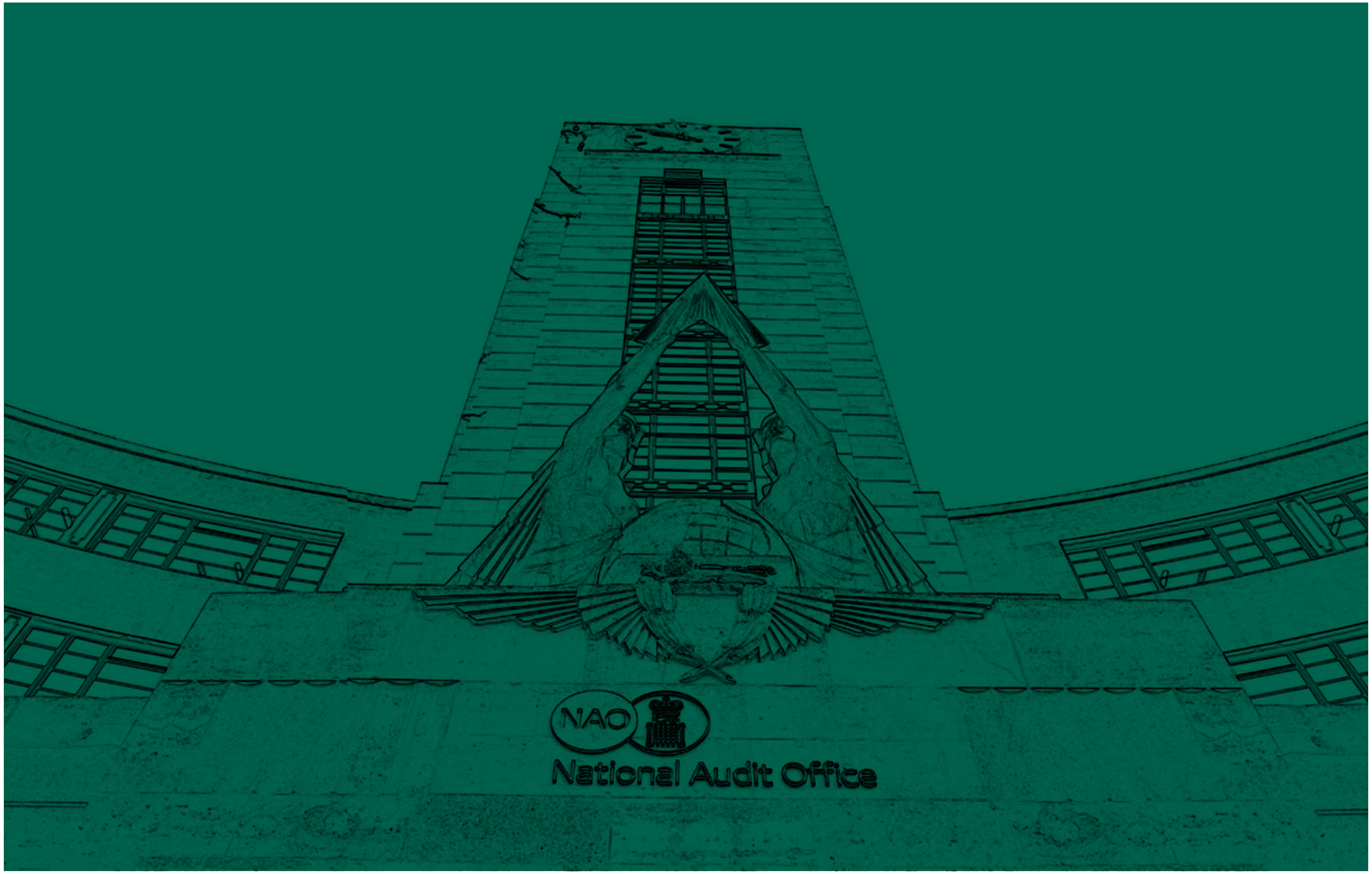
National Audit Office

Department for Transport

October 2016



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The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Sir Amyas Morse KCB, is an Officer of the House of Commons and leads the NAO. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of £1.21 billion in 2015.

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Executive summary

This Departmental Overview summarises what the Department for Transport (DfT) does, its financial performance in 2015-16, and the future challenges it will face in 2016-17.

Part One sets out some facts about the Department for Transport (DfT) and how it has performed against its responsibilities:

- DfT spent £21.2 billion during 2015-16 against its Parliamentary vote, and underspent its DEL limits by around 1.4% (2014-15: 1.3%).
- Network Rail was consolidated into the accounts for the first time, with the related infrastructure valued at £280 billion.
- Highways England – a new government company – took over the majority of the former Highways Agency's role on motorways and trunk roads.
- DfT issued over £2 billion in local transport grants in 2015-16.

Part Two sets out our findings from our work on the Department:

- HS2 Ltd and the Department have made significant progress in developing the programme. However, the Department and HS2 Ltd continue to set an ambitious timetable, and the programme currently faces both cost and schedule pressures.
- DfT has improved its management of its rail franchising programme, and is better placed to deliver value for money than it had been in 2012. However, risks to value for money remain, including as signs develop of reducing competition for franchises.
- Network Rail's investment portfolio is forecast to cost more and take longer to deliver than was expected at the outset of Control Period 5, as we set out in a factual memorandum to the Committee of Public Accounts. This set out the facts leading up to the government's June 2015 announcement of three reviews of the problems encountered in this period, delivery of the current capital programme, and the future structure of Network Rail.

Part Three looks ahead to the coming year:

- Network Rail and the Department will be continuing with their responses to the three reviews commissioned by the Department, including implementing a plan to improve its delivery of rail enhancement projects.
- Highways England is continuing to deliver the first Road Investment Strategy, and beginning to scope work for the second (2021 onwards).
- A number of major projects and programmes within DfT's large portfolio are scheduled to open in 2017. With most of the infrastructure in place, work on the operational elements of the Thameslink programme is under way. If, as expected, Royal Assent for HS2's Hybrid Bill covering phase 1 of the route (London to Birmingham) is granted, DfT and HS2 Ltd will launch procurement for the main civil engineering work required.
- Spending Review 2015 provides DfT with lower future budgets partly because it is assumed that they will be able to continue improving deals with train operators. DfT need to ensure that this happens in reality. Between November 2016 and the end of 2017, the Department expect to make three franchise awards and seek expressions of interest on a further four.

Key facts

£21,231m

annual spend in 2015-16 against voted totals

Employs around

56,500 staff

(including agencies and other bodies)

84%

of all waste is recycled[1]

£2,097m

expenditure on local transport grants

1.4m

individuals employed in transport

6%

decrease in energy usage[1]

£15.2bn

capital committed over the current road investment period (2015–2021)

8.4bn

public transport journeys made annually

89%

disabled access buses (up 60% since 2005)

1 Sustainability measures include all major group bodies other than Network Rail.

Department for Transport's responsibilities

The Department for Transport (DfT) works with its agencies and partners to support the transport network serving people and businesses around the country. DfT's main responsibilities, alongside maintaining high standards of safety and security in transport, are:

Roads

Investing in, maintaining, and operating around 4,300 miles of the motorway and trunk road network in England through Highways England.

Providing policy, guidance, and funding to English local authorities to help them run and maintain their road network, improve passenger and freight travel, and develop new major transport schemes.

Working to make our roads less congested and polluted by promoting lower carbon transport, including cycling and walking.

Rail

Setting the strategic direction for the rail industry in England and Wales – funding investment in infrastructure through Network Rail, awarding and managing rail franchises and regulating rail fares.

Buses

Improving English bus services through funding and regulation.

Shipping

Supporting the maritime sector by producing the overall strategy and planning policy for ports in England and Wales.

Aviation

Setting national aviation policy, working with airlines, airports, the Civil Aviation Authority and NATS (the UK's air traffic service).

Key events in 2015-16 for the Department for Transport

Network Rail was reclassified as a central government body in September 2014 and included in the Department's accounts for the first time in 2015-16. These accounts incorporate Network Rail's results as if it had always been part of the group, adjusted to account for Network Rail on a basis consistent with the Department's reporting requirements. The Comptroller and Auditor General (C&AG) has issued an unqualified opinion on the accounts of the enlarged group.

