



National Audit Office



REPORT

# Rail reform: the rail transformation programme

Department for Transport

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National Audit Office

# Rail reform: the rail transformation programme

**Department for Transport**

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**Gareth Davies**  
**Comptroller and Auditor General**  
**National Audit Office**

**5 March 2024**

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## Key facts

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### The rail sector needs reform

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

### DfT launched its rail transformation programme in 2021

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

### Rail reform is delayed

<b>Autumn 2023</b>	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
<b>None</b>	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')
<b>Three</b>	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
<b>£2.0 billion</b>	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.

# Part One

## The case for rail reform

**1.1** This part of the report:

- provides an overview of roles and responsibilities within the current rail system;
- examines the Department for Transport's (DfT's) case for rail reform;
- outlines the scope of DfT's reform ambitions; and
- sets out the delays to reform.

### **Roles and responsibilities in the rail system**

**1.2** The operation of the rail system is complex. DfT has overall responsibility for the railway system, but there are a wide range of public and private bodies involved in delivering rail services (**Figure 1**). The railway system was set up to promote competition and improve outcomes. We set out how the system operates in more detail in our 2021 report on *A financial overview of the rail system in England*.<sup>1</sup>

### **DfT's case for rail reform**

**1.3** In September 2018, DfT set up the Williams Rail Review to look at the structure of the rail industry and the way in which passenger rail services are delivered. This was in response to the significant disruption to passengers that occurred over several weeks across large parts of the rail network when timetable changes were made in May 2018. The inquiry by the Office of Rail and Road into timetable disruption found gaps in industry responsibility and accountabilities for managing system-wide risks. Other factors contributing to the review included DfT's concerns about the sustainability of the franchising model in place at the time for passenger services. Largely completed by early 2020, DfT extended the Williams review to consider the relevancy of its findings in light of the COVID-19 pandemic.

<sup>1</sup> Comptroller and Auditor General, *A financial overview of the rail system in England*, Session 2019–2021, HC 1373, National Audit Office, April 2021.

**Figure 1**

The current roles and responsibilities of the main organisations within the rail system

**The Department for Transport (DfT) has overall responsibility for the railway system, but there are a range of public and private bodies involved in the running of the system**

Organisation	Description
DfT	<p>Sets overall rail policy and strategic direction.</p> <p>Lets and manages contracts for passenger rail services.</p> <p>Acts as 'operator of last resort' for rail services.</p> <p>Provides grant funding and oversees Network Rail.</p> <p>Regulates rail fares.</p>
Network Rail	<p>Owns, operates and maintains the majority of the railway infrastructure in Great Britain.</p> <p>Carries out renewals and upgrades of rail infrastructure.</p> <p>Charges operators to access the railway to run services.</p> <p>Coordinates and validates timetables for the national rail network.</p> <p>Owns around 2,500 rail stations and manages 20.</p>
Great British Railways Transition Team (GBRTT)	<p>Interim body, initially set up in October 2021 to prepare for the full establishment of Great British Railways in 2024.</p>
Train operating companies	<p>Private and state-owned bodies that operate passenger services to the department's specification, with DfT paying a management fee and covering most operating costs under current contracts.</p> <p>Develop timetables for services.</p> <p>Manage most rail stations.</p>
Freight operators	<p>Operate goods transportation services on a commercial basis, using available capacity on the rail network.</p>
Office of Rail and Road (ORR)	<p>Oversees Network Rail's maintenance and renewal of infrastructure, including its efficiency.</p> <p>Grants licences to train operating companies to run passenger and freight services.</p> <p>Monitors and enforces compliance with health and safety law on the railway.</p> <p>Considers applications from train operating companies for access to the network, including for 'open access' services.</p>
Transport Focus	<p>Independent watchdog for transport users.</p>
Rail Delivery Group (RDG)	<p>The British rail industry membership body carrying out delivery functions on behalf of companies that run British rail (that is, all passenger and freight companies). Delivers cross-industry services including national ticketing, information and reservations.</p>
Rail Partners	<p>Formed in May 2022 to carry out the non-operational advocacy and policy functions that were previously conducted by RDG on behalf of companies that run British rail.</p>

**Notes**

- 1 This list is not exhaustive. For example, we have not included bodies with devolved responsibilities for rail services. Information is correct at the point of publication.
- 2 There are around 15 stations that Network Rail does not own.
- 3 Great British Railways Transition Team Ltd is now a limited company, formally created in September 2022 as a wholly-owned subsidiary of Network Rail.

Source: National Audit Office analysis of Department for Transport and Network Rail documents

**1.4** DfT published its white paper for rail reform in May 2021, setting out its intentions in response to the Williams review.<sup>2</sup> The review found that too often the basics were not being achieved - running trains on time, and making travel straightforward and welcoming for customers. The review identified six key problems that needed to be addressed and 10 outcomes that reform would seek to achieve (**Figure 2**). DfT decided that to achieve these outcomes it needed to establish a single 'guiding mind' with responsibility and accountability for making the whole system work. It proposed creating a new body, Great British Railways, to take on this responsibility.

**1.5** While there have been several changes within the rail industry over the last two decades, government and industry reviews over that period have identified similar problems to the Williams review. For example:

- DfT's *Future of rail* white paper (2004). This identified issues with a lack of accountability and clear strategic direction, cost and performance, and the relationship between the infrastructure provider and those operating on the trains ('track and train').
- *Realising the potential of GB Rail* (2011). A report commissioned by DfT, identified barriers to efficiency from fragmentation in the industry due to misaligned incentives, the complexity of fare structures and insufficient focus on the needs of customers.
- DfT's *Reforming our railways: putting the customer first* white paper (2012). This aimed to reduce costs to the taxpayer and passengers, while placing greater focus on the needs of those using the railways.
- The *Shaw Report* (2016). This examined Network Rail. It identified frustration with the quality and reliability of passenger services, a perceived lack of accountability in the railway system, and a sense of disempowerment from customers.

**1.6** The performance of the passenger rail sector as a whole was not acceptable prior to the COVID-19 pandemic and in some areas DfT has identified that performance has declined further since 2021. Punctuality and reliability were not improving before the pandemic (**Figure 3** on pages 16 and 17). Despite improvements in these measures during the pandemic when there were fewer trains and passengers, performance has fallen back again. The Office of Rail and Road reported 3.8% of trains were classified as cancelled in 2022-23, along with 86.3% of trains arriving at their final destination on time, meaning that 13.7% were delayed. These levels of performance in 2022-23 were at or worse than levels in 2019-20.

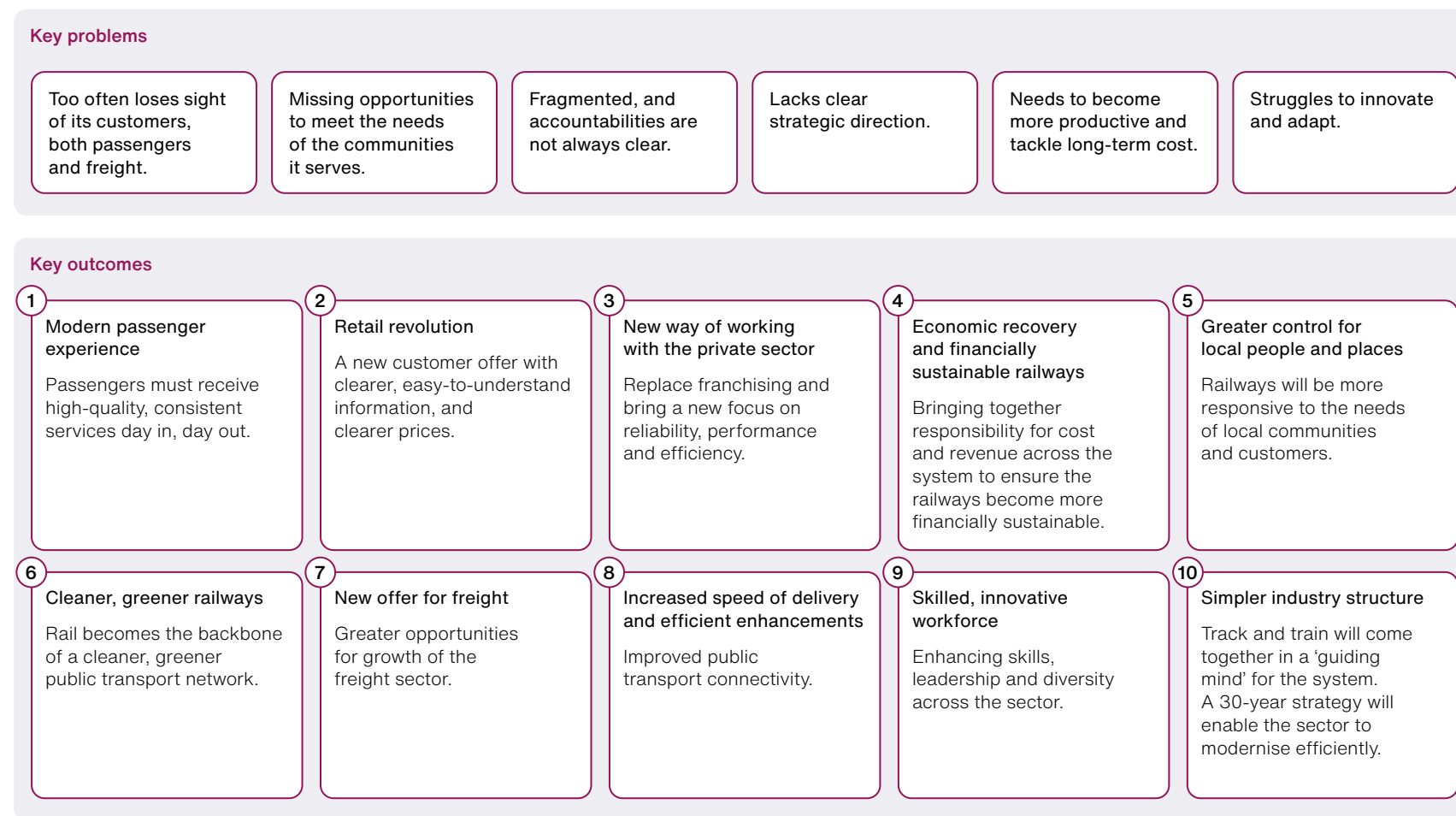
2 Department for Transport, *Great British Railways: The Williams-Shapps Plan for Rail*, CP 423, May 2021.



