Department for Transport

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8 December 2023

Dame Meg Hillier MP
Chair, Public Accounts Committee
House of Commons
London
SW1A 0AA

[Sent via email]

Dear Chair,

Follow-up to the session of Thursday 16 November 2023

I write following your committee's recent oral evidence session on HS2 and Euston, and in response to the questions that you and the Member for Richmond Park raised.

Pedicabs (London) Bill

The Pedicabs (London) Bill will confer powers onto Transport for London to regulate London's pedicab industry. It was introduced in the House of Lords on Wednesday 8 November. It passed Second Reading on Wednesday 22 November, and is now moving forward to Committee Stage, which is scheduled for Monday 11 December.

Treatment of costs in appraisal

As I stated at the hearing, all financial costs which are used as inputs to the benefit-cost ratio calculations are currently in 2019 figures. The price base year used in HS2 business cases is 2015 and therefore cost figures are deflated further as part of the appraisal process. No decisions have been taken on the price base year for future business cases, but costs will be treated as appropriate in line with Green Book and DfT guidance.

Economic impacts of the cancellation of Phase 2a, Phase 2b Western Leg and East

My Accounting Officer Assessment provided an economic assessment of the impacts of continuing Phase 1 against a counterfactual of cancelling Phase 1. This supported the position that the Accounting Officer needs to make an assessment of the value for money of ongoing spend.

Advice to Ministers in advance of the Network North decision provided additional information on the economic impacts of cancelling the later phases of HS2 expressed as the benefits forgone per £ saved.

The assessment was based on quantified benefits for Phases 2a and 2b Western Leg and included Level 1 and 2 benefits. Level 1 benefits are predominantly made up of transport user benefits (e.g., increased capacity and shorter journeys) while Level 2 benefits comprise 'static' wider economic impacts, including agglomeration impacts, but omit wider

Level 3 economic impacts associated with the relocation of businesses and households in response to a transport investment.

The analysis was done under a range of demand scenarios to reflect the impact of Covid-19 on transport demand and generated a range with the benefits forgone from the cancellation of Phases 2a and 2b Western Leg between £0.90 and £1.10 for every £ saved.

The Strategic Outline Business Case for the Phase 2b Western Leg (Crewe – Manchester) additionally estimated the range of Level 3 benefits would be between £2 billion and £5.5 billion.

The Committee also asked about the impact of decisions on jobs and skills in the supply chain. Supply chain impacts are not directly quantified in economic analysis but were noted in advice provided to Ministers ahead of the Network North announcement. As noted, however, the large majority of jobs on HS2 are currently working on the construction of the line between London and the West Midlands, which the Government has confirmed it will continue to deliver, while the reinvestment of £36 billion of savings in other transport programmes and projects will also create employment opportunities.

As HS2 East was at an earlier stage of development and a cost-benefit analysis had not been completed, a value of benefits forgone was not included in advice to Ministers.

<u>Network North – Profile of project investments and public reporting</u>

Following the Network North announcement, profiling of spend is in the initial stages which is an internal process. In consultation with Ministers, the Government will in due course make some of this work public. It is important to note the savings from HS2 will be released over the same time period (up to 2041) that we would have been spending on HS2 Phase 2a, HS2 Phase 2b Western Leg and HS2 East

In parallel, the Department is working closely with Number 10 and the Cabinet Office to deliver the Network North programme effectively and to share public updates on progress against projects and schemes included in the announcement regularly. While I am not in a position to provide an update on all the work included in the announcement at this stage, below are some of the commitments we have already made progress against:

- We are increasing funding for most existing Major Road Network and Large Local Major road schemes. These schemes, subject to successful business case approval, will benefit from an uplift in government contribution from 85% to 100% of their costs at the outline business case (OBC) stage. The increased funding will help ensure the delivery of these road schemes.
- Network North announced £1 billion from redirected HS2 funding to levelling up bus services, with areas across the North and Midlands given extra support for bus services to become more frequent, more reliable, cheaper, and easier to use. On 23 October, the Department announced the first down payment of this £1 billion investment, with £150 million being indicatively allocated over the next year across the North and Midlands. This is enough to support up to 25 million miles of bus services across the country.
- The Get Around For £2 bus fare cap scheme has been extended again until 31 December 2024 to continue to help passengers to save on their regular travel costs. The cap will remain at £2 and will take total Government investment to cap bus fares to nearly £600 million since 1 January.

The Department will continue to provide updates on progress at future committee sessions in 2024.

Corrections to the transcript

I have identified two inaccuracies in the transcript's reporting of our discussions during the session which I would like to bring to the Committee's attention.

In the first paragraph of my answer to a question on benefit-cost ratios from Sir Geoffrey Clifton-Brown MP (Q12), the transcript should read:

> "Because we are comparing with the counterfactual of not continuing with phase 1"

instead of:

> "Because we are comparing to factual and not continuing with phase 1"

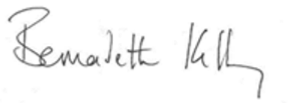
In Alan Over's answer to a question from Peter Grant MP (Q85), the transcript should read:

> "We are projecting to need more money than has currently been allocated, but that is pre the scope changes from Network North."

instead of:

> "We are projecting to need more money than has currently been allocated, but that is pre the Stoke changes from Network North."

Yours sincerely,



Dame Bernadette Kelly DCB
Permanent Secretary