National Audit Office

Departmental Overview

The performance of the Department for Transport 2013-14

OCTOBER 2014

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Our public audit perspective helps Parliament hold government to account and improve public services.

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, which employs some 820 employees. 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 £1.1 billion in 2013.

Contents

Introduction

Aim and scope of this briefing

1 The primary purpose of this report is to provide the Transport Select Committee with a summary of the Department for Transport's activity and performance since September 2013, based primarily on published sources, including the Department's own accounts and the work of the National Audit Office (NAO).

2 Part One of the report focuses on the Department's activity over the past year. Part Two examines developments in this Parliament. Part Three concentrates on NAO analyses of activity over the last year. Part Four takes the form of a case study, looking in greater detail at the reclassification of Network Rail, a key change for the Department at the current time.

3 The content of the report has been shared with the Department to ensure that the evidence presented is factually accurate.

Part One

About the Department

The Department's responsibilities

1.1 The Department for Transport (the Department) works with its agencies and partners to deliver a transport network that gets people and goods travelling around the country. The Department is responsible for planning and investing in rail, road, and local transport services and it also sets the policy for sea and air.

1.2 The Department is committed to deliver the Government's vision for "a transport system that is an engine for economic growth, and that makes Britain a great place to live."[1] Its coalition priorities, as listed in the Department's business plan,[2] are to:

- promote UK growth;
- deliver the coalition's commitments on high-speed rail;
- improve the rail network;
- support sustainable local travel;
- invest in our roads to promote growth, while reducing congestion, ensuring road safety and tackling carbon;
- promote sustainable aviation;
- reform the coastguard and search and rescue helicopter capability; and
- implement the Department's key cross-cutting reform priorities.

1.3 The Department's priorities remain the same as in 2010, with the exception of promoting UK growth, which was added in 2014, and the final 2 priorities listed above, which were added in 2012.

1 Department for Transport, *Annual report and accounts 2013-14*, HC 12, Department for Transport, June 2014.
2 Available at: http://transparency.number10.gov.uk/business-plan/11

How the Department is organised

1.4 The Department for Transport comprises: the central Department (organised into 5 groups); 4 executive agencies; and 1 trading fund.[3] The Department also has responsibility for a range of other entities including executive, advisory and tribunal non-departmental public bodies (NDPBs) and public corporations. **Figure 1** shows the structure of the central Department, executive agencies and NDPBs. For a full list of the entities related to the Department's activities, see Appendix One.

1.5 The Department oversees and funds a variety of transport modes:

- **Roads** – the Department funds road construction and maintenance through the Highways Agency and local authorities. The Department promotes road safety and seeks to minimise the environmental impact of motoring through the Driver and Vehicle Standards Agency (DVSA)[4] and the Vehicle Certification Agency (VCA). The Department also funds the Driver and Vehicle Licensing Agency (DVLA), which is responsible for maintaining registers of drivers and vehicles in Great Britain.

- **Rail** – the Department funds rail construction and maintenance, which is delivered by Network Rail, a company that owns and operates most of the rail infrastructure in Great Britain. New rail projects, such as Crossrail and High Speed 2 are delivered by separate bodies that are responsible for project management and delivery. Passenger services are delivered by companies under franchise agreements with the Department.

- **Shipping** – the Maritime and Coastguard Agency implements the Department's maritime safety policy. The Department is responsible for setting the fees by which the lighthouse authorities are funded; however, the lighthouse authorities are responsible for the management of lighthouses.

- **Air** – the Department's role is to set the policy and strategy for air travel, which is delivered by private limited companies. The Airports Commission was set up specifically to work with the Department to examine the need for additional UK airport capacity and recommend to government how this can be met in the short, medium and long term. It will publish its final report by summer 2015.

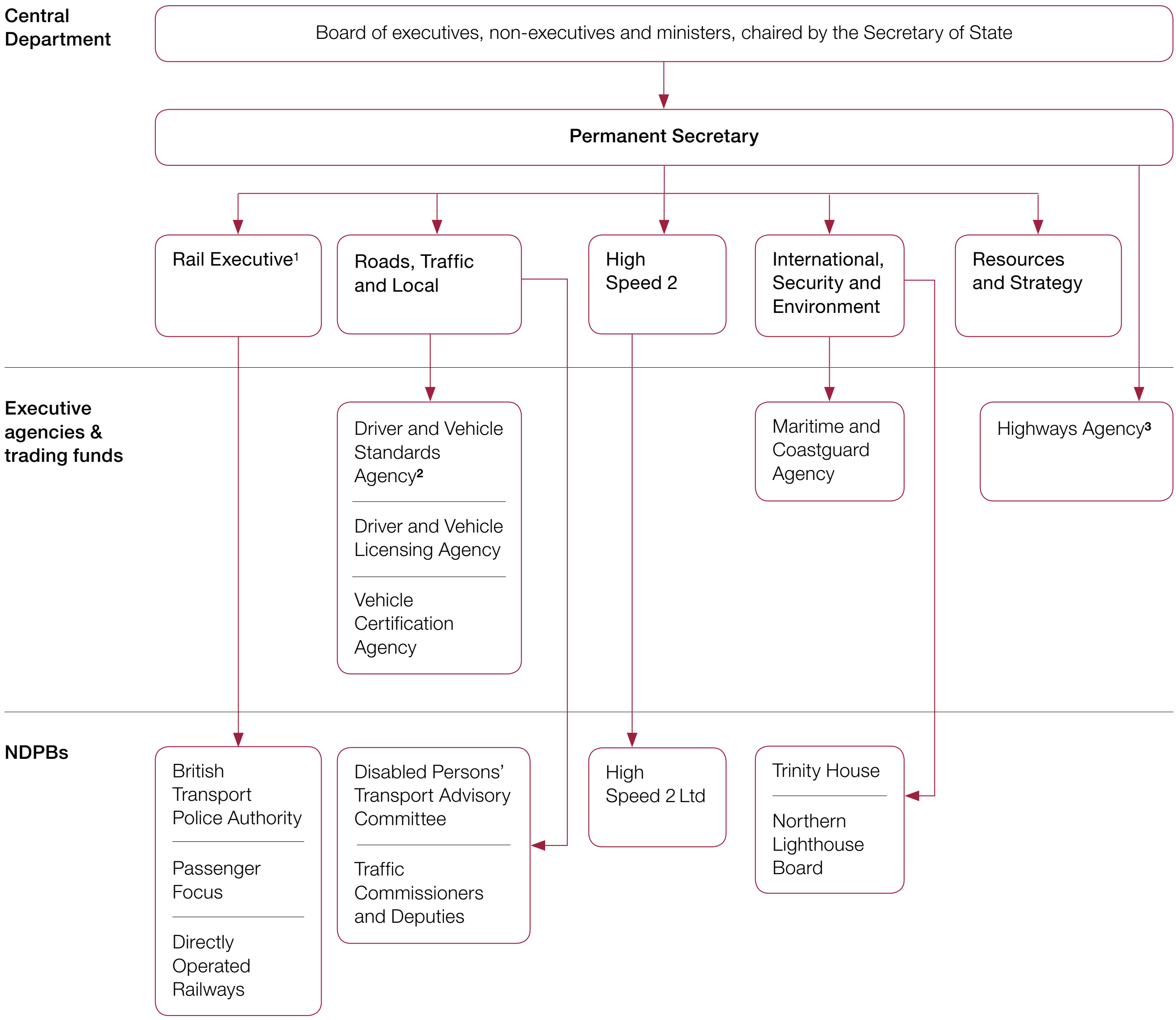
1.6 The Department's board consists of 5 ministers, 6 non-executive board members, the Permanent Secretary and 5 directors general. The board has been chaired by the Secretary of State for Transport, the Rt. Hon. Patrick McLoughlin MP, since September 2012. The Department's board advises and challenges the Department on its strategic direction and on the operational implications and effectiveness of its portfolio. The Department also has a number of other sub-committees which meet regularly and cover investment, risk, performance and audit.

3 The 5 groups in the central Department include: Rail Executive; Roads, Traffic and Local; High Speed 2; International, Security and Environment; and Resources and Strategy.

4 DVSA was formally launched on 2 April 2014. The former Driving Standards Agency and Vehicle and Operator Services Agency have been merged to create this new agency.

Figure 1

How the Department is organised – the central Department, executive agencies and non-departmental public bodies (NDPBs)



Notes

1 The Rail Executive was created on 1 April 2014 and replaces the Department's former Rail Group.

2 The Driver and Vehicle Standards Agency (DVSA) was formally launched on 2 April 2014. The former Driving Standards Agency and Vehicle and Operator Services Agency have been merged to create this new agency.

3 The Highways Agency is in the process of transforming into a government-owned company tasked with managing and operating England's strategic road network.

Source: Department for Transport, *Annual Report and Accounts 2013-14*

Where the Department spends its money

1.7 In 2013-14, the Department's net outturn was £14.1 billion (**Figure 2**), compared with £13.6 billion in 2012-13, an increase of £0.5 billion. Consistent with the previous year, railways, local delivery and national roads were the most significant areas of the Department's expenditure in 2013-14.

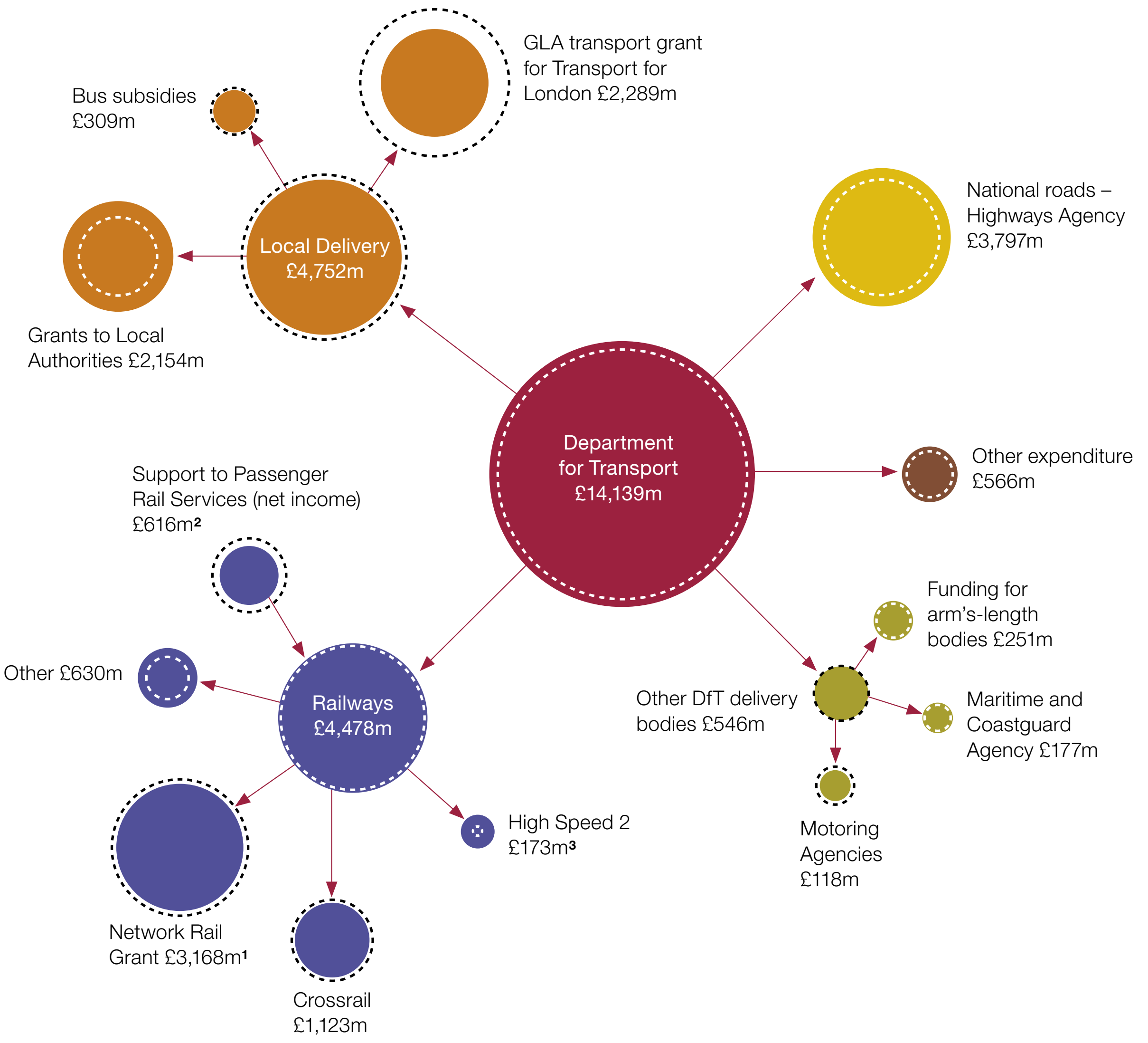
- **Railways:** At £4.5 billion, spend on the railways was £0.1 billion (2%) higher than in 2012-13. Of this, in 2013-14 over two-thirds (71%) of the expenditure on railways was in the form of grants to Network Rail, the owner and operator of Britain's railway infrastructure (£3.2 billion). Crossrail received £1.1 billion of funding from the Department in 2013-14, 23% of the Department's total expected funding towards the programme. In 2013-14, £173 million was paid by the Department in respect of the High Speed 2 programme, with an additional £208 million paid by High Speed 2 Limited, an executive NDPB funded by the Department.
- **Local delivery:** The Department spent £4.8 billion on local transport, which was 8% lower than it spent in 2012-13. In 2013-14, the Greater London Authority (GLA) transport grant made up 48% of the expenditure on local delivery, a total of £2.3 billion funding to provide transport in London. The GLA transport grant has decreased by 39% (£0.9 billion) since 2012-13. A further £2.2 billion was allocated by the Department through a variety of grants to local authorities for building or improving transport infrastructure, easing congestion, improving public transport and improving accessibility.
- **Roads:** The Department spent £3.8 billion on national roads during 2013-14, 17% (£0.6 billion) more than the previous year. This provided funding for the Highways Agency to maintain and develop the strategic road network, an asset valued at £111 billion. This funding covers activities such as managing traffic and network availability, repairs and building new roads.

