



2005

Annual Report

Strategic Rail Authority Annual Report 2005

Accounts of the Strategic Rail Authority

Prepared pursuant to Schedule 14, paragraph 12 of the Transport Act 2000,
for the year ended 31 March 2005 together with the Report of the
Comptroller and Auditor General thereon.

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paragraph 12 of the Transport Act 2000.

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Chairman's Foreword

Introduction

This Annual Report covers the Strategic Rail Authority's (SRA) last full year of operation, prior to its winding up around the end of 2005.

The Government's Review of the structure of the rail industry was already well under way by April 2004 when the year started. In July the Secretary of State for Transport published the White Paper *The Future of Rail*, which inter alia envisaged taking into Government most of the functions of the SRA (with some passing to Network Rail and the Office of Rail Regulation) and the consequent winding up of the SRA. The Bill giving effect to the White Paper became law as our financial year ended. The orderly transfer of the SRA's functions is scheduled to be largely complete by the end of the summer, with the formal closure planned for around the end of 2005.

When the outcome of the Review was known, we set ourselves three main tasks:

- To continue to run the business of the SRA to our best professional standards as long as we were required to do so;
- To advise and support the Department for Transport and other organisations in developing and implementing the principles of the White Paper; and
- To look after the interests of SRA staff in the transition and closure process.

We have continued to fulfil all our main functions throughout the year, and this Report reviews what has been delivered.

It does so in the context of the rail industry's progress in this last year, drawing out the SRA's specific role and contribution; it looks also at the SRA's achievements since its effective creation some five years ago.

This has not been an easy time for SRA staff at all levels. It is a great tribute to the leadership of Chief Executive Nick Newton and his executive team, and to the commitment and professionalism of all SRA staff, that so much has been achieved in all our main areas of activity, as well as in assisting the Department for Transport in planning their new organisation and working arrangements – while up to one third of SRA staff face the likelihood of redundancy at some time during 2005. The Board joins me in putting on record our warm thanks for, and considerable appreciation of the way in which all in the SRA have continued to do their best in the interests of the railway and of the public.

The SRA's achievement is not just what it has done but how it has done it – openness and inclusiveness, vigorous leadership and intellectual honesty, professionalism and thoroughness. These qualities do not just happen: they manifest the vision in action of the organisation's leaders. For this, as well as for the SRA's achievements, we owe an enormous debt of gratitude to my two predecessors, the late Sir Alistair Morton and Richard Bowker.

It has been a privilege for me to serve since the first days as a Board Member to both Chairmen, and to serve Richard as Deputy Chairman since 2002; it is my

privilege now to acknowledge on behalf of their Board colleagues and all the SRA staff the outstanding personal contribution and achievement which each of them has made, not just to the SRA but to the development and progress of Britain's railways.

The Railway in 2004/05

2004/05 has been a year of considerable progress for the rail industry. A return of confidence has been built upon a steady improvement in service performance and reliability through the efforts of Network Rail and the Train Operating Companies. This has manifested in over 1 billion passenger journeys (the highest since 1961), passenger satisfaction measures at 77% exceeding their best pre-Hatfield levels, and dramatic falls in passenger complaints. The year end Public Performance Measure (PPM) network average was up to 83.6% from 81.2% in 2004. Freight traffic has continued its growth, now nearly 60% up on the low point of the mid 1990s.

Network Rail has continued to deliver on its objectives of engineering discipline, consistent maintenance procedures and radically improved management control applied to the business of running the railway infrastructure. It is to the great credit of the top team and of all in Network Rail that in 2004/05 that they have beaten their targets of improving asset condition, reducing delay minutes and financial efficiency while bringing maintenance back in-house in a remarkably seamless piece of re-integration – and not needing to spend all their regulatory budget.

Train Operating Companies have played a central part in delivering major improvements in train service performance, building on the better infrastructure performance. New timetables for South West Trains and for First Great Western/First Great Western Link, a strong focus on customers' needs, the adoption with Network Rail of more integrated control centres, greater stability in the franchise regime and a tighter management of performance by the SRA have all contributed to better punctuality and reliability.

The Report describes the wide range of achievements during the year made by the SRA, or led by the SRA working with Network Rail and Train Operating Companies. These include the start up of new franchises and initiation of new franchise competitions, completion of major enhancement projects for passenger and freight, preparation of, or publication of Regional Planning Assessments and Route Utilisation Strategies, and consultation on a range of other strategies including accessibility.

We also report the steady performance improvement and good financial results delivered by South Eastern Trains, the SRA's subsidiary created to bridge the period between the demise of Connex South Eastern in 2003 and the start of the Integrated Kent Franchise.

All in all, a year in which the industry (including the SRA) has demonstrated how by working together from a platform of successful problem-solving and sustained performance improvement, confidence can be and has been re-established. This in

turn now enables a greater focus on the longer term issues facing the railway – getting unit costs down, and addressing the expected growth in passenger and freight demand.

The SRA's Contribution

The creation of a Strategic Rail Authority was a commitment of the Government's 1998 White Paper *A New Deal for Transport*. After a period of shadow running, using the powers of OPRAF and the residuary British Railway Board, the SRA came formally into being in February 2001. It was a response to a widely held view that the industry structure created by the original privatisation of the early/mid 1990s was too fragmented, providing no means to consider strategically where the railway was going or address the consequences of the unforeseen growth in passenger and freight demand. Nor was there confidence that the market was delivering best value for money for passengers or taxpayers, or understanding of what a more integrated approach to transport policy would require of the railway system.

In its relatively short life, and initially against the background of the Government's first 10 Year Plan for Transport, the SRA:

- Reformed and stabilised the passenger franchising regime, aligning the franchise model to one which better matches the structures and strengths of the typical train company and its ability to manage risk, and working closely with the Train Operating Companies on performance management to deliver customers' expectations;

- Established a systematic and inclusive approach to long term railway planning, including the urgent task of extracting better capacity utilisation of today's railway on a network and route basis, and using this to inform the planning and specification of services as well as indicating priorities for network investment, through Regional Planning Assessments and Route Utilisation Strategies;
- Set out through its annual Strategic Plans the vision and the pathways for the development of the railway for passengers and freight, using as key building blocks the strategies and policies which have been developed, consulted and published on a wide range of topics such as Fares Policy, Freight Interchanges, Community Rail, Accessibility, Rolling Stock, Cycling and Gauging; and
- Intervened to provide leadership in rescuing two major industry crises – the West Coast route modernisation and the Southern power supply upgrade associated with the introduction of new trains; introduced a much needed process of sponsorship and challenge for rail enhancement projects generally; and led the effective sponsorship of enhancement projects as well as the development of an industry strategy on ERTMS.

The leadership role that the SRA has provided over this period should be seen in the context of the state of the railway in the late 1990s. Although public perception at this time was such that in general the privatised railway was doing well, behind

the scenes many franchise companies were experiencing financial difficulties, with the relatively lightly capitalised companies not easily able to absorb the risks they were facing, especially with the longer franchise agreements. There was growing concern about the condition of the railway's assets, and the difficulty experienced in delivering plans and funding for enhancement of the network. The tragic accidents at Southall, Ladbroke Grove and then particularly Hatfield in the autumn of 2000 were followed by Railtrack going into Railway Administration, profoundly affecting confidence in, and within, the rail industry.

Equally important are the practices and processes which the SRA has introduced and embedded into the railway's way of doing business – franchise specification, the franchise agreement and the process of franchise management; the approach to performance management; the architecture of medium and long term demand and capacity planning and the open engagement with stakeholders; the identification, development, wide consultation and publication of key strategic issues for the railway; and the framework and modelling developed for overall financial and business planning for the railway; informed challenge as a key element of project sponsorship.

These have continued to deliver value to the industry and to planning the future of the railway, as the industry's performance – in service quality and reliability, in project delivery and in working collaboratively together on problem solving – has steadily improved over the last three years.

It is gratifying to see how much of the SRA's pioneering processes and practices are being taken into the successor organisations – the Department for Transport, the Scottish Executive, Network Rail and the Office of Rail Regulation – as part of the implementation of the White Paper changes.

At the same time these new arrangements provide the opportunity to deal with some of the imperfections of the industry structure of which the SRA has been a part, and to streamline some of the strategic planning and decision-making processes which ultimately belong with Government. We extend our hopes and good wishes to all those in the successor organisations – including many joining from the SRA – as they take forward the challenging agenda for Britain's railways.



David Quarmby
Chairman
Strategic Rail Authority

Chief Executive's Foreword

It has been my privilege to work with the Strategic Rail Authority and its forebears since the beginning of rail privatisation in 1994. On behalf of the Board and Chairman, I would like to record here that the level of professionalism displayed by staff at all levels has been unsurpassed – the best I have experienced in my long career in transport. Their 'can do' attitude is borne out by the long list of difficult projects and policies successfully delivered over what has been a fairly short period in railway planning terms. I hope the legacy of the SRA will live on both in industry circles and out on the network – where it really matters. This would be a fitting tribute to the dedicated team of professionals who have given so much of their time in pursuit of 'Britain's Railway, Properly Delivered'.

Over the past year, the SRA's staff worked tirelessly to deliver franchise replacements, industry consultations and facilitation of infrastructure enhancements – never faltering in their resolve to achieve best possible outcomes for passengers and taxpayers.

Starting with the operational launch of the integrated 'ONE' network and First Great Western Link, along with six franchise extensions, the past 12 months saw the award of the new Scottish, Northern and East Coast franchises and the market launch of Great Western and Thameslink/ Great Northern. Invitations to Tender for the new Integrated Kent Franchise (IKF) were also invited in January.

Underpinning the future franchise programme, three major route utilisation strategies were published for consultation –

for the Brighton and Greater Western Main Lines and the West Midlands. Development work on six associated Regional Planning Assessments is also well advanced. The Route Utilisation Strategies, the first of their kind for the UK's recent railway, broke new ground in identifying and addressing solutions for making best possible use of both existing and spare capacity.

South Eastern Trains Limited and South Eastern Trains (Holdings) Limited both published accounts for the period they traded following takeover of the former Connex South Eastern franchise in autumn 2003. The figures reported an underspend against subsidy received, plus a small operating profit, while year-on-year punctuality to 31 March 2005 improved by 4.1 percentage points, with 84.2% of services arriving on time. The current intention is that the SRA will continue to run South Eastern until the IKF is let by its successor, DfT Rail, around the end of this year.

In its final months, the SRA signed a £205 million contract with Hitachi Europe for 28 new vehicles – six train units – which are planned to come into service in 2009 to operate high speed commuter services on the Channel Tunnel Rail Link and local lines in Kent as part of the IKF.

Working to the SRA's cost-reducing/ value maximising strategy, Network Rail made much progress on modernising the West Coast Main Line. Some 292 track miles were upgraded and 2,443 signalling equivalent units installed. On 27 September 2004 a new timetable was introduced, cutting best journey times

from Glasgow, Edinburgh, Liverpool and Manchester to London by around 30 minutes and from Edinburgh to London by around 20 minutes.

The 2005 work plan is fully engaged, with further line speed improvements set to be delivered on the Preston to Glasgow section in time for the new December 2005 timetable. Work has also begun on improving capacity with the four tracking of the Trent Valley section. This £300 million element will 'double up' the railway with two additional tracks between Tamworth and Armitage to deliver two high speed lines and two separate lines for local and freight services. Once completed, a new timetable structure will be introduced in December 2008.

Total investment on the West Coast over the reporting period was approximately £1.3 billion.

On the southern commuter network, the Southern Region New Trains Programme has continued to deliver the power supply upgrade needed to introduce 2,025 new vehicles to replace the Mark 1 slam door stock, in line with the SRA's £2.5 billion master plan, to which the industry has been working for two years.

At time of going to press, 1,472 Mark 1 vehicles were off the network with 1,930 new vehicles in service. Some 286 kilometres of troughing and cable works for new and upgraded feeder routes, out of a total of 308 kilometres, have been completed; 60 new and upgraded substations commissioned, with the remainder expected to be complete over the summer. A programme of platform and

depot enhancements, and other ancillary works associated with the introduction of the new train fleet is also well advanced.

This year saw the successful launch of the new Company Neutral Revenue Support grant for rail freight intermodal services. The scheme was designed to provide better targeted support to the intermodal container market and it met the objective to encourage growth and improve competition in the sector. With a budget of £22.3 million, the Freight team secured a substantial result – 650,000 lorry trips removed from the road, contributing towards substantial growth in rail and at an increased benefit/cost ratio of 1.7. The scheme also helped to open up the market with new customers to rail and the involvement in this sector of all four active rail freight companies.

Over the year, the SRA issued major consultations on several policy areas including, 'Railways for All' an industry response to part two of the Disability Discrimination Act (DDA), Community Rail, and policies on gauging and the carriage of bicycles. The DDA documents, launched in March, set out a viable strategy for upgrading target stations over the next decade using a £370 million fund.

The 2004 Community Rail initiative, led by SRA Executive Director Chris Austin and subsequently endorsed by Ministers, secured the future provision of services on the lesser used branch lines and received universal approval from user groups and established community rail partnerships.

Following last July's Rail Review, good progress has been made with transferring

core SRA functions to the successor bodies. I was personally delighted when three former SRA senior managers were appointed to top tier positions in the Department's new rail directorate in February this year. The current situation is that the SRA expects the handover process to have been completed, and the SRA to have fully closed down, around the end of December 2005.

My task has been challenging rather than enjoyable. It has been a privilege to lead such a committed and dedicated team. I am incredibly proud of the dignified and professional way in which the SRA's people have continued to perform.



Nick Newton
Chief Executive
Strategic Rail Authority

SRA Board

Richard Bowker CBE

Chairman and Chief Executive (December 2001 – September 2004)

Richard joined London Underground in 1989 as a graduate finance trainee, where he qualified three years later as a Chartered Management Accountant. At London Underground he played a leading role in ground breaking procurement and structured finance techniques. In 1996 he moved to asset and project specialist Babcock & Brown and was seconded to Virgin Rail Group in 1997, where he joined the Board as a non-Executive Director early in 1999. From September 2000, prior to his appointment as Chairman of the SRA at the end of 2001, Richard was Commercial Director for the Virgin Group of Companies with responsibility for the transport sector, notably the Virgin Rail Group, of which he was Co-Chairman. Richard is a companion of the Chartered Institute of Management and a member of the International Advisory Council of the Association of MBA's.

Following the Secretary of State's announcement about the future of the rail industry, Richard resigned as Chairman and Chief Executive and left the SRA on 10 September 2004.

David Quarmby CBE

Chairman (from September 2004)

Board Member of Transport for London until July 2004; Chairman of SeaBritain 2005 – a nationwide celebration of Britain's relationship with the sea, including the Trafalgar bicentenary; a former Governor of the University of Greenwich. Former Chairman of the British Tourist Authority

and of the Docklands Light Railway. 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 following the departure of Richard Bowker, having been a Board Member since 1999 and Deputy Chairman since 2002. His primary role is to oversee the transition of the SRA into the new rail industry structure and its wind up, following the Secretary of State's Review.

Nick Newton

Chief Executive (from September 2004)

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 following the departure of Richard Bowker. He has overall executive and Accounting Officer responsibility for all the Authority's activities.

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 Group and Ofcom. Millie is a Vice-Chair of the Carnegie UK Trust and a Commissioner for Judicial Appointments.

David Begg

Chairman of the Commission for Integrated Transport, Professor at the Centre for Transport Policy at Robert Gordon University, Director of the Portobello Partnership and Board Member of Transport for London. From 1994 to 1999, he was Convenor of the Transportation Committee on Edinburgh City Council and Transport Spokesperson for the Convention of Scottish Local Authorities. David is a Board Member of the Greater Manchester Passenger Transport Executive. *

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.

Pen Kent CBE

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 F&C Capital and Income Trust PLC.

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 is also a member of the British Transport Police Authority.

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 Bill, and the transfer of SRA functions to successor bodies, membership of the SRA Board is being stepped down as follows:

* *Departed 31 March 2005*

** *Departed 30 April 2005*

SRA Executive

Chris Austin
Executive Director,
Community Rail Development

Chris is 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 the year. Chris was also responsible for the programme of local and regional engagement around the country by the Chairman and other senior managers.

Ceri Evans
Executive Director, Communications

Ceri is responsible for all aspects of external communication for the SRA. His brief includes 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'.

Tim Reardon
General Legal Counsel

Tim is responsible for ensuring that the legal interests of the SRA are properly protected and undertaken on a sound legal footing. He is also the Solicitor to BRB (Residuary) Limited.

Jonathan Riley
Executive Director, Freight and
Transition

Jonathan has been responsible for leading, defining and developing the freight aspects of the SRA's policies and strategies. Jonathan has responsibility for long term planning in terms of growth, network development, promotion of the success of rail freight, as well as managing 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 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.

Nicola Shaw**Managing Director, Operations**

Nicola's role involved responsibility for ensuring Train Operating Companies (TOCs) deliver their contractual obligations and improve performance, ensuring SRA planning and policy is incorporated into the operating railway; managing the passenger franchises, their replacement and extension; and leading the development of a customer-focused ethos in the rail industry.

Since Nicola's departure on 2 May 2005, Iryna Terlecky, previously Director, Performance and Business Planning, has taken over the role of Managing Director, Operations.

Jim Steer**Managing Director, Strategic Planning**

Jim develops the strategies and plans which underpin 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 since the departure of David Waboso in April 2005, Jim has taken over responsibility for the SRA's Technical work.

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

Doug is responsible for the Finance functions of the SRA together with IT and Procurement. He is 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.

Peter Trewin**Board Secretary**

Peter supports 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 is to set an industry-wide technical strategy that delivers 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 include safety, standards, interoperability, rolling stock, infrastructure, and systems including ERTMS and GSM-R. Since David's departure to London Underground on 8 April 2005, responsibility for the SRA's Technical work has transferred to Jim Steer, the Managing Director, Strategic Planning.

Financial Review

Introduction

The year ended 31 March 2005 has been another year of substantial progress. The strategy, franchising and project based objectives set out in our business plans have in the main been delivered, and detailed updates are given elsewhere in this Report. This year has also been the first year of the new regulatory control period, which runs from 1 April 2004 to 31 March 2009. During this time, Network Rail should benefit significantly from the financial stability delivered by the related regulatory review completed by the Office of Rail Regulation (ORR) at the end 2003/04.

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.

The Strategic Rail Authority (SRA) does not have operational control of Network Rail, this responsibility sitting quite properly with the Network Rail management team and its Board. The SRA does, however, have a critical interest in the operation and performance of Network Rail particularly as regards the delivery of:

- Performance improvement;
- Cost reduction;
- SRA sponsored network enhancements; and
- The raising of finance that is reliant on SRA support.

The rights, powers and obligations pertaining to our relationship with Network Rail are set out in note 13 (b) to the accounts.

Given the SRA's relationship with Network Rail, accounting rules dictate that a set of group results should be prepared in which Network Rail is treated as a quasi subsidiary of the SRA.

In the attached financial statements, the following definitions apply:

The Authority

The Authority is represented by the SRA, the Rail Passengers' Council (RPC), South Eastern Trains (Holdings) (SET(H)) (together with its subsidiary South Eastern Trains), BRB (Residuary) Limited (BRBR) and DOA Limited, all of which are included for the full year. Included also for the relevant part year until disposed are British Transport Police and SRA Investment Co.

The Group

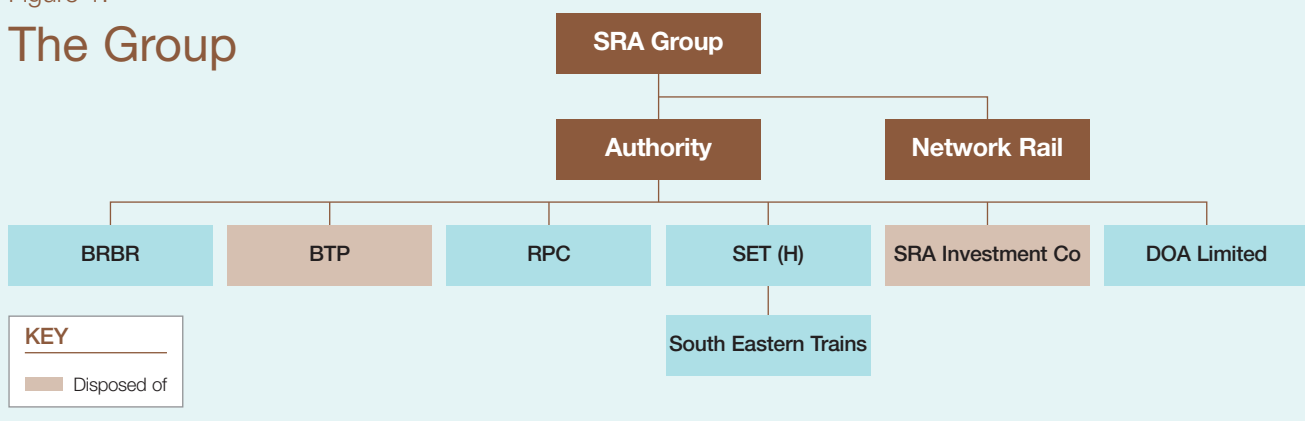
Is represented by all of the above, plus Network Rail (see Figure 1).

Financial Results – Impact of Timing Differences

The results of both the Group and the Authority were 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,

Figure 1:

The Group



is recorded on a cash basis, whereas costs incurred are recorded on an accruals basis. The deficit generated this year in part reflects the reversal of the timing differences reported last year.

Also included within the Income and Expenditure Statement are a number of items that do not form part of the financial target set for the Authority by Government. The underlying financial performance of the Authority, i.e. before the impact of timing differences and non-cash items, is set out in the table below. The underlying performance of the Authority is a surplus of £3.2 million, marginally better than our Government target.

Going Concern (Including Impact of Industry Review)

As highlighted last year the Government announced a Review of the Rail Industry in January 2004, the results of which were published in July 2004. The subsequent Railways Bill received royal assent in April 2005. As a consequence the SRA is to be abolished and a number of its functions will be transferred to several successor organisations. This transition process will commence in June 2005 and is expected to be completed by around the end of 2005 and will involve the use of statutory transfer schemes to shift the bulk of the SRA's assets and liabilities at book value.

In light of this position these accounts have therefore been prepared on a going concern basis. Recognition of the following underpins the going concern basis:

- Timing differences will unwind over time as grant is voted to the SRA or its relevant successor organisation; and
- Liabilities attached to BRB (Residuary) Limited are underpinned by a parliamentary minute, which ensures that adequate funds will continue to be made available to meet their liabilities as they fall due.

Financial Performance – Group

Income totalled £5,251 million comprising £3,665 million in the Authority (of which £3,157 was Government Grant in Aid) and £3,800 million in Network Rail, which was largely track access charge income.

Operating costs totalled £4,932 million. Expenditure before the elimination of

	Authority £m	Group £m
Reported Net Surplus (deficit) for year	(265.4)	(335.8)
Timing differences	229.0	229.0
Other	39.6	14.0
Underlying Net Surplus (deficit) for year	3.2	(92.8)

intragroup transactions was £3,922 million (mainly support payments to Train Operating Companies, Passenger Transport Executives and payment of network grant to Network Rail) and £3,345 million in Network Rail on its own operating costs.

- The net interest bill totalled £641 million which largely reflects borrowing by Network Rail.
- Group fixed assets total £23,320 million whilst net debt stands at £15,801 million.
- Net assets at the Group level amount to £3,994 million. The position before the elimination of intragroup balances was net liabilities of £520 million in the Authority (mainly relating to provisions for employee and property claims attached to BRBR) and net assets of £4,135 million in Network Rail.

Financial Review – Authority

- Income totalled £3,665 million, a reduction of £165 million on the previous year primarily reflecting a reduction in Government grant and a partial year of British Transport Police (BTP) offset by the full year effect of owning South Eastern Trains (SET).
- Operating costs increased from £2,819 million to £3,922 million primarily reflecting increased network grant payments to Network Rail as part of the ORR determination. Included in the above is £977 million of payments in support of passenger rail services in Britain. A further £120 million went to PTEs, whilst expenditure on

infrastructure enhancements totalled £97 million.

- The surplus on disposal of fixed assets totalled £4 million.
- Interest receivable totalled £40.3 million against interest payments of £38.4 million, giving a net receipt of £1.9 million.

Acquisitions

As detailed in note 13 to the accounts, on the 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. 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.

SET is a wholly owned subsidiary of 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, which in turn forms part of the SRA Group.

Discontinued Operations

For the financial year 2004/05 discontinued operations comprise the following:

- British Transport Police who were transferred on 1 July 2004 to an independent police authority;
- SRA Investment Co Limited and Cross London Rail Links (CLRL), where our

share interests were transferred to the Department for Transport on 26 November 2004 and 25 October 2004 respectively;

- Network Rail where our powers, rights and obligations transferred to the Department for Transport on 26 June 2005; and
- SRA's functions in relation to freight grants which were transferred to the Department for Transport on 26 June 2005.

South Eastern Trains (Holdings) Limited

South Eastern Trains made good progress in both operating and financial performance. Whilst there is still much to do, improvements were recorded in the key areas of punctuality and train and station presentation. Revenue totalled £431 million, whilst operating profits came through at £1.9 million. It should be noted this was after a clawback of support payments totalling £12 million. The underlying financial performance was ahead of budget.

BRB (Residuary) Limited (BRBR)

BRBR, which manages the remaining property, rights and liabilities of the British Railways Board, made good progress in continuing to dispose of surplus property with sales totalling over £20.0 million. This generated a surplus of £6.0 million, which largely met the costs of the 'Burdensome estate' – i.e. redundant bridges, tunnels and viaducts on closed

branch lines. After adjusting for the increase in provisions to meet future medical claims, the company met its financial targets.

Funding

The Authority is largely funded by Grant in Aid paid to it by Government. Spending profiles are set on a three yearly basis, as part of the Government's Spending Review process, with annual budgets then being set consistent with the funds made available to SRA following the annual Parliamentary voting process.

The year ended 31 March 2005 saw the highly successful launch of Network Rail's Debt Issuance Programme (DIP). This programme will give the company access to a wide range of funding sources at the lowest possible cost and will provide a stable base for funding a continuing investment programme in the national rail network.

The DIP is supported by a financial indemnity from the SRA, which transferred to the Department for Transport on 26 June 2005.

Accounting Policies

There have been no changes in accounting policies during the current financial year.

Summary

This is the last full year's report and accounts covering the operations and activities of the Strategic Rail Authority. It is worth recording that from a financial

point of view, our key aim over the last three years has been to stabilise and create financial stability in the industry – a task now largely achieved, although like all environments it will require regular attention.

However, establishing financial stability only provides a platform from which to continue tackling the key challenges of the industry – improving performance and service quality and critically driving down costs and thereby improving value for money. Industry performance in 2004/05 is a good step in that direction.



Doug Sutherland
Managing Director
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Strategy and Planning

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Route Utilisation Strategies

Background

The improvement of capacity utilisation has been a central element of the Strategic Rail Authority's (SRA) plans for the effective delivery of better performing, more reliable train services.

The Statement of Principles for Capacity Utilisation (December 2002), were followed with the publication of the Network Utilisation Strategy (June 2003). The first consultation Route Utilisation Strategy (Midland Main Line/East Midlands) was launched in the same month, with the subsequent final Strategy published in March 2004.

Route Utilisation Strategies (RUSs) identify the best position in a three-way trade-off between:

- The pattern and mix of train services;
- Performance (timetable robustness); and
- Access to network for engineering work.

Their overall aims being:

- To deliver better performance for all users (passenger and freight);
- To address overcrowding problems; and
- To redeploy resources to better match supply and demand.

An update for each of the RUS areas on which work was conducted is provided below.

Current Status

Brighton Main Line (BML)

After ongoing development and appraisal work early in the year, the Brighton Main Line RUS consultation document was published on 9 September 2004 and received positive regional media coverage. Presentations were made to BML RUS stakeholders, helping them to understand its implications whilst formulating their consultation responses. The consultation period ended on 3 December 2004. The SRA subsequently engaged with key stakeholders regarding specific issues raised in their responses. This included in-depth dialogue with BAA and the airline industry to address their concerns about proposals for changes to the Gatwick Express services. Although the parties were unable to resolve some fundamental differences, most of the concerns were addressed through significant alterations to the Strategy's proposals. Following SRA Executive and Board approval, the draft final RUS was submitted to the Secretary of State for approval in February. At the time of printing his decision was still awaited.

Great Western Main Line (GWML)

Option development and appraisal continued during the first part of the year.

Following SRA Executive, Board and Secretary of State approval, a consultation document was published on 12 January 2005. Presentations were made to GWML RUS stakeholders, helping them to understand its implications before the SRA received their formal consultation responses. The final Strategy was published on the SRA's website on 24 June 2005.

West Midlands (WM)

Option development and appraisal continued during the first part of the year, and following SRA Executive, Board and Secretary of State approval, the consultation document was published on 28 February 2005. Presentations were made to WM RUS stakeholders, helping them to understand its implications before the SRA received their formal consultation responses. At the time of printing, the final Strategy was due for imminent publication.

East Coast Main Line (ECML)

A draft ECML Strategy consultation

document had been prepared in early 2004, but was not published during 2004/05 pending the Government's Spending Review, the Rail Review, and the competition for the InterCity East Coast franchise.

The SRA's work was summarised in a Review document in June 2005 and made available to Network Rail and the Office of Rail Regulation to ensure that this valuable work can be taken forward under the new industry arrangements.

Regional Planning Assessments

Background

The Regional Planning Assessment (RPA) programme is aimed at integrating railway planning with the long term spatial and economic plans for regional and devolved Government. Through detailed discussions and stakeholder workshops the Assessments are used to identify key markets and prioritise future changes and plans for the regions.

An update of the status of each of the RPA areas is provided below.

Current Status

North East

Work on the North East RPA has now concluded. This was carried out in parallel with the North East Assembly's Regional Rail Study. Efforts were made throughout to share data and thinking between the two

pieces of work. The draft RPA findings have now been discussed with stakeholders and are informing the SRA's response to the North East Regional Spatial Strategy. The North East RPA is scheduled for completion during summer 2005.

East of England

Work on the East of England RPA has now concluded. The draft findings have been discussed with stakeholders and are informing the East of England's developing Regional Spatial Strategy. The full RPA is expected to be published during summer 2005.

North West

The majority of work on the North West RPA has been completed, and draft findings were presented to stakeholders in autumn 2004. Additional work was undertaken on the likely impact of the 'Northern Way'

growth strategy, in discussion with regional stakeholders.

Kent and South East London

Part 1 of the Kent and South East London RPA was completed in autumn 2004. This comprised background analysis on the current rail network, travel demand patterns and how land use and economic changes are likely to affect the future demands on the railway. This report was presented to SRA Executive, Board and the Department for Transport. Work on Part 2 of the RPA waited on resolution of issues relating to Channel Tunnel Rail Link Domestic Services, and recommenced in winter 2004/05. Part 2 has assessed the potential future development of the rail network in Kent and South East London and considered how this best meets the regional planning objectives.

West Midlands

The Consultant's work on the West Midlands RPA was concluded in July.

The work builds on the West Midlands draft Route Utilisation Strategy, which will form the 2011 baseline for the RPA.

Scotland

The Scotland Planning Assessment commenced in spring 2005, led jointly with the Scottish Executive. It is intended that the Scotland Planning Assessment will inform the Scottish Executive's long term Rail Strategy, which will be embedded within the National Transport Strategy.

Southern

Work on the Southern RPA, covering routes to the south of London, mainly into Waterloo and Victoria, commenced in spring 2005. Agreement was reached with Transport for London on the provision of information on travel in London to input into this RPA. The consultant's report is due in late September 2005.

Cycling Policy

The Cycling Policy was published on 11 November 2004, following a three month consultation period. Over 600 consultee responses were received. The Policy seeks to increase the number of rail journeys that involve the use of cycles through improved access and parking at stations, improved 'bike-rail' integration and clearer information at stations and on trains.

Under the Policy, Train Operating Companies are expected to accommodate the carriage of cycles on all off peak

services and of folding cycles on all services. A ring-fenced fund has been made available by the Department for Transport for enhancing cycle parking facilities and producing a Best Practice Guide for train operators.

The policy supports the National Cycling Strategy and was launched in conjunction with the SRA sponsored 'Connections Awards' which act to encourage and reward excellence in the provision of services for cyclists.

Gauging Policy

The draft Gauging Policy was published for consultation on 29 November 2004 following 12 months of cross industry collaborative work.

The draft policy is designed to make best use of the infrastructure of Britain's railway for the mixed use railway it serves. The expected outputs and benefits for the short, medium and long term include:

- The maximisation of the use of available space between passenger and freight trains and the adjacent structures;
- The production of new passenger gauges which would optimise the cascade value of passenger rolling stock;

- New freight gauges and a target configuration to allow the rail freight industry to respond to market needs; and
- New processes and procedures to allow for more efficient vehicle acceptance and investment decision making.

The Policy does not require substantial additional investment, with the majority of benefits being realised through greater certainty over the position of the track relative to the infrastructure.

The consultation closed on 18 March 2005 with the final policy published on 24 June 2005.

Railways for All

The consultation Railways for All Strategy was launched at the Rail Accessibility Conference held on 22 March 2005, attended by a wide range of stakeholders that included the Department for Transport Minister Charlotte Atkins, Network Rail's Chief Executive John Armit, disability groups, Train Operating Companies, Passenger Transport Executives and local authorities. The conference was also the launch pad for the £370 million Railways for All fund, serving to provide funding for physical, customer service, and access improvements to the railway from 2005 through to 2015.

The Strategy outlines access issues on the rail network over the next decade,

proposing criteria for prioritising investment to achieve improved access for disabled rail users across the country. The Strategy proposes to target 75% of the fund at the busiest stations (on a national basis) and the remaining 25% at busy stations in each region.

In parallel, a revised Code of Practice was also published for consultation. The draft Code strengthens requirements relating to training and the provision of staff assistance. The proposals will bring real benefits and will help the railway industry to respond positively to disability discrimination legislation.

Today, less than half of all passenger journeys are between fully accessible stations. The aim is that by 2015 that figure will rise to over two thirds.

Department for Transport, Network Rail, the Office of Rail Regulation and the individual Train Operating Companies.

The consultation closed on 14 June 2005. The Strategy will be taken forward by the

Safety

Rail is safer than road transport and compares favourably with bus and coach travel and transport by air or sea. However, the railway is potentially a very hazardous environment for both workers and the travelling public. Central to the delivery of improvements to the railway is the need for common ambitions and common mechanisms and processes that provide the basis on which these ambitions are realised: in summary realistic, achievable and affordable improvements and advances. The SRA, as a railway funder and in its leadership role, has been proactive in working with Network Rail and Train Operating Companies (TOCs), who have the principal duties under health and safety law regulations, to create and enact a common vision.

SRA Legal Safety Responsibilities

The SRA's legal safety obligations derive from the Transport Act 2000, which requires that the SRA, in exercise of its statutory functions, have

'...regard to the need to protect all persons from dangers arising from the operation of the railways (including, in particular, by taking into account any advice given by the Health and Safety Executive (HSE)).'

The Directions and Guidance from the Secretary of State for Transport expand on this SRA/HSE relationship as follows:

'In carrying out its functions the Authority should ensure that the HSE is fully consulted whenever railway safety may be an issue, and it should be guided by the advice of the Health and Safety Commission (HSC)/HSE on all health and safety issues.'

The HSE is the Safety Regulator for the railway industry and it is HSE which inspects and monitors TOC safety performance and takes whatever enforcement action may be necessary. It is HSE which is also responsible for the acceptance of operator safety cases and for approving or authorising the bringing into use of new or modified works. The SRA and HSE work closely together, guided by a Memorandum of Understanding (MoU) that ensures that each consults and guides the other in areas where each has responsibility or influence. Throughout the year, the understanding and liaison between HSE and the SRA has strengthened particularly in the area of franchise management and developing a joint approach to implementation of

European Directives on Interoperability (including, in particular, ERTMS).

Safety Performance

Industry safety statistics are published by the Rail Safety and Standards Board (RSSB) for the Railway Group. Key observations for the year 2004, as reported by RSSB, are that continued improvement in rail safety performance has been marred by the increase in track worker fatalities and the Ufton Nervet level crossing accident. Specifically:

- There were two fatal train accidents in 2004, resulting in eight fatalities (seven at Ufton Nervet and one to a member of the work force at Ancaster);
- Nine members of the workforce were killed in non-train accidents;
- The number of Signals Passed at Danger (SPADs) on Network Rail's infrastructure decreased from 379 in 2003 to 346 in 2004;
- Overall SPAD risk has, on a two year basis, decreased by 61% to its lowest ever level;
- Public accidental fatalities fell from 57 in 2003 to 42 in 2004;
- Reported assaults on railway staff increased by 6%;
- Serious 'line of route' offences (with the potential to harm those on trains) reduced by 14%;
- Trespasser fatalities decreased by 31%; and

- Seven accidental fatalities occurred to level crossing users.

Franchise Management

Re-franchising of passenger train operations provides the opportunity to set new safety (and environmental) targets to improve the railways. The SRA and HSE have worked well together, through the MoU, to develop priority targets for improving safety which are reflected in the SRA's Invitations to Tender (ITT) for replacement franchises. Such measures include station security and secure car park schemes.

Leadership

SRA set up and chaired a cross industry Standards Strategy Group with the specific responsibility to identify, resolve and remove deficiencies or obstacles to technical, safety or Standard related progress. The Group has had a number of successes including the establishment of 6 System Interface. These are:

- Vehicle/Signalling;
- Vehicle/Vehicle;
- Vehicle/Track;
- Vehicle/Structures;
- Vehicle/Power; and
- Vehicle Communications.

