resources</b>			
Decrease in cash on deposit	20 (b)	6.4	11.5
<b>Net cash inflow from management of liquid resources</b>		<b>6.4</b>	<b>11.5</b>
<b>Financing</b>			
Repayment of loans and leases		(1.2)	(6.6)
<b>Net cash outflow from financing</b>		<b>(1.2)</b>	<b>(6.6)</b>
<b>Increase/(decrease) in cash at bank and in hand</b>		<b>7.5</b>	<b>(14.6)</b>

<sup>1</sup> Disposal refers to transfer out of the British Transport Police to the British Transport Police Authority (see note 10).

# Statement of Accounting Policies

## **(i) Form of Accounts**

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The SRA is required to comply with the Accounts Direction from the Secretary of State for Transport dated June 2006 as shown on page 93 which states that the SRA's financial statements should be presented in the form of group accounts, prepared in accordance with applicable accounting standards, and includes several additional requirements. The Authority is made up of the core Authority (as defined by the Transport Act 2000), all subsidiaries and joint ventures. The accounts have been prepared under the historical cost convention.

These accounts follow the requirements of the Financial Reporting Manual except for the transfer out of the functions of the British Transport Police (BTP). The guidance requires the use of merger accounting where there are machinery of Government changes.

This has been adopted for the transfer of activities from the SRA to successor bodies. Use of merger accounting has the effect of removing the transferred activities from the SRA's financial history. Merger accounting was not used for the transfer out of the BTP in 2004/05 because the body into which the BTP's functions were transferred did not exist prior to 1 July 2004.

Due to the imminent closure of the SRA, the accounts have been prepared on a break up basis. However, as the majority of activities have transferred under statutory transfer schemes at book values, this has not had a material effect on the book values of assets and liabilities in the accounts.

## **(ii) Income**

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Income is the aggregate gross income of the Authority and its subsidiary undertakings, after eliminating intra group income, and net of value added tax. It includes grant from the Department for Transport, under the Transport Act 2000. With the exception of Grant in Aid (see below) income is recognised in the period to which it relates. Income excludes work performed on the Group's own assets.

Income includes passenger income attributed by the income allocation systems used by the railway industry mainly in respect of passenger receipts. Income is attributed based principally on models of certain aspects of passenger behaviours and to a lesser extent from allocations agreed for specific revenue flows. The attributed share of season ticket income is deferred within creditors and released to the Income and Expenditure Account over the life of the relevant season ticket.

## **(iii) Grant in Aid**

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Grant in Aid is the grant paid to the Authority by the Department for Transport, as voted by Parliament, for the purposes of the Authority as defined by the Transport Act 2000. Grant in Aid is only received by the SRA, and is recognised on a cash basis. Grant in Aid received for capital assets, both tangible and intangible, and investments, is credited to the Capital Grant reserve. All other Grant in Aid is credited to the Income and Expenditure Account.

# Statement of Accounting Policies

## **(iv) Pension Schemes**

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### *Defined Benefit Schemes*

Contributions to pension schemes are paid in accordance with the rules of each scheme.

Further details are given in note 22 to the financial statements. The pension liabilities and assets are recorded in line with FRS 17, with a valuation undertaken by an independent actuary. FRS 17 measures the value of pension assets and liabilities at the Balance Sheet date, determines the benefits accrued in the year and the interest on assets and liabilities. The value of benefits accrued is used to determine the pension charge in the Income and Expenditure Account and the interest on scheme assets and liabilities is included within net interest. The change in the value of assets and liabilities arising from asset valuations, changes in benefits, actuarial assumptions, or change in the level of deficit attributable to members is recognised in the Statement of Total Recognised Gains and Losses (STRGL). The resulting pension liability or asset is shown on the Balance Sheet.

### *Defined Contribution Schemes*

Pension contributions are charged to the Income and Expenditure Account as incurred.

## **(v) Foreign Currency**

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Transactions in foreign currency are translated at the exchange rate ruling at the date of the transaction, unless related or matching forward foreign exchange contracts have been entered into, in which case the rates specified in the relevant contracts are used. Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate ruling at the date of the Balance Sheet. Any exchange gain or loss is included in the Income and Expenditure Account.

## **(vi) Taxation**

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The Authority and all subsidiary undertakings are assessable to taxation in accordance with the Taxes Acts and tax is recognised in the financial statements where a charge is forecast to arise.

Deferred taxation is provided on timing differences arising from the different treatments for accounts and taxation purposes of transactions and events recognised in the financial statements of the current year and previous years. Deferred taxation is calculated at the rates at which it is estimated the tax will arise. Deferred taxation is not discounted.

Deferred taxation is not provided in respect of timing differences arising from the sale or revaluation of fixed assets unless, by the Balance Sheet date, a binding commitment to sell the asset has been entered into and it is unlikely that any gain will be rolled over.

## **(vii) Cost of Capital**

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In accordance with the Accounts Direction and the Financial Reporting Manual, a charge/credit of 3.5% of net assets/liabilities of the Authority is made to the surplus/deficit before interest and taxation. This is added back, to determine retained surplus/deficit on ordinary activities after taxation.

# Statement of Accounting Policies

## **(viii) Fixed Assets**

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Fixed assets include land, buildings, and plant and equipment required for the ongoing operations of the Authority.

Assets are capitalised at cost subject to a minimum monetary level of £1,000 except freehold office buildings which are held at valuation.

### *Depreciation*

Depreciation is provided on a straight-line basis over periods representing the estimated useful economic lives of assets and commences in the accounting period following entry into service. The lives used for the major categories of assets are:

Owner occupied buildings	30-40 years
Short leasehold improvements	Life of Lease or useful economic life, whichever is the shorter
Plant and equipment	3-12 years

Due to the imminent closure of the Authority, any assets of the Authority which will not be required after closure have had their useful economic life reduced, and any charge arising is included as an exceptional item. This mainly affects plant and equipment.

Depreciation is not provided on investment properties, in accordance with SSAP19, which does not require depreciation of investment properties where the unexpired lease term is 20 years or more.

No depreciation is charged on capital work in progress.

## **(ix) Intangible Assets**

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Goodwill arising on the acquisition of South Eastern Trains has been impaired to reflect its remaining value, given the transfer of the company to the private sector on 1 April 2006.

Intangible assets are amortised over the expected useful life of the asset.

## **(x) Research and Development Expenditure**

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Development expenditure is capitalised within fixed assets if it meets the following criteria:

- There is a clearly defined project;
- The expenditure is separately identifiable;
- The outcome of the project has been assessed with reasonable certainty as to its technical feasibility and is resulting in a product or service that will eventually be brought into use; and
- Adequate resources exist, or are expected to be available, to enable the project to be completed and to provide any consequential increases in working capital.

Research and general development expenditure is charged to the Income and Expenditure Account as incurred.

# Statement of Accounting Policies

## **(xi) Leasing**

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The capital element (above the minimum monetary level of £1,000) of finance leasing obligations and hire purchase obligations for plant and equipment assets is included in fixed assets and depreciated in the same way as owned assets.

The capital element of leasing liabilities is included within creditors. The liability is stated at the deemed capital portion of the annual lease payments calculated on the annuity method, with the remainder of the annual payment, representing interest, being shown within interest payable and similar charges in the Income and Expenditure Account.

Rentals under operating leases are charged to the Income and Expenditure Account on a straight-line basis over the operational lease term.

## **(xii) Grants**

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Grants paid are recognised in the Income and Expenditure Account in the period in which the activity to which they relate has been performed. A provision is made for grants where the obligation exists at the Balance Sheet date.

## **(xiii) Stocks**

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Stocks and work in progress, other than on long-term contracts, are stated at the lower of estimated replacement cost and estimated net realisable value. The value of estimated replacement cost is not considered to be materially different from cost.

Raw materials include amounts incurred in respect of the rights to utilise stocks of replacement spares.

# Notes to the Accounts

## 1. Strategic Rail Authority

### Background

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In January 2004 the Government announced that it would undertake a Rail Review. It announced the outcome of this Review in July 2004. At this point the Government announced its intention to abolish the Strategic Rail Authority (SRA) and to transfer its functions to a number of successor bodies. To that end the Government introduced a Railways Bill to Parliament in November 2004, and this gained Royal Assent on 7 April 2005. Substantially all of the SRA's direct activities were transferred to successor bodies between 1 April 2005 and 31 March 2006. The SRA retained its investment in South Eastern Trains, pending its transfer back to the private sector on 1 April 2006.

### Transfers

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The Railways Act 2005 gives the Secretary of State for Transport a number of powers. These powers become effective by using commencement orders. The first of these were made on 8 June 2005 and as a consequence the Secretary of State has the powers to make transfer schemes. Transfer schemes are used to transfer the staff, property, rights, assets, liabilities and obligations from the SRA to designated public sector bodies. The transfer schemes have the effect of a successor body 'stepping into the shoes' of the current organisation. Transfer schemes have been used to transfer the SRA's rights, assets, liabilities and obligations to successor bodies. Final transfers will take place in 2006/07 which will then enable the SRA to be abolished. The SRA cannot be abolished until all such transfers are complete.

### Current Position

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On 1 April 2005 the SRA ceased to be responsible for certain performance related activities, as Network Rail took on its new responsibilities for rail performance management as set out in the White Paper.

It was decided by the Department for Transport Board that there would be a phased transfer of activity from the SRA to the Department for Transport for those functions transferring to it. This transfer process commenced on 26 June 2005 and is expected to be completed in 2006/07. As at 31 March 2006, substantially all of the SRA's functions had been transferred.

In addition, transfer schemes were completed for transfers to the Scottish Executive, the Office of Rail Regulation and Passenger Focus (formerly the Rail Passengers' Council).

### Impact on the Accounts

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The accounts have been prepared in accordance with the Accounts Direction set out in Appendix 1 of this document. These require that Government guidance on the preparation of accounts is followed. This guidance provides that where there is a machinery of Government change, the transfer of balances should be accounted for under merger accounting principles. The decision to abolish the SRA and the consequential transfer of substantially all of its functions has been considered a machinery of Government change, and therefore these accounts have been prepared under merger accounting principles. Adopting merger accounting principles has the effect of showing in the accounts for both the current year and the prior year only those activities that did not transfer from the SRA during the year to 31 March 2006. This has a significant impact on both the current year result and the prior year position. In order to provide transparency of incomes and expenditures that have taken place during the stewardship of the SRA Accounting Officer and the Board, Appendix 2 to these accounts shows proforma results for the year before merger accounting adjustments have taken place.

## 2. Income

**(a) Trading Income**

	31 March 2006	31 March 2005
	£m	£m
Passenger income (farebox)	348.7	331.3
Government subsidy	83.0	53.2
Policing activities	-	28.2
Miscellaneous income	32.7	31.6
<b>Total</b>	<b>464.4</b>	<b>444.3</b>

**(b) Government Grant**

	31 March 2006	31 March 2005
	£m	£m
Grant received in respect of current period from the Department for Transport	2,500.1	3,215.9
Grant received from other sources	-	0.1
Total grants received	2,500.1	3,216.0
Activities transferred to successor bodies	(427.0)	(1,078.4)
Deferred income	-	(0.2)
Grant in respect of fixed assets transferred to Capital Grant reserve	-	(3.4)
Grant included within income	2,073.1	2,134.0

# Notes to the Accounts

## 3. Segmental Analysis

	31 March 2006			31 March 2005		
	Total Income	Operating Surplus/ (Deficit)	Net Operating Assets/ (Liabilities)	Total Income	Operating Surplus/ (Deficit)	Net Operating Assets/ (Liabilities)
	£m	£m	£m	£m	£m	£m
Strategic Rail Authority	2,073.1	76.1	(11.7)	2,133.7	44.2	(100.0)
South Eastern Trains Limited	464.4	(7.1)	(17.4)	416.0	(7.0)	(10.0)
British Transport Police	-	-	-	28.6	(1.3)	-
<b>Total</b>	<b>2,537.5</b>	<b>69.0</b>	<b>(29.1)</b>	<b>2,578.3</b>	<b>35.9</b>	<b>(110.0)</b>

Income originates wholly in the United Kingdom.

