House of Commons

Committee of Public Accounts

Reducing costs in the Department for Transport

Seventy-first Report of Session 2010–12

Report, together with formal minutes, oral and written evidence

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Committee of Public Accounts

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Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the internet at www.parliament.uk/pac. A list of Reports of the Committee in the present Parliament is at the back of this volume.
Additional written evidence may be published on the internet only.

Committee staff

The current staff of the Committee is Philip Aylett (Clerk), Lori Verwaerde (Senior Committee Assistant), Ian Blair and Michelle Garratty (Committee Assistants) and Alex Paterson (Media Officer).

Contacts

All correspondence should be addressed to the Clerk, Committee of Public Accounts, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5708; the Committee's email address is pubaccom@parliament.uk.

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Summary

As part of the 2010 Spending Review the government announced a significant reduction in the budget of the Department for Transport (the Department), with spending due to be 15% lower by 2014-15, in real terms, than the Department's £12.8 billion budget in 2010-11. While some of the reductions in capital spending were reversed in the 2011 Autumn Statement the Department still has significant expenditure reductions to manage including their own administrative budget being cut by a third. We commend the Department for preparing for the Spending Review early and making a systematic assessment of budget reductions, supported by generally good analysis, but we still have concerns that the Department needs to address.

Around 60% of the Department's expenditure is capital investment requiring long term commitments. We were therefore disappointed that the Department did not have in place a clear framework setting out its long-term strategy at the time of the Spending Review, which would have allowed it to make better informed decisions about spending reductions. The Department is now developing a longer-term approach to transport planning and should make its strategic objectives clear.

The Department spends two-thirds of its budget through third party organisations such as Network Rail and Transport for London. While the Department has improved its information and assurance over some third party spending, we remain concerned at the lack of proper accountability and transparency for Network Rail. Passenger rail is the Department's largest single area of spend with considerable scope for greater efficiencies. Yet rail budgets are reducing by less than other areas and the factors driving the high cost of rail travel are poorly understood.

It is unacceptable that Network Rail's costs are still not subject to direct National Audit Office and Parliamentary scrutiny. The Department continues to view Network Rail as an "essentially private sector" company despite giving it over £3 billion a year in funding and underwriting its debt of over £25 billion. The Department could not offer any convincing evidence as to what characteristics Network Rail shares with a private company.

For roads, the Department does not have a full understanding of the likely impact of budget reductions, particularly on road maintenance. There is a risk that reductions in maintenance will be counterproductive – resulting in higher costs in the long run and increasing the risk of claims for vehicle damage. The Department also needs to develop better contingency plans for how it will deal with threats to its planned budget reductions – for example if some of its planned efficiency savings do not deliver or if inflation is higher than forecast.

On the basis of a report by the Comptroller and Auditor General,[1] we took evidence from the Department for Transport on its plans to reduce costs over the Spending Review period to 2014-15.

1 C&AG's Report, *Reducing costs in the Department for Transport*, HC 1700, Session 2010-12

Conclusions and recommendations

1. **The Department has planned earlier than other departments, but it has still to articulate a comprehensive long-term strategy against which to judge the relative economic and social impacts of its decisions in the 2010 Spending Review and the 2011 Autumn Statement.** Longer term planning is essential for making sound investment decisions and prioritising resources, and is particularly important where the majority of spending is for long-term capital investment. We do acknowledge that the Department is now improving it long-term planning. The Department should finalise and publish its strategy so that taxpayers can see how individual decisions relate to the Department's overarching long-term objectives, and how investment choices between alternative forms of transport are made.

2. **There are weaknesses in the Department's oversight of spending through third parties and a risk that it will get worse with the Department's administrative budget being cut by a third.** 68% of the Department's budget is spent by other organisations and it is therefore essential that the Department is satisfied that these third parties are providing value for money. We welcome steps taken by the Department to improve its assurance over funding for Transport for London, but the Department's intelligence on spending in other areas is weaker. For example, it does not know where over £200 million of planned efficiency savings through Local Authorities will come from, and whether those cuts will lead to higher expenditure in the medium to longer term. The Department's own resources for oversight will also become more stretched with the 33% reductions to its own administrative budget. The Department should set out consistent principles for oversight of all third party spending which enable it to identify where there is scope for reducing costs further.

3. **The Department provides over £3 billion each year to Network Rail and underwrites its debt of over £25 billion yet cannot provide assurance that the taxpayer gets value for money.** Despite being the largest area of its budget the Department's understanding of cost and benefits is weakest in rail. Both the McNulty report and our recent report on the Office of Rail Regulation have shown that significant potential efficiencies could be secured. We are concerned that while contracts across Government were renegotiated as part of spending reduction plans, Network Rail's funding settlement to 2013-14 was left unchanged. The Department should put in place new oversight arrangements with the powers to interrogate information on Network Rail's efficiency and to make changes to its funding at short notice, and should set out what more it will do to hold Network Rail accountable for delivering efficiency improvements.

4. **It is unacceptable that Network Rail is not directly accountable to Parliament and not subject to National Audit Office scrutiny.** Network Rail spends billions of pounds of public money each year, , its debt of over £25 billion is underwritten by the taxpayer and international accounting conventions show that it should be considered as part of the public sector. Yet the Department continues to hide behind the Office for National Statistics classification of Network Rail as a private company which keeps Network Rail's debt off the public balance sheet and its spending from

direct NAO scrutiny. We also note that an additional £950 million borrowing through Network Rail formed part of the Government's plans in the Autumn Statement, further undermining the Department's argument that it is an "essentially private sector" company. As we have previously recommended the Department should provide the Comptroller and Auditor General with full access to Network Rail so that Parliament can scrutinise Network Rail's value for money.

5. **The Department does not have a full understanding of the likely impact of reducing road maintenance budgets.** The Department aims to make cost savings through better procurement, reducing road maintenance standards and replacing routine maintenance with less frequent but more intensive work. But the overall costs will not reduce in the long term if deterioration of the road network results in higher costs repairs in future, and there are more claims on the Department and local authorities for vehicle damage. For example, we are concerned that the Department has not estimated the costs of meeting potential extra claims. The Department should monitor road conditions closely with a view to avoiding increased future costs; and it should publish regular assessments which detail where it sees particular risks and how it plans to mitigate them.

6. **The Department has inadequate contingency plans for how it will deal with potential threats to its plans for cost reduction.** The Department faces a range of risks to delivering its plans. For example, each 1% increase in inflation results in an approximately £35 million increase in the financing requirement for Network Rail. We are concerned that the Department's inflation forecasts may prove to be too optimistic and that it could not provide specific details of how it would respond to a budget shortfall, should one occur. The Department should develop contingency plans for how it will respond to a range of potential risk scenarios, including fluctuating inflation and failure of parts of the business to deliver their share of efficiency savings.

1 Making strategic spending decisions

1. As part of the 2010 Spending Review the Government announced that the transport budget would be 15% lower, in real terms, by 2014-15 than the £12.8 billion budget in 2010-11. Some 60% of the transport budget is spent on building or renewing infrastructure, and these capital budgets were due to be cut by 11%, in real terms, compared to a 21% reduction in other budgets which include funding for items such as routine maintenance, as well as the Transport for London grant.[2] The Department told us that it had considered both short-term cuts and more sustainable long-term changes in its search for cost savings. We acknowledge that the Department appears to have been one of the better performing Departments in terms of the process it undertook, as part of the Spending Review in 2010, to find cost savings and make cuts to budgets.[3]

2. The Department explained that the extra spending for transport announced in the 2011 Autumn Statement meant that the overall level of budget reductions would now be less severe. It told us that capital budgets will now only reduce by around 3%, whereas the reduction in other budgets is broadly unchanged. This was due to significant new transport spending over the Spending Review period, including £1.7 billion capital spending on transport infrastructure. There was also a further £950 million of improvements to the rail network detailed in the Autumn Statement, to be financed through Network Rail borrowing.[4]

3. The Department acknowledged that transport spending decisions need to be planned over a long time-horizon, and this can make it difficult to vary spending plans at short notice. The Department had begun preparing for the Spending Review from 2009, including commissioning projects to consider how it could do things fundamentally differently. However, there was no comprehensive strategy to inform the Department's decisions so it was difficult to judge whether decisions impacted on strategic objectives like economic growth.[5] Instead of having a clear strategy the Department explained that it had used a "pipeline" approach to prioritise its capital programmes, so that it could speed up the rate at which it commissioned projects if more money became available.[6] The Department told us that it accepted that it had no comprehensive strategy for prioritising resources in the past but that it was doing work to improve its strategic understanding. The National Audit Office report found that the Department is currently developing a longer-term and more comprehensive approach to spending decisions.[7]

4. The Department accepted that the public should know the impact of spending decisions in transport, but we found that it is not always clear how spending decisions relate to the Department's primary objective to promote economic growth, or indeed to its other

2 Q 5; C&AG's Report paras 1, 1.6, Figure 2

3 Q 4; C&AG's Report para 6, 11

4 Qq 4, 5, 73, 75; C&AG's Report, para 4

5 Qq 4, 11; C&AG's Report, paras 6, 7

6 Qq 5, 9

7 Q 8; C&AG's Report para 7

objectives such as tackling social exclusion.[8] As part of major investment decisions, the Department examines both the economic and social impacts, but only 13% of the capital budgets approved during the Spending Review had been subject to a full multi-criteria analysis, which helps make direct comparisons between different options.[9] In addition, although the Department had good data on most areas of spend, some areas were not adequately scrutinised: there was no analysis of the relative benefits and costs of cuts to rail spending and the Department was unable to provide a figure for the overall impact on the economy of reducing road maintenance spending.[10]

8 Q 112, 113, 139

9 Qq 9-18, 112; C&AG's Report para 2.9

10 Qq 23-34, 51; C&AG's Report para 2.13

2 Oversight of spending through third parties

5. The Department works with a wide range of third parties, over whom it has limited direct control, to provide transport infrastructure and services, with 68% of its budget spent through Network Rail, Transport for London and local authorities.[11] It is also responsible for effective oversight of its contracts with private companies, which include train franchise agreements and road maintenance and PFI contracts let through the Highways Agency. The Department's assurance over cost reduction measures through third parties varies according to the particular control and oversight arrangements in place.[12]

6. The Department explained to us how it had taken steps to improve oversight of its funding for Transport for London, which it does not control directly. Prior to 2010, the Department gave Transport for London one overall grant, but as part of the Spending Review 2010, it split this grant in two, giving around one third of it in the form of an investment grant. The Department and Transport for London agreed a list of specific milestones for the investment grant, and the Department now receives regular reports on progress, providing a higher degree of assurance than previously.[13]

7. Weaknesses in oversight of front-line spending mean the Department cannot always judge the potential for efficiency savings. The Department expects local authorities to make efficiency savings in road maintenance, but it is not clear how local authorities will find £223 million (40%) of the savings required.[14] There is a risk that these short-term cuts could lead to increased expenditure over the medium to long term if roads deteriorate and insurance claims increase. Similarly, driving down routine costs requires detailed scrutiny of processes, combined with clear targets and accountabilities. Yet there remain significant costs for routine works, such as road signs provided under Highways Agency contracts.[15]

8. Rail is the largest area of the Department's budget, with Network Rail receiving over £3 billion a year of taxpayer funding as well as a Departmental guarantee for its debts, which amount to over £25 billion.[16] The Department accepted that its information on cost and value continues to be weakest in rail, and also acknowledged the findings of the McNulty report that there is scope for efficiency savings in the region of 30%.[17]

9. The Department did not attempt to secure significant cost reductions from Network Rail prior to 2014-15, effectively excluding the Network Rail grant from consideration until the last year of the Spending Review. The Department considered that it was not worth

11 Q 125; C&AG's Report, key facts, para 3.4

12 C&AG's Report, paras 1.2, 1.6, 3.4

13 Qq 125, 126

14 Qq 34, 50; C&AG's Report, Figure 7

15 Qq 123-124

16 Q 70; Department for Transport, *Annual Report and Accounts 2010-11*, page 35-36, 142

17 Qq 51-56

reopening the existing settlement as the renegotiation would have taken a long time and there was no certainty that savings would have been made. Instead, the Department confirmed that it had accepted budget reductions of £100 million in 2010-11 and £150 million over 2011-12 to 2013-14. We find it remarkable that, in view of its significant public subsidy, Network Rail was not subject to more challenge given that the Government tried to renegotiate a range of private sector contracts during this period and that Network Rail had the impetus of a new Chief Executive.[18]

10. The Department continues to maintain that it is inappropriate for the National Audit Office to audit Network Rail on the grounds that it is an "essentially private sector" company. [19] In support of its stance it cited the Office for National Statistics' classification but it could not provide any convincing evidence as to what characteristics Network Rail shares with other private companies, only that the Government does not control it. The effect of this classification is to keep Network Rail off balance-sheet, even though international accounting conventions show it should be considered as part of the public sector.[20] In the Autumn Statement the Government was able to announce £950 million of new investment financed through Network Rail taxpayer-guaranteed borrowing, suggesting a closer relationship than would be normal with a private company.[21] We do not agree that Network Rail is an essentially private company and reiterate our position, made clear in our report of 2011 on the Office of Rail Regulation, that it is unacceptable that Network Rail is not subject to National Audit Office scrutiny and direct accountability to Parliament.[22]

