



Department for Transport

From the Permanent Secretary

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2 March 2020

Meg Hillier MP

Chair of the Committee of Public Accounts

Dear Meg

Transport infrastructure announcements and HS2

Thank you for your letter dated 13 February 2020. This response provides more information on the transport infrastructure announcements by the Prime Minister on 11 February and summarises developments on HS2 ahead of the Public Accounts Committee hearing tomorrow.

Announcement by the Prime Minister on transport infrastructure

Further information on the cycling, bus, road and rail schemes covered by the Prime Minister's announcement are attached at [Appendix A](#).

The announcement set an initial funding envelope for the National Bus Strategy (NBS) and for the next phase of the Cycling and Walking Investment Strategy (CWIS). No decisions on specific bus or cycling and walking projects have been made. These are being developed as part of our work for the Budget and Spending Review and further development of the NBS and CWIS. We are confident that projects will be value for money because of past experience.

Major Road Network (MRN) announcements are specific projects and the delivery approach is consistent with previous announcements. The Road Investment Strategy schemes that we have announced will be included in RIS2. The full RIS announcement is expected to follow the Budget.

HS2

The Department welcomes the NAO report as a clear and thorough assessment of progress. We accept its findings and recommendations, which are already in the process of being implemented. In particular, the Department agrees risk and complexity of this programme have been underestimated, and welcomes recognition of steps taken to ensure more realistic cost and schedule estimates in future.

I thought it might be helpful to update the Committee on key announcements on HS2 since the publication of the NAO report.

On 11 February, the Prime Minister announced (press notice at [Appendix B](#)) on HS2 that:

- The case for high speed rail remains compelling to increase capacity and reduce journey times between our regions;

- The expected cost for Phase 1 is now £35 to £45 billion in 2019 values, with an ambition to begin services by the end of the decade;
- The project needs to be gripped to avoid further cost and schedule issues;
- A full-time minister will be appointed to oversee the project (Minister Andrew Stephenson appointed on 19 February);
- A new ministerial oversight group will be established to take strategic decisions;
- The scope of HS2 Ltd will be reduced to Phase 1 and Phase 2a and new delivery arrangements will be put in place for Euston and Phase 2b;
- The Government will develop an Integrated Rail Plan for the North and Midlands, informed by the NIC.

On 21 February the Government published terms of reference for the Integrated Rail Plan ([Appendix C](#)). Reporting by the end of the year, this will:

- Determine how to achieve the Government's commitment to bring forward transformational rail improvements along the HS2 route as quickly as possible;
- Consider the scoping, phasing and sequencing of HS2 Phase 2b alongside Northern Powerhouse Rail, Midlands Rail Hub and other proposed rail investments;
- Propose an appropriate mix of high speed line and upgrades of the conventional network;
- Assess how best to reduce cost, including preventing over-specification;
- Recommend the best approach to sponsorship and delivery to deliver the schemes and achieve value for money, including through the views of local leaders;
- Assess how best to deliver rail connectivity with Scotland in conjunction with the Scottish Government;
- Review lessons from HS2 Phases 1 and 2a on how to control the cost of delivering including requirements and specifications, planning, procurement approaches, environmental mitigations and staffing and assurance models.

I am conscious that a number of different cost estimates and ranges have been quoted in relation to HS2. [Appendix D](#) sets out the Government's revised estimates for cost, schedule and the Benefit-Cost ratios. The cost ranges highlighted are the Department's latest estimates which were used to inform the Government's decision to continue. They are consistent with those we provided to the NAO and which appear in the report in 2015 values. We have rebased them to 2019 values. These numbers are the most up-to-date available and have been subject to thorough assurance; those set out [Allan Cook's stocktake](#) (published on 3 September 2019) were based on less thorough estimates and date from spring/summer 2019. Doug Oakervee used the Allan Cook numbers as the basis of his report which we published on 11 February 2020.

More broadly, I would like to reassure the Committee that the Department agrees with the NAO that there are important lessons to be learned from experience on HS2, and that there will need to be sustained focus to ensure the programme is delivered. The Government has already set out how it intends to grip HS2 more firmly.