The above table represents the amounts included stated after consolidation eliminations.

The SRA's key activities are described on pages 14 to 36 of this report.

South Eastern Trains Limited operates trains in Kent, South East London and parts of Sussex. It is a subsidiary of South Eastern Trains (Holdings) Limited, which is a wholly owned subsidiary of the SRA.

The activities of the British Transport Police were transferred to the British Transport Police Authority, a Non-Departmental Public Body sponsored by the Department for Transport, on 1 July 2004.

## 4. Analysis of Operating Expenditure

	Total 31 March 2006	Total 31 March 2005
	£m	£m
Capital Grants	1,984.1	2,057.9
Staff costs (note 5 (g))	137.8	157.5
Materials, supplies and services	324.8	301.8
Estate management costs	15.2	13.2
Amortisation of goodwill	0.4	7.9
Depreciation	7.1	6.9
Capital Grants amortised	(0.9)	(2.8)
Operating expenditure	2,468.5	2,542.4

## 5. Operating Result

### (a) The Operating Result for the Period is Stated After Charging:

	31 March 2006	31 March 2005
	£m	£m
Auditors' remuneration and expenses	0.4	0.4
Depreciation on owned assets	7.1	6.9
Amortisation of grant	(0.9)	(2.8)
Amortisation of goodwill	0.4	7.9
Rolling stock lease rentals	90.8	81.1

The Comptroller and Auditor General is the statutory auditor of the Authority. The audit of the Authority is undertaken by PricewaterhouseCoopers LLP on behalf of the Comptroller and Auditor General. In the period to 31 March 2006 PricewaterhouseCoopers LLP have undertaken non-audit work amounting to £15,000 (2005: £0.2m), which comprises advice on projects, financial advice and tax advice.

The costs of terminating the operations of the SRA are shown separately and are not included within operating expenses. These are described in note 6.

### (b) Charitable Donations

During the period the Authority made no charitable donations (2005: £nil).

### (c) Statement of Losses and Special Payments

In the period, the Authority (including South Eastern Trains Limited) had losses of £0.3m (2005: £0.2m). These predominantly related to farebox receipts in South Eastern Trains Limited due to fraudulent use of credit cards and bounced cheques.

# Notes to the Accounts

## (d) Operating Lease Commitments

At the period end the Authority was committed to make payments in the forthcoming year in respect of non-cancellable operating leases as follows:

<b>Rolling Stock</b>	<b>31 March 2006</b>	<b>31 March 2005</b>
	<b>£m</b>	<b>£m</b>
Leases expiring within one year	-	0.5
Leases expiring between one and five years	-	-
Leases expiring in more than five years	<b>92.3</b>	91.0
	<b>92.3</b>	91.5

<b>Other</b>	<b>31 March 2006</b>	<b>31 March 2005</b>
	<b>£m</b>	<b>£m</b>
Leases expiring within one year	<b>0.7</b>	69.1
Leases expiring between one and five years	<b>0.5</b>	0.9
Leases expiring in more than five years	<b>102.2</b>	28.7
	<b>103.4</b>	98.7

<b>Total</b>	<b>31 March 2006</b>	<b>31 March 2005</b>
	<b>£m</b>	<b>£m</b>
Leases expiring within one year	<b>0.7</b>	69.6
Leases expiring between one and five years	<b>0.5</b>	0.9
Leases expiring in more than five years	<b>194.5</b>	119.7
	<b>195.7</b>	190.2

## (e) Board Members of the Authority

The salaries, allowances and severance terms of the Authority's Board Members are determined, under provisions in Schedule 14 to the Transport Act 2000, by the Secretary of State.

	31 March 2006 £000	31 March 2005 £000
Executive Board Members' Salaries	216	373
Benefits	14	31
Termination payments	12	366
Fees paid to non-Executive Board Members	193	215
	<b>435</b>	<b>985</b>
Payments to pension plans included within the above	-	21

	Age	Contract Expiry Dates	Salary £000	Taxable Benefits in kind £000	Total £000	Pensions Contributions £000	Termination £000	Total £000
Nick Newton	59	on termination of the SRA	216	-	216	14	-	230
<b>Total Executive</b>			216	-	216	14	-	230
Lew Adams	66	31 August 2005	9	-	9	-	-	9
Millie Banerjee	59	31 August 2005	6	-	6	-	4	10
Willie Gallagher	47	31 October 2005	12	-	12	-	-	12
David Grayson	50	31 August 2005	6	-	6	-	-	6
Janet Lewis-Jones	55	31 August 2005	6	-	6	-	4	10
Pen Kent	68	on termination of the SRA	20	-	20	-	-	20
Jeremy Mayhew	47	on termination of the SRA	20	-	20	-	-	20
David Norgrove	58	30 April 2005	1	-	1	-	4	5
David Quarmby	64	31 March 2006	113	-	113	-	-	113
<b>Total non-Executive</b>			193	-	193	-	12	205
<b>Total Board Members</b>			409	-	409	14	12	435

Nick Newton was appointed to the Board and as Chief Executive on 11 September 2004, and his appointment to the Board will cease on the date his role as Chief Executive ends. In the year to 31 March 2006, Nick Newton received a bonus of £nil (2005: £11,770). He was also Chairman of South Eastern Trains Limited for which no additional remuneration was paid.

David Quarmby was appointed as Chairman of the Board on 11 September 2004. The contract expiry dates for Pen Kent and Jeremy Mayhew have been extended with Pen Kent being appointed as Chairman of the Board from 1 April 2006.

The terms and conditions of Board Members' contracts are set by the Secretary of State. All non-Executive Board Members are contracted for three to four days each month, except David Quarmby who was contracted for three days per week. The terms of appointment have no provision for earlier termination except in specified circumstances. With the winding up of the SRA in 2005/06 some early terminations have been made and compensation has been paid as disclosed above.

# Notes to the Accounts

## (f) Staff Numbers

The average number of staff employed during the year excluding Board Members, was as follows:

	Average number employed	Average number employed
	31 March 2006	31 March 2005
Strategic Rail Authority	174	412
South Eastern Trains	3,841	3,736
<b>Total Authority</b>	<b>4,015</b>	<b>4,148</b>

Average staff numbers are based on the actual employees of the Authority and reflect the transfer of functions and staff to successor bodies. The costs of these employees are not fully reflected in the accounts due to the adoption of merger accounting.

In addition, there were 3 SRA Board Members (1 Executive, 2 non-Executive) at 31 March 2006 and 11 (1 Executive, 10 non-Executive) at 31 March 2005.

In addition to the 174 average staff shown above, there were an average of 15 (2005: 37) temporary staff covering vacant posts within the SRA.

## (g) Total Staff Costs

	31 March 2006	31 March 2005
	£m	£m
Salaries and wages	114.6	126.7
Employer's liability for social security costs	9.3	10.1
Pensions:		
Employer's liability for current service pension costs	13.7	21.5
Employer's liability for past service pension costs	-	-
Settlement gain	-	(1.4)
Other costs	0.2	0.6
	<b>137.8</b>	<b>157.5</b>

The cost of temporary and contract staff for the Authority was £9.3m (2005: £4.7m).

## (h) Senior Staff

In accordance with the Accounts Direction the Authority is required to make disclosures about its senior management.

	Age	Start Date of Current Role	Salary £000	Taxable Benefits in kind £000	Total £000	Pensions Contributions £000	Total £000
Nicola Shaw – MD Operations	36	8 September 2003	17	-	17	2	19
Jim Steer – MD Strategic Planning	57	7 May 2002	87	-	87	-	87
Doug Sutherland – MD Finance and Commercial	53	1 July 2002	214	-	214	26	240
<b>Total</b>			<b>318</b>	<b>-</b>	<b>318</b>	<b>28</b>	<b>346</b>

The Managing Director, Strategic Planning, Jim Steer, was seconded from Steer Davies Gleave Limited for three years commencing from 7 May 2002. His contract was extended to 8 July 2005. Nicola Shaw resigned on 2 May 2005.

Doug Sutherland is Chairman of BRB (Residuary) Limited and South Eastern Trains (Holdings) Limited. No additional remuneration was paid for these responsibilities.

## (i) 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. It is intended to cover a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme, or an 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 service, not just their current appointment. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

### Real Increase in the Value of the CETV

This takes account of the increase in accrued pension due to inflation and contributions paid. It is calculated using common market valuation figures for the start and end of the period.

### Civil Service Pensions

Officials	Real increase in pension and lump sum at age 60	Accrued pension at 60 at 31 March 2006 and related lump sum £000	Cash equivalent transfer value at 31 March 2006 £000	Cash equivalent transfer value at 31 March 2005 £000	Real increase in cash equivalent transfer value £000
Doug Sutherland	0-5 plus 0 lump sum	7-10 plus 1 lump sum	112	65	27
Nicola Shaw	0-5 plus 0 lump sum	7-10 plus 0 lump sum	66	56	2

Nick Newton is not a member of the Principal Civil Service Pension Scheme, he is a member of the Railways Pension scheme. The cash equivalent transfer value at 31 March 2006 is £1,192,000 (31 March 2005: £1,049,000).

# Notes to the Accounts

## 6. Provision for Loss on Termination of Operations

	Total 31 March 2006	Total 31 March 2005
	£m	£m
Depreciation	-	5.1
Grant amortisation	-	(5.1)
Staff costs	-	13.9
<b>Total</b>	<b>-</b>	<b>13.9</b>

The above costs are those arising as a result of the announcement made by the Department for Transport in July 2004 of its decision to close the SRA, and therefore to transfer its functions to successor bodies (see note 1).

As a consequence of winding up the organisation, approximately 170 members of staff were made redundant. Staff costs, including all costs related to these redundancies, were provided in 2004/05. The amount of the provision not utilised during the current year has been released to the Income and Expenditure account.

The values of fixed assets were written down to their remaining values in use at the end of the previous financial year. The values of capital grants were also written down to match the treatment of the related asset.

## 7. Net Interest

	31 March 2006	31 March 2005
	£m	£m
Interest receivable on:		
Short-term deposits	3.8	4.7
Expected return on pension scheme assets	19.5	27.5
<b>Interest receivable</b>	<b>23.3</b>	<b>32.2</b>
Interest payable on:		
Bank loans and overdrafts	1.3	1.7
Leases	0.2	-
Interest on pension scheme liabilities	16.3	22.5
<b>Interest payable and similar charges</b>	<b>17.8</b>	<b>24.2</b>
<b>Net interest receivable</b>	<b>5.5</b>	<b>8.0</b>

## 8. Taxation

In accordance with the Taxes Acts, it has been determined with the agreement of the Inland Revenue that the activity that the Authority undertakes in its statutory capacity of franchise administration and grant provision is not subject to tax. There is no tax effect in respect of transfer schemes under the Transport Act 2000 as a result of Schedule 26 of the Act and Schedule 24 of the Finance Act 1994.

	31 March 2006	31 March 2005
	£m	£m
<b>Analysis of credit in year</b>		
Current UK corporation tax at 30%	-	-
Over provision in respect of prior years	-	-
<b>Total current tax credit</b>	-	-
Deferred tax at 30%		
Credit for timing differences arising in the year – other	-	-
Credit in respect of prior years	-	-
<b>Total deferred tax</b>	-	-
<b>Tax credit on loss on ordinary activities</b>	-	-

### Current Factors Affecting the Tax Charge for the Year:

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2006	2005
	£m	£m
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	(0.1)	(0.7)
Accelerated capital allowances	(0.8)	(0.9)
Tax losses brought forward utilised in year	(0.9)	(1.3)
Tax losses carried forward	1.8	-
Tax losses carried back	-	-
Short-term timing differences – goodwill amortisation	-	-
Other short-term timing differences	-	1.1
Adjustments in respect of prior years	0.9	0.1
Permanent differences	(0.9)	1.7
<b>Total current tax credit</b>	-	-

The surpluses and losses used to calculate the tax charge are the reported losses of the Authority (excluding non-taxable statutory activities) before consolidation adjustments.