1.8 Within the £14.1 billion net outturn, the Department received £3.0 billion of income. The largest sources of income were from the train operating companies (£1.5 billion) and fees and charges to external customers (£0.8 billion) for services such as issuing driving licences.

Figure 2

Where the Department spent its money in 2013-14

The Department's main income and expenditure in the year



Solid circles – 2013-14 figures

Dashed circles – 2012-13 figures

Notes

1 The Department receives a fee from Network Rail calculated on the basis of the benefit Network Rail gains in lower costs on financing because of the Department's guarantee of its £33 billion debt.

2 The Department received income of £1.5 billion from train operating companies.

3 The cost to the central Department for High Speed 2-related costs, £208 million was also provided to High Speed 2 Limited, which is included in the Other Railways figure.

4 Figures include capital Departmental Expenditure Limit and Annually Managed Expenditure, resource Departmental Expenditure Limit and Annually Managed Expenditure, and includes depreciation.

Source: Department for Transport, *Annual Report and Accounts 2013-14*

1.9 This year the Department's £14.1 billion net spend was £1 billion below the budget estimate of £15.1 billion. The largest individual items within the £1 billion underspend were:

- A £349 million underspend in the Highways Agency's non-cash resource Annually Managed Expenditure.[5] This was due to the inherent uncertainty in predicting the reduction in the value of assets arising on the completion of road schemes during 2013-14 at the time budgets were set in the 2010 Spending Review.
- An £82 million capital underspend by the Highways Agency, of which £43 million was a planned contingency to cover unforeseen risks. The remaining £39 million underspend was largely due to the deferral of work owing to severe weather and 2 asset support contracts starting later than planned.
- A £244 million underspend in the central Department's resource Annually Managed Expenditure as its overall budget included an estimate for renewable transport fuel obligation certificates which was not required.

1.10 Other significant areas of transport, which are not included within the Department's accounts, include:

- £6.1 billion of vehicle excise duty income collected by the DVLA, which is paid directly to the Exchequer's consolidated fund and is not included within the Department's accounts.
- The Department's contracts to private sector consortia to supply finance and maintain new trains for the Intercity Express and Thameslink programmes. Train operators will pay the consortia to use the trains, subject to specified performance and availability levels being met. The Department estimates future payments will be around £7.7 billion for Intercity Express and £2.8 billion for Thameslink over 27.5 and 20 years respectively.[6]

Staff attitudes

1.11 The government has conducted its Civil Service People Survey annually for the past 5 years. In October 2013, 78% of staff in the central Department responded to the survey. In this section, we summarise the views of the staff from the central Department and agencies within the Department for Transport group on a number of key issues. We compare the results of the central Department and the highest and lowest scoring agencies within the Department for Transport group to benchmarks for the civil service as a whole (**Figure 3**). Detailed results for all central departments are reproduced at Appendix Two.

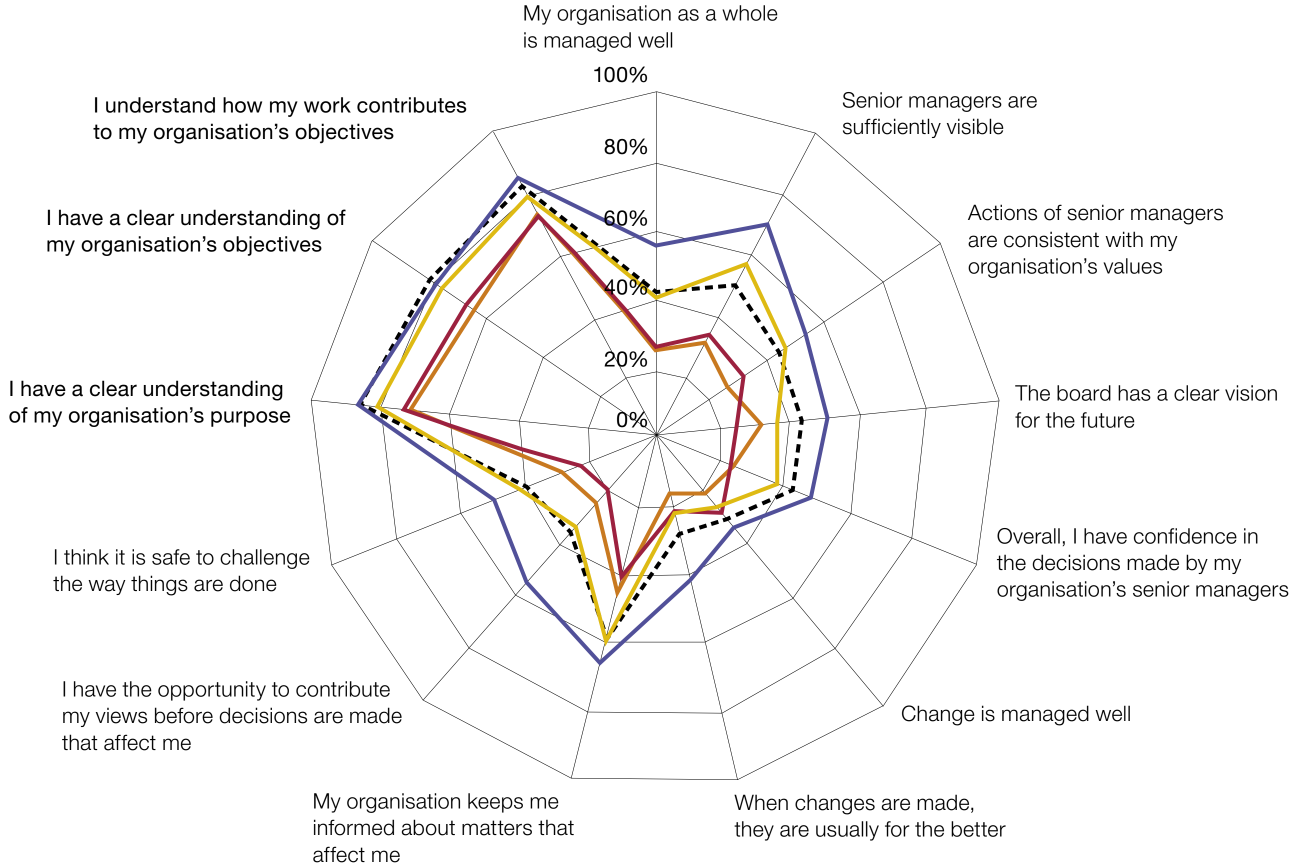
5 Annually Managed Expenditure (AME) is spent on items that may be unpredictable or not easily controlled by departments. Departmental Expenditure Limits (DEL) is spent on running the Department and its services, DEL limits are set by the government during spending reviews.

6 2014 prices, present value.

Figure 3

2013 Civil Service People Survey: central Department and agencies within the Department for Transport group with the highest and lowest percentage of positive responses

The central Department and agencies within the Department for Transport group show the same areas of strength and weakness



Themes

Leadership and managing change

Organisational objectives and purpose

- 2013 civil service average
- Driving Standards Agency
- Vehicle and Operator Services Agency
- Central Department
- Vehicle Certification Agency

Notes

1 This graph shows the proportion of 'positive' responses where staff selected either 'agree' or 'strongly agree' for a question.

2 The 2013 civil service average is the median per cent positive across all organisations that participated in the 2013 Civil Service People Survey.

Source: Department for Transport 2013 People Survey Results

1.12 The results of the 2013 survey show that the central Department and its agencies' staff:

- have similar views on the areas of strengths and weaknesses, which are broadly reflective of the results across the civil service;
- are twice as positive about organisational objectives when compared to questions on leadership and managing change. The 2012 survey also showed the same pattern of results;
- are least positive about change usually being made for the better and most positive about having a clear understanding of the organisation's purpose; and
- are most positive in the VCA, who also had the highest proportion of positive responses in 2012. The VCA's leadership and managing change statements received a 52% positive response, almost double the proportion of positive responses for these questions at the Driving Standards Agency and Vehicle and Operator Services Agency, who scored 27% and 26% respectively.

1.13 In the central Department 39% of employees were positive about its leadership and ability to manage change, down 2% from 2012. For the organisational objectives and purpose theme, results were the same as 2012 with an average of 78% positive. This is 4% lower than the civil service average.

1.14 As part of the annual survey, each central department receives a staff engagement index. This is determined by the extent to which: staff speak positively of the organisation; are emotionally attached and committed to it; and are motivated to do the best for it. In 2013, the central Department's score of 50% is 3% lower than the previous year and 8% lower than the civil service benchmark.

1.15 The Department is committed to continuous improvement and in April 2014 published its *Department Improvement Plan*. This set out 4 key areas for improvement to help the Department deliver its objectives:

- integrated and strategic working;
- inspirational leadership of excellent people;
- building processes that work; and
- being outward-facing.

Part Two

Developments in this Parliament

Changes to the Department's spending since 2010

The Department's 2010 Spending Review settlement

2.1 In October 2010, the government published a Spending Review, which set out budgets for each department over the 4-year period 2011-12 to 2014-15. It announced significant reductions to departmental spending across government. The Department's settlement provided a budget for 2014-15 that was 15% lower in real-terms than the baseline of £12.8 billion in 2010-11. This reduction was focused on Departmental Expenditure Limit spending (DEL)[7] and consists of:

- an 11% real-terms reduction to the Department's capital DEL budgets, which includes spending on the Network Rail grant, construction of Crossrail, road building and maintenance, and local major transport projects;[8] and
- a 21% real-terms reduction to the Department's resource DEL budgets, which includes the Transport for London (TfL) grant (which accounts for more than half of the resource budget), PFI contracts, some national road maintenance and preparatory costs for High Speed 2.[9]

For further details about the Department's cost reductions plans, see our December 2011 report *Reducing costs in the Department for Transport*.[10]

7 Departmental Expenditure Limits (DEL) is spent on running the Department and its services; DEL limits are set by the government during spending reviews. Annually Managed Expenditure (AME) is spent on items that may be unpredictable or not easily controlled by departments. The Department's AME budgets were not included within the 15% real-terms budget reduction.

