National Audit Office

Departmental Overview, January 2019

Department for Transport

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.

Overview

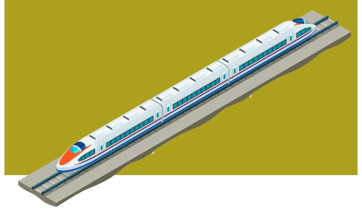
About the Department	How the Department is structured	Where the Department spent its money in 2017-18
Major changes and developments in 2017-18	Ensuring an effective exit from the European Union	Managing public money

PART ONE

Investing in major transport infrastructure

PART TWO

High Speed 2 – early works and preparation for build phase



PART THREE

Improving rail passenger services

PART FOUR

Supporting local transport

If you would like to know more about the National Audit Office's (NAO's) work on the Department for Transport, please contact:

Matt Kay, Director, Financial Audit
matt.kay@nao.org.uk
020 7798 7916

Lee-Anne Murray, Director, Value for Money Audit
lee-anne.murray@nao.org.uk
020 7798 7844

If you are interested in the NAO's work and support for Parliament more widely, please contact:

parliament@nao.org.uk
020 7798 7665

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, nationally and locally, have used their resources efficiently, effectively, and with economy. The C&AG does this through a range of outputs including value-for-money reports on matters of public interest; investigations to establish the underlying facts in circumstances where concerns have been raised by others or observed through our wider work; landscape reviews to aid transparency; and good-practice guides. Our work ensures that those responsible for the use of public money are held to account and helps government to improve public services, leading to audited savings of £741 million in 2017.

Design & Production by NAO External Relations
DP Ref: 007405-001

OVERVIEW

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.

In May 2018, the Department updated its Single Departmental Plan, setting out its revised strategic objectives to 2020. These are to:

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.

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, including the proposed expansion of Heathrow Airport. The Department also sponsors (although does not fund) 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.

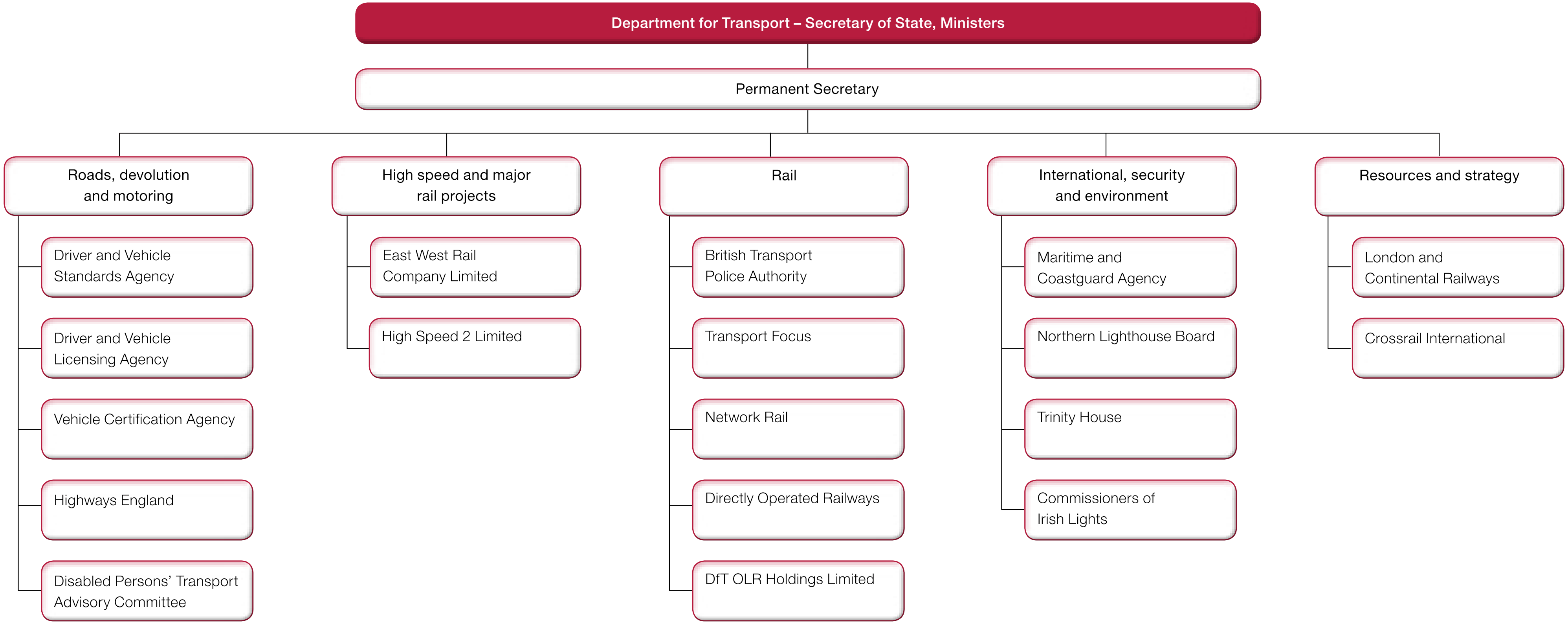
Shipping

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

How the Department is structured

The DfT 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.