11. The Department is reducing its administration budget of £295 million by one third over the Spending Review period to 2014-15, raising the risk that its capacity to exercise effective oversight and secure good value for money through third parties will be more stretched in the future. The Department did not disagree that there would be fewer staff and resources for auditing and supervising organisations which receive its funding. However it argued that there had been success in using techniques which needed less central resources such as asking local authorities to publicise the potholes it had repaired when extra funding had been supplied for this purpose.[23]

18 Qq 143-154

19 Q 60

20 Qq 61-72, 76-77

21 Qq 73-75; C&AG's report, para 4

22 Qq 58-73; Committee of Public Accounts 41st report, *Office of Rail Regulation: Regulating Network Rail's Efficiency*, session 2010-12,HC 1036

23 Qq 127-128; C&AG's Report, para 1.7

3 Monitoring risks to budget reductions

12. We asked the Department about the risk that reductions to national and local road maintenance budgets will result in a backlog of maintenance and higher costs in the future.[24] At the national level, the Department accepted that achieving 20% budget reductions through efficiency savings will be challenging, but it expects to deliver the same outcomes for a lower budget through a combination of better procurement, lowering the specifications for road standards and by replacing routine maintenance with less frequent but more intensive work.[25] At a local level, the Department drew on evidence from CIPFA that asset management and procurement could be improved, but conceded that the source of all the savings was not yet fully identified.[26] Local authorities have already lost these funds from their budgets which mean that if the efficiency savings prove unrealistic they will either need to fund the shortfall themselves or alternatively roads will deteriorate.[27]

13. The Department told us that it did not believe that the cuts to road maintenance budgets would create a backlog of maintenance work or degradation to the road network. However it did recognise the need to monitor this risk closely using road condition survey data and conceded that there "may be moments when the standards look as if they are dropping".[28] The Department maintained that all the individual decisions were selected on the basis that they would have no impact on the economy. However, the Department was unable to give a clear answer when we asked them about the overall impact of all of their budget reductions on the economy.[29] The Department was also unable to provide an estimate of the future volume or cost of claims for vehicle damage against the Department due to poor roads. Yet it did disclose to us that over the last four financial years the Highway's Agency had spent over £2.5 million to settle claims, for personal injury as well as vehicle damage, and that this expenditure had fluctuated significantly between the years.[30]

14. Inflation has been running higher than was forecast at the time of the Spending Review. The Department's assessment in May 2011 suggested that the impact of higher than previously expected inflation would be equivalent to a further real terms reduction in budgets between 1% and 4% (the Departmental cash budget has been fixed and agreed with the Treasury so if inflation is higher than expected, the overall budget will be going down by more in real terms). The Department is particularly exposed to inflation as it directly affects some significant areas of its spend, such as the Network Rail grant, which is linked to the RPI index of inflation.[31] We asked the Department about these risks and they said it now believes there will only be a 1% overall impact on its budget over the Spending

24 Qq 20-23

25 Qq 20, 120-121, 129, 137

26 Q 34

27 Q 50

28 Qq 21-22, 32-33

29 Qq 20-40

30 Qq 35-40; Ev 19

31 Qq 80, 83, 85-90; C&AG's Report, para 3.8

Review period to 2014-15, which would amount to £120 million annually.[32] When we asked specifically about the Network Rail grant the Department told us that it estimated that each 1% increase in inflation results in approximately £35 million additional annual expenditure.[33]

15. We were keen to learn where the Department would find further savings of £120 million or more to cope with higher than originally expected inflation. The Department told us that it would not use the resources announced in the Autumn Statement to fund any shortfalls as this was earmarked for new investment. The Department was unable to provide any detail on what exactly it would do to find further savings and it therefore remains unclear exactly how it would finance a shortfall in its budgets.[34] The Department did however tell us that it is continually seeking to identify new efficiency savings – for example it expects new savings on its 'managed motorways' schemes by spacing out gantries, which road signs are mounted on above the motorway, every 800 metres or 1km rather than every 500 metres .[35]

32 Qq 90-96

33 Qq 82, 86, 91

34 Q 97

35 Qq 92-102

Formal Minutes

Monday 27 February 2012

Rt Hon Margaret Hodge, in the Chair

Stephen Barclay
Matthew Hancock
Chris Heaton-Harris
Meg Hiller
Fiona Mactaggart
Nick Smith
James Wharton

Draft Report (*Reducing costs in the Department for Transport)* proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 15 read and agreed to.

Conclusions and recommendations 1 to 6 read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Seventy-first Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for placing in the Library and Parliamentary Archives.

[Adjourned till Wednesday 29 February at 3.00pm

Witnesses

List of printed written evidence

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

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Twenty-third Report	The Major Projects Report 2010	HC 687

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Oral evidence

Taken before the Committee of Public Accounts

on Monday 16 January 2012

Members present:

Margaret Hodge (Chair)

Mr Richard Bacon	Fiona Mactaggart
Stephen Barclay	Austin Mitchell
Jackie Doyle-Price	Ian Swales
Matthew Hancock	James Wharton
Meg Hillier	

Amyas Morse, Comptroller and Auditor General, National Audit Office, and **Marius Gallaher**, Alternate Treasury Officer of Accounts, HM Treasury, gave evidence. **Gabrielle Cohen,** Assistant Auditor General, NAO, and **Geraldine Barker**, Director, NAO, were in attendance.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

Reducing the costs in the Department for Transport (HC1700)

Examination of Witnesses

Witnesses: **Lin Homer**, Permanent Secretary, Department for Transport, and **Clare Moriarty**, Director General, Corporate Group, Department for Transport, gave evidence.

Q1 Chair: Welcome. Happy new year. Lin, congratulations on your promotion.
Lin Homer: Thank you, Chair.

Q2 Chair: Enjoy it. It comes on a sad day when we have heard about Lesley's death, which is really terrible. We will write formally, but commiserations to her family.
How long are you with us? When are you switching jobs?
Lin Homer: This is my last week.

Q3 Chair: This is your last week. You have just stayed for the pleasure of having a PAC hearing.
Matthew Hancock: You can be completely frank.
Lin Homer: That is something I enjoy.
Mr Bacon: Then we will be seeing lots more of you.
Lin Homer: May I introduce Clare Moriarty, who not only is my director of resources, but will be acting as interim permanent secretary in Transport while the recruitment process goes on?

Q4 Chair: Welcome to you. Let us put this into context. On the whole, the Report is pleasing for us to read in that it appears that you have thought early and have got better data and quite a lot of clarity about direction. In the context of the questions we are asking you, which are of course on difficult issues, this looks to us to be one of the better performing Departments in terms of tackling the financial cuts that you are having to cope with.
As I totted up, it's a bit apples and pears trying to get your head around the figures in the Report. You were asked to find £1.9 billion of cuts this year. You then had an autumn statement that gave you £3 billion of extra expenditure, of which I appreciate about £1.3 billion goes through to Network Rail, but £1.7 billion comes through to the budget that you are looking to cut. Can you talk to us a little bit about the difference that that made to your approach and the changes that that brought about in the way in which you are thinking about the future?
Lin Homer: Yes. May I start by thanking you for that recognition, while acknowledging that all that predated me? All the thanks and the endorsement should go to Clare and to her team. I will start by saying that what the team tried to do, and we have tried to continue to do, is to always be looking forward and planning and recognising that, in a Department such as Transport, changes can sometimes take quite a long time. You have to have a fairly long time horizon, so when we are doing our forward planning, we are always trying to look at three levels. One is to think about the more short-term changes that we can make if we are required to, some of which by their nature you would not necessarily want to continue long-term. The second is to look at the more sustainable changes that we can make, which sometimes require changes to the way in which we work or to the way in which we partner with others. The third is to be gazing at the longer time scales, because in Transport you are not only maintaining the asset that you have now, but trying to provide for the asset in the future. That is the work that Clare and the team undertook.
Our view is that, regardless of activity such as the autumn statement, which was very positive for us, that is the right approach to take in the longer term. We need a corporate planning process that is constantly looking at what we said we would do, whether that holds good when we deliver or whether we get any outcomes that are unexpected. It is about what we need to do in the medium and the longer term. That

approach is largely unchanged as a consequence of the spending review.
The other thing—

Q5 Chair: For example, a whole load of projects came in—road projects—as part of the spending review settlement, mainly affecting the Highways Agency. Will it get rid of staff? Did you review your staffing structure? It almost looks a little like DWP, which has stopped a whole lot of stuff, but is doing the universal benefit, so a whole load of staff are shifting from their old jobs to delivering the universal credit. Looking at your departmental budget, it seems that you are in a similar position. We want a better understanding of what actually happened, or what impact it will have.
Lin Homer: If I refer you to figure 2 on page 13 of the Report, you will see that that over the spending review period we were heading for some change in capital, but a lower percentage change of about 11%, and a change of about 21% on our resource budget, which combined to a reduction of 15%. If you add the autumn statement back into that, our capital reduction alters from an 11% to a 3% reduction, but our resource reduction remains at about 20%. I could happily ask Clare to give you more detail, but essentially it means that we believe our approach to having a pipeline of capital programmes is right. We are now going to be able to deliver that pipeline rather more quickly than we expected, but our plans to reduce spend on our resource side of the house need to continue being followed through and delivered on, because we are still going to be looking at broadly the same level of reduction that we originally planned.

Q6 Chair: It sounds a bit odd, because part of your resources go on, for example, road maintenance and investment, anyway, as I understand it, from looking at the Report. I was quite surprised. I thought that in your Department the distinction between capital and resource was a bit more blurred than I had seen in other Departments. Again, money comes out under "resource", but actually it's going back in for road investment—maintenance and improvement—under "capital" with the autumn statement. If I am reading the documents wrongly, tell me, but it strikes me that you were one of the lucky ones and therefore the pain is less.
Clare Moriarty: Two points. As far as maintenance is concerned, there is money for maintenance in both our resource and capital budgets.

Q7 Chair: I don't know why.
Clare Moriarty: It is a time scale thing. The regular ongoing maintenance work appears as "resource". Renewals work and the sort of thing that might be on an annual cycle of upgrading and looking at a package of measures that need to be done are treated as renewals, and they are in the capital side. It is essentially a difference about the time scale in which money is spent. That is why you see some areas where we made some reductions in resource maintenance, but some compensating increases in the annual cycle of renewals.

Q8 Chair: Okay. Is there anything else that you want to say about the difference? Let me put two questions to you. Rather worryingly, the Report criticises you on page 9, paragraph 18, where it states that there was "no comprehensive strategy for prioritising resources based on a full understanding of costs and value." That seems a pretty tough statement, which you agreed to.
Lin Homer: Yes. We believe that we had a good understanding of our strategic responsibilities and our work load when we went into the spending review, but we can build on that and improve our strategic understanding going forward. We have a clear vision, which is set out in our business plan. Over the past year, we have done a lot of work to make sure our staff understand that more clearly than they did, because that drives the right outcomes. We have seen an 11% improvement in understanding within our staff base.

Q9 Chair: Lin, I am going to interrupt you, because I know that a lot of people want to come in. I am trying to get to almost specifics. If you have not got a comprehensive strategy, we then see on page 20, paragraph 2.9, that only 13% of the decisions that you took to cut capital were based on an objective analysis. While on the whole you are driving down costs and you understand a little bit about what you are doing, you are attacked in the Report, and we always have to look for these things. First, it is not a comprehensive strategy—you do not know how you are prioritising resources—and, secondly, only 13% of the decisions that you took on capital were based on objective analysis. That looks quite critical.
Lin Homer: Yes. In receiving your Reports, we try to absorb the messages for the future, but we believe that in the work that the NAO looked at—both in our discovery projects, which are referred to in the Report, and in the work that we have done since—our corporate understanding of the capital programme is more strategic than that. We believe that we have judged the prioritisation of our capital programmes. When we think about our big programmes, the question is not so much, "Which ones shall we do?"; it is, "Which ones shall we do in what order, and do we know which of those produce good value for money and which produce outcomes that are most pressing in terms of need?" What the autumn statement has shown is that we have ordered those in such a way that if more money becomes available, we can speed up the rate at which we go through and that there is a logic to and evidence for those decisions, which we feel has been missed.

Q10 Chair: Then why does the Report say that only 13% of your decisions on capital were based on an objective analysis?
Lin Homer: That is because you are looking at a snapshot in time. When you go into the spending review—I do not think anyone would think that this is a controversial statement—there is only a limited amount of time to do the work. You have to draw in the best information you can get.