8 Capital DEL is money spent on assets, that is, items that will last more than 12 months and be used repeatedly. It encompasses things like infrastructure spending, such as building a road or a railway.

9 Resource DEL is money that is spent on day-to-day resources and administration costs.

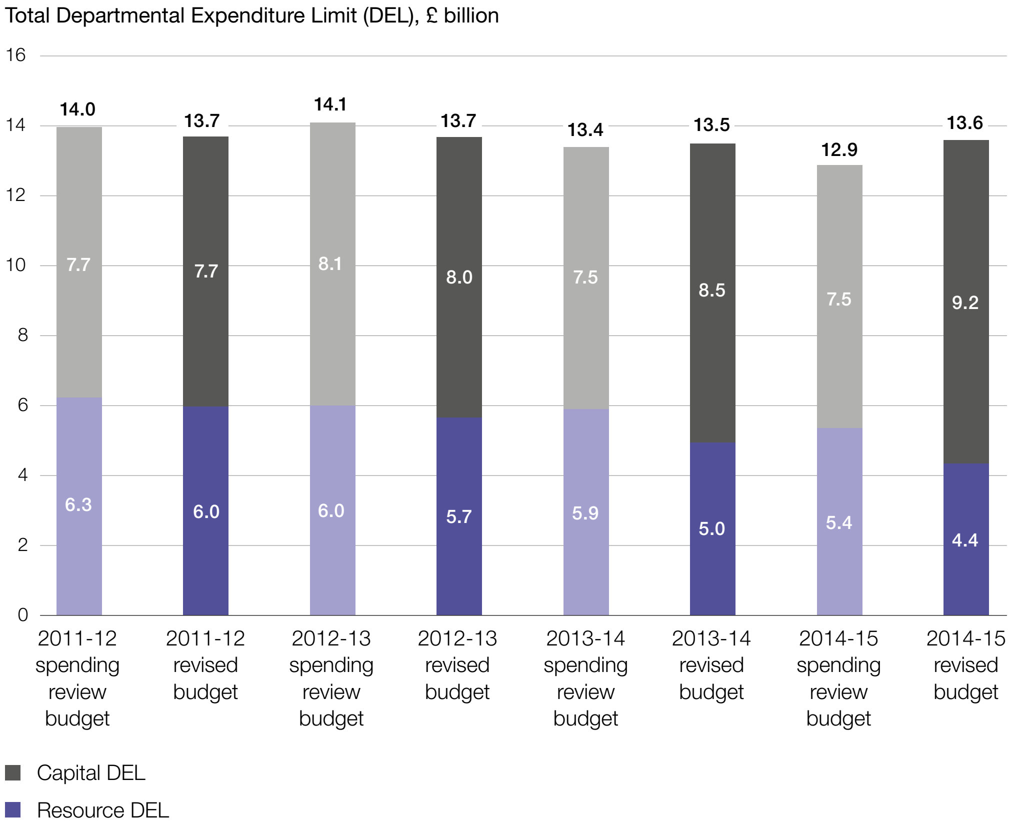
10 Comptroller and Auditor General, *Reducing costs in the Department for Transport*, Session 2010–2012, HC1700, National Audit Office, December 2011.

The Department's progress in achieving the reductions

2.2 Since the 2010 Comprehensive Spending Review, the Department's budgets have changed as a result of additional budget announced in 3 Autumn Statements, budget transfers to and from other parts of government and switches between resource and capital budgets. **Figure 4** shows how the Department's budgets have changed since 2010. Total funding for the 4 years has remained broadly the same; however, the allocation of the funding across the period has changed. When compared with the Department's budget set in 2010, its revised budget declines in the first 2 years and increases in the last 2 years. There has been an increase in capital DEL and a reduction to resource DEL, as a result of switching from resource spend to capital and subsequently announced additional funds.

Figure 4
The Department's budget allocated at the 2010 Spending Review against its revised budget

Its total funding for the 4 years remains broadly the same, however the allocation of the funding across the period and amount of capital and resource DEL has changed



Notes
1 The revised budgets were taken from the Department's *Memorandum on the Main Estimate 2014-15 for the Transport Select Committee* and is subject to change.
2 The budgets include depreciation.

Source: National Audit Office analysis of the Department's data

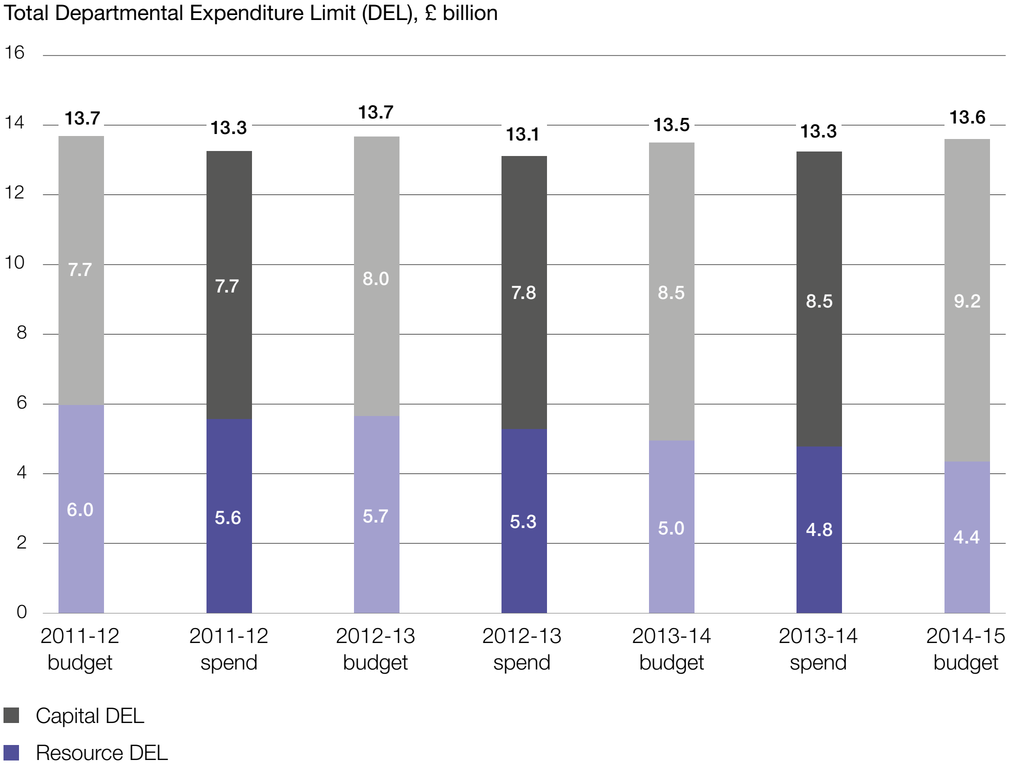
2.3 **Figure 5** shows that since 2010-11 the Department's spend has remained within its revised budgets.

2.4 Although the Department's total spend over the Spending Review period has remained largely stable, there has been variation within individual areas of spend. **Figure 6** overleaf shows the trend in spending for local delivery, rail and national roads.

Figure 5

The Department's spend against its revised budgets following the 2010 Spending Review

Since 2011-12 the Department's total DEL spend has remained within its settlement



Note

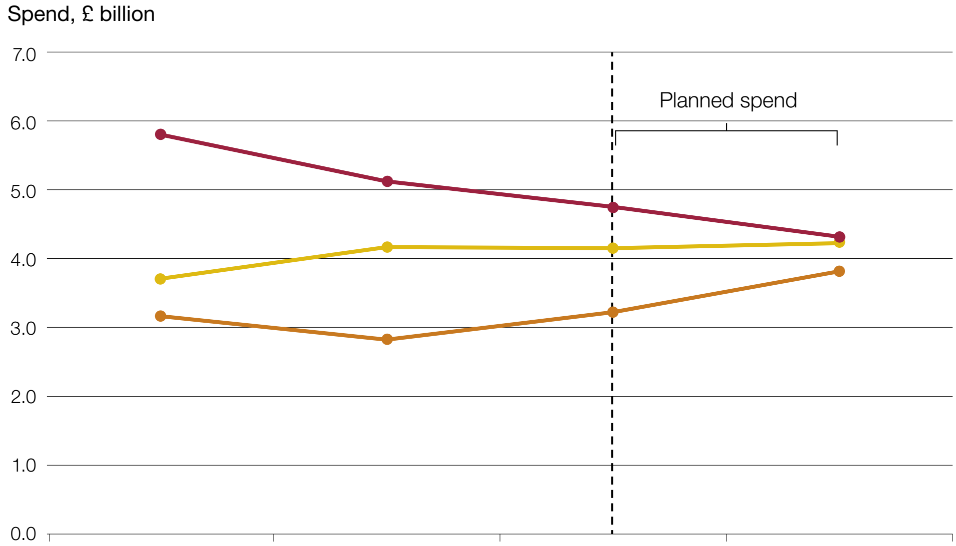
1 The figures relate to the Department's Departmental Expenditure Limit (DEL) and include depreciation.

Source: National Audit Office analysis of the Department's settlement and spend

Figure 6

The Department's main areas of spend during the Spending Review period

Whilst the Department's total spend has remained stable, there is variation in spending trends within local delivery, rail and national roads



	2011-12	2012-13	2013-14	2014-15
Local delivery	5.8	5.1	4.8	4.3
Railways	3.7	4.2	4.2	4.2
National roads – Highways Agency	3.2	2.8	3.2	3.8

Notes

1 The figures relate to the Department's Departmental Expenditure Limit (DEL) and include depreciation.

2 Only the main areas of spend are shown here, which is why the totals for each year are not the same as in Figure 5.

Source: National Audit Office analysis of the Department's data

2.5 Overall, the Department's spending on local delivery has fallen by £1 billion from a peak of £5.8 billion in 2011-12, to £4.8 billion in 2013-14. The overall decrease in local delivery expenditure is predominantly due to reductions in spending on grants for transport in London and bus subsidies. Funding for local authority transport declined by £0.3 billion between 2011-12 and 2012-13, to £1.6 billion in 2012-13, but rose by £0.6 billion in 2013-14 to £2.2 billion. In our June 2014 report *Maintaining strategic infrastructure: roads*, we found that, as a consequence of additional batches of funding announced by the Department to alleviate bottlenecks and repair winter damage, capital funding for local highway authorities will increase by 3% in real terms in the period 2010-11 to 2014-15, instead of the planned 15% reduction set out in the 2010 Spending Review. However, revenue funding from the Department for Communities and Local Government, which is for all local authority services including roads maintenance, will fall by more than planned, by around 33% rather than 28% in real terms over the same period.

2.6 Spending on railways has increased over the period from £3.7 billion in 2011-12 to £4.2 billion in 2013-14. This was largely driven by an increase in expenditure on Crossrail, as the major infrastructure project is now in the construction phase. Funding from the Department for Crossrail increased by £0.7 billion from 2010-11, to £1.2 billion in 2012-13 and £1.1 billion in 2013-14. Spending on Network Rail, by contrast, has remained largely stable, between £3.4 billion and £3.6 billion per annum.

2.7 Funding for the Highways Agency to spend on the national roads fell from £3.2 billion in 2011-12 to £2.8 billion in 2012-13, but rose again to £3.2 billion the following year in 2013-14. In our report *Maintaining strategic infrastructure: roads*, we found that the actual reduction in the Agency's budget will now be 7% across the Spending Review period, rather than the 19% announced in the 2010 Spending Review. This is due to the government's announcement of supplementary funding, often in the last quarter of the financial year, to address traffic bottlenecks.

The Department's 2013 spending round settlement

2.8 In June 2013, the spending round set out the Department's settlements for April 2015 to 2016. The settlement includes:

- a 5.5% real-terms increase in capital provision when compared with the 2014-15 baseline, from £8.9 billion in 2014-15 to £9.5 billion in 2015-16. This will be used for critical transport infrastructure such as roads and rail; and
- a 9.3% real-terms reduction in resource expenditure when compared with the 2014-15 baseline, from £3.5 billion in 2014-15 to £3.2 billion in 2015-16 through an increased focus on efficiency savings.