SRA appointed the Chair for each committee and oversaw delivery of the Committee objectives which are to identify the optimal solution for the railway, regardless of where costs may fall and to identify a suitable mechanism to apportion the costs arising.

The SRA, working with RSSB, has influenced the shape and content of the 2004/05 Railway Group Safety Plan towards

a more risk-based identification of control measures that will improve both safety and performance. SRA has been active in working with industry in development of future Strategic Safety Plans.

The SRA continues to appoint UK Notified Bodies as part of the implementation of the European Interoperability Directives and to represent the UK in Europe at the Article 21 Committee that agrees the European

Technical Specifications for Interoperability (TSI). The SRA, liaising and consulting with industry and other Government Departments, is leading on the development of a 'one-stop shop for guidance' on implementation of the Interoperability Directives.

RSSB

SRA was represented by Rob Andrews as a non-Executive Director on the RSSB Board.

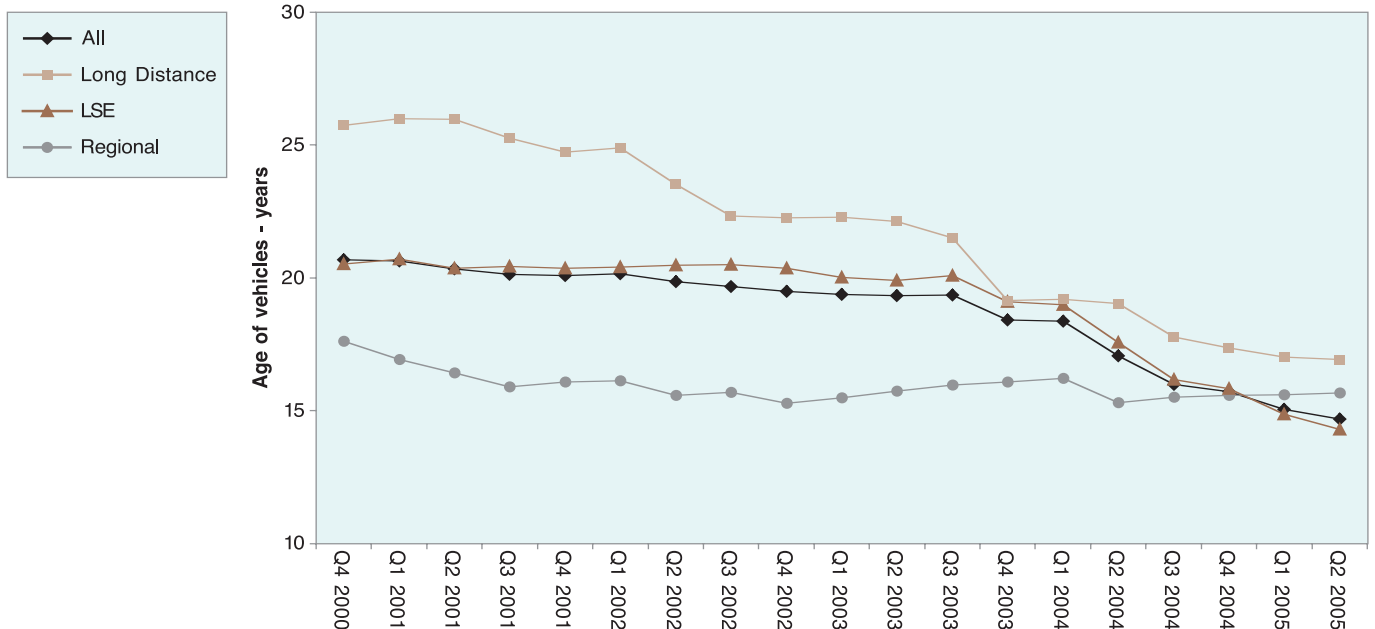
Rolling Stock

During the year the SRA made significant progress in the development of an industry strategy for the replacement of the current HST fleet that has been the mainstay of inter-city diesel operations for the past three decades. Responsibility for taking forward this project now transfers to the Department for Transport Rail Group.

A major proportion of the initial MOLA leases were renewed at the end of March 2004, equating to approximately 4,000 vehicles.

In the year to April 2005 a total of 1,257 new vehicles were introduced into revenue earning service, of which more than 1,000 were in the Southern region. As a result, the average age of the UK fleet fell from 17 years to below 15 years over this period.

Further details about the Southern Region New Trains Programme can be found on page 32.



Passenger Operations and Franchising

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Franchising

Background

In November 2002 the Strategic Rail Authority (SRA) issued its Franchising Policy Statement. This Statement focused on four stated objectives:

- The delivery of a safer, more reliable service of consistently high quality for rail passengers;
- The provision of clarity of service specification for industry partners;
- The delivery of a value-for-money service for passengers and taxpayers; and
- The securing of accountable, viable operators, focused on delivery for their customers.

Based on the principles of this Statement the SRA has let a number of new franchises during the year and begun the refranchising process in respect of a number of others.

Greater Anglia

The first of the SRA's 'new-style' Franchise Agreements, the Greater Anglia franchise, began operation on 1 April 2004. Operated by ONE (National Express) the franchise brought together the former Anglia and Great Eastern franchises with the West Anglia services formerly operated by WAGN. The new franchise included improvements to the timetable and upgrades to stations and rolling stock as well as being the first to benefit from clear guidelines and incentives on customer service and business priorities.

ScotRail

The new ScotRail franchise commenced on 17 October 2004, having been awarded to First Group to a specification jointly agreed between the SRA, Strathclyde Passenger Transport Executive and the Scottish Executive. The deal involved year-on-year improvements to performance in addition to a £40 million capital investment in stations and other passenger facing facilities. Also included were a number of costed options around additional station upgrades and improvements to rolling stock which can be called off by the relevant funding agency. Ongoing management of the franchise will transfer to the Scottish Executive.

Northern

The Northern franchise, awarded to Northern Rail Limited (Serco-NedRailways), commenced operation on 12 December 2004. This brought together the rural and commuter networks east and west of the Pennines in a single operation covering the major conurbations of Manchester, Liverpool, Sheffield, Leeds and Newcastle, as well as rural parts of Lancashire, Cumbria and Yorkshire. The Franchise Agreement provides a more local focus on performance, with contractual targets to reduce cancellations and delays by over 15% in the first five years.

InterCity East Coast (ICEC)

The ICEC franchise, awarded to the incumbent GNER commenced on 1 May 2005, signalling the biggest financial transaction in European railway history. Under the new Franchise Agreement GNER is projected to pay £1.3 billion in premium over the life of the franchise, for

reinvestment in the rail network. ICEC passengers will see £75 million of new investment in improvements to the High Speed Train (HST) fleet as well as £25 million on station improvements.

Greater Western and Thameslink/ Great Northern

Pre-qualification exercises were undertaken for the Greater Western and Thameslink/Great Northern franchises. The pre-qualified bidders for both franchise competitions were announced on 1 April 2005 with the Invitation to Tender being issued in June 2005. The franchises are due to be awarded before the end of the calendar year 2005.

Integrated Kent Franchise (IKF)

Following an extensive public consultation exercise, the IKF Invitation to Tender documents were issued in January 2005 with provision for bids to be submitted 60 days after receipt of full and final information in relation to the Channel Tunnel Rail Link rolling stock and depot contracts.

The Franchising Process

In addition the SRA has during the year:

- Embraced the Government White Paper the *Future of Rail* and developed and obtained approval for re-mapping of the franchises to closer align with Network Rail's geographical boundaries;
- Developed and improved its processes for replacement of franchises and, in the interests of improving competition and transparency, published the franchise replacement process manual and evaluation framework;
- Adopted and incorporated the Office of Government Commerce (OGC) public procurement guidelines within the franchise replacement process; and
- Made progress in 'production engineering' the franchise replacement process and in reducing franchise replacement transaction costs.

Managing Franchise Delivery

During the course of the year, the SRA initiated significant changes to the way it managed franchise contracts, embedding a forward-looking business plan and risk-based approach to ensuring delivery of franchise obligations within £1.3 billion of taxpayer subsidy. Quarterly contractual meetings provide the focus for reviewing plans and business risk, while financial and operational performance are reviewed monthly.

A major exercise was carried out to assess for each franchised operator the financial implications of the 2003 regulatory review, and then to implement changes to the subsidy profile to ensure operators were held financially neutral. Other ongoing franchise-related work included:

- Establishing constructive working relationships with new franchisees (First ScotRail, Northern, ONE);

- Managing complex variation mechanisms in franchise agreements, mainly in connection with major project expenditure;
- Work with the Association of Train Operating Companies (ATOC) and others to consider development of smartcard ticketing technology;
- Reviewing Train Operating Company (TOC) revenue protection strategies;
- Developing the operational aspects of the Railways for All accessibility strategy, e.g. in relation to staffing at stations;
- Casework on minor and major railway closures;
- Responding to Office of Rail Regulation (ORR) consultations on track access agreements to ensure the implications of proposed agreements on franchise budgets are fully taken into account; and
- Facilitating and dealing with the financial impact of rolling stock transfers and cascades.

One of the most significant developments during the year was in the way TOCs approach the planning and delivery of improved performance of their rail services. A major SRA initiative was to put in place a structured Performance Improvement Planning (PIP) process for every franchised TOC. Building on a benchmarking exercise carried out by the SRA in early summer 2004, each TOC drew up plans to achieve reductions in delays and cancellations to its own trains arising from causes within their

control – e.g. management of fleet and train crew. Quantified savings targets were underpinned by detailed action plans agreed between the individual TOC and the SRA. Performance against target was tracked through periodic reporting and challenge. TOC-caused delays reduced over the year by 5%.

The SRA also led in developing the industry performance trajectory, based on aggregated delay savings from PIPs and Network Rail's improvement initiatives. Progress against the plan was reviewed regularly with the industry's National Task Force, and with Ministers. Performance measured in terms of Public Performance Measure (PPM) Moving Annual Average (MAA) improved over the year from 81.2% to 83.6%.

The SRA's role in managing TOC and overall industry performance transferred to Network Rail from April 2005.

Projects

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Overview

This has been an outstanding year of achievement for the efficient and economic delivery of railway enhancement projects sponsored by the Strategic Rail Authority (SRA). It represents the value of the 'Informed Customer' capability developed within the SRA and the culmination of four years of sustained improvement from the days in 2001 when the industry was experiencing considerable difficulty in delivering Great Britain's portfolio of railway enhancement projects to 'time and budget'. The national portfolio of railway enhancement projects is now smaller, more clearly understood, de-risked, better aligned with needs, and under control.

The SRA's project portfolio has contained two categories of project:

- Major programmes which were experiencing runaway costs and timescales until the SRA intervened; and
- Smaller projects which the SRA identified and sponsored, from first stages to completion.

Examples in the first category are the West Coast Main Line (WCML) project and the Southern Region New Trains Programme (SRNTP). The WCML project is now being delivered in accordance with the SRA's West Coast Strategy. Passengers are experiencing the benefits of reduced journey times and new trains. Freight customers are soon to benefit from new capacity on the most constrained sections. All this is being delivered at a cost several billion pounds less than estimates prior to SRA sponsorship.

On the Southern network, the new train introduction is nearing its successful

completion. Careful control of specification by the SRA, together with efficient delivery by Network Rail, has allowed the necessary power supply upgrade for the new trains to be delivered at a cost more than half a billion pounds lower than the worst initial estimates. A further £150 million has been saved by the SRA's informed challenge of platform extension standards and introduction of a new guidance code.

In the second category, effective sponsorship by the SRA has, together with efficient delivery by industry partners, delivered a stream of projects on time and at, or more often, significantly under the estimated cost. Schemes were selected, developed and optimised to deliver high value outputs for the expenditure involved. The network now benefits from much improved performance after investment in critical capacity constraints such as in the Cherwell Valley or at Filton Junction. Intermodal freight traffic has not just been secured but boosted by the Felixstowe to Nuneaton gauge project. (Detail of this project can be found on page 45). Passenger overcrowding has been relieved and station amenities improved by the Scottish Platforms project and the Modern Facilities at Stations programme.

During the year:

- The benefits of our West Coast Route Modernisation Strategy were first evident to travellers in a tangible way;
- Travellers on the southern part of the network have seen the tide turn massively in the number of new vehicles brought into service in replacement for the Mark 1 fleet;

- A lower risk, incremental approach to investment has seen sustained progressive improvement in capacity and performance along the Great Western and Chiltern rail corridors;
- Four in five small and medium scale projects have been completed on time and within budget. The proportion of discretionary budget spent on productive output remained high despite the uncertainties arising from industry restructuring;
- A new model form of procurement has been created and piloted with the aim of improving private sector involvement and discipline in investment, namely Design, Build, Finance and Transfer (DBFT). DBFT is where the contractor takes full responsibility for the design and build of the project, but in addition provides the funding for the construction of the project;
- We have been vocal, vigorous and effective in capturing incremental investment from third parties, attracting funding from port authorities, private developers, and local authorities; and
- Third party investors now face fewer and smaller barriers to investing in rail due to some improvements that have progressed, including: creation of an Industry Risk Fund to cap third party investor liabilities.

West Coast Main Line

Background

Delivery of the SRA's West Coast Route Modernisation Strategy continues to be achieved on time and within the budgetary limits imposed on the Project. This is being undertaken through the co-operative efforts of Network Rail, the Office of Rail Regulation and the passenger and freight companies – but led by the SRA. The Project, which the SRA launched in October 2002, with its consultation document, and later with the final Strategy in June 2003, is due to be completed in 2008. However, planning work on a revised track layout at Stafford, incorporating a fly-under for Birmingham bound trains to avoid the busy Trent Valley route, is likely to be finished in 2009, provided funding is secured.

The past year has seen the implementation of a very significant stage in the delivery of

the West Coast Route Modernisation Strategy. New timetables were introduced on 27 September 2004. These represented the first stage in the introduction of much improved inter-city timetables, enabled, in particular, through the implementation of 125 mph running in tilt mode south of Crewe.

Services

The new Pendolino units, operated by Virgin West Coast, now offer significantly reduced journey times and increased frequencies. For example, there is now a half hourly service between Manchester and London with a journey time of 2 hours 15 minutes, although fast trains make the link in just over 2 hours. This compares with a previous journey time of around 2 hours 40 minutes. The journey between Liverpool and London has decreased from

almost 3 hours, to just under 2 hours 30 minutes. The Anglo-Scottish route has also improved, with, for example, limited stop services now making the London to Glasgow journey in around 4 hours 35 minutes. These and other changes have made a significant improvement in all the Monday to Friday timetables and along with increasing reliability are having a very beneficial effect on revenue.

Completion of the Project

The need to complete the Project does mean that there is still extensive engineering work taking place at weekends, disrupting journeys, especially those north of Preston. The SRA has worked with Network Rail and the Train Operating Companies (TOCs) to secure, as best as possible, satisfactory alternative arrangements for passengers travelling at such times. It is appreciated that the long term objective is to provide a 'seven day a week' railway. This will be achieved by 2008 and is a key objective of the Strategy, along with a maintenance strategy that reduces the need for long possessions. Much of the new track and allied equipment is now designed to have a longer operational life with less need for constant attention.

The requirement to enlarge Milton Keynes station, to accommodate increasing business arising from population and economic growth, is fully recognised. A plan to provide an additional fast line platform and turn back facilities has been developed and is attracting a grant of £30 million from the Community Infrastructure Fund administered by the Office of the Deputy Prime Minister (ODPM) and the

Department for Transport. Detailed work to secure this grant continues along with options for long term timetable patterns.

Trains

Delivery of the Pendolino fleet of 53 nine-car trains was completed during the year, along with a number of modifications to improve reliability. The objective for 2005 is to have 46 for service on a daily basis, allowing further improvements to the service pattern to be introduced.

Delivery of the 30 x 100 mph inter-regional Desiro trains has commenced. Full testing is taking place, allowing entry into service from June 2005, and building up to 'full squadron' operation by December 2005. A new depot is now under construction at Northampton to provide maintenance facilities for this fleet.

These trains are to be initially deployed on the Birmingham to Liverpool/Northampton services, along with part of the Northampton/Tring to London service and journeys along the Trent Valley.

Future Timetables

Planning has commenced on the 2008 timetables, with initial consultation taking place with stakeholders representing North Wales and Chester. There appears to be the potential for some significant growth opportunities for London services to and from this region. The consultation exercise is being widened so as to include all other sections of the West Coast route, as part of a research exercise to determine the market for improved rail services, which can be delivered once the bulk of the Project is complete.

Southern

Southern Region New Trains Programme

The Southern Region New Trains Programme (SRNTP) is replacing Mark 1 'slam door' stock across the southern region with new sliding door trains. It is a large and hugely complex programme of work with an estimated final cost of £2.5 billion, which includes the capital cost of the new trains, and a range of infrastructure works, notably the Southern Power Supply Upgrade Project (SPSUP). The Programme is being overseen by the SRA with the other key participants being Network Rail, Southern, South West Trains and South Eastern Trains.

Significant progress has been made in the past year with 1,690 (83%) of the new sliding door vehicles in passenger service and 1,472 (85%) of the Mark 1s withdrawn. Stakeholder and customer feedback on the new trains has been very favourable although there has been an initial phase of teething problems affecting availability. All three TOCs are actively working on improving availability with positive results.

In March 2004, the three TOCs and Network Rail submitted an application for an exemption from the legislative requirement to withdraw Mark 1 stock by 1 January 2005. This was in recognition that new train deliveries and commissioning would not be completed until much later in 2005. The Health and Safety Executive (HSE) viewed the application favourably and, following a round of public consultation, issued the exemptions on 22 October 2004. These permit Mark 1 stock to continue in operation until no later than 30 November 2005 although the current forecast sees the final withdrawals in September 2005.

The power supply upgrade is well on the way to completion with 58 of the 90 DC sites commissioned and in service, and 50% of the HV feeder routes complete, representing over 230 kilometres of new cable laid. Most of the DC upgrades are focused on the busy trunk routes between London and Brighton, Portsmouth and Southampton while the bulk of the HV feeder upgrade is concentrated in the inner London area, reinforcing the system's ability to withstand overloads. By way of example, the completed Brighton Main Line upgrade is supplying 50 MW more power than before.

There are 116 stations where the platforms are shorter than the trains that call at those stations. Following a protracted period of consideration with the HSE, it was agreed that the train-borne selective door operating (SDO) systems could be used at 82 of these stations. This resulted in capital cost savings in the region of over £150 million. Platforms at the other 34 stations are being extended where a case has been made on safety, performance or operational grounds or where SDO cannot be used. During the year, work was completed at 28 of the stations, with the remainder due to be finished by June 2005.

Train servicing depots and stabling sidings in all three TOC areas are also being upgraded to meet modern day standards and provide the facilities needed to service and maintain the new trains effectively. This programme of work will extend into 2006, mainly due to the need to phase the works to minimise the impact on train maintenance and operations. However, it is not on the critical path for completing the replacement of the Mark 1s.

National ERTMS

ERTMS is the European Rail Traffic Management System, a signalling and train control system promoted by the European Union for use throughout Europe, and which is required for compliance with the High Speed and Conventional Interoperability Directives. ERTMS provides Automatic Train Protection (ATP), to ensure trains operate within safe limits and speeds at all times, and cab signalling, providing safe movement authority directly and continuously to the driver through the desk display.

Since the Uff-Cullen Joint Inquiry in March 2001, the rail industry has reduced the risk of accidents preventable by ATP by measures including the Train Protection and Warning System (TPWS). Risks have now been reduced to an extent that was not foreseen at the time of the Joint Inquiry, thereby diminishing the potential safety benefits available in future from ERTMS.

With focus shifting to business and economic rather than safety drivers, the preferred solution for general application in the UK enables ERTMS-fitted routes to operate without line-side signals, reducing infrastructure cost and allowing the signalling system to be optimised to improve network capacity and performance.

During the last year, Network Rail has increased the depth and scope of its involvement, and has developed a new, practical approach to migrating conventional signalling to ERTMS. Network Rail's work to develop and cost its signalling renewals strategy has also clarified the value of ERTMS as a future substitute for

'conventional' signalling. The reduced need for line-side equipment and therefore lower installation and maintenance costs have been evaluated and incorporated within an updated business case for ERTMS.

The SRA-led National ERTMS Programme team has developed an implementation strategy for ERTMS, based on alignment with Network Rail's re-signalling plans, and integration with franchising and rolling stock renewal strategies.

This 'natural' implementation plan proposes a slower roll-out of ERTMS than previously envisaged which significantly improves the deliverability, affordability and risk profile of the programme. The first major scheme proposed is the East Coast Main Line, which remains the priority for ATP implementation, since the Great Western Main Line is already fitted with ATP and the West Coast Main Line has recently been resignalled to modern standards.

A renewals-based roll-out of ERTMS will mean that recently re-signalled sections of the high speed lines (e.g. the West Coast Main Line) will not be fitted until the 2030s. The new implementation plan is therefore being refined in preparation for submissions to the Department for Transport and the Office of Rail Regulation in line with the regulatory signalling review process. It will remain indicative until these reviews have confirmed in detail the funding needs for signalling, including ERTMS, over the period 2009 to 2014, and the overall long term strategy has been confirmed by Government.

Funding for all activities in the development phase of ERTMS to 2009 (some £156

million) was previously allocated within the December 2003 Access Charges Review. Responsibility for delivery of the Cambrian Early Deployment Scheme was transferred from SRA to Network Rail in October 2004. The objectives, scope and cost of this important pilot scheme have been extensively challenged, and commencement of revenue service is expected in 2008, with completion in 2009.

GSM-R

The SRA has continued to work with the industry in the development and delivery planning of the Network Rail-led programme to install GSM-R (Global System for Mobile Communications – Railways), a new digital train radio system across the UK rail network.

In 2004/05, the SRA led a cross industry review to evaluate the network performance impact of improved driver to signaller communications expected from the introduction of GSM-R, as measured by delay minutes. The outputs from this study will be used by Network Rail to inform performance improvement planning as the GSM-R project progresses towards implementation following completion of trials in 2006.

The Progress Report for 2004/05 was published on 23 June 2005.

Modern Facilities at Stations (MFAS)

The MFAS programme has been successfully completed installing modern facilities at 67 stations including customer information systems, public address systems, and close circuit television, to improve security, waiting rooms, shelters, toilets and baby changing facilities. The project was delivered on time and to budget by Network Rail whilst maintaining an impeccable safety record. The new facilities have been successfully handed back to the relevant TOCs.

The programme has encouraged a number of third parties interested in funding improved facilities at stations to use the MFAS specifications and designs. These additional schemes will be delivered by Network Rail directly for the third parties.

The scheme has provided a good example of how the industry can work together to provide facilities at stations that provide real benefits to customers and improve the image of stations and the industry.

London

St Pancras Blockade

The St Pancras Blockade was a closure of the through Thameslink route at St Pancras to allow London & Continental Railways (LCR) to construct a new underground station box as part of their St Pancras station development scheme. The project was an obligation of the 1996 Thameslink and Thameslink 2000 Agreements and comprised all arrangements necessary to operate a full passenger service on Thameslink trains both sides of the closure.

Working closely with Network Rail, the SRA has:

- Sponsored changes and improvements to the railway infrastructure to allow operation of an intensive passenger service from north and south, terminating at St Pancras and Kings Cross Thameslink stations respectively;
- Led a wide stakeholder group to ensure safe management of the 30,000 passengers using the temporary termini each peak period; and
- Procured a new train maintenance depot at Bedford for maintenance of Thameslink trains operating north side services. This was financed under Public Finance Initiative (PFI) arrangements and commissioned in time for commencement of the Blockade.

The Blockade commenced as planned on 11 September 2004, and through services were restored as planned on 16 May 2005. Performance of Thameslink services has been very good throughout the Blockade

period, averaging in excess of 90% Public Performance Measure (PPM).

East London Line Extensions

Following a review of the project it was decided to adopt a staged approach to implementation. Stage 1 of the project will link West Croydon and Crystal Palace with Dalston. Stage 2 would extend the East London Line north of Dalston to connect into the North London Line. Stage 3 would see services from Clapham Junction via the South London Line.

Sponsorship for the project was successfully transferred to Transport for London in November 2004 precisely to programme.

Crossrail

The Montague review, carried out on behalf of the Department for Transport, has resulted in a truncated scheme being taken forward. This will run from Abbey Wood and Shenfield in the east to Maidenhead and Heathrow in the west.

The SRA transferred its shareholding in Cross London Rail Links Limited (the company developing Crossrail) on 9 November 2004. Cross London Rail Links is now a company jointly owned by the Department for Transport and Transport for London.

The Crossrail Hybrid Bill was deposited in February 2005 and is now before Parliament.

Thameslink 2000

Thameslink 2000 is subject of a current Transport and Works Act (TWA) order, for which the Secretary of State for Transport requested additional proposals to be made before he could determine whether to award powers for construction. Under SRA sponsorship, new submissions have been made to address perceived deficiencies in the original applications and the TWA process recommenced. This has comprised submission of new planning applications for replacement buildings in the Borough Market area, for station buildings and the platform roof at Blackfriars station; and in relation to the redevelopment of London Bridge station. A fully revised and updated Environmental Statement and supporting Environmental Impact Assessments were deposited following direction from the TWA processing unit, and preparation of evidence is well advanced for a re-opened public inquiry commencing in September 2005.

Meanwhile other project activity has concentrated on resolution with Network Rail of significant technical and interface matters, and validation of the final project outputs. The SRA's role has also been reduced during the year, with Network Rail assuming greater project leadership, in anticipation of implementation of the *'Future of Rail'* White Paper objectives.

West London Line – Two New Stations

The SRA has successfully supported the construction of, and train service to, two new stations at Imperial Wharf and Shepherd's Bush on the West London Line – with costs being met by third parties. Construction work has started at Shepherd's Bush, and it is planned that both new stations will open in early 2006. In order to serve the stations, the Silverlink franchise terms have been modified to require trains to call at the new stations. The stations will allow the developments to be connected to the London rail network and therefore encourage economic growth/developments in a more sustainable manner.

Scotland

Scottish Platform Extensions

The SRA sponsored and managed this project to successful completion during the year, up to four months early and more than 10% under budget. Platforms at 26 stations have been extended, enabling a fleet of new 6-car trains to operate on the Fife Circle, Edinburgh to Bathgate, Glasgow to East Kilbride and Edinburgh to Dunblane routes. Funding for this project has been split between the SRA and the Scottish Executive.

Scottish Depots

In order to service the new 6-car train fleet, improvements have been undertaken at Perth, Inverness, Stirling and Haymarket depots, and a new depot built at Eastfield in Glasgow. The SRA assisted the Scottish Executive with the sponsorship and management of these works which have also been successfully completed and are now operational.

Edinburgh Waverley Station

Funding has been agreed, as part of the financial settlement accompanying transfer of responsibilities under the Railways Act 2005, which will allow phase one of the station redevelopment to be taken forward. This comprises two new platforms; enhancement of the tracks into Waverley so as to allow a 17% increase in capacity; a new bay platform at Haymarket station which will help to minimise disruption to train services whilst the enhancement of tracks is undertaken; and installation of escalators and lift at the Waverley Steps exit to Princes Street. The planning application has been made for the

Waverley Steps works and work progresses on detailed design. A new departures and arrivals board has been ordered, funded by the SRA. This board will comply with the latest standards in visual clarity and be easier for those with visual impairments to read. It will also display more train departure information and give more time for mobility impaired passengers to reach distant platforms.

Edinburgh Airport Rail Link

The SRA have continued to take an active role in support of the project through the operating group. In particular the SRA have provided advice on rolling stock capital and operating costs and the appraisal of alternative route options.

Glasgow Airport Rail Link

The SRA have continued to take an active role in support of the project through the steering group. The SRA have sought to ensure that the best possible business case can be made.

Stirling-Alloa-Kincardine

The SRA have supported the development of this project and are pleased to see physical implementation beginning.

Wales

Vale of Glamorgan

The scheme to introduce new passenger services for the Vale of Glamorgan has been completed over the past year.

This £14.5 million joint initiative between the SRA and the Welsh Assembly has provided the Vale of Glamorgan with new services between Cardiff, Barry and Bridgend. Two new stations – at Rhoose

and Llantwit Major – have also been built as part of the project. Services, which will run hourly Monday to Saturday and two hourly on Sundays, will provide new journey opportunities for commuters and shoppers into Cardiff as well as for passengers and airport workers to Rhoose. The new line will also provide extra capacity for passengers between Barry and Cardiff.

Midlands

Cherwell Valley

This project resignalled a 20 mile section of line between Banbury and Leamington Spa.

This section was identified as the worst performance bottleneck on this increasingly busy main line. The re-signalling project was selected as a priority since delays on this cross-country route affect train services across much of the UK trunk rail network.

The project was completed on time and within budget against a demanding deadline. Timely completion established the route to provide relief services during the blockade of the West Coast Main Line in May 2004. Performance improved immediately for passenger and freight services.

Evergreen 2

The SRA continues to work with Chiltern Railways to help it deliver its franchise commitment of additional train capacity and improved service performance. To this end the Evergreen 2 project was designed to enable the operation of an enhanced

timetable by December 2006. The project, which involves alterations to Network Rail's infrastructure between Marylebone and Princes Risborough, has now been procured via an innovative Design, Build, Finance and Transfer (DBFT) procurement model, creating an alternative means of private sector financing and delivery of railway enhancement activity. Financial close was achieved on 17 December 2004 and enhancement contractor Carillion started work on the site in March 2005. The enhanced asset is expected to be complete by autumn 2006 when it will be purchased by Network Rail.

Birmingham New Street Station – 'Birmingham Gateway'

Birmingham New Street station is a key interchange for the West Midlands region and the wider railway network. It has seen passenger growth of 50% over the past five years, reflecting increasing rail use, West Coast Main Line improvements and significant growth and shifts in the West

Midlands economy. The station now handles twice its original design capacity and is experiencing significant passenger overcrowding. Increasing overcrowding is forecast to lead to progressively more frequent closures of the station.

Since 2002 the SRA has been working with and funding Network Rail to develop a capacity enhancement scheme to address the problem of overcrowding. In 2004 this work took on a significant new direction led by a Steering Group comprising the SRA, Advantage West Midlands, Birmingham City Council, Centro, the Government Office for the West Midlands and Network Rail. It uses the previously developed rail proposals as a springboard to address a number of wider city, regional and transport problems associated with the station.

Now known as 'Birmingham Gateway', a £4 million design and development study was launched in early 2005, funded by Birmingham City Council, the Government Office for the West Midlands, Centro and the SRA. Currently estimated to cost £350 million, Birmingham Gateway is intended to deliver the following:

- A station that provides long term passenger capacity;
- A regenerative catalyst for the city centre and the region;
- Improved pedestrian links across the city;
- A landmark station gateway experience;

- A transformation of the shopping centre above the station;
- Minimised disruption to rail travel;
- An improved public transport interchange; and
- Significant commercial return and value for money.

The project has considerable support from rail, city and regional stakeholders, all of whom are directly involved in the current stage, forecast for completion at the end of 2005. This is intended to determine the business case for the scheme and, if acceptable, inform a decision on implementation and funding in 2006/07.

Western

Probus – Burngullow

Implementation works began in January 2004 on the £14.3 million re-doubling of seven miles of the Great Western Main Line between St Austell and Truro in Cornwall. This work continued throughout 2004, reaching a key point in July when the project enabled a major long term speed restriction to be lifted. The project was completed and the new track commissioned in November 2004, an event marking the occasion attended by the Transport Minister, Tony McNulty. The re-introduction of double track on this section improves timetable performance on the whole of the Great Western route and its use has been included in the new timetable which came in to force in December 2004. The project was delivered on time and within budget, having been co-funded by the SRA's Rail Passenger Partnership fund and the European Union Objective 1 Programme via Cornwall County Council.

Filton Junction

This performance led project made improvements to the track layout adjacent to Filton Abbey Wood station including a new platform at the station that has increased the capacity, performance and flexibility of the junction and the line speed of trains travelling to South Wales from, or through, Bristol Temple Meads. Construction started in November 2003 and was completed on time and under budget in June 2004.

Eastern

Allington Chord

Good progress has been achieved on the construction of a new double track chord at Allington and the chord is due to open to passenger services in October. The scheme improves the performance of the East Coast Main Line (ECML) by separating east-west services between Nottingham and Skegness which call at Grantham from north-south services on the ECML.

East Coast Main Line (ECML)

The programme of cost-effective enhancements to the ECML has been developed to an advanced stage during the year. Responsibility for implementation of the majority of these schemes transfers to Network Rail, while the development of larger schemes such as a new flyover at Hitchin, may be taken forward by the Department for Transport as part of the major projects portfolio.

The scheme to provide bi-directional signalling on a short stretch of track north of Peterborough is currently being implemented by Network Rail. The objective of the scheme is to reduce the impact of services to Spalding and Lincoln on north-south services on the ECML.

The new franchise for long distance services along the ECML has been awarded to the incumbent operator, GNER. As part of its bid, GNER has proposed the electrification of the route between Hambleton Junction on the ECML and Leeds. This would provide a second electrified route into

Leeds, a shorter journey time and the opportunity to serve not only Leeds but a large part of Yorkshire. The scheme also has the potential to significantly improve local services. Development of the scheme is being taken forward by an alliance of industry participants.

Freight

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Overview

Within the new railway structure announced by the Secretary of State for Transport in the *'Future of Rail'* White Paper of July 2004, elements of the Strategic Rail Authority's (SRA's) work on rail freight will be transferred to a number of different bodies. These include the Logistics and Maritime Directorate and the new Rail Group at the Department for Transport, the Office of Rail Regulation, the Scottish Executive and the industry itself. Some functions will no longer be undertaken.

Ensuring that the needs of the rail freight industry continue to be properly considered in rail planning and delivery has been a high priority for the SRA. Preparing for the effective and efficient transfer of responsibilities to these new bodies has been a key activity since the announcement.

Until this transfer the SRA has continued to use the available mechanisms to secure development of the rail freight market in line with its statutory purposes. Activities included the completion of significant physical works to provide higher gauge clearance between the ports of Felixstowe and Tilbury and interchanges in the Midlands and North West. A new grant scheme was also implemented to encourage growth and secure greater value for money in the container market.

Ongoing development in the rail freight market reflects the confidence of customers and investors. Major new terminal facilities have been successful through planning and with significant private investment now being put into such facilities. Overall, traffic levels experienced growth, new operators entered the market

and new services commenced in non-bulk and the more traditional bulk sectors.

Growth

Total freight moved in the year to 31 March 2005 was 20.66 billion net tonne kilometres, 9.5% up on the previous year. 101.9 million tonnes of freight was lifted to rail.

Rail freight's share of the growing land-based transport market remains at around 11%.

The SRA's Freight Key Performance Indicators (KPIs) recognise the limitations of reporting only measures of freight moved and freight lifted, which tend to reflect the traditional use of the network by heavy bulk commodities. The new suite of KPIs which was published in the National Rail Trends Yearbook (June 2004) indicates that there has been sustained growth in non-bulk freight (such as containers and parcels), which was previously under represented in the statistics due to its low weight to volume ratio.

Rail Planning

For the first time since privatisation a process was developed to capture in full the actual and planned usage of the rail network by freight, enabling the SRA to plan future freight requirements much more effectively. This work, combined with the range of market studies and other planning and forecasting capabilities developed during 2003/04 was used to inform rail planning activities such as Route Utilisation Strategies, Regional Planning Assessments and franchise development. The process of integrating freight needs into these

activities at an early stage improved notably during the year.

To secure buy-in from the rail freight industry, the SRA actively sought to be transparent in the development of its methodology. Within the new structure, the rail freight industry itself will be expected to provide robust forecasts for use in rail planning. It is anticipated that this shared development will help to enable them to do so.

Market Analysis

The full suite of market studies that the SRA carried out to provide forecasts of developments in rail freight's key markets was summarised and disseminated to stakeholders through the SRA website. This ensured that the core information was also carried out to allow a detailed model of rail-based supply chain logistics to be produced. More broadly, the SRA continued to engage with the Department for Transport and stakeholders to share and develop best practice in freight analysis and forecasting.

Customers' perception of the risk of rail use is an intangible but critical barrier to the take up of rail freight. Previous SRA modelling work had focused on rail freight economics and demand, and the associated user benefits. In 2004/05, research was commissioned to model supply chains and understand the market perception of rail freight solutions. The results of the research were shared with the industry via customer workshops.

This work has highlighted the value of market engagement to improve potential users' understanding of the rail freight offer,

and to overcome negative perceptions of rail generally. Such perceptions were identified as being influenced by poor experiences of the passenger railway and low levels of confidence in rail and Government policy. Risks were also poorly understood, as was the economic or commercial benefit required to change behaviour.

Third Party Agreements

Detailed joint working with the developer of the proposed new port facilities at Bathside Bay and Felixstowe South led to the production of a 'statement of common ground'. This established a basis for agreement on the likely impacts of the developments on the UK rail network, and the measures necessary to allow an acceptable level of traffic to be accommodated. A formal Section 106 planning agreement was also reached, securing a legal commitment from the developer to fund the necessary works.

Discussions with other third parties also continued, with a view to agreements being reached. Enhancement works to further improve capacity for deep-sea container and coal traffic may be funded as a result.

Interchange Developments

The SRA's 'Strategic Rail Freight Interchange Policy' (March 2004) established a clear framework to promote the delivery of Strategic Rail Freight Interchanges in the context of the Government's wider economic and environmental objectives.

