



National Audit Office

**BRIEFING FOR THE  
TRANSPORT COMMITTEE  
OCTOBER 2008**

# Performance Brief: A summary of National Audit Office Reports on the Department for Transport 2007-08

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National Audit Office

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This briefing paper for the Select Committee provides an overview of the work of the National Audit Office relevant to the performance of the Department for Transport in the financial year 2007-08 and subsequent months.

# Contents

Summary **4**

Part One

The Department's  
operating environment **6**

Part Two

Drivers and enablers of  
performance **9**

Part Three

Delivery by the Department  
against its strategic objectives  
– evidence from NAO  
value for money studies **17**

Appendix One

Recent relevant NAO reports **21**

Appendix Two

Performance against Public  
Service Agreement targets **22**

Appendix Three

Results of the review of PSA  
target data systems **23**

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This briefing was prepared by  
Sophia Collingwood and David Howes  
under the direction of Geraldine Barker.

For further information about the  
National Audit Office please contact:

National Audit Office  
Press Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

Tel: 020 7798 7400

Email: [enquiries@nao.gsi.gov.uk](mailto:enquiries@nao.gsi.gov.uk)

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# Summary

**1** This briefing paper for the Select Committee provides an overview of the work of the National Audit Office relevant to the performance of the Department for Transport in the financial year 2007-08 and subsequent months. It takes as its basis the targets and objectives of the Department and the work of the National Audit Office (NAO) in reviewing areas relevant to those targets and objectives. Where our reports are cited in italics, the full reference is given in Appendix 1.

**2** The contents of the briefing have been shared with the Department to ensure that the evidence presented is factually accurate. Conclusions cited from our reports are the sole responsibility of the National Audit Office. The paper comprises three parts:

- Part One considers the Department's operating environment;
- Part Two examines the Department's capacity to deliver its goals; and
- Part Three examines the Department's performance against its strategic objectives as evident from National Audit Office value for money studies.

## The operating environment

**3** The Department published significant plans for sustainable transport and development of rail transport in 2007-08. Key events in the transport environment in that year included the opening of St Pancras International Station for the Channel Tunnel Rail Link, the collapse of the tube maintenance contractor Metronet, disruption to rail services over Christmas 2007, and the opening of Heathrow Terminal 5. The Department is in the middle rank of spending departments but has the second largest asset base after the Ministry of Defence. Its challenges for the future include reconciling sustainability requirements with strong consumer demand for travel, limited opportunities for network expansion, and a heavily used existing infrastructure.

## Capacity to Deliver

**4** The Cabinet Office's capability review assessed the Department as 'strong' or 'well placed' in four of the ten elements in the model of capability but found scope for improvement in leadership, communication, management support processes, and partnership working. These themes recurred in our own value for money work. The Office for Government Commerce's review of procurement in the Department and its agencies identified knowledge and performance management as being in urgent need of development. This was reflected in our own findings.

**5** Our report on *Shared Services* (May 2008) noted the same control weaknesses which were cited in the Department's Statement of Internal Control incorporated in its annual accounts. We qualified our audit opinion on the Department's 2007-08 accounts, as regards authority for payments to Cross-London Rail Links Ltd.

**6** The Department reports that it has met its targets for efficiency savings and headcount reductions by the end of 2007-08. Our report on the *Efficiency programme* (February 2007) recommended that Departments should ask whether efficiency gains are sustainable, and we note that while DVLA reports headcount reductions, the headcount is set to rise significantly in 2008-09. We comment on the Department's efficiency plans going forward, drawing on conclusions of our reports on the *Efficiency programme*, *Shared Services*, and *Electronic service delivery* (January 2008) and noting some of the challenges inherent in its plans.

**7** We found that most of the Department's systems for measuring performance against extant Public Service Agreement targets were fit for purpose, or appropriate subject to the limitations disclosed by the Department.

### **Performance Against Strategic Objectives – Evidence from NAO Value for Money Studies**

**8** On performance against the Department's first strategic objective, covering reliable and efficient transport networks, our report on *National Roads Telecommunications Services* (April 2008) noted that its value for money depends on the extent to which it facilitates developments such as Active Traffic Management and hard shoulder running. Our report on *Estimating and monitoring the costs of building roads* (March 2007) recommended a series of improvements in practices and procedures to improve Department and Agency oversight of road building programmes. Our report on *West Coast Main Line modernisation* (November 2006) recognised that Network Rail had got to grips with the programme, but that the Department needed to assess the realism of milestones and delivery dates on such major rail projects. On *Reducing rail passenger delays* (March 2008) our report acknowledged that Network Rail had worked effectively with Train Operating Companies to reduce delays, but made recommendations to improve liaison with emergency services over planning and incident handling.

**9** We consider together performance against the Department's second and fourth strategic objectives, covering improved environmental sustainability and accessibility. Our review of proposals for *Light rail schemes* (November 2007) concluded that the Department's evaluation procedures were robust but that it could improve communication of criteria to proposers. Our review of progress on the *Thames Gateway* (May 2007) programme concluded that transport was the main constraint to development in the Gateway and that the Department and its agencies are not well placed to integrate their investment plans into Gateway spatial strategies.

**10** As regard the Department's third strategic objective – safe and secure transport – our report on *Reducing rail passenger delays* noted that the industry needs to work more closely with the emergency services to minimise delay to passengers.

