House of Commons

Public Accounts Committee

Oral evidence: HS2, HC 1004

Monday 24 April 2023

Ordered by the House of Commons to be published on 24 April 2023.

Watch the meeting

Members present: Dame Meg Hillier (Chair); Mr Jonathan Djanogly; Peter Grant; Anne Marie Morris; Sarah Olney; Nick Smith.

Gareth Davies, Comptroller and Auditor General; Jonny Mood, Director, National Audit Office; and Marius Gallaher, Alternate Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 1 - 116

Witnesses

I: Dame Bernadette Kelly, Permanent Secretary, Department for Transport; Mark Thurston, Chief Executive, HS2 Ltd; Alan Over, Director General, High Speed Rail Group, and SRO for HS2, Department for Transport.

HOUSE OF COMMONS

Report by the Comptroller and Auditor General

High Speed Two: Euston (HC 1201)

Examination of witnesses

Witnesses: Dame Bernadette Kelly, Mark Thurston and Alan Over.

Q1 **Chair:** Welcome to the Public Accounts Committee on Monday 24 April 2023. The development of High Speed 2's terminal at Euston is a huge project, but the future is now in balance because the Government have decided to pause the project, which was already £2.2 billion over budget for the most recent design of the station. That pause will last for two years.

We were pleased to visit Euston station with HS2 officials and Department officials a couple of weeks ago to see for ourselves the hole in the ground, the tunnelling and all the complicated issues around a very complex site, which gives us a good understanding of some of the engineering challenges.

With all of this going on, it is important that we have senior officials here from the Department and HS2 to discuss what is going to happen now and what the impact is on the funding as well as the delivery of the project. I would like to warmly welcome our witnesses, Dame Bernadette Kelly, the permanent secretary at the Department for Transport, Mark Thurston, the chief executive of HS2 Ltd, and Alan Over, who is the director general for high speed rail and the SRO for HS2 at the Department for Transport.

Before we go any further, I would just like to ask Mr Nick Smith to make a declaration.

Nick Smith: I have a home in that bit of north London, so I walk past Euston station as I walk into work every day. I am very familiar with the issue.

Chair: He is not in the curtilage and has not been CPO'd. There is no direct financial impact, but we just felt that it was helpful to have that for clarity. Before we go into the main session on HS2, I am going to ask Ms Olney to come in, as we have a few questions on other issues.

Sarah Olney: Dame Bernadette, first, can I thank you and your staff for your responses to my written questions about Hammersmith bridge? There was just one thing that I wanted to really quickly follow up. As you know, both the London Borough of Hammersmith and Fulham and TfL have very severe restraints on their finances. If it becomes apparent that they will not be able to finance their share of the work, is there a contingency plan in place to ensure that the strengthening works can go ahead, or will the bridge remain closed indefinitely?

Dame Bernadette Kelly: At the moment, as you know from the letter that I was happy to send last week, we are still in the process of working with the London Borough of Hammersmith and Fulham as it develops a business case for the repairs to the bridge. We have already provided £10 million of funding in various ways to support that work to date.

The agreement, as you know, has always been that, ultimately, the bridge would be funded on a trilateral basis, with a contribution coming from Government, a contribution from TfL and a contribution from the borough. That remains our position, and you will understand why we are keen to maintain that position and to make clear that we do expect TfL and the borough to make a contribution to the works in due course, once we have had a chance to appraise the business case, etc. and to consider how to take it forward. I am afraid that I am not going to give you false comfort at this stage that we have a contingency plan to change from that arrangement.

Q2 **Sarah Olney:** That is fair enough; thank you. Could I just quickly ask you as well about the aircraft noise policy? We detect a change in the wording of the aims of the policy. The original policy said, "The government intends to put in place a stronger and clearer noise policy framework which addresses the weaknesses in current policy and ensures industry is sufficiently incentivised to reduce noise," but now it just says, "The impact of aviation noise must be mitigated as much as is practicable and realistic to do so". That feels to me like a bit of a weakening of the commitment to reduce noise, which my constituents will be extremely concerned to hear about.

