House of Commons

Transport Committee

Major transport infrastructure projects: Government Response to the Committee's Second Report

Seventh Special Report of Session 2021–22

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Transport Committee

The Transport Committee is appointed by the House of Commons to examine the expenditure of the Department for Transport and its associated public bodies.

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Publication

Committee reports are published on the Committee's website at www.parliament.uk/transcom and in print by Order of the House.

Committee staff

The current staff of the Committee are Nick Beech (Committee Clerk), Estelle Currie (Senior Media Officer), Jonathan Arkless (Committee Specialist), Millie Bacon (Inquiry Manager), Alexandra Hunter-Wainwright (Committee Operations Manager), Rosalind KennyBirch (Committee Specialist), Mandy Sullivan (Committee Operations Officer) and Wafia Zia (Second Clerk).

Contacts

All correspondence should be addressed to the Clerk of the Transport Committee, House of Commons, London SW1A 0AA. The telephone number for general enquiries is 020 7219 2226; the Committee's email address is transcom@parliament.uk.

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Seventh Special Report

The Transport Committee published its Second Report of Session 2021–22, Major transport infrastructure projects (HC 24) on 29 September 2021. The Government response was received on 4 January 2022 and is appended below.

Appendix: Government Response

Introduction

In welcoming this Report, the Government would like to thank the Transport Select Committee for undertaking its inquiry into Major Transport Infrastructure Projects.

As the Government has highlighted in the National Infrastructure Strategy and Build Back Better—our plan for growth, high quality transport infrastructure is crucial for economic growth. It boosts productivity and competitiveness, and connects people, businesses, and markets to create a foundation for economic activity. It allows businesses to expand by reducing costs, helps markets operate more efficiently, and facilitates collaboration and innovation, which supports increased agglomeration and linkages between key sectors of the economy.

The Government is focused on delivering investment, including an ambitious pipeline of major capital projects to support crucial cross-government priorities including levelling up, strengthening the Union, and putting the UK on the path to net zero emissions by 2050. In addition to contributing to these long-term goals, investment in transport infrastructure will support our ongoing swift economic recovery following Covid-19, with investment also acting as crucial economic stimulus and supporting job creation in the near term.

DfT's priority outcomes guide the approach to investing in transport infrastructure across the UK. They are:

- improve connectivity across the UK and grow and level up the economy by enhancing the transport network on time and on budget
- tackle climate change and improve air quality, including by decarbonising transport
- build confidence in the transport network as the country recovers from COVID-19 and improve transport users' experience, ensuring that the network is safe, reliable and inclusive.

These outcomes were supported but key transport infrastructure investments announced by the Government at the recent Budget, including:

- over £35bn for rail over the SR period to improve journeys and connectivity across the country, focusing on the Midlands and the North.
- £24bn for strategic roads from 2020 to 2025, delivering over 60 upgrades, including the largest scheme in a generation—the Lower Thames Crossing.

- £620m of additional investment to support the transition to electric vehicles, on top of the £1.9bn committed at last year's Spending Review, which includes funding for public chargepoints in residential areas.
- £23m of new funding in anticipation of the final recommendations of Sir Peter Hendy's Union Connectivity Review, building on the existing £20m union connectivity development fund to improve UK-wide connectivity.

DfT will continue to review how our major projects are delivered, using best practice to find ways to improve oversight and governance, and ensuring that any long-term impacts of Covid-19 are taken into account. The Committee made a number of specific recommendations, the Government's responses to which are set out below.