## Figure 2

The Department for Transport's (DfT's) understanding of problems in the rail sector, and the outcomes defining its vision for Britain's reformed railways

DfT's white paper on rail reform identified six key problems to address and 10 outcomes that reform would aim to deliver



Source: Department for Transport, *Great British Railways: The Williams-Shapps Plan for Rail*, CP 423, May 2021

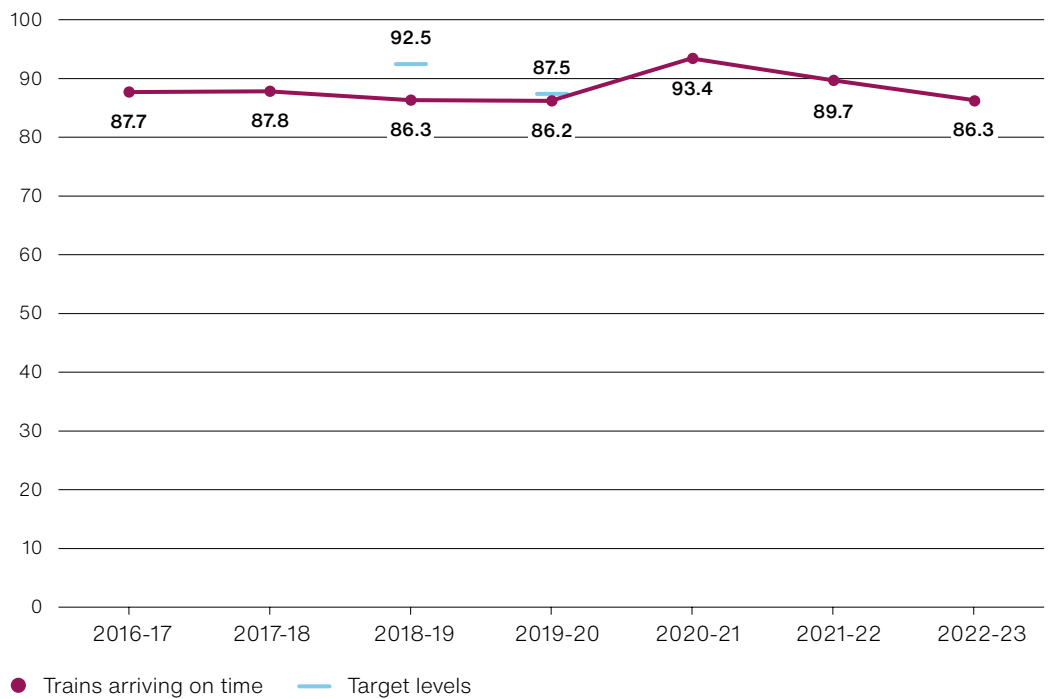
### Figure 3

Operational performance measures for the passenger rail sector, 2016-17 to 2022-23

Before the COVID-19 pandemic passengers were not receiving a good enough level of service; performance in 2022-23 remains at or below pre-pandemic levels

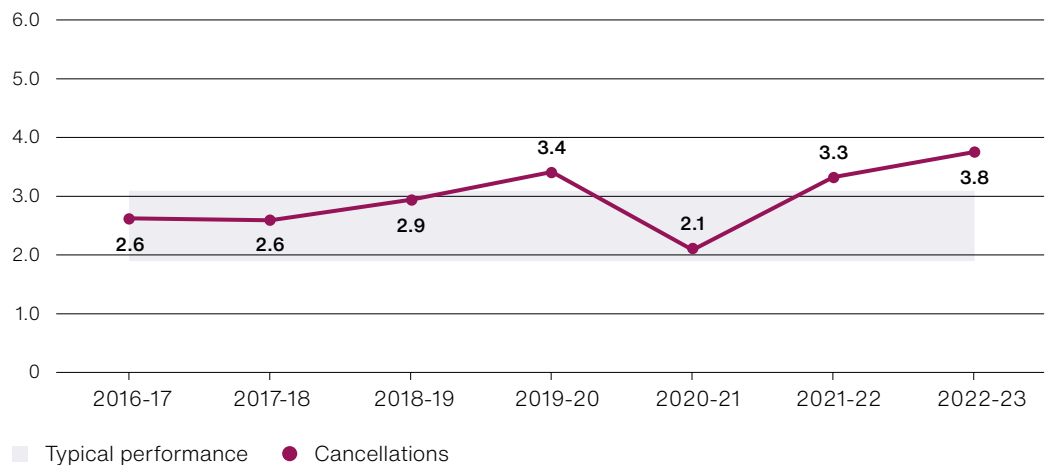
The proportion of trains arriving at their destination on time<sup>1</sup> had been below target levels in the two years prior to the COVID-19 pandemic, with performance in 2022-23 at a similar level

Trains arriving on time at their destination (%)



Trains classified as cancelled in Great Britain in 2022-23 were above typical levels before the COVID-19 pandemic, as they had been in 2019-20

Trains classified as cancelled (%)



**Figure 3** *continued*

## Operational performance measures for the passenger rail sector, 2016-17 to 2022-23

**Notes**

- 1 The measure shown for trains arriving at their destination on time is also known as the Public Performance Measure (PPM). This was the lead measure for punctuality up to the end of March 2019. For the PPM, trains are classed as arriving on time if they travel their entire planned journey, calling at all scheduled stations, and arrive at their terminating station within five minutes (for London & South East and regional services) or within 10 minutes (for long distance services) of their scheduled arrival time. The PPM is the number of trains classed as on time in this way as a percentage of the number of trains planned.
- 2 Since 2019, the Office of Rail and Road (ORR) has also officially reported a new 'On Time' measure that draws on punctuality across all recorded station stops. However, as there were not 'On Time' targets across the whole period for which we are presenting data, we have used PPM to show punctuality performance. Network Rail had a PPM target of achieving 92.5% of trains on time in 2018-19, followed by targets for 2019-20 (87.5%) and 2023-24 (89.8%) based on percentage improvements on the actual PPM performance in 2018-19. There were no specific PPM targets for the intervening years.
- 3 Passenger usage of the railways fell significantly during the COVID-19 pandemic.
- 4 Train cancellations are measured by the cancellations score as reported by the ORR. This score is calculated as a percentage of the number of trains planned to run at 10pm the previous night, with trains running half or more of their route but not calling at one or more stations counted as 0.5, and trains running for less than half the route or not at all counted as one.
- 5 Trains appearing in the published timetable but cancelled before 10pm the previous night do not affect the cancellations score. Information on such early cancellations, where they are due to resource availability, is now collected but only since the start of 2023. Accordingly this information cannot be used to measure performance over the period covered by the chart. In December 2023, ORR estimated that early cancellations due to resource availability (also known as 'P\*-coded pre-cancellations') would typically increase the cancellations score by around 0.4 percentage points.
- 6 The band represents typical pre-pandemic performance for trains classified as cancelled as set out by ORR in its December 2023 mid-year review of progress on train performance: between 1.9% and 3.1%.
- 7 All data relates to Great Britain.

Source: National Audit Office analysis of Office of Rail and Road data and Network Rail documents

**1.7** The cost to DfT of subsidising passenger services has also increased. Following DfT's response to the pandemic, its costs now exceed the revenue it receives and at a level that DfT views as unsustainable, with a net spend of £3.1 billion in 2022-23 (**Figure 4** on pages 18 and 19). Prior to the pandemic, DfT had been receiving more revenue than it spent but the net difference had been falling. This was due to factors including cost increases for operators in areas that can be harder to control in the short term, such as the contracts for leasing trains (rolling stock). Since the pandemic, revenue has been affected by fewer passengers and changes in the type of journeys made. A greater proportion of travel is now on off-peak tickets, with fewer commuting season tickets and less business travel.

### Scope of rail reform

**1.8** 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 with private organisations (**Figure 5** on page 20). DfT has found that the structure of rail industry has led to competing priorities, with incentives driven by organisational objectives and success measured by finances, rather than outcomes for the sector. DfT has described it as a once-in-a-generation transformation of the rail industry, while it is seen within government as one of its largest and most complex transformation programmes.

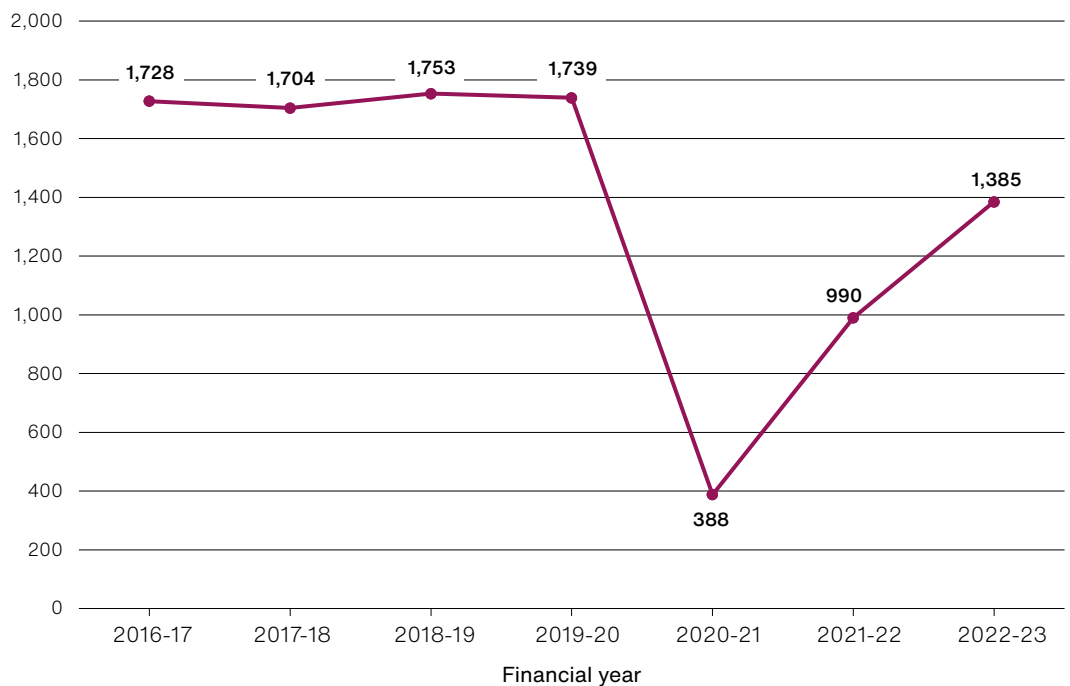
**Figure 4**

Passenger usage and cost to the Department for Transport (DfT) of the passenger rail sector, 2016-17 to 2022-23

