National Audit Office

REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL

HC 1700
SESSION 2010–2012

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# Reducing costs in the Department for Transport

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# Reducing costs in the Department for Transport

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Amyas Morse
Comptroller and
Auditor General

National Audit Office

8 December 2011

This report sets out the Department for Transport's cost reduction plans, how it identified and assessed cost reduction measures and its progress in implementing them.



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# Contents



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This report can be found on the National Audit Office website at www.nao.org.uk/reducing-dft-costs-2011

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# Key facts

**£12.8bn**
the Department for Transport's budget in 2010-11, the baseline year for the spending review

**15%**
the reduction, in real-terms, in transport spending by 2014-15 when compared with the 2010-11 baseline

**68%**
the proportion of the Department's 2010-11 budget spent through third parties[1]

| | |
|---|---|
| **£3.4 billion** | the amount of the Department's budget in 2010-11 spent on rail |
| **£3.2 billion** | the amount of the Department's budget in 2010-11 spent through the Highways Agency, an Executive Agency of the Department |
| **£2.7 billion** | the amount of the Department's budget in 2010-11 spent via Transport for London |
| **£2.6 billion** | the amount of the Department's budget in 2010-11 spent through local authorities |
| **£683 million** | the budget reduction in 2010-11, as a result of the 2010 emergency budget, before any spending review budget reductions |
| **2 per cent** | contingency budgets as a proportion of the Department's total budgets (2011-12 to 2014-15) |

1 'Third parties' do not include Executive Agencies.

# Summary

**1** Reducing the budget deficit is a Government priority. The 2010 spending review announced significant spending reductions across Government. The settlement for the Department for Transport (the Department) provides a budget that is 15 per cent lower in real terms than the baseline of £12.8 billion in 2010-11. This is in addition to an earlier £683 million reduction the Department committed to in the 2010 emergency budget which was already incorporated in the baseline for the spending review. To live within this settlement, the Department has reduced spending plans across all areas of its business.

**2** The Department provides leadership across the transport sector. Its primary objectives are to support economic growth and reduce carbon emissions. The Department works with local and private sector partners to deliver many of its services and funds major road and rail infrastructure projects. Spending decisions in transport often result in long-term commitments, and at any point in time, the Department has spending commitments resulting from earlier investment decisions. This can make it difficult to vary spending plans at short notice.

**3** This report sets out the Department for Transport's cost reduction plans (Part One), how the Department identified and assessed cost reduction measures (Part Two), and its progress in implementing them (Part Three). Appendix One summarises our audit methodology.

**4** In November 2011, the Government announced additional transport spending in its Autumn Statement, which is not covered further in this report. This amounted to £1.7 billion of new spending on transport infrastructure over 2011-12 to 2014-15, and a further £950 million of improvements to the rail network financed through Network Rail. In addition, there is a £345 million expense associated with keeping the cap on passenger rail fare increases at 1 per cent above inflation in 2012 (it was previously due to rise to 3 per cent above inflation).

## Key findings

### Reducing costs within a broader vision of strategic change

**5** To achieve large scale sustainable cost reductions it is important to have a clear plan of how an organisation will work in the future given its vision and objectives. This is known as a target operating model. The plan should be refined regularly as analysis of information develops. By analysing the cost and value of activities and comparing these to the model, an organisation can then start to prioritise resource allocation.

6 **As early as 2009, the Department recognised the need to rethink how it would deliver its objectives more cost-effectively, in the longer term.** Before the spending review, the Department embarked on a number of initiatives aimed at making sustainable savings. It also undertook projects to examine how it could do things 'fundamentally differently' in specific areas. These initiatives were not generally expected to produce short-term savings but this early thinking helped to identify some areas for reducing budgets during the spending review.

7 **The Department did not have a target operating model at the time of the spending review.** This was because key elements of the above initiatives were not due to report until after the spending review and were aimed at influencing spending beyond 2014-15. Nor were these initiatives a holistic examination of the whole department and how it delivered its objectives. This meant that the Department did not have a long-term plan against which to make shorter-term decisions for the spending review period up to 2014-15. The Department used the spending review to identify areas where it needed to consider further reforms, announcing a strategic review of the Highways Agency, and has now started work to develop a more comprehensive approach to longer-term planning.

8 The spending review required the Department to find savings that could be delivered by 2014-15. In preparation, the Department conducted a case-by-case review of the impact of short-term cost reduction options, informed by its high-level objectives at the time. We found evidence that the Department used these to guide decisions on where to make cuts or where to protect spending, for example, protecting road maintenance, or highlighting the effect of capital and resource spending cuts on reducing carbon emissions.

9 The Department felt constrained in altering some areas of spending. A key decision was to exclude from consideration £10.7 billion expenditure (28 per cent of the Department's budget) on the Network Rail grant over 2011-12 to 2013-14, with the exception of negotiating a £150 million rebate. This grant is determined for a five-year period, running up to 2013-14. While it can theoretically be reopened, this is a lengthy process with no guarantee of reducing the Department's spending. This and other constraints limited the scope for judgements on the balance between different modes of transport. Instead, the Department committed to making savings of £298 million from the Network Rail grant in 2014-15 and is developing its proposals on delivering a sustainable railway. Excluding the Network Rail grant did not require compensating savings in other areas of the transport budget.

## Understanding costs and values

10 To identify and prioritise cost reductions departments need a detailed knowledge of where costs are incurred, the factors driving costs, and the value of activities. Departments should understand the distribution of costs and the links between choices about what to stop, what to change and what to continue. Without this information, cost reductions are less likely to lead to sustainable savings.

**11 The Department followed a structured process to identify potential areas for budget reductions. It had a good understanding of costs and values in some areas. Its understanding was limited in others:**

- The Department had a generally good understanding of the relationships between costs and benefits on specific transport projects, such as Crossrail and national roads schemes, because it had economic appraisals to test various options for reductions.
- The Department commissioned a bespoke analysis of the relative benefits and costs of national highways maintenance, as information here was weaker (as previously identified in our 2009 report on *Contracting for Highways Maintenance*).
- Apart from specific stand alone schemes, the Department had more limited information on its spending through third parties:
  - For its block grants to Transport for London and local authorities, the Department commissioned work that helped to indicate broadly the costs and benefits of devolved spending.
  - The Department's understanding of the relationship between cost and value was weakest in rail, where there was no analysis of the relative benefits and costs of reductions in the scope of rail franchises or increases in passenger rail fares. There was also limited evidence on the potential for efficiencies by Network Rail from 2014-15, and no analysis on the potential efficiency savings prior to this as the Department and the Treasury excluded the current Network Rail grant from the spending review. A lack of transparency on Network Rail's costs is consistent with our past reports on the Department and the Office of Rail Regulation.

**12** Using a sample of 73 per cent of the Department's budget we compared the spending review settlement to its spending plans for 2011-12 to 2014-15 that existed in June 2010. **We found that over half of the reductions are the result of cuts or deferrals to new investment and higher fares, rather than new approaches to delivering the same for less. One fifth of the reductions come from efficiencies.** Continuing to meet its objectives (for example, for its road schemes to support economic growth, relieve congestion and improve safety) within lower budgets will depend on the Department finding new ways to deliver them.

**13 At the time of the spending review decisions, it was uncertain whether budget reductions in road maintenance and rail were financially sustainable.** Budget reductions of £1,229 million will be made to national and local road maintenance. This includes £435 million from reducing road condition standards and cutting routine maintenance and unspecified efficiencies of £223 million, risking a deterioration in road quality and higher long-term costs to the Department or local authorities. The Department is also estimating £298 million efficiencies to the Network Rail grant in 2014-15, which depends on the outcome of negotiations on the next five-year rail settlement. The Department is now taking action to identify efficiency savings, including supporting local authorities to identify sustainable budget reductions in road maintenance.