Q11 Chair: But you were preparing for this from 2009. Interestingly enough, you were one of the Departments that prepared much earlier than others, which is one of the things we are acknowledging at the hearing this afternoon. What then becomes disappointing is to see that in that context, when you actually came to take the decisions in late 2010, there is a criticism that you have not got a comprehensive strategy and there is a specific—that only 13% of your decisions were based on objective analysis.

Matthew Hancock: Where's the 30% figure?

Chair: It is 13%—page 20, paragraph 2.9.

Lin Homer: Perhaps if I ask Clare to explain in a bit more detail how we did those, it would give you some reassurance.

Clare Moriarty: The 13% relates not to the total percentage of our capital budget that was looked at on an objective basis, but to a specific technique which we applied to enhancements. We had very long lists of potential enhancements—things like major road projects in the Highways Agency and local authority majors. We took all those projects and we looked at them with a multi-criteria analysis.

Q12 Chair: Which seems a sensible, objective way of doing it, and then you chuck it out of the window.

Clare Moriarty: It applied to those parts of the capital budget which were enhancements; there are many other parts. Much of the capital budget—we have the Network Rail grant—

Q13 Chair: We will come to Network Rail; we have got a load of questions on that. Network Rail was not even considered in the cuts, because you had a plan that took you through to 2015–16. I cannot remember the date. I have probably got the date wrong—to 2013–14.

Clare Moriarty: But other parts of the capital budget, like maintenance, were looked at objectively, with criteria.

Q14 Chair: Okay. This is 13% of what? How much?

Clare Moriarty: Some 13% of the final capital budget is made up of enhancements, and all the enhancements were selected on a basis that involved a multi-criteria analysis.

Lin Homer: I think we would say—

Q15 Chair: Sorry. Let me just ask that again. I do not understand that. What this paragraph says to me is that you had an analysis of the relative merits of different capital projects.

Clare Moriarty: The Report says, "This enabled comparisons between different levels of spending on national road enhancement schemes".

Q16 Chair: How much did you spend on road enhancement? How much, in this spending review period, is on road enhancement?

Clare Moriarty: Road enhancement, in total, is about £3.8 billion.

Q17 Chair: Out of that £3.8 billion, was only 13% based on your objective criteria?

Clare Moriarty: No. All the £3.8 billion, which makes up about 13% of the total capital spending during the period, was prioritised on the basis of the multi-criteria analysis, and then it went into—

Q18 Chair: "Although it was not the basis for selecting all the specific schemes subsequently taken forward".

Lin Homer: Yes, but if you look at note 4, it refers, as Clare has indicated, to areas such as Network Rail which were outside. To put it another way, we hope that our NAO colleagues will take the view that our decision-making process was evidence-based throughout. We used different methodologies in different parts of that process, but my experience of the DFT has been that its decision making is all evidence-based, and there are different criteria for assessing different things. These were particular criteria applied to enhancements.

Chair: We are a bit suspicious—

Lin Homer: I understand; that is your job.

Chair: Just look at the M25 road-widening. It did not look as if there was a heck of a lot of evidence round the place before decisions were taken. Indeed, even when Ministers asked for evidence, it appeared that inappropriate evidence was in place.

Okay—James, Richard and then Ian.

Q19 James Wharton: I am interested in the interaction between what you are spending on resource and what you are spending on capital. Is my understanding from reading the Report right that spending on the routine maintenance of roads will reduce by £310 million, while capital spending when moving to an annual cycle will increase by £150 million? Is that broadly correct?

Lin Homer: Yes.

Q20 James Wharton: As part of that, there seems to be an acceptance that the maintenance of roads will generally be to a lower standard and that it will be slower. What impact will that have on people using the roads? Have you made any assessment of that and what it could mean for the Department?

Lin Homer: Yes. This was part of some work that was done well in advance of the spending review—again, I will ask Clare to give a little more detail about how that assessment was made. Essentially, we believe that it will be possible to make more of the maintenance routine and thereby reduce the overall cost, and we think that approach will maintain the road network in a safe and usable condition. We think you might occasionally find that deterioration is picked up in the routine maintenance, and that instead of going out and filling in a pothole when it emerges, it might get picked up on the quarterly round. For instance, white lines will be repainted when they need to be, rather than every two years whether they need it or not. That may mean that some are done sooner and some later.

Quite a lot of the principles that are being used follow on from the NAO Report on highways maintenance in October 2009 in which you asked us to look at standards in specification and planning to try and get better value for money. I might ask Clare to explain a little about the capital going up and resources going down.

Clare Moriarty: As part of looking at maintenance, we looked at a number of different areas around the way that the specification and standards are set—things such as whether we specify attendance or clear-up times—and one part of that involved looking at the way in which we deliver maintenance. A number of elements of maintenance are currently built into routine managing agents' contracts—managing agents are required to fix problems as they emerge. Some of those problems are more aesthetic than fundamental, and we concluded that it would be possible to put some of those repairs on to a periodic cycle and to treat them as part of our renewal work, rather than to keep them in the maintenance body. You see a reduction in resource maintenance that is larger than the net impact, because we increased the amount of money that we are spending on the capital renewals budget.

Q21 James Wharton: Thank you. That leads to several further questions, which I shall ask all at once if I may. Do you anticipate as a result of this process that in the long run—the Report seems to acknowledge this—there will be a backlog as a result and that it could cost you more? What figure have you put on the future cost of repairs? If you let roads get into a worse state and have to repair them, what is the additional cost? My interpretation of what you said suggests that the answer should be yes, and that at any one time the standard of roads in the UK will be lower as a result of this policy and there will be less ongoing routine maintenance. What is your assessment of that? What assessment, if any, have you made of the cost to the economy of poorer-quality transport infrastructure? The message that we get from the Government is exactly the opposite and appears to be the overall policy aim.

Lin Homer: We don't believe that the network will degrade under these plans, but we do believe that we need to monitor that very carefully. We track with all local authorities and the Highways Agency the unit cost that they are spending on their roads, and we track the condition of the roads. We have quite a wide database to show us whether there is a correlation that we are not expecting. We think there may be moments when the standards look as if they are dropping, but in a general sense we do not believe that you will see a degradation.

In relation to the cost to the economy, that is something we take into account when we consider works. It is not our plan to have a significant impact on costs to the economy. Indeed, the Secretary of State made provision within the extra moneys we got in the autumn statement for some £250 million to be spent on congestion pinch points, so if we see negative costs to the economy we can add extra works to do some of the small things that would alter that. That would be one of the features.

Q22 James Wharton: One of the other questions, and I apologise for asking you lots at once, is on the backlog. If you allow roads to get to a lower standard before the routine maintenance comes around, that routine maintenance may need to be more significant. You may need to do more work to bring a road up to standard. Have you made an assessment of the possible cost impact of allowing a road to get to a lower standard before you intervene?

Additionally, I assume that you have done some modelling of the economy. Has any consideration been given to the impact of having fewer roadworks, which might be a positive? If so, what is the assessed impact on the economy? I appreciate that you say that you do not anticipate the impact being very significant, but I assume there is a figure somewhere that would be quite interesting.

Lin Homer: I will ask Clare to confirm this, but, no, at the moment we are not planning on an assumption that our approach will lead to the build-up of a backlog cost. We will monitor that, and if our assumptions are wrong, we will seek to make changes. We have an obligation to maintain the asset, which is one of our leading obligations, and we will protect it.

Q23 James Wharton: I am looking at the Report, and figure 8 states, "This was described in an internal document as likely to result in 'a backlog of maintenance that will require additional spend in future years'." That seems not to correspond with what you have just said. Is the document incorrect?

Lin Homer: No. I am sure that will have been said, but the spending review is an iterative process. There is a good balance in this negotiation because we have an agency chief executive—Graham has appeared before the Committee on a number of occasions—and there is a role for the officials and the auditors. At the early stages of discussing what level of change you can make to road maintenance, the agency properly brought up the risk that, if you go too far, you could see a degradation. In balancing out reductions in resource with increases in capital, we believe that we have reached the position where not only the core Department, but the agency believes that this is manageable. Our monitoring of our asset base, which is done transparently and is audited by the NAO, will show that. So what I am saying is that, if that assumption proves to be wrong, I do not think we would blindly continue; we would look again at what we have done and seek to make some changes.

Q24 James Wharton: The final point is whether you have a figure for the impact of these changes on the economy. Do you have that figure?

Lin Homer: No, because, again, we do not believe that we have built in a negative impact on the economy.

Q25 James Wharton: How can you not believe that? Surely you have done the assessment and, therefore, you have a figure so that you can say, "The figure is zero, and we think it will have no impact," or, "The figure is actually positive because there will be fewer roadworks," or, "The figure is negative." If you have done an assessment, what figure came out of it? I appreciate that you are saying that you do not think it sufficiently significant to be of concern, but you must have done an assessment.

Lin Homer: Perhaps if I can invite Clare to talk a little about the work we did when we did the deep dive into road maintenance, you will see that we considered a range of things and then balanced out those that we thought we could take forward in a way that would not have a negative impact. So we have not costed in an underlying increase in congestion, for instance, because of the way in which we are doing our work.

I could give you the example of night-time working, which has a very specific cost. You end up paying proportionately more to have works done overnight, which is clearly an important thing to do on very busy roads, where the congestion it would cause would otherwise have a negative effect on the economy. We think that we would be able to apply our knowledge of the impact of night-time working versus daytime working to reintroduce some daytime working on some less busy roads at some substantial savings, but we would not do that in places where the impact on congestion would be such that it produces a negative impact on the economy.

Q26 James Wharton: I understand that, and I am very conscious that I am getting a little too much time from the Chair, but what I do not quite follow is that you have shifted money round, found savings and will introduce more money and capital to change the way that you do it. Overall, taking into account all the different factors that you have mentioned, have you assessed any likely impact on the economy? If you have, what is the figure of that impact that you came out with? If you haven't, then you haven't. That is a separate concern. You must have undertaken that exercise and said, "This is going to have a negative impact, a positive impact or no impact." You should have come out with a figure as a result.

Lin Homer: We have an impact on the economy of every project that we do. We expect the bulk of our investment projects—as you know with High Speed 2, which I am sure we will also talk about today—to have a positive economic benefit. That is always a factor in our methodologies. What I am saying is that, in relation to our cuts, we have not taken cuts forward, for instance, in relation to maintenance, knowingly expecting that to have a negative impact on the economy. We have not ended up with a single up and down figure that we see to be negative.

Q27 Mr Bacon: That all prompts a very obvious question: if none of the changes or cuts you are making is going to have an impact, why did you not do it a long time ago?

Lin Homer: The Department did start doing these things before the spending review. We are building on that work in going forwards.

Q28 Mr Bacon: After the crunch, but before the spending review last autumn.

Lin Homer: Yes.

Q29 Mr Bacon: If they are not going to have an impact, it sounds like you were coasting along in a very inefficient way for years and years.

Lin Homer: No, I don't think that is the case. I think there is a different question.

Q30 Mr Bacon: It seems to me more likely that the supposition behind Mr Wharton's question is right and that there will be a quantifiable impact. The impact might be relatively small—it might be one sixteenth of GDP, or something that is not worth worrying about too much, although personally I would quite like to have one sixteenth of GDP. The idea that there is no impact just does not seem credible.

Lin Homer: I am going to ask Clare to come in. I am trying to say that there is not a single sum. We did not add up all these cuts and say, "This gives us a BCR of 1.7 here and 0.2 here." This is a kind of moving feast in a way. What we are seeking as an infrastructure Department is to have a good impact on the economy. We are looking for projects that will—

Q31 James Wharton: Isn't your answer, therefore, that you do not know? You said you tried to keep a balance but in fact you don't know. You do not have an answer to that question. You haven't done it.

Lin Homer: No, I am going to ask Clare to explain in a bit more detail how we went about each individual line.

Clare Moriarty: When we spend money, we always seek to spend it in areas that will get us a good impact on the economy. Maintenance has a high benefit-cost ratio, maybe up to 10 times the value of the money that goes in, in terms of the overall benefits that it brings. Any money we do not spend has an economic impact in that we do not do things that we could have done. There is certainly an effect. Obviously, if you don't spend money, you have to make a judgment about what you would have spent it one and say what the economic benefit forgone is.

With regard to the decisions that we made, as Lin said, as part of what we did in early 2010, we took a number of areas, one of which was road standards and specifications, and looked at a range of possible measures that we could take to reduce the amount of money that the Department spent on everything to do with roads while allowing us to maintain them in a fit and safe condition, which is our responsibility. A number of those were things that would have quite a direct impact. You could see that there was not only a negative effect of not spending but a further effect of not doing it—night-time working is a very good example.

There are a number of areas where there is a polarisation that means that the bigger the financial benefits, the greater the economic disbenefits. We chose not to make those changes, because we are clearly trying to optimise the impact of the money that we are still spending. As we chose to go forward with changes, we selected the ones that do not have that kind of impact on the economy. The other thing that we sought to do is to give the suppliers—in particular, the Highways Agency works with private sector suppliers—the opportunity to innovate and to suggest to us how they could achieve the same outcomes for lower cost. Some of that comes down to whether we specify outcomes or inputs.

