HS2 Select Committee

Petition Reference: N/A

Lead: Umran Nazir DfT

Question? Property Bond Option

Answer: The note provided to the Select Committee in December 2014 set out the reasons why the Government decided not to pursue the option of a Property Bond. In essence the reasons were that there was no evidence that a Property Bond would work and that the impacts of a Property Bond not working would be severe.

The HS2 Action Alliance in one of their appearances before Committee raised the cost of the Property Bond and highlighted the £158m "cost" of the scheme in *HS2 property bond: cost report* a report produced for the Department by PwC. This cost was the estimated net present cost for a Property Bond 500m either side of the line in rural areas under a "pessimistic scenario" (this is discussed below). That is to say it is the net estimated cost of the property bond after all the properties purchased under the scheme have been sold and including any rental income earned prior to sale, with that cost presented in 2014 prices and subject to discounting at 3.5% per annum.

The net cost of the scheme is only one aspect of cost. Another issue is the opportunity cost of the scheme – the amount of public money tied up in the scheme in purchased property that cannot be used elsewhere in the economy. The level of money tied up in the scheme clearly changes as the project develops but the report shows that some £1.1bn would be tied up in property bought under the property bond, at its peak this represents an annual cash requirement of over £250m. Therefore, while the net cost would only be £158m the Government would need to have £1.1bn available to fund the scheme, which at its peak would require £250m to be spent per annum.

These cost estimates are based on a "pessimistic" scenario. However, it is important to understand what this scenario means. Broadly it means that the property bond "works" but does not meet all its objectives and does not perform as well as under the optimistic scenario. As the report makes clear *"the pessimistic scenario should not be considered to represent the 'worst case' scenario as this would reflect a situation where a very high proportion (90+ %) of property owners look to sell under a property bond and there is a material level of ongoing blight".* Therefore, the report does not present the cost of what would happen if the Property Bond were not to work.

As the earlier report to the Committee set out that the concern is that the Property Bond does not work and the costs that the HS2 Action Alliance quote do not reflect this. The PwC report sets out that there is £2.9bn of property within 500m of the line. Under a failed Property Bond scenario it would be expected that almost all of this property would be purchased. With the potential that the bond scheme spreads blight thus implying further property outside the property bond area would also need to be purchased and the market would not recover, meaning much of the expenditure might not be recovered or only be recovered after a considerable period of time. This risk of a considerably higher cost was also a factor in the Government's decision not to pursue the Property Bond.

Reported back:

Date: 15/02/2016

PMT Lead: Ceire O' Reilly