# Part One

## The Department's operating environment

**1.1** The Department's aim is transport that works for everyone. In support of this aim, four Departmental Strategic Objectives were announced in the October 2007 Pre-Budget Report and Comprehensive Spending Review. These are to:

- sustain economic growth and improved productivity through reliable and efficient transport networks;
- improve the environmental performance of transport and tackle climate change;
- strengthen the safety and security of transport; and
- enhance access to jobs, services and social networks, including for the most disadvantaged.

**1.2** During 2007-08:

- the Department:
  - published a new framework for transport planning, *Towards a sustainable transport system* with five broad goals: to maximise the competitiveness and productivity of the economy; to address climate change; to protect people's safety, security and health; to improve quality of life; and to promote greater equality of opportunity;
  - published the White Paper *Delivering a sustainable railway*, and the accompanying High Level Output Specification for Control Period 4 (2009-2014) in July 2007. In October 2007, it secured funding for the £16 billion Crossrail project in London and completed the parliamentary process for the Crossrail Bill in July 2008;
  - launched a consultation in November 2007 on adding further capacity at Heathrow airport; and Terminal 5 at Heathrow was opened in March 2008;
- in July 2007 Metronet, one of the companies contracted by London Underground Ltd to refurbish the London tube network, was put into administration;
- in November 2007, the Local Transport Bill was introduced with the aim of improving public transport and restructuring the delivery of local transport. In April 2008 free off-peak travel on local buses for the elderly or disabled was extended across England;



- in December 2007, and extending into the New Year, rail infrastructure works commissioned by Network Rail at Rugby and Liverpool Street overran by several days causing service cancellations and major disruptions to travellers.

**1.3** The Department for Transport consolidates in its resource accounts most of its agencies – the Maritime and Coastguard Agency, the Vehicle Certification Agency, the Government Car and Despatch Agency, the Highways Agency, the Commission for Integrated Transport, the Disabled Persons Transport Advisory Committee and the Traffic Commissioners and Licensing Authorities. The remaining three agencies are trading funds – the Driver and Vehicle Licensing Agency, the Driving Standards Agency and the Vehicle and Operator Services Agency. As such they, along with the executive Non-Departmental Public Bodies, fall outside the Departmental accounting boundary. They are therefore not consolidated.

**1.4** The Resource Accounts show that the Department had a net resource outturn of £16.12 billion for 2007-08, which places it amongst the middle rank (9th in total) of spending departments in Government. This outturn was an underspend of £563 million, or 3.4 per cent, on the Department's final Estimate of £16.68 billion.<sup>1</sup> The Public Expenditure Outturn White Paper 2007-08 (July 2008) states that the Department has end year flexibility of £214,108,000 which can be taken into the 2008-09 year.<sup>2</sup>

**1.5** The net resource outturn of £16.12 billion is a 17.5 per cent increase (£2.4 billion) on the 2006-07 net resource outturn. The main contributor to this increase was a £1.7 billion payment to the Greater London Authority to help cover the costs of purchasing Metronet's debt following its administration.<sup>3</sup>

**1.6** Staff costs for all bodies covered by the Departmental resource accounts, both administrative and programme, were £290 million for 2007-08, an increase of six per cent on the 2006-07 costs of £273 million. Cash expenditure on non-staff administrative costs was £135 million in 2007-08, an increase of £38 million (39 per cent) from the 2006-07 figure of £97 million. The major rise in cost was for consultancy services with £43 million spent in 2007-08 compared to £12 million in 2006-07 (a 258 per cent increase). The Department reviewed all consultancy expenditure in 2007-08 to ensure that costs were classified in line with revised Treasury guidance.

**1.7** Our study of *Managing financial resources* noted that, after the Ministry of Defence, the Department has the second highest total of net assets on its Consolidated Balance Sheet: £82.78 billion as at 31 March 2008 (**Figure 1 overleaf**). Its net assets increased by £3.58 billion during 2007-08 due to net revaluation gains on the strategic road network, which is the Department's largest asset. Significant percentage changes from 2006-07 to 2007-08 were the decrease in cash, the increase in net current liabilities and in the Department's pension liabilities relating to the British Rail pension scheme.

1 Department for Transport, *Resource Accounts 2007-08* (July 2008), p.7. Reasons for the underspend are given on this page.

2 HM Treasury, *Public Expenditure Outturn White Paper 2007-08* (July 2008), p.14.

3 Department for Transport, *Resource Accounts 2007-08* (July 2008), pp.6,9.

**1.8** Contingent Liabilities reported to Parliament but not required to be disclosed under financial reporting standards have slightly increased from £22,388 million to £22,799 million. Nearly all of the contingent liabilities are in relation to Network Rail's borrowing.

## The Future

**1.9** The Department faces a number of major challenges from 2008-09 onwards:

- overseeing the delivery of major rail infrastructure and rolling stock procurements;
- reconciling environmental, security and consumer concerns in aviation policy;
- encouraging shifts in travelling behaviour to support sustainable transport choices;
- securing and demonstrating value for money from delivery partners;
- reshaping the major roads programme; and
- easing congestion.