Source: Department for Transport

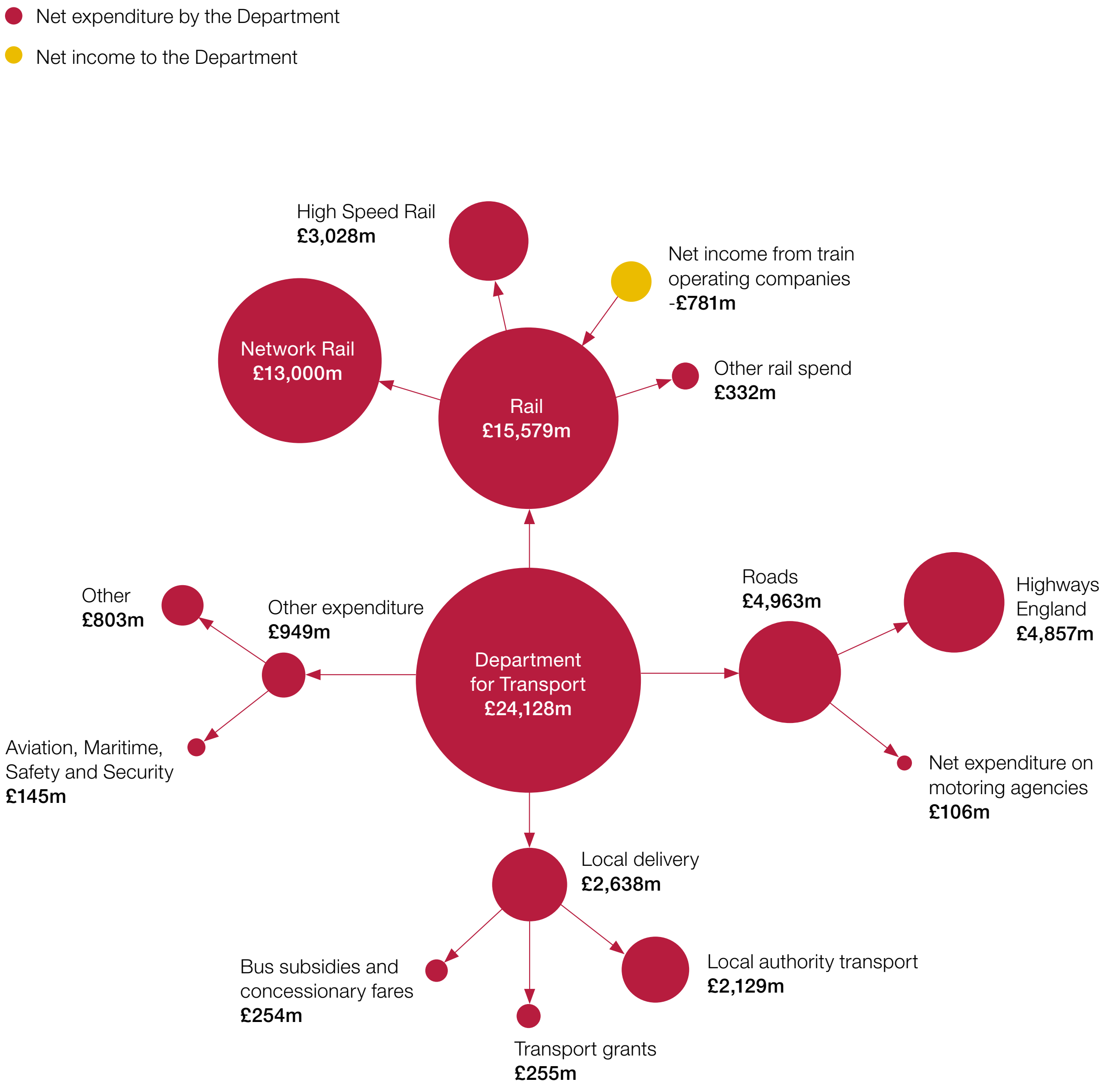
Where the Department spent its money in 2017-18

The Department for Transport's net spend for the year was £24.1 billion.

The Department spent £15.6 billion (65% of net spend) on enabling rail delivery. Of this, Network Rail Ltd, the Department's primary rail infrastructure partner, spent £13 billion across Great Britain. The Department and HS2 Ltd together spent £3 billion in 2017-18 on enabling works for the High Speed 2 programme. HS2 Ltd is the company responsible for developing and promoting the north-south high speed rail network.

The Department spent £4.9 billion (20%) on enhancing and maintaining England's motorways and major trunk roads through Highways England.

The Department spent £2.6 billion (11%) on funding for English local authorities, including £255 million grant funding to Transport for London (TfL). 2017-18 is the last year that TfL will receive this grant. Local authority funding is a mix of non-ringfenced funding that authorities can spend as they consider best, even if not specifically on transport, and some grants allocated for specific transport projects.



Notes

1 Spend is proportional by area. All spend figures are based on the Department's Statement of Parliamentary Supply (resource and capital spend combined). All figures in the chart are net of income.

2 All bubbles are the net resource and capital outturn position. Several bodies generate a significant level of revenue to offset their expenditure. The three most significant of these are (per their individual Statements of Net Expenditure):

- Network Rail, which generated £6.6 billion income;
- British Transport Police (included in Other), which generated £294 million income and incurred operating costs of £350 million; and
- DVLA (included in net expenditure on motoring agencies), which generated £545 million income against operating costs of £418 million. (While DVLA generates a surplus from its activities overall, the motoring agencies spend bubble reflects a net expenditure position because it excludes £206 million income in respect of personalised licence plates, which is surrendered to the Consolidated Fund).

3 Other rail spend is the Department's core spend on rail delivery.

4 High Speed Rail includes expenditure by HS2 Ltd and also by the Department core on enabling works for the HS2 programme.

5 Other spend includes sustainable travel expenditure, central administrative expenditure and net income from toll bridges.

6 Aviation, Maritime, Security and safety expenditure has increased by £95 million, of which £45 million was due to the repatriation of air passengers following the Monarch airline collapse. There was also increased expenditure on implementation of aviation security measures.

Source: Department for Transport, *Annual Report and Accounts 2017-18*

Major changes and developments in 2017-18

Developments with the Department's plans

The Department has continued to deliver on its plans for infrastructure investment across roads, rail and aviation. It has also progressed its plans for devolution, reducing carbon emissions and air quality.

ROADS

The Secretary of State for Transport announced the preferred route for the Lower Thames Crossing in April 2017 and for the A303 Stonehenge upgrade in September 2017. Both routes were expected to be financed through PF2. However, in the 2018 Budget, the Chancellor announced that there would be no more private finance deals. It remains to be seen whether the change to funding affects the projects.

RAIL

The government established the East West Rail Company in December 2017 to restore a direct rail link from Oxford to Cambridge via Bedford, as well as new connections for Milton Keynes and Aylesbury, with a view to completing it by the mid 2020s.

LOCAL TRANSPORT

In March 2018, the government launched the £1.7 billion Transforming Cities Fund to improve local transport in and around cities outside London. The government announced a further £770 million for the fund in October.

AVIATION

In June 2018, following consultation on the draft Airports National Policy Statement (NPS) and Airspace Policy, MPs backed plans to build a third runway at Heathrow Airport.

