

## Public Accounts Committee

Oral evidence: [High Speed 2: Spring 2020 Update](#),  
HC 84

Wednesday 4 March 2020

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Members present: Meg Hillier (Chair); Gareth Bacon; Sir Geoffrey Clifton-Brown; Peter Grant; Mr Richard Holden; Sir Bernard Jenkin; Craig Mackinlay; Gagan Mohindra; Sarah Olney; Bridget Phillipson; Nick Smith; James Wild.

Transport Committee Members present: Huw Merriman (Chair).

Gareth Davies, Comptroller and Auditor General; Adrian Jenner, Director of Parliamentary Relations, National Audit Office; Lee-Anne Murray, Director, NAO; and David Fairbrother, Treasury Officer of Accounts, HM Treasury were in attendance.

Questions 1-147

### Witnesses

**I:** Bernadette Kelly, Permanent Secretary, Department for Transport; Clive Maxwell, Director General, High Speed and Major Rail Projects, DfT; Mark Thurston, Chief Executive Officer, HS2; and Michael Bradley, Chief Finance Officer, HS2.



Report by the Comptroller and Auditor General  
High Speed Two: A progress update (HC 40)

Examination of witnesses

Witnesses: Bernadette Kelly, Clive Maxwell, Mark Thurston and Michael Bradley.

Q1 **Chair:** Good afternoon and welcome to the first session of this Parliament of the newly constituted Public Accounts Committee, on Wednesday 4 March 2020. I will introduce our witnesses, and then I have some questions for Ms Kelly, the permanent secretary, on some of the other issues on her plate, before we begin the main agenda.

From my left to right, we have Clive Maxwell, the director general of the high speed and major rail projects group at the Department for Transport. Welcome to you, Mr Maxwell. We have Bernadette Kelly, who needs no introduction as the permanent secretary at the Department for Transport. We have Mark Thurston, who, likewise, needs little introduction as chief executive officer of HS2 Ltd. We also have Michael Bradley, who is the chief financial officer for HS2 Ltd. We will be talking about numbers today, and I think you will get a fair crack of the whip this afternoon, Mr Bradley. Before we move on to High Speed 2, I want to ask Ms Kelly for a quick update on Crossrail since we last had the joy of meeting.

**Bernadette Kelly:** Since we last met, there have been some further developments on Crossrail and some further challenges for the project. On the schedule, the company has now indicated that it expects the central section to open in the summer of 2021. It has also identified some further funding challenges and has sought additional cover of between £400 million and £650 million.

Q2 **Chair:** Can you just say that again? The acoustics are terrible here.

**Bernadette Kelly:** They are terrible; I am finding that as well. On further funding, the company has come to sponsors—they are obviously the Department and Transport for London—indicating that they see a need for further funding of between £400 million and £650 million. Discussions are now ongoing between the Department, the Treasury and Transport for London about how we respond to that request. From the Government's perspective, we have made it clear in our discussions with Transport for London that we expect the "London pays" principle to continue to be adhered to as we work through that.

Obviously, this is a further deterioration since we last talked about this project, and it is disappointing. The key reasons, which you might be



## HOUSE OF COMMONS

interested to know, are associated with some significant challenges with the signalling software. There have been challenges with concluding all the work and scheduling it on safety approvals and assurances, and there has been some increase in risk provision. There are a number of things that have contributed to that.

I would also say, though, that a lot of good progress is being made on the delivery of the project. The tunnels and track are complete. The signalling system is now sufficiently secured for trains and has been approved for train testing, and the fit-out at stations is now almost complete. Although there are still ongoing problems, I want to assure the Committee that a huge amount of work is going on to deliver this project.

**Q3 Chair:** The signalling and all the integration were things that we knew were problems when the new management came in. Why have these problems arisen unexpectedly?

**Bernadette Kelly:** I think it is just that the more the current management team, which has obviously been there now for somewhat over a year, turns over every single stone and develops a really detailed bottom-up plan, the more that some of these challenges and issues have arisen. It is probably not that they were not there; it is just that the precise impact of all those issues was not fully understood and was not fully built into the opening schedule and plan of work. It really is a consequence of some very detailed work now being done by the Crossrail team.

**Q4 Chair:** You slipped into your comments the “London pays” principle. Can you tell me what the status of that principle is? I know there was a deal done less than a year ago between the then transport Minister and the Mayor of London to get it over the line.

**Bernadette Kelly:** There is general agreement, as there has been all along, that both the Government and Transport for London want to see this project successfully concluded.

**Q5 Chair:** We get that. What about the principle of “London pays”?

**Bernadette Kelly:** As you will be well aware from previous discussions on this, there has always been a division between the parts of the project that HMG funds—the taxpayer funds them directly—and those parts that are funded by London, whether through borrowing against future revenues, business rates or other London-generated incomes.

**Q6 Chair:** Where are those discussions at?

**Bernadette Kelly:** As you will remember, the additional funding of £2.05 billion that we provided in 2018-19 was principally in the form of a loan to TfL<sup>1</sup>. We are now looking at what choices we can make around that loan.

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<sup>1</sup> The Department have added the comment that they also meant the Greater London Authority (GLA).



## HOUSE OF COMMONS

Q7 **Chair:** Okay. So it might be extending the loan.

**Bernadette Kelly:** It could be extending the loan—

Q8 **Chair:** Increasing the loan and extending it?

**Bernadette Kelly:** I think that Her Majesty's Government's position—this is subject to negotiation; this is precisely the conversation we are currently having with TfL and the Mayor—is that we would expect London to pay, which would mean looking at extending rather than increasing the loan, in ways that would allow TfL then to raise additional funding to finish the project.

Q9 **Chair:** So it could be a longer-term loan on low interest rates, or it could be—

**Bernadette Kelly:** Exactly. There are ways of changing the terms of the loan.

Q10 **Chair:** I would only comment—to abuse my position as Chair—as one of the two London MPs on this Committee, that if London were to have to pay now for the huge cost on-runs, it would have a huge impact on the London transport budget. So the Department is aware of that and trying to—

**Bernadette Kelly:** We are completely aware. This is a difficult negotiation, but I think it is a very sensible negotiation. We are all trying to find a way through here, which both gets the project delivered successfully and opened successfully but obviously does not have completely unwelcome impacts on the rest of transport in London.

Q11 **Gareth Bacon:** Just on that point, TfL is only able to borrow £11.6 billion, and they have capped out the limit already. So, increasing the loan, strictly speaking, is not possible. Are you talking about increasing their credit line so that they can actually increase their borrowing threshold, or are you talking about grant-funding the GLA, or loaning to the GLA, which can then grant-fund to TfL, which is what happened with the £2 billion?

**Bernadette Kelly:** I am sort of hesitant to answer quite a technical question. My understanding is that the sorts of solutions we are looking at are ones that would allow TfL to borrow more, in order to complete the project; that is my understanding. But as I say, first, we have not concluded the negotiation, so I can't give you a definitive answer. Secondly, if it is helpful for the Committee to have a much more technical note, I would be very happy to provide that. I am just hesitant to say something that I may have to correct.

**Gareth Bacon:** That's fine. Chair, that would be great.

**Chair:** Okay. I am sure that someone behind you, Ms Kelly, is making note of that and will get back to us—our Clerk is, as well.

Q12 **James Wild:** In the Treasury minutes in response to the "Completing Crossrail" Report in October, the Department committed to come back by the end of last year with a review of the remuneration policy in delivery



## HOUSE OF COMMONS

bodies, including HS2 Ltd, Highways England and Network Rail. I checked with the Clerk this morning; we haven't had any such response. Do you know where that review has got to?

**Bernadette Kelly:** I will chase—I must admit I thought we had given some sort of, as it were, information to the Committee about the principles around senior remuneration.

Q13 **James Wild:** I think we were looking for something a bit more—I think it also got into the link between pay and performance. It is particularly an issue on HS2, but also with Highways England and Network Rail, where unaccountable bodies are paying very high salaries, and the performance is not there to justify it.

**Bernadette Kelly:** As I say, I thought, but I will double-check, that we had provided some information about our approach to senior remuneration. If you are looking for more detail—if there are more detailed questions that you would like to have answers to—we will certainly provide that.

Q14 **Chair:** If I may interject, Mr Wild, can we just be clear what our recommendation said? PAC recommendation 4a was: "Before the end of the year"—that was before the end of 2019—"the Department should: carry out and publish the results of a full review of pay, including redundancy arrangements, at its delivery bodies". So it was quite a broad recommendation. I think I recall a letter, but it was not in that much detail, so perhaps you could write to us.

**Bernadette Kelly:** I will write. I am sure we will have given a response to that.

**Chair:** As you will no doubt gather, we may want to pick up on remuneration as well in the main session.

Q15 **Sir Geoffrey Clifton-Brown:** Ms Kelly, you came before the Committee on 15 May, and, as the Chair says, certainly at our visit to Crossrail in June, all these problems with signalling and the electronic interfaces were known and detailed to us by the then new chief executive. Why has another £400 million to £600 million been added to the bill in the intervening 10 months, when all these things were known?

**Bernadette Kelly:** I am afraid I can't really add to my previous answer. I think it is probably the level of understanding and the detail of that understanding, which will have deepened since I was able to report to you in May. You are correct: signalling software was an issue that was highlighted earlier. I think it is just the sheer scale of the impact on that.

It is not purely signalling software, as I say. I have mentioned that there have been some issues as well around safety assurances and sign-offs, which I think are adding to schedule, and, of course, adding to schedule tends to add to cost. There have been some areas where I think the company has also wanted to see an increase in risk provision. So it is a combination of factors.



## HOUSE OF COMMONS

Q16 **Sir Geoffrey Clifton-Brown:** So how confident are you that the figures you have given us this afternoon are the final cost escalations?

**Bernadette Kelly:** That is a question that I know you will always ask. The company has come to the Government and given its very best estimate of what may be needed to complete the project. Recent experience tells me that I need to be cautious about giving you absolute guarantees that this is it. We all hope—we are challenging those numbers hard—to get as much certainty as we can about how much more will be needed to conclude the project.

Q17 **Chair:** I want to ask a couple of quick questions about the many announcements on transport. Thank you very much for your letter on that subject, which the Committee has seen and digested. Your Department will be very busy under the new Government. I want to touch on the funding for the bus strategy in particular. The £220 million that has been announced is funding just for the coming financial year. Is that right?

**Bernadette Kelly:** We expect to spend the £220 million in 2020-21—that is correct. We set out in an earlier publication the sorts of things that we expected to spend that money on, such as rural mobility, superbus pilots and all-electric bus towns.

Q18 **Chair:** Am I right in saying that that money was actually announced at the end of September?

**Bernadette Kelly:** Yes, the £220 million package was announced before the general election was called.

Q19 **Chair:** £50 million of that is earmarked for the west midlands and Cornwall.

**Bernadette Kelly:** Yes.

Q20 **Chair:** That is quite a chunk. The original press release stated that the package would allow for previous cuts to services to be reversed. Can you give us any specific details, or any estimate, on which services and in which parts of the country?

**Bernadette Kelly:** I cannot at this stage. Is that within the £50 million or the £220 million?

Q21 **Chair:** I believe it is within the £220 million.

