Dear Lord Hollick,

At my recent appearance before the committee on 28 November, I undertook to respond in writing to the suggestion that, in terms of value for money (VfM), HS2 would be in the bottom 10% of transport projects funded by the Department and potentially in the bottom 1%, based on the current economic case.

The benefit to cost ratio (BCR) for the full HS2 “Y” network is 2.3 including Wider Economic Impacts (WEIs). This represents high VfM, which is the same category as the majority of transport spending by DfT over the past three years.

The Department for Transport categorises transport schemes in terms of their VfM. Our Transport Appraisal Guidance (WebTAG) sets out the VfM categories as:

- Poor VfM if the BCR is less than 1.0
- Low VfM if the BCR is between 1.0 and 1.5
- Medium VfM if the BCR is between 1.5 and 2.0
- High VfM if the BCR is between 2.0 and 4.0
- Very high VfM if the BCR is greater than 4.0

However, not all potential scheme impacts can be assessed in monetary terms and where we can do that assessment, some have more robust evidence than others. In assessing value for money WebTAG therefore recommends using a three stage approach1.

We start with those impacts where the evidence for the monetisation is robust. The resulting BCR is termed the "initial" BCR.

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We then add those impacts where monetisation is possible, but where the evidence for doing so may not be as robust. The resulting BCR is called the ‘adjusted BCR’. The adjusted BCR includes the Wider Economic Impacts (WEIs).

Finally we consider those impacts for which it is not possible to provide monetary values in a qualitative manner, and the potential ability for these impacts to shift the value for money category is assessed. For example, negative environmental impacts could reduce the VfM of a scheme which otherwise has a high BCR.

Since 2011, the Department for Transport has published statistics on the value for money of the schemes it has funded. The percentage of Departmental spending by VfM category is set out in the table below.

<table>
<thead>
<tr>
<th>Year</th>
<th>% of spend by VfM Category</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Poor</td>
</tr>
<tr>
<td>2013</td>
<td>0</td>
</tr>
<tr>
<td>2012</td>
<td>0</td>
</tr>
<tr>
<td>2011</td>
<td>0</td>
</tr>
</tbody>
</table>

The Value for Money assessment of HS2 can be found in the Department’s economic case for HS2\(^2\). The BCR for the full consulted Y network (including WEIs) is 2.3, which represents high value for money. This places HS2 in the same VfM category as the majority of transport spending by DfT over the past three years.

However, it is worth bearing in mind that the long term and transformational nature of HS2 means that the BCR is disproportionately impacted by the Demand Cap. This limits passenger demand at a set level for the purposes of a transport appraisal. For HS2, that level is reached in 2036, which is only 3 years after Phase Two is opened – even with a modest prediction of 2.2% per annum growth in passenger demand. If the demand cap were to be raised to 2049, the BCR would raise to 4.5, which would represent very high VfM.

Also, for transformational projects such as HS2, our economic appraisal may not fully capture the full range of potential benefits. For example, we don’t currently include any potential benefits from regeneration even though one might expect them to arise, plus there could be some impacts from land use change which are not fully captured by the existing user benefits and ‘wider impacts’. By means of a comparison, the BCR for the Jubilee Line extension when approved, which has helped open up significant development in the Docklands area, was 0.95.

In writing to the committee, I would also like to take this opportunity to respond to the suggestion by Professor Henry Overman in his evidence to the Committee that “it is still not completely clear what is the strategic case for the investment”\(^3\).

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The case for HS2 is based on providing the connectivity and capacity we need to support balanced economic growth. Our objectives are clearly set out in Chapter 3 of the 2013 Strategic Case\(^4\), which states:

*Government’s role is to build a stronger, more balanced economy capable of delivering lasting growth and widely shared prosperity. Transport plays a key part in this.*

*In that context, our objectives are to:*

- *provide sufficient capacity to meet long term demand, and to improve resilience and reliability across the network; and*

- *improve connectivity by delivering better journey times and making travel easier.*

I would also like to address the suggestion made by others that this represents a departure from previous statements of our strategic case. The 2010 Command Paper\(^5\), which first set out the strategic case, identified the need to provide a step change in capacity and improve connectivity in order to support growth and help re-balance the economy.

\[\text{Yours sincerely,}\]

\[\text{David Prout}\]

\[\text{Director General, HS2}\]

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