



National Audit Office

## **DEPARTMENTAL OVERVIEW**

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# **A summary of the NAO's work on the Department for Transport 2010-11**

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**SEPTEMBER 2011**

**Our vision is to help the nation spend wisely.**

**We apply the unique perspective of public audit to help Parliament and government drive lasting improvement in public services.**

The National Audit Office scrutinises public spending on behalf of Parliament. The Comptroller and Auditor General, Amyas Morse, is an Officer of the House of Commons. He is the head of the NAO, which employs some 880 staff. He and the NAO are totally independent of government. He certifies the accounts of all government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources. Our work led to savings and other efficiency gains worth more than £1 billion in 2010-11.



National Audit Office

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# Introduction

## **Aim and scope of this briefing**

The primary purpose of this Departmental Overview is to provide the Transport Select Committee with a summary of the work by the National Audit Office on the Department of Transport since June 2010. It is one of seventeen we have produced covering our work on each major government department. The briefing draws on the Department's Annual Report and Accounts for 2010-11 and other published sources, but its main focus is the findings of work published by the NAO, in particular, those areas where we believe the Department's performance could be improved. The content of the briefing has been shared with the Department to ensure that the evidence presented is factually accurate, but the content of the briefing is the sole responsibility of the NAO.

In the last year, we supported the Transport Select Committee by preparing a briefing to inform its examination of road and traffic management.

We will continue to support all select committees in 2011-12, providing briefing on each major department and supporting specific inquiries wherever our expertise and perspective can add value.

# Part One

## About the Department

### The Department's responsibilities

**1** The Department for Transport (the Department) provides leadership across the transport sector to achieve its objectives of delivering a transport system that is an engine for economic growth; that is greener; and is safe and secure. It sets the policy for rail, road, sea, air and local travel. The Department works with local and private sector partners to deliver many of its services and funds major road and rail infrastructure projects.

### How the Department is organised

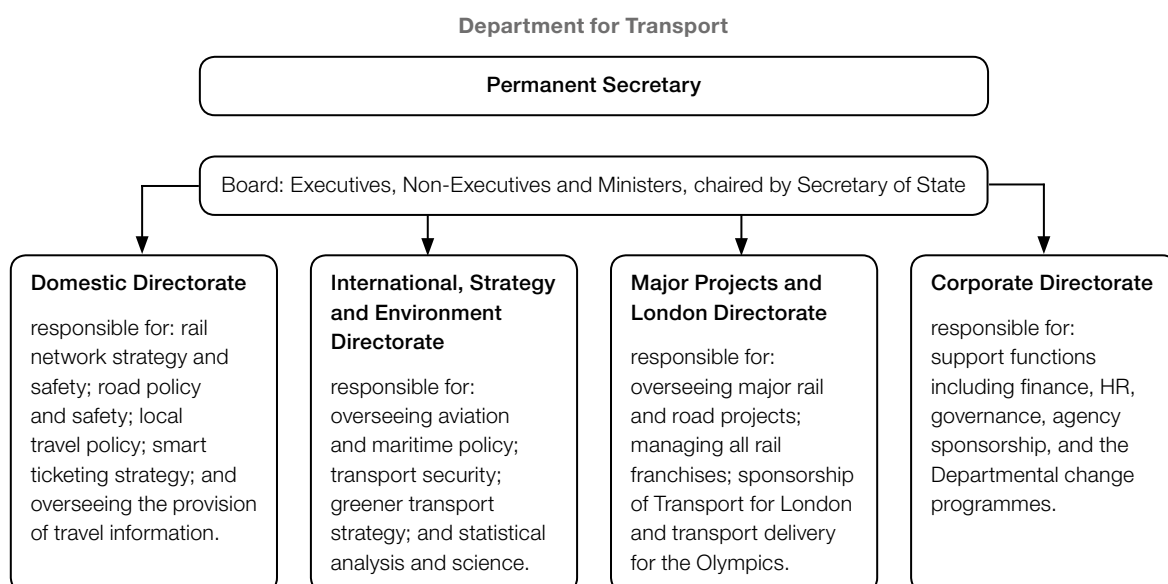
**2** The Department is led by a team of Ministers, supported by officials. During the year there was a significant change among senior officials with a new Permanent Secretary appointed and the number of Director Generals reduced from five to four, under a new structure for the central Department (**Figure 1**). The reorganisation of roles and responsibilities in the Department also resulted in a cut in the number of directors from 26 to 17 with a consequential reduction in staff numbers throughout the Department.

**3** The Department devolves the delivery of many of the services needed to achieve its aims to a wide range of third parties, including its Executive Agencies, Trading Funds and other public bodies (Appendix One). The level of its oversight and spend varies for different types of transport:

- Roads – the Department funds road maintenance and construction through the Highways Agency and local authorities. It promotes road safety and seeks to minimise the environmental impact of motoring through the Vehicle Certification Agency, Driver and Vehicle Licensing Agency, Vehicle and Operator Services Agency and Driving Standards Agency.
- Rail – passenger rail services are delivered by private companies under franchises from the Department, some of which receive subsidy and some of which provide income. The Department funds rail maintenance and construction, which is delivered by Network Rail. The Office of Rail Regulation is responsible for the economic and safety regulation of British railways. Some urban rail services are delivered by local authorities and passenger transport executives. Some new rail projects, such as Crossrail, are delivered by separate arm's-length bodies with formal governance arrangements for the Department.

**Figure 1**

Structure of the Department for Transport



- Shipping – the Maritime and Coastguard Agency delivers the Department's safety strategy. The Department oversees the bodies that operate lighthouses and some ports but does not provide additional funding.
- Air – the Department's role is to set the policy and strategy for air travel, which is delivered by private companies. The Civil Aviation Authority regulates the sector on behalf of the Department.

### Where the Department spends its money

**4** In 2010-11, the Department's net resource outturn was £10.1 billion (**Figure 2**). In addition, it received £2.7 billion of income, £1.2 billion of which it used to cover its expenditure and it paid the remainder to HM Treasury. The most significant areas of spend are on support for rail services, the national road network and funding for local delivery of transport services.

**5** The Department's support for rail services included:

- £3.4 billion capital grant to Network Rail.
- Guaranteeing Network Rail's borrowings, valued at £25.1 billion at 31 March 2011.
- £0.8 billion in support for passenger rail services.

**6** It received income from Train Operating Companies totalling £1.0 billion and £2.1 billion proceeds from High Speed 1.<sup>1</sup>

**7** The Department, through the Highways Agency, paid out £2.3 billion in 2010-11 to maintain the network of motorways and trunk roads. The network is valued at £99 billion in the accounts. Payments to local authorities totalled £5.1 billion of which £3.2 billion was for the Greater London Authority and Transport for London.