Promoters now have increased confidence to take forward those schemes which are aligned with national policy objectives, as the document helps to ensure that these

objectives will be taken into account in local and regional planning decisions.

The Policy has been used to good effect in supporting the progression through planning of new, privately funded and delivered interchange schemes around the country, notably in the North West, Midlands and South East. For example, the SRA contributed to a positive decision to include a significant new interchange proposal at Widnes within Halton's Unitary

Development Plan, and its view was material in the consideration of three other large scale schemes in the region.

Similarly, the SRA was influential in consent being given for new intermodal facilities at Birch Coppice near Tamworth in the Midlands. Construction work began in 2005. The development will significantly ease pressure on existing terminal capacity in the region, giving headroom for growth over the forthcoming years.

Network Planning and Projects

Felixstowe to Nuneaton Upgrade

This project was designed to provide gauge clearance to allow the conveyance of 9'6" high deep-sea containers on standard flat wagons. The gauge required is known as W10.

The routes cleared were from Felixstowe, Harwich and Tilbury to London whereupon access can be made to the West Coast Main Line which is already gauge cleared. This enables containers from these ports to access the major inland container terminals along the West Coast Main Line such as in Birmingham, Manchester, Liverpool and Glasgow.

The works to gauge clear the route from Felixstowe to London comprised alterations to bridges and station awnings, and track lowering. The most significant works were at Ipswich Tunnel, within which the track had to be lowered. This involved complete closure of the main line from Ipswich to Manningtree for eight weeks. Extensive

alternative travel arrangements were put in place during this period.

The project was completed on time and under budget in September 2004 and the first 9'6" containers were carried on rail from Tilbury in June 2004 and from Felixstowe in November 2004. The proportion of 9'6" containers on rail has risen significantly since and additional freight trains are now operating daily from Felixstowe.

Southampton to West Coast Main Line Gauge Project

The SRA has continued to sponsor the development of the gauge clearance project to enable 9'6" containers to be conveyed by rail to and from Britain's second largest container port. The scheme has reached a full feasibility level confirming that it is deliverable for £53 million. Unfortunately, efforts to identify a viable funding route for the project have not yet been successful. No further progress is anticipated on the scheme until this issue is resolved.

Other Network Planning Activity

Detailed examination of the dynamics of the coal market led to the development of a comprehensive national coal routing strategy from the key points of supply, including Scotland and the ports. A joint study was also undertaken with ABP to assess the main inbound supply routes from the port of Immingham to the Aire and Trent Valley power stations. This work explored the potential reopening of the Brigg line linking Immingham to Gainsborough, to increase the level of rail capacity available to serve the port. Similar joint working was undertaken with stakeholders to explore options to improve capacity to serve Hull docks.

On behalf of the Scottish Executive, the SRA managed the development to full feasibility of a gauge enhancement proposal to enable more intermodal freight traffic to access the Aberdeen and Grampian region. The development, which was promoted by the North East Scotland Rail Development Group, was undertaken using a £0.5 million grant from the Scottish Executive and was delivered on time and on budget. The proposed scheme has been costed at £4.2 million and is now awaiting approval from Scottish Ministers to proceed to implementation.

Freight Support

This was the first year of operation for the Company Neutral Revenue Support (CNRS) scheme, which provides better-targeted support to the intermodal container market and encourages growth and improved competition in this sector. A very strong response to the scheme launch demonstrated the high level of demand for rail that exists in the deep-sea, short-sea and domestic intermodal markets, and the budget was oversubscribed. After a process of prioritisation, the

following contracts were entered into at the outset of the scheme (see table below).

The SRA is able to make adjustments to the monetary values of the CNRS contracts to reflect any underperformance against target volumes for particular services. In managing the scheme during 2003/04 this capability has been applied whenever appropriate, in order to release funds to support further growth.

During the year, CNRS removed some 650,000 HGV road trips, contributing to 14.5% growth in the movement of intermodal containers on rail as compared with the previous 12 months. As with all new initiatives, lessons have been learnt through implementation and the experience of the SRA and the industry has allowed continuing improvements to be made to

Company	Number of Rail Services Supported	Overall Monetary Value 2004/05	Anticipated Benefit/Cost Ratio 2004/05
Freightliner	28	£16,430,776	1.80
EWS	21	£2,628,744	1.55
GB Railfreight	3	£2,335,575	1.36
Direct Rail Services	3	£989,174	1.15
Total	55	£22,384,269	1.70

the scheme management arrangements. These improvements will allow greater value for money to be achieved in spending the budget headroom which is available for 2005/06 and 2006/07.

Budgetary constraints meant that Freight Facilities Grants (FFG) remained closed to new applications in England during 2004/05. However, over £1.5 million was invested in existing contracts during the period. Funding has now been secured from the Aggregates Levy Sustainability Fund (ALSF), which is administered by DEFRA, to allow some eligible aggregates-related FFG schemes to be supported in future.

The Track Access Grant (TAG) was reopened to new applications at the beginning of the year. Due to budgetary constraints, applications were prioritised on the basis of value for money in a single

process across both TAG and CNRS. As a result, TAG contracts worth over £200,000 were awarded to EWS to provide support for four services.

The Scottish Executive has devolved powers to award both FFG and TAG in Scotland, and the SRA has provided support to help offers of grant to continue to be made. Similar work with the Welsh Assembly Government has also been ongoing, in that case relating only to FFG.

CNRS only has State Aid clearance from the European Commission until March 2007, and the SRA therefore commenced work to consider options for the future of this scheme and rail freight grants more generally. This review is being taken forward together with the Department for Transport and through regular consultation with stakeholders.

International

Rail freight through the Channel Tunnel continued to recover from the service disruptions caused by the effects of clandestine immigration during 2001/02. This was despite the uncertainty due to the expiry on 30 April 2005, of the British Railways Board's (BRB) current arrangements for funding Channel Tunnel freight usage charges incurred by services operated by EWS in conjunction with SNCF.

To address this issue, the Department for Transport asked the SRA to develop proposals to extend funding support for Channel Tunnel freight services for the remainder of the Minimum Usage Charge period to 30 November 2006, in order to

meet BRB's underlying obligations within the Railways Usage Contract.

During this period, the SRA contributed to the UK response to the European Commission's Third Railway Package, and in particular, the proposed statutory compensation requirement for poor service quality. This has significant implications for the fully liberalised and privatised rail freight industry in the UK.

In addition the SRA continued to provide technical advice to the Department for Transport on freight aspects of the initiative to transpose the First and Second European Union Rail Infrastructure Packages into UK law.

Community Rail Development

Work started in the latter part of 2003, and a small team was established in April 2004 to work on plans to improve the value for money of local and rural railways and their relevance to the communities they serve. Following extensive consultation and engagement with existing Community Rail Partnerships, a strategy was developed, designed to provide a national framework within which greater local autonomy would be possible, with solutions being developed appropriate to local needs. The three objectives of the Strategy are to:

- 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 *'Future of Rail'* White Paper and was published in November, being formally launched by the Transport Minister, Tony McNulty on 22 November 2004. It has been widely welcomed as a pragmatic way to develop these lines whose characteristics are significantly different from the conventional and high speed networks.

A national steering group has been established, comprising key rail industry parties, the Department for Transport, local authorities and the Association of Community Rail Partnerships (ACoRP). Network Rail has appointed an Account Director with specific responsibilities for

Community Railways and close links have been forged with the relevant Train Operating Companies (TOCs) to deliver the six pilot projects. Client groups with local authorities, TOCs, Network Rail and the local user group or Community Rail Partnership have already been established for each pilot.

Consultation on designation of the first of the pilot lines – the Esk Valley Line between Middlesbrough and Whitby, commenced in March, and all the pilot lines should be designated during this summer. A programme has also been prepared for consultation on the designation of around 50 other lines referred to in the Strategy. During the year, the team met and discussed line development plans with over 30 Community Rail Partnerships including all those covering lines proposed for Community Rail designation. The opportunities offered within the framework of the Community Rail Development Strategy were also outlined and discussed with stakeholders at conferences, seminars and meetings with local authorities and user groups.

A practical start has been made on a number of routes, in particular on the St Ives Bay Line in Cornwall, where investment has been made by the SRA, the train operator and the local authorities to accommodate the growth in passengers, and to improve stations and car parking. Extra train capacity and higher frequencies have already been introduced, and changes to ticketing, with a local fares structure are matched with a marketing campaign for the line funded by the Countryside Agency. Regulatory changes

associated with these improvements for passengers have also been trialled as part of this pilot scheme.

On pilot routes, a detailed prospectus has been produced as a basis both for consultation on designation and for the Action Plans which set out how the objectives of each pilot are to be achieved.

The House of Commons Select Committee on Transport took evidence and published a report on Rural Railways on 15 March 2005, which focused heavily on the Community Rail Development Strategy and endorsed many of the components of the Strategy, including the core principle that 'Railways are good for local communities.'

A Community Rail Day was held in May 2005 to raise the profile of both the lines and the Strategy, and this engendered much goodwill.

Practical support and advice was provided throughout the year by ACoRP, and close working relationships were developed with local Community Rail Partnerships around the country. Train operators and Network Rail have responded positively to the opportunities offered by the Strategy. Together, this unique mixture of public, private interest and voluntary sectors are starting to provide new solutions for parts of the railway that have had too little attention in the past.

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	55 Victoria Street London SW1H 0EU

BRB (Residuary) Limited is a wholly owned subsidiary of the Strategic Rail Authority which manages 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 includes a property estate and any remaining obligations to former employees of the BRB and to sold businesses.

Review of the Year – Highlights

- The budgeted sales figure for property sales was achieved;
- The Company's property activity was reorganised in line with the entry into of new property management outsourcing contracts as from 1 January 2005;
- Work started on preparing the company for transition;
- The undertaking of the British Transport Police was successfully transferred to a new independent police authority; and
- The company met its financial targets.

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.

As at 31 March 2005 some 735 non-operational sites form the Company's estate. These sites have a book value as at 31 March 2005 of £126.3 million.

As from 1 January 2005 the Company entered into a new competitively bid incentivised property management outsourcing contract with Lambert Smith and Hampton covering the management and sale of the non-operational estate. This contract gives the Company's agents, within pre-agreed parameters, greater discretion to manage and dispose of the Company's estate.

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 have set up a dedicated resource to appraise the net transport benefit of sites retained for potential transport use. As part of the appraisal last year a total of 70 external consultation exercises were undertaken with devolved administrations, Transport for London, Passenger Transport Authorities, local transport authorities, Train Operating Companies and other stakeholders. Consultees were 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 appraisal the SRA's Property Review Group has authorised for sale a total of 171 sites including 32 conditionally released for disposal for transport purposes. In addition 34 sites have been retained 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. Proceeds from the sale of properties in the period totalled £20.8 million. Sales of development sites at York and Aylesbury contributed significantly to the total amount. Sales at auction were also noticeably buoyant. Rental income from non-operational property totalled £4.9 million.

During the year the Company became increasingly 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.

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

Management of the Office Admin Portfolio

The Company continues to hold some 1.8 million square feet of office space in administration buildings, principally rented on to the BRB's former subsidiary companies.

The occupancy rate increased from 84% to 92% over the year, 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 a loss of £6 million was incurred in the year to 31 March 2005.

As at that date the provision to cover the onerous nature of those leases stood at £121.5 million, an increase of £8.8 million from the previous year caused in the main by an increase in the inflation indices used to calculate the rent on these leases.

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.

Property rental income from the portfolio totalled £21.4 million for the year.

As from 1 January 2005 the Company entered into a new competitively bid 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, more 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 organisations, 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 put a stop to 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).

As at 31 March 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. During the year some £12.0 million was paid out in settlement of such claims. The value of the provision for employee related claims as at 31 March 2005 was £269.6 million, an increase of £17.4 million over the previous year due in the main to further provisioning to cover an expected increase in asbestosis, pleural plaque and mesothelioma claims.

The Company's policy with regard to the handling of these claims is, 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.

British Transport Police

During the year the Company was actively involved in the arrangements for the transfer of the British Transport Police to a new independent police authority, as well as continuing with their oversight responsibilities for the BTP. The transfer was successfully accomplished on 1 July 2004.

Pensions

The Company is 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, sponsors 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.

Financial

Income (excluding property sales) for 2004/05 totalled £58.1 million, of which £26.3 million came from rents generated from the current property portfolio.

Property sales totalled £20.8 million and yielded a surplus of £6.0 million. Operating expenditure totalled £69.1 million, of which £39.7 million were increased provisions for onerous property leases and residual liabilities (mainly medical claims); as a result the company recorded a deficit of £8.8 million. After adjusting for this, the underlying performance was a surplus of £30.9 million and the company met its financial targets.

Staffing

At 31 March 2005, the Company employed a total of 25 staff. Throughout the period it continued 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

During the year 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 estate are understood and met; that since so much of its activities are outsourced, its contracts with those suppliers are properly drawn 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 BRB to the Company. Consistent with this minute, the Secretary of State 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; Start of 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 become a direct subsidiary of the Department for Transport. As a result the Company has started work on preparing itself for transition, particularly in the areas of critical resource and aligning new contracts with the medium term plans of the Department.



Doug Sutherland
Chairman

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Foreword

We have pleasure in presenting the report and audited financial statements for the year ended 31 March 2005.

History of the SRA and its Statutory Background

The Strategic Rail Authority (SRA) is a non-departmental public body (NDPB) 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;
- 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 the Rail Regulator;
- The assets, rights and liabilities of the Rail Passengers' Council (RPC) and its regional committee structure formerly undertaken by the Office of Rail Regulation; and

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

Network Rail Limited acquired Railtrack plc on 3 October 2002. As part of the arrangements for establishing Network Rail, the SRA has certain rights and obligations relating to Network Rail. These are described in note 13 (b) to the accounts. Compliance with UK accounting standards has led to the inclusion of Network Rail as a quasi subsidiary of the SRA.

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 are 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 British Transport Police (BTP) were transferred to the British Transport Police Authority. This is a new non-departmental public body, which like the SRA is sponsored by the Department for Transport. Accordingly within these accounts the BTP have been treated as a discontinued operation.

On 7 April 2005 the Railways Act 2005 was passed. This now paves the way for the abolition of the SRA. Current plans are

for the SRA to be wound up around the end of 2005 with functions and activities being progressively transferred out to successor bodies during the course of the year. This will include all subsidiaries of the SRA, and the RPC which will become a new NDPB sponsored by the Department for Transport.

Accounting Requirements

The accounts have been prepared in accordance with the accounts direction set out in Appendix 1 of this document.

Going Concern

The Balance Sheet at 31 March 2005 shows net assets of £3,993.7 million for the Group and net liabilities of £519.9 million for the Authority. These reflect the inclusion of liabilities falling due in future years which, to the extent that they are not to be met from the Group's other sources of income, may be met only by future grants or Grant in Aid from the SRA's sponsoring department, the Department for Transport. Under the normal conventions applying to parliamentary control over income and expenditure, such grants may not be issued in advance of need, and will be made available as the liabilities fall due. The liabilities are underpinned by a minute laid before Parliament regarding provisions relating to the former British Railways Board and by the agreed spending plans for the Department for Transport over the next three years.

Grant in Aid for 2005/06 taking into account the amounts required to meet the SRA's liabilities falling due in that year, have already been included in the Department's

estimate for that year, which have been approved by Parliament.

As set out in note 1 to the accounts the assets, rights, liabilities and obligations of the SRA will be transferred to successor bodies, and the SRA will dispose of these in order to be wound up.

It has accordingly been considered appropriate to adopt a going concern basis for the presentation of these financial statements.

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. As set out in the Financial Review, the SRA met all financial targets in the year. Details of the financial results are set out on pages 65 to 140 and a review of the year's performance is included in the Financial Review on pages 12 to 15. The result was a deficit for the year of £335.8 million for the Group and £265.4 million for the Authority. These results have arisen largely due to timing differences, compounded by the consolidation of intra group items. This is explained further in note 2 to the accounts. When these adjustments have been made, the Authority made an underlying surplus of £3.2 million, which represents an improvement against the departmental expenditure limit set 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 16 to 49 and the Statement on Internal Control on pages 60 to 63.

Research and Development

During the year the Authority has undertaken work in a number of areas which support the overall development of the railway industry. The Authority appointed a Research Manager to further research and development activities.

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 2004/05 Board Members are listed on page 8 and 9. Details of the Members' service agreements are given on page 87. The senior independent Board Member is Pen Kent.

Chairman and Chief Executive

The roles of Chairman and Chief Executive of the SRA were combined in 2002. Following the departure of Richard Bowker on 10 September 2004 these roles were split. David Quarmby was appointed as part time Chairman, and Nick Newton as 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).

The responsibilities as Accounting Officer of the SRA do not extend directly into Network Rail. As a private sector company, Network Rail does not have an Accounting Officer.

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;
- 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.

The SRA Board does not have direct responsibility for Network Rail Limited although the SRA Board does have to assure itself about Network Rail's corporate governance (see Statement on Internal Control). Network Rail Limited has its own

Board which has broadly similar responsibilities, commensurate with a private sector company. Committees of the SRA Board are confined to matters relating to the Authority and only extend to Network Rail in so far as they relate to the Agreements between the SRA and Network Rail, and the Group accounts for the SRA.

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 three Members to sit on the Audit Committee. The current Committee Members are Pen Kent, Willie Gallagher, Janet Lewis-Jones and David Quarmby. The Committee is chaired by Pen Kent. The terms of reference for the Audit Committee were amended during the year to specifically 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 National Audit Office (NAO) are the statutory auditors of the Group. The audit of the Authority is undertaken by PricewaterhouseCoopers LLP on behalf of the NAO; the audit of Network Rail is undertaken by Deloitte & Touche LLP.

Remuneration Committee

Terms and conditions for Board Members are set by the Secretary of State.

The Secretary of State appoints the Chairman and, after consultation with the Chairman, other Members of the Authority. The Authority has established a Remuneration Committee under the chairmanship of Pen Kent. Other Committee Members are Willie Gallagher, David Grayson and David Quarmby. It makes recommendations to the Board as to the pay, terms and conditions of employment of the Chief Executive which are subject to the approval of the Secretary of State. In addition it keeps under review the structure of remuneration in the Authority and the remuneration arrangements for Executive Directors.

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 6 (e) to the financial statements.

Investment and Procurement Committee

This Committee approves all investment expenditure between £250,000 and £50 million and all procurement contracts let over £0.5 million. The Board approves all expenditure over £50 million. The Committee is chaired by the Chairman of the Board, David Quarmby who, together with Jeremy Mayhew, Jim Steer and Doug Sutherland, make up the Committee.

Franchise Committee

This Committee considers issues relevant to the replacement of franchises, including franchise strategy and significant issues of franchise policy. Lew Adams, David Grayson and Willie Gallagher sit on this committee which is chaired by David Quarmby.

Equal Opportunities and Employee involvement

The Authority values its employees and recognises their role in enabling the organisation to achieve its objectives. This is reflected in the Board's commitment to effective employee communications and equal opportunities. The organisation's intranet enables easy access for all staff to policies, job vacancies, news and other company information. The Authority has a staff council which acts as a focal point for staff concerns and overarching development.

The Authority's policy is to recruit, develop and employ 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. Full consideration is given to continuing the employment of staff who become disabled and to provide training and career development opportunities to disabled employees.

Environmental Management Policy

The Authority continues to develop environmental management policies and recognises the role of business in contributing to increased environmental awareness. Features during the period include:

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

Better Payment Practice

The Authority's policy is 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 2004/05 were 25 days.

Signed for and on behalf of the Board on
7 July 2005.



Nick Newton
Chief Executive

Statement of Accounting Officer's Responsibilities

The Chief Executive is responsible to the Board for the day-to-day operations and management of the Strategic Rail Authority. 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.

In exercising these responsibilities the Accounting Officer is required:

- 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.
- To ensure that the relevant guidance for NDPBs is followed, including the NDPB Annual Report and Accounts guidance.

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, I share with the rest of the Board of the Strategic Rail Authority (SRA) responsibility for maintaining a sound system of internal control that supports the achievement of the SRA's policies, aims and objectives. 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 2-5 relate to the core SRA operation and its wholly owned subsidiaries other than SET, sections 6-8 refer specifically to Network Rail, British Transport Police (a discontinued operation with effect from 1 July 2004) and the Rail Passengers Council. Each of these bodies has been included within the consolidated accounts, for reasons explained in the Notes to the Accounts, but operate under their own constitution and/or statutory requirements. This means that the SRA does not have full or sole responsibility for their governance. Section 9 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 only reasonable and 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 year ended 31 March 2005 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance. As mentioned in Section 9, SET has in place a system of internal control for the year to 31 March 2005.

3. Capacity to Handle Risk

Leadership is provided to the risk management process by the Executive Group who are 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 Business Management Director, who also has responsibility for managing the SRA transition programme (see note 4 below), has provided leadership and co-ordination for risk management at all levels of the organisation including the quarterly business review process.

Leadership training has been provided for employees and opportunities provided across the SRA for development and training needs in a wide sphere of activities including risk management.

4. The Risk and Control Framework

The key elements of SRA's risk management strategy and framework have remained intact during the year. The transition programme, which provides a framework for managing the orderly cessation and/or transfer of SRA functions and activities to successor organisations (under the provisions of the Railways Act 2005) in 2005/06, has required additional governance and control mechanisms to the existing risk management framework. The key elements of the overall framework are as follows:

- A risk management policy, framework and transition plan approved by the Board;
- The Board determines and communicates the SRA mission, vision and objectives. The Executive Group implements these objectives whether in relation to 'business as usual' or transition matters;
- Each SRA Directorate identifies, evaluates and manages risks relating to their objectives, at the overall Directorate level as well as at team and project levels as appropriate. The key risks are escalated by each level to enable a review of the key risks for the SRA by the Executive Group, the Audit Committee and the Board;

- The Executive Group has delegated governance and monitoring responsibility for the SRA transition programme to the Transition Steering Group (TSG) which oversees individual work streams responsible for their own transfer plans. The TSG monitors and manages risks relating to transition work streams and the overall transition programme. A Transition Committee was set up during the year to advise the Board in relation to transition issues and the management of transition risks;

- Risks, including emerging and changing risks, are identified and discussed on a continuous basis through a variety of different mechanisms such as team meetings, project progress meetings, transition work stream meetings, TSG meetings, submissions to the Investment and Procurement Committee and papers to the Executive Group, Audit Committee and the Board;
- Records of key risks and risk management activity are consolidated and maintained by teams, project groups and Directorates in risk registers and related business planning documents. These records, as well as the process itself, are reviewed on a quarterly basis as part of the business planning and review cycle;
- The principles and specific aspects of HM Treasury's Risk Management Assessment Framework have been integrated within the annual corporate governance assessments I receive from my executive managers; and

- As Chief Executive I report to the Board on a half yearly basis on the key SRA risks and on the effectiveness of the management of those risks. These key risks are discussed at Executive Group on a regular basis, and the frequency has increased during transition. A key risk register has been presented to the Board for discussion and approval.

5. Review of Effectiveness of Internal Control

As Accounting Officer of the SRA, I have responsibility for reviewing the effectiveness of the SRA's system of internal control. Although that responsibility does not extend to Network Rail, the SRA Board and I do have to assure ourselves about Network Rail's corporate governance (see section 6). 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 have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

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

- Executive Directors of the SRA and Chairmen of subsidiaries are required to complete an annual 'Letter of Assurance'. This includes a governance self assessment, the provision of assurances to me in respect of their risk

management and internal control responsibilities and steps taken to improve controls;

- Assurances from the SRA Transition Director and Manager in respect of the controls and governance processes around the transition programme;
- Director of Risk Assurance (Internal Audit) – who provides regular reports and an overall annual opinion on risk management, control and governance within the SRA. Risk Assurance completed a comprehensive risk-based assurance programme for the year including independent reviews of the risk management processes at team and executive levels. The Director of Risk Assurance also advises me and the Executive Group on key transition related risks and issues;
- External auditors – who provide comments and recommendations on internal control in their management letter and other reports;
- The Audit Committee – which meets regularly to receive reports from our internal and external assurance functions and considers 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 review the effectiveness of risk management.

Internal controls and risk management across the SRA have improved over the

last year. This is reflected both in improved scores from the corporate governance assessments provided to me by my Executive managers (as part of the annual Letters of Assurance) and the output of Risk Assurance reports showing an increasing trend in controls meeting expectations. I am determined to maintain the improvement in controls and risk management during transition and leading up to cessation and/or transfer of functions and the eventual closure of the SRA.

We are trying to ensure that the functions that do transfer keep intact the embedded controls and processes we have managed successfully during the lifetime of the SRA.

To that end, with the agreement of the Board, the Chairman of the Audit Committee and the Director of Risk Assurance, the Risk Assurance function have assumed a more flexible, interactive role with the Executive in assuring that functions are 'fit for transfer' as they are handed over by the SRA. We believe that this strengthens our ability to maintain proper internal controls in the fast changing and often unpredictable circumstances.

6. Network Rail Limited (Network Rail)

The powers and rights detailed in note 13 (b) to the accounts result in the consolidation of Network Rail as a subsidiary. They also require me, as the SRA's Accounting Officer and the Board to assure ourselves that the governance arrangements of Network Rail are appropriate and in line with HM Treasury guidance. During the year ended 31 March 2005 the SRA has continued to maintain the following mechanisms:

- Attendance at the Network Rail Audit Committee meetings by the SRA Special Director of the Network Rail Board following which he provides me with appropriate updates on the proceedings and provides a monthly report to the SRA Board; and
- Inclusion of significant corporate governance issues in the liaison meetings that occur between the SRA and Network Rail.

In addition, as part of my annual review processes I have reviewed the draft Network Rail Corporate Governance Report (Internal Control section) to be included in their Annual Report to assess the extent to which their governance procedures comply with HM Treasury guidance. This report has been approved by the Network Rail Audit Committee. In summary, the following progress has been made in respect of risk management, internal control and governance:

Risk Management: Network Rail has made good progress in the development and integration of a systematic bottom up process to identify and mitigate risks and to link with the top-down strategic risk management process. The business planning process is now closely linked with risk management actions and the extensive involvement of managers from all functions in risk identification workshops has enhanced risk awareness across the company. Further work is still required in terms of fully embedding risk management in the company's decision making process.

Internal Controls: Network Rail has established internal control procedures for managing the risks faced by the company of which the key elements are a structured review of business units by the Executive Directors, a framework of delegated authorities, approval of business plans, budgets and major investment, the monthly reporting of financial results, safety and operational KPIs, the control framework for managing all investments and an internal audit function whose programme is monitored by the Audit Committee. Notwithstanding the above, it is recognised that there is still a need to build on the above controls and to drive through certain initiatives to improve compliance with the control framework.

Transitional Risks: Network Rail recognises that there are likely to be transitional risks associated with implementing the organisational changes required to effect the terms of the Rail Review. An appropriate change programme and governance structure has been put in place to manage these.

Quarterly meetings between the SRA Director of Risk Assurance and Network Rail Head of Internal Audit and the Head of Risk are ongoing to focus on risk management and control issues.

As explained in note 1 to the Accounts the SRA's role as the supporter of Network Rail's financing transferred to the Department for Transport by the end of June 2005. From this date onwards SRA's governance responsibilities over Network Rail, outlined above, ceased.

7. British Transport Police (BTP)

From 1 July 2004 BTP became an independent police authority and has been treated as a discontinued operation of the SRA from this date. Although its internal control framework did not in all respects meet the standards expected of a public body, some improvements have been made and further steps were being taken to address control weaknesses at the time of BTP's transfer from the SRA.

8. Rail Passengers' Council (RPC)

Key aspects of RPC's governance and control framework are maintained within the SRA control structure: budgeting, planning and reporting together with stewardship reporting and support and advice provided where necessary. In addition, the SRA Director Risk Assurance attends the Scrutiny and Audit Committee meetings of the RPC and has provided advice and support in respect of the risks and issues facing the Council. From 24 July 2005, under the provisions of the Railways Act 2005, the RPC will be replaced by an NDPB responsible to the Department for Transport. The SRA is providing support and continues to monitor the RPC transition programme, which is managed by them. The SRA will continue to be responsible for the outgoing RPC through to its closure.

9. South Eastern Trains Limited

There is evidence that the control and governance environment has improved during the year. Areas where improvement was required in respect of risk management and an effective risk assurance function have been satisfactorily addressed. The agreed risk management policy and process is now embedded and has been used throughout the organisation to identify and manage risks against business objectives. These risks are formally reviewed three times a year. The key risk register reviewed by the SET Board is linked to the consolidated risk register and is updated regularly. A full Risk Assurance programme of risk-based audit work was implemented during 2004/05. Some control weaknesses identified during the year were inherited from the previous Connex South Eastern franchise but there are clear signs of progress to address them.



Nick Newton
Accounting Officer

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 on pages 65 to 140 under the Transport Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 71 to 76.

Respective Responsibilities of the Authority, the Chief Executive and Auditor

As described on page 59, the Authority and Chief Executive are responsible for the preparation of the financial statements in accordance with the Transport Act 2000 and the Secretary of State's directions made thereunder for ensuring the regularity of financial transactions. The Authority and Chief Executive are also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Transport Act 2000 and the Secretary of State's directions made thereunder, and whether in all material respects the expenditure and income has been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Authority has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 60 to 63 reflects the Authority's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

Basis of Audit Opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An 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 me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- The financial statements give a true and fair view of the state of affairs of the Strategic Rail Authority at 31 March 2005 and of the deficit, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Transport Act 2000 and 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 2005

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

Group Income and Expenditure Account

for year ended 31 March 2005

	Note	Continuing Operations ¹ £m	Discontinued Operations ² £m	Total 2005 £m	Total 2004 £m
Income					
Trading income	3 (a)	484.8	1,619.9	2,104.7	2,475.5
Government Grant (including share of joint venture)	3 (b)	3,121.3	35.2	3,156.5	3,417.5
Less: share in joint venture (Government grant)	3 (b)	-	(9.9)	(9.9)	(15.7)
	4	3,606.1	1,645.2	5,251.3	5,877.3
Operating expenditure	5	(1,557.0)	(3,375.2)	(4,932.2)	(5,533.8)
Group surplus/(deficit)	4, 6	2,049.1	(1,730.0)	319.1	343.5
Provision for loss on termination of operations	7	(13.9)	(95.8)	(109.7)	-
Surplus on disposal of fixed assets/non-operational property		3.9	69.0	72.9	61.8
Notional cost of capital		13.4	(108.1)	(94.7)	(8.7)
Surplus/(deficit) on ordinary activities before interest		2,052.5	(1,864.9)	187.6	396.6
Net Interest	8	0.5	(641.6)	(641.1)	(361.0)
Surplus/(deficit) on ordinary activities before taxation		2,053.0	(2,506.5)	(453.5)	35.6
Taxation	9	-	23.0	23.0	329.0
Surplus/(deficit) on ordinary activities after taxation		2,053.0	(2,483.5)	(430.5)	364.6
Less notional cost of capital		(13.4)	108.1	94.7	8.7
Result for the year	2, 25, 26	2,039.6	(2,375.4)	(335.8)	373.3

Statement of Total Recognised Gains and Losses	2005 £m	2004 £m
Result for the year	(335.8)	373.3
Unrealised surplus on revaluation of properties	30.6	19.1
Revaluation of network fixed assets (see note 11)	1,749.0	2,571.0
Deferred tax on pension asset/liability	79.6	(36.0)
Actuarial gain/(loss) recognised in the pension scheme	(248.5)	129.1
Total gain recognised relating to the year	1,274.9	3,056.5

¹ The SRA has been included within continuing operations as, in accordance with FRS 3, its operations will not discontinue until after 1 July 2005, except as identified below (see note 1)

² Included within discontinued operations are British Transport Police (see note 10), SRA Investment Company Limited, Cross London Rail Links Limited (see note 13 (a)), Network Rail (see note 1) and SRA freight grants (see note 1).

Authority Income and Expenditure Account

for year ended 31 March 2005

	Note	Continuing Operations ¹ £m	Discontinued Operations ² £m	Total 2005 £m	Total 2004 £m
Income					
Trading income	3 (a)	490.0	28.2	518.2	428.6
Government Grant (including share of joint venture)	3 (b)	3,121.3	35.2	3,156.5	3,417.5
Less: share in joint venture (Government grant)	3 (b)	-	(9.9)	(9.9)	(15.7)
	4	3,611.3	53.5	3,664.8	3,830.4
Operating expenditure	5	(3,856.5)	(65.6)	(3,922.1)	(2,819.1)
Authority surplus/(deficit)	4, 6	(245.2)	(12.1)	(257.3)	1,011.3
Provision for loss on termination of operations	7	(13.9)	-	(13.9)	-
Surplus on disposal of fixed assets/non-operational property		3.9	-	3.9	21.8
Notional cost of capital		13.4	-	13.4	23.2
Surplus/(deficit) on ordinary activities before interest		(241.8)	(12.1)	(253.9)	1,056.3
Net Interest	8	0.5	1.4	1.9	2.7
Surplus/(deficit) on ordinary activities before taxation		(241.3)	(10.7)	(252.0)	1,059.0
Taxation	9	-	-	-	-
Surplus/(deficit) on ordinary activities after taxation		(241.3)	(10.7)	(252.0)	1,059.0
Less notional cost of capital		(13.4)	-	(13.4)	(23.2)
Result for the year	2, 25, 26	(254.7)	(10.7)	(265.4)	1,035.8

Statement of Total Recognised Gains and Losses	2005 £m	2004 £m
Result for the year	(265.4)	1,035.8
Unrealised surplus on revaluation of properties	20.6	11.7
Deferred tax on pension asset/liability	4.6	5.0
Actuarial loss recognised in the pension scheme	(12.5)	(49.5)
Total gain/(loss) recognised relating to the year	(252.7)	1,003.0

¹ The SRA has been included within continuing operations as, in accordance with FRS 3, its operations will not discontinue until after 1 July 2005, except as identified below (see note 1)

² Included within discontinued operations are British Transport Police (see note 10), SRA Investment Company Limited, Cross London Rail Links Limited (see note 13 (a)), Network Rail (see note 1) and SRA freight grants (see note 1).