# Notes to the Accounts

## 9. Tangible Assets

	Buildings	Plant and Equipment	IT Equipment	Total
<b>Costs</b>	£m	£m	£m	£m
Gross book values at 1 April 2005	27.1	38.4	12.2	77.7
Additions	0.8	9.3	0.8	10.9
Reallocations	0.9	(0.9)	-	-
Disposals	(11.1)	(0.8)	(6.9)	(18.8)
Gross book values at 31 March 2006	17.7	46.0	6.1	69.8
<b>Depreciation</b>				
Accumulated depreciation at 1 April 2005	10.3	10.7	10.2	31.2
Disposals	(4.3)	(0.6)	(6.9)	(11.8)
Depreciation provided during period	1.0	4.5	1.6	7.1
Accumulated depreciation at 31 March 2006	7.0	14.6	4.9	26.5
<b>Net book values at 31 March 2006</b>	10.7	31.4	1.2	43.3
Net book values at 1 April 2005	16.8	27.7	2.0	46.5

The net book value of tangible fixed assets includes an amount of £5.5m (2005: £6.6m) in respect of assets held under finance leases and hire purchase contracts. Depreciation charged in the year on assets held under finance leases was £1.1m (2005: £1.0m).

## 10. Intangible Fixed Assets

### (a) Intellectual Property

	£m
<b>Cost</b>	
At 1 April 2005	1.2
Additions	-
At 31 March 2006	1.2
<b>Accumulated amortisation</b>	
At 1 April 2005	1.1
Charge for the year	0.1
At 31 March 2006	1.2
<b>Net book value</b>	
At 31 March 2006	<b>0.0</b>
At 31 March 2005	0.1

### (b) Goodwill

	£m
<b>Cost</b>	
At 1 April 2005	8.5
Additions	-
At 31 March 2006	8.5
<b>Amortisation</b>	
At 1 April 2005	8.1
Charge for the year	0.4
At 31 March 2006	8.5
<b>Net book value</b>	
At 31 March 2006	<b>0.0</b>
At 31 March 2005	0.4

# Notes to the Accounts

<b>Summary of Intangible Fixed Assets</b>	<b>31 March 2006</b>	<b>31 March 2005</b>
	<b>£m</b>	<b>£m</b>
Software	-	0.1
Goodwill	-	0.4
<b>Total net book value</b>	-	0.5

## 11. Investments

### (a) Subsidiaries and Joint Ventures

All the subsidiaries have an accounting year end of 31 March 2006.

As at 31 March 2006, the SRA has the following subsidiaries:

<b>Company Name</b>	<b>Activity</b>	<b>Issued Share Capital</b>	<b>Percentage Controlled by SRA</b>
South Eastern Trains (Holdings) Limited	Holding Company	1	100
South Eastern Trains Limited	Train Operating Company	2	100
DOA Limited	Administration of deeds of assumption	1	100

All of the shares held in subsidiaries are Ordinary shares.

The net assets and trading result of the year for active subsidiaries is shown in note 3.

DOA Limited ceased to trade on 17 October 2005. Prior to that its primary activities were the administration of deeds of assumption.

### (b) South Eastern Trains Limited

The activities of Connex South Eastern were transferred into South Eastern Trains Limited on 9 November 2003 and the transactions and results of South Eastern Trains Limited are included in the consolidated financial statements of the Authority.

#### *Summary Financial Statements for South Eastern Trains Limited*

Financial information for South Eastern Trains Limited for the year to 31 March 2006 before consolidation adjustments and in accordance with South Eastern Trains Limited accounting policies is set out below.

# Notes to the Accounts

	Year ended 31 March 2006	Period ended 31 March 2005
	£m	£m
<b>Turnover</b>	<b>465.3</b>	431.3
<b>Operating profit</b>	<b>(5.6)</b>	(1.0)
Interest	4.3	5.2
<b>Profit/(loss) on ordinary activities before taxation</b>	<b>(1.3)</b>	4.2
Taxation	(0.6)	(1.2)
<b>Profit/(loss) for the period</b>	<b>(1.9)</b>	3.0

<b>Statement of Total Recognised Gains and Losses (STRGL)</b>	Year ended 31 March 2006	Period ended 31 March 2005
	£m	£m
<b>Profit for the period</b>	<b>(1.9)</b>	3.0
Actuarial gains/(loss) on pension	9.4	(12.8)
Related deferred tax	(2.0)	4.6
<b>Total recognised gains and losses for the period</b>	<b>5.5</b>	(5.2)
<b>Prior year adjustment FRS 17</b>	<b>(23.5)</b>	-
<b>Total gains and losses recognised since last report</b>	<b>(18.0)</b>	(5.2)

<b>Balance Sheet</b>	31 March 2006		31 March 2005	
	£m	£m	£m	£m
Tangible fixed assets	43.3		42.4	
Intangible fixed assets	-		(2.4)	
<b>Total fixed assets</b>		<b>43.3</b>		40.0
Stock	4.3		2.2	
Debtors	55.8		30.0	
Cash at bank and in hand	4.4		63.4	
Total current assets	64.5		95.6	
Creditors: amounts falling due within one year	(86.6)		(117.1)	
<b>Net current liabilities</b>		<b>(22.1)</b>		(21.5)
<b>Total assets less current liabilities</b>		<b>21.2</b>		18.5
Creditors: amounts falling due after more than one year		(4.8)		(5.8)
Provisions		(14.5)		(11.6)
Pension liability		(17.7)		(22.4)
<b>Net assets (liabilities)</b>		<b>(15.8)</b>		21.3
Profit and loss account		(15.8)		21.3
<b>Capital and reserves</b>		<b>(15.8)</b>		21.3

South Eastern Trains Limited have used the exemption in FRS 1 for producing a cash flow statement in their financial statements on the grounds that the ultimate parent undertaking produces a consolidated cash flow statement. Accordingly no cash flow statement for South Eastern Trains Limited has been included within these accounts.

# Notes to the Accounts

## 12. Stocks

	2006	2005
	£m	£m
Raw materials and consumables	4.3	2.0
	4.3	2.0

## 13. Debtors

	2006	2005
	£m	£m
Trade debtors	17.5	18.1
Other debtors	6.1	8.3
Prepayments and accrued income	24.0	(0.2)
Debtors falling due within one year	47.6	26.2

## 14. Creditors

### (a) Creditors Falling Due Within One Year

	2006	2005
	£m	£m
Bank loans and overdrafts	5.0	-
Trade creditors	21.0	49.1
Accruals and deferred income	7.5	28.0
Payroll, taxation and social security	7.0	11.3
Receipts in advance	41.1	40.1
Leasing liabilities	1.0	1.0
Other	6.0	6.6
	88.6	136.1

## (b) Creditors Falling Due After More Than One Year

	Authority	
	2006	2005
	£m	£m
Leasing liabilities	4.8	6.0
Other accruals and deferred income	0.4	0.3
	<b>5.2</b>	<b>6.3</b>

## (c) Repayment of Leasing Liabilities Included Above

	Leases
	£m
Due for repayment in:	
One year or less	1.0
Between one and two years	1.0
Between two and five years	3.1
In five years or more	0.7
	<b>5.8</b>

## 15. Provisions for Liabilities and Charges

	Provision 1 April 2005	Utilised	Charged/ (Released)	Provision 31 March 2006
	£m	£m	£m	£m
Redundancy	14.4	(7.6)	(0.5)	<b>6.3</b>
Rolling stock	9.7	(1.2)	3.6	<b>12.1</b>
Other	1.2	-	(0.8)	<b>0.4</b>
	<b>25.3</b>	<b>(8.8)</b>	<b>2.3</b>	<b>18.8</b>

The redundancy provision relates to the organisational restructuring within the Authority.

# Notes to the Accounts

## 16. Financial Instruments

The treasury operations are governed by the Transport Act 2000 as supplemented by the Financial Framework agreed with the Department for Transport, which has been approved by HM Treasury.

The financial instruments comprise cash deposits, overnight borrowings, finance leases and other items such as trade debtors, trade creditors and provisions. The main purpose of these financial instruments is to finance operations.

The main risks arising from the financial instruments are interest rate risk and, to a lesser degree, liquidity risk and foreign currency risk. The policies for managing these risks are set to achieve compliance with the Authority's regulatory framework.

The Authority finances its operations through a mixture of Grant in Aid, and to a much smaller extent, finance leases. Cash is deposited in accordance with the Authority's regulatory framework against an approved list of counterparties within defined limits, at fixed rates for periods not exceeding four weeks. No interest rate swaps are permitted.

The Authority maintains short-term liquidity by judicious management of its cash deposits.

### (a) Interest Rate Risk Profile

The interest rate profile of the Authority's financial assets and liabilities as at 31 March 2006 is set out below. All balances are held in sterling.

Financial Assets	Fixed Rate	Floating Rate	Total
	£m	£m	31 March 2006 £m
Cash at bank	-	2.2	2.2
Cash on deposit	-	3.8	3.8
	-	6.0	6.0

	Fixed Rate	Floating Rate	Total
	£m	£m	31 March 2005 £m
Cash at bank	-	(5.3)	(5.3)
Cash on deposit	-	10.2	10.2
	-	4.9	4.9

The weighted average interest rate for fixed rate assets is 4.56% (2005: 5.20%) with the weighted average time for which the rate is fixed being 3.1 years (2005: 3.1 years).

Financial Liabilities	Fixed Rate	Floating Rate	Total
	£m	£m	31 March 2006 £m
Leasing liabilities (see note 14)	-	5.8	5.8
Provisions for liabilities and charges (see note 15)	-	18.8	18.8
	-	24.6	24.6

# Notes to the Accounts

	Fixed Rate	Floating Rate	Total 31 March 2005
	£m	£m	£m
Leasing liabilities (see note 14)	-	7.0	7.0
Provisions for liabilities and charges (see note 15)	-	25.3	25.3
		32.3	32.3

All borrowings are denominated in sterling. The floating rate borrowings are all referenced to LIBOR.

## 17. Deferred Taxation

The amounts on which there is a potential liability/(asset) for deferred taxation at the rate of 30% are as follows:

	31 March 2006	31 March 2005
	£m	£m
Accelerated capital allowances	-	-
Other short-term timing differences	-	-
Tax losses carried forward	-	-
Provision for deferred tax	-	-

The current rate of corporation tax of 30% (2005: 30%) has been used to calculate the amount of deferred taxation. Provision has been made for all deferred taxation assets and liabilities in respect of accelerated capital allowances, short-term timing differences and tax losses carried forward, arising from transactions and events recognised in the financial statements of the current year and previous years.