In addition, the Department has undertaken extensive work on lessons learned. In April 2019 we published a joint [report](#) with the IPA which set out 24 lessons for the delivery of major projects. These are already being embedded in the revised plan for delivery of HS2 including:

- Decisive action has now been taken to reset the programme;
- Prudent ranges are being used in relation to cost and schedule which more accurately reflect uncertainty;

- Benchmarking is being used appropriately to assess value for money and efficiency of cost estimates;
- Two Non-Executive Directors will be appointed to the Board of HS2 who will represent DfT and HMT and provide appropriate challenge to the company and further assurance to Government.

Since the publication of that report, the Department has also carried out further work on a Project Delivery Improvement Plan, led by Ian King, the Department's senior Non-Executive Director. This had led to:

- The establishment of a strengthened portfolio management team, to reinforce oversight of the Department's largest projects and embed good practice across them all;
- A reshaping of the Department's investment committee, which I chair, to ensure that oversight of projects at all stages is effective and cumulative and aggregate risks are being managed effectively;
- Further work to ensure that the roles of the Department and its delivery bodies are clear and that the Boards of those bodies are held accountable for delivery;
- Plans to recruit more senior project delivery professionals, commensurate with the growing scale and complexity of the Department's project portfolio;
- Effective behaviours, in particular around the confidence to challenge and the importance of focusing on delivery, being embedded in the Department's values.

The challenges of delivering on the Department's major projects portfolio remain very significant but I believe these actions will help the Department to ensure risks are identified and managed effectively in future on HS2 and more widely.

Subject to the Government approving Notice to Proceed with the main works civils contracts in the forthcoming weeks, we will publish further detail on the HS2 reset including our response to the Oakervee Review as well as the Full Business Case for Phase 1.

I trust that this note provides useful background ahead of the Committee's hearing and look forward to answering your further questions on Wednesday 4 March.

Yours sincerely,



Bernadette Kelly CB
Permanent Secretary

Appendix A: Projects announced by the Prime Minister on 11 February
Appendix B: Prime Minister's announcement on 11th February (Press notice)
Appendix C: Terms of reference for an integrated rail plan for the North and Midlands
Appendix D: Latest DfT estimates of HS2 costs and schedule

Appendix A: Projects announced by the Prime Minister on 11 February

Buses

- On 11 February, the Prime Minister announced plans to deliver at least at least 4,000 new Zero Emission buses, higher frequency bus services (including evenings and weekends), more affordable, simpler bus fares, and new priority schemes to make routes more efficient.
- The precise funding allocation, including the profile of funding and RDEL/CDEL split for buses from the £5bn funding package will be agreed at the Spending Review, with funding expected to be allocated until 2024/25. The Government will then work with local authorities and bus operators to deliver proposals. We anticipate that this work will build on the existing Low- and Ultra-Low Emission Bus Schemes, as well as the Superbus fund, launched on 6 February.
- Bus services offer good value for money. The average BCR for tendered services is 2, rising to around 3 in cities, not including positive distributional impacts.

Cycling and Walking

- The funding announced by the Prime Minister for cycling and walking will enable the construction of over 250 miles of new, high-quality cycle routes and safe junctions in towns and cities across England, and dozens of new 'Mini-Holland' schemes.
- The scale and profile of funding allocated to cycling and walking projects from the £5bn funding package will be considered as part of the forthcoming Budget and/or Spending Review.
- Therefore, it is too early to identify individual projects that might be funded. However, in the short-term we expect capital funding will be targeted at places where local authorities have well-developed pipelines of high value for money cycling and walking projects and robust Local Cycling and Walking Infrastructure Plans.
- Experience from previous investment programmes, including the £210m Cycle Ambition Cities programme and the £540m Local Sustainable Transport Fund (LSTF) show that a package of cycling and walking interventions generally deliver high or very high value for money with BCRs in the range 2 to 4.