Statement of Historical Cost Surplus and Deficits

Group	31 March	31 March
	2005	2004
	£m	£m
(Deficit)/surplus on ordinary activities before taxation	(453.5)	35.6
Realisation of property revaluation gains of previous years	18.7	18.8
Reduction in profit on sale of properties on an historical cost basis	(3.0)	-
Historical cost (deficit)/surplus on ordinary activities before taxation	(437.8)	54.4
Historical cost (deficit)/surplus for the year after taxation and cost of capital	(320.1)	392.1

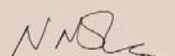
Authority	31 March	31 March
	2005	2004
	£m	£m
(Deficit)/surplus on ordinary activities before taxation	(252.0)	1,059.0
Realisation of property revaluation gains of previous years	13.7	18.8
Historical cost (deficit)/surplus on ordinary activities before taxation	(238.3)	1,077.8
Historical cost (deficit)/surplus for the year after taxation and cost of capital	(251.7)	1,054.6

Balance Sheet

as at 31 March 2005

	Note	Group		Authority	
		2005 £m	2004 £m	2005 £m	2004 £m
Fixed assets					
Tangible Assets	11	23,085.3	18,583.3	74.3	85.3
Intangible Assets					
Concessions and software	12 (a)	79.1	82.2	0.1	1.2
Goodwill	12 (b)	1.4	109.4	0.4	8.3
Investment Property	17	153.7	139.5	70.7	61.5
		23,319.5	18,914.4	145.5	156.3
Interests in joint ventures					
CLRL – Share of gross assets	13(a)	-	4.5	-	4.5
CLRL – Share of gross liabilities	13(a)	-	(4.5)	-	(4.5)
		-	-	-	-
Total fixed assets		23,319.5	18,914.4	145.5	156.3
Current assets					
Stocks	14	63.8	79.8	2.0	3.0
Debtors falling due within one year	15	588.2	835.5	145.4	269.9
Debtors falling due after more than one year	15	71.9	75.8	49.1	50.0
Non-operational property	17	55.6	58.6	55.6	58.6
Current asset investments	16	191.6	146.6	-	-
Cash at bank and in hand		13.4	45.5	10.2	36.3
		984.5	1,241.8	262.3	417.8
Less:					
Creditors falling due within one year	18(a)	(7,333.6)	(7,646.7)	(294.9)	(367.2)
Net current assets/(liabilities)		(6,349.1)	(6,404.9)	(32.6)	50.6
Total assets less current liabilities		16,970.4	12,509.5	112.9	206.9
Less:					
Creditors falling due after more than one year	18(b)	(12,010.4)	(9,088.5)	(120.8)	(136.6)
Provisions for liabilities and charges	19	(651.5)	(704.6)	(484.6)	(452.3)
Net assets/(liabilities) excluding pension asset/(liability)		4,308.5	2,716.4	(492.5)	(382.0)
Pension liability	29	(316.2)	(237.7)	(28.8)	(125.3)
Pension asset	29	1.4	2.8	1.4	2.8
		3,993.7	2,481.5	(519.9)	(504.5)
Reserves					
Revaluation reserve	25(a)	5,177.4	3,412.0	147.2	135.8
Income and Expenditure reserve	25(b)	(933.6)	(551.1)	(417.0)	(260.9)
Revenue Grant reserve	25(c)	(251.0)	(386.7)	(251.0)	(386.7)
Capital Grant reserve	25(d)	0.9	7.3	0.9	7.3
	26	3,993.7	2,481.5	(519.9)	(504.5)

Signed on behalf of the Board on 7 July 2005



Nick Newton
Chief Executive



Doug Sutherland
Managing Director Finance and Commercial

Cash Flow Statement

Group		Continuing Operations	Discontinued Operations	Total 2005	Total 2004
	Note	£m	£m	£m	£m
Net cash inflow/(outflow) from operating activities	27 (a)	2,292.9	(943.3)	1,349.6	1,207.3
Returns on investments and servicing of finance					
Interest received from leasing debtors		3.1	-	3.1	2.7
Other interest received		4.9	15.0	19.9	11.6
Interest paid in respect of finance leases		(6.4)	-	(6.4)	(4.3)
Other interest paid		(4.6)	(498.0)	(502.6)	(435.3)
Net cash outflow from returns on investments and servicing of finance		(3.0)	(483.0)	(486.0)	(425.3)
Capital expenditure and financial investment					
Purchase of assets		(12.8)	(3,528.0)	(3,540.8)	(3,924.7)
Sale of assets		15.1	74.0	89.1	81.8
Capital grants received		-	93.0	93.0	41.0
Capital receipts from leasing debtors		1.0	3.0	4.0	7.8
Net cash inflow/(outflow) from capital expenditure and financial investment		3.3	(3,358.0)	(3,354.7)	(3,794.1)
Acquisitions and disposals					
Net cash acquired with subsidiary undertakings		-	-	-	1.9
Net cash transferred on disposal ¹		-	6.6	6.6	-
Net cash inflow on acquisitions and disposals		-	6.6	6.6	1.9
Management of liquid resources					
Decrease/(increase) in cash on deposit	27 (b)	11.5	-	11.5	(21.6)
Sale of short term investments		-	(45.0)	(45.0)	31.0
Net cash inflow/(outflow) from management of liquid resources		11.5	(45.0)	(33.5)	9.4
Financing					
New loans		-	4,055.0	4,055.0	10,351.0
Capital payments on finance leases		-	(31.0)	(31.0)	-
Repayment of loans and leases		(95.6)	(1,431.0)	(1,526.6)	(7,357.8)
Net cash inflow/(outflow) from financing		(95.6)	2,593.0	2,497.4	2,993.2
Increase/(decrease) in cash at bank and in hand		2,209.1	(2,229.7)	(20.6)	(7.6)

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

Cash Flow Statement

Authority		Continuing Operations	Discontinued Operations	Total 2005	Total 2004
	Note	£m	£m	£m	£m
Net cash inflow/(outflow) from operating activities	27 (a)	81.0	(18.4)	62.6	66.8
Returns on investments and servicing of finance					
Interest received from leasing debtors		3.1	-	3.1	2.7
Other interest received		4.9	-	4.9	4.6
Interest paid in respect of finance leases		(6.4)	-	(6.4)	(4.3)
Other interest paid		(4.6)	-	(4.6)	(7.3)
Net cash outflow from returns on investments and servicing of finance		(3.0)	-	(3.0)	(4.3)
Capital expenditure and financial investment					
Purchase of assets		(12.8)	-	(12.8)	(10.7)
Sale of assets		15.1	-	15.1	41.8
Capital receipts from leasing debtors		1.0	-	1.0	0.8
Net cash inflow from capital expenditure and financial investment		3.3	-	3.3	31.9
Acquisitions and disposals					
Net cash acquired with subsidiary undertakings		-	-	-	1.9
Net cash transferred on disposal ¹		-	6.6	6.6	-
Net cash inflow from acquisitions		-	6.6	6.6	1.9
Management of liquid resources					
Decrease/(increase) in cash on deposit		11.5	-	11.5	(21.6)
Net cash inflow/(outflow) from management of liquid resources	27 (b)	11.5	-	11.5	(21.6)
Financing					
Repayment of loans and leases		(95.6)	-	(95.6)	(74.8)
Net cash outflow from financing		(95.6)	-	(95.6)	(74.8)
Increase/(decrease) in cash at bank and in hand		(2.8)	(11.8)	(14.6)	(0.1)

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

Statement of Accounting Policies

(i) Form of Accounts

The SRA is required to comply with the Accounts Direction from the Secretary of State for Transport dated June 2003 as shown on page 143 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 Group is made up of the core Authority (as defined by Transport Act 2000), all subsidiaries and joint ventures. These include Network Rail Limited, a quasi subsidiary of the SRA (see note 13 (b)). The accounts have been prepared under the historical cost convention, modified by the revaluation of non-operational property, administration buildings, investment properties, and the railway network.

The Accounts Direction requires the SRA to include financial statements for the parent company in line with the Companies Acts. The Direction defines the parent as the core Authority and its subsidiaries and joint ventures with the exception of Network Rail. Within these accounts the parent is called the 'Authority'.

These accounts follow the requirements of the NDPB Annual Reports and Accounts Guidance except for the transfer out of the functions of the British Transport Police (BTP). The NDPB guidance requires the use of merger accounting where there are machinery of Government changes. Use of merger accounting would have the effect of removing BTP from the whole of the SRA's financial history. Full merger accounting has not been used for the transfer out of BTP because the body into which the BTP functions were transferred did not exist prior to 1 July 2004. Adoption of merger accounting would wrongly state the Government's accounts when taken as a whole, and is therefore not appropriate. In order to provide a true and fair view, within these accounts the assets and liabilities of the BTP have been transferred out at net book value and the effect of the transfer recognised through reserves. The results of BTP have been included for the period from 1 April 2004 to 30 June 2004. These have been separately disclosed within discontinued operations in the segmental analysis (see note 4).

Under the Transport Act 2000, the Authority has had transferred to it the assets and liabilities of the British Railways Board, such that the Authority has net liabilities. The Secretary of State has provided assurance of support in relation to the liabilities transferred from the British Railways Board and those of the net liabilities of the remaining parts of the Authority.

The arrangements for the succession of the SRA are being finalised. The significant majority of the SRA's assets, rights, liabilities and obligations will be transferred to successor organisations under statutory transfer schemes (see note 1). These transfers will be at current values where they support ongoing activities. There are some activities which will cease, and where this has been identified appropriate adjustments have been made to the accounts. These adjustments are reflected in Statement of Accounting Policies notes (xi) Fixed Assets (also see note 7), and (xiii) Intangible Assets. With these exceptions (which are not considered material), the accounts have been drawn up on a going concern basis.

Within these accounts references to discontinued business includes discontinuing and discontinued businesses, i.e. those businesses that have transferred in the year to 31 March 2005 and those which in accordance with the disclosure requirements of FRS 3 have transferred in the period to 30 June 2005.

(ii) Income

Income is the aggregate gross income of the Group and its subsidiary undertakings, after eliminating intra group income, and net of value added tax. It includes grant from the Department for Transport, and the Scottish Executive 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

Grant in Aid is the grant paid to the Authority by the Department for Transport and the Scottish Executive, as voted by the respective parliaments for the purposes of the Authority as defined by the Transport Act 2000. Grant in Aid is only received by the Authority, 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. Grant in Aid received relating to expenditure recognised in the Income and Expenditure Account in periods prior to the creation of the Authority is credited to the Revenue Grant reserve. All other Grant in Aid is credited to the Income and Expenditure Account.

Statement of Accounting Policies

(iv) Freight Grants

Offers are made in writing to third parties for the provision of freight grants to a maximum level subject to the meeting of specified conditions. On the offer of grants, a contractual commitment is shown by the Group. When a claim is received from a third party in accordance with the offer made, this is recognised as expenditure in the financial statements. A provision is made for grants where an obligation exists at the Balance Sheet date, if it is probable that the Group will have to pay the grant and an estimate of the amount due can be determined.

(v) Joint Venture Accounting

The notes to the accounts disclose the name of joint ventures, the nature of the business and details of the shares held. The financial statements include the relevant percentage of the income and operating surplus/deficit of joint ventures, on the face of the Income and Expenditure Account, and the share of gross assets and gross liabilities on the face of the Balance Sheet. This is in accordance with FRS 9.

(vi) Incentive Regimes

The contractual subsidy payable or premium receivable within each franchise agreement is included as expenditure or income respectively. These amounts include an estimate for payments and receipts due under performance regimes for the relevant financial period.

Supplements to track access charges and bonuses receivable from, less penalties payable to, customers are included in income. Additional contract amounts and bonuses payable to, less penalties receivable from, suppliers and the Office of Rail Regulation are included in operating expenditure.

(vii) Pension Schemes

Defined Benefit Schemes

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

Further details are given in note 29 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. 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.

(viii) Foreign Currency

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.

Statement of Accounting Policies

(ix) Taxation

The Group 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.

(x) Cost of Capital

In accordance with the Accounts Direction and the 2004/05 NDPB Accounts Guidance, a charge/credit of 3.5% of net assets/liabilities of the Group is made to the surplus/deficit before interest and taxation. This is added back, to determine retained surplus/deficit on ordinary activities after taxation.

(xi) Fixed Assets

Fixed assets include land, buildings, infrastructure assets and plant and equipment required for the ongoing operations of the Group. Land and buildings which are no longer required are transferred to non-operational property and included as current assets pending disposal.

The railway network is valued at depreciated replacement cost (DRC), providing for impairment as necessary down to its value in use and depreciated on a straight line basis over its estimated remaining weighted average useful economic life. A revaluation of the assets that comprise the railway network and their estimated remaining weighted average useful economic lives is performed annually. External verification of the valuation and asset lives will be carried out, where required, at least every five years.

Assets are capitalised at cost subject to a minimum monetary level of £1,000 except freehold office buildings which are held at valuation as set out in note (xii) below.

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
Railway Network	25 years (estimated remaining weighted average useful economic life)

Due to the expected closure of the Authority around the end of 2005, any assets of the Authority which will not be required after this date have had their useful economic life reduced to cease at this date, 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.

Statement of Accounting Policies

(xii) Former BRB Land and Premises

Administration Buildings

Freehold office buildings are revalued annually on an individual property basis to current open market value, assuming existing use, by professional external surveyors. Where properties are revalued upwards the change in value above historic cost is taken to the Revaluation reserve. Where properties are revalued downwards reflecting an impairment in value, the decrease in value above the historic cost is taken back to the Revaluation reserve; the decrease in value to below the historic cost is charged to the Income and Expenditure Account. Where negative valuations exist on leasehold properties with onerous lease terms, appropriate provisions are raised.

Non-operational Property

Non-operational property is carried at estimated market value and is revalued annually on an open market basis by professional external surveyors. In order to comply with applicable Financial Reporting Standards any revaluation surplus is taken to the Revaluation reserve. Where there is a permanent diminution in value the reduction in value below the original purchase price is charged to the Income and Expenditure Account. On disposal of a property the revaluation is transferred to the Income and Expenditure Account as a reserve movement. Income from disposals is accounted for when contractually due. Non-operational property is held as a current asset when the decision has been made to dispose of the property. All other properties are held as investment properties.

Burdensome Structures

Burdensome structures, by their nature, are not easily disposed of and consequently it has been decided that the most economic way to manage these structures is to maintain them to current safety standards and dispose of them when and if an appropriate opportunity arises. Expenditure on these structures is charged to the Income and Expenditure Account as incurred.

(xiii) Intangible Assets

Concessions are valued at cost on acquisition and are amortised in equal annual amounts over the length of the underlying contractual agreement.

Goodwill arising on the acquisition of Network Rail has been impaired to reflect its remaining value up to the point of transfer of the SRA's rights, powers and obligations to the Department for Transport on 26 June 2005, when Network Rail ceased to be a quasi subsidiary. Goodwill arising on the acquisition of SET has been impaired to reflect its remaining value, given the expected transfer of the company to the private sector in early 2006.

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

(xiv) Research and Development Expenditure

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

(xv) Fixed Asset Investments

Fixed asset investments are stated at cost less provision for impairment.

(xvi) Leasing

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.

The net investment in assets leased to third parties is included in debtors. Income from finance leases is allocated to accounting periods so as to give a constant rate of return on the net investment in the lease. These leases relate to the privatisation of British Railways Board, and were transferred as part of the set up of the SRA. No new leases are expected once these expire.

Rental income under operating leases is credited to the Income and Expenditure Account on a straight-line basis over the operational lease term.

(xvii) Grants

Grants and other contributions, other than Grant in Aid, received towards the cost of tangible fixed assets are included in creditors as deferred income and credited to the Income and Expenditure Account over the life of the asset. Grants earned for the management and provision of railway network assets are credited to the Income and Expenditure Account in the period to which they relate.

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.

(xviii) Capitalised Interest

Interest is capitalised during the period of construction on all projects to the extent that the project is not financed by the contractor. The average rate used during the year was 4.3%.

(xix) Long Term Contracts

Long term work in progress is stated at cost plus, where the outcome can be assessed with reasonable certainty, estimated profits attributable to the state of completion, less provision for any known or anticipated losses and progress payments receivable on account. Contract provisions in excess of amounts recoverable are included in provisions for liabilities and charges.

Advance and progress payments are included under creditors to the extent that they exceed the related work in progress. Work in progress is shown within stocks, except where it includes attributable profit when it is shown under debtors as amounts recoverable under contracts.

(xx) Stocks

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.

Statement of Accounting Policies

(xxi) Investments

Current asset investments are stated at the lower of cost and net realisable value, except where they relate to investment properties.

(xxii) Employee Claims

The Authority is liable for claims arising from employees and former employees relating to occurrences during their employment by the British Railways Board. This includes industrial disease, notably asbestosis, deafness, vibration white finger, and personal accident. The industrial disease element of the provision was actuarially valued by external consultants in May 2003. The provision is revalued annually by management and is externally reviewed every five years.

(xxiii) Environmental Liabilities

The Group is exposed to environmental liabilities relating to the former operations of the British Railways Board. Provision for the cost of environmental and other remedial work is made in accordance with FRS 12 where contamination is known to have occurred, except in relation to the valuation of properties, where any environmental issues are taken into account when valuing the property.

(xxiv) Accounting for PTE Loans

The loans to PTEs encapsulated within deeds of assumption are included as a creditor. Grant in Aid received in respect of capital repayments are credited to the Revenue Grant reserve.

(xxv) Financial Instruments

Network Rail uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. Network Rail does not hold or issue derivative financial instruments for speculative purposes.

Network Rail treat forward foreign exchange contracts as a hedge if the instrument is related to actual foreign currency assets or liabilities or to a probable commitment. It must involve the same currency or similar currencies as the hedged item and must also reduce the risk of foreign currency exchange movements on Network Rail's operations. Gains and losses arising on these contracts are deferred and recognised in the Income and Expenditure Account only when the hedged transaction has itself been reflected in the financial statements.

For an interest rate or cross currency swap to be treated as a hedge the instrument must be related to actual assets or liabilities or a probable commitment and must change the nature of the interest rate by converting a fixed rate to a variable rate or vice versa. Interest differentials under these swaps are recognised by adjusting net interest payable over the period of these contracts.

If an instrument ceases to be accounted for as a hedge, for example because the underlying hedge position is eliminated, the instrument is marked to market and any resulting profit and loss recognised at that time.

(xxvi) Property Clawback

Train Operating Companies were entitled to a share of any property gains and income made by Network Rail up to 31 March 2004 (above certain thresholds). The total clawback is allocated between the Income and Expenditure Account and the Statement of Total Recognised Gains and Losses according to the treatment of the excess gains.

1. Strategic Rail Authority

Background

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 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.

Transfers

The Railways Act 2005 gives the Secretary of State 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 now 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 will be used to transfer all of the SRA's rights, assets, liabilities and obligations to successor bodies, which will then enable the SRA to be abolished. The SRA cannot be abolished until all such transfers are complete.

Current Position

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 has been decided by the Department for Transport Board that there will 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 complete by around the end of 2005.

On the 26 June 2005 two transfer schemes were enacted. The first was to transfer all of the SRA's powers, rights and obligations relating to Network Rail to the Department for Transport. A second transfer scheme transferred the SRA's functions regarding rail freight, rolling stock, station access and strategy and planning to the Department for Transport.

Further major transfers of activity to the Department for Transport are planned for July and August. Transfer schemes to the Office of Rail Regulation and Scottish Executive are being developed. Each of these has its own timetable which has been agreed with the relevant body. Transfers will take place at various dates in the second half of the 2005 calendar year.

Impact on the Accounts

From a generic point of view the use of transfer schemes to move the SRA's functions means that all assets and liabilities move to successor organisations at book value as a continuing activity.

In light of this position, as set out in the Statement of Accounting Policies, these accounts have been prepared on a going concern basis. However in a small number of instances it has been appropriate to take account of the cessation of the SRA, through the creation of a provision for restructuring and a review of asset lives. These issues are reflected in the accounting policies. The main points are as follows:

- Tangible fixed assets which will no longer be required after the end of the year have had their remaining useful economic life shortened accordingly, and their depreciation accelerated;
- The expected useful economic life of the Network Rail goodwill assets have been reduced to end on 26 June 2005, and the amortisation accelerated accordingly; and

Notes to the Accounts

- The known costs relating to the cessation of the SRA which have already been committed to, be it legally or constructively, have been provided for within these accounts in the Exceptional Item (see note 7).

In addition, where a transfer scheme has been enacted prior to 30 June 2005, those activities of the SRA which ceased are treated as discontinued operations within these accounts. All other activities are treated as continuing. As a consequence, Network Rail and SRA's functions in relation to freight grants are treated as discontinued operations of the SRA in these accounts. No adjustments have been made to the presentation of these accounts for the transfer of the remaining freight, rolling stock, station access and strategy and planning functions, as these are not material.

The British Transport Police is treated as a discontinued operation by virtue of the creation of the British Transport Police Authority on 1 July 2004, and the SRA Investment Company Limited ceased to be a wholly owned subsidiary on 26 October 2004.

2. Result for the Year

The purpose of this note is to set out how the Authority performed against its Government target set by the Department for Transport, tracking the surplus/deficit on the Income and Expenditure Account to the performance achieved against this target. Network Rail does not form part of Government expenditure targets, and so the Group position reflected in the table below shows a combination of the Authority's performance against its target plus the underlying level of performance within Network Rail after eliminating intragroup items.

	Group		Authority	
	31 March 2005	31 March 2004	31 March 2005	31 March 2004
	£m	£m	£m	£m
Result for the year	(335.8)	373.3	(265.4)	1,035.8
Timing Differences:				
Grant in Aid	255.2	(31.8)	255.2	(31.8)
Provisions	-	(452.0)	-	(985.0)
	255.2	(483.8)	255.2	(1,016.8)
Consolidation/non cash items	(12.8)	19.1	12.8	44.6
FRS 17	0.6	17.1	0.6	17.1
Underlying (deficit)/surplus	(92.8)	(74.3)	3.2	80.7

The Authority made a surplus (£3.2m) taking into account these differences, representing an improvement against the Government departmental expenditure limit set by the Department for Transport of £3,380.6m for the year.

The Group made a deficit (£92.8m) reflecting the underlying loss in Network Rail, offset by the surplus within the Authority.

- The financial statements are prepared on an accruals basis, although the Grant in Aid income recorded by the Authority has been measured in cash accounting terms. This is a requirement of Government accounting, compliance with which is specified through the Accounts Direction. Government accounting guidance does not allow Grant in Aid income to be recognised until it has been voted by Parliament. This causes a mismatch between income and expenditure. Grant income will be paid in future periods as the accrued expenditure falls due.
- The financial statements include changes to existing provisions and the creation of new provisions, all of which are of a non-cash nature.
- The Government target set for 2004/05 did not include the financial consequences of introducing FRS 17. The impact on expenditure in the year has therefore been eliminated in the table above to show the underlying performance against target.

3. Income

(a) Trading Income

Group	Continuing Operations	Discontinued Operations	31 March 2005	31 March 2004
	£m	£m	£m	£m
Track Access Income (Passenger and Freight)	-	1,408.1	1,408.1	1,902.6
Income from TOCs	99.5	-	99.5	158.6
Rents and service charges	23.0	136.9	159.9	189.4
Miscellaneous income	30.1	57.3	87.4	29.3
Passenger income (fare box)	332.2	-	332.2	124.8
Police service charges	-	17.6	17.6	70.8
Total	484.8	1,619.9	2,104.7	2,475.5

Authority	Continuing Operations	Discontinued Operations	31 March 2005	31 March 2004
	£m	£m	£m	£m
Income from TOCs	99.5	-	99.5	158.6
Rents and service charges	27.2	-	27.2	26.9
Miscellaneous income	31.1	-	31.1	10.5
Passenger income (fare box)	332.2	-	332.2	124.8
Police service charges	-	28.2	28.2	107.8
Total	490.0	28.2	518.2	428.6

Track access income, both passenger and freight, is earned by Network Rail Infrastructure Limited, a wholly owned subsidiary of Network Rail Limited, through track access contracts and includes the effects of performance regimes.

Income from TOCs consists of franchise receipts arising from franchise premium arrangements within the franchise agreements, offset by the impact of the Regulator's review as described in note 5.

Passenger income (farebox) includes a full year of income from South Eastern Trains (Limited). The result for 2004 includes the period from 9 November 2003 to 31 March 2004.

Police service charges levied by the British Transport Police for the period from 1 April 2004 to 30 June 2004.

Notes to the Accounts

(b) Government Grant

	Group and Authority	Group and Authority
	31 March 2005	31 March 2004
	£m	£m
Grant received in respect of current period from the Department for Transport	3,215.8	3,383.0
Grant received in respect of current period from Scottish Executive	70.0	141.7
Grant received from Home Office	-	1.5
Grant received from other sources	0.1	0.3
Total Grants Received	3,285.9	3,526.5
Movement in Grant debtor/creditor from Scottish Executive	-	3.6
Deferred income	(0.2)	(2.8)
Grant in respect of payments made to Revenue Grant reserve *	(135.7)	(122.0)
Grant in respect of fixed assets transferred to Capital Grant reserve *	(3.4)	(3.5)
Grant in respect of Joint Venture	9.9	15.7
Grant included within income	3,156.5	3,417.5

The Authority was entitled to draw down £3,715m (net of property receipts) from the Department for Transport, and £135m from the Scottish Executive, amounting to £3,850m in total. In compliance with the Financial Framework between the Authority and the Department for Transport, to the extent that the Authority receives income from property sales, this is repaid to the Department for Transport. As set out in the Statement of Accounting Policies (iii), the Authority recognises the grant paid in respect of expenditure incurred prior to the establishment of the Authority through the Revenue Grant reserve and grant received with respect to the purchase of fixed assets in the Capital Grant reserve.

Grant for income in respect of property sales of £20.8m (2004: £26.6m) is included within the grant received in the current period from the Department for Transport. Receipts from the sale of property are paid to the Department for Transport. This is included within operating expenditure (see note 5). The net effect on the operating result for the year is £nil (2004: £nil).

Grants 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 a service 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 as operator of last resort.

The SRA received grant of £25.3m in relation to freight grants which is now a discontinued business (see note 1).

* see Statement of Accounting Policies note (iii)

Notes to the Accounts

(c) Performance Regimes

The net effect of the performance regimes on the results of the Group for the year was as follows:

	Group		Authority	
	31 March 2005	31 March 2004	31 March 2005	31 March 2004
	£m	£m	£m	£m
Included in income (receipt/(payment))				
Access charge supplements	89.0	48.0	-	-
Net penalty to customers (access agreements)	13.0	(396.0)	-	-
Franchise agreements	6.2	4.5	6.2	4.5
Regulatory review	(16.6)	15.8	(16.6)	15.8
Included in income (note 3 (a))	91.6	(327.7)	(10.4)	20.3
Included in expenditure (receipt/(payment))				
Franchise agreements	28.8	62.4	28.8	62.4
Regulatory review	(202.2)	114.4	(202.2)	114.4
Included in expenditure (note 5)	(173.4)	176.8	(173.4)	176.8

Income includes only performance receipts from those TOCs who pay franchise premia. Performance receipts from all other TOCs are included as a reduction to expenditure.

4. Segmental Analysis

Group	31 March 2005			31 March 2004		
	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	3,188.5	1,972.0	9.9	3,540.7	1,598.7	171.3
South Eastern Trains Limited	362.9	91.5	(28.4)	133.6	25.0	24.9
BRB (Residuary) Limited	53.0	(15.8)	(242.5)	40.3	(19.3)	(266.6)
RDDS Limited	0.3	-	0.1	0.3	-	0.1
DOA Limited	1.4	1.4	-	5.0	5.0	-
	3,606.1	2,049.1	(260.9)	3,719.9	1,609.4	(70.3)
Discontinued operations:						
SRA discontinued operations	25.3	(0.5)	-	-	-	-
Crossrail Joint Venture	-	-	-	-	-	-
British Transport Police	17.6	(11.9)	-	72.0	(62.1)	(111.1)
Network Rail	1,602.3	(1,717.6)	4,254.6	2,085.4	(1,203.8)	2,662.9
Total Group	5,251.3	319.1	3,993.7	5,877.3	343.5	2,481.5

Notes to the Accounts

Authority	31 March 2005			31 March 2004		
	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	3,188.5	(175.8)	(269.6)	3,540.7	1,090.8	(134.4)
South Eastern Trains Limited	363.9	(59.2)	(10.0)	134.8	(43.7)	3.4
BRB (Residuary) Limited	57.2	(11.6)	(240.4)	40.6	(15.7)	(265.3)
RDDS Limited	0.3	-	0.1	0.3	-	0.1
DOA Limited	1.4	1.4	-	5.0	5.0	-
	3,611.3	(245.2)	(519.9)	3,721.4	1,036.4	(396.2)
Discontinued operations:						
SRA discontinued operations	25.3	(10.4)	-	-	-	-
Crossrail Joint Venture	-	-	-	-	-	-
British Transport Police	28.2	(1.7)	-	109.0	(25.1)	(108.3)
Total Authority	3,664.8	(257.3)	(519.9)	3,830.4	1,011.3	(504.5)

Income originates wholly in the United Kingdom.

The above tables represent the amounts included stated after consolidation eliminations. For South Eastern Trains Limited, the company's operating profit turns to the operating deficit in the Authority figures, as the subsidy paid to South Eastern Trains Limited by the SRA is eliminated; the operating profit in the Group figures arises as the track access charges paid by South Eastern Trains Limited to Network Rail are eliminated on Group consolidation. Similarly, the Strategic Rail Authority's operating deficit turns to an operating surplus in the Group consolidation due to the elimination of network grant paid to Network Rail.

The SRA's key activities are described on pages 16 to 49 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. These activities were transferred from Connex South Eastern on 9 November 2003. The results for the year ended 31 March 2004 therefore reflect the results in the period from 9 November 2003 to 31 March 2004.

BRB (Residuary) Limited is a wholly owned subsidiary of the SRA which is responsible for the administration of the residual assets and liabilities from the British Railways Board as set out on page 50 to 53 of this report.

The British Transport Police was a division of the Authority until 30 June 2004. Until this time, it was managed on an autonomous basis and was responsible to the British Transport Police Committee. This has been treated as a discontinued operation, and is described in further detail in note 10.

RDDS Limited is a wholly owned subsidiary of BRB (Residuary) Limited which is the custodian of intellectual property on railway rolling stock drawings. It generates income through granting copies of these drawings.

DOA Limited is a wholly owned subsidiary of the SRA which is responsible for the administration of deeds of assumption with the PTEs.

Network Rail Limited is treated as a quasi subsidiary of the SRA within the financial statements of the SRA (see note 13 (b)). Network Rail Limited is the holding company of Network Rail Infrastructure Limited which operates, maintains and renews the GB rail infrastructure. This is treated as a discontinued business within these accounts as the rights, powers and obligations transferred from the SRA to the Department for Transport on 26 June 2005.

The Crossrail joint venture (Cross London Rail Links Limited) is a joint venture held by SRA Investment Company Limited. SRA Investment Company Limited ceased to be a wholly owned subsidiary of the SRA on 26 October 2004. All shares in SRA Investment Company Limited are now owned by the Department for Transport.

Notes to the Accounts

5. Analysis of Operating Expenditure

Group	Continuing Operations	Discontinued Operations	Total 31 March 2005	Total 31 March 2004
	£m	£m	£m	£m
Support for Passenger Rail Service (England and Wales)	905.9	-	905.9	1,328.3
Support for Passenger Rail Service (Scotland)	71.2	-	71.2	134.1
PTE Grants	119.5	-	119.5	213.7
Freight Track Access Grants	-	23.8	23.8	16.8
Capital Grants	-	11.9	11.9	32.3
Own work capitalised	-	(334.0)	(334.0)	(283.0)
Materials, supplies and services	253.0	1,744.6	1,997.6	2,520.6
Staff costs (note 6 (g))	157.9	1,129.2	1,287.1	817.6
Estate management costs	17.2	-	17.2	43.9
Property sales proceeds – payments to the Department for Transport	20.8	-	20.8	26.6
Amortisation of goodwill	7.9	4.3	12.2	4.5
Depreciation	6.5	834.4	840.9	701.2
Capital Grants amortised	(2.9)	(39.0)	(41.9)	(22.8)
Operating expenditure	1,557.0	3,375.2	4,932.2	5,533.8

Included within staff costs are £3.0m (2004: £nil) relating to exceptional items, included within materials, supplies and services are £50.0m (2004: £105.0m), and included within depreciation are £nil (2004: £52.0m) relating to exceptional items. These exceptional items relate to the functional reorganisation of Network Rail.

Authority	Continuing Operations	Discontinued Operations	Total 31 March 2005	Total 31 March 2004
	£m	£m	£m	£m
Support for Passenger Rail Service (England and Wales)	905.9	-	905.9	1,328.3
Support for Passenger Rail Service (Scotland)	71.2	-	71.2	134.1
PTE Grants	119.5	-	119.5	213.7
Freight Track Access Grants	-	23.8	23.8	16.8
Capital Grants	2,058.0	11.9	2,069.9	495.5
Materials, supplies and services	457.7	5.3	463.0	382.4
Staff costs (note 6 (g))	157.9	24.2	182.1	168.6
Estate management costs	54.0	-	54.0	47.5
Property sales proceeds – payments to the Department for Transport	20.8	-	20.8	26.6
Amortisation of goodwill	7.9	-	7.9	0.2
Depreciation	6.5	0.4	6.9	6.2
Capital Grants amortised	(2.9)	-	(2.9)	(0.8)
Operating expenditure	3,856.5	65.6	3,922.1	2,819.1

Notes to the Accounts

Subsidy payments to TOCs in the year to 31 March 2005 were £977.1m (2004: £1,462.4m), including performance receipts. The Rail Regulator, as part of his Regulatory review in April 2004 made changes to Network Rail Infrastructure's access charges and performance regime. Under the franchise agreements TOCs are held harmless from the impact of the changes arising from the Regulatory review, and as a consequence these changes flow back to, or from, the Authority. The subsidy disclosed includes the impacts of these changes.

Capital grants include £1.7m (2004: £14.4m) in respect of Freight Facilities Grants and £9.9m (2004: £17.5m) in respect of Cross London Rail Links Limited. Capital grant also includes £2,058.0m (2004: £463.2m) of grant to Network Rail.

Materials, supplies and services include the costs of a range of project based work undertaken by the Authority. This includes the sponsorship of infrastructure enhancement schemes of £97.1m (2004: £108.8m), policy and strategy development of £5.4m (2004: £9.7m) and franchise renewal of £14.6m (2004: £22.3m). It also includes £1.4m (2004: £1.4m) of costs incurred by Network Rail on the operation and maintenance of the railway infrastructure.

6. Operating Result

(a) The operating result for the period is stated after charging:

	Group		Authority	
	31 March 2005	31 March 2004	31 March 2005	31 March 2004
	£m	£m	£m	£m
Auditors' remuneration and expenses	1.0	1.4	0.4	0.7
Depreciation on owned assets	840.9	701.2	6.9	6.2
Amortisation of grant	(41.9)	(22.8)	(2.9)	(0.8)
Amortisation of goodwill	4.7	4.5	0.4	0.2
Research and development	3.0	2.0	-	-
Hire of plant and equipment	74.2	0.2	0.2	0.2
Rolling stock lease rentals	81.1	33.7	81.1	33.7
Plant and machinery leases and rentals	21.0	5.0	-	-
Property leases and rentals	31.4	111.6	31.4	33.9
Foreign exchange losses	-	0.1	-	0.1
Exceptional items	60.5	157.0	7.5	-

The National Audit Office (NAO) are the statutory auditors of the Group. The audit of the Authority is undertaken by PricewaterhouseCoopers LLP on behalf of the NAO. Network Rail is audited by Deloitte & Touche LLP. The NAO have acted as principal auditors in undertaking the audit of the Group and subsidiary companies. The fees associated with the Group audit are reflected above as auditors' remuneration and expenses. In the period to 31 March 2005 PricewaterhouseCoopers LLP have undertaken non-audit work amounting to £0.2m (2004: £1.0m), which comprises advice on projects, financial advice and tax advice, and Deloitte & Touche LLP have undertaken non-audit work amounting to £0.2m (2004: £0.3m).

Within these accounts there are two types of exceptional item: costs incurred as a result of organisational change and costs arising from the decision to abolish the SRA. Costs incurred as a result of organisational change are included within the operating expenses and disclosed in the table above as exceptional. The Authority exceptional item is due to the acceleration of goodwill resulting from the planned refranchising of South Eastern Trains in 2005/06. The Group exceptional item includes the costs of functional reorganisation within Network Rail, as described in note 5.

The costs of terminating the operations of the SRA are shown separately and are not included within operating expenses. These are described in note 7.

Notes to the Accounts

(b) Charitable Donations

During the period the Authority made no charitable donations (2004: £nil). In the period to 31 March 2005 Network Rail made charitable donations of £1.0m (2004: £1.5m) to sponsor charitable and community related activities. No political donations were made.

(c) Statement of Losses and Special Payments

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

(d) Operating Lease Commitments

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

Land and Buildings	Group		Authority	
	31 March 2005	31 March 2004	31 March 2005	31 March 2004
	£m	£m	£m	£m
Leases expiring within one year	7.1	2.4	0.1	1.4
Leases expiring between one and five years	12.5	9.7	3.5	4.7
Leases expiring in more than five years	27.9	29.6	13.9	13.6
	47.5	41.7	17.5	19.7

Rolling Stock	Group		Authority	
	31 March 2005	31 March 2004	31 March 2005	31 March 2004
	£m	£m	£m	£m
Leases expiring within one year	0.5	5.2	0.5	5.2
Leases expiring between one and five years	-	-	-	-
Leases expiring in more than five years	91.0	87.3	91.0	87.3
	91.5	92.5	91.5	92.5

Other	Group		Authority	
	31 March 2005	31 March 2004	31 March 2005	31 March 2004
	£m	£m	£m	£m
Leases expiring within one year	6.0	41.0	69.0	127.4
Leases expiring between one and five years	46.2	8.4	0.2	1.4
Leases expiring in more than five years	-	0.1	28.4	28.5
	52.2	49.5	97.6	157.3

Notes to the Accounts

Total	Group		Authority	
	31 March 2005	31 March 2004	31 March 2005	31 March 2004
	£m	£m	£m	£m
Leases expiring within one year	13.6	48.6	69.6	134.0
Leases expiring between one and five years	58.7	18.1	3.7	6.1
Leases expiring in more than five years	118.9	117.0	133.3	129.4
	191.2	183.7	206.6	269.5

(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. The details below do not include the Board of Network Rail whose remuneration is disclosed within the accounts of Network Rail Limited.

Authority	31 March 2005	31 March 2004
	£000	£000
Executive Board Members' Salaries	373	325
Benefits	31	68
Termination payments	366	-
Fees paid to non-Executive Board Members	215	167
	985	560
Payments to pension plans included within the above	21	20

Notes to the Accounts

	Age	Taxable Contract Expiry Dates	Salary £000	Benefits in kind £000	Total £000	Pensions Contributions £000	Termination £000	Total £000
Nick Newton	58		180	-	180	-	-	180
Richard Bowker	38	10 September 2004	193	21	214	10	366	590
Total Executive			373	21	394	10	366	770
Lew Adams	65	31 December 2005	15	-	15	-	-	15
Millie Banerjee	58	30 November 2006	15	-	15	-	-	15
David Begg	48	31 March 2005	15	-	15	-	-	15
Willie Gallagher	46	31 December 2005	15	-	15	-	-	15
David Grayson	49	31 December 2005	15	-	15	-	-	15
Janet Lewis-Jones	54	30 November 2006	15	-	15	-	-	15
Pen Kent	67	31 March 2006	20	-	20	-	-	20
Jeremy Mayhew	46	31 March 2006	20	-	20	-	-	20
David Norgrove	57	30 April 2005	10	-	10	-	-	10
David Quarmby	63	31 March 2006	75	-	75	-	-	75
Total non-Executive			215	-	215	-	-	215
Total Board Members			588	21	609	10	366	985

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 2005, Nick Newton earned a bonus of £11,770. This bonus was paid in April 2005. David Quarmby was appointed as Chairman of the Board on 11 September 2004. David Begg resigned on 31 March 2005 and David Norgrove resigned on 30 April 2005.

Richard Bowker left the SRA as Chairman and Chief Executive on 10 September 2004. The bonus relating to 2004 in the amount of £43,338 was paid in the current year, and included within salary in the table above. Richard Bowker was in receipt of a benefit, which is a taxable allowance £20,690 (2004: £48,000) for pension arrangements. Richard Bowker received a payment of £366,007 during the year for compensation on termination of employment.

The terms and conditions of Board Members' contracts are set by the Secretary of State. All non-Executive Board Members are contracted for 3-4 days each month, except David Quarmby who is contracted for 3 days per week. The terms of appointment have no provision for earlier termination except in specified circumstances. David Norgrove will receive a compensation payment for loss of office, equivalent to three months salary in 2005/06.

