National Audit Office

DEPARTMENTAL OVERVIEW

The performance of the Department for Transport 2012-13

JANUARY 2014

Our vision is to help the nation spend wisely.

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

Contents

Introduction

Aim and scope of this briefing

1 The primary purpose of this report is to provide the Transport Select Committee with a summary of the Department for Transport's activity and performance since September 2012, based primarily on published sources, including the Department's own accounts and the work of the National Audit Office (NAO).

2 Part One of the report focuses on the Department's activity over the past year. Part Two concentrates on NAO analyses of that activity. Part Three takes the form of a case study, looking in greater detail at the Department's reform of the motor services agencies, a key issue for the Department at the current time.

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

Part One

About the Department

The Department's responsibilities

1.1 The Department for Transport (the Department) provides leadership across the transport sector. It works with local and private sector partners on rail, road, sea, air and local transport services.

1.2 Currently the Department's vision is for transport to be "an engine for growth" with a transport system "to make our economy stronger and our lives easier".[1] Its priorities, as listed on gov.uk,[2] are:

- continuing to develop and lead the preparations for a high speed rail network;
- improving the existing rail network and creating new capacity to improve services for passengers;
- tackling road congestion;
- continuing to improve road safety;
- encouraging sustainable local travel;
- promoting lower carbon transport, such as walking and cycling as well as introducing more environmentally-friendly buses and trains;
- supporting the development of the market for electric and other ultra-low emission vehicles;
- supporting the development of aviation, improving passenger experience at airports; and
- maintaining high standards of safety and security for passengers and freight.

1 Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/226729/transport-for-growth-A4.pdf
2 Available at: www.gov.uk/government/organisations/department-for-transport/about

How the Department is organised

1.3 In 2012-13, the Department comprised the core department, four executive agencies and two trading funds.[3] It also has significant responsibilities for a range of other entities including executive, advisory and tribunal non-departmental public bodies and public corporations (Appendix One). In January 2013, the core department was restructured and is now organised into five directorates (**Figure 1**).

Figure 1

How the Department is organised

Department for Transport

Board of executives, non-executives and ministers, chaired by Secretary of State

Permanent Secretary supported by the General Counsel

International, Security and Environment	Roads, Traffic and Local	Rail	High Speed 2	Resources and Strategy
Responsible for: international aspects of the Department's work, including aviation and maritime policy; transport security and safety and leading the drive to decarbonise transport and manage and minimise transport's impact on the environment.	Responsible for: the development of policy in relation to roads, traffic, road safety, bus travel and logistics; open data and transparency; the Department's relationship with local government, London and the devolved administrations and its contribution to the government's localism and Big Society agendas.	Responsible for: the sponsorship of major rail projects including Crossrail, Thameslink and the Intercity Express Programme; and leading policy and funding for the rail sector, and on the rail franchising programmes.	Responsible for: ensuring that the High Speed 2 (HS2) programme meets its demanding timetable and delivers long-term strategic national planning for this major addition to national infrastructure.	Responsible for: support functions including HR, finance, internal audit and analysis and strategy; building the capability of people in DfT and protecting its reputation.

Note

1 The changes to the structure resulted in the following:

- Steve Gooding, previously from the Domestic Group became Director General for the Roads, Traffic and Local Group;
- Clare Moriarty, who was Director General Corporate and then acting Permanent Secretary from 23 January to 11 April 2012, moved to become Director of the Rail Group;
- David Prout joined the Department, from the Department for Communities and Local Government, to become Director General of the newly formed High Speed 2 Group;
- Jonathan Moor was appointed Director General for the restructured Resources and Strategy Group; and
- Peter Strachan, Director General of the former Major Projects and London Group, chose to leave the Department.

Source: Department for Transport's Organisation Chart and Department for Transport Annual Report and Accounts 2012-13

3 The Driving Standards Agency and Vehicle and Operator Services Agency merger was announced in June 2013 (see paragraph 3.3) though the new agency will continue to report as two separate entities until at least July 2014 (paragraph 3.6).

1.4 The Department's board is chaired by the Secretary of State for Transport, the Rt Hon Patrick McLoughlin MP. Board membership includes four ministers, the seven non-executive board members, the Permanent Secretary and the Directors General. Stephen Park, the interim Finance Director, served on the board before Jonathan Moor was appointed Director General Resources and Strategy. On 25 November 2013, Vanessa Howlison started as the Finance Director.

1.5 In summer 2013, the government appointed three new non-executives to the Department's board. Richard Brown, John Kirkland and Mary Reilly have expertise in the rail franchising programme and financial management, having previously been on other boards in the rail industry and commercial transport organisations and directors of multi-national companies. In October 2013, Robert Goodwill MP and Baroness Kramer became Parliamentary Under Secretary of State for Transport and Minister of State for Transport respectively and joined the board. Robert Goodwill has responsibility for issues relating to the strategic and local road networks, aviation and phase one of the High Speed 2 programme. Baroness Kramer's remit includes future transport, phase two of the High Speed 2 programme, localism and accessibility.

1.6 The Department devolves the delivery of many transport services to a wide range of third parties. 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 Driver and Vehicle Licensing Agency, Driver and Vehicle Standards Agency[4] and Driving Standards Agency.

- Rail – passenger services are delivered by private companies under franchises from the Department. Urban rail services may be delivered by local authorities and passenger transport executives.[5] The Department funds rail maintenance and construction, which is delivered by Network Rail. New rail projects, such as Crossrail and High Speed 2 are delivered by separate bodies which are responsible for project management and delivery. The Office of Rail Regulation is responsible for the economic and safety regulation of British railways.

- Shipping – the Maritime and Coastguard Agency implements the Department's maritime safety policy. The Department oversees the bodies that operate lighthouses and some ports but does not provide funding to them.

- Air – the Department's role is to set the policy and strategy for air travel, which is delivered by private companies. In September 2012, the government announced its intention to create an independent commission to report on the options for improving the use of existing runway capacity by the end of 2013. The Airports Commission is then to report on the costs and benefits of solutions to increase airport capacity by summer 2015. The Civil Aviation Authority regulates the sector on behalf of the Department.

4 Formed by the merger of the Vehicle and Operator Services Agency and Driving Standards Agency (see paragraph 3.3).
5 The six Passenger Transport Executives, the local government bodies responsible for the public transport, are in the UK's largest urban areas outside London.

Where the Department spends its money

1.7 In 2012-13, the Department's net outturn was £13.6 billion (**Figure 2**) in comparison to an outturn of £13.9 billion in 2011-12. Net outturn for rail has increased by £662 million, largely due to a budgeted increase in spending on Crossrail and the new High Speed 2 rail project. In contrast, the Department achieved planned reductions for:

- Highways Agency – outturn for 2012-13 £3.2 billion compared to £3.6 billion in 2011-12;
- Local authorities – grants of £1.6 billion in 2012-13 compared to £1.9 billion in 2011-12; and
- bus subsidies and concessionary fares – outturn of £0.4 billion in 2012-13 compared to £0.6 billion in 2011-12.

This trend should continue in 2014-15, with the Department's budget becoming 15 per cent lower than the 2010-11 baseline (in real terms). **Figure 3** on page 10 shows the changes in real terms to four significant areas of the Department's budget.

1.8 The average number of whole-time equivalent staff employed by the Department and its agencies and non-departmental public bodies in 2012-13 was 17,464, a decrease of 475 from the previous year. The cost of employing this workforce rose by £25 million to £700 million. This was due to the appointment of additional, higher paid staff (including temporary project staff) needed for the increased activity on rail projects.

1.9 The Department also received income of £3.0 billion in 2012-13, a rise of £0.4 billion from 2011-12. The most significant sources of income were from Train Operating Companies (£1.6 billion) and fees and charges to external customers and other government departments (£765 million). The remainder comes from other sources, such as Europe (£33 million); dividends and interest (£66 million); and Dartford Crossing user charges (£79 million).