These figures differ to those in Figure 4, as they do not include depreciation.

2.9 As part of this settlement the government announced that budgets for TfL and rail would be reduced, as efficiency savings had been identified. As a result of savings in TfL and rail, the government will protect the budgets for buses and roads. HM Treasury outlined in its report *Investing in Britain's future*[11] a plan for £73 billion of capital investment in transport between 2015-16 and 2020-21. The report outlined the long-term capital budgets for Network Rail, national roads, High Speed 2, local roads and TfL from 2015-16 to 2020-21, see **Figure 7**.

Policy and delivery: major developments since 2010

Rail

The Department's policy for the railways

2.10 In March 2012, the Department published the government's vision for railways *Reforming our Railways: Putting the Customer First*.[12] The government aims to secure £2.5 billion of savings by 2018-19, in addition to:

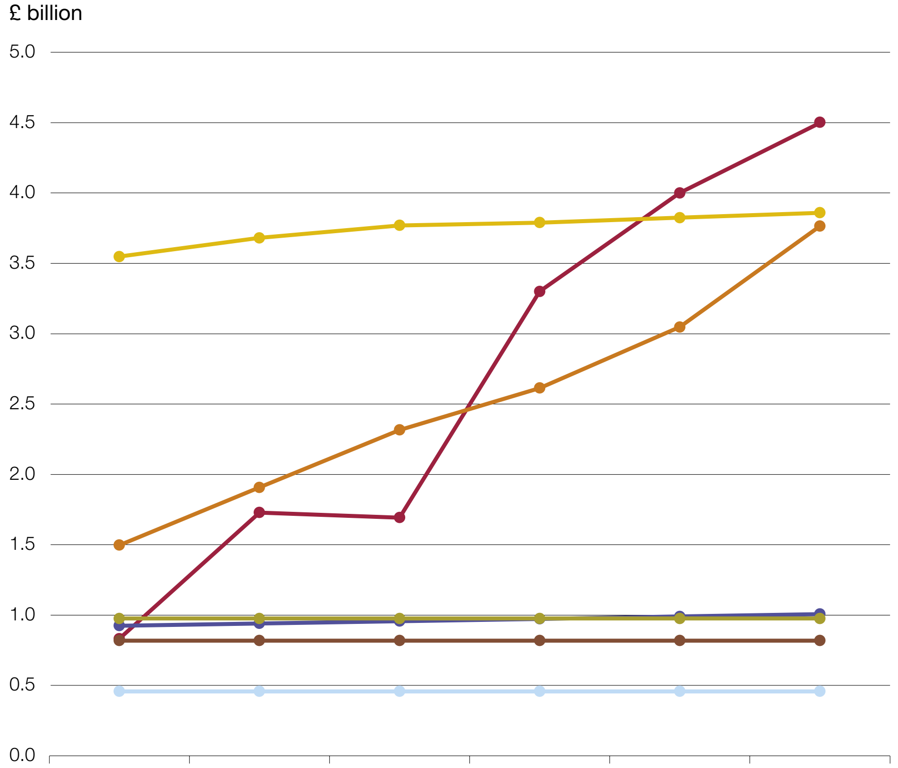
- closer working within the rail industry;
- review of rail fares and the introduction of smart ticketing;
- devolving some of Network Rail's powers over some of its network to local authorities; and
- longer rail franchises to encourage investment from train operators, as it increases the time available for operators to be paid back.

11 HM Treasury and Infrastructure UK, *Investing in Britain's future*, Cm 8669, HM Treasury, June 2013.
12 Department for Transport, *Reforming our Railways: Putting the Customer First*, Cm 8313, Department for Transport, March 2012.

Figure 7

The Department's long-term spending plans for transport between 2015-16 and 2020-21

Budgets for High Speed 2 and the Highways Agency will increase over the period to 2021, whilst other key areas of spend remain broadly stable



	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Total[5]
High Speed 2[1]	0.8	1.7	1.7	3.3	4.0	4.5	**16.1**
Network Rail[2]	3.5	3.7	3.8	3.8	3.8	3.9	**22.5**
Highways Agency	1.5	1.9	2.3	2.6	3.0	3.8	**15.1**
London Transport Investment	0.9	0.9	1.0	1.0	1.0	1.0	**5.8**
Local Authority Maintenance	1.0	1.0	1.0	1.0	1.0	1.0	**5.9**
Local Authority Major Projects[3]	0.8	0.8	0.8	0.8	0.8	0.8	**4.9**
Integrated Transport Block[4]	0.5	0.5	0.5	0.5	0.5	0.5	**2.7**

Notes

1 These figures include a provision for VAT (£83 million, £140 million, £178 million, £428 million, £545 million and £692 million respectively in each year). It is possible, however, the project may be able to reclaim VAT depending on the delivery model chosen.

2 The Network Rail Grant has been set for the period 2014-15 to 2018-19. The figures in 2019-20 and 2020-21 are indicative and may change when the Department agrees future settlements with Network Rail.

3 This will form part of the Local Growth Fund, devolved to Local Enterprise Partnerships from 2015-16 through growth deals.

4 Of this, £200 million forms part of the Local Growth Fund, devolved to Local Enterprise Partnerships from 2015-16.

5 Totals may not sum due to rounding.

Source: National Audit Office analysis of HM Treasury's publication Investing in Britain's future

Rail franchising

2.11 In 2012-13, two independent reviews were published in response to the cancellation of the Intercity West Coast Mainline franchise. Since then the Department has produced a schedule and Prior Information Notice[13] for its future franchising activities in March 2013, updated in April 2014, and the Department intends to update them annually. The Department's other key activities included:

- **Throughout 2014:** The Department awarded new franchise agreements by direct award[14] to incumbent operators on a number of franchises. These were agreed with First Capital Connect, Northern Rail Limited, Abellio Greater Anglia, West Coast Trains Limited (Virgin) and London & South-Eastern Railway Limited. The agreements mean that they will continue to run the trains for a period of 6 months, 22 months, 27 months, 33 months and 45 months respectively until the start of the next competed franchise.
- **March 2014:** The Department published the invitation to tender for the Intercity East Coast franchise, inviting bids from the 3 private sector bidders that were shortlisted in January 2014 to run the passenger rail services. Bids were received in June and are currently being evaluated; the announcement to award the contract is expected in November 2014.
- **May 2014:** The Department signed a 7-year contract with Govia Thameslink Railway Limited to run the new Thameslink, Southern and Great Northern franchise.
- **June 2014:** The Department signed a 15-year contract with the National Express Group to run the Essex Thameside franchise.
- **August 2014:** The Department announced shortlists for both the Northern and Transpennine Express franchises. The responses to a June consultation on the future of rail services in the north are being analysed and the invitations to tender for both franchises are expected to be published in December.

2.12 In August 2014, the Competition and Markets Authority announced that it would investigate the award of the contract to Govia, focusing on the merger of Go-Ahead Holding Limited and Keolis (UK) Limited.[15]

13 This Prior Information Notice is a formal notice that sets out information such as the Department's contracting intentions for future franchising activities; the aims of the UK Government in its continued franchising of passenger railways; the market opportunity offered by the Department's schedule of new competitions for passenger rail franchises over the next 8 years; and how to become involved in the process and secure the relevant information to enable participation.

14 Direct awards are new franchise agreements that allow current franchisees to continue to run services until the new competed franchise start date. They are the means by which the government awards a new contract to a train company via negotiation rather than open competition. The Department expects direct awards to enable the smoother arrangement of franchise competitions, broadly based on 3 to 4 competitions a year.

15 For more details see: www.gov.uk/cma-cases/govia-thameslink-railway-limited-thameslink-southern-and-great-northern-rail-franchise

Restructuring of the Department

2.13 In December 2013, the Office of National Statistics announced its plans to reclassify Network Rail Limited and its subsidiaries as public sector bodies from 1 September 2014. From this date, Network Rail will be an arm's-length body of the Department. This is discussed in more detail in Part Four.

2.14 In February 2014, the Department announced that following a review of its rail functions a new Rail Executive would be created from April 2014. It is a separate group within the Department responsible for all government rail functions other than High Speed 2. A new Office of Rail Passenger Services, which forms part of the Rail Executive, brings together franchise management and franchise award. The government has said it will consider the option of an arm's-length body with responsibility for rail functions in 2016.

Major projects

2.15 The Department has made several important announcements about High Speed 2, Crossrail and Crossrail 2:

- **High Speed 2:** Following the Department's decision in 2012 to proceed with High Speed 2, in November 2013 the High Speed Rail (Preparation) Act was passed by Parliament and the hybrid bill for phase one from London to Birmingham was introduced to the Houses of Parliament. The bill is currently in the Committee Stage in the House of Commons and is not expected to achieve Royal Assent until after the 2015 general election.[16] High Speed 2 Limited is currently carrying out preparatory works for phase one and further considering the route and design of phase two of the programme.

- **Crossrail:** The construction of Crossrail is under way and the railway is expected to open fully in 2019. The contract to build the Crossrail trains was awarded to Bombardier in February 2014 with the new trains expected to start running in 2017. In March 2014, the Department and TfL announced the extension of the railway to Reading. In August 2014, the Department also announced it was considering proposals to extend Crossrail to Hertfordshire.

- **Crossrail 2:** In June 2013, HM Treasury announced a feasibility study for Crossrail 2, to determine how the project could be mainly funded by the private sector.

Roads and motoring

2.16 From 2 April 2014, the Driver and Vehicle Standards Agency (DVSA) was created by merging the services of the Driving Standards Agency and Vehicle and Operator Services Agency. The Department's objectives for the merger include improving its services to make driving tests and goods vehicle testing more convenient and cost-effective. The DVSA is expected to gain trading fund status in April 2015.

16 An overview of the progress of the bill is available at: http://services.parliament.uk/bills/2014-15/highspeedraillondonwestmidlands.html

Local delivery

2.17 Following the Department's commitment announced in January 2011 in the local transport white paper to enable local authorities to develop local transport solutions, it has:[17]

- **in September 2012** set out its framework for accountability, as greater responsibility and funding for public service delivery is devolved from central government to local bodies;[18]
- **in September 2012** outlined how it would devolve the funding for major capital schemes, its largest bid-based scheme, to new local transport bodies via a formula-funded model based on population. Local transport bodies were responsible for establishing a programme of local priorities and allocating funding across an area;
- **in July 2013** published details of reforms to the bus subsidy system in England. This includes the devolution of funding for bus services in London to TfL and for tendered services elsewhere in England to local transport authorities. Also, the eligibility rules for the Bus Service Operators Grant were revised to exclude certain types of service;[19] and
- **in July 2014** in conjunction with other government departments, it agreed the first wave of Growth Deals to provide funds to Local Enterprise Partnerships or LEPs (partnerships between local authorities and businesses) for projects that benefit the local area and economy.[20] The Department's contribution of £1.1 billion towards a £2 billion Local Growth Fund for 2015-16 was allocated to 39 Local Enterprise Partnerships.

2.18 In February 2014, the Department launched the Northern Hub rail upgrades, which involves electrifying existing lines and major upgrades to the network in and around Manchester at a cost of £600 million. It is expected to be completed in 2019.