Non-Executive Board Members do not receive any pension benefits. The contract expiry dates for Board Members will be amended as the transition process nears its end. Some will leave the Board when the substantive transfer of SRA functions has been completed, whilst others will not leave until the SRA is wound up, which is expected to be the end of the 2006 financial year. Consideration will be given to compensating Board Members for loss of office, resulting from terminating their contracts early as a result of winding up the SRA.

Notes to the Accounts

(f) Staff Numbers

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

	Average number employer	Average number employed
	31 March 2005	31 March 2004
Strategic Rail Authority	412	429
BRB (Residuary) Limited	25	32
Rail Passengers' Council	60	62
South Eastern Trains	3,736	3,498
British Transport Police (Discontinued operation)	2,249	2,242
Total Authority	6,482	6,263
Network Rail	26,433	15,015
Total Group	32,915	21,278

The numbers for British Transport Police represent the average for the three month period to 30 June 2004. The numbers exclude Special Constables, of which there were 180 at 30 June 2004 (173 at 31 March 2004). It also excludes police officers who work in the London Underground ('L' area) of the force. The staff costs and operational costs of these officers are fully met by London Underground Limited and were £6.9m in the period 1 April to 30 June 2004 (2004: £21.4m). The average numbers of officers employed in the 'L' area in the period was 566 (2004: 566).

In addition, there were 11 SRA Board Members (1 Executive, 10 non-Executive) at 31 March 2005 and 11 (1 Executive, 10 non-Executive) at 31 March 2004 and 102 members of the RPC Committees and Council (130 at 31 March 2004).

In addition to the 412 average staff shown above, there were an average of 37 (2004: 57) temporary staff covering vacant posts within the SRA.

(g) Total Staff Costs

	Group		Authority	
	31 March 2005	31 March 2004	31 March 2005	31 March 2004
	£m	£m	£m	£m
Salaries and wages	1,078.3	663.8	145.3	131.8
Employer's liability for social security costs	94.1	59.6	12.1	11.6
Pensions				
Employer's liability for current service pension costs	115.2	92.9	25.2	23.9
Employer's liability for past service pension costs	-	0.3	-	0.3
Settlement Gain	(1.4)	-	(1.4)	-
Other costs	0.9	1.0	0.9	1.0
	1,287.1	817.6	182.1	168.6

The cost of temporary and contract staff for the Authority was £4.7m (2004: £9.5m).

The Settlement Gain relates to the transfer of BTP members out of the BR Shared Cost Section of the Railway Pension Scheme on 30 June 2004 (see note 29).

(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 Pensions Contributions £000	Total £000
Nicola Shaw – MD Operations	35	8 September 2003	138	-	138	157
Jim Steer – MD Strategic Planning	56	7 May 2002	162	-	162	178
Doug Sutherland – MD Finance and Commercial	52	1 July 2002	156	-	156	173
Total			456	-	456	508

Nicola Shaw resigned on 2 May 2005. Nick Newton was appointed as Chief Executive on 11 September 2004, and his pay for the period 1 April 2004 to 10 September 2004 has been included in Board Members' salaries in (e) above. The MD Strategic Planning, Jim Steer, has been seconded from Steer Davies Gleave Limited for 3 years commencing from 7 May 2002 (see note 28). His contract has been extended to 8 July 2005. All senior managers with the exception of Jim Steer are employed by the Authority.

Nick Newton is non-Executive Chairman of South Eastern Trains Limited. 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 2005 and related lump sum £000	Cash equivalent transfer value at 31 March 2005 £000	Cash equivalent transfer value at 31 March 2004 £000	Real increase in cash equivalent transfer value £000
Doug Sutherland	0-5 plus 0 lump sum	0-5 plus 0 lump sum	61	37	22
Nicola Shaw	0-5 plus 0 lump sum	7-10 plus 0 lump sum	61	44	14

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 2005 is £1,049,000.

Notes to the Accounts

7. Provision for Loss on Termination of Operations

Group	Continuing Operations	Discontinued Operations	Total 31 March 2005	Total 31 March 2004
	£m	£m	£m	£m
Depreciation	5.1	-	5.1	-
Grant amortisation	(5.1)	-	(5.1)	-
Goodwill amortisation	-	95.8	95.8	-
Staff costs	13.9	-	13.9	-
Total	13.9	95.8	109.7	-

Authority	Continuing Operations	Discontinued Operations	Total 31 March 2005	Total 31 March 2004
	£m	£m	£m	£m
Depreciation	5.1	-	5.1	-
Grant amortisation	(5.1)	-	(5.1)	-
Staff costs	13.9	-	13.9	-
Total	13.9	-	13.9	-

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 will be made redundant. Staff costs include all costs related to these redundancies.

The values of fixed assets have been written down to their remaining values in use. The values of capital grants have also been written down to match the treatment of the related asset.

Goodwill relating to Network Rail has been written down to reflect its value given the SRA's powers, rights and obligations relating to Network Rail transferred to the Department for Transport on 26 June 2005. The remaining goodwill will be amortised over its useful economic life.

8. Net Interest

	Group		Authority	
	31 March 2005	31 March 2004	31 March 2005	31 March 2004
	£m	£m	£m	£m
Interest receivable on				
Short term deposits	4.7	2.6	4.7	2.6
Leases	3.1	2.7	3.1	2.7
Other	20.2	21.0	0.2	2.0
Expected return on pension scheme assets	128.3	107.2	32.3	44.5
Interest receivable	156.3	133.5	40.3	51.8
Interest payable on				
Bank loans and overdrafts	110.0	320.0	-	-
Commercial Paper	180.0	97.0	-	-
Debt issued under Medium Term Note Programme	349.0	3.0	-	-
Debt issued under Debt Issuance Programme	68.0	-	-	-
Loans	30.6	25.3	4.6	7.3
Leases	6.4	4.3	6.4	4.3
Interest on pension scheme liabilities	122.6	114.7	26.6	35.3
Total interest payable	866.6	564.3	37.6	46.9
Unwinding of discount on provisions and long term creditors	0.8	2.2	0.8	2.2
Interest capitalised	(70.0)	(72.0)	-	-
Interest payable and similar charges	797.4	494.5	38.4	49.1
Net interest (payable)/receivable	(641.1)	(361.0)	1.9	2.7

Notes to the Accounts

9. Taxation

The Authority and Network Rail are not part of the same tax group. 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.

The tax credit for the Group is £23.0m (2004: £329.0m).

	Group		Authority	
	31 March 2005	31 March 2004	31 March 2005	31 March 2004
	£m	£m	£m	£m
Analysis of credit in year				
Current UK Corporation Tax at 30%	-	-	-	-
Over provision in respect of prior years	-	-	-	-
Total current tax credit	-	-	-	-
Deferred tax at 30%				
Credit for timing differences arising in the year – other	(22.0)	231.0	-	-
Credit in respect of prior years	45.0	98.0	-	-
Total deferred tax	23.0	329.0	-	-
Tax credit on loss on ordinary activities	23.0	329.0	-	-

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:

	Group		Authority	
	2005	2004	2005	2004
	£m	£m	£m	£m
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	(36.7)	(300.4)	(0.7)	4.6
Accelerated capital allowances	(288.9)	(249.1)	(0.9)	(0.1)
Tax losses brought forward utilised in year	(1.3)	(2.6)	(1.3)	(2.6)
Tax losses carried forward	252.0	493.7	-	0.7
Tax losses carried back	-	7.0	-	-
Short term timing differences – goodwill amortisation	-	-	-	-
Other short term timing differences	13.1	(11.7)	1.1	0.3
Adjustments in respect of prior years	0.1	-	0.1	-
Permanent differences	61.7	63.1	1.7	(2.9)
Total current tax credit	-	-	-	-

The surpluses and losses used to calculate the tax charge are the reported losses of Network Rail and the losses of the Authority (excluding non-taxable statutory activities) before consolidation adjustments, as Network Rail and the Authority are in separate tax groups.

10. British Transport Police

Legislation was introduced into Parliament to enable the creation of a separate Police Authority into which the British Transport Police was transferred on 1 July 2004. This Authority is accountable to the Department for Transport and operates on a similar basis to previously. The new body was created to enhance the status and public accountability of the British Transport Police and bring it more closely in line with Home Office police forces. It took over from the Strategic Rail Authority its responsibilities as employer of the Force and replaced the SRA-appointed BTP Committee, which was previously responsible for overseeing the BTP.

The financial results of the Authority and Group incorporate the results of the British Transport Police from 1 April 2004 to 30 June 2004. These are disclosed separately in the segmental analysis (see note 4).

In accordance with the Statement of Accounting Policies BTP has been transferred out of the Group and Authority accounts through reserves with all assets and liabilities transferring at net book value. Included within the transfers were pension liabilities of £103.8m, fixed assets of £14.7m and net current liabilities of £12.5m. In total, net liabilities of £105.5m were transferred.

11. Tangible Assets

Group	Land and Buildings	Plant and Equipment	IT Equipment	Railway Network	Total
Costs	£m	£m	£m	£m	£m
Gross book values at 1 April 2004	57.5	41.8	26.0	19,412.0	19,537.3
Additions	3.6	6.7	2.5	3,598.0	3,610.8
Revaluations	4.1	-	-	1,749.0	1,753.1
Assets transferred	(9.9)	(1.1)	(23.3)	-	(34.3)
Disposals	(0.5)	(2.8)	-	-	(3.3)
Gross book values at 31 March 2005	54.8	44.6	5.2	24,759.0	24,863.6
Depreciation					
Accumulated depreciation at 1 April 2004	11.1	12.6	16.3	914.0	954.0
Disposals	(0.1)	(2.0)	-	-	(2.1)
Assets transferred	(3.4)	(1.1)	(15.1)	-	(19.6)
Depreciation provided during period	1.3	5.2	0.4	834.0	840.9
Accelerated depreciation provided	1.5	-	3.6	-	5.1
Accumulated depreciation at 31 March 2005	10.4	14.7	5.2	1,748.0	1,778.3
Net book values at 31 March 2005	44.4	29.9	-	23,011.0	23,085.3
Net book values at 1 April 2004	46.4	29.2	9.7	18,498.0	18,583.3

Notes to the Accounts

Authority	Land and Buildings	Plant and Equipment	IT Equipment	Railway Network	Total
Costs	£m	£m	£m	£m	£m
Gross book values at 1 April 2004	57.5	41.8	26.0	-	125.3
Additions	3.6	6.7	2.5	-	12.8
Revaluations	4.1	-	-	-	4.1
Assets transferred	(9.9)	(1.1)	(23.3)	-	(34.3)
Disposals	(0.5)	(2.8)	-	-	(3.3)
Gross book values at 31 March 2005	54.8	44.6	5.2	-	104.6
Depreciation					
Accumulated depreciation at 1 April 2004	11.1	12.6	16.3	-	40.0
Disposals	(0.1)	(2.0)	-	-	(2.1)
Assets transferred	(3.4)	(1.1)	(15.1)	-	(19.6)
Depreciation provided during period	1.3	5.2	0.4	-	6.9
Accelerated depreciation provided	1.5	-	3.6	-	5.1
Accumulated depreciation at 31 March 2005	10.4	14.7	5.2	-	30.3
Net book values at 31 March 2005	44.4	29.9	-	-	74.3
Net book values at 1 April 2004	46.4	29.2	9.7	-	85.3

In accordance with accounting standards Ove Arup and Partners have carried out an interim review in the current year of Network Rail's engineering assessment of the replacement cost, depreciated replacement cost and useful economic lives of the railway network assets. This interim review updated the full review carried out in the year ended 31 March 2003. Ove Arup and Partners have confirmed in writing that the basis upon which the assessment has been prepared continues to be appropriate and there have been no material changes to the valuations and estimates derived in the year ended 31 March 2003. A full review of the valuation and asset lives will be prepared and externally verified at least every five years.

The depreciation charge for any year is calculated using the average fixed asset net book value for the period and the estimated weighted average useful economic life of the railway network. The estimated remaining weighted average useful economic life of the network is currently 25 years.

The railway network includes leasehold and freehold properties held by Network Rail.

The depreciated replacement cost of the railway network exceeds its value in use and has therefore been impaired down to its value in use (which primarily comprises the discounted future cash flows expected to arise from the Regulatory Asset Base).

The unimpaired depreciated replacement cost of the railway network (after excluding the replacement cost of embankments, cuttings and tunnels) is estimated at £63bn.

As at 31 March 2005 and 31 March 2004, the comparable net book value of the railway network according to the historic cost convention cannot be accurately determined as the information is not available.

Notes to the Accounts

Included within land and buildings are amounts of:

	Group		Authority	
	31 March 2005		31 March 2005	
	Gross book value	Net book value	Gross book value	Net book value
	£m	£m	£m	£m
Leasehold properties	2.7	0.2	2.7	0.2
Freehold properties	50.5	42.6	50.5	42.6
Short leasehold improvements	1.6	1.6	1.6	1.6
Total	54.8	44.4	54.8	44.4

Properties were valued on 31 March 2005 by external qualified chartered surveyors, principally Sanderson Weatherall, on an open market existing use basis in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation manual.

The net book value of tangible fixed assets within the Authority includes an amount of £55.7m (2004: £53.3m) in respect of assets held under finance leases and hire purchase contracts. Depreciation charged in the year on assets held under finance leases was £1.0m (2004: £1.3m).

12. Intangible Fixed Assets

(a) Concessions and Software

	Group	Authority
	£m	£m
Cost		
At 1 April 2004	84.2	1.2
Additions	-	-
At 31 March 2005	84.2	1.2
Amortisation		
At 1 April 2004	2.0	-
Charge for the year	3.1	1.1
At 31 March 2005	5.1	1.1
Net book value		
At 31 March 2005	79.1	0.1
At 1 April 2004	82.2	1.2

Notes to the Accounts

The Authority has spent £0.0m (2004: £1.2m) during the year on developing software for its own use.

(b) Goodwill

	Group £m	Authority £m
Cost		
At 1 April 2004	116.0	8.5
Additions	-	-
At 31 March 2005	116.0	8.5
Amortisation		
At 1 April 2004	6.6	0.2
Charge for the year	4.7	0.4
Accelerated charge	103.3	7.5
At 31 March 2005	114.6	8.1
Net book value		
At 31 March 2005	1.4	0.4
At 31 March 2004	109.4	8.3

As set out in the Statement of Accounting policies, revisions have been made to the treatment of goodwill given the transfer of the rights, powers and obligations relating to Network Rail on 26 June 2005, and the planned refranchising of South Eastern Trains Limited in 2005/06. As a consequence the amortisation of goodwill has been accelerated.

South Eastern Trains Limited

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. SET is a wholly owned subsidiary of South Eastern Trains (Holdings) Limited (SETH), which is itself wholly owned by the SRA. The following table sets out the identifiable assets and liabilities acquired and their fair value:

Notes to the Accounts

	Book Value	Fair Value
	£m	£m
Fixed assets	30.3	38.3
Stocks	2.9	2.9
Debtors	54.5	54.5
Current asset investments	1.9	1.9
Total assets	89.6	97.6
Creditors – amounts falling due within one year	(83.3)	(84.2)
Creditors – amounts falling due after more than one year	-	(7.1)
Provisions	(6.3)	(14.8)
Total liabilities	(89.6)	(106.1)
Net liabilities	-	(8.5)
Satisfied by:		
Cash consideration		-
Goodwill		8.5

A fair value exercise was carried out by the SRA of SET's net assets. The fair value adjustments relate to the recategorisation of operating leases to finance leases and the inclusion of the valuation of the pension scheme deficit. The fair value of the assets and liabilities is lower than book value, primarily due to the inclusion of pension scheme balances.

Summary of Intangible Fixed Assets	Group		Authority	
	31 March 2005	31 March 2004	31 March 2005	31 March 2004
	£m	£m	£m	£m
Concessions and other assets	79.0	81.0	-	-
Software	0.1	1.2	0.1	1.2
Goodwill	1.4	109.4	0.4	8.3
Total net book value at 31 March 2005	80.5	191.6	0.5	9.5

Notes to the Accounts

13. Investments, Quasi Subsidiaries, Acquisitions and Disposals

(a) Subsidiaries and Joint Ventures

All the subsidiaries have an accounting year end of 31 March 2005.

As at 31 March 2005, the SRA has the following subsidiaries:

Company Name	Activity	Issued Share Capital	Percentage Controlled by SRA
BRB (Residuary) Limited	Custodian of all property, rights, and liabilities previously belonging to British Railways Board	1	100
Rail Documentation and Drawing Services Limited	Custodian of rolling stock drawings and documents	1	100
South Eastern Trains (Holdings) Limited	Holding Company	1	100
South Eastern Trains Limited	Train Operating Company	2	100
DOA Limited	Administers Deeds of Assumption	1	100
Rail Property Limited	Dormant	1	100
Cross Channel Catering Limited	Dormant	100	100
British Rail Limited	Dormant	1	100
British Railways Limited	Dormant	1	100
British Railways Board Limited	Dormant	1	100
Crossrail Limited	Dormant	2	100
Thameslink 2000 Limited	Dormant	2	100
Strategic Rail Authority Company Limited	Dormant	100	100
SRA Transport Limited	Dormant	5,000	100
RailDirect Limited	Dormant	1	100
British Rail Engineering Limited	Dormant	1,000,000	100
British Transport Hotels Limited	Dormant	9,582,537	100
Britravel Nominees Limited	Not trading	100	100
RFD (Channel Tunnel) Limited	Dormant	10,100	100
The Pullman Car Company Limited	Dormant	7,044,000	100
OQS Rail Limited	Dormant	1	100
Goldings Rail Limited	Dormant	1	100
Hays Rail Limited	Dormant	1	100
Abbey Rail Limited	Dormant	1	100
Broadway Rail Limited	Dormant	1	100
Orchard Rail Limited	Dormant	1	100
Strutton Rail Limited	Dormant	1	100
Westminster Rail Limited	Dormant	1	100

All of the shares held in subsidiaries are Ordinary shares.

Britravel Nominees Limited was in receipt of a dividend of £10,144 in the year. Other than this the company has not traded, and as per the note below an application has been made for the company to be struck off.

The net assets and trading result of the year for active subsidiaries is shown in note 4.

Network Rail Limited is a quasi subsidiary of the SRA (see note (b) below).

Applications have been made to Companies House to strike off various subsidiary companies. Thameslink 2000 Limited, Strategic Rail Authority Company Limited, and SRA Transport Limited were struck off on 7 June 2005. Applications have been submitted for Rail Property Limited and Britravel Nominees Limited.

Cross London Rail Links Limited

On 31 July 2001, the SRA Investment Company, together with Transport Trading Limited each acquired 50% of the issued share capital of Cross London Rail Links Limited. This is a joint venture for the purpose of undertaking development and design work for two new train routes across London. The Company has issued share capital of 100 shares. The Company operates as a deadlocked joint venture under an independent Chairman. On 25 October 2004, the Authority disposed of one share in SRA Investment Company Limited, and on 26 November 2004 the Authority disposed of its remaining 99 shares in SRA Investment Company Limited. All shares are now owned by the Department for Transport. Therefore, from 25 October 2004, Cross London Rail Links Limited was no longer a joint venture of the Authority, as it no longer had effective control of the 50% share in the joint venture.

As stated in the Statement of Accounting Policies (v) the Group has drawn up its accounts in accordance with the requirements of FRS 9, using the gross equity method of joint venture accounting from 1 April 2004 to 25 October 2005.

(b) Network Rail

The SRA entered into a series of agreements with the Network Rail Group (Network Rail), being Network Rail Limited, which is a company without shareholders, limited by guarantee, and its subsidiaries on 3 October 2002. These agreements were entered into in connection with the acquisition of Railtrack plc by a subsidiary of Network Rail and cover the financial support provided by the SRA to Network Rail and its subsidiaries together with their output and enhancement obligations. The agreements operate alongside the regulatory and contractual arrangements that existed between the SRA and Railtrack plc and that have now been taken over by Network Rail. These agreements together with any subsequent additions, amendments and deletions were transferred to the Department for Transport under a transfer scheme on 26 June 2005 (see note 1).

Network Rail's primary aim is to provide a safe, reliable and efficient rail infrastructure. The main focus is on the operation, maintenance and renewal of Britain's railway, and facilitating enhancements. Whilst operating on commercial lines Network Rail is a not for dividend company and all profits made will be reinvested in the industry.

Network Rail is run by a plc-style Board, which adopts best practice private sector corporate governance policies. The Board is accountable to the members of the company, who fulfil a similar role to shareholders in a plc. Members have been chosen from two main sources: industry, being representatives of rail licence holders and preferred bidders for franchises, and the public. The SRA had an automatic right of membership. Non-industry members form the majority, and have been chosen from a wide range of stakeholder groups by an independent Membership Selection Panel. Strategy, financing and decision-making are the sole preserve of the Board.

The powers, rights and obligations in relation to Network Rail included:

- The right to have a non-Executive member on the Board;
- The right to appoint a Special Member;
- The right for the non-Executive member to sit on the Nominations Committee, which appoints directors to the Board, and the Remuneration Committee;
- The right to remove the Chairman and Chief Executive of Network Rail in certain serious circumstances;
- The receipt of information from Network Rail;
- The provision of grant support payments;

Notes to the Accounts

- Credit facilities together with related agreements, which in specified circumstances allow providers of finance to the Network Rail Group to recover amounts lent by them directly from the SRA. This originally enabled third party borrowing to be raised to purchase shares in Railtrack plc, refinance debt existing at the time of acquisition, and also provides working capital and covers legacy costs, being the ongoing costs of Network Rail Infrastructure Limited (formerly Railtrack plc) and committed enhancement projects over and above the level allowed for in the Regulator's final conclusions dated October 2000, or subsequent contracts; and
- A standby credit facility of £4bn to act as a long term contingency buffer.

As stated above these all transferred to the Department for Transport on 26 June 2005.

Given the SRA's powers, rights as summarised above, together with the financial support package that the SRA provides to Network Rail, in line with 'FRS 5: Reporting the Substance of Transactions', over this period Network Rail has been treated as a quasi subsidiary of the SRA within the consolidated financial statements of the SRA. The consolidation of Network Rail into the SRA's accounts does not arise from the legal form, or from ownership of shares, but it occurs due to the requirements of financial reporting standards. The transactions and results of Network Rail have been consolidated into the SRA's accounts from 3 October 2002.

The Network Rail Board and management team manage Network Rail. The SRA does not have operational control over its activities as described above. Nick Newton is the Accounting Officer for the SRA which carries a number of responsibilities as defined in the Foreword to the Accounts, but they do not include Network Rail. Network Rail as a private sector company does not have an Accounting Officer.

The accounts of Network Rail Limited and Network Rail Infrastructure Limited are available on the Network Rail website (www.networkrail.co.uk).

Summary Financial Statements for Network Rail

Summary financial statements for Network Rail Limited for the period to 31 March 2005 before consolidation adjustments, and in accordance with Network Rail's accounting policies are set out below.

Profit and Loss Account	Year ended	Year ended
	31 March 2005	31 March 2004
	£m	£m
Turnover	3,800.0	2,606.0
Operating profit/(loss)	455.0	(710.0)
Interest	(643.0)	(347.0)
Profit on the sale of properties	69.0	40.0
Loss on ordinary activities before taxation	(119.0)	(1,017.0)
Tax credit on loss on ordinary activities	23.0	329.0
Loss for the period	(96.0)	(688.0)

Statement of Total Recognised Gains and Losses	Year ended	Year ended
	31 March 2005	31 March 2004
	£m	£m
Loss for the period	(96.0)	(688.0)
Revaluation of the railway network	1,749.0	2,571.0
Revaluation of investment properties	10.0	7.0
Total recognised gains and losses for the period	1,663.0	1,890.0

Notes to the Accounts

Note of Historical Cost Profits and Losses	Year ended	Year ended
	31 March 2005	31 March 2004
	£m	£m
Loss on ordinary activities before taxation	(119.0)	(1,017.0)
Reduction in profit on sale of properties on an historical cost basis	(3.0)	-
Realisation of property revaluation gains of previous years	5.0	-
Historical cost loss on ordinary activities before taxation	(117.0)	(1,017.0)
Historical cost loss for the period accumulated after taxation	(94.0)	(688.0)

The additional depreciation charge on an historical cost basis cannot be accurately determined as the information is not available.

Balance Sheet	31 March 2005		31 March 2004	
	£m	£m	£m	£m
Tangible fixed assets	23,094.0		18,576.0	
Intangible fixed assets	79.0		81.0	
Negative goodwill	(383.0)		(400.0)	
Total fixed assets		22,790.0		18,257.0
Stock	62.0		77.0	
Debtors	594.0		687.0	
Current asset investments	192.0		147.0	
Cash at bank and in hand	2.0		8.0	
Total current assets		850.0		919.0
Creditors: Amounts falling due within one year		(7,223.0)		(7,365.0)
Net current liabilities		(6,373.0)		(6,446.0)
Total assets less current liabilities		16,417.0		11,811.0
Creditors: Amounts falling due after more than one year		(11,874.0)		(8,863.0)
Provisions		(408.0)		(476.0)
Net Assets		4,135.0		2,472.0
Revaluation reserve		5,030.0		3,276.0
Profit and loss account		(895.0)		(804.0)
Capital and reserves		4,135.0		2,472.0

Notes to the Accounts

Cashflow Statement	Year ended 31 March 2005		Year ended 31 March 2004	
	£m	£m	£m	£m
Net cash inflow from operating activities		1,287.0		1,078.0
Net interest paid	(483.0)		(421.0)	
Net cash outflow from returns on investments and servicing of finance		(483.0)		(421.0)
Capital expenditure and financial investment				
Purchases of tangible fixed assets	(3,528.0)		(3,844.0)	
Sale of assets	74.0		40.0	
Capital receipts from leasing debtors	3.0		7.0	
Capital grants received	93.0		41.0	
Net cash outflow from capital expenditure and financial investment		(3,358.0)		(3,756.0)
(Purchase)/sale of short term investments		(45.0)		31.0
Financing				
New loans	4,055.0		10,351.0	
Capital element of finance leases repaid	(31.0)		-	
Repayment of loans and leases	(1,431.0)		(7,283.0)	
Net cash inflow from financing		2,593.0		3,068.0
Decrease in cash in the year		(6.0)		-

(c) 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 2005 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 2005	Period ended 31 March 2004
	£m	£m
Turnover	431.3	194.2
Operating profit	0.3	0.1
Interest	1.6	0.1
Profit on ordinary activities before taxation	1.9	0.2
Taxation	-	0.1
Profit for the period	1.9	0.3

Statement of Total Recognised Gains and Losses		
	Year ended 31 March 2005	Period ended 31 March 2004
	£m	£m
Profit for the period	1.9	0.3
Actuarial deficit on pension	-	-
Related deferred tax	-	-
Total recognised gains and losses for the period	1.9	0.3

Balance Sheet				
	31 March 2005		31 March 2004	
	£m	£m	£m	£m
Tangible fixed assets	42.4		37.8	
Intangible fixed assets	(2.4)		(4.4)	
Total fixed assets		40.0		33.4
Stock	2.2		3.0	
Debtors	31.5		47.7	
Cash at bank and in hand	63.5		31.8	
Total current assets	97.2		82.5	
Creditors: Amounts falling due within one year	(117.1)		(100.8)	
Net current liabilities		(19.9)		(18.3)
Total assets less current liabilities		20.1		15.1
Creditors: Amounts falling due after more than one year	(5.8)		(6.5)	
Provisions	(12.1)		(8.3)	
Net assets		2.2		0.3
Profit and loss account		2.2		0.3
Capital and reserves		2.2		0.3

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

14. Stocks

	Group		Authority	
	2005	2004	2005	2004
	£m	£m	£m	£m
Raw materials and consumables	36.8	50.8	2.0	3.0
Properties in the course of development	-	1.0	-	-
Long term contract balances:				
Net cost	29.0	35.0	-	-
Applicable payments on account	(2.0)	(7.0)	-	-
	63.8	79.8	2.0	3.0

15. Debtors

	Group		Authority	
	2005	2004	2005	2004
	£m	£m	£m	£m
Trade debtors	229.1	266.1	31.9	59.5
Capital grants receivable	24.0	3.0	-	-
Leasing debtors	-	0.2	-	0.2
Other debtors	130.9	242.6	7.9	11.6
Prepayments and accrued income	201.2	320.6	105.6	198.6
Net investment in finance leases	3.0	3.0	-	-
Debtors falling due within one year	588.2	835.5	145.4	269.9
Debtors falling due after more than one year	71.9	75.8	49.1	50.0
	660.1	911.3	194.5	319.9

There are amounts due to the Authority from the franchisee in Scotland of £nil (2004: £2.8m) in relation to the franchise agreement.

Debtors of the Authority and the Group include prepayments and accrued income of £34.3m (2004: £35.2m) due from TOCs in respect of clause 18.1 of the franchise agreement.

Aggregate rentals receivable in respect of finance leases for the Authority were £49.1m which is all due after more than one year. This amount is owed by Freightliner (1995) Limited. £48.4m of the debt falls due between 2011 and 2016. Since its privatisation in 1996 Freightliner (1995) Limited has required revenue funding support from Government. No provision has been made against this debt.

16. Current Asset Investments

	Group		Authority	
	2005	2004	2005	2004
	£m	£m	£m	£m
Short term money market deposits	191.6	146.6	-	-
	191.6	146.6	-	-

17. Non-Operational Property

BRB (Residuary) Limited holds a portfolio of land which was not required for railway operational purposes and accordingly was retained by British Railways Board during the privatisation process. This land was transferred to BRB (Residuary) Limited under a transfer scheme in accordance with the Railways Act 1993. It is the intention to dispose of this property where it has no future railway operational purpose.

The Authority has put in place a process to consider the likely usefulness of land for railway purposes before releasing it for sale. As at 31 March 2005 167 properties (2004: 128 properties) with a value of £55.6m (2004: £58.6m) at current market prices have been released for sale. This property is held as a current asset pending sale.

All other land is held as investment property pending a decision about its future use.

In addition Network Rail has investment properties which comprise offices and other non-specialist properties that are not occupied by Network Rail where the interest is completely separable from the railway infrastructure. These are held for their investment potential and are all included as investment properties. Investment properties were valued on 31 March 2005 by external qualified chartered surveyors, C B Richard Ellis, on an open market existing use basis in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation manual. The remaining properties were valued by the Director of Sales, Railway Estates, a Chartered Surveyor.

Movement on the Portfolio During the Period	Group		Authority	
	31 March 2005	31 March 2004	31 March 2005	31 March 2004
	£m	£m	£m	£m
Opening value 1 April 2004	198.1	203.2	120.1	132.5
Additions	-	-	-	-
Revaluation	26.5	14.8	16.5	7.5
Adjustment (see below)	(0.3)	-	(0.3)	-
Disposals	(15.0)	(19.9)	(10.0)	(19.9)
Closing value 31 March 2005	209.3	198.1	126.3	120.1

Notes to the Accounts

	Investment Property £m	Current Asset £m	Total £m
Opening value 1 April 2004	61.5	58.6	120.1
Revaluation	4.7	11.8	16.5
Transfer from investment property	(0.7)	0.7	-
Adjustment (see below)	5.2	(5.5)	(0.3)
Disposals	-	(10.0)	(10.0)
Authority – closing balance 31 March 2005	70.7	55.6	126.3
Opening value 1 April 2004	139.5	58.6	198.1
Revaluation	14.7	11.8	26.5
Transfer from investment property	(0.7)	0.7	-
Adjustment (see below)	5.2	(5.5)	(0.3)
Disposals	(5.0)	(10.0)	(15.0)
Group – closing balance 31 March 2005	153.7	55.6	209.3

A full review of non-operational property was undertaken during the year. As a result there have been some minor adjustments to property values and a recategorisation of property between investment and current. Given the historic nature of the property portfolio adjustments may be required in future years. Where these are not material in nature these will be treated as an adjustment in the year in which they arise.

18. Creditors

(a) Creditors falling due within one year

	Group		Authority	
	2005 £m	2004 £m	2005 £m	2004 £m
Bank loans and overdrafts	167.0	1,290.0	-	-
Debt issued under Medium Term Note Programme	999.0	-	-	-
Commercial Paper (less unamortised discount of £33m)	3,961.0	3,926.0	-	-
Receipts in advance	86.6	89.3	46.6	42.3
Trade creditors	595.8	635.5	58.4	51.3
Accruals and deferred income	1,246.2	1,410.6	153.0	149.5
Payroll, taxation and social security	49.2	46.7	11.8	19.3
Interest accrued on capital liabilities	85.7	44.5	0.7	1.5
Leasing liabilities	8.5	4.8	8.5	4.8
PTE loans	5.9	89.0	5.9	89.0
Other	128.7	110.3	10.0	9.5
	7,333.6	7,646.7	294.9	367.2

Notes to the Accounts

There are amounts due to the Scottish Executive of £nil (2004: £nil). There are no amounts due to the franchisee in Scotland (2004: £nil).

Accruals and deferred income within the Authority and the Group include amounts due to TOCs in respect of clause 18.1 (see note 5), rents received in advance and accruals for valuations of work undertaken on infrastructure projects.

(b) Creditors Falling Due After More Than One Year

	Group		Authority	
	2005	2004	2005	2004
	£m	£m	£m	£m
Bank loan	1,378.0	1,408.0	-	-
Debt issued under Medium Term Note Programme (less unamortised discount)	5,709.0	6,425.0	-	-
Debt issued under Debt Issuance Programme (less unamortised discount)	3,647.0	-	-	-
PTE loans	63.0	68.9	63.0	68.9
Leasing liabilities	67.5	108.7	57.5	67.7
Other accruals and deferred income	0.3	5.0	0.3	-
Capital grants deferred income	1,145.6	1,072.9	-	-
	12,010.4	9,088.5	120.8	136.6

(c) Repayment of Loans and Leasing Liabilities Included Above

	Group		Authority	
	31 March 2005		31 March 2005	
	Loans	Leases	Loans	Leases
	£m	£m	£m	£m
Due for repayment in:				
One year or less	5,132.9	8.5	5.9	8.5
Between one and two years	883.9	2.1	5.9	2.1
Between two and five years	5,747.6	6.1	17.6	5.1
In five years or more	4,165.5	59.3	39.5	50.3
	15,929.9	76.0	68.9	66.0

Deeds of Assumption with PTEs are repayable by instalments over a maximum of 33 years from date of inception, at variable interest rates based each year on the rate for loans from the National Loans Fund with one year maturity. The interest rate for 2004/05 was 3.95% (2003/04 4.0%). All PTE deeds of assumption except those held by Strathclyde PTE were repaid on 1 April 2004.

