29 March 2019

Dear Bernadette

2018-19 Supplementary Estimates

I am writing regarding the 2018-19 Supplementary Estimates and the accompanying memorandum that the Department for Transport produced. The Committee would like further information on some areas of the Department’s spending. Please see our questions below.

1. The Department received EU exit preparation funding of £80.6 million in 2018-19 (£41.6 million Resource DEL and £39 million Capital DEL).
   a) Can you tell us how much of this has been spent and what it has been spent on?
   b) If the whole amount has yet to be spent, has the outstanding amount been allocated?
   c) Which pot did the £108 million for ‘no deal’ Brexit Channel freight capacity and the £33 million to Eurotunnel come from?

2. Income from passenger rail services has been adjusted down by £370.5 million since the Main Estimate – the Support for Passenger Services budget line does not now provide any net income for the Department.
   a) Could you provide a comparison between the Support for Passenger Services budget line forecast at the time of the Spending Review 2015 and the actual outturn for the years 2015-16 to 2018-19?
   b) What proportion of the adjustment was made because of (i) lower passenger revenues and (ii) higher than expected costs, respectively?
   c) How closely did outturn in rail demand match National Transport Model (NTM) predictions in each of the last five years and what adjustments, if any, have you made to the model?

3. For some time HMRC has been reviewing HS2 Ltd’s ability to recover VAT incurred on construction activity. The memorandum notes that HS2 requires an extra £650 million to cover a potential liability to repay reclaimed VAT. This issue also affected the 2017-18 Supplementary Estimates’ last year and was highlighted in HS2’s 2016-17 accounts.¹

¹ DfT 2017-18 Supplementary Estimates memorandum, p10
² HS2 Ltd annual report and accounts 2016-17, p112
a) What exactly is the dispute between HS2 and HMRC? Why has it been going on for so long and when will it be resolved?
b) Have DfT or HS2 spent any money on getting legal or tax advice on this dispute? If so, how much has been spent?

4. The Supplementary Estimates provide an extra £100m budget cover for HS2 in relation to non-cash inventory. Can you provide further details on what this relates to?

5. From 2019-20 Network Rail spending will be included in the DEL budgets rather than the AME budgets.

a) Why were Network Rail budgets previously included in AME and what has prompted the change now?
b) What practical difference will this make to Network Rail? For example, will Network Rail find it more difficult to move budgets between years if investment plans are brought forward or delayed?

6. Further to the Secretary of State’s letter to the Committee of 25 March, it states in response to Q8 that the £33 million paid to Eurotunnel will be classified by DfT as “part of its Brexit-related funding for the 2018-financial year”. We note that the 2018-19 Brexit preparedness allocation for DfT was £75.8 million. We further note the DfT’s statement that it “has currently allocated £36.4m to prepare specifically for a no deal”. In light of this, can you tell us:

   a) whether the £33 million is being paid for out of the £36.4m ‘no deal’ pot
   b) If not, where the money is from and
   c) For 2018-19 a breakdown of what the DfT has spent its total Brexit preparedness allocation on

The Committee has noted the steps that the Department for Transport has taken to comply with the new guidance on Estimate memoranda issued by the House of Commons Scrutiny Unit, following the Procedure committee’s Estimates inquiry in 2017. We encourage you to maintain dialogue with the Scrutiny unit and ensure that you continue to apply the requirements set out on the Scrutiny unit’s webpage in the future.

I would be grateful if you could reply by Monday 8 April 2019.

Lilian Greenwood MP
Chair of the Transport Committee