Rail

Upgrading Bristol East Junction station

- Following approval of the Full Business Case (FBC), the project formally moved into the Decision to Deliver phase in January 2020 when HMT approval was received for £119m enhancements funding to deliver the scheme.
- The project has been approved by DfT and HMT and been consulted on and agreed with Operators/Stakeholders.
- The Anticipated Final Cost of Bristol East Junction is £132m, which comprises of £12m for development of the scheme and early works, with £120m for construction and delivery, of which £24.4m is contingency.
- Works are already underway, with the first pre-works beginning at the end of 2019 after we received approval from HMT for £4.2m advanced funding last summer to support these works on the critical path. The remodelled junction is expected to be finalised between July and September 2021 with pre-works to be carried out in a phased approach which will reduce the impact on passengers.

Roads

Improvements to A1 north of Newcastle

- There are two RIS1 schemes on the A1 north of Newcastle. The first is 'A1 North of Ellingham' which consists of a small number of safety improvements which are currently under construction (costing around £2m) and are due to complete within the next few weeks.
- The other is the 'A1 Morpeth to Ellingham' which is currently at Stage 3 of the Project Control Framework (PCF) and at the Outline Business Case stage. This is currently in review and is not yet signed off. However, it will be signed off before the Development Consent Order (DCO) is submitted.
- The programme is currently being reviewed. This is due to a delay in submitting the DCO while the value for money of this project was reviewed by DfT and HMT. Highways England received formal written confirmation of this approval on 20 February 2020.
- The project is currently estimated to cost £262m.
- As stated in the RIS2 Delivery Plan, works are due to begin in 2022/23 with it open for traffic at the start of RP3 (2025/26).

A689 Corridor Improvements – Wynyard and Hartlepool

- A Strategic Outline Business Case (SOBC) has been submitted and approved, so the project is at an early stage of development. The next stage is for the local authority to develop an Outline Business Case (OBC) and they have been awarded £780,000 to do this. Should the Department accept the OBC, the local authority will need to submit a Full Business Case (FBC). Acceptance of this will allow construction to commence.
- Agreement of OBC and FBC is anticipated for early and end 2021 respectively. These timings are approximate.
- It is estimated to cost between £21m and £33m. The range reflects the different options being considered by the local authority for the scheme.
- The scheme will be delivered in phases with construction start dates varying between late 2021 and 2024. Different phases are expected to be finished between 2022 and 2024.

Rocket Junction, Liverpool

- An SOBC has been submitted and approved. The next stage is for the local authority to develop an OBC and they have been awarded £1.23m to do this. Should the Department accept the OBC, the local authority will need to submit an FBC. Acceptance of this will allow construction to commence.
- Agreement of OBC and FBC is anticipated for end 2020 and end 2021 respectively. These timings are approximate.
- It is estimated to cost approximately £145m.
- The scheme will be delivered in two phases with complementary junctions starting around autumn 2022 and the main scheme in autumn 2023. The scheme is expected to be finished in spring/summer 2025.

A582 South Ribble Western Distributor

- An SOBC has been submitted and approved. The next stage is for the local authority to develop an OBC and they have been awarded £440,000 to do this.

Should the Department accept the OBC, the local authority will need to submit an FBC.

- Agreement of OBC and FBC is anticipated for end 2020 and end 2021 respectively.
- The scheme is estimated to cost £50m.
- The scheme is estimated to start construction in late 2021/early 2022. The scheme is expected to finish in spring/summer 2024.

A34 MRN Cheadle – Handford Improvement Plan Phase One, Stockport

- An SOBC has been submitted and approved. The next stage is for the local authority to develop an OBC and they have been awarded £320,000 to do this. Should the Department accept the OBC, the local authority will need to submit an FBC.
- Agreement of OBC and FBC is anticipated for autumn 2020 and summer 2022 respectively.
- The scheme is estimated to cost approximately £26m.
- The scheme is estimated to start construction in spring 2023, finishing around spring 2025.

A350 Melksham Bypass, Wiltshire

- An SOBC has been submitted and approved. The next stage is for the local authority to develop an OBC and they have been awarded £1.33m to do this. Should the Department accept the OBC, the local authority will need to submit an FBC.
- Agreement of OBC and FBC is anticipated for March 2022 and December 2023 respectively.
- The scheme is estimated to cost between £50m and £126m. The range reflects the different options being considered by the local authority for the scheme.
- The scheme is estimated to start construction in Spring 2024. It is expected to finish around spring 2026 or summer 2028 depending on the option chosen.