Q32 Chair: That is part of the stuff you should have done years ago. I am going to go to Ian. I want to ask three quick ones on this. Are you categorically saying to us that the cuts in road maintenance will not require additional spend in future years?
Lin Homer: That is what we believe, and if we monitor and we see degradation occur, we believe that that is the point at which we should take action.

Q33 Chair: So, first, you are saying yes—I am taking that as a yes. Secondly, figure 7 on page 24 shows that there are "efficiencies not specified", particularly at local authority level. How do you know that those cuts at local authority level will not lead to additional spend in future?
Clare Moriarty: What we can say is that the decisions that we took were taken with the best possible evidence that we had. We have entered into decisions understanding what the impact will be.

Q34 Chair: But you don't, because there is a whole load on figure 7. I keep saying that we will come to Network Rail, but if you just look at road maintenance, there is a lot of money there, and you haven't got a clue where it is coming from.
Clare Moriarty: If I unpack that, the local authority maintenance reduction is 25%. We had work done by CIPFA and the University of Birmingham before the election. It estimated that you could get about 5% efficiency through better asset management and about 10% through better procurement.
We also had some work done on highways maintenance efficiency. That suggested that there would be further savings of around 10% from a combination of standards, shared services and better procurement, but we could not get the same degree of clarity on exactly how those would be delivered, so the 10% does not have the degree of security as the 15%, which gave the £334 million figure in the specified efficiencies column.
We believe that it will be possible to make those savings as efficiencies. We are supporting local authorities with a programme that allows them to share best practice and gives them the best possible opportunity for making savings as efficiencies. As Lin says, we are tracking what happens to the unit cost and to the condition of the road. If we find, as we go along, that that degree of efficiencies is not matching up, we have got time to make a decision—

Q35 Chair: Okay. Can I ask a final question on claims? How much have you budgeted over time—not just the spending review—from existing claims against the Department and existing claims against local authorities? How much are we spending on claims?
Lin Homer: Can you specify what sort of claims you mean?

Q36 Chair: It says in a little note on page 25: "claims on the Department for vehicle damage." I shall tell you why I ask this question, for a bit of context. We looked at whole-of-Government accounts not long before this session. What gobsmacked all of us was that there were £15 billion in the Department of Health budget—
Stephen Barclay: £15.7 billion for clinical negligence. It has gone up since.
Chair: It was a lot of money for potential cost to Government of medical negligence claims. Here you are, cutting back your maintenance, telling us it is all all right and hunky-dory, but claims will go up, both against the Department and against local authorities. I want to know your current bill for that, so that we can look at it over time. What is your potential bill on claims? You will have a potential figure, and the settlements figure, one hopes, comes in below that.
Lin Homer: I don't think that we will have a figure in our budget.

Q37 Chair: Why? It says, "claims on the Department".
Lin Homer: But the total figure will include the local authorities.

Q38 Chair: It actually says, "on the Department". If you are budgeting carefully, you must have some idea how much the potential liability from claims is.
Lin Homer: I don't believe that that has been a significant figure in our budgeting to date. I would be very happy to give you a note on that.

Q39 Chair: Okay. Have any of you an idea? I bet it is a considerable sum.
Clare Moriarty: There may well be a number in the Highways Agency's budget. I think we would have to—

Q40 Chair: And local authorities? Broken pavements; trip over; you break your leg; you claim.
Lin Homer: Yes. I certainly do not have the figure for the totality of that in my head. I am happy to give you a note on the reported incidents. We do not believe that our approach will alter that to the negative. As Clare says, we believe that the work we have done with local authorities will allow them to share best practice, both about how they maintain and potentially about how—
Chair: It would really help to have a note on the claims point in a week.

Q41 Stephen Barclay: Related to that point, do you attend Sir Bob Kerslake's working group that looks at how decisions taken in one Department have a knock-on cost on another?
Lin Homer: Yes, I have been.

Q42 Stephen Barclay: And what areas of cuts that you are making have you raised at that committee in relation to costs elsewhere?
Lin Homer: We have tried over the last period to start conversations with local authorities about how we can work more collaboratively with them to avoid that movement around the system. For instance, in working together on road maintenance, one of the areas is looking at whether we can agree on approaches that allow a whole-system approach to an area of road, so if we are planning a major road improvement in an area, we are looking at working

more collaboratively with the local authority to finish off where it joins—

Q43 Stephen Barclay: With respect, that was not my question. I was asking about the specifics that you have raised. Litigation risk is one that the Chair has just mentioned. You say that you have not raised that. You have not identified cuts in maintenance that would have a litigation risk for local authorities. If there is more damage on the roads, then there is a risk that they may have to pay out more in claims. You have just said that you haven't raised that at Sir Bob's working group. What are the ones that you have raised?

Lin Homer: I think the area that we have been most concerned about is whether changes in planning would lead to adequate discussion about the impact on the highways before decisions are taken. We have raised that, so that is a cost that could transfer from the developer to the public purse if you didn't have the discussion at the right stage. Is that an example of the sort that you were looking for?

Q44 Stephen Barclay: Perhaps you could send it to us. I do not entirely follow it.

Chair: Richard, very quickly. Then Ian's been waiting patiently. There is a whole load of people waiting.

Q45 Mr Bacon: You mentioned savings. I just want to go back to something that I said earlier about savings. You mentioned 5% through efficiencies, 10% through procurement and 10% through shared services and a variety of other things. Can you just remind us whether that was Highways Agency advice to local authorities, or what was it?

Clare Moriarty: No, there is a highways maintenance efficiency programme, which is a programme that the Department is supporting to the tune of £6 million over two years to help local authorities work together in order to share best practice and create efficiencies. Shared services in this context are things such as joint depots and joint procurement.

Q46 Mr Bacon: This Committee did a report on shared services in the Department for Transport and its agencies which identified expenditure by the Department and its agencies of £55 million that was going to save £112 million, except it ended up costing £120 million, and might, so the NAO Report said, end up saving £40 million, while denying employees annual leave to which they were entitled and sending them messages in German. I am just slightly nervous when I hear the words "shared services" because it is a great panacea that people reach for as a way for suddenly saving money. Once again, though, it begs the question that if it is that easy, why did we not do it earlier. I am looking at local authorities in my area which are struggling for the second, third or fourth time to put together a partnership with another local authority and watching it collapse. I have seen that happen in my own local council twice in the last nine months. Norwich city council has just made an attempt now. We have yet to see how it works out. Of the 10% that you mentioned, how much of that—this is savings on the maintenance budget, am I right?

Clare Moriarty: Yes.

Q47 Mr Bacon: How much of that will come through shared services?

Clare Moriarty: The shared services that you are talking about in relation to the Department for Transport were shared back office services. This is about sharing maintenance services, so this is much more about the practical issues, such as, "Do we need to have a depot in each local authority area holding materials, or is it possible for local authorities to share depots between them?" It is a qualitatively different type of shared services, but I take your point that in any area it is difficult for different authorities to work together and make these things work. I do not have, off the top of my head, the figure—

Q48 Mr Bacon: It sounded very neat when you said, "Oh, 25%; 5% will be about efficiencies; 10% will be about procurement; and 10% the other shared services." You said one or two other things as well, but when pressed on it, you can't actually put your finger on a number.

Clare Moriarty: Could I expand? Standardisation and getting the specifications right is one of the areas where we have learned a lot from what the Highways Agency has done. This is the sort of area that we were talking about. Have we got the specification right? Are we asking the private firms that provide the maintenance to do the right thing for the money and, therefore, are we paying them the right amount of money? That is an area in which we expect to deliver substantial savings. In the three areas together, we expect to be able to yield 10% savings. I do not have the precise breakdown between the three areas.

Q49 Mr Bacon: Was there a number that was put together and when added up came to 10%?

Lin Homer: Yes. There was a piece of work done for the local authorities by CIPFA. That was the basic piece of work that suggested 10% through procurement and 5% through asset management. As you know, CIPFA is independent of any individual local authority. One of the reasons why we have given the local authorities £6 million over the spending review period is really to allow further work to be done to deliver that. We have not just plucked the figure out. Our view is that if they collaboratively want to work in this space, it is very much well worth supporting. As we discussed earlier, it follows on quite significantly from the piece of work you did with us at the end of 2009. It looks at procurement, standards and technical specifications, so we have endorsed that approach, because I think we all agree it is the way to go. Of course, we will stay close and look at the actual—

Chair: What actually helps. Now, I have got a whole list of people here: Amyas just wants to come in, and Ian has been waiting very patiently, then Meg, Fiona, Matt and Stephen.

Q50 *Amyas Morse:* I just wanted to check that the local authority money will just come out of the budget, won't it, and it will be up to them? So they

have actually lost it out of their budget, and we hope they will be successful in achieving efficiencies.
Lin Homer: Yes, but we do monitor it to see what the consequences are.
Chair: That's another way of putting it.
Mr Bacon: There is nothing like being between a rock and a hard place to make you think harder. That may apply to Parliament as well as the local authorities.

Q51 Ian Swales: I am surprised we have got this far in the review without mentioning rail, but let's go for it. We have probably got the highest rail fares in the world, and we have just seen another huge hike. Paragraph 2.14 says: "Prior to the spending review, the Department recognised that the factors driving the high cost of rail travel were poorly understood"—that is quite an indictment—and commissioned a review, which said that "industry costs could be reduced by up to 30 per cent by 2018–19." How much of that 30% are you actually going to deliver, and over what period?
Lin Homer: There have been a number of pieces of work, but the work that was done within the Department running into the spending review, reinforced by the McNulty review, has indentified a range of savings that are believed to be possible over the next control period. We believe it should be possible to deliver something approaching £1 billion a year of savings. The work to look at those in detail starts for the next control period, and the first year that we would expect to see benefit from that is 2014.

Q52 Ian Swales: I do not know what £1 billion a year is in percentage terms, but presumably McNulty was not just putting a finger in the air here. There must have been some detail in this review that you can work from.
Lin Homer: Absolutely. There were a range of headings—

Q53 Ian Swales: So how much would 30% be? If you did 30% by 2018, how much are we talking about on the industry cost that is referred to?
Lin Homer: At present, taxpayers pay £3 billion and fare payers pay £7 billion, so we are contributing 30% of the cost. If you could take £1 billion out of that £10 billion, you are looking at 10%. There were already plans for spending within that period and McNulty concludes that it would be reasonable to approach the 30% over the next control period and a bit beyond, whereas he actually quotes the gap in places as being as high as 40%. He is advising us to bid for the 30%, although I think the Chairman will know the top figure is that you can show European rail running at 40%.

Q54 Ian Swales: This sort of percentage will not surprise members of this Committee, because we have talked in the past about Network Rail and the fact that, when benchmarked against equivalent foreign systems, that is the sort of order of magnitude that we seem to be out. Paragraph 2.14 goes on to say that we need to create "an industry environment which encourages cost reduction, changes which deliver new efficiencies, and mechanisms to drive implementation." First, are you doing that, and, secondly, to what extent does the relationship with Network Rail help or hinder the creation of the right environment?
Lin Homer: Yes, we are. The McNulty review put indicative figures against a number of areas, with a range of low to high achievement. For instance, in the area you have just talked about, setting clear industry-wide objectives and improving the industry-wide leadership potentially saves somewhere—he believed—between £100 million and £240 million, and asset management, somewhere between £200 million and £500 million. There is a range of figures. The rail delivery group has been set up, which is beginning to take that forward, and the rail regulator will build some of those expectations into the agreement about price control for the next control period.

Q55 Ian Swales: How will you manage this with the status or position of network rail as it is? Do you have your hands on—I am thinking of a signal box here, which is a good analogy, is it not?—all the right levers, and are the wires actually connected to what they need to be connected to, to make it happen?
Lin Homer: I think the Committee is probably well aware that the Secretary of State is publishing a Command Paper on rail fairly shortly. She has indicated that she is looking for better value for both the taxpayer and fare payer, that she is looking to build a sustainable railway and that she is looking at the reform of Network Rail within that area, as well as devolution, fares and ticketing. That Command Paper will cover those areas, and I think will seek to build on the McNulty recommendations, which were accepted by Government.
Chair: Okay. Let's do other questions on rail now.

Q56 Fiona Mactaggart: If you look at page 4, network rail, or passenger rail, is the biggest programme in your Department, and if you look at the report as a whole, in paragraph 11, it says, "The Department's understanding of the relationship between cost and value was weakest in rail, where there was no analysis of the relative benefits and costs of reductions in the scope of rail franchises or increases in passenger rail fares."
We have a programme that is proposing 14% of the cuts to be from rail, and of the unspecified cuts, more than half of them are to be from rail—the unspecified passing on of costs, which presumably means higher passenger fares, fewer lines and fewer services. My concern is that it is not just an issue of value for money for the Department, but it is an issue of value for the nation, because what I have seen in rail—I represent the third most productive town in Britain in terms of GDP and yet, over the past 15 years, our rail service has substantially reduced. That has quite a substantial impact on our local economy, and the only place that we can expect there to be an assertion of the needs of the national economy, rather than demand or whatever, is your Department, yet you do not have a way of doing that is what this report tells me, so what are you going to do about that?