Notes to the Accounts

(d) Network Rail Debt Due for Repayment in More Than One Year

	Group	
	31 March 2005	31 March 2004
	£m	£m
Bank loans are analysed as follows:		
HSBC Bank due 2017 repayable by instalments	211.0	217.0
Barclays Bank due 2017 repayable by instalments	59.0	60.0
Royal Bank of Scotland due 2017 repayable by instalments	67.0	70.0
European Investment Bank due 2007	100.0	100.0
6.42% European Investment Bank due 2009	103.0	104.0
6.42% European Investment Bank due 2011	105.0	106.0
5.77% European Investment Bank due 2012	311.0	313.0
5.57% European Investment Bank due 2013	207.0	208.0
Kreditanstalt für Wiederaufbau due 2013 repayable by instalments	115.0	130.0
Kreditanstalt für Wiederaufbau due 2015 repayable by instalments	100.0	100.0
	1,378.0	1,408.0

	Group	
	31 March 2005	31 March 2004
	£m	£m
Debt issued under the Medium Term Note Programme is analysed as follows:		
Amounts falling due after more than one year:		
4 ⁷ / ₈ % sterling Medium Term Note due 2009 (less unamortised discount)	2,239.0	2,235.0
2 ⁹ / ₈ % US dollar Medium Term Note due 2008 (less unamortised discount)	686.0	685.0
3 ¹ / ₈ % euro Medium Term Note due 2009 (less unamortised discount)	1,670.0	1,668.0
Floating rate sterling Medium Term Note due 2006 (less unamortised discount)	-	999.0
Floating rate euro Medium Term Note due 2007 (less unamortised discount)	838.0	838.0
2 ⁵ / ₈ % US dollar Medium Term Note due 2008	276.0	-
	5,709.0	6,425.0

	Group	
	31 March 2005	31 March 2004
	£m	£m
Amounts falling due within one year:		
Floating rate sterling Medium Term Note due 2006 (less unamortised discount)	999.0	-
	999.0	-

Notes to the Accounts

	Group	
	31 March 2005	31 March 2004
Debt issued under Debt Issuance Programme is analysed as follows:	£m	£m
4.75% sterling bond due 2035 (less unamortised discount and fees)	1,218.0	-
4.875% sterling bond due 2015 (less unamortised discount and fees)	738.0	-
1.9618% sterling index linked bond due 2025 (less unamortised discount and fees)	249.0	-
1.5646% sterling index linked bond due 2044 (less unamortised discount and fees)	196.0	-
3.875% US dollar bond due 2009 (less unamortised discount and fees)	529.0	-
4.75% sterling bond due 2024 (less unamortised discount and fees)	717.0	-
	3,647.0	-

19. Provisions for Liabilities and Charges

Group	Note	Provision	Utilised	Unwind	Revised	Charged/ (Released)	Provision
		1 April 2004					31 March 2005
		£m	£m	£m	£m	£m	£m
Channel Tunnel	18 (a)	29.9	(27.9)	-	0.3	44.6	46.9
Property	18 (b)	112.7	(6.1)	0.3	5.1	9.5	121.5
Employee	18 (c)	252.2	(12.0)	0.5	-	28.9	269.6
Business sales and other	18 (d)	146.7	(82.2)	26.0	-	(20.1)	70.4
Pension obligations	29	3.9	(0.2)	-	-	0.8	4.5
Redundancy	18 (e)	1.7	(0.4)	-	-	13.8	15.1
Deferred tax	24	124.3	(30.0)	-	-	7.0	101.3
Environmental liabilities	18 (f)	33.2	(11.0)	-	-	-	22.2
Group		704.6	(169.8)	26.8	5.4	84.5	651.5

Authority	Note	Provision	Utilised	Unwind	Revised	Charged/ (Released)	Provision
		1 April 2004					31 March 2005
		£m	£m	£m	£m	£m	£m
Channel Tunnel	18 (a)	29.9	(27.9)	-	0.3	44.6	46.9
Property	18 (b)	112.7	(6.1)	0.3	5.1	9.5	121.5
Employee	18 (c)	252.2	(12.0)	0.5	-	28.9	269.6
Business sales and other	18 (d)	51.9	(0.2)	-	-	(24.7)	27.0
Pension obligations	29	3.9	(0.2)	-	-	0.8	4.5
Redundancy	18 (e)	1.7	(0.4)	-	-	13.8	15.1
Authority		452.3	(46.8)	0.8	5.4	72.9	484.6

Notes to the Accounts

a) Channel Tunnel

On 22 November 1997 the British Railways Board sold Railfreight Distribution (RfD) to East and West Railway Limited, a wholly owned subsidiary of English Welsh and Scottish Railways Limited. As part of the sale the British Railways Board gave the purchaser certain warranties and indemnities for which the provision totals £2.3m (2004: £29.9m) and which were transferred to BRB (Residuary) Limited on 1 February 2001. The Authority has made a provision for the remainder of the minimum usage period to November 2006. The charges are paid partly in sterling and partly in euros on a roughly equal basis and increase each year in line with UK and French retail price indices respectively. Provisions for these commitments have been discounted using appropriate Government gilt rates in line with FRS 12. The movement in discount rate reflects changes in gilt rates during the period.

b) Property

The property portfolio, which has been inherited from the British Railways Board by BRB (Residuary) Limited, includes a number of leased administration buildings with ongoing contractual liabilities expiring at various dates between 2005 and 2098. Forecast cash flows have been produced for each of these buildings based on external valuations and discounted using appropriate Government gilt rates in line with FRS 12. Factors considered include the outcome of rent reviews, refurbishment costs, dilapidations and, in particular, the ability to sub-let these properties. No provision is made for management expenses and day to day administration costs. The movement in discount rate reflects changes in gilt rates during the period.

c) Employee

The employee provision relates to industrial injury and disease claims arising from the British Railways Board's large employee base both prior to and subsequent to privatisation and for which indemnities were given to the majority of sold businesses, which have been inherited by BRB (Residuary) Limited. The diseases concerned include asbestosis, mesothelioma, pleural plaques, deafness and vibration white finger. The provision is based on forecasts of future cash flows, based on the model produced by the Institute of Actuaries Asbestos Working Group. Claims are forecast to be received until at least 2020 and, based on recent evidence, possibly until 2040. The provision has been discounted using appropriate Government gilt rates in line with FRS 12.

d) Business Sales and Other

The provision for business sales and other includes commitments made to the purchasers of the former British Railways Board businesses under warranties and indemnities agreed during the sale process, public liability claims relating to periods prior to privatisation and claims under the British Railways Board's central insurance fund. The provision has been discounted using appropriate Government gilt rates in line with FRS 12. The movement in discount rate reflects changes in gilt rates during the period. It also includes provisions for known claims or potential claims.

e) Redundancy

The redundancy provision relates to the contraction of the activity formerly undertaken by the British Railways Board, the outsourcing of property estate management, and the organisational restructuring within the Authority.

f) Environmental

Network Rail Limited have provided for the anticipated costs of remedial works on land inherited from the British Railways Board which has suffered contamination and where contractual or other obligations require the sites to be cleared. Following a review of the planned expenditure, it is estimated that the provision will be entirely utilised within one to two years.

20. Contingent Liabilities

(a) The British Railways Board has given certain warranties and indemnities in relation to the sale of businesses, most of which are subject to financial caps and time limits, and a number of which extend until 2020 or thereabouts. The potential liabilities include personal injury claims and environmental damage. These have now all been transferred to the SRA as part of BRB (Residuary) Limited. Where it is probable that these will materialise a provision has been included within the provision for liabilities and charges. The aggregate sum of the financial caps totals £1.3bn after provisions. In addition there are also certain uncapped liabilities. Whilst it is possible that a number of unexpected claims will emerge over time, the SRA believes that provision has been made in these accounts for the amounts likely to be payable.

(b) The British Railways Board, jointly with the French National Railway, has rights to utilise a proportion of the capacity of the Channel Tunnel until 2052, the period of the concession granted. In return, the Board has certain obligations to the concessionaires, which are specified in a Usage Contract, to provide infrastructure capacity and joint obligations to operate services from the date of the opening of the Tunnel. The SRA has been operating this contract on behalf of the British Railways Board.

The rights and obligations under this contract have been variously delegated to Network Rail Infrastructure Limited, Eurostar (UK) Limited and Railfreight Distribution Limited. Should any of these parties default, any outstanding obligations will fall in due course to the Authority.

(c) The Authority has the following contingent liabilities relating to financings of the Network Rail group and business:

(1) A Financial Indemnity ('FI') in support of Network Rail's Debt Issuance Programme. The FI is for an unlimited amount, although there are in practice constraints (including regulatory ones) on the amount of debt which Network Rail could raise subject to the support of the FI. The FI is available to Network Rail's lenders until 2052 or in certain circumstances later.

Debt facilities currently supported by the FI are:

- i. Network Rail's Note Programme, currently for a maximum of £20bn;
- ii. Credit facilities of £800m from European Investment Bank and £250m from Kreditanstalt für Wiederaufbau (in aggregate £1.05bn). These were originally supported directly by SRA through contractual arrangements other than the FI, but as from 20 June 2005 have been amended and now rely directly on the FI; and
- iii. Finance leases of some £450m of Network Rail assets, which since 31 March 2005 rely indirectly on the FI.

(2) A credit support facility of £4bn and related agreements for the support of Network Rail's Commercial Paper Programme, which in certain circumstances would allow providers of finance to Network Rail to recover from SRA amounts lent. This support is made available by SRA until 2006; in certain circumstances amounts drawn could remain outstanding until 2052.

(3) A credit support facility of £10bn and related agreements for the support of Network Rail's Medium Term Note Programme, which in certain circumstances would allow providers of finance to Network Rail to recover from the SRA amounts lent. This support is made available by SRA until March 2009; in certain circumstances amounts drawn could remain outstanding until 2052.

(4) A credit facility for £4bn under which SRA would lend to Network Rail. This facility is a contingency buffer available from SRA until 2052.

These transferred to the Department for Transport on 26 June 2005.

(d) In the ordinary course of carrying out the business of the Authority, the Authority may enter into guarantees or obligations which give rise to contingent liabilities. Where required by the regulations governing the Authority, these are notified to Parliament. All of the contingent liabilities dealt with through this process have been reviewed and are considered to be remote in likelihood of crystallising and are therefore not disclosed within these accounts.

(e) The SRA has responsibility for a number of legacy pension schemes formerly part of the British Railways Board. The SRA is required to fund the employer's share of any deficits arising on these schemes (see note 29).

Notes to the Accounts

21. Post Balance Sheet Events

(a) A transfer scheme was effected on 26 June 2005 which has transferred all of the powers, rights and obligations held by the SRA relating to Network Rail to the Department for Transport. As a consequence of this Network Rail ceased to be a quasi subsidiary of the SRA at this date (see note 1 and note 13 (b))

(b) A transfer scheme was effected on 26 June 2005 which has transferred certain of the SRA's functions in relation to rail freight and strategy and planning to the Department for Transport. This includes functions in relation to freight grants, station access and rolling stock (see note 1)

22. Contracted Commitments

(a) Franchise Agreement

The Authority has entered into franchise agreements with 24 Train Operating Companies for the provision of train services. The amounts falling due in the year to 31 March 2006 are as follows:

	£m
On franchise agreements expiring:	
Within one year	260.0
Between one and two years	198.6
Between two and five years	100.5
In five years or more	388.7
	947.8

(b) Freight Grant Offers

Under the freight grant schemes (FFG, TAG and CNRS) the SRA makes offers of grants to third parties. The scheme was previously administered by the Department for Transport and transferred to the Authority under the Transport Act 2000. Total offers made under the scheme as at 31 March 2005 are £23.3m (2004: £26.8m).

(c) Network Rail

In accordance with the Deed of Grant which became effective on 1 April 2004, the Authority is committed to paying grants amounting to £9.1bn in forecast prices. Payments are forecast as £1.734.1m for 2005/06, £2.573.4m for 2006/07, £2.532.4m for 2007/08 and £2.288.3m for 2008/09.

(d) Other

Contracts placed for future capital expenditure not provided in the financial statements are £885m (2004: £2,307m).

23. Financial Instruments

The Authority

The Authority's 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 Authority's 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 the Authority's operations.

The main risks arising from the Authority's financial instruments are interest rate risk and, to a lesser degree, liquidity risk and foreign currency risk. The Authority's 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, PTE loans, 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. For the long term the Authority has been given an assurance by the Secretary of State that the Government will ensure that adequate funds will continue to be made available to meet any future financial obligations arising from the British Railways Board.

Network Rail

Network Rail's funding treasury operations (Treasury) are co-ordinated and managed in accordance with policies and procedures approved by the Network Rail Board. Treasury is subject to regular internal audits and does not engage in trades of a speculative nature.

Counterparty limits are set with reference to published credit ratings. These limits dictate how much and for how long Treasury may deal with each counterparty.

Network Rail has a policy of immediately hedging all identified foreign exchange exposures over £250,000 or equivalent.

Unless specifically stated, the following disclosures exclude short term debtors and creditors and are at book value. Debts are analysed by repayment date.

Notes to the Accounts

(a) Analysis of Debt

Analysis of loans and leases for the Group and Authority are contained in note 18 (c). The table below analyses Network Rail's debt only.

	Group	
	2005	2004
	£m	£m
Due within one year		
Bank loans and overdrafts	167	1,290
Commercial Paper	3,961	3,926
Debt issued under Medium Term Note Programme	999	-
	5,127	5,216
Due within one to two years		
Bank loans and overdrafts	40	29
Debt issued under the Medium Term Note Programme	838	999
Finance leases and hire purchase contracts	-	1
	878	1,029
Due within two to five years		
Bank loans and overdrafts	330	326
Debt issued under the Medium Term Note Programme	4,871	5,426
Debt issued under Debt Issuance Programme	529	-
Finance leases and hire purchase contracts	1	2
	5,731	5,754
Due after five years		
Bank loans and overdrafts (£400m repayable by instalments (2004: £441m))	1,008	1,053
Debt issued under Debt Issuance Programme	3,118	-
Finance leases and hire purchase contracts	9	38
	4,135	1,091
Total		
Bank loans and overdrafts	1,545	2,698
Commercial Paper	3,961	3,926
Debt issued under the Medium Term Note Programme	6,708	6,425
Debt issued under Debt Issuance Programme	3,647	-
Finance leases and hire purchase contracts	10	41
	15,871	13,090

(b) Fair Value

A comparison of current and book values of all Network Rail's financial instruments at 31 March 2005 is provided below. Where market prices are not available for a particular instrument, fair values have been calculated by discounting cash flows at prevailing interest rates. The fair value of the Authority's financial instruments at 31 March 2005 are the same as the net book value.

	2005 Book value	2005 Fair value	2004 Book value	2004 Fair value
	£m	£m	£m	£m
Assets/(liabilities)				
Interest bearing financial assets	222	222	186	187
Debt securities and finance leases	(10)	(10)	(41)	(41)
Short term borrowings and current portion of long term debt	(167)	(167)	(1,290)	(1,290)
Commercial Paper (before unamortised discount)	(3,970)	(3,970)	(3,842)	(3,842)
Forward foreign currency contracts to hedge Commercial Paper	(21)	(13)	(117)	(128)
Debt issued under Medium Term Note Programme (before unamortised discount)	(6,752)	(6,716)	(6,434)	(6,403)
Cross currency swaps to hedge debt issued under Medium Term Note Programme	20	(42)	(22)	(34)
Debt issued under Debt Issuance Programme (before unamortised discount)	(3,734)	(3,688)	-	-
Cross currency swaps to hedge debt issued under Debt Issuance Programme	(1)	(15)	-	-
Long term bank loans	(1,378)	(1,423)	(1,408)	(1,423)
Long term non-interest bearing financial liabilities	-	-	(5)	(5)
Forward starting interest rate swaps	-	(28)	-	(11)
Forward foreign currency contracts	(1)	(1)	(3)	(5)

The assumptions used to estimate fair values of debt and other financial instruments are summarised below:

- i. Listed investments are stated at fair value based on their market price at 31 March;
- ii. The carrying values of cash and liquid investments approximate to their fair values because of the short term maturity of these instruments;
- iii. For short term borrowings (uncommitted borrowing, Commercial Paper and short term borrowings under the committed facilities) the book value approximates to fair value because of their short maturities;
- iv. The fair values of all quoted eurobonds are based on their closing clean mid-market price converted at the spot rate of exchange as appropriate;
- v. The fair values of the fixed rate EIB loans have been calculated by discounting their future cash flows at market rates;
- vi. For floating rate loans and finance leases, the book value approximates to fair value because of frequent reset of interest rates;
- vii. The fair values of foreign currency forward contracts are estimated using market forward exchange rates on 31 March;
- viii. The fair values of the sterling interest rate swaps have been estimated by calculating the present value of estimated cash flows; and
- ix. The fair values of the cross currency interest rate swaps have been estimated by adding the present values of the two sides of each swap. The present value of each side of the swap is calculated by discounting the estimated future cash flows for that side, using the appropriate market discount rates for that currency in effect at the Balance Sheet date.

Notes to the Accounts

(c) Gains and Losses on Hedges

Network Rail immediately enters into forward foreign currency contracts to eliminate the currency exposures (in excess of £250,000 equivalent) that arise on purchases denominated in foreign currencies as soon as the exposure is known. Changes in the fair value of instruments used as hedges are not recognised in the financial statements until the hedged position matures.

These gains and losses are anticipated to be recognised as follows:

	2005 Gains	2005 Losses	2005 Total net gains/(losses)	2004 Gains	2004 Losses	2004 Total net gains/(losses)
	£m	£m	£m	£m	£m	£m
Unrecognised gains and losses on hedges at 1 April	20	(56)	(36)	3	-	3
Gains and losses arising in the prior year that were recognised in the current year	(19)	31	12	(2)	-	(2)
Gains and losses arising in the prior year that were not recognised in the current year	1	(25)	(24)	1	-	1
Gains and losses arising in the current year that were not recognised in the current year	18	(90)	(72)	19	(56)	(37)
Unrecognised gains and losses on hedges at 31 March	19	(115)	(96)	20	(56)	(36)
Of which:						
Gains and losses expected to be recognised within one year	11	(36)	(25)	20	(44)	(24)
Gains and losses expected to be recognised after more than one year	8	(79)	(71)	-	(12)	(12)

Currency Analysis of Net Assets

All material net assets are denominated in sterling.

Market and Credit Risk

The Group holds a mixture of fixed and floating rate debt. The Group is exposed to upward movements in interest rates because it has floating rate debt in excess of floating rate assets. Interest rate derivatives are used to hedge against rises in interest rates.

The Group is also exposed to credit risk. The Group invests surplus cash and undertakes derivative and foreign exchange transactions with approved counterparties. Each counterparty has a credit limit which is set by the Board based upon published credit ratings. These limits are designed to mitigate the concentration of credit risk. They are monitored on a regular basis.

Notes to the Accounts

(d) Group Interest Rate Risk Profile

The interest rate profile of the Group's financial assets and liabilities as at 31 March 2004 is set out below. All balances are held in sterling:

Financial Assets	Fixed Rate	Floating Rate	Total
	£m	£m	31 March 2005 £m
Authority			
Cash at bank	-	9.9	9.9
Cash on deposit	-	0.3	0.3
Leasing assets (see note 15)	-	49.1	49.1
	-	59.3	59.3
Network Rail	158.0	64.0	222.0
Group	158.0	123.3	281.3

Financial Assets	Fixed Rate	Floating Rate	Total
	£m	£m	31 March 2004 £m
Authority			
Cash at bank	-	36.0	36.0
Cash on deposit	-	0.3	0.3
Leasing assets (see note 15)	-	50.2	50.2
	-	86.5	86.5
Network Rail	162.0	24.0	186.0
Group	162.0	110.5	272.5

Cash on deposit at 31 March 2005 consists of cash on security deposit of £250,000. The weighted average interest rate for fixed rates assets is 5.20% (2004: 5.14%) with the weighted average time for which the rate is fixed being 3.1 years (2004: 2.7 years).

The rates achieved on the above floating rate investments for Network Rail are set at the time of investment with reference to indices such as LIBOR, (London Inter Bank Offered Rate).

Included within the above analysis are assets belonging to Network Rail Insurance Limited of £167m (31 March 2004: £142m). Not included in the above analysis are monies held in escrow client accounts of £0.4m (31 March 2004: £0.3m).

Financial Liabilities	Fixed Rate	Floating Rate	Total
	£m	£m	31 March 2005 £m
Authority			
Leasing liabilities (see note 18)	-	66.0	66.0
Loans from PTEs (see note 18)	-	68.9	68.9
Provisions for liabilities and charges (see note 19)	-	484.6	484.6
	-	619.5	619.5
Network Rail	11,416.0	4,455.0	15,871.0
Group	11,416.0	5,074.5	16,490.5

Notes to the Accounts

Financial Liabilities	Fixed Rate	Floating Rate	Total
	£m	£m	31 March 2004 £m
Authority			
Leasing liabilities (see note 18)	-	72.5	72.5
Loans from PTEs (see note 18)	-	157.9	157.9
Provisions for liabilities and charges (see note 19)	-	452.3	452.3
	-	682.7	682.7
Network Rail	2,972.0	10,118.0	13,090.0
Group	2,972.0	10,800.7	13,772.7

The weighted average interest rate for the Network Rail fixed rate borrowing is 5.17% (2004: 5.13%) with the weighted average time for which the rate is fixed 9.1 years (2004: 5.7 years).

All borrowings are denominated in sterling. Provisions within the Authority include 0.4m euros which have been converted into sterling at the rate of 1.5. The floating rate borrowings are all referenced to LIBOR.

The Group has £nil (2004: £5m) of long term non-interest bearing financial liabilities for which the weighted average period to maturity is nil years (2004: 1.5 years).

(e) Committed Facilities

At 31 March 2005 and 2004 Network Rail had the following undrawn committed facilities:

	Drawn 2005	Undrawn 2005	Total 2005	Drawn 2004	Undrawn 2004	Total 2004
	£m	£m	£m	£m	£m	£m
Bridge facility	-	-	-	1,248	4,302	5,550
Working capital facility	138	3,362	3,500	-	-	-
SRA standby facility A	-	4,000	4,000	-	4,000	4,000
	138	7,362	7,500	1,248	8,302	9,550

Undrawn committed borrowing facilities expire as follows:

	2005	2004
	£m	£m
Within one year	3,362	4,302
Within one to two years	-	-
In more than two years	4,000	4,000
	7,362	8,302

Not included in the above analysis are the £800m European Investment Bank and £250m Kreditanstalt für Wiederaufbau facilities as these were fully drawn as at 31 March 2005.

Notes to the Accounts

In addition, the SRA has provided support facilities in respect of the facilities listed below:

- Unlimited financial indemnity in respect of borrowings under Debt Issuance Programme;
- Medium Term Note Programme;
- £4.0bn Commercial Paper Programme;
- £800m European Investment Bank; and
- £230m Kreditanstalt für Wiederaufbau.

The support facilities provided by the SRA cover amounts payable under the relevant facilities.

A £1bn liquidity facility is provided by a consortium of banks in support of the £4bn Commercial Paper Programme.

Uncommitted facilities

The Group has a £25m overdraft facility and a £25m money market line with its clearing bank.

24. Deferred Taxation

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

	Group		Authority	
	31 March 2005	31 March 2004	31 March 2005	31 March 2004
	£m	£m	£m	£m
Accelerated capital allowances	1,918.0	1,377.1	-	-
Other short term timing differences	(89.7)	(76.8)	-	-
Tax losses carried forward	(1,727.0)	(1,176.0)	-	-
Provision for deferred tax	101.3	124.3	-	-

The current rate of corporation tax of 30% (2004: 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.

	Group		Authority	
	31 March 2005	31 March 2004	31 March 2005	31 March 2004
	£m	£m	£m	£m
The amounts of deferred tax not provided are as follows:				
Rolled over gains	238.0	192.0	-	-
Revaluation of assets	1,751.2	1,215.8	48.2	40.8
Deferred tax not provided	1,989.2	1,407.8	48.2	40.8

Notes to the Accounts

The £238m (2004: £192m) of tax in respect of rolled over gains relates partly to the gains realised by the British Railways Board which have been deferred through the application of capital gains roll over relief into the assets vested in Railtrack plc (now Network Rail Infrastructure Limited). There is insufficient historical information to calculate a provision for deferred tax in respect of the revaluation of fixed assets. The maximum potential provision is £1,751.2m (2004: £1,215.8m). No provision has been made in respect of deferred taxation in relation to these gains as no liability is expected to arise.

25. Reserve Movement

(a) Revaluation Reserve

	Group	Authority
	31 March 2005	31 March 2005
	£m	£m
Balance at 1 April 2004	3,412.0	135.8
Revaluation of railway network	1,749.0	-
Revaluation of properties (administration, investment, and non-operational)	30.6	20.6
Disposals	(15.0)	(10.0)
Adjustment	0.8	0.8
Balance at 31 March 2005	5,177.4	147.2

(b) Income and Expenditure Reserve

	Group	Authority
	31 March 2005	31 March 2005
	£m	£m
Balance at 1 April 2004	(551.1)	(260.9)
Adjustment Revaluation reserve	3.6	3.6
Transfer from Revaluation reserve	15.0	10.0
Pension revaluation in year	(172.6)	(11.6)
Result for period	(335.8)	(265.4)
Transfer BTP reserves	107.3	107.3
Balance at 31 March 2005	(933.6)	(417.0)

(c) Revenue Grant Reserve

	Group	Authority
	31 March 2005	31 March 2005
	£m	£m
Balance at 1 April 2004	(386.7)	(386.7)
Grant income	135.7	135.7
Balance at 31 March 2005	(251.0)	(251.0)

Notes to the Accounts

(d) Capital Grant Reserve

	Group		Authority	
	31 March 2005		31 March 2005	
	£m		£m	
Balance at 1 April 2004	7.3		7.3	
Fixed asset additions	3.4		3.4	
Transfer BTP asset	(1.8)		(1.8)	
Amortisation in period	(8.0)		(8.0)	
Balance at 31 March 2005	0.9		0.9	

26. Reconciliation of Movements in Reserves

	Group		Authority	
	31 March 2005	31 March 2004	31 March 2005	31 March 2004
	£m	£m	£m	£m
Result for the year	(335.8)	373.3	(265.4)	1,035.8
Property revaluation	30.6	19.1	20.6	11.7
Adjustment Revaluation reserve	4.4	-	4.4	-
Transfer BTP reserves	105.5	-	105.5	-
Grant income to Revenue Grant reserve	135.7	122.0	135.7	122.0
Grant income to provide for fixed asset purchases	3.4	3.5	3.4	3.5
Revaluation of network asset	1,749.0	2,571.0	-	-
Pension valuation	(172.6)	92.4	(11.6)	(38.3)
Amortisation of Capital Grant reserve	(8.0)	(0.8)	(8.0)	(0.8)
Net increase/(decrease) in reserves for the period	1,512.2	3,180.5	(15.4)	1,133.9
Opening reserves	2,481.5	(699.0)	(504.5)	(1,638.4)
Closing reserves	3,993.7	2,481.5	(519.9)	(504.5)

Notes to the Accounts

27. Cashflow

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

Group	Continuing Operations	Discontinued Operations	31 March 2005	31 March 2004
	£m	£m	£m	£m
Operating surplus/(deficit)	2,049.1	(1,730.0)	319.1	343.5
Movement in Revenue Grant reserve	135.7	-	135.7	122.0
Movement in Capital Grant reserve	8.2	-	8.2	3.5
Depreciation and amortisation	11.5	801.7	813.2	682.9
(Increase)/decrease in stock	1.0	15.0	16.0	(39.1)
(Increase)/decrease in debtors	82.5	208.8	291.3	49.9
Increase/(decrease) in creditors and provisions	4.9	(238.8)	(233.9)	44.6
Net cash inflow/(outflow) from operating activities	2,292.9	(943.3)	1,349.6	1,207.3

Authority	Continuing Operations	Discontinued Operations	31 March 2005	31 March 2004
	£m	£m	£m	£m
Operating surplus/(deficit)	(245.2)	(12.1)	(257.3)	1,011.3
Movement in Revenue Grant reserve	135.7	-	135.7	122.0
Movement in Capital Grant reserve	8.2	-	8.2	3.5
Depreciation and amortisation	11.5	0.4	11.9	5.6
(Increase)/decrease in stock	1.0	-	1.0	(0.1)
(Increase)/decrease in debtors	124.4	23.1	147.5	(5.3)
Increase/(decrease) in creditors and provisions	45.4	(29.8)	15.6	(1,070.2)
Net cash inflow/(outflow) from operating activities	81.0	(18.4)	62.6	66.8

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

Group	Continuing Operations	Discontinued Operations	31 March 2005	31 March 2004
	£m	£m	£m	£m
(Increase)/decrease in cash on deposit	(11.5)	-	(11.5)	21.6
Increase/(decrease) in other liquid resources	-	45.0	45.0	(31.0)
Decrease in cash in the period	(13.4)	(7.2)	(20.6)	(7.6)
Decrease in leasing liabilities	6.5	31.0	37.5	4.2
(Increase)/decrease in debt	89.0	(2,624.0)	(2,535.0)	(2,998.2)
Change in net debt resulting from cash flows	70.6	(2,555.2)	(2,484.6)	(3,011.0)
Non cash movement	-	(188.0)	(188.0)	(50.5)
Movement in net debt in the period	70.6	(2,743.2)	(2,672.6)	(3,061.5)
Net debt at 1 April 2004	(195.3)	(12,933.0)	(13,128.3)	(10,066.8)
Net debt at 31 March 2005	(124.7)	(15,676.2)	(15,800.9)	(13,128.3)

Notes to the Accounts

Authority	Continuing Operations	Discontinued Operations	31 March 2005	31 March 2004
	£m	£m	£m	£m
(Increase)/decrease in cash on deposit	(11.5)	-	(11.5)	21.6
Decrease in cash in the period	(13.4)	(1.2)	(14.6)	(0.1)
Decrease in debt	89.0	-	89.0	69.8
Decrease in leasing liabilities	6.5	-	6.5	4.2
Change in net debt resulting from cash flows	70.6	(1.2)	69.4	95.5
Non cash movement	-	-	-	(8.5)
Movement in net debt in the period	70.6	(1.2)	69.4	87.0
Net debt at 1 April 2004	(195.3)	1.2	(194.1)	(281.1)
Net debt at 31 March 2005	(124.7)	-	(124.7)	(194.1)

(c) Analysis of Net Debt

Group	1 April 2004	Cashflow	Non Cash Movements	31 March 2005
	£m	£m	£m	£m
Cash on deposit	21.9	(11.5)	-	10.4
Cash at bank and in hand	23.6	(20.6)	-	3.0
Debt due within 1 year	(5,305.0)	1,381.0	(1,208.9)	(5,132.9)
Debt due after 1 year	(7,901.9)	(3,916.0)	1,020.9	(10,797.0)
Leasing liabilities	(113.5)	37.5	-	(76.0)
Other liquid resources	146.6	45.0	-	191.6
Total	(13,128.3)	(2,484.6)	(188.0)	(15,800.9)

Authority	1 April 2004	Cashflow	Non Cash Movements	31 March 2005
	£m	£m	£m	£m
Cash on deposit	21.9	(11.5)	-	10.4
Cash at bank and in hand	14.4	(14.6)	-	(0.2)
Debt due within 1 year	(89.0)	89.0	(5.9)	(5.9)
Debt due after 1 year	(68.9)	-	5.9	(63.0)
Leasing liabilities	(72.5)	6.5	-	(66.0)
Total	(194.1)	69.4	-	(124.7)

Notes to the Accounts

28. Related Party Transactions

The SRA is a Non-Departmental Public Body (NDPB) set up under the Transport Act 2000 sponsored by the Department for Transport.

The Department for Transport is regarded as a related party. During the period the Group has had various material transactions with it and London Regional Transport, a body also sponsored by the Department for Transport.

In addition, the Group 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 in respect of loan repayments (see note 18 (c)).

Transactions with group companies are not disclosed. It should be noted, however, that both Network Rail and the Authority have material transactions with Train Operating Companies (TOCs) and Freight Operating Companies. The nature of these relationships is in some cases reciprocal such that income from a TOC to the Authority is an expense to Network Rail.

The Authority entered into transactions with Steer Davies Gleave Limited, a company that Jim Steer, 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 MD Strategic Planning does not personally select or appoint Steer Davies Gleave Limited for any SRA contracts. In the period to 31 March 2005 Steer Davies Gleave Limited has provided services amounting to £2,651,704 (2004: £1,877,604), and the balance outstanding at 31 March 2005 was £136,427 (2004: £200,576). These amounts include the services of the MD Strategic Planning.

David Bailey is contracted to the SRA, and is responsible as the project director for introducing 2,000 new vehicles on to the Southern Region rail network, including addressing power supplies in the southern commuter belt. He is a non-Executive Board member of Network Rail Infrastructure Limited, nominated by the SRA, and during the year in his capacity as a director received £35,000 remuneration from Network Rail.

David Quarmby and David Begg, Board Members of the SRA during 2004/05, were also Board Members of Transport for London during the year. David Quarmby resigned from the Board of Transport for London on 31 July 2004. Transport for London is the parent company which owns the remaining 50% share in Cross London Rail Links Limited. Cross London Rail Links was acquired by the Department for Transport through its purchase of the shares of SRA Investment Company Limited in the year.

The Group entered into transactions with the British Transport Police Authority between 1 July 2004 and 31 March 2005. Prior to this date, the British Transport Police were part of the Group (see note 10). The British Transport Police Authority is sponsored by the Department for Transport, and is therefore a related party of the Group. In the period to 31 March 2005 the British Transport Police Authority provided services to the Group amounting to £37.7m and to the Authority amounting to £3.7m. The balance outstanding at 31 March 2005 for the Group was £3.9m and for the Authority was £0.4m. Nick Newton was the SRA's Member of the BTPA for the period from 1 July to 10 September 2004. Janet Lewis-Jones became the SRA's Member of the BTPA on 4 January 2005.

29. Pension Schemes

The Financial Reporting Advisory Board has announced that FRS 17 is to apply in full to NDPB's. This applies for the financial year ended 31 March 2004 or later and requires the Group and the Authority's share of any deficits or recoverable surpluses on the pension funds to be recognised in the Balance Sheet.

An interim valuation has been carried out by independent qualified actuaries Mercers or Watson Wyatt Partners on the Authority's defined benefit schemes and for the Network Rail Scheme as at 31 March 2005, for the purpose of providing these disclosures. The assumptions used for the actuarial valuations have been disclosed.

The Authority and its subsidiaries participate in the Principal Civil Service Pension Scheme, three sections of the Railways Pension Scheme and, until the 30 June 2004, the BTPF Superannuation Fund. These are described below. FRS 17 has been adopted as appropriate for each of these schemes.

Network Rail participates in its own section of the Railways Pension Scheme. As a private sector company Network Rail has made the relevant transitional disclosures for FRS 17 but has not adopted it in full in its own accounts. To comply with SRA group accounting policy for the SRA accounts, FRS 17 has been adopted in full.

The Authority is also responsible for funding any shortfalls in a small number of legacy schemes from the British Railways Board. Where there is a material liability to fund these arrangements the relevant FRS 17 disclosures are made.

Principal Civil Service Pension Scheme

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 and RPC 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 2005 was £2.6m (2004: £2.1m).

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

The SRA operates three sections of the Railways Pension Scheme. The BR Shared Cost Section has most of the BRB (Residuary) Limited employees, civilian members of the British Transport Police Force (until 30 June 2004 when the employees transferred to the British Transport Police Authority) and some SRA employees. The OPRAF Shared Cost Section has some of the SRA employees, primarily those who were formerly employed by the Franchising Director. The South Eastern Trains Shared Cost Section has most of the employees that were transferred from Connex to South Eastern Trains. They are defined benefit schemes and although they are part of the industry wide Railways Pension Scheme, their 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 BR Shared Cost Section, the OPRAF Shared Cost Section and the Connex South Eastern Shared Cost Section were carried out as at 31 December 2001 by independent qualified actuaries Watson Wyatt Partners using the projected unit method. Valuations are being carried out on the position as at 31 December 2004, but the results of this are not yet known. Assets and accrued liabilities were valued using the market related method.

BR Shared Cost Section

The market value of assets (net of additional voluntary contribution (AVC) amounts) of the BR Section at 31 December 2001 was £57.276m. The market value of assets was estimated to exceed the corresponding value of the projected accrued liabilities by approximately 43% (after allowing for future salary increases but before allowing for agreed future contribution reductions and AVC matching by the Authority). In this calculation it was assumed that the investment return on existing assets over the future mean term of liabilities of 20 years would be 5.60%.

The ongoing funding cost of the BR Section for future years to be met by both the employees and the Authority was estimated by the actuary at 23.0% of Section Pay, defined as pensionable pay less 150% of the basic state pension. Over the year to 31 March 2005 member contributions were 7.5% of Section pay to 30 June 2004 and 9.2% for the remainder of the year. Employer contributions are suspended until 31 March 2009 on the basis of actuarial advice.

A number of the employees within the BR Shared Cost Section are civilian employees of the British Transport Police. On 1 July 2004 the British Transport Police Authority was established and at that date civilian staff transferred into a new BTP Shared Cost section of the Railways Pension Scheme. The transfer of staff will result in the transfer of assets to the new section. This is planned to take place in the second half of 2005. The FRS 17 valuation for 31 March 2005 is based on the estimated effects of the transfer of these staff, and therefore includes only assets and liabilities relating to the remaining staff. The gain arising on the transfer out of the BTP civilian staff has been disclosed and charged to the Income and Expenditure Account in 2004/05 (see note 6 (g)).

The Fund is open to new members.

Notes to the Accounts

OPRAF Shared Cost Section

The market value of assets (net of AVC amounts) of the OPRAF Section at 31 December 2001 was £8.287m. The market value of assets was estimated as approximately 78% of the corresponding value of the projected accrued liabilities (after allowing for future salary increases). In this calculation it was assumed that the investment return on existing assets over the future mean term of liabilities of 21.1 years would be 5.66%.

The ongoing funding cost of the OPRAF Section for future years to be met by both the employees and the Authority was estimated by the actuary at 22.8% of Section Pay, defined as pensionable pay less 150% of the basic state pension. Additional contributions of 19.38% for a period of 6 years from 1 October 2003 are required to meet the deficit.

During the year to 31 March 2005 member contributions of 8.93% of Section Pay were paid until 30 June 2004 and 12.85% of Section Pay for the remainder of the year. Employer contributions were 33.25% of Section Pay until 30 June 2004 and 29.33% of Section Pay for the remainder of the year.

The Fund is open to new members.

South Eastern Trains Shared Cost Section

The market value of assets at 31 December 2001 was £213.9m. The market value of assets was estimated to exceed the corresponding value of the projected accrued liabilities after allowing for future salary increases, but before allowing for agreed future contribution reductions by approximately 20%

As a result, although there was a surplus shown in the valuation it was agreed that employer and member contributions would be increased, due to the anticipated increase in liabilities following pay restructuring. Member rates were 5.0% to 30 June 2004, increasing to 6.5% in the period to 30 June 2005, and will be 7.5% in the next period to 30 June 2006 and 9.56% thereafter. Employer rates were 7.5% to 30 June 2004, increasing to 9.75% in the period to 30 June 2005, and will be 11.25% in the next period to 16 June 2006 and 14.34% 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 9.5%

The fund is open to new members.

Financial Assumptions:

The latest actuarial valuation for all three sections as at 31 December 2001 was updated to 31 March 2005 by an independent qualified actuary using the following assumptions, as set out in the table below.

	31 March 2005	31 March 2004	31 March 2003	31 March 2002
	%pa	%pa	%pa	%pa
Inflation	2.8	2.7	2.1	2.5
Rate of increase in salaries	4.3	4.2	3.6	4.0
Rate of increase of pensions in payment	2.8	2.7	2.1	2.5
Rate of increase for deferred pensioners	2.8	2.7	2.1	2.5
Discount rate	5.4	5.5	5.4	5.75

Notes to the Accounts

An actuarial valuation was carried out as at 9 November 2003 for the South Eastern Trains section to provide an opening valuation on transfer into the SRA. The assumptions used for this were: inflation 2.6%, rate of increase in salaries 4.1%, rate of increase of pensions in payment 2.6%, rate of increase for deferred pensioners 2.6% and discount rate 5.6%.