**Bernadette Kelly:** Okay. I will need to come back to you and see what further progress we have made since we published the details of what we intended to do with that funding package. Clearly, we have since had a further and much more significant announcement on funding for buses.

Q22 **Bridget Phillipson:** On the powers available to local authorities and others for bus regulation, particularly in the north-east, are there any ongoing discussions on the potential for further devolution of bus powers to other local authority areas?



**Bernadette Kelly:** I will give you a general rather than a specific answer. Since the £220 million, we have also had the further and very significant announcement of £5 billion over a longer period, the majority of which will be to support bus services. We have not yet determined exactly how that spending will be profiled or allocated across the country, but we have talked about more frequent bus services, simpler fares, zero-emission buses, priority bus schemes and so on. That is actually very exciting in terms of the opportunities to improve bus services right across the country. As you would expect, we are now working very hard to think about how we take that funding package forward.

The question of legislation is an interesting one. Clearly, if local authorities and others come forward with proposals that we think will enable those objectives to be delivered more quickly, I am sure that Ministers would want to hear those ideas and would be open to consideration. Our assessment of powers that already exist for local authorities is that quite significant powers are already provided for in the Bus Services Act—

Q23 **Bridget Phillipson:** With mayoral authorities.

**Bernadette Kelly:** That is true—with mayoral authorities—but there are also opportunities for other local authorities to exercise more direction over bus services. That is a conversation that we will be happy to have, because the money has now been provided, and we and local authorities want to ensure that we get the best possible results from that.

**Bridget Phillipson:** Funding is always welcome, and I would never say no to additional funding for bus services.

**Bernadette Kelly:** No, I am sure you wouldn't.

Q24 **Bridget Phillipson:** My fear, however, is that if we continue to throw money at and prop up a broken system of deregulated services in places such as the north-east, we will not necessarily deliver the best value for the taxpayer. I would really urge that we look at how that money is being spent, whether it is being spent effectively, and whether it could be better spent if we consider the model that operates.

**Bernadette Kelly:** I do not think that Ministers and the Government would be opposed to looking at other ideas around regulation. Indeed, I think that the Government's manifesto commitment talked about services akin to London services, which obviously operate under a different model.

Q25 **Chair:** That brings us to the profiling of the money. You have the £5 billion and you have told us that, at the moment, there is no plan for how it is going to be spent. If there was legislative change, would that mean that it would be backloaded rather than frontloaded?

**Bernadette Kelly:** That depends. I do not see why it would all need to be backloaded. If we are talking about, for example, purchasing 4,000 zero-emission buses, we do not need legislative change to do that.

Q26 **Chair:** Just to be clear, it is pretty much a blank sheet of paper and you are inviting members of the Committee and Members of Parliament—



## HOUSE OF COMMONS

**Bernadette Kelly:** It is not a completely blank sheet of paper, because the Government has said that it wants to spend the money on more frequent services, 4,000 zero-emission buses and so on.

**Chair:** We can read the press release.

**Bernadette Kelly:** But within that, of course, we would expect—

**Chair:** I think you might be getting a flurry of letters from members of the Public Accounts Committee on that. We will move on. There is a lot we could discuss in those announcements. I will ask Sir Bernard Jenkin to come in on some of the issues around franchising.

Q27 **Sir Bernard Jenkin:** The Government announced that it was taking over the running of services on the Northern network on 1 March. What improvements for passengers will there be, and when, as a result of that decision?

**Bernadette Kelly:** As you rightly say, the Government—the operator of last resort—took over those services on Sunday. The Government has been clear in saying that that does not mean that there will be an overnight transformation of train services on that franchise. The performance on that franchise has been beset by a number of problems, some of which are quite deep-rooted, so we have been very clear not to raise expectations of an overnight fix. The Secretary of State has asked the operator of last resort to produce a 100-day plan for measures to improve services as quickly as possible for passengers.

We already expect to see improvements anyway, as a consequence of all the Pacers finally being removed by May. Work to extend platforms and, therefore, allow for longer trains will be complete by April, which should result in improvements. Some additional electric services are being added on parts of the franchise to provide more capacity.

Things are happening now to improve services. As I say, the operator of last resort has been asked to produce a 100-day plan for further steps that can be taken. We are acutely conscious that there are quite challenging performance issues for that part of the network. A change of ownership does not overnight—

**Chair:** I think we are aware of that.

Q28 **Sir Bernard Jenkin:** All the benefits that you list have nothing to do with the change in the ownership of the franchise.

**Bernadette Kelly:** But they are changes that will allow passengers to see real improvement—

**Sir Bernard Jenkin:** I understand that.

**Chair:** But they must have been happening before.

**Sir Bernard Jenkin:** The question is this: the change in ownership is meant to be of some benefit, so what is the benefit of the change of



ownership?

**Bernadette Kelly:** In this particular franchise, we had an operator that was performing poorly and that was no longer financially sustainable. We had a judgment to make about what the appropriate response was.

Q29 **Sir Bernard Jenkin:** So the Government is now taking 100% of the financial risk instead of just some of the financial risk. What is the advantage in that?

**Bernadette Kelly:** We are now not paying an operator to provide services on the franchise.

Q30 **Sir Bernard Jenkin:** So this will be cheaper to run, will it?

**Bernadette Kelly:** When we are faced with these decisions on a possible change of ownership—we have had it with VTEC before—we do a quite detailed assessment against things such as what will deliver the best performance for passengers and what is the best value for money. A range of considerations are taken into account and then we make a judgment about what is a sensible way to deliver the franchise. In this instance, we judged that the operator of last resort was the best option. Obviously, steps are now being taken through direct management to improve service for passengers. It will be a long slog, actually.

**Sir Bernard Jenkin:** Perhaps you can let us have the 100-day plan as soon as you have it.

**Bernadette Kelly:** Yes, for sure.

**Sir Bernard Jenkin:** What is happening on South Western Railway? Are there any implications for that?

**Chair:** We will come back to that.

Q31 **Sir Bernard Jenkin:** Okay. When are we going to get the Williams review?

**Bernadette Kelly:** To be determined. Obviously, Keith has done a huge amount of work. Work on the White Paper is now very advanced—

**Chair:** Keith being Keith Williams, for those who may not know.

**Bernadette Kelly:** Yes—I beg your pardon.

Q32 **Sir Bernard Jenkin:** Will it be this spring, this summer, or the autumn?

**Bernadette Kelly:** I am avoiding giving you a very specific date. I would certainly expect it to be before the summer. It may be sooner—

**Chair:** I should advise new members of the Committee that that means any time between now and Christmas, probably.

**Bernadette Kelly:** The work is well advanced and work on the White Paper incorporating his recommendations is well advanced.

Q33 **Sarah Olney:** Good afternoon, Ms Kelly. Following up on all that, what is



## HOUSE OF COMMONS

the current status of the franchise of South Western Railway?

**Bernadette Kelly:** We issued a written ministerial statement on 22 January. We have issued what is called a request for proposal from the current franchise operator for continued operation of that franchise. We will compare that in the way I described, in terms of value for money, benefits for passengers and other considerations, against the choice of operating it directly through the operator of last resort. We will determine the best way forward, but we have not yet reached the conclusion of that process.

Q34 **Sarah Olney:** Passengers will be keen to know when they can expect to see an improvement in the level of service on that line.

**Bernadette Kelly:** They certainly will. I am a regular commuter on South Western Railway, so I very much agree.

**Chair:** Thank you, permanent secretary. We need to move on to our main session. Richard Holden, would you make a short declaration?

**Mr Holden:** I was a special adviser in the Department between December 2018 and late last year.

**Chair:** Okay, so friends reunite. I particularly welcome Huw Merriman MP, who is the newly elected Chair of the Transport Committee. Under our new system, he is a guest in today's session on HS2. We are looking at the NAO's investigation into HS2—this is not the first and certainly will not be the last time the Committee looks at it. That is the high-speed rail programme that will construct the new high-speed rail through London, Leeds and Manchester, via the west midlands, eventually including Scotland.

One of the reasons we keep looking at it is that it is the Government's largest infrastructure project by value. By my calculation, over the next 30 years or so, on the basis of turnover of Ministers so far, there will be a dozen Ministers responsible for HS2 and a dozen chairs of HS2. I don't know how many permanent secretaries there will be—Ms Kelly, perhaps you have a better idea of your longevity, but I would hazard that it will not be you dealing with it. That raises a lot of issues about accountability and the transparency of the project.

Of course, the big thing we want to talk about today, as well as how the cost has increased, is who knew what when about that. It has been given the go-ahead by Government, so our job is to keep your feet and HS2's feet to the fire on the cost and delivery of this programme. It is not our job as a Committee to question whether the Government have made the right decision to back it; we are looking at the numbers. On the numbers and what has happened so far, I will ask Huw Merriman to kick off.

**Huw Merriman:** Thank you very much for having me, Chair. We resolved this morning in the Transport Committee to ask you to guest should we look at aspects of HS2.



## HOUSE OF COMMONS

**Chair:** Ms Kelly, you get double bubble.

Q35 **Huw Merriman:** Ms Kelly, you previously told the Committee that HS2 was running to budget and schedule. What went wrong?

**Bernadette Kelly:** I think there are two questions there—

**Huw Merriman:** My question was: what went wrong since last time?

**Bernadette Kelly:** Let me tell you what went wrong. The NAO Report is very helpful and quite an illuminating examination of what has gone on in the history of this project. I would summarise the problems as follows. First, the budget and the schedule for the project were set at a fixed point far too early in time. In effect, we set a 2026 opening date to Birmingham in 2010, and we set what became the £55.7 billion budget in 2013. At both those points there was a huge amount of uncertainty, and I do not think we could have known that the schedule and budget were correct.

The second point, which the NAO Report brings out very clearly, is that risk and complexity have been underestimated through the lifetime of the project. Plenty of examples are given, such as that in 2016 we allocated a £7 billion contingency for phase 1, which in hindsight was insufficient, given the level of uncertainty still attached to the project at that point. There has been over-optimism at a number of critical points in relation to the efficiency that could be delivered on this project.

Taking an example from the NAO's Report, a £4.9 billion cost pressure for phase 1 was identified around 2015. Lots and lots of work was then done to squeeze, as it were, a pint back into a half-pint pot. It was concluded that the original budget was sufficient. Costs were added to the project during the course of the hybrid Bill's passage through Parliament, in order to ensure high standards around the project. That was a significant additional element of the cost. I think the NAO reports it as £1.2 billion, which was not factored into the budget as additional funding.

More recently—I am sure Mr Thurston and Mr Bradley can talk more about this—we see that construction costs are significantly higher in reality than we assumed they would be at the time that we set the £55.7 billion budget. I suspect textbooks and essays will be written on this. That is my high-level summary.

**Chair:** Can I just say, before Mr Merriman comes back in, that we cannot have answers as long as that? I appreciate that you are setting things out, but a lot of these issues are in the Report. We do not need to repeat what is in the Report. I know Mr Merriman is an expert at asking short questions. If we could have shorter answers, we will all get home quicker.

Q36 **Huw Merriman:** I really wanted to focus on what you said to the Committee in May 2019. You had been notified by HS2 Ltd in March 2019 that the programme could not be delivered within budget or on schedule. I want to come back to my first question: why did you say to the Committee in May that the project was coming in on budget and schedule? It would seem to indicate that that could not be the case.