AIR QUALITY

The UK has not yet met EU concentration limits for nitrogen dioxide. The deadline to comply was 2010 and the European Commission requires the UK government to show how it will comply with legal limits as quickly as possible. In July 2018, the government launched its Road to Zero Strategy and confirmed its ambition to increase uptake of ultra-low emissions vehicles to 50% of vehicles by 2030.

Reacting to transport challenges

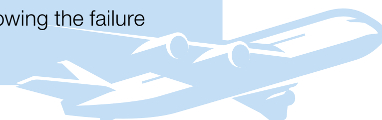
However, it has been a challenging year, particularly for the rail sector, and the Department has had to react to unforeseen events.

RAIL

- Ongoing industrial action and the level of disruption on Northern and the Thameslink, Southern and Great Northern franchises following the introduction of timetabling changes in May 2018 have contributed to poor rail performance.
- In June 2018, following lower than expected rail revenues on the East Coast mainline, the Secretary of State terminated the contract with Virgin Trains East Coast (VTEC). London North Eastern Railway (LNER), a company owned by the Department, now runs services on this franchise.
- In August 2018, the Department announced that it was delaying the opening of Crossrail to the Autumn of 2019, nine months later than expected. In December 2018, Crossrail Ltd said that it could no longer commit to this date.
- In September 2018, Network Rail announced that it had agreed to sell its commercial estate portfolio, the majority of which is made up of converted railway arches, to Trillium and Blackstone Property Partners for £1.46 billion. The government chose to sell the arches in part to meet the funding shortfall in Network Rail's 2014–2019 investment period (see *Planning and delivery of the 2014-19 rail investment programme*).

AVIATION

In October 2017, the Department paid £45 million to the Civil Aviation Authority to help repatriate UK citizens following the failure of Monarch Airlines.



Ensuring an effective exit from the European Union

CONTENTS
NEXT
PREVIOUS
LAST PAGE VIEWED

Work in preparation for EU Exit

The Department's programme of work to support EU Exit represents a significant and complex challenge, not least as it will need to respond to decisions made in other areas of government, for example in relation to the border. The Department aims to deliver its Brexit work on top of an ambitious portfolio of pre-referendum priorities.

The Department must:

- plan for both a negotiated settlement and for a 'no deal scenario' and report to the Department for Exiting the European Union on 18 of the 314 work streams supporting EU Exit across government;
- support the government's EU Exit negotiations, where it has a direct interest; and
- prepare the necessary primary and secondary legislation required to pass the Department's current legislative framework into UK law.

The Department for Transport's exit work streams

Aviation

- air traffic management systems;
- the air service agreement with the EU;
- future access to the European Aviation Safety Agency;
- air service agreements with other countries;
- the future of security regimes; and
- UK participation in the EU-wide emissions trading scheme.

Roads

- rights for UK private motorists to drive in the EU;
- rights for UK hauliers to carry goods in the EU;
- rights for UK bus and coach companies to carry passengers in the EU; and
- motor insurance and frictionless travel to the Green Card free zone.

Maritime

- the Marine Equipment Directive; and
- future access to the European Maritime Safety Agency.

Cross-cutting

- funding for projects in the Connecting Europe Facility, an EU-funding instrument that targets infrastructure investment.
- Operation Stack (Operation Brock), the plans to manage traffic congestion on the M20 (now including use of the M26); and
- transport infrastructure at the border.

Vehicles

- vehicle type approval for manufacturers; and
- emissions and manufacturers' CO_2 targets.

Rail

- ongoing recognition of documentation of operators and drivers.

Ensuring an effective exit from the European Union

The Department spent £5 million on EU Exit in 2017-18 and has allocated £75.8 million for EU Exit in 2018-19. It plans to spend a further £30–35 million on Operation Brock, its interim solution for managing traffic flow on the M20 in Kent in the event of cross-channel disruption.

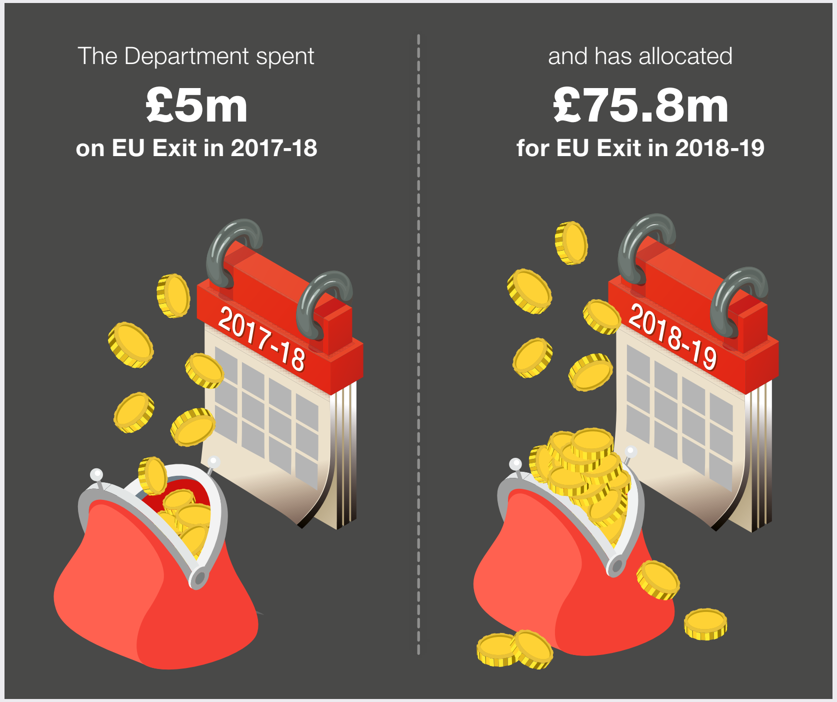
In February 2018, the Accounting Officer sought a ministerial direction to approve spending on new systems for road haulage permits and trailer registrations. These areas were not covered by existing legislative powers.

Implementation challenges

In our July 2018 publication, *Implementing the UK's Exit from the European Union*, we reported on the considerable challenge facing the Department to deliver its EU Exit-related work on time.