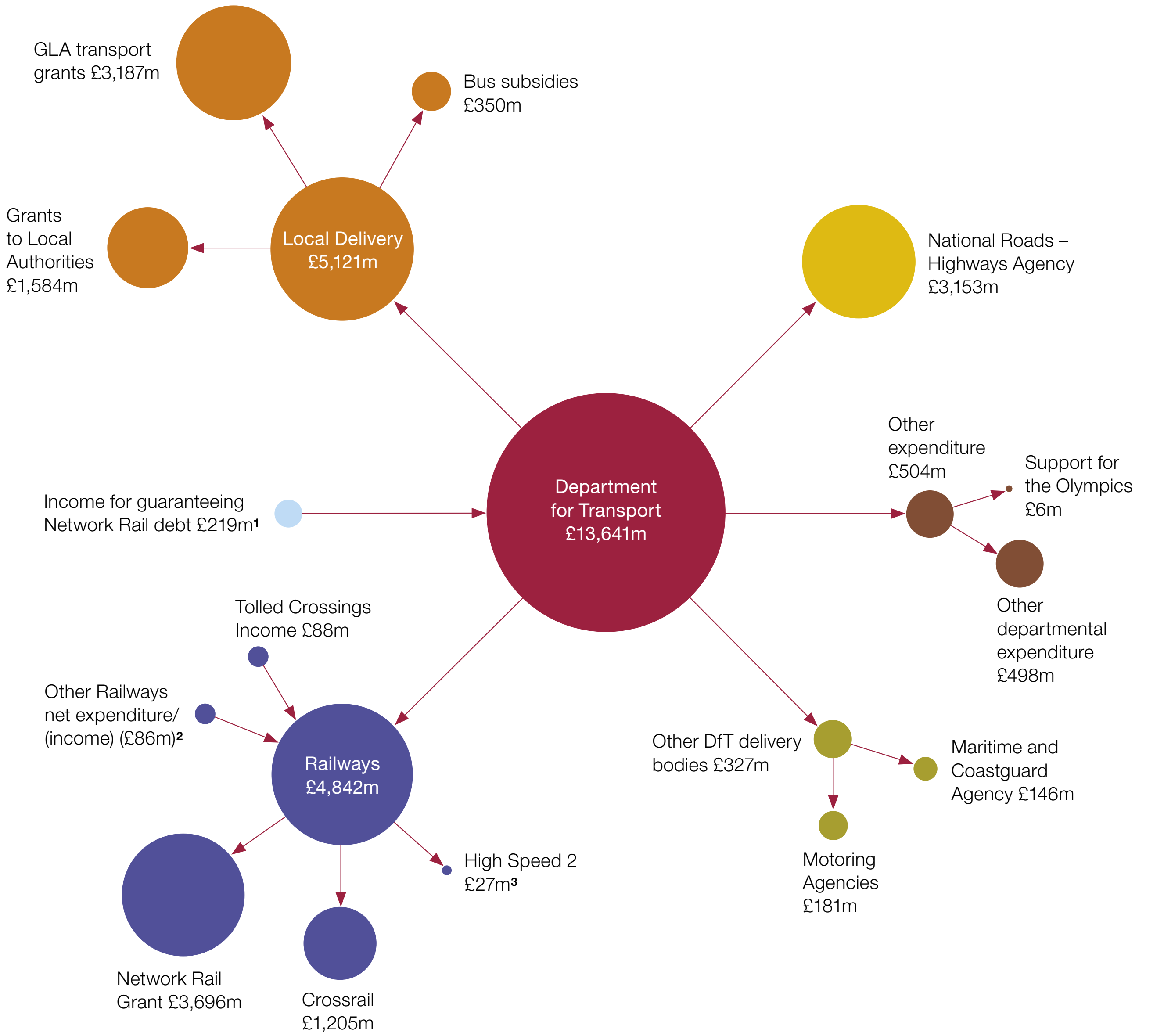
1.10 In 2012-13, the Department recorded a resource underspend of around £1.2 billion (17 per cent), and a capital underspend of £243 million (3 per cent), against the budget estimates of £7.1 billion and £8.0 billion respectively.[6] Two thirds of the Department's resource underspend was on its annually managed expenditure which, because it is demand-led (such as budgets for pensions, depreciation and provisions), is inherently difficult to forecast. The Highways Agency for example, underspent by £436 million because its estimate of the difference between the cost of construction of its new roads and their accounting value was less than originally predicted. Also the Department's estimate for contingencies and provisions was higher than was actually needed.

6 Departmental spending falls into three main categories: resource, which is current spending on programmes and administration; capital, which is investment in assets like roads or buildings; and annually managed expenditure, which is volatile spending where costs are difficult to predict more than a year in advance and are influenced by factors outside the Department's control.

Figure 2

Where the Department spent its money in 2012-13

Figure shows main income and expenditure in year



Notes

1 The Department receives a fee from Network Rail calculated on the basis of the benefit Network Rail gains in lower costs on financing because of the Department's guarantee of its £27.3 billion debt.

2 The Department received income of £1,615 million from Train Operating companies and provided £695 million of support to Passenger Rail Services in 2012-13.

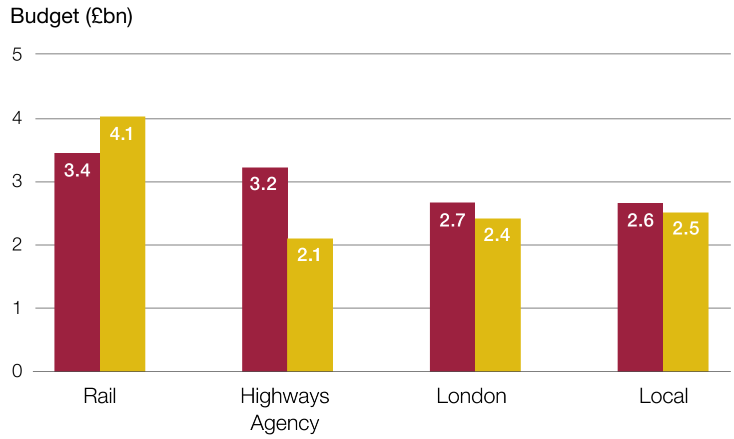
3 The cost to the core department for High Speed 2 related programmes in 2012-13. The Department provided HS2 Limited with £176 million of government grants in 2012-13, which is included in the Other Railways net income figure. The £42.6 billion cost for High Speed 2 quoted later in paragraph 1.14 refers to the total cost of the project.

4 Due to rounding errors the figures may not add up to 100 per cent.

Source: Department for Transport Annual Report and Accounts, 2012-13

Figure 3

The changes to the Department's budgets in real terms at the beginning and end of the Spending Review 2010 period



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

■ 2010-11 baseline budget

■ 2014-15 budget

Note

1 Bars are in cash terms.

Source: Comptroller and Auditor General, *Reducing costs in the Department for Transport*, Session 2010–2012, HC 1700, National Audit Office, December 2011

Recent and planned changes to the Department's spending

1.11 The government has continued to prioritise capital spending in areas that it considers will yield the highest economic returns, such as transport. As a result it announced further investment of £1.5 billion in the road network in the Autumn Statement of December 2012.

1.12 The Spending Round 2013 set out the Department's overall budget for 2015-16 and elements of the capital budget up to 2020-21. The settlement provided resource expenditure of £3.2 billion – a 9.3 per cent reduction from the 2014-15 baseline. The first year's capital budget is £9.5 billion, which represents a 5.5 per cent real terms increase. However, the £0.9 billion in relation to the Transport for London grant is to be transferred to capital from 2015-16. This will result in a resource expenditure of £2.3 billion and capital expenditure of £10.4 billion.

1.13 The additional capital funding will be used to take forward the Department's investment strategy. Seventy billion pounds is now committed to specific projects in transport over the next parliament, including £28 billion in enhancements and maintenance of national and local roads and £42.6 billion (in 2011 prices) to build High Speed 2. **Figure 4** on pages 12 and 13 shows the current long-term capital transport investments.

Policy and delivery: major developments

Rail

1.14 The Department's four largest projects are all in the rail sector:

- **High Speed 2**, which is a planned north-south railway between London and the Midlands, West Yorkshire and North West England, will be built in two phases with estimated funding of £42.6 billion.[7]
- **Crossrail**, which is Europe's largest railway and infrastructure construction project. It provides a high-frequency suburban passenger service that will, from 2018, link parts of Berkshire and Buckinghamshire, via central London, to Essex and South East London. Currently it is expected to cost £14.5 billion.
- **Intercity Express Programme**, which is a private finance initiative (PFI) to buy new trains to replace the InterCity 125 fleet on the Great Western main line on the long distance routes from London to Swansea and the InterCity 125 and other trains on the East Coast main line to Edinburgh and beyond. The estimated cost of the contract is £5.8 billion.[8]
- Thameslink is a railway that runs through London from Bedford to Brighton and incorporates a suburban loop for Sutton and Wimbledon. The **Thameslink Programme** is a major scheme to extend this service to a further 100 stations and to increase capacity by more frequent and longer trains on the central London section. The new trains and depots are financed through a PFI deal. The infrastructure improvements, which were split into two phases, are expected to cost £3.55 billion (2006 prices) and scheduled for completion in 2018. The Department is also introducing new franchise arrangements for running the Thameslink passenger service.

1.15 High Speed 2 – In January 2013, the Department announced its preferred route for phase two of the project. It published maps of the potential lines from the West Midlands to Leeds and Manchester. Also, under the new project management arrangements, the Department appointed two new directors, so there are now three overseeing the programme. It has put in more resources for governance, planning, assurance, regeneration and to realise the benefits.