## HOUSE OF COMMONS

**Bernadette Kelly:** I was actually quite careful in my remarks in 2019. I did not say that the project was coming in on budget and schedule. What I said was that the budget remained at that point £55.7 billion, which it did; it had not been changed. I indicated that it would not change other than at the spending review, which at that point we were expecting to have in the autumn. I also highlighted that there were challenges with the scope of choices, and that there were emerging cost pressures. I don't think I did say at that point that it was on budget and schedule—I was quite careful.

In reality, you are right—the NAO Report is clear about this—that we were aware that significant cost pressures existed. At that point we were still examining choices around scope, which would have brought the project within budget. They were very difficult choices, but we were still looking at remedial action that, in theory, would have made it possible to bring it back into budget. There is always a difficult balance when I am sitting before this Committee in these circumstances. I want to be, and always strive to be, as open as I can be, but with a project of this sort, you have to allow time and space—in this case, for the company to drive the negotiation on, for example, the main works civils contracts. If we are too premature in announcing cost increases and potential budget changes, it becomes impossible to hold contractors' feet to the fire. There are some quite challenging things in there.

Q37 **Huw Merriman:** I appreciate the point you make about the budget being at the same level when you appeared before us. But if you know that the costs are overrunning, that rips up the budget. Back in October 2018, the contractor costs came back at 83% over budget, which surely would have told you that the budget had been ripped up.

**Bernadette Kelly:** But what happened then were two courses of action. Yes, October 2018 was a very important moment.

Q38 **Chair:** Sorry, but "important moment" is very understated. It was pretty catastrophic—83% over budget.

**Bernadette Kelly:** It was the point at which the company issued an early warning notice and formally notified the Department of the scale of the cost pressure it was dealing with. The immediate reaction was not to increase the budget; it was for us to challenge the company to produce an action plan to bring those costs down. In parallel, the Department did intensive work on what choices there were to change the scope of the project and bring costs down in that way. A huge amount of work on both of those tracks was going on throughout that period to see what could be done to tackle that, rather than simply assuming that it was an unavoidable pressure.

Q39 **Huw Merriman:** Before I move on to Mr Maxwell and Mr Thurston, what specific action did you take? We have talked about costs being clearly shown to be going over budget. What action did you take to make sure that it remained on budget last year?

**Bernadette Kelly:** There are two things we can talk about in detail. My colleagues can speak better. First, there is HS2. I did extensive work on



## HOUSE OF COMMONS

the action plan to see what steps were possible. I am sure Mr Thurston and Mr Bradley can speak about that. Secondly, in the Department we did work to examine a range of changes to the project that only we as sponsors could authorise, which would have reduced or changed the overall cost. Mr Maxwell can talk more about that.

**Q40 Huw Merriman:** Perhaps I will come back to Mr Maxwell, but I wanted to ask you the same point, Mr Thurston. The contractor costs are overrunning by 83%. Did you think you could recover from that? What action did you take?

**Mark Thurston:** In October '18 the contactors had been redeveloping the scheme for about nine months. That was the first time we really had proposals from the contactors that we felt were credible. We had been working with them throughout 2018. At that point we realised that the ability to recover those costs, back to the original budget—

The original budget was set between £6 billion and £7 billion for the civils element—this is about the civils element—but at that point we were looking north of £10 billion. That is why we triggered the early warnings. It was a big decision for the company to do that as we were effectively saying that we were going to struggle with the requirements of our agreement with the Department.

We did two things. We supported the Department on the work around scope. We felt there was a lot of opportunity at that time to look at the whole scope of phase 1, and at where there would be other opportunities to reduce the scope, and hence the cost, to get back to the funding envelope that was agreed in '17. We took more time to work with the contractors. We did a whole series of what we called pilot studies, to really understand the technical requirements and the design that the contractors and designers had put together up to that point, to make sure that what they were designing and pricing was something that we felt was value for money.

**Q41 Huw Merriman:** The challenge here is that when I refer to HS2's most recent annual report, from July 2019, it reads that everything is going swimmingly. There are 95 pages and "delay" is not mentioned once. Back in 2019, everything was running to budget and going well, despite the undercurrent of issues we are talking about. Yet, all of a sudden, it just blows up. I want to ask Ms Kelly, when was the Department aware? How much of the Department was aware? Were Ministers aware of these overruns as well? Why was there such little transparency?

**Bernadette Kelly:** The NAO Report is very accurate and, I think, answers the question.

**Q42 Huw Merriman:** The NAO Report is, but I was challenging you on HS2's most recent report, published back in July 2019, which reads very differently from the NAO Report, which was six months later.

**Bernadette Kelly:** As you have rightly identified, the Department was formally notified by the company in October 2018. It was apparent to us



## HOUSE OF COMMONS

before then that the pressures emerged. We are in constant contact with the company so at any given point we will have a good line of sight into what is going on. That was an escalation point.

You are quite right that we did know from that point on and all through 2019 that there were very significant cost pressures. As I say, we were pursuing actions that we hoped might lead to us finding a way to manage those cost pressures. That is the reason why Ministers did not necessarily wish to report and announce them publicly while those plans were being pursued.

I think you make a fair, more general point on transparency, which I acknowledge and which I think the current Secretary of State would strongly agree with. That is the reason why, as part of the Government's decision to proceed with HS2, we have committed to six-monthly reporting to Parliament on the progress of this project. There is a broader point that you make, which is fair.

- Q43 **Huw Merriman:** I have one specific point. When you came before the Committee, the budget was still this, even though we are talking about costs that must have been known. When was there an acknowledgment by you, by the Minister responsible and by the Secretary of State, inside the Department, that the costs were going to overtake the budget?

**Bernadette Kelly:** I produced a number of accounting officer assessments as the affordability pressures—

- Q44 **Huw Merriman:** There must have been a meeting where you then discussed that.

**Bernadette Kelly:** There were many meetings. I am not sure I can pick out a single meeting. Regular information would have been given to Ministers.

**Clive Maxwell:** Can I set out a couple of points on that? The second formal piece of correspondence between the company HS2 Ltd and the Department, in line with its contract—its development agreement—was in March 2019, when it indicated a breach of that arrangement. In other words, it had gone from saying there was the potential for a cost or schedule overrun to actually indicating that it expected that to happen. That was in March. There were good reasons for the Department at that point to believe that those numbers added up; it made sense. It was around the period March/April/June/July that the Department recognised that there were significant pressures on phase 1, which was the subject of that breach letter. At that time, we were also looking at the opportunities to reduce scope—to change the scope of phase 1—which would have provided some alternative ways to address the cost.

- Q45 **Huw Merriman:** Sorry, that was March 2019?

**Clive Maxwell:** Was when we received that breach letter.

- Q46 **Huw Merriman:** Yet you were here in May 2019. Was that breach letter touched on in this Committee?



**Chair:** I don't recall that it was.

**Bernadette Kelly:** I don't think it was, no. We didn't discuss it. I think the questions on HS2 were ancillary to a wider hearing on another subject, so we did not go into detail. As I say, I was careful in my remarks. I was acutely conscious in appearing before the Committee that those cost pressures did exist, and I was careful in my remarks not to, as it were—

Q47 **Chair:** Not to tell us.

**Bernadette Kelly:** Not to mislead the Committee by saying something that would have been factually inaccurate. The budget at that point had not been changed.

**Clive Maxwell:** In addition, over that period, the Secretary of State at the time was very keen for officials to work towards a decision before the summer recess, or to have the ability to take a decision about what to do with HS2, given those cost pressures and the breach letter that had been received from the company. That would be informed both by the work that the company had been doing on costs—and he was keen for them to carry on doing that—

**Chair:** This is all very well, but we were not told about it. That is the point.

Q48 **Peter Grant:** Good afternoon, Ms Kelly. The way HS2 Ltd is set up, there is something called the project representative team embedded in it, whose job it is to alert the Secretary of State if things appear to be going wrong. That alert system had been operating from July 2018. The project representative was telling the Secretary of State that it had become almost impossible for phase 1 to be delivered on time and on budget. Why did it take so long for the Secretary of State to tell either this Committee or anyone else in Parliament about that advice?

**Clive Maxwell:** You are right; there is something called the project representative—the P-Rep—that reports to the Department about the goings on inside the company to provide transparency about paperwork, meetings and things like that. You are correct about that. Over the second half of 2018 it flagged up concerns about exactly the sorts of things we are talking about today. As the NAO Report sets out clearly, the Department was involved in knowing and understanding what was going on over that period in autumn 2018.

Q49 **Peter Grant:** But Ms Kelly, in October 2018, which was months after these warnings had started to come in, you told this Committee, in relation to a delay to a notice to proceed: "We still intend to do that in June 2019...It does not impact on the overall timetable for the delivery of the project, which has not changed." Didn't that directly contradict the warnings you had been getting from your people within the company structure of HS2 Ltd?

**Bernadette Kelly:** I don't think it was necessarily a direct consequence at that point that that would have led to a further delay in the project. What I was referring to in terms of the timetable at that point was, as it were, the



## HOUSE OF COMMONS

known schedule—the schedule, at that point, to which we were still holding the company. I have always been very careful in my remarks to this Committee. Committee members, though, do make a general, wider point about transparency, which the Secretary of State has very much acknowledged, first by publishing the chairman’s stocktake at the first possible opportunity after the leadership election and the new Government had been formed, and now, obviously, by committing to six-monthly reporting to Parliament.

**Q50 Sir Geoffrey Clifton-Brown:** Sorry, Ms Kelly, I am going to have to ask you a fairly direct question. You came before this Committee twice: in October 2018, when you had had the formal warning notice; and then on 15 May 2019, when you had had the formal notification that the terms had been breached. On both occasions you assured the Committee that the budget of £55.7 billion was on track. I put it to you—you may shake your head—that, in answer to question 10 on 15 May 2019, you said, “That is absolutely a key parameter and I don’t see it changing in any other way than in a spending review and quite probably not then.”

I put it to you that you had serious knowledge that this project was off track and you didn’t inform the Committee.

**Bernadette Kelly:** I did not say that the project was on track. I said that £55.7 billion remained the budget, which it was. I think I alluded to the possibility that that parameter would need to be changed in the spending review, which was obviously something that we were contemplating internally at that point. Ministers had not determined at that point how they wanted to proceed with this project. Alternatives and options were still being pursued, in good faith I think, to see whether there were choices that could be made to bring the project back within budget around scope, and those decisions had not been concluded.

**Q51 Sir Geoffrey Clifton-Brown:** I don’t see how you can sit there and say the budget was on track when you had—

**Bernadette Kelly:** I don’t think I said the budget was on track; I said it was a key parameter, which I believe it was.

**Q52 Sir Geoffrey Clifton-Brown:** But you had received those two formal notices. Even if you weren’t aware of those facts at the time that you gave those answers, did it not occur to you to write to the Committee afterwards and say, “I said to the Committee this. I have now actually received this formal notification warning and therefore the budget is under serious risk”?

**Bernadette Kelly:** What I said was that the budget remained the budget, which it did. Obviously, we were exploring options at that point, both to bring it within cost and because we were also, obviously, contemplating the possibility that a change to the budget would need to be made. Ministers had not determined what they wanted to do and what the right way forward was. I guess that was the difficult position that I was in in reporting to this Committee. As I say, as a matter of process, I do think we need to think really hard about what form the transparency reports

that have now been committed to should take. It is a very valid question whether these sorts of formal escalations should be notified in a different way, but there was no requirement to formally notify the Committee of those internal escalation mechanisms.

