National Audit Office

DEPARTMENTAL OVERVIEW 2019

DEPARTMENT FOR TRANSPORT

JANUARY 2020

DEPARTMENT FOR TRANSPORT

This overview summarises the work of the Department for Transport including what it does, how much it spends, recent and planned changes, and what to look out for across its main business areas and services.

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About the Department

The Department for Transport (the Department) works with its agencies and partners to support the transport network that helps the UK's businesses and gets people and goods travelling around the country. It plans and invests in transport infrastructure to keep the UK on the move.

The Department has six objectives, which it set out in its 2019-20 Single Departmental Plan (SDP). These are:

1. Support the creation of a stronger, cleaner, more productive economy
2. Help to connect people and places, balancing investment across the country
3. Make journeys easier, modern and reliable
4. Make sure transport is safe, secure and sustainable
5. Prepare the transport system for technological progress and a prosperous future outside the EU
6. Promote a culture of efficiency and productivity in everything it does

These objectives are supported by 19 sub-objectives and 56 actions. Rail and roads have the most, with 16 and 10 respectively. Unlike the prior year, this year's SDP has no specific actions covering buses.

The Department's main responsibilities, alongside maintaining high standards of safety and security in transport and encouraging the use of new technology such as smart ticketing and low-carbon vehicles, are:

Roads

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

Working to make England's 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 by funding investment in infrastructure through Network Rail, and awarding and managing rail franchises and regulating rail fares.

Aviation

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

Local transport

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

Buses

Improving bus services in England through funding and regulation.

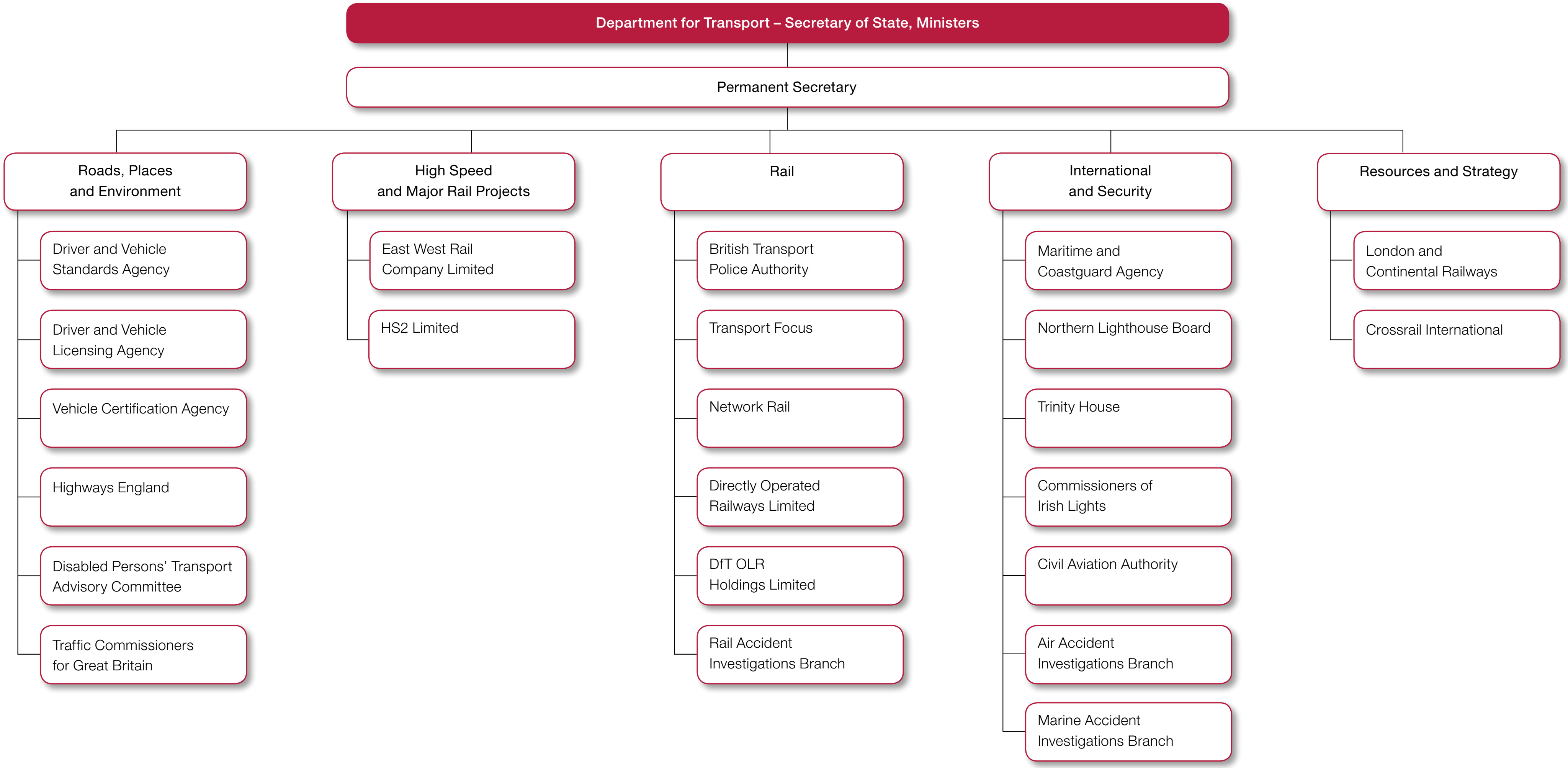
Shipping

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

How the Department is structured

The Department for Transport group comprises the central (core) Department, executive agencies and a range of other arm's-length bodies including government-owned companies and executive, advisory and tribunal non-departmental public bodies (NDPBs), and public corporations.

The figure below illustrates the Department's high-level organisational structure and the bodies which the Department funds and sponsors.



Note

1 DfT OLR = Department for Transport Operator of Last Resort (OLR)

Source: Department for Transport

Where the Department spent its money in 2018-19

The Department's net spend for the year was £24.8 billion

The Department spent £27.4 billion in 2018-19, and received income of £2.6 billion which meant its net spending was £24.8 billion. As shown in the diagram, the Department's largest areas of spend are in the management of national rail and road infrastructure.

Through its principal delivery bodies, the Department spent 63% of net spend on enabling rail delivery; 21% on enhancing and maintaining England's motorways and major trunk roads; and 10% on funding for English local authorities, broadly the same proportions as 2017-18. Local authority funding is a mix of non-ringfenced funding that authorities can spend as they consider best, including on non-transport activities, and some grants allocated for specific transport or local growth projects. New areas of spend include the Department's financial support to Crossrail Ltd, totalling £517 million, and exceptional income of £1.4 billion from the sale of Network Rail's commercial property portfolio.

Notes

1 Spend is proportional by area. All figures show net outturn, based on the Department's Statement of Parliamentary Supply (resource and capital spend combined).