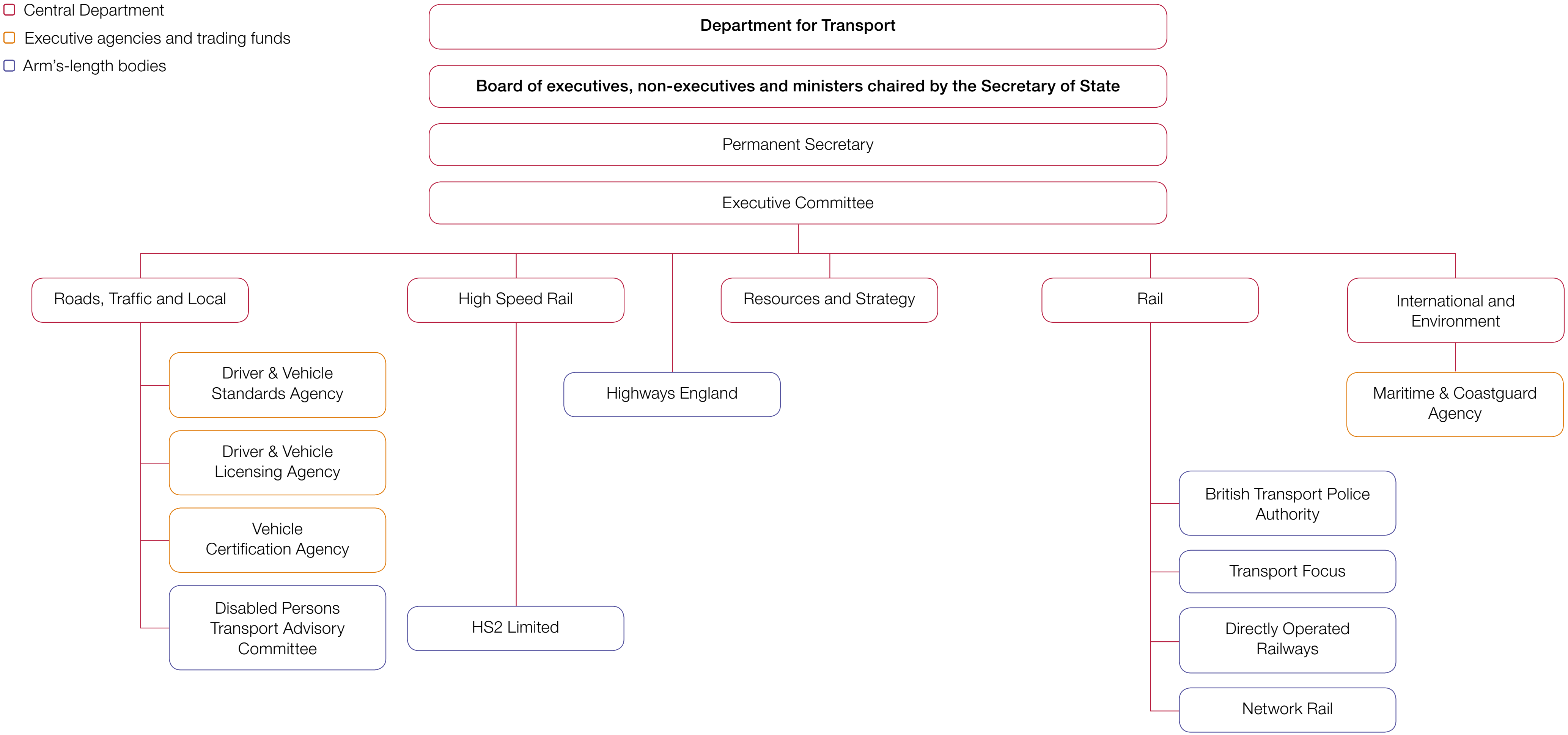
The Highways Agency ceased trading and became Highways England, a government-owned Company, which commenced trading on 1 April 2015.

DfT's funding for the next five years was agreed when Spending Review 2015 (SR15) was announced in November 2015. This announcement included £61 billion of capital investment in the railway and local transport networks between now and 2020-21.

Following Theresa May becoming Prime Minister, the ministers with responsibility for Transport changed to be:

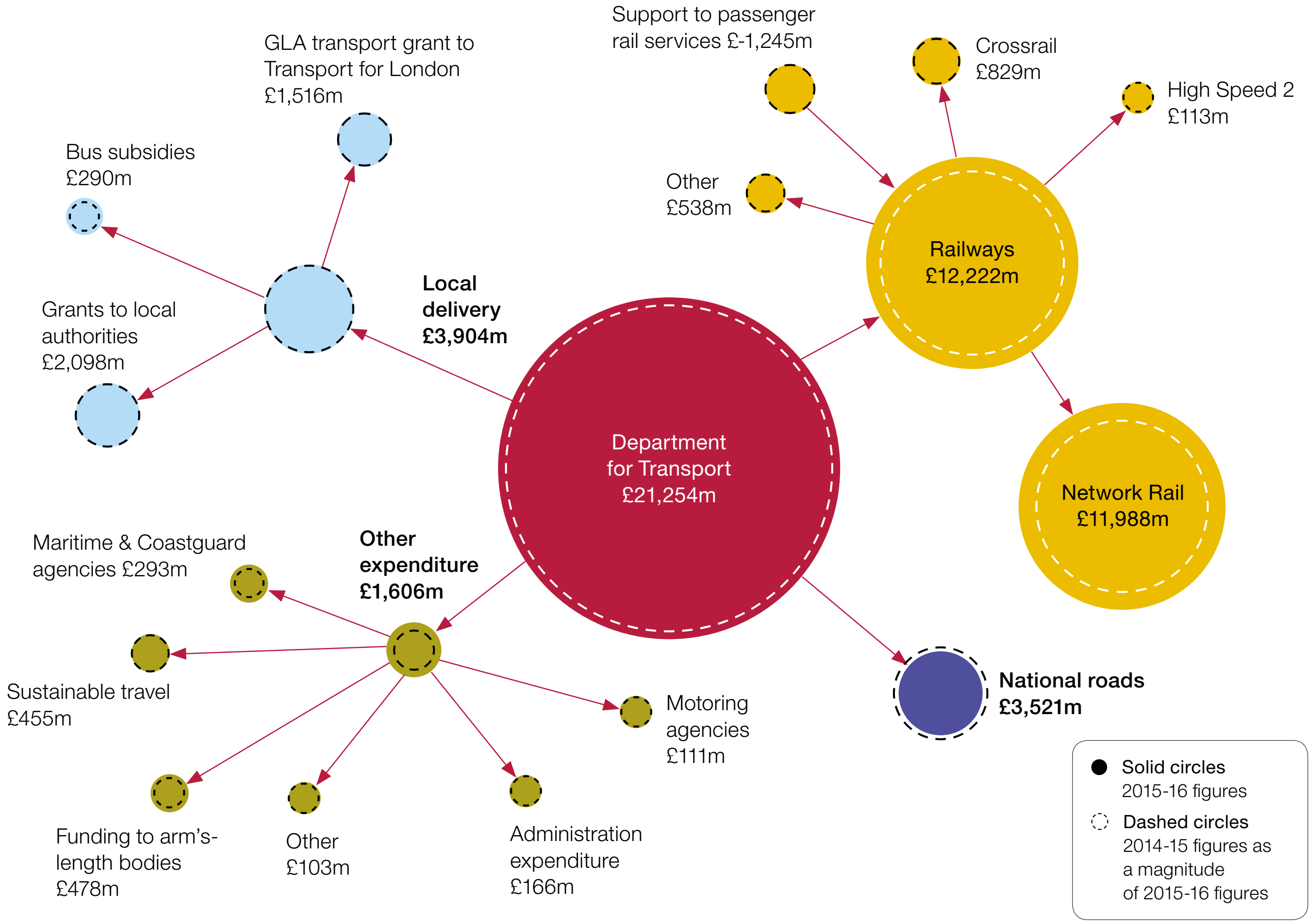
- Rt Hon Chris Grayling MP – Overall Responsibility.
- Rt Hon John Hayes MP – Highways England and Maritime & Coastguard Agency.
- Paul Maynard MP – Rail.
- Andrew Jones MP – HS2, Local Transport and Road Standards and Safety.
- Lord Ahmad of Wimbledon – Aviation & London.

Departmental structure



Source: Department for Transport, *Annual Report and Accounts 2015-16*

Department for Transport spend in 2015-16



Note

1 Spend is proportional by area with the same factors used for 2015-16 as for 2014-15. All spend figures are for 2015-16 and based on the Department's Statement of Parliamentary Supply.

Source: Department for Transport, *Annual Report and Accounts 2015-16*

2015-16 financial accounts

The Department's 2015-16 accounts were delivered in September (2014-15: July) due to the extent of work needed to perform the first-time valuation of the rail network on a Depreciated Replacement Cost basis.