A338 Southern Salisbury Junction Improvements, Wiltshire

- An SOBC has been submitted and approved. The next stage is for the local authority to develop an OBC and they have been awarded £170,00 to do this. Should the Department accept the OBC, the local authority will need to submit an FBC.
- Agreement of OBC and FBC is anticipated for late 2020 and late 2021 respectively.
- The scheme is estimated to cost between £15m and £18m. The range reflects the different options being considered by the local authority for the scheme.
- The scheme is estimated to start construction in spring 2022, finishing around spring 2023.

Appendix B: Press Notice of Prime Minister's announcement on transport infrastructure (11th February)

PM confirms HS2 will go ahead alongside revolution in local transport

Prime Minister Boris Johnson confirms HS2 will go ahead, alongside radical improvements to local transport networks across the country

- HS2 will go ahead to deliver essential North-South connectivity, greater capacity and shorter journey times, with construction for Phase 1 from London to the West Midlands set to begin in April
- Decision comes alongside new investment for vital local transport links as PM sets out his vision to overhaul the UK's transport network, including £5 billion to improve bus and cycle links outside London, as well as vital upgrades to local roads
- PM commits to accelerating progress on Northern Powerhouse Rail with an integrated plan to maximise benefits of rail investments across the North, informed by an assessment from the National Infrastructure Commission
- Reform package will improve governance at HS2 Ltd to ensure project is delivered better and more efficiently

HS2 will go ahead alongside radical improvements to local transport networks all across the country, the PM confirmed today.

In a statement to Parliament he set out that after careful consideration of the independent Oakervee review, the decision has been taken to proceed with HS2. With the right reforms in place, HS2 will become the spine of the country's transport network, bringing our biggest cities closer together, boosting productivity and rebalancing opportunity fairly across the country.

Alongside this, the PM outlined his vision for a revolution in local transport to ensure that towns and cities in every region have the modern, joined up network needed to fire up economic growth.

A multibillion pound package to transform buses and cycling will deliver at least 4,000 new Zero Emission buses, higher frequency services (including evenings and weekends), more affordable, simpler fares, and new priority schemes to make routes more efficient. The £5 billion in new funding will also help build over 250 miles of new, high quality separated cycle routes, and dozens of 'Mini-Holland' schemes to make town centres safer for cyclists and pedestrians.

The PM also pledged further upgrades for local connections including:

- Cutting congestion and boosting the local road network across the country by accelerating local schemes to the next stage of development, from Hartlepool and Cheadle in the North to Melksham to Salisbury in the South West
- Upgrading Bristol East Junction station to tackle a major pinch point in the South West rail network, so that passengers can travel in and out of Bristol more easily
- Taking forward work to improve the A1 north of Newcastle, strengthening the link to the Scottish Border

Prime Minister Boris Johnson said:

Delivering better, faster and more reliable transport connections is the way to close the opportunity gap across this country.

But it is not and never will be an 'either/or' between big projects and local services.

Dramatic improvements to local transport and the decision to proceed with HS2 will shift this country's centre of gravity away from the capital and transform connectivity between our towns and cities.

I am drawing a clear line under the mismanagement of the past – HS2 must be delivered more efficiently and cost-effectively so that communities feel its benefits more quickly, particularly those in the North.

Douglas Oakervee's independent review into HS2 has today been published in full. After thorough analysis of the benefits and impacts of the project, work on Phase 1 (the route between London and Birmingham) is set to start in April. Government will revive the legislation to deliver Phase 2a (connecting Birmingham to Crewe) as soon as possible so that preparation works can move forward.

The Prime Minister told Parliament that he is committed to Phase 2b of the project, extending high-speed rail from the West Midlands to the North. In order to work out how best to deliver Northern Powerhouse Rail and Phase 2b more effectively, government will draw up an integrated plan for rail in the North, informed by an assessment from the National Infrastructure Commission.