7 Available at: www.hs2.org.uk/about-hs2/facts-figures/route-trains-cost
8 Available at: www.gov.uk/government/news/government-gives-green-light-for-more-state-of-the-art-intercity-trains

Figure 4
Long-term Capital Transport investments

Source: HM Treasury, *Investing in Britain's future*, Cm 8669. June 2013

1 North East

A19 Testos flyover construction

A19/A1058 coast road near Newcastle

A1 upgrade works, Lobley Hill

High Speed 2

Increased rail capacity on East Coast Mainline and Newcastle

New InterCity Express trains

2 North West

Managed motorway schemes; M60 J24–27 and 1–4, M62 J10–12, M56 J6–8, M6 J16–19 and 21a–26

Mersey Gateway Bridge scheme

High Speed 2

Northern Hub rail link upgrade programme

3 Yorkshire and the Humber

A63 Castle Street access improvements to the Port of Hull

A160/180 Immingham dualling scheme

Transpennine electrification

Additional rail capacity in Sheffield and Leeds

The 'electric spine' rail enhancement scheme

A1 Leeming to Barton. Expanding dual carriageway

4 East Midlands

A38 Derby junction improvements

M1 J24–26 managed motorway scheme at Long Eaton

M1 J28–31 accelerated delivery pilot

The 'electric spine' rail enhancement programme

5 West Midlands

Managed motorway schemes on M5 J4a–6, south of Birmingham, M1 J13–19 Rugby, M6 J2–4 and J13–15

M54/M6 link road Wolverhampton

High Speed 2

6 East of England

A14 Huntingdon to Cambridge

A5–M1 new link road

M25 J30 improvement works

Lower Thames Crossing

7 London

Crossrail 2

Upgrades to Piccadilly and Bakerloo lines

Gospel Oak and Barking electrification

High Speed 2

Thameslink upgrade

London Waterloo station improvements

Increased rail capacity across London, including at London Bridge, Victoria and St Pancras stations

8 South East

M4 J3–12 London to Reading managed motorway scheme

M23 J8–10 managed motorway scheme near Gatwick

Managed motorway schemes on M20 J3–5 Maidstone, M27 J4–11 and the M3 J9–14 near Southampton

A21 upgrade Tonbridge to Pembury

A27 Chichester Bypass improvements

M20 J10a

A2 Ebbsfleet junction

A2 Bean

Lower Thames Crossing

East-West rail project, Oxford to Bedford via Milton Keynes and Aylesbury

9 South West

Electrification of Great Western Mainline

Capacity upgrade to Bristol Temple Meads station

New Heathrow link from the Great Western Main line

1.16 On 24 July 2013, the Court of Appeal dismissed seven broad areas of challenge to the High Speed 2 project. However, three sets of claimants began their appeal to the Supreme Court in October 2013. The Department introduced legislation to grant the powers necessary to construct and operate phase one, into Parliament on 25 November 2013 and is getting phase one of the scheme ready for construction in 2017.

1.17 The Department has appointed Sir David Higgins, the former chief executive of the Olympic Delivery Authority and Network Rail, as the Chairman of High Speed 2 Limited. He took up his post on 1 January 2014.

1.18 Crossrail – The first tunnel under London was completed (Royal Oak to Farringdon) and overall more than half of the 26 miles of rail tunnels had been built by October 2013. In the same month, Network Rail awarded the contracts for the design and upgrade of 13 stations and the installation of electric overhead line equipment.

1.19 In March 2013, the Department agreed to change the plan for the purchase of trains and depot through PFI. The public sector will now pay for their purchase. Transport for London expects to sign the contract in spring 2014. Transport for London also announced in June 2013 which companies it had shortlisted to bid to run the Crossrail services.

1.20 Intercity Express Programme – In July 2012, the Department signed a contract with Agility Trains[9] to finance, build and maintain 92 trains for the daily passenger services on the Great Western and East Coast main lines. As part of this deal Hitachi will build a new factory and four new depots, and upgrade existing maintenance yards. Further to this, on 18 July 2013, the Department announced it was exercising an option in the contract to purchase a further 30 trains for the East Coast Main Line. The contract is expected to last for 27.5 years.

1.21 Thameslink Programme – In May 2013, Network Rail started reconstructing London Bridge station, upgrading power and signalling, platform extensions and new depots for storage and maintenance.[10] On 27 June 2013, the Department announced it had awarded a contract of around £1.6 billion to Siemens plc and Cross London Trains[11] to design, finance and provide the new trains,[12] depots and maintenance services for Thameslink.

1.22 Rail franchising – Following the failed InterCity West Coast franchise competition, the Department formed a team to administer and scrutinise the financial consequences of the cancellation and reimbursement of the bidders. The Department put three other franchise competitions on hold in October 2012. It has started negotiations for new short-term contracts for the Essex Thameside and the Thameslink, Southern and Great Northern franchises in January 2013. The Department stopped the Great Western franchise competition but has awarded FirstGroup plc a 23 month franchise extension to September 2015.

9 A consortium of Hitachi Rail Europe and John Laing Investments.
10 Comptroller and Auditor General, *Progress in the Thameslink programme*, Session 2013-14, HC 227, National Audit Office, June 2013.
11 A consortium of Siemens Project Ventures GmbH, Innisfree Ltd and 3i Infrastructure plc.
12 Number not announced but trains will comprise 1,140 carriages.

Roads

1.23 Highways Agency – Following on from the government's response, in May 2012, to the report of Alan Cook's review of the Agency, the Department published *Action for Roads: A network for the 21st century* in July 2013. The Department intends to:

- consult later in 2013 on turning the Highways Agency into a publicly-owned strategic highways company;
- publish a new draft national policy statement in 2013 with the aim of formally designating the document in 2014;
- introduce legislation in 2014, providing a stable funding basis for investment and legal powers for the new Highways Agency; and
- produce the first road investment strategy later this parliament, guaranteeing roads investment to 2021.

1.24 In late 2012, the Highways Agency introduced new asset support contracts for road maintenance in two of its areas – the South West and North West. These contracts have an outcome-based specification and are intended to provide incentives for contractors to innovate and simplify pricing. The Agency is claiming a 25 per cent reduction in maintenance costs as a result. It has also negotiated with existing contractors to introduce parts of the asset support contracts to achieve cost savings. The Agency will replace the other 11 old managing agent contracts by 2015.

1.25 Government Car and Despatch Agency – In 2012, ministers decided that the size and functions of the organisation could no longer justify executive agency status. On 1 October 2012, it was integrated into the Department as the Government Car Service.

1.26 The motoring agencies – The Department is in the process of reforming its motoring agencies to reduce costs and improve consistency of services. We look at this in more detail in Part Three.

Shipping

1.27 HM Coastguard and search and rescue helicopter capability – The Department has worked closely with the Maritime and Coastguard Agency (the Agency) to modernise the Coastguard. They have developed a prototype simulation tool that can model how incidents are handled and will be testing a nationally networked service, with the intention of matching the workforce better to the peaks and troughs of demand.

1.28 The UK search and rescue helicopter service was previously provided by the Royal Air Force and Royal Navy and a civilian contract managed by the Agency, but on 26 March 2013 the Department signed a contract with Bristow Helicopters Ltd to provide a purely civilian operated service on behalf of the Agency. It is a ten year service delivery contract for £1.6 billion, with 22 helicopters operating from ten locations around the UK. Bristow will progressively take over the service from 2015 and it will be fully rolled out by 2017. This leaves a gap of approximately two years before the new helicopters are available. In the interim the Department has negotiated a contract for the continuation of the existing service at a cost of £220 million.[13]

Back office functions

1.29 The Department is the first in government to complete a competitive process to divest its shared service centre, which provides human resources, payroll and finance functions to parts of the Departmental family. It is part of a government shared services strategy which aims to make savings of some £600 million a year as a result. The contract with Arvato AG, which was awarded on 28 February 2013, will initially last for seven years, with an option for a three year extension. The financial terms have not been published.

1.30 Arvato took over the management of the Department's existing centre in Swansea on 1 June 2013. It assumed responsibility for all back office functions for the Department and some services for its executive agencies. The centre will be expanded to provide services to other government departments, agencies and arm's-length bodies.

The Department's digital strategy

1.31 By December 2012, each government department had to produce a digital strategy,[14] an indication that digital communications are now central to government business. The Department has to redesign three of its public services by the end of 2015. We cover these 'exemplar' digital projects in Part Three. In this section, we consider briefly the main elements of the Department's digital strategy.

1.32 The Department's aim is to use digital services to reduce the costs of services and deliver high quality, customer-focused services. It has committed to:

- using customer feedback to improve its existing digital services continually to make them easy and convenient to use;
- bring more services online and design new digital services to meet customers' needs, integrating these with other services;
- remove the barriers to using digital channels for customers, for example making it easier to prove identity online;

13 Figure includes non-recoverable VAT at 20 per cent.
14 Available at: www.gov.uk/government/publications/department-for-transport-digital-strategy

- help those customers who do not or cannot use digital services;
- support remote and flexible working and make smarter use of the information it holds; and
- complete the move to the gov.uk website.

Independent assessments of the Department's performance

1.33 In Part Two of this report, we look at the NAO's assessment of the Department's performance in 2012-13. Alongside our work and that of the Transport Select Committee, a number of other bodies produce independent analyses of how the Department is doing and of the challenges it faces. In this section, we look at some of the most notable of these reports published in the last year.

1.34 The Laidlaw Inquiry into the cancellation of the InterCity West Coast Mainline franchise looked specifically at why the project failed. It concluded that, while there was no evidence that the failings of the re-franchise process were endemic, there were specific lessons that could be learned for Departmental oversight and management on the whole franchising programme.[15] The Department responded in December 2012[16] and it committed to:

- look at the terms of the franchise offer and the invitations to tender;
- ensure that it is transparent over the assessments of bids;
- restructure to give a single Director General responsibility for the rail business (Figure 1);
- establish appropriate and clear senior oversight of decisions through a cycle of reviews and ensure staff understand how to escalate and manage risks;
- appoint external advisers for financial, legal and technical input for each competition;
- ensure the boards, committees and competition teams have the right mix of skills, experience and knowledge; recruit to fill gaps and provide refresher and induction training; and
- urgently review the internal audit programme and specify the quality assurance processes to be applied.