**Q53 Huw Merriman:** I think we have established that the budget was the budget you talked about, but the costs were overrunning that budget level. Did you consider requesting a ministerial direction or recommending cancelling investment in the programme as a result of that, and, if so, could you tell us a little more?

**Bernadette Kelly:** Yes. I can. I want to assure the Committee that we were thinking very seriously about all these issues throughout the last part of 2018 and 2019. In 2019, I completed four accounting officer assessments to help inform process and decision making on this project, knowing the cost pressures that had emerged—

**Q54 Sir Bernard Jenkin:** Accounting officer?

**Bernadette Kelly:** Accounting officer assessments. These are formal assessments that look at the decisions and the steps to be taken and weigh advice against the requirements of managing public money.

They are quite complicated, and they will all have been made available to the NAO in the course of its producing its report. Essentially, I did one in February 2019, one in July, updated in August, and another in December 2019.

I was trying to address two questions in my accounting officer assessments. The first question was whether it was appropriate to continue with the project, given what we knew about the affordability challenges. On that point, the key issues were: was it still Government policy to do so, was there a value-for-money argument for doing so, and was there a prospect of a credible plan to bring the project back within an affordable envelope?

On the first question there, particularly in July, which was probably the most difficult point—I don't need to remind this Committee that, at that point, we were just about to have a new Government appointed following the leadership election—my conclusion was that it was premature to seek a direction before we had consulted Ministers on whether they wanted to review the project and/or review it in the spending review. but we knew that one of those two things would have to happen, and that was the advice that we were giving to Ministers. Indeed, that was my day one advice to the Secretary of State when appointed.

The second question that I was considering in those accounting officer assessments was to weigh in the balance whether, given there was a possibility the project might be cancelled, to continue with the ongoing spend. The judgment was that, on the one hand, there was a risk that the project might be cancelled and the spend would therefore be nugatory, and we would need to protect the taxpayer against that. On the other hand, if the decision eventually taken was to proceed with the project, if



## HOUSE OF COMMONS

we had stopped spending money entirely, we would have effectively stored up additional costs in delivering it, and therefore worsened the value for money of the project going forward.

What I was trying to do was consider carefully the benefits of allowing ongoing spend on a project where there was an affordability issue, especially after the Prime Minister had been appointed and had announced his intention to review the project, and there was at least a possibility that it would be cancelled. The conclusion we reached was that spending should continue, but we were careful to ensure that that was on only essential items necessary to maintain the project and that where items of spend could be postponed until a decision of principle had been taken, that should happen.

**Q55 Huw Merriman:** The accounting officer assessments that you have referenced—you talked about the desire for greater transparency—are they publicly available, or available to Parliament? Could they be made available to this Committee if not?

**Bernadette Kelly:** I do not think it is a matter of routine—I am looking to the Comptroller and Auditor General. I do not think it is a matter of routine that they are automatically published, but I would be happy. They are an important part of the decision-making process. I believe what they show is thorough consideration of the accounting officer position. I would be happy to consider—

**Q56 Chair:** We have certainly seen them when we were looking at, for example, the ferries issue in your Department. We saw your accounting officer assessments then.

**Bernadette Kelly:** Yes, you did. By the way, we are about to produce another accounting officer assessment as we proceed towards notice to proceed. In principle, it sounds like a very reasonable request. I would just like to ensure that there is nothing that might be commercially or otherwise sensitive.

**Q57 Huw Merriman:** I have two more questions. Did the cost increases incur a contingent liability? If so, who did you notify?

**Bernadette Kelly:** I am sorry. Either I do not understand the question or the answer is no.

**Mark Thurston:** Was the question whether there were any liabilities in the accounting officer assessments?

**Huw Merriman:** No, just in general, would this have classified as a contingent liability in terms of cost increases?

**Mark Thurston:** No.

**Huw Merriman:** Is that something you want to consider and write back to us on?

**Bernadette Kelly:** We are happy to think about it.



## HOUSE OF COMMONS

**Chair:** I would be interested to know why not. Perhaps we can have that exchange in writing.

Q58 **Huw Merriman:** Without giving too long an answer, given what we have just discussed, what would you have done differently?

**Bernadette Kelly:** I am clearly deeply disappointed that we are where we are on this project. I completely understand the frustration that members of the Committee, and indeed many others, such as taxpayers, feel about the escalation of costs on the project. I would say that many of the problems we are now dealing with originate in cost estimation and some of the original assumptions made about the project quite a long time ago.

There are some incredibly important lessons that we need to learn—that my Department needs to learn and that anybody involved in major project delivery needs to learn—about how we avoid repeats of those mistakes going forward. That said, more recently, if I look to my own time as accounting officer in charge of the Department for Transport, which I do as well, on reflection, we should have identified sooner the sheer scale and complexity of the project and the need, therefore, to think about capability in a different way in the company and in the Department and to look at whether it was realistic to expect HS2 Ltd to deliver that project.

As you know, as part of the reset of the project, we are reducing the responsibility of HS2 Ltd, so that it is delivering only the railway from London to Birmingham to Crewe. Even so, that is a project twice as big in value as Crossrail or Hinkley Point C. As I think about it now, with the benefit of hindsight, we did not quite understand the sheer scale, complexity and challenge of a project of this scale, because there is simply nothing quite like it, actually, being delivered anywhere in the country.

**Huw Merriman:** Thank you very much.

**Chair:** I will bring in Sir Geoffrey, but I alert everyone in the room that there will be a vote at 4 o'clock and we will have to pause for that. We may go a little early to get to the front of the queue.

Q59 **Sir Geoffrey Clifton-Brown:** Mr Thurston, I thought you might like to make a contribution to the Committee. On the costs that Ms Kelly and the Government put such faith in of £55.7 billion in 2015, there are all sorts of issues about ground and all that, but I want to raise something much more fundamental. In those costs were a £4.9 billion cost saving and a £7.7 billion contingency. The latest contingency has risen to £10 billion and the cost savings have fallen to £2.8 billion—and even that looks unachievable. How did you arrive at those various savings and contingencies? Why was the contingency not accounted for properly in the first place, according to Treasury rules on how these big infrastructure projects should be accounted for?

**Mark Thurston:** Myself and Mr Bradley should work together to answer your question. On the first part, clearly history has shown that the original budget, particularly for phase 1, proved to be inadequate. There were assumptions around the amount of efficiencies we would deliver and a lot



## HOUSE OF COMMONS

of work was done at the back end of 2016 and into 2017 about the £4.9 billion you referred to. That clearly proved to be unfounded.

- Q60 **Chair:** Can I interrupt you there? The Committee highlighted that some of those efficiencies were unlikely to be delivered. We are, to be frank, a bunch of amateurs in this respect, not running major railways. How come the mistake was made in the first place?

**Mark Thurston:** If you look at the work that was done at the time right across Government, not just within the Department and the company, there was a sense that, for a project of this scale, there would be huge economies of scale that you could drive out through the supply chain, through procurement and through the way in which the project would be delivered. Frankly, that has proved unfounded. There was not a huge amount of science in those efficiencies at the time. They were done top-down, not bottom-up. To the second part of Sir Geoffrey's question, we have got much more definition on the efficiencies in the current estimate of £40 billion for phase 1. We have agreed them with our contractors, so we have got them hard-wired into the contracting arrangements we have got with our civils contractors. So three years later, we are in a very different place from where we were in the spring of 2017.

- Q61 **Sir Geoffrey Clifton-Brown:** You may be aware that I made a short speech in the main Chamber this week on the revival of the HS2 Bill. I used the figure of, I think, £2.8 billion—I should have said £2.7 billion—and said I doubted that those efficiency savings were achievable. Are they achievable or not?

**Michael Bradley:** Yes, I think they are. Were you referring to phase 2a or 2b?

- Q62 **Sir Geoffrey Clifton-Brown:** Phase 2a. Actually I was referring to phase 2a and phase 1, because I think that £2.7 billion of efficiency savings covers phases 1 and 2a, doesn't it?

**Michael Bradley:** Yes. If you look at one of the tables on page 24 of the NAO Report, you will see that we put a range on the estimate for 2a of between £4.5 billion and £6.5 billion. That estimate assumes that the efficiencies you were talking about are delivered in the top end of that range. So we have assumed those efficiencies. As Mr Thurston said, we continue to strive for efficiencies on phase 1, and some of those have been built into the estimate. Some are efficiencies that we have delivered as we have developed the design over the last two years or so.

**Sir Geoffrey Clifton-Brown:** I can read the Report. What I am asking you is not what is in the report; I am asking you for your best judgment as to what efficiency savings you will achieve.

**Mark Thurston:** To answer your question in a different way, as HS2 Ltd we took this through our board, and we would not have agreed to those efficiencies that help shape the new funding envelope for phase 1 if we did not think they would be delivered. We are confident that those efficiencies can be delivered. We are under no illusion about the challenge over the



## HOUSE OF COMMONS

next few years to realise those efficiencies, but we would not have agreed to them if we did not think they would be delivered. In hindsight, frankly, the organisation should not have agreed to the £4.9 billion you referred to in the original estimate, but there was a lot of pressure at the time to find a way to make the scheme affordable. A lot of work had been done right across Government to look at benchmarking of the cost of high-speed railways in other parts of the world, and there was a sense that certainly the first phase of HS2 could be delivered for £27.4 billion. As you rightly say, that has proved to be unfounded.

**Sir Geoffrey Clifton-Brown:** Can I ask you about the fit of phases 1, 2a and 2b? There is a rather extraordinary sentence in paragraph 3.14 that you might have to amend the hybrid Act of phase 1 in phase 2, because phase 1 will not fit with phase 2a. There are also questions around 2a. I will quote it to you in full: "recommended that the schedule for Phase 2a be changed to align with the Phase One schedule so that services can run from London to Crewe, rather than just the West Midlands. Changes to Phase One may also require changes to the Phase One act, which may be enacted through Phase Two legislation and could delay the programme schedule." This is all to do with the fit of phase 1, 2, 2a and 2b.

**Mark Thurston:** Candidly, I am not sure. We have no plans at the moment to make any changes to the legislation for phase 1.

Q63 **Sir Geoffrey Clifton-Brown:** Then why does that appear in the Report?

**Mark Thurston:** That's a good question. "Changes to Phase One may also require changes to the Phase One act, which may be enacted through Phase Two". I would have to check with the NAO; I think it is in relation to Handsacre Junction and how we will flight trains off the high-speed system on to the conventional network.

Q64 **Chair:** Mr Maxwell is nodding—you could elucidate?

**Clive Maxwell:** My understanding is that this Report was written at a point when we did not know what the Government's decision would be about the go-ahead of the project. It was also written at a time when Doug Oakervee was carrying out his review, and when the Department was looking at different sorts of scope changes. I will double check, but I think that is a reference to making a particular change to the scope of phase 1 using the 2a Act, if that had been what Government Ministers wanted to do.

Q65 **Sir Geoffrey Clifton-Brown:** Are you now saying that it is unlikely?