	31 March 2006	31 March 2005
	£m	£m
<b>The amounts of deferred tax not provided are as follows:</b>		
Rolled over gains	-	-
Revaluation of assets	-	-
Deferred tax not provided	-	-

# Notes to the Accounts

## 18. Reserve Movement

### (a) Income and Expenditure Reserve

	31 March 2006
	£m
Balance at 1 April 2005	(110.9)
Pension revaluation in year	7.4
Result for the year	75.9
SET tax adjustment	(1.5)
<b>Balance at 31 March 2006</b>	<b>(29.1)</b>

### (b) Capital Grant Reserve

	31 March 2006
	£m
Balance at 1 April 2005	0.9
Amortisation in period	(0.9)
<b>Balance at 31 March 2006</b>	<b>-</b>

## 19. Reconciliation of Movements in Reserves

	31 March 2006	31 March 2005
	£m	£m
Result for the year	75.9	27.8
BTP transfers	-	105.5
SET tax adjustment	(1.5)	-
Pension valuation	7.4	(8.2)
Amortisation of Capital Grant reserve	(0.9)	(8.0)
Net increase in reserves for the period	80.9	117.1
Opening reserves	(110.0)	(227.1)
<b>Closing reserves</b>	<b>(29.1)</b>	<b>(110.0)</b>

## 20. Cash Flow

**(a) Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities**

Group	31 March 2006	31 March 2005
	£m	£m
Operating surplus/(deficit)	69.0	35.9
Movement in Capital Grant reserve	0.9	8.2
Depreciation and amortisation	6.1	5.8
(Increase)/decrease in stock	(2.3)	1.0
(Increase)/decrease in debtors	(20.8)	16.2
Increase/(decrease) in creditors and provisions	(44.7)	(86.9)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>8.2</b>	<b>(19.8)</b>

**(b) Reconciliation of Net Cash Flow to Movement in Net Debt**

Group	31 March 2006	31 March 2005
	£m	£m
(Increase)/decrease in cash on deposit	(6.4)	(11.4)
(Increase)/decrease in cash in the period	7.5	(14.6)
Decrease in debt	-	-
Decrease in leasing liabilities	1.2	6.5
Change in net debt resulting from cash flows	2.3	(19.5)
Non cash movement	-	-
Movement in net debt in the period	2.3	(19.5)
Net debt at 1 April 2005	(2.1)	21.6
<b>Net debt at 31 March 2006</b>	<b>0.2</b>	<b>(2.1)</b>

**(c) Analysis of Net Debt**

Group	1 April 2005	Cashflow	Non Cash Movements	31 March 2006
	£m	£m	£m	£m
Cash on deposit	10.2	(6.4)	-	3.8
Cash at bank and in hand	(5.3)	7.5	-	2.2
Leasing liabilities	(7.0)	1.2	-	(5.8)
<b>Total</b>	<b>(2.1)</b>	<b>2.3</b>	<b>-</b>	<b>0.2</b>

# Notes to the Accounts

## 21. Post Balance Sheet Events

- (a) A transfer scheme was effected on 1 April 2006 which has transferred the franchising activities undertaken by South Eastern Trains Limited to London and Southeastern Railway Ltd, a subsidiary of GoVia Limited. The completion accounts for the transfer have not yet been finalised.
- (b) A transfer scheme was effected on 1 April 2006 which has transferred all of the remaining subsidiaries of the SRA to BRB (Residuary) Limited.
- (c) A transfer scheme was effected on 1 April 2006 which has transferred Deed of Grant under which network grant was payable to Network Rail to both the Department for Transport and the Scottish Executive.

## 22. Pension Schemes

The Financial Reporting Advisory Board announced that FRS 17 is to apply in full to Non-Departmental Public Bodies for financial year ends after 31 March 2004 and requires the Authority's share of any deficits or recoverable surpluses in the pension funds to be recognised in the balance sheet.

An interim valuation has been carried out by independent qualified actuaries Mercer Human Resource Consulting Limited on the Authority's defined benefit schemes as at 31 March 2006, for the purpose of providing these disclosures. The assumptions used for the actuarial valuations have been disclosed.

### Principal Civil Service Pension Scheme

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The Principal Civil Service Pension Scheme exists for all members of the Civil Service and remains available to all employees of the Authority. Most staff members of the SRA participate in this scheme. The scheme is a defined benefit scheme backed by Government. The charge to the Income and Expenditure Account in the 12 months ending on 31 March 2006 was £0.5m (2005: £0.6m).

This scheme is unfunded and benefits are met by central Government as they become payable. The scheme has therefore been treated as a defined contribution scheme.

### Railways Pension Scheme

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The Authority operates one section of the Railways Pension Scheme. The South Eastern Trains Shared Cost Section has most of the employees that were transferred from Connex to South Eastern Trains. It is a defined benefit scheme and although it is part of the industry wide Railways Pension Scheme, its assets and liabilities are identified separately from the remainder of the scheme. Further details are given below.

The last actuarial reviews for funding purposes of the Connex South Eastern Shared Cost Section was carried out as at 31 December 2004 by independent qualified actuaries Watson Wyatt Partners using the projected unit method. Assets and accrued liabilities were valued using the market related method.

### South Eastern Trains Shared Cost Section

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The market value of assets at 31 December 2004 was £234.9m. The market value of assets was estimated to be lower than the corresponding value of the projected accrued liabilities after allowing for future salary increases, but before allowing for agreed future contribution reductions by approximately 2%.

# Notes to the Accounts

Member contribution rates were 6.5% to 30 June 2005, increasing to 7.5% in the period to 30 June 2006, and will be 9.76% thereafter. Employer rates were 9.75% to 30 June 2005, increasing to 11.25% in the period to 16 June 2006, and will be 14.34% in the next period to 30 June 2006 and 14.64% thereafter.

The scheme actuary estimated that after allowing for these contributions the market value of assets would exceed the corresponding value of projected accrued liabilities by approximately 2.5%.

The fund is open to new members.

## Financial assumptions:

The latest actuarial valuation for the section as at 31 December 2004 was updated to 31 March 2006 by an independent qualified actuary using the following assumptions, as set out in the table below.

	31 March 2006	31 March 2005	31 March 2004	9 November 2003
	%pa	%pa	%pa	%pa
Inflation	2.85	2.8	2.7	2.6
Rate of increase in salaries	4.35	4.3	4.2	4.1
Rate of increase of pensions in payment	2.85	2.8	2.7	2.6
Rate of increase for deferred pensioners	2.85	2.8	2.7	2.6
Discount rate	4.95	5.4	5.5	5.6

The assets in the scheme and the expected rates of return for each of these schemes were:

South Eastern Trains Shared Cost Section	Net Assets		Expected rate of return			
	31 March 2006	31 March 2005	31 March 2004	31 March 2006	31 March 2005	31 March 2004
	£m	£m	£m	%pa	%pa	%pa
Equities	236.8	183.7	177.0	7.6	8.1	8.1
Bonds	30.3	24.1	21.3	4.6	5.0	5.0
Property	28.4	21.6	16.0	6.1	6.5	6.5
Other	17.6	11.7	(0.4)	4.5	4.7	3.7
<b>Total market value of assets</b>	<b>313.1</b>	<b>241.1</b>	<b>213.9</b>	<b>7.0</b>	<b>7.5</b>	<b>7.7</b>
Present value of scheme liabilities	(355.2)	(294.5)	(241.5)			
<b>Total deficit</b>	<b>(42.1)</b>	<b>(53.4)</b>	<b>(27.6)</b>			
Members' share of deficit	16.8	21.4	11.0			
<b>Pension scheme deficit attributable to the employer before deferred tax</b>	<b>(25.3)</b>	<b>(32.0)</b>	<b>(16.6)</b>			
Deferred tax	7.6	9.6	5.0			
<b>Pension scheme deficit attributable to the employer after deferred tax</b>	<b>(17.7)</b>	<b>(22.4)</b>	<b>(11.6)</b>			

# Notes to the Accounts

Components of defined benefit cost for the period ended 31 March 2006:

Analysis of Amounts Charged to Operating Profit:	South Eastern Trains Shared Cost Section	South Eastern Trains Shared Cost Section
	31 March 2006	31 March 2005
	£m	£m
Current service cost	13.5	11.4
Past service costs	-	-
<b>Total charge/(credit) to operating profit</b>	<b>13.5</b>	<b>11.4</b>

Analysis of the Amount Charged to Other Finance Income:	South Eastern Trains Shared Cost Section	South Eastern Trains Shared Cost Section
	31 March 2006	31 March 2005
	£m	£m
Interest on Fund liabilities	16.3	13.5
Expected return on Fund assets	(18.3)	(16.5)
Interest on employee share of deficit	(1.2)	(0.6)
<b>Net charge/(credit) to other finance income</b>	<b>(3.2)</b>	<b>(3.6)</b>

Analysis of Amounts Recognised in STRGL:	South Eastern Trains Shared Cost Section	South Eastern Trains Shared Cost Section
	31 March 2006	31 March 2005
	£m	£m
Gain/(loss) on assets	47.8	8.9
Experience gain/(loss) on liabilities	(1.7)	(3.8)
Gain/(loss) on change of assumptions	(30.9)	(27.7)
Movement of employee share of deficit	(5.8)	9.8
<b>Total gain/(loss) recognised in STRGL before adjustment for tax</b>	<b>9.4</b>	<b>(12.8)</b>

Experience Gains and Losses:	South Eastern Trains Shared Cost Section	South Eastern Trains Shared Cost Section
	31 March 2006	31 March 2005
	£m	£m
<b>Gain/(loss) on section assets:</b>		
(i) Amount	47.8	8.9
(ii) % of section assets at end of period	15%	4%
<b>Experience gain/(loss) on section liabilities:</b>		
(i) Amount	(1.7)	(3.8)
(ii) % of section liabilities at end of period	0%	1%
<b>Total actuarial gain/(loss) recognised in STRGL:</b>		
(i) Amount	9.4	(12.8)
(ii) % of section liabilities at end of period	3%	4%

Analysis of the Movement in Employers' Share of Surplus/(Deficit) in the Section During the Period:	South Eastern Trains Shared Cost Section	South Eastern Trains Shared Cost Section
	31 March 2006	31 March 2005
	£m	£m
Surplus/(deficit) in employers' share in the Section at beginning of period	(32.0)	(16.6)
Contributions paid	7.6	5.2
Current service cost	(13.5)	(11.4)
Past service cost	-	-
Other finance income/(charge)	3.2	3.6
Actuarial gain/(loss)	9.4	(12.8)
<b>Surplus/(deficit) in employers' share in the Section at end of period</b>	<b>(25.3)</b>	<b>(32.0)</b>

# Notes to the Accounts

Analysis of the Movement in Surplus/(Deficit) in the Section During the Period:	South Eastern	South Eastern
	Trains	Trains
	Shared Cost Section	Shared Cost Section
	31 March 2006	31 March 2005
	£m	£m
Surplus/(deficit) in the Section at beginning of period	(53.4)	(27.6)
Contributions paid	7.6	5.2
Current service cost	(13.5)	(11.4)
Past service cost	-	-
Other finance income/(charge)	2.0	3.0
Actuarial gain/(loss)	15.2	(22.6)
<b>Surplus/(deficit) in the Section at end of period</b>	<b>(42.1)</b>	<b>(53.4)</b>

Analysis of Pension Liability	31 March 2006	31 March 2005
	£m	£m
	Balance at 1 April	(32.0)
Items charged to Income and Expenditure reserve	(2.7)	(2.6)
Employees share of deficit	(5.8)	9.8
Gain/(loss) on assets	47.8	8.9
Experience gain/(loss) on liabilities	(1.7)	(3.8)
Gain/(loss) on change of assumptions	(30.9)	(27.7)
Result for period before deferred tax	(25.3)	(32.0)
Deferred tax	7.6	9.6
Result for the period after deferred tax	(17.7)	(22.4)

## 23. Related Party Transactions

The SRA is a Non-Departmental Public Body set up under the Transport Act 2000, sponsored by the Department for Transport. During the period, the Authority has had various material transactions with it, and the British Transport Police Authority, which is also sponsored by the Department for Transport. In addition, the Authority has had a number of material transactions with other Government Departments and other central Government sponsored bodies. The most significant of these transactions have been with the Passenger Transport Authorities/Executives.

The Authority entered into transactions with Steer Davies Gleave Limited, a company that Jim Steer, who was the Managing Director, Strategic Planning is associated with. Dealings with the company are contracted on an arm's length basis, and follow the normal procurement processes of the Authority. The Managing Director, Strategic Planning did not personally select or appoint Steer Davies Gleave Limited for any SRA contracts. In the period to 31 March 2006 Steer Davies Gleave Limited provided services amounting to £136,427 (2005: £2,651,704), and the balance outstanding at 31 March 2005 was £nil (2005: £136,427). These amounts include the services of the Managing Director, Strategic Planning.

# Notes to the Accounts

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Accounts Direction given by the Secretary of State for Transport with the consent of the Treasury, in accordance with Paragraph 11 of Schedule 14 to the Transport Act 2000.

