National Audit Office

Department for Transport Departmental financial overview 2020-21

REPORT

by the National Audit Office

DECEMBER 2021

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Contents

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What this guide is about

About this guide

We have prepared this guide as a summary of key information and insights that can be taken from the annual reports and accounts of the Department for Transport (the Department) and related bodies in the sector. The Department spent just over £42 billion in 2020-21 to support the UK's transport network.

The guide includes:

- how the Department is structured and where it spends its money;
- how the accounts of the Department and its related bodies are consolidated;
- what information is included in the published annual reports and accounts for the organisations in the Departmental Group;
- the C&AG's audit opinion on the Department's accounts;
- some highlights that draw out key areas of interest in the accounts; and
- an overview of the financial implications of the COVID-19 pandemic and future spending commitments for the Department.

This report updates our previous overview, *Departmental Overview 2019-20: Department for Transport*, published in December 2020.

How we have prepared this guide

The information in this guide draws on the findings and recommendations from our financial audit programme of work and from publicly available sources, including the annual report and accounts of the Department and its bodies. We have cited these sources throughout the guide to enable readers to seek further information if required, as well as including any appropriate notes to help the reader understand our analysis.

Other relevant publications

More information about our work on the transport sector, major project delivery and the government's response to the COVID-19 pandemic, as well as information about our other recent and upcoming reports, can be found on the National Audit Office (NAO) website.

More information about central government accounting and reporting

You may also be interested in our interactive guide to *Good practice in annual reporting* (February 2021), which sets out good-practice principles for annual reporting and provides illustrative examples taken from public sector organisations who are leading the way in this area.

About the Department

The Department for Transport (the Department) works with its agencies and other bodies (**Figure 1**) to support the UK transport network that helps people and goods travel around the country. It plans and invests in transport infrastructure to keep the UK on the move. The Department governs the operation of the English transport network and maintains limited powers for Scotland, Wales and Northern Ireland, where devolved powers are in place.

In most cases, the Department sets policy and investment priorities and provides guidance, although the Department's responsibilities vary for different modes of transport. For example, it is responsible for managing the rail infrastructure and the motorway and trunk road networks through its bodies (Network Rail and National Highways), but not for aviation or shipping infrastructure. The Department also oversees and supports the development of high-speed rail, road and other major infrastructure projects.

In response to the COVID-19 pandemic, the Department's role has been changing. It has, for example, been providing additional funding and making regulatory changes, to ensure services continue for essential journeys and to support the transport sector more widely.

The Department's priorities

As agreed at Spending Review 2021, the Department's priority outcomes are:

- **improving connectivity** across the UK and growing the economy through enhancements to the transport network. We set out the Department's spending on its major projects overall on page 21 and for High Speed Two on page 24;
- **building confidence** in the transport network as the country recovers from the COVID-19 pandemic and improving transport users' experience. We set out the cost of the Department's response to COVID-19 during 2020-21 on page 17 and the changes being made to rail passenger services on page 19; and
- **tackling climate change** and improving air quality by decarbonising transport. We outline the Department's decarbonisation plans on page 27.

The Department also has an additional priority outcome to increase the global impact of the UK.

Figure 1

The structure of the Department for Transport as at March 2021

The Department for Transport is overseen by the Secretary of State, ministers and a Permanent Secretary. It is composed of five central groups, each led by a director-general

Secretary of State and ministers

Permanent Secretary

Roads, Places and Environment Group

Leads on driving and road-related matters.

Manages relationships with local government.

Leads on environment and technology policy.

- Office for Zero Emission Vehicles
- Centre for Connected and Autonomous Vehicles
- Disabled Persons' Transport Advisory Committee
- Cycling and Walking Investment Strategy Group
- Advisory Group on Education in Transport
- DfT Science Advisory Council
- Driver and Vehicle Licensing Agency
- Vehicle Certification Agency
- Highways England[1]
- Driver and Vehicle Standards Agency

Rail Group

Leads on overall strategy for rail, working with Network Rail on major rail projects and supports the provision of passenger rail services.

- Rail Strategy Advisory Board
- Network Rail
- Train Fleet (2019) Ltd.
- Directly Operated Railways Ltd.
- British Transport Police Authority
- Transport Focus (and its subsidiaries)
- DfT OLR Holdings Ltd.
- London and Continental Railways Ltd.
- London and North Eastern Railway Ltd.
- Northern Trains Ltd.
- Office of Rail and Road

Aviation, Maritime, International and Security Group

Leads on aviation, maritime, safety and security, and departure from the EU.

Includes the independent investigation branches.

- Air Insolvency Review
- Independent Commission on Civil Aviation Noise
- Air Accidents Investigation Branch
- Marine Accidents Investigation Branch
- Rail Accidents Investigation Branch
- Air Travel Trust Fund
- Maritime and Coastguard Agency
- Air Safety Support International Ltd.
- Trinity House Lighthouse Service
- Northern Lighthouse Board
- Commissioners of Irish Lights
- Civil Aviation Authority
- Trust Ports

High Speed Rail Group

Responsible for overseeing the High Speed Two programme.

Supports the development of major projects.

- High Speed Two (HS2) Ltd.
- East West Railway Company Ltd.

Corporate Delivery Group

Leads on corporate activities.

Manages the corporate governance relationship with Network Rail, HS2 Ltd and Highways England.

- LCR Finance plc
- CTRL Section 1 Finance plc
- Crossrail International Ltd.

- Central Department and other entities accounted for with the Central Department
- Consolidated Departmental group
- Wider Departmental family (not consolidated in the Department's accounts)

Note

1 Highways England was renamed National Highways in August 2021.

Source: National Audit Office analysis of the Department for Transport's Annual Report and Accounts, 2020-21

Changes to the Department's structure since April 2021

Since the financial year-end, there have been changes to which bodies are part of the Department's group or wider family. A new government-owned Operator of Last Resort company, SE Trains Limited, joined the wider Departmental family following the termination of the Department's contract with London & South Eastern Railway Limited in October 2021. Additionally, from April 2021, the Driver and Vehicle Standards Agency (DVSA) will be consolidated into the Departmental group following a decision by the Office for National Statistics to re-classify DVSA as a central government entity.

The Department has also made changes to how it is organised. In October 2021, the Department announced that it would create a second permanent secretary role to act as a single point of leadership for cross-cutting challenges. As the Department is organised into groups around modes of transport, this new role will be responsible for ensuring that each group delivers on decarbonisation and other converging themes such as cross-UK connectivity, levelling up and technological change.

Additionally, the Department's structure has been expanded to six central groups, each covering a specific policy area. The previous Rail Group has been split into a Rail Strategy and Services Group and a Rail Infrastructure Group, with the former responsible for rail policy and passenger services and the latter responsible for supervising non-High Speed Two enhancements. This change was announced in December 2020 and was formally implemented for accountability purposes from April 2021.