**Clive Maxwell:** Exactly. I will double check for you, but it is my understanding that there is cross reference to that particular bit of track that Mr Thurston referred to.

**Sir Geoffrey Clifton-Brown:** Please write to the Committee if that is not correct.

Q66 **Nick Smith:** I want to ask about Euston station, which is a chunky part of the project and it would be good to have some clarity on it. I am not sure



## HOUSE OF COMMONS

who is best to aim my questions at, so bear with me.

The section at which I want to aim my fire is the third bullet point of paragraph 3.5 on page 52 of the Report. Euston is complex. It is a tight site; you will be doing a project on top of a perhaps already working station. Where are you with the design of the works? When will they be finished? The best estimate of when HS2 trains will start from the station has a five-year window at the moment. When do you think they will start from Euston? The last estimate of the overall costs of the project on design and build was £3,984 million at October 2019. How much of that estimate is for Euston, given that it is chunky and complex?

**Clive Maxwell:** Shall I kick off by saying some general points about Euston, and perhaps Mark or Michael will deal with the cost numbers that you mentioned? The Report is right: Euston is very complicated. It is about making changes alongside a very big operational railway station. Moreover, there are three sorts of projects going on at Euston at the moment: the build of an HS2 station; thinking and planning of potential changes to the Network Rail station there; and ambitious plans for over-site development around the station at Euston. There is a huge upside opportunity there, but it is very complex, and we are trying to do that in a tight urban environment.

The schedule for opening Euston station is set out in the annex to the letter to the Chair of the Committee—I think it is 2031 to 2036. One of the reasons for the breadth of that is that there are some choices to be made about some of the alternative ways of building and designing aspects of Euston station. Some of that is picked up Doug Oakervee’s review, which the Government published recently. Those choices include questions about the numbers of platforms, but also whether it was possible to do a single versus a two-stage build process. The answer to that question could have consequences for the schedule and the timetable required. There is work going on with the Department, HS2 Ltd and Network Rail to look at how best to optimise some of that, looking at some of the conclusions in Doug Oakervee’s review.

Q67 **Nick Smith:** I accept all that. When will the build design be done?

**Mark Thurston:** It is subject to getting clarity from the Government on the version of the Euston scheme. We have designed Euston today based on the scheme that is in the phase 1 hybrid Bill to what is known as the planning stage. We are ready to make a planning consent for Euston in its current form, but the Oakervee review has shone a light on what the right solution is for Euston in the way that Mr Maxwell described.

Assuming that we get clarity on that from the Government in the coming days and weeks, and that a decision is imminent on what the right solution is for Euston, we then have about a year’s design before we can resubmit planning. If the scheme changes, which is what we expect, we would have to redesign some of the stations that we have currently designed to give us a more cost-effective solution at Euston. That is probably about a year’s work.



## HOUSE OF COMMONS

Q68 **Nick Smith:** What are you waiting for from Government?

**Mark Thurston:** There are a couple of choices, as Mr Maxwell said. How many platforms? That in itself drives how many trains the final timetable will run. The base scheme assumes 18 trains per hour at peak into Euston. That assumes an 11-platform station. For us to build the station as 11 platforms, we have to build it in two stages. Effectively, we build the eastern half first, then we build the western half.

If we reduce Euston to 10 platforms, which can accommodate only 16 trains, then we can build the station in one phase, which has much less impact on the existing Network Rail stations. These are quite big decisions and there are big financial and cost and schedule implications to them. We expect to stay within the confines of the Bill and within the red line of the legislation. Nevertheless, we need these things grounded in the next few weeks so that we can move to the next phase in the summer.

Q69 **Nick Smith:** Okay, so it sounds as though you are still working your way through it. I understand that it is complex, although I am surprised that it has taken this long. I would expect to have clearer sight on when you expect the design build to be done. How much of the overall build for the stations is Euston as a part of the estimate that you did last October?

**Michael Bradley:** The estimate for all four stations is £3.984 billion. Within that, Euston station is around £2.1 billion in that point estimate. I will confirm the exact number for you, but it is circa £2.1 billion.

Q70 **Chair:** That is the version that you have on the books now.

**Mark Thurston:** In the baseline.

Q71 **Chair:** Not with any amendments.

**Mark Thurston:** Then there will be a revision to that. Obviously, we are looking to find a more cost-effective solution based on the number of trains and the number of platforms.

**Michael Bradley:** On top of that, I should add that we also have a risk provision against that point estimate.

Q72 **Chair:** I should think so, given what you have just told us. What is the risk provision?

**Michael Bradley:** Again, I will confirm the exact number, but it is about £300 million, from memory.

**Chair:** Wow. Just think how many hospitals and schools you could build with that.

Q73 **Nick Smith:** What will be the impact on the tube service, given the changes at Euston?

**Mark Thurston:** There are three things going on with the tube service. One is that when we build the station, the expectation is that we will connect the existing tube station at Euston to Euston Square, so you start to create a more integrated underground station at Euston. The key



## HOUSE OF COMMONS

decision for us is what happens to Crossrail 2, because Crossrail 2 will come through Euston. At peak in the final scheme, there is an expectation that to move passengers away on to the network underground you would probably need Crossrail 2. That will play an important part, so it is clearly a big decision for Government.

Without Crossrail 2, there will probably need to be a decision about what we would need to do at the existing Euston station to cope with the full HS2 scheme without Crossrail 2. There are a number of moving parts there, but the base scheme assumes that we connect the existing station up to Euston Square, so at least you have underground connectivity rather than above ground, which at the moment, as you know, is quite difficult.

**Q74 Nick Smith:** How big will the impact be on the tube service?

**Mark Thurston:** We would not expect it to make any difference. Our assumption would be that it is as today. Euston is a very busy station—

**Q75 Chair:** So you do not envisage any extra costs for Transport for London, and Londoners.

**Mark Thurston:** Any cost on the London underground infrastructure would be part of our scheme, so we would make provision for that.

**Q76 Sir Geoffrey Clifton-Brown:** Having spent a year on the HS1 committee, I am well aware of most of the details of Euston. I am amazed that that committee took place in 2016-17, and you still have not worked out the final details, despite our knowing how difficult it was.

**Mark Thurston:** Let me clarify something: we have designed Euston now—the base scheme, as per the legislation that the Committee referred to—up to planning. We have planning level design for that Euston station. We have spent probably £30 million with the design consultant who is doing that scheme. That is now ready to move to the next stage. However, as Mr Maxwell said, Euston has come under scrutiny through the Oakervee review. There was a discussion through the Oakervee review about whether the railway would even stop at Euston or would terminate at Old Oak Common. We did quite a lot of work with the Oakervee review about whether we could make the railway work without having to come to Euston at all.

**Q77 Sir Geoffrey Clifton-Brown:** Ms Kelly, is the Government now absolutely committed to building this railway from Old Oak Common to Euston, or is that still under review?

**Bernadette Kelly:** That is the plan, yes.

**Q78 Sir Geoffrey Clifton-Brown:** Going back to my previous question about the fits of the various different phases, you will have heard Bill Cash, the hon. Member for Stone, calling for phase 2 not to be determined until the Armitage Review had concluded. That would make sure that phase 2a and phase 2b actually fitted together, and that you didn't build 2a and find that it didn't fit with 2b. What thought have you given to that?



## HOUSE OF COMMONS

**Clive Maxwell:** The Government have revived the Bill in Parliament, as you know. The work on the wider northern and midlands network in the integrated rail plan is due to be finished over the course of this year, so I would expect to have some answers from that to that sort of timescale. I don't think that should get in the way of holding back the Bill.

Q79 **Sir Geoffrey Clifton-Brown:** If you don't know exactly how you are going to build 2a, how can the Bill go through Parliament?

**Bernadette Kelly:** We do know how we are going to build 2a.

**Mark Thurston:** I thought Mr Cash's question was about the merits of sharing the 2b scheme until you have got the legislation through for 2a. We have a plan to deliver 2a, once it comes through the Committee.

Q80 **Sir Geoffrey Clifton-Brown:** Then, Ms Kelly, if we go to paragraph 3.1.3 it says: "Despite being larger in scale than Phases One and 2a combined, Phase 2b has less funding allocated to it."

Given that phase 2b has to go through Leeds and Manchester, we don't want to be making the same mistakes of over-budgeting or under-budgeting that were made in phase 1. What work has been done on phase 2b to make sure of that? It is a very expensive part of HS2. What work is being done to assure yourselves that you have the right sort of costing?

**Bernadette Kelly:** In parallel with all the work on phase 1, there has been a huge amount of work to ensure we have a proper understanding of the costs of phases 2a and 2b as well. The figures that were published as part of the Government's decision to proceed with this project reflect our latest realistic estimates of the cost of phase 2b. I say realistic, because I think we have very much learned lessons around over-optimism.

Q81 **Chair:** If they are not realistic now, we would have to have a serious look at them.

**Bernadette Kelly:** Indeed.

**Chair:** So, we are holding to those numbers.

**Bernadette Kelly:** We have put in what we believe is our best and most realistic range, which for phase 2b is currently £29 billion to £41 billion in 2015 prices. However, we have also announced work on an integrated rail plan, which will look at phase 2b alongside other planned or potential investments in the rail system in the north.

It is inherently less certain, because it is at a much earlier stage in design. One reason we are so much more confident now in our phase 1 estimates is because we have 50% supplier pricing reflected in it. Clearly, we don't have that in phase 2b. Also, because it is more uncertain and because it hasn't yet been subject to hybrid Bill, there are still choices to be made about the precise definition and design of the railway. Part of the work of the integrated rail plan will be, first, to see how phase 2 can be most effectively delivered alongside other planned investments in the rail network in the midlands and the north, and also to examine the scope for



## HOUSE OF COMMONS

savings as well in that integrated rail plan, which might have an impact on the cost range.

It is less certain. It is more realistic but there is a lot of work still to do, to see whether we can find ways to drive cost down. Indeed, we have specifically asked the Infrastructure and Projects Authority to do further detailed examination of the lessons from phase 1, to see whether that leads us to identify ways of delivering 2b more efficiently.

**Chair:** Can I just reiterate my concern that this Committee of non-rail specialists highlighted a lot of these issues? It makes me wonder sometimes what happens to our reports. We will be pursuing all the relevant minutes from this and other sessions.

Q82 **Sir Bernard Jenkin:** Ms Kelly, your reference to lessons is music to my ears, because this is not the first large project that has gone over budget and over time.

**Bernadette Kelly:** Indeed.

**Sir Bernard Jenkin:** The question is, all the people involved—what are you and they learning from this, so that these lessons can be included in what you are doing in the future? It is not just learning facts about the project, but learning about how you do things.

**Bernadette Kelly:** I completely agree with the gist of your question. I have to say that learning lessons has become a bit of an obsession of mine and of our major project delivery over the past 18 months, so the Committee will have heard me talk about this before. These are hard lessons, and it is extraordinarily important that we learn them.

In April last year my Department, with the IPA, published a lessons learned report, which set out 24 best practice lessons for delivering major projects. That was based on some of the challenges on Crossrail, but also on Thameslink, Great Western Railway and other projects. All those lessons are now being embedded in the way we are delivering HS2.

Q83 **Sir Bernard Jenkin:** Can you give us two or three examples of those lessons? We were talking about Crossrail earlier.