The impact of the COVID-19 pandemic on passenger numbers has added to the financial strain on railways

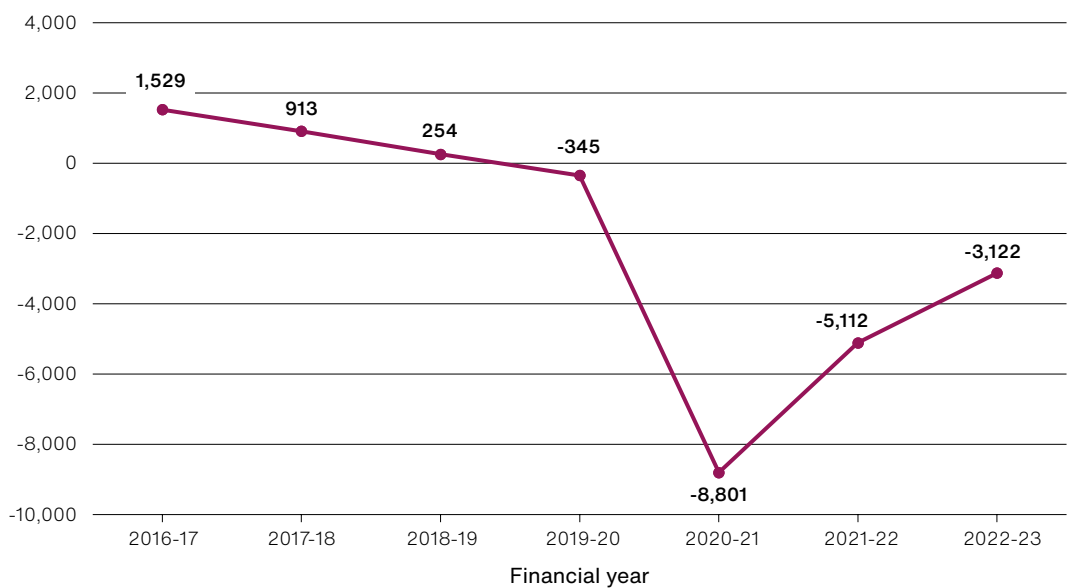
Annual passenger journeys on rail services fell as low as 388 million during the COVID-19 pandemic and remain below the pre-pandemic level

Number of passenger journeys (mn)



Since the pandemic in 2020, DfT's costs of subsidising passenger services has exceeded revenue

Net financial impact on DfT (£mn, 2022-23 prices)



**Figure 4** *continued*

## Passenger usage and cost to the Department for Transport (DfT) of the passenger rail sector, 2016-17 to 2022-23

**Notes**

- 1 Passenger data relates to Great Britain.
- 2 The Office of Rail and Road (ORR) reported there is more uncertainty around the number of passenger journeys in 2020-21 and 2021-22 than for other years, due to an unprecedented number of season ticket refund claims. The figure for the number of passenger journeys in 2022-23 is still provisional.
- 3 The net financial impact to DfT each year on passenger services draws on DfT's annual reports and accounts. We have calculated the net impact as the cost of DfT's support for passenger rail services, offset by income received from passenger service train operating companies. DfT's support for passenger rail services includes funding paid to devolved rail bodies and management and performance fees payable to the train operating companies. It does not include other spending on rail, such as the cost to government of rail infrastructure. DfT recognised £41 million from train operating companies in 2022-23.
- 4 Figures have been converted to 2022-23 prices using the GDP deflators published alongside the ONS Quarterly Accounts for Q3 2023. These were the latest available deflators as at January 2024.

Source: National Audit Office analysis of Office of Rail and Road data and Department for Transport annual reports and accounts

**Delays to rail reform**

**1.9** Following the 2021 white paper, DfT had planned on the basis that the government would pass legislation to enable the establishment of Great British Railways by March 2024. The Queen's Speech in May 2022 included plans to introduce legislation to enact structural changes as part of rail reform.

**1.10** Changes to ministerial and government priorities have led to delays in the schedule for legislation for structural rail reform:

- In October 2022, the Secretary of State for Transport stated that legislation for rail reform was not a priority for government in that Parliamentary session and would be delayed until the following year. DfT was asked to proceed with reforms that did not require legislation.
- Later in 2022, a new Secretary of State for Transport was appointed who decided to prioritise reform, with a greater emphasis on private sector involvement than had been originally planned.
- In November 2023, the King's Speech did not include rail reform as legislation to be introduced in the next Parliamentary session. Instead, the government confirmed in the background briefing to the King's Speech that a draft rail reform bill would be presented for pre-legislative scrutiny.

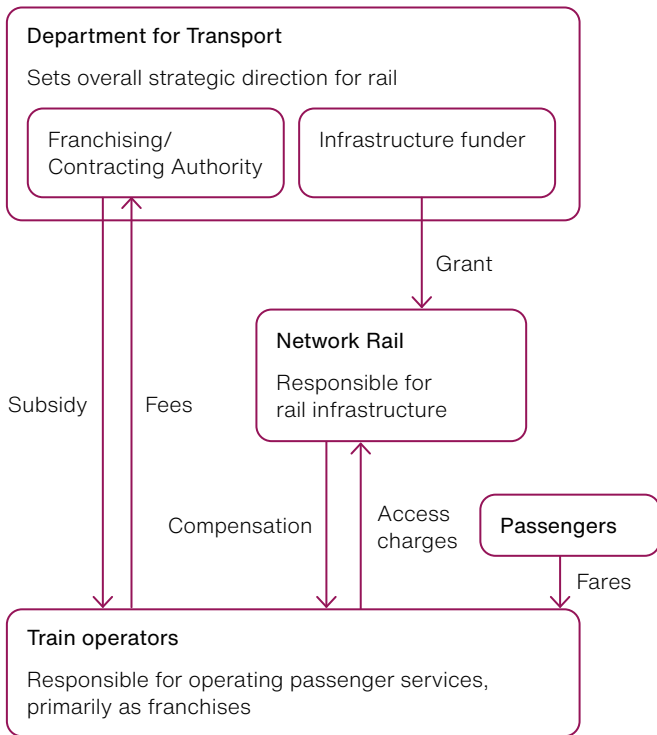
The timeline of these events, and others discussed in this report, are shown in **Figure 6** on page 21.

**Figure 5**

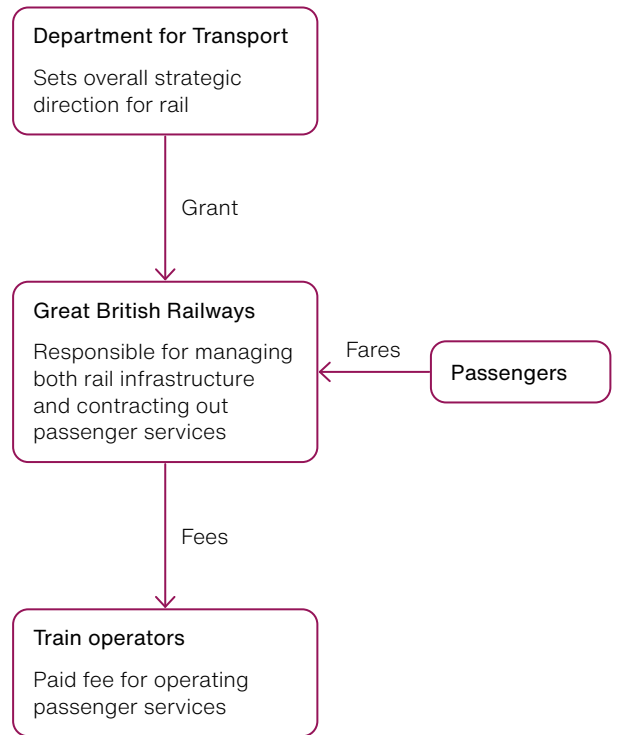
The Department for Transport’s (DfT’s) plans for changing the structure and finances of the rail sector – main elements

As part of its plans for changing the structure of the rail system, DfT sought to simplify the financial relationships between bodies in the rail sector and align incentives