Maritime

2.19 The Department is progressing with its Coastguard Modernisation programme and plans to complete the programme in December 2015. The programme is expected to deliver a single integrated national network, consisting of a National Maritime Operations Centre (NMOC), 9 Coastguard Operations Centres (CGOC) plus the coastguard centre in London covering the tidal Thames. This will reduce the number of Coastguard centres from 19 to 11. In July 2014, the Department produced a memorandum outlining its progress, stating that it is on target to meet the implementation timetable announced in 2013. It has since closed 5 of the 18 centres and established the NMOC.[21]

17 Department for Transport, *Creating Growth, Cutting Carbon*, Cm 7996, Department for Transport, January 2011.
18 Available at: www.gov.uk/government/publications/accountability-system-statement
19 For more details, see: www.gov.uk/government/publications/bus-subsidy-reform-letter-to-bus-operators-about-changes-to-the-bus-subsidy-regime
20 The other government departments include: Department for Communities and Local Government; Cabinet Office; and Department for Business, Innovation & Skills.
21 Available at: www.parliament.uk/documents/commons-committees/transport/04-Memorandum-fron-DfT-Progress-of-coastguard-modernisation-programme.pdf

2.20 In March 2013, the Department signed a £1.6 billion contract with Bristow Helicopters Ltd to provide search and rescue helicopter services in the UK. It is expected that 22 helicopters will operate from 10 locations around the UK by 2017.

Aviation

2.21 In December 2013, the Airports Commission, established to identify whether additional capacity is needed to maintain the UK's position as Europe's most important aviation hub and recommend options to achieve this, published its interim report. It concluded that there is a need for 1 additional runway in the South-East and will recommend where this runway should be when it publishes its final report in summer 2015. Its interim report also included a number of short-term recommendations to optimise the use of congested airspace and airports. The Department has since asked the Civil Aviation Authority to establish an industry group to take these forward. In September 2014, the Airports Commission announced that the inner Thames estuary airport proposal was not shortlisted.

Back-office functions

2.22 The Department is the first in government to complete a competitive process to divest its shared service centre, which provides human resources, payroll and finance functions to parts of the departmental family. It is part of a government-wide shared services strategy that aims to make annual savings of some £600 million. The contract with arvato Ltd, which was awarded on 28 February 2013, will initially last for 7 years, with an option to extend the contract for a further 3 years. Arvato Ltd took over the management of the Department's existing centre in Swansea on 1 June 2013, taking responsibility for all back-office functions for the Department and some services for its executive agencies. The centre will be expanded to provide services to other government departments, agencies and arm's-length bodies.

2.23 The centre is developing a standard method for delivering the services offered, which will combine new IT systems with standardised business processes and operations. The Cabinet Office had expected this to be complete by the end of December 2013. In our March 2014 report *Update on the Next Generation Shared Services strategy*,[22] we found that the contractor had not met this date and was still developing its solution. Arvato Ltd's implementation was delayed due to the time taken to configure systems to meet UK central government requirements and achieving the necessary security accreditation for their systems.

22 Comptroller and Auditor General, *Update on the Next Generation Shared Services strategy*, Session 2013-14, HC 1101, National Audit Office, March 2014.

Independent assessments of the Department's performance

2.24 In Part Three of this report, we look at the NAO's assessment of the Department's performance in 2013-14. Alongside our work and that of the Transport Select Committee, however, a number of other bodies regularly produce independent analyses of how the Department is doing and of the challenges it faces. In this section, we look at some of the most notable of these reports published in the last year.

Non-executive reviews

Roads

2.25 In May 2012, the government published its response to the review on the management of the strategic road network by the non-executive chairman of the Highways Agency, accepting many of the recommendations.[23] The proposed reforms were included in the 2014 Infrastructure Bill, which is currently being considered by Parliament. If it is passed, the Highways Agency will become a government-owned company, with the legal powers and duties to manage and run the roads from April 2015. The Department will set conditions on how the company must act. Teams will also be created within Passenger Focus and the Office of Rail Regulation to represent the interests of those who use the strategic road network and to monitor the company's performance.

Motoring

2.26 In February 2014, a non-executive director of the Department published a review of the Driver and Vehicle Licensing Agency (DVLA). The report cited the effectiveness of the organisation in its delivery of services, however, it noted that there was room for improvement, particularly in efficiency, which is hampered by the legacy IT infrastructure, some skills gaps and a lack of a clear forward strategy. Its recommendations included: accelerating and expanding its digital transformation; clarifying the responsibilities of the Department's Motoring Services Group and DVLA to provide clear demarcation lines and accountability; and a steering group comprising DVLA and Cabinet Office should be set up to govern the transformation to digital.[24] The Department provided a ministerial response to the review, stating that it accepted all of the recommendations in the report. It asked the DVLA to prepare a strategic plan incorporating the recommendations, which was published in April 2014.[25]

23 Department for Transport, *A fresh start for the strategic road network: the Government response*, May 2012.
24 Department for Transport, *A review of DVLA*, February 2014, available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/283795/review-of-dvla.pdf
25 Available at: www.gov.uk/government/publications/dvla-3-year-strategic-plan

The Department's internal audit findings

2.27 The Group Head of Internal Audit provides the Department's Accounting Officer with an independent opinion on the adequacy and effectiveness of the Department's systems of internal control, and makes recommendations for improvement. With the exception of a 'partial' rating in 2012-13, they have reported 'reasonable' assurance that the systems of governance, risk and internal control are generally established and effective, with only minor weaknesses or gaps identified. In 2013-14 they recommended improvements to controls within the franchising programme; in areas such as HR, pensions administration, IT and expenses; and over business critical models.

Major Projects Authority's assessment of the Department's major projects

2.28 In 2014 the Major Projects Authority (MPA) published its second annual report scrutinising 199 of government's largest and most high-risk projects and providing a red/amber/green rating. As at September 2013, the Department had the third highest published total spend of £83.8 billion (£46.6 billion in 2012), and the joint fifth highest number of projects (12; in 2012 it had 17 projects). **Figure 8** overleaf shows the ratings awarded by the MPA for each of the Department's projects.

2.29 Key findings include:

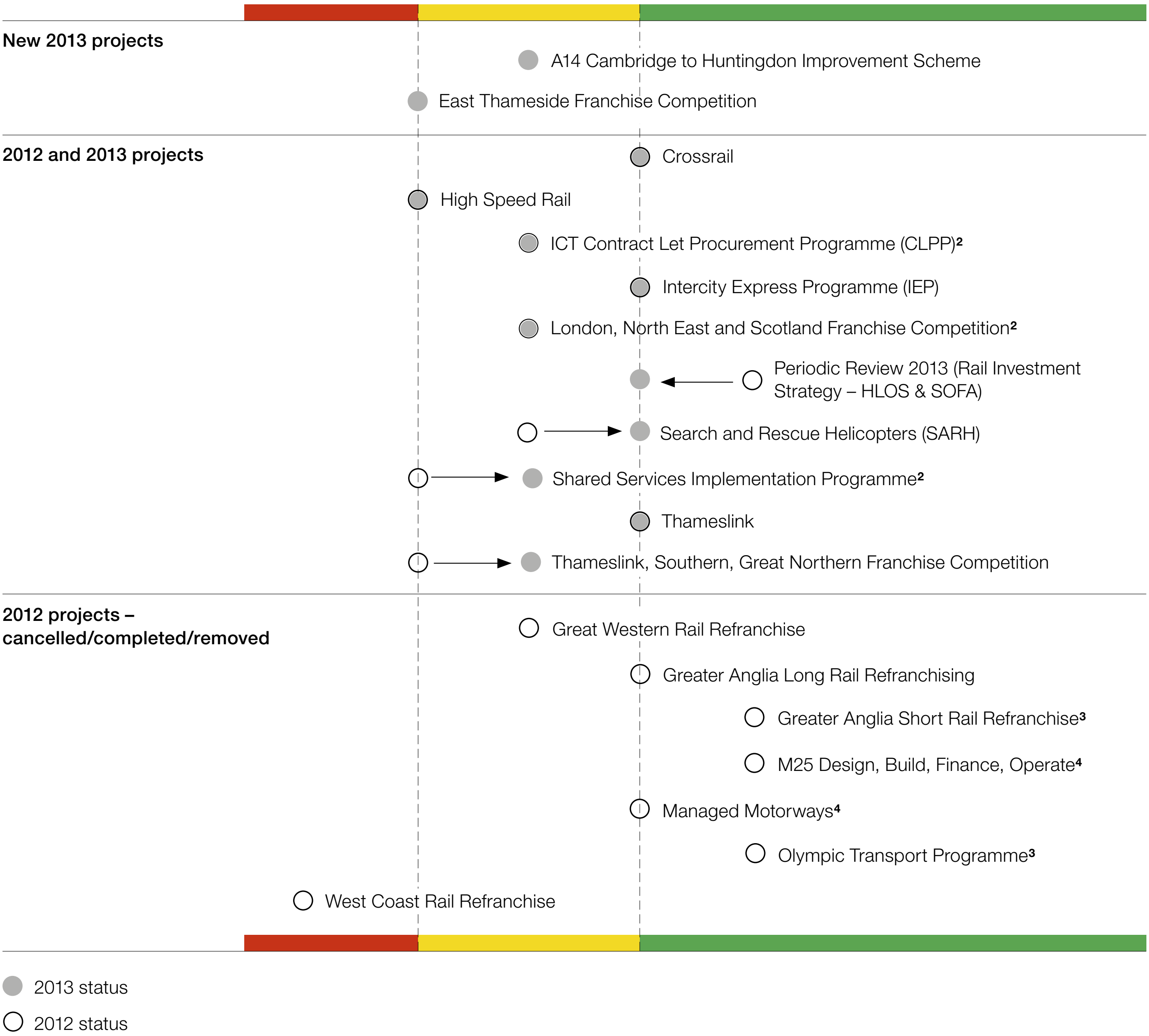
- The Crossrail, Intercity Express and Thameslink projects were rated as amber/green in both 2012 and 2013 as they were progressing according to schedule.
- In 2013, both High Speed 2 and the Essex Thameside franchise competition were assessed as amber/red. This is the second year that the High Speed 2 project has been assessed as amber/red. The report states that it is not unusual for a project of this scale to have a lower delivery confidence assessment early in its project life, highlighting the substantial issues that inevitably remain to be resolved. The rating for the Essex Thameside franchise competition is due to the challenging timetable.
- Three projects improved their rating from 2012: the Shared Services Implementation Programme and the Thameslink, Southern, Great Northern Franchise competition improved from amber/red to amber; and Search and Rescue Helicopters was improved from amber in 2012 to amber/green.
- One project's rating dropped in 2013, Periodic Review 2013 (Rail Investment Strategy – HLOS & SOFA). The MPA noted that the High Level Output Specification had been completed, but the programme retained risks that could jeopardise successful delivery. Although it said the project and wider rail industry was managing those risks, the MPA revised its assessment from green to amber/green in 2013.

Major developments for the year ahead

2.30 **Figure 9** on page 27 sets out the key developments affecting the Department over the coming year.

Figure 8
Major Projects Authority RAG ratings on the Department's projects in 2013

The Department is now managing fewer and larger projects, although most projects continue to be rated amber or amber/green



Notes

1 2012 was the first year the Major Projects Authority published its ratings of the government's major projects. Projects shown with no status in 2012 have been started in 2013.

2 Changes to the scope of some projects resulted in new projects starting with a new name, although the aim of the project remained broadly comparable. As such, we have combined the names of: ICT Contract Let Procurement Programme (CLPP) and DVLA ICT Contract Procurement; London, North East and Scotland Franchise Competition and East Coast Rail Refranchise; as well as Shared Services Implementation Programme and Shared Services Futures Project.