1. In this Accounts Direction:

- a) 'accounts' and 'annual accounts' refer to the annual consolidated accounts of the Strategic Rail Authority, comprising the Strategic Rail Authority and its subsidiaries;
- b) the Strategic Rail Authority itself, without any of its subsidiaries, is referred to as 'the SRA'; and
- c) the Strategic Rail Authority itself and its subsidiaries is referred to as 'the Authority'.

2. The annual accounts of the Authority shall give a true and fair view of the income and expenditure and cash flows for the year and the state of affairs at the year end. Subject to this requirement, the annual accounts for 2005/06 and subsequent years shall be prepared in accordance with:

- (a) the accounting and disclosure requirements given in *Government Accounting* and in the Treasury guidance *Financial Reporting Manual*, as amended or augmented from time to time, and subject to Schedule 1 to this direction;
- (b) any other relevant guidance that the Treasury may issue from time to time;
- (c) any other specific disclosure requirements of the Secretary of State;

insofar as these requirements are appropriate to the Authority and are in force for the year for which the accounts are prepared, and except where agreed otherwise with the Secretary of State and the Treasury, in which case the exception shall be described in the notes to the accounts.

3. Schedule 1 to this direction gives clarification of the application of the accounting and disclosure requirements of

the Companies Act and accounting standards and also gives any exceptions to standard Treasury requirements. Additional disclosure requirements of the Secretary of State and further explanations of Treasury requirements are set out in Schedule 2.

4. This direction shall be reproduced as an appendix to the annual accounts.

5. This direction replaces that dated 2 July 2003.

Signed by the authority of the Secretary of State an officer in the Department for Transport 15 June 2006.

### Schedule 1

1. The annual accounts shall be consolidated accounts prepared in accordance with section 227(2) and Schedule 4A of the Companies Act 1985 except that, where the Act refers to 'parent company', this shall be taken to mean the Authority (i.e. the SRA itself and all its subsidiaries).

2. Stocks and work in progress shall be included in the balance sheets at the lower of estimated replacement cost and estimated net realisable value.

3. Central Government grants used to pay for fixed assets, stocks or work in progress shall be credited to a grant reserve. This is different from the requirement in accounting standards that such grants must be credited to deferred income.

4. Revaluation gains on fixed assets, stocks or work in progress, to the extent that the assets were financed by central Government grants, shall be taken to the grant reserve in the balance sheets, without passing through the income and expenditure account. To the extent that the assets were financed by funds from

# Appendix 1

## Accounts Direction

other sources, revaluation gains shall be taken to the revaluation reserve in the balance sheets. This is different to the requirement of the Companies Act that all revaluation gains must be taken to one separate reserve.

5. On the disposal of fixed assets, stocks or work in progress, any amount in the grant reserve relating to the assets shall be transferred directly to the general reserve in the balance sheets, without passing through the income and expenditure account.

6. On the disposal of a fixed asset financed wholly by central Government grants, the profit or loss on disposal shall be offset in the income and expenditure account by an equal and opposite amount transferred to or from the general reserve. Where central Government grants were only used to finance a part of the cost of the asset, the amount of the transfer to or from the general reserve shall be reduced in proportion.

7. Expenditure in the income and expenditure account for the group shall include a notional cost of capital calculated as 3.5% of the average of the group's net assets during the year (not including donated assets). This amount shall be reversed after the line showing the surplus or deficit for the year.

8. The foreword and balance sheets shall each be signed and dated by the Authority's Accounting Officer.

### Schedule 2

#### *Additional disclosure requirements*

The following information shall be disclosed in the annual accounts, as a minimum, and in addition to the information required to be disclosed by Paragraphs 1, 2 and 3 of this direction.

#### 1. The foreword

A statement on the group's policy for conserving energy, reducing waste and minimising the release of greenhouse gases.

#### 2. The income and expenditure account or the notes thereto:

##### (a) the following income:

- (i) grants;
- (ii) proceeds on the disposal of development properties;
- (iii) proceeds on the disposal of fixed assets;
- (iv) rents and maintenance charges receivable; and
- (v) joint venture profits.

##### (b) the following expenditure:

- (i) amounts payable to the franchisee in Scotland in respect of the franchise agreement;
- (ii) book value of development properties sold;
- (iii) movements in provisions for losses on development properties;
- (iv) joint venture losses;
- (v) estate management costs; and
- (vi) debts written off and movements in provisions for bad and doubtful debts.

#### 3. The notes to the annual accounts:

(a) a note explaining that grant from Scottish Ministers can only be used to finance the following:

- (i) passenger rail services that both start and end in Scotland and are provided under a franchise agreement;
- (ii) services that either start or end in Scotland and are provided under a franchise agreement by a person who also provides services of the type in (i) above; and

(iii) services of type (i) or (ii) above where the services are provided or secured by the Authority or the group as operator of last resort.

##### (b) an analysis of grants from:

- (i) the Department for Transport;
- (ii) Scottish Ministers; and
- (iii) other sources, identified as to each source; in which analysis, for each of the totals for (i) to (iii) above, there shall be shown:

- (i) the amount that the Authority and the group is entitled to receive for the year;
- (ii) the amount received during the year;
- (iii) the amount released to the income and expenditure account for the year;
- (iv) the amount used to acquire or improve fixed assets in the year;
- (v) movements on amounts carried forward in the balance sheets; and for each source, the note shall make it possible to reconcile any of the amounts in (i) to (v) above, to each of the other amounts;

(c) an analysis of grants included as expenditure in the income and expenditure account and a statement of the total value of grant commitments not yet included in the income and expenditure account.

(d) an analysis of interest payable as follows:

- (i) premium payable on premature redemption of loans;
- (ii) interest payable on loans from Government departments and Scottish Ministers, showing the amount of interest payable to each creditor; and

- (iii) interest payable on other loans repayable after more than one year, and on any part of a loan that is repayable after more than one year, and imputed interest on finance lease obligations payable after more than one year; and
- (iv) other interest payable;
- (e) a report on the emoluments of the SRA's Chief Executive and of each individual SRA Board Member and senior managers during the year (with separate disclosure where more than one person occupied an office). The report shall include full details of all elements in the remuneration package of each person, such as fees, salary, annual bonuses, payment on termination of office, other taxable benefits, pension contributions, and the performance related elements of these (for which the basis on which the performance is measured shall be explained). For each SRA Board Member, the report shall also show the time commitment in terms of days per month;
- (f) if an SRA Board Member, the SRA Chief Executive or a senior manager of the SRA has been appointed for a fixed term or is on a fixed term service contract, the term shall be stated together with details of any predetermined compensation on termination of office;
- (g) a statement of the pension entitlements earned by the SRA's Chief Executive and by each individual SRA Board Member and senior manager during the year, disclosed on a basis recommended for Non-Departmental Public Bodies by the Treasury, or on a basis recommended for listed companies by the Faculty of Actuaries and the Institute of Actuaries;
- (h) details of all Authority and group employees, other than the SRA's Board Members and non-Executive Directors of subsidiaries, showing:
- (i) the average number of persons employed during the year, including part-time employees, agency or temporary staff and those on secondment or loan to the Authority and the group, but excluding those on secondment or loan to other organisations, analysed between appropriate categories (one of which is those whose costs of employment have been capitalised);
  - (ii) the total amount of loans to employees;
  - (iii) employee costs during the year, showing separately:
    - (1) wages and salaries;
    - (2) early retirement costs;
    - (3) social security costs;
    - (4) contributions to pension schemes;
    - (5) payments for unfunded pensions;
    - (6) other pension costs;
    - (7) amounts recoverable for employees on secondment or loan to other organisations.
- (The above analysis shall be given separately for the following categories:
- I) employed directly by the Authority and the group;
  - II) staff on secondment or loan to the Authority and the group, agency staff and temporary staff;
  - III) employee costs that have been capitalised);
- (i) an analysis of liquid resources, as defined by accounting standards, identifying any amount for which the use of funds by the Authority or the group is restricted to specific functions;
- (j) in the note on debtors, the amounts for prepayments, payments on account and amounts due from the franchisee in Scotland in respect of the franchise agreement, shall each be identified separately;
- (k) in the note on creditors, amounts due to the franchisee in Scotland in respect of the franchise agreement shall be identified separately;
- (l) particulars of indebtedness to Government departments and Scottish Ministers, including details of repayment terms, maturity dates and interest rates;
- (m) a statement showing the movements during the year on long-term loans given by the Authority and the group, and on current asset investments held by the Authority and the group;
- (n) a statement of outstanding commitments for loans granted and for committed lending in future periods;
- (o) a statement of losses and special payments during the year, being transactions of a type which Parliament cannot be supposed to have contemplated. Disclosure shall be made of the total of losses and special payments if this exceeds £100,000, with separate disclosure and particulars of any individual amounts in excess of £100,000. Disclosure shall also be made of any loss or special payment of £100,000 and below if it is considered material in the context of the group's operations;
- (p) particulars, as required by the accounting standard on related party disclosures, of material transactions during the year and outstanding balances at the year end (other than those arising from a contract of service or of employment with the Authority or the group), between the

# Appendix 1

## Accounts Direction

Authority or the group and a party that, at any time during the year, was a related party. For this purpose, notwithstanding anything in the accounting standard, the following assumptions shall be made:

- (i) transactions and balances of £5,000 and below are not material;
- (ii) parties related to Board Members and key managers are as notified to the Authority by each individual Board Member or key manager;
- (iii) the following are related parties:

(1) group subsidiary and associate undertakings (except where the group owns or controls 90% or more of the undertaking);

(2) pensions funds for the benefit of employees of the Authority or the group (although there is no requirement to disclose details of contributions to such funds);

(3) Board Members and key managers of the SRA;

(4) members of the close family of Board Members and key managers of the SRA;

(5) companies in which a Board Member or a key manager of the SRA is a director;

(6) partnerships and joint ventures in which a Board Member or a key manager of the SRA is a partner or venturer;

(7) trusts, friendly societies and industrial and provident societies in which a Board Member or a key manager of the SRA is a trustee or committee member;

(8) companies, and subsidiaries of companies, in which a Board Member or a key manager of the SRA has a controlling interest;

(9) settlements in which a Board Member or a key manager of the SRA is a settlor or beneficiary;

(10) companies, and subsidiaries of companies, in which a member of the close family of a Board Member or of a key manager of the SRA has a controlling interest;

(11) partnerships and joint ventures in which a member of the close family of a Board Member or of a key manager of the SRA is a partner or venturer;

(12) settlements in which a member of the close family of a Board Member or of a key manager of the SRA is a settlor or beneficiary;

(13) the Department for Transport, as the sponsor department. For the purposes of this sub-paragraph:

- (i) A key manager is as defined in sub-paragraph 3 (e), above;
- (ii) The close family of an individual is the individual's spouse, the individual's relatives and their spouses, and relatives of the individual's spouse. For the purposes of this definition, 'spouse' includes personal partners, and 'relatives' means brothers, sisters, ancestors, lineal descendants and adopted children; and
- (iii) A controlling shareholder of a company is an individual (or an individual acting jointly with other persons by agreement) who is entitled to exercise (or control the exercise of) 30% or more of the rights to vote at general meetings of the company, or who is able to control the appointment of directors who are then able to exercise a majority of votes at board meetings of the company.

Note on sub-paragraphs 3 (e), 3 (f), 3 (g) and 3 (p): under the Data Protection Act 1998 and the Human Rights Act 1998, the reporting entity needs to obtain consent for some of the information in these sub-paragraphs to be disclosed. If consent is withheld, or if for any other reason information is not available, this shall be stated in the note.



# Appendix 2

## Additional Financial Information

### Basis of Preparation

These accounting schedules, which comprise the Income and Expenditure account and Balance Sheet, have been compiled to cover the 12 months from 1 April 2005 to 31 March 2006.

They provide additional information about the financial results of the Strategic Rail Authority (SRA) in the year in which the majority of its functions transferred to successor bodies. As a consequence of these transfers, merger accounting has been applied in the statutory SRA accounts (see pages 59 to 90) under the requirements of the Financial Reporting Manual.