## Delivering cost reductions

**14** Departments must have effective oversight of cost reduction measures, and their impact on achieving objectives, to reduce costs sustainably. Risks to budgets and objectives should be monitored in an integrated way. Contingency plans need to allow for the likelihood that not all cost reduction measures will be successful, and new risks may materialise.

**15 The Department's monitoring of cost reduction measures does not provide a strategic overview of whether transport spending is becoming more cost-effective, in particular because financial and performance reporting is not fully integrated.** The Department has detailed information on individual cost reduction measures that the central department is delivering but its monitoring of cost reductions by third parties is more light touch, and varies according to control and oversight arrangements. The Department improved its oversight of Transport for London's infrastructure investment. In other respects, the Department does not have regular progress reports on cost reduction by Transport for London or local authorities, or on the risks that cutting costs places on delivering the Department's objectives. High-level monitoring does not quantify overall progress. Nor does it join up information on the cost and impact of budget reductions, and the links to objectives are not clearly stated.

**16 One year after the spending review, it is too early to assess with confidence progress on the major cost reduction measures.** The Department's assessment is that it is on track for delivering nearly all of the cost reduction measures it is responsible for. We have not validated this assessment, as most of the critical milestones against which progress can be judged lie ahead.

**17 There are a range of risks to the Department's spending plans which could result in expenditure being higher or lower than expected.** One area of immediate risk relates to rail franchises, where the Department is exposed to variations both in rail revenues, which have historically proved difficult to forecast accurately, and to commercial negotiations with Train Operating Companies. The Department also recognises that it potentially faces significant financial risk from higher than expected inflation. Where the Department gives cash grants to local authorities and Transport for London, inflation risk is passed on through their budgets, but this could still impact on the Department achieving its local transport objectives. For other areas of the Department, shortfalls could require further reductions to budget lines unless other funds become available. Fluctuations in budgets present risks to value for money, for example, £237 million of efficiency savings at the Highways Agency are based on better contracting, of which a key part is certainty of funding. We believe that long lead times for infrastructure projects also limit the Department's flexibility to respond to changes in funding by accelerating or delaying projects.

## Conclusion on value for money

**18** The Department did well to start preparations for the spending review early and to take steps to improve and challenge the evidence on which it based its decisions, with a view to securing value for money. This was done in a short timescale and with limited flexibility over key areas of spending. At the time of the spending review, the Department had elements of a strategic vision but there was no comprehensive strategy for prioritising resources based on a full understanding of costs and value. Without this we believe the Department cannot guarantee that its decisions will achieve value for money.

**19** In terms of the decisions it took to reduce costs, there are risks to value for money: reductions to road maintenance may not be sustainable without deterioration in asset quality; and reductions in rail budgets depend on successful negotiations with third parties. Securing value for money in future depends on the Department's ongoing work to develop a longer-term approach to transport planning, and to consider further reforms to allow the transport system to operate effectively at lower levels of funding.

## Recommendations

**20** Our recommendations are designed to help the Department secure value for money in achieving its cost reduction commitments. The recommendations also aim to help the Department better understand costs and benefits across its whole business, as it considers longer-term plans for delivering its objectives at a lower and more sustainable cost.

### Reducing costs within a broader vision of strategic change

**a** **The Department's plans for cost reduction during the spending review period were based on a pragmatic bottom-up examination of spending to identify options within identified constraints.** The Department should continue its work to take a more holistic view of the whole Department and how it might deliver its objectives at a lower cost, considering issues such as the balance between:

- investment and maintaining transport infrastructure; and
- different modes of transport.

**b** **For the first three years of the spending review period, the Department could only seek savings from Network Rail by negotiation, even though it accounted for £10.7 billion of the Department's budgets.** In its response to the McNulty review, the Department should seek:

- more transparency over Network Rail's costs and outputs; and
- more flexible mechanisms for returning savings to the Department within a five year funding period.

## Understanding costs and values

c **Initially, the Department had limited knowledge of whether the spending devolved to Transport for London and local authorities (the latter for maintenance) was cost-effective.** The Department should build on its good work to understand these areas of spending during the spending review. It should work with these bodies to develop measures for them to report against, both to the Department and to the public for greater transparency to give assurance that taxpayers' money is being spent well.

d **Reducing maintenance may lead to a deterioration in road quality and so increase costs in the longer term.** The Department needs to monitor closely the condition of national and local roads, compared with the minimum condition needed to meet its objectives and avoid incurring future costs. This should be combined with regular progress reports on actual efficiency savings achieved.

## Delivering cost reductions

e **The Department's monitoring of cost reduction measures does not provide a strategic overview of whether transport spending is becoming more cost-effective.** As the Department develops its vision of a lower-cost operating model, it should put in place performance measures which give:

- a quantified assessment of progress on individual and overall budget reductions;
- a clear link between all spending lines and objectives; and
- joined-up reporting of budget reductions and their impact on long-term value.

f **We welcome the Department's investment in working with local authorities to identify and share how efficiencies can be made in maintenance.** This good practice needs to be applied to other areas of spending with third parties, so that the Department knows how cost reductions are being achieved, the impact on quality and whether its objectives are being met.

g **The Department has identified that there are risks to the delivery of cost reduction from higher inflation and fluctuations in subsidies to train operators.** The Department should continue to develop this work to:

- quantify the potential impact on different budgets and objectives, across its whole business and for a range of scenarios of both higher costs and fluctuations in income;
- understand the relationship between cost and value in areas of potential further reduction or additional spend; and
- develop plans to minimise any impact on budgets.

# Part One

## The Department's cost reduction plans

**1.1** Reducing the United Kingdom's budget deficit is a Government priority. In October 2010, the Government published its spending review, setting out budgets for each department over the four-year period 2011-12 to 2014-15. This Part sets out the process and outcomes of:

- the emergency budget;
- the spending review settlement; and
- how the Department plans to reduce its costs.

**1.2** The Department for Transport provides leadership across the transport sector to achieve its objectives, setting policy for rail, road, sea, air and local travel. It invests public funds in road and rail infrastructure and maintenance and gives subsidies to bus and rail services. It works with its Executive Agencies[2] and a wide range of third parties, including local and private sector parties, to deliver most of its services. In 2010-11, 68 per cent of the Department's £12.8 billion budget was spent through third parties and a further 25 per cent through the Highways Agency.

### The emergency budget

**1.3** In May 2010, the Government announced £6.2 billion of reductions to 2010-11 budgets, and later formalised these in the June emergency budget. The Department's contribution to this total was 11 per cent (£683 million). **Figure 1** overleaf shows where these reductions were identified. They included reductions from cross-government moratoria on consultancy and recruitment budgets, and one-off reductions to Network Rail and Transport for London budgets which the Department negotiated. The level of reductions in local authority budgets was determined as part of a cross-government approach; this approach included removing the ring-fencing on some grants. The revised budget was treated as part of the baseline for the spending review period – meaning that these 'emergency' reductions would have to be carried forward into subsequent years, or other compensating savings found. The Department delivered reductions in its direct spending as planned and reduced its budgets to third parties accordingly.

2 The Department's Executive Agencies comprise the Highways Agency, Maritime and Coastguard Agency, Government Car and Despatch Agency and Driver & Vehicle Licencing Agency. Agencies that operate as trading funds are the Driving Standards Agency, Vehicle and Operator Standards Agency and Vehicle Certification Agency.