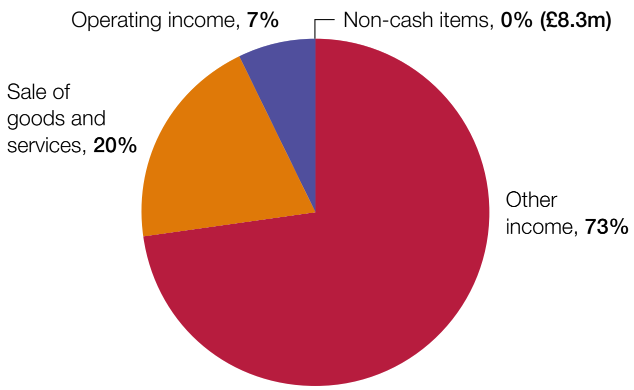
In some cases movements highlighted here reflect technical differences between Parliamentary Supply accounting between this year and last. For example, expenditure on national roads and Network Rail show significant differences here between years, despite underlying expenditure levels being similar. Full comparability on this expenditure analysis will return from 2016-17, and the 2015-16 spend figures here reflect the continuing basis, including the full consolidation of Network Rail.

Department for Transport Group financial performance 2015-16

The Department's net outturn for 2015-16 – including both resource and capital but excluding the Supply effect of prior period adjustments – was £21.2 billion (2014-15 £20.1 billion). As in previous years, railways, national roads and grants for local delivery were the most significant areas of expenditure.

Income for the Departmental group was £6.2 billion (2014-15: £7.3 billion), with £1.8 billion coming from Train Operating Companies for rail franchises for which a premium is due, and £1.3 billion from Charges to External Customers (ie DVLA fees, personalised number plates, etc.) A one-off benefit of £366 million was realised by way of a dividend from London and Continental Railways (LCR) following the sale of surplus land around Kings Cross.

Departmental Income 2015-16: £6.2bn

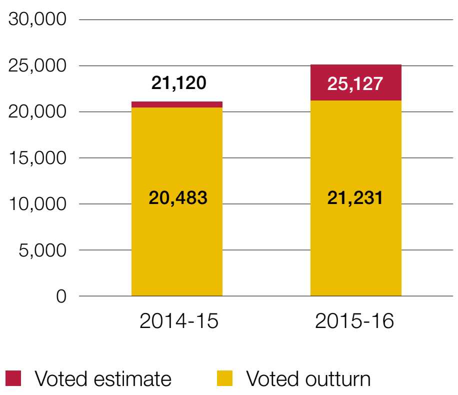


Total voted outturn, excluding the effect of prior period adjustments, was £3.9 billion below the voted limit. This underspend is predominantly as a result of technical factors. Underlying performance measured on Resource DEL and Capital DEL expenditure was 1.4% (2014-15: 1.3%) below voted levels.

Following Network Rail's entry to the DfT group, the rail network has been valued for the first time on a Depreciated Replacement Cost basis. This estimates value on the basis of the gross cost of replacing the network's function on a modern equivalent basis and assuming a benign construction environment, less a discount to reflect the condition of the actual network. The audited estimate of £280 billion reflects the extent of the network, including both recently constructed elements and the significant inheritance of previous decades.

Losses and special payments increased during the year as a result of the write-off of £39.8 million of penalty charges on the Dartford-Thurrock crossing following decisions on the enforcement approach to the new free-flow (Dart Charge) tolling arrangements.

Budget estimate versus outturn



DfT 2015-16 accounts

Audit opinion	Clear opinion
Date of certification	13 September
Key provisions	Industrial disease claims: £303 million
Road network valuation	£110 billion
Rail network valuation	£280 billion
Any qualification within the DfT Group	None

Source: Department for Transport, *Annual Report and Accounts 2015-16*

Network Rail financial performance 2015-16

In 2015-16, Network Rail received revenue of **£6.1 billion**, of which grant income from the Department for Transport was £3.8 billion.

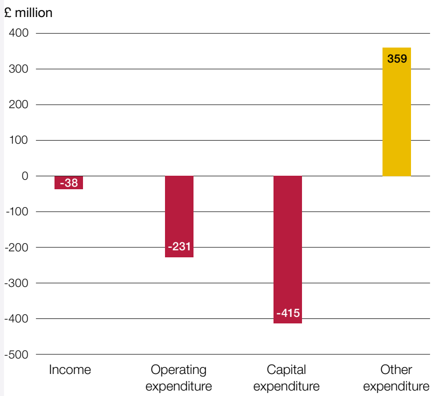
It incurred £5.9 billion of costs including:

- staff costs of £1.9 billion (of which £0.8 billion were capitalised); and
- payments of £1.9 billion of external providers for operating and maintaining the network, and supporting the company.

Post-tax profit for the year was £0.7 billion, after accounting for favourable movements on property revaluations and other gains and losses.

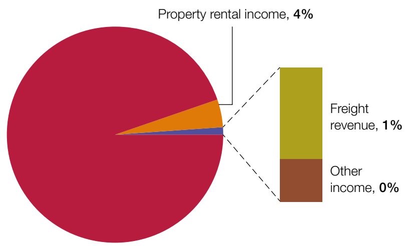
Zoom In+

Performance versus regulatory target for 2015-16



Zoom In+

Network Rail revenue: £6.098bn

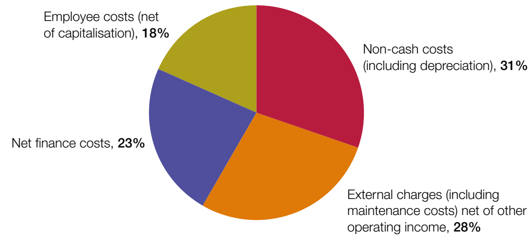


Network Rail's performance is assessed by its regulator, the Office of Rail and Road (ORR), against a series of benchmarks. For expenditure categories, this represents the costs at which ORR deem that Network Rail can efficiently run the business.

There is an overall underperformance of £249 million below the deemed efficient costs of running the business. This is primarily driven by a £415 million underperformance in capital expenditure due to project outturns exceeding planned cost. In this context the regulator has criticised inadequate planning processes and scope changes during development and delivery. There is similar underperformance of £231 million for operating expenditure, driven by the fact that Network Rail's revised signalling strategy has not yet fully realised forecast efficiencies.

Zoom In+

Network Rail costs (before tax and revaluation): £5.9bn



The 'other expenditure' category comprises primarily of financing costs. Performance has exceeded the benchmark due to more favourable interest rate movements than the regulator assumed.

Network Rail 2015-16 accounts

Audit opinion	Clear opinion
Date of certification	30 June 2016
Key provisions	£71 million

Source: Network Rail, *Annual Report and Accounts 2015-16*

Highways England financial performance 2015-16

Highways England Company Ltd (HE) was incorporated on 8 December 2014 and commenced trading on 1 April 2015 following the transfer of assets and liabilities from the Highways Agency.

HE were provided with resource DEL funding of £2,083 million and capital funding of £1,926 million; both outturns have been substantially in line with budgets. Net expenditure for the year was £1.997 billion. Costs incurred included:

- staff costs of £113 million;
- PFI service charges of £318 million and PFI interest costs of £128 million; and
- road maintenance of £447 million.

Total comprehensive net expenditure was £4.495 billion due to adverse movements on the revaluation of property, plant and equipment. The revaluation loss was due to the application of indices to the strategic road network's depreciated replacement cost – a decline in the relevant construction index suggests the network would cost less to replace than at the previous year end, impacting the valuation.

Highways performance is assessed through regular reviews by Highways Monitor, a directorate of the Office of Rail and Road. Transport Focus also acts as an independent watchdog contributing ways in which Highways measure and respond to customer satisfaction levels.

The first Highways Monitor report on Highways England's performance concluded that it had made a good start on delivering the first Road Investment Strategy, but noted it would need to implement a more robust internal planning process to ensure future targets were met.

HE's key provision is for Land and Property Acquisitions. This provision is predominantly related to the estimated cost that comes from planning blight, discretionary and compulsory acquisition of property, and the associated compensation, for property owners as a result of the physical construction of a road scheme. It can take several years from the announcement of a road scheme to the final settlement of these liabilities.