While the Department has reported making progress since our report, the legislative timetable continues to be seriously compressed and there remains the risk that the Department could run out of time for completing the necessary work on contingency arrangements in the event of a 'no deal'. Plans for Operation Brock have expanded to include the M26 as well as the M20. In July, the project carried significant risk and no traffic management plans had been made for ports other than Dover. We also found that plans for new IT systems needed for March 2019 were still at an early stage.

In October 2018, the Department had 155 people working on EU Exit, up from 84 in April.



Things to look out for

- As at November 2018, the Department aims to pass 66 EU Exit-related statutory instruments through Parliament before March 2019, 32 of which it regards as high priority. This is in addition to those required for business as usual.
- The Department must procure, test and deploy the new IT systems it needs to replace those currently administered by the EU, before March 2019.
- The Department intends to have Operation Brock in place before 29 March 2019.
- As at December 2018, the government has asked departments to step up contingency arrangements in the event no deal is reached. If no deal is reached, the Department will need to address any transport disruption, especially for outbound lorries, arising from possible third country checks at the border, as well as managing other activities, such as procuring freight capacity on ferries.

Managing public money – capital investment and resource spending

The Department's capital spending, which includes spend to build new or enhance existing transport infrastructure, continues to increase. Resource expenditure, on maintaining infrastructure and operating public services, has increased this year.

Capital investment

The Department is responsible for a significant amount of the government's capital expenditure through its delivery of major rail and road infrastructure programmes and grants to local authorities to maintain and develop transport and highways at a local level.

Between 2012-13 and 2017-18, the Department's capital expenditure rose from £7.9 billion to £13.5 billion. Under the 2015 spending review settlement, it is set to rise to £17.4 billion by 2019-20 in 2015 prices.

The Department's main areas of capital investment over the spending review 2015 period are:

- Network Rail's investment programme for enhancing, operating and maintaining the railway;
- Highways England's delivery of the first Road Investment Strategy (RIS) to enhance, operate and maintain the strategic road network; and
- the construction of High Speed 2, where annual spend has increased substantially from £0.8 billion in 2016-17 to £2.8 billion in 2017-18 following royal assent of the Phase 1 Bill and the acceleration of land and property acquisitions.

Page 12 provides further detail on the Department's delivery of major infrastructure schemes; page 13 comments further on HS2.

Resource expenditure

While capital spend has increased significantly, resource spending is now roughly the same as it was in 2012-13. The increase in 2017-18 was primarily because of higher spending by Network Rail on operations and maintenance, and a lower net premium from train operating companies (see page 14). Plans to reduce resource spending to £2.8 billion in 2019-20 rely on rail premiums returning to forecast and on ending the £255 million grant to Transport for London.

Capital investment

£13.5bn

capital expenditure in 2017-18
(2016-17: £12.3 billion)

Resource expenditure

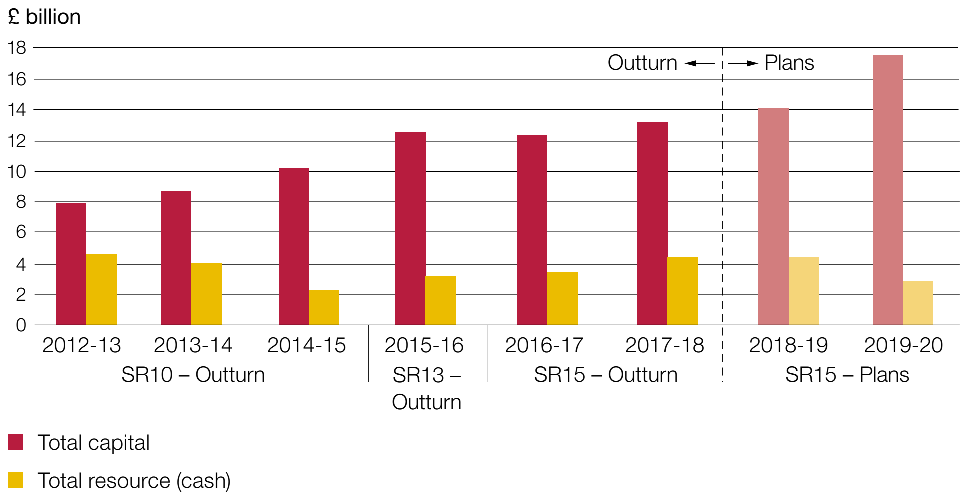
£4.5bn

net resource expenditure in 2017-18
(2016-17: £3.4 billion)

Things to look out for

The government has said there will be a full Departmental Spending Review in 2019 in which it will set out the departmental allocations across government for 2020-21 and possibly beyond. For the Department, this will be important for areas not covered by the five year investment periods for road and rail, for example grants to local authorities and some large infrastructure enhancements.

Long-term expenditure trends – capital investment versus resource expenditure



Note

1 Excluding non-cash costs, notably depreciation.

Source: *Department for Transport Financial Statements 2012-13 to 2017-18,* Figure 8. Planned values – an accumulation of various fiscal events including Budgets, Autumn and Spring Statements. Capital and resource data used in Figure 8 includes Departmental Expenditure Limit (DEL) and Annually Managed Expenditure (AME)

Managing public money – Vehicle Excise Duty

The Driver and Vehicle Licensing Agency (DVLA) is responsible for the collection of Vehicle Excise Duty (VED) – the tax that drivers pay to drive their vehicles on public roads.

April 2017 reforms

In April 2017, the government introduced major reforms to VED (see Figure top right). The Comptroller and Auditor General's (C&AG's) Section 2 Report in the *DVLA Annual Report* concluded that these were properly implemented.

