



Committee of Public Accounts

House of Commons, London SW1A 0AA

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Bernadette Kelly
Permanent Secretary
Department for Transport
Great Minster House
33 Horseferry Road
London
SW1P 4DR

4 November 2020

Dear Bernadette

DfT Recall

Thank you for the evidence you provided to my Committee on Thursday 15 October regarding recent policy developments across your Department. We asked you for an update on the Department's activities, including HS2, Crossrail, rail franchising, roads, support for local transport bodies and how COVID-19 has affected transport.

Given the immediacy of some of the concerns we raised in our evidence sessions, rather than publishing a report we have set out our observations and our recommendations in this letter.

Central government support for London and other local transport bodies

Hammersmith Bridge

Hammersmith Bridge has been closed to motor traffic since April 2019 and closed completely to all pedestrians and cyclists since August 2020. The bridge is a vital link for nearby residents to access facilities such as healthcare, as well as being a major thoroughfare. As you noted, this has been a long-running concern and the bridge seems to have fallen into a 'no man's land', with a lack of clarity over who is responsible for its maintenance and repair.

We welcome the news that you have now committed to provide funding for permanent repairs and that your Department is taking some responsibility for the bridge and is committed to dealing with the issue and look forward to your sharing further details about this.

However, we are concerned that Hammersmith Bridge raises broader questions over what happens to strategic transport assets when there is confusion over who is responsible for maintaining and repairing them, or where a local transport authority lacks the funding or capability to address the need for significant renewals when they arise. To have major strategic bridges solely maintained by local transport authorities appears risky, particularly as local authority funding becomes more stretched and in

the context of the need for significant renewals which will arise only periodically over long-term asset management cycles.

Recommendation: Please write to us within 3 months to explain:

- How you will work with local transport authorities, including TfL, to understand the condition of transport assets and ensure that authorities are maintaining their assets;
- What powers or responsibilities you have to intervene where a local authority or other local transport body is not able to maintain a critical asset;
- The Department's list of critical transport infrastructure assets, including strategic bridges, currently under the control of local bodies; the responsibilities and mechanisms in play for those assets as and when significant renewal spend outside of normal spending patterns becomes necessary in managing the asset; and in each case your assessment of the adequacy of those responsibilities and mechanisms in promoting timely and rational asset management.

Transport authorities

We discussed falling passenger numbers due to COVID-19, and ongoing delays to Crossrail, which have had a significant impact on TfL's finances and the extent of its debts. Successive government bailouts of both the Crossrail programme and TfL more generally to address these issues have significantly increased government's financial exposure. You told us that £1.6 billion of central government support to TfL would expire on 17th October. On 1st November an agreement was reached for DfT to make a further £1 billion emergency funding available to address the expected shortfall in passenger revenue as a result of COVID-19. Although this will ensure the operation of services until the end of March 2021, this nonetheless has an impact on long-term planning, and further discussions will be needed to ensure TfL's long-term sustainability.

Other local transport bodies have also suffered significantly from the pandemic. We are aware of recent announcements by government promising over £700 million to support bus and tram services, such as £44 million for the Manchester Metrolink and £24.7 million for the Tyne and Wear Metro. We asked whether conditions are being placed on any support packages for local transport bodies as have been with TfL. You told us that the Department was focussing on agreeing funding settlements to the end of the year. However, it becomes very difficult for local transport bodies and operators to plan with these relatively short time horizons.

Recommendation:

- We recommend that the department establishes a framework for the long-term support of local transport, which includes analysis and assessment of the impact of COVID-19 on:
 - future passenger behaviours and numbers
 - local transport bodies' budgets



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- ongoing costs to the department's budget; and
- plans for local transport investment directly funded by DfT and any expected changes to the financial settlement for each project. Please write to us within 3 months detailing what you are doing to increase your understanding and data on local authority transport costs, and your assessment of the timing and extent of financial support that would be required to ensure local transport bodies are able to continue to deliver services effectively.

Support for the rail sector and the end of franchising

ERMAs/EMAs

You told us that you had spent approximately £4.3 billion between March and September 2020 supporting the rail sector through the Emergency Measure Agreements (EMAs), and that the Emergency Recovery Measures Agreements (ERMAs) are expected to cost a further £3 billion to £5 billion until the end of financial year. The Train Operating Companies (TOCs) were paid a 2% management fee under the EMAs, reduced to 1.5% under the ERMAs, to deliver services. You told us that the operators will not be running at a loss, and the final EMA fee payment will not be made until the performance-related elements of the fee are agreed. We were concerned by the potential that operators may be overpaid during the EMA period.

Once the subsequent ERMAs expire, dissolving the existing franchise agreements will require you to negotiate a final settlement with the TOCs. You explained that the aim for this negotiation was to ensure that neither the Department nor the operators profit from the end of the contracts. We are concerned that you appear to have a 'take it or leave it' approach to the negotiation, with TOCs left with an unpalatable option to return to the original contracts if they are not content with the severance deal offered, especially as there is no independent arbitration process to settle any potential disputes. This creates a potential risk of expensive and protracted legal action if a settlement cannot be reached, or that TOCs returning to original contracts may deliver poorer passenger service levels to reduce their losses. Both these scenarios would be to the detriment of the taxpaying public.