**Pre-COVID-19 pandemic financial flows**



**Rail reform white paper proposals for financial flows<sup>1</sup>**



**Notes**

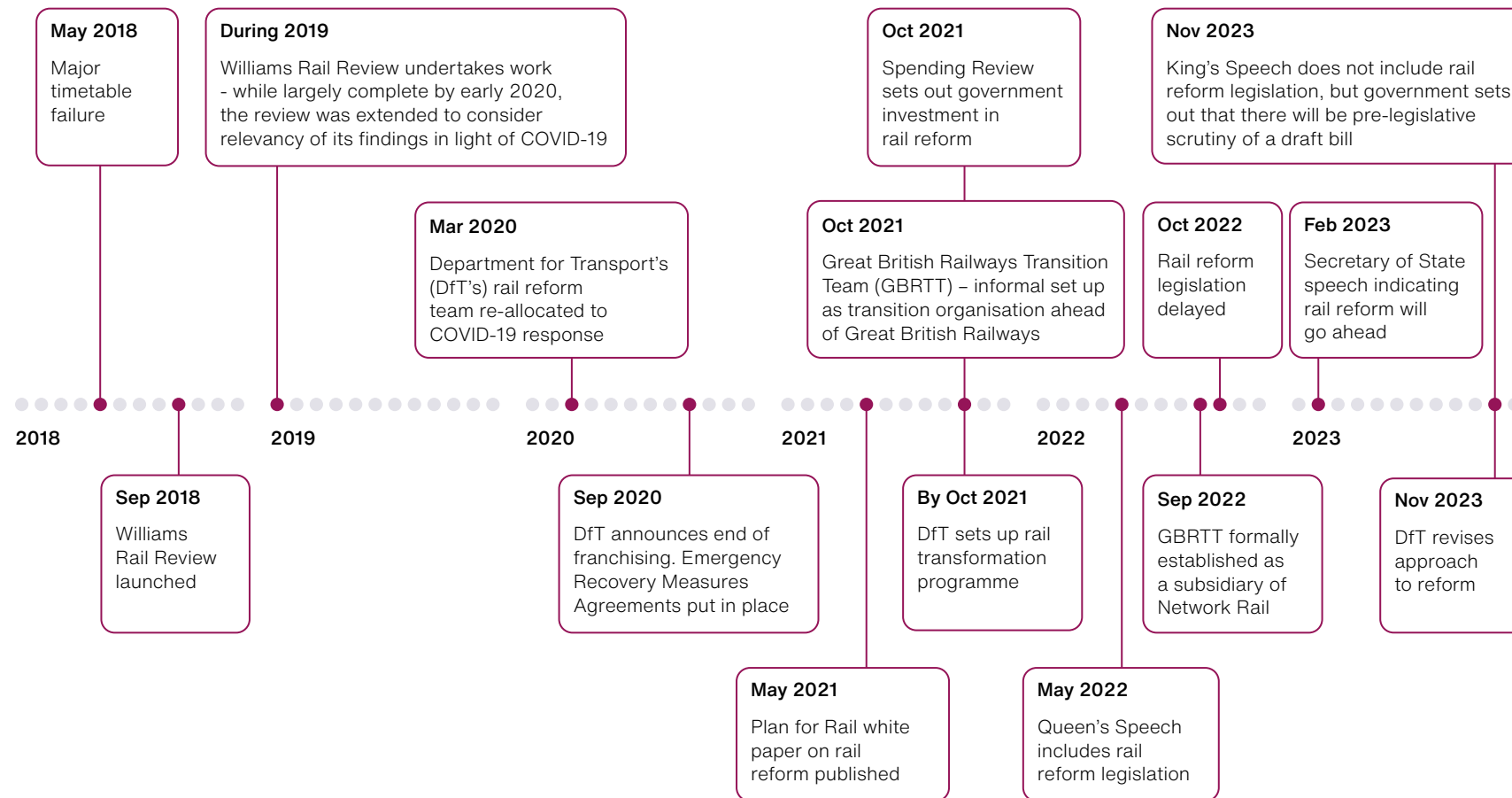
- 1 Department for Transport, *Great British Railways: The Williams-Shapps Plan for Rail*, CP 423, May 2021.
- 2 These are simplified presentations of funding flows between bodies in the rail sector. For example, we have not included the role of devolved or regional authorities or freight operators. Similarly, the white paper anticipates that in some markets operators will share revenue with Great British Railways. For more details on the existing rail system, please see our 2021 report, *A financial overview of the rail system in England*.
- 3 The financial flows labelled as ‘fees’ are different between the two arrangements. In the pre-COVID-19 pandemic arrangements, these are premium payments from operators as specified in franchise agreements. In the proposed new arrangements, these are fees paid to operators to deliver services.
- 4 Access charges are payments to use the national rail network to run train services. Compensation payments are payments to train companies for the long-term impact of disruption caused by Network Rail on their business.

Source: National Audit Office analysis of Department for Transport documents

## Figure 6

### Timeline of rail reform events

Rail reform has been delayed by COVID-19 and changes in government priorities



Source: National Audit Office analysis of Department for Transport documents

## Part Two

### Set up and progress with the rail transformation programme (2020–2023)

**2.1** This Part of the report examines if the Department for Transport (DfT) had set up its rail reform programme (the Programme) to deliver rail reform successfully, what has been achieved to date, and the impacts of the delays to reform. It examines:

- the realism of DfT’s timetable and its plans to achieve it;
- the effectiveness of the Programme’s governance;
- the extent to which DfT had made the progress it expected; and
- what the delays mean in costs to DfT and the taxpayer.

#### **Implementation of the rail reform programme**

##### Planning and schedule

**2.2** DfT’s early work on rail reform was disrupted by COVID-19. DfT moved the team working on reform to lead on its response to the pandemic. DfT then needed to update its white paper to consider the impact of COVID-19. DfT began re-establishing the rail reform team from late 2020 and by October 2021 it had set up the Programme. The Programme would be based around four main areas of work: changing the rail system; replacing the existing passenger service contracts; improving passenger experiences; and reforming the rail workforce (**Figure 7** on pages 23 and 24). These areas of work aimed to deliver 12 high-level benefits relating to customers, the finances of rail, the rail sector, and society as a whole.



**Figure 7**

Structure of the Department for Transport's (DfT's) rail transformation programme (the Programme) in 2021

DfT set up the Programme with four main areas of work, alongside supporting projects

Main areas of work	Owner	Description	Examples of individual projects	Timescales for delivery
<b>Structural reform</b>	DfT and Great British Railways Transition Team (GBRTT)	Guiding and delivering the structural and cultural transition required across the sector to establish Great British Railways (GBR) and the new operating model	<ul style="list-style-type: none"> <li>Designing the future policies and structure of rail sector</li> <li>Driving changes in staff capacity and culture</li> <li>Developing a financial framework and licensing arrangements</li> <li>Amending contracts such as national rail contracts with train operating companies</li> </ul>	<ul style="list-style-type: none"> <li>GBR to be established by early 2024</li> <li>Sector-wide operating model to be implemented by early 2024</li> </ul>
<b>Commercial reform</b>	DfT	Replacing National Rail Contracts with Passenger Service Contracts (PSCs), which will include incentives for operators on performance and quality of service	<ul style="list-style-type: none"> <li>Designing Passenger Service Contracts</li> <li>Setting GBR's Commercial Strategy</li> </ul>	First PSC to be awarded in early 2024
<b>Passenger experience reform</b>	DfT – Sponsor GBRTT – Delivery partner	Simplifying the fares, ticketing and retail system to improve passenger experience, while driving revenue growth and delivering savings for government	<ul style="list-style-type: none"> <li>Establishing pay-as-you-go (PAYG) systems</li> <li>Creating a GBR online retail website, consolidating train company sites</li> <li>Digitalising the ticketing process</li> <li>Simplifying train fares</li> <li>Modernising station retailing</li> </ul>	<ul style="list-style-type: none"> <li>Extending PAYG into the south-east of England by mid-2024</li> <li>Launching GBR online retail website by autumn 2022</li> </ul>
<b>Workforce and pensions reform</b>	DfT	<ul style="list-style-type: none"> <li>Contributing to making the rail sector financially and operationally sustainable</li> <li>Contributing to creating a more efficient and modernised rail industry</li> </ul>	<ul style="list-style-type: none"> <li>Modernising industry and station ways of working</li> <li>Improving driver availability and productivity</li> <li>Training multi-skilled future engineers</li> </ul>	Reforms to deliver majority of 2021 Spending Review settlement savings by end of March 2025

**Figure 7** *continued*

Structure of the Department for Transport's (DfT's) rail transformation programme (the Programme) in 2021

Enabling projects	Owner	Description	Timescales for delivery
Long-term strategy for rail	GBRTT	Developing a 30-year strategy to provide a clear, long-term vision of the railway and enabling government to set clear direction for the sector	Strategy to be published end of 2023
Policy and legislation	DfT	Supporting delivery of primary legislation to deliver the commitments to structural reform set out in DfT's white paper <sup>1</sup>	Royal Assent in early 2024

**Note**

<sup>1</sup> Department for Transport, *Great British Railways: The Williams-Shapps Plan for Rail*, CP 423, May 2021.

Source: National Audit Office analysis of Department for Transport documents

**2.3** In October 2021, DfT set up in shadow form the Great British Railways Transition Team (GBRTT) to lead on specific aspects of reform, with the aim of delivering early benefits ahead of the establishment of Great British Railways. GBRTT was formally established as a legal entity in September 2022. GBRTT's areas of responsibility included:

- establishing the future path for Great British Railways and its design, including its desired future culture;
- supporting the design of the new passenger service contracts with train operating companies; and
- leading on delivering some fares and ticketing reform.

**2.4** DfT scheduled significant reforms such as the establishment of Great British Railways, the launch of new passenger service contracts and the implementation of a new operating model across the sector within the first two years of the five-year Programme (Figure 7). DfT recognised 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, it wanted to identify opportunities to build momentum by making efficiencies and delivering benefits to passengers quickly, reflecting ministerial ambition. The pace of the timetable also meant that DfT was not able to develop contingencies and mitigate against the risks of reform not progressing as planned.

**2.5** In developing the plan for reform, DfT agreed with HM Treasury (HMT) to deliver early savings from rail reform. This was formalised within the autumn 2021 Spending Review. The settlement was agreed on the basis that DfT would generate £2.6 billion in savings by 2024-25. The savings would primarily come from workforce reform plans including modernising ways of working within train stations, improving control and deployment of drivers, and reductions in staff numbers, to create efficiencies and savings. DfT told us that it recognised that achieving these workforce reform savings was particularly high risk, as they would be subject to negotiations with trade unions.

**2.6** DfT's timetable for reform meant that it was developing what it needed to do as it went along, and without having the people and skills needed in place. A DfT review in April 2021 identified gaps in capability that were critical for the delivery of the programme, which it sought to address, for example with new programme directors. In October 2021, the Infrastructure and Projects Authority (IPA) reviewed progress of the reform programme. It recommended that DfT needed to develop a credible, integrated and resourced programme delivery plan to achieve benefits, supported by project plans. 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.