2 Several bodies generate a significant level of revenue to offset their expenditure. The largest of these were:

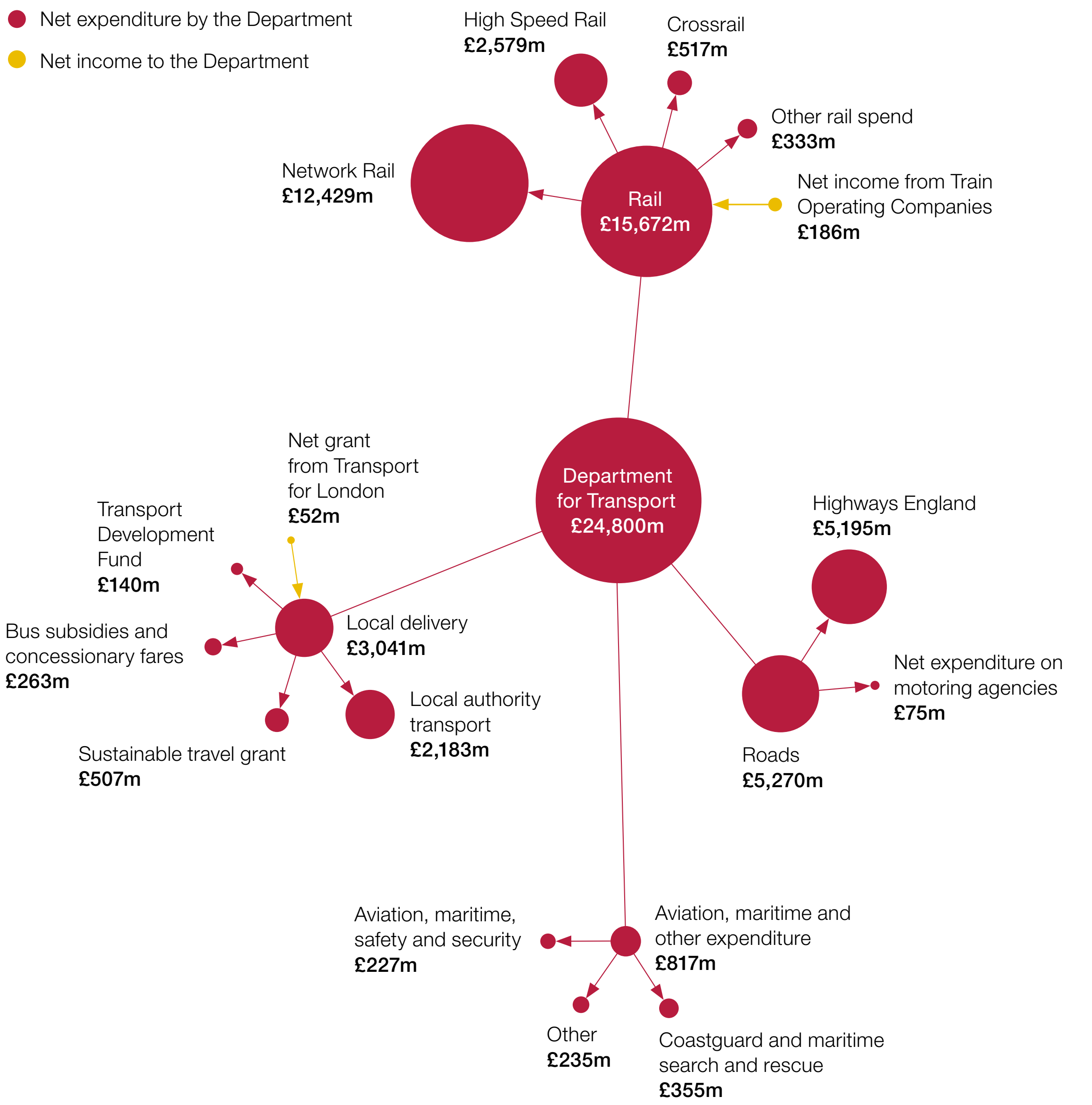
- Network Rail, which generated £6,676 million of operating revenue, and exceptionally £1,419 million of proceeds from the sale of the railway arch portfolio;
- British Transport Police (see Other), which generated £303 million income from train operators and incurred operating costs of £359 million; and
- Driver Vehicle Licensing Agency (DVLA) (included in 'Net expenditure on motoring agencies'), which generated £551 million income against operating costs of £410 million. While DVLA generates a surplus from its activities overall, the motoring agencies spend bubble reflects a net expenditure position because it excludes £209 million income in respect of personalised licence plates, which the Department collects as an agent of the Consolidated Fund.

3 High Speed Rail includes £2,063 million expenditure by HS2 Ltd and £516 million by the core Department, mostly on enabling works for the HS2 programme, and also on Crossrail and other high speed rail projects.

4 Other (£235 million) includes central administrative expenditure and income from toll bridges.

5 The net grant from Transport for London (TfL) is the net effect of £29 million given in grants to Transport for London and a repayment of £81 million from TfL.

6 Sustainable travel grants include grants relating to air quality, plug-in vehicles and cycling initiatives.



Source: Department for Transport, *Annual Report and Accounts 2018-19*

Managing public money

The Department's capital spending, which includes spend to build new, or enhance existing, transport infrastructure has been increasing since 2013-14 and is forecast to be £15 billion in 2019-20. The Department is also increasing resource expenditure to maintain infrastructure and operate public services, and expects to spend £5.4 billion in 2019-20 (see diagram).

Capital investment

Between 2013-14 and 2018-19, the Department's capital expenditure rose from £8.6 billion to £13.4 billion. It is set to rise to £15 billion by 2019-20 (2015 prices), which is substantially lower than the previous £17.4 billion forecast for that year. This is due largely to the reprofiling of Network Rail's capital spending profile for its sixth five-year investment period (CP6), which has seen forecasts for 2019-20 fall from £6.9 billion (SR15) to £4.7 billion (latest figures).

The Department's main areas of capital investment since 2013-14 are: (see page 7):

- Network Rail's investment programme for enhancing, operating and maintaining the railway;
- Highways England's delivery of the first Road Investment Strategy (RIS);
- the construction of High Speed 2, where annual spend fell to £2.5 billion from £2.8 billion in 2017-18.

Resource expenditure

The Department's resource expenditure fell to £4 billion from £4.2 billion in 2017-18 despite a planned increase. This small net movement was due largely to three counterbalancing movements in 2018-19:

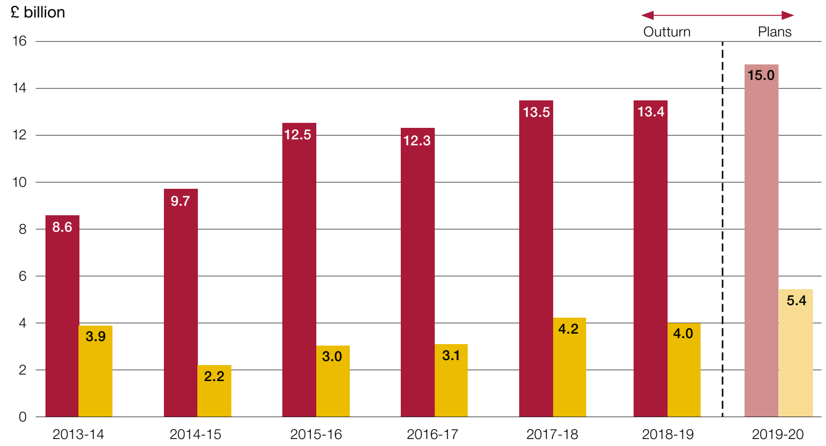
- A £226 million decrease in the amount of grant funding paid to Transport for London since the Department stopped paying the revenue grant in April 2018;
- £247 million profit on the sale of Network Rail's arches portfolio; and
- £559 million reduction in income from rail franchising (see Part Two).

The Department's resource spending is forecast to increase to £5.4 billion in 2019-20, driven by a focus on maintenance spending in Network Rail's CP6 plans.