**1.10** The key financial settlements on the Department are:

- Under Comprehensive Spending Review 2007, the 2¼ per cent annual real increase in the Department's programme budget, as set out in the overall Long Term Funding Guideline for transport announced in the 2004 Spending Review, is confirmed and extended to 2018-19;
- In the shorter term, the Main Estimate for 2008-09 gives the Department a net resource provision of £15.15 billion (as against the 2007-08 provision of £16.68 billion). This reduction reflects the one off payment in 2007-08 of £1.7 billion in grants to the Greater London Authority relating to the Metronet Administration.

**Figure 1**  
Balance Sheet Extracts

|                          | 2007-08<br>£m | 2006-07<br>£m | Change<br>% |
|--------------------------|---------------|---------------|-------------|
| Fixed Assets             | 88,268        | 84,237        | 5           |
| Cash at bank and in hand | 102           | 192           | (47)        |
| Net Current Liabilities  | (997)         | (725)         | 37          |
| Creditors > 1 year       | (3,264)       | (3,120)       | 5           |
| Provisions               | (1,208)       | (1,289)       | (6)         |
| Pension Liability        | (251)         | (116)         | 116         |
| Net Assets               | 82,775        | 79,193        | 5           |

Source: Department for Transport, Resource Accounts 2007-08

# Part Two

## Drivers and enablers of performance

**2.1** This part examines the Department's ability to deliver its policy goals. It looks in turn at:

- capability;
- financial management; and
- performance measurement.

### Capability

#### Capability review

**2.2** In June 2007 the Cabinet Office published a Capability Review of the Department. It assessed the Department's performance in three key areas of capability: leadership, strategy and delivery.

- The review placed the Department for Transport in the top half of the seventeen departments where such assessments had been undertaken. It assessed the Department as 'strong' or 'well placed' in four of the ten indicators and identified three 'development areas' and two 'urgent development areas'.<sup>4</sup> There were no areas of serious concern. **Figure 2 overleaf** summarises the reviewers' findings.
- The Department was praised for the strength of its evidence base, the clarity and coherence of its strategies, and for having an effective planning system. Its 'urgent development areas' were in Leadership: 'Take responsibility for leading delivery and change' and in delivery 'Develop clear roles, responsibilities and business models'.

**2.3** The Capability review identified four key areas for action by the Department, namely to:











- communicate and engage more effectively;
- strengthen the processes that support the management of the Department;
- work more effectively with and through others to maximise delivery; and
- underpin this with effective leadership to drive future change.

<sup>4</sup> *DfT, Annual Report 2008, p.10.*

**2.4** Findings from our work with the Department in the last year (see Appendix 1) provide examples of where the Department needs to improve in these areas.

- on **communicating and engaging more effectively**: Our review of the Department’s role in evaluating *Proposed light rail schemes in Leeds, Manchester and South Hampshire* concluded that while the Department’s evaluation of schemes was robust, there was room for more effective communication with promoters of schemes;
- on **strengthening the processes that support the management of the Department**, our report *Estimating and monitoring the costs of building roads* highlighted that the monitoring of road schemes required more rigour. Since our report, both the Department and the Highways Agency have reported a number of actions to strengthen the oversight and management of the roads programme;
- on **working more effectively with and through others to maximise delivery**, the *Estimating and monitoring the costs of building roads* report, as well as our report on *Reducing rail passenger delays* recommended that the Department, the Highways Agency and Network Rail should share more information between themselves and with delivery partners to encourage best practice; and

**Figure 2**  
Assessment of the Department for Transport’s capability for future delivery

|   |   |
|---|---|
| <b>Leadership</b>   |   |
| Set direction   |  Well placed             |
| Ignite passion, pace and drive                            |  Development area        |
| Take responsibility for leading delivery and change       |  Urgent development area |
| Build capability  |  Development area        |
| <b>Strategy</b>   |   |
| Focus on outcomes   |  Well placed             |
| Base choice on evidence                                   |  Strong                  |
| Build common purpose                                      |  Development area        |
| <b>Delivery</b>   |   |
| Plan, resource and prioritise                             |  Well placed             |
| Develop clear roles, responsibilities and business models |  Urgent development area |
| Manage performance  |  Development area        |

Source: Cabinet Office (June 2007)

- on **effective leadership to drive future change**, our report on *Management of sickness absence* found that staff reported low morale as a possible cause of high levels of sickness absence particularly among staff working in areas with large volumes of routine and repetitive work. During the Committee of Public Accounts' hearing on the report, the Department stated that it was taking steps to identify and develop good leaders. The PAC urged the Department to focus on raising morale in areas with repetitive work where staff might feel undervalued.

## Procurement

**2.5** The Office of Government Commerce's review of the Department's procurement capability noted that its ratio of third party spend to total costs is probably higher than any other Department: £10.9 billion out of £15.9 billion expenditure in 2006-07, including grants to Network Rail, local authorities and Transport for London, support to some Train Operating Companies, and Highways Agency contracts. The OGC assessed the Department against the nine categories shown in **Figure 3**.