## Governance and oversight

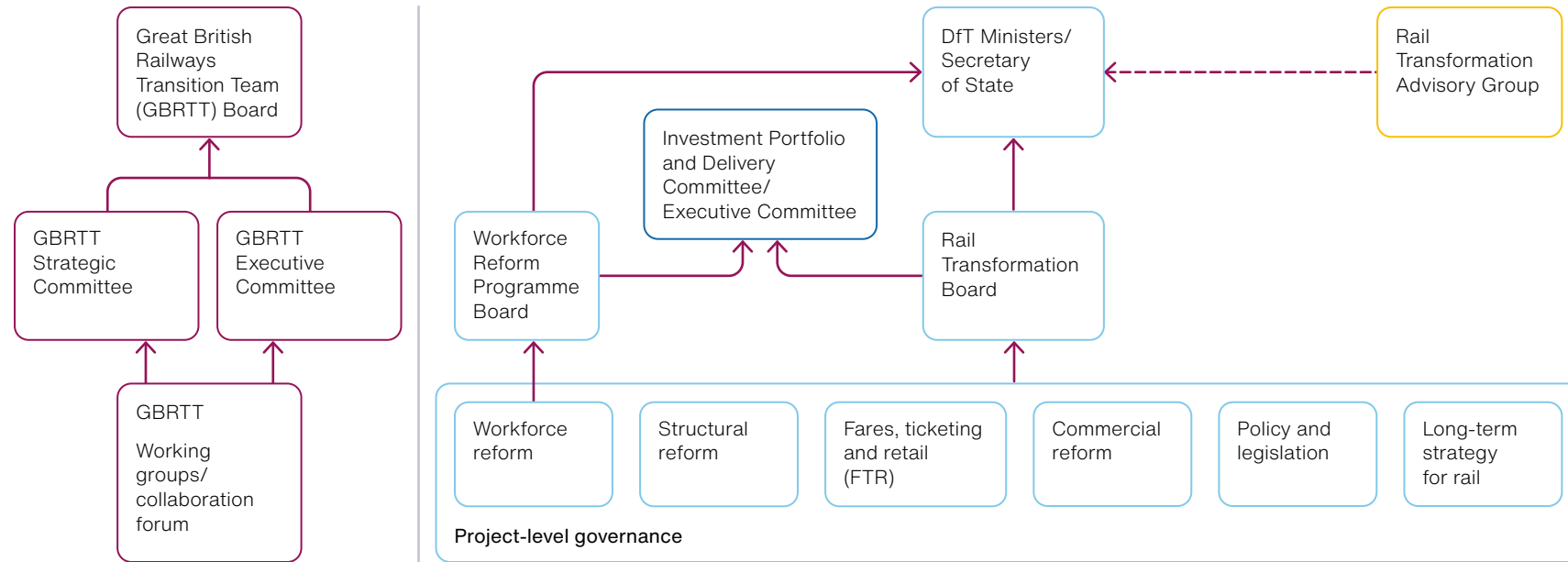
**2.7** DfT set up the Rail Transformation Board (the Board) in October 2021. Alongside DfT staff, membership of the Board also included GBRTT, the IPA and, until April 2023, HMT. The Board's role was to oversee the transformation programme and act as the key decision-maker, managing trade-offs and dependencies between projects and enabling senior stakeholders to track and drive programme delivery (**Figure 8** overleaf). In addition, workforce reform had further reporting lines within DfT that did not go through the Board, which DfT told us was to enable decisions to be taken quickly when required, for example at ministerial level. GBRTT had its own governance structures, having been set up as a separate, arms-length body in autumn 2021, but was also a member of the Board.

**2.8** DfT and HMT have disagreed about key aspects of reform. This includes the extent to which fares and services should be set by Great British Railways or the private sector, and how best to maximise rail revenue and manage costs. There was no other governance mechanism to resolve disagreements, and the Board became the forum for discussion of differing views on reform. In July 2022, DfT's accounting officer wrote to the HMT accounting officer to highlight the risks to delivery that disagreements between the departments had created. Differences with HMT, the need to resolve questions ahead of commercial development, including on structural changes, and market conditions at the time resulted in the contract design team stopping detailed design work on the passenger service contracts by April 2023.

**Figure 8**

The Department for Transport's (DfT's) rail transformation programme (the Programme) governance structure, October 2021 to August 2023

The Programme's governance has been complex, with not all decisions on rail reform taken through the Rail Transformation Board



- Great British Railways Transition Team governance
- Formal DfT governance forums
- DfT sponsoring forums
- Advisory and strategic function
- Formal reporting/escalation route
- .-> Informal reporting

**Notes**

- 1 The Rail Transformation Board was chaired by the Programme's Senior Responsible Owner, and was attended by directors of each main area of work and GBRTT, as well as representatives from the Infrastructure and Projects Authority (IPA) and, until April 2023, HM Treasury.
- 2 DfT is the sponsor department of GBRTT and a representative attends the GBRTT Board.

Source: National Audit Office analysis of Department for Transport documents

**2.9** Reviews by the IPA and DfT during the first half of 2023, alongside a Network Rail Internal Audit review of GBRTT governance, found that programme governance was confused and there was not agreement across stakeholders on the scope and delivery approach of the programme. Issues identified by one or more of the reviews included:

- unclear reporting relationship between DfT and GBRTT and duplicated governance structures across the organisations;
- unclear leadership roles and accountabilities;
- conflicts between programme governance and DfT culture; and
- decisions on aspects of reform being made outside of the Board.

DfT has considered alternative options for governance arrangements and has introduced new arrangements in the form of the Rail Reform Board (Part Three).

## **Progress with the rail transformation programme by the end of 2023**

**2.10** Although DfT has begun to make changes in preparation for Great British Railways, DfT has not been able to make the progress it has intended (**Figure 9** on pages 28 and 29). DfT set out 62 commitments in its white paper, of which it reports that 21 (34%) need future legislation to complete and it has paused further work on 11 of these as at February 2024. There have also been policy changes that mean that DfT has dropped some commitments, such as those to create a centralised online ticket retailer or to overhaul track access rules. DfT has made some progress to improve the passenger experience in line with original commitments. For example, DfT has introduced flexible season tickets and maintained price-capped season tickets. However, most commitments are long-term work in progress and it is not clear when some of these will be achieved. At December 2023, of the 12 high-level benefits DfT aimed to achieve with rail reform, DfT rated five as 'red' and seven as 'amber'.

**2.11** At the 2021 Spending Review DfT planned that, over the three years 2022-23 to 2024-25, rail reform would achieve total savings for government of £2.6 billion. From 2026-27, savings would be a steady state of £1.5 billion a year. Early savings would primarily come from workforce reform, while savings from fares and ticketing reform and structural reform would largely come later. DfT told us the costs and savings figures used in planning and setting budgets were very uncertain. By December 2023, DfT had revised its expectations to reflect the delays and policy changes to the Programme, as well as using more up-to-date information in its estimates. It now plans to achieve around three-quarters the level of savings: expecting £2.0 billion over the three years to 2024-25, £0.6 billion less than expected previously (**Figure 10** on page 30). DfT reported that a significant proportion of the £2.0 billion will not be cash-releasing savings. DfT also no longer expects to be achieving steady state savings of £1.5 billion a year by 2026-27 as they are dependent on DfT establishing Great British Railways.

**Figure 9**

Status of Department for Transport's (DfT's) commitments from the rail reform white paper, as at February 2024

DfT reported that 21 of the commitments it set out in the rail reform white paper<sup>1</sup> (around a third) require legislation to complete, with work paused on 11 of these commitments<sup>2</sup>

Area of work and summary of progress	Number of white paper commitments and their status				
	Number	In progress	Requiring legislation to complete		Complete
			Work ongoing	Paused	
<b>Structural</b> The legislative set up of Great British Railways is delayed, which three-quarters of the structural commitments require for completion. DfT has paused work on nearly half of the commitments as a result.  DfT is no longer proceeding plans to overhaul how track access is managed. DfT plans to address this through changes to existing rules.	20	4	6	9	1
<b>Commercial</b> DfT has paused work on passenger service contracts reflecting the need for conducive market conditions, further work on the structural changes, and to resolve ongoing differences with HM Treasury on commercial policy.  DfT reports it continues to have processes for taking into government control failed passenger service operators, which completes its commitment on this.	16	11	2	2	1
<b>Passenger experience</b> DfT has completed two commitments. These are the introduction of flexible season tickets and the capping of regulated ticket price rises in line with or below inflation. <sup>3</sup>  DfT has cancelled plans for a centralised online ticket retailer.	15	12			2
<b>Workforce reform</b> Work to develop a sector-wide workforce plan and improve diversity in the workforce are dependent on legislation.  DfT is continuing with work on improving skills and training and published a report on pay in the rail industry in October 2022.	4	1	2		1

**Figure 9** *continued*

Status of Department for Transport's (DfT's) commitments from the rail reform white paper, as at February 2024

Area of work and summary of progress	Number of white paper commitments and their status				
	Number	In progress	Requiring legislation to complete	Cancelled	Complete
Other areas	7	6			1
These relate to broader innovation and modernisation measures, such as expanding electrification on the railways and improving resilience to climate change. DfT published its environmental plan in November 2023 to complete one of its commitments.					
<b>Total</b>	<b>62</b>	<b>34</b>	<b>10</b>	<b>11</b>	<b>5</b>

**Notes**

- 1 Department for Transport, *Great British Railways: The Williams-Shapps Plan for Rail*, CP 423, May 2021.
- 2 The commitments do not necessarily capture all activities within each area of work. For example, DfT's work on workforce reform is broader than the commitments listed in the white paper.
- 3 The baseline inflation rate used by DfT is the retail prices index (RPI) at July each year.

Source: National Audit Office analysis of Department for Transport documents

**2.12** DfT had expected in February 2022 that rail reform would cost £1.4 billion over the three years 2022-23 to 2024-25, with a peak in 2023-24 as it implemented workforce reform. It also expected to spend a further £0.6 billion in the remaining two years of the programme. However, as it has not been able to make the progress it expected, DfT has spent less than planned. DfT now estimates it will have spent £0.4 billion by the end of March 2024, compared to its original forecast in February 2022 of a spend of £1.2 billion by that date, including early spend in 2021-22 (**Figure 11** on page 31).

### The impact of delays to reform

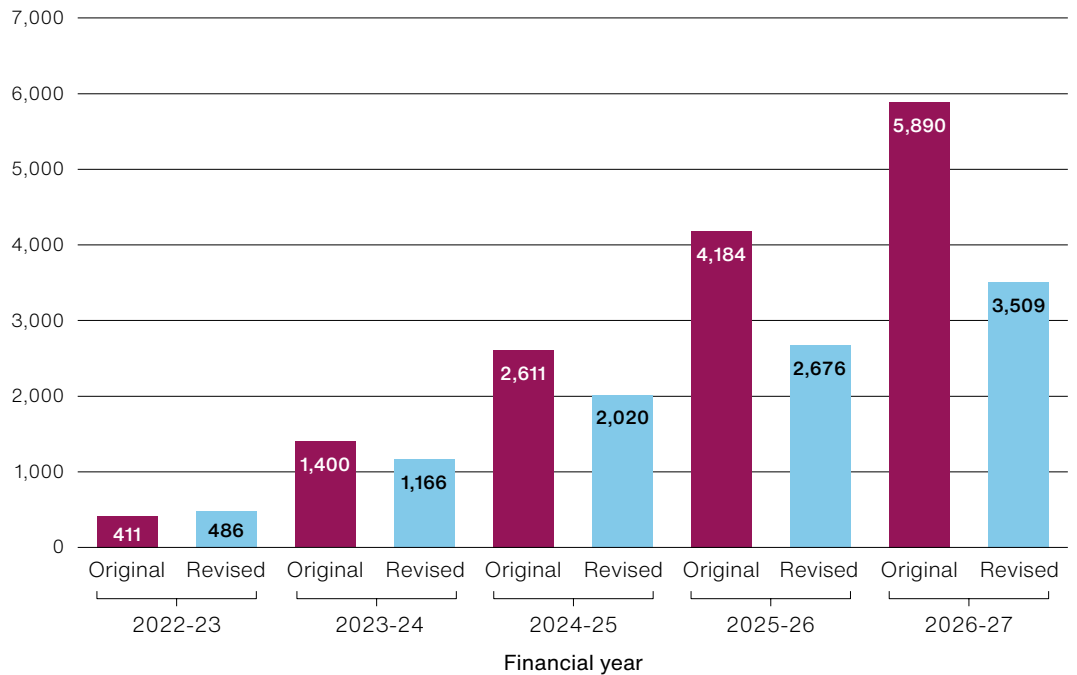
**2.13** DfT's 2021 Spending Review settlement incorporated plans for rail reform over the period 2022-23 to 2024-25. DfT's budget for rail services and reform assumed that rail reform would be enacted, allowing early savings to be made. Rail reform had a budget of £1.4 billion for this three-year period, but was expected to generate savings of £2.6 billion that would contribute towards DfT's total budget. Inflation has been higher than the levels assumed in the 2021 Spending Review, impacting on areas such as the cost of electricity and diesel to power trains. DfT told us that it is assessing these cost pressures and looking to address them through its normal business planning processes.