**Figure 1**

The breakdown of the Department's reduction in budget after the emergency budget in 2010-11

| Spending area | Budget reduction (£m) |
|---|---|
| Local authority grants | 309 |
| Transport for London grant | 108 |
| Network Rail | 100 |
| Direct spending (including consultancy, research, travel, IT) | 112 |
| Deferral of rail and highways schemes | 54 |
| **Total** | **683** |

*Source: Department for Transport response to a written Parliamentary Question, 13 July 2010*

## The spending review settlement

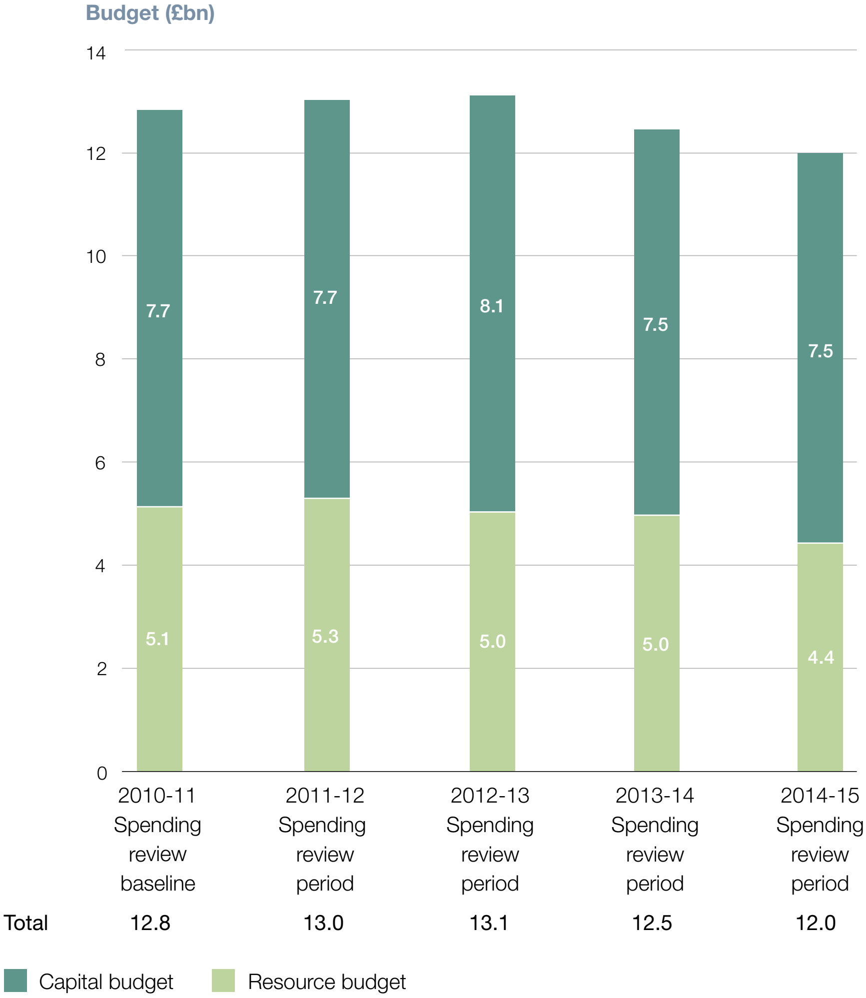
**1.4** The emergency budget was followed by a spending review completed in October 2010 to set the Department's budgets from 2011-12 to 2014-15 (**Figure 2**). In cash terms the overall reduction between the 2010-11 baseline and 2014-15 is 7 per cent. However, inflation, which official forecasts at the time of the spending review showed as averaging 2.4 per cent, meant that the reduction in real terms was 15 per cent. Inflation is currently running higher than forecast and the Department's modelling suggested the additional pressure would be between 1 and 4 per cent of the 2014-15 budget (discussed further in Part Three), which, in the absence of any other changes, could imply an overall real-terms reduction of between 16 and 19 per cent.

**1.5** The Treasury set out the process for allocating budgets through the spending review:

- To agree **capital budgets**, the Treasury took a zero-based approach, asking all departments to submit evidence on the net present value per pound of future spending. This was a calculation showing the relative economic benefits and costs for all new spending. This was used to help prioritise capital budgets across Government.
- For **resource spending**, the Department was asked to provide savings options corresponding to two budget reduction scenarios.

The Department complied with the Treasury's process giving them a range of spending options and met its timetable. In preparing its proposals, it asked all its directorates to identify options for reducing spending, building on work that the Department started in early 2010. Directorate level bids were combined by a central team, and scrutinised by the Department's leadership. The Department's preparations for the spending review are covered in Part Two.

## Figure 2
The Department's budgets 2010-11 to 2014-15 (cash terms)




**NOTE**

1 Numbers may not sum due to rounding. The Department's total budget in 2014-15 is £11,951 million.

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

**1.6** Under the settlement, the Department's 15 per cent budget reduction is composed of real-terms reductions of:

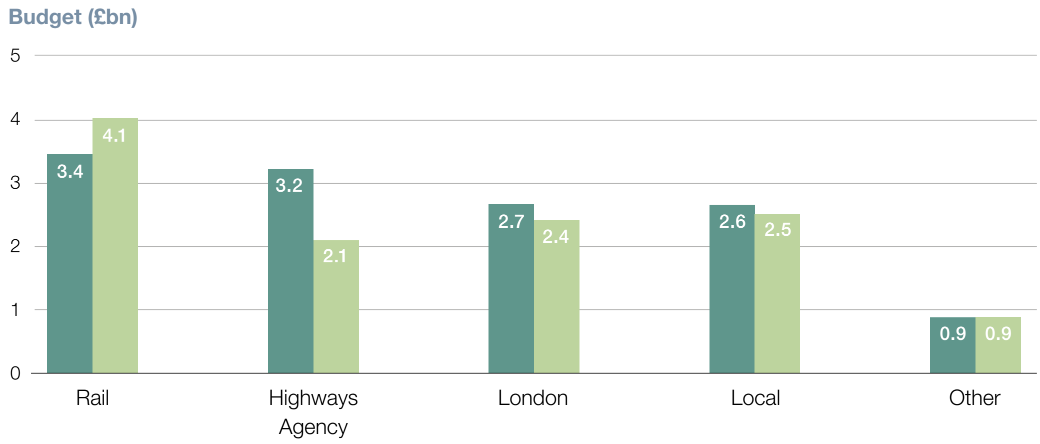
- eleven per cent to capital budgets, which includes spending on the Network Rail grant, Crossrail construction, road building and maintenance, and local major transport projects; and
- twenty-one per cent to the Department's resource budgets, which includes the Transport for London grant (accounting for over half of the resource budget), PFI contracts, some national road maintenance and preparatory costs for High Speed 2.

## The Department's plans to reduce costs

**1.7** The impact of the budget reductions varies across the Department's major programme areas, but all areas of spending are affected. **Figure 3** shows the change in programme area budgets over the spending review period, against the 2010-11 baseline. We also examined changes to planned spend for a sample of budget lines (see Appendix Two):

- While Figure 3 shows that total **rail budgets** will increase by 8 per cent in real terms by 2014-15, this is largely due to the increased spending on Crossrail and High Speed Rail. Reductions were identified from this area of spend including a 6 per cent reduction on Crossrail compared with previous spending plans, and a 10 per cent reduction in payments to Network Rail and Train Operating Companies.
- Spending through the **Highways Agency** will see the greatest reduction over the period, with budgets falling, in cash terms, from £3.2 billion in 2010-11 to £2.1 billion in 2014-15, a 41 per cent real-terms reduction. Appendix Two confirms that these changes require large reductions to aggregate spending plans for 2010-11 to 2014-15, including a 63 per cent reduction to previous spending plans for national road building (where original plans were for continued high levels of spending) and a 19 per cent reduction to planned road maintenance.
- **Local authority** spending lines will be reduced by 14 per cent in real terms by 2014-15. This reduction includes significant cuts in local highways maintenance and major schemes budgets.
- Grants to **Transport for London** will fall by 18 per cent in real terms by 2014-15. Total budgets across the spending review period are 14 per cent lower than previously envisaged for the same period in the 10-year funding agreement between the Department and Transport for London.
- The majority of the Department's administration budget falls under the **other** category. The Department agreed to reduce its £295 million administration budgets by 33 per cent by 2014-15 (real terms). It chose to restructure quickly, the accounts show staff numbers reduced by 502 in the year to April 2011.