15 Available at: www.gov.uk/government/publications/report-of-the-laidlaw-inquiry
16 Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/16894/response-to-the-report-of-laidlaw-review.pdf

1.35 Richard Brown was also commissioned by the Secretary of State for Transport to conduct an independent assessment of the implications of the flaws in the procurement for the InterCity West Coast Main Line franchise for the rest of the rail franchising programme. His report, published in January 2013,[17] recommended that:

- the Department's capability for franchising be strengthened urgently;
- commercially experienced staff, capable of developing effective relationships with franchisees should oversee the management of the franchises at the Department; and
- the Department improve the bidding process, for example by being clear what it is seeking to 'buy' in a franchise, having a greater focus on outcomes in the specification, setting capital requirements up front, evaluating the financial robustness and deliverability of bids, and explicitly scoring proposals on approach to management and improving service to passengers.

He reminded the Department to consider what the market can resource and avoid 'bunching' franchises, which would also help it to resource properly the management of the process.

1.36 The Major Projects Authority, which was established in 2011 in order to scrutinise the government's biggest and most high-risk projects, released its first annual report in May 2013.[18] It provided a red/amber/green rating for 191 major government projects. As at 30 September 2012, the Department has the third highest published total spend (£46.6 billion), and the fifth highest number of projects (17) listed in the major projects portfolio.[19] Only the Rail Refranchising Management Programme for the West Coast Main Line was rated as red (**Figure 5**). This was because it was unclear in September 2012 how the franchise competition would be settled (see paragraphs 2.8 and 2.9).

Staff attitudes

1.37 The government has conducted its Civil Service People Survey annually for the past four years. The most recent survey was carried out during October 2012, with detailed results available from February 2013. Continuing our practice in past briefings, we summarise here the views of the Department's staff on two key issues, and compare them to benchmarks for the civil service as a whole (**Figure 6** on page 20). Detailed results for all departments are reproduced in Appendix Two.

1.38 As part of the annual survey, each department receives a staff engagement index. This is determined by the extent to which: staff speak positively of the organisation; are emotionally attached and committed to it; and are motivated to do the best for it. The Department's score of 53 per cent is the same as last year, but is five per cent lower than the civil service benchmark. It was also below the 2011 and 2010 benchmarks by four per cent and six per cent respectively.

17 Available at: www.gov.uk/government/publications/the-brown-review-of-the-rail-franchising-programme
18 Available at: https://engage.cabinetoffice.gov.uk/major-projects-authority/
19 This is the latest available data from the Major Projects Authority.

Figure 5

Major Project Authority RAG ratings on the Department's projects as at 30 September 2012

Status	Number of projects	Projects
	1	West Coast Rail Refranchise
	3	Shared Services Futures Project
		High Speed 2
		The Thameslink, Southern and Great Northern Rail Refranchise
	4	Great Western Rail Refranchise
		Driver and Vehicle Licensing Agency ICT contract procurement
		Search and Rescue Helicopters
		East Coast Rail Refranchise
	5	Thameslink
		Crossrail
		Intercity Express Programme
		Managed Motorways
		Greater Anglia Long Rail Refranchising
	4	Periodic Review 2013 (High Level Output Specification)
		M25 Design, Build, Finance, Operate
		Greater Anglia Short Rail Refranchise
		Olympic Transport Programme

Note

1 Major Projects Authority descriptions of why a particular status was awarded:
Red: Successful delivery of the project appears to be unachievable. There are major issues on project definition, schedule, budget, quality and/or benefits delivery, which at this stage do not appear to be manageable or resolvable. The project may need re-scoping and/or its overall viability reassessed.
Amber/Red: Successful delivery of the project is in doubt, with major risks or issues apparent in a number of key areas. Urgent action is needed to ensure these are addressed, and whether resolution is feasible.
Amber: Successful delivery appears feasible but significant issues already exist, requiring management attention. These appear resolvable at this stage and, if addressed promptly, should not present a cost/schedule overrun.
Green/Amber: Successful delivery appears probable; however, constant attention will be needed to ensure risks do not materialise into major issues threatening delivery.
Green: Successful delivery of the project to time, cost and quality appears highly likely and there are no major outstanding issues that at this stage appear to threaten delivery significantly.

Source: Government Major Projects Portfolio data, available at: www.gov.uk/government/publications/government-major-projects-portfolio-data-for-dft-2013

Figure 6

2012 Civil Service People Survey: Department for Transport (excluding agencies)

Theme	Score (% positive)[1]	Difference from 2011 Survey	Difference from civil service average 2012[2]
Leadership and managing change	41	-2	0
I feel that the Department as a whole is managed well	43	-2	0
Senior managers in the Department are sufficiently visible	59	0	+11
I believe the actions of senior managers are consistent with the Department's values	47	+1	+5
I believe that the departmental board has a clear vision for the future of the Department	35	-1	-5
Overall, I have confidence in the decisions made by the Department's senior managers	39	-3	0
I feel that change is managed well in the Department	27	-4	-2
When changes are made in the Department they are usually for the better	19	-2	-6
The Department keeps me informed about matters that affect me	63	-1	+7
I have the opportunity to contribute my views before decisions are made that affect me	35	-4	-1
I think it is safe to challenge the way things are done in the Department	43	-2	+3
Organisational objectives and purpose	78	+1	-4
I have a clear understanding of the Department's purpose	80	+1	-4
I have a clear understanding of the Department's objectives	74	0	-5
I understand how my work contributes to the Department's objectives	79	+3	-3

Notes

1 Percentage positive measures the proportion of respondents who selected either 'agree' or 'strongly agree' for a question.

2 The 2012 benchmark is the median per cent positive across all organisations that participated in the 2012 Civil Service People Survey.

Source: www.civilservice.gov.uk/about/improving/employee-engagement-in-the-civil-service/people-survey-2012

1.39 Eighty-eight per cent of staff in the core department responded to the survey,[20] giving a high level of confidence in the validity of the results. Fewer employees in 2012 were positive about the leadership and ability to manage change in the Department (43 per cent, down from 45 per cent). The results for eight out of ten statements were worse than in the 2011 survey. However, as last year, 59 per cent of employees felt that senior management/leaders were sufficiently visible, which is significantly higher than the 2012 Civil Service benchmark.

1.40 In the organisational objectives and purpose theme, fewer staff agreed or strongly agreed when responding to the questions on their understanding of the work of the Department and how they contributed to its goals, than was the average for the Civil Service. Furthermore, they were significantly less positive about the board having a clear vision for the future.

20 Excludes agencies.

Part Two

Recent NAO work on the Department

Our audit of the Department's accounts

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

2.2 The Department's group accounts were certified by the C&AG on 26 June 2013 with an unqualified opinion. We also issued unqualified opinions on the accounts of all of the Department's executive agencies, trading funds and non-departmental public bodies.

2.3 As part of our audits, we work with the Department and its sponsored bodies to improve the quality and transparency of published governance statements. We aim to ensure the processes by which statements are produced are robust and that the statements comply with HM Treasury guidance. The Governance Statement describes the central mechanisms and structures that the Department has operated during 2012-13 to help it identify and mitigate risks. In addition, each agency and non-departmental public body publishes their own governance statement as part of their annual report. The Department's Governance Statement covers the departmental group, but does not duplicate the information contained in other governance statements unless issues are of significance to all the organisations.

2.4 In the 2012-13 Governance Statement the Department describes how it has changed its governance arrangements following the cancellation of the InterCity West Coast franchise competition. The key changes are the:

- establishment of a new Rail Group headed by a new Director General for Rail (see Figure 1);
- appointment of a new Director of Rail Franchising, with rail industry experience, who reports to the Director General for Rail;

- development of a new Departmental Corporate Governance Framework to clarify the terms of reference, interrelations between boards and their working practices and an Analytical Assurance Framework to improve the quality of analysis in business models; and
- formation of a central team to develop a portfolio view of all programmes and projects within the Department.

2.5 The Lead Non-Executive Director's report highlighted that the Department still has a significant challenge to overcome if it is to deliver its major infrastructure and commercial programmes successfully. Namely, its ability to recruit and retain people in sufficient quantity and of sufficient quality to oversee projects like High Speed 2.

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

2.6 The NAO's work to test the effectiveness and value for money of government spending in 2012-13 included the examination of a number of transport programmes. We published:

- *Lessons from cancelling the InterCity West Coast franchise competition*;
- *High Speed 2: a review of early programme preparation*; and
- *Progress on the Thameslink Programme*.

2.7 In our report on the InterCity West Coast franchise competition we set out the chronology of events that led to its cancellation and commented on the wider lessons for the Department, by drawing on our knowledge of the Department and from our past reports. The safeguards against the Department making poor decisions (clear objectives, strong project and programme management, senior oversight, effective engagement with bidders and internal and external assurance) did not operate effectively in the refranchising process. Our report concluded:

- There was an eight-month delay in issuing the invitation to tender and even then it contained areas of uncertainty. For example, how the Department would calculate any capital needed from bidders (subordinated loan facility) and what the purpose of this facility was.
- There was more than one senior responsible owner during the competition and there was considerable turnover in senior Departmental staff.
- The Department did not conduct enough quality assurance on the model used to calculate the subordinated loan facility.
- Management took too much comfort from assurance processes that had a limited scope and ability to identify issues.