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

BR Shared Cost Section	Net Assets			Expected rate of return		
	31 March 2005	31 March 2004	31 March 2003	31 March 2005	31 March 2004	31 March 2003
	£m	£m	£m	%pa	%pa	%pa
Equities	20.1	41.0	36.0	8.1	8.1	8.2
Bonds	10.0	10.6	4.4	5.0	5.0	4.8
Property	2.7	4.3	3.6	6.5	6.5	6.5
Other	1.8	(0.4)	(0.5)	4.7	3.7	3.6
Total market value of assets	34.6	55.5	43.5	6.9	7.4	7.7
Present value of scheme liabilities	(33.2)	(50.5)	(41.5)			
Transfer to 1994 Pensions Section	-	(2.2)	-			
Pension scheme surplus	1.4	2.8	2.0			

OPRAF Shared Cost Section	Net Assets			Expected rate of return		
	31 March 2005	31 March 2004	31 March 2003	31 March 2005	31 March 2004	31 March 2003
	£m	£m	£m	%pa	%pa	%pa
Equities	10.0	7.9	5.1	8.1	8.1	8.2
Bonds	1.3	0.9	0.6	5.0	5.0	4.8
Property	0.8	0.6	0.5	6.5	6.5	6.5
Other	0.8	0.4	0.1	4.7	3.7	3.6
Total market value of assets	12.9	9.8	6.3	7.5	7.5	7.7
Present value of scheme liabilities	(20.5)	(15.3)	(11.7)			
Total deficit	(7.6)	(5.5)	(5.4)			
Members share of deficit	1.5	1.1	-			
Pension scheme deficit attributable to the employer	(6.1)	(4.4)	(5.4)			

Notes to the Accounts

South Eastern Trains Shared Cost Section	Net Assets			Expected rate of return		
	31 March 2005	31 March 2004	9 November 2003	31 March 2005	31 March 2004	9 November 2003
	£m	£m	£m	%pa	%pa	%pa
Equities	183.7	177.0	172.0	8.1	8.1	8.0
Bonds	24.1	21.3	19.0	5.0	5.0	5.2
Property	21.6	16.0	13.8	6.5	6.5	6.6
Other	11.7	(0.4)	0.4	4.7	3.7	3.6
Total market value of assets	241.1	213.9	205.2	7.5	7.7	7.6
Present value of scheme liabilities	(294.5)	(241.5)	(225.4)			
Total deficit	(53.4)	(27.6)	(20.2)			
Member's share of deficit	21.4	11.0	8.1			
Pension scheme deficit attributable to the employer before deferred tax	(32.0)	(16.6)	(12.1)			
Deferred tax	9.6	5.0	3.6			
Pension scheme deficit attributable to the employer after deferred tax	(22.4)	(11.6)	(8.5)			

Components of defined benefit cost for the period ended 31 March 2005:

Analysis of Amounts Charged to Operating Profit:	BR	BR	OPRAF	OPRAF	South Eastern	South Eastern
	Shared Cost Section	Shared Cost Section	Shared Cost Section	Shared Cost Section	Trains Shared Cost Section	Trains Shared Cost Section
	31 March 2005	31 March 2004	31 March 2005	31 March 2004	31 March 2005	31 March 2004
	£m	£m	£m	£m	£m	£m
Current service cost	0.9	1.7	0.5	(0.1)	11.4	4.4
Past service costs	-	-	-	0.3	-	-
Settlement gain BTP	(1.4)	-	-	-	-	-
Total charge/(credit) to operating profit	(0.5)	1.7	0.5	0.2	11.4	4.4

Analysis of the Amount Charged to Other Finance Income:	BR	BR	OPRAF	OPRAF	South Eastern	South Eastern
	Shared Cost Section	Shared Cost Section	Shared Cost Section	Shared Cost Section	Trains Shared Cost Section	Trains Shared Cost Section
	31 March 2005	31 March 2004	31 March 2005	31 March 2004	31 March 2005	31 March 2004
	£m	£m	£m	£m	£m	£m
Interest on Fund liabilities	2.8	2.3	0.9	0.7	13.5	4.9
Expected return on Fund assets	(3.5)	(2.9)	(0.8)	(0.5)	(16.5)	(6.0)
Interest on employee share of deficit	-	-	(0.1)	(0.1)	(0.6)	(0.2)
Net charge/(credit) to other finance income	(0.7)	(0.6)	-	0.1	(3.6)	(1.3)

Notes to the Accounts

Analysis of Amounts Recognised in STRGL:

	BR Shared Cost Section	BR Shared Cost Section	OPRAF Shared Cost Section	OPRAF Shared Cost Section	South Eastern Trains Shared Cost Section	South Eastern Trains Shared Cost Section
	31 March 2005	31 March 2004	31 March 2005	31 March 2004	31 March 2005	31 March 2004
	£m	£m	£m	£m	£m	£m
Gain/(loss) on assets	2.5	6.8	0.5	1.3	8.9	3.3
Experience gain/(loss) on liabilities	0.4	(2.3)	(1.0)	(0.1)	(3.8)	1.0
Gain/(loss) on change of assumptions	(5.5)	(2.6)	(2.0)	(2.0)	(27.7)	(9.5)
Movement of employee share of deficit	-	-	0.3	1.1	9.8	2.7
Total gain/(loss) recognised in STRGL before adjustment for tax	(2.6)	1.9	(2.2)	0.3	(12.8)	(2.5)

Experience Gains and Losses:

	BR Shared Cost Section	BR Shared Cost Section	OPRAF Shared Cost Section	OPRAF Shared Cost Section	South Eastern Trains Shared Cost Section	South Eastern Trains Shared Cost Section
	31 March 2005	31 March 2004	31 March 2005	31 March 2004	31 March 2005	31 March 2004
	£m	£m	£m	£m	£m	£m
Gain/(loss) on section assets						
(i) Amount	2.5	6.8	0.5	1.3	8.9	3.3
(ii) % of section assets at end of period	4%	13%	4%	13%	4%	2%
Experience gain/(loss) on section liabilities						
(i) Amount	0.4	(2.3)	(1.0)	(0.1)	(3.8)	1.0
(ii) % of section liabilities at end of period	1%	5%	5%	0.7%	1%	0%
Total actuarial gain/(loss) recognised in STRGL						
(i) Amount	(2.6)	1.9	(2.2)	0.3	(12.8)	(2.5)
(ii) % of section liabilities at end of period	4%	4%	11%	2%	4%	1%

Notes to the Accounts

Analysis of the Movement in Employers' Share of Surplus/(Deficit) in the Section During the Period:	BR	BR	OPRAF	OPRAF	South Eastern	South Eastern
	Shared Cost	Shared Cost	Shared Cost	Shared Cost	Trains	Trains
	Section	Section	Section	Section	Shared Cost	Shared Cost
	31 March	31 March	31 March	31 March	31 March	31 March
	2005	2004	2005	2004	2005	2004
	£m	£m	£m	£m	£m	£m
Surplus/(deficit) in employers share in the Section at beginning of period	2.8	2.0	(4.4)	(5.4)	(16.6)	(12.1)
Contributions paid	-	-	1.0	1.0	5.2	1.3
Current service cost	(0.9)	(1.7)	(0.5)	0.1	(11.4)	(4.4)
Past service cost	-	-	-	(0.3)	-	-
Settlement gain – BTP	1.4	-	-	-	-	-
Other finance income/(charge)	0.7	0.6	-	(0.1)	3.6	1.1
Actuarial gain/(loss)	(2.6)	1.9	(2.2)	0.3	(12.8)	(2.5)
Surplus/(deficit) in employers share in the Section at end of period	1.4	2.8	(6.1)	(4.4)	(32.0)	(16.6)

Analysis of the Movement in Surplus/(Deficit) in the Section During the Period:	BR	BR	OPRAF	OPRAF	South Eastern	South Eastern
	Shared Cost	Shared Cost	Shared Cost	Shared Cost	Trains	Trains
	Section	Section	Section	Section	Shared Cost	Shared Cost
	31 March	31 March	31 March	31 March	31 March	31 March
	2005	2004	2005	2004	2005	2004
	£m	£m	£m	£m	£m	£m
Surplus/(deficit) in the Section at beginning of period	2.8	2.0	(5.5)	(5.4)	(27.6)	(20.2)
Contributions paid	-	-	1.0	1.0	5.2	1.3
Current service cost	(0.9)	(1.7)	(0.5)	0.1	(11.4)	(4.4)
Past service cost	-	-	-	(0.3)	-	-
Settlement gain – BTP	1.4	-	-	-	-	-
Other finance income/(charge)	0.7	0.6	(0.1)	(0.1)	3.0	1.1
Actuarial gain/(loss)	(2.6)	1.9	(2.5)	(0.8)	(22.6)	(5.4)
Surplus/(deficit) in the Section at end of period	1.4	2.8	(7.6)	(5.5)	(53.4)	(27.6)

BT Police Force Superannuation Fund

The British Transport Police Force Superannuation Fund exists for British Transport Police Officers and was valued at 31 December 2002 by independent qualified actuaries, Watson Wyatt Partners, using the projected unit method. This fund operates in three sections. The main Section (the 1970 Contributory Section) provides benefits for most members for service after 1970. The 1970 Preserved Section and 1968 Section provide historic benefit for a small number of members. The market value of the assets of the fund at 31 December 2002 was £459.85m.

The projected accrued liabilities were estimated to exceed the market value of the assets as at the valuation date by approximately 4.8% after allowing for future salary increases but before allowing for agreed future contribution reductions. In this calculation it was assumed that the investment return on existing assets over the future mean term of liabilities of 20 years would be 6.75%.

The ongoing funding cost of the Fund for future years to be met by both the employees and the Board was estimated by the actuary at 39.7% of Scheme Salary, defined as pensionable pay less 150% of the basic state pension.

Notes to the Accounts

In the period to 30 June 2004, the Fund was receiving contributions of 16% of Scheme Salary from employees and 24% of Scheme Salary from the employer. In addition the employer met 3.3% of the 1970 Preserved Section from 1 April 2004.

Employer contributions for the period ending 30 June 2004 are £2.7m.

A further actuarial valuation for funding purposes was carried out as at 30 June 2004. It was agreed in 2004 that if this valuation revealed a deficit then the employer would make additional contributions to meet a proportion of pensions in payment until the following valuation results were available. The employer may agree similar action after future valuations. Any additional contributions paid by the employer will be a first call against any future surpluses. These arrangements may in future years change the balance of the shared cost arrangement with the employer, in times of deficit, agreeing to be responsible for more than 60% of the scheme deficit. As the scheme deficit under these arrangements may not be recoverable from the members the whole of the liability has been treated as due to the employer.

The British Transport Police Authority (BTPA) was established on 1 July 2004 under Section 18 of the Railways and Transport Safety Act 2003. It became the employer for the BT Police Force Superannuation Fund from that date and the fund was transferred from the SRA to the BTPA. The SRA ceased to have any liability for the funding of the scheme from 30 June 2004. In accordance with the Statement of Accounting Policies (i) the deficit on the fund has been transferred out through the Income and Expenditure Reserve.

The Fund is open to new members.

Financial Assumptions:

The latest actuarial valuation as at 31 December 2002 was updated to 30 June 2004 by an independent qualified actuary Watson Wyatt Partners using the following assumptions, as set out in the table below:

	31 June 2004	31 March 2004	31 March 2003
	%pa	%pa	%pa
Inflation	2.8	2.7	2.1
Rate of increase in salaries	4.3	4.2	3.6
Rate of increase of pensions in payment	2.8	2.7	2.1
Rate of increase for deferred pensioners	2.8	2.7	2.1
Discount rate	5.7	5.5	5.4

Notes to the Accounts

The assets in the scheme and the expected rates of return were:

	31 March 2005	30 June 2004	Net Assets		Expected rate of return		
			31 March 2004	31 March 2003	30 June 2004	31 March 2004	31 March 2003
	£m	£m	£m	£m	%pa	%pa	%pa
Equities	-	422.9	438.7	345.4	8.2	8.1	8.2
Bonds	-	72.7	69.7	56.5	5.3	5.0	4.8
Property	-	41.3	39.9	35.9	6.75	6.5	6.5
Other	-	18.6	0.4	(0.1)	3.8	3.7	3.6
Total market value of assets	-	555.5	548.7	437.7	7.6	7.6	7.6
Present value of scheme liabilities	-	(659.3)	(658.0)	(538.7)			
Total Deficit	-	(103.8)	(109.3)	(101.0)			
Members share of deficit	-	-	-	39.5			
Pension scheme surplus/(deficit) attributable to the employer	-	(103.8)	(109.3)	(61.5)			

Components of defined benefit cost for the period ended 31 March 2005:

(Note this only includes 3 months from 1 April 2004 to 30 June 2004, being the period prior to the transfer of the fund to BTPA)

Analysis of Amounts Charged to Operating Profit:	31 March 2005	31 March 2004
	£m	£m
Current service cost	3.9	16.0
Past service costs	-	-
Total charged to operating profit	3.9	16.0

Analysis of the Amount Charged to Other Finance Income:	31 March 2005	31 March 2004
	£m	£m
Interest on Fund liabilities	9.0	27.5
Expected return on Fund assets	(10.4)	(32.8)
Interest on employees share of deficit	-	(2.0)
Net charge/(credit) to other finance income	(1.4)	(7.3)

Notes to the Accounts

Analysis of Amounts Recognised in STRGL:	31 March 2005	31 March 2004
	£m	£m
Gain/(loss) on assets	(3.3)	91.5
Experience gain/(loss) on liabilities	(7.4)	(36.8)
Gain/(loss) on change of assumptions	16.0	(52.3)
Movement of employee share of deficit	-	(39.5)
Total gain/(loss) recognised in STRGL before adjustment for tax	5.3	(37.1)

Experience Gains and Losses:	31 March 2005	31 March 2004
	£m	£m
Gain/(loss) on section assets		
(i) Amount	(3.3)	91.5
(ii) % of section assets at end of period	0%	17%
Experience gain/(loss) on section liabilities		
(i) Amount	(7.4)	(36.8)
(ii) % of section liabilities at end of period	0%	6%
Total actuarial gain/(loss) recognised in STRGL		
(i) Amount	5.3	(37.1)
(ii) % of section liabilities at end of period	0%	6%

Analysis of the Movement in Employers Share of Surplus/(Deficit) in the Fund During the Period:	31 March 2005	31 March 2004
	£m	£m
Surplus/(deficit) in employers share in the Fund at beginning of period	(109.3)	(61.5)
Contributions paid	2.7	-
Current service cost	(3.9)	(16.0)
Other finance income/(charge)	1.4	5.3
Actuarial gain/(loss)	5.3	(37.1)
Deficit in employers share in the Fund prior to transfer on 30 June 2004	(103.8)	(109.3)
Transfer to BTPA	103.8	-
Deficit in employers share in the Fund at end of period	-	(109.3)

Notes to the Accounts

Analysis of the Movement in Surplus/(Deficit) in the Fund During the Period:	31 March 2005	31 March 2004
	£m	£m
Surplus in the Fund at beginning of period	(109.3)	(101.0)
Current service cost	(3.9)	(16.0)
Other finance income/(charge)	1.4	5.3
Actuarial gain/(loss)	8.0	2.4
Deficit in fund before transfer	(103.8)	(109.3)
Transfer to BTPA	103.8	-
Deficit in the Fund at end of period	-	(109.3)

Network Rail

The principal pension scheme that the Network Rail group participates in is the Railways Pension Scheme, and the group has its own section, the Network Rail Shared Cost Section. This is a defined benefit scheme, and the assets and liabilities are identified separately from the remainder of the scheme.

From 1 April 2004 entry to the Section was restricted to employees who had completed 5 years service or who had a statutory right to join the Section.

With effect from 1 April 2004 Network Rail introduced a defined contribution pension scheme, the Network Rail Defined Contribution Pension Scheme (NRDCPS). This scheme is the only Company-sponsored pension offered to all new employees of Network Rail, except those who have the legal right to join the Railways Pension Scheme. Any employee who wishes to transfer from the Network Rail Section to the NRDCPS is entitled to do so. After 5 years' service members of the NRDCPS may elect to join the Network Rail Section of the Railways Pension Scheme.

On 24 October 2003 Network Rail announced its intention to bring all maintenance contracts in-house. As a result, 9,688 employees transferred into the Section during the year to 31 March 2005. Approximately 2,730 additional transferred employees were not currently members of the Railways Pension Scheme in their current employment and were offered membership of the NRDCPS.

The impact of all the above items is included in the accounts for the year ended 31 March 2005.

A full actuarial valuation of the Network Rail Section was carried out by the scheme actuary at 31 December 2001 and adjusted to 31 March 2005 by Network Rail's pension adviser, a qualified independent actuary. During the year members contributed at the rate of 8% of Section Pay until 31 December 2004 and at the rate of 9.5% of Section Pay from 1 January 2005. The employer contributions were 14.25% of Section Pay throughout the year. These rates were determined following the funding valuation carried out by the scheme actuary as at 31 December 2001. If a surplus or deficit arises, the provisions in the Railways Pension Scheme rules mean that Network Rail and members usually benefit from or pay for this respectively in the proportion 60:40.

Financial Assumptions:

The latest actuarial valuation as at 31 December 2001 was updated to 31 March 2005 for FRS 17 purposes by an independent qualified actuary using the following assumptions, as set out in the table below:

Notes to the Accounts

	31 March 2005	31 March 2004	31 March 2003
	%pa	%pa	%pa
Inflation	2.9	2.9	2.6
Rate of increase in salaries	4.4	4.65	5.1
Rate of increase of pensions in payment	2.9	2.9	2.6
Rate of increase for deferred pensioners	2.9	2.9	2.6
Discount rate	5.4	5.5	5.4

Fair value of Assets and Expected Rate of Return:

The following fair values at 31 March 2005 were measured using the above assumptions in accordance with the requirements of FRS 17.

	Net Assets			Expected rate of return		
	31 March 2005	31 March 2004	31 March 2003	31 March 2005	31 March 2004	31 March 2003
	£m	£m	£m	%pa	%pa	%pa
Equities	1,293	996	759	6.25	6.35	6.12
Bonds	410	177	103	4.25	4.35	4.12
Property	152	85	75	6.25	6.35	6.12
Total market value of assets	1,855	1,258	937			
Present value of scheme liabilities	(2,527)	(1,525)	(1,430)			
Total Deficit	(672)	(267)	(493)			
Member's share of deficit	262	107	197			
Pension scheme deficit attributable to the employer before deferred tax	(410)	(160)	(296)			
Deferred tax	123	48	89			
Pension scheme deficit attributable to the employer after deferred tax	(287)	(112)	(207)			

Components of defined benefit cost for the period ended 31 March 2005:

Analysis of Amounts Charged to Operating Profit:	31 March 2005	31 March 2004	31 March 2003
	£m	£m	£m
Current service cost	89	71	25
Past service costs	-	-	-
Total charged to operating profit	89	71	25

Notes to the Accounts

Analysis of the Amount Charged to Other Finance Income:	31 March 2005	31 March 2004	31 March 2003
	£m	£m	£m
Interest on Fund liabilities	96	79	31
Expected return on Fund assets	(89)	(57)	(27)
Interest on employees share of deficit	(7)	(6)	(5)
Net charge/(credit) to other finance income	-	16	(1)

Analysis of Amounts Recognised in STRGL:	31 March 2005	31 March 2004	31 March 2003
	£m	£m	£m
Gain/(loss) on assets	80	203	(18)
Experience gain/(loss) on liabilities	(217)	24	(4)
Gain/(loss) on change of assumptions	(247)	42	(134)
Movement of employee share of deficit	148	(90)	67
Total gain/(loss) recognised in STRGL before adjustment for tax	(236)	179	(89)

Experience Gains and Losses:	31 March 2005	31 March 2004	31 March 2003
	£m	£m	£m
Gain/(loss) on section assets			
(i) Amount	80	203	(18)
(ii) % of section assets at end of period	4.3%	16%	2%
Experience gain/(loss) on section liabilities			
(i) Amount	(217)	24	(4)
(ii) % of section liabilities at end of period	8.5%	2%	0%
Total actuarial gain/(loss) recognised in STRGL			
(i) Amount	(236)	179	(89)
(ii) % of section liabilities at end of period	9%	12%	6%

Analysis of the Movement in Surplus/(Deficit) in the Employers Section of the Section During the Period:	31 March 2005	31 March 2004	31 March 2003
	£m	£m	£m
Deficit in employers section of the scheme at beginning of year	(160)	(296)	(194)
Current service cost	(89)	(71)	(25)
Contributions	75	50	16
Other finance income/(charge)	-	(22)	(4)
Actuarial gain/(loss)	(236)	179	(89)
Surplus/(deficit) in the employers section of the Section at end of period	(410)	(160)	(296)

Notes to the Accounts

Analysis of the Movement in Surplus/(Deficit) in the Section During the Period:	31 March 2005	31 March 2004	31 March 2003
	£m	£m	£m
Deficit in scheme at beginning of year	(267)	(493)	(324)
Current service cost	(89)	(71)	(25)
Contributions	75	50	16
Other finance income/(charge)	(7)	(16)	1
Actuarial gain/(loss)	(384)	263	(161)
Surplus/(deficit) in the Fund at end of period	(672)	(267)	(493)

Other Schemes

The Authority is also responsible for funding any shortfalls in a small number of historic funded pension arrangements which relate almost entirely to individuals drawing pensions. There are 48 actives participating in these schemes. They are legacy schemes from the British Railways Board and the Authority does not have any employees participating in these schemes. These are all defined benefit schemes. The latest actuarial valuations of these funds have all been carried out either as at 31 December 2001, 31 December 2002 or 31 December 2003.

The schemes concerned are:

1. The British Railways Superannuation Fund
2. Great Western Railway Supplemental Pensions Reserve Fund
3. Great Western Railway Salaried Staff Widows' and Orphans' Pension Society
4. London and North Western Railway Provident Society for Providing Pensions for Widows And Orphans of Salaried Staff
5. Great Western Railway Inspectors' and Foremen's Special Pension Fund
6. Great Northern Railway Superannuation Fund

The position of the schemes which are material for the SRA accounts at the latest formal actuarial valuation date is summarised below:

Scheme	Last Valuation	Assets	Liabilities	Employer Contributions
BR Superannuation Fund	31 December 2001	£449m	£431m after surplus distribution and including £15m investment reserve	Nil
Great Western Railway Supplemental Pensions Reserve Fund	31 December 2001	£59.4m	£49.9m	Nil
Great Western Railway Salaried Staff Widows' and Orphans' Pension Society	31 December 2003	£8.2m	£9.0m	£103,000 per annum for 10 years from 1 January 2005

The remaining schemes have liabilities of less than £0.5m.

The schemes have been reviewed as at 31 March 2005. Given the nature of these schemes and the obligations on the Authority, as the first two funds are in surplus, no FRS 17 disclosures are included for this year or prior years. Any future funding obligations form a contingent liability on the Authority.

The third fund, The Great Western Railway Salaried Staff Widows' and Orphans' Pension Society was valued at 31 December 2003. The market value at that date was £8.172m. The market value of assets was estimated as approximately 91% of the corresponding value of the accrued liabilities (after allowing for future salary increases). In this calculation it was assumed that the investment return on existing assets would be 4.75%. Contributions of £0.1m were made in the year.

Notes to the Accounts

The ongoing funding cost of the Scheme for future years will be met by the SRA, and has been included as a provision within the accounts.

The Fund was closed to new members in November 1948. The Fund provides a pension on the death of a member to his wife at the date of his retirement. If a member's wife predeceases him the member's contributions are returned without interest.

Financial Assumptions:

The latest actuarial valuation as at 31 December 2003 was updated to 31 March 2005 by an independent qualified actuary using the following assumptions, as set out in the table below:

	31 March 2005	31 March 2004	31 March 2003
	%pa	%pa	%pa
Discount rate	5.4	5.5	5.4
Inflation	2.8	2.7	2.7

No rate of increase in salary is stated as there are no active scheme members. In addition all increases to the pension are met by the BR (1974) Pension Fund which is the responsibility of the Department of Transport. As a consequence the assumptions for the rate of increase for pensions in payment and deferred pensions are nil.

The assets in the scheme and the expected rates of return were:

	Net Assets		Expected rate of return			
	31 March 2005	31 March 2004	31 March 2003	31 March 2005	31 March 2004	31 March 2003
	£m	£m	£m	%pa	%pa	%pa
Equities	-	0.9	1.7	8.1	8.1	8.2
Bonds	6.3	6.1	5.8	5.0	5.0	4.8
Other	1.1	1.0	0.8	4.7	3.7	3.6
Total market value of assets	7.4	8.0	8.3	4.9	5.2	5.3
Present value of scheme liabilities	(7.7)	(8.2)	(8.8)			
Pension scheme deficit attributable to the employer	(0.3)	(0.2)	(0.5)			

Components of defined benefit cost for the period ended 31 March 2005:

Analysis of Amounts Charged to Operating Profit:		31 March 2005	31 March 2004
		£m	£m
Current service cost		-	-
Past service costs		-	-
Total charged to operating profit		-	-

Notes to the Accounts

Analysis of the Amount Charged to Other Finance Income:	31 March 2005	31 March 2004
	£m	£m
Interest on Fund liabilities	0.4	0.5
Expected return on Fund assets	(0.4)	(0.5)
Net charge/(credit) to other finance income	-	-

Analysis of Amounts Recognised in STRGL:	31 March 2005	31 March 2004
	£m	£m
Gain/(loss) on assets	(0.1)	0.3
Experience gain/(loss) on liabilities	(0.1)	-
Gain/(loss) on change of assumptions	-	-
Total gain/(loss) recognised in STRGL before adjustment for tax	(0.2)	0.3

Experience Gains and Losses:	31 March 2005	31 March 2004
	£m	£m
Gain/(loss) on section assets		
(i) Amount	(0.1)	0.3
(ii) % of section assets at end of period	1%	4%
Experience gain/(loss) on section liabilities		
(i) Amount	(0.1)	-
(ii) % of section liabilities at end of period	1%	0%
Total actuarial gain/(loss) recognised in STRGL		
(i) Amount	(0.2)	0.3
(ii) % of section liabilities at end of period	2%	4%

Analysis of the Movement in Surplus/(Deficit) in the Fund During the Period:	31 March 2005	31 March 2004
	£m	£m
Deficit in the Fund at beginning of period	(0.2)	(0.5)
Contributions paid	0.1	-
Current service cost	-	-
Past service cost	-	-
Other finance income/(charge)	-	-
Actuarial gain/(loss)	(0.2)	0.3
Deficit in the Fund at end of period	(0.3)	(0.2)

Notes to the Accounts

The SRA also has liabilities relating to historic obligations under unfunded pension arrangements for former employees, former directors of BRB and for a former Franchising Director. The charge to Income and Expenditure Account during the period was £0.2m (2004: £0.2m). A provision of £3.3m is held in the accounts against these liabilities (2004: £3.9m).

Analysis of Pension Liability	Group		Authority	
	31 March 2005	31 March 2004	31 March 2005	31 March 2004
	£m	£m	£m	£m
Balance at 1 April	(237.7)	(273.9)	(125.3)	(66.9)
Transfer of pension schemes	103.8	-	103.8	-
Items charged to Income and Expenditure reserve	(16.0)	(55.0)	(2.0)	(12.0)
Employees share of deficit	158.1	(125.7)	10.1	(35.7)
Deficit in scheme acquired	-	(12.1)	-	(12.1)
Gain/(loss) on assets	86.0	298.7	6.0	96.1
Experience gain/(loss) on liabilities	(229.3)	(11.9)	(12.3)	(35.9)
Gain/(loss) on change of assumptions	(260.7)	(21.8)	(13.7)	(63.8)
Result for period before deferred tax	(395.8)	(201.7)	(33.4)	(130.3)
Deferred tax	79.6	(36.0)	4.6	5.0
Result for the period after deferred tax	(316.2)	(237.7)	(28.8)	(125.3)

Analysis of Pension Asset	Group		Authority	
	31 March 2005	31 March 2004	31 March 2005	31 March 2004
	£m	£m	£m	£m
Balance at 1 April	2.8	2.0	2.8	2.0
Items charged to Income and Expenditure reserve	(0.2)	(1.1)	(0.2)	(1.1)
Gain/(loss) on assets	2.5	6.8	2.5	6.8
Experience gain/(loss) on liabilities	0.4	(2.3)	0.4	(2.3)
Gain/(loss) on change of assumptions	(5.5)	(2.6)	(5.5)	(2.6)
Result for period	-	2.8	-	2.8
Assets transferred to BTP	(24.1)	-	(24.1)	-
Liabilities transferred to BTP	25.5	-	25.5	-
	1.4	2.8	1.4	2.8

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Accounts direction given by the Secretary of State 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 including Network Rail;
- b) the Strategic Rail Authority itself, without any of its subsidiaries, is referred to as 'the SRA';
- c) the Strategic Rail Authority itself and its subsidiaries other than Network Rail is referred to as 'the Authority'; and
- d) the Strategic Rail Authority itself and all its subsidiaries is referred to as 'the group'.

2. The annual accounts of the Authority and of the group 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 2002/03 and subsequent years shall be prepared in accordance with:

(a) the accounting and disclosure requirements given in *Government Accounting* and in the Treasury guidance *Executive Non-Departmental Public Bodies Annual Reports and Accounts Guidance*, 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 to the group 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 20 March 2002.

Signed by the authority of the Secretary of State an officer in the Department for Transport 2 July 2003

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 other than Network Rail).

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.

Appendix 1

Accounts Direction

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 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, stock 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 Chairman on behalf of the Board Members, and 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;
- (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 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;

Appendix 1

Accounts Direction

(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 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.

Three Year Summaries

Authority Income and Expenditure Account	Year to 31 March 2003	Year to 31 March 2004	Year to 31 March 2005
	£m	£m	£m
Income			
Grant receipts	1,921.4	3,444.9	3,189.6
TOC receipts	89.9	158.6	99.5
Other receipts	31.9	27.9	26.9
Total income	2,043.2	3,631.4	3,316.0
Expenditure			
TOC payments	(1,020.1)	(1,489.9)	(1,029.3)
Revenue grants and subsidies	(218.4)	(213.7)	(119.5)
Capital grants	(1,023.7)	(478.0)	(2,060.0)
Operating expenses	(422.4)	(327.7)	(265.2)
Total expenses	(2,684.6)	(2,509.3)	(3,474.0)
Operating surplus/(deficit)	(641.4)	1,122.1	(158.0)
Profit on disposal of assets	11.0	21.8	6.0
Provision for loss on termination of operations	-	-	(13.9)
Surplus/(deficit) on ordinary activities before interest	(630.4)	1,143.9	(165.9)
Interest and similar charges	(16.4)	(1.1)	(3.2)
Retained surplus/(deficit)	(646.8)	1,142.8	(169.1)
Authority Balance Sheet			
	31 March 2003	31 March 2004	31 March 2005
	£m	£m	£m
Fixed assets	104.5	105.2	114.1
Net current assets	(124.2)	74.1	(4.1)
Creditors falling due after more than one year	(121.7)	(96.0)	(84.6)
Provisions for liabilities and charges	(1,422.4)	(452.2)	(484.4)
Net pension liability	(3.4)	(1.6)	(4.9)
Capital and reserves	(1,567.2)	(370.5)	(463.9)

These summaries are produced for the Authority, BRB (Residuary) Limited, DOA Limited and the dormant subsidiaries. They exclude South Eastern Trains Limited, 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 Company	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
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.
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
	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
								46,448	97,835
	25,439	27,668	26,153	24,883	23,991	14,395	21,807	20,746	6,707
	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
	11,630	14,365	12,806	10,515	9,312	13,636	18,050	24,022	14,228
	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)
									(5,804)
	12,577	100,389	92,650	88,593	78,653	86,586	86,896	88,904	44,725
									29,755
	(4,192)	(6,211)	(8,163)	(10,300)	(11,747)	(6,458)	(4,904)	(13,789)	(18,468)
	61,468	55,050	37,401	17,367	6,682	(28,869)	(26,934)	(25,145)	(70,260)
	927	1,975	1,962	1,934	1,936	2,264	2,479	3,113	3,225
	16,188	8,213	2,501	898	(217)	(6,235)	(14,729)	(6,862)	(6,019)
									29,770
									(44,973)
		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
								41,725	67,641
9,396	63,286	62,611	59,918	57,405	48,060	18,189	24,599	92,374	64,047
	75,798	76,090	57,988	50,082	39,808	13,399	(995)	78,130	68,983
	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)
								30,260	41,277
	30,675	115,927	101,447	86,782	79,894	118,510	206,286	241,625	118,505
	5,831	76,632	70,207	59,063	57,677	190,906	188,829	328,577	113,020
	13,998	54,552	35,512	26,152	6,578	15,023	(8,114)	(2,433)	5,020
						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
18,832	552,006	1,425,113	1,195,774	1,032,553	847,189	877,109	907,509	1,484,848	778,225

4. 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.
5. 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)*
	Total
Central Trains	Centro*
First North Western	Greater Manchester
	West Yorkshire
	Merseytravel*
	Total
First ScotRail	Strathclyde*
Northern Rail	Greater Manchester
	West Yorkshire
	South Yorkshire*
	Nexus (Tyne and Wear)*
	Merseytravel*
	Total
ScotRail	Strathclyde*
Total net contractual payments by PTEs	

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.
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
58,482	53,172	49,053	47,945	71,639	73,204	23,486	
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
77,578	69,783	62,952	59,808	86,410	89,982	107,575	64,879
38,736	35,791	30,501	28,729	45,506	44,585	44,651	64,182
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
83,639	78,749	72,759	68,074	86,733	92,613	96,559	58,627
							55,551
							19,989
							18,185
							7,570
							1,152
							4,380
							51,276
152,654	149,273	144,208	138,352	133,262	127,875	127,660	91,004
411,089	386,768	359,473	342,908	423,550	428,259	399,933	385,519

Appendix 5

Subsidy Per Passenger Kilometre

	2004/05 Passenger KM (m)	2004/05 Subsidy (£m)	2002/03 Subsidy Per Passenger KM (pence)	2003/04 Subsidy Per Passenger KM (pence)	2004/05 Subsidy Per Passenger KM (pence)
TOC					
Anglia Railways	-	-	0.2	0.7	-
ARRIVA Trains Merseyside*	-	-	23.1	20.5	-
ARRIVA Trains Northern*	696.5	112.0	14.5	16.9	16.1
ARRIVA Trains Wales	853.1	93.9	-	18.0	11.0
c2c	853.2	5.1	2.6	2.4	0.6
Central Trains*	1,428.2	155.6	8.2	10.8	10.9
Chiltern Railways	715.4	14.0	3.2	3.8	2.0
Connex South Eastern	-	-	1.3	4.3	-
First Great Eastern	-	-	(2.1)	(1.8)	-
First Great Western	2,718.2	(34.6)	0.4	1.2	(1.3)
First Great Western Link	1,062.2	(9.9)	-	-	(0.9)
First North Western*	467.7	99.5	22.6	23.9	21.3
First ScotRail*	992.6	57.2	-	-	5.8
Gatwick Express	227.2	(18.3)	(2.7)	(6.6)	(8.1)
GNER	4,063.8	(67.0)	(0.7)	(0.6)	(1.6)
Island Line	6.6	3.2	39.3	46.8	48.2
Midland Mainline	1,322.2	(9.0)	(1.2)	(0.3)	(0.7)
Northern Rail	475.3	81.0	-	-	17.0
ONE	3,680.4	(45.0)	-	-	(1.2)
ScotRail*	1,231.1	106.4	9.9	12.9	8.6
Silverlink	1,054.3	30.1	4.5	4.9	2.9
South Eastern Trains	3,406.9	70.4	-	3.8	2.1
South West Trains	4,605.8	38.6	0.9	2.7	0.8
Southern	2,913.6	71.1	0.2	3.3	2.4
Thames Trains	-	-	(0.9)	(0.7)	-
Thameslink	1,413.8	(49.7)	(3.7)	(3.0)	(3.5)
TransPennine Express	776.0	43.5	-	25.2	5.6
Virgin CrossCountry	2,541.7	111.0	8.0	9.2	4.4
Virgin West Coast	2,720.6	89.8	6.5	12.1	3.3
WAGN	1,388.9	0.5	(0.1)	0.5	-
Wales and Borders Trains	-	-	13.5	13.8	-
Wessex Trains	462.4	56.0	13.6	17.9	12.1
Total	42,077.8	1,005.4			
Average Subsidy Per Passenger Kilometre (pence)			3.3	5.0	2.4

NOTES

- 1 Operators marked * are part-funded by PTEs. Where a PTE retains revenue risk, it pays the gross operating costs less the actual revenue. The subsidy figures in the table are based on the assumed revenue level either set out in the franchise agreement or based on actuals provided by the PTEs. This, however, may overstate the actual subsidy paid where it has been based on the franchise agreement. Actual subsidy per passenger kilometre figures may therefore be less than stated for these operators.
- 2 Subsidy figures exclude any payments under the incentive regimes but include adjustments made to reflect the consequences of the Regulator's charges review. Figures in brackets show where the Authority is in receipt of payments.
- 3 2004/05 represents the period from 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.
- 4 2003/04 represents the period from 1 April 2003 to 31 March 2004 with the exception of Wales and Borders Trains which is from 1 April 2003 to 7 December 2003, ARRIVA Trains Wales which is from 8 December 2003 to 31 March 2004, Connex South Eastern which is from 1 April 2003 to 8 November 2003, South Eastern Trains which is from 9 November 2003 to 31 March 2004, ARRIVA Trains Merseyside which is from 1 April 2003 to 19 July 2003, and TransPennine Express which is from 2 February 2004 to 31 March 2005.
- 5 2002/03 represents the period 1 April 2002 to 31 March 2003.
- 6 The figures include Clause 18.1 payments. However, the figures are based purely on actual subsidy paid, with the exception of PTE revenue risk, and will be subject to future adjustment.
- 7 Southern is formerly known as South Central who changed their name on 30 May 2004.