Rising levels of non-compliance, including evasion

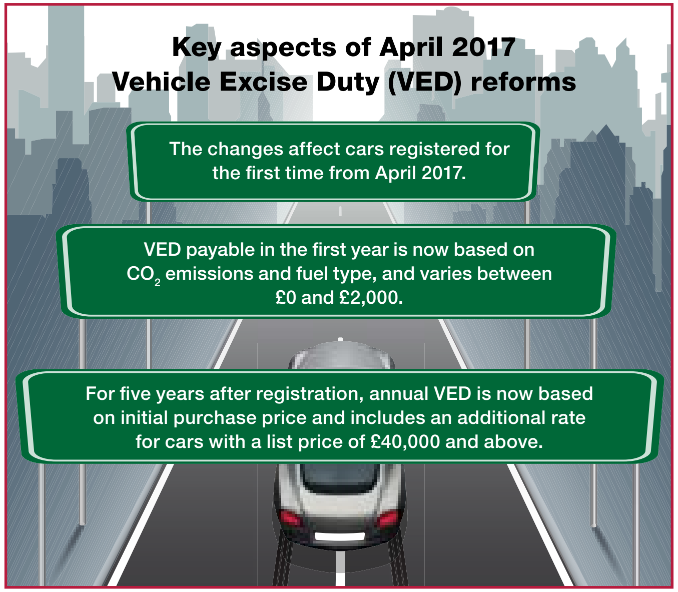
The *C&AG's report* also highlighted that taxpayer non-compliance with VED regulations had increased for the second successive time following the major reforms in 2014 when the physical tax disc was abolished (Figure bottom right). At 1.8%, non-compliance rates are double the level they were before the 2014 reforms. The data for 2017 suggests an increase in intentional evasion to which DVLA will need to respond.

Reductions in collection and enforcement spend

As it has encouraged customers to embrace digital channels, the DVLA has been able to significantly reduce how much it spends on collecting VED from £134 million in 2007-08 to £74 million in 2017-18. While the amount of money that the DVLA spends on enforcement activities has also decreased, from £81 million to £43 million, the DVLA has increased the volume of VED enforcement actions in recent years, including a 250% increase in prosecutions between 2013-14 and 2017-18. Spending in other areas of enforcement, such as publicity, has fallen. The C&AG's report recommended that the DVLA match the level and ambition of its compliance activities to the potential gain for the taxpayer of reducing non-compliance to historic levels.

Things to look out for

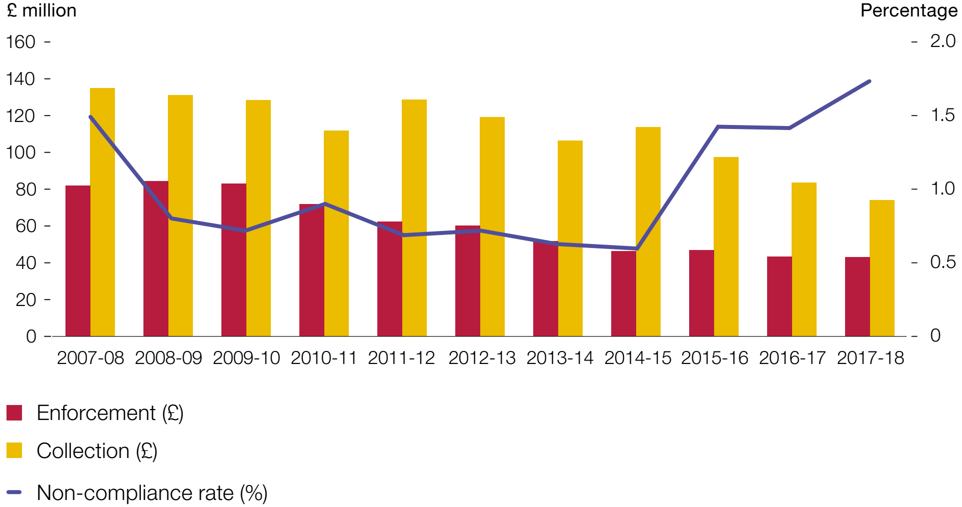
The government has said that, from 2020-21, VED revenues will be used to fund investment in the Strategic Road Network via a new National Roads Fund. However, VED revenue is uncertain because it depends on vehicle demand, which in turn is affected by wider factors outside the control of the DVLA. Depending on the precise funding mechanism agreed, lower than expected VED revenues could affect the amount available for the Department to invest in roads.



£6bn

VED revenue in 2017-18 (2016-17: £5.9 billion)

DVLA spend on VED collection and enforcement (£m) and VED non-compliance percentage rate over time



Source: Driver and Vehicle Licensing Agency. All figures undiscounted

Investing in major transport infrastructure

An ambitious portfolio

The government is committed to investing in modern transport infrastructure, such as the road and rail networks, to support its objectives as set out on page 3. The Department uses the majority of its budget to this end. It has a challenging portfolio of projects to deliver on top of the work it must deliver for EU Exit. In September 2017, the Department had 16 projects on the Government Major Projects Portfolio (GMPP) with estimated whole-life costs of £132 billion, making it the second largest departmental portfolio behind Defence. Nine projects were rated red or amber red, six were amber and one green (see table overleaf).

Road and rail infrastructure projects dominate the portfolio, with spending on infrastructure as a whole, and High Speed 2 in particular, expected to rise significantly over the coming years.

Delivering via multi-year investment programmes

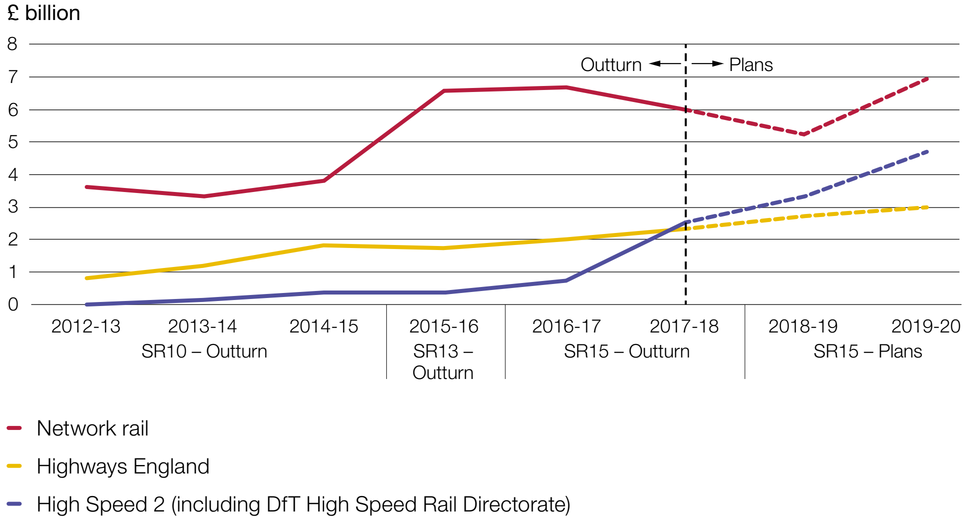
For the strategic road network (motorways and major A roads) and the rail network, the Department specifies what it would like Highways England and Network Rail to deliver over five year periods, and confirms the funding available. At the time of writing, Highways England was in the fourth of its first five year investment programme in the road network (worth £15 billion), and Network Rail in the final year of its £46 billion investment period.