Recommendation 1

The Government may need to amend the National Infrastructure Strategy to account for the evolution of the coronavirus pandemic in the 10 months since the strategy's publication. To assess whether and how the strategy requires revision, the Government must examine whether the major transport projects in the strategy will still deliver their intended strategic benefits and the Government's policy objectives, particularly in the context of declining public transport usage, higher levels of home-working and resulting shifts in travel patterns. (Paragraph 10)

The Government partially agrees with the recommendation. We remain committed to the National Infrastructure Strategy (NIS) and to the plans it sets out to deliver an infrastructure revolution. The NIS was published in November 2020, and recognised that "the COVID-19 pandemic has introduced enormous short-term disruption, and may have long-term effects on the way people live, for instance with less daily commuting. However, this does not undermine the long-term arguments for infrastructure." After more than a year and a half since the start of the COVID-19 pandemic in the UK, we have observed changes (e.g. to travel patterns) but there is not enough evidence to justify amending the NIS at this stage, whilst the longer-term impacts are still uncertain.

In setting a long-term infrastructure strategy, the NIS sought to address the long-term issues that have held back UK infrastructure, including 'stop-start' public investment, insufficient funding for regions outside of London, slow adoption of new technology, policy uncertainty that undermines private investment, and project delivery plagued by delays and cost overruns.

The NIS' role as a long-term strategy provides certainty to a variety of stakeholders and is designed to take into account a wide range of potential scenarios. Examples of major transports projects covered in the strategy include High Speed 2, the Integrated Rail Plan, the A66, the Lower Thames Crossing, and the A303 Stonehenge. Individual projects will assess and address any changes required on a case-by-case basis, and government keeps major projects under constant review.

The Government will continue to refine its approach to infrastructure investment in response to the impacts of COVID-19 on demand for transport infrastructure in the years to come. To do this, we will work closely with the National Infrastructure Commission (NIC) and industry to understand the longer-term effects COVID-19 may have on UK transport infrastructure, and the implications for policy. As demand will vary in different parts of the country and for different modes of transport, at an individual project level, business cases must demonstrate a sensitivity to a range of different possible demand scenarios. The government will use this process to ensure that planned infrastructure takes into account temporary and structural changes in travel behaviour.

Recommendation 2

To allow Parliament and the public to judge the effectiveness of the Government's infrastructure plans, the Government must publish detailed metrics that define and measure the "levelling up" concept. (Paragraph 19)

The Government accepts this recommendation. The upcoming Levelling Up White Paper will set out a clear definition for "levelling up" and its implications for infrastructure. Furthermore, the Government has published Spending Review priority outcomes and metrics across each Department. This includes metrics that aim to measure the Department for Transport's performance to Grow and Level Up the Economy.

Recommendation 3

We are concerned that the Department did not explain how the construction of major transport infrastructure projects can support the "levelling up" policy agenda. *We would be reassured if the Department were to set out a worked example illustrating how investment in major transport infrastructure projects drives growth and productivity.* (Paragraph 20)

The Government accepts this recommendation. Research has shown that larger cities have higher productivity per head than smaller cities, and that cities become more productive the more they grow—the so-called "agglomeration effect." Better connectivity can drive agglomeration effects, as access to bigger markets and a wider pool of labour and suppliers enables businesses to grow more rapidly, boosting productivity in regional economies. The effect is less pronounced in the United Kingdom (outside London) than in many other rich countries because of the challenges our city and regional transport systems face.

The Department will publish a number of case studies on major transport investments in 2022, including an assessment of how these have driven growth and productivity. This will include insight into Manchester's Metrolink network.

Manchester's Metrolink is the largest light rail network in the UK. The first phase began construction in 1989, concluding in 1992. The network has grown significantly since, supported by significant local funding, with phase three opening in 2014, the Second City Crossing opening in 2017, and the Trafford Park Line in 2020. The network now sees services running on eight lines to 99 stops and covering nearly 60 miles. In 2019, an international study of light rail systems identified Metrolink as one of the best in the world.

The aim of the scheme was to improve the quantity and quality of public transport across Greater Manchester—in particular, addressing the poor public transport connectivity between the city centre and suburban areas and acting as a catalyst to regeneration. The aforementioned agglomeration effects can also encourage businesses to base themselves in and around Manchester.