Dame Bernadette Kelly: If you do not mind, because I do not have both of those statements in front of me, or the context and the basis on which they were made, I hesitate to offer an interpretation. What I can do is agree to look into this matter and come back to you more formally, if I may, once I have investigated.

Sarah Olney: I would be grateful. Thank you very much. I appreciate that.

Q3 **Anne Marie Morris:** Dame Bernadette, I want to ask about the Dawlish railway line. You may remember that the wall fell into the sea in 2014. The work has progressed well. There are five phases. The first three have been completed, but there are now problems with phases 4 and 5. Both relate to work on cliffs. Phase 4 is almost complete, but a line closure is required.

Currently, the only gap that can be identified cannot be used because there are no buses available to be used. If that work does not go ahead then, we will come to the end of the financial period and, as I understand it, it is now Government policy that money cannot be rolled over, which will mean that this crucial project is halted in its tracks. Is it policy that money cannot be rolled over? Are you aware of this particular problem?

Dame Bernadette Kelly: On the particular problem first, I am afraid that your knowledge is much more detailed than mine. Again, I am afraid I will need to go back to my colleagues. The issue of Dawlish has not been raised with me as something that is causing particular difficulties, but it may well be that there are the challenges that you describe locally. I would defer to the team and would want to go and speak to them before commenting on that.

On the wider question of money not being rolled forward, what I would say is that we are undoubtedly in a world, post spring Budget, of tighter fiscal control. That is true right across Government and it is certainly true in DfT, where, because of the Government's overall determination to balance the books, there is a much stronger emphasis on year-on-year annual financial management, which is impacting on all of our programmes.

That said, I would hope that there is also, within that, scope for sensible conversations, including, where needed, with Treasury colleagues, to ensure that we are not allowing a very restrictive annual cash budgeting regime to impair the delivery of programmes and projects that are under way. Ultimately, that is going to be inefficient and poor value for money in deliverable benefits for passengers.

I would not describe it as being as absolute as you have perhaps suggested that it is. It is something that we would want to have a conversation about, were we to see this as impairing our ability to deliver projects in construction.

Q4 **Anne Marie Morris:** If I can just finish with phase 5, other than some exploratory work, the original work was going to be £950 million. A new bid just for the first phase has been worked up by Network Rail of £70 million. My understanding, however, is that they have been told that phase 5 cannot go ahead because there is currently a Government moratorium for 10 years on any new phase of work being authorised. Is that Government policy? It is very worrying, because we have only one line down to the south-west.

Dame Bernadette Kelly: Again, I do not recognise the language of a 10-year moratorium on new work. I would have to explore what the particular circumstances are and how they are impacting on the Dawlish project, which I am very happy to do, and to write to you outside of the Committee.

Anne Marie Morris: Thank you very much. I appreciate it.

Chair: Ms Morris will then keep us informed on that response if there is anything wider for the Committee.

Anne Marie Morris: I will indeed.

Chair: Thank you very much. We now need to move on to the issue of HS2. We are looking particularly at Euston station today. Thanks to the

National Audit Office for its report on this. We have been following HS2 closely for quite some time, but this has been a really good deep dive into what is happening at Euston. Coincidentally, the Report came out just ahead of the Government's announcement to pause work for two years.

Q5 **Sarah Olney:** We have been looking at the costs of HS2 for some time. When we had the spring update last year in this session of the Public Accounts Committee, there were reports of a cost pressure of about £400 million, but that the shift to the 10-platform station was likely to be able to bring that cost pressure down. In October 2022, it was repeated that there was a pressure of £0.4 billion on the cost estimate, but that the move to the 10-platform single delivery stage at Euston should bring that cost down.

Dame Bernadette, why have you been reporting to Parliament that the cost pressures were still only £400 million as recently as last October, when this new Report reveals that they were, in fact, a great deal more than that?

Dame Bernadette Kelly: You are quite correct in pointing out that the £0.4 billion cost pressure is the number that we have been reporting in a number of reports to Parliament in relation to Euston within the overall programme. That is probably true since certainly early 2021 and possibly late 2020.