**Figure 3**  
OGC Procurement Review Assessments

|  |                                      |                         |
|--|--------------------------------------|-------------------------|
| <b>World class leadership</b>                        | Visibility and impact of leadership  | Well placed             |
|  | Business and policy alignment        | Development Area        |
|  | Stakeholder and supplier confidence  | Well placed             |
| <b>World class skills deployment and development</b> | Resourcing                           | Development Area        |
|  | Intelligent client capability        | Development Area        |
| <b>World class systems</b>                           | Governance and organisation          | Development Area        |
|  | Sourcing and collaboration           | Well placed             |
|  | Use of tools and techniques          | Development Area        |
|  | Knowledge and performance management | Urgent Development Area |

Source: Office of Government Commerce, Procurement Capability Review Programme: Department for Transport (Oct-Nov 2007)

## 2.6 The report:

- notes that there are impressive people in procurement and related commercial functions across the department, and considerable good practice in both the central Department and the Highways Agency with some that is genuinely leading edge. Performance overall in other agencies is strong relative to the size of third party expenditure;
- singled out rail franchising as a very impressive process, which has demonstrated innovation, good market involvement, transparent and robust processes, and successful financial outcomes; and
- notes that: the Board could play a stronger role in driving commercial performance, pointing to: a lack of an overarching commercial or procurement strategy at Board or functional level at the time of the review; skills shortages in senior commercial areas; and a lack of clear professional procurement leadership at the Highways Agency since the departure of the Procurement Director in early 2007. In the Department's Improvement Plan in response to the review, it stated that the Board would agree and publish a commercial strategy. The two senior Highways Agency procurement posts have now been filled.

Again some of these findings chime with those in recent NAO reports. For example, in *Estimating and monitoring road costs* we recommended that the Highways Agency should conduct a skills audit of its staff and take action to improve project and contract management. The Agency undertook this in 2007-08 assessing all project managers in its major projects directorate against Project Portfolio Management (PPM) and Professional Skills for Government (PSG) criteria with individual development plans being put in place where necessary. We highlighted the Agency's reliance on external Employers' Agents and the need for the Agency to have a strong in-house team to monitor and challenge Employers' Agents and to challenge final target costs for schemes under its Early Contractor Involvement contracts. The Agency has established a commercial office within its Major Projects Directorate to provide commercial advice to its project teams. The Agency has also developed its approaches to cost estimation and risk assessment. In addition the commercial office has taken cost estimating back in-house with the Agency producing and challenging cost estimates for schemes.

## Financial Management

### Financial Control

**2.7** Our report on *Managing financial resources* noted the Department has a professionally qualified finance director at Board level, as required by HM Treasury. It also reported that the Department was the only department where more than 10 per cent of senior civil servants had completed the *Financial Skills for All* e-learning course, with 88 per cent registering for the course and 69 per cent completing it.

**2.8** The Accounting Officer is responsible for maintaining a sound system of internal control that supports the achievement of the Department's policies, aims and objectives whilst safeguarding the public funds and departmental assets for which she/he is responsible. In the Statement on internal control in the Department's 07-08 resource accounts, the group internal audit opinion reported that the Department's arrangements for governance, risk management, and internal control had been adequate and effective in 2007-08 except for two matters of significance:

- Shared services. The Shared Services Centre (SSC) commenced operations in April 2007 with an inadequate system of internal control. Action plans to address the weaknesses were neither fully formed nor implemented by March 2008 and so the system of internal controls remained inadequate at year-end. Ongoing weaknesses will have an adverse impact on the central Department and the Maritime and Coastguard Agency in 2008-09 unless adequate compensating controls are put in place. The SSC's customers during 2007-08, the Driver and Vehicle Licensing Agency (DVLA) and the Driving Standards Agency (DSA) diverted resources to performing additional controls to compensate for the SSC's weaknesses; as a result the management at both DVLA and DSA consider that the agencies' financial statements have not been materially mis-stated. Our report on *Shared services* commented on these shortfalls in controls.
- Data Protection. A data compliance audit highlighted a number of significant issues likely to impact on the Department's ability to manage risks and compliance associated with data protection and these were reported to the Accounting Officer in December 2007. Several of these issues had not been addressed by May 2008 at an internal audit follow-up.

**2.9** The Department met the pre-summer recess deadline for laying its audited 2007-08 resource accounts before Parliament. As in every year since the Department was set up in 2002, it published the Resource Accounts separately to its Annual Report (published in May 2008). Best practice is to publish these two documents together; agencies and smaller government bodies routinely do so but only three Ministerial Departments have achieved this. Our report *Managing financial resources* commented that integration of the accounts and Annual Report gives Parliament and the general public a better idea of what is being delivered with financial resources at departments' disposal.

**2.10** The Comptroller and Auditor General gave a qualified opinion on the Department's 2007-08 Resource Accounts. The Department had paid £3.025 million to Cross-London Rail Links Ltd for utility diversion works to be carried out by London Underground Ltd. This sum was funded by Supply monies and not from the Contingencies Fund as it should have been, it was therefore outside the ambit of the Department's vote and had not been authorised by Parliament.

**2.11** In 2007-08 the Department paid 92.9 per cent of bills on time, less than its policy of paying 98 per cent of valid undisputed bills on time in compliance with the Prompt Payment Code.

### Operational efficiency

**2.12** The Department's agreed financial target from the Gershon Review of Government Efficiency over SR04<sup>5</sup> was to realise total annual efficiency gains of at least £785 million by the end of 2007-08, of which at least half would be cashable. Its Annual Report states that as at 31 December 2007, it had achieved efficiency gains totalling £803 million, though some of the gains were still subject to confirmation, and that 80 per cent of the gains reported were cashable.