Appendix 6

Enforcement of Franchise Agreements

Date of Notice	TOC	Cause of Breach	Action Taken
24 May 2004	Wales and West	Contravention of Clause 8.1 of the Franchise Agreement by exceeding the interval between exterior cleaning by two days.	The SRA funded the provision of a washing machine at Exeter depot. Additional hand washing facilities have been negotiated at Par and machine washing at Bristol Barton Hill.
24 May 2004	Wales and West	Contravention of Clause 8.1 of the Franchise Agreement by exceeding the interval between interior cleaning by a day.	Regular interior cleaning is now being done by contracts with other operators. The operator is negotiating new contracts with other operators based upon output standards that are easy to measure.
24 May 2004	Wales and West	Contravention of Clause 10.3, Schedule 4 of the Franchise Agreement by failing to list taxi telephone numbers on 'Useful Information' posters.	Posters have been changed to contain taxi telephone numbers.
24 May 2004	Wales and West	Contravention of Clause 14.1 and Document D of the Franchise Agreement by failing to carry out daily station inspections.	A contract change was processed to alter the commitment to exclude Sundays. Systems have been improved to ensure that daily station inspections take place.
18 June 2004	Gatwick Express	Contravention of Condition 6, Paragraph 5 of the Passenger Licence by failing to provide a copy of the approved Disabled Person's Protection Policy (DPPP) statement on request.	The Licence Holder has obtained necessary approval and a robust process is now in place to ensure future compliance.
18 June 2004	Gatwick Express	Contravention of Condition 7, Paragraph 1 of the Passenger Licence by failing to complete the refunds to passengers within the prescribed timescales.	The Licence Holder ensured that by 31 July 2004 processes were reviewed and amended as necessary to ensure future compliance.
18 June 2004	Gatwick Express	Contravention of Clause 4.1 of the Franchise Plan by failing to provide a trolley service offering light refreshments on all specified services, except in circumstances beyond the Franchise Operator's control.	The Franchise Operator assured the SRA it would provide a full trolley service on all specified services, except in circumstances beyond their control. The Franchise Operator applied to the SRA for a derogation against this commitment on certain specified trains, which the SRA has recently approved. The Franchise Operator submitted a business case for consideration by the SRA to address future compliance with the obligation.

Date of Notice	TOC	Cause of Breach	Action Taken
18 June 2004	Gatwick Express	Contravention of Clause 25.2 of the Franchise Agreement by failing to maintain and update a handover package containing all the information required.	The Franchise Operator assured the SRA that it has tasked its Contract Manager to complete all outstanding work on the handover package. The Franchise Operator also confirmed to the SRA that it will undertake regular checks to ensure that the handover package is kept up to date in the future.
18 June 2004	Gatwick Express	Contravention of Clause 12.6 (a) of the Franchise Agreement by failing to obtain the SRA's approval before amending the terms of a Rolling Stock Lease.	The Franchise Operator assured the SRA that in future due process would be followed.
16 August 2004	South Eastern Trains	Contravention of Clause 10.3 and Schedule 4 of the CSE Franchise by failing to display a 'Universal Information Welcome' poster at Blackheath station.	The Franchise Operator agreed to implement a minimum station standards project to ensure compliance at all stations and also agreed to carry out a series of station standards audits on an ongoing basis to monitor this commitment.
16 August 2004	ScotRail Railways Limited	Contravention of Clause 8.1 (c) of the Franchise Agreement by failing to notify the PTE and account to pay to the PTE the amount by which the PTE's revenue had been affected as a result of extension days paid to season ticket holders.	The Franchise Operator compensated Strathclyde PTE for the loss in its revenue resulting from the extension days paid to season ticket holders.
16 August 2004	ScotRail Railways Limited	Contravention of Clause 8.1 (d) of the Franchise Agreement by failing to carry out the actions identified in a Breach Notice dated 8 May 2003 in relation to setting up processes by which it could be verified that 'Charter Performance Information' posters are displayed at each of the relevant stations within one week of the end of every period.	The Franchise Operator has put in place a process to acknowledge receipt of 'Charter Performance Information' posters and record the date of display of that poster.
16 August 2004	ScotRail Railways Limited	Contravention of Clause 9.4 (a) of the Franchise Agreement by failing to ensure that the PTE suffered no net loss as a result of the Franchise Operator's participation in the West Lothian Council concessionary fare scheme.	The Franchise Operator has made changes to ensure Strathclyde PTE are allocated revenue from the West Lothian Council concessionary fares scheme, and agreement reached on the amount outstanding to be paid to Strathclyde PTE.
16 August 2004	ScotRail Railways Limited	Contravention of Clause 10.1 of the Franchise Agreement by failing to gain SRA approval to terminate the use of a footbridge at Stranraer station.	The Franchise Operator is now familiar with, and in future will follow, the correct closure process when seeking to cease to operate or terminate the use of any station or depot, or some part of a station or depot.

Appendix 6

Enforcement of Franchise Agreements

Date of Notice	TOC	Cause of Breach	Action Taken
16 August 2004	ScotRail Railways Limited	Contravention of Clause 10.3 of the Franchise Agreement by failing to provide information regarding the nearest accessible station for passengers with mobility difficulties on information displays and/or signing.	The Franchise Operator is currently undertaking work to determine the nearest accessible station so that this information can be made available in its information posters at stations. 'Station Information' posters will be amended once this work is completed. Due to the large number of posters involved however, it should be noted that they may not be updated within the current franchise but the current operator has undertaken to ensure that this information will be prepared and made available to the new franchisee.
16 August 2004	ScotRail Railways Limited	Contravention of Clause 14.4 (d) (i) of the Franchise Agreement by failing to provide an estimate of the season ticket bond value for each reporting period for the following bond year no later than three reporting periods before the end of the bond year.	The season ticket bond value has been supplied.
16 August 2004	ScotRail Railways Limited	Contravention of Clause 25.2 (a) of the Franchise Agreement by failing to maintain and keep up to date a handover package which contains the information and objects set out in Schedule 12 of the Franchise Agreement.	The Franchise Operator's functional managers have been advised that all contracts should be set up centrally and must be included in the contracts database to ensure that the handover package is up to date.
16 August 2004	South Eastern Trains	Contravention of Paragraph 6.2 of the Services Agreement (Clause 10.3 and Schedule 4 of the CSE Franchise Agreement) by failing to display a 'universal information' poster at Blackheath station.	The Franchise Operator will implement a programme for ensuring minimum station standards are met, and station audits to check these standards.
25 August 2004	CrossCountry Trains Limited	Contravention of Paragraph 17.5 of the Franchise Plan by failing to provide basic information in relation to rail services (i.e. the NRES telephone number) in local Stagecoach bus timetables in an urban area. The NRES telephone number was not provided on Stagecoach integrated bus timetables in the Exeter, Torquay, Paignton and Chesterfield areas.	The Franchise Operator will incorporate the NRES telephone number in updated Stagecoach bus timetables for summer 2004.
25 August 2004	CrossCountry Trains Limited	Contravention of Clause 25.2 of Schedule 12 (c) of the Franchise Agreement by failing to comply with the requirements to list all contracts between the Franchise Operator and other parties in the handover package.	The Franchise Operator will carry out a full review of contracts and accordingly update contracts information in the handover package.

Date of Notice	TOC	Cause of Breach	Action Taken
25 August 2004	CrossCountry Trains Limited	Contravention of Paragraph 22 (c) of the Franchise Plan by failing to roster six customer service assistants on duty at Birmingham New Street station between 08:00 and 13:00 on Thursdays at the time of the CrossCountry 2003 Assessment.	The Franchise Operator will roster six members of staff at the times required.
25 August 2004	CrossCountry Trains Limited	Contravention of Paragraph 17.6 of the Franchise Plan by failing to provide Bus Add-On timetable information for urban areas (as listed in Annex 1 of the Franchise Plan) at Cheltenham, Gloucester and Leamington Spa stations.	The Franchise Operator will publicise the Northern Lake Coach connections in the new route timetable, and the frequency of this service on weekdays and weekends. The NRES number is given on the relevant CrossCountry Timetable Route guide for further information on timings of this service. The Franchise Operator will give details of the PlusBus scheme (this replaces the Bus Add-On scheme) and urban areas where it is available in its relevant rail timetables.
25 August 2004	CrossCountry Trains Limited	Contravention of Paragraph 17.6 of the Franchise Plan by failing to indicate stations where Bus Add-On schemes were available in the CrossCountry Trains rail timetables. The operator will give details on Northern Lake Coach connections in relevant rail timetables.	The Franchise Operator will indicate stations at which the PlusBus scheme (this replaces the Bus Add-On scheme) is available from, in the CrossCountry September 2004 train timetable.
29 November 2004	GNER	Contravention of Paragraph 8.4.2 of the Franchise Plan by failing to complete Station Subway refurbishment by not installing CCTV at Darlington by the derogated date of 11 June 2004.	The Franchise Operator will use best endeavours to complete this scheme by 30 November 2004. It shall be completed no later than 31 December 2004.
29 November 2004	GNER	Contravention of Paragraph 9.3 of the Franchise Plan by failing to install CCTV monitors in the bicycle storage at any of the 12 stations where GNER is station facility owner by the derogated date of 3 June 2004.	The Franchise Operator will use best endeavours to complete at Darlington by 30 November 2004, it shall be completed no later than 31 December 2004.
29 November 2004	GNER	Contravention of Paragraph 8.7 of the Franchise Plan by failing to deliver station toilet refurbishments at Grantham by the derogated date of 25 June 2004 and at Newark where toilet refurbishment on Platforms 1 and 2/3 was not delivered by the derogated date of 6 August 2004.	The commitment was met on 18 August 2004. As these commitments were met on 11 August 2004, 16 August 2004 and 18 August 2004 no further action was taken.

Appendix 6

Enforcement of Franchise Agreements

Date of Notice	TOC	Cause of Breach	Action Taken
25 January 2005	Southern Railway Limited	Contravention of Condition 6 of the Licence by failing to meet Part 3 (c) of its DPPP in respect to providing assistance to a disabled passenger.	The Franchise Operator to ensure that processes are in place to prevent this happening again.
14 February 2005	WAGN	Contravention of Clause 15.3 (a) (iii) of the Franchise Agreement by failing to notify the Authority within the requisite 21 days of a change to the registered detail of two Directors of the Franchise Operator.	A Statutory Director from the Franchise Operator was to confirm in writing no later than 28 February 2005 details of the process which WAGN had in place to ensure that the SRA was notified of changes to the details set out in the relevant Clause of the Franchise Agreement, within 21 days of such change.
14 February 2005	WAGN	Contravention of Clause 12.11 of the Franchise Agreement by failing to notify the Authority of the dispute, and the resolution thereof, between the Franchise Operator and Network Rail over the treatment of third party claims as qualifying expenditure when calculating station access charges.	A Statutory Director from the Franchise Operator was to confirm in writing no later than 28 February 2005 details of the process which WAGN had in place to ensure that the SRA was notified of disputes at the time of submission and resolution in accordance with the relevant Clause of the Franchise Agreement.
7 March 2005	Chiltern Railway Company Limited	Contravention of Clauses 6.2.1.3 and 6.2.2 of the Franchise Agreement by failing to provide level access at Gerrards Cross and Dorridge stations.	The Franchise Operator assured the Authority that lifts both at Gerrards Cross and Dorridge will be in passenger service on 31 March 2005.
6 April 2005	First ScotRail Limited	Contravention of Paragraphs 5.4 and 5.5 of Schedule 12 of the Franchise Agreement by failing to supply the Authority, not later than three reporting periods before the end of the bond year, its estimate of the amount of the season ticket bond for each reporting period during the following bond year; and failing to agree the amount of the season ticket bond by no later than two reporting periods before the end of the bond year.	The Franchise Operator was issued with a Section 55 (5B) (b).

Passenger Franchise Details

Franchise	ARRIVA Trains Wales
Franchise Operator	ARRIVA Trains Wales/Trenau ARRIVA Cymru Limited
Franchisee/(Parent Company)	ARRIVA Trains Limited/(ARRIVA plc)
Franchise terms start and end dates	December 2003 to October 2018
Comments	Formerly known as Wales and Borders.
Franchise	c2c
Franchise Operator	c2c Rail Limited
Franchisee/(Parent Company)	National Express Group
Franchise terms start and end dates	May 1996 to May 2011
Franchise	Central Trains
Franchise Operator	Central Trains Limited
Franchisee/(Parent Company)	National Express Group
Franchise terms start and end dates	March 1997 to April 2004 (extended by 2 years to April 2006)
Comments	2 year extension announced October 2003.
Franchise	Chiltern
Franchise Operator	The Chiltern Rail Company Limited
Franchisee/(Parent Company)	M40 Trains Limited/(M40)
Franchise terms start and end dates	March 2002 to December 2021
Franchise	First Great Western
Franchise Operator	Great Western Trains Company Limited
Franchisee/(Parent Company)	Great Western Holdings Limited/(FirstGroup)
Franchise terms start and end dates	February 1996 to February 2006
Comments	To form part of Greater Western.
Franchise	First Great Western Link
Franchise Operator	First Great Western Link Limited
Franchisee/(Parent Company)	Great Western Holdings Limited/(FirstGroup)
Franchise terms start and end dates	April 2004 to April 2005
Comments	To form part of Greater Western. 2 year interim franchise from April 2004 to March 2006 agreed in November 2003.

Appendix 7

Passenger Franchise Details

Franchise	Gatwick Express
Franchise Operator	Gatwick Express Limited
Franchisee/(Parent Company)	National Express Group
Franchise terms start and end dates	April 1996 to May 2011

Franchise	Greater Western
Franchise Operator	New franchise: not yet started
Franchisee/(Parent Company)	n/a
Franchise terms start and end dates	To commence April 2006
Comments	Franchise to be formed of First Great Western, First Great Western Link (formerly Thames Trains) and Wessex Trains.

Franchise	ICEC
Franchise Operator	GNER Holdings Limited
Franchisee/(Parent Company)	GNER Holdings Limited/(Sea Containers)
Franchise terms start and end dates	May 2005 to May 2012 (2015) 3 year extension subject to agreed performance targets being met
Comments	The first ICEC franchise was originally 7 years, April 1996 to April 2003, and then extended by 2 years to April 2005.

Franchise	Integrated Kent
Franchise Operator	New franchise: not yet started
Franchisee/(Parent Company)	n/a
Franchise terms start and end dates	To commence December 2005. Franchise will be for a term of 8 years, the last 2 dependent on the franchisee's performance meeting specified contractual commitments
Comments	Franchise to be comprised of services currently operated by South Eastern Trains and the proposed CTRL Domestic Services.

Franchise	Island Line
Franchise Operator	Island Line Limited
Franchisee/(Parent Company)	Stagecoach Group PLC
Franchise terms start and end dates	December 2003 to February 2007
Comments	New 3 year Franchise Agreement signed December 2003. Expiry is coterminous with new South West Trains franchise

Franchise	Merseyrail
Franchise Operator	Merseyrail Electrics 2002 Limited
Franchisee/(Parent Company)	Serco/NedRailways (concession operator)
Franchise terms start and end dates	Concession: July 2003 to July 2028
Comments	Concession now the responsibility of the local Passenger Transport Executive (Merseytravel).
Franchise	Midland Mainline
Franchise Operator	Midland Mainline Limited
Franchisee/(Parent Company)	National Express Group
Franchise terms start and end dates	April 1996 to April 2006 (extended by 2 years to April 2008)
Comments	2 year extension announced August 2000.
Franchise	Northern Rail
Franchise Operator	Northern Rail Limited
Franchisee/(Parent Company)	Northern Rail Limited/ (Serco/NedRailways)
Franchise terms start and end dates	December 2004 to September 2011 (September 2013) 2 year extension subject to agreed performance targets being met
Comments	Franchise comprised of some services of ARRIVA Trains Northern (ATN) and First North Western (FNW). Some other (mainly inter-urban) services of ATN and FNW were transferred to TransPennine Express.
Franchise	ONE
Franchise Operator	London Eastern Railway Limited
Franchisee/(Parent Company)	London Eastern Railway Limited (National Express Group)
Franchise terms start and end dates	April 2004 to April 2011 (April 2014) 3 year extension subject to agreed performance targets being met
Comments	Franchise is comprised of the following former franchises: <ul style="list-style-type: none"> • Anglia Railways; • First Great Eastern; and • West Anglia services of WAGN.
Franchise	First ScotRail
Franchise Operator	First ScotRail Limited
Franchisee/(Parent Company)	First ScotRail Limited (FirstGroup)
Franchise terms start and end dates	October 2004 to October 2011 (October 2014). 3 year extension subject to agreed performance targets being met.

Appendix 7

Passenger Franchise Details

Franchise	Silverlink
Franchise Operator	Silverlink Train Services Limited
Franchisee/(Parent Company)	National Express Group
Franchise terms start and end dates	March 1997 to October 2004. Extended to October 2006
Comments	Extension announced September 2004.

Franchise	South Eastern Trains
Franchise Operator	South Eastern Trains Limited
Franchisee/(Parent Company)	South Eastern Trains Limited (SRA)
Franchise terms start and end dates	South Eastern Trains (Holdings) Limited is a subsidiary of the SRA
Comments	Original Connex South Eastern franchise agreement was due to expire October 2011: transferred to South Eastern Trains November 2003. (Once the IKF competition is complete, South Eastern Trains will hand over operations to the successful bidder for the Integrated Kent Franchise).

Franchise	South West Trains
Franchise Operator	South West Trains Limited
Franchisee/(Parent Company)	Stagecoach Group PLC
Franchise terms start and end dates	February 2004 to February 2007
Comments	Original franchise agreement expired February 2003. Extended for 1 year to February 2004 before new 3 year franchise announced.

Franchise	Southern
Franchise Operator	New Southern Rail Limited
Franchisee/(Parent Company)	GOVIA
Franchise terms start and end dates	May 2003 to December 2009 (with SRA option to terminate on 12 months notice after May 2008).

Franchise	Thameslink
Franchise Operator	Thameslink Rail Limited
Franchisee/(Parent Company)	GOVIA
Franchise terms start and end dates	March 1997 to April 2004. Extended by 2 years to April 2006
Comments	2 year extension announced February 2004.

Franchise	Thameslink/Great Northern
Franchise Operator	New franchise
Franchisee/(Parent Company)	n/a
Franchise terms start and end dates	To commence April 2006
Franchise	TransPennine Express
Franchise Operator	First/Keolis TransPennine Limited
Franchisee/(Parent Company)	First/Keolis TransPennine Holdings Limited/(FirstGroup/Keolis SA)
Franchise terms start and end dates	February 2004 to February 2012 (February 2017) (Option to extend for up to a further 5 years)
Comments	Franchise comprised of some (mainly inter-urban) services of ARRIVA Trains Northern (ATN) and First North Western (FNW). Other services of ATN and FNW formed Northern Rail.
Franchise	Virgin CrossCountry
Franchise Operator	CrossCountry Trains Limited
Franchisee/(Parent Company)	Virgin Rail Group
Franchise terms start and end dates	January 1997 to April 2012
Franchise	Virgin West Coast
Franchise Operator	West Coast Trains Limited
Franchisee/(Parent Company)	Virgin Rail Group
Franchise terms start and end dates	March 1997 to March 2012
Franchise	WAGN
Franchise Operator	West Anglia Great Northern Railway Limited
Franchisee/(Parent Company)	National Express Group
Franchise terms start and end dates	January 1997 to April 2004 (extended by 2 years to April 2006)
Comments	2 year extension announced February 2004. The WA services became part of Greater Anglia (ONE) franchise.
Franchise	Wessex
Franchise Operator	Wales and West Passenger Trains Limited
Franchisee/(Parent Company)	National Express Group
Franchise terms start and end dates	October 1996 to April 2004 (extended by 2 years to April 2006)
Comments	2 year extension announced February 2004. To form part of Greater Western.

Appendix 8

Engagement with Stakeholders

Since the last Annual Report was published in July 2004 details of the transfer of functions from the Strategic Rail Authority (SRA) to other rail industry bodies as a result of the restructure of the rail industry announced by the Secretary of State for Transport have become clear.

It is envisaged that all SRA stakeholder and liaison activity will have transferred to the Department for Transport Rail Directorate by the end of August 2005. In order to ensure that the transfer of SRA responsibilities is properly and professionally carried out all stakeholders are currently being briefed by relevant SRA staff on what the changes will mean to them specifically and to stakeholder engagement with the industry in future. This process has been ongoing since late summer 2004 and will continue until all stakeholders have been fully briefed. An indicative list of principal SRA stakeholders can be found on page 166.

Freedom of Information Act 2000

The Freedom of Information Act 2000 (FOI) came into force on 1 January 2005. The Act provides a general right of access to all information held by public authorities. The SRA is a public authority. The general right of access to information is then limited by a number of exemptions.

As part of the preparation for the implementation of the Act, the SRA conducted training sessions for staff and for some key stakeholders such as the Rail Passengers' Council and South Eastern Trains. A high level group was constituted to consider contentious or difficult requests for information. Various template papers and

letters were drafted for use in considering requests and responding to applicants. Staff were trained in the logging and tracking of FOI requests on the same database as used by the Department for Transport. An FOI Handling Guidance paper was drafted, approved and placed on the intranet, along with a paper setting out the SRA's appeals and complaints handling procedure. An FOI Handling Protocol was also agreed with the Department for Transport.

The SRA continues to proactively publish information on the internet, in accordance with the Publication Scheme. Consideration is also given to publishing that information at the same time as complying with requests.

Increased Stakeholder Engagement

Since 1 January 2005 and the introduction of the Act, the term stakeholder engagement has taken on a wider meaning. The Act has broadened the definition of stakeholders somewhat in that individuals and organisations not previously in contact with the SRA are now eligible to apply for access to specific rail industry related documents.

As a consequence, the SRA's stakeholder engagement responsibilities have actually grown over the last year with new stakeholders being engaged, a large number of consultations and policy documents being issued, and the implementation of the transition process all having increased the stakeholder base. A list of the principal consultation exercises carried out by the SRA in 2004/05 is listed:

Consultations for 2004/05

Community Rail Development
26 February 2004

Cycling Policy
14 April 2004

Brighton Main Line Route Utilisation Strategy
9 September 2004

InterCity East Coast Stakeholder Briefing Document
11 October 2004

Gauging Policy
29 November 2004

Great Western Main Line Route Utilisation Strategy
12 January 2005

Integrated Kent Franchise Stakeholder Briefing Document
17 January 2005

West Midlands Route Utilisation Strategy
28 February 2005

Railways for All
22 March 2005

The national programme of visits begun in January 2003 by the Chairman, members of the SRA Executive and senior managers in order to meet with local, regional and national organisations to promote the 'Case for Rail' has continued throughout the year. These meetings have built on the good relationships established by Regional Planning Managers and Franchise Managers and have proved extremely valuable in informing the SRA's decision making processes. They have encouraged much closer and more effective relationships with existing stakeholders and ensured that engagement took place at a senior level with local and regional authorities, user groups and the business community as well as with rail staff.

The SRA Regional Planning team, which has been fully operational since early 2004, has actively engaged on planning matters with Regional Assemblies, regional Government Offices, Regional Development Agencies, Passenger Transport Executives and local authorities as well as the Scottish Executive and Welsh Assembly Government. The Regional Planning team's work covers engagement on a wide range of issues including the development of Regional Spatial Strategies, advice on experimental regional transport boards, proposals for new railway stations and the development of Local Transport Plans and has been fundamental in enhancing contact with regional stakeholders across the UK. The SRA also continues to work closely with the local authority based Association of Transport Co-ordinating Officers whose Rail sub-Committee has over the last few years become a primary stakeholder focus within the SRA.

It is hoped that the development and enhancement of the SRA engagement policy which has taken place over the last few years will be able to provide a robust and effective template for future relationships with all industry stakeholders.

Liaison with Wales

The SRA has a positive and co-operative relationship with the Welsh Assembly Government (WAG). WAG officers meet regularly with Regional Planning, Sponsorship and Franchise Management representatives. The new 15 year Wales and Borders Franchise commenced on 7 December 2003. The SRA worked

closely with WAG on the delivery of the Vale of Glamorgan passenger services and are assisting with the development of the Ebbw Vale project. December 2005 will see the delivery of the ARRIVA Trains Wales standard pattern timetable, a significant change to services in Wales, as set out in the Franchise Agreement and, at the same time, WAG is funding additional capacity on Cardiff commuter services (Valley Lines). Parties have worked together to ensure that all projects can be delivered. The SRA and WAG are jointly working on future changes to the franchise as a consequence of the Railways Act 2005.

Liaison with Scotland

Over the last year, the SRA has worked closely with the Scottish Executive's team dedicated to railways. This has included the SRA acting as procurement agent for the reletting of the Scottish passenger rail franchise, with the announcement of the Preferred Bidder on 11 June 2004 and commencement of the new franchise in October 2004. We continued to make improvements to passenger services on the ScotRail franchise. Construction work, jointly funded and managed by the SRA on Fife Circle, Bathgate to Edinburgh, Dunblane and Glasgow Queen Street was completed to schedule and under budget. This made it possible to introduce longer, modern trains for commuters travelling into Edinburgh and Glasgow. The joint team facilitated the introduction into service of the new rail depot at Eastfield which was entirely funded by the Scottish Executive.

In November 2004, David Quarmby, SRA Chairman, met a number of key stakeholders to review progress and make a presentation at an awards ceremony in Edinburgh. The Chairman's speech was widely reported in the Scottish press and a lively exchange of correspondence ensued. The SRA appeared before the Scottish Parliament twice in early 2005. In the first instance it was to advise on the financial settlement to Scotland for extensive devolution of responsibilities for rail to take full effect in April 2006. This was required by the Railways Act 2005, which had to be ratified by the Scottish Parliament, particularly as it constituted the largest transfer of responsibility since devolution. The second occasion was to advise on the business case for the proposed new railway line from Edinburgh to the Borders (Waverley Line), which the Scottish Parliament has been considering for some time.

Relations with Passengers: Rail Passengers' Council and Committees

The SRA has continued to work closely with the Rail Passengers Council and the eight regional Rail Passenger Committees (RPCs). As in previous years, franchise specification and content were foremost, with the SRA's consultations on the InterCity East Coast, Integrated Kent and Northern franchises generating helpful input. The two bodies also worked closely together on other major policy areas including development of Route Utilisation Strategies for the Brighton Main Line, West Midlands and Great Western. In addition,

Appendix 8

Engagement with Stakeholders

there was close liaison on the Railways for All Strategy (an SRA-led industry response to Part 2 of the Disability Discrimination Act), and on the RPC's rolling stock procurement document.

SRA specialists attended as delegates or speakers at various regional rail forums and bilaterals held by the RPC and its committees, including the annual Northern Rail Summit, held last year in Leeds.

In its final full year as sponsor of the RPC, the SRA committed £5.1 million to the network's running costs, including £357,000 for the launch of the new 'Passenger Voices' 08453 022 022 call centre and centralised complaints handling initiative, launched in October 2004.

Following the Rail Review, high level liaison between the two parties has focused on the creation of the new RPC structure set out in the Railways Act 2005. This will be a single, UK-wide, Non-Departmental Public Body with offices in London and Manchester.

Listed below are the stakeholders, with whom the SRA engaged in 2004/05. Many other interested parties have access to news and publications via the SRA's website.

Government Bodies

Entities with an interest in the work of the SRA

Association of National Parks Authorities

Cabinet Office

– Forward Strategy Unit

– No 10 Delivery Unit

– Performance and Innovation Unit

– Social Exclusion Unit

Commission for Integrated Transport

County Surveyors Society

DEFRA

– Countryside Agency

– Environment Agency

DfES

– Learning and Skills Council

Department for Trade and Industry

Department for Transport

Disabled Persons' Transport

Advisory Committee

Disability Rights Commission

English Heritage

European Commission

Government Offices

Greater London Authority

Highways Agency

HM Treasury

Local Government

– Association of London Government

– Association of Transport Co-ordinating Officers

– Convention of Scottish Local Authorities

– County Councils

– District Councils

– Local Government Association

– London Boroughs

– Metropolitan Boroughs

– Scottish Unitary Authorities

– Unitary Authorities

– Welsh LGA

– Welsh Unitary Authorities

National Audit Office

Neighbourhood Renewal Unit

Office of the Deputy Prime Minister

Parish Councils

Passenger Transport Executives and Authorities

Regional Assemblies

Regional Development Agencies

Scotland Office

Scottish Enterprise Companies

Scottish Executive

Scottish Regional Transport Partnerships

Transport for London

Welsh Assembly Government

Wales Office

Parliaments

National Assembly for Wales

Scottish Parliament

UK Parliament

– All Party Railways Group

– Select Committee on Transport

– Select Committee on Welsh Affairs

Rail Industry Operators and Suppliers

Entities that maintain, operate and supply the rail network

ATOC

British Transport Police

Contractors

Eurostar

Eurotunnel

Freight Grant applicants

Freight Operating Companies

Infrastructure companies

London Underground Limited

Network Rail

Other licence holders

Passenger franchise owner groups

Prospective franchise holders

Rolling stock leasing companies

Rolling stock manufacturers

Train Operating Companies

Regulators

Independent bodies which exercise regulatory powers

Competition Commission/Office of Fair Trading

Health and Safety Commission/Health and Safety Executive

Rail Regulator/International Rail Regulator

Rail Safety and Standards Board

Commercial Partners

Entities with which the SRA engages to develop the rail network and the people it employs

BAA and non-BAA airports

Banks and finance sources

Freight customers

Port Authorities

Property developers

Rail Industry Training Council

Rail Skills Board

Shipping lines

Passenger Representatives

Organisations which are appointed with statutory powers and represent the interests of rail passengers

London Transport Users' Committee

Rail Passengers' Committees

- for Eastern England
- for the Midlands
- for North Eastern England
- for North Western England
- for Scotland
- for Southern England
- for Wales
- for Western England

Rail Passengers' Council

Special Interest Groups

Non-Government organisations with an interest in transport policy

Academics

ACORP

Age Concern

Association of British Chambers of Commerce

CBI

Civic Trust

Confederation of Passenger Transport

Consumers' Association

CPRE

Cycling Groups

Disability Groups

Esmee Fairburn Foundation

Federation of Small Businesses

Freight Transport Association

Friends of the Earth

House Builders Federation

ICA

Institute of Directors

Institute of Logistics and Transport

National Association of Local Councils

National Trust

Professional bodies

Rail Freight Group

Rail user groups

Railfuture

Road Haulage Association

Saga

Think tanks

Transport 2000

Transport operators (e.g. buses, taxis, ferries)

TUC

VisitBritain

Appendix 9

Recruitment Statistics

Equal Opportunities Monitoring

Applications	Total Numbers	Disability	Male	Female
Band F and above	0	0	0	0
Band E	0	0	0	0
Band D	11	0	8	3
Band C	220	3	111	109
Band B	4	0	1	3
Band A	0	0	0	0
Total	235	3	120	115

Appointments	Total Numbers	Disability	Male	Female
Band F and above	0	0	0	0
Band E	0	0	0	0
Band D	3	0	2	1
Band C	8	0	3	5
Band B	2	0	0	2
Band A	0	0	0	0
Total	13	0	5	8

Exceptions to Fair and Open Competition

Appointments	Total Numbers	Category 1	Category 2
Band F and above	9	0	9
Band E	2	0	2
Band D	5	0	5
Band C	8	0	8
Band B	3	0	3
Band A			
Total	27	0	27

Appendix 9

Recruitment Statistics

Ethnic Origin	1	11	12	13	21	22	23	24	25	26	31	88	99
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	8	0	1	0	1	0	0	0	0	0	0	0	2
	14	0	12	0	1	4	3	12	5	0	3	0	166
	3	0	0	0	0	1	0	0	0	0	1	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	25	0	13	0	2	5	3	12	5	0	4	0	168

Ethnic Origin	1	11	12	13	21	22	23	24	25	26	31	88	99
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	1	0	0	0	0	0	0	0	0	0	0	0	2
	6	0	0	1	1	0	0	0	0	0	0	0	0
	2	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	9	0	0	1	1	0	0	0	0	0	0	0	2

KEY

- 1 - White
- 11 - Black (Caribbean)
- 12 - Black (African)
- 13 - Black (of other origin)
- 21 - Asian (Indian origin)
- 22 - Asian
- 23 - Asian
- 24 - Asian
- 25 - Asian
- 26 - Asian
- 31 - Other ethnic
- 88 - Multiple response
- 99 - Not stated or agency processes unable to provide information

Category 1: Recurring short interim appointments

Category 2: Short term appointments, highly specified skills

Appendix 10

Glossary

Affordability	Availability of money to operate a service which would require subsidy, irrespective of whether it demonstrates a value-for-money case
ATOC	Association of Train Operating Companies
ATP	Automatic Train Protection
ATW	ARRIVA Trains Wales (TOC)
BTP	British Transport Police
Capacity Utilisation Index (CUI)	Measures the intensity usage on the rail network as (CUI) a percentage of available capacity
Centro	West Midlands Passenger Transport Executive
CER	Community of European Railways
CNRS	Company Neutral Revenue Support
CTRL	Channel Tunnel Rail Link, a 68 mile, high speed line linking London St Pancras and the Channel Tunnel
CUP	Capacity Utilisation Policy
DEMU	Diesel Electric Multiple Unit
DfT	Department for Transport
Directions and Guidance	Instructions issued to the SRA by central Government, the Scottish Executive or the Mayor of London
DMU	Diesel Multiple Unit
DPTAC	Disabled Persons Transport Advisory Committee
DTI	Department for Trade and Industry
EC	European Commission
ECML	East Coast Main Line
EDS	Early Deployment Scheme
EMU	Electric Multiple Units
ERTMS	European Rail Traffic Management System
EU	European Union
EWS	English, Welsh and Scottish
FFG	Freight Facilities Grant
FOC	Freight Operating Company
GLA	Greater London Assembly
GSM-R	Global System for Mobile Communication – Railways
GWML	Great Western Main Line
HMRI	Her Majesty's Railway Inspectorate
HSC	Health and Safety Commission
HSE	Health and Safety Executive
HST	High Speed (diesel) Train introduced from 1976

Interoperability Directives	Two European directives requiring harmonisation of systems and standards for high speed and conventional railways
LTP	Local Transport Plan
LTUC	London Transport Users' Committee
MML	Midland Mainline (TOC)
MOLA	Master Operating Lease Agreement
MoU	Memorandum of Understanding
MUC	Minimum Usage Charge
Network Rail	The company responsible for the maintenance and renewal of network infrastructure
Network Utilisation Strategy (NUS)	Published in June 2003 by the Strategic Rail Authority
Notified Body	A body authorised to assess the compatibility of works or equipment with Technical Specifications for Interoperability
NPV	Net Present Value
ODPM	Office of the Deputy Prime Minister
ORR	Office of Rail Regulation
PIXC	Passengers in excess of capacity (a measure of overcrowding)
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)
Rail Industry Group	Top level forum for stakeholders and industry parties, led by the SRA
RDA	Regional Development Agency
Regional operators	Operators of inter-urban, local and rural services outside London and the South East
RFI	Rail Freight Interchange (a facility facilitating transfer of freight between rail and road, often a rail trunk haul and secondary distribution by road)
Route Utilisation Strategies (RUS)	Individual strategies developed at line of route level strategy (RUS) 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)
RPC	Rail Passengers' Council and Committees, the statutory rail passenger 'watchdog' body
RPG	Regional Planning Guidance
RPP	Rail Passenger Partnership
SDO	Selective Door Operation
SET	South Eastern Trains Limited
SET(H)	South Eastern Trains (Holdings) Limited
SPAD	Signal Passed at Danger

Appendix 10

Glossary

SPV	Special Purpose Vehicle
SRA	Strategic Rail Authority
SRNTP	Southern Region New Trains Programme
SSG	Standards Strategy Group
10 Year Plan	Transport 2010, the 10 Year Plan, published July 2000, and reviewed December 2002, setting out Government's priorities for transport
TAG	Track Access Grant
TEN	Trans-European Network
TfL	Transport for London (the body responsible for planning and provision of facilities within London)
TOC	Train Operating Company
Tph	Trains per hour
TPWS	Train Protection and Warning System (a newly installed system designed to mitigate the effect of SPADs)
TSI	Technical Specification for Interoperability (European standards for railway equipment)
TWA	Transport and Works Act 1992 (among other matters it sets out consultation and other procedures for the progression of infrastructure projects)
Uff-Cullen Inquiry	A Joint Inquiry, following the accidents at Southall and Ladbroke Grove, into train protection systems
UIC	International Union of Railways
UNISIG	An association of signalling manufacturers comprising: Alcatel SEL, Alstom, Ansaldo Signal, Bombardier (ex Adtranz), Invensys Rail (inc Westinghouse) and Siemens
Value-for-money project	A project that demonstrates a positive business case, based on the definition provided in the Treasury Green Book
W10, W12	Loading gauges for freight traffic; larger numbers indicate wider and higher gauges
WAG	Welsh Assembly Government
WCML	West Coast Main Line
WCRM	West Coast Route Modernisation

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