Lin Homer: Well, I think both the McNulty review and the Command Paper are about moving into an area where we can expect more collaborative work between those private sector companies that are involved in providing both the infrastructure and the trains, and where we can be assured that the country gets value out of its investment in rail for the next period.

Q57 Chair: I know we cannot prejudge a paper, and I appreciate that, but you are examining changes to the structure of accountability.
Lin Homer: That is very much why I used the Secretary of State's words about the Command Paper. She absolutely believes we have to get better value out, as you say, both for the taxpayer and the fare payer. I think she is prepared to look at fares, devolution and reform of Network Rail.

Q58 Stephen Barclay: Do you think access by the NAO helps or hinders achieving that?
Lin Homer: I spent quite a long on this one last time I was here, didn't I?

Q59 Stephen Barclay: And you rejected the recommendations of the Committee, hence my question.
Lin Homer: I think we believe that straight auditing of Network Rail by the NAO is not appropriate. I would like to feel that colleagues in the NAO would say we had been very open-minded to the general work we do with them, and I think we believe that transparency and clear objectives are the way to get better performance out of rail.

Q60 Mr Bacon: But why is it inappropriate? Ms Mactaggart's point is a very powerful one, and it is actually an NAO point. She was reading out a sentence from the National Audit Office Report: "The Department's understanding of the relationship between cost and value was weakest in rail". Now, the National Audit Office is the national auditor. It is not just the supreme audit institution of the country: it also does the United Nations. It is one of the best supreme audit institutions in the world. It does not seem to me to be a coincidence that the areas where the NAO has not been able to go, such as the Financial Services Authority, until recently, and the BBC, are the ones where, when you finally get in there and overturn the stone, you find all kinds of horrors underneath. This is the area where the "Department's understanding of the relationship between cost and value was weakest", so why do you think that it is inappropriate?
Lin Homer: I think the Department and HMT believe that it is not appropriate for NAO to audit companies that are essentially private sector.

Q61 Mr Bacon: It is not essentially a private sector company. There is no sense in which it is essentially private sector. We have been over this ground many times. If you want to tell me the characteristics of a private sector company, please list them. I am all ears. What are they? Please tell me the top five characteristics of a private sector company.
Lin Homer: This is the debate we had last time.

Q62 Mr Bacon: I know. Just tell me what they are. What are the characteristics of a private sector company?
Lin Homer: Well, one of the characteristics is that it's managed by its members or its shareholders, depending on what sort of company it is.

Q63 Mr Bacon: There are not any other companies that have members in this way, or hardly any others. This is a unique entity.
Lin Homer: There are.

Q64 Mr Bacon: What are the primary characteristics of a private sector company?
Lin Homer: One of the other pieces of information that I gave you was that the taxpayer now pays 30% of the costs of Network Rail.

Q65 Mr Bacon: That is a very interesting answer, because my question was, "What are the characteristics of a private sector company?" and your answer was that the taxpayer now pays 30% of the costs. If you go to the FTSE 100, how many of the FTSE 100 have 30% of their costs paid by the taxpayer? How many?
Lin Homer: I am sure that none is the answer.

Q66 Mr Bacon: Okay. So the answer to my question on the characteristics of a private sector company, which was that they have 30% of their costs paid by the taxpayer, is not a very good answer, is it?
Lin Homer: No, but that is not what I said.

Q67 Mr Bacon: But you did. I was there. When we play the tape, it will show it. My question was, "What are the characteristics of a private sector company?" and your answer was that you now have 30% of the costs of Network Rail paid by the taxpayer. That was your answer. It might not have been an answer to my question, but, frankly, after 10 years on this Committee I am used to people answering with answers that are not answers to my question. What I am looking for is an answer to my question. What are the characteristics of a private sector company, please?
Lin Homer: And I did, before that sentence, give you the characteristic, which remains true, that this is not a company that the Government control.

Q68 Mr Bacon: I am looking for the next one, apart from the fact that it is controlled by its members and shareholders.
Lin Homer: Well, we think that that is a very significant one.

Q69 Mr Bacon: What else?
Lin Homer: That is the one that continues to lead us to believe that the NAO should not—
Mr Bacon: But it gets public money. It is in a legal limbo.
Meg Hillier: It gets some public money, but 46% of the capital budget of the Department goes to Network Rail, am I right?

Q70 Stephen Barclay: In monetary terms it is £3.9 billion, but the other material issue is that all its liabilities—we had this discussion last time—are underwritten by the taxpayer. That is correct, isn't it?
Lin Homer: I am well aware that the answers I am giving are not to your liking.

Q71 Mr Bacon: It is not a question of whether they are not to our liking; it is wholly incredible to describe this as a private sector company. If we go back to my FTSE 100 example, how many of the FTSE 100 have all their liabilities underwritten by the taxpayer? None. Once again, it does not bear comparison with any other private sector entity. It is not a question of giving us answers that we like or dislike; it is a question of saying something that is credible, rather than something that is literally incredible.
Lin Homer: The description that you are using of FTSE 100 is not the same as the question about the status of the company.

Q72 Mr Bacon: It is a fairly good benchmark for private sector actors.
Lin Homer: There are a very wide range of organisations that are private which are very unlike FTSE. Both ourselves and the Treasury believe that it continues to be the case that the NAO—
Chair: To be honest, Lin, it would be better if people said that the reason they are maintaining the status quo is to keep it off the balance sheet. That would seem to me to be a more honest answer than pretending that it is private sector. That is the basis on which it was set up. I am not sure I accept that it was the best of ideas, and it was my Government who did it. To pretend that it has a private sector status is just crazy. What is so irritating is that we talk about the 30%—we represent the fare payers, and paying your fare is a tax. I think it was Jo Johnson who said that, the last time we were here. Fare is another form of tax. If you add that in, and the fact that it is underwritten by the Government, it is crazy to suggest that. We come to you, to this exercise, and you are hamstrung by your inability to bring Network Rail into the landscape when you are deciding where to cut.

Q73 Mr Bacon: You say that you don't control it. But I am right, aren't I, that in the autumn statement, it was announced that there will be £950 million additional investment financed through Network Rail? That's correct, isn't it?
Lin Homer: Yes.

Q74 Mr Bacon: Where does that £950 million, financed through Network Rail, come from?
Lin Homer: They raise the money in the private markets, with debt repayments—

Q75 Mr Bacon: So it either increases their debt, which is guaranteed by the taxpayer, or it gets through your allowing the regulator to make fares higher. That's right, isn't it? It's one or the other of those sources?
Lin Homer: It's expected to be the former.

Q76 Chair: Can we have a comment from the Treasury?
Marius Gallaher: I understand that Network Rail is classified by the Office for National Statistics to the private sector. Until it changes its opinion on that, we're stuck with the fact that it is in the private sector.
Chair: You're not stuck. You can change it.

Q77 Mr Bacon: You agree, don't you, that ultimately the Government are on the hook for this increased borrowing that Network Rail is undertaking? You are on the hook for it, ultimately, aren't you?
Lin Homer: We had that discussion last time.
Chair: We get very excited about this.
Amyas Morse: I don't want to pile it on, because I am well aware that the issue is not being driven by Lin Homer, but it's probably just worth while saying that equally, as you are stuck with that, we're stuck with the fact that it's not in accord with the accounting conventions, and therefore we unfortunately won't be able to give a clear opinion on the whole-of-Government accounts until it changes.
I will just mention to you, however, that other solutions have been found with the BBC, which is given access without full financial advice. I just think that the Government should bear that in mind.

Q78 Meg Hillier: In my own area, we have a learning trust running schools. It is not an education authority or a public body, but it chooses to be open to FOI requests and take up that, because it believes—because it is in receipt of public money providing a public service—that it ought to behave, in that sense anyway, as a public organisation. I presume that in the Command Paper, the Secretary of State could consider that option. Whether she will or not, you couldn't tell us, but is that something that she could consider?
Lin Homer: I think the company would have to decide that for itself. Obviously, the Secretary of State could express opinions. I did say earlier—I realise, again, it's in a different bit of the forest really—that we have been working with a lot of our providers, not just in rail, but in other sectors, such as aviation and roads, to try to encourage more transparency of data. I think there will be a significant move towards transparency of information, for instance, on fares. In terms of the underlying commitment to people knowing more about what's going on and having more access to the data, the NAO would be incapable of passing comment on that, even if it is on a slightly different basis. I don't think there's as much between us there as—

Q79 Chair: In the meantime, you're lumbered with a commitment to meet inflation in Network Rail.
Lin Homer: The regulator has to agree the underlying inflation and the underlying—

Q80 Chair: Yes, and it's harder than we all thought it was going to be. So in the context of having to find cuts in your budget, how much extra do you have to give to Network Rail?
Lin Homer: We think that the forecasts at the end of last year are likely to bring it down towards the lower

end of our range. I think you quote us as saying inflation might add 1% to 4% on to our cuts—

Q81 Chair: So if it were 1%, how much extra?
Lin Homer: We haven't agreed the—
Chair: Give us a range. The NAO has said that inflation will lead to a 1% to 4% increase.
Lin Homer: We think it's the bottom end of that.

Q82 Chair: It doesn't matter. You're bound to think that. But in cash, how much extra will you have to give to Network Rail over the spending review period to meet your commitment to meeting inflation, at both the 1% and the 4% figure?
Lin Homer: For this spending review, not the next control period?
Chair: Yes.
Lin Homer: Sorry, I misunderstood.
Clare Moriarty: A 1% increase in the inflation rate equates to about £35 million a year.
Lin Homer: For the Department, not for Network Rail.

Q83 Chair: In-year?
Clare Moriarty: The way the grant works is that it is set by the ORR for the whole control period. The amount we pay is then based on index-linked payment. So we pay more if inflation is higher than anticipated, and less—

Q84 Chair: So it's 5.5% at the moment?
Clare Moriarty: Yes.

Q85 Chair: I'm trying to get a straight answer out of you. Inflation is currently running at 5.5%, whatever the 1% or 4% is. That means you're having to pay more to Network Rail in 2011–12?
Clare Moriarty: Certainly for the future years.

Q86 Mr Bacon: That's £35 million per year, per 1%, is it?
Clare Moriarty: Yes.

Q87 Mr Bacon: So five and a half times 35 is about 190. So that times a control period is how many years?
Clare Moriarty: The remaining years of the control period are 2012–13 and 2013–14.

Q88 Mr Bacon: So how many years in total? Just two? But the inflation commitment applies for the whole control period, doesn't it?
Clare Moriarty: It does, but in earlier years we had inflation that was running lower than expected. I cannot tell you over the entire control period—

Q89 Mr Bacon: But you are looking at over half a billion pounds extra, aren't you?
Clare Moriarty: We have reforecast. In May we looked at what we thought the impact of inflation might be. At that stage we had quite a significant range. That is reflected—

Q90 Chair: In May? We are miles away from May. Inflation started spiralling at the end of last year.
Clare Moriarty: We have now redone those figures. Our current estimate is that with the 5% inflation this year and our best estimates for inflation over the rest of the spending review period, we believe there is a 1% overall impact on the Department's budget.

Q91 Chair: I think that is just optimism bias. So what is the impact of the 5%?
Lin Homer: Well, it's £35 million for each 1%. So if we are wrong about that you can multiply that by £35 million.

Q92 Mr Bacon: You are saying 1% over the whole period?
Clare Moriarty: A 1% increase in the impact of the reduction. So if I could take you back to figure 2 on page 13: as we said, on the budget we have got in the spending review in 2014–15, compared with the budget in 2010–11, in real terms there is a reduction of 21% in resource and 11% in capital, giving a total decrease of 15%. We have rerun the numbers with the latest information from the Office for Budget Responsibility, as of November, and our latest assessment, taking into account inflation across all the areas where it applies, which is not the totality of our budgets because some of those are set in cash, is this. The spending power relative to the position in 2010–11 is 16% for the total, a 12% reduction—

Q93 Mr Bacon: What is the impact in pounds, shillings and pence?
Clare Moriarty: It is 1% of our total budget, which is about £120 million.

Q94 Mr Bacon: £120 million of spending power impact?
Clare Moriarty: Yes.

Q95 Chair: I think that is a real optimism bias, assuming 1%. But even at £120 million, where are those cuts coming from, because you have got to make the cuts?
Lin Homer: This goes back to your starting point. We have to have forward plans that are constantly looking at—

Q96 Chair: Okay, so what are you looking at? Is it going to be more off road maintenance?
Lin Homer: One of the things we have been doing is looking at the general ability to make savings across all of our work, not only the work we do but others in what we would call administration costs—property, back office, things like that. But as we also discussed earlier, we have had the input of the autumn statement, which has given us some input back in; less on resource, but about 1% back in. So we think our forward plans for the rest of the spending review show the need to continue for some savings.