Where the Department spends its money

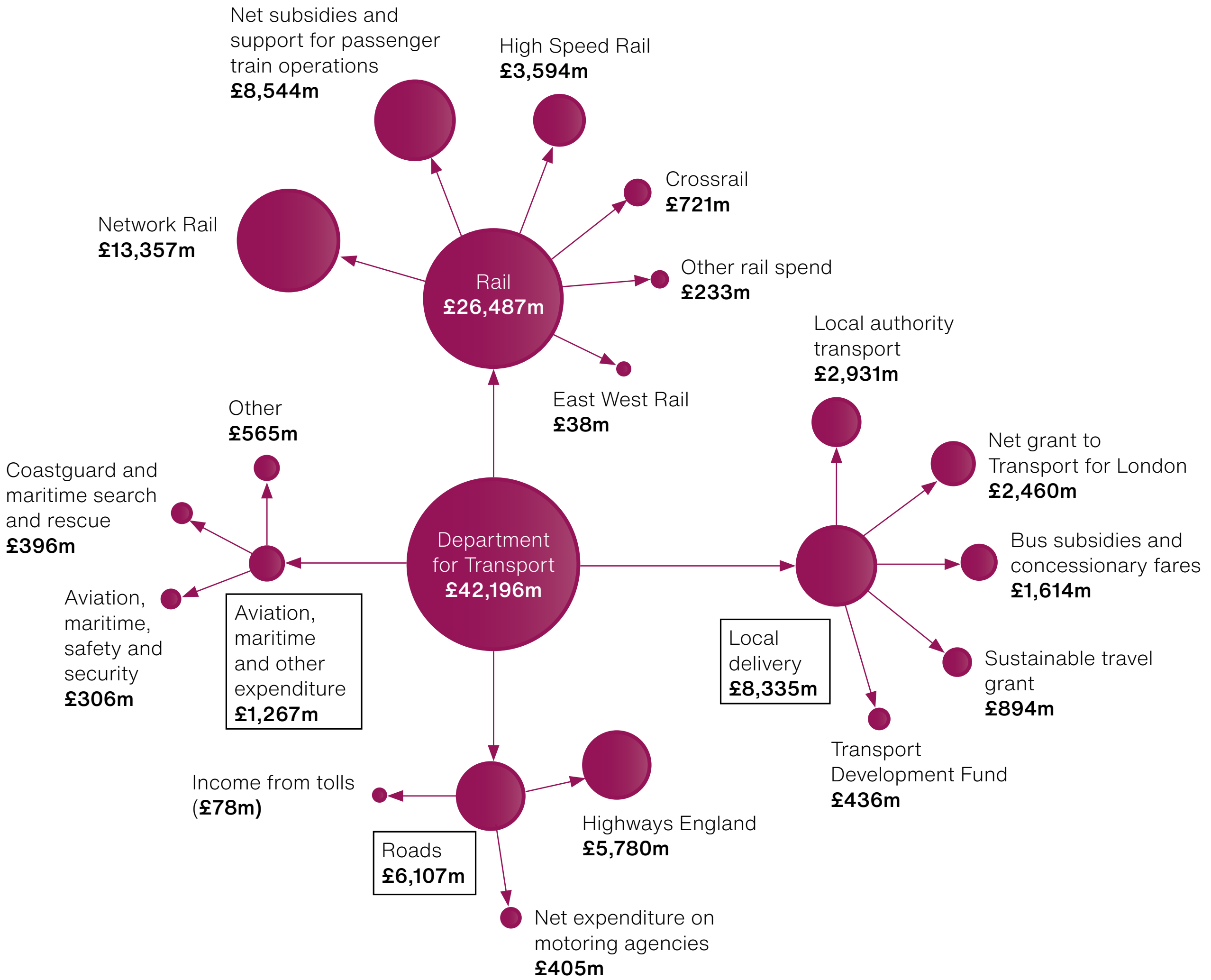
In 2020-21, the Department's overall (net) spend was £42.2 billion (**Figure 2** overleaf). As was the case in prior years, the Department's largest area of expenditure is on the rail sector, the majority of which was on rail infrastructure management and enhancements delivered through Network Rail (£13.4 billion), and high-speed rail (£3.6 billion). This year, however, the Department also spent £8.5 billion on support to passenger train operators on the national network as part of its response to the COVID-19 pandemic. This contributed to a 46% (£8.3 billion) increase in spending on the rail sector in real terms compared with the prior year.

The Department's other main areas of spend were strategic road management and enhancements in England through Highways England (now National Highways – £5.8 billion), and funding to local authorities in England for their management of local transport including roadbuilding (£2.9 billion), as well as bus subsidies and concessionary fares (£1.6 billion). The Department also made exceptional grant support to Transport for London (£2.5 billion) as a result of the pandemic, having spent only £17 million in 2019-20. More details on changes in the Department's spend can be found on page 11.

In 2020-21, the Department also received £5.6 billion in income, reflected in the net spend described above. This includes Network Rail's track access charges (£2.8 billion), fees for services principally provided by the motoring agencies (£0.7 billion), and payments to Network Rail for infrastructure works by devolved administrations (£0.6 billion).

Figure 2
Department for Transport's net spend in 2020-21

The Department for Transport's net spend in 2020-21 was just over £42 billion



Notes

1 In the figure, spend is proportional to the area of the bubble.

2 Figures are based on total combined resource and capital spend in the Department for Transport's (the Department) Statement of Parliamentary Supply. In respect of road and rail infrastructure, this basis includes both the depreciation expense of £6,905 million and the actual cost of maintaining and renewing these networks.

3 All figures are net of income. In addition to the figures presented, the Department generated £458 million which it was required to pass straight to the centre of government, including £262 million of one-off rail franchise termination payments.

4 High Speed Rail includes capital and resource spending by High Speed Two (HS2) Ltd of £3,362 million.

5 Other expenditure includes central administration costs (£355 million), funding of other arm's-length bodies (£179 million), and science, research and support functions (£31 million).

6 Local authority transport funding is a mix of non-ringfenced funding that authorities can spend as they consider best, including on non-transport-related activities or grants allocated for specific transport or local growth projects.

7 Highways England was renamed National Highways in August 2021.

8 Full notes on these figures can be found in the Department's Annual Report and Accounts 2020-21.

Source: Department for Transport Annual Report and Accounts 2020-21

The Department's recent and planned expenditure

The Department's net spend increased substantially to £42.2 billion in 2020-21, a 44% (£12.8 billion) increase in real terms compared with 2019-20 (**Figure 3** overleaf). The Department increased its expenditure to respond to the COVID-19 pandemic, spending around £13 billion on this in 2020-21. This spend included the costs of financial support for rail passenger services, bus service operators and Transport for London (TfL) following the significant reduction in transport usage across the country, but also to compensate for the loss of income from Eurotunnel and the Driver and Vehicle Standards Agency's services. More details on the cost of the Department's response to the COVID-19 pandemic can be found on page 17.

The Department also increased its spending in other areas. The Department spent:

- £2.7 billion on local roads, including the Pothole Action Fund, an 18% (£401 million) increase in real terms compared with 2019-20; and
- £532 million on local transport as part of the Transforming Cities Fund programme and Major Road Network and Large Local Majors projects, an increase of 49% (£175 million) in real terms.