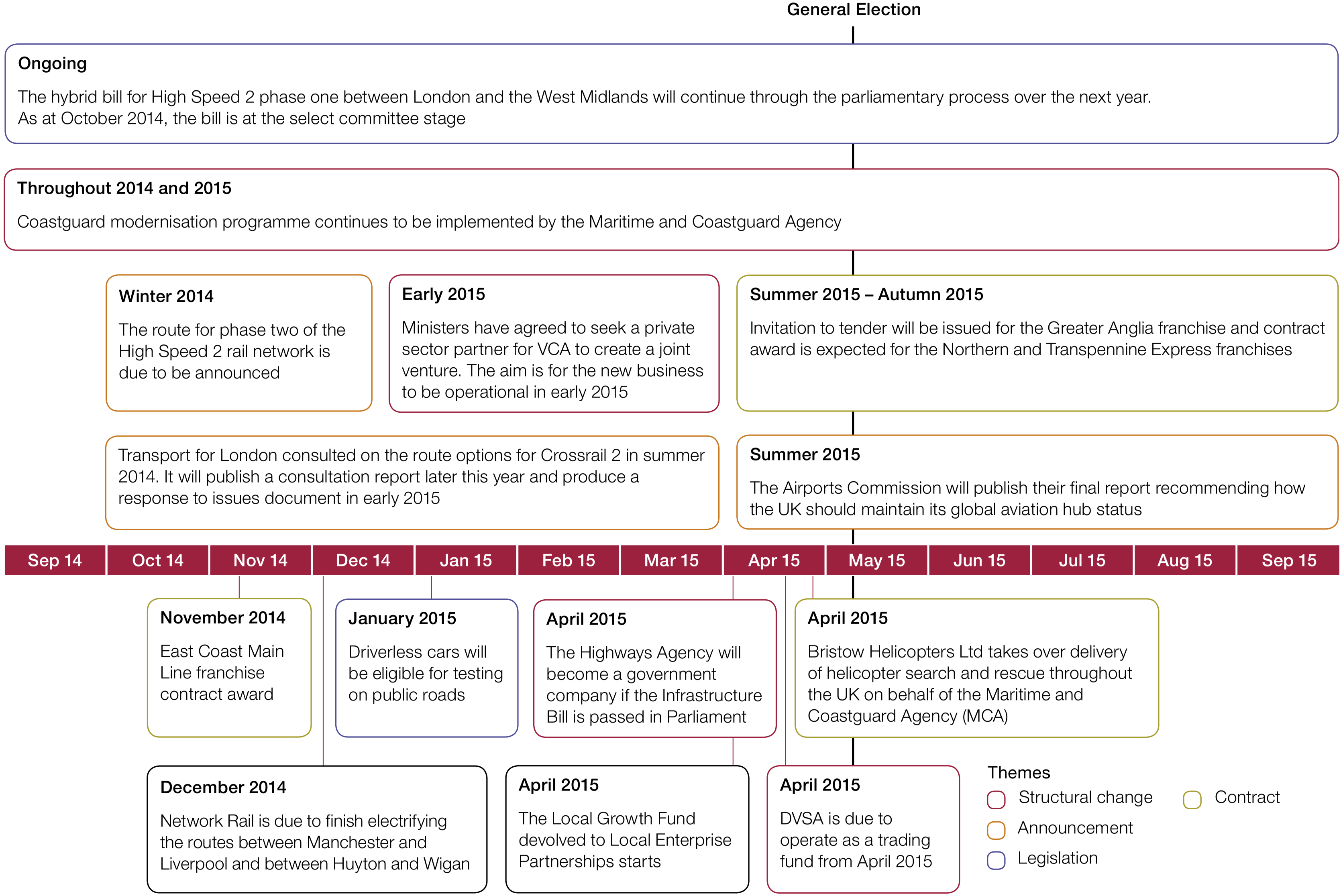
3 These projects have been completed.

4 These projects were removed from Government Major Project Portfolio reporting, with the agreement of the MPA.

Source: Department for Transport Government Major Project Portfolio data, September 2013 and September 2012

Figure 9

Major developments for the year ahead



Source: National Audit Office analysis of the Department's announcements and publications

Part Three

Recent NAO findings on the Department

Our audit of the Department's accounts

3.1 The National Audit Office (NAO)'s financial audits of government departments and associated bodies are primarily conducted to allow the Comptroller and Auditor General (C&AG) to form an opinion of the truth and fairness of the public accounts. In the course of these audits, the NAO learns a great deal about government bodies' financial management and sometimes this leads to further targeted pieces of work which examine particular issues. In this section, we look at the outcome of our most recent financial audit on the Department for Transport (the Department) and its bodies.

3.2 The Department's group accounts were certified by the C&AG on 24 June 2014 with an unqualified opinion. It is the first time that Air Safety Support International Limited, the Commissioners of Irish Lights, Trinity House and the Northern Lighthouse Board were included within the departmental group boundary. In the Department's governance statement, the Accounting Officer commented on the work undertaken by the Department to strengthen its governance arrangements and project and programme management capability and skills. The Accounting Officer also drew attention to the scale of the task facing the Department in future years as a result of significant infrastructure investment and service transformation.

3.3 The C&AG also gave unqualified opinions on the accounts of all of the Department's executive agencies, trading funds and non-departmental public bodies (NDPBs). An emphasis of matter paragraph, a paragraph added to indicate significant uncertainty, was added to the reports on the Vehicle and Operator Services Agency (VOSA) and the Driving Standards Agency (DSA) to draw attention to the planned merger and uncertainty over the transfer of functions to the new trading fund.

Our audits of the Department's effectiveness and value for money

3.4 The NAO's work to test the effectiveness and value for money of government spending in 2013-14 included a number of reports which focused on the Department. The principal findings of these, and in some cases the actions that have been taken since, are summarised below.

3.5 Since the January 2014 Departmental Overview, we have published the following reports:[26]

- *Crossrail*; [27]
- *Maintaining strategic infrastructure: roads*;[28] and
- *Procuring new trains.*[29]

Crossrail

3.6 Our January 2014 report on Crossrail examined the Department's role in the development, funding, management and oversight of the Crossrail programme. We found:

- Despite a consensus on the need to increase capacity on the London and South-East rail network, it took 8 years for the government and Parliament to be convinced that Crossrail would be a cost-effective means of addressing this need.
- It took 3 years to set up the programme. The Department together with Transport for London (TfL) and Crossrail Limited did so thoroughly, setting a strong foundation for the programme, which has stood it in good stead.
- The demand for Crossrail has become clearer over time as forecasts of population and employment growth in London have increased. The most recent benefit-cost ratio in 2011 is 1.97:1 excluding wider economic benefits.
- Both sponsors and Crossrail Limited worked well to reduce the anticipated cost of the programme to £14.8 billion, although they were facilitated in this by the 2010 Spending Review and the recession.
- The Department with its co-sponsor TfL and its delivery body, Crossrail Limited, have done well to protect the taxpayers' interests. If progress to date can be maintained, and risks managed, Crossrail is on track to achieve value for money.

26 National Audit Office, *Departmental Overview: The performance of the Department for Transport 2012-13*, January 2014.
27 Comptroller and Auditor General, *Crossrail*, Session 2013-14, HC 965, National Audit Office, January 2014.
28 Comptroller and Auditor General, *Maintaining strategic infrastructure: roads*, Session 2014-15, HC 169, National Audit Office, June 2014.
29 Comptroller and Auditor General, *Procuring new trains*, Session 2014-15, HC 531, National Audit Office, July 2014.

3.7 The Committee of Public Accounts (the Committee) reported that the programme is a textbook example of how to focus on the essentials of programme management, including defining a realistic scope, establishing a management team with the necessary skills and securing the required funding. It recommended that the Department should capture the lessons it has learned for future projects such as High Speed 2. The Committee also concluded that the Department does not fully understand the wider benefits Crossrail will bring. As a result, it has been unable to secure the optimal level of contributions from private sector beneficiaries, and the case for investment has been understated. The Committee recommended that the Department gain a clearer understanding of the wider economic benefits of future transport projects to maximise contributions from beneficiaries and to make better investment decisions.

Maintaining strategic infrastructure: roads

3.8 In our report *Maintaining strategic infrastructure: roads*, published in June 2014, we examined the planned reductions in 2010 to road maintenance budgets, the consequences for the network, and the systems and processes needed to achieve value for money on road maintenance. We found:

- Overall budgets for road maintenance have not decreased as much as planned due to government announcements of additional funding to address traffic bottlenecks and repair winter damage.
- Long-term planning for road maintenance is impacted by the uncertainty around future funding. Certainty of funding is important and is associated with cost savings of 10–20% for planned maintenance. Highways authorities are also affected by the changes in the balance of revenue and capital funding. Capital funding for local highway authorities from the Department has increased by 3% in real terms over the period 2010-11 to 2014-15, instead of the planned reduction of 15%. However, revenue funding from the Department for Communities and Local Government, which is for all local authority services, has fallen by more than planned – around 33%.
- The condition of the strategic road network has improved. The Highways Agency has robust information and data about the condition of road surfaces, which it used to target its maintenance efforts, but there are gaps in the information or quality issues which mean it was not used well to make decisions.
- The extent to which local highway authorities use information to optimise road maintenance varied. The most effective authorities use information about their road network and the condition of their assets to help councillors make well-informed maintenance decisions. This helps counteract local pressure to do ‘worst first’ maintenance.

Procuring new trains

3.9 In July 2014, we published a report examining whether the Department is well placed to get value for money from the procurement of new trains for the Thameslink and Intercity Express programmes. The Department awarded the contracts to private sector consortia to supply, finance and maintain new trains. The Department estimates future payments will be around £7.7 billion for Intercity Express and £2.8 billion for Thameslink (2014 prices, present value) over 27.5 and 20 years respectively. We found:

- The final contracts are in line with the Department's broad objectives including reducing long-term costs to the rail system and improving the reliability and availability of trains by transferring risk to the train service suppliers.
- The Department was departing from its stated policy of leaving train procurements to the industry, particularly following its decision in July 2013 to exercise an option in the original contract with Agility Trains to add 270 carriages to its Intercity Express order at a cost of £1.4 billion (2014 prices, present value). This has created confusion in parts of the industry about the Department's role.
- Both procurements achieved levels of competition equivalent to or better than other rolling stock procurements since 2000. However, in the case of Intercity Express, the Department decided to proceed with a revised bid without re-running the competition. The Department's view is that no other manufacturer could offer better value for money but this remains untested.
- The Department awarded both contracts more than 2½ years later than intended, largely because of pauses to the procurements and the challenge of securing finance for these projects during the financial crises.

The Department in a cross-government context

3.10 In addition to our work on individual departments, the NAO increasingly looks at performance across government, in order to understand how different departments measure up on important issues. Of the cross-government reports we have published in the last year, 3 have included substantial coverage of the Department.

Forecasting in government to achieve value for money

3.11 This report examined the production and use of forecasts to inform government departments' decisions on resource and capital spending in view of HM Treasury's aims, and against good forecasting practice.[30] We found that poor forecasting is an entrenched problem which can result in ill-informed decisions, cost overruns, delay and fewer benefits than predicted, ultimately leading to poor value for money and taxpayers bearing the costs. An example was the prediction of passenger numbers for High Speed 1, where the Department did not challenge optimistic forecast passenger numbers, exposing taxpayers to an ongoing liability. The actual passenger numbers were around 30% below the Department's forecast when it had agreed to guarantee the project debt in 1998. We estimated that net taxpayer support may breach £10 billion by 2070 (in 2010 prices).

Government grant services

3.12 In this report, we examined whether government's use of grant funding provides value for money and analysed the Whole of Government Accounts data to establish audited figures for the scale of grant funding by central government.[31] The Department's Bus Service Operators Grant was used as one of the case studies in our research. We also looked at the Department's funding of a pilot in Norfolk that enables bus operators to participate in the county's smart ticketing scheme. This is provided free of charge in exchange for the foregoing of the Bus Service Operators Grant smart ticketing uplift. It was used as an example of an alternative to using grant funding, and the benefits that can be achieved.

3.13 The report concluded that grants can be an effective method of achieving policy objectives, but should not be the default option as other alternatives may offer better value for money. The recommendations we have for departments with significant grant programmes are to:

- share information on their grants and recipients with other departments and the Cabinet Office;
- routinely evaluate whether grants are the best funding option for particular programmes; and
- ensure that those responsible for designing and administering grant programmes are sufficiently skilled and engaged in the wider community.

30 Comptroller and Auditor General, *Forecasting in government to achieve value for money*, Session 2013-14, HC 969, National Audt Office, January 2014.
31 Comptroller and Auditor General, *Government grant services*, Session 2014-15, HC 472, National Audit Office, July 2014.