**2.13** The Department reports that, by the end of December 2007, it had met the central Department target to reduce the headcount by 200 and that it had re-located 49 posts out of London with plans well in hand to meet the target of 60 by 2009-10.<sup>6</sup> The DVLA reported that it had exceeded its headcount reduction target, having 566 less staff in post on 31 March 2008 against a target of 500, compared with 31 March 2004.<sup>7</sup>

**2.14** The NAO reviewed the Efficiency Programme in February 2007. In one of its recommendations on improving the measurement of efficiency gains, it stated that Departments should ask whether efficiency gains were sustainable past March 2008.<sup>8</sup> The Department for Transport has reported reductions in both the central Departmental and DVLA headcount, yet headcount figures in Appendix A of the 2008 Annual Report show that the Department is anticipating a planned increase in staff for the 2008-09 year of nearly 100 for the central Department and 162 for the DVLA.

**2.15** The Department's Value for Money delivery agreement states that it aims to achieve £1.76 billion in value for money gains by 2010-11. It must achieve these gains to stay within its CSR07 settlement and **Figure 4** shows how it aims to do so.

**2.16** In relation to reductions in subsidy to Network Rail and rail franchisees, our report on *The efficiency programme* recommended that for efficiencies based on reduction of inputs, Departments should ask whether there is evidence that levels of output and service have been maintained. In this context the question for the Department would be the extent to which reductions in subsidy have been achieved without reductions in the levels of output and service enjoyed and/or perceived by customers.

5 DfT, *Annual Report 2008*, pp.184-90.

6 DfT, *Annual Report 2008*, p.189.

7 DfT, *Annual Report 2008*, pp.186-7.

8 NAO, *The Efficiency Programme: A Second Review of Progress*, HC 156 (Feb 2007), p.7.



**2.17** In relation to supply chain efficiencies and managing costs and construction inflation in major projects at the Highways Agency, our report *Estimating and monitoring the costs of building roads* recommended that the Agency should monitor market rates for key materials and pay rates in roads construction and complete its work on establishing unit costs so that it could benchmark its performance against that of other organisations. The Agency reports that it now regularly reviews and updates its forecast of construction inflation and is developing a system for collecting cost data.

**2.18** In relation to reduced Departmental administration costs our report on *Shared services* found that the initiative, while having genuine efficiency potential, started in April 2005 with an estimated net present savings value of £57 million but by March 2008 had a forecast net present cost of £81 million. The project illustrates the risks of over optimistic estimates when appraising projects which could reduce Departmental administration costs, and the need for active management of delivery risks if a decision is taken to proceed.

**2.19** On improved use of technology our report on *Electronic service delivery* covered DVLA, Driver Standards Agency and the Vehicle and Operator Services Agency. All three are part of the Safety, Service Delivery and Logistics group where the efficiency gains from on-line delivery are planned. Our report identified scope for further efficiencies by both extension of electronic services (for example through electronic capture of driving test outcomes or e-mailed reminders for on-line car tax renewals) and increased take up of existing services. We identified some barriers to take up, such as the lack of an alternative identity verification method for young people without credit records or a digital passport seeking to apply for a provisional driving licence online.

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#### **Figure 4** Planned Sources of Future Efficiency Gains

| <b>Source</b>  | <b>Amount</b> |
|--|---------------|
| Reduction in government subsidy to rail franchisees  | £700 million  |
| Reduced Network Grant payments to Network Rail   | £538 million  |
| Efficiency programme at Transport for London   | £233 million  |
| Supply chain efficiencies and managing the impact of costs and construction inflation in relation to major projects at the Highways Agency | £144 million  |
| Improved Departmental procurement of common commodity-based and recurring areas of expenditure   | £84 million   |
| Reduced Departmental administration costs  | £43 million   |
| Improved use of technological developments for on-line service in the Safety, Service Delivery and Logistics Group                         | £20 million   |

*Source: DfT, Comprehensive Spending Review 2007: Value for Money delivery agreement*

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## Performance Measurement Systems

**2.20** One key driver of a Department's capacity to deliver its objectives is knowing when the actions it takes leads to outputs and outcomes: it is important to have robust performance measurement systems in place to evaluate success.

**2.21** The NAO reviews the data systems used by departments to monitor and report performance against their Public Service Agreement (PSA) targets. The Department's PSA targets for the 2004 spending review, and progress against them as reported in the 2007-08 Annual Report, are shown in Appendix 2. In 2007-08 we examined the systems supporting these PSA targets. Our judgements on systems for each of the seven targets are set out in Appendix 3. We found three fit for purpose and three broadly appropriate subject to the limitations disclosed by the Department. For PSA Target 4, covering road congestion in ten major urban centres, we found the systems were broadly appropriate but needed strengthening. The Department had not yet visited the local authorities concerned to review their data collection and reporting arrangements which underpin measurement of progress on this target. Subsequent to our report, the Department issued a revised technical note for this PSA and stated that it had recently signed a new contract for supply of journey time data for the period to 2010-11.