Metrolink has been found to be attractive to those who have cars available, with almost half of Phase 3 line users saying that they could have made their journey by car or van. Transport for Greater Manchester estimate that for 2019/20, some 3.2 million car trips have been taken off the region's road network by Phase 3 alone, equating to the removal of 6,700 tonnes of CO2 equivalent.

Half of the population in Metrolink corridors have experienced an increase in public transport accessibility to employment and healthcare of 10% or more. This effect is particularly pronounced in deprived communities, where the improvement is greater than that seen for the corridor as a whole. Similarly, businesses on Metrolink corridors have also seen improved customer and labour force catchments, although there is also the perception that the new lines have opened their businesses to greater competition.

Statistical modelling has demonstrated a positive relationship between improved public transport accessibility and economic growth, although further work is required to separate out the true cause and effect. However, house prices can act as a good indicator. A study by the University of Leeds found that past changes in accessibility due to a Metrolink extension led to a positive uplift of 6.3% from being within 1km of a Metrolink stop.

The Government recognises the importance of understanding and building the evidence base on the impacts of transport on economic growth. To support place-based analysis and help address regional inequalities, we have published case studies which demonstrate how scheme promoters can capture the local context in appraisal and we are reviewing our guidance in light of new Green Book annexes on place-based analysis and transformational impacts. We will also be publishing a revised version of the Rebalancing Toolkit in due course. This will provide further information on the strategic impacts of transport projects and their interaction with the levelling up policy agenda through a clear theory of change.

Recommendation 4

The Government must utilise accurate, sensitive analytical tools to ensure that the projects that best support connectivity, growth and productivity are the ones that get built. In that context, benefit-cost ratios are useful, but they fail to capture regional inequalities and environmental and social factors. *The Government must replace benefit-cost ratios with a "benefit-cost plus" system, which not only takes account of costs and benefits and therefore ensures value for money for the taxpayer, but captures regional inequalities and environmental and social factors.* (Paragraph 34)

The Government accepts this recommendation. Our appraisal framework aims to provide as full a view as possible about the wide range of impacts transport investment has on the economy, environment and society. The Department for Transport's Transport Analysis Guidance (TAG) and Value for Money Framework provide advice and tools for conducting robust and proportionate transport appraisals which are consistent with HM Treasury (HMT) Green Book guidance. TAG recommends that transport appraisal should include a robust assessment of the social welfare impacts of the scheme. This includes economic (e.g. user benefits, productivity, jobs and housing), social (e.g. physical activity, accessibility and personal affordability) and environmental impacts (e.g. noise, air quality, carbon and landscape). TAG provides detailed guidance on appraising and valuing this full range of impacts. This specifies how value for money should be assessed robustly, and sets an expectation that impacts not captured in the Benefit Cost Ratio (BCR) (because they cannot be robustly valued) are still assessed and reflected in the value for money assessment. TAG also provides advice on how to estimate potential distributional impacts in scheme appraisal, to ensure that potential adverse impacts on vulnerable groups are identified.

Our programme of work embedding the findings and recommendations of HMT's Green Book Review is supporting a wider assessment of how projects contribute to the Government's strategic goals, including levelling up and decarbonisation. In line with the Review, economic analysis in transport business cases should be consistent with, and support the analysis in, the strategic case which sets out the wider social and economic context and the case for change. To support place-based analysis and help address regional inequalities, we have published case studies which demonstrate how scheme promoters can capture the local context in appraisal and we are reviewing our guidance in light of new Green Book annexes on place-based analysis and transformational impacts. We are also considering the implications of the Review for the assessment of carbon impacts across the business case, with the aim of ensuring that all carbon impacts of transport investment are robustly assessed and presented to decision makers.