## Figure 3
The Department’s budgets at the beginning and end of the spending review period




| | Rail | Highways Agency | London | Local | Other |
|---|---|---|---|---|---|
| Change in real terms by 2014-15 (%) | 8 | -41 | -18 | -14 | -9 |

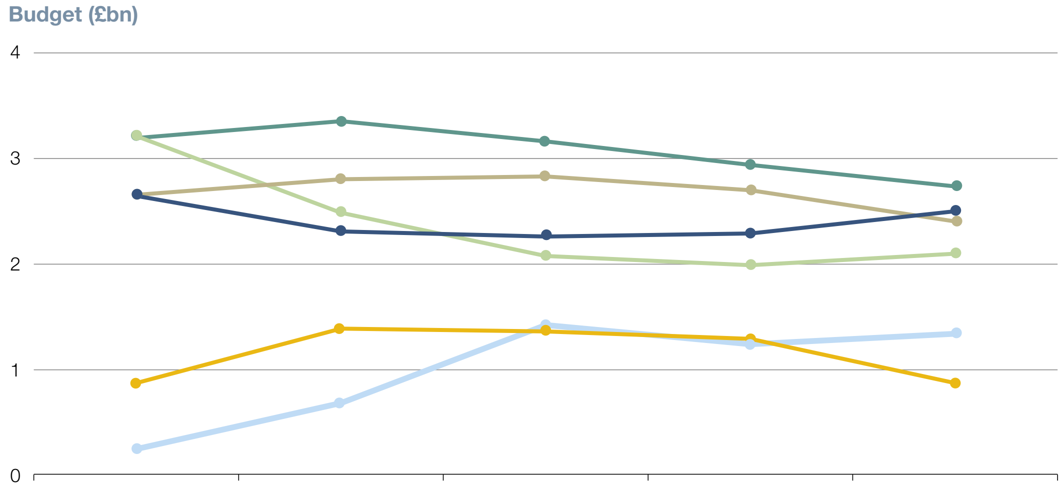
■ 2010-11 baseline budget ■ 2014-15 budget

NOTE
1 Bars are in cash terms.

*Source: National Audit Office analysis of departmental spending data*

**1.8** While there is an overall reduction in budgets across the spending review period, there are also significant fluctuations between individual years (**Figure 4** overleaf). Three large items account for an overall rise in budgets in the first two years: spending on Crossrail, High Speed 2 development costs and a change in the treatment of ongoing costs related to the 2007 failure of Metronet (included in ‘other’). The Department’s budgets in the ‘other’ category also increase due to a £465 million contribution to the government-wide Regional Growth Fund. The Highways Agency and local authority budgets both rise slightly at the end of the period, reflecting increased spending on new major schemes.

## Figure 4
The Department's budget by major programme areas 2010-11 to 2014-15 (cash terms)




| | 2010-11 baseline | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---|---|---|---|---|---|
| Network Rail and Passenger Rail | 3.2 | 3.4 | 3.2 | 2.9 | 2.7 |
| Highways Agency | 3.2 | 2.5 | 2.1 | 2.0 | 2.1 |
| Transport for London grant | 2.7 | 2.8 | 2.8 | 2.7 | 2.4 |
| Local | 2.6 | 2.3 | 2.3 | 2.3 | 2.5 |
| Crossrail and High Speed 2 | 0.2 | 0.7 | 1.4 | 1.2 | 1.3 |
| Other | 0.9 | 1.4 | 1.4 | 1.3 | 0.9 |

*Source: National Audit Office analysis of departmental spending data*

# Part Two

## Identifying and assessing cost reduction measures

**2.1** We evaluated the Department's approach to identifying and assessing cost reduction measures to assess whether it had:

- set out a clear **target operating model** – a vision for how the business will work in the future so that it can deliver its objectives at a sustainable lower cost;
- **clear objectives for the spending review** and used these to prioritise cost reduction measures;
- a strong understanding of the current and likely future **cost and value** of activities; and
- identified **sustainable** cost reductions.

We reviewed the process the Department used to put together its spending review bid and examined in detail a sample of 15 of the Department's budgets. These budgets make up 73 per cent of departmental spending between 2011-12 and 2014-15 and cover all major areas of the Department, including small programmes. There are more details of our sampling criteria and approach in our methodology (Appendix One and online).

### Setting out a target operating model

**2.2** Before the spending review, the Department had recognised the need to rethink how it could deliver its objectives more cost-effectively in the longer term in a number of key areas:

- In December 2009, the Department and the Office of Rail Regulation commissioned Sir Roy McNulty to examine the cost structure of the railway industry and identify options for improving value for money.
- In early 2010, the Department carried out a series of 'discovery projects', designed to identify 'radical options to look at how [they] could do things fundamentally differently in certain areas' with a significantly lower budget. These projects examined nine areas, ranging from changing franchise specifications to new revenue-raising opportunities. Several specific recommendations were incorporated in the Department's spending review bid.

**2.3** As **Figure 5** shows, strands of work such as the strategic review of rail were operating to a timescale beyond the spending review decisions and thinking on how programmes interact, or how the Department as a whole might work differently was at an early stage. They were not, nor were they intended to be, a holistic examination of the whole department and how it delivered its objectives. The Department, therefore, did not have in place a target operating model at the time of the spending review, such as to guide judgements on the balance between different modes of transport, or between taxpayer and passenger financing, within the context of the Department's objectives.

**2.4** The Department is currently developing a longer-term planning cycle, consistent with the long-term nature of transport investment decisions. This is intended to be a more comprehensive approach to allocating resources, considering, among other issues, the speed and direction of travel of programmes and activities; driving a stronger efficiency culture through a bottom-up review of activities, and giving a cross-cutting look at processes and resourcing.

**Figure 5**
Strategic reviews by the Department for Transport

| Date | |
|---|---|
| December 2009 | The Department and the Regulator commissioned a study on '*Improving value for money from the railway*', led by Sir Roy McNulty. |
| January 2010 | Internal 'discovery' projects were announced to consider cost reduction or revenue raising in nine key areas including other delivery models and using data effectively. |
| February 2010 | Internal 'alternative planning assumptions framework' exercise to examine options for cost reduction in every spending area. |
| October 2010 | The outcome of the 2010 spending review was specified, and includes an announcement of an independent review of the Highways Agency led by Alan Cook. |
| January 2011 | The Government's response to the Reforming Rail Franchising policy consultation was published. |
| May 2011 | The McNulty rail value for money study was published. |
| July 2011 | The Department for Transport board considered a longer-term strategic planning cycle. |
| | The Department announced its intention to reform rail franchising policy. |
| November 2011 | *'A fresh start for the Strategic Road Network',* a review of the Highways Agency by Alan Cook, was published. |

*Source: National Audit Office summary of the Department's strategic reviews*

**2.5** The spending review process itself, was primarily a case-by-case appraisal of options from each spending area to identify savings up to 2014-15. This process helped the Department to identify areas where it needed to consider further reforms. As part of the spending review settlement, the Department committed to an independent review of the Highways Agency. The review considered the Government's approach to operating, maintaining and enhancing the strategic road network to deliver services more efficiently and was published in November 2011.