**2.22** The Comprehensive Spending Review 2007 (CSR07) set a single new PSA target for the Department with four indicators:

- PSA 5: Deliver reliable and efficient transport networks that support economic growth
  - journey time on main roads into urban areas;
  - journey time reliability on the strategic road network, as measured by the average delay experienced in the worst 10 per cent of journeys for each monitored route;
  - level of capacity and crowding on the rail network; and
  - average benefit cost ratio of investments approved over the CSR07 period.

Appendix 2 shows how these indicators map onto the previous PSA targets.

The Department contributes to fifteen other PSA targets and is a formal partner for two of these:

- PSA 26: Reduce the risk to the UK and its interests overseas from international terrorism
- PSA 28: Secure a healthy natural environment for today and the future

In addition to these PSA Targets CSR07 set the four Departmental Strategic Objectives (DSOs) previously cited.

**2.23** The remainder of this briefing comments on the findings of our work in 2007-08 which is relevant to the Department's progress in achieving these strategic objectives. Most of our work has been relevant to DSO1, with less coverage of the Department's other strategic objectives.

# Part Three

## Delivery by the Department against its strategic objectives – evidence from NAO value for money studies

### **DSO 1: Reliable and Efficient Transport Networks**

#### Strategic Road Network

**3.1** Over the last year, we have produced reports on the Highways Agency looking at the *National Roads Telecommunications Services* and *Estimating and monitoring the costs of building roads*.

**3.2** The assets delivered under the contract for the National Roads Telecommunications Services are designed to handle data and CCTV images, so as to provide the Highways Agency, and ultimately road users, with moment-by-moment information on traffic congestion and delays. Our report on the *National Roads Telecommunications Services*, found that the Highways Agency had successfully transferred to the private sector contractor, GeneSYS, the risks associated with procuring a resilient digital information system for England's motorway network though, at five years, the procurement lasted more than twice as long as the Agency originally expected. There were a number of external events and major changes in scope that lengthened the timetable. To all intents and purposes, GeneSYS completed the replacement of the Agency's obsolete analogue services within the contracted timetable and without bringing any claims against the Agency. The new telecommunications systems, based on up to date digital technology, are resilient; providing high bandwidth services linking over 14,000 roadside devices, including emergency roadside telephones and closed circuit television cameras, to all seven regional control centres.

**3.3** As the systems were only just operational at the time of the report, NAO was not able to make a full assessment of operational performance. We did conclude, however, that the Agency has secured, through competition, a PPP with fixed prices and inbuilt flexibility. We concluded that the overall value for money of the project depended on how useful the new telecommunications systems prove to be in relation to implementation

of projects they enable, such as Active Traffic Management (ATM). Since publication of our report the Government has indicated its intention to adopt hard shoulder running and Active Traffic Management as an alternative to motorway widening at a number of locations on the network.<sup>9</sup>

**3.4** Our report *Estimating and monitoring the costs of building roads* found that completed road schemes were costing more than initial estimates indicated, that the Department had not been rigorous enough in its oversight of the Agency's delivery of major road schemes, and that the Department and the Highways Agency should take further steps to improve estimation of future road costs. These findings were reflected in a separate report from Mike Nichols, chairman and chief executive of the Nichols Group consultancy, commissioned by the Secretary of State and published in March 2007. This concluded that the Highways Agency urgently needed to strengthen its projects and programme management; bring in more expertise in programme, project, and commercial management; implement more effective organisation, processes and systems; and improve reporting and control of cost, timing and performance.<sup>10</sup>

**3.5** In its response to the Public Accounts Committee's report following its hearing on the subject, the Government stated:

- the Department and the Highways Agency have developed improved performance measures for the delivery of the Agency's major roads programme and that targets against these measures would be included in the Agency's 2008-09 business plan;
- the Department and the Agency have developed a detailed programme of activities to strengthen the estimating and project and contracting management of the Highways Agency major roads programme;
- the Agency is developing a comprehensive system for collecting cost data with the resultant databases allowing unit costs to be produced to feed into the estimating process for future schemes; and
- the Agency is strengthening the project management and commercial skills of its staff and undertaking an external recruitment exercise to deepen and broaden the skills of its workforce.

**3.6** Since then the Government has published revised cost estimates for remaining elements of the Major Roads Programme alongside its announcement (cited above) regarding the potential for replacing some motorway widening projects with hard shoulder running.

<sup>9</sup> July 2008 Command Paper *Roads: Delivering Choice and Reliability*.

<sup>10</sup> Mike Nichols, *Review of Highways Agency's Major Roads Programme* (March 2007).

## Rail Network and Services

**3.7** Our two most recent reports on rail were on the *West Coast Main Line modernisation* and *Reducing rail passenger delays*.

**3.8** The *West Coast Main Line modernisation* report found that Network Rail had delivered the project's first two phases to schedule resulting in improved punctuality, shorter journey times and some improvements in service frequency and train speed. But the line is still prone to overcrowding on peak services and is likely to require further investment to accommodate predicted future growth in passenger numbers. Moreover unit costs remained above average and Network Rail was likely to spend £300 million more than the £3 billion allocated for the period 2004-08. Additional franchise support of £590 million had been needed for Virgin Trains to reflect high lease costs of new trains and lower revenues following the Hatfield derailment. Following its consideration of our report, the Public Accounts Committee recommended that the Department should assess whether milestones and delivery dates for major rail projects are realistic. Service disruptions after Christmas 2007 were partly due to West Coast Main line works.

