



National Audit Office



REPORT

Rail reform: the rail transformation programme

Department for Transport

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Rail reform: the rail transformation programme

Department for Transport

Report by the Comptroller and Auditor General

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Comptroller and Auditor General
National Audit Office

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Key facts

The rail sector needs reform

13.7%	proportion of trains delayed in arriving at their final destination in 2022-23
3.8%	proportion of trains classified as cancelled in 2022-23
£3.1 billion	Department for Transport's (DfT's) subsidy for passenger rail services in 2022-23
Six	key issues identified by Williams Rail Review in May 2021

DfT launched its rail transformation programme in 2021

£2.6 billion	total savings required between 2022-23 and 2024-25 as part of DfT's 2021 Spending Review settlement (in cash terms)
£1.5 billion	the amount DfT expected to save each year from 2026-27 (in cash terms)

Rail reform is delayed

Autumn 2023	the government confirms that changes to legislation to enable the establishment of Great British Railways as part of rail reform will not be expected to be introduced in the current Parliamentary session
None	of the 12 high-level benefits that DfT aims to achieve with rail reform are rated 'green' at December 2023 (five 'red' and seven 'amber')
Three	areas of focus for DfT since the delay: benefits it can achieve without legislation; greater collaboration across the rail sector; and planning for future reform
£2.0 billion	DfT's total savings forecast to be achieved by end of March 2025 (in cash terms), 77% of its initial plans for savings by that date

Summary

Introduction

1 In May 2018, there was significant disruption to passengers across the rail network following the failed introduction of a new timetable. In response the Department for Transport (DfT) set up the Williams Rail Review to examine the structure of the rail industry and how passenger services are delivered. The review was largely completed when the COVID-19 pandemic started, changing the way people use the railway. DfT extended the review to consider the impact of the pandemic.

2 The Williams review called for fundamental change. DfT published its white paper on rail reform in May 2021, setting out how the government intended to transform the way the rail system works. DfT has overall responsibility for the railways, but the way the rail system works in practice is complex and has led to competing priorities between the public and private bodies involved. The white paper proposed the government set up a new organisation, Great British Railways, to act as the 'guiding mind' for the railways and with responsibility for the whole rail system. It also set out a wide range of changes intended to get the basics right – running trains on time and making travel straightforward and welcoming to customers.

3 By October 2021, DfT had set up its rail transformation programme (the Programme) to deliver the reforms. The Programme focused on four key areas: changing the rail system; replacing the existing passenger service contracts; improving passenger experiences; and reforming the rail workforce. DfT also set up a Great British Railways Transition Team (GBRTT) to prepare for the establishment of Great British Railways in October 2021.

4 In autumn 2023, the government pushed back the timetable for rail reform. Following the Queen's Speech in May 2022, DfT had planned for the government to proceed with legislation that would enable the establishment of Great British Railways by 2024. In autumn 2022, the Secretary of State for Transport stated that the government no longer considered legislation for rail reform a priority in that Parliamentary session and asked DfT to continue with reforms that did not need legislation. Later in 2022, a new Secretary of State for Transport decided to go ahead with changes to legislation, with the reform placing a greater emphasis on the role of the private sector. However, the King's Speech in November 2023 did not include rail reform as legislation to be introduced in the next Parliamentary session. Instead, the government set out that there would be pre-legislative scrutiny on the draft rail reform bill as preparation for when legislation could be taken forward.

Scope of this report

5 It has been three years since DfT's white paper on rail reform and DfT had planned to implement key parts of its reform by early 2024. We intended to examine whether DfT had set up its Programme to deliver value for money and the progress it had made to date. As our fieldwork progressed, the government confirmed delays to the legislation supporting reform and DfT revised its approach. We amended our scope to include these developments. Our report therefore examines:

- whether DfT has a clear rationale for the reform of the rail sector (Part One);
- DfT's approach to the delivery of rail reform, what DfT has achieved and the impact of the delays to reform (Part Two); and
- whether DfT's interim arrangements will support its full reset of rail reform after 2024 (Part Three).

The report examines DfT's work on rail reform as a whole. We have not undertaken a detailed examination of individual projects as part of our work.

Key findings

The need for rail reform and DfT's set-up and progress with the rail transformation programme (2020–2023)

6 The way the rail system works needs to change, with performance not good enough for passengers and cost to the taxpayer too high. In 2021, DfT concluded that the rail system was too complex, too expensive, and too often failed to deliver for both passenger and freight customers. It identified six key issues that needed to be addressed in the way the rail system works. These are: that it too often loses sight of the customer; it misses opportunities to meet the needs of the communities it serves; is fragmented and accountabilities unclear; lacks clear strategic direction; needs to become more productive; and struggles to innovate and adapt. These are not new problems, and DfT had identified similar issues in earlier reviews. The cost of running passenger services exceeds revenue at a level DfT views as unsustainable, with DfT spending £3.1 billion subsidising train services in 2022-23. Passenger services were also not punctual or reliable enough before the pandemic and performance in 2022-23 has fallen back to these levels, with 13.7% of trains delayed in arriving at their final destination and 3.8% classified as cancelled in 2022-23 (paragraphs 1.3 to 1.7 and Figures 2, 3 and 4).