The primary objective of these schedules is to provide transparency of the transactions and balances for which the SRA Accounting Officer and the SRA Board were responsible, and of which they had stewardship, during the financial year 2005/06. The accounting policies adopted are consistent with those adopted in previous SRA Annual Reports and Accounts.

The Income and Expenditure account and Balance Sheet have been prepared using organisational definitions as per the Accounts Direction issued on 15 June 2006, and the SRA accounting policies used in 2004/05. Under the Accounts Direction, the 'Group' is made up of the core Authority (as defined by the Transport Act 2000) and all subsidiaries. The Direction defines the parent as the core Authority and its subsidiaries and joint ventures with the exception of Network Rail.

The Accounts Direction requires the SRA to include financial statements for the parent company in line with the Companies

Acts. Within these accounting schedules the parent is called the 'Authority'.

The Accounts Direction and the SRA Accounting Policies are both printed in full in the 2004/05 accounts, and are available on the SRA website at [www.sra.gov.uk](http://www.sra.gov.uk).

There has been no fundamental change in accounting policies to those quoted in the statutory SRA accounts except that merger accounting has not been used. Instead, acquisition accounting principles have been used to account for the disposal of each activity.

The Income and Expenditure account and Balance Sheet include:

- All transactions of the SRA in 2005/06.
- The results of BRB (Residuary) Limited until 21 August 2005, at which point it transferred to the Department for Transport under a statutory transfer scheme.
- The results of South Eastern Trains Limited for the whole of 2005/06.
- The transactions of the Rail Passengers' Council until 24 July 2005, at which point its primary activities were transferred to a new Non-Departmental Public Body under a statutory transfer scheme.
- The results of minor subsidiaries up to the date of transfer.
- The results of Network Rail until 26 June 2005, at which point the SRA's responsibilities ceased.

Within the balance sheet 'other' includes the closing balances of Network Rail and BRB (Residuary) Limited as at 31 March 2005.

The results and transactions of each of these entities have been audited, with the exception of Network Rail. The results of Network Rail are based on un-audited management accounts drawn up to the date of transfer.

Inter-company eliminations of transactions have been undertaken up to the date of the respective transfers.

# Appendix 2

## Additional Financial Information

<b>Group Income and Expenditure Account for year ended 31 March 2006</b>	<b>Residual SRA</b>	<b>Activity Transferred to DfT</b>	<b>Activity Transferred to Scottish Exec</b>	<b>Other Transfers<sup>1</sup></b>	<b>Total 2006</b>	<b>Total 2005</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Income</b>						
Trading income	464.4	36.5	-	430.1	931.0	<b>2,104.7</b>
Government Grant (including share of joint venture)	2,073.1	421.5	49.4	2.3	2,546.3	<b>3,156.5</b>
Less: share in joint venture (Government Grant)	-	-	-	-	-	<b>(9.9)</b>
	2,537.5	458.0	49.4	432.4	3,477.3	<b>5,251.3</b>
<b>Operating expenditure</b>	<b>(2,468.5)</b>	<b>(439.6)</b>	<b>(50.3)</b>	<b>(270.4)</b>	<b>(3,228.8)</b>	<b>(4,932.2)</b>
<b>Group surplus/(deficit)</b>	<b>69.0</b>	<b>18.4</b>	<b>(0.9)</b>	<b>162.0</b>	<b>248.5</b>	<b>(319.1)</b>
Provision for loss on termination of operations	-	-	-	-	-	<b>(109.7)</b>
Surplus on disposal of fixed assets/non-operational property	1.4	-	-	7.8	9.2	<b>72.9</b>
Notional cost of capital	2.4	0.7	1.3	(29.7)	(25.3)	<b>(94.7)</b>
<b>Surplus/(deficit) on ordinary activities before interest</b>	<b>72.8</b>	<b>19.1</b>	<b>0.4</b>	<b>140.1</b>	<b>232.4</b>	<b>187.6</b>
Net interest	5.5	-	(1.7)	(177.8)	(174.0)	<b>(641.1)</b>
<b>Surplus/(deficit) on ordinary activities before taxation</b>	<b>78.3</b>	<b>19.1</b>	<b>(1.3)</b>	<b>(37.7)</b>	<b>58.4</b>	<b>(453.5)</b>
Taxation	-	-	-	(0.5)	(0.5)	<b>23.0</b>
<b>Surplus/(deficit) on ordinary activities after taxation</b>	<b>78.3</b>	<b>19.1</b>	<b>(1.3)</b>	<b>(38.2)</b>	<b>57.9</b>	<b>(430.5)</b>
Less notional cost of capital	(2.4)	(0.7)	(1.3)	29.7	25.3	<b>94.7</b>
<b>Result for the year</b>	<b>75.9</b>	<b>18.4</b>	<b>(2.6)</b>	<b>(8.5)</b>	<b>83.2</b>	<b>(335.8)</b>

<sup>1</sup> Includes transfers to the new Rail Passengers' Council (Passenger Focus), the Office of Rail Regulation, the results of Network Rail Limited and BRB (Residuary) Limited to the dates of transfer and inter-company eliminations.

<b>Authority Income and Expenditure Account for year ended 31 March 2006</b>	Residual SRA	Activity Transferred to DfT	Activity Transferred to Scottish Exec	Other Transfers <sup>2</sup>	Total 2006	Total 2005
	£m	£m	£m	£m	£m	£m
<b>Income</b>						
Trading income	464.4	36.5	-	(12.0)	488.9	<b>518.2</b>
Government Grant (including share of joint venture)	2,073.1	421.5	49.4	2.3	2,546.3	<b>3,156.5</b>
Less: share in joint venture (Government Grant)	-	-	-	-	-	<b>(9.9)</b>
	2,537.5	458.0	49.4	(9.7)	3,035.2	<b>3,664.8</b>
<b>Operating expenditure</b>	(2,468.5)	(439.6)	(50.3)	7.5	(2,950.9)	<b>(3,922.1)</b>
<b>Authority surplus/(deficit)</b>	69.0	18.4	(0.9)	(2.2)	84.3	<b>(257.3)</b>
Provision for loss on termination of operations	-	-	-	-	-	<b>(13.9)</b>
Surplus on disposal of fixed assets/non-operational property	1.4	-	-	4.8	6.2	<b>3.9</b>
Notional cost of capital	2.4	0.7	1.3	3.1	7.5	<b>13.4</b>
<b>Surplus/(deficit) on ordinary activities before interest</b>	72.8	19.1	0.4	5.7	98.0	<b>(253.9)</b>
Net interest	5.5	-	(1.7)	(0.8)	3.0	<b>1.9</b>
<b>Surplus/(deficit) on ordinary activities before taxation</b>	78.3	19.1	(1.3)	4.9	101.0	<b>(252.0)</b>
Taxation	-	-	-	-	-	-
<b>Surplus/(deficit) on ordinary activities after taxation</b>	78.3	19.1	(1.3)	4.9	101.0	<b>(252.0)</b>
Less notional cost of capital	(2.4)	(0.7)	(1.3)	(3.1)	(7.5)	<b>(13.4)</b>
<b>Result for the year</b>	75.9	18.4	(2.6)	1.8	93.5	<b>(265.4)</b>

<sup>2</sup> Includes transfers to the new Rail Passengers' Council (Passenger Focus), the Office of Rail Regulation, BRB (Residuary) Limited and inter-company eliminations.

# Appendix 2

## Additional Financial Information

<b>Group Balance Sheet</b>	Balances at 31 March 2005 Per accounts	Activities Transferred to DfT	Activities Transferred to Scottish Executive	Activities Transferred to other bodies	Movement in year	Balances at 31 March 2006
	£m	£m	£m	£m	£m	£m
<b>Fixed Assets</b>						
Tangible assets	23,085.3	-	-	(23,037.4)	(4.6)	43.3
Intangible assets:						
Concessions and software	79.1	-	-	(79.0)	(0.1)	-
Goodwill	1.4	-	-	(1.0)	(0.4)	-
Investment property	153.7	-	-	(153.7)	-	-
<b>Total fixed assets</b>	<b>23,319.5</b>	<b>-</b>	<b>-</b>	<b>(23,271.1)</b>	<b>(5.1)</b>	<b>43.3</b>
<b>Current assets</b>						
Stocks	63.8	-	-	(61.8)	2.3	4.3
Debtors falling due within one year	588.2	(125.8)	-	(456.1)	41.3	47.6
Debtors falling due after more than one year	71.9	-	-	(71.9)	-	-
Non-operational property	55.6	-	-	(55.6)	-	-
Current asset investments	191.6	-	-	(191.6)	-	-
Cash at bank and in hand	13.4	-	-	(8.5)	1.1	6.0
	984.5	(125.8)	-	(845.5)	44.7	57.9
Less:						
Creditors falling due within one year	(7,333.6)	143.9	1.6	7,064.2	37.1	(86.8)
Net current assets/(liabilities)	(6,349.1)	18.1	1.6	6,218.7	81.8	(28.9)
<b>Total assets less current liabilities</b>	<b>16,970.4</b>	<b>18.1</b>	<b>1.6</b>	<b>(17,052.4)</b>	<b>76.7</b>	<b>14.4</b>
Less:						
Creditors falling due after more than one year	(12,010.4)	4.5	63.0	11,941.0	(3.3)	(5.2)
Provisions for liabilities and charges	(651.5)	35.3	-	574.2	21.4	(20.6)
Net assets/(liabilities) excluding pension asset/(liability)	4,308.5	57.9	64.6	(4,537.2)	94.8	(11.4)
Pension asset	1.4	(1.4)	-	-	-	-
Pension liability	(316.2)	6.3	-	287.4	4.8	(17.7)
<b>Net assets/(liabilities)</b>	<b>3,993.7</b>	<b>62.8</b>	<b>64.6</b>	<b>(4,249.8)</b>	<b>99.6</b>	<b>(29.1)</b>
<b>Reserves</b>						
Revaluation reserve	5,177.4	-	-	(5,177.4)	-	-
Income and Expenditure reserve	(933.6)	62.8	64.6	676.6	100.5	(29.1)
Revenue Grant reserve	(251.0)	-	-	251.0	-	-
Capital Grant reserve	0.9	-	-	-	(0.9)	-
<b>Total reserves</b>	<b>3,993.7</b>	<b>62.8</b>	<b>64.6</b>	<b>(4,249.8)</b>	<b>99.6</b>	<b>(29.1)</b>