**Bernadette Kelly:** The fact that we are now using realistic ranges for costing schedule rather than fixed points, which are overambitious, is a fairly important point, which we have not incorporated in the way we do project delivery before. We are now incorporating it in how we are doing HS2. We have taken action to reset this programme. What we have not done is persist with, "Let's keep trying, and let's keep hoping that somehow we will find ways to bring this back on track." We have taken decisive action to reset it. We are using benchmarking in an appropriate way to test and assure the cost estimates that the company is providing us with. Again, the 24 lessons report talked about how you should use benchmarking. It is really important, but it is not sufficient. We have strengthened the board of HS2. Again, some of the lessons learned reflected on the importance of having the right skills and capability and alignment between the Department and delivery partners.



That was phase 1 of our lessons learned—I shouldn't use that language, because it is a bit confusing in this context. Since then, Ian King, our lead non-executive director in the Department for Transport, has done intensive further work with us to ensure that, across the whole portfolio of major projects for which my Department is responsible—it is very extensive—we are embodying best practice. We are strengthening our portfolio management and risk assessment processes. We have reshaped the investment committee that I chair, so that we are asking the right questions with the right management information. I am in the process of recruiting more senior capability to help oversee this. That is all really important.

The third element, as I say, is that the IPA have specifically been commissioned, as part of the integrated rail plan, to see what more we can learn from phase 1.

**Q84 Sir Bernard Jenkin:** You have 24 lessons to implement, and yet the people churn through the project—in your Department, yourself and in HS2. How are these lessons embedded when the people keep changing?

**Bernadette Kelly:** I really understand the question.

**Chair:** What is the answer?

**Bernadette Kelly:** I don't think any of us are planning to churn right now. For people in Government and for delivery partners who are involved in the delivery of major projects, we should be finding ways to ensure there is greater continuity of tenure in key roles. Actually, looking at HS2 within my own Department, we have had two substantive SROs <sup>2</sup>within the Department since 2013. That is actually not a high level of churn, relative to the civil service.

**Q85 Sir Bernard Jenkin:** That is not normal. It's most unusual.

**Bernadette Kelly:** If I look at Clive's immediate team, his director for phase 1 has been with the project for six years. His director for phase 2b has been with the project for five years.

**Q86 Chair:** What is the incentive for people to stay? Most civil servants' incentive is that your career progresses if you don't stay.

**Bernadette Kelly:** I agree. Actually, there is an active conversation going on now in the civil service about whether there are other things that we can do to incentivise people to stay with these projects longer.

**Q87 Sir Bernard Jenkin:** Are you pressing to be able to promote people in role?

**Bernadette Kelly:** Promoting people in role would be a really good way to do it. Making sure that people get recognition if they stay in a role for five or six years, either through promotion or financial recognition, is really important.

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<sup>2</sup> The Department have redacted part of their comment here.



## HOUSE OF COMMONS

Q88 **Sir Bernard Jenkin:** We are very interested in transparency. We do not feel that we get transparency, perhaps because of Government policy, as you sort of explained; you are constrained in what you can say. How can you give us more confidence that there is internal transparency, and that real truth is being shared between HS2, the Department and the Secretary of State?

**Bernadette Kelly:** Again, I absolutely recognise that. I do not want to hark back to the lessons learned, but at the heart of them is practical guidance for how we ensure that there is always what I call "truth unto power" transparency in how we set these projects up. Without that, they cannot succeed.

Q89 **Sir Bernard Jenkin:** The difficulty with these ranges that we are now presented with is that it looks like we will have to accept a much more forgiving environment for cost overruns.

**Bernadette Kelly:** I don't think this is about being more forgiving. It is about being more realistic and recognising genuine uncertainty. We expect those ranges to narrow as the project progresses. That is what will happen. It is not just about creating latitude for cost increases. It is about being realistic that, 10 years out, we cannot say with absolute certainty exactly what risks will crystallise and exactly how every cost will fall.

Q90 **Sir Bernard Jenkin:** Mr Thurston, it is good to see you again. How did you arrive at your phase 1 range of £31 billion to £40 billion?

**Mark Thurston:** There are two fundamental sources. Effectively, we have a bottom-up estimate: we built up the £31 billion as the base estimate for the whole scheme. That is the minimum cost that it could ever possibly be, but there is a very low probability on those numbers. That is effectively what we call the point estimate with no contingency.

We then did a whole piece of work to understand the risks of the scheme, and we modelled that, which gave us a range, on an S-curve, and from that we drew where we think the right point is for contingency, the mid-point. We agreed with the Department that the top end of that range would be £40 billion. It is a combination of risk analysis around the risks, which drive the contingency, which is the £9 billion, and then the £31 billion is really the bottom-up build-up, which manifests itself in some 250,000 line items in the estimate of all the work that makes up HS2 phase 1.

Q91 **Sir Bernard Jenkin:** How different is that from the previous method?

**Michael Bradley:** As Mark said, there are 260,000 individual lines within the estimate now. That is on the back of 8,000 ground investigations, so that we understand the conditions we are building the railway in.

Q92 **Sir Bernard Jenkin:** That compares to what before?

**Michael Bradley:** In terms of the number of ground investigations, we had done virtually none when that was done previously.



## HOUSE OF COMMONS

**Mark Thurston:** There were probably 1,800 to 2,000 line items in the estimate at 2017. That was very high level, based on the hybrid Bill design, which was effectively a line on a drawing with probably 3% to 5% of what you would call design completeness, whereas we now have scheme design and are at about 80%. It is orders of magnitude different three years later.

Q93 **Sir Bernard Jenkin:** So you are obviously feeling much more confident.

**Mark Thurston:** We are.

**Michael Bradley:** Yes.

**Sir Bernard Jenkin:** Can you quantify that confidence, percentage-wise?

**Chair:** Go on, Mr Thurston.

**Mark Thurston:** I'll regret this.

**Chair:** No, you never regret being in front of the Public Accounts Committee.

**Mark Thurston:** The £40 billion at the top end of the ceiling effectively equates to what risk analysts call an 80% confidence level.

Q94 **Sir Bernard Jenkin:** How confident are you about phase 2a and the £4.5 billion to £6.5 billion?

**Mark Thurston:** Less so, because it is less mature. Once we get through the remaining petitions—hopefully this side of the recess—I think we will then reset the budget for that this summer.

Q95 **Sir Bernard Jenkin:** How do you come up with numbers at all, given that there are no contracts or estimates?

**Mark Thurston:** We know what the scope of the work is. We know how many embankments we have to build, how many bridges—we understand the physical assets that we have to build.

Q96 **Sir Bernard Jenkin:** Is this like a quantity surveyor turning up and working out how much it will cost?

**Mark Thurston:** Effectively it is like a bill of quantities.

**Michael Bradley:** It is, but clearly, as I said, we have 260,000 lines in the phase 1 estimate. We have a rates database of 12,000 individual rates, which is helping to inform our estimates for phases 2a and 2b. We are now in a much better place to estimate the costs of the later phases.

Q97 **Sir Bernard Jenkin:** Do you consult contractors? Who do you consult on that sort of thing?

**Michael Bradley:** Who do we consult?

**Sir Bernard Jenkin:** Whose advice do you take on that?



**Mark Thurston:** We use two camps of people. We use design consultants to help design the scheme, including people you would recognise—a lot of UK and mostly American companies—and then we use contractors. For phase 1, we appointed contractors and architects to help us to put much more certainty into those estimates, because they priced them on our behalf.

Q98 **Sir Bernard Jenkin:** How should we judge your performance against these estimates now?

**Mark Thurston:** How should you judge our performance? On phase 1, where we have signed up to the £40 billion ceiling, the company has agreed—it is in the report—a target cost of £36 billion. Mr Blair<sup>3</sup> and I will be judged on our performance of delivering phase 1 to £36 billion.

Q99 **Sir Bernard Jenkin:** How does your internal monitoring work? How do you do that?

**Mark Thurston:** There is a whole machine there that literally turns every month.

Q100 **Chair:** It was not doing a great job before, was it?

**Mark Thurston:** With respect, it has improved massively as a machine of government. We roll up probably 1,500 cost items every month and we have a report that goes to our board, the Department, the Treasury and the IPA. The line of sight from our supply chain up through the organisation to us as an exec on HS2 is as good as I have seen in my career.

Q101 **Sir Bernard Jenkin:** And there is complete transparency with the Department on those reports?

**Mark Thurston:** Absolutely. The project representative, which the gentleman raised, reviews that with us every month. There is an independent level of oversight of that process.

Q102 **Sir Bernard Jenkin:** Permanent secretary, why shouldn't Parliament have that same visibility? Why are you, as accounting officer, not obliged to give us that same transparency?

**Bernadette Kelly:** It is an enormous level of detail.

Q103 **Sir Bernard Jenkin:** Is that a political question?

**Bernadette Kelly:** At any given point I would imagine there is a lot of commercially sensitive material in some of those costs.

Q104 **Sir Bernard Jenkin:** I am always sceptical about "commercially sensitive".

**Bernadette Kelly:** For a company involved in very significant negotiations with a supply chain, there are genuine commercial sensitivities.

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<sup>3</sup> The Department had meant Mr Bradley in reference.



## HOUSE OF COMMONS

Q105 **Sir Bernard Jenkin:** But we need more transparency than we have had.

**Bernadette Kelly:** What we have not yet worked through, which we need to think very carefully about, is the form that these regular reports to Parliament should take.

Q106 **Sir Bernard Jenkin:** My very last point is, how can we give the public confidence, and Parliament confidence, that we are doing our job and monitoring this, if we are not even told?

**Bernadette Kelly:** I think the task for us now, as we work through how to implement and take forward all aspects of the Prime Minister's announcement, is to ensure that we can find an appropriate way of reporting to Parliament.

Q107 **Chair:** You may find that this Committee makes some useful recommendations to you on that.

**Bernadette Kelly:** I am sure you will.

**Chair:** I hope we get some very good responses on the Treasury minute. Slightly unusually, I am going to break just ahead of the vote—for the benefit of new Members, that means you get in the front of the queue so we can come back here. I suggest, if everyone is agreeable, that the minute we are quorate and the lead members are here, we will continue, and Sir Bernard will pick up exactly where he left off. You get a moment's pause, but we will be as quick as we can. We are aiming to finish by quarter to 5, if we are all quick.

*The Committee suspended for a Division in the House.*

*On resuming—*

Q108 **Chair:** Welcome back to the Public Accounts Committee on Wednesday 4 March, 2020. We were nearing the end of our session on the costs and delivery of HS2. Sir Bernard Jenkin was mid-sentence when we suspended.

Q109 **Sir Bernard Jenkin:** On the phase 1 costs, which are now substantially contracted and therefore written down in contracts, how confident are you that you keep contractors to the budgets that they have agreed? Where is the balance of risk if the contracts start overrunning?

**Mark Thurston:** A couple of points of clarity, if I may. We have contracted most of the enabling works: the civils works, which is the big growth in cost that we have seen, which I will come back to. We have contracted the two southern stations, but we have not agreed the prices. The northern stations, the systems and the trains we have still to contract, so we are halfway through that process of contracting all the work.

Q110 **Sir Bernard Jenkin:** What is the proportion?

**Michael Bradley:** By value—

**Mark Thurston:** By value about 50%.



Q111 **Sir Bernard Jenkin:** About 50% of value is contracted.