7 In 2021, DfT started work on reforms that involved a large and complex set of changes for both public and private bodies within the rail sector. DfT's plan for reform involved changing the accountabilities, finances, and culture of the rail industry. This requires changes to the structure of public rail bodies, and new relationships and commercial arrangements across the sector. DfT has called it a once-in-a-generation transformation, and it was described within government as its largest and most complex transformation programme (paragraph 1.8 and Figure 5).

8 DfT committed the rail reform programme to a timetable that it had identified as high-risk, reflecting ministerial ambition, but without a clear plan for what it needed to implement. DfT planned the Programme across five years from 2022. However, DfT planned important work to complete in the first half of that five-year period, such as setting up Great British Railways and designing a new model for how the rail sector would operate. DfT identified that this was an ambitious timetable, given the need for legislation, the ability of the rail sector to change at pace, and the disruption of COVID-19 on DfT's early planning work. However, DfT wanted to create momentum and achieve benefits early, reflecting ministerial ambition. It did this despite recognising that it lacked a clear understanding of what it needed to do and how to secure the benefits. In addition, DfT did not have the time to develop contingencies if reform did not go as planned. DfT agreed with HM Treasury (HMT) to deliver early savings from rail reform, planning total savings of £2.6 billion by 2024-25 as part of the 2021 Spending Review settlement. The majority of these savings would come through workforce reform. DfT told us that it recognised that achieving workforce reforms was particularly high risk as they would be subject to negotiations with trade unions. By mid-2022 DfT had set out high-level ambitions and milestones for the programme, but the maturity of detailed plans and timetables for individual reform projects varied (paragraphs 2.4 to 2.6 and Figure 7).

9 Governance arrangements for the Programme have been complex and ineffective. DfT set up a Rail Transformation Board to oversee delivery of projects, manage trade-offs and dependencies between these, and act as the key decision-making forum. Alongside DfT staff, membership of the Board also included GBRTT, HMT and the Infrastructure and Projects Authority (IPA). In addition, workforce reform had further reporting lines within DfT that did not go through the Board, which DfT told us would enable decisions to be taken quickly when required, while GBRTT had its own governance arrangements, having been created as a separate body. DfT and HMT also disagreed on key areas of reform from the start, such as the remit of Great British Railways, which remains an area of disagreement. Reviews by the IPA and DfT in early 2023 found the Board's governance was confused, accountabilities unclear and there was not agreement across stakeholders on the scope and delivery approach of the Programme (paragraphs 2.7 to 2.9, and Figure 8).

10 DfT has made limited progress against its plans, with most of its work and expected savings now delayed until at least the next Parliament. DfT had intended that by early 2024 it would have set up Great British Railways, established a new operating model for the rail system and started to introduce new passenger service contracts. However, these and most of the commitments set out in the rail reform white paper remain work in progress. DfT reports that, as at February 2024, 21 (34%) of the 62 commitments require legislation before they can be completed and it has paused work on 11 of them. As of December 2023, DfT assessed that, of the 12 high level benefits it aimed to achieve with rail reform, five were rated 'red' and seven 'amber'. The department planned that, over the three years to March 2025, rail reform would result in total savings of £2.6 billion. However, it now expects savings up to March 2025 to be £2 billion, around three-quarters of what it planned. DfT also expected reform to result in annual savings of £1.5 billion from 2026-27 onwards, but these savings have been delayed with Great British Railways not yet established. Spending is also delayed: DfT now estimates that it will spend £0.4 billion up to the end of March 2024, against its initial plans of £1.2 billion. It told us the costs and savings figures used in planning and setting budgets were very uncertain (paragraphs 2.10 to 2.12 and Figures 9, 10 and 11).

11 Delays to reform have added pressure to DfT's finances and higher costs to the taxpayer for longer. The assumptions made by DfT and HM Treasury at the 2021 Spending Review have not in practice held up. The costs managed by DfT have been higher than expected due to the impact of high levels of inflation and reform savings being lower than planned. DfT told us that it is assessing the impact of cost pressures and looking to address them through its normal business planning processes. It also assumed that, following the pandemic, rail revenue would increase more quickly than it has in practice due to factors including industrial action, fewer passengers and changes in the type of journeys made. The interim financial framework for the railways put in place in response to the pandemic means that HM Treasury carries the risk of any shortfalls in revenue, as it was uncertain how passenger demand would recover. The separation of cost and revenue risk has meant that DfT, HMT and train operating companies will have different priorities when making decisions which impact revenue. DfT has recently amended its contracts with train operating companies to introduce a mechanism to better incentivise operators to increase revenues (paragraphs 2.13 to 2.17).