Five year funding periods are useful for delivering major infrastructure programmes because they give delivery bodies certainty over available funding for longer time periods. However, if the period contains too many immature projects, or too many projects to deliver, problems in early years can have major impacts throughout the investment period and beyond, as we found in our briefing on Network Rail's 2019-24 rail investment period (Control Period 5) and our report on the first Road Investment Strategy.

In 2018, we investigated the Department's decision to cancel three rail electrification projects. We found that poor understanding of the cost and complexity of programmes in Network Rail's Control Period 5 meant that, even after reprogramming work, a funding shortfall remained. To fill the funding shortfall, the Department chose to cancel electrification projects, re-programme work, and sell Network Rail's commercial estate portfolio.

Committing to too many large projects can also mean that future investment periods have significant amounts of spend already committed.

Capital investment by delivery body



Source: Outturn values – *Department for Transport Financial Statements 2012-13 to 2017-18*. Planned values – an accumulation of various fiscal events including Budgets, Autumn and Spring Statements

Things to look out for

- In late 2019, the Department will announce the detail of the schemes included in the second road investment period (2020–2025). The second road investment strategy is expected to outline the government's ambitions for local and regional housing and growth across England. In the 2018 Budget, the Chancellor announced that the total funding available for the road network in the second road investment period (2020–2025) would be £25.3 billion, significantly more than in the first investment period.
- Network Rail's £48 billion, 2019–2024 rail investment period (Control Period 6) starts in April 2019. Plans for the new investment period include a major increase in spend on maintenance and renewals to improve punctuality and reliability of trains, which will require more frequent track access for Network Rail and their contractors, a healthy supply chain and strong project management to succeed.

CONTENTS
NEXT
PREVIOUS
LAST PAGE VIEWED

Delivering major transport infrastructure

CONTENTS
NEXT
PREVIOUS
LAST PAGE VIEWED

The Department and its partners are delivering many complex and transformative projects, all being delivered while people are using the road or rail network. Our work on rail in the past year draws out a number of lessons for delivering transport infrastructure.

Understanding and managing interdependencies

The Thameslink programme is the £7 billion programme to upgrade the Thameslink routes through London. The programme was highly complex, requiring new infrastructure, signalling systems, trains, routes and operations, to introduce more services on an already congested network. We considered the programme had a realistic chance of being value for money. In October 2017, the Department decided to delay the full introduction of the Thameslink programme by a year to December 2018 in order to phase in changes more gradually. This means that passengers will get full benefits later but we concluded it was a sensible step to protect value for money and passengers from possible disruption.

Our report on the *Thameslink programme* highlighted the importance of clear accountabilities, aligned incentives and collaboration across the rail industry in order to deliver projects. The Department and Network Rail had not fully considered what was required to bring the new services into passenger use, nor was there a clear understanding of who was accountable for what.

Managing costs

Our *survival guide to challenging costs in major projects* explains how the size, duration and complexity of government projects create particular challenges around establishing realistic cost estimates and in managing costs. This is particularly true for transport, where the Department's portfolio of multi-billion pound projects spans several decades.

The budget for the Thameslink programme has increased by about 9% from just over £5 billion to £5.5 billion (2017 prices). This was mainly due to work to remodel London Bridge being more complex than originally thought. Similarly, our work on the *Sheffield to Rotherham tram train* found that the forecast cost of the tram trains project increased from £15 million to £73.6 million mainly because the existing rail network was in worse condition than Network Rail had thought.

Things to look out for

- In 2019, the Department will decide whether to approve the £1.9 billion upgrade and tunnel on the A303 at Stonehenge and the £4.6 billion Lower Thames Crossing. Both were due to be built using PF2, so decisions will also need to be made on how the government will fund them following the Chancellor's announcement in October 2018 that the government will no longer use PF2.
- In October 2018, the Chancellor announced £37 million additional funding for Northern Powerhouse Rail and £20 million to develop the business case for the central section of East West Rail. Announcements on the proposed construction timetables for both are expected in 2019.

Major projects supported by the Department to 2033 as listed on the Government Major Projects Portfolio at September 2017

Major projects	Mode	IPA rating[1]	Whole-life cost[2] (£m)
A14 Cambridge to Huntingdon Improvement Scheme	Road	●	1,424
A303 Stonehenge Amesbury to Berwick Down	Road	●	1,902
Airport Capacity Programme[3]	Air	●	22,747
Crossrail Programme	Rail	●	14,769
East West Rail Programme (Western Section)	Rail	●	1,466
Great Western Route Modernisation (GWRM) including electrification	Rail	●	5,507
High Speed Rail Programme (HS2)	Rail	●	55,700
Intercity Express Programme	Rail	●	6,679
Lower Thames Crossing	Road	●	4,649
M20 Lorry Area	Road	●	247
Midland Main Line Programme	Rail	●	1,522
North of England Programme	Rail	●	5,115
Rail Franchising Programme	Rail	●	35
Search and Rescue Helicopters	Maritime	●	2,157
South West Route Capacity	Rail	●	735
Thameslink Programme	Rail	●	7,210

1. The IPA's delivery confidence is an assessment of the project's ability to deliver its aims and objectives to agreed time, cost and quality parameters. **2.** Whole-life costs are correct at September 2017 and may have changed since then. **3.** The scheme is expected to be designed, built and funded by the private sector.

High Speed 2 – early works and preparation for build phase

High Speed 2 is government's £55.7 billion 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. The railway will be built in three phases (see Figure). The expected benefits are to improve journey time and rail capacity on the route, and to generate economic growth.

High Speed 2 is being delivered in three phases – Phase One, Phase 2a and Phase 2b – which are expected to be completed by 2026, 2027 and 2033, respectively. During 2017-18, the Secretary of State confirmed the route for Phase 2b from Crewe to Manchester and from Birmingham to Leeds, and HS2 Ltd appointed its main civil engineering works contracts for Phase One.