## Setting clear objectives, and aligning activities to objectives

**2.6** The spending review required savings in a timescale that was short relative to transport spending decisions and to the strategic initiatives outlined in Figure 5. The Department's approach to the spending review was guided by high-level objectives of supporting economic growth and reducing carbon emissions. Other objectives included tackling congestion and addressing social exclusion from lack of access to transport.

**2.7** In early 2010, the Department developed an Alternative Planning Assumptions Framework that identified options for savings across the Department's spending and assessed their impact against these objectives. The 'discovery projects' (paragraph 2.2) also helped to identify some areas for reducing budgets consistent with these objectives, for example by considering the lowest possible road standards consistent with the safety and preservation of the network. This work provided the basis for judgements about potential areas for savings.

**2.8** How far these objectives guided the Department's decision-making is shown in the process it used to identify possible areas for cuts and in its subsequent negotiations with the Treasury on the cuts. For example:

- The Department wanted to make sure that Transport for London continued to invest in upgrades to London Underground and other key infrastructure, believing these to be critical for economic growth. To do so, the Department split funding into a general grant and an investment grant, confirming that the latter, together with other sources of finance, was sufficient to make infrastructure improvements to a specific timescale.
- In presenting its case to the Treasury, the Department cited the adverse impact that certain capital and resource cuts would have on its objectives to reduce carbon emissions and address social exclusion, and tried to quantify the impact on carbon.

**2.9** The Department also used a multi-criteria analysis[3] to help provide a strong evidence case for part of its capital budgets. The process the Department followed for capital budgets, which were determined through a cross-government, zero-based approach, comprised:

- Protecting budgets for Crossrail, the Office for Low Emission Vehicles and the preparatory costs for High Speed 2, which were deemed policy priorities. These account for 14 per cent of the Department's final capital budgets. In addition, national road schemes and local transport projects under construction were protected, accounting for a further 5 per cent of the Department's capital budgets during 2011-12 to 2014-15.
- Agreeing a set level of resources for road maintenance (discussed further in paragraph 2.18 and figure 8), which came to 15 per cent of the Department's final capital budgets. During discussions the Department and the Treasury reallocated £100 million of capital expenditure notionally earmarked for road building schemes to national road maintenance to ensure provision in line with the levels already determined.
- Conducting a multi-criteria analysis to examine the relative merits of different capital projects, in terms of their economic benefits, deliverability, strategic fit and other impacts. This enabled comparisons between different levels of spending on national road enhancement schemes, local transport projects, and some of the other funding streams available to local authorities and the Highways Agency. Although it was not the basis for selecting all the specific schemes subsequently taken forward, this informed decisions on 13 per cent of the Department's final capital budgets.[4]

**2.10** The Department's objectives were not the only criteria guiding decisions. Significant areas of Departmental spending are contractually committed for the spending review period, including rail franchises and PFI contracts. The Department and the Treasury decided not to seek to reopen Network Rail's five-year funding settlement which finishes in 2013-14: a £10.7 billion commitment over the first three years of the spending review, 28 per cent of the Department's budgets. This would have required going through an 11-month negotiation process, arbitrated by the Office of Rail Regulation and with little certainty of generating savings in the short term. The Department was not required to find compensating budget reductions in other areas, because the cross-government process for agreeing capital budgets examined individual programmes on their own merits rather than targeting an overall reduction for each department. The Department expects the McNulty review and the next-high level output specification and periodic review of funding for rail to drive longer-term savings.

3 This analysis scored and ranked transport schemes according to different criteria, including: their Net Present Value per pound; deliverability (i.e. how close a scheme is to being able to commence construction); strategic fit; and other non-monetised benefits (such as biodiversity, or local air quality).

4 The remainder of the Department's capital budgets were not covered in this analysis and include the Network Rail grant (46 per cent), a separate grant for Metronet (3 per cent), the Department's contribution to the Government-wide Regional Growth Fund (1 per cent) and other capital programmes (3 per cent).

## Understanding costs and value

**2.11** The Department's understanding of cost and value varied across its main spending areas. The Department's appraisal system for capital projects gave a sound evidence base for the majority of large transport projects. In other areas, especially where spending is devolved to local authorities and Transport for London, the Department had weaker evidence. However, it took steps to improve its knowledge of relative costs and benefits in time to influence spending review decisions. Where decisions were taken on spending through Network Rail and Train Operating Companies, these were poorly evidenced. Where it had already completed an economic appraisal, including for all national and local major projects and road building schemes, the Department generally had good evidence on the costs and value of its activities. It was, therefore, well placed in these cases to give the Treasury the evidence it needed to assess capital bids, for example, on the spending options for Crossrail (**Figure 6**). The Department's economic appraisal methodology assesses projects against 23 criteria: covering economic; environmental and accessibility impacts; and each appraisal is signed off by a departmental economist. Such appraisals are a good way of bringing together relevant information to appraise options objectively.

### Figure 6
Assessing the costs and benefits of Crossrail

Before the spending review, the Department already held a detailed assessment of the expected costs and benefits of Crossrail, as part of its project approval processes. This meant that the Department was able to assess quickly the impact on costs and benefits of two options for reducing the scope of the project, showing that these would reduce the benefit-cost ratio. These options were not taken.

Crossrail Limited also identified savings to total project costs through a combination of lower than expected market prices and changing the sequencing of engineering works. They proposed completing tunnelling before excavating two of the central stations to avoid the high costs of extracting waste soil through central London. While this would mean completing the project one year later, it was expected to reduce total costs, resulting in a £245 million reduction in the Department's contribution during the spending review.

To reflect these changes, the Department updated its assessment of the costs and benefits of Crossrail during the spending review. The updated assessment showed increased benefits relative to costs, although the calculations required by the Treasury did not take into account the cost of borrowing incurred by Transport for London or Network Rail, meaning costs could be underestimated.

**NOTE**
1 We have not examined the accuracy of the benefit-cost calculations.

*Source: National Audit Office review of documents and spending data*

**2.12** In other areas, where the Department had limited evidence to compare the costs and benefits of its programmes, it took action to deepen its knowledge to inform spending review decisions. These areas account for around 35 per cent of the Department's budget. They include spending devolved to Transport for London and local authorities, over which the Department has no direct control, as well as on national road maintenance by the Highways Agency, an Executive Agency of the Department:

- The Department carried out research into how Transport for London spent its money, the value delivered and the scope for further efficiencies. Transport for London provided most of this information, but departmental economists reviewed and challenged some of Transport for London's calculations. The Department also drew on independent research on the costs of the London Underground compared with other metro systems.
- For local highways maintenance, the Department holds very limited information on value for money because local authorities do not have to spend the Department's funding on maintenance or give an account to the Department for it. To improve the evidence base, the Department examined a sample of large maintenance schemes and also commissioned the University of Birmingham to assess the relative costs and benefits of local maintenance.
- The Highways Agency did not hold summary information to compare the costs and benefits of national highways maintenance, although it continues to develop a database of the costs of specific maintenance activities. As part of its normal processes, the Agency ranks and approves schemes on the basis that they enable the Secretary of State's obligations to ensure a safe and serviceable network to be met. The Department requested evidence from the Highways Agency on the ratio of benefits to costs of maintenance and renewals work and these estimates showed that benefits were ten times greater than costs.