**8** During 2010-11, the core department employed an average of 2,060 staff at a cost of £129 million. This is 500 fewer staff than the previous year and arises as part of cost reductions the Department

made in anticipation of the 2010 Spending Review. The Department is required to reduce administrative expenditure by 33 per cent by 2014-15. The Department and its agencies employed around 17,600 staff at March 2011, down from 18,200 staff at March 2010.

### Recent developments

**9** The Department's settlement in the 2010 Spending Review requires it to reduce overall spending by 15 per cent by 2014-15 when compared to its budget in 2010-11, after adjusting for inflation. The Department's 2010-11 budget had already been reduced in-year by £683 million as part of the Coalition Government's £6 billion savings plan. The Review confirmed the Department's commitment to a number of long-term capital investments such as Crossrail and the Thameslink programme.

**10** In April 2011, the Department launched an independent review of the Highways Agency to examine whether it has the right approach to operating, maintaining and enhancing the network of trunk roads and motorways. The review is led by the Agency's Non-Executive Chairman and is due to report in Autumn 2011. It will cover the Agency's overall strategy, funding arrangements and its relationship with the private sector.

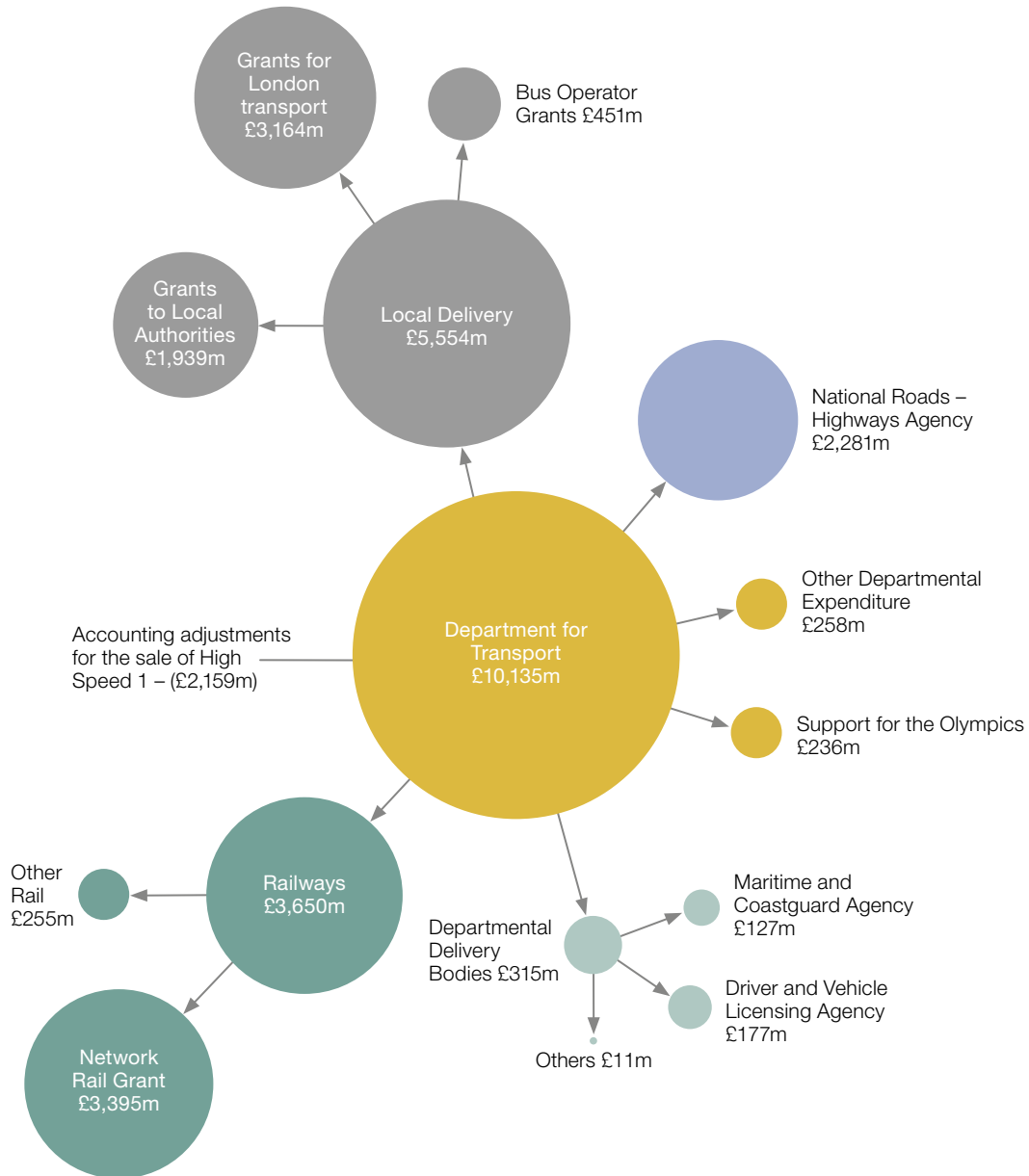
**11** There have been a number of key developments within rail:

- In November 2010, the Department sold High Speed 1 Ltd, including the right to operate the rail link from London to the Channel Tunnel for the next 30 years, to a Canadian consortium.
- In January 2011, the Department announced its intention to let longer franchises with less detailed specifications and greater incentives for operators to act efficiently and make investments. The first franchise due to be let under these changes is for the InterCity West Coast route which is planned to begin operation in December 2012.

<sup>1</sup> The Department sold the right to operate, manage and maintain High Speed 1, the railway between St Pancras station in London and the Channel Tunnel. Sale proceeds of £1 billion were used to pay off debt which financed the project to build the line and are not included in the income recognised in the Department's accounts; the remainder was paid to HM Treasury.

**Figure 2**

Where the Department spent its money in 2010-11

**NOTE**

- 1 Figure shows main income and expenditure in year.
- 2 Accounting adjustments from the sale of High Speed 1 total - £2,159 million.

Source: Department for Transport, Annual Report and Accounts 2010-11

- The Rail Value for Money Report by Sir Roy McNulty<sup>2</sup> made a number of recommendations for restructuring the rail industry with the aim of reducing costs and public subsidy. These included:
    - a review of fares policy;
    - decentralising Network Rail; and
    - greater alignment between infrastructure management and train operating companies, and to move towards a single industry regulator, the Office of Rail Regulation.
  - The Department announced a preferred bidder for the Thameslink rolling stock in June 2011. It is also negotiating with the preferred bidder for the Intercity Express rolling stock, after it announced the programme would proceed in March 2011 following a review of the procurement.
  - The consultation on its strategy for high speed rail<sup>3</sup> closed in July 2011.
- 12** Other developments in the Department include:
- The Government announced its decision not to go ahead with proposals to build a third runway at Heathrow Airport in May 2010.
  - As part of its objective to encourage sustainable local travel, the Department published its Local Transport White Paper in January 2011. This contains the commitment to enable local authorities to develop local transport solutions and national support for cycling training and to deliver smart ticketing infrastructure.<sup>4</sup>
  - The Maritime and Coastguard Agency launched a second consultation into its modernisation proposals for coastguard services in July 2011. The proposals have been revised following responses to the first consultation which the Agency ran earlier in the year.