Delivering High Speed 2

The Department funds and sponsors the programme and is ultimately accountable for delivery of the expected benefits. HS2 Ltd is a limited company, wholly owned by the Department, that is responsible for developing, building and maintaining the railway on the High Speed 2 line.

HS2 Ltd and the Department spent £3 billion in 2017-18. Over half, £1.86 billion, was spent on acquiring land and property. They spent a further £900 million on design, procurement and enabling costs for Phase One.

Acquiring land and property

HS2 Ltd plans to acquire approximately 70 square kilometres of land for Phase One of the programme. HS2 Ltd estimates that this will result in up to 10,000 affected parties who may be able to claim compensation, such as business and home owners. Our *Investigation into land and property acquisition for Phase One* in September 2018 found that, although HS2 Ltd had made efforts to improve the performance of its land and property function since 2015, there was work to be done to support these claimants to receive timely compensation.

HS2 Ltd's estimate to acquire the land and property needed for Phase One had increased significantly from £1,120 million in 2012 (2011 prices) to £3,295 million in 2017 (2015 prices). The increase included amendments to the proposed route, inclusion of discretionary compensation schemes and a change to 2015 prices. The current estimate remains below the agreed funding limit from HM Treasury. However, it is very early in the property acquisition programme and too soon to be certain of the final costs.

High Speed 2 route

The route will be built and operated in three phases

Destinations served by HS2

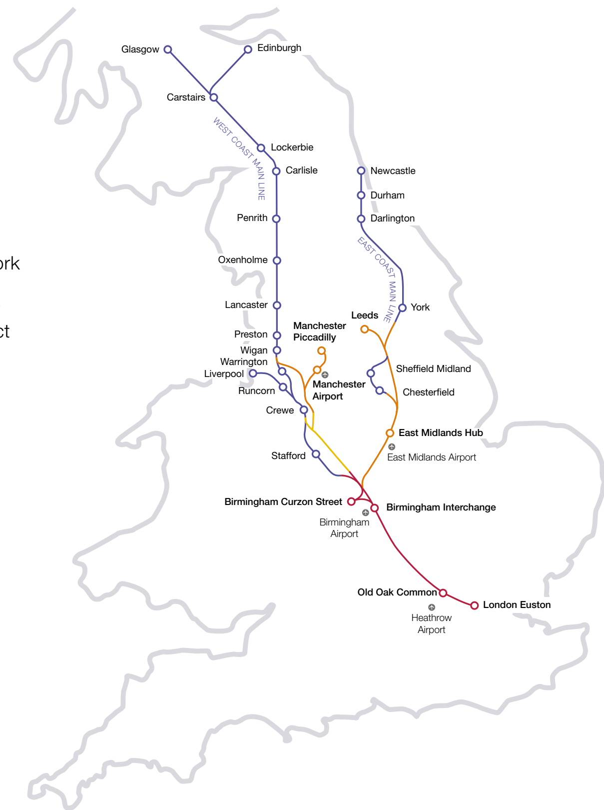
HS2 line (Phase One) – to be completed in 2026

HS2 line (Phase 2a) – to be completed in 2027

HS2 line (Phase 2b) – to be completed in 2033

HS2 services on existing network

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



Source: Department for Transport

Things to look out for

The final decision on whether to proceed with Phase One is expected in mid 2019 at the full and final business case. The government says it is determined to deliver Phase One within the current funding limit of £27.2 billion (2015 prices) that HM Treasury approved in the 2015 Spending Review.

The hybrid Bill to authorise Phase 2a of the HS2 railway is currently being debated within Parliament. Proposed amendments to the Bill, known as Additional Provisions, can be submitted by the government. The next Additional Provision is expected in early 2019.

Improving rail passenger services

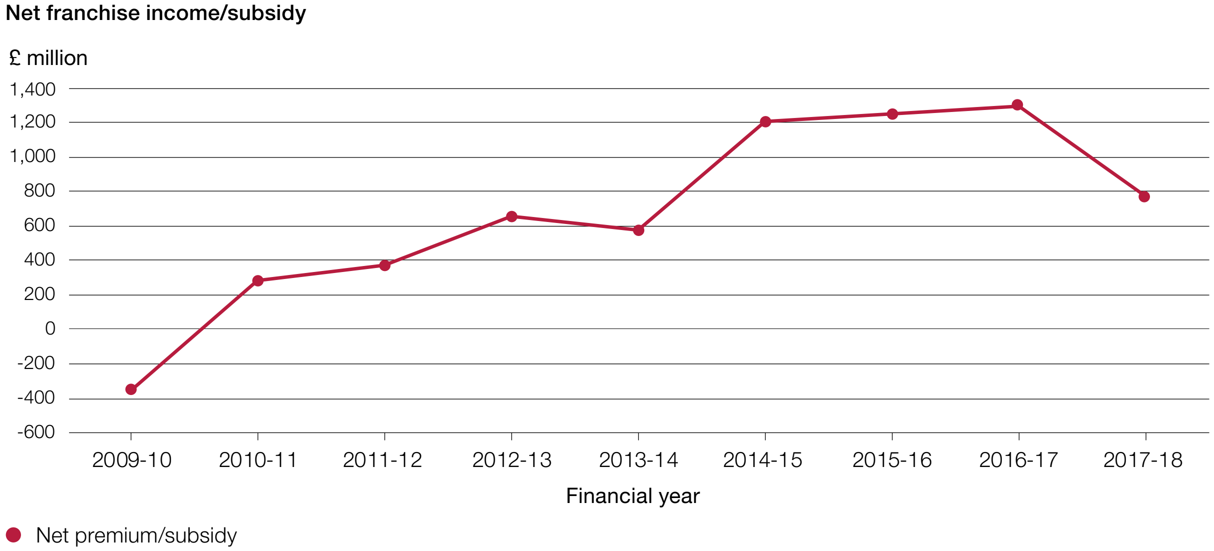
Rail passengers took 1.7 billion journeys by rail in 2017-18. The Department contracts out the operation of passenger rail services in England to Train Operating Companies (TOCs) through a series of franchises that typically run for 7–10 years. Each franchise contract provides for the operator to either pay a premium to, or receive a subsidy from, the Department, depending on how profitable the route is expected to be. Increasingly, TOCs are also tasked with helping the Department and Network Rail to deliver complex, transformational projects on the railway.