**2.13** Given that the current five-year settlement with Network Rail runs until the end of 2013-14 (paragraph 2.10), the Department took a range of alternative options to reduce rail spending from 2011-12, including:

- accepting a £150 million reduction in its grant over three years offered by Network Rail (described by Network Rail as an 'outperformance' of their income and expenditure projections); and
- changes to the scope of, and price charged for, passenger rail services expected to amount to a £759 million budget reduction over four years. This is through a combination of reducing the scope of existing franchise agreements with Train Operating Companies and increasing the cap on passenger rail fares to 3 per cent above inflation.

Whilst the cost savings from these measures were estimated, there was no assessment of the economic benefits foregone. In 2014-15, the start of the new settlement with Network Rail, the Department expects to save a further £298 million from new efficiencies at Network Rail, and £80 million from its new approach to rail franchising. These savings are based on the assumption that they can be negotiated as part of the regulatory process to determine the next five-year rail settlement for Network Rail, and in commercial negotiations with Train Operating Companies.

**2.14** Prior to the spending review, the Department recognised that the factors driving the high cost of rail travel were poorly understood and co-commissioned the McNulty review to examine this, which published in May 2011. McNulty estimated that industry costs could be reduced by up to 30 per cent by 2018-19 if his recommendations were fully implemented. The recommendations focus on creating an industry environment which encourages cost reduction, changes which deliver new efficiencies, and mechanisms to drive implementation.

## Sustainability

**2.15** Of the spending areas we examined, we identified that the Department's cost reduction plans fall into three broad areas:

- where the Department accepted a straightforward cut or deferral in spending and reduced activity during the spending review period;
- where the Department transferred costs on to passengers; and
- where the Department intends to deliver the same level of service for less money – in other words, efficiency savings. At the time of the spending review, plans for achieving these efficiencies ranged from fully developed to aspirational.

**2.16** **Figure 7** overleaf summarises the planned reductions in each category from our sample, and includes our judgement on whether plans for efficiency measures had been specified at the time of the spending review. The reductions are compared to spending plans for 2011-12 to 2014-15 that existed at June 2010. In some cases these spending plans had changed since the Department's last review in March 2010, whilst in other cases, such as the Highways Agency, previous spending plans were taken as the starting position, pending the zero-based capital process in the spending review. Of the budget lines we examined, £5.4 billion of the cost reduction measures represent cuts or deferrals in activity or the transfer of costs to passengers (see 2.17), £1.9 billion are intended as efficiency measures. A further £1.7 billion of reductions to the planned Transport for London budget are unclear. This is because, although the Department made assumptions about how Transport for London would carry out the reductions in its budget, it has no powers to specify the exact use of resources.

## Figure 7

The composition of reductions to planned budgets over the spending review period (NAO sample)

| | Cuts/ deferrals/ transfer of costs (£m) | Efficiencies specified[1] (£m) | Efficiencies not specified[2] (£m) | Unknown (£m) | Total (£m) |
|---|---|---|---|---|---|
| Network Rail and Passenger Rail | 759 | 230 | 298 | | **1,287** |
| Crossrail | | 245 | | | **245** |
| Highways Agency road schemes (including regional funding for road schemes) | 3,498 | 363 | | | **3,861** |
| Road maintenance | 435 | 571 | 223 | | **1,229** |
| of which Highways Agency | 435 | 237 | | | 672 |
| of which local authority | | 334 | 223 | | 557 |
| Local authority major transport schemes | 731 | | | | **731** |
| Transport for London general and investment grant | | | | 1,729 | **1,729** |
| **Total** | **5,423** | **1,409** | **521** | **1,729** | |

NOTES

1 Efficiencies 'specified' = the Department had identified specific source and means of efficiency savings.

2 Efficiencies 'not specified' comprises £298 million reductions to the Network Rail grant in 2014-15 that depend on negotiations with third parties and £223 million reductions to local authority road maintenance for which there was no evidence to show how it could be achieved.

*Source: National Audit Office analysis of departmental spending data and spending plans at June 2010*

**2.17** Not all of the budget reductions are automatic:

- For example, £298 million of rail efficiencies in 2014-15 are dependent on the outcome of negotiations on the next five-year rail settlement.
- A portion of the £759 million budget reductions in passenger rail services (paragraph 2.13) is dependent on commercial negotiations with Train Operating Companies over the amount of additional revenue raised by increasing the cap on passenger rail fares to 3 per cent above inflation. There is a risk that the benefit of the resulting increase in passenger revenues will not be passed on to taxpayers fully, but will also result in increased Train Operating Company profits. The Department's negotiations are ongoing, although the Government announced in the Autumn Statement that it would keep the cap on passenger rail increases at 1 per cent in 2012, which is expected to cost £345 million which includes the impact on Transport for London.

**2.18** At the time of the spending review, the Department had only identified £571 million potential efficiency savings of £1,229 million budget reductions in national and local highways maintenance. Of the remainder: £435 million comes from reducing standards and cutting routine maintenance on the national road network; and £223 million is from unspecified efficiency savings to local road maintenance. The Department's internal assessments were explicit that any actual reduction in road maintenance would be likely to incur higher costs in the future. (**Figure 8**)

## Figure 8

### The sustainability of reductions to highways maintenance spending

**On local highways maintenance,** the Department reduced budgets by 23 per cent by 2014-15, a £557 million reduction in planned spend over the four-year period. It took the view that though ambitious, this could be achieved through efficiency savings. The Department drew on advice from local authorities and the Chartered Institute of Public Finance and Accountancy that improved procurement and asset management planning could yield three-fifths of the required savings. However, there was no information to suggest how the remainder of the savings could be achieved. Recognising the significant challenge faced by local authorities, the Department set up a £6 million programme to help them identify and realise efficiency savings. The Department is now working with local authorities to develop and spread best practice guidance, such as by developing standard specifications for procuring maintenance services.

**On national highways maintenance,** the outcome of the spending review was to reduce spending by 20 per cent by 2014-15, equivalent to a £672 million reduction in planned maintenance over the four-year period. The Department recognises that risks remain to the sustainability of these reductions. Its plans included:

- cutting routine maintenance by £310 million, with a corresponding increase of £150 million in capital spending to move to an annual cycle of maintenance with managed degradation and much slower response times. This was described in an internal document as likely to result in 'a backlog of maintenance that will require additional spend in future years'. The Department and the Agency told us that they agreed at the time that this risk was manageable and would not be likely to lead to increasing future maintenance costs;
- reducing the standards and specifications for road maintenance while meeting legal obligations for the safety and serviceability of the road network, reducing budgets by £275 million;
- Efficiency savings of £237 million from smarter contracting, described as 'challenging'.

The Department and Highways Agency recognised that the overall impact would include slower repair of damage, uncollected litter, fewer inspections of routes and structures and increases in claims on the Department for vehicle damage. The Highways Agency's advice to the Department also contained the caveat that 'there is a material risk in this rapid and top-down assessment that we have simply been too optimistic in what can be achieved and how soon'. The Department put forward these budget reductions in its submission to the Treasury but confirmed that 'reductions will lead to planned and managed, but nevertheless obvious, deterioration in the network'.

*Source: National Audit Office review of documents and spending data*

# Part Three

## Implementing cost reduction measures

**3.1** To understand progress in implementing cost reductions we reviewed:

- whether the Department appropriately **monitors and oversees arrangements** for achieving cost reductions; and
- **progress and risks in implementing cost-reduction plans**.