2.8 The subsequent report by the Committee of Public Accounts recommended that the Department:

- needs to put adherence to basic principles and processes at the core of how it does its business;
- needs to have a greater understanding of its risk appetite and of risk transfer to the industry and have tools to calculate that risk in place before starting a competition and give clear, consistent and transparent advice to bidders; and
- must ensure appropriate oversight of major projects by the Permanent Secretary and management team. It should review all of its senior responsible owners to make sure they have the right seniority, experience and expertise to oversee their project.

2.9 In our report on High Speed 2, we took an early look at the Department's progress in putting in place the foundations for successful programme delivery. Our conclusions were as follows:

- The cost and benefit estimates in the Department's economic case were uncertain. There were past errors in the underlying model and key data on business travellers' time, and passenger numbers and demand needed updating.
- In presenting its case for investment, the Department poorly articulated the strategic need for increased rail capacity and how High Speed 2 would help rebalance regional economic growth.
- The Department's timetable for introducing the hybrid bill for phase one to Parliament by October 2013 was overambitious. Even though this was revised to December 2013, we believed it would be challenging.
- We are concerned about the Department's capacity to undertake the programme alongside its other significant projects and initiatives. The Department's management and oversight of the programme needs further improvement.

2.10 The Committee of Public Accounts' report recommended that the Department should provide clear evidence as to why it considers High Speed 2 to be the best option for achieving its objectives. Also its decision on phase two, due by the end of 2014, should be based on up-to-date information and realistic assumptions, particularly on the benefits to business travellers. The members advised that the Permanent Secretary should assure himself that the Department and High Speed 2 Limited can deliver the Bill and the programme within the set timetables and to a high standard. Additionally, the Department should show how it will secure the right level of staff and mix of expertise to oversee the programme.

2.11 Our first report on Thameslink focused on the background to the programme, the Department's progress in delivering the infrastructure upgrades and the impact of delays in buying the new trains. We found:

- there is a robust transport case for the programme;
- the Department had done well to contain the infrastructure costs within the original budget of £3.55 billion (2006 prices). Planning was immature when the budget was approved, which meant significant additional effort was needed to control the project later on; and
- the award of the contract to buy new trains was delayed by more than three years, which adds complexity and risk to the delivery of the overall programme by 2018. The Department had not focused enough on managing the effect of the delays to the train procurement and on other elements of the programme.

2.12 The Committee of Public Accounts concluded that the Department needed a long term investment strategy built on a strong evidence base to help get projects up and running more quickly. It also concluded that the Department suffers from a shortage of strong management skills and was sceptical that the programme will be delivered by 2018. It recommended that the Department should:

- build sufficient, appropriate skills and plan for succession;
- focus on integrated planning and aligning decision-making across the different elements of complex programmes; and
- invest time and resources in developing its approach for considering the 'management-style contract' for the Thameslink franchise and to running the competition.

The Department in a cross-government context

2.13 In addition to our work on individual departments, the NAO increasingly looks at performance across government, in order to understand how different departments measure up on important issues. Of the cross-government reports we have published in the last year, three have included case studies on the Department and its agencies.

A snapshot of the use of Agile delivery in central government

2.14 This report[21] with 12 short case examples provides practical support for public sector organisations to meet the government's policy objectives to use Agile delivery[22] to improve the success of IT-enabled business change projects and make more public services digital. The Maritime and Coastguard Agency was running its programme to modernise HM Coastguard using Agile project management methods. It highlighted some actions which it believed demonstrated good practice:

- Breaking its overall requirement up into small deliverables, which allowed it to provide a number of usable services, including a new website and a national control room, very quickly.
- The programme team estimated the man hours required to complete each deliverable and it advertised for volunteers from the operational staff via its intranet. These staff were released for up to a maximum of one month to work solely on the project.

Submission of evidence: controls on regulation

2.15 We produced this report[23] for the Better Regulation Executive's review of controls on regulation. The Department was one of five case studies. We considered the effectiveness of departmental processes to support controls on regulation in a manner analogous with processes to support controls on public spending. The following good practice at the Department was highlighted in our report:

- The Department's board discussed the risk of adverse ratings from the Regulatory Policy Committee to achieving policy objectives. It also discussed whether post implementation reviews of particular regulations were necessary or if the resources in a time of spending constraint were better deployed on other activities. The discussions covered whether the Department has sufficient resources to properly appraise new policies, deal with Red Tape Challenge responses and transpose new European Union legislation effectively.
- The Better Regulation Reference Group, formed of policy leads representing all parts of the Department including its agencies, is used to disseminate and help implement better regulation across the Department.

21 Available at: www.nao.org.uk/report/a-snapshot-of-the-use-of-agile-delivery-in-central-government-4/
22 Agile delivery teams will develop a project in an iterative and incremental way. In each short phase a delivery team will build part of the system and test it. The delivery team gives priority to areas of high impact or value to the organisation to reduce the risk that it fails to deliver a usable system. At the end of each iteration there is a working product of a quality that the business could deploy and that users can definitely try. User feedback helps the delivery team to improve the functionality in the next and subsequent iterations, identify what more needs to be added to the system and the order of priority.
23 Comptroller and Auditor General, *Submission of evidence: controls on regulation*, National Audit Office, September 2012.

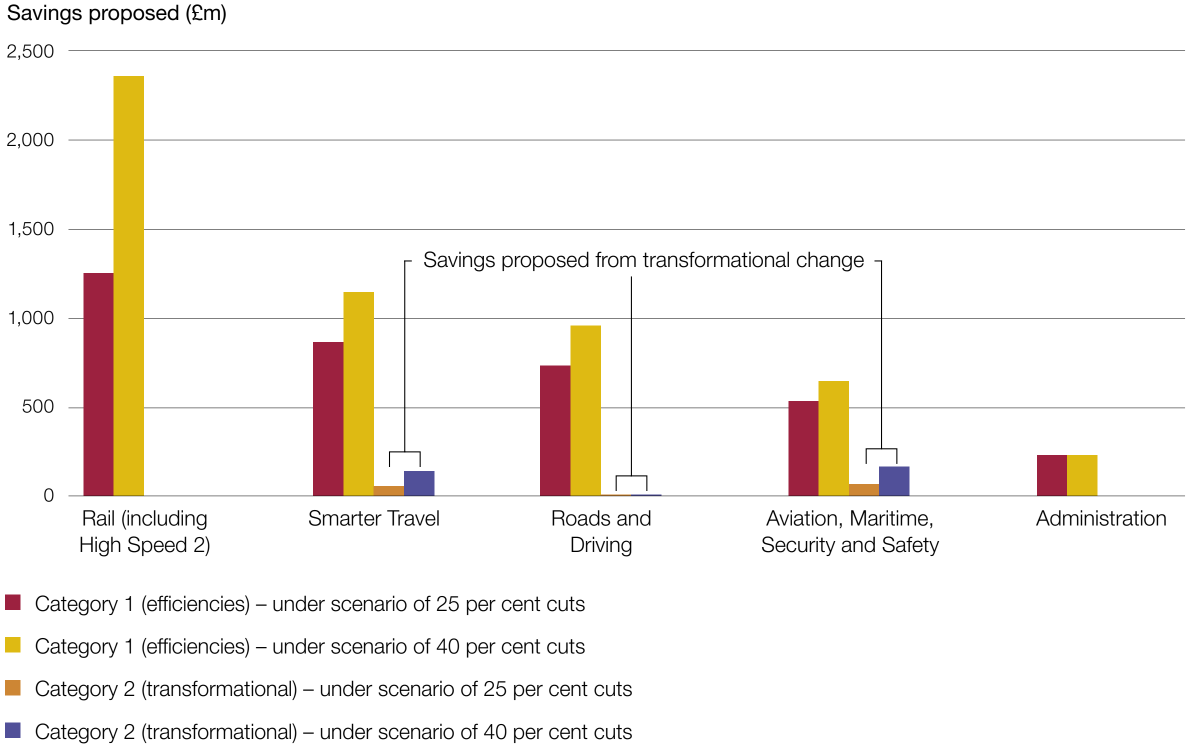
Managing budgeting in government

2.16 We examined how departments responded to HM Treasury guidance and developed their budgets, and assessed the processes and information behind the decisions. The Department was one of five case studies.[24]

2.17 We found that the Department, in its initial approach for comparing spending options across programmes, was the only one to prioritise by considering the key factors outlined in the *Green Book*, such as economic, environmental and social impacts and risk. The Department acknowledged that more could be done to draw on performance monitoring and evaluations to inform budgeting. Its submission to HM Treasury did include some fundamental reforms, which changed or reduced the existing role of the state to release savings (**Figure 7**), but more radical options were proposed in education and health.

Figure 7

Transformational resource spending proposals in the Department's Spending Review 2010 submission



Source: Comptroller and Auditor General, *Managing budgeting in government*, Session 2012-13, HC 597, National Audit Office, October 2012

24 Comptroller and Auditor General, *Managing budgeting in government*, Session 2012-13, HC 597, National Audit Office, October 2012.