Autumn Budget and Spending Review 2021

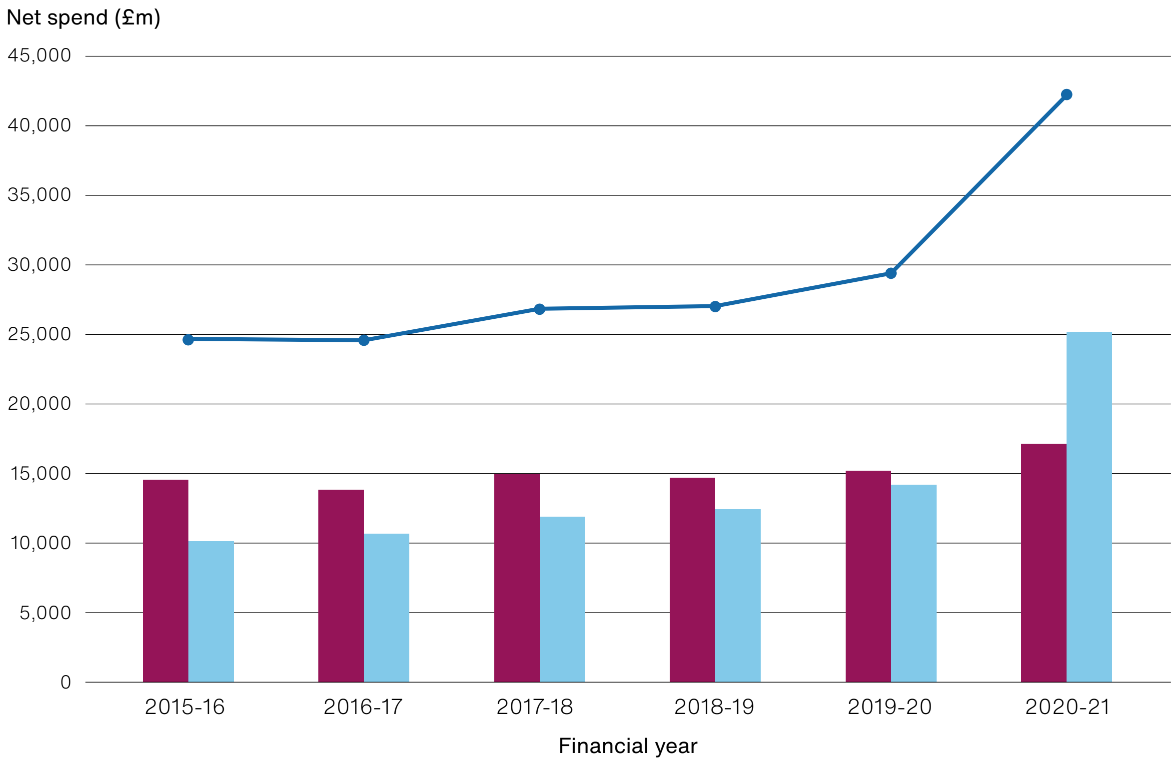
The Department expects that its net spend will decrease in future years as the UK recovers from the COVID-19 pandemic, and emergency measures to support the sector are no longer required. The Autumn Budget and Spending Review 2021 set out the Department's overall budget for the next four years as follows:

- total spend, including ringfenced spend on COVID-19, is expected to gradually fall each year between 2021-22 and 2024-25 (**Figure 4** on page 13). However, if ringfenced spend on COVID-19 is excluded, the Department expects an average annual growth in spend of 1.9% in real terms during that period from £23.2 billion to £26.2 billion;
- resource (day-to-day) spending, excluding ringfenced COVID-19 funding, will peak at £7.8 billion in 2022-23 and fall to £5.7 billion in 2024-25 as the Department expects rail revenue to recover thereby requiring less subsidy support; and
- capital spending on major investments and assets is set to increase by 0.6% in real terms between 2021-22 and 2024-25, from £18.8 billion to £20.5 billion. More details on the Department's major projects can be found on page 21.

Figure 3

Department for Transport's net spend, in real terms, between 2015-16 and 2020-21

The Department for Transport's net spending rose substantially in 2020-21, primarily due to its response to the COVID-19 pandemic



	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Capital	14,482	13,904	14,996	14,683	15,202	17,086
Resource	10,132	10,630	11,873	12,406	14,151	25,110
Total	**24,614**	**24,534**	**26,869**	**27,089**	**29,353**	**42,196**

Notes

1 Net spend includes all expenditure incurred by the Department for Transport (the Department) and its arm's-length bodies, less any income received. The Department's spending is split between Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME). DEL refers to the principal amounts that government departments have been allocated to spend, while AME refers to more unpredictable areas of spend that are separately controlled. The amounts presented in the figure include both DEL and AME, but exclude non-budgeted adjustments. The amounts presented also include both the depreciation expense in year and the actual cost of maintaining and renewing the road and rail networks.

2 Capital is for spending on assets and investments. Resource spending is for programme and administration budgets.

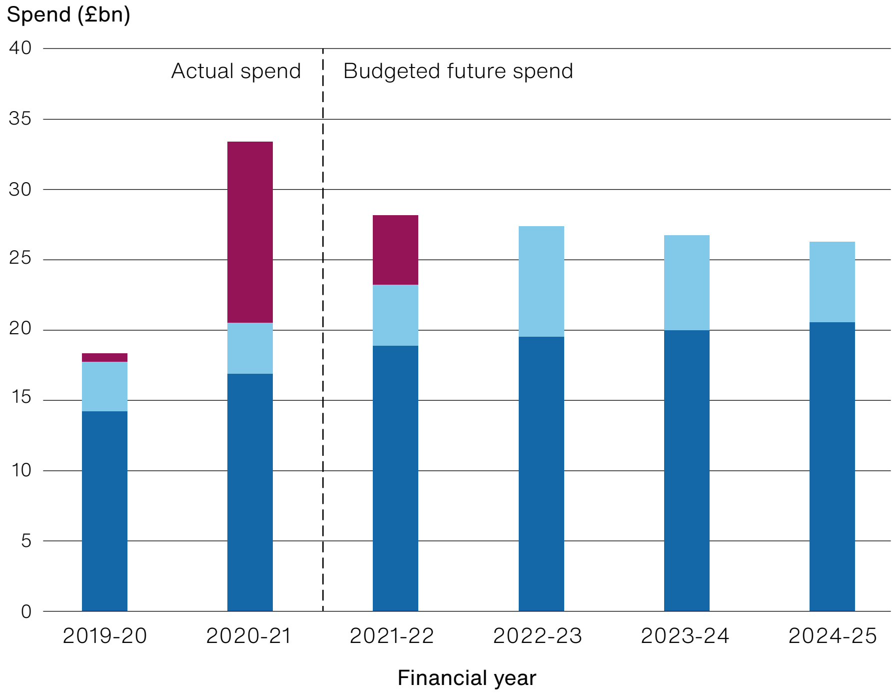
3 Prior year figures have been restated using GDP deflators at market prices published by HM Treasury as of 30 September 2021 and are now expressed in 2020-21 terms. This means these figures will not match previous year's accounts.