**Mark Thurston:** Yes.

**Michael Bradley:** In terms of the percentage of input we have had from the supply chain, about 78% of the overall costs of phase 1 are now supported by a supply chain input, 50% of which is on contract. We have got designers who are also producing estimates for us for the main construction. Effectively 78% of the costs are supported by a supply chain input, which is very different to the previous situation. In the previous estimate, literally 3% of the cost was supported by a supply chain input; the rest was a desktop estimate from HS2.

**Mark Thurston:** On your second question, about our confidence in holding the supply chain to those costs, we have now concluded two years of work with the civils contractors. That is where I think we probably have the most risk. We are confident we have a good deal that the contractors can deliver on and that we can oversee. We have established integrated teams.

The NAO Report talks about the slightly different commercial model that we introduced halfway through the negotiation that took a better balance of risk. When the contracts started, we were going to transfer nearly all the risk to the contractors, but in the circumstances of the markets in which they operate and the balance sheets they have, that would have been too expensive, so we took a much more balanced approach to risk. Ultimately the Government carries the risk of these big programmes, anyway—we can see that in Crossrail and other projects—but it is about making sure the contractor in charge of the risk is well placed to manage, and we feel we have put an incentive mechanism around the contractors' contracts that makes sure they deliver to the numbers we have agreed.

Q112 **Sir Bernard Jenkin:** How do you manage the risk when it is basically under the control of the contractor, but you are taking the liability?

**Mark Thurston:** We have got risk at two levels. There are risks that the contractors are responsible for and risks that HS2 Ltd as the client of the contractor is responsible for.

Q113 **Sir Bernard Jenkin:** So there is a granular definition of who is responsible.

**Mark Thurston:** Absolutely, and that is quantified. We quantify each of the contracts, and we have got what we call a programme pot that we are responsible for. The risks that are defined within each of those pots is clear and all agreed. Then we have resources. We are effectively now mobilising our teams to co-locate with the contractors to make sure that those risks are managed effectively.

Q114 **Sir Bernard Jenkin:** How much easier is it to limit them to their budgets, because we are taking more risk? Is that what you are saying?

**Mark Thurston:** I think the word "easy" oversimplifies the situation. We feel that having a less transactional and more collaborative relationship



much closer to the contractor will give us much better visibility of those risks emerging. We will see them coming towards us quicker. The incentive regime we have put into the contracts really motivates the contractor to beat the cost and beat the schedule that we have agreed, because that is where they can generate profitable upsides, which is what you want your contractors to do.

**Q115 Sir Bernard Jenkin:** That leads straight to my next question. How do you make sure you hone and develop the intelligent skills that you need as the prime contractor in order to deliver the programme? How are you developing your own?

**Mark Thurston:** In HS2 Ltd?

**Sir Bernard Jenkin:** Yes.

**Mark Thurston:** We have concluded—in fact, we signed it off at the board last week and took it through the Department earlier this week—a two-year capability programme: a requirement of us under our contract with the development agreement that was referred to. Our contract with the Department requires us to meet a capability test. I have personally led with my team a two-year programme where we looked at 24 separate capabilities. We have done work around leadership, governance, safety and assurance, and technical capability—it has been a comprehensive piece of work. The board appointed an independent expert panel to provide them some assurance and oversight. Clearly, the maturity and the capability of the organisation will continue to grow. It will need to change over time. It has changed in my time in this job, but at this point in time for the next phase we feel we are set up as well as we can be, but clearly we need to get going now and the proof will be in the coming months and years.

**Q116 Sir Bernard Jenkin:** Ms Kelly, how does the Department gain assurance from HS2 that it is developing the necessary skills?

**Bernadette Kelly:** This is a central part of the work that we are doing intensively with the company in advance of notice to proceed. We are looking for clear evidence from the company that it has appropriate levels of capability in all the key areas of a company's key tasks.

**Q117 Sir Bernard Jenkin:** Sorry—I am rushing it a little bit: what are the main areas of improvement?

**Bernadette Kelly:** The areas that we have been looking at—I may ask Mr Maxwell and, indeed, Mr Thurston, to remind me: we have been particularly interested in project controls, commercial management, project assurance. So we have been looking at the core areas and we have been seeking very clear evidence—indeed, I have exchanged letters with the chair seeking assurance and evidence of the levels of capability, of the improvement that has been made, and the further improvements that the company is going to make. That is a key part now of the consideration that we are taking into account in looking at the decision to proceed to notice to proceed, so this is absolutely central. We are also talking to Mr



## HOUSE OF COMMONS

Thurston about the capability for using his top team now to drive this project to successful delivery; and we are talking to the chair about steps to strengthen the board to ensure that the board also has the skills and experience to challenge the executive and support the executive, and deliver the project. We are doing it at several levels.

Q118 **Sir Bernard Jenkin:** Mr Thurston, how do you get your teams to develop proper openness and trust with the contractors so that the information is properly shared?

**Mark Thurston:** There is no silver bullet on that. We have put a whole collaborative engagement programme together between ourselves and the contractors. As I said earlier, we are going to co-locate with the contractors physically. We have gone through a quite onerous process of picking the right individuals, because this is as much about behavioural competences as technical competences. My sense is that over the next year we will find out whether we picked all the right people. It is not unusual in these projects that we might find ourselves changing some people out on both sides because the chemistry is just not there, but it will be the leadership team I am putting under me to oversee this; this is one of the key metrics of success over the next 12 to 18 months.

Q119 **Sir Geoffrey Clifton-Brown:** Ms Kelly, in the light of the Heathrow judgment have you changed your criteria on the project assurance relating to environmental considerations?

**Bernadette Kelly:** Obviously it is still very early days after the Heathrow judgment, and we are still assessing what the consequences of that judgment are for project delivery more generally, so it is too early for me to say yet whether we think we will need to make wider changes in a number of areas to project delivery in the light of that. I know also—this was in any event happening—colleagues in BEIS are looking, in the context of the Government's commitments on net zero, at treatment of carbon in project appraisal, and MHCIG are looking at planning consequences more broadly. So there is work going on on a number of fronts and I am afraid it is simply too early for me to report to the Committee on the conclusions of that.

Q120 **Nick Smith:** Just to jump in on that, intuitively you would expect this project to help to support the Government's climate change targets and be in synch with Government policy, but have you done an estimate of whether the project is in line with the Government's climate change policies and will help it to meet its target at all? Have you done something as part of the benefits of the project?

**Mark Thurston:** Yes. Do you want to talk about the business case, and I will talk about some of the technical things we have done?

**Clive Maxwell:** The business case for HS2 has for a long time considered the carbon benefits and the benefits of shifting to electric-powered trains versus other types of transport. So there is a strong recognition within the business case around those opportunities.



## HOUSE OF COMMONS

Q121 **Nick Smith:** But are they laid out and easily understandable, or is it intuitive or accepted that it is going to work out like that? Have you done the background work behind it?

**Clive Maxwell:** They have calculated it at some sort of megatonnes of carbon—I have the numbers; I haven't got them right in front of me. I can write to you and tell you what they are if you want.

**Bernadette Kelly:** More broadly, obviously, HS2 should mean that fewer journeys are taken by road and fewer journeys are taken by air. Journeys by rail are seven times more carbon-friendly than journeys by road and 17 times more carbon-friendly than journeys by air, so in broad terms investing in rail is a way of ensuring that the transport system as a whole is more carbon-efficient.

Q122 **Sir Geoffrey Clifton-Brown:** So now that you are assuring the Committee that we have got a real handle on costs—the original BCR was 2.3.

**Bernadette Kelly:** Yes.

**Sir Geoffrey Clifton-Brown:** What is it now for each of the three phases?

**Bernadette Kelly:** I think that is included in the table sent to the Committee. It is 1.5—

**Michael Bradley:** 1.5.

**Bernadette Kelly:** It is 1.5 for the whole scheme, it is 1.2 for phase 1, and 1.2 for phase 1 and 2a together.

Q123 **Chair:** Just to be clear, that phase 1 figure of 1.2 doesn't include Euston, does it?

**Clive Maxwell:** It does, yes. It has not been split out.

Q124 **Chair:** So any big changes at Euston could impact on that?

**Clive Maxwell:** I don't know how we would go about considering that in the business case, actually. But it certainly includes the cost of Euston within those figures.

Q125 **Sir Geoffrey Clifton-Brown:** Mr Thurston, can I ask you about the HS2 college and why you sanctioned money to challenge Ofsted's report on it?

**Mark Thurston:** Just to be clear, I was a board member of the college. The college is a separately Department for Education-regulated entity, so it has its own board and chair, with its own chief executive. At the time, the college did not feel that the Ofsted ruling was justified; it felt that Ofsted had not taken full consideration of some of the progress that the college had made. And I think it was very aware of the reputational impacts of the college having a poor Ofsted rating, so it was keen to suppress that ruling until it had really had a chance to work with Ofsted to understand the basis of the ruling and what remedial action it could take.



## HOUSE OF COMMONS

I am no expert, but the big concern was that once you got the lowest rating from Ofsted, the college would be really constrained from hiring more apprentices. Obviously, with the decision on HS2 going forward, there is a big skills agenda for HS2, and the whole college is really there to help drive recruitment of people into the sector. With the constraint of a poor Ofsted inspection, the college was worried that it would not then be able to respond to the market needs.

It has been a temporary issue; we have come up the other side of that now. The further education commissioner is now working with the college to stabilise. I am no longer involved personally with the college situation; I have too many other commitments, as you can imagine, with HS2. But we see the college as still being an important part of wider skills creation for HS2.

**Q126 Sir Geoffrey Clifton-Brown:** The legal challenge failed, the Ofsted report was published, the college has a capacity for 2,000 graduates but it has actually only ever had a few hundred, so what is the future for the college?

**Mark Thurston:** Again, I think that is a good question. Clearly, the uncertainty about HS2 over the last year has affected the college's ability to recruit. It has no shortage of applicants for students who are not in apprenticeships, but really the way that the college becomes viable is that it has employers sponsor apprentices into it.

Frankly, we hope now that with the decision by the Government to proceed with HS2 that over the next year or two we will see a much greater pick-up of recruits into the college, getting it up to the sort of numbers that you referred to, and that it provides the pipeline of skills that we will need for HS2 in the years to come.

**Q127 Sir Geoffrey Clifton-Brown:** Sorry, but these are quickfire questions on different subjects, because I know that the Chair is anxious to conclude.

You will have heard in the debate on reviving the HS2 phase 2a hybrid Bill this week that my colleague Theodora Clarke from Stafford complained about the length of time that HS2 is taking to settle property claims. It seems to me that if people's homes are being taken by HS2, and we had this—exactly the same thing—with the phase 1 hybrid Bill, the least you could do is to settle their financial claims quickly.

**Mark Thurston:** I fully agree. I think we have made great progress in working with our service providers in settling claims. I think that generally now we settle most advance payments—more than 90% of those are on time. I cannot speak to the specific case, but I will happily take detail on it. However, I fully subscribe to your point.

The people who live on this route did not choose to live on it and our job, frankly, is to be sensitive and empathetic, and recognise the disruption it causes. We have now acquired 80% of the property for phase 1, and of course once we get the legislation for phase 2a we will need to make sure



that we build on the work we have already done for the section between the West Midlands and Crewe.