Local government funding: Assurance to Parliament

3.14 In this report, we examined how the Department for Communities and Local Government has implemented and overseen the assurance framework that enables departments to assure Parliament on funding for local authorities.[32] We found that, since the 2010 Spending Review, the government has reduced conditions on how local authorities must use grants to give local authorities more control over their spending, letting them allocate resources to meet local priorities. As a result:

- the government does not require local authorities to report back directly to departments on how grants are used, as part of the government's policy to reduce reporting burdens;
- grants for local authorities to fund specific activities were not ringfenced and could be reallocated to other activities to meet local priorities, including the Local Sustainable Transport Fund, Highways Maintenance Grant and the Integrated Transport Block; and
- as funding becomes devolved, for example to Local Enterprise Partnerships from 2015 as part of the Local Growth Fund, there will be misalignment of local bodies' joint delivery with their discrete lines of departmental accountability.

3.15 Our report suggests that departments should assess the appropriateness of continuing to fund local authorities through targeted grants in the context of an approach to value for money based on local priorities. Also, that they should assess how far reporting arrangements give enough assurance that local authorities spend this funding according to policy intentions. The Department knows that it has limited information on how the £320 million it gives local authorities via the Integrated Transport Block is used. It plans to assess how local authorities have used this funding and is changing how it allocates the funding to reflect local authorities' performance in achieving the scheme's objectives.

NAO work in progress

3.16 Currently the NAO is working on the following study which focuses on the Department:

- *Lessons learnt from major infrastructure rail projects* – The NAO has reported on most of the Department's current major rail projects (High Speed 1/Channel Tunnel Rail Link, High Speed 2, West Coast Mainline Modernisation, Thameslink and Crossrail). This study will compare and contrast the main elements of the initiation and management of each of the projects, and provide insight into which approaches worked well, taking into consideration the particular circumstances of each project. It will draw out key lessons, examples of good practice and common risk areas of which the Department should be aware, and can act upon when designing and implementing future rail projects.

32 Comptroller and Auditor General, *Local government funding: Assurance to Parliament*, Session 2014-15, HC 174, National Audit Office, June 2014.

Part Four

Reclassification of Network Rail

Structure of the rail industry

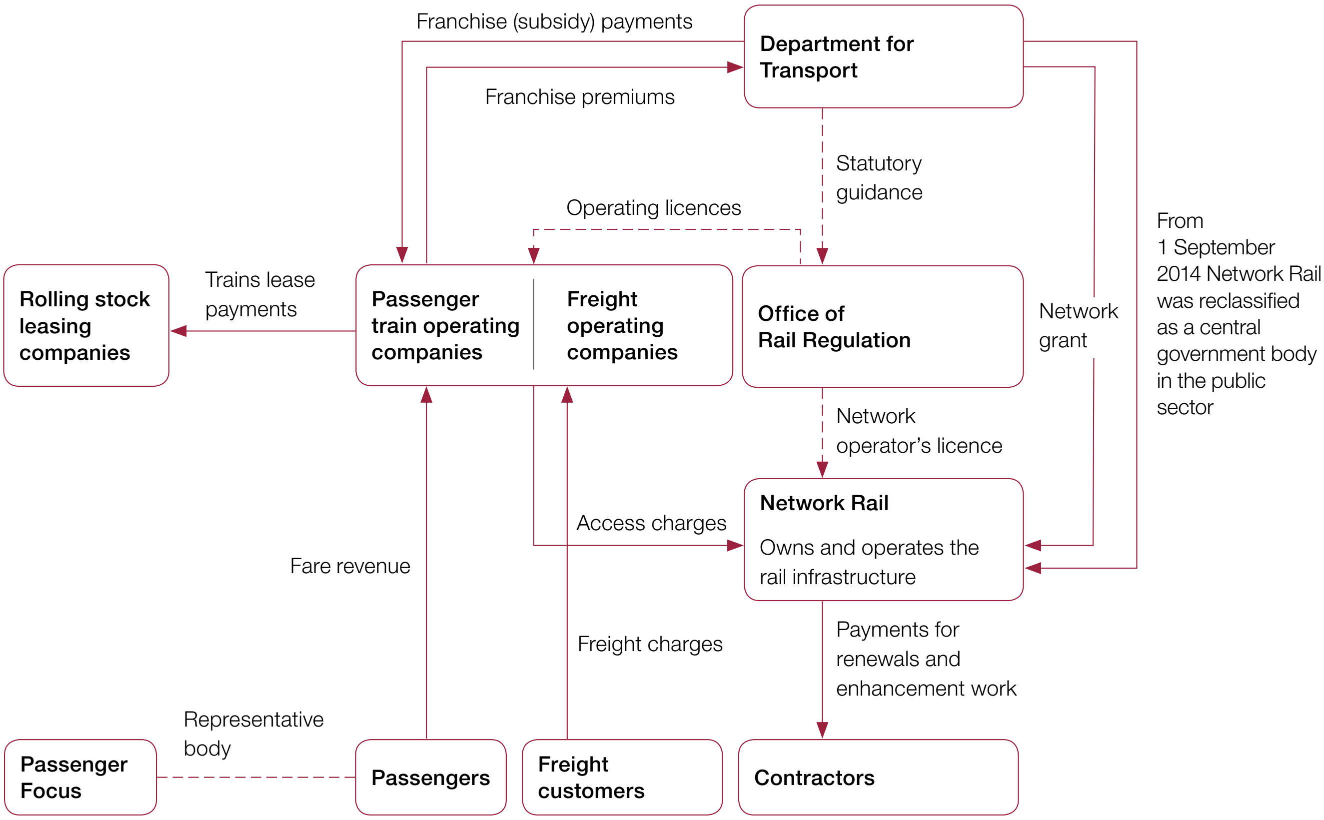
4.1 Network Rail is the owner and operator of Britain's railway infrastructure and is responsible for its operation, maintenance, renewal and reliability. Train operators and freight operators are its customers, and pay Network Rail access charges to use its network. The Department for Transport (the Department) is responsible for rail policy, providing grants to Network Rail, securing delivery of passenger services through franchise agreements with train operators awarded through competition, and monitoring operators' performance. Network Rail's regulator, the Office of Rail Regulation, is the economic and safety regulator of the railways. **Figure 10** sets out the relationships between the key organisations in the rail industry.

Funding Network Rail

4.2 The Office of Rail Regulation assesses the level of expenditure that Network Rail needs to run its business and deliver specified outputs. It determines how much revenue Network Rail needs, including an allowed return on its regulatory asset base (RAB). The RAB is the income the assets could generate in a competitive market adjusted for forecast performance variations. The net revenue requirement takes into account other income that Network Rail receives (such as commercial income from property). Net revenue is received from access charges and network grant from government. The way in which the revenue requirement is allocated between track access charges and grant funding is agreed between the Department and the Office of Rail Regulation. Network Rail determines the exact charges to be levied on users of its network based on the charging framework and rules the Office of Rail Regulation sets. In Control Period 5, which spans 2014 to 2019, Network Rail's gross revenue requirement will be £31.8 billion, of which its net revenue requirement will be £27.5 billion and income will be £4.3 billion (**Figure 11** on page 36).

4.3 Network Rail's debt borrowing is used to fund investment activities on the railway network. This debt borrowing is guaranteed by the UK government, which means the default risk is transferred to the UK government and allows Network Rail to borrow on similar terms as the government. In 2013-14, Network Rail's debt was approximately £33 billion (£30 billion in 2012-13). Network Rail pays a fee to the UK government to reflect the benefit it receives from the guarantee, known as the Financial Indemnity Mechanism (FIM). This arrangement will begin to change as a result of changes to the classification of Network Rail from September 2014, as discussed below.

Figure 10
An overview of the rail industry

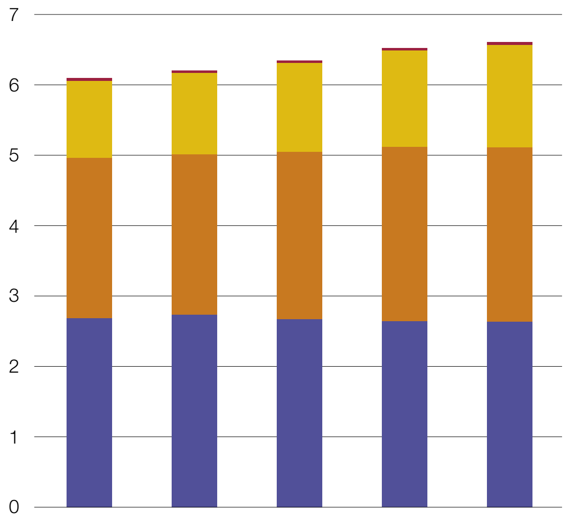


Source: Adaptation of the figure in our report *Regulating Network Rail's efficiency*

Figure 11

The Office of Rail Regulation's assessment of Network Rail's Control Period 5 revenue requirement for Great Britain

Network Rail's net revenue requirement is expected to increase slightly over the next 5 years



	2014-15	2015-16	2016-17	2017-18	2018-19	**CP5 total[4]**
Other	0.0	0.0	0.0	0.0	0.0	**0.2**
Allowed return[2]	1.1	1.2	1.3	1.4	1.5	**6.3**
Amortisation[3]	2.3	2.3	2.4	2.5	2.5	**11.9**
Operating expenditure	2.7	2.7	2.7	2.6	2.6	**13.4**
Gross revenue requirement[4]	**6.1**	**6.2**	**6.3**	**6.5**	**6.6**	**31.8**

Notes

1 2012-13 prices.

2 The allowed return is designed to mirror the way a private investor would expect a return on capital investment. The Office of Rail Regulation assesses the income which Network Rail's assets could generate in a competitive market and then sets a risk adjusted rate commensurate with the risk of the business.

3 Network Rail does not receive the total amount of spend per year on renewals and enhancements, but receives an amortisation allowance. This is broadly equivalent to the level of investment expenditure required to maintain the overall capability, age, condition and serviceability of the network in steady state.

4 Totals may not sum due to rounding.

Source: National Audit Office analysis of the Office of Rail Regulation's *Periodic Review 2013: Final determination of Network Rail's outputs and funding for 2014–2019*

Change to the classification of Network Rail

4.4 In December 2013, the Office of National Statistics announced that Network Rail would be classified as a central government body in the public sector. The decision was made in response to new guidance in the *European System of National Accounts 2010 manual*,[33] which came into force across the EU from 1 September 2014. The Office of National Statistics concluded that because of the government's risk exposure through guaranteeing its debt, Network Rail is a government-controlled body and therefore is within the public sector. The decision was implemented from 1 September 2014 and reclassification, with respect to the National Accounts, is applied retrospectively from April 2004.

4.5 On 1 September 2014, the Department published a framework agreement that was developed in conjunction with Network Rail, HM Treasury and the Office of Rail Regulation.[34] The framework outlines: the roles and responsibilities of the Department, Network Rail and the Office of Rail Regulation; and arrangements for governance, staffing, audit and financial management.

Impact of the change

Roles and responsibilities

4.6 As of 1 September 2014, the Department's Secretary of State is now accountable to Parliament for the activities and performance of Network Rail. The Secretary of State is responsible for ensuring that Network Rail is guided and monitored in the public and taxpayer interest. Network Rail's Accounting Officer is accountable for the propriety, regularity and value for money of its funds and is responsible for the day-to-day running of the organisation. The Office of Rail Regulation's responsibilities remain the same as before Network Rail's reclassification.

Public balance sheet and net debt

4.7 The effect of the reclassification brings Network Rail's assets and liabilities onto the public sector balance sheet. This will mean their assets and liabilities will be included in the National Accounts retrospectively from 2004, the Whole of Government Accounts (WGA) from 2014-15 and the Department's group accounts from 2015-16. The inclusion of Network Rail's transactions and balances within the WGA and the Department's group accounts is subject to an order under the Government Resources and Accounts Act.

4.8 National Accounts are compiled by the Office for National Statistics and are used to calculate public sector net debt and public sector net borrowing. Inclusion of Network Rail's debt of approximately £33 billion in the 2013-14 National Accounts increases public sector net debt by 2%, to £1,401.9 billion (excluding banks). Adding in Network Rail's £4.6 billion borrowing for the 2013-14 financial year will increase public sector net borrowing by 5%, to £99.1 billion (excluding banks).[35]

33 Eurostat, *European system of accounts ESA10*, December 2013
34 Available at: www.gov.uk/government/publications/network-rail-framework-agreement
35 Office for National Statistics, *Developments to Public Sector Finance Statistics*, June 2014.