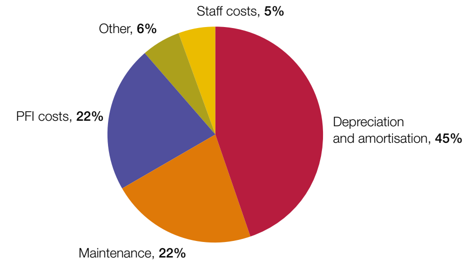
Highways England 2015-16 accounts

Audit opinion	Clear opinion
Date of certification	8 July 2016
Value of key provisions as at 31 March 2016	Land and property acquisitions £117 million

Source: Highways England, *Annual Report and Accounts 2015-16*

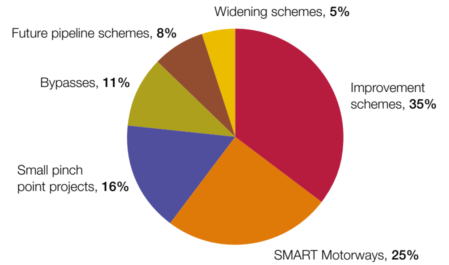
Zoom In+

Highways England gross expenditure: £2.03bn



Zoom In+

Highways England capital additions: £1.9bn



Spending Review 2015

In November 2015, government published its Spending Review 2015 (SR15).

What SR15 means for the Department and transport users

Increasing investment for infrastructure schemes – £46.7 billion capital budget over the next five years for High Speed 2 (HS2), roads, and local transport.

Regulated rail fares to be frozen at no more than RPI inflation until the end of the Parliament.

New flexible season tickets (eg to support part-time workers) to be available on certain lines across the country; £150 million of investment to make Oyster card-style ticketing a reality in the north.

Overall savings of 37% on DfT's relatively small Resource budget by 2019-20 (see graph) through phasing out the TfL resource grant, and improving the premia paid (or reducing subsidies received) by train operators for franchise deals.

More funding for road renewals through the first Road Investment Programme (2015–2019) – £15 billion to cover the resurfacing of 80% of the network, and 1,300 miles of additional lanes.

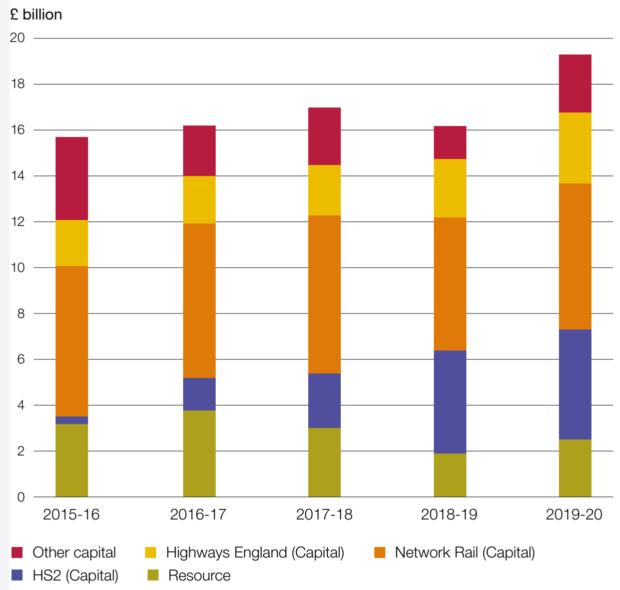
Commuters to be able to claim compensation from their rail tickets if their train is more than 15 minutes late.

Funding of £300 million for the development for new major projects such as Crossrail 2 and proposals emerging from the Northern Transport Strategy; £475 million to support construction of large local transport projects.

DfT expects significant efficiencies in franchising, though these are subject to market risk: from uncertainty about the business environment at the dates franchises are to be re-let; and, on some franchises, from agreements which put the Department at risk in terms of changes in passenger numbers.

Zoom In+

Spending review settlement for 2015-16 to 2019-20



Our audit of the annual report and accounts

Audit opinions on DfT group accounts 2015-16:

- Audit opinions for the Department and all of its arms's-length bodies and agencies in 2015-16 under Comptroller and Auditor General (C&AG) audit were unqualified.
- The C&AG also reported that in all material respects, the Department and all connected bodies audited by the C&AG had spent money in a manner consistent with Parliamentary intention (regularity).
- The C&AG, under the Exchequer and Audit Departments Act 1921, also has to consider whether the DVLA's revenue systems to collect taxes are adequate. The C&AG concluded that in 2015-16 DVLA had framed adequate regulations and procedures to secure an effective check on the assessment, collection and proper allocation of revenue, and that they were being duly carried out.

Vehicle Excise Duty (VED) evasion

The C&AG highlighted in his report on the DVLA's tax collection activity the rise in levels of VED evasion highlighted by the most recent roadside survey. This was the first to be conducted since the abolition of the tax disc and the change to VED entitlement no longer transferring to the new keeper on vehicle transfer. It revealed an increase from a 0.6% non-compliance rate (in 2013) to 1.4% (in 2015).

While the latest rate is still relatively low in relation to other tax streams, the increase – around £80 million annually – suggests the need for continued focus from DVLA on measures to minimise non-compliance with the new rules, deliberate or otherwise.

The C&AG's report also reviews the larger falls in revenue collected on a cash basis from period to period, but concludes that these will have been largely driven by the increased take-up of more 'spread' payment options including monthly Direct Debit introduced in late 2014.

Losses and special payments

Losses include cash losses, fruitless payments and claims abandoned; special payments may relate to extra-contractual, extra-statutory and ex-gratia payments and compensation.

DfT's losses increased this year to £47 million (2014-15: £11 million) as a result of a £40 million write-off relating to Dartford toll penalty charges. This was as a result of a 'balanced' approach to enforcement of the new Dart Charge to allow drivers to get used to to the new arrangements. The majority of the write-off related to an offer to pay outstanding toll charges within 14 days to avoid a first Penalty Charge Notice.

Special payments declined to £23 million (2014-15: £52 million) predominantly as a result in a decline in commercial settlements, despite a £4.8 million settlement with the shared service provider. The majority of this year's special payments related to compensation for industrial disease and injury claims for former British Rail employees.

Infrastructure asset valuations

Because of their specialised nature, and the fact that they are maintained for broader economic purposes rather than for sale, the Department's infrastructure networks are valued on a Depreciated Replacement Cost basis. This is the amount it would cost to reconstruct the current functionality of the networks using modern building standards in a greenfield construction environment, reduced to reflect the condition of the actual network. Note 6 to the accounts discusses the assumptions involved in preparing these estimates, which were subject to considerable audit work in 2015-16.

£110bn

Strategic Roads

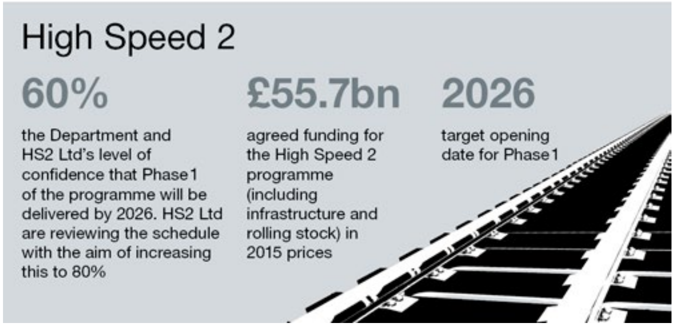
£280bn

National Rail

Progress with preparations for High Speed 2

Since our last report in 2013, the Department and HS2 Ltd have made significant progress in preparing to deliver the programme. They have issued tender documents for major civil engineering contracts on Phase 1, and plan to announce the preferred route for Phase 2b later in 2016.

That said, we concluded that the Department has set HS2 Ltd a schedule for achieving delivery readiness that was very ambitious and the 2026 target opening date for Phase 1 is at risk. The programme is facing cost and schedule pressures and, as such DfT and HS2 Ltd are considering the impact of extending the Phase 1 schedule by up to twelve months. Phase 1 is currently forecast to cost £27,384 million, which exceeds the available funding by £204 million. We also found that the £55.7 billion overall funding package does not cover funding for all the activity needed to deliver the promised growth and regeneration benefits which is the responsibility of local authorities. Therefore, there is a risk that these benefits will not materialise if funding cannot be secured.



Key findings

We encouraged the Department to ensure that the programme schedule for Phases 2a and 2b is based on lessons learned from the challenge of balancing cost and schedule in the detailed design of the Phase 1 schedule.

The Department and HS2 Ltd should quantify the impact that proposed and future changes to the existing plans for Phase 2 will have on core benefits, and the wider strategic aims of the programme.

The Department should also assess whether the pace at which the programme is planned to move over the next few years allows key recommendations and decisions to be supported by full assurance.

HS2 Ltd and the Department should ensure that the rationale behind its key future decisions about High Speed 2, including the implications for the wider network, are clearly communicated to all stakeholders in order to allow the rail industry as a whole to prepare for the future.