2.18 Portfolio management remains in its infancy and the Department's budgeting focuses on specific transport modes. The Department has set up a Pipeline Management Group, which in considering funding for new programmes, receives combined high-level assessments of deliverability and value for money on different transport modes.

2.19 The cross-government reports on planning for economic infrastructure and civil service capability contain recommendations that have particular relevance to the Department.

Planning for economic infrastructure

2.20 In its 2012 National Infrastructure Plan, the government identified economic infrastructure projects with a value of £310 billion and the Department is committed to investing £70 billion over the next parliament. Our report,[25] considered the areas which departments need to pay particular attention to in order to manage the risks in planning for economic infrastructure. We recommended that:

- departments should subject demand forecasts that underpin infrastructure plans to rigorous testing, in particular to check their sensitivity to alternative realistic assumptions;
- government guarantees to attract private finance should give strong disincentives to call upon those guarantees;
- the Treasury, departments and regulators should work with private sector project sponsors to develop and use 'should cost' models and understand better the components of infrastructure costs; and
- the Treasury and departments should monitor the effectiveness of their various cost reduction efforts to establish what works best.

Building capability in the Senior Civil Service

2.21 We reported that there were significant skills gaps in the Senior Civil Service in 2011.[26] The government agreed that there was a need to change 'the culture and skill set' to broaden experience of senior leaders, especially in operational delivery, and it launched the Civil Service Reform Plan in response.

25 Comptroller and Auditor General, *Planning for economic infrastructure*, Session 2012-13, HC 595, National Audit Office, January 2013.
26 Comptroller and Auditor General, *Identifying and meeting central government's skills requirements*, Session 2010–2012, HC 1276, National Audit Office, July 2011.

2.22 In our follow-up report,[27] we concluded there are still significant skills gaps, particularly commercial skills, project and programme management, digital delivery and change leadership. Furthermore, we found that the reward offer to the Senior Civil Service lacked coherence, which raises the risk that skilled staff would leave when the economy improved, and could undermine the recruitment of people with specialist skills into Whitehall. In our reports on the West Coast Main Line franchise competition, Thameslink and High Speed 2, we also expressed concern about the Department's capacity to manage major projects.

NAO work in progress

2.23 Currently the NAO is working on the following studies which focus on the Department:

- *Maintenance for strategic infrastructure* – As a result of the 2010 Spending Review, significant cuts were made to maintenance budgets for the local and national road networks. We will examine whether the Department and the Highways Agency have delivered their planned savings of around £1.2 billion. We will look at the processes in place to keep road infrastructure in a serviceable condition and the whole-life cost of assets to a minimum. Also we will consider what lessons can be learned from the practices of local authorities and bodies in the transport, defence and energy sectors, which have responsibility for maintaining other existing strategic infrastructure.
- *Crossrail* – The Crossrail programme will deliver a new rail service connecting the City, Canary Wharf, the West End and Heathrow Airport to commuter areas east and west of London. We are examining the Department's role in the delivery of the Crossrail programme, including its co-sponsorship of the programme with Transport for London. We are also considering how the Department is managing its financial contribution to the Crossrail programme and will report on the current progress of the programme.
- *Getting value for money from PFI equipment contracts* – The Department is using PFI to finance, design, build and maintain new trains for the Thameslink and Intercity Express Programmes. These contracts are together worth around £11 billion. We will examine whether the Department is well placed to deliver value for money from the two deals. As part of the examination we will draw on comparisons with the Ministry of Defence's procurement of the Future Strategic Tanker Aircraft, a similarly large scale PFI availability contract, exploring common challenges in PFI availability procurements and identifying lessons for future projects.

27 Comptroller and Auditor General, *Building capability in the Senior Civil Service to meet today's challenges*, Session 2013-14, HC 129, National Audit Office, June 2013.

Part Three

Briefing on the reform of the motoring agencies

3.1 Currently four separate organisations carry out vehicle licensing, certification and driver testing (**Figure 8**), two of which are trading funds (Driving Standards Agency and Vehicle and Operator Services Agency).[28] From 13 December 2012 to 7 March 2013 the Department ran a consultation on its motoring services strategy,[29] asking for views on proposed reforms to reduce cost and improve the consistency of services including:

- rationalising the number of agencies;
- increasing digital services; and
- supporting economic growth and vehicle manufacturing.

Rationalising the number of motoring agencies

3.2 The Department's stated aim was to simplify and streamline what the motoring agencies do and how they do it. It thought it could increase the sharing of back-office functions and the estate, as well as bringing common motoring services together, such as licensing and approvals; testing; training; the provision of contact centres, advice and information; and the setting of standards.

3.3 On 20 June 2013, the Rt. Hon Stephen Hammond MP announced[30] that the Vehicle and Operator Services Agency (VOSA) and the Driving Standards Agency (DSA) would be merged. The government hopes that a single agency will make it easier for individuals and businesses to access information and services, reducing the administrative burden for them and cutting the fees they are charged. On 28 November 2013, the Transport Minister Robert Goodwill announced that the new agency will be called the Driver and Vehicle Standards Agency.

28 A trading fund is set up where an organisation's income will consist principally of receipts from the goods and services it provides, and where HM Treasury is satisfied that establishing it will lead to "improved efficiency and effectiveness in management of operations". It has to break even and will often have to achieve a target for a rate of return on the taxpayers' capital used by the business.

29 Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/36528/consultation-document.pdf

30 Available at: www.gov.uk/government/speeches/dft-motoring-services-strategy

Figure 8

Performance of the motoring agencies in 2012-13

Agency	Remit	Level of activity	Number of online services	Efficiency savings (Target)	Financial performance (Target)
Vehicle and Operator Services Agency	To improve road safety by ensuring drivers, vehicle operators and MOT garages comply with roadworthiness standards. It oversees the MOT scheme, annual testing of lorries, buses and trailers and the regulation of local bus services. It also provides a range of vehicle licensing and enforcement services.	702,541 lorry and bus tests 144,472 vehicle enforcement checks 28.5 million MOT tests	6 out of 11	Around £3.6 million (£1.4 million)	Trading surplus of £13.9 million[1] (£7 million) Return on capital employed at 22.3 per cent, dividends of £424,000 to the Department – first dividend since 2001-02
Driving Standards Agency	To improve road safety by setting standards for driving and motorcycling, and for the education and training of drivers and riders. To carry out theory and practical driving and riding tests.	1.7 million practical tests 1.5 million theory tests	All 12	£5 million (£2 million)	Trading surplus of £1.4 million (£2 million) Return on capital employed 13 per cent, dividends of £786,000 to the Department
Driver and Vehicle Licensing Agency	To maintain registers of drivers and vehicles in the UK. With this information it aims to help improve road safety, reduce vehicle related crime, support environmental initiatives and limit vehicle tax evasion.	97,424,000 transactions related to vehicles 15,197,000 transactions for drivers	14 out of 38	Additional in year savings of £8.6 million (£5.75 million)	Fees surplus of £10.9 million (break even)
Vehicle Certification Agency	As the UK Type Approval Authority for new road vehicles, agricultural tractors, off-road vehicles, systems and components, it is responsible for approving that products have been designed and constructed to meet European and internationally agreed standards of safety and environmental protection. To certify that automotive industry management systems are designed to ensure the quality of products and minimise the impact on the environment.	Not stated	None	£183,000 (£150,000)	Fees surplus of £451,000 (£150,000)

Note

1 In 2009-10, the Vehicle and Operator Services Agency's general fund deficit reached its peak at £46.6 million. It had to restructure its business in 2010-11 and aimed to recover the deficit within five years. The deficit in 2012-13 was £3.1 million.

Source: Department for Transport agency annual reports and accounts. VOSA Annual report 12/13, available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/209482/vosa-annual-report-and-accounts-2012-2013.pdf. DSA Annual report 12/13, available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/209387/2012-13_ARA.pdf. DVLA Annual report 12/13, available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/209297/DVLA_Annual_Report_2012-13.pdf. VCA Annual report 12/13, available at: www.dft.gov.uk/vca/additional/files/general-information/vca-annual-report/2012-2013-annual-report.pdf

3.4 Demand for DSA theory and practical car tests and VOSA statutory testing services fell by 8.3 per cent and 11 per cent respectively since 2010-11. Both agencies have claimed efficiency savings since the Spending Review 2010 (**Figure 9**). Some key efficiencies include:

- Year on year DSA increased the take-up of its digital services, rising from 74 per cent of customers booking a test electronically in 2009-10 to 87 per cent in 2012-13. This has enabled it to review the opening hours of its contact centre and reduce costs. It has a number of ongoing initiatives including lowering staff sickness absence, increasing examiner productivity, reducing the organisation's carbon footprint and working with suppliers to increase value for money. Furthermore since 2011, DSA has reviewed its structure, particularly for administration and area offices, and how it can provide more convenient locations for tests for the customers. DSA has announced plans for partnership agreements with two companies and one public sector organisation to use their sites for tests, at no additional cost to itself.