£13.4bn
capital expenditure in 2018-19
(2017-18: £13.5bn)

£4bn
net resource expenditure in 2018-19
(2017-18: £4.2bn)

Capital investment versus resource expenditure



Total Capital DEL and AME

Total Resource DEL and AME minus Total Non-Cash items

Note

1 DEL is departmental expenditure limit; AME is annually managed expenditure.

Source: Department for Transport, *Annual Report and Accounts* 2017-18 and *2018-19*. Annex C: Expenditure Tables. Planned values are an accumulation of various fiscal events such as Spending Rounds

What to look out for

- A full, multi-year Spending Review is planned for 2020.
- The fast-tracked spending round in September 2019 set revenue budgets for 2020-21 (capital budgets were already in place) and allocated an additional £490 million to the Department. This includes increased funding for rail infrastructure maintenance and £200 million for improving bus services.

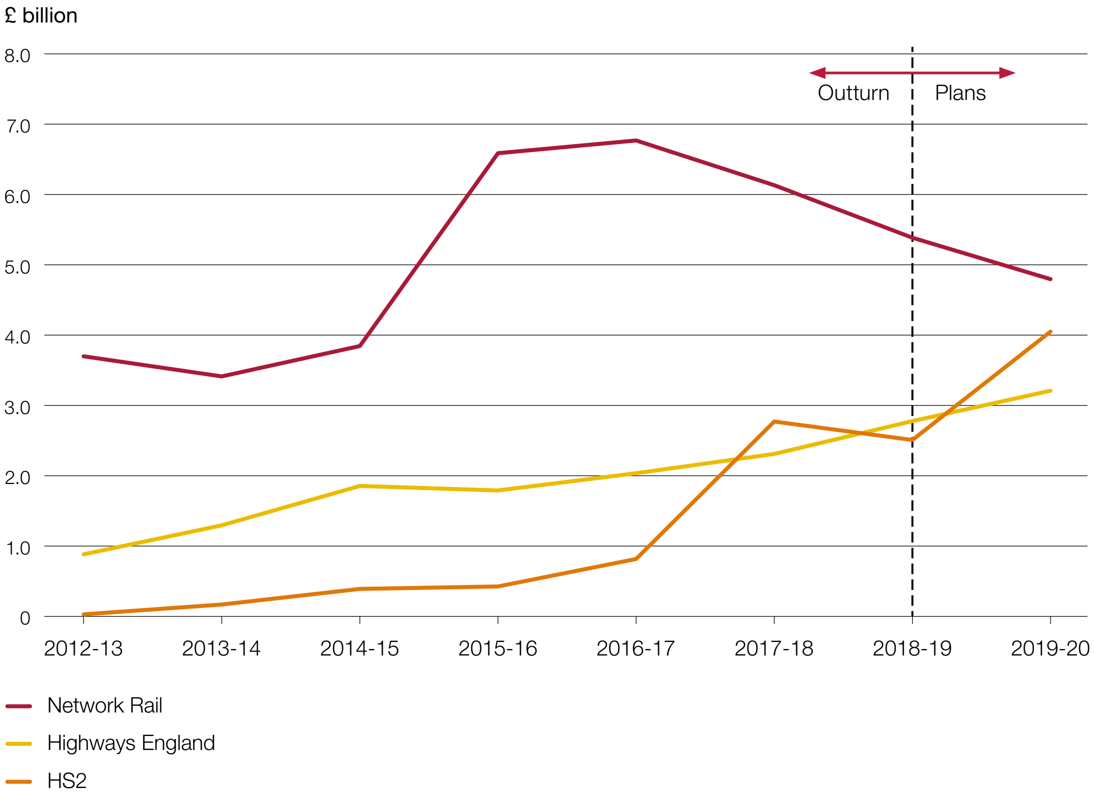
Managing public money *continued*

Renewals and enhancements

In 2018-19, Network Rail spent £3.8 billion on infrastructure enhancement projects (£4.1 billion 2017-18) and £3.1 billion on renewing the existing network (£2.4 billion in 2017-18), representing a peak in capital spend within Network Rail. However, **net** capital investment, which combines expenditure with the proceeds of disposals, fell last year due to the one-off £1.4 billion sale of its commercial portfolio.

Highways England has gradually increased capital spending over its first road investment period (2014–2019). It spent £2.8 billion in 2018-19, which included significant spend on large projects such as the A14 Cambridge to Huntingdon bypass.

Net capital investment by main delivery body



Source: Department for Transport, *Annual Report and Accounts 2018-19*, Figure 7

Asset sales

Network Rail sold its commercial property portfolio to help address the shortfall in funding, which arose when cost increases on some major electrification projects made its 2014-19 investment portfolio unaffordable (see our March 2018 report, *Investigation into the Department for Transport's decision to cancel three rail electrification projects*). We reported on the sale of arches in our May 2019 report, *Network Rail's sale of railway arches*.

Vehicle Excise Duty

Revenues from Vehicle Excise Duty (VED) increased by £0.4 billion to £6.4 billion in 2018-19 despite a fall in new vehicle registrations. This increase exceeds the Office for Budget Responsibility's (OBR) March 2018 forecast and is due to an increase in the number of vehicles on the road and the 2017 tax changes which mean that many drivers are paying more tax. The Comptroller and Auditor General's Section 2 Report to The House of Commons in the Driver and Vehicle Licensing Agency's (DVLA) Annual Report and Accounts, recommended that the DVLA should continue working to restore compliance levels (98.2% at last measure in 2017) to the previous high of 99%. Since we reported, the 2019 survey has found only a slight increase in compliance at 98.4%. We also recommended that the Department and HM Treasury consider how to respond to the longer-term challenge that the VED tax base is eroded as people shift to zero-emissions vehicles, which are currently taxed at lower or nil rates (page 18).

Losses

The Department incurred a significant one-off loss of £50 million in terminating maritime freight contracts designed to mitigate the risks of a no-deal exit from the European Union in March 2019 (page 10). Following continued delays to electrifying the Great Western mainline, the Department incurred additional costs of £53 million (2017-18: £42 million) in compensation payments to Agility Trains for delaying the introduction of the new intercity trains.

Major changes and developments

Roads

In October 2018, the government announced £28.8 billion for a National Roads Fund for 2020–2025, including £25.3 billion for the strategic road network in the second Road Investment Strategy (RIS 2). The remaining £3.5 billion will go to major local authority roads in the Major Road Network and Large Local Major Schemes.

The government has yet to announce the full list of RIS 2 projects but in October 2018 announced it intends to progress several major road projects including the A66 Trans-Pennine and the Oxford-Cambridge Expressway.

Local transport

The Department continues to devolve responsibility for transport planning. It is supporting the development of sub-national transport bodies (STBs) – for example, it is working with Transport for the North on its Smart Ticketing programme and on the business plan for Northern Powerhouse Rail.

Other than the long-established Transport for London, Transport for the North remains the only sub-national transport body with statutory status. Other STBs are Midlands Connect, England's Economic Heartland, Transport for the South East, Western Gateway and Peninsula Transport, which is the emerging STB for the South West. In February 2019, Transport for the North launched its £70 billion, 30-year Strategic Transport Plan.

In August 2019, all STBs submitted their bids for a share of the £3.5 billion major road funding outlined above.

Air

In June 2019, Heathrow Airport Ltd launched its consultation on Heathrow expansion.

In September 2019, the government and the UK Civil Aviation Authority (CAA) launched the largest repatriation in peacetime to bring approximately 140,000 passengers back to the UK following the collapse of Thomas Cook. The NAO expects to report on costs in early 2020.

Rail

In December 2018, the Office of Road and Rail published its final report of the inquiry[1] into the severe disruption on the network, following the introduction of a new timetable in May 2018. It concluded that the rail industry as a whole had made mistakes, which contributed to the collapse of services on the Govia Thameslink Railway (GTR) and Northern route.