Source: *Progress with preparations for High Speed 2*, Session 2016-17, HC 235, National Audit Office, June 2016

Shared service centres

In 2010, the Department announced its plans to move its shared service centre to a private provider and put the contract out to tender. In February 2013, arvato was awarded the framework contract and took over service provision to DfT under a call off contract. The new contract would deliver business as usual services on SAP and while planning and gradually migrating the DfT family on to a new Agresso enterprise resource planning (ERP) platform.

As part of a Cabinet Office Strategy to achieve value for money, the Shared Services arvato (SSa) would become the first of two independent shared service centres for government departments. The SSa then entered into additional call off contracts with HMT, CNC (part of DECC), DCLG and DCMS, with the Cabinet Office as framework authority managing the overarching agreement.

2015-16: By December 2015, DfT was due to have migrated onto the ERP system however, due to number of delays caused by programme design and weakness in HM Government leadership, governance and accountability among other factors, only the Maritime & Coastguard Agency had successfully migrated. SSa approached the Department and the Cabinet Office to seek to reset the contract on an economically positive basis for the company and HM Government took the opportunity to stabilise the service and reduce service disruption that had been caused by successive failed migrations by remaining on the existing SAP platform. As a result of the negotiations other government customers exited their contracts and DfT became the sole recipient of services. In recognition of this the framework responsibilities were novated back to the Department from the Cabinet Office and all migration activity was terminated with the exception of one DfT agency who will be migrating on to SAP, the Department's larger ERP system.

Going forwards: arvato will now be focusing on migrating the Driver Vehicle and Standards Agency (DVSA) onto SAP. The specifications of the DVSA system are currently being developed. Over the remainder of the contract arvato will provide services for the DfT family on the SAP system, with the exception of the MCA who will receive services on the Agresso platform, and implement necessary upgrades for both SAP and Agresso systems.

Source: Comptroller and Auditor General, *Shared service centres*, Session 2016-17, HC 16, National Audit Office, May 2016

Government as one customer

Government recognises that it needs to act as one customer to exploit its buying power in the market. The system of central Crown Representatives continues to develop while we are also seeing the government pursuing central approaches through the Crown Commercial Service and expansion of shared services. Both present challenges for departments to manage.

The Crown Commercial Service (CCS) aims to get better value for money from some £15 billion of common goods and services by centralising the buying and management of these activities across all departments. At the end of 2015, seven departments had transferred £2 billion of spending to CCS. Previous NAO reports have highlighted issues government needs to manage including getting clarity on the operating model for the centre and departments to allow departments to determine how their own commercial functions should operate. NAO plans to report on the Crown Commercial Service later in 2016.

In 2016, we published the report detailed above, which, while critical of the Cabinet Office's leadership of the programme, also warned that departments need to show collaborative and flexible behaviours if the programme is to succeed.

Reforming Network Rail

In 2015-16, it became clear that there were significant increases in forecast costs and timescales for a number of enhancements programmes. In addition, the core business plan for operating, maintaining, and renewing services was deemed insufficient to achieve the savings assumed for the Control Period 5 (CP5). Accordingly, the government commissioned a series of reviews into the running of the business:

Shaw report into Network Rail

First Published: 12 November 2015

Details: This review was designed to look at the long-term future, shape, and financing, of Network Rail. The report dismissed the possibility of full-scale privatisation but recommended exploring more innovative solutions for using the private sector to supplement financing. The report also recommended increased decentralisation and route autonomy to respond more successfully to customer needs at a local level.

Government response: Pending.

Replanning Network Rail's investment programme: a report from Sir Peter Hendy to the Transport Secretary

First Published: 25 November 2015

Details: This review was to replan the delivery of the enhancements portfolio within Network Rail's maximum borrowing limits of £30.875 billion for Control Period 5. The review replans certain elements of the enhancements work beyond 2019, such as electrification of the Great Western Railway between Cardiff and Swansea (originally planned for completion in 2018). To achieve the replanned enhancement portfolio, Network Rail intend to raise an additional £1.8 billion of funding through disposals of its property portfolio.

Government response: The Secretary of State has accepted the report. The programme of railway upgrades will continue to be subject to ongoing assessment and investment decisions to ensure that maximum value is derived for passengers and taxpayers. A report summarising the responses made to the consultation will be published later in the year.

Bowe Review into the planning of Network Rail's Enhancement Programme, 2014 to 2019

First Published: 25 November 2015

Details: This review was to identify the lessons to be learned from the process undertaken for CP5 for the purposes of developing, agreeing and planning the delivery of the enhancements programme for future Network Rail Control Periods. One of the key outcomes from the review was the development of a revised Memorandum of Understanding (MoU) which clarified the roles and responsibilities of the Department for Transport and Network Rail in delivering enhancements projects. This revised MoU led to a move away from the five-year CP cycle of enhancements planning to a continuous, ongoing planning approach.

Government response: Transport Secretary, Patrick McLoughlin, the Secretary of State for Transport, accepted all of the recommendations of the Bowe Review. He has tasked officials to work with Network Rail and the Office of Rail and Road to plan the next steps together.

Reform of the rail franchising programme

We examined the Department's approach to passenger rail franchising since the collapse of the InterCity West Coast competition. We concluded that the Department has improved the management of its rail franchising programme, and is better placed to deliver value for money than it was in 2012, following the collapse of the InterCity West Coast competition.

The results of early franchise competitions indicate that, if managed effectively, returns to the taxpayer could be higher than in the past. We consider that the Department's use of short-term direct awards was sensible but it may have missed opportunities to maximise value for money in the early direct awards.

There are also emerging risks to the value for money of future competitions. In particular, there is significant uncertainty about the infrastructure requirements for some franchises and there are risks to effective competition if market interest declines. The Department recognises these challenges and is taking steps to address them.

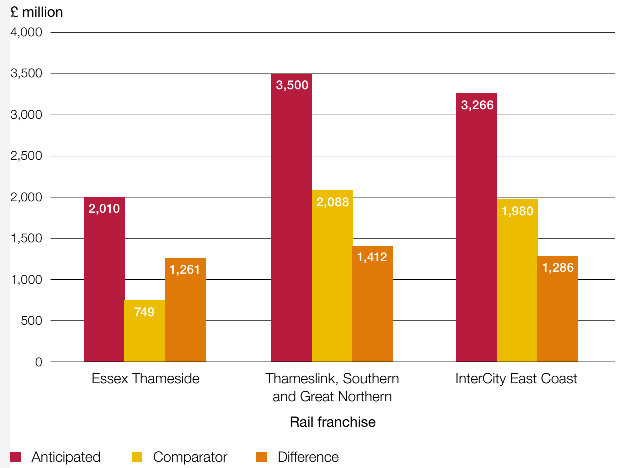
The Committee of Public Accounts (PAC) has looked at rail franchising in 2012 and in 2015. Following the 2015 hearing, PAC recommended that the Department should:

- set out clearly and transparently what benefits it expects passengers to see from each franchise and by when;
- develop alternatives to its current commercial approach so it is well placed to deliver value for money if market interest falls to a level where intense competition cannot be guaranteed;
- fill its remaining vacancies with appropriately qualified individuals as soon as possible. It should provide us with an update on its progress in filling these vacancies and its use of flexibility to pay experts market rates;
- set out the specific steps it is taking to encourage innovation both during the franchise letting process and during the life of the franchise to secure greater passenger service benefits from operators, and better returns to the taxpayer;
- capture and apply learning from its experience of letting and managing franchises during this time of uncertainty; and
- provide a coherent strategic vision and stronger leadership to ensure that the investment decisions it makes now do not result in increased costs in the long term.

Source: HC Committee of Public Accounts, *Reform of the rail franchising programme*, Twenty-first Report of Session 2015-16, HC 600, February 2016

Zoom In+

Total financial premium for three rail franchises using anticipated and comparator projections



Notes

1 The comparator premia uses the Department's long-term forecast model, which projects current performance into the the future for the duration of the new franchise.

2 Figures are in nominal terms at the time the franchises were awarded.

Source: National Audit Office analysis of the Department for Transport information

The sale of Eurostar

We have reported a number of times on High Speed 1 (HS1). In 2012, the Committee of Public Accounts (PAC) concluded that the Department for Transport did not have "sufficient understanding of the economic impact and regeneration benefits of transport infrastructure" and "gives insufficient attention to evaluating its major projects". In 2015, we followed this up with a report on the sale of Eurostar, carried out by the Shareholder Executive. We concluded that the sale price of £585.1 million for the 40% stake was almost double (92% higher than) the government's central valuation of £305 million.