## Risks and challenges

**13** The Department has a number of large and complex projects underway including Crossrail, the Intercity Express Programme, Thameslink and early work on High Speed 2. It is also leading on co-ordinating the transport network for the London 2012 Olympic and Paralympic Games. The Department is faced with the challenge of fulfilling these functions with a new structure and a reduced workforce, while at the same time delivering reductions in its annual spend by 2014-15. The Department's board has stated that this will involve focusing on what the Department needs to do to achieve its outputs and carrying out these tasks efficiently.

**14** The transport system is affected by events outside the Department's control, such as adverse weather and changes in the economy. Such events can be very disruptive to the transport system and therefore carry significant reputational risks which the Department has to manage. For example, the Highways Agency significantly increased its stock of salt in response to a review of the resilience of the transport system to the severe winter weather in 2009. Its stock at 31 March 2011 was valued at £21.7 million, an increase from £5.7 million in 2010.

## Capability and leadership

**15** In 2006, the Cabinet Office launched Capability Reviews to assess departments' leadership, strategy and delivery – to improve departmental readiness for future challenges and to enable departments to act on long-term key development areas. Since publication of the last round of external assessments, between April 2008 and December 2009, departments are now required to conduct and publish self-assessments and resultant action plans against standard criteria set out in the Cabinet Office model of capability, which was updated in July 2009.<sup>5</sup> Departments must rate their capability against ten criteria under three themes:

<sup>2</sup> Department for Transport and Office of Rail Regulation, *Realising the Potential of GB Rail*, May 2011.

<sup>3</sup> The Department has proposed to build a high speed rail network which, when complete, would run from London to Manchester and Leeds, via Birmingham.

<sup>4</sup> Department for Transport, *Creating Growth, Cutting Carbon, Making Sustainable Local Transport Happen*, January 2011, Cm 7996.

<sup>5</sup> More information about Capability Reviews is available at: [www.civilservice.gov.uk/about/improving/capability/index.aspx](http://www.civilservice.gov.uk/about/improving/capability/index.aspx)



- **Leadership criteria** – ‘set direction’; ‘ignite passion, pace and drive’; and ‘develop people’.
- **Strategy criteria** – ‘set strategy and focus on outcomes’; ‘base choices on evidence and customer insight’; and ‘collaborate and build common purpose’.
- **Delivery criteria** – ‘innovate and improve delivery’; ‘plan, resource and prioritise’; ‘develop clear roles, responsibilities and delivery models’; and ‘manage performance and value for money’.

**16** All self-assessments are due for completion by March 2012, with the first self assessment nearing completion. In addition to self assessment, departments also have the option of asking the Cabinet Office to undertake a full external Capability Review assessment.

**17** The Civil Service People Survey aims to provide consistent and robust metrics to help government understand how it can improve levels of engagement across the Civil Service. As part of this survey, civil servants across all participating organisations are asked a range of questions across nine themes which seek to measure their experiences at work. We present here the results of the second annual people survey for the Department for Transport – undertaken between mid-September 2010 and the end of October 2010 – covering the themes of leadership and managing change, and understanding of organisational objectives and purpose (**Figure 3** overleaf). The results of 17 major departments are in Appendix Two.

**18** As part of the annual survey, each Department receives an engagement index, assessing the level of staff engagement 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 the organisation. In 2010, the Department for Transport, excluding its agencies, achieved an engagement index of 50 per cent, six percentage points below the Civil Service average. The survey was conducted when the Department was undergoing its restructuring.

**Figure 3**  
2010 Civil Service People Survey: Department for Transport (excluding agencies)

Theme	Theme score (% positive) <sup>1</sup>	Difference from 2009 survey	Difference from Civil Service 2010 <sup>2</sup>
<b>Leadership and managing change</b>			
I feel that the Department as a whole is managed well	42	-7	+1
Senior Civil Servants in the Department are sufficiently visible	53	0	+8
I believe the actions of Senior Civil Servants are consistent with the Department's values	39	-8	0
I believe the Departmental Board has a clear vision for the future of the Department	29	-11	-6
Overall, I have confidence in the decisions made by the Department's Senior Civil Servants	32	-10	-4
I feel that change is managed well in the Department	25	0	-2
When changes are made in the Department they are usually for the better	15	-7	-8
The Department keeps me informed about matters that affect me	57	-8	+3
I have the opportunity to contribute my views before decisions are made that affect me	36	-4	+4
I think it is safe to challenge the way things are done in the Department	40	-8	+1
<b>Organisational objectives and purpose</b>			
I have a clear understanding of the Department's purpose	68	-16	-16
I have a clear understanding of the Department's objectives	61	-18	-17
I understand how my work contributes to the Department's objectives	69	-12	-11

**NOTES**

- 1 Percentage positive measures the proportion of respondents who selected either 'agree' or 'strongly agree' for a question.
- 2 The 2010 benchmark is the median per cent positive across all organisations that participated in the 2010 Civil Service People Survey.

Source: Department for Transport People Survey Results Autumn 2010

# Part Two

## Financial management

**19** The ability of departments to control costs and drive out waste requires professional financial management and reporting. In particular, departments need to be better at linking costs to services and benchmarking performance to determine whether costs are justified and value for money can be improved. Organisations also need to move their risk management arrangements from a process-led approach to one which supports the efficient and effective delivery of services. Organisations have to publish Statements on Internal Control<sup>6</sup> with their Annual Financial Statements which describe their arrangements for risk management, internal control and governance.

### NAO financial audit findings

**20** The Comptroller and Auditor General qualified his opinion on the Department's 2010-11 accounts because it spent more cash than the £13.5 billion limit Parliament had set. The excess cash expenditure of £335 million requires further parliamentary authority.<sup>7</sup>

**21** The qualification occurred because of a weakness in the Department's monitoring of its rail budget. Some train companies receive subsidy from the Department and others pay premia under the terms of their franchise agreements. The Department's accounting policies require it to account for this expenditure and income separately. At the start of 2010-11, the Department's budget for support of passenger rail services included a shortfall of £435 million, agreed with HM Treasury, representing the potential impact of the recession on the rail industry. In December, the Department concluded it could meet its rail budget shortfall within Parliament's authorised limit, because it was forecasting higher than budgeted rail income and underspends in support for passenger rail services and elsewhere. Parliament authorised the spending on a gross basis, with separate limits for expenditure and income. The Department, however, monitored rail activity on a net basis, taking expenditure and income together and did not appreciate the extent to which the budgetary pressures were being met by cash income that was

in excess of the limit set by Parliament. The excess income was £528 million and, after accounting for cash savings elsewhere, the Department exceeded its authorised cash limit by £335 million.