**Q128 Sir Geoffrey Clifton-Brown:** Can I turn to the vexed subject of Simon Kirby? You will recall that he was the chief executive of HS2 Ltd who asked the Department for Transport to pay enhanced redundancies, was told in writing not to do so, but went ahead and did so and wasted £1.7 million of taxpayers' funds. Why was he then re-employed as a consultant to HS2?

**Mark Thurston:** I recognise the first half of what you said. Simon Kirby has never worked for HS2 since he left the organisation in late 2016.

**Chair:** He has never worked for HS2, but has he worked as a consultant for any other body that is providing support to HS2?

**Mark Thurston:** No.

**Q129 Sir Geoffrey Clifton-Brown:** Thank you very much. Can I ask you about your bonus, which has been in the public domain? How and under what circumstances was that bonus paid, and what are the criteria for paying your bonus?

**Mark Thurston:** As you say, 10% of my salary is incentivised. It tends to focus on five key areas. It gets agreed by the chairman in the remco. The five key points include the annual control of our budget, managing the annual milestones and schedule that we have to deliver and health and safety—we put thousands of people to work and we get measured around that. We have made a number of commitments around our engagement with communities—we have responded to the Bynoe report and we have 10 commitments around community engagement. Finally, it is about developing talent, success and leadership in the organisation. Those are the five principal criteria. They are agreed at the beginning of the year with the chairman and agreed and signed off by the remco, which has a DfT observer. I review that quarterly with the chairman, and the chairman and the remco decide at the end of the year how well I have performed and whether I am entitled to a bonus.

**Q130 Sir Geoffrey Clifton-Brown:** Thank you for being honest in answering that question. Final question: having been through the HS2 phase 1 hybrid Bill procedure, where clearly a number of undertakings were given by HS2 that proved to be well under-budgeted at the time they were given to us, how can you assure this Committee that those undertakings that may now be given as the hybrid Bill for phase 2a goes through the House of Lords will be a little bit more cost accurate?

**Mark Thurston:** That's a great question. It is fair to say that the process by which the company went about developing the Bill for 2a was quite different, and there was a lot of consultation with constituents along the route before the Bill went into Parliament, and that has reduced the amount of commitments we have had to make. The speed at which I understand the first Bill went through into the House was such that there were quite a lot of concessions. Undertakings needed to be given and, as



## HOUSE OF COMMONS

you rightly say, the estimate for some of those at pace was not as robust as it could have been.

There will inevitably be undertakings and assurances on the 2a Bill, but we feel that with the benefit of the learning, the process, the timing and the content of some of those things, any provision in the estimate that would come out at the other side of that will be much more robust. I do not know whether you want to add to that, Michael.

**Michael Bradley:** As I said earlier, because we have got so much granular detail on phase 1, when it comes to trying to estimate the cost of an assurance that we have been given, we have got a big database with 12,000 activity rates in, which makes it easier for us to work out what the true costs might be of that particular adjustment to the scheme. We feel that we are in a much better position now, having got a lot more data that is of quality that we can use to work out these costs more reliably.

**Chair:** We will soon see, won't we?

**Michael Bradley:** We shall.

Q131 **Chair:** Mr Thurston, can I ask you when passengers in Manchester and Leeds will be able to travel on HS2?

**Mark Thurston:** The current programme for phase 2b is somewhat in abeyance, because it is subject now to the integrated rail plan. The original scheme and the work we did earlier in the year with the chairman had us getting to the north between the range of 2033 and 2036—the mid-2030s.

Q132 **Chair:** Does anyone from the Department want to add to that?

**Clive Maxwell:** The table on the back of your letter refers to Leeds and Manchester in 2036 to 2040, but I have to say that it is one of the clear focuses for the integrated rail plan to look at along with all the opportunities there.

**Chair:** That is partly why I was asking. That is not what you would call a precise range at this point, just to be clear.

**Clive Maxwell:** No.

Q133 **Sir Geoffrey Clifton-Brown:** The Chair has prompted me to ask one more question. I am sorry, but I cannot find the reference to it in the Report. I think the Report talks about the number of trains per hour when phase 1 first opens—the first bit from Old Oak Common to Birmingham—being reduced from 19 down to six.

**Mark Thurston:** Yes, 18 trains is the full system into Leeds and Manchester. That is when the whole Y network is built. The phase 1 timetable assumes up to 10 trains an hour, but when we first open Old Oak Common we have potentially got capacity for six trains an hour.

Q134 **Chair:** I want to go back to the accounting officer assessments we were discussing earlier. Summaries are put on the gov.uk website for this, but



## HOUSE OF COMMONS

not for HS2. Might you consider doing that?

**Bernadette Kelly:** I took advantage of the break, while the Committee went to vote, to talk about precisely that point with the Treasury Officer of Accounts, who has advised me of that. Yes, it sounds like a helpful and sensible way forward.

Q135 **Chair:** Great, because the MOD does it. We see quite a lot from other—

**Bernadette Kelly:** I do quite a lot of them as well, actually, so—

**Chair:** You're setting the tone for the rest of your Whitehall colleagues, Ms Kelly!

**Bernadette Kelly:** Absolutely.

**Chair:** I'm sure they will be delighted that—

**Bernadette Kelly:** I'm very fond of my accounting officer assessments, so I'm happy to share them with—

Q136 **Chair:** I have to say, for those of you who are new members of the Committee, accounting officer assessments are great reads—I mean that in all seriousness. I want to ask as well when you think you are going to get the notice to proceed.

**Bernadette Kelly:** I may ask Mr Maxwell to say a little more, but we are now working flat out in what I would call the final stages of assurance needed in order to take that decision.

**Clive Maxwell:** For the weeks ahead, the plan is to be able to get into the next phase of construction works in April, which means sorting that out during March. That is the timetable we have produced.

Q137 **Chair:** What do you need to have in place to make sure? We are now within four weeks of that.

**Clive Maxwell:** We're currently going through the governance arrangements, first for the company and for the Department and the rest of Government, to sign off the assurance around the numbers we have talked about and to make sure that everything is ready to go.

Q138 **Chair:** You sort of glossed over that—getting assurance signed off, governance signed off. There is a lot of work in that.

**Clive Maxwell:** Well, it's the result of a long-running piece of work.

**Bernadette Kelly:** It's a huge amount of work, yes.

Q139 **Chair:** So is this realistic? Could you sink the ship for the sake of a ha'pennyworth of tar? If you go hell for leather for the end-of-March date, are you going to make it, or would an extra couple of weeks be helpful?

**Bernadette Kelly:** I think it is realistic. It is a plan. Indeed, we have—

Q140 **Chair:** Well, it's a plan, but so was the beginning of HS2, and look where



## HOUSE OF COMMONS

we got to.

**Bernadette Kelly:** We have some very clear—we actually have a key meeting on Friday and then we have further points after that, so it's a detailed and clear plan. What I would say is that this is a real assurance process and what we won't do is sacrifice our confidence and delivery. We've got to get those two things right.

Q141 **Chair:** So, if you're not confident, there may be a delay, and you will have to go and explain that to the Prime Minister, but you are prepared to do so.

**Bernadette Kelly:** We hope we will be confident, but it is a proper assurance process.

Q142 **Chair:** And I am assuming that the Minister will make a statement to the House when we eventually get to that point.

**Bernadette Kelly:** I am sure there will be some form of statement. It would be a key point, yes.

Q143 **Chair:** There is just one other issue that has arisen. You may have picked it up during the break. We understand that the BBC and Sky News are reporting that Flybe could collapse in days due to the impact of the coronavirus on its bookings. Obviously, the company benefited from a tax and duty holiday recently. What are your plans for support? Are you planning to support Flybe? Can you give us any information about what the Department may do, in the light of Flybe's potential collapse?

**Bernadette Kelly:** I'm afraid I can't, because obviously it is a sensitive commercial issue and that is speculation in the press. I'm afraid I genuinely can't say any more at this stage about that.

**Chair:** Okay. We may have another ministerial statement to the House, then. Can I thank you very much—unless any other Members have any questions? Mr Merriman, do you?

**Huw Merriman:** No.

**Chair:** Okay. Mr Grant?

Q144 **Peter Grant:** Could I come back to Mr Thurston about an issue that Mr Merriman raised, I think with the permanent secretary, right at the beginning of our meeting? The issue is the content of your annual report for 2018-19, which is the period during which everything we have talked about here blew up. Aside from the financial statements, which are obviously audited by the NAO, the wordy part of the report, for which I understand, Mr Thurston, you are responsible—somebody reading that would have been given no indication at all that anything had gone wrong during that financial year. Could you explain why you worded it in such a bullish way when it was referring to a 12-month period when practically everything that could have gone wrong with the project did go wrong?

**Mark Thurston:** At the time, as Ms Kelly said earlier, a lot of work was going on with the supply chain. We were confident that we could find a

way of getting back to an affordable position. We felt it would be inappropriate to say otherwise, because that would, frankly, scare the horses. That document goes in the public domain, and we were in the middle of sensitive negotiations with our civil contractors, so we held a straight line on that. The NAO review our audit and accounts every year. They have signed off our accounts—full and proper—in the last two years. I guess the narrative is—

Q145 **Chair:** I'm sorry, but let's be clear: the NAO signing off the accounts is different from the potential future costs rising. That is not what the NAO were signing off, just to be absolutely clear.

**Mark Thurston:** Exactly, but the document is reviewed by the audit committee of the company and the board, and we felt that was, at that point in time—we start the process now of our annual report and accounts for the year that will complete this month, and clearly we need to think hard about how we represent the current situation in this year's document.

Q146 **Peter Grant:** Isn't it the case that a lot of the problems you have told us you did not feel were proper to air in your annual report were already in the public domain, because they had been brought to Parliament? Our concern is that maybe they should have been brought to Parliament a lot sooner, but the report was for a period that ended on 31 March 2019. During that financial year was the period when the public and Parliament became aware of the scale of the delays, the increases in budget and all the rest of it. Were you asked at any time by the Government to tone down any negative element of your report, or was it entirely your decision to word it in that way?

**Mark Thurston:** No, that never happened. As we said earlier, we had early warned the Department under the development agreement in the autumn of that year that we had concerns around the costs.

Q147 **Chair:** So everybody knew: you knew, the Department knew, and word was beginning to leak out, but you, in your words, did not want to scare the horses. I just remind you that one of the horses in this race is the taxpayer who is funding this programme, and yet it was—as Mr Grant has rightly highlighted—presented a lot more positively than the reality.

**Mark Thurston:** That is a fair challenge. I would have to go back and look at our annual report and accounts for that year to see the tone of the document you refer to. As I say, there were a lot of really sensitive things in flight at that particular point in time, and we were very sensitive about the tone of that report and how it would be read against what was going on in the background, with a lot of work with the Department and our supply chain on trying to get to an affordable position for HS2 phase 1. That is a balanced judgment that we took at the time, and that was the decision we took. We reviewed the document with our audit committee, with the non-execs and the board, and we felt that was a fair representation, recognising there were some other constraints we were working under.



## HOUSE OF COMMONS

**Chair:** I thank you all very much indeed for your time. The transcript will be put up on the website uncorrected, as ever, in the next couple of days, and we will be producing our report in the next month or so.