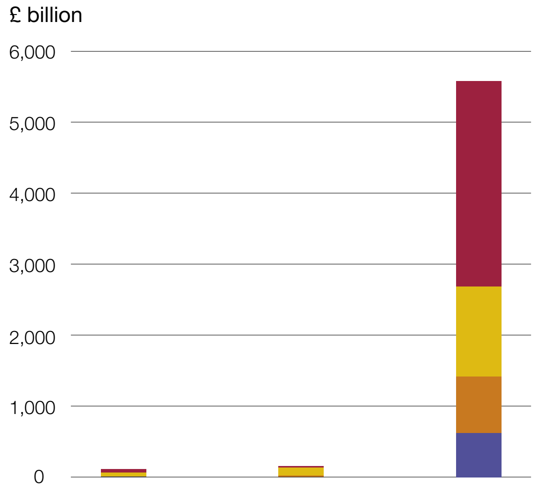
4.9 The income, expenditure, assets and liabilities of Network Rail will be consolidated into the WGA and the Department's group accounts. **Figure 12** shows the value of Network Rail's transactions and balances in 2012-13, in contrast to the Department's group accounts and the WGA.

4.10 In 2012-13 one of the qualifications on the WGA related to the exclusion of some public sector bodies from the WGA. Network Rail was the third largest body among those which the C&AG considered should be included in the WGA, behind the Lloyds Banking Group and the Royal Bank of Scotland Group. The inclusion of Network Rail in the WGA from 2014-15 onwards should reduce the number of bodies included within the qualification and subsequent impact upon the figures reported within the WGA.

Figure 12

Network Rail's transactions and balances in 2012-13

Network Rail's assets and liabilities will be a significant addition to the departmental group, but will represent only a small addition to the WGA



	Network Rail	Department[1]	WGA[2]
Liabilities	44.6	15.4	2,893.4
Assets	52.6	120.0	1,263.8
Expenditure	5.4	15.5	799.4
Income	6.2	3.0	620.7

Notes

1 The figures shown for the Department are for the departmental group.

2 The figures shown are for the 2012-13 financial year to aid comparability as the 2013-14 WGA is not published as at October 2014.

Source: Network Rail and Department for Transport *Annual Report and Accounts 2012-13*, HM Treasury *Whole of Government Accounts 2012-13*.

The Department's borrowing facility to finance Network Rail

4.11 In 2013-14, Network Rail's debt was approximately £33 billion. The Department has put in place a loan facility from 1 April 2014 to cover all of Network Rail's financing requirements for Control Period 5, to 2019. The maximum amount Network Rail can loan from the Department is £30.3 billion. It has planned to loan up to £6.5 billion to Network Rail during 2014-15. The loan facility arrangement was agreed upon by Network Rail, the Department and the Office of Rail Regulation following their exploration of options to deliver greater efficiency to Network Rail's borrowing. Network Rail no longer acquires debt borrowing from commercial markets and will refinance any existing debt with money from the Department's loan facility. The Department states that this loan facility will gradually reduce Network Rail's external debt, and as this external debt decreases there will be an associated reduction in the FIM fee payable to the Department in future years.

Reward and remuneration

4.12 Network Rail's board is responsible for running the company. It consists of a non-executive chairman, non-executive directors and executive directors. Following the reclassification, the Department's Secretary of State will set pay for the chair and the other non-executive directors of Network Rail. Executive director remuneration will be set by Network Rail's remuneration committee, a committee of its board, but must be approved by the Secretary of State and the Chief Secretary to HM Treasury. A 3-year remuneration policy for the reward and incentivisation of executive directors will also be developed by Network Rail's remuneration committee.

4.13 For all other staff, Network Rail will discuss its overarching pay strategy with the Department before each revision to it. Base pay for senior staff must be consistent with public sector pay policy subject to any specific written instructions from the Department or Chief Secretary to HM Treasury. Network Rail will publish transparency information on how senior pay (for those earning above £142,500) is structured, including specific details of the roles of the highest earners.

Audit of Network Rail's accounts and value-for-money studies

4.14 The C&AG will audit Network Rail's annual report and accounts and, together with his report, these will be laid before Parliament by the Department's Secretary of State. It is intended that the appointment of the C&AG as external auditor to Network Rail will take effect from April 2015. The C&AG may also carry out value-for-money studies on Network Rail, examining the economy, efficiency and effectiveness with which Network Rail has used its resources in discharging its functions.

Appendix One

The Department for Transport Group at 31 March 2014

Bodies reported within the Department's own accounts

Advisory non-departmental public bodies

Disabled Person's Transport Advisory Committee

Executive non-departmental public bodies

Railway Heritage Committee

Bodies within the Department's accounting boundary, which also publish their own accounts

Executive agencies

Driver and Vehicle Licensing Agency

Highways Agency

Maritime and Coastguard Agency

Vehicle Certification Agency

Executive non-departmental public bodies

British Transport Police Authority

Directly Operated Railways Limited

High Speed 2 Ltd

The Commissioners of Northern Lighthouses

Trinity House Lighthouse Service

Passenger Focus

Other entities

London & Continental Railways Limited

CTRL Section 1 Finance plc

LCR Finance plc

The Commissioners of Irish Lights

Air Safety Support International Limited

Air Travel Trust Fund

Bodies outside the Department's accounting boundary

Tribunal non-departmental public bodies

Traffic Commissioners and Licensing Authorities – reported in the accounts of the Vehicle and Operator Services Agency

Trading funds

Driving Standards Agency

Vehicle and Operator Services Agency

Public corporations

Aberdeen Harbour

Board British Railways Board (Residuary) Limited (abolished 29 September 2013)

Civil Aviation Authority

Dover Harbour Board

East Coast Mainline Limited

Eurostar International Limited (formerly Eurostar (UK) Ltd)

ITSO Ltd

ITSO Services Ltd

Milford Haven Port Authority

Poole Harbour Commissioners

Port of London Authority

Port of Tyne Authority

Shoreham Port Authority

Other entities

Crossrail Complaints Commissioner

Marine and Aviation Insurance (War Risks) Fund

General Lighthouse Fund

NATS Holdings Limited

Network Rail Limited

Appendix Two

Results of the Civil Service People Survey 2013

Survey question (% strongly agree or disagree)	Department for Transport (excluding agencies)	Civil service benchmark
Leadership and managing change		
I feel that my department as a whole is managed well	**41**	43
Senior managers in my department are sufficiently visible	**57**	51
I believe the actions of senior managers are consistent with my department's values	**45**	43
I believe that the board has a clear vision for the future of my department	**34**	42
Overall, I have confidence in the decisions made by my department's senior managers	**37**	41
I feel that change is managed well in my department	**25**	29
When changes are made in my department they are usually for the better	**21**	27
My department keeps me informed about matters that affect me	**60**	58
I have the opportunity to contribute my views before decisions are made that affect me	**33**	36
I think it is safe to challenge the way things are done in my department	**40**	38
Organisational objectives and purpose		
I have a clear understanding of my department's purpose	**80**	85
I have a clear understanding of my department's objectives	**75**	80
I understand how my work contributes to my department's objectives	**79**	83

Notes

1 These are summary results of the Civil Service People Survey 2013. Not all question scores have been included.

2 The score for a question is the percentage of respondents who strongly agree or agree to that question.

Source: *Civil Service People Survey 2013*, available at: www.civilservice.gov.uk/about/improving/employee-engagement-in-the-civil-service/people-survey-2013

Department for Business, Innovation & Skills (excluding agencies)	Cabinet Office (excluding agencies)	Department for Communities and Local Government (excluding agencies)	Department for Culture, Media & Sport (excluding agencies)	Ministry of Defence (excluding agencies)	Department for Education	Department of Energy & Climate Change	Department for Environment, Food & Rural Affairs (excluding agencies)	Foreign & Commonwealth Office (excluding agencies)	Department of Health (excluding agencies)	HM Revenue & Customs (excluding agencies)	HM Treasury	Home Office (excluding agencies)	Department for International Development	Ministry of Justice (excluding agencies)	Department for Work & Pensions (excluding agencies)
45	39	43	28	24	32	42	35	57	41	26	67	37	64	48	40
55	53	53	42	32	41	63	49	60	57	38	75	47	69	55	39
44	43	42	37	29	35	50	41	57	46	32	63	41	62	49	39
48	28	39	23	27	29	24	28	53	32	28	54	32	55	39	40
42	41	39	30	22	30	44	34	51	43	23	64	35	57	43	33
29	28	29	20	14	21	28	23	40	26	20	47	22	43	32	34
24	25	20	16	11	16	27	16	35	18	17	40	19	34	27	30
65	59	60	51	45	53	69	58	62	56	45	70	57	69	59	58
38	34	41	30	23	29	42	31	44	37	25	48	34	48	37	35
40	42	39	32	33	31	48	38	46	36	33	58	37	44	39	42
85	73	75	70	82	83	89	77	84	77	80	93	84	94	82	85
79	63	72	62	74	77	86	74	81	73	77	88	81	92	77	83
84	73	78	74	79	81	87	79	84	78	80	88	82	91	80	84

Appendix Three

Publications by the NAO on the Department since April 2013

Publication date	Report title	HC number	Parliamentary session
9 July 2014	Procuring new trains	HC 531	2014-15
6 June 2014	Maintaining strategic infrastructure: roads	HC 169	2014-15
24 January 2014	Crossrail	HC 965	2013-14
17 January 2014	Departmental Overview: The performance of the Department for Transport 2012-13	www.nao.org.uk/report/departmental-overview-performance-department-transport-2012-13/	
6 September 2013	2012-13 review of the data systems for the Department for Transport	www.nao.org.uk/report/2012-13-review-of-the-data-systems-for-the-department-for-transport/	
5 June 2013	Progress in delivering the Thameslink programme	HC 227	2013-14
16 May 2013	High Speed 2: A review of early programme preparation	HC 124	2013-14

Appendix Four

Cross-government reports of relevance to the Department published since September 2013

Publication date	Report title	HC number	Parliamentary session
16 July 2014	The 2013-14 savings reported by the Efficiency and Reform Group	HC 442	2014-15
3 July 2014	Government grant services	HC 472	2014-15
25 June 2014	Local government funding: Assurance to Parliament	HC 174	2014-15
19 June 2014	The centre of government	HC 171	2014-15
2 June 2014	Major Projects Authority Annual Report 2013-14	www.nao.org.uk/wp-content/uploads/2014/06/Major-Projects-Authority-Annual-Report-2013-14.pdf	
31 March 2014	Update on the Next Generation Shared Services strategy	HC 1101	2013-14
18 March 2014	Making a whistleblowing policy work	HC 1152	2013-14
7 February 2014	Progress on public bodies reform	HC 1048	2013-14
31 January 2014	Forecasting in government to achieve value for money	HC 969	2013-14
15 January 2014	Government whistleblowing policies	www.nao.org.uk/wp-content/uploads/2014/01/Government-whistleblowing-policies.pdf	
20 December 2013	Evaluation in government	www.nao.org.uk/wp-content/uploads/2013/12/10331-001-Evaluation-in-government_NEW.pdf	
19 December 2013	Over-optimism in government projects	www.nao.org.uk/wp-content/uploads/2013/12/10320-001-Over-optimism-in-government-projects.pdf	
29 November 2013	Savings from operational PFI contracts	www.nao.org.uk/wp-content/uploads/2013/11/Savings-from-operational-PFI-contracts_final.pdf	
12 November 2013	Memorandum on managing government suppliers	HC 811	2013-14
12 November 2013	Memorandum on the role of major contractors in the delivery of public services	HC 810	2013-14

Where to find out more

The National Audit Office website is
www.nao.org.uk

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Design and Production by NAO Communications
DP Ref: 10520-001