In September 2018, following the timetable problems and the collapse of the East Coast rail franchise, the government announced a root and branch review of the rail industry. The Williams Review will look at the structure of the whole rail industry and the way passenger rail services are delivered and was due to be published before the end of 2019.

In January 2019, the East West Rail Company, which is responsible for restoring a direct rail link from Oxford to Cambridge, launched a six-week consultation on five prospective routes for the Bedford to Cambridge section. The Department spent £8 million on East West Rail in 2018-19 and expects to spend £35 million in 2019-20. It expected HM Treasury to approve the full business case in 2019.

Bus

In September 2019 the Department announced that it was committing to a long-term bus strategy, making £220 million available in the first year of the strategy to local authorities wishing to reverse cuts to routes and improve services.

1 *The Office of Rail and Road: Independent inquiry into the timetable disruption in May 2018 final report*, December 2018

Exiting the European Union

Government has instructed departments to prepare for the United Kingdom leaving the EU.

Work in preparation for EU Exit

The Department is responsible for preparing the transport system for EU Exit and the Department must:

- secure the best outcome for transport users and businesses in EU Exit negotiations through supporting UK negotiators on transport matters and putting in place new transport legislation; and
- help establish a separate, distinct international trade policy through building international transport trade links, supporting exports and developing trade policy as well as plans to establish Crossrail International as a presence in target markets.

As at April 2018, the Department had 20 EU Exit workstreams (see below).

In 2018-19, HM Treasury allocated £75.8 million[1] to the Department for EU Exit preparations out of a total of £1.5 billion across government. It has allocated an initial £25 million to the Department for 2019-20 and a share of £344 million additional funding, announced in July 2019, to help get new border and customs operations ready for no deal. This additional funding is for improving transport infrastructure around ports and for Operation Brock.

The Department advises us that it has laid 77 Statutory Instruments to ensure that UK law can continue effectively in a no-deal scenario and that it has a further 17 to pass.

Note

1 Excluding existing transport budgets which the Department has redirected to EU Exit spending.

The Department has advised us that its EU Exit workstreams are as follows:

Aviation

UK–EU Air Services Connectivity

Aviation agreements with Third Countries

Air Traffic Management Systems

CAA and industry readiness to meet safety requirements

Mutual Recognition of UK and EU Security Regimes

Emissions Trading Scheme

Maritime and freight

European Maritime Safety Agency Systems

Marine Equipment Directive

Freight Capacity

Rail

Managing Rail Disruption

Roads

Private Motoring

Haulage

Trailer Registration and Permits

Buses and Coaches

Border Readiness Checks

Kent Traffic Management

Vehicles

Vehicle Emissions

Vehicle Type Approval

Cross-cutting

EU Funding

Public sector personal data flows

Exiting the European Union *continued*

Preparing for a no-deal exit

Securing freight capacity for a no-deal exit

In planning for a March 2019 EU Exit date, the government anticipated that additional checks at the border could significantly reduce the flow of goods through Channel crossings. In December 2018, to allow it to prioritise the flow of critical goods in the event of no-deal, the Department awarded three contracts (value around £103 million) to secure additional freight capacity.

Our report of February 2019, *The award of contracts for additional freight capacity on ferry services*, looked at the Department's decision to award contracts through a procurement procedure which can be completed quickly for reasons of extreme urgency but poses a greater risk of legal challenge. We said that the Department had assessed the Seaborne Freight bid as high risk.

Eurotunnel began legal proceedings against the Department, challenging the legal basis on which the contracts were procured. Our May 2019 report, *Out-of-court settlement with Eurotunnel*, looked at the Department's consideration of the risk and its decision to reach a £33 million out-of-court settlement. On postponing EU Exit, the capacity was no longer required and, in April 2019, the Department negotiated a settlement to exit the contracts with ferry companies. It has paid £50 million as part of this exit. It faces ongoing legal challenges.

In our September 2019 report, *Exiting the EU: supplying the health and social care sectors* we outlined the Department's progress in procuring, on behalf of government, additional freight capacity to bring medicines and other critical goods into the UK in the event of no-deal in October 2019. We reported that it may not have all the additional capacity in place until 30 November.

Operation Brock

To keep the M20 open in the event of disruption to cross-Channel services, Highways England has made plans to keep lorries in a series of holding areas around Kent. Coastbound lorries will queue on the M20 with two-way traffic moving around them, and additional capacity will be available at Manston Airport. If these areas become full, lorries will queue along the M26.

To enable Operation Brock, Highways England has converted the hard shoulder to a permanent driving lane and erected a steel barrier on the M20. Operation Brock is currently inactive until a potential no-deal EU Exit occurs, but the steel barrier and speed limits of 50 mph remain in place.

Haulage and trailer registration systems

The Driver and Vehicle Standards Agency (DVSA) has introduced a new digital system to issue and allocate permits to UK hauliers enabling them to access EU markets in the event of no deal.

The DVLA has introduced a system for trailer registration as some EU countries may require UK drivers to register trailers separately from the vehicles towing them.

The Department spent £13 million on these systems in the 2018-19 financial year.

Delivering transport infrastructure

The Department and its partners are delivering a challenging portfolio of complex infrastructure projects. In September 2018, the Department had 18 projects on the Government Major Projects Portfolio with estimated whole-life costs of £133 billion, making it the second largest portfolio behind the Ministry of Defence. Rail projects dominate the portfolio. The Infrastructure & Projects Authority's (IPA's) delivery confidence ratings are shown below.

Major projects supported by the Department for Transport to 2035 as listed on the Government Major Projects Portfolio at September 2018

Major projects	Mode	IPA rating[3]	Whole-life cost (£m)[4]
A14 Cambridge to Huntingdon Improvement Scheme	Road	●	£1,435
A303 Stonehenge Amesbury to Berwick Down	Road	●	£1,556
Airport Capacity Programme (Heathrow expansion)[1]	Air	●	£22,732
Crossrail Programme	Rail	●	£15,474
East West Rail Programme (Western Section)	Rail	●	£1,091
Great Western Route Modernisation (GWRM)	Rail	●	£5,001
High Speed Rail Programme	Rail	●	£55,700
Intercity Express Programme	Rail	●	£6,583
Lower Thames Crossing	Road	●	£5,509
M20 Lorry Area[2]	Road	●	TBC
Midland Mainline Programme	Rail	●	£1,671
North of England Programme	Rail	●	£6,052
Rail Franchising Programme	Rail	●	£20
South West Route Capacity	Rail	●	£820
Thameslink Programme	Rail	●	£7,269
East Coast Mainline Programme	Rail	●	£1,040
Digital Railway	Rail	●	£450
A428 – Black Cat to Caxton Gibbet	Road	●	£809

Notes

1 This scheme is expected to be designed, built and funded by the private sector.

2 Baseline figures are yet to be approved for the new project. These will be set when the scope is agreed with the Department.

3 The IPA rating is an assessment of the project's ability to deliver its aims and objectives to the agreed time, cost and quality parameters.

4 Whole-life costs are correct as at September 2018 and may have changed since then.

Source: IPA annual report on Major Projects 2018-19 and DFT Government Major Projects Portfolio data, 2019

Our value-for-money work shows that managing interdependencies and cost escalation remain key challenges. The Department and the IPA reflect these themes in their April 2019 report *Lessons from transport for the sponsorship of major projects*.

Managing interdependencies

Successful delivery of rail infrastructure project requires the integration of multiple interdependent elements – track, trains and complex mechanical, electrical and digital systems.