### Monitoring and oversight

#### Central oversight

**3.2** The Department's Executive Committee and Board monitor progress in reducing costs. In addition to internal financial reporting, they receive reports tracking progress against specific spending review and business plan commitments. A central team judges progress on the basis of information from line teams, providing a degree of independence and consistency. Taken together, financial and progress reports give senior management information including:

- forecast spend against budgets, helping to give assurance on whether the Department is 'on track' to spend within its annual budget;
- an assessment of the level of challenge and risks to individual commitments; and
- progress on particular actions needed to reduce budgets.

In October 2011, the Department also forecast underspend and overspend on budget lines in future years, and intends to update this assessment periodically.

**3.3** While progress on individual actions is clearly reported, information is limited in that:

- reports tracking progress against spending review commitments provide a qualitative assessment but do not quantify the impact on the Department's budgets (quantitative forecasts are prepared separately);
- it does not report on the impact on value. This is particularly important to track whether efficiencies are being made and sustained; and
- it is not linked to progress against the Department's high-level objectives, such as reducing carbon emissions.

## Oversight of cost reductions to be delivered by Executive Agencies and third parties

**3.4** Ninety-three per cent of the Department's spending, and therefore the large majority of its cost reduction measures, are through the Highways Agency or third parties. The Department has good assurance over the total level of efficiencies targeted by the Highways Agency, and the level of confidence in achieving them. This is because from summer 2011, the Agency began reporting a detailed breakdown of progress in identifying and securing efficiency measures on both highways maintenance and new road building schemes. In relation to third parties, the level of the Department's assurance over cost reduction measures therefore depends on control and oversight arrangements in place. Each reporting regime has its own distinctive characteristics:

- The Office of Rail Regulation is responsible for ensuring **Network Rail** works safely and efficiently. The Department's role is to provide strategic direction and funding to the railways and to procure rail franchises and projects. Our report *Regulating Network Rail's efficiency* found that there are gaps in the Regulator's information on Network Rail's unit costs.

- **Transport for London.** The Department's oversight has improved to include specific milestones for infrastructure investment, covering 33 per cent of the funding it gives. Oversight of ongoing expenditure and Transport for London's overall financial sustainability remains light touch, with no regular reporting.

- **Local authorities.** The Department does not monitor cost reduction programmes in local authorities, which are responsible for their own budget decisions. Block grants from the Department can be spent on purposes other than transport. The Department has taken steps to improve transparency by publishing local authority data comparing expenditure against road conditions. The Department's oversight role is greater in relation to bid-based funding, including major transport projects, where it assesses and monitors individual schemes.

**3.5** Although the Department's oversight of this spending is improving, it remains challenging to monitor the actual impact of the cost reductions. This means it cannot be assured that its objectives are being delivered at a sustainable lower cost. This is particularly important to provide assurance that efficiencies are genuine and not simply cuts to services. The Department monitors the condition of roads annually and is beginning to get good information on progress in identifying and implementing efficiency measures. Bringing this information together at board level would enable an explicit assessment of whether efficiencies are being achieved as well as giving assurance on the value of the Department's largest asset. While the Department is not responsible for the condition of local roads, it needs to understand the impact of its budget reductions on its objectives for local transport.

## Progress and risk in implementing cost reduction plans

**3.6** It is too early to assess progress towards cost reduction over 2011-12 to 2014-15, although in some areas there is evidence of progress. For example, early progress reports from Crossrail Limited showed that the expected level of savings will be delivered. The Department believes that the majority of savings from the cost reduction measures it is directly responsible for implementing are on track so far. However, the assurance is limited for the reasons in paragraph 3.3 and the risks set out below, and does not cover cost reduction measures by local authorities or Transport for London. We have not validated this assessment, as most of the critical milestones lie ahead.

**3.7** In managing within spending plans, the Department has to manage a number of risks, including:

- fluctuations in income (for example volatile rail revenues, see **Figure 9**);
- increases or decreases in cost, such as overruns or underspends on individual budget lines;
- increases in inflation; and
- a range of other potential spending pressures, for example, unexpected depreciation costs associated with high speed rail or any deterioration in the national road network associated with reductions in road maintenance.

**3.8** Inflation is running higher than forecast and in May, the Department modelled the impact of the financial risk associated with some higher inflation scenarios and estimated that it could be between £104 million and £557 million by 2014-15. Were these inflation scenarios to occur, the Department could face a 1–4 per cent pressure to its 2014-15 budget, although the overall pressure on budgets will also depend on other upside or downside risks. The Department's exposure to inflation risk is greatest in relation to the Network Rail grant, which is currently index-linked. As part of its corporate planning process, the Department is seeking to manage financial risk. It has asked budget holders to assess the impact of inflation as well as any other pressures and opportunities, over the remainder of the spending review period so that budgets can be reviewed and, if necessary, further savings can be identified.

## Figure 9
Risks to passenger rail franchise budgets

In the past, the Department has had difficulty in accurately forecasting its income and spending on passenger rail franchises where it is exposed to unpredictability in rail revenues. In 2010-11, the Department's total support to passenger rail services was £511 million lower than forecast. The Department used a proportion of this, together with savings from other areas of spend, to finance improvements to the rail network and a number of other areas, for instance supporting local authorities in improving their winter resilience. This spending was not part of the Department's plans at the start of 2010-11, and was to a large extent determined by the Department's ability to spend additional resources late in the financial year. It is not clear that these areas would have been the priorities for additional spending if the funds had been allocated as part of a more comprehensive resource allocation process.

The challenge this creates for good budgetary management is also demonstrated by the fact the Department incurred an excess vote in 2010-11, meaning it exceeded a budget limit set by Parliament. The main reason for the excess was that the Department previously monitored its overall budget for the operation of rail services on a net rather than gross basis: the Department had not realised that increased income it received from some Train Operating Companies during 2010-11 meant that it had breached its Parliamentary income limit and should have been surrendered to the Treasury. As a result, the Department did not obtain the necessary authorisation from Parliament to spend the extra income received. The Department's 2010-11 annual accounts and Comptroller and Auditor General's report on these accounts provide more details. The Department has recognised that it needs to improve its management of the rail budget.

The Department announced its intention to raise the rate at which regulated rail fares can increase from 1 per cent above the Retail Price Index to 3 per cent during the spending review period. The Department has also budgeted to save £80 million in 2014-15 from its new approach to rail franchise contracts. As part of these plans, the Department wants to reallocate, between itself and Train Operating Companies the financial impact of variations in economic growth. This is intended to reduce volatility resulting from unexpected changes in economic conditions and will be phased in over several years as rail franchises come up for renewal.

In the meantime, all the budgeted savings in this area are dependent on accurate forecasting as well as successful commercial negotiations with Train Operating Companies. The Department's own assessments show that that there are significant risks to its budgets.

*Sources: National Audit Office review of departmental documents and the Department's Annual Report and Accounts 2010-11*

**3.9** In some areas, including road and rail, financial risks automatically affect the Department's budget. For spending devolved to Transport for London and local authorities, these bodies have autonomy over their budgets and normally bear financial risks themselves. However, the risk and the costs may ultimately be borne by the Department, as shown in our previous report on *The failure of Metronet* (**Figure 10** overleaf) and in its provision of £200 million additional funding across all local authorities in 2010-11, after the unusually severe winter.

**Figure 10**
Risks to the Department through Transport for London

In our 2009 report, *The failure of Metronet*, we reported that the Department's exposure to risk resulted in it having to pay £1.7 billion to London Underground when Metronet went into administration. The Department had ultimate responsibility for protecting the interests of the taxpayer and was exposed to policy and financial risk. However, the Department had few formal levers to manage risks as it was constrained by devolved oversight arrangements and was not itself a party to the contracts. Instead, it relied on other parties whose ability to identify risks was hampered by the poor quality of information available from Metronet. The fact that these other parties did not mitigate the risks effectively exposed the Department to major residual risks which it had few formal levers to manage.

