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From the Permanent Secretary

Dame Meg Hillier MP

Chair

Public Accounts Committee

[Sent via email]

Dear Chair,

ACCOUNTING OFFICER ASSESSMENT OF DECISION TO COMPLETE PHASE 1 OF HS2

The Prime Minister has today announced a number of changes in policy in relation to the HS2 programme. These can be summarised as follows:

- The Government will continue to build HS2 Phase 1 between Euston and Birmingham, with an alternative vision for Euston in which the station is descoped, and the regeneration of the Euston campus is taken forward under new leadership focused on optimising the development and regeneration of the Euston campus. Under this new vision, the station is expected to attract private funding.
- The Government has cancelled HS2 Phases 2a and 2b to Crewe and Manchester and HS2 East.
- The Government will invest £35.9bn in alternative transport investments in the North, Midlands and nationally.

It is for Ministers to decide what the strategic aims of Government should be in relation to transport and what balance of priorities should be struck in terms of investment to deliver these.

As Permanent Secretary it is my responsibility to ensure the Department for Transport delivers the objectives of the Government. It is also my responsibility as Accounting Officer to ensure that the Department's resources are used effectively and that the spending of public funds meets the requirements of Managing Public Money (MPM).

Given these significant changes to the programme I am sharing with you a summary accounting officer assessment which will also be published on Gov.uk in due course.

The summary assessment concludes that the decision to continue with HS2 between Euston and Birmingham meets the tests of regularity, propriety, Value for Money (VfM) and feasibility as set out in MPM.

I have made a number of judgements in making this assessment. Whilst I am ultimately responsible for these judgements, I have consulted the Treasury Officer of Accounts on methodology.

I wish to draw the Committee's attention the following points in particular.

Firstly, the basis for my VfM assessment of the decision to continue HS2 between Euston and Birmingham.

I have considered this assessment against a counterfactual of discontinuing Phase 1, rather than a counterfactual of continuing with all previous phases of the scheme. Not building Phases 2a and 2b reduces the benefits enabled by Phase 1 (principally up to 8 trains per hour, instead of up to 17 trains per hour) and therefore its VfM. However, under MPM and the Green Book it is usual to assess the Value for Money of planned expenditure, and not that of decisions to reduce or cancel expenditure which could result in different Value for Money, recognising that Ministers may always choose to cancel or forgo expenditure because priorities or available funding have changed.

Secondly, in calculating the Benefit-Cost-Ratio (BCR) for Phase 1 a number of assumptions have been made, in accordance with Green Book methodology as appropriate:

- i. Sunk costs are excluded; costs to go are based on a total outturn range estimated by DfT are £45bn and £54bn for the current scope (this range will need to be reviewed in the light of the now revised scope); and remediation costs which would have been incurred if Phase 1 did not proceed have been taken into account.
- ii. A range of demand scenarios has been considered.
- iii. Level 1 and 2 benefits only have been included.
- iv. As noted above, under the new plan for Euston the HS2 station is expected to attract private funding. However, the costs of Euston station have not been removed. This is because there is not yet certainty on how costs and benefits will be transferred to the private sector, or how these may net off for the purposes of the BCR.

The application of these assumptions results in a BCR range for the continuation of Phase 1 between Euston and Birmingham Curzon Street (including the link via Handsacre to the West Coast Main Line) of 1.1¹ to 1.8.

In reaching an overall estimate of VfM, the Green Book states that the strategic case for investment should be considered alongside the BCR. The previously stated strategic case for HS2 – to generate transformational benefits and rebalance the economy by joining the North and Midlands with London – no longer applies. However,

^{1 1} This figure was previously published as 1.2. However, following further assurance it has been revised to 1.1.

it is reasonable to assume that some wider economic benefits (Level 3 benefits) should still accrue at Birmingham, Old Oak Common and Euston as a result of the creation of a high-speed railway connecting these places.

Taking all of these factors together, my judgement is that completing Phase 1 of HS2 between Euston and Birmingham including Handsacre meets the VfM requirements of MPM.

I should emphasise however that this is the VfM of the marginal decision to continue with Phase 1 at this stage in its delivery, in accordance with Green Book guidance. Taking an estimated range for the total costs of Phase 1 and assessing them against the estimated total benefits (i.e., including sunk costs and excluding remediation costs) would result in a BCR range significantly below 1 and would represent poor Value for Money.

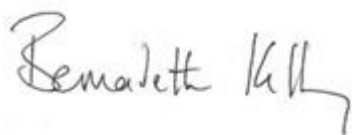
I will continue to review the need for any further accounting officer assessments as the revised HS2 scheme progresses.

Finally, I also note that the VfM of the £35.9bn of alternative transport investments proposed will need to be considered separately and, on a case, -by-case basis, in the light of further business case analysis for those individual projects and programmes. They are not therefore considered in the attached assessment.

If it would be helpful, I would be happy to discuss further with the Committee.

I am copying this letter to the Chair of the Transport Select Committee, the Treasury Officer of Accounts, and the Comptroller and Auditor General.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'Bernadette Kelly', with a stylized flourish at the end.

Dame Bernadette Kelly DCB
Permanent Secretary