Overall, we consider that the sale of the UK government's entire financial interest in Eurostar resulted in the government achieving its objective of maximising proceeds and represented value for money for the taxpayer.

In early 2016, PAC took evidence on the sale of Eurostar, and took the opportunity to follow up on its 2012 recommendations to DfT by scrutinising the department's recently published evaluation report.

The report showed that the costs of the project were significantly greater than the quantified benefits, with a benefit–cost ratio for the central case assessed as 0.64:1.

Comparison of costs, benefits and benefit–cost ratio between 1998 appraisal, NAO's High Speed 1 report in 2012, and the 2015 High Speed 1 evaluation report

	1998	2012	2015
Purposes of assessment	Appraisal before changes to project arrangements	NAO value-for-money review on project completion	First evaluation commissioned by Department for Transport
Price basis	1997	2010	2010
Transport user benefits (£m)	2,270	7,000	6,700
Total benefits (including wider economic impacts and regeneration) (£m)	2,770	Not estimated	8,030
Costs (£m)	2,050	10,200	12,595
Benefit–cost ratio (transport benefits only)	1.1	Not estimated	0.5
Benefit–cost ratio (including wider economic impacts and regeneration)	1.4	Not estimated	0.6

PAC concluded that the Department did not accept the results of its own evaluation of HS1 showing that the project was poor value for money and considered unacceptable the two year delay in publishing the evaluation.

PAC made the following recommendations:

- The Department for Transport must improve its understanding of the benefits of transport projects by developing a robust way to evaluate the full economic impact of its investments.
- The Department for Transport should provide an assurance that delays of this nature will not occur again and that it will make available all evaluations promptly regardless of their findings.

Source: HC Committee of Public Accounts, *The Sale of Eurostar*, Sixteenth Report of Session 2015-16, HC 564, January 2016

PAC memorandum: Planning and delivery of the 2014–2019 rail investment programme

We provided the Committee of Public Accounts (PAC) with a factual memorandum explaining how the 2014–2019 rail investment period had been planned. This briefing describes the process of planning rail investment, outlines what has changed from the previous planning period and details the government's response.

The key messages were:

- Network Rail's ability to deliver the planned investment programme has been called into question, mainly due to costs escalations, missed milestones and poor project management;
- the expected costs and schedules for some projects, such as electrification work, were uncertain from the outset;
- the rail investment planning process assumes that cost estimates will be refined as projects mature, but there was more project uncertainty in Control Period 5 than in the previous planning period (Control Period 4, 2009–2014); and
- in 2014, Network Rail was reclassified as a public sector body, constraining its ability to borrow. Previously Network Rail could borrow amounts agreed by the Office of Rail and Road from the financial markets, but now it can only borrow from HM Treasury under a loan facility capped at £30.3 billion.

In November 2015, PAC recommended that:

- in all future investment planning, the government must assure itself that its plans can be delivered. The Department, Network Rail and the Office of Rail and Road must assess how uncertainty in key projects could affect the plan's overall costs and schedule;
- the Department should carry out a fundamental review of the regulator's role and effectiveness in rail infrastructure planning;
- the Department, Network Rail and the Office of Rail and Road should put in place sharper accountability arrangements for major enhancement projects;
- Network Rail must embed much tighter project planning, costing and cost control throughout the organisation and be clearer with the Department about what can and cannot be afforded;
- the Department and Network Rail should publish an updated schedule and cost forecast for the Great Western Main Line electrification programme;
- the Department and Network Rail should publish a rail skills strategy for the industry with milestones for delivery and a revised programme of rail electrification improvements; and
- the Department and Network Rail need to have a clear and agreed public strategy about which rail projects are deliverable.

Source: HC Committee of Public Accounts, *Network Rail's 2014–2019 investment programme*, Ninth Report of Session 2015-16, HC 473, November 2015

PAC memorandum: Planning and delivery of the 2014–2019 rail investment programme *continued*

52%

of the total portfolio of enhancements projects, by value, had uncertain costs when the 2014–2019 programme was agreed. This is 60% of the projects by volume.

2

major electrification projects paused in June 2015 (Midland Main Line and TransPennine).

3

reviews into Network Rail and rail infrastructure investment, announced by the government since June 2015.

£38.3 billion

the amount planned to be spent on Network Rail between 2014 and 2019.

£12.8 billion

planned spending on enhancing the network in Great Britain, a 29% increase from the previous planning period.

£1.3 billion

the estimated cost of electrifying the Great Western Main Line from London to Cardiff in September 2014. Network Rail provided a revised cost estimate to PAC, of between £2.5 billion and £2.8 billion.

Local Service Delivery reports relevant to Transport

Reports	Findings (report extracts)	
Service and financial sustainability		
Financial sustainability of local authorities: capital expenditure and resourcing (June 2016)	• "The primary challenge facing authorities in managing their capital spending and resourcing has been to minimise the revenue costs of their capital programmes." • "Authorities have focused capital spending on meeting their statutory responsibilities, engaging in 'invest to save' activities and promoting local growth."	**Increased pressures**
Accountability for Taxpayers' Money (February 2016)	• "The sustainability of cost reductions will depend on the new success of digital services in reducing demand for telephone and postal contact."	
Accountability and regulation		
Devolving responsibilities to cities in England: Wave 1 City Deals (June 2015)	• "There is a move to devolve more control over funding and services to local bodies." • "There is an increased reliance on local systems for accountability, rather than direct scrutiny of individual transport schemes." • "The [city] deals have been an important catalyst for cities to develop their capacity to manage devolved funding and responsibilities. In response to the prospect of receiving new power and responsibility tailored to local challenges, four of the cities have since established combined authorities."	**Reduced oversight**
Local Enterprise Partnership value for money and accountability (March 2016)	• "LEPs now have responsibility for funds pre-committed to transport projects." • "DCLG has given LEPs flexibility over how they use Growth Deal funding." • "49% of LEPs which agreed that there are clear lines of accountability from the LEP to the local electorate." • "Considerable gaps in LEP's compliance with the Department's assurance requirements." • "We found significant variation in the levels of financial transparency across LEPs."	
English devolution deals (April 2016)	• "The government intends over time to combine a number of funding streams into a 'single pot' to enable more local autonomy over investment decisions, and has announced £2.86 billion of initial allocations over five years [which includes] consolidated transport funding." • "There are significant accountability implications arising from the agreement of devolution deals that central government and local areas will need to develop and clarify."	

DfT’s Single Departmental Plan 2015 to 2020

The Department’s vision is for this government to make journeys better, simpler, faster and more reliable. Their plan to achieve this will support jobs, enable business growth, and bring our country closer together.

Future Aims:

- To deliver 30,000 apprenticeships in road and rail during this Parliament.
- Reduce DfT’s administration budget by 12% in this spending review period.
- Enable fee reduction for customers.
- Deliver large scale efficiencies in the Road Investment Strategy.
- Set a programme of initiatives to embed savings in HS2.
- Achieve sustainable efficiencies in Network Rail.

Source: *DfT Single Departmental Plan 2015 to 2020*, February 2016

Objective	How DfT will achieve this:	What DfT has achieved so far:
Boosting economic growth and opportunity	• Investing in infrastructure • Getting the regulatory framework right • Supporting the UK transport sector	• 89.6% of DfT project spend was assessed as high, or very high value for money in 2014 • 59 transport schemes from the National Infrastructure pipeline were in construction in England as of July 2015 • Eight Highways England and local major transport schemes completed from the National Infrastructure Pipeline in England in this Parliament to December 2015 • £5 million savings to business as a result of deregulation
Building a One Nation Britain	• Rebalancing the economy by building the Northern Powerhouse • Keeping costs down for commuters and making transport accessible to all	• 36 transport schemes from the National Infrastructure Pipeline are in construction in England outside London and the South East as at July 2015 • Seven Highways England and major local transport schemes from the Pipeline completed in England outside London and the South East in this Parliament to December 2015
Improving journeys	• Rolling out technology and innovation on our transport networks • Enhancing and maintaining our transport networks	• 83% of national rail passengers satisfied with their journeys in autumn 2015 • 89% national road users are satisfied with the most recent journey taken on the strategic road network • 89.1% of trains ran on time in the final quarter of 2015-16
Safe, secure and sustainable transport	• Ensuring the safety of people using and working on the transport system • Maintaining and improving the security and resilience of the transport system against the full range of threats and hazards • Supporting wider government objectives to protect the environment and public health.	• 30,000 new registrations of ultra-low emission vehicles in 2015 • 0.91% of new registrations were ultra-low emission vehicles in 2015.