The legacy of the failure of Metronet affects the Department's budgets during the spending review. The Department's settlement includes a separate grant of £960 million over the four-year period to replace funding that would otherwise have been raised by the former Metronet companies through borrowing.

*Sources: National Audit Office report, The failure of Metronet (2009) and review of the Department's spending review settlement*

**3.10** The Department has limited flexibility to respond to pressures that go beyond individual budget lines:

- In the past, the combination of volatile rail revenues and constraints in altering previous spending commitments have meant in-year changes to other parts of the Department's budget, notably the Highways Agency. In future, there will be less flexibility to manage shortfalls or underspend in this way. The road building budget is much reduced and £237 million of the efficiency savings required by the Highways Agency are based on better contracting, of which a key part is certainty of funding.
- Accelerating spending plans or delaying projects to balance budgets can be difficult because of the lead times and statutory approvals required to plan transport projects.
- The Department can carry forward unused budgets from the previous year, up to a limit specified by the Treasury, around £200 million per year and for a specified purpose. However, the limitations placed upon this roll-forward are such that projects that slip behind schedule must effectively 'catch up' within one year, or lose budget.

The Department finished the spending review with a small contingency budget, averaging £218 million, just 2 per cent of its budgets over 2011-12 to 2014-15. The Department has not yet identified what its response would be to a serious budget shortfall or surplus but told us it has recently begun developing detailed contingency plans.

# Appendix One

## Methodology

Our full methodology can be found online at www.nao.org.uk/reducing-dft-costs-2011. The main elements of our fieldwork, undertaken between February 2011 and August 2011, were:

| Method | Purpose |
|---|---|
| **Process mapping:** We mapped the Department's detailed process for each key spending area. | Process mapping through discussion with departmental officials to understand the timing and division of responsibilities of the different phases of the spending review. |
| **Interviews:** We conducted semi-structured interviews with officials responsible for planning and implementing the cost reduction and change programmes. | To understand the processes for planning, monitoring and delivering cost reductions. |
| **Document review:** We reviewed papers on key matters discussed during the interviews. | To confirm our understanding of the processes for planning, monitoring and delivering savings. |
| **Review of budgets:** We reviewed planned and final budgets for each of the key spending areas and the Department as a whole. | To understand the composition of cost reduction measures adopted during the 2010 emergency budget and across the spending review period, in the context of longer-term departmental funding of certain spending areas. |
| **Financial/quantitative data analysis** of key documents produced by the emergency budget and spending review. | To understand the basis for the Department's cost reduction measures. |
| **Case studies** of key areas of the Department's spend. | To clearly understand how the spending review process was applied, the specific decisions taken and the basis for these. |

# Appendix Two

## Changes to the Department's budgets over the spending review period

**1** The table overleaf sets out the Department's final settlement for the spending review period, broken down by major programme areas. It includes selected budget lines from our sample, indicated by asterisks, where we examined the reductions made by the Department from its planned spend before the spending review. The reductions to planned spend over 2011-12 to 2014-15 are set out in absolute and percentage terms. In addition, the table contains the 2010-11 baseline used by the Treasury to calculate the total real-terms reductions by 2014-15. This is set out in the last column.

## Changes to the Department's budgets over the spending review period

| | | 2010-11 baseline (£m) | Spending review period (cash terms) 2011-12 (£m) | 2012-13 (£m) | 2013-14 (£m) | 2014-15 (£m) | Total over 2011-12 to 2014-15 (£m) | Change to planned spending 2011-12 to 2014-15: Absolute | Change to planned spending 2011-12 to 2014-15: Percentage (%) | Change to approved budgets by 2014-15 compared with 2010-11 baseline (real terms)[2] (%) |
|---|---|---|---|---|---|---|---|---|---|---|
| Example | Planned | | | | | | c | d-c | =((d-c)/c)x100 | =((b/1.098)-a)/a |
| | Settlement | a | | | | b | d | | | |
| **Rail** | | | | | | | | | | |
| Network Rail and Passenger Rail* | Planned | | 3,260 | 3,250 | 3,083 | 3,236 | **12,829** | -1,287 | -10 | -26 |
| | Settlement | 3,102 | 3,197 | 3,042 | 2,792 | 2,511 | **11,542** | | | |
| Crossrail* | Planned | | 625 | 1,254 | 1,227 | 1,054 | **4,160** | -245 | -6 | 341 |
| | Settlement | 224 | 519 | 1,209 | 1,102 | 1,086 | **3,915** | | | |
| High Speed 2 | Settlement | 24 | 166 | 213 | 139 | 254 | **773** | N/A | N/A | 850 |
| Other rail funding | Settlement | 91 | 157 | 120 | 145 | 225 | **647** | N/A | N/A | N/A |
| **Rail total** | **Settlement** | **3,441** | **4,039** | **4,583** | **4,179** | **4,076** | **16,877** | | | **8** |
| **Highway Agency** | | | | | | | | | | |
| Highways Agency road schemes (including regional funding for road schemes)* | Planned | | 1,548 | 1,621 | 1,439 | 1,515 | **6,123** | -3,861 | -63 | -45 |
| | Settlement | 959 | 797 | 435 | 450 | 580 | **2,262** | | | |
| Highways Agency road maintenance* | Planned | | 850 | 869 | 892 | 916 | **3,528** | -672 | -19 | -20 |
| | Settlement | 747 | 833 | 721 | 647 | 654 | **2,855** | | | |
| Other Highways Agency funding | Settlement | 1,507 | 856 | 920 | 893 | 864 | **3,533** | N/A | N/A | N/A |
| **Highways Agency total** | **Settlement** | **3,212** | **2,486** | **2,076** | **1,990** | **2,098** | **8,650** | | | **-41** |
| **Transport for London** | | | | | | | | | | |
| Transport for London grant* | Planned | | 2,894 | 3,038 | 3,189 | 3,346 | **12,467** | -1,729 | -14 | -18 |
| | Settlement | 2,655 | 2,804 | 2,830 | 2,699 | 2,404 | **10,737** | | | |
| **Transport for London total** | **Settlement** | **2,655** | **2,804** | **2,830** | **2,699** | **2,404** | **10,737** | | | **-18** |
| **Local authority** | | | | | | | | | | |
| Local authority road maintenance* | Planned | | 857 | 885 | 915 | 942 | **3,599** | -557 | -15 | -23 |
| | Settlement | 832 | 806 | 779 | 750 | 707 | **3,042** | | | |
| Local authority major transport schemes* | Planned | | 538 | 561 | 579 | 598 | **2,275** | -731 | -32 | -10 |
| | Settlement | 433 | 418 | 364 | 335 | 427 | **1,544** | | | |
| Other local authority funding | Settlement | 1,380 | 1,086 | 1,119 | 1,204 | 1,366 | **4,775** | N/A | N/A | N/A |
| **Local authority total** | **Settlement** | **2,645** | **2,310** | **2,261** | **2,289** | **2,500** | **9,361** | | | **-14** |
| **Other** | | | | | | | | | | |
| Metronet | Settlement | | 424 | 352 | 184 | – | **960** | N/A | N/A | N/A |
| **Other total** | **Settlement** | **872** | **1,388** | **1,362** | **1,292** | **873** | **4,915** | | | **-9** |
| **Total settlement** | | **12,827** | **13,027** | **13,113** | **12,449** | **11,951** | | | | **-15** |

NOTES

1 Totals may not sum due to rounding.

2 2014-15 figures are deflated by 1.098 as used by Treasury for the spending review.

3 The Transport for London grant includes both the general grant and investment grant.

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

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