In our May 2019 report, *Completing Crossrail*, we looked at what caused the programme to fall into difficulty and suffer substantial delays and cost increases. We found that early decisions by Crossrail Ltd and a determination to stick to its original planned opening date led to many activities happening in parallel. This made the programme more complex to deliver, creating many interdependencies. Crossrail Ltd did not have a project plan that allowed it to manage those interdependencies.

Managing complex interdependencies and turning a project into an operational railway is a perennial challenge for the Department as we have seen in our previous work on the Great Western Modernisation Programme and Thameslink. High Speed 2 (HS2) and East-West rail will face similar challenges.

Managing costs and benefits

Our work has shown that the size, duration and complexity of government projects can create challenges around establishing realistic cost envelopes and in managing costs and benefits. These challenges are particularly acute in transport, where the Department's portfolio is dominated by multi-billion pound projects that span several years. We cover HS2 costs on page 15.

In our May 2019 report on *Improving the A303 between Amesbury and Berwick Down*, we found that the high cost of building a tunnel at Stonehenge gave the project a lower benefit–cost ratio than is usual in road schemes. The business case is reliant on uncertain cultural heritage benefits, making it particularly important for the project to control costs to ensure long-term value.

Delivering transport infrastructure *continued*

The Department uses the majority of its budget to invest in modern transport infrastructure. Spending on road and rail accounts for more than 80% of the Department's overall budget (page 5).

Delivering via multi-year investment programmes

For the strategic road network (motorways and major A roads) and the rail network, the Department says what it would like Highways England and Network Rail to deliver over five-year periods and confirms the funding available. This gives delivery bodies certainty over funding for longer periods but overspending in one period can crowd out investment in following periods.

Highways England

Highways England entered the final year of its first five-year road investment strategy (RIS 1, worth £15 billion) in April 2019. Cost estimates across the portfolio have increased and the funding is no longer enough to deliver all 112 projects originally planned. By March 2019, 103 projects remained in the programme and 29 had moved to the following investment period (RIS 2).

The Department has announced £25.3 billion funding for RIS 2 (2020 to 2025). Possible inclusion of some major projects such as the Lower Thames Crossing and the Oxford-Cambridge Expressway are being considered alongside commitments to projects delayed from the first road period. This may limit funds available for other new projects.

In May 2019 we reported on progress with the A303 at Stonehenge (*Improving the A303 between Amesbury and Berwick Down*), most of which sits outside the RIS 2 funding envelope. Following the government's decision in October 2018 to abolish private finance for future projects, Highways England has said that it must secure additional funding from HM Treasury by the end of 2019 if the project is to open in December 2026 as planned.

Network Rail

In April 2019 Network Rail started its sixth five-year rail investment period (control period, CP6) with a commitment to spend £48 billion on the rail network. This funding covers operation, maintenance and renewal of the existing rail network. Unlike for CP5, this settlement includes only some of the money Network Rail will require for enhancements. The specific scope of and funding for new enhancement projects will be agreed bilaterally on a per-project basis under a new *Memorandum of Understanding*.

Accounting officer assessments

In January 2019, the Department's accounting officer made available to Parliament their *Accounting officer assessment* of the East Coast Main Line enhancements programme and its adherence to the standards set out in HM Treasury's *Managing Public Money*.

What to look out for

- A decision on whether HM Treasury will provide additional funding for the A303.
- The detail of projects included in RIS 2.
- Specific funding announcements for major Network Rail enhancements during CP6.
- Next steps on East West Rail including a preferred route announcement for the central section and on Northern Powerhouse Rail.
- More details on smaller-scale infrastructure, such as bus express lanes, to be funded as part of the new bus strategy.

Improving rail passenger services

Rail passengers took 1.8 billion journeys by rail in 2018-19. The Department contracts out the operation of passenger rail services in England to Train Operating Companies (TOCs) through 14 franchise agreements that typically run for 7–10 years.

Passenger rail performance

Between 2014-15 and 2018-19, the performance of rail services was measured using the Public Performance Measure (PPM), which records the percentage of services that reached their final destination within five minutes of scheduled time (10 minutes for long-distance operators).

PPM has declined broadly since 2014-15, falling from an average annual figure of 89.7% down to 86.3% in 2018-19, with considerable variation between each month and operator (see right). Where Network Rail is responsible for disruption, they must pay compensation to railway operators. Payments from Network Rail to operators for planned and unplanned rail disruption have increased from £107 million to £439 million over the same period.

Throughout the period from 2014-15 to 2018-19, performance on the Thameslink, Southern and Great Northern franchise, the largest franchise, has been affected by industrial action, infrastructure enhancement work and timetabling issues which have affected passenger performance.

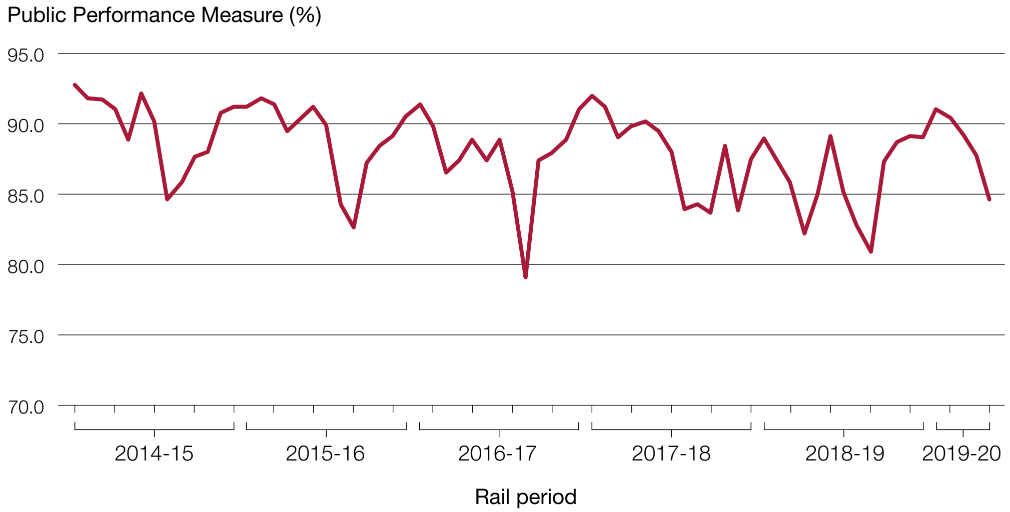
The Williams Review

In September 2018, the Secretary of State for Transport announced a fundamental review of the rail industry, to examine how it could better address the interests of taxpayers and passengers. This includes looking at how the industry's structure could better promote accountability and effective joint working. This review is expected be published imminently and the Queen's Speech of Decemeber 2019 included reference to the review's implementation.

What to look out for

- Approach to next franchise awards following the Williams Review.

Public Punctuality Performance Measure (PPM) of rail services in Great Britain since 2014-15



Notes

1 PPM is the percentage of services that reached their destination within five minutes of scheduled time (ten minutes for long distance operators).

2 Each financial year is split up into 13 rail periods, with period 1 starting in April and period 13 finishing in March.

Source: Office of Rail and Road

Improving rail passenger services *continued*

Passenger rail finances

Each franchise contract provides for the operator to either pay a premium to, or receive a subsidy from, the Department, depending on how profitable their routes are expected to be. In 2018-19, the Department received £1.2 billion income from premiums and paid £1 billion in subsidies.

The Department's net income from franchises has fallen significantly since 2016-17 and next financial year it anticipates it will pay a net subsidy (top right). This is in part because the rail industry faces financial pressures; revenues that franchises earn from operating rail passenger services have been difficult to predict, and in recent years have unexpectedly grown more slowly than anticipated. This impacts their ability to pay premiums to the Department. The figures (right) to the left show how the rate of growth in passenger revenues growth has changed over time, and how the Department's forecasts of its income have changed as a result.