Source: *DfT Single Departmental Plan 2015 to 2020*, February 2016

Major future developments for DfT

- Rail Franchising
- Rail Infrastructure
- Aviation
- HS2
- Crossrail 1 and 2
- Other events

2016

- Rail Industry publishes its initial industry plans
- East Anglia train services – Start of new franchise agreement
- South east airport capacity expansion – announcement of the preferred scheme at one of two locations (Heathrow or Gatwick)
- High Speed 2 – preferred 2b route announcement
- High Speed 2 – Bill is expected to gain Royal Assent

2017

- High Speed 2 – Phase 1 to start construction
- First InterCity express (IEP) train to be delivered (Great Western Route Modernisation)
- Crossrail trains introduced to run services from Liverpool Street to Shenfield
- South Western train services – Start of new franchise agreement
- Operation Stack – spaces available
- DfT and Transport Scotland publish their High Level Output Specification (HLOS) and Statement of Funds Available (SoFA)
- West Midlands train services – Start of new franchise agreement
- Crossrail 2 will seek permission to build new line (process would last about two years)

2018

Network Rail

Following reviews by Sir Peter Hendy, Nicola Shaw and Dame Colette Bowe, Network Rail is undergoing major transformation. It is looking at how it can devolve control of routes to provide greater local control. It has also initiated the Enhancements Improvement Programme, designed to strengthen how it plans for and delivers major rail improvement projects.

The Hendy Review set out updated assumptions for delivering the enhancements in the 2014–2019 investment programme (Control Period 5) including higher forecast costs on a number of projects compared to original plans. Network Rail is planning a programme of asset disposals to fund the increased expenditure. It aims to raise £1.8 billion by March 2019 to reinvest in the railway through the disposal of non-operational assets such as railway arch space, commercial sites, freight sites and maintenance depots.

It is continuing to deliver its £38 billion programme of maintenance, renewal and enhancement of the rail network for the period 2014–2019, including electrification projects of the Great Western route.

Network Rail is planning to finalise its business case for its Digital Railway programme by the end of 2016. The Digital Railway is designed to increase capacity and connectivity, and improve safety and reliability on the UK's rail network. Network Rail estimates that the implementation of modern, digital signalling systems (ERTMS) could increase capacity on our railways by around 40%.

Planning for the next five-year rail investment period (2019–2024), or Control Period 6, begins in earnest at the end of 2016 and throughout 2017. In autumn 2016, it is expected that the rail industry will publish its initial industry plans. In spring 2017, the Office for Rail and Road plans to publish advice to ministers, setting out its requirements for Network Rail's Strategic Business Plan and in summer 2017, the Department plans to publish its requirements in its High Level Output Specification. Network Rail's plans for delivering this specification are due in 2018.

The Department's major rail projects and programmes

High Speed 2 – The coming year is important for the development of the programme with major activities taking place and milestones that the Department and HS2 Ltd are aiming to meet, including:

- announcing, in autumn 2016, the proposed route for Phase 2 of the railway, between the west midlands and Manchester and Leeds, including decisions on the location of a station in south Yorkshire;
- gaining Royal Assent for the hybrid bill for Phase 1 of the programme by the end of 2016, which would provide the Department with the powers to acquire land and begin building the railway;
- awarding up to £12 billion of civil engineering contracts for Phase 1; and
- beginning the procurement of contractors' design and build stations and new trains, and implement rail systems such as signalling for Phase 1.

Thameslink – The programme is moving into a crucial phase:

- Network Rail is aiming to complete work on London Bridge Station by 2018.
- The current train operating company, Govia Thameslink Railway and Network Rail are continuing to introduce new trains to the network, with the last train scheduled to be running by the end of 2018.
- The development and implementation of new signalling systems is continuing, which should enable 24 trains per hour to run in each direction between London St Pancras and Blackfriars.

Crossrail

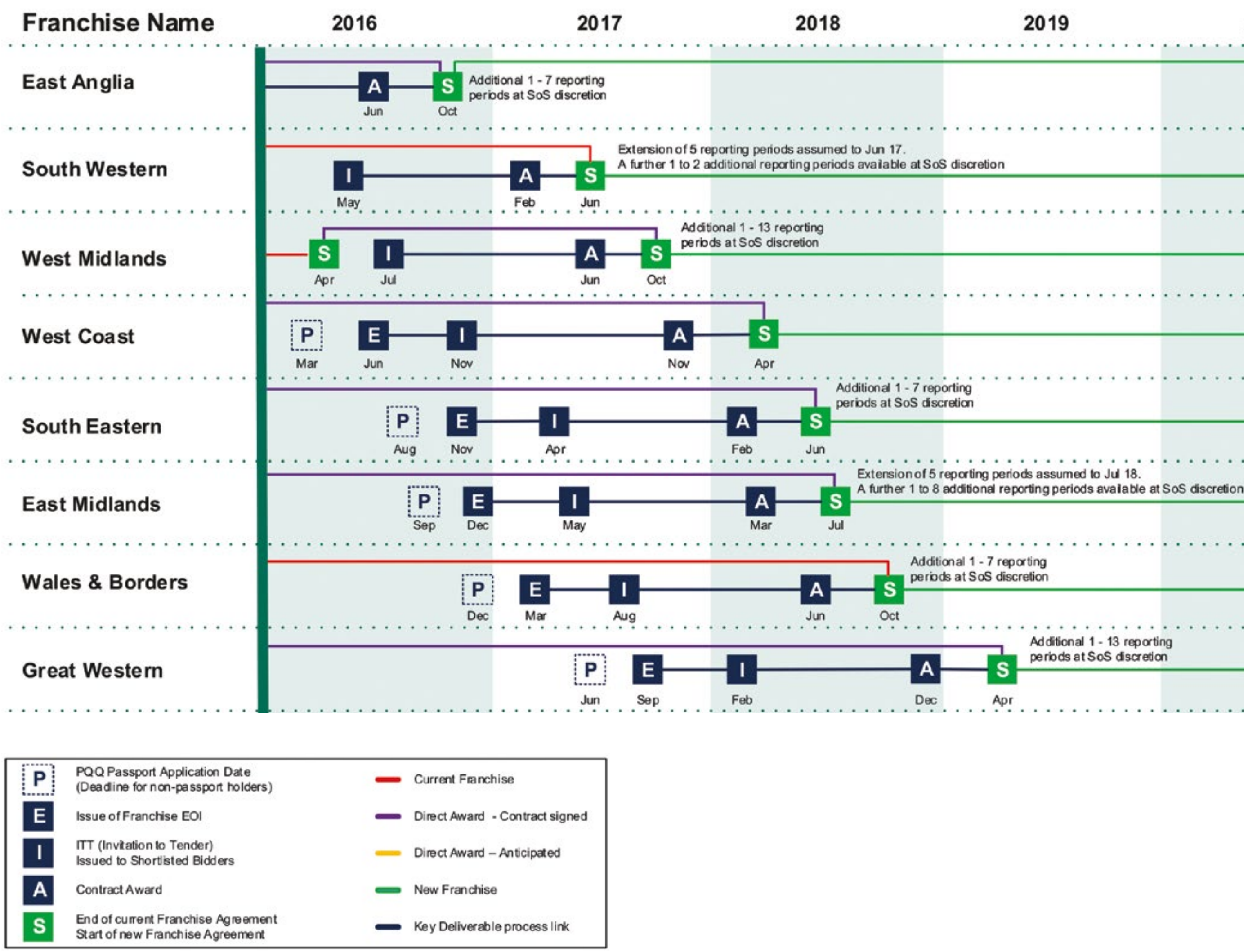
- Civil engineering work on which the Department is co-sponsoring and co-funding with Transport for London (TfL) is due to be completed during 2017.
- The Department and TfL are planning to start operating new services, with new trains on the eastern section of the railway between Liverpool Street and Shenfield from May 2017.
- Crossrail Ltd is proceeding with installation of railway systems with the aim of opening the central, tunnelled section of the railway in December 2018.

Rail franchising

The Department's latest schedule of franchise competitions shows that it is planning to award three franchises during 2017 including two of the largest and most significant on the network: South Western, which serves vital commuter routes into London; and the InterCity West Coast, which is one of the main intercity routes between London, the Midlands, the north-west of England, and Scotland.

The Department is also planning to reach expressions of interest stage on four further competitions between late 2016 and autumn 2017.

The Department's full schedule of franchise competitions is available here.