Source: Department for Transport Annual Report and Accounts, 2015-16 through to 2020-21

Figure 4

Department for Transport's actual and budgeted future spend, in monetary terms, between 2019-20 and 2024-25

The Department for Transport's budgeted resource spending peaks in 2022-23 before falling to £5.7 billion in 2024-25, while budgeted capital spending will increase year-on-year to £20.5 billion in 2024-25



	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Ringfenced COVID-19 DEL	0.6	12.9	4.9	–	–	–
Resource DEL	3.5	3.6	4.4	7.8	6.8	5.7
Capital DEL	14.2	16.9	18.8	19.5	19.9	20.5
Total	**18.3**	**33.4**	**28.1**	**27.3**	**26.7**	**26.2**

Notes

1 The Department for Transport's spending is split between Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME). DEL refers to the principal amounts that government departments have been allocated to spend, while AME refers to more unpredictable areas of spend that are separately controlled. The amounts presented in the figure exclude AME as it is not included in the Autumn Budget and Spending Review figures nor are budgeted amounts for non-cash items such as depreciation and amortisation.

2 Capital is for spending on assets and investments. Resource spending is for programme and administration budgets.

3 COVID-19 spending has been ringfenced in 2019-20 to 2021-22 but will be factored into resource spending from 2022-23 onwards.

4 These amounts have not been deflated and are as presented in the Autumn Budget and Spending Review 2021.

Source: HM Treasury, Autumn Budget and Spending Review 2021

Content of the annual report and accounts

Section	Performance report	Accountability report		
			Corporate governance report	
Content	Provides information on the Department, its main objectives, strategy, and the principal risks that it faces. It must provide a fair, balanced and understandable analysis of the Department's performance.	Used to meet key accountability requirements to Parliament. It must include a corporate governance report; people and remuneration report; and Parliamentary accountability and audit report.	Sets out the composition and organisation of the Department's governance structures and how they support the achievement of the Department's objectives. It includes a Directors' report, a Statement of Principal Accounting Officer's responsibilities, and a Governance Statement (see right).	Directors' report – includes the titles and names of all ministers who had responsibility for the Department during the year, the Permanent Secretary of the Department, composition of the management board, and potential conflicts of interest.
To what extent is it audited	Reviewed for consistency with information in the financial statements.	Reviewed and tested for consistency with information in the financial statements; opinion provided.	Reviewed for consistency with information in the financial statements and with the auditors' wider understanding of the body.	Reviewed for consistency with information in the financial statements and with the auditors' wider understanding of the body.

				Financial statements
		People and remuneration report	**Parliamentary accountability and audit report**	
Statement of Principal Accounting Officer's responsibilities – required to explain the responsibilities of the Principal Accounting Officer of the Department. In preparing the accounts, the accounting officer is required to comply with the requirements of the Government Financial Reporting Manual (the FReM).	Governance Statement – provides a picture of the governance structures and Department's board, and how they have managed the Department. It describes the risks and opportunities the Department is facing and an assessment of how the Department has performed.	Sets out the body's remuneration policy for directors; reports on how that policy has been implemented; and discloses the amounts awarded to directors. Also includes staff numbers, cost and composition; sickness absence data; consultancy expenditure; off-payroll engagements; and exit packages.	Includes: • Statement of Parliamentary Supply, showing expenditure against the amounts authorised by Parliament; • other Parliamentary accountability disclosures; and • Certificate and Report of the Comptroller and Auditor General to the House of Commons.	Includes: • Statement of Comprehensive Net Expenditure; • Statement of Financial Position; • Statement of Cash Flows; • Statement of Changes in Equity; and • Notes to the accounts.
Reviewed by: • comparing with the requirements of the FReM; and • confirming that the disclosures match the auditors' understanding of the business.	Reviewed for: • compliance with the requirements set out in *Managing Public Money*; • quality of the content in the context of risks identified during the audit process and the auditors' wider knowledge of the business; and • consistency with the findings of any relevant NAO value-for-money reports or other work.	Reviewed for consistency with information in the financial statements. Key tables in the remuneration report, staff numbers and costs, and exit packages described as being subject to audit, are audited.	Audited and subject to an audit opinion.	Audited and subject to an audit opinion.

The C&AG's audit opinion

The Comptroller and Auditor General (the C&AG) provides an independent audit opinion on more than 400 individual accounts across the public sector, in line with the applicable standards set out in his audit certificate. His opinion comprises two main parts:

- A true and fair audit opinion on each account. This involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.[1]
- An audit opinion on regularity on the vast majority of accounts. This involves obtaining evidence that resources have been used in the way that Parliament intended and authorised.

The C&AG identified four key audit matters that were of most significance during this year's audit due to the higher risk of material misstatement. These were the:

- complex valuations of large infrastructure assets such as the wider road and rail networks;
- complex valuation of the Department's Defined Benefit Pension Schemes' deficit;
- regularity of the increased spend on train operating companies in-year due to the recovery measures introduced; and
- estimation uncertainty involved in the valuation of High Speed Two land and property acquired through compulsory purchase orders.

No material misstatements were identified during the testing of these areas.

The C&AG concluded that, in his opinion, the Department's financial statements gave a true and fair view of the state of the Department's affairs, and they had been properly prepared in accordance with the relevant legislation. With regards to regularity, the C&AG also concluded that, in his opinion, the income and expenditure recorded in the financial statements had been applied to the purposes intended by Parliament. The C&AG's audit opinion was therefore unqualified.[2]

1 A matter is material if its omission or misstatement would, in the judgement of the auditor, reasonably influence the decisions of users of the financial statements. The C&AG sets out the materiality used for the audit as part of his opinion.

2 If the financial statements include no unadjusted material misstatements and no material issues regarding regularity, the C&AG will issue an unqualified opinion.

The cost of the Department's response to COVID-19

The COVID-19 pandemic has had a significant impact on the transport sector as government implemented restrictions to contain and delay the spread of COVID-19. The pandemic affected travel demand, patterns and behaviours, including substantial falls in the use of public transport impacting operators' financial viability. It also impacted customer services, for example contributing to backlogs in services provided by the Driver and Vehicle Licensing Agency.

The Department's key priorities were to ensure critical journeys by people and goods could continue to be made, that the transport system was kept moving and supported the government's broader COVID-19 response, and then the safe reopening of the system. Its main response activities in 2020-21 included financial support for transport providers, the development of frameworks and communications on the safe use of public transport and setting up arrangements to enable safe international travel.