Recommendation 5

To facilitate transparent, honest and constructive public and political engagement with the economic and engineering realities of delivering major infrastructure projects, the Government should establish floors and ceilings for project costs and timescales defining the range within which projects are scheduled for delivery rather than setting single specific targets, which are invariably unhelpful and inaccurate. Any breach of a project's cost and/or time ceilings should be communicated to the appropriate Select Committee by a formal mechanism, which should trigger intense parliamentary scrutiny to protect the public purse and to support effective project delivery. (Paragraph 35)

The Government accepts the recommendation that projects should use ranges for their costs and schedules, and has already implemented this on many of its ongoing projects. As in the Committee's report, the Department for Transport (DfT) and the Infrastructure and Projects Authority (IPA) concluded in their joint report on 'Lessons from Transport for the sponsorship of Major Projects' that setting arbitrary deadlines and budgets are not an effective mechanism to manage infrastructure projects. Consequently, DfT ensures that the success of each milestone is defined by a timescale and a cost range. These ranges would be expected to become refined and narrowed as projects mature and uncertainties reduce. As a project will develop over time, the Department's current timelines should leave space for necessary adaptation to any changes. For example, within the High Speed 2 (HS2) project, baselines are already being utilised and are given the space to evolve throughout the project using input from within the project's supply chain and scrutiny from DfT in a sponsorship capacity.

The Government agrees that parliamentary scrutiny is required to support effective project delivery but disagrees with the recommendation to implement a formal mechanism to trigger additional Parliamentary scrutiny. Proportionate governance and assurance activities exist across a range of Government projects, with these arrangements clearly set out in business cases, and managed through robust monitoring, investment decision making, and assurance reviews. Adding additional scrutiny, by way of a formal trigger mechanism, would complicate DfT's role as Project Sponsor and duplicate the function of existing fora.

For example, High Speed 2 (HS2) has been held accountable and scrutinised by parliament throughout each of its phases. The National Audit Office (NAO) has carried out three reports on the project since 2013, and parliament is offered the opportunity to scrutinise Hybrid Bills in their passage through parliament. In addition, the DfT and HS2 Ltd provide information through detailed 6-monthly reports that allow effective parliamentary scrutiny at regular intervals. Other projects, such as Crossrail, also provide regular updates to parliament and the public to enable scrutiny, which also informs subsequent changes to the management of projects where required.

Recommendation 6

Government agencies have repeatedly delivered major transport infrastructure projects that exceeded the specified cost and/or delivery date. Senior management of those Government agencies were apparently unaccountable for such overruns. *Senior management of Government agencies with ultimate responsibility for project delivery must be incentivised to avoid cost and/or time overruns. The senior management of Government agencies with responsibility for delivering major infrastructure projects should be subject to a formal duty immediately to notify the relevant Select Committee in cases in which cost and/or time ceilings will be exceeded.* (Paragraph 36)

The Government partially accepts this recommendation. We entirely agree with the principle that senior management of Government public bodies should have clear lines of accountability and should be held to account for the delivery of objectives.

The Government has a comprehensive system of clear accountabilities for its public bodies. The roles and responsibilities of both the Department for Transport (DfT) and the senior leadership of its public bodies are clearly set out in documentation and actively managed. In practice, Chief Executives of public bodies have regular and open lines of communication with the Department's Permanent Secretary and with junior Ministers, supported by a robust internal governance architecture, led and assured by a sponsorship function.

Executives and Boards have a clear mission—communicated and agreed by DfT—to deliver a programme to plan, time and budget. This is hard-wired into performance against agreed objectives, key performance indicators (KPIs) and annual business plans, for which delivery is overseen by the Departmental Sponsor. In turn these performance metrics are factored into organisational and individual performance assessment (and where appropriate, performance-related pay).

The Government disagrees that senior management of Government public bodies are unaccountable for overruns. The Boards of all ALBs (Arm's Length Bodies) are accountable to DfT for their performance and effective use of resources. As Principal Accounting Officer (PAO), DfT's Permanent Secretary reports to parliament on the day-to-day running of DfT and its ALBs, including the budget. The Permanent Secretary delegates financial authority to an Accounting Officer (AO) within each public body (usually the Chief Executive) who reports to the PAO on their organisation's use of public money.