**22** The Treasury's revised approach to preparing Departmental budget estimates means that, from 2011-12, the Department does not need to monitor income and expenditure from train operating companies separately for Parliamentary control purposes. However, the Department recognises that it needs to improve its financial management of the overall rail budget and will revise its approach to monitoring whether it needs authority for additional in-year funding across all its operations.<sup>8</sup>

**23** There were no significant issues found during our audits of the Department's Executive Agencies, Trading Funds, and Non-Departmental Public Bodies. We issued unqualified opinions on all these accounts. The Highways Agency had to write off costs of £42 million which it had capitalised as work in progress on eight projects that were cancelled in the 2010 Spending Review.

**24** From 2011-12, the Department's accounts will include a number of additional bodies under the HM Treasury Clear Line of Sight programme (**Figure 4** overleaf). One of the challenges facing the Department over the next year is to put in place systems for accurately consolidating the financial statements of these additional bodies with those already incorporated into the Department's accounts.

### NAO reports on financial management

**25** Although the qualification of its 2010-11 accounts demonstrates there is room for improvement in the Department's management of its Parliamentary control totals, we have identified areas where the Department has demonstrated good financial management. Our review of the Department's management of the **Local Authority Major Capital Schemes**<sup>9</sup> programme found that 'the processes and controls that it now has in place provide a suitable template for managing centrally allocated funds in the future, even in a more devolved environment'. The Department is seeking to improve programme spend against profile by encouraging local authorities to forecast more realistically.

<sup>6</sup> From 2011-12, Departments will produce a Governance Statement rather than a Statement on Internal Control.

<sup>7</sup> National Audit Office, *Department for Transport 2010-11 Accounts: Report of the Comptroller and Auditor General to the House of Commons*, [http://www.nao.org.uk/publications/1012/transport\\_account\\_2010-11.aspx](http://www.nao.org.uk/publications/1012/transport_account_2010-11.aspx)

<sup>8</sup> National Audit Office, *Department for Transport 2010-11 Accounts: Report of the Comptroller and Auditor General to the House of Commons*.

<sup>9</sup> National Audit Office, *Department for Transport: Local authority major capital schemes*, [www.nao.org.uk/publications/1012/local\\_authority\\_major\\_capital.aspx](http://www.nao.org.uk/publications/1012/local_authority_major_capital.aspx)

## Figure 4

### Entities consolidated into the Department's accounts

#### 2010-11

Highways Agency, Maritime and Coastguard Agency, Government Car and Despatch Agency, Vehicle Certification Agency, Commission for Integrated Transport (abolished in year), Disabled Persons Transport Advisory Committee, and Railway Heritage Commission

#### 2011-12

Highways Agency, Maritime and Coastguard Agency, Government Car and Despatch Agency, Vehicle Certification Agency, Disabled Persons Transport Advisory Committee, and Railway Heritage Commission

Additionally: British Transport Police Authority, Driver and Vehicle Licensing Agency, Directly Operated Railways Ltd, HS2 Ltd, LCR Ltd and its former subsidiaries CTRL Section 1 Finance plc and LCR Finance plc

#### NOTE

- 1 A number of trading funds and public corporations will remain outside the Department's accounting boundary. The trading funds are the Driving Standards Agency and the Vehicle and Operator Services Agency. The public corporations are the British Railways Board (Residuary) Ltd, the Civil Aviation Authority, East Coast Mainline Ltd, NATS Holdings Ltd, and various port authorities and harbour boards.

Source: Department for Transport, *Annual Report and Accounts 2010-11*

## Management of Consultants

**26** The Department uses consultancy and professional services to support its core operations and the delivery of major projects and programmes. Our report on **Central government's use of consultants** identified that, at £96 million, it had the second highest expenditure, after the Department of Health, on consultants in 2009-10.<sup>10</sup> This and other cross-government reports that cover transport are listed in Appendix Four. The Department has since reported reduced spending on consultants. In 2010-11, it spent £34 million on consultancy and temporary staff including by its agencies; this excludes expenditure on technical and financial services.<sup>11</sup>

**27** Our value for money work has highlighted variable performance in the use of consultants across the Department. For example, on the **Procurement of the M25 private finance contract**,<sup>12</sup> we noted that the Highways Agency was over-reliant on advisers, in part due to insufficient commercial and technical skills. The Department, however, made good use of internal expertise and employed specialist consultants effectively when it intervened on the **InterCity East Coast franchise** in 2009.<sup>13</sup> Recent NAO reports on the Department are given in Appendix Three.

## Financial outturn for 2010-11 and comparison with budget

**28** In 2010-11, the Department's net resource outturn of £10.1 billion was almost £2.8 billion below its budget of £12.9 billion. The main reason for the underspend was a £2.2 billion non-cash accounting adjustment required following the sale of High Speed 1.

**29** The Department's cash requirement includes £1.7 billion of expenditure on capital assets which the Department has recognised in its balance sheet. As explained in the section on financial audit findings, the Department exceeded its cash budget of £13.5 billion by £335 million.

## Progress on cost reduction

**30** Departments are under increasing pressure to reduce costs. The scale of cost reduction required means that they are having to look beyond immediate short-term savings, and think more radically about how to take cost out of the business and how to sustain this longer term. **Our Short Guide to Structured Cost Reduction**,<sup>14</sup> published in June 2010, sets out the high level principles that

10 National Audit Office, *Central government's use of consultants and interims*, HC 488, 2010-11.

11 Figures are based on Cabinet Office definitions where consultancy is defined as work of an advisory nature designed to inform policy or to assist with strategic decisions and complex legal issues.

12 National Audit Office, *Procurement of the M25 private finance contract*, HC 566, 2010-11.

13 National Audit Office, *The InterCity East Coast passenger rail franchise*, HC 824, 2010-11.

14 National Audit Office, *A short guide to structured cost reduction*, [www.nao.org.uk/publications/1011/structured\\_cost\\_reduction.aspx](http://www.nao.org.uk/publications/1011/structured_cost_reduction.aspx)

we would expect departments to follow in taking a structured approach to cost reduction. It covers the three stages of cost reduction – tactical efficiency savings, strategic operational realignment, and sustainable cost reduction – and outlines nine principles underlying structured cost reduction, including, having a data-driven approach to understanding, comparing and interrogating costs. We are carrying out a review of the Department's plans to achieve 15 per cent cost reductions by 2014-15, which we intend to publish at the end of 2011.

**31** We have published detailed information and guidance on a number of the principles underpinning effective structured cost reductions, including **Managing risks in government**,<sup>15</sup> **Progress in improving financial management in government**,<sup>16</sup> and **Taking the measure of government performance**.<sup>17</sup>

## Issues raised in Statements on Internal Control

**32** We work with the Department and its sponsored bodies to improve their published Statements on Internal Control. We aim to ensure that the processes by which Statements are produced are robust and that the Statements comply with Treasury guidance.