Cost of financial support measures

In total, the Department spent around £13 billion on financial support measures in response to the COVID-19 pandemic in 2020-21 (**Figure 5** overleaf). It spent the largest amount, approximately two-thirds (£8.5 billion), on the rail sector as the Department took on the cost and revenue risk of the passenger rail operators through emergency agreements in March 2020. We provide more details about the changes to rail franchising on page 19. Other support provided included:

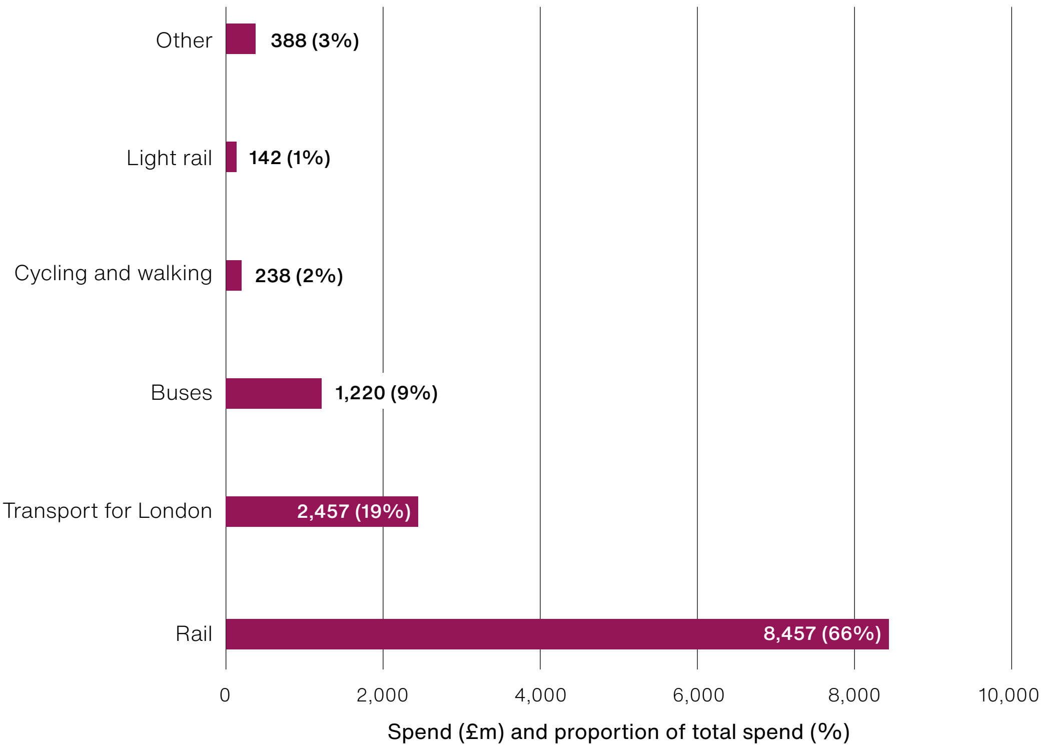
- £2.5 billion net grant to Transport for London;
- £1.2 billion subsidies to bus companies through a national grant scheme;
- £238 million drawn from existing cycling and walking funding to promote the use of active travel during the pandemic;
- £142 million on subsidies for the light rail sector; and
- £388 million on other sectors, such as supporting maritime and aviation service providers.

As of September 2021, the Department estimated that lifetime costs for its COVID-19 support measures would be £20 billion. More details on lifetime costs are available in our COVID-19 cost tracker.[3] We have also drawn together wider learning on the government's response in our May 2021 report on *Initial learning from the government's response to the COVID-19 pandemic*.[4]

Figure 5

Department for Transport's support costs for the COVID-19 pandemic, 2020-21

The Department for Transport's total spend on COVID-19 financial support measures in 2020-21 was around £13 billion



Notes

1 The 'Other' category includes maritime, aviation and road safety standards and services, such as the Driver and Vehicle Standards Agency requiring increased funding to compensate for reduced income from services because of the COVID-19 pandemic.

2 Spend presented is for the 2020-21 financial year.

Source: Department for Transport Annual Report and Accounts 2020-21

3 National Audit Office, *COVID-19 cost tracker*, available at: www.nao.org.uk/covid-19/cost-tracker.

4 Comptroller and Auditor General, *Initial learning from the government's response to the COVID-19 pandemic*, Session 2021-22, HC 66, National Audit Office, May 2021.

Changes to rail franchising

In May 2021, the government announced large-scale changes to the rail franchising system in light of passenger demand growth slowing and the significant impact of the COVID-19 pandemic. These changes will form a key part of the Department's approach to delivering its priority of building confidence in the transport network and improving transport users' experience.

The Department had already been receiving less overall income from rail franchise operators prior to the COVID-19 pandemic (**Figure 6**). This was due to increasing costs for the operators, such as rolling stock leases, that were not being matched by income, as passenger demand was lower than the forecasts on which franchise bids had been made. We outline recent financial trends in the rail sector in our report *A financial overview of the rail system in England*, published in April 2021.[5]

Figure 6

Department for Transport's income and expenditure from rail operators in real terms, 2015-16 to 2020-21

Income received by the Department for Transport from rail operators has decreased year-on-year since its peak in 2016-17

Financial year	Income (£m)	Expenditure (£m)	Net (£m)
2015-16	1,876	(433)	1,443
2016-17	1,885	(424)	1,461
2017-18	1,477	(606)	871
2018-19	1,363	(1,121)	242
2019-20	1,077	(1,407)	(330)
2020-21	262	(8,570)	(8,308)

Notes

1 Amounts in brackets denote expenditure.

2 All figures are in 2020-21 terms. Prior year figures have been restated using GDP deflators at market prices published by HM Treasury as of 30 September 2021.

3 The income for 2020-21 relates to termination payments owed to the Department for Transport by rail operators that were forecast to make a loss had COVID-19 not occurred. The payments were required to ensure no operator escaped financial loss as a result of the emergency recovery measures introduced.

4 Subsidies given to rail operators in 2020-21 totalled £8,457 million.

Source: Department for Transport Annual Report and Accounts, 2015-16 through to 2020-21

5 Comptroller and Auditor General, *A financial overview of the rail system in England*, Session 2019–2021, HC 1373, National Audit Office, April 2021.

The Department reported in its Annual Report and Accounts that commercial modelling had indicated that some rail operators were forecast to make a loss even if the COVID-19 pandemic had not occurred. However, the impact of COVID-19 on passenger rail was considerable. During the first national lockdown starting in March 2020, National Rail usage reduced to a low of 4% in comparison to the previous year's usage. This drop led to the Department introducing emergency agreements in March 2020 to financially support passenger operators.

In May 2021, the government set out its plans for rail reform in its white paper, *Great British Railways: The Williams-Shapps Plan for Rail*.[6] The previous system of rail franchising, where private companies competed for the right to operate specific lines for multiple years and were responsible for managing stations and setting fares, is being replaced by a new role for rail operators. A new body, Great British Railways, will take overall responsibility for maintaining the rail network from Network Rail, as well as drawing up timetables and, on most of the network, setting fares. Rail operators are expected to run the services and will be held accountable for running trains on time, delivering passenger satisfaction and keeping costs under control. In most contracts, the Department, through Great British Railways, will be taking on any revenue risk wherever it sets fares, while cost risk will remain with operators. This means that Great British Railways will absorb any loss from a fall in passenger fare income, but operators will cover any increase in operational costs. This is a departure from the previous system, where most financial risk sat with the operators.

The current contracts under the emergency agreements will eventually become Passenger Service Contracts, with the competition for these expected to begin in 2022. The Department's plan is that the first Passenger Service Contract will begin in 2024. The Department has reported it is undertaking detailed design work on the new contracts and expects to include performance targets in punctuality, reliability and capacity, as determined by Great British Railways. As well as the quality of service, the Department expects the contracts to include incentives around growing passenger numbers.

