



Department for Transport

From the Permanent Secretary

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12 March 2023

Dame Meg Hillier MP

Chair

Public Accounts Committee

[Sent via email]

Dear Chair,

Follow up to the sixty-third report of Session 2022-23

I am writing to the Committee to update on recommendation 4a and 4c made in its report.

Recommendation 4a stated that:

The Department should agree with HM Treasury and report back to the Committee in six months on how they will manage the continued consequences of high inflation.

Following the decision to defer expenditure across several transport capital projects prior to Spring Budget, the Department and HM Treasury have been monitoring spend across the portfolio, taking appropriate steps to manage within its delegated budgets and absorb inflationary pressures. This has included identifying opportunities to reduce costs by maximising efficiencies and, where necessary, deferring spend to preserve value for money. As is standard, HM Treasury has remained open to considering the case for additional funding where pressures are unabsorbable and unavoidable.

Persistently high inflation in the construction sector has driven additional pressures in-year, alongside additional non-inflationary pressures. These costs have been partially offset by in-year underspends that emerged across the rest of the department and active steps have been taken to bear down on costs. However, the full extent of these pressures has not been absorbable or avoidable and HM Treasury has therefore provided a Reserve claim to cover the remaining amount in order to protect delivery and value for money for the taxpayer.

In establishing annual budgets for next year and over the next spending review period, the Department and HM Treasury continue to discuss how to manage future cost pressures on the programme and establish an appropriate controls regime in order to best protect value for money for taxpayers.

Recommendation 4c stated that:

The Department should also establish and set out to the Committee the requirements to access the government contingency on the HS2 programme.

The Development Agreement established between the Department and HS2 Ltd outlines the principles for accessing the government-held contingency on HS2. The Department and HM Treasury continue to consider the provision of government-held contingency in response to issues such as the COVID-19 pandemic and any applicable changes to legislation, such as relevant tax reforms. This ensures the appropriate scrutiny and collective agreement is in place before drawdown of this contingency can occur. The Department will provide an update on the status of the government-held contingency following the conclusion of the revision to the Phase One Estimate at Completion (EAC) and agreement of new cost targets.

The Department will continue to provide updates on the remaining open recommendations in the HS2 Euston report (Sixty-third report of Session 2022-23) via the Treasury Minute process when commissioned in due course. Further to this, the Department is currently responding to the latest HS2 and Euston report (Tenth Report of Session 2023-24) via the Treasury Minute process.

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, Department for Transport