**Figure 10**

The Department for Transport’s (DfT’s) cumulative expected savings from its rail transformation programme for the financial years 2022-23 to 2026-27, at February 2022 and December 2023

**DfT’s revised forecast is that it will have released savings of £2.0 billion by the end of March 2025, around three-quarters of its original forecast of savings of £2.6 billion by that date**

Cumulative forecast savings (£mn)



**Notes**

- 1 The original forecast is from February 2022 and the revised forecast is from December 2023.
- 2 Savings are presented in nominal terms and numbers are rounded to the nearest million pounds.
- 3 DfT reported that in its revised December 2023 forecast a significant proportion of the £2 billion savings it estimates to make over the three years to the end of 2024-25 will not be cash-releasing savings. This is because DfT calculates some of its savings against a benchmark of the retail prices index (RPI) at time of expenditure. This has resulted in savings against its benchmark. However, given higher levels of inflation compared to its assumptions in the 2021 Spending Review there have been higher costs overall.
- 4 DfT’s December 2023 revised ‘forecast’ for 2022-23 is based on its modelling for expected savings.
- 5 DfT has not made savings forecasts beyond 2026-27.

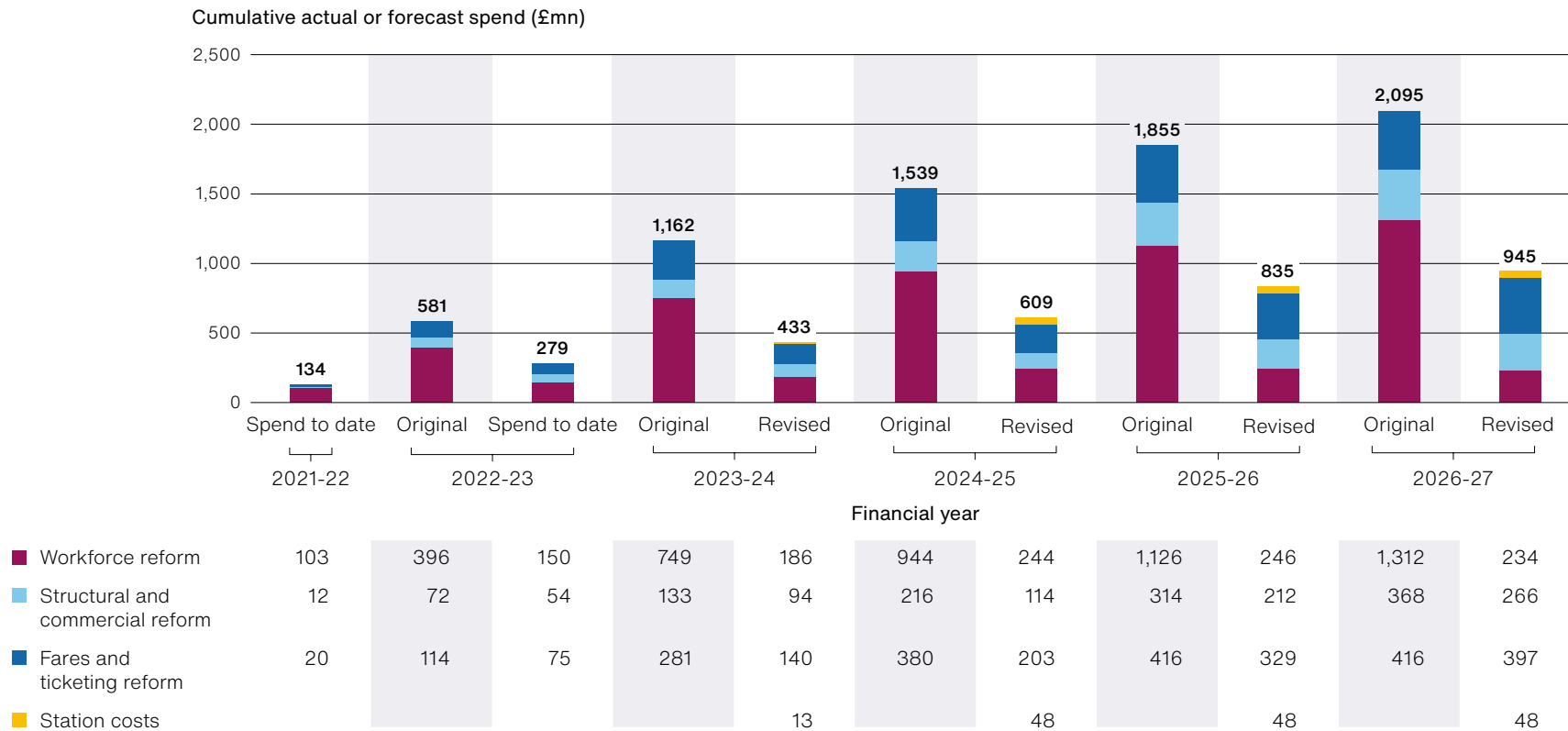
Source: National Audit Office analysis of Department for Transport data



**Figure 11**

The Department for Transport's (DfT's) cumulative expected costs of its rail transformation programme for the financial years 2022-23 to 2026-27, at February 2022 and December 2023

DfT's revised forecast is that it will have spent £0.4 billion by the end of March 2024, around a third of its original forecast of a spend of £1.2 billion by that date, including early spend in 2021-22



**Notes**

- 1 The original forecast is from February 2022 and the revised forecast is from December 2023. Both forecasts covered the five-year period of the programme: 2022-23 to 2026-27. However, as the programme was set up by October 2021, there was some initial spend in 2021-22. For completeness, we have included the 2021-22 spend in both sets of cumulative costs.
- 2 Spending figures are in nominal terms and all numbers, including totals, are rounded to the nearest million pounds. For this reason, numbers may not sum exactly to totals as presented.
- 3 Spend to date excludes overhead costs, which were £11 million in 2021-22 and a further £18 million in 2022-23.

Source: National Audit Office analysis of Department for Transport data

**2.14** The settlement also assumed that revenues would increase more quickly than they have in practice. DfT estimates that the rail revenue will stabilise, after COVID-19 recovery and industrial action, at around £1 billion below the levels assumed in the 2021 Spending Review. Revenue has also been impacted by national industrial action, which GBRTT estimates had a direct cost of around £500 million in lost revenues in 2022-23, fewer passengers and changes in the types of journey made. This has put pressure on the cost of rail services.

#### On transitional arrangements following the COVID-19 pandemic

**2.15** In response to the COVID-19 pandemic, DfT put in place interim arrangements to support the sector ahead of rail reform. Passenger services had previously operated under a franchising model. This model had been under pressure for some time and, with the impact of COVID-19, was no longer viable. In March 2020, DfT replaced franchising with Emergency Measures Agreements (EMAs), followed by National Rail Contracts (NRCs). Under these contracts the department pays most operating costs incurred by train operators and a management fee. DfT had initially expected that these contracts would begin to be replaced by Passenger Service Contracts from early 2024.

**2.16** This financial framework separates the responsibilities for cost and revenue. DfT continued to hold the cost risk, while HM Treasury took on the risk of any revenue shortfalls. Given the uncertainty about passenger demand at the point of the 2021 Spending Review settlement, HMT and DfT agreed the revenue risk was too great for DfT to manage from within its overall budget. However, this means that DfT, train operating companies and HMT will have different priorities when making decisions which impact revenue. The rail industry has pointed, for example, to a focus on reducing discretionary costs such as marketing that could impact on their ability to attract passengers and serve to reduce revenue.

**2.17** DfT had explored ways to amend the contracts to incentivise train operating companies to increase revenues, which HM Treasury supported. This included giving them some freedom over spending decisions that might increase revenue. However, greater flexibility for train operators to spend to raise revenues may present affordability challenges and requires HM Treasury and DfT to carefully consider how to balance risk between government and operators. There are also further challenges in developing a model that is commercially attractive to the rail industry given uncertainty about the timing of reform. In September 2023, DfT amended the existing national rail contracts to better incentivise train operating companies to increase revenues. Train operating companies are now able to earn additional fees if revenue exceeds set levels.

## Part Three

### Resetting rail reform

**3.1** This Part examines:

- how the Department for Transport (DfT) is responding to delays to reform and how that may support its future reform work; and
- the lessons that DfT should be considering in its work to fully reset the programme after 2024.

#### **DfT's changes to its rail reform programme**

**3.2** In autumn 2023, DfT took the decision to pause some of its work on rail transformation, particularly around structural reform. This followed the King's Speech and the expectation that rail reform legislation to establish Great British Railways would not be introduced in the current parliament. DfT changed the delivery and governance on its rail reform programme with interim arrangements. These are intended to be in place for the next 12 to 18 months ahead of future legislation.

**3.3** Instead of a centralised programme of work, activity will be managed through DfT's existing governance structures, with a rail reform board responsible for aligning work across DfT and Great British Railways Transition Team (GBRTT). In December 2023, DfT established a new rail reform board in order to maintain coherence across activities. This board has responsibility for setting and aligning strategic direction. It does not make decisions about delivery, to avoid overlap with individual project governance. DfT considers that this will address the issues with its existing programme governance, for example on unclear roles and accountabilities and duplication (see paragraphs 2.7 to 2.9). DfT has described this as a portfolio approach to managing its reform activity.