This will work to identify the most effective sequencing of all relevant investments in the north, and look at how the two schemes can work together alongside wider investment in transport for the North and Midlands. It will also have a focus on ensuring that lessons are learned from Phase 1 of HS2 to drive down costs.

Recognising that better East-West connections are a priority for local leaders, the Government will look at how best to accelerate the delivery of Northern Powerhouse Rail, including looking at options for a new delivery body. The decision to proceed with HS2 is accompanied by a clear commitment to drawing a line under past failures of leadership, transparency and cost control, and a recognition that to go forward, things must change.

The PM outlined a number of measures to instil discipline and financial order to the project, including:

- Appointing a dedicated minister with specific oversight and accountability for HS2
- Redefining HS2 Ltd's role so that they can give maximum focus to successfully delivering Phase 1 and 2a, and making new delivery arrangements for Euston station and the design and construction of Phase 2b, to ensure better value for money and on time delivery
- Improved transparency through regular reports to Parliament from the responsible minister

Transport Secretary Grant Shapps said:

I've been clear that we needed all the facts to decide the way forward with HS2. Fully informed by a comprehensive and detailed scrutiny of all the facts, now is the time to drive HS2 forward, alongside a 'High Speed North' plan to give the North and Midlands the capacity and connectivity it vitally needs.

We are also clear that the project must reform and improve, with clearer accountability and transparency to ensure its incredible benefits are matched by a tight control of costs.

Our vision for increasing opportunity and prosperity across every part of our country doesn't stop with HS2. We achieve that not only through investing in critical national projects to transform journeys in the future, but delivering on the vital connections people rely on today to ensure no community is left behind.

Douglas Oakervee, Chair of the independently-led review into HS2, said:

I am proud of the work that the Review Panel has carried out. The Review's Report is a comprehensive appraisal of a challenging project. I believe the recommendations help offer it a way forward, a means of increasing scrutiny and oversight, protecting the interests of passengers and taxpayers, and rebuilding confidence in an important piece of critical national infrastructure which will do much to rebalance the economy.

I am delighted that a decision on the project has been made, and it is now the job of the government to take this ambitious project forward.

An integrated rail plan for the Midlands and the north: High Speed North

Purpose

The government is fully committed to providing better rail connectivity between London, the Midlands and the north, ensuring all parts of the country benefit from opportunities for economic development and prosperity. As well as committing to deliver HS2, the government remains strongly committed to Northern Powerhouse Rail, improving connectivity between northern cities as well as between London, the Midlands and the north.

The [Oakervee review](#) concluded that for Phase 2b of HS2 (the route from Birmingham to Manchester and Leeds) a Y-shaped network was the right strategic answer for the country. However, the review also concluded that Phase 2b needs to be considered as part of an Integrated Rail Plan for the north and Midlands which also includes Northern Powerhouse Rail, Midlands Rail Hub, and other major Network Rail schemes to ensure these are scoped, designed, delivered, and can be operated as an integrated network. The Oakervee Review also identified the opportunity to challenge design and costs on Phase 2b, including standards, running speed, and responsibility for delivery.

The government agrees that, on current plans, Phase 2b of HS2 will deliver connectivity for the East Midlands and the North of England considerably later than the rest of HS2, and that there are questions about whether its design maximises the benefits from connectivity. The government wants to ensure that Phase 2b of HS2 and other planned rail investments in the Midlands and the north are scoped and delivered in an integrated way, including with the wider rail network, whilst driving down unnecessary costs and over-specification.

Scope of the Integrated Rail Plan

The government, working with HS2 Ltd and local leaders, will therefore draw up an Integrated Rail Plan for the Midlands and the north which is framed by the government's commitment to bring forward transformational rail improvements along the HS2 route as quickly as possible. This work will be informed by an assessment from the National Infrastructure Commission (NIC) looking at the rail needs of the Midlands and the north, and the available evidence on Northern Powerhouse Rail, Midlands Rail Hub, HS2 Phase 2b and other proposed Network Rail projects.

The government will also proceed with the legislation to allow for the development of the Western Leg provided it does not prejudice any recommendations or decisions that will be taken in this plan, and noting that Phase 2b can be legislated for in two or more hybrid bills, which may run concurrently.