Other future developments

The government is still to announce its decision on how and where to increase airport capacity in the south east of England following publication of the Airport Commission's report in July 2015. The latest statement by the government on the date of an announcement was that it would not take place before October 2016.

- 2015 marked the beginning of **Highways England**'s delivery of its first Road Investment Strategy. Highways England has been allocated over £12 billion to invest in the enhancement and maintenance of the strategic road network (motorways and major 'A' roads) between 2015-16 to 2019-20.
- Work has started on one of the main enhancement projects; the improvement of the A14 between Cambridge and Huntingdon, which includes a new bypass south of Huntingdon.

- During 2017, Highways England and the Department will progress with planning of the second Road Investment Strategy and major schemes such as a proposed new crossing over the River Thames near Gravesend and improvements to the A303, including a tunnel beneath Stonehenge.
- The **Cities and Local Government Devolution Act 2016** provides for, among other things, the transfer of powers to run local transport services to local authorities and combined authorities. The extent of this devolution depends on the deal struck between the government and the local authority. Following the election of a directly elected mayor for Greater Manchester in May 2017, the new Mayor will have control of a devolved multi-year transport budget, bus services, and ticketing.

- **Transport for the North** will continue to work with the Department, Network Rail, Highways England and HS2 Ltd on the implementation of its Northern Transport Strategy.

As of October 2016, the **Bus Services Bill** was at the report stage in the House of Lords. The Bill is designed to provide local authorities and combinations of authorities with a range of options for how they run local bus services.

Our work in progress

Investigation: The Department for Transport's funding of Garden Bridge

Scheduled: Autumn 2016.

A factual investigation looking at the Department for Transport's handling of its £30 million grant to the Thames Garden Bridge project. The work will not look to conclude upon the value for money of the project as a whole.

Click here

Modernising the Great Western Railway

Scheduled: Autumn 2016.

The Department for Transport and Network Rail plan to improve passenger services on the Great Western Main Line through infrastructure improvements and the introduction of new trains.

The NAO will focus on how well the Department and Network Rail planned the programme from the outset, the extent to which previous programme management issues have been addressed, and how the Department and Network Rail are managing the remaining risks to value for money.

Click here

Road investment strategy

Scheduled: Spring 2017.

In 2013, the government announced its intention to reform its approach to investment and management of England's strategic road network (SRN) – i.e. motorways and major 'A' roads.

To achieve this the Department for Transport replaced the Highways Agency with Highways England; a government-owned company responsible for the enhancement, maintenance and operation of England's SRN. In autumn 2014, the Department published the Road Investment Strategy (RIS), a five-year strategy for investment in the strategic road network. The Department for Transport is responsible for funding and sponsoring the RIS, while Highways England is responsible for delivering it.

This is the first of a series of studies looking at the Department and Highways England's progress in delivering value for money from their investment in the SRN. This study will focus on how well the Department and Highways England plan and manage the portfolio of projects included in the RIS to deliver overall value for the use of public money.

Click here

Department for Transport sponsored bodies

Reported within DfT's accounts

Advisory non-departmental public bodies:

- Disabled Persons Transport Advisory Committee

Within DfT's accounting boundary, but also published their own accounts

Executive Agencies:

- Driver & Vehicle Licensing Agency
- Maritime & Coastguard Agency
- Vehicle Certification Agency

Executive non-departmental public bodies:

- British Transport Police Authority
- Directly Operated Railways Limited
- High Speed 2 Limited
- The Commissioner of Northern Lighthouses
- Trinity House Lighthouse Service
- Transport Focus

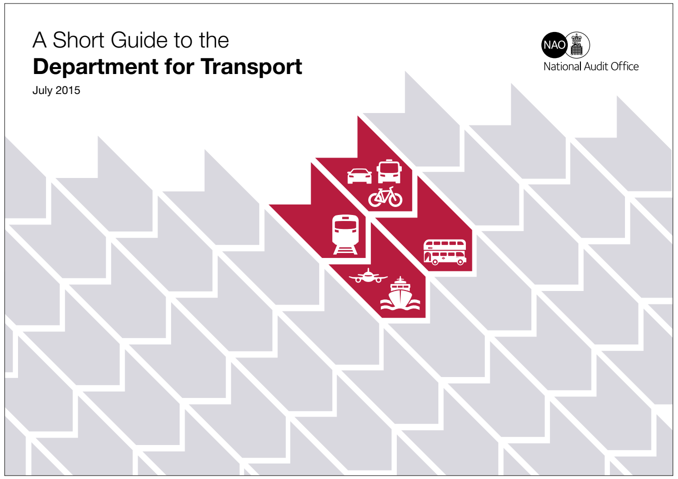
Other bodies:

- Network Rail and its UK subsidiaries
- Highways England
- CTRL Section 1 Finance Plc
- LCR Finance Plc
- The Commissioners of Irish Lights
- Air Safety Support International Limited
- Air Travel Trust Fund

Outside the accounting boundary but controlled or otherwise sponsored by DfT

- Civil Aviation Authority
- Driver & Vehicle Standards Agency
- Network Rail Insurance Limited (Guernsey)
- NATS Holdings Ltd
- ITSO Ltd and ITSO Services Ltd
- *Port authorities, harbour boards and others small bodies*

National Audit Office publications of interest to the Department



A Short Guide to the Department for Transport
National Audit Office, July 2015

Reports directly related to Transport

A short guide to Network Rail, August 2015

Confirmed impacts: helping government to learn from past rail infrastructure programmes, October 2015

Confirmed impacts: developing the capability needed to deliver the rail strategy, October 2015

Delivering major projects in government: a briefing for the Committee of Public Accounts, January 2016

Departmental sustainability overview: Department for Transport, April 2016

PAC memorandum: planning and delivery of the 2014–2019 rail investment programme, October 2015

Progress with preparations for High Speed 2, June 2016

Reform of the rail franchising programme, November 2015

The sale of Eurostar, November 2015

Other relevant National Audit Office reports

Accountability to Parliament for taxpayers' money, February 2016

Companies in Government, December 2015

Department's oversight of arm's-length bodies: a comparative study, July 2016

Devolving responsibilities to cities in England: Wave 1 City Deals, June 2015

English devolution deals, April 2016

Financial sustainability of local authorities: capital expenditure and resourcing, June 2016

Framework to review models, March 2016

Government's management of its performance: progress with single departmental plans, July 2016

Government commercial and contracting: an overview of the NAO's work, May 2016

Local Enterprise Partnerships, March 2016

Shared service centres, May 2016

Spending review 2015, July 2016

The digital skills gap in government: survey findings, December 2015

Staff attitudes and engagement

Employee engagement is shaped by experience at work, as measured by nine themes in the survey shown below. The percentile figures indicate the proportion of respondents who have expressed **positive** feelings about the following themes at their workplace.

Civil Service People Survey 2015

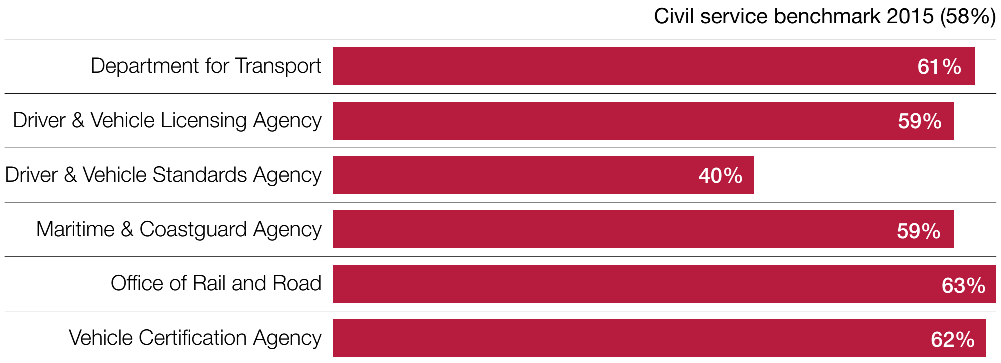
Attitudes of staff in 2015 compared with 2014 – Department for Transport

Key

- Results in 2015
- Increase since 2014
- Decrease since 2014
- No change

Theme	Results in 2015	Change since 2014	Civil service average
My work	80%	+2	74%
Organisational objectives and purpose	83%	+2	83%
My manager	69%	No change	68%
My team	84%	+1	80%
Learning and development	58%	+4	49%
Inclusion and fair treatment	79%	+1	74%
Resources and workload	73%	+1	73%
Pay and benefits	35%	+3	30%
Leadership and managing change	52%	+6	43%

Engagement index 2015



Sources: Civil Service People Survey 2015 and 2014