Thank you for your letter of 25th February requesting the breakdown of the Benefit to Cost Ratios (BCRs) of the Department’s spending on projects rated as “high” value for money between 2011 and 2013.

Unfortunately I am not able to provide you with the information requested, as the Department for Transport (DfT) does not hold a central register of individual BCRs. As set out in Managing Public Money¹, published by HM Treasury, the value for money (VfM) category is central to informing the Departments decision making and it is this information that DfT holds centrally for transparency purposes.

DfT places greater weight on the VfM category as it encompasses more factors than the BCR alone. There is a degree of uncertainty in any point estimate BCR, which is taken into account when considering the robustness of a VfM category. The BCR does not include the non-monetised impacts of a project, which if significant enough, can change the VfM category.

In considering the VfM category for HS2, we have taken into account the number of sensitivity tests and risk analysis conducted as part of the Economic Case. This analysis shows that the Economic Case for HS2 is robust to a wide range of scenarios. In more than 75% of the scenarios tested the Y-Network represents high value for money. We have also considered the non-monetised impacts when assessing the VfM category.

Furthermore Department’s demand cap has a disproportionate impact on HS2 given the scale of the project. The cap limits passenger growth at 2036 levels, only 3 years after Phase Two opens. If demand were allowed to grow to 2040 or 2049, then the BCR would rise to between 2.8 and 4.5. While WebTAG is world-class, for some projects – particularly transformational

ones such as HS2 - there may be additional economic impacts it does not fully capture. This is because no sufficiently robust methods currently exist to model and value these impacts.

Overall, we are confident that the economic assessment of HS2 is robust and it represents high value for money.

As I say above, we do not centrally collate BCRs and consider the VfM category a more appropriate measure. However, by way of a comparison the Committee may wish to note that the BCR for Crossrail\(^2\) when approved in 2010 was 2.55 with a London value of time (which was a third higher than the WebTAG value at that time) and 1.87 with a national value of time. The BCR for Thameslink Programme was 1.4. DfT has also published business case information for various smaller road and rail schemes\(^3\).

The Committee should bear in mind that the VfM information previously provided by DfT does not include schemes that are entirely funded directly by independent or devolved organisations such as Network Rail\(^4\) or TfL. Nor will it include details of schemes that, if published, could detriment DfTs commercial position - which often applies to rail franchises and direct awards. In general, major rail schemes tend to have lower point BCRs than road schemes, which puts HS2’s BCR and high VfM in perspective.

I hope that the Committee finds this reply helpful.

THE RT. HON. PATRICK McLOUGHLIN


\(^4\) Note this may change from 2015 as Network Rail becomes a DfT arm’s length body
Rt Hon Patrick McLoughlin MP
Secretary of State for Transport
Department for Transport
Great Minster House
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SW1P 4DR

25 February 2015

Dear Patrick,

Thank you for your recent letter providing further information for the Economic Affairs Committee's inquiry into the economic case for HS2. I would be grateful if you could assist with one further question before publication of the Committee’s report.

In his letter of 7 November 2014, Mr Prout provided details of the percentage of the Department’s spending for 2011, 2012 and 2013 by value for money category. This showed that most of the Department’s spending was within the ‘High’ value for money category, which included projects with a benefit cost ratio of 2.0 – 4.0. I would be grateful if you could provide the same figures broken down by whether the spending in the ‘High’ value for money category had a benefit cost ratio of

- 2.0 – 2.5;
- 2.5 – 3.0;
- 3.0 – 3.5; and
- 3.5 – 4.0.

I would be grateful if you could provide a response to this letter before Tuesday 3 March in order that the Committee can reflect your response in its report.

Yours sincerely,

(Hollick)
Chairman, Economic Affairs Committee