Passenger Rail Finances

In 2017-18, franchise operators collected £9.7 billion of revenue from passengers.

The Department received £1.3 billion income from premiums paid by operators and paid £544 million in subsidies. The Department's net franchise income of £781 million was £509 million less than in 2016-17; the first net decrease since 2013-14. This resulted from the Department changing the specification of the Thameslink, Southern, Great Northern franchise during its contract term, the knock-on effect of delays in the Department's infrastructure investment programme and lower income from a new franchise contract.

The Department's net income from train operating companies



Note

1 Income is net of premiums paid to the Department by some rail franchise operators and the subsidy the Department pays to other operators, depending on the expected profitability of the franchise.

Source: National Audit Office analysis of Department for Transport and Office of Rail and Road data

Improving rail passenger services

A fragmented rail industry

The railway is run by a variety of organisations with different functions. Fragmentation of roles can make it more complex to deliver passenger services in the interests of the passengers, especially where incentives are not fully aligned between all parties.

We reported on the causes of poor performance and disruption on the *Thameslink, Southern, Great Northern franchise* in January 2018. Between July 2015 and September 2017, around 146,000 services (7.7% of planned services) were either cancelled or delayed by over 30 minutes, compared with 2.8% on the rest of the network. Some of the problems could have been avoided if the Department had given more consideration to the effects on passengers in its design of the franchise.

Our work found that the Department's contract with the franchisee was ambitious. As well as helping to introduce the new Thameslink programme, it contained more train services than Network Rail thought was possible to run reliably. It also changed working practices to driver controlled operation, leading to sustained industrial action. Around 38% of cancellations (56,000 services) were related to availability of drivers and other train crew. In addition, Network Rail estimated that it would need to invest an additional £900 million in order to improve the reliability of rail infrastructure to cope with the level of services planned.

More recently, the passenger effects of industry fragmentation have also been seen with the severe disruption caused by the introduction of the May 2018 timetable.

In June 2018, the Department terminated its contract with Virgin Trains East Coast (VTEC), and put in place London North Eastern Railway, a publicly owned operating company. This followed financial losses for VTEC, arising from lower than expected passenger demand.

Things to look out for

Rail demand is changing and may continue to impact on the Department's finances through lower future income and the profitability of current operators. The number of rail journeys fell by 1.4% in 2017-18, the largest decrease recorded since 1993-94, and the rate of growth in the number of passengers slowed in the three years prior to this. The number of journeys by season ticket holders fell for the second year in a row, by 9.2% (from 691 million to 627 million) in 2017-18.

In September 2018, the Secretary of State for Transport announced a year-long root and branch review of the rail industry. The review will make recommendations to improve how the rail industry operates.

Supporting local transport

Responsibility for local transport

The Department is responsible for providing policy, guidance and funding to English local authorities. Highways England enhances, maintains and operates motorways and major trunk roads.

Local authorities have a statutory responsibility to maintain and develop transport and highways at a local level and are responsible for 98% of the road network in England. They also plan and commission services such as buses. Combined authorities have specific transport funding and responsibilities.

The government has a long-standing aim to devolve more responsibility for transport planning and delivery to local and combined authorities and to new sub-national transport bodies (STBs). It remains to be seen how this process of devolution will work in practice, and how the role of the Department will change.

Spend on local transport

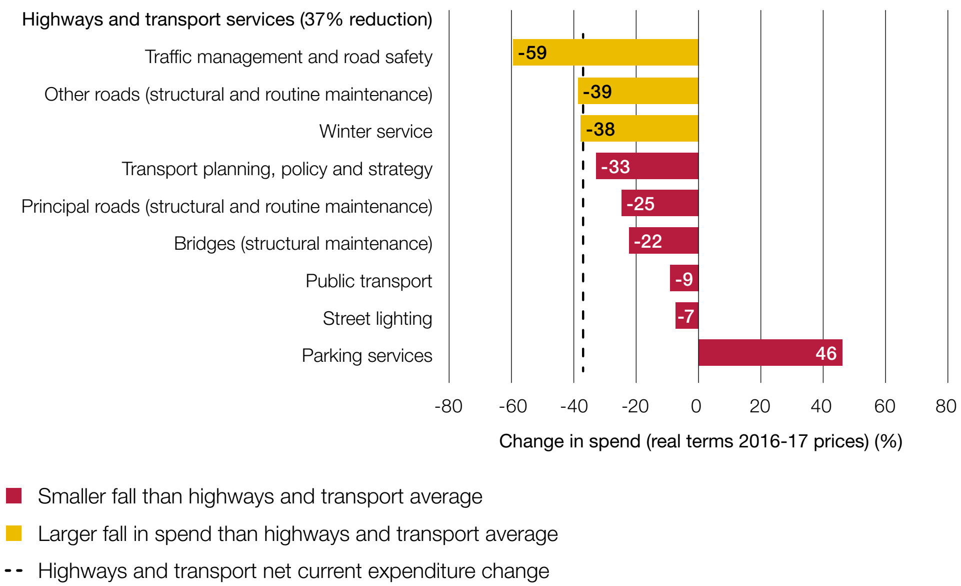
Across all local authorities in England, spending on highways and transport fell 37.1% between 2010-11 and 2016-17 (real terms 2016-17 prices).

In March 2018, our *Financial sustainability of local authorities 2018* report found that local authorities were offsetting overall funding reductions by drawing on income from other sources such as sales, fees and charges. Local authority spending on highways and transport fell across all sub-categories for which they are responsible, except parking services where spending increased by 46% over the six years to 2016-17. The number of subsidised bus services in England (outside London) fell by 48% between 2010-11 and 2016-17. It is difficult to see how the fall in local authority spend on transport affects other local transport services owing to a lack of information on outputs and outcomes in those areas.

Things to look out for

In April 2018, Transport for the North became the first ever statutory STB. Non-statutory STBs are developing regional transport strategies to help inform decision-making on a national level. Midlands Connect is expected to be next to become a formal STB.

Change in highways and transport spending by local authorities in England, 2010-11 to 2016-17



Source: National Audit Office