<b>Authority Balance Sheet</b>	Balances at 31 March 2005 Per accounts	Activities Transferred to DfT	Activities Transferred to Scottish Executive	Activities Transferred to other bodies	Movement in year	Balances at 31 March 2006
	£m	£m	£m	£m	£m	£m
<b>Fixed assets</b>						
Tangible assets	74.3	-	-	(26.4)	(4.6)	43.3
Intangible assets:						
Concessions and software	0.1	-	-	-	(0.1)	-
Goodwill	0.4	-	-	-	(0.4)	-
Investment property	70.7	-	-	(70.7)	-	-
<b>Total fixed assets</b>	<b>145.5</b>	<b>-</b>	<b>-</b>	<b>(97.1)</b>	<b>(5.1)</b>	<b>43.3</b>
<b>Current assets</b>						
Stocks	2.0	-	-	-	2.3	4.3
Debtors falling due within one year	145.4	(125.8)	-	(13.3)	41.3	47.6
Debtors falling due after more than one year	49.1	-	-	(49.1)	-	-
Non-operational property	55.6	-	-	(55.6)	-	-
Current asset investments	-	-	-	-	-	-
Cash at bank and in hand	10.2	-	-	(5.3)	1.1	6.0
	262.3	(125.8)	-	(123.3)	44.7	57.9
Less:						
Creditors falling due within one year	(294.9)	143.9	1.6	25.5	37.1	(86.8)
Net current assets/(liabilities)	(32.6)	18.1	1.6	(97.8)	81.8	(28.9)
<b>Total assets less current liabilities</b>	<b>112.9</b>	<b>18.1</b>	<b>1.6</b>	<b>(194.9)</b>	<b>76.7</b>	<b>14.4</b>
Less:						
Creditors falling due after more than one year	(120.8)	4.5	63.0	51.4	(3.3)	(5.2)
Provisions for liabilities and charges	(484.6)	35.3	-	407.3	21.4	(20.6)
Net assets/(liabilities) excluding pension asset/(liability)	(492.5)	57.9	64.6	263.8	94.8	(11.4)
Pension asset	1.4	(1.4)	-	-	-	-
Pension liability	(28.8)	6.3	-	-	4.8	(17.7)
<b>Net assets/(liabilities)</b>	<b>(519.9)</b>	<b>62.8</b>	<b>64.6</b>	<b>263.8</b>	<b>99.6</b>	<b>(29.1)</b>
<b>Reserves</b>						
Revaluation reserve	147.2	-	-	(147.2)	-	-
Income and Expenditure reserve	(417.0)	62.8	64.6	160.0	100.5	(29.1)
Revenue Grant reserve	(251.0)	-	-	251.0	-	-
Capital Grant reserve	0.9	-	-	-	(0.9)	-
<b>Total reserves</b>	<b>(519.9)</b>	<b>62.8</b>	<b>64.6</b>	<b>263.8</b>	<b>99.6</b>	<b>(29.1)</b>

## Appendix 2

### Additional Financial Information

<b>Group Reserves</b>	<b>Income and Expenditure</b>	<b>Revaluation</b>	<b>Revenue Grant</b>	<b>Capital Grant</b>	<b>Total</b>
Balance at 31 March 2005 per accounts	(933.6)	5,177.4	(251.0)	0.9	3,993.7
Transfers out	822.7	(5,177.4)	251.0	-	(4,103.7)
<b>De-merged reserves at 31 March 2005</b>	<b>(110.9)</b>	<b>-</b>	<b>-</b>	<b>0.9</b>	<b>(110.0)</b>

<b>Authority Reserves</b>	<b>Income and Expenditure</b>	<b>Revaluation</b>	<b>Revenue Grant</b>	<b>Capital Grant</b>	<b>Total</b>
Balance at 31 March 2005 per accounts	(417.0)	147.2	(251.0)	0.9	(519.9)
Transfers out	306.1	(147.2)	251.0	-	409.9
<b>De-merged reserves at 31 March 2005</b>	<b>(110.9)</b>	<b>-</b>	<b>-</b>	<b>0.9</b>	<b>(110.0)</b>

## Three Year Summaries

Authority Income and Expenditure Account	Year to 31 March 2004	Year to 31 March 2005	Year to 31 March 2006
	£m	£m	£m
<b>Income</b>			
Grant receipts	3,444.9	3,189.6	<b>2,548.8</b>
TOC receipts	158.6	99.5	<b>36.3</b>
Other receipts	27.9	26.9	<b>13.0</b>
<b>Total income</b>	<b>3,631.4</b>	<b>3,316.0</b>	<b>2,598.1</b>
<b>Expenditure</b>			
TOC payment	(1,489.9)	(1,029.3)	<b>(398.5)</b>
Revenue grants and subsidies	(213.7)	(119.5)	<b>(62.0)</b>
Capital grants	(478.0)	(2,060.0)	<b>(1,984.1)</b>
Operating expenses	(327.7)	(265.2)	<b>(53.3)</b>
<b>Total expenses</b>	<b>(2,509.3)</b>	<b>(3,474.0)</b>	<b>(2495.9)</b>
Operating surplus/(deficit)	1,122.1	(158.0)	<b>102.2</b>
Profit on disposal of assets	21.8	6.0	<b>6.4</b>
Provision for loss on termination of operations	-	(13.9)	-
Surplus/(deficit) on ordinary activities before interest	1,143.9	(165.9)	<b>108.6</b>
Interest and similar charges	(1.1)	(3.2)	<b>(0.5)</b>
Retained surplus/(deficit)	1,142.8	(169.1)	<b>108.1</b>
<b>Authority Balance Sheet</b>			
	31 March 2004	31 March 2005	31 March 2006
	£m	£m	£m
Fixed assets	105.2	114.1	-
Net current assets	74.1	(4.1)	<b>(2.5)</b>
Creditors falling due after more than one year	(96.0)	(84.6)	-
Provisions for liabilities and charges	(452.2)	(484.4)	<b>(6.7)</b>
Net pension liability	(1.6)	(4.9)	-
Capital and reserves	(370.5)	(463.9)	<b>(9.2)</b>

These summaries are produced for the Authority, BRB (Residuary) Limited, DOA Limited and the dormant subsidiaries. They exclude South Eastern Trains Limited, the British Transport Police and Cross London Rail Links Limited.

# Appendix 3

## Franchise Net Payments: TOCs

The Authority has entered into franchise agreements with 24 Train Operating Companies for the provision of train services.

TOC	Franchise Commencement Date
Anglia Railways	5 January 1997
ARRIVA Trains Merseyside	19 January 1997
ARRIVA Trains Northern	2 March 1997
ARRIVA Trains Wales	8 December 2003
c2c	26 May 1996
Cardiff Railway	13 October 1996
Central Trains	2 March 1997
Chiltern Railways	3 March 2002
Connex South Eastern	13 October 1996
First Great Eastern	5 January 1997
First Great Western	4 February 1996
First Great Western Link	1 April 2004
First North Western	2 March 1997
First ScotRail	17 October 2004
Gatwick Express	28 April 1996
GNER	28 April 1996
GNER ICEC	1 May 2005
Island Line	13 October 1996
Midland Mainline	28 April 1996
Northern Rail	12 December 2004
ONE	1 April 2004
ScotRail	31 March 1997
Silverlink	2 March 1997
South Eastern Trains	9 November 2003
South West Trains	4 February 1996
Southern	26 May 1996
Thames Trains	13 October 1996
Thameslink	2 March 1997
TransPennine Express	1 February 2004
Virgin CrossCountry	5 January 1997
Virgin West Coast	9 March 1997
WAGN	5 January 1997
Wales and Borders Trains	14 October 2001
Wales and West Railway	13 October 1996
Wessex Trains	14 October 2001

### Net Payments

#### NOTES

1. This table shows for each franchise the net amounts paid to (or received from) the private sector since franchising. The table only includes the amounts paid/received up to date of transfer in 2005/06.
2. Net outturn figures are the cash amounts paid out to the private sector in 1995/96 to 2004/05. They include actual incentive payments and receipts, and the impact of the regulatory review.
3. A number of TOCs are operating under management contracts rather than Franchise Agreements addressing financial issues and to facilitate the remapping of franchise areas.

# Appendix 3

## Franchise Net Payments: TOCs

1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
	8,814	36,203	27,207	23,579	18,847	(2,337)	(6,379)	(1,521)	834	
	7,565	7,458	6,573	5,992	5,902	6,320	10,384	3,949	(727)	
	12,319	141,654	128,273	117,356	109,781	115,197	112,231	122,238	49,967	<b>7,665</b>
								46,448	97,835	<b>56,623</b>
	25,439	27,668	26,153	24,883	23,991	14,395	21,807	20,746	6,707	<b>2,928</b>
	10,245	20,691	17,301	17,990	16,984	15,085				
	11,506	134,647	125,184	115,676	102,900	78,526	70,134	103,477	112,127	<b>44,259</b>
	11,630	14,365	12,806	10,515	9,312	13,636	18,050	24,022	14,228	<b>4,787</b>
	57,772	114,665	86,195	63,950	43,340	39,577	37,223	75,851		
	5,689	28,686	14,394	8,848	(4,907)	(25,146)	(40,085)	(40,361)	(2,464)	
9,437	61,870	58,909	53,257	48,620	42,770	27,511	8,735	16,089	(17,635)	<b>(2,844)</b>
									(5,804)	<b>(2,551)</b>
	12,577	100,389	92,650	88,593	78,653	86,586	86,896	88,904	44,725	<b>252</b>
									29,755	<b>49,871</b>
	(4,192)	(6,211)	(8,163)	(10,300)	(11,747)	(6,458)	(4,904)	(13,789)	(18,468)	<b>(6,070)</b>
	61,468	55,050	37,401	17,367	6,682	(28,869)	(26,934)	(25,145)	(70,260)	<b>(6,222)</b>
										<b>(13,674)</b>
	927	1,975	1,962	1,934	1,936	2,264	2,479	3,113	3,225	<b>1,031</b>
	16,188	8,213	2,501	898	(217)	(6,235)	(14,729)	(6,862)	(6,019)	<b>1,792</b>
									29,770	<b>44,191</b>
									(44,973)	<b>(15,832)</b>
		135,977	130,904	125,795	110,220	81,001	102,208	124,011	42,290	
	4,266	49,362	35,908	30,628	25,693	42,939	45,713	48,119	30,651	<b>17,679</b>
								41,725	67,641	<b>24,855</b>
9,396	63,286	62,611	59,918	57,405	48,060	18,189	24,599	92,374	64,047	<b>45,752</b>
	75,798	76,090	57,988	50,082	39,808	13,399	(995)	78,130	68,983	<b>31,028</b>
	18,726	33,540	23,270	16,011	10,984	(3,931)	(13,232)	(15,027)	(2,575)	
	1,300	2,534	(6,980)	(17,646)	(27,825)	(37,648)	(53,936)	(52,199)	(44,613)	<b>(11,176)</b>
								30,260	41,277	<b>17,220</b>
	30,675	115,927	101,447	86,782	79,894	118,510	206,286	241,625	118,505	<b>34,345</b>
	5,831	76,632	70,207	59,063	57,677	190,906	188,829	328,577	113,020	<b>28,729</b>
	13,998	54,552	35,512	26,152	6,578	15,023	(8,114)	(2,433)	5,020	<b>4,167</b>
						38,766	90,360	76,613	(4,473)	
	38,309	73,528	63,906	62,379	51,873	47,321				
						22,582	50,885	75,915	55,628	<b>16,775</b>
18,832	552,006	1,425,113	1,195,774	1,032,553	847,189	877,109	907,509	1,484,848	778,225	<b>360,250</b>

- Under Clause 18.1 of the Franchise Agreements the TOCs are held harmless of changes arising from the regulatory review. The effect of this can be positive or negative in any year.
- All figures have been rounded individually to the nearest £1,000. There may therefore be discrepancies between the totals of the rounded numbers and the column totals. The column totals are correct.

# Appendix 4

## Franchise Net Payments: PTEs

All figures are in £000's (brackets indicate a receipt from an operator).

The data in this table is included to allow an overall view of the costs of the franchised railway. It shows the contractual amounts to be paid to the operators on the same price basis as in the table in Appendix 3 to the accounts. This should be read in conjunction with Appendix 3 to the accounts.

TOC	PTE
ARRIVA Trains Merseyside	Merseytravel*
ARRIVA Trains Northern	Greater Manchester
	West Yorkshire
	South Yorkshire*
	Nexus (Tyne and Wear)*
	<b>Total</b>
Central Trains	Centro*
First North Western	Greater Manchester
	West Yorkshire
	Merseytravel*
	<b>Total</b>
First ScotRail	Strathclyde*
Northern Rail	Greater Manchester
	West Yorkshire
	South Yorkshire*
	Nexus (Tyne and Wear)*
	Merseytravel*
	<b>Total</b>
ScotRail	Strathclyde
<b>Total net contractual payments by PTEs</b>	

### NOTES

1. The English PTEs are financed to meet their contractual obligations through grant, which is paid to each of them by the Authority. In the case of Strathclyde PTE, the equivalent grant is paid by the Scottish Executive. The table only includes the amounts paid/received up to date of transfer in 2005/06, except for First ScotRail which is an estimated value based on the franchise agreement.
2. All figures are rounded individually to the nearest £1,000. There may therefore be discrepancies between the totals of the rounded numbers and the column totals. The column totals are correct.
3. Some PTEs (those marked \*) retain revenue risk: they pay the gross operating costs less the actual revenue, with the exception of Merseytravel, Nexus (Tyne and Wear) and South Yorkshire who ceased to retain revenue risk from 12 December 2004. The amounts shown are the gross costs before revenue.
4. Centro is the PTE formerly known as West Midlands.
5. 2004/05 represents the period 1 April 2004 to 31 March 2005, with the exception of ARRIVA Trains Northern, which is from 1 April 2004 to 11 December 2004; First North Western, which is from 1 April 2004 to 11 December 2004; Northern Rail, which is from 12 December 2004 to 31 March 2005; ScotRail, which is from 1 April 2004 to 16 October 2004; and First ScotRail, which is from 17 October 2004 to 31 March 2005.