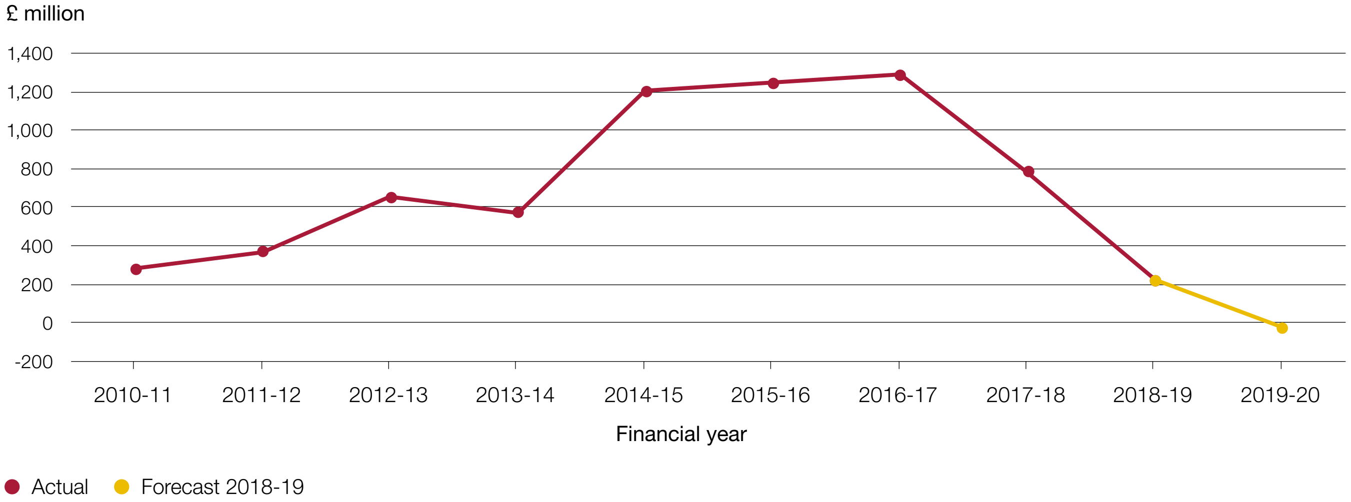
There is also uncertainty in the future costs of operating franchises. Following a formal investigation by The Pensions Regulator (TPR), operators may need to provide additional contributions to support the Railway Pensions Scheme, should TPR decide to take regulatory action.

The Department provided operators with partial protection from pensions cost increases in its most recent competitions, although some rail companies argue this was not enough. This led to companies refusing to accept these risks in their bids, and the Department subsequently disqualifying them from competitions. These groups have raised legal challenges against the Department in return.

The Department also had to cancel the latest Southeastern franchise competition for other reasons, citing concern that continuing the competition would mean greater cost to the taxpayer.

The Department for Transport's net income from rail franchises 2010-11 to 2019-20

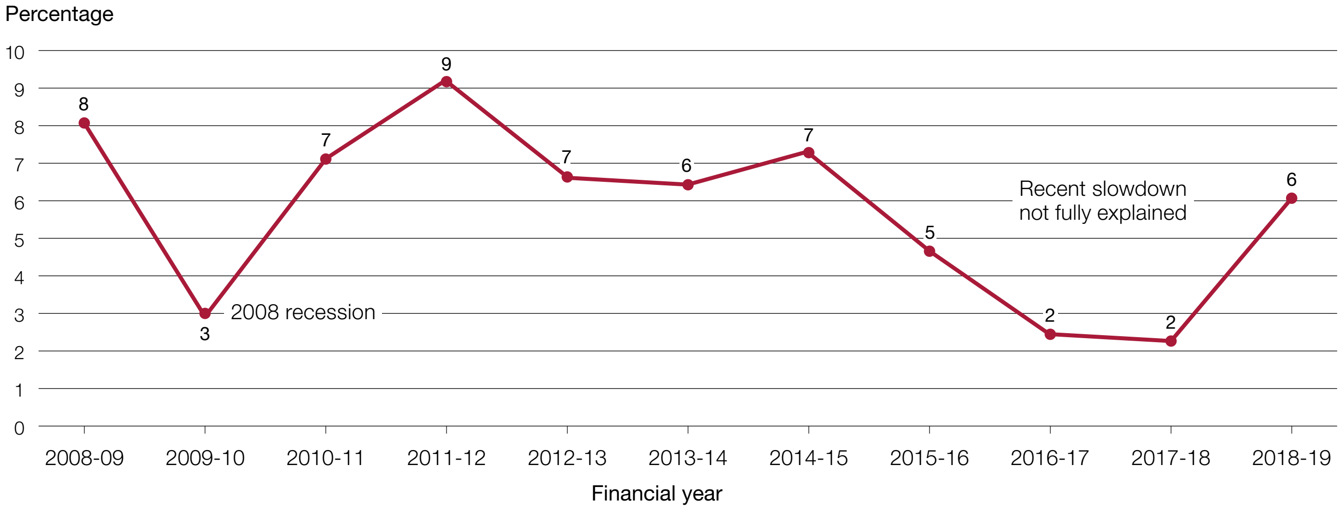
Net franchise income has fallen since 2016-17 and the Department expects to pay a net subsidy in 2019-20



Source: Department for Transport spending tables

Rate of growth in rail passenger revenues since 2008-09 (Great Britain)

Passenger revenue growth slowed down between 2014-15 and 2017-18



Source: Office of Rail and Road

High Speed 2

High Speed 2 is government's major programme to create a new high speed rail service between London Euston, Leeds and Manchester, splitting to form a Y-shape in the West Midlands. Construction of the railway has three phases – Phases One, 2a and 2b. The Department expects High Speed 2 to improve journey times between towns and cities, increase rail capacity, and therefore support regeneration and boost economic growth across the UK.

The programme is the largest in the Government Major Projects Portfolio. Many of its component parts, such as the development of Euston, construction of the railway, and purchase of land and property for the route of the railway, are large and complex programmes in their own right.

Delivering High Speed 2

The Department funds and sponsors the programme. High Speed Two Limited (HS2 Ltd), an arm's-length body of the Department, is responsible for developing, building and maintaining the railway.