6 Department for Transport, *Great British Railways: The Williams-Shapps Plan for Rail*, May 2021, available at: www.gov.uk/government/publications/great-british-railways-williams-shapps-plan-for-rail.

The Department's major projects

The Department has the second largest set of projects, by number and value, on the Government Major Projects Portfolio (GMPP), after the Ministry of Defence.[7] As of 31 March 2021, the Department had 25 projects on the GMPP with an estimated whole-life cost of approximately £116 billion.[8] The Department expects that its continued investment in major infrastructure projects will help it achieve its priority outcome of improving connectivity and growing the economy through enhancements to the transport network.

Growth in the Department's capital investment spend

The Department's spend on capital projects increased by 18% (£2.6 billion) in real terms between 2015-16 and 2020-21, to £17.1 billion (**Figure 7** overleaf). This increase is particularly evident in the largest and most significant of these projects, High Speed Two. The Department, through its arm's-length body, HS2 Ltd, spent £3.3 billion in 2020-21 on this project, a real-terms increase of £3.1 billion compared with 2015-16. We set out progress in more detail on page 24.

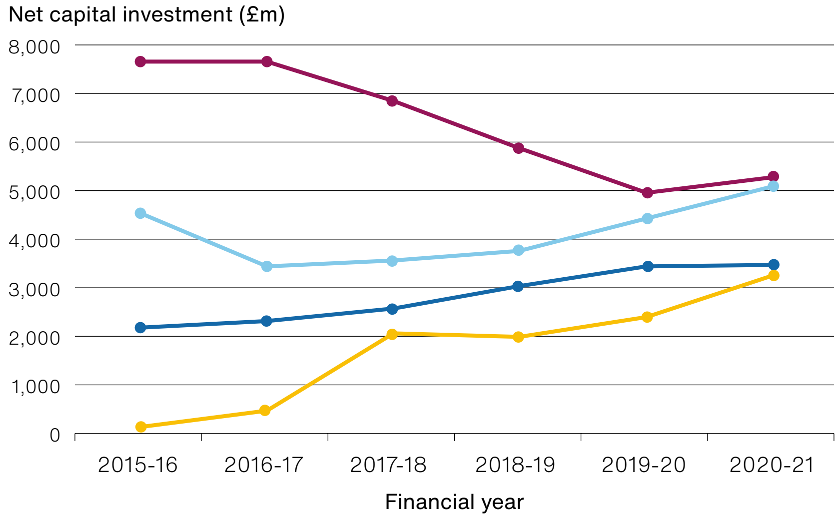
Capital spending by Highways England (now National Highways) for new roads and road enhancements also rose steadily between 2015-16 and 2020-21, with an overall real-terms increase of 57% (£1.3 billion). In contrast, investment by Network Rail on new rail links and rail upgrade work fell by 31% overall (£2.4 billion) in real terms, particularly between 2016-17 and 2018-19.

The Department expects to continue to increase its spend on capital projects through to 2024-25. The Department's settlements in both Spending Review 2020 (SR20) and 2021 (SR21) provided an increase in its capital investment budget, with SR21 providing an annual average increase of 0.6% in real terms between 2021-22 and 2024-25 from £18.8 billion to £20.5 billion. For example, the Department is expected to spend more than £35 billion between 2021-22 and 2024-25 on rail infrastructure.

7 The Government Major Projects Portfolio (GMPP) aims to improve the delivery of the government's biggest and riskiest projects by increasing transparency and providing independent assurance.
8 This includes a joint project (NO_2 reduction) between the Department for Transport and the Department for Environment, Food & Rural Affairs.

Figure 7
Department for Transport's net capital investment in real terms, by main delivery body

Total net capital investment by the Department for Transport and its delivery bodies rose by 18% (£2.7 billion) in real terms between 2015-16 and 2020-21



	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Network Rail	7,644	7,660	6,813	5,880	4,930	5,281
Other bodies	4,516	3,441	3,541	3,769	4,436	5,087
Highways England	2,209	2,323	2,575	3,039	3,438	3,466
High Speed Two	113	480	2,067	1,995	2,398	3,252
Total	**14,482**	**13,904**	**14,996**	**14,683**	**15,202**	**17,086**

Notes

1 Net capital investment includes total capital Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME) spend in each year. DEL refers to the principal amounts that government departments have been allocated to spend, while AME refers to more unpredictable areas of spend that are separately controlled. The amounts presented exclude non-budgeted adjustments.

2 Prior year figures have been restated using GDP deflators at market prices published by HM Treasury as of 30 September 2021 and are now expressed in 2020-21 terms.

3 Highways England was renamed National Highways in August 2021.

Source: Department for Transport Annual Report and Accounts, 2015-16 through to 2020-21

The Department confirmed its rail infrastructure plans for the North of England and the Midlands when it published its Integrated Rail Plan in November 2021.[9] The plan was developed in response to the Oakervee Review, which was commissioned by the government in 2019 to examine the case for High Speed Two. The review concluded in February 2020 and recommended that the government consider how best to integrate Phase 2b with other major investment plans in the North of England and the Midlands, including Northern Powerhouse Rail, Midlands Rail Hub and other major Network Rail schemes. The Integrated Rail Plan sets out how the Department

9 Department for Transport, *Integrated Rail Plan for the North and Midlands*, November 2021, available at: www.gov.uk/government/publications/integrated-rail-plan-for-the-north-and-the-midlands

will improve transport links in the North of England and the Midlands through new and existing high-speed, electrification and upgrade projects. The Department estimates this will cost between £85 billion and £104 billion (2019 prices).

Delivery status of Department's major projects

The Infrastructure and Projects Authority (IPA) supports and assesses the most complex and high-risk government projects. It also oversees the GMPP.[10] Through its assurance work on government projects, the IPA provides a 'delivery confidence assessment' rating that measures likelihood of delivering objectives to time and cost. As of 31 March 2021, of the Department's 25 major projects, the IPA rated:[11]

- seven projects as 'green' or 'amber/green' in delivery confidence, which the IPA defines as "successful delivery of the project on time, budget and quality appears highly likely" and "successful delivery appears probable". Projects with these ratings include the Great Western Route Modernisation programme and the A12 Chelmsford to A120 widening project;
- eleven projects as 'amber', defined as "successful delivery appears feasible but significant issues already exist, requiring management attention", and includes the Lower Thames Crossing, a road tunnel under the river between Essex and Kent, and the A303 Amesbury to Berwick Down upgrade, which we reported on in May 2019;[12]
- five projects as 'amber/red' or 'red', defined as "successful delivery of the project is in doubt, with major risks or issues apparent in a number of key areas" and "successful delivery of the project appears to be unachievable". Projects include HS2 Phase One and Crossrail. We reported on Crossrail in July 2021, highlighting the forecast cost increase of £1.9 billion and 10 to 20 months of delay, despite efforts to control costs and schedule, and the need for Transport for London and the Department to consider what is required to maximise the return on the almost £19 billion cost of construction;[13] and
- two projects were not rated at that point in time (the Western Rail Link to Heathrow and the NO_2 Reduction programme).