**3.4** We have found in our work across government that using a portfolio approach can help prioritise activities to meet a strategic objective.<sup>3</sup> Successfully re-organising around a portfolio approach is unlikely to be straightforward for DfT. In particular, DfT has recognised that the move away from a centralised programme will be a significant change for rail reform and require adjustment from all stakeholders. It plans to implement its portfolio approach in phases alongside wider reforms.

<sup>3</sup> National Audit Office, *Good practice guide, Framework to review portfolios*, January 2022.

**3.5** The delays to establishing Great British Railways has also led DfT to revisit the roles and responsibilities of GBRTT. DfT has, in the interim, moved GBRTT's role away from preparing for the set-up of the Great British Railways organisation. It is now focused on cross-industry activity and encouraging joined-up thinking across the sector. For example, it is leading on developing options for a long-term strategy for rail. However, it is not yet clear how GBRTT in this role will work with other bodies, including how DfT can hold it to account as sponsor and act as a collaborative delivery partner. DfT and GBRTT are working to clarify roles and responsibilities as part of GBRTT's business planning for 2024-25. 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, for example to better integrate decision-making on its areas of responsibility.

### **Reform activity during the interim period**

**3.6** DfT has reduced and reframed its reform activity, for the period to March 2025, around three main areas (**Figure 12**). This is to help it achieve benefits of reform ahead of legislation and to continue to establish better ways of working between rail bodies that would be needed under Great British Railways. DfT is focusing on a 'whole systems' approach to better plan and make changes with greater consideration of how it impacts the overall rail system. For example, DfT and Network Rail are now jointly developing a strategy for how they can apply this to timetable changes. However, this approach requires culture change and greater collaboration between rail bodies.

**3.7** If DfT can successfully improve the culture and collaboration across rail bodies, it will put DfT in a stronger position to implement any structural changes in the future. This is because the behaviours needed for bodies to work together successfully under any new system would already be partly in place. As the government's white paper set out, the incentives for all parties in the rail sector to work together for a common purpose are not in place and there has been too little collaboration. DfT's interim activities to change culture and improve collaboration in the sector include implementing a culture framework and running senior leadership events between DfT, GBRTT and Network Rail focused on how their organisations can better work together.

**3.8** DfT is still working to determine what the scope of individual activities will be and when they will be delivered. As at January 2024, DfT had developed a high-level delivery plan, with further detailed planning to be completed. For example, DfT reported that on its 'whole-system' approach work it had confirmed the scope on three of its seven key areas of focus.

**Figure 12**

## Main areas of work for the Department for Transport (DfT) on rail reform for the period to March 2025

DfT has refocused its work around three areas: what it can achieve without legislation, the benefits of reform it can bring forward, and preparing for reform in the next Parliament

**Activity that does not require legislation and can result in benefits for passengers and freight customers over the next 18 months**

This includes publication of the rail freight growth target and actions; demand-based pricing trials on passenger services; expansion of pay as you go in south-east England; and continuing negotiations on workforce reform.

**Activity that does not require legislation and can achieve benefits related to wider reform**

DfT has seven key areas of focus where taking a 'whole-system' view and collaborating across organisational boundaries can help improve rail services and support rail reform. These are:

- ① **Aligning business planning** across DfT, Great British Railways Transition Team Ltd and Network Rail.
- ② Improving **track and train collaboration** by developing partnership arrangements between Network Rail and train operators to better plan activity and share resources.
- ③ Increasing **passenger and freight revenue growth** through improved marketing, cost reduction and customer service improvements.
- ④ Changes to **fares, ticketing and retail offer at stations** to improve customer satisfaction.
- ⑤ **Optimising rail timetables** and produce better whole-system timetables that improve deliverability of services.
- ⑥ Revising **engineering access** to enable more efficient delivery of maintenance work.
- ⑦ Considering **future commercial development** and the extent to which it is possible to improve financial, performance and customer-service outcomes.

**Preparations for reform in the next Parliament**

This includes supporting Parliament in the pre-legislative scrutiny of the draft Rail Reform Bill and developing work on the future commercial model for the railway.

Source: National Audit Office analysis of Department for Transport documents

**3.9** DfT will also need engagement from the wider rail sector, but achieving buy-in will be difficult. It identified that industry stakeholders have felt let down by the lack of delivery and sought certainty and direction on reform. These were also issues we heard during our own interviews with industry bodies. There is now clarity for the wider rail sector that rail reform legislation will not take place before 2025 at the earliest. However, DfT recognises that there will be a challenge in getting stakeholders to prioritise work intended to improve rail before the timing of future reform is clearer. DfT is planning engagement and communications activity with the sector during early 2024, for example, a session with key industry stakeholders in March 2024 to engage them on activities to be delivered by the end of the year.

### **DfT's view of how work on areas that are paused can support future reform**

**3.10** DfT has paused work on several significant areas of reform such as structural changes to the sector. This paused work includes, for example, developing the future operating model intended for the rail sector and planning operational readiness for Great British Railways, such as developing its governance framework.

**3.11** How much of the work that DfT has paused can be used and applied in the future will depend on the policy direction of rail in the next Parliament. For example, DfT continues to plan that Great British Railways will be established as part of rail reform after the next general election. Should that be the case, DfT and GBRTT would be able to build upon planning work for setting Great British Railways up. There has also been work DfT has undertaken and paused that may be of value regardless of how reform is undertaken. This includes the following:

- Future operating model: DfT has undertaken work to develop a potential structure for how the sector and its component parts may work in the future. This included consideration of how it will work with the devolved nations. DfT set out that the work done provides a clear understanding of how the sector is organised, making it easier to understand the impact of change and act as a basis for any future design.
- Design work on new passenger service contracts: As we set out in paragraph 2.15, DfT had been planning to replace the current interim contracts with more effective long-term contracts. DfT had conducted early design work and market engagement on these new contracts but by April 2023 had stopped detailed design work on the contracts. This followed uncertainty over the structural reforms, continued differences with HM Treasury and market conditions at the time. DfT plans to continue engaging with industry bodies in the interim, so they will be prepared for when it can continue with contract development and competition.

### **Lessons from past programmes**

**3.12** DfT told us that it remains committed to the outcomes it is seeking to achieve through rail reform. DfT is planning for the future end-state of rail reform through 'no-regret' activity, such as supporting pre-legislative scrutiny. DfT expects there will be greater clarity on the timetable and scope during the next Parliament. As this becomes clearer, DfT will refocus its programme of work in response.

**3.13** We have identified several lessons from our past work looking at programmes across government, as well as within DfT, that will be relevant when DfT fully resets how it will proceed with reform in the next Parliament. We have summarised these in **Figure 13** on pages 37 and 38.

**Figure 13**

Lessons from past National Audit Office work for the Department of Transport (DfT) to consider as part of fully resetting rail reform in the future

**Based on our findings on DfT's rail reform programme and our work on major programmes, we have identified six areas where DfT can draw on learning for its future implementation of rail reform**

Area	Why this is important
Setting realistic timetables  (see paragraphs 2.4 to 2.6)	<p>Setting a realistic time frame for implementation that reflects the scope of the programme allows bodies to properly plan, test, bring into operation and manage risks. While it is understandable that a government wants to be ambitious in meeting its goals, this too often overrides a frank assessment of the mounting risks and potential negative consequences of overreaching for a deadline.</p> <p>We found in 2019 that decision-making in the latter stages of the Crossrail project was dominated by achieving a fixed completion date, and some of these decisions drove unnecessary cost into the programme. These included an attempt to meet the schedule by carrying out construction and systems testing in parallel, when few meaningful test results could be acquired.<sup>1</sup></p>
Setting cost and savings targets  (see paragraphs 2.5 and 2.13 to 2.14)	<p>In many programmes we have reviewed, governments of the day have not sufficiently recognised the inherent uncertainties and risks in early estimates and have used them to set budgets and a completion date. We then see situations where forecast cost and schedules exceed early estimates as these uncertainties and risks crystallise. For example, we concluded in 2023 that DfT and High Speed 2 (HS2) Ltd fixed the budget for HS2 Euston station too early and too low for what was intended to be achieved and were not able to develop an affordable scope, resulting in the programme's reset.<sup>2</sup></p> <p>Similarly, there can be a temptation to score savings and other benefits early. Business cases for major transformation programmes typically identify large benefits from undertaking a programme. But these benefits are uncertain and can be highly dependent on the 'implementation path': how the programme is introduced and decisions made along the way. For example, we reported in 2020 that HS2 Ltd had included £4.9 billion of savings within its April 2017 estimate but had not developed them further into a programme of activity to achieve them. As a result, these savings were not delivered, and elements that had the most assumed savings saw significant cost increases within HS2 Ltd's 2020 cost estimate.<sup>3</sup></p>
Managing the risk of uncertainty  (see paragraphs 1.9 to 1.10 and 2.4)	<p>Most government programmes will not be able to avoid operating without some uncertainty, especially given the complex, innovative and long-term nature of many of these programmes. This is particularly true for long-term transformation programmes, where it is highly likely that there will be policy changes between their start and completion. Decision-makers still need to make value-for-money decisions in this uncertain context. Taking explicit account of this uncertainty will often be critical to a programme's success and the programme team's ability to demonstrate that it has secured value for money. Our August 2023 good practice guide on managing uncertainty sets out questions and case studies across government programmes for decision-makers to help with identifying, analysing and planning for uncertainty.<sup>4</sup></p>

**Figure 13** *continued*

Lessons from past National Audit Office work for the Department of Transport (DfT) to consider as part of fully resetting rail reform in the future