**3.9** Our report on *Reducing passenger delays* noted that in 2006-07, 0.8 million incidents led to 14 million minutes of delay to franchised passenger rail services in Great Britain, costing a minimum of £1 billion. We concluded that Network Rail had been successful in working with Train Operating Companies to reduce the number of incidents on the passenger network to below the level recorded in 1999-00, whilst the number of delay minutes was almost back down to the pre-Hatfield incident level. But we recommended further improvements, including better notification procedures for emergency personnel, local agreements based on national memoranda of understanding with emergency service associations, better information for passengers, and more learning from incident experience.

## **DSO 3: Strengthen Safety and Security of Transport**

**3.10** Our report on *Reducing rail passenger delays* noted that, while the priority of the rail industry is to run services safely for the benefit of its customers, the emergency services have other responsibilities which can lead to disagreements over how to manage an incident. We cited fatalities where the site of an incident may be declared a crime scene by the police and cause serious service disruption, medical incidents where ambulance staff give priority to the condition of the patient, which requires an assessment before moving them and disrupts services, and fire service exclusion zones which may prevent services running through. We noted that the industry needs to work more closely with the emergency services to minimise delay to passengers.

## DSO 2 and DSO 4: Improvements to Environmental Performance and Accessibility

**3.11** Two of our recent outputs have addressed both of these strategic objectives. Our review of proposed *Light rail schemes* examined the role of the Department for Transport in assessing revised proposals for funding for light rail schemes in Leeds, Manchester and South Hampshire. Our review of progress with the *Thames Gateway* considered transport within the context of that programme.

**3.12** Our review of proposed *Light rail schemes* noted that such schemes can help reduce congestion and pollution by attracting people to public transport, particularly those who would otherwise use cars. We also noted they can help to regenerate deprived areas and improve accessibility to employment, education and leisure facilities. Nevertheless we recognised that the schemes must be assessed in terms of affordability as well as cost:benefit ratios, and the Department has to be aware of competing demands for funds – light rail schemes are funded from the same budget as other public transport schemes including local road schemes. We concluded that the Department’s evaluation of the revised schemes was robust and that it presented options to Ministers in a fair and even handed way. But we considered that there was scope for speeding up the evaluation process and improving communication with promoters to give them a clearer idea of the criteria their proposals will have to meet if they are to be successful.

**3.13** Our report on the *Thames Gateway* cited the Department for Transport, Highways Agency and Network Rail as key national players within the transport delivery chain, one of nine sectors within the programme which is led by the Department for Communities and Local Government. The programme aims to contribute 12 per cent of the new housing needs of London and the South East and East of England, and its transport component is therefore strongly linked to this departmental strategic objective. Our report concluded that stronger high level management of the programme was required, and that a cross-government board including Department for Transport should be created. It also recommended a Gateway-wide plan for transport provision. We concluded that of the different types of infrastructure that need to be put in place, transport has been both the programme’s main driver and the main constraint to development in the Gateway. The challenge was particularly difficult because:

- the Department for Transport and its agencies are not well placed to integrate their investment plans into Thames Gateway spatial strategies;
- transport infrastructure costs cannot easily be funded by planning gain;
- transport infrastructure needs long lead times;
- it is difficult to make the case for new transport infrastructure on the basis of regeneration;
- there is a tension between providing new infrastructure and maintaining the existing network; and
- sustainable transport modelling is only now being put in place.

# Appendix One

## Recent relevant NAO reports

### **On Value for Money**

The Procurement of the National Roads Telecommunications Services (April 2008)

Shared services in the Department for Transport and its agencies (May 2008)

Reducing passenger rail delays by better management of incidents (March 2008)

Electronic service delivery in the driver, vehicle and operator agencies in Great Britain (January 2008)

The management of staff sickness absence in the Department for Transport and its agencies (June 2007)

The Thames Gateway: Laying the Foundations (May 2007)

Estimating and monitoring the costs of building roads in England (March 2007)

The Efficiency Programme: a second review of progress (February 2007)

Managing financial resources to deliver better public services (February 2007)

The Modernisation of the West Coast Main Line (November 2006)

### **On Financial Accounts**

Vehicle Excise Duty Accounts 2006-07 (July 2007)

Vehicle Excise Duty Accounts 2007-08 (July 2008)

### **Miscellaneous**

Proposed Light Rail Schemes in Leeds, Manchester and South Hampshire (November 2007)