# Appendix 4

## Franchise Net Payments: PTEs

1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
<b>58,482</b>	<b>53,172</b>	<b>49,053</b>	<b>47,945</b>	<b>71,639</b>	<b>73,204</b>	<b>23,486</b>		
5,668	5,136	4,673	4,466	4,989	5,112	5,616	3,266	
46,606	42,569	38,953	37,344	48,239	51,479	68,702	42,159	
20,506	17,978	15,819	14,784	26,204	26,668	28,253	16,431	
4,798	4,100	3,507	3,214	6,978	6,724	5,004	3,023	
<b>77,578</b>	<b>69,783</b>	<b>62,952</b>	<b>59,808</b>	<b>86,410</b>	<b>89,982</b>	<b>107,575</b>	<b>64,879</b>	
<b>38,736</b>	<b>35,791</b>	<b>30,501</b>	<b>28,729</b>	<b>45,506</b>	<b>44,585</b>	<b>44,651</b>	<b>64,182</b>	<b>14,368</b>
67,396	63,669	59,057	55,466	67,509	72,086	75,157	45,633	
2,700	2,550	2,366	2,222	2,702	2,887	3,010	1,827	
13,543	12,530	11,336	10,386	16,522	17,641	18,393	11,167	
<b>83,639</b>	<b>78,749</b>	<b>72,759</b>	<b>68,074</b>	<b>86,733</b>	<b>92,613</b>	<b>96,559</b>	<b>58,627</b>	
							<b>55,551</b>	<b>57,382</b>
							19,989	18,854
							18,185	16,984
							7,570	9,591
							1,152	983
							4,380	4,231
							<b>51,276</b>	<b>50,643</b>
152,654	149,273	144,208	138,352	133,262	127,875	127,660	91,004	
<b>411,089</b>	<b>386,768</b>	<b>359,473</b>	<b>342,908</b>	<b>423,550</b>	<b>428,259</b>	<b>399,933</b>	<b>385,519</b>	<b>122,393</b>

# Appendix 5

## Enforcement of Franchise Agreements

Date of Notice	TOC	Cause of Breach	Action Taken
4 April 2005	New Southern Railway Limited	Contravention of Condition 6 of the Passenger Licence and Condition 4 of the Station Licence by not complying with Part 3(c) of its Disabled Persons Protection Policy (DPPP) in failing to provide alternative travel arrangements to a disabled customer travelling from Pulborough who made a journey request on 28 September 2004.	The Operator undertook a full re-briefing of all Customer Services staff on the DPPP and the Disability Discrimination Act and has employed DP Consulting to carry out independent auditing of their services for mobility impaired customers each quarter.
6 April 2005	First Scotrail Ltd	Contravention of Paragraphs 5.4 and 5.5 of Schedule 12 of the Franchise Agreement for failing to provide no later than three reporting periods before the end of the Bond Year, an estimate of the amount of the Season Ticket Bond for each reporting period during the year, and to agree the amount of the Bond by no later than two reporting periods before the end of the Bond Year.	The Franchise Operator assured the SRA that in future due process would be followed.
11 April 2005	Great Western Trains Co. Ltd	Contravention of Clause 14.4 of the Franchise Agreement for failing to provide no later than three reporting periods before the end of the Bond Year, an estimate of the amount of the Season Ticket Bond for each reporting period during the year.	The Franchise Operator assured the SRA that in future due process would be followed.
14 April 2005	London Eastern Railway Ltd (ONE)	Contravention of Clause 5.4 of the Franchise Agreement for failing to provide an estimate of the amount of the Season Ticket Bond for each reporting period during the year.	The Franchise Operator assured the SRA that in future due process would be followed.
27 April 2005	West Coast Trains Limited	Contravention of Clause 14.4 of the Franchise Agreement for failing to provide the secured Season Ticket Bond by 5 March 2005.	The Franchise Operator will in future negotiate the Bond renewal earlier in the renewal process in order to allow a greater period of time before bond expiry, and seek to agree a contingency arrangement with the SRA, should negotiations in the future be delayed.
4 May 2005	West Anglia Great Northern Railway Limited (WAGN)	Contravention of Paragraph 5.1 of Document D of the Franchise Agreement by failing to report to the SRA by no later than 1 April 2005 its proposals in respect of its Passenger's Charter.	The Franchise Operator was issued with a Section 55 (5B)(b) notice.

Date of Notice	TOC	Cause of Breach	Action Taken
12 May 2005	c2c Rail Ltd	Contravention of Clauses 7.1 and 7.2 of the Franchise Agreement by failing to send the new Timetable to the Rail Passengers' Council (RPC) on request, no less than seven weeks prior to implementation and for failing to consult the RPC on the changes, and for failing to inform passengers at least seven days in advance if it will be unable to operate its trains in accordance with the Timetable.	The Franchise Operator shall ensure that consultation with all parties is conducted prior to the implementation of the Timetable and that posters are sited at key locations to provide updated and accurate information.
12 May 2005	c2c Rail Ltd	Contravention of Clause 8.1 of the Franchise Agreement by failing to provide a copy of the Passenger's Charter free of charge on request; to make all payments and all extensions to Fares and offer discounts on the price of Fares under the terms of the Passenger's Charter, specifically by failing to provide Season Ticket holders with the required number of Void Day discounts to which they were entitled; and failing to have a summary of the approved current DPPP.	The Franchise Operator has introduced a 'Compliance Box' process to ensure supplies of relevant publications are maintained at all its stations; published details of its compensation scheme; and extended the offer refunding discounts until 31 March 2005.
12 May 2005	c2c Rail Ltd	Contravention of Clauses 10.3(a) and 10.7 of the Franchise Agreement for failing to procure that as a minimum at each station the requirements of Schedule 4 are complied with. Specifically this included passenger information at Grays, Purfleet and Thorpe Bay, ensuring adequate lighting is switched on during hours of darkness at Grays, regular cleaning and maintenance of poster displays at Purfleet and that the double arrow symbol is displayed at or near the entrance to Dagenham Dock station.	The Franchise Operator has instituted new checking procedures and undertaken to erect a replacement double arrow sign.
12 May 2005	c2c Rail Ltd	Contravention of Paragraph 9.6 of Document D2 Franchise Plan by failing to inform passengers of the changes to its Passenger's Charter referred to in Paragraph 9.5.	The Franchise Operator has ensured that the most up to date version of the Passenger's Charter is now published at all stations.
12 May 2005	c2c Rail Ltd	Contravention of Paragraphs 14.2 and 14.3 of Document D2 Franchise Plan by failing to provide relevant information on membership of c2c's Capital Club and to provide reviews of the level of patronage and reaction to the Capital Club to the SRA.	The Franchise Operator has updated posters and leaflets on stations and its website and is committed to make the information and relevant reviews available.

# Appendix 5

## Enforcement of Franchise Agreements

Date of Notice	TOC	Cause of Breach	Action Taken
12 May 2005	c2c Rail Ltd	Contravention of Condition 4 (Through Ticketing and Network Benefits) of the Licence by failing to have the times of peak demand displayed prominently at all stations and to make copies of the National Rail Conditions of Carriage available.	The Franchise Operator has reviewed the station information poster at each station to ensure that the required detail is included and it has introduced a 'Compliance Box' process to ensure supplies of relevant publications are maintained at all its stations.
12 May 2005	c2c Rail Ltd	Contravention of Condition 5 of the Station Licence and Condition 7 of the Passenger Licence by failing to comply with the Complaints Procedure for handling complaints.	The Franchise Operator has reviewed the station information poster at each station to ensure all required detail is included and made available copies of the new comments form at all stations.
13 June 2005	c2c Rail Ltd	Contravention of Clause 5.1(a)(i) of the Franchise Agreement for failing to procure that the Passenger Services contained in the Timetable and Train Plan provided those services specified.	The Franchise Operator shall from the Passenger Change Date in June 2005 provide a Timetable in accordance with the Passenger Service Requirement (PSR) and request a derogation from any aspects of the PSR that cannot be complied with prior to that date.
18 July 2005	Central Trains Ltd	Contravention of Clause 29.1 of the Franchise Agreement by failing to obtain the approval of the SRA before committing to, and implementing, a 35 hour week for train drivers.	The Franchise Operator has assured the SRA that it will demonstrate that a 35 hour week has a positive effect on the long-term financial performance of the franchise and demonstrate that this supposition is supported by actual results.

ACoRP	Association of Community Rail Partnerships
ATOC	Association of Train Operating Companies
BTP	British Transport Police
Community Infrastructure Fund	Joint ODPM/DfT fund for transport projects to facilitate new housing developments
CNRS	Company Neutral Revenue Support
CTRL	Channel Tunnel Rail Link, a 68 mile, high speed line linking London St Pancras and the Channel Tunnel
DC	Direct Current
DfT	Department for Transport
Directions and Guidance	Instructions issued to the SRA by central Government, the Scottish Executive or the Mayor of London
DTi	Department for Trade and Industry
EC	European Commission
ECML	East Coast Main Line
ERTMS	European Rail Traffic Management System
EU	European Union
EWS	English, Welsh and Scottish Railway
GSM-R	Global System for Mobile Communication – Railways
GWML	Great Western Main Line
HSE	Health and Safety Executive
HV	High Voltage
ICEC	InterCity East Coast
IKF	Integrated Kent Franchise
London and Southeastern Railway Limited	A subsidiary of GoVia Limited, responsible for the running of the Integrated Kent Franchise
Network Rail	The company responsible for the maintenance and renewal of network infrastructure
ODPM	Office of the Deputy Prime Minister
OPRAF	Office of Passenger Rail Franchising
ORR	Office of Rail Regulation
PPM	Public Performance Measure
PSR	Passenger Service Requirement (the minimum specified level of service provision required under a passenger franchise)
PTEs	Passenger Transport Executives (bodies responsible for planning and securing services in certain major metropolitan areas outside London)
RUS	Route Utilisation Strategies are individual strategies developed at line of route level, within the framework provided by the Network Utilisation Strategy
RPA	Regional Planning Assessments (will set out the SRA's long-term view of the roles, functions and future development of the railway in each region)

# Appendix 6

## Glossary

<b>RPC</b>	Rail Passengers' Council and Committees, the statutory rail passenger 'watchdog' body (now Passenger Focus)
<b>RSR</b>	Railway Safety Regulations
<b>RSSB</b>	Rail Safety and Standards Board
<b>SDO</b>	Selective Door Operation
<b>SET</b>	South Eastern Trains Limited
<b>SET(H)</b>	South Eastern Trains (Holdings) Limited
<b>SPAD</b>	Signal Passed at Danger
<b>SPSUP</b>	Southern Power Supply Upgrade Project
<b>SPV</b>	Special Purpose Vehicle
<b>SRA</b>	Strategic Rail Authority
<b>SRNTP</b>	Southern Region New Trains Programme
<b>TfL</b>	Transport for London (the body responsible for planning and provision of services within London)
<b>TOC</b>	Train Operating Company
<b>Value-for-money project</b>	A project that demonstrates a positive business case, based on the definition provided in the Treasury Green Book
<b>V/S – SIC</b>	Vehicle/Structure – System Interface Committee