10 See footnote 7 for more details on the Government Major Projects Portfolio (GMPP).
11 Infrastructure and Projects Authority (IPA) provides assessments of a project's likelihood of delivering to time, budget and quality. We have presented excerpts from the IPA's delivery confidence assessment definitions. Full IPA assessments and definitions can be found as part of the Government Major Projects Portfolio here: www.gov.uk/government/collections/major-projects-data
12 For more information, see our May 2019 report on *Improving the A303 between Amesbury and Berwick Down*.
13 Comptroller and Auditor General, *Crossrail – a progress update*, Session 2021-22, HC 299, National Audit Office, July 2021.

High Speed Two

High Speed Two (HS2) will be a new high-speed, high-capacity rail service between London, the Midlands and Manchester. The Department funds and sponsors HS2, with HS2 Ltd, an arm's-length body, responsible for developing, building and maintaining the railway.[14]

In November 2021, the Department set out changes to the proposed route of HS2, as part of its *Integrated Rail Plan for the North and Midlands*.[15] The Department reported that due to cost estimate increases and delivery delays, concerns about access for intermediate towns and cities as well as wider integration with other transport schemes in the region, it chose to revise the Phase 2b Eastern Leg route as detailed below. As reported in the October 2020 update to Parliament, the programme had an estimated cost of between £72 billion and £98 billion (2019 prices). Since that time, the cost range for Phase 2b has been subject to further validation and assurance, and scope changes affecting the Eastern Leg have since been announced in the recently published Integrated Rail Plan. The Department has yet to set out revised estimated costs for the whole programme following the revisions.

The delivery of HS2 is split into different phases:

- **Phase One:** This is the London to the West Midlands section and is estimated to cost between £35 billion and £45 billion (2019 prices). It is at a stage of substantial construction. The Department and HS2 Ltd provide six-monthly updates to Parliament on progress, including on schedule and spend.[16] In its October 2021 update, HS2 Ltd reported that as at August 2021 it had spent a total of £12.9 billion on Phase One (excluding a £1 billion provision, representing the Department's obligation to purchase land and property) and contracted a further £12.4 billion. Of the £12.9 billion spend to date, HS2 Ltd has used £0.8 billion of its £5.6 billion contingency.[17] Phase One is expected to open between 2029 and 2033. The HS2 station at Euston is set to open at a later stage.

14 As an arm's-length body, HS2 Ltd produces its own annual report and accounts, which is audited by the Comptroller and Auditor General, but its spend, assets and liabilities are also consolidated into the Department's overall annual report and accounts as we set out in Figure 1.
15 See footnote 9.
16 The most recent update was published in October 2021 and can be found at: www.gov.uk/government/speeches/hs2-6-monthly-report-to-parliament-october-2021.
17 All costs are actual prices.

- **Phase 2a:** Parliament approved the construction of Phase 2a (West Midlands to Crewe) in February 2021. Since then, the Department and HS2 Ltd have started the procurement for the design and delivery partner and updated the cost and schedule estimate. Phase 2a is set to open between 2030 and 2034 and is expected to cost between £5 billion and £7 billion (2019 prices). Up to August 2021, the Department and HS2 Ltd have spent £0.5 billion on this phase.

- **Phase 2b:** While the government was developing the Integrated Rail Plan, the Department instructed HS2 Ltd to progress only with the development of the Western Leg of Phase 2b (Crewe to Manchester), which is due to be submitted to Parliament in 2022. The Department and HS2 Ltd have spent £1.1 billion up to August 2021 on the overall Phase 2b costs. The Department expects to set out more fully the total estimated costs when it brings forward a hybrid Bill for the Western Leg of Phase 2b.

  In November 2021, the Department confirmed the Eastern Leg of Phase 2b from Birmingham would no longer run to Leeds and would instead end at East Midlands Parkway as part of its Integrated Rail Plan. The Department stated HS2 trains will then continue to Nottingham, Derby and Sheffield on the Midland Main Line, which will in turn be upgraded and electrified. This means there will be no additional new high-speed railway built to Leeds, although the Department has committed to undertake work considering how to take HS2 trains to Leeds. The Department did not provide a specific cost estimate for the Eastern Leg of Phase 2b, but the HS2 East project, which includes the Eastern Leg, Midland Main Line electrification and upgrades on the East Coast Main Line, is estimated at £12.8 billion (2019 prices).

Spend and progress in 2020-21

In 2020-21, HS2 Ltd spent £3.4 billion compared with £2.5 billion in 2019-20. Of this, £3.3 billion (97%) was on capital spend, up from £2.3 billion in 2019-20, reflecting major construction starting on Phase One.

The COVID-19 pandemic has impacted the delivery of High Speed Two and resulted in additional costs. HS2 Ltd estimated that the financial impact of the COVID-19 pandemic on Phase One was between £0.4 billion and £0.7 billion, which, when approved, will be paid for from the government-retained contingency of £4.3 billion.

HS2 Ltd missed a number of delivery milestones in 2020-21, with productivity and performance partially impacted by the COVID-19 pandemic. For example, HS2 Ltd missed five of its 14 delivery milestones for Phase One, which were deferred to 2021-22. HS2 Ltd also has targets on cost and schedule performance, which indicate if it is delivering efficiently to plan. Both the targets for cost and schedule were missed. However, in other areas such as land acquisition for Phase One, HS2 Ltd has reported that it remains on track to achieve them, having secured around 90% of the land required.

In June 2021, we published our report on *Progress in implementing National Audit Office recommendations: High Speed Two* and found that the Department and HS2 Ltd had accepted and taken steps to implement all our recommendations. However, we highlighted that many of our recommendations will remain relevant throughout the life of High Speed Two and require ongoing work by the Department and HS2 Ltd. We also judged that implementing some of our recommendations will require greater certainty from government around plans for Phase Two through the Integrated Rail Plan. The rail industry and other stakeholders will require detail of transport plans to prepare for the future, but key decisions need to be made before this is communicated.[18]

18 Comptroller and Auditor General, *Progress in implementing National Audit Office recommendations: High Speed Two*, Session 2021-22, HC 292, National Audit Office, June 2021.