- Under its Testing Transformation Programme VOSA aimed to provide facilities that were easier for customers to use, closer to them and available at the right times. Since 2009, VOSA has closed 24 of its own sites and increased the volume of tests performed at private sites from 27 per cent to 55 per cent in 2012-13. In addition to centralising administration and call centre services, VOSA had to restructure the business to reduce its retained deficit in 2010-11. VOSA's other ongoing efficiency initiatives include working with IT partners to reduce costs. In 2011-12, it moved to the pan-government procurement system for office and computer consumables, vehicle hire and travel and applied Lean methods for the continuous improvement of its processes.

3.5 There is scope to share more back-office functions such as human resources, finance and IT. DSA has used the Department's shared service centre since 2007 and VOSA is currently preparing to move over to the newly created independent shared service centre. However, with the large information and communications technology (ICT) contracts for DSA and VOSA coming to an end, the Department expects to be using a multi-source model involving more, smaller providers, which may require significant procurement and contract management expertise and resources. The Department believes that this model will enable it to open up the ICT market to drive competition; replace underperforming suppliers; use flexible and iterative (Agile) approaches to developing systems and move off legacy platforms.

3.6 The Department authorised the establishment of a shadow board for the new organisation and as of July 2013 the Chief Executive of DSA stood down. The Chief Executive of VOSA, Alastair Peoples, has started to oversee the transitional phase and he will also lead the new organisation. The new agency will continue to report as two separate entities until at least July 2014.

Figure 9

Vehicle and Operator Services Agency and Driving Standards Agency efficiency savings 2009–2013

Agency	Financial year	Efficiency saving	Description
Driving Standards Agency	2009-10	£6.1 million	Increased examiner productivity. Growth in internet bookings. Reduced administrative staff sickness absence. Renegotiated theory test and IT contracts to cut costs.
	2010-11	£10.8 million	Restrictions on expenditure led to the introduction of new ways of working.
	2011-12	Around £2.8 million	Negotiated new facilities management contract, with savings from September. New publishing contract.
	2012-13	£5 million	Full implementation of a new facilities management contract.
Vehicle and Operator Services Agency	2009-10	£8.7 million	Increasing take-up of electronic services. Using fixed penalties instead of prosecution.
	2010-11	£11.3 million	More efficient deployment of staff.
	2011-12	Exceeded target of £1.2 million	Changed printing for MOT documentation.
	2012-13	Around £3.6 million	Lower rents, partly due to office relocations. Reduced equipment maintenance costs in line with less heavy testing.

Source: Vehicle and Operator Services Agency and Driving Standards Agency annual reports from 2009-10 to 2012-13

Increasing digital services

3.7 As well as the motoring agencies there are 18 other public bodies that deliver transport services. Together these bodies provide over 30 transactions and enquiry services direct to the customer, which range from timetabling and real-time service updates, to car taxation and licensing and booking driving tests. This presents the Department with a number of opportunities for digitisation.

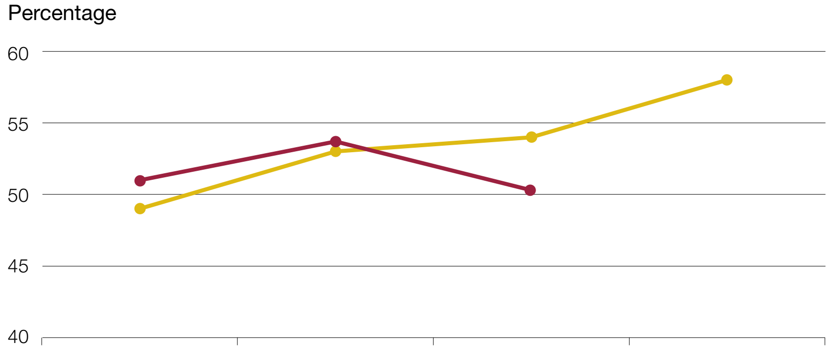
3.8 The motoring agencies are good examples of where the Department is already delivering its services online. DSA for instance started making its operations digital in the early 2000s and all of its significant services are now online. It was one of the first central government organisations to move its corporate and policy content on to the gov.uk website. DSA intends to become a fully digital organisation by March 2015, closing its contact centre and replacing it with a smaller assisted digital service.[31] Also it will trial the use of mobile devices to record and transmit the results of driving tests, which will remove the need for examiners to use clipboards and paper.

3.9 The Driver and Vehicle Licensing Agency (DVLA) conducted its first electronic transaction ten years ago and since 1 April 2010, it reports that it has saved £4.3 million by shifting from manual methods to electronic services. It increased use of its online driver and vehicle services year on year, but take-up is now levelling off (**Figure 10**). The government has published evidence that services with just 20 per cent digital uptake can increase usage to 80 per cent within three to five years, but the DVLA target to achieve this level of usage is March 2020.

3.10 DVLA's business is highly transactional – it processes 90 per cent of all the card payments made to government. Consequently it is very reliant on effective technology systems. Some of the ICT dates back to the 1970s, is highly complex, having many internal and external integration points, and duplicates functionality. For example, seven systems currently have a module for collecting address information. **Figure 11** shows some of the services offered by DVLA and the resulting level of public interactions and records this creates.

Figure 10

Driver and Vehicle Licensing Agency online vehicle and driver transactions 2010-11 to 2013-14



	2010-11	2011-12	2012-13	2013-14
Actual	51.0	53.7	50.3	
Target	49.0	53.0	54.0	58.8

Source: Driver and Vehicle Licensing Agency annual report and accounts

31 Someone either inputs the data on the person's behalf or helps them to use the digital service.

Figure 11

Business complexity in the Driver and Vehicle Licensing Agency

Customers

- Public
- Businesses
- **Government**
  - Other Department for Transport agencies
  - Local Authorities
  - Police Forces
  - Other government departments
  - HM Passport Office
  - HM Courts and Tribunals Service
- Post Office
- Insurance companies

2,500 users of internal systems

Channels

- Face to face (offices)
- Post
- Telephone (contact centres)
- Electronic file transfer
- Email
- Self-service (web access)

Around 22 million phone calls, at least 38 million online and 38 million third party electronic transactions

Services

- Driving licenses – replacement, renewal and enquiries
- Vehicles – registration, document replacement, tax and enquiries
- Number plates – sales and transfers
- Other transactions

Processes

- Manual input
- Incoming post
- Printing
- Payment transactions
- Enforcement
- Investigations

Around 10.1 million driving licenses and 17.6 million vehicle registration documents issued. Around £6 billion tax collected and 179,000 fixed penalty notices issued

Technology

- Driver front end systems
- Driver legacy systems
- Vehicle front end systems
- Vehicle legacy systems
- Legacy systems
- Casework systems
- Other systems

Data

Two data centres owned by DVLA

- Drivers
- Vehicles
- Scanned and microfilm images

45 million driver records, 37 million vehicle records and at least 1.2 billion images

Source: National Audit Office analysis of Driver and Vehicle Licensing Agency systems and processes

3.11 Under the Government Digital Strategy, the Department has to complete the redesign of three public services by March 2015. The Department has chosen three significant services in DVLA for its 'exemplar' digital projects,[32] which we describe in **Figure 12**.

3.12 Following the Department's commitment to maximise online motoring services and its support for those who do not access digital services, on 8 October 2013, it announced a review of the DVLA's current operations and the services offered.[33] Mary Reilly led the three month review.

Supporting economic growth and vehicle manufacturing

3.13 The Vehicle Certification Agency (VCA) provides services to the public and private sectors. At least three-quarters of the VCA's income comes from fees charged to vehicle and component manufacturers and it competes with the European public sector and international private sector providers for this certification business. For the UK government, its work includes approving packages for the carriage of dangerous goods and enforcing statutory instrument directives including those on noise and gaseous emissions.

Figure 12

Redesigning transactional services to meet the government's aim to be 'digital by default'

Project	Usage	Summary
Viewing driver's records	2 billion enquiries a year	A new enquiry service to enable drivers to view information from their records, including what vehicles they can drive and any penalty points and disqualifications. Motor insurers will also be able to access data to check insurance applications.
Vehicle management	17 million transactions annually	Currently when a customer sells or disposes of a vehicle, the log book needs to be posted to DVLA to be updated. In future, customers will be able to do this online by themselves or through an intermediary.
Personalised registrations	1 million transactions annually	Applications to transfer or apply for a number plate will be done online, rather than through a DVLA office.

Source: Department for Transport Digital Strategy, December 2012. Available at: www.gov.uk/transformation

32 There are a total of 25 projects across government which should demonstrate the benefits of increased digitisation.
33 Available at: www.gov.uk/government/speeches/a-review-of-the-driver-and-vehicle-licensing-agency

3.14 Since 2009-10, there has been a downturn in the global automotive industry. As a result of the Spending Review 2010, the VCA's revenue from departments has decreased from almost a third of total income in 2009-10, to less than a fifth in 2012-13. The VCA has stated that it has focused on controlling its costs, retaining established customers and winning new work to combat this tight economic situation.

3.15 It has reported efficiencies from increased productivity and savings from restructuring, procurement, IT and back-office functions, while increasing its income from commercial activities year on year. **Figure 13** shows its results for the last four years. The VCA has also continued to exceed the Secretary of State's targets to achieve a minimum surplus of £50,000 (on full cost basis) per annum. In 2012-13, it recorded a surplus of £451,000, against a target of £150,000. The VCA however, did not meet its goal to break even from its management systems certification business.