**33** The Statement on Internal Control in the Department's annual accounts is where the Accounting Officer comments on the controls that are in place to support the Department's operations, and safeguard public funds and Departmental assets. In addition to the control weaknesses that led to the qualification of its accounts, the Department's statement reports the breakdown of a joint procurement process with the Ministry of Defence for Search and Rescue Helicopters operated by the Maritime and Coastguard Agency after irregularities were found with the preferred bid. The Ministry of Defence Police are investigating the disclosed irregularities. The Department announced that it will put a short-term contract in place to ensure the continuity of search and rescue operations, after the current contract expires in 2012, while it considers the options for the long-term provision of the service.

**34** The Statement on Internal Control also reports the improvements that the Department has made to manage its relationship with its Shared Service Centre following significant weaknesses identified in previous years. This Centre, based in Swansea, provides the Department and some of its bodies with support services for human resources, payroll and finance. A common interface has been set up between the Centre and all of its customers, and a service level agreement put in place. The Department also monitors and tests control processes at the Centre to check they are still effective.

<sup>15</sup> National Audit Office, *Managing risks in government*, [www.nao.org.uk/publications/1012/managing\\_risks\\_in\\_government.aspx](http://www.nao.org.uk/publications/1012/managing_risks_in_government.aspx)

<sup>16</sup> National Audit Office, *Progress in improving financial management in government*, HC 487, 2010-11.

<sup>17</sup> National Audit Office, *Taking the measure of government performance*, HC 284, 2010-11.

# Part Three

## Use of information

**35** Government needs robust, timely information on context, activities, costs, progress against its objectives, and the cost-effectiveness of its activities. It also needs to be able to interpret that information, by reference to trends, expectations, benchmarks and other comparisons, to identify problems and opportunities. Departments need reliable information on which to design and deliver services and monitor quality, be confident about their productivity, and drive continuous improvement.

**36** The Coalition Government have pledged, under the transparency agenda, to make more government information available to the public to help improve accountability and deliver economic benefits. In June 2010, the system of Public Service Agreements ended and instead, departments are to be held accountable to the public based on the data they use to manage themselves.

### Reporting performance: Annual Reports and Business Plans

**37** Each government department now reports its performance against the priorities and objectives set out in its Business Plan. A transparency section of the Plan includes performance indicators selected by the Department to reflect its key priorities and demonstrate the cost and effectiveness of the public services it is responsible for. These indicators fall broadly into two categories:

- input indicators: a subset of the data gathered by the Department on the resources used in delivering services; and
- impact indicators: designed to help the public judge whether Departmental policies are having the desired effect.

**38** A structural reform section of the Plan provides a detailed list of actions and milestones designed to show the steps the Department is taking to implement the Government's reform agenda.

**39** Departmental progress against indicators will be published regularly in a Quarterly Data Summary, the first of which was published in July 2011. The Quarterly Data Summary is designed as a standardised tool for reporting selected performance metrics for each government department, in a way that facilitates comparison across departments where this is appropriate. Data published in the summary can be compared to the previous period which will also be the baseline for this data set. The Department published data for nine of its 14 indicators in the July 2011 dataset, including some data on performance in previous periods. It has committed to publish data on the remaining five indicators later in the year. The information in the summary has not been audited and the Cabinet Office has said that the accuracy of the data for all departments needs to improve.<sup>18</sup> However, the Cabinet Office expects that over time, with improvements in data quality and timeliness, the public will be able to judge the performance of each department in a meaningful and understandable manner. An annual version of this information is expected to be formally laid in Parliament in departments' Annual Reports and Accounts from 2012 onwards.

<sup>18</sup> <http://www.cabinetoffice.gov.uk/resource-library/business-plan-quarterly-data-summary>

**40** It is too early to comment on Departmental performance reported against the new performance indicators. Through its review of Departmental business planning across a number of government departments, however, the House of Commons Committee of Public Accounts<sup>19</sup> identified some essential elements to help ensure effective accountability and value for money, including the need for:

- monitoring arrangements which align costs and results for all significant areas of Departmental activity and spending; and
- clear definitions of expected outcomes and standards, rigorous timelines and appropriate strategies to intervene when expectations are not met.

### Performance reported by the Department

**41** The Department's 2011-2015 Business Plan<sup>20</sup> sets out its five priority areas for transport with a number of actions and milestones to achieving them (**Figure 5** overleaf). The Department reported that no actions were overdue in the most recently published data on its performance against its Structural Reform Plan Actions.<sup>21</sup> It published the Government's response to the Committee on Climate Change recommendations on reducing CO<sub>2</sub> emissions from UK aviation to 2050 on 25 August 2011, missing the target by less than a month.

**42** The Plan sets out the indicators which the Department believes are most useful to the public in understanding the costs and outcomes of transport services. Input indicators include measures to compare rail and bus subsidy levels across different areas and the costs of running the national road and rail networks. Impact indicators include reliability measures for road, rail and bus travel, and total greenhouse gas emissions from transport.

### Testing the reliability of performance data across government

**43** Some of the data systems used to report against the new performance indicators will be the same as those used by the Department to report against Public

Service Agreements. In July 2010, we published our Sixth Validation Compendium Report<sup>22</sup> on our work to test the systems used to report against Public Service Agreements. Our report found that the quality of data systems had improved but a third of the systems examined needed strengthening to improve controls or transparency and 10 per cent of systems were not fit for purpose.

**44** Over the next three years we will complete work to validate the data systems underpinning the Departmental business plans and other key management information.

### Use of information by the Department

**45** Our recent studies have found a number of examples where the Department has good information to manage discrete activities. However, we have also found that it does not always have the information it requires at a strategic level and there are varying degrees to which it makes good use of the information it holds.

#### Overseeing rail services

**46** Our March 2011 study on the Department's handling of the **InterCity East Coast Passenger Rail Franchise**<sup>23</sup> identified that effective monitoring arrangements were in place for individual franchisees with each franchisee providing the Department with monthly management accounts setting out costs and revenues, along with forecasts for the remainder of the year. To accompany this information, the Department holds formal meetings every month with each franchisee to discuss financial and operational performance. We stated that 'franchise monitoring has been developed and improved over the years and served the Department well in flagging up potential problems in the InterCity East Coast franchise at a relatively early stage.' In contrast, the Department's failure to separately monitor its income and expenditure budgets relating to train operating companies resulted in the Department's accounts being qualified in 2010-11, as explained in Part Two.

<sup>19</sup> *Departmental Business Planning* (Thirty-seventh Report of Session 2010-12), House of Commons Committee of Public Accounts, May 2011, <http://www.publications.parliament.uk/pa/cm201012/cmselect/cmpublicacc/650/650.pdf>

<sup>20</sup> Department for Transport, *Business Plan 2011-15*, May 2011.

<sup>21</sup> Department for Transport, *Structural Reform Plan Monthly Implementation Update*, August 2011. The performance data has not been audited.