The plan will consider the following, based on the NIC's assessment and taking into account value for money, levelling up, affordability and deliverability considerations:

1. How best to integrate HS2 Phase 2b and wider transport plans in the north and Midlands, delivering benefits from investments more quickly. This should include a recommended way forward on scoping, phasing and sequencing delivery of HS2 Phase 2b, Northern Powerhouse Rail, Midlands Rail Hub and other proposed rail investments. This should take into account: government commitments; the current state of development for different

projects; the transformational and capacity benefits of these schemes; fiscal and supply chain capability constraints; network integration; consenting routes (including legislation); and, in line with the Oakervee Review conclusion, the appropriate mix of high speed line and upgrades of conventional network, and the sequencing of these, on any elements of the investments under consideration.

2. How best to reduce cost, including opportunities to reconsider HS2 Phase 2b scope and design standards to prevent over-specification, improve efficiency and reduce costs, drawing on the Phase One lessons learnt work to be led by the Infrastructure and Projects Authority (see below).
3. The recommended approach to sponsorship and delivery, including governance and delivery models, and how to take account of the views of local leaders, consistent with delivering on the objectives of the scheme and value for money. This will include exploring options for new delivery vehicles with northern leaders for the relevant rail enhancements including new lines that may form part of the delivery of HS2 and Northern Powerhouse Rail.
4. How best to deliver rail connectivity with Scotland, in conjunction with the Scottish Government.

Input to the Integrated Rail Plan - IPA review on lessons learned from cost overruns

As one of the inputs to the Integrated Rail Plan, the Infrastructure and Projects Authority (IPA) will conduct a review of the lessons of HS2 Phases 1 and 2a for delivery of the project, particularly Phase 2b. This will include (but is not limited to) the effects of the following on costs of delivery:

- sponsors' requirements (including delivery into service dates)
- planning and consents process
- engineering specifications including speed
- procurement model and risk allocation
- environmental mitigation
- the role of consultants versus in-house staff
- the role of Project Representatives.

This IPA review should consider decisions made in Phase 1 to date and recommend where it is sensible to deviate from specifications and practice to reduce anticipated final costs in a way that preserves value for money and the strategic and economic case.

The IPA will also draw from the lessons on HS2 to make recommendations for infrastructure more generally including in the areas of legislation, planning, procurement and governance, to ensure all infrastructure projects can be effectively delivered.

Timing of the Integrated Rail Plan

The Integrated Rail Plan will be published by the end of the year.

Appendix D: Latest DfT estimates of HS2 costs and schedule

Cost estimates

	Phase 1 (Euston to Birmingham)	Phase 2a (Birmingham to Crewe)	Phase 2b (Crewe-Manchester and Birmingham-Leeds) (Subject to Integrated Rail Plan)	Whole scheme (Subject to Integrated Rail Plan)
Previous target (2013 estimate uplifted to 2015 values)	£27.2 billion	£3.7 billion	£24.8 billion	£55.7 billion
Allan Cook stocktake (2015 values, referenced in Oakervee)	£36.1-£38.4 billion	£3.6-£4.0 billion	£32.4-£36.0 billion	£72.1-£78.4 billion
Latest DfT estimate (2015 values, referenced by NAO)	£31-£40 billion	£4.5-£6.5 billion	£29-£41 billion	£65-£88 billion
Latest DfT estimate (2019 values, subject to funding agreement from HMT)	£35-£45 billion	£5-£7 billion	£32-£46 billion	£72-£98 billion

Schedule estimates

	Stage 1 Old Oak Common to Curzon Street services	Stage 2 Euston to Birmingham captive and Northwest conventional	Stage 3 Euston to Leeds and Manchester services (Subject to Integrated Rail Plan)
Spending Review 15	2026		2033
Pre-announcement position	2026	2027	2033
Allan Cook stocktake	2028-2031	Not shown	2035-2040
Latest DfT estimate	2029-2033	2031-2036	2036-2040

Benefit Cost Ratios

	Phase 1	Phase 1 and 2a	Whole scheme (Subject to Integrated Rail Plan)
Current design including wider economic benefits	1.2	1.2	1.5