The duties of an AO are set out in Chapter 3 of Managing Public Money. They include specific obligations to account for stewardship of resources, assurance to parliament and the public of high standards of probity in the management of public funds, and a responsibility to carry out procurement and project appraisal objectively and fairly, using cost benefit analysis and by seeking good value for the Exchequer.

The Government agrees that performance should be incentivised. Our ALBs have clear objectives to deliver infrastructure to time, cost and quality and the performance of senior staff is considered against achievements.

As set out in response to recommendation 5, we agree Parliamentary scrutiny is necessary but disagree with the need to implement a formal duty. A number of the Department's major projects currently provide information through detailed 6-monthly reports that enable effective, additional parliamentary scrutiny at regular intervals (e.g. Crossrail, HS2).

Recommendation 7

A discussion paper is an insufficient response to the challenge of ensuring that the UK has the skills to deliver the Government's ambitious infrastructure agenda. A detailed skills strategy is required. *As part of the refresh of the Transport Infrastructure Skills Strategy, the Department must develop a future skills plan in consultation with public and private sector employers to identify and address skills gaps that might delay major projects. Such a strategy should be accompanied by a financial commitment from the Government aimed at addressing specific skills gaps, such as in transport engineering and project management, through apprenticeships and training programmes.* (Paragraph 52)

The Government partially accepts these recommendations. The discussion paper acts as the basis for consultation with public and private employers. The paper will cover the challenges and opportunities for the transport sector and will ask questions of our stakeholders to inform our approach to, potentially, a refreshed skills strategy. We will also be establishing a refreshed industry-led Taskforce who will drive this work forward. The Taskforce will be chaired by an industry leader and will be responsible for driving the work of the discussion paper, representing industry views, and making recommendations for future transport skills policy to the Department. We want the Taskforce to recommend to government how we can best work together to tackle the challenges we face and make the most of the opportunities available and we will set out the plans for this in the forthcoming discussion paper. In terms of addressing skills gaps, as well as working with the Taskforce and public and private employers in the transport sector, we will work closely with the Department for Education and Department for Work and Pensions to increase uptake in apprenticeships and training programmes currently available, to fill the shortages across the sector.

Recommendation 8

Subject to devolved responsibilities, the National Infrastructure Strategy's top-level objectives of supporting the UK economy after coronavirus, addressing regional inequalities and facilitating adaptation to climate change are welcome. However, the Government is yet to articulate the detail on how it will achieve those objectives. (Paragraph 9)

To ensure that the National Infrastructure Strategy supports (a) the "levelling up" agenda, (b) achieving net zero emissions by 2050 and (c) economic recovery after the coronavirus pandemic, the Government must publish by 25 November 2021 a delivery plan setting out how its transport infrastructure commitments will be implemented to support the National Infrastructure Strategy. (Paragraph 53)

The Government partially agrees with this recommendation. As other programme and mode-specific publications will cover this ground, we do not plan to publish a single delivery plan for the transport infrastructure commitments in the National Infrastructure Strategy (NIS). The Government has already published its Transport Decarbonisation Plan, which sets out the pathway to net zero transport in the UK. We will soon publish a Levelling Up White Paper, and the Integrated Rail Plan, which will ensure that Phase 2b of High Speed 2, Northern Powerhouse Rail and other planned rail investments in the North and Midlands are scoped and delivered in an integrated way. Over the next 12 months we will also publish the Union Connectivity Review and an electric vehicle charging infrastructure strategy. The Government has also set out transport spending plans for the next three years in the 2021 Spending Review. Taken together, these documents will set out how transport infrastructure will contribute to the Government's ambitions to level up and unite the country, decarbonise the economy, and support the recovery from COVID-19.