<sup>22</sup> National Audit Office, *Taking the measure of government performance*.

<sup>23</sup> National Audit Office, *The InterCity East Coast Passenger Rail Franchise*.



**Figure 5**  
The Department's priorities

Priority	Key Actions
<b>Deliver the Coalition's commitments on high speed rail</b>	Consult on high speed rail network; deliver legislation for London to Birmingham route; plan routes from Birmingham to Manchester and Leeds; and sell High Speed 1.
<b>Secure our railways for the future</b>	Develop plans for improving value for money; change franchise agreements to incentivise operators; increase capacity and electrify additional parts of the network.
<b>Encourage sustainable local travel</b>	At a local level simplify funding; enhance public transport; tackle congestion; contribute to the London 2012 Olympics and reduce regulation.
<b>Tackle carbon and congestion on our roads</b>	Promote low emission vehicles; improve traffic flow; introduce HGV charging; review the Highways Agency; improve road safety and reform blue badge scheme.
<b>Promote sustainable aviation</b>	Create a sustainable framework for UK aviation; improve passenger experience at airports and maintain high standards of safety and security.

Source: Department for Transport Business Plan 2011-15

**47** The Department funds Network Rail's operations including by guaranteeing its debt but responsibility for monitoring the efficiency of Network Rail rests with the Office of Rail Regulation. We raised concerns that the Regulator's ability to assess value for money was limited by the level of detail available on Network Rail's costings in our **Increasing passenger rail capacity** report.<sup>24</sup> Our subsequent April 2011 study on **Regulating Network Rail's Efficiency**<sup>25</sup> explored this further and found that Network Rail's unit cost information had improved from the position it inherited from Railtrack, but that weaknesses remain. We recommended that the Regulator should require Network Rail to improve the quality, coverage and geographic breakdown of its unit cost and work volume information.

### Managing road contracts

**48** We reported that, in 2009, the Highways Agency had begun to establish unit costs to enable it to challenge contractors' costings and establish benchmarks for improvements.<sup>26</sup> However, in **Procurement of the M25 private finance contract**,<sup>27</sup> we found that the Agency did not analyse the reasons for the differences between bids and its own cost model, which was up to 43 per cent higher. It used this model to demonstrate that using a private finance contract approach and the bids it had received were value for money. We recommended 'the Agency should investigate why its estimates were much higher than the bids ... to improve future estimates'.

**49** As it did not have the results from a trial of hard shoulder running on the M42, the Agency decided, in 2005, to widen the M25 because it provided a clear solution to address congestion. Hard shoulder running, which allows drivers to use the hard shoulder at times of peak congestion, is cheaper than road widening as it requires less construction, although it also delivers fewer benefits. We concluded that the Agency could have achieved better value for money by recognising the potential cost savings of hard shoulder running.

<sup>24</sup> National Audit Office, *Increasing passenger rail capacity*, HC 33, 2010-11.

<sup>25</sup> National Audit Office, *Regulating Network Rail's Efficiency*, HC 828, 2010-11.

<sup>26</sup> National Audit Office, *Progress in improving financial management in government*.

<sup>27</sup> National Audit Office, *Procurement of the M25 private finance contract*.



# Part Four

## Service delivery

**50** Public services are different in the ways they are delivered but their quality and cost-effectiveness depends on a number of common minimum requirements. For example, service delivery requires sound programme and project management, strong commercial skills, effective IT enabled business change, and a real understanding of customer needs. Many of our reports to Parliament cover these issues.

**51** Our reports demonstrate the varied and long-term nature of the Department's projects, many of which are delivered through contracts with third parties or by working with others. These projects can be subject to unforeseen events such as the recession which means that the Department must be ready to take appropriate action to ensure continuity of service for users. Working with other organisations requires the Department to have good governance arrangements in place.

### Road activities

**52** The Highways Agency entered into a 30-year contract in 2009 with Connect Plus to widen two sections of the M25 and to operate and maintain the entire M25. We reported<sup>28</sup> that, after one year of service, the Agency achieved a smooth transition from the previous contractor. The construction work on the widening 'is generally proceeding in line with the timetable'.<sup>29</sup>

**53** The Driver and Vehicle Licensing Agency collected £5.7 billion in Vehicle Excise Duty in 2010-11 on behalf of the Secretary of State for Transport. As part of our annual audit we reviewed the systems the Agency has in place for collecting the duty. We found that the Agency has adequate regulations and procedures in place for the assessment, collection and proper allocation of revenue, and that these processes were being carried out.<sup>30</sup>

### Rail franchise management

**54** In our **InterCity East Coast Passenger Rail Franchise** study we found that the service was transferred to Directly Operated Railways, a publicly owned company, without inconveniencing passengers when the Department had to intervene in 2009. The tough line taken by the Department in terminating the franchise with National Express achieved a good deal for taxpayers.<sup>31</sup>

### Delivery of projects

**55** There are a number of transport risks for the operations of the London 2012 Olympic and Paralympic Games which we reported in 2011:<sup>32</sup>

- Lack of clarity about non-sporting events and consequential limited ability to plan transport.
- Uncertainty about the effectiveness of demand reduction measures for London transport during the Games to accommodate spectators and visitors.
- Uncertainty about the resilience of the transport network, particularly as there will be multiple events happening simultaneously during the Games.

**56** We stated that good progress had been made by the Government Olympic Executive and other delivery bodies, including the Department for Transport, on establishing seven cross-cutting operational work streams. Each stream has a lead delivery body; a Senior Responsible Owner; a board or steering group; and a delivery plan with clear milestones.

28 National Audit Office, *Procurement of the M25 private finance contract*, Appendix Six.

29 National Audit Office, *Procurement of the M25 private finance contract*.

30 Driver and Vehicle Licensing Agency, *Annual Report and Resource Accounts 2010-11*, HC 1105, 2010-12, Appendix 1.

31 National Audit Office, *The InterCity East Coast Passenger Rail Franchise*.

32 National Audit Office, *Preparations for the London 2012 Olympic and Paralympic Games: Progress report February 2011*, HC 756, 2010-11.

### **Use of technology**

**57** Government is increasingly using information and communications technology to deliver services more efficiently and to meet customer expectations. We reported that Electronic Vehicle Licensing is one of the most successful services delivered through the Directgov website. It was used by 22 million customers in 2009-10.<sup>33</sup>

### **Staff Skills**

**58** Since 2004, there has been a series of cross-government initiatives designed to address key skills gaps and promote greater professionalism in central government. The Department spent £445 per head on formal training in 2009-10. This was the second lowest spend of the 12 departments we examined in **Identifying and meeting central government's skills requirements**.<sup>34</sup>

<sup>33</sup> National Audit Office, *Information and Communications Technology in Government: Landscape Review*, HC 757, 2010-11.

<sup>34</sup> National Audit Office, *Identifying and meeting central government's skills requirements*, HC 1276, 2010-12.