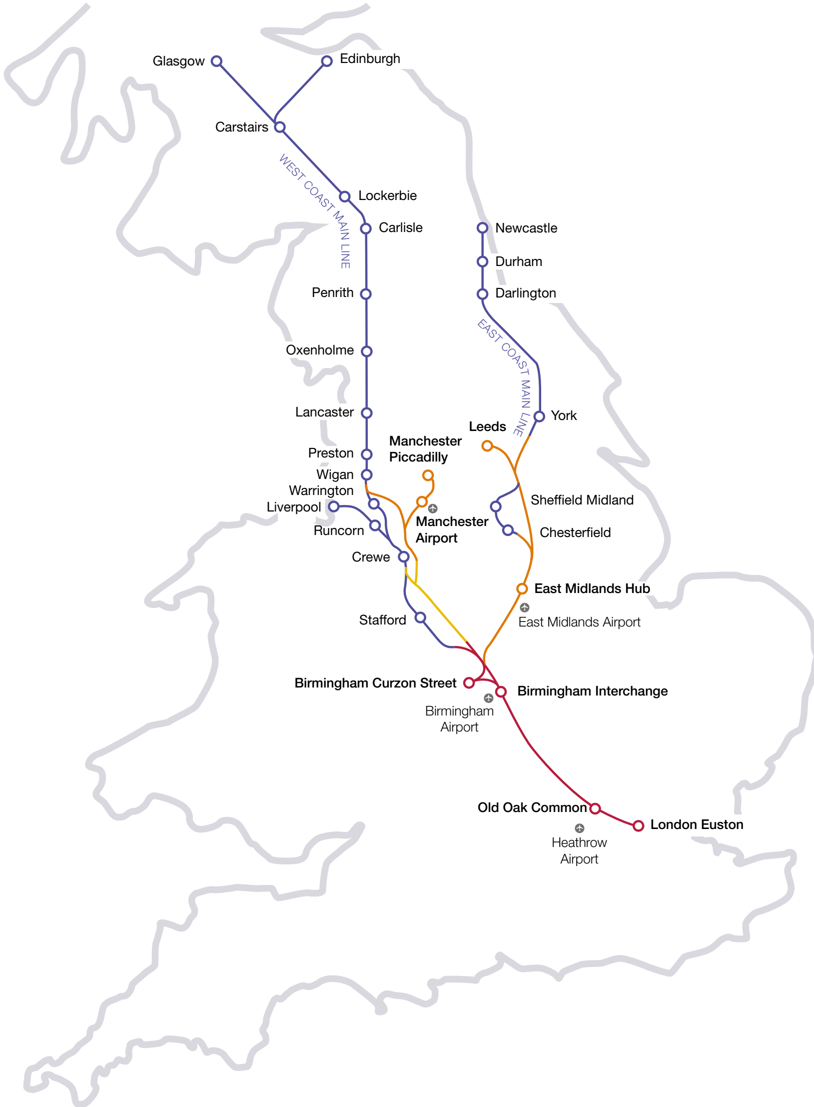
In 2018-19 HS2 Ltd spent £2.8 billion, bringing total spend on the Programme at 31 March 2019 to £8 billion (£7.4 billion excluding VAT). The Department spent £0.4 billion on land and property over the year, compared to £1.8 billion in the prior year. This decrease is in part because many of the properties acquired during 2017-18 were high value commercial properties in London.

High Speed 2 route

The route will be built and operated in three phases

- Destinations served by HS2
- HS2 line (Phase One)
- HS2 line (Phase 2a)
- HS2 line (Phase 2b)
- HS2 services on existing network

Based on current indicative train service specification. Final HS2 timetable subject to consultation.



Source: Department for Transport

High Speed 2 *continued*

Constructing Phase One

During 2018-19, HS2 Ltd increased its procurement activity on Phase One. It started procuring rolling stock, and appointed construction partners for Euston and Old Oak Common stations. In August 2019, the Department announced First/Trenitalia as the successful bidder to operate the West Coast Partnership from December 2019 to 2031.

Phase One enabling works are ongoing across 250 locations, including Euston, Old Oak Common and Curzon Street, Birmingham.

In September 2018, the main construction contractors reported that the complexity of the design and emerging information from ground investigations were leading to cost and schedule pressures. HS2 Ltd delayed the start of construction to 2020 to give the joint ventures more time to define the scope, undertake design refinement and mitigate the impact of cost and schedule pressures. The Department had delayed approving the Full Business Case for the programme until the end of 2019, but further delay is likely.

Reviews of the programme

On 21 August 2019 the Department announced an independent review of the High Speed 2 programme into whether and how HS2 should proceed. The review was chaired by Douglas Oakervee and was due to report to the Secretary of State for Transport in autumn 2019.

In September 2019 the Department published a report by the chair of HS2 Ltd on the cost and deliverability of the schedule. It estimated that the scheme would require a total budget, including contingency, of between £72 billion and £78 billion, up to 39% above the £56 billion budget (in 2015 prices). It also advised that a realistic staged opening date for the first phase would be up to five years later than the planned date of 2026. It advised that a delay of up to seven years, from the target date of 2033, was realistic for Phase 2.

Progress on the hybrid Bills for Phase 2

The hybrid Bill for Phase 2a, which secures the legal powers necessary to construct and operate the infrastructure, received its Second Reading in the House of Lords on 9 September. It had been committed to a Select Committee to consider petitions later in 2019. Progress on the Bill and the Select Committee's hearing were paused due to the dissolution of Parliament prior to the General Election.

In October 2018, HS2 Ltd launched a consultation on the environmental statement for Phase 2b to consider the likely environmental impacts of building and operating this phase of the railway. In June 2019, the Department launched a design refinement consultation on how to make improvements to the environmental, technical, service and cost aspects to the scheme. It includes changes to the proposed route, as well as new infrastructure and details on how HS2 Ltd plans to integrate with Northern Powerhouse Rail. The Department expects to introduce a hybrid bill to Parliament for Phase 2b in June 2020.

What to look out for

- The outcome of the Oakervee review.
- Royal Assent for Phase 2a.
- The deposit of the hybrid Bill for Phase 2b (June 2020).
- The NAO's report on High Speed 2 (early 2020).

Delivering environmental objectives

Transport has a significant impact on the environment

Transport was the UK's biggest emitter of greenhouse gases in 2018 (33% – see top right) with road transport the most significant source. It also has other significant environmental impacts including air quality and biodiversity. The Department and its delivery bodies therefore have a significant role to play in achieving the government's environmental commitments. This will be more challenging given the high levels of investment planned for transport infrastructure, particularly roads.

Decarbonising transport – commitments

The *Climate Change Act 2008* committed the UK to reducing carbon emissions by 80% compared with 1990 levels. In June 2019, the government set a more ambitious target of reaching net zero carbon emissions by 2050. There is no target rate for decarbonising transport, instead the government has set restrictions on the overall amount of greenhouse gases that the UK can emit over five-year periods across all sectors. Transport emissions have fallen only 3% since 1990 levels, compared with 59% in the energy sector over the same period (see bottom right).

Other environmental commitments

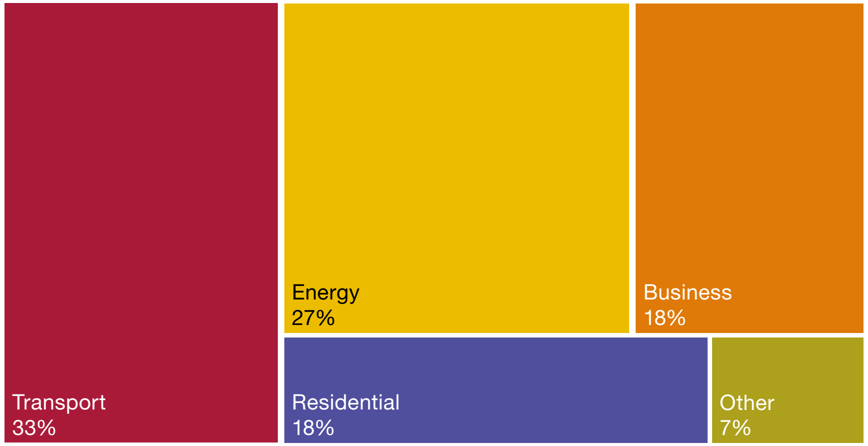
Air quality – The EU requires member states to set limits for air pollutants, which were to be met by 2010 but the UK has not yet met its target for nitrogen dioxide (NO_2). The government published its *Clean air strategy* in January 2019, which sets out its plans for reducing emissions from transport.

Biodiversity – *The Road Investment Strategy* sets aspirations for Highways England to produce a net gain in biodiversity from its activities by 2040. The government has also committed to no net loss of biodiversity through construction of HS2. Our March 2019 report *Department for Transport sustainability update* found that Highways England was not yet on track for achieving some of its biodiversity targets and that the way in which HS2 planned to measure its impact was controversial.