Area	Why this is important
Resetting a programme  (see paragraphs 3.2 to 3.13)	<p>A programme reset can often be a positive step in response to a need for change. It provides the opportunity to reflect and rebalance a programme. However, resets can be challenging and do not always work. For example, a failure to address the reasons behind a reset may result in the need for further resets, such as at HS2 Euston where DfT and HS2 Ltd were unable to address the affordability challenge of the project.</p> <p>Decision-makers should consider how they can increase their chances of a successful reset, as we set out in our March 2023 lessons learned report on resetting major programmes.<sup>5</sup></p>
Managing reform work as a portfolio  (see paragraphs 3.3 and 3.4)	<p>Government broadly defines a portfolio as the programmes, projects and wider work required to meet a common objective. A portfolio differs from a programme, where all activities need to be delivered to achieve the end goal, as there can be choices over the activities undertaken. We found in our 2022 framework to review portfolios that successful, value-adding portfolios have a clear purpose with a well-defined objective; are set up to ensure the right funding, resources, management and controls are in place to achieve these objectives; and their delivery is managed to consider changes to the environment, resources, and at times, the overall strategic direction.<sup>6</sup></p>
Managing capability to deliver  (see paragraph 2.6)	<p>Weaknesses in capabilities are a common source of government project delivery issues, ranging from a lack of expertise in particular skills to high turnover of senior leaders. For example, a lack of expertise in project and programme management alongside flaws in oversight and governance at senior levels contributed to the collapse of the InterCity West Coast franchise competition in 2012.<sup>7</sup></p> <p>Transformation programmes especially need senior leadership attention and capacity as the onus is often on senior teams to be closely involved with decisions that may have significant impacts. It is important that this is recognised, alongside the need for clear governance structures to support them.</p>

**Notes**

- 1 Comptroller and Auditor General, *Completing Crossrail*, Session 2017–2019, HC 2106, National Audit Office, May 2019.
- 2 Comptroller and Auditor General, *High Speed Two: Euston*, Session 2022–23, HC 1201, National Audit Office, March 2023.
- 3 Comptroller and Auditor General, *High Speed Two: A progress update*, Session 2019–20, HC 40, National Audit Office, January 2020.
- 4 National Audit Office, *Managing uncertainty, Questions for decision-makers to ask in an uncertain environment*, August 2023.
- 5 Comptroller and Auditor General, *Lessons learned: Resetting major programmes*, Session 2022–23, HC 1198, National Audit Office, March 2023.
- 6 National Audit Office, *Good practice guide - Framework to review portfolios*, January 2022.
- 7 Comptroller and Auditor General, *Lessons from cancelling the InterCity West Coast franchise competition*, Session 2012–13, HC 796, National Audit Office, December 2012.
- 8 In addition to the above reports, we have also drawn on: Comptroller and Auditor General, *Lessons for major service transformation: a briefing*, National Audit Office, May 2015; Comptroller and Auditor General, *Lessons learned from major programmes*, Session 2019–2021, HC 960, November 2020; Comptroller and Auditor General, *Capability in the civil service*, Session 2016–17, HC 919, March 2017; and Comptroller and Auditor General, *Transforming health assessments for disability benefits*, Session 2022–23, HC 1512, June 2023.

Source: National Audit Office



# Appendix One

## Our audit approach

### Our scope

**1** In May 2021, DfT published its white paper on rail reform which set out how the government intended to transform the way the rail system works. The white paper proposed that 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. By autumn 2021, DfT had set up its rail transformation programme (the Programme) to deliver reform and also set up a Great British Railways Transition Team (GBRTT) to prepare for the establishment of Great British Railways.

**2** 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 set out 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, government confirmed delays to the legislation supporting reform and DfT revised its approach. We amended our scope to include these developments. Our report therefore examined:

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

**3** We examined DfT's work on rail reform as a whole and did not undertake a detailed examination of individual projects. We did not undertake an appraisal of longer-term transport modelling post-COVID-19.

## Developing our audit questions

**4** In developing our audit questions, we drew on our April 2021 guidance, *Framework to review programmes*,<sup>4</sup> which comprises key audit questions that have been developed from our experience and learning in auditing major programmes. The framework groups audit questions into the four elements we consider when we audit programmes and projects – purpose; value; set-up; and delivery and variation management. We also drew on our good practice guides, *The DECA: understanding challenges in delivering project objectives*<sup>5</sup> and *Initiating successful projects*,<sup>6</sup> and our lessons learned reports including *Lessons for major service transformation*,<sup>7</sup> *Lessons learned: Delivering programmes at speed*,<sup>8</sup> *Lessons learned from Major Programmes*,<sup>9</sup> and *Lessons learned: Resetting major programmes*.<sup>10</sup>

## Our evidence base

**5** We reached our independent conclusions on whether DfT is set up to deliver value for money from its work to reform rail after analysing evidence collected primarily between September 2023 and January 2024. In general, the evidence presented in this report and used to reach our conclusions is based on documentary evidence and data analysis. Our interviews helped to inform our understanding of the issues and to focus our review of documents and analysis of data.

## Interviews

**6** We undertook 20 interviews with staff from ten different organisations. We used information from these interviews to build our understanding of the relevant topics. Most importantly, we used these interviews to inform our document requests and prioritise our review work. DfT identified interviewees at relevant organisations, in response to our request for advice on who would have the knowledge and expertise to assist us with our lines of inquiry.

**7** All of our interviews were conducted face-to-face, either in-person or virtually using Microsoft Teams. We did not audio record the interviews but took a note of each one.

4 National Audit Office, *Good practice guide – Framework to review programmes update*, April 2021.

5 National Audit Office, *Good practice guide – The DECA: Understanding challenges in delivering project objectives*, November 2022.

6 National Audit Office, *Good practice guide – Initiating Successful Projects*, December 2011.

7 Comptroller and Auditor General, *Lessons for major service transformation: a briefing*, Session 2019–20, HC 960, National Audit Office, May 2015.

8 National Audit Office, *Delivering Programmes at Speed*, September 2021.

9 Comptroller and Auditor General, *Lessons learned from major programmes*, Session 2019–2021, HC 960, National Audit Office, November 2020.

10 Comptroller and Auditor General, *Lessons learned: Resetting major programmes*, Session 2022–23, HC 1198, National Audit Office, March 2023.

### **Interviews with DfT and GBRTT**

**8** At the start of our fieldwork, we undertook seven semi-structured interviews with the officials responsible within DfT and GBRTT for leading different aspects of the Programme to understand:

- the background for each area of reform and associated objectives, outputs and outcomes;
- delivery plans, including timeline and key milestones; and
- how plans have progressed in terms of implementing the original plans and delivering anticipated benefits and cost savings.

**9** We then undertook three further semi-structured interviews with officials to deepen our understanding of:

- the early stages in the development of the Programme; and
- DfT's approach to resetting the Programme.

### **Interviews with stakeholders**

**10** We undertook 10 interviews with staff from eight different organisations:

- HM Treasury (two interviews).
- Office of Rail and Road.
- Rail Delivery Group.
- Rail Freight Group.
- Railway Industry Association.
- Rail Partners (two interviews).
- Rail Safety and Standards Board.
- Transport Focus.

**11** The purpose of these interviews was to seek views on the Programme and to find out about their engagement and involvement with the Programme. We used these interviews to develop our understanding of the reform areas and progress made.

## Document review

**12** We reviewed a number of documents related to the Programme. Our review included:

- governance documents such as terms of reference, minutes and papers for the various governance forums associated with overseeing and managing the Programme, including the Rail Transformation Board, DfT's Investment Portfolio and Delivery Committee and the Rail Reform Board;
- departmental documents such as business cases for the Programme and for individual reform projects where these had been developed;
- planning and strategy documents such as the annual business plan produced by GBRTT;
- working papers supporting cost and savings estimates and how these have changed over time;
- correspondence between DfT and HM Treasury on the Programme;
- reviews of the Programme by the Infrastructure and Projects Authority;
- quarterly data reports on the Programme to the Government Major Projects Portfolio; and
- the Williams-Shapps Plan for Rail, and earlier government and industry reviews of the railways such as the *Future of rail white paper* (2004),<sup>11</sup> *Realising the potential of GB Rail* (2011),<sup>12</sup> *Reforming our railways: putting the customer first* white paper (2012),<sup>13</sup> and the *Shaw Report: The future shape and financing of Network Rail* (2016).<sup>14</sup>

11 Department for Transport, *The Future of Rail - White Paper*, July 2004.

12 Department for Transport, *Realising the Potential of GB Rail*, May 2011.

13 Department for Transport, *Reforming our Railways: Putting the Customer First*, March 2012.

14 Department for Transport, *Shaw Report: The future shape and financing of Network Rail*, March 2016.

**Performance data analysis**

**13** We analysed data published by the Office of Rail and Road (ORR) to set out:

- the proportion of trains arriving on time each year between 2016-17 and 2022-23 in Great Britain. We have used the Public Performance Measure (PPM) where trains are classed as arriving on time if they travel their entire planned journey, calling at all scheduled stations, and arrive at their terminating station within five minutes (for London & South East and regional services) or within 10 minutes (for long distance services) of their scheduled arrival time. The number of trains meeting the PPM conditions is divided by the number of planned trains to give a percentage. Since 2019, ORR has also been officially reporting a new and different 'On Time' measure that draws on punctuality across all recorded station stops. However, as there were not 'On Time' targets across the whole period for which we are presenting data, we have used PPM to show punctuality performance;
- the proportion of trains classified as cancelled each year between 2016-17 and 2022-23 in Great Britain. Train cancellations are measured by the cancellations score as reported by the ORR. This score is calculated as a percentage of the number of trains planned to run at 10pm the previous night, with trains running half or more of their route but not calling at one or more stations counted as 0.5, and trains running for less than half the route or not at all counted as one;
- trains appearing in the published timetable but cancelled before 10pm the previous night do not affect the cancellations score. Information on such early cancellations, where they are due to resource availability, is now collected but only since the start of 2023; and
- the number of passenger journeys in Great Britain between 2016-17 and 2022-23.

**14** We also analysed data provided by DfT to summarise the status of its commitments as set out in the Williams-Shapps Plan for Rail White Paper.

### **Financial data analysis**

**15** We analysed data provided by DfT to set out and compare the cumulative expected cost and savings from the rail transformation programme for the financial years 2022-23 to 2026-27. We compared DfT's forecast from February 2022 to its revised forecast from December 2023. Cost and savings are presented in nominal terms.

**16** We also analysed data published by DfT in its annual report and accounts to set out the net financial impact to DfT each year from passenger services. We have calculated the net impact by taking the cost of DfT's support for passenger rail services and offsetting it by income received from passenger service train operating companies. DfT's support for passenger rail services includes funding paid to devolved rail bodies and management and performance fees payable to the train operating companies. It does not include other spending on rail, such as the cost to government of rail infrastructure. Figures have been converted to 2022-23 prices using the GDP deflators published alongside the ONS Quarterly Accounts for Q3 2023. These were the latest available deflators as at January 2024.

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