Q97 Chair: Lin, I'm just going to say this, really, to get us straight. So you will have to find at least £120 million more? Some of us believe it is going to be higher than that. Actually, you are going to use some of your autumn statement to fund that—full stop.
Lin Homer: No.

Q98 Chair: Well, that is what I understood that to mean.
Lin Homer: No, you made the point earlier that the autumn statement has put money back into resource.

Q99 Chair: But that is supposed to go into projects out there.
Lin Homer: It is all going into projects. Most of our money goes into projects.

Q100 Chair: No it isn't, because you have suddenly found inflation has hit you. If you are doing a silly old household budget, you suddenly find that you've got to find more money because inflation is higher. As I understand it, you are finding that extra money—be it £120 million or more—by spending less on some of the new projects.
Lin Homer: And we are seeking each year to have a range of—

Q101 Chair: That is what you are doing: spending less on the new projects.
Lin Homer: No. I don't think we are intending to spend less on new projects.

Q102 Chair: You will have to. You have to find it somewhere. You have either got to find real cuts here or—
Lin Homer: I think that is in the main what we are doing. But in, for instance, the Highways Agency, we are learning as we go along. Managed motorways is something that you spent a lot of time on. You thought we came to them slow—I will acknowledge that here—but one of the debates that we have had since we started managed motorways is over the space that you place between the gantries, which are an essential part of the scheme. Initially, we were quite cautious, and we placed them every 500 metres. We then moved to thinking that we would spread them to 800 metres and now we think that we could probably have them every 1 km.
Over the period of the spending review, that simple change could save us between £600 million and £1 billion. That is a real efficiency. There is no change in the project. The extra lane will be there. The safety will be there. Those are all being very well tested as we go along. That is a real efficiency and those are the kinds of things that we are adding to our repertoire as we go forwards. We are hungry for real efficiencies, and we are trying to learn from your reports and from our own experience and to gather up those experiences, so that we are not simply chopping off things that are important to the public.
Chair: We cut short Meg and Fiona. Do you want to come in?

Q103 Meg Hillier: First, to give you credit, I am quite heartened that you are one of the first Departments that I have questioned here that has even talked about the impact on people. It was in a roundabout way, but you have. However, in terms of value for money for people, you have talked a bit about it in terms of roads and the impacts on people's journeys—most people do travel by road—but we are going back to the rail issue. How much control does the Department have on the value for money? You talk about the taxpayer element, but most of it is actually from fare payers, who are also taxpayers, so they get a double whammy. Given the regulatory framework for Network Rail, how much are you able to factor that in? How much is that really in the forefront of the Department's mind when you are looking at rail projects?
Lin Homer: I think the Secretary of State is very focused on the impact on the customer. It is something that she is asking us to look at not just in rail, but across the piece. As I think you know, one of the reviews we are undertaking is how, in our procurement processes, we can build in the quality of delivery as well as the hard-edged price, so we are trying to look at the customer.
There are trade offs between cost and customer impact. Clare gave the example a little while ago that road users would prefer all workings on the road probably to be between 12 midnight and five in the morning, but it costs more. Similarly, there are trade offs on rail. It is good if we can persuade the customer to make full use of the facilities that are available. One area we are looking at is smart ticketing. We think that is a good customer area, but it also potentially saves money. You fill up the trains when they are empty with good deals and maybe encourage people to think about why they travel when. The issue for us is how you think about cost and the customer and not make it an either/or. That is the territory that I think the Secretary of State is trying to get us into.

Q104 Meg Hillier: There are two sorts of rail customers. There is the regular commuter, for whom the fare is pretty much a tax, because it is something that they have to have to travel. Some of the analysis has shown that—although it does not account for all the fees involved—it would be cheaper for some people to move into central London and have a bigger mortgage than it would be to travel. Is that value for money? There is then the issue of the casual traveller—there are far fewer of them in terms of numbers than of people who would travel by road. Do you actually do a cost analysis of rail versus road? It may be controversial. I am great railway fan myself. I have the East London line in my constituency partly thanks to Government funding. Does the Department look at it in those hard cash terms or are some of the rail projects simply vanity projects? Is the £500 million spent on a tunnel in Amersham, for example, value for money?
Lin Homer: Actually, we think the extra tunnelling on High Speed 2 will save, not cost us money.

Q105 Chair: Say that again.
Lin Homer: I thought that might attract attention.
Mr Bacon: I think you got it right the first time. I think you got the line right the first time anyway.
Lin Homer: We believe that the extra tunnelling on High Speed 2 will save money, not cost money. I am happy to elaborate on that.

Q106 Chair: That is the boldest statement you have made this afternoon. Go on.

Lin Homer: I did say that I wanted to enjoy my last week in this job.
Mr Bacon: You just ran the spreadsheet again and again and again until that is what it told you, didn't you?
Chair: Sounds like PFI.
Lin Homer: To answer Meg's question, we do look very particularly at the impact and the transfer from road to rail, or rail to road whenever we do major projects. You are absolutely right that far more people use road, but there has been a fantastic increase in the use of rail in the last 10 years. There has been an enormous resurgence from the mid '90s to now. Rail use has doubled, so it has an impact on road users as well. The roads are less busy, because of the people that are on rail, but our economic models always look at the economic cost and the displacement effect if we do or do not do things, so we always try—

Q107 Chair: So do you think that Stephen Glaister is 100% batty and wrong?
Lin Homer: I would not say that.

Q108 Chair: I have known him for ever, and I know that he now works for the RAC, so you might think that he is slightly partial. However, I have to say that when he says that you get a 10:1 ratio for most road projects, and this is £1.60 for every pound of taxpayers' money—would not touch it with a barge pole. "Whatever the merits of HS2 in isolation, they appear nothing better than mediocre when put alongside the road schemes." You think that's potty, do you?
Lin Homer: No, I do not think it is potty. You do tend to get higher BCRs on road schemes, particularly sometimes on smaller road schemes—

Q109 Chair: In a constrained time, you look for your best value.
Lin Homer: We measure BCRs over a period of about 30 years. Truthfully, you hope and expect that your railways will be in place longer than that. You need a mixture of modes, and you need the modes to work better together. One of the McNulty recommendations is that we look at how we involve local authorities and local passenger transport executives more in rail as well as road, so that your ability to bike and train, to bus and train or to road and train starts to—

Q110 Chair: He says that you have 96 major road schemes sitting on the shelf without funding, but you have chosen to fund HS2, which has a questionable economic return.
Lin Homer: We have announced 45 road schemes and other transport schemes.

Q111 Chair: Forty-five of those schemes sitting on the shelf?
Lin Homer: From the autumn statement, we announced 20 and we announced another 21, so 41 out of the 45 schemes in our development pool have been approved now.

Q112 Meg Hillier: One of your measures is looking at tackling social exclusion. I am a London MP, so I do not really drive, because there is no need in London, but outside the London bubble, most people drive and poorer people will tend to drive. Do you take that into account when you are looking at it? You are supposed to, but how does that rank in your pecking order of priorities?
Lin Homer: Yes; we have a five-case methodology for considering our major schemes. I look to Clare in case I get this wrong: we look at the economic case, the social case, the strategic fit, and we look at deliverability and affordability—

Q113 Meg Hillier: Affordability for the Department or—?
Lin Homer: For the Department, but we look at those issues in the social case, and of course that comes in very strongly in our funding of local light rail and buses, as well as road. Yes, we try to take those all into account.

Q114 Meg Hillier: That brings me to the last point that I wanted to make, which is about local bus services. You could say that is not entirely the Department's responsibility, because you have devolved a lot of that and now a lot of it is in the private sector. Even 20 years ago, there were areas of the country where you could not travel from one mining town to another after 7 o'clock at night, because there was no bus. We know that there have been more cuts to local buses, which are stopping people getting to college, school and work in many cases and forcing them into cars when petrol prices are high, if they can afford a car. How much does the Department think that it is its job to take that on? Is it part of the Secretary of State's Command Paper? Are you allowed to tell us that last bit? You might not be.
Clare Moriarty: We support bus services in various ways. One thing that we have tried to do, again to make the way in which we provide that support as efficient as we can, is move away from providing funding based on the amount of fuel used, which obviously does not give any rewards for greater fuel efficiency, towards funding per passenger and using smart ticketing to ensure that the information is as good as it can be. We are trying to get the funding more smartly to the—

Q115 Meg Hillier: Can I stop you there to pick up on the funding per passenger? To work regularly and to be useful, a bus service may have times of very low passenger use. If you do it just by passenger, you end up with a good excuse to drop the low-use, but nevertheless important, ones. The worse the service, the fewer the people who use it; you are in a vicious circle of people not using buses, because they do not know when they will turn up and they are irregular.
Lin Homer: This is the basic bus operators' grant funding that is provided. As you know—I know more from my local authority days, in a way—it remains open to local authorities to provide some additional and subsidised services. One of the things we have been working with bus operators on is exactly that: sometimes, if you increase the frequency and, indeed, if you are prepared as a local authority to put up the

cost of parking as well, you can create sustainable bus services where otherwise you could not.

I think a number of us—both Norman Baker and the Secretary of State—have had some discussions directly with the operators about the way that we could continue to see the growth in sustainable and well-used bus services outside London. When I was in Birmingham—even in Birmingham—only London could do it. Now the operators say that there are many market town/city areas where they can run them with such a frequency that they can create a sustainable bus service.

Q116 Meg Hillier: I don't disagree with the theory, but the practice out there is not working. London is the only area where there has been an increase, because buses flooded London and, up till recently, for a period under the previous Mayor, the weekly bus ticket stayed the same cash price, which meant that a lot of young people chose to use the buses and that bolstered services.

I was in Middlesbrough not that long ago, on Teesside, and to get into Middlesbrough cost £6 return on the bus. I am sure that the local MP can—

Ian Swales: It's cheaper by taxi in the town where I live.

Q117 Meg Hillier: The low-paid staff I met said that it was not worth their while getting the bus. So the theory is fine, but unless the right—

For various Governments over time, it has been a case of let 1,000 flowers bloom and let people do it their own way. You have said that local authorities can help. But with what? With what money? Surely there needs to be a better strategy from the Department.

Lin Homer: I wouldn't agree with you that London is the only place where you see successful, sustainable bus systems.

Q118 Meg Hillier: No, in growth in passenger numbers, London is the only—

Lin Homer: I don't think even that is true.

Meg Hillier: Is it not true?

Lin Homer: I think there are some parts of the country where it is proving more difficult than others, and the north-east is one of those.

Several factors have to be brought into this, including how you utilise parking and how you subsidise the alternatives, and the way modes interact with each other. I broadly agree with your underlying assertion that we've got to do more to make different modes of transport work in different parts of the countryside.

Q119 Ian Swales: Since Meg's mentioned it, can I just make a point? Where I am—part of my constituency is in Middlesbrough—it is clearly cheaper for two people to get a taxi to go around and on many journeys it is cheaper for one person to get a taxi to move around, rather than get on the bus. That is outrageous, in terms of the profits that the local bus companies make and the effect on people's ability to move around.

Chair: Amyas wanted to pop in, then Stephen, then Austin.

Q120 ***Amyas Morse:*** I just wanted to step back a little bit to the relationship between maintenance of a revenue and a capital nature, if I may. There had been a reduction in spend on annual maintenance, then, as it happens, in the autumn statement, there was an increase in maintenance of a more capital nature. We are talking about efficiency. Is that an efficiency that has been made?

Is the enduring pattern going to be that we will have less annual maintenance and a wave pattern necessitating higher capital spending? In other words, there will be a longer period between repairs, but that is okay because that is part of a deliberate cycle and possibly more cost-efficient. Have you done any thinking like that or is it—I don't mean this rudely—more casual than that, if you will forgive me for saying so?

Clare Moriarty: One thing, just for clarification: the compensating increase in capital maintenance wasn't in the autumn statement; that was always part of the spending review package. We looked, in the spending review, at ways in which we could spend more efficiently on maintenance in a number of different areas. So some of the measures are about changing standards—things like allowing a greater variety of locally sourced materials and about really working out what the level of bitumen needs to be. Some there are some quite specific things around standards.

There is a set of issues around getting the specifications smart, so, as I was saying earlier, we are doing outcome-based specification rather than input-based specification. We know, from the discussions that the Highways Agency has started with its suppliers, that there is scope to deliver services more cheaply that deliver the same outcome. So the element that you were referring to, about the resource-to-capital switch, was one element of a broader package.

Q121 ***Amyas Morse:*** But that is an efficiency element, as you see it. I am just trying to understand it. You are saying that you would go on site at a particular place once every two or three years, rather than maintaining it on a more continual basis, is that it? I am trying to understand if you see that as a more efficient way of doing things. I do not think it isn't, by the way. I am just curious.

Clare Moriarty: I think we see it as something that delivers the outcome we require for lower cost. It does not deliver exactly the same output, but we believe it delivers the same outcome for a lower input cost.