Renewable Energy Target – The EU requires member states to source at least 10% of transport fuels from renewable sources by 2020. We reported that the Department expects to meet this target.

Accountability for sustainable transport sits across several organisations and the absence of clear, measurable objectives in the Department's Single Departmental Plan makes progress difficult to track. It is not possible to identify the Department's spend in this area.

UK annual greenhouse gas emissions by sector 2018



Reductions in greenhouse gas emissions by sector to 2018

	2017-18 percentage change	1990–2018 percentage change
Energy supply (including power sector)	▼ 7%	▼ 59%
Business	◄► 0%	▼ 41%
Transport	▼ 3%	▼ 3%
Residential	▲ 3%	▼ 16%
Public	▲ 4%	▼ 39%

For the sectors not included here, provisional CO_2 estimates for 2018 cannot be made as they cannot be derived from the energy statistics. Final 2018 estimates for all sectors will be published in February 2020, which will include total emissions by sector.

Source: National Statistics 2018 UK greenhouse gas emissions, provisional figures

Delivering environmental objectives *continued*

Progress on decarbonisation

The Department has started to address decarbonisation, but has much more to do

In March 2019, we reported on the Department's progress in improving its approach to sustainability in *The Department for Transport sustainability update*.

We said that the Department had taken many positive steps since 2016 to meeting the challenge of sustainability in the transport sector. These included new strategies on its overall approach to decarbonisation, investment in cycling and walking and on tackling emissions from road transport (Road to Zero) and shipping. Since our report, the Department has also published the Clean Maritime plan, has consulted on a strategy for sustainable growth in the aviation sector and a rail industry task force has set out its vision for decarbonising rail transport.

However, we reported that the Department's plans still fall well short of the cost-effective path for reducing greenhouse gas emissions recommended by government's advisors on climate change, the Committee on Climate Change (CCC). Many of the Department's plans have yet to be translated into funded policies. On the basis of firm and funded policies alone, the CCC's 2018 analysis concluded that the Department was on track to miss its cost effective path by 50%.

In its July 2019 *Summary Report: 2019 progress report to Parliament,* the CCC concluded that the UK had fallen behind in progress to tackle and prepare for climate change. It said that the required annual rate of emissions reduction for net zero was 30% higher than had been achieved on average since 1990.

In October 2019, the government announced the UK's first Transport Decarbonisation Plan, which will set out its plans to accelerate climate action in the transport sector and achieve net zero across all modes of transport.

Progress on ultra-low emission vehicles

The 'Road to Zero' strategy sets an ambition for at least 50% of new car sales to be ultra-low emission by 2030 and for ending the sale of conventional cars by 2040. The Department's modelling implied expected take-up to fall well short of the 9% market share of vehicles that is needed to meet the cost-effective path to achieving net zero (see figure overleaf). In the two quarters since our report, take-up figures were 1.8% and 2% respectively.

What to look out for

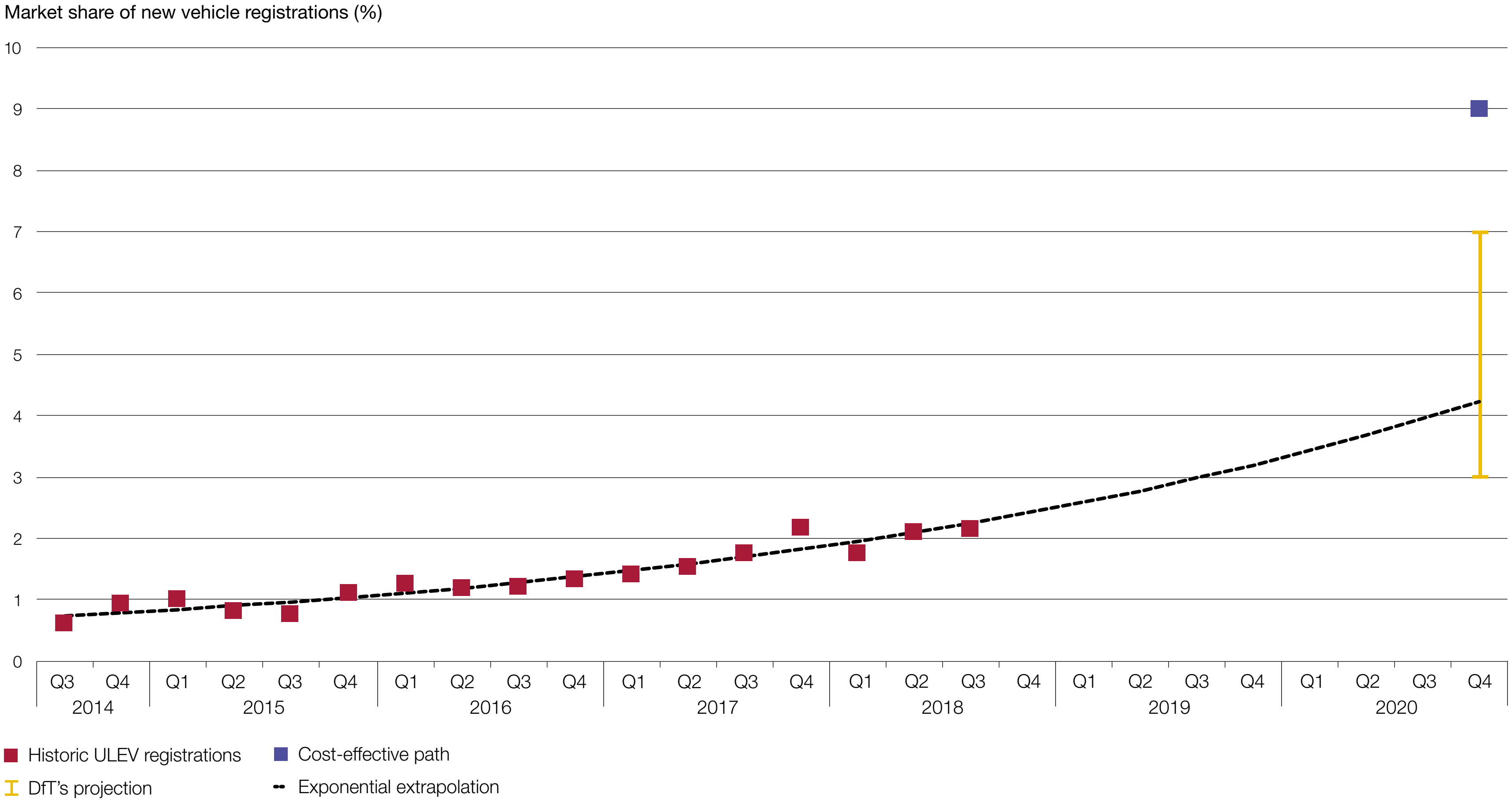
- Publication of the Transport Decarbonisation Plan in 2020.
- How the Department converts its strategies into firm and funded plans and policies.

Delivering environmental objectives *continued*

Progress on decarbonisation

Market share of Ultra-Low Emission Vehicles (ULEV) for new vehicle registrations in Great Britain

If ULEV market share increases exponentially it will reach 4% in the last quarter of 2020, sitting in the lower half of the Department for Transport's (DfT's) projected range



Notes

1 The continued trend is an exponential extrapolation of ULEV registrations since 2014.

2 The cost-effective path is an advisory level set by the Committee on Climate Change to meet the future commitment of almost all vehicles being ultra-low emission by 2050 in a cost-effective way.

3 The plotted market share data relates to cars and vans in this figure.

Source: Department for Transport new vehicle licensing data