That number of £0.4 billion reflects the pressure that was identified at the time that baseline 7.1 was set, when, as the NAO Report sets out, we set a budget of £2.6 billion for HS2. It is very important to emphasise that we had no sight—certainly within HS2 Ltd—of the figure of £4.8 billion, which is now reported correctly in the NAO's Report, until around December 2022. In the Department, it was formally reported to us through February and March 2023.

Just to be very clear, that number was not at all visible or had not emerged from any of the work at the point at which the last parliamentary report was published on 27 October. Prior to that, and up to September 2022, HS2 Ltd was reporting a point estimate of around £3.3 billion, within a range of £2.6 billion to £3.6 billion at that time. That pressure is slightly greater than the £0.4 billion that we are reporting, but it is important to note that, again, those figures had not been validated and work was still under way to assess what the cost of Euston was going to be.

What we were reporting in the parliamentary report was a known and validated pressure. It is true that, certainly, earlier in our reporting, we had hoped—and no doubt we will go through the sequences—that the move to the 10-platform single-stage design would enable us to manage cost pressures. That was always the intention. The work shows that we have some reason for thinking that it was helping to deal with them, though not entirely.

In fairness, the narrative in the parliamentary report has also consistently acknowledged that there were pressures and challenges in relation to Euston cost pressures that we were working with. I know that the last report referenced the need to review the contingency, for example, as part of the further work. That is my explanation for why the pressure was reported as it was in the parliamentary report.

Q6 **Sarah Olney:** Mr Over, how is it that it took so long for the extent of the overspend to materialise in the way that Dame Bernadette has just described?

Alan Over: I will ask Mr Thurston to support me in answering that, if that is okay. There was a design process under way that detailed bottom-up design on how the station would be constructed with construction partners Mace Dragados. That process goes through an iterative design to get to more and more detail. Around late last year, that got to a point where Mace Dragados and HS2 Ltd could look at a bottom-up costing that looked at the materials against the design, and that is when the pressure emerged at this level. Mark will wish to amplify that.

Mark Thurston: We had a deliverable from the construction partner at the end of the year, so that was always our plan. To the earlier question, we were not ready to declare where we were. We did not have an output from them in October. The design was frozen at the end of October last year. We had a full 3D model. The Committee got a sense of the scale of what we are doing at Euston. We now have the most comprehensive and most confident estimate that we have ever had on Euston, going right back to baseline 7, as Ms Kelly said.

To your point, we have briefed that out to the Department. The fieldwork from the NAO broadly concluded just before Christmas, and there was a recognition that we would wait until we had an assured estimate that we would feed into the NAO Report just before it was issued.

Q7 **Sarah Olney:** Are you able to tell me, now that you have done all of that detailed work, why it is that the switch to a 10-platform design has not reduced cost? In fact, it has done the opposite. That was the expectation that we had throughout 2022, and yet, clearly, that has not happened. Why is it not cheaper?

Mark Thurston: That is a big question. You probably have to stand back and look at what we are trying to do at Euston in the first place. There is no doubt that a 10-platform, single-stage-build version of Euston is and will be cheaper than the 11-platform, two-stage build. It is all relative. We have been working against an initial budget for Euston going back to 2019-20, which was based on no scheme design. We did not have a contractor involved. It was very preliminary and based on a concept design. We have been working back towards that ever since.

Again, it is important to think about what we are trying to achieve at Euston, because it is not just about building 10 platforms for HS2. This is, frankly, the biggest railway and transport terminus that we are going to build in London for some years. We have a major interchange to the underground network. We have a significant interface with the existing Network Rail station. We need to accommodate, as part of the plan for Euston, an over-site development that will be somewhere in the order of over half a million square metres of development space for retail, commercial and residential.

As we have gone into the detail, to the point that Mr Over made, we have really understood the full extent of what we need to do to build the station, the phasing, and the impact on the local utility corridors, recognising that we have Euston Road on the south side. We have been working on that for three years now, and we have got to a point where we have the estimate that is in the NAO Report, which is by far and away the most comprehensive, most detailed and most confident estimate that we have. This is a major transportation terminus that is more than just 10 platforms and certainly more complex than, for example, what we are doing at Curzon Street, and that needs to be considered.