Amyas Morse: Thank you.

Q122 Stephen Barclay: At our last hearing, the Committee recommended that you look at the financial strength of holding companies before issuing rail franchises. You have not accepted that recommendation. Why is that?

Lin Homer: When I was here last, we were talking about the termination of National Express on the east coast. One of the debates was on whether we had assessed the risks of the insurance or guarantees that we were given. We have been looking at ways in which we can minimise those risks with the new franchises, so I am very happy to give you a note. I do not recognise that we rejected your advice that we should look more carefully at how far away from the risk the holding company stands. There may be a wider range of ways in which we think we can do that than one specific way, but I think we agreed that that was a risk we should mitigate.

Q123 Stephen Barclay: I look forward to the note. I do not think the civil service tends to write "we reject" in the notes that come to the Committee. What you did was say that you would do something else, which in practice is the same thing expressed in a more polite way.
May I follow on from Amyas's question with a local example from my constituency? This will hopefully highlight the wider point of the extent to which you have been driving down routine costs incurred by the Highways Agency. I have a village hall in my constituency on the A47 and, because people travel at speed on A roads, the village hall wanted two signs to warn people as they slow to turn into the village hall that others may try to overtake them to avoid reducing their speed, so there are safety concerns. The cost quoted by the regional director of the Highways Agency for those two signs was £30,000. It struck me whether that was the case on a national scale. Since highlighting that across the region, I have been contacted by a wide number of councillors and others saying that they had been quoted or had incurred similar costs. What would that cost have been without your interventions in recent years to drive down the costs to £30,000? What sort of stretch target are you putting in place moving forward?
Lin Homer: I do not know that particular case in detail, but I am very happy to look at it. I know the Minister, Mike Penning, has taken a close interest in signs. There is often slightly more to putting up signs than the local populace believe or accept, so, although I do not know this case, you can sometimes find that you need repeater signs or some possession of the highway to erect the sign safely. There is also a belief that having too many signs diminishes road safety and that you should put up the signs that you need and not have extras. This is quite a complex area, and I am very happy to look at whether £30,000 is a mistake.

Q124 Stephen Barclay: I was reluctant to raise a local example because, again, the typical answer when a local point is raised is, "I will look at the individual case." Although that would be helpful and I look forward to you doing so, that was not really my point. I queried why it was £30,000 for two signs, and I was told—this goes to your answer—that it was for the pole and sign face, the traffic management and design, and the installation works and supervision. In short, I suspect it was for a number of consultants to come to do various surveys and other things.
What I was really driving at is: who is looking at these processes? What are the targets? How are they accountable? How are those costs being managed down? Although this is a local example, and you can look at a local example, the feedback I have had is that this is a widespread cost. Yes, it is important that we look at the major schemes, but there are significant costs in a lot of these routine works, which are done up and down the country and perhaps nobody is looking at them and how we can drive the costs down and do them in a smarter way. How are we going to judge that in 12 months' time? How much smarter is it going to be in 12 months' time?
Lin Homer: We do agree. We have been trying to look, through the red tape challenge, at areas where we could deregulate. When I was a local authority chief exec, I often felt that Government put lots of hoops in the way. Perhaps it is no surprise that, now I am this side of the fence, we are now trying to take quite seriously whether we can take out some of those barriers to quicker local decision making. In our roads red tape, we did look at some of those things that might make it easier for locals to take action quickly. We do have a responsibility for safety. I will challenge you: I do not believe that things like that are about paying lots of consultants. The country has an incredibly important record of safety for the people who work on roads as well as those who use roads, and we would not give that up lightly. We specify safe methods of working and we should adhere to them. If there are ways in which, for instance, we could simplify road signs—when they can be used or when they can't—we have been looking at them over the past year. Both Mike Penning and Norman Baker have done some work to see if we can devolve more of that to local authorities without losing some of the consistency that allows users of roads to know what they are doing. It is an area we are interested in, but there are some necessary ingredients like safety that you give up only after careful consideration.

Q125 Austin Mitchell: Just in passing, on the Middlesbrough taxi question, there was a calculation in Lewis's book, "Boomerang", about the crash, that if the Greeks closed down their entire railway system it would save money to send everybody—tourists and natives alike—by taxi. I think that is an interesting calculation. It has a bearing on your role, because most of the money you are handing out goes through third parties—in fact, 68% of it goes through third parties. You have no way of either controlling or properly auditing those third parties, have you? How can you be sure that they are providing value for money?
Lin Homer: Is it worth looking at London as a case study for that? London is heavily delegated, but Clare could give you a little bit of information about the way that we not only just hand our money over but work with them to try to understand what they are doing and where they are getting value for money.

Q126 Austin Mitchell: You can't really control it.
Clare Moriarty: We don't control it. The money that we give to London is given to Transport for London under a devolution settlement. We don't have the ability to say, "You must spend your money on this." Clearly, all the third parties who spend our money are themselves subject to audit processes. Many of them, like Transport for London and local authorities, are accountable to their own populations. One of the things we have been doing, in the same way that Government are becoming more transparent, is to encourage local authorities to be transparent with their

local populations, so that they can hold them to account.

If you look at London in particular and the settlement that we reached with London in the past, we have given them one overall grant. From this spending review, we have split the grant in two. We give about a third of it in the form of an investment grant, which is specifically to ensure that spending continues on the tube upgrade projects, and there is a list of specific milestones that Transport for London has signed up to, and there is a regular monitoring system with shared reports, so that we can track the progress of those. In the other areas, we have regular dialogue and they share information with us, so that we know that they have a significant efficiency programme and we know the sorts of things they are planning to do in order to achieve efficiencies.

Q127 Austin Mitchell: A lot depends on your own administration, and the peanuts administration for the Department. And the programme is peanuts, isn't it? The figure of £295 million is going to be cut by a third. You will be even less capable at auditing and ensuring value for money, whether in negotiations or in continuous administration of the money that you are handing out.

Lin Homer: We are on target to make 33% reductions in our admin costs.

Q128 Austin Mitchell: That must affect your ability to supervise these bodies.

Lin Homer: We believe that you can put in place systems and approaches that encourage that. For instance, you will remember that we did invest some additional money in potholes with local authorities last year. We required the local authorities to publish on their own sites how they had used the money, so that it was all public. We also reviewed that, so that we could encourage those who could learn from each other to do so. Our view is that you can still get lots of this information out into the public domain—available to the Committee and available to the NAO, but also available to the public—without always doing so in a very resource-intensive way.

Q129 Austin Mitchell: One way of auditing them is on standards of maintenance. I see from the Report—on page 7 of the summary, paragraph 13—that some of the £435 million you are saving comes from "reducing road condition standards". Does that mean that road condition standards in this country were too high up to this year?

Lin Homer: We believe it was worth looking at the standards. For instance, the type of material used to resurface roads was very uniform and consistent. The Highways Agency and also local authorities now believe that there might be a wider range of resurfacing treatments that could be used, which are fit for purpose but not always exactly the same. Again, I would have to say that I think you encouraged us to do this in October 2009. There is a view that big Government Departments can get very systematised and just do things because it is the best way to do things, but what we need to do is the appropriate response. That is an example where providers are telling us there is a wider range, including some cheaper materials which are as good. We think we should be open-minded about those kind of specifications.

Q130 Austin Mitchell: That is interesting because materials have to conform to European standards.

Lin Homer: Yes.

Q131 Austin Mitchell: I have a manufacturer of kerbings and drainage in Grimsby. He complains that a competitor is being allowed to fit substandard material, which does not come up to European standards—it is part plastic—and that this material breaks up and disintegrates. Does that mean that, in allowing that, you are reducing the standards?

Lin Homer: No, I do not think we are allowing—

Q132 Austin Mitchell: Why is inferior material being allowed? I have to add that it is imported, and my supplier makes his own.

Lin Homer: Again, if you want to give me the particular example, I will look at it. What I was suggesting is that we are prepared to use a wider range of products that meet the standards we and Europe require. I absolutely was not suggesting that we would use substandard, but what I am saying is that we would be prepared to use the appropriate standard for the circumstances which we are in. Whether or not there are examples where individuals are providing products below the standards we set—we would be very keen to know that and to follow that up—we do not think there is a single standard you should use on every road from a motorway to a local road, regardless of—

Chair: Jackie has waited very patiently.

Q133 Austin Mitchell: I will write to you about this individual case, because it seems to me the standards—

Lin Homer: Please do.

Chair: Ian, have you got a very quick one? Go on, Austin.

Q134 Austin Mitchell: Finally, you must be very pleased; given the way things have turned out, you are just getting out in time.

Chair: She has not been in very long.

Mr Bacon: Heading from the frying pan to the fire.

Austin Mitchell: You have got massive savings by cutting programmes, by lowering standards and by imposing an increasingly heavy burden on the rail passenger. By the time all this comes to fruition and we are driving—to the great profit of the garages and panel beaters—through litter-strewn roads with big holes in them, you will be gone. You must be very happy.

Amyas Morse: I think it will drive up tax take actually.

Lin Homer: Mr Mitchell is the first person who has suggested the change might lead to an easier life.

Q135 Chair: How long have you actually been in the job?

Lin Homer: Only 12 months and two weeks.

Chair: Ian, just very briefly. Jackie has been waiting very patiently.

Q136 Ian Swales: I have a very quick one, following directly from Mr Mitchell's question. He asked you how you controlled third parties. I think the examples you gave were all in the public sector. We know that a lot of the money goes out via the private sector or organisations that are deemed to be in the private sector, like Network Rail. Without wanting a long answer—maybe exemplify it—my question is: as one of the reasons given for the recent big, 10%, rail fare rises is so that more money can be invested in the network, how do you ensure the right level of investment, as opposed to it all disappearing into the bottom line of the companies involved?

Lin Homer: The relationship with the train-operating companies is contractual, and we have very skilled commercial and contract managers in the Department—some of the best across Whitehall. I believe that we hold people to account for our contracts well. At my level, one tends to see only the high level of those contractual negotiations, but the outcomes tend to be very much in favour of the taxpayer and the fare payer.

Q137 Jackie Doyle-Price: I have two quick questions, and one follows on directly from that. Figure 8 in the report says that you have a target of making £237 million in efficiency savings from smarter contracting, and, by your own definition, that is a challenging target. How well are you making progress in achieving those savings?

Lin Homer: The requirement on the Highways Agency was that it used the first year of the spending review to commence those negotiations, so we did not require it to make that cut in the first year. It has just reached a position where it has renegotiated two of its contracts—very successfully, it thinks, within this environment—and that gives us great confidence going forward.

Some of the contracts that are still outstanding involve a piece of work that the Cabinet Office did overall, and in some of those areas we are negotiating for change within the confines of existing contracts, so one has to be realistic about the level of absolute change we can achieve. The two new contracts, however, give us some good baselines to work to, and we are also attempting to get some of that improvement in procurement performance within existing contracts. On the two new contracts, we spoke to the Highways Agency last week and it believes that it is getting competitive prices from the market. Obviously, work matters to these companies. We are doing some things such as changing standards and focusing on outcomes rather than inputs, and companies believe that they can deliver the same outcomes but for lower prices. There is an example concerning instant support units.

Clare Moriarty: Yes. Historically, contracts have required dedicated instant support units in particular areas. Given the opportunity to propose ways of providing the service for a smaller cost, one thing that suppliers have suggested is ensuring that there is provision but not necessarily meeting incidents that potentially come from a smaller number of bases. An element of those savings also comes from moving away from renewals work—the capital end of maintenance—on a piece-by-piece basis. Traditionally, we contracted for one renewal and then another, which made it more expensive because they were spot prices. Over a number of years, we will be moving towards contracts that provide all the renewals work across a certain area for a period of time. If we have bigger packages of work, we can drive keener prices for them.

Q138 Jackie Doyle-Price: That slightly worries me because it suggests that you would therefore elongate a contract for the sake of getting a better price up front. Ultimately, that is not necessarily going to deliver better value for money, but that is just a note of caution. Are you confident that you are going to hit that £237 million target?

Lin Homer: We discussed that with the Highways Agency last week, and we will always expect robust discussions with it if it begins to feel under pressure. I think it is reasonably confident at the moment, but as we said earlier, part and parcel of monitoring the consequences of our decision making is to have early warnings about trends and changes—positive or negative—and to be able to adjust. Clare's team is now delivering quality of financial management information, which I think the Department can use well. Mr Mitchell is not right; I don't feel that I am leaving the Department just as it goes into a difficult period, and I think there is some very good practice that will serve it well during the next period.

Q139 Fiona Mactaggart: I have two short questions. First, the big issue facing the country is economic growth, and there is recognition by the Government that transport is key to growth—we have seen that in the recent statement and so on—so don't you think that there should be some transparent mechanism whereby the public can know the impact on GDP that any individual transport project delivers?