Recommendation: Please write to us by the end of January 2021, and thereafter every three months until all existing franchise agreements are fully dissolved/wound up, to:

- Detail how you have ensured operators were not overpaid during the close down of the EMAs; and
- Update us on progress with ending franchising, detailing the final financial settlement for each franchise.

Williams Review

The Williams review was expected in September 2019 but delayed to this autumn. You told us that the review was in its final stages before the pandemic hit and it was now not likely to be published until early 2021. We understand the most recent slippage, but we are concerned by the continued delay and lack of clarity that this creates for the rail sector. You told us that the ERMA's have been designed to take forward some of the draft Williams reforms, however you were not clear how the ERMA's and subsequent end of franchising will ensure that rail acts more in the interests of passengers. You told us you are looking at how changes in passenger demand will affect the draft recommendations. However, we have previously raised concerns with you in our report on Rail Franchising over the Department's understanding of passenger demand – in particular, the factors which cause passengers to travel by rail and how these factors are reflected in forecasting.

Recommendation:

- Please write to us within three months outlining what work you have done to understand post-COVID passenger demand; and
- At the earliest practicable point, please write to us describing how the final findings of the Williams Review will be progressed.

Programme uncertainties within HS2

We welcome the HS2 Minister's first update to Parliament and hope that it will be the start of a more open and transparent relationship with Parliament and the public regarding this programme. We also particularly look forward to the Minister's review of the land and property programme. However, it is frustrating that there are still signs that HS2 Ltd and the Department are not taking our concerns over transparency seriously. We spoke about the FOI log and Board Minutes being out of date and the surprisingly high number of non-disclosure agreements in use in the programme. You agreed to investigate the issues with the FOI log immediately.

We remain concerned that there continues to be a large amount of uncertainty within the Programme, such as the outcome of Phase 2b and the implications for rail connections in the north, as well as decisions on Euston station. There will also be uncertainty over the environmental impacts of the programme. You explained that an environmental sustainability committee has been set up to consider these impacts. However, this seems late in the day considering construction work has already begun in many places.

In addition to the uncertainty within the programme, the value for money could also be significantly affected by changes in passenger demand post COVID. You told us that the programme is expected to deliver for passengers over the next 100-150 years and so you have not updated your investment appraisal to reflect the pandemic. Your answers appeared to assume that travel patterns and growth will return to, or be the same as, those before the pandemic. This assumption should be thoroughly tested and explicitly justified, if it remains the government's best estimate.



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Given that the aviation sector is seriously grappling with the potential for structural changes, including online meetings reducing the demand for short stay international business trips, we are concerned that your approach and sensitivity analysis may already be out of date and therefore an incomplete basis for investment appraisal. We note that the April 2020 business case provided some sensitivity testing on reduced passenger demand but was prepared prior to the full impact of COVID. We also welcome your ongoing work to review how best to undertake investment appraisal during these uncertain times, but this does not address the urgency of the need for up to date analysis informing decision-making on this £98 billion project.

Recommendation:

- We strongly recommend that you perform an up to date assessment of the different scenarios that could affect the long-term business case of HS2 as a result of the pandemic, particularly passenger travel patterns, in order to help you to establish what action you need to take to ensure value for money for taxpayers;
- Please write to us within six months with details of your scenario analysis and the impact on forecast benefits. With the nature and extent of the Department's commitment to high speed rail in the East Midlands and Yorkshire remaining unclear we ask that this analysis includes a consideration of trade-offs on benefits and costs which are informing the government's choice between different investment decisions on the future of Phase 2b's eastern portion and its relationship with other rail connections in the north.

Current pressures on the Department

We would like to reiterate our appreciation to all those within the Department for the work they are doing during this difficult time. As touched upon in this letter, we are very aware that the Department had a large and challenging portfolio before the pandemic, including delivering of major programmes such as HS2, the future of rail and preparation for the end of the EU exit transition period. We are acutely aware that COVID has significantly intensified these pressures and brought many additional challenges.

We are concerned about the impact these pressures are having on the Department's ability to deliver, particularly given that major pieces of work such as the Williams Review the Decarbonisation Plan and the Aviation Recovery Strategy are either yet to publish or have been delayed. At the same time, the Department is also increasingly becoming involved in local transport issues and providing support for local transport bodies. We encourage the Department to be realistic about what can be achieved with its current resources and what it needs to meet these new challenges.

We would be grateful for your response by the dates indicated above and look forward to continuing to discuss the issues outlined in this letter in the coming months. I am copying this letter to the Comptroller & Auditor General and the Treasury Officer of Accounts. We will publish this letter and your response on our website.

Yours sincerely,

A handwritten signature in dark ink, reading "Meg Hillier". The signature is written in a cursive, flowing style.

MEG HILLIER MP
CHAIR OF THE COMMITTEE OF PUBLIC ACCOUNTS