3.16 The UK office generates the majority of the VCA's income. In 2012-13, it reported a high demand for Type Approval services from UK small and medium-sized enterprises, but the growth in work for the office has come from China. Revenues from this region were 25 per cent greater than in 2011-12.

3.17 After its consultation on the motoring agencies, the Department investigated new commercial business models for the VCA, including mutualisation, joint venture and outsourcing. On 11 July 2013, the Department announced that it intends to seek a private sector partner with which it can form a joint venture to grow the VCA and help it contribute to the wider UK economy, while maintaining service quality.[34]

Figure 13

Vehicle Certification Agency's operating performance

	2009-10	2010-11	2011-12	2012-13
Efficiency savings (£000)	figure not stated	770	270	183
Income (£000)	14,013	15,892	15,167	15,792
Surplus (£000)	865	1,405	262	451
Percentage surplus	6.2%	8.8%	1.7%	2.9%

Source: Vehicle Certification Agency annual report and accounts

34 Available at: www.gov.uk/government/news/improving-services-for-motorists; www.gov.uk/government/news/new-commercial-model-for-the-vehicle-certification-agency

Appendix One

The Department for Transport Group at 1 April 2013 (for accounting purposes)

Bodies reported within the Department's own accounts

Advisory non-departmental public bodies:

Disabled Person's Transport Advisory Committee

Executive non-departmental public bodies

Railway Heritage Committee – closed 31 March 2013, with its powers transferred to the Board of Trustees of the Science Museum

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

Executive agencies:

Driver and Vehicle Licensing Agency

Government Car and Despatch Agency – closed 30 September 2012 and integrated into the Department

Highways Agency

Maritime and Coastguard Agency

Vehicle Certification Agency

Executive non-departmental public bodies:

British Transport Police Authority

Directly Operated Railways Limited

HS2 Limited

Passenger Focus

Other entities:

London and Continental Railways Limited

Channel Tunnel Section 1 Finance PLC

Air Travel Trust Fund – included for the first time because airline passenger duty was classed by the Office for National Statistics as a tax

London and Continental Railway Finance PLC

Bodies outside the Department's accounting boundary

Tribunal non-departmental public bodies:

Traffic Commissioners and Licensing Authority (Traffic areas) – reported in the accounts of the Vehicle and Operator Services Agency

Trading funds:

Driving Standards Agency

Vehicle and Operator Services Agency

Public corporations:

Aberdeen Harbour Trust

British Railways Board (Residuary) Limited – abolished 30 September 2013, with its functions, properties, rights and liabilities transferred to a combination of the Secretary of State for Transport, London and Continental Railways Limited, Network Rail and the Rail Safety and Standards Board

Civil Aviation Authority

Dover Harbour Board

East Coast Main Line Limited

Eurostar International Limited

General Lighthouse Fund, incorporating:

- Commissioner for Irish Lights
- Northern Lighthouse Board[1]
- Trinity House Lighthouse Services[1]

ITSO Limited (formerly the Integrated Transport Smartcard Organisation)

ITSO Services Limited

Milford Haven Port Authority

Poole Harbour Commissioners

Port of London Authority

Port of Tyne Authority

Shoreham Port Authority

Other entities:

Crossrail Complaints Commissioner

Marine and Aviation Insurance (War Risks) Fund

NATS Holding Limited (formerly National Air Traffic Services)

Network Rail Limited

Office for Rail Regulation

Note

1 Also recognised as executive non-departmental public bodies.

Appendix Two

Results of the Civil Service People Survey 2012

Question scores (% strongly agree or agree)	Civil service overall	Department for Business, Innovation & Skills (excluding agencies)
Leadership and managing change		
I feel that the Department as a whole is managed well	**43**	39
Senior civil servants in the Department are sufficiently visible	**48**	51
I believe the actions of senior civil servants are consistent with the Department's values	**42**	40
I believe that the departmental board has a clear vision for the future of the Department	**40**	41
Overall, I have confidence in the decisions made by the Department's senior civil servants	**39**	37
I feel that change is managed well in the Department	**29**	26
When changes are made in the Department they are usually for the better	**25**	19
The Department keeps me informed about matters that affect me	**56**	59
I have the opportunity to contribute my views before decisions are made that affect me	**36**	31
I think it is safe to challenge the way things are done in the Department	**40**	37
Organisational objectives and purpose		
I have a clear understanding of the Department's purpose	**84**	81
I have a clear understanding of the Department's objectives	**79**	74
I understand how my work contributes to the Department's objectives	**82**	79

Note

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

Source: *Civil Service People Survey 2012*, available at: www.civilservice.gov.uk/about/improving/employee-engagement-in-the-civil-service/people-survey-2012, accessed 28 August 2013

Cabinet Office (excluding agencies)	Department for Communities and Local Government (excluding agencies)	Department for Culture, Media & Sport (excluding agencies)	Ministry of Defence (excluding agencies)	Department for Education	Department of Energy & Climate Change	Department for Environment, Food & Rural Affairs (excluding agencies)	Foreign & Commonwealth Office (excluding agencies)	Department of Health (excluding agencies)	HM Revenue & Customs (excluding agencies)	HM Treasury	Home Office (excluding agencies)	Department for International Development	Ministry of Justice (excluding agencies)	Department for Transport (excluding agencies)	Department for Work & Pensions (excluding agencies)
38	31	23	19	39	39	29	56	31	21	62	39	63	48	43	29
47	45	37	26	46	64	42	59	47	33	71	48	71	56	59	30
40	33	23	24	39	47	34	55	39	27	59	40	62	47	47	29
29	31	29	22	31	27	22	54	24	24	47	28	64	37	35	30
40	30	18	16	35	42	29	50	33	19	57	35	58	43	39	23
28	22	19	11	27	27	19	42	18	17	49	23	44	34	27	24
22	14	12	9	17	25	14	36	14	14	35	18	32	29	19	20
57	54	56	41	55	67	56	62	49	40	72	60	69	61	63	46
34	32	32	20	37	39	31	42	30	20	48	33	50	37	35	23
41	29	32	30	36	43	37	45	31	29	54	38	44	41	43	33
73	67	64	80	83	87	74	83	68	75	86	84	94	79	80	79
63	63	62	72	77	84	70	80	62	72	80	80	92	73	74	77
73	72	70	76	80	86	75	84	69	75	82	81	91	77	79	78

Appendix Three

Publications by the NAO on the Department since August 2012

Publication date	Report title	HC number	Parliamentary Session
5 June 2013	Progress in delivering the Thameslink programme	HC 227	2013-14
16 May 2013	High Speed 2: A review of early programme preparation	HC 124	2013-14
7 December 2012	Lessons from cancelling the InterCity West Coast Franchise competition	HC 796	2012-13
25 October 2012	Funding for local transport: an overview	HC 629	2012-13
September 2012	Departmental Overview: A summary of the NAO's work on the Department for Transport 2011-12	www.nao.org.uk/report/departmental-overview-a-summary-of-the-naos-work-on-the-department-for-transport-2011-12/	

Appendix Four

Cross-government reports of relevance to the Department published since August 2012

Publication date	Report title	HC number	Parliamentary Session
September 2013	2012-13 review of the data systems for the Department for Transport	www.nao.org.uk/wp-content/uploads/2013/07/009877-014_DfT_Information-assurance-summary.pdf	
18 July 2013	Charges for customer telephone lines	HC 541	2013-14
12 July 2013	Government interventions to support retirement incomes	HC 536	2013-14
8 July 2013	The 2012-13 savings reported by the Efficiency and Reform Group	HC 126	2013-14
21 June 2013	Confidentiality clauses and special severance payments	HC 130	2013-14
19 June 2013	Building capability in Senior Civil Service to meet today's challenges	HC 129	2013-14
13 June 2013	Financial management in government	HC 131	2013-14
April 2013	Fact sheet: Recent developments in government internal audit and assurance	www.nao.org.uk/wp-content/uploads/2013/04/Recent-developments-in-internal-audit-spring-2013.pdf	
17 April 2013	The Efficiency and Reform Group	HC 956	2012-13
13 March 2013	Integration across government	HC 1041	2012-13
February 2013	Sustainable procurement in government	www.nao.org.uk/wp-content/uploads/2013/03/EAC_briefing_sustainable_procurement_government.pdf	
27 February 2013	Improving government procurement	HC 996	2012-13
16 January 2013	Planning for economic infrastructure	HC 595	2012-13
December 2012	NAO briefing: Sustainability reporting in government	www.nao.org.uk/wp-content/uploads/2013/03/EAC_briefing_sustainability_reporting_government.pdf	

Publication date	Report title	HC number	Parliamentary Session
5 December 2012	The London 2012 Olympic games and Paralympic games: post-games review	HC 794	2012-13
18 October 2012	Managing budgeting in government	HC 597	2012-13
September 2012	Submission of evidence: controls on regulation	www.nao.org.uk/wp-content/uploads/2012/09/controls_on_regulation_2012.pdf	
September 2012	A snapshot of the use of Agile delivery in central government	www.nao.org.uk/report/a-snapshot-of-the-use-of-agile-delivery-in-central-government-4	

Where to find out more

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

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Design and Production by
NAO Communications
DP Ref: 10325-001
Printed by SLS Print

National Audit Office