# Appendix One

## The Department's sponsored bodies at 31 March 2011

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### Executive Agencies

Highways Agency  
 Maritime and Coastguard Agency  
 Government Car and Despatch Agency  
 Vehicle Certification Agency

### Advisory Non-Departmental Public Bodies (NDPBs)

Commission for Integrated Transport  
 (abolished during 2010-11)  
 Disabled Persons' Transport Advisory Committee

### Executive NDPBs

Railway Heritage Committee  
 British Transport Policy Authority  
 Passenger Focus  
 Renewable Fuels Agency (abolished during 2010-11)  
 Directly Operated Railways Ltd  
 HS2 Ltd

### Tribunal NDPBs

Traffic Commissioners and Licensing Authorities  
 (Traffic Areas) – This entity is reported  
 within the accounts of the Vehicle and Operator  
 Services Agency

### Trading Funds

Driver and Vehicle Licensing Agency (became an  
 executive agency from 1 April 2011)  
 Driving Standards Agency  
 Vehicle and Operator Services Agency

### Public Corporations

Aberdeen Harbour Board  
 British Railways Board (Residuary) Limited  
 Civil Aviation Authority  
 Dover Harbour Board  
 East Coast Mainline Limited  
 Eurostar International Limited (formerly Eurostar (UK) Ltd)  
 General Lighthouse Fund, incorporating:

- Commissioner for Irish Lights;
- Northern Lighthouse Board (also recognised as an Executive NDPB); and
- Trinity House Lighthouse Service (also recognised as an Executive NDPB).

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  
 London and Continental Railways (LCR) Ltd  
 Channel Tunnel Section 1 Finance PLC  
 London and Continental Railways Finance PLC  
 Marine and Aviation Insurance (War Risks) Fund  
 NATS Holdings Limited  
 Network Rail Limited

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# Appendix Two

## Results of the Civil Service People Survey 2010

### Question scores (% strongly agree or agree)

#### Leadership and managing change

I feel that the Department as a whole is managed well	41
Senior Civil Servants in the Department are sufficiently visible	45
I believe the actions of Senior Civil Servants are consistent with the Department's values	39
I believe that the Departmental Board has a clear vision for the future of the Department	35
Overall, I have confidence in the decisions made by the Department's Senior Civil Servants	36
I feel that change is managed well in the Department	27
When changes are made in the Department they are usually for the better	23
The Department keeps me informed about matters that affect me	54
I have the opportunity to contribute my views before decisions are made that affect me	32
I think it is safe to challenge the way things are done in the Department	39

#### Organisational objectives and purpose

I have a clear understanding of the Department's purpose	84
I have a clear understanding of the Department's objectives	78
I understand how my work contributes to the Department's objectives	80

Civil Service overall

Department for Business, Innovation and Skills (excluding agencies)																	
Cabinet Office (excluding agencies)																	
Department for Communities and Local Government (excluding agencies)																	
Department for Culture, Media and Sport (excluding agencies)																	
Ministry of Defence (excluding agencies)																	
Department for Education																	
Department of Energy and Climate Change																	
Department for Environment, Food and Rural Affairs (excluding agencies)																	
Foreign and Commonwealth Office (excluding agencies)																	
Department of Health (excluding agencies)																	
HM Revenue & Customs																	
HM Treasury (excluding agencies)																	
Home Office (excluding agencies)																	
Department for International Development																	
Ministry of Justice (excluding agencies)																	
Department for Transport (excluding agencies)																	
Department for Work and Pensions (including Jobcentre Plus and Pension, Disability and Carers Service)																	
	38	33	27	38	23	55	47	38	58	39	12	56	43	60	38	42	25
	50	48	42	62	27	60	68	49	64	51	23	68	50	65	46	53	25
	40	38	28	43	28	49	52	37	60	42	19	52	43	56	40	39	23
	29	24	19	25	21	40	35	31	49	28	15	35	30	51	32	29	20
	33	33	23	33	20	46	49	32	52	37	11	51	39	50	34	32	17
	31	20	21	29	16	41	31	29	45	21	11	35	26	41	27	25	22
	18	15	13	12	12	23	25	20	37	14	9	32	21	30	24	15	15
	58	52	51	68	45	64	69	62	64	52	31	64	57	66	53	57	41
	28	32	29	48	22	34	34	34	43	29	16	54	34	44	31	36	19
	34	38	32	44	35	41	45	40	47	33	21	57	40	42	37	40	28
	75	70	63	71	83	79	89	77	82	74	65	85	82	94	76	68	76
	68	58	59	67	77	69	83	71	79	69	62	79	77	91	70	61	73
	76	67	67	70	81	73	84	77	83	74	65	77	79	90	73	69	75

# Appendix Three

## Publications by the NAO on the Department since 2008

Publication date	Report title	HC number	Parliamentary session
July 2011	Department for Transport 2010-11 Accounts: Report of the Comptroller and Auditor General to the House of Commons	<a href="http://www.nao.org.uk/publications/1012/transport_account_2010-11.aspx">http://www.nao.org.uk/publications/1012/transport_account_2010-11.aspx</a>	
13 June 2011	Effective road and traffic management – a briefing for the Transport Select Committee	<a href="http://www.nao.org.uk/publications/1012/road_and_traffic_management.aspx">http://www.nao.org.uk/publications/1012/road_and_traffic_management.aspx</a>	
5 May 2011	Department for Transport: Local Authority Major Capital Schemes	<a href="http://www.nao.org.uk/publications/1012/local_authority_major_capital.aspx">http://www.nao.org.uk/publications/1012/local_authority_major_capital.aspx</a>	
1 April 2011	Regulating Network Rail's Efficiency	HC 828	2010-11
24 March 2011	The InterCity East Coast passenger rail franchise	HC 824	2010-11
19 November 2010	Procurement of the M25 private finance contract	HC 566	2010-11
4 June 2010	Increasing passenger rail capacity	HC 33	2010-11
June 2010	A Short Guide: The NAO's work on the Department for Transport	<a href="http://www.nao.org.uk/publications/1011/short_guide_dft.aspx">http://www.nao.org.uk/publications/1011/short_guide_dft.aspx</a>	
8 January 2010	Vehicle and Operator Services Agency: Enforcement of regulations on commercial vehicles	HC 210	2009-10
16 October 2009	Highways Agency: Contracting for Highways Maintenance	HC 959	2008-09
5 June 2009	Department for Transport: The failure of Metronet	HC 512	2008-09
8 May 2009	Department for Transport: Improving road safety for pedestrians and cyclists in Great Britain	HC 437	2008-09
11 February 2009	The Maritime and Coastguard Agency's response to growth in the UK Merchant Fleet	HC 131	2008-09
15 October 2008	Department for Transport: Letting Rail Franchises 2005-2007	HC 1047	2007-08
23 May 2008	Shared services in the Department for Transport and its agencies	HC 481	2007-08
4 April 2008	The Procurement of the National Roads Telecommunications Services	HC 340	2007-08
14 March 2008	Reducing passenger rail delays by better management of incidents	HC 308	2007-08
16 January 2008	Department for Transport: Electronic service delivery in the driver, vehicle and operator agencies in Great Britain	HC 204	2007-08