Resetting rail reform (autumn 2023 onwards)

12 DfT is putting in place interim arrangements ahead of resetting how it delivers rail reform in the next Parliament, but it is too soon to say if these will be effective. DfT changed its delivery and governance approach so that it is now delivering changes through existing governance structures, with a rail reform board responsible for aligning work across DfT and GBRTT. This replaced the centralised programme approach DfT originally set up in 2021 (paragraph 9). DfT is also looking to make changes to the way the department is organised to reflect the direction of reform, including the future establishment of Great British Railways. It has revisited the roles and responsibilities of GBRTT. DfT is moving GBRTT's role away from preparing for the set-up of the Great British Railways organisation, to one focused on cross-industry activity and encouraging joined-up thinking across the sector (paragraphs 3.2 to 3.5).

13 DfT's plans for improving rail are now focused on a shorter list of activities that it can achieve by March 2025 to deliver some benefits and support future reform, but there are challenges to aligning the sector around these efforts. DfT is now planning a reduced scale of activity compared to its initial reform programme, ahead of future legislation. DfT is focusing on three types of work: short-term benefits it can achieve without legislation; promoting greater collaboration and culture change within the rail sector; and continuing some work on the future end state for reform. This includes further work on fares and ticketing, such as further roll-out of pay-as-you-go pilots, and pre-legislative scrutiny. As at January 2024, DfT had developed a high-level delivery plan for this work, with further detailed planning to be completed. Achieving rail industry buy-in to activities that require greater collaboration and joint working will be difficult, with the sector having felt let down by the lack of change and periods of uncertainty, along with the existing lack of incentives to work together (paragraphs 3.6 to 3.9 and Figure 12).

14 DfT believes that much of the work it has done so far will be relevant for the future implementation of reform, but this will depend on the direction of rail reform in the next Parliament. DfT has paused work on several significant areas of reform, such as the future operating model for the rail sector. The department believes that, when there is greater clarity on the timings and scope of reform, much of the work it has done already – for example in developing thinking in areas such as how it will work with the devolved nations – will be useful. How much of this work can be used and applied will depend on the policy direction of rail reform after pre-legislative scrutiny and in the next Parliament (paragraphs 3.10 to 3.11).

15 DfT remains committed to the long-term outcomes it wants to achieve through reform, and now has the opportunity to learn from past programmes about how to achieve them. DfT is planning for how it can progress with reform once there is greater clarity on the timetable and scope in the next Parliament. We have identified several lessons from our work on major programmes that DfT can draw on. These include setting realistic timetables and savings targets; managing the risks of uncertainty; and how to successfully reset programmes (paragraphs 3.12 to 3.13 and Figure 13).

Conclusion

16 The rail sector's performance for passengers and the taxpayer is not good enough and has not been for some time. DfT has identified key problems that need to be addressed but has not been able to translate this into a programme it could implement. The government's legislative priorities have changed and this has impacted DfT's work. However, the speed at which DfT intended to move on a vast and complex set of reforms gave it too little time to plan, build agreement and deliver, with no contingencies if events did not go as hoped. With key parts of reform now paused until the next parliament, long-standing issues on the railway remain, such as its financial stability and affordability, culture, and the service provided for passengers. DfT is not yet set up to secure value for money from its work to reform rail.

17 DfT is now focused on what it can do to improve the rail system ahead of legislation. This will require closer working and changes in the culture of organisations across the rail sector, ahead of any structural changes that would support this. It is important that DfT can both make progress with incremental improvements alongside planning to address underlying problems in the future. Successfully doing so will require a clear understanding of what it needs to deliver, supported by realistic delivery plans.

Recommendations

- a** Over the next year, DfT should develop its understanding of how it can successfully deliver rail reform, including any potential pilots it could undertake, so that it is well placed to advise ministers early in the next Parliament. This work should include areas such as:
- conducting a lessons learned exercise from its planning and delivery of rail reform to date; and
 - drawing on lessons from other programmes, including those set out in our lessons learned reports on major programmes.
- b** DfT and GBRTT should work closely with the rail sector to continue building culture change and support a 'whole systems' approach to the rail sector ahead of any legislative changes.
- c** After the current interim work, and when DfT comes to fully resetting rail reform in the future, it should ensure it:
- has secured full commitment across government for its ambitions for rail reform;
 - has agreed its scope and overall delivery approach with key stakeholders;
 - has in place a full delivery plan, including a realistic timetable, clarity about the benefits it will deliver and how it will deliver them, and the skills and capacity it and GBRTT require to support the programme. HM Treasury should also satisfy itself that delivery is achievable before linking it to any future spending review settlements, taking into account the level of delivery risk it will accept when setting stretching savings targets;
 - clearly communicates its delivery plan for wider stakeholders in the rail sector; and
 - assesses the progress made in improving the roles and responsibilities and wider joint working culture between bodies, and establishes delivery and governance arrangements that build on what has been successful and that will support the scale of the programme.
- d** If DfT aims to deliver reform at speed in the future, it should fully assess the benefits of this approach and the risks to implementation and ensure there are contingencies in place. In making decisions about whether to proceed at pace, it should draw on the lessons highlighted in our work on delivering programmes at speed.