Lin Homer: The evidence that we publish to stand up our benefit-cost ratio does give a lot of that. Obviously, for big schemes, such as High Speed 2, even more information is published. Even for smaller schemes however, such as the 41 that we have just approved, there are published figures and public consultation documents on the benefit-cost ratio. So, yes, we do feel that people should be able to understand the proposition—

Q140 Fiona Mactaggart: Will that be the case in relation to rail franchise offers?

Lin Homer: In relation to rail franchises, the call to tender sets out very clearly the circumstances on which we are seeking to get someone to contract. The commercial sensitivity comes when publishing the detail of what was responded to. One tends to look at those with the benefit of hindsight and not as we award. It was a debate that we had a little while ago. Let us say that we have decided to make an award. As we progress to the final conclusion of that contractual award, it would be very difficult to bring to a close that negotiation if we had published all the information about it. You have to have commercial sensitivity in the contracting, but we do think that the invitations to tender are clear about the basis on which we are contracting.

Q141 Fiona Mactaggart: I don't share your confidence. My last question is this: what have you learned from the near collapse of the A4 elevated section in Hammersmith?
Lin Homer: The Department and other highways authorities have probably known for 50 years that concrete has particular maintenance problems. That has generated a very close review and monitoring of those structures by the people who own them, which is, in the main, local authorities. The Hammersmith problems were identified because of that routine maintenance.

Q142 Chair: It is not a local authority road. It is a Highways Agency road, or is it Transport for London's?
Lin Homer: It's Transport for London's. We have all learned some things about the way we use concrete in structures for the future. The 1960s saw extensive use of that. We have learned to ensure that we can access the parts that we need to check. This is a concrete bridge with tensioned wires within it as well, and you probably don't see those coming forward now, so there is some learning from that. I think that one has to credit TfL. It has been monitoring this matter closely. When it looked and thought that it could see signs not just of what it was expecting but of more severe degradation, it took early steps. It is confident that the works that it can put in place will be fully fit in time for the Olympics. Indeed, there are already lanes of traffic using the road. We have all learned some things about concrete in the past 50 years. One of the main ones is that you need to review and monitor those structures very regularly.

Q143 Chair: I was just going to ask you a couple of final questions and then we will draw to a close. On Network Rail, you said that you expected to start seeing the savings in which year?
Lin Homer: The last year of the spending review is effectively the first year we will see savings.

Q144 Chair: In 2014–15; are you really happy with that? I think that that is outrageous. When we know that Network Rail is so much more expensive than its European equivalents and that we have a financial deficit to hit, what on earth are we doing leaving it until 2014–15?
Lin Homer: I'll leave it to Clare to give you a bit more detail because I have not been completely accurate on that.
Clare Moriarty: The way in which Network Rail's funding is settled is in five-year control periods. The control period is when we can start to build—

Q145 Chair: I understand all that. Life changes when you decide to cut the deficit by £80 billion. I cannot believe that there are any other organisations around Government like that. When every other contractor was called in to the Cabinet Office to cut their contract, why on earth have you let off the hook this particular organisation, which everyone thinks is wasting money hand over fist, despite having a good new chief executive? It is just mad.
Clare Moriarty: The answer is that we haven't.

Q146 Chair: You have. It is not delivering any savings until 2014 or 2015.
Clare Moriarty: It is delivering savings. It is delivering—

Q147 Chair: A saving of £150 million, which was called what? An outperformance. What is an outperformance?
Clare Moriarty: Outperformance is a technical term that is not helpful in these circumstances.

Q148 Chair: What does it mean?
Clare Moriarty: It means that it is starting to make efficiencies, and it is passing—

Q149 Chair: But £150 million is about 1%.
Clare Moriarty: And a further £100 million—

Q150 Chair: Any organisation can produce—Lin will know this—3% a year without flinching.
Clare Moriarty: If I can make two points. First, we secured £100 million of savings in 2010–11 in the initial budget—
Chair: One percent. One percent.
Clare Moriarty: So £250 million in total. The reality is that we had the choice of reopening the regulatory settlement. That, as the report acknowledges, would have taken a long time. It might have delivered us a larger saving, or it might have delivered us nothing at all. We sought to secure a real saving: admittedly, a smaller saving than we would have taken on otherwise.

Q151 Mr Bacon: Were you fearful of judicial review if you opened the regulatory settlement again, and concerned that Network Rail would stand its ground and threaten to sue you up hill and down dale? What was the problem with opening the regulatory settlement? You said it might not produce a saving.
Clare Moriarty: If we had reopened the regulatory settlement, there is a whole series of steps that are gone through by ORR. We can apply for an interim settlement, but it is for ORR to run it. That is the uncertainty over the outcome, and the timing is ORR's.
Ian Swales: This is an organisation that the Government actually own, isn't it?
Mr Bacon: No, we do not own it. We are responsible for it and we pay for it, but we do not control it. Isn't that the reason why you have let it off the hook, because of that basic fact? We do not control it. That is your problem, isn't it? Instead of opening up the settlement, which obviously does not work, why don't you recommend to Ministers to drive a coach and horses through the present arrangements and set up some new arrangements that work, and that give you the control that you need? That is the obvious answer, isn't it?

Q152 Chair: Whatever on that, it just seems outrageous to us, given the proportion of your budget that is spent by Network Rail on behalf of the taxpayer and fare payer. In any context, letting it off the hook when the rest of the world is suffering massive cuts—my children's centres are closing—just does not make sense. You see this bloated organisation sitting there, and we all know that it costs more than in the rest of Europe. It beggars belief.
Lin Homer: I have no doubt that you will have the chief executive of Network Rail back in front of you.

Q153 Chair: We will, and he is a very good guy. He has got a very good track record and if anybody can sort Network Rail out, he might be able to. But it is shocking that you guys did not seek proper savings from the organisation.
Lin Homer: All I want to add is that in each spending review, through discussions with the regulator, efficiencies and savings are put in place. We might look back and say that if we had known what was coming we would have asked for more, but Network Rail was given targets during that period, which it has delivered, and it would have been opening up and adding to those.

Q154 Chair: But other contracts across the whole of Government—you accept this—were reviewed in the light of the Government's desire to find £80 billion to reduce the deficit. This contract, miraculously, was left alone to deliver a lousy service at too much cost. It is crazy.
On that note, we wish you well, Lin, in your new job. There are a lot of challenges there. Are we assuming, Clare, that you will come and talk about High Speed 1 before Easter?
Clare Moriarty: Yes.
Lin Homer: That is partly why I gave you the pleasure of an outing with me today.
Chair: To get to know us.
Lin Homer: Absolutely. Thank you very much.
Chair: Thank you very much and all the best.

Written evidence from the Interim Permanent Secretary, Department for Transport

ADDITIONAL INFORMATION FOR THE COMMITTEE

Q40. CLAIMS

Responsibility for managing roads in England (outside of London) is shared between the Highways Agency and local transport authorities. The Highways Agency manages the strategic road network, which includes motorways and trunk roads.

Background

Under Section 41(1) of the Highways Act 1980, a highway authority (in this case the Highways Agency) is under a duty to maintain (which includes making repairs to) the highways for which it is responsible (in this case, the Trunk Road Network in England).

Should damage or injury arise, a statutory defence is provided by Section 58(1) of the 1980 Act if the authority is able to show it had taken all reasonable steps to ensure that the highway was not dangerous to traffic. When this defence cannot be relied upon, the highway authority may be liable for damages. Similarly, a highways authority can face claims for damages in common law.

Expenditure

The Highways Agency expenditure in settling claims for the previous three financial years is as follows:

Financial Year	*Vehicle Damage* £	*Personal Injury* £	*Others* £	*Total claims settled* £
2008–09	49,278	163,280	1,486,202	1,698,760
2009–10	39,986	386,316	128,384	554,686
2010–11	40,224	44,104	18,192	102,520
April 2011 to Dec 2011	22,253	152,946	89,048	264,247

Figures can be distorted by individual high value cases, of which there were two in 2008–09.

As at 31 December 2011, the Agency held 549 active claims with a value of £6.567 million; of which the Agency's estimates a settlement value against these claims of £2.042 million. This compares with 490 active claims as at 31 December 2010 with a value of £6.5 million. The estimated settlement value of claims at Dec 2010 that corresponds to the £6.5 million total value was £2.1 million.

Local highway authorities

Responsibility for management of local highway networks lies with the local highway authorities. They have a duty of care under Section 41 of the Highways Act 1980 to maintain their highway and associated assets in a state that is "fit for purpose". Individual local highways authorities determine maintenance priorities, inspection regimes and appropriate standards, based on local knowledge and circumstances.

Consistent with this local responsibility and decision making, the Department's capital funding for local highways maintenance is allocated on a needs-based formula developed with sector (eg length of roads) and not ring-fenced. Data on expenditure by local authorities on highways and other services (from all sources of funding) that is collected and published annually by the Department for Communities & Local Government does not separately identify negligence claims against local highway authorities, nor how much compensation is paid out.

The Department for Transport does however work closely with the local highway authorities in the development and dissemination of sector guidance on highway maintenance. This includes actively participating in the UK Roads Liaison Group (UKRLG), which brings together national and local government from across the UK to consider roads infrastructure engineering and operations matters. The UKRLG has published a number of codes of Practice including *"Well-maintained Highways"*. The objective of this Code is to encourage co-ordination and consistency in the delivery of local highway maintenance services and includes a section on handling risk and liability claims. The Code is available free on the UKRLG website at: www.ukroadsliaisongroup.org.

Q43. Decision Making Impacts

Stephen Barclay MP raised a question about discussions within the Permanent Secretary Public Services Group about the impact of a decision in one area that can have a knock on cost in another. The focus in the conversation within that Group has been on cumulative impact on geographical areas and of one policy on another.

Areas discussed with other Departments include road maintenance, changes to bus and concessionary fare grants, changes to general LA funding and enabling local growth (the last of these bearing fruit in the Growing Places Fund). We have considered how changes to planning law could put greater pressure on Infrastructure and how deregulatory activity could reduce costs for Local Authorities (eg changing obligations for Local Authorities to advertise street works).

The Group has not specifically discussed rising claims level with Local Authorities as far as we are aware.

Q122. Financial Strength of Bidders

Departmental requirements

To ensure that Government is contracting with an entity that is robust enough to withstand business downturns, the Department requires Parent Company support for franchises in the form of a subordinated loan, which is callable on breach of a defined financial ratio. In recognition of the longer franchise length and greater commercial freedom and risk transfer in the next round of franchises, this subordinated loan will need to be backed with a third party guarantee. A guarantee from a third party will be required at contract award and will need to be renewed every three years. The ability of a company to access third party support on competitive terms will provide an indicator of the financial robustness of the franchisee and its Parent(s) and enable ongoing monitoring of a company's strength.

In addition to the subordinated loan, the Department has always sought a third party termination bond from franchise operators, callable on default of the franchisee, which is intended to cover the costs of DfT re-letting the franchise and running the TOC in the interim in the event that an operator fails. In accordance with the previous PAC recommendations we also assess the financial viability of the issuers of these third party bonds.

Departmental processes

The Department follows best practice and OGC guidance in assessing the financial robustness of an owning group. It assesses the financial standing of the owning group at the Pre-Qualifying Questionnaire stage, and also revisits these conclusions when final bids are submitted.

The Department focuses on gearing and liquidity at various stages of the re-let process and use a variety of sources both publically available and internal to affirm its view. However, it does not necessarily penalise one owning group for being more indebted than another.

Due diligence continues after a franchise has been let, as owning groups are assessed and reported upon quarterly, to ensure that a Train Operating Company complies with liquidity covenants on a periodic basis.

Q123. Traffic Signage

I have asked the Highways Agency to provide further information with regard to the quote for £30,000 referred to by Stephen Barclay MP. The Agency has advised that warning signs are not normally provided for access off a trunk road. Their view, in this case, is that there are no safety or traffic management grounds for such a sign. The £30,000 quoted was therefore an estimate and more detailed work would be required to determine a more exact cost. Though the expectation would be that the eventual cost would be less, the Agency is not willing to commit to a lesser amount without further work, which incurs costs in itself. The basis for the quote is as follows:

- £12,000 for design costs (narrow verges both sides of the A47 and taking into account the static safety camera sited opposite the village hall);
- £5,000 for traffic management (would require two nights to install—the first night for the concrete foundations and the second for the sign).
- £5,000 for site visits, including Road Safety Audits.
- £250–£7,500 for materials.

The Highways Agency is driving down costs across its business including; greater efficiencies in building major schemes, improved and more efficient incident response and lower costs in the traffic officer service; reducing expenditure on maintenance by at least 20%, and greater efficiency in back office functions and estates. By vigorously pursuing a number of cost reducing activities, average spend on maintaining the strategic road network over the four year spending review period to 2014–15 will be about £700 million a year. This is down from an average of over £900 million in previous years. This is being done without having to compromise on the safety of the network, and is being achieved through implementing new, more cost-efficient, contracts with its supply chain, and retro-fitting many aspects of these into existing contracts.

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