# Appendix Four

## Cross-government NAO reports of relevance to the Department since 2008

Publication date	Report title	HC number	Parliamentary session
25 July 2011	Briefing for the Environmental Audit Committee on delivery of the target to reduce central government's carbon emissions	<a href="http://www.nao.org.uk/publications/1012/carbon_emissions.aspx">http://www.nao.org.uk/publications/1012/carbon_emissions.aspx</a>	
20 July 2011	Landscape review: Formula funding of local public services	HC 1090	2010-12
13 July 2011	Identifying and meeting central government's skills requirements	HC 1276	2010-12
6 June 2011	Managing Risks in Government	<a href="http://www.nao.org.uk/publications/1012/managing_risks_in_government.aspx">http://www.nao.org.uk/publications/1012/managing_risks_in_government.aspx</a>	
26 May 2011	Options Appraisal: Making informed decisions in government	<a href="http://www.nao.org.uk/publications/1012/option_appraisal.aspx">http://www.nao.org.uk/publications/1012/option_appraisal.aspx</a>	
13 May 2011	Performance Frameworks and Board Reporting II	<a href="http://www.nao.org.uk/publications/1012/performance_frameworks_and_boa.aspx">http://www.nao.org.uk/publications/1012/performance_frameworks_and_boa.aspx</a>	
28 April 2011	Lessons from PFI and other projects	HC 920	2010-12
25 March 2011	Cabinet Office: The Efficiency and Reform Group's role in improving public sector value for money	HC 887	2010-11
11 March 2011	Managing staff costs in central government	HC 818	2010-11
3 March 2011	Progress in improving financial management in government	HC 487	2010-11
17 February 2011	Information and Communications Technology in government: Landscape Review	HC 757	2010-11
17 February 2011	Delivering Regulatory Reform	HC 758	2010-11
16 February 2011	Preparations for the London 2012 Olympic and Paralympic games: Progress report February 2011	HC 756	2010-11
14 October 2010	Central government's use of consultants and interims	HC 488	2010-11
27 July 2010	Financing PFI projects in the credit crisis and the Treasury's response	HC 287	2010-11
20 July 2010	Progress with VFM savings and lessons for cost reduction programmes	HC 291	2010-11

Publication date	Report title	HC number	Parliamentary session
14 July 2010	Taking the measure of government performance	HC 284	2010-11
1 July 2010	Assessing the Impact of Proposed New Policies	HC 185	2010-11
June 2010	A short guide to structured cost reduction	<a href="http://www.nao.org.uk/publications/1011/structured_cost_reduction.aspx">www.nao.org.uk/publications/1011/structured_cost_reduction.aspx</a>	
18 March 2010	Reorganising central government	HC 452	2009-10
16 December 2009	Independent Reviews of reported CSR07 Value for Money savings	HC 86	2009-10
6 November 2009	Commercial skills for complex government projects	HC 962	2008-09
21 October 2009	Measuring Up: How good are the Government's data systems for monitoring performance against Public Service Agreements?	HC 465	2008-09
16 October 2009	Government cash management	HC 546	2008-09
29 April 2009	Addressing the environmental impacts of government procurement	HC 420	2008-09
26 March 2009	Innovation across central government	HC 12	2008-09
27 February 2009	Helping Government Learn	HC 129	2008-09
13 February 2009	Recruiting civil servants efficiently	HC 134	2008-09
5 February 2009	Assessment of the Capability Review programme	HC 123	2008-09
19 December 2008	Central government's management of service contracts	HC 65	2008-09
20 February 2008	Managing financial resources to deliver better public services	HC 240	2007-08



# Appendix Five

## Other sources of information

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### Reports from the Committee of Public Accounts since 2008

Publication date	Report title	HC number
12 July 2011	Forty-first Report of Session 2010–12 Office of Rail Regulation: Regulating Network Rail's Efficiency	HC 1036
9 July 2011	Thirty-ninth Report of Session 2010–12 Department for Transport: The InterCity East Coast Passenger Rail Franchise	HC 1035
24 May 2011	Thirty-seventh Report of Session 2010–12 Departmental Business Planning	HC 650
8 February 2011	Nineteenth Report of Session 2010-11 Highways Agency: M25 Private Finance Contract	HC 651
9 November 2010	Fifth Report of Session 2010-11 Department for Transport: Increasing Passenger Rail Capacity	HC 471
11 March 2010	Eighteenth Report of Session 2009-10 Vehicle and Operator Services Agency: Enforcement of regulations on commercial vehicles	HC 284
2 March 2010	Fourteenth Report of Session 2009-10 Department for Transport: The failure of Metronet	HC 390
7 January 2010	Fourth Report of Session 2009-10 Highways Agency: Contracting for Highways Maintenance	HC 188
29 October 2009	Forty-fourth Report of Session 2008-09 The Maritime and Coastguard Agency's response to growth in the UK merchant fleet	HC 586
22 October 2009	Forty-ninth Report of Session 2008-09 Improving road safety for pedestrians and cyclists in Great Britain	HC 665
19 May 2009	Twenty-first Report of Session 2008-09 The Department for Transport: Letting Rail Franchises 2005-2007	HC 191
16 December 2008	Fifty-seventh Report of Session 2007-08 Shared services in the Department for Transport and its agencies	HC 684
18 November 2008	Fifty-third Report of Session 2007-08 Reducing passenger rail delays by better management of incidents	HC 655
28 October 2008	Forty-sixth Report of Session 2007-08 The procurement of the National Roads Telecommunications Services	HC 558

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**Recent reports from Central Government**
**Publication date**

19 May 2011	Department for Transport and Office of Rail Regulation	Realising the Potential of GB Rail Final Independent Report of the Rail Value for Money Study
19 January 2011	Department for Transport	Creating Growth, Cutting Carbon: Making Sustainable Local Transport Happen
January 2011	Department for Transport	Reforming Rail Franchising: Government response to consultation and policy statement
June 2010	Department for Transport	A Review of the Intercity Express Programme Sir Andrew Foster
December 2009	HM Government	Putting the Frontline First: smarter government

**Cabinet Office Capability Reviews**

<http://www.civilservice.gov.uk/about/improving/capability/reports.aspx>

July 2009	Cabinet Office	Department for Transport: Progress and next steps
July 2008	Cabinet Office	Capability Review of Department for Transport: One Year Update

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# Where to find out more

The National Audit Office website is  
[www.nao.org.uk](http://www.nao.org.uk)

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the NAO's work on the Department for  
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If you are interested in the NAO's work  
and support for Parliament more widely,  
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