# Appendix Two

## Performance against Public Service Agreement targets

| CSR04 PSA Target  | Performance against CSR04 PSA Target as stated in Annual Report 2008  | Nearest Equivalent Departmental Service Objective and PSA Indicator for CSR07                                   |
|---|---|---|
| 1 By 2007-08, make journeys more reliable on the strategic road network.  | Not met – Delays on the worst 10 per cent of journeys across the 91 routes covered by the target increased from 3 minutes 47 seconds per 10 miles in the baseline period to 3 minutes 57 seconds per 10 miles for 2007-08.  | DSO 1 – reliable and efficient networks<br>PSA Indicator 2 – journey time reliability                           |
| 2 Improve punctuality and reliability of rail services to at least 85 per cent by 2006, with further improvement by 2008.   | 2006: met<br>2008: not yet assessed<br><br>The 2006 target was reached six months early and the public performance measure has continued to improve. Throughout most of 2007-08, the rail industry remained on track to meet the 2008 target.   | DSO 1 – reliable and efficient networks<br>PSA Indicator 3 – level of crowding and capacity on the rail network |
| 3 By 2010, increase the use of public transport (bus and light rail) by more than 12 per cent in England compared with 2000 levels, with growth in every region.  | On course to achieve national patronage target and associated improvements to reliability and disabled access: target for growth in patronage in every region remains challenging.<br><br>National growth has been 15 per cent in the first six years since 2000. This is driven by a 49 per cent rise in London. In the rest of England there has been a 4 per cent fall.  | DSO 4 – enhanced access<br><br>No equivalent PSA indicator  |
| 4 By 2010-11, the 10 largest urban areas will meet the targets set in their local transport plan relating to movement on main roads into city centres.  | Ahead – it is still very early in the target period to make an assessment of progress. But data for 2006-07 show that person journey time on the target routes has improved, by around 2.4 per cent compared to the baseline (i.e. there has been a reduction in journey times of 2.4 per cent).  | DSO 1 – reliable and efficient networks<br>PSA Indicator 1 – journey time on main roads into urban areas        |
| 5 Reduce the number of people killed or seriously injured in Great Britain in road accidents by 40 per cent and the number of children killed or seriously injured by 50 per cent, by 2010 compared with 1994-98, tackling the significantly higher incidence in disadvantaged communities. | Disadvantage target met. Police data indicates that the Department is on course to meet other elements of the target.<br><br>The number of people killed or seriously injured in 2006 was 33 per cent below the 1994-98 average.<br><br>The number of children killed or seriously injured in 2006 was 52 per cent below the 1994-98 average.<br><br>The percentage drop in casualties in 88 disadvantaged areas for 2005 compared to the baseline was greater than the overall percentage drop for England, so this element of the target was met. | DSO 3 – safety and security<br><br>No equivalent PSA indicator  |



# Appendix Three

## Results of the review of PSA target data systems

| PSA Target | Description  | Rating |
|------------|--|--------|
| 1          | <p>By 2007-08, make journeys more reliable on the strategic road network.</p> <p>The target is based on the 10 per cent worst daytime journeys on each of certain specified routes on Highways Agency roads. The target is met if average vehicle delay across the network, in 2007-08, is less than during the baseline period (August 2004 – July 2005 for most routes). Delay is the difference between observed journey time and a reference journey time (the time that could theoretically be achieved when the traffic is free flowing).</p>  | ●      |
| 2          | <p>Improve punctuality and reliability of rail services to at least 85 per cent by 2006, with further improvement by 2008.</p> <p>Every franchised passenger train journey is measured against the daily timetable, and is on-time if within five minutes of the timetabled arrival time, ten minutes for long-distance journeys.</p>  | ●      |
| 3          | <p>By 2010, increase the use of public transport (bus and light rail) by more than 12 per cent in England compared with 2000 levels, with growth in every region.</p> <p>Performance indicators are numbers of passenger journeys; percentage of vehicles with low floor wheelchair access; bus reliability; and accessibility.</p>  | ○      |
| 4          | <p>By 2010-11, the 10 largest urban areas will meet the congestion targets set in their local transport plan relating to movement on the main roads into city centres.</p> <p>The target will be deemed to have been met if, on target routes in the 10 largest urban areas in England, an average increase in travel of 4.4 per cent is accommodated with an average increase of 3.6 per cent in person journey time per mile.</p> <p>The local targets on which this is based include:</p> <ul style="list-style-type: none"> <li>● in London, accommodate an increase in travel of three per cent with an increase in journey time of 1.5 per cent;</li> <li>● in Manchester, accommodate an increase in travel of 1.5 per cent with no increase in journey time; and</li> <li>● in the West Midlands, accommodate an increase in travel of four per cent with an increase in journey time of five per cent.</li> </ul> | ●      |

| PSA Target                           | Description   | Rating |
|--------------------------------------|---|--------|
| 5                                    | Reduce the number of people killed or seriously injured in Great Britain in road accidents by 40 per cent and the number of children killed or seriously injured by 50 per cent, by 2010 compared with 1994-98, tackling the significantly higher incidence in disadvantaged communities.<br><br>Disadvantaged communities are taken as the 88 local councils that are eligible to receive Neighbourhood Renewal Funding. | ●      |
| 6<br>(Joint target with DEFRA)       | Improve air quality by meeting the Air Quality Strategy targets for carbon monoxide, lead, nitrogen dioxide (NO <sub>2</sub> ), particles (PM10), sulphur dioxide (SO <sub>2</sub> ), benzene and 1,3-butadiene.  | ○      |
| 7<br>(Joint target with DEFRA+ BERR) | To reduce greenhouse gas emissions to 12.5 per cent below 1990 levels in line with our Kyoto commitment and move towards a 20 per cent reduction in carbon dioxide emissions below 1990 levels by 2010, through measures including energy efficiency and renewables.  | ○      |

#### Key

- Fit for purpose
- Appropriate given disclosure of limitations
- Addresses majority of risks to data quality but system needs strengthening
- Addresses majority of risks but better disclosure of limitations needed
- Not fit for purpose
- Too early to form a view or not established

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