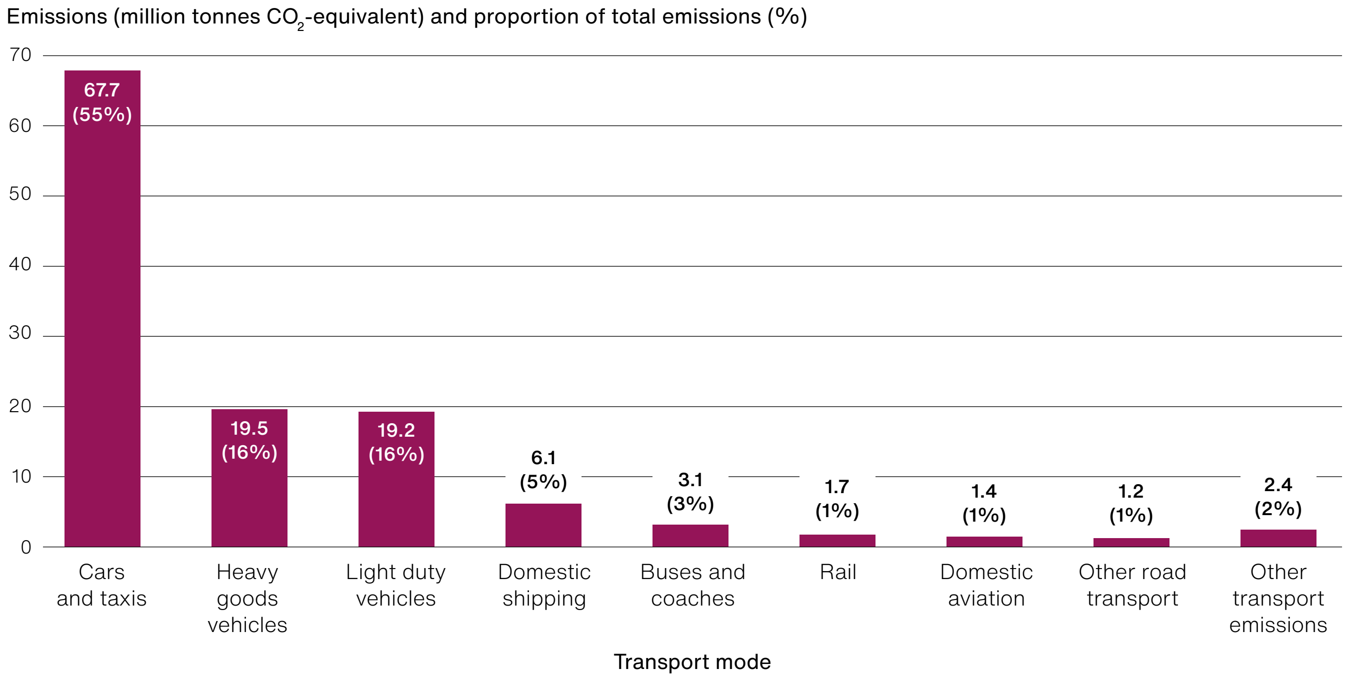
Decarbonisation

Transport is the largest greenhouse gas emitting sector in the UK, contributing to 32% of domestic emissions in 2019. More than half of this was produced by cars and taxis, by far the largest contributor compared with other modes of transport (**Figure 8**).

Figure 8

UK domestic transport emissions and proportion, by transport mode, 2019

Road transport is the largest contributor to domestic emissions in the transport sector



Notes

1 The 'Other road transport' category includes motorcycles and mopeds.

2 Domestic emissions do not include international travel.

Source: Department for Transport, *Decarbonising Transport – A Better, Greener Britain*, 2021

Tackling climate change is one of the Department's priority outcomes. In July 2021, the Department published its *Transport Decarbonisation Plan*,[19] which outlined how it would reach zero emissions from the sector by 2050. The plan requires the decarbonisation of all forms of transport and has six strategic priorities:

- **Accelerating modal shift to public and active transport (walking and cycling)** to reduce the carbon impact of using cars.
- **Decarbonising road transport**, including phasing out new non-zero emission road vehicles by 2040.
- **Decarbonising freight** through new technologies and shifting the movement of freight from road and air to more sustainable modes.
- **UK as a hub for green transport technology and innovation.**
- **Place-based solutions to emissions reduction** so that by 2050, every place in the UK will have its own net zero transport network.
- **Reducing carbon in a global economy** through targets for UK aviation to be net zero by 2040 and UK shipping by 2050.

Future spending

As part of Spending Review 2021, the government allocated a total of £29.8 billion on net zero and other green spend between 2021-22 and 2024-25.[20] During this timeframe, the government plans to spend £7.2 billion on net zero within the transport sector, almost a quarter of total net zero and other green spend. Nearly half of this spend is expected to be on the decarbonisation of cars and vans through, for example:

- electric vehicle and charging grants (an additional allocation of £620 million to the £1.9 billion announced in SR20, giving a total of £2.5 billion); and
- support of UK vehicle manufacturers and their supply chains (an additional £317 million to the £500 million announced in SR20, giving a total of £817 million).

The Department is also expected to spend £416 million on research and development into commercialising low and zero emission transport technologies and sustainable aviation fuel (up £335 million from £81 million in SR20).

19 Department for Transport, *Decarbonising Transport – A Better, Greener Britain*, July 2021, available at: www.gov.uk/government/publications/transport-decarbonisation-plan.

20 This figure includes both Departmental Expenditure Limit (DEL) and Annually Managed Expenditure (AME) spend on net zero (such as transport, buildings, hydrogen and Carbon Capture Usage and Storage infrastructure, energy and tree planting and other green spend including flood defences). This figure excludes administration budgets.

Speed of implementation

The speed at which decarbonisation is achieved will be dependent on how quickly zero emission technologies, fuels and efficiency measures are introduced and the impacts of the Department's policies on active travel and public transport. There are also uncertainties surrounding how people's travel behaviour might alter as a result of changes in connectivity and technology and the impact of the COVID-19 pandemic.

In April 2021, the government announced that international aviation and shipping emissions would be included in the UK's carbon budgets starting from 2033. The Department projects in its decarbonisation plan that including emissions from these sectors will mean emissions will fall but net zero might not be achieved by 2050. These positive emissions will require an offset elsewhere in the economy or the emergence of new zero emission technologies to speed up the reduction.

Case study: Rail decarbonisation

Emissions from rail contributed to 1% of all domestic greenhouse gas emissions in 2019 (Figure 8). Although not the highest emitter in the transport sector, decarbonising rail will be important to meet net zero as well as meeting other strategic priorities for the Department. The Department plans to build extra rail capacity to meet its forecast growth in passenger and freight demand and support significant shifts from road and air transport to rail.

The Department has targets to remove all diesel-only trains from the network by 2040 and have a net zero railway network by 2050. Network Rail identified three possible options to replace diesel trains, which are: electric, battery and hydrogen. However, it also stated that battery and hydrogen technologies are unsuitable for long-distance, high-speed and freight services. Network Rail has estimated that for 85% of the unelectrified line in Great Britain, the best technology would be electrifying the network.

Analysis published by Network Rail in 2020 has looked at different decarbonisation pathways, including the rate of electrification required. Network Rail will need to maintain a rate of electrification of the rail network at 355 kilometres a year for the next 30 years to achieve net zero by 2050.[21] It estimates that electrification on one kilometre of track can cost between £1 million and £2.5 million. It also estimates that rail decarbonisation will have capital cost of between £18 billion and £26 billion (2020 prices), although our past reports on rail electrification have highlighted the potential for cost increases, impact on value for money and benefits delivery and unaffordable investment portfolios.[22]

21 For more information on Network Rail's analysis on track electrification and decarbonisation, see our report: Comptroller and Auditor General, *A financial overview of the rail system in England*, Session 2019–2021, HC 1373, National Audit Office, April 2021.

22 Comptroller and Auditor General, *Modernising the Great Western railway*, Session 2016-17, HC 781, National Audit Office, November 2016; Comptroller and Auditor General, *Investigation into the Department for Transport's decision to cancel three rail electrification projects*, Session 2017–2019, HC 835, National Audit Office, March 2018.

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