Chair: That is Curzon Street in Birmingham, just to be clear.

Q8 **Sarah Olney:** Just to push you a bit on that, your original estimate for the cost of Euston station was in the region of £3 billion, but the budget was set at £2.6 billion. Why did you accept a budget that was so much lower than your estimate of how much it would cost?

Mark Thurston: I would make a couple of points. One is that the £2.6 billion was seen as a stretch target. As HS2 Ltd, we agreed to accept a stretch target for delivering phase 1 of £40 billion against the budgeted £44 billion, and that was agreed for the whole of phase 1, of which Euston was clearly a significant element.

As I have already said, we had a very preliminary view of what the extent of Euston was and, as the NAO has acknowledged in its Report, both HS2 and the Department accepted that there was still a lot to learn about what the full extent of Euston was going to be. There was a recognition at the time that, at some point, we would need to reassess the full extent of the scope at and the costs of Euston. Once we had the design completed and a construction partner on board, we understood the extent of the over-site development work. It has been a fairly significant exercise that the Department and the company have worked on for some years.

Of course, we pegged £2.6 billion as a budget to work towards, and a lot of work has been done on affordability and efficiencies to find a way of getting back to that number. As the NAO Report shows, at various points in the life of this project, from an 11-platform to a 10-platform station, we have been working on various estimates to try to get to a point where we could get back to that.

We always knew that the product that we got from the construction partner at the end of last year would be when we were expected to get to something that we could be confident with. Candidly, we were still working towards trying to get back to the £3.3 billion, which was the assessment that we did in the late summer of last year. The reality is that, when we got the full 3D model, looked at the quantities, as Mr Over said, and did a full bottom-up estimate, we were some way away. That is where we find ourselves now, and the challenge for us now as a joint team is where we go next.

Q9 **Sarah Olney:** Dame Bernadette, given the large degree of uncertainty that was built into that original agreed budget, can you explain what the usual process would be for the Department to agree the risk provision?

Dame Bernadette Kelly: I will start and then I might ask Mr Over to say a few more words. At that point when we were setting baseline 7.1, as the NAO Report concludes, HS2 was identifying a cost of £3 billion, including risk provision.

We set a budget of £2.6 billion. That was aligned with a target cost of £40.3 billion. As Mr Thurston has indicated, the target cost and, in a sense, the elements that made it up included some assumptions about stretch, because the target cost was intended to provide, within the funding envelope, a degree of stretch for the company to drive down cost wherever possible.

What it does not take account of, of course, is the fact that we have £4.3 billion of Government-held contingency on this programme as well, and no decisions were being taken at that point on what purposes that would be deployed for. The detailed decisions about how the company deployed contingency within the programme to different elements were also ones that it was taking in the context of risk across the programme.

As I say, we knew at the time that it had an element of stretch, but we were also establishing a programme that had a stretch target within a funding envelope that included Government-held contingency.

Q10 **Mr Djanogly:** Good afternoon. I would like to take a step back, if I may, because I am a little confused as to how these contracts work. To my mind, a contractor makes a bid, the bid is accepted, the contractor performs to the contract and, if the contractor then does more work or goes over the price, that is for them to take the hit on. Clearly, Mr Thurston, it looks like these contracts do not work like that, so could you please explain the process of agreeing risk provision with the delivery body?

Mark Thurston: At its simplest, for these big, complex infrastructure projects—we have applied this approach for most of the contracts that we have at HS2—we take a two-stage approach. We run a procurement process on a competitive basis that looks at the contractor's capability and experience, and they have to give us, as part of that procurement process, some level of assurance on how they would approach delivering the job.

We run it in two stages. The main point is that we appoint the first stage on what we would consider capability and suitability for the project. We do some assessment of the commercial model that they put forward, but what we do not ask them to do is to price the job in its entirety, because, frankly, it is too big and too complex. If we were to try to transfer all the cost risk to the contractor in what we would call a single-stage tender process, the market would probably walk away from it and we would get numbers that we could not live with.

In essence, having appointed a contractor, we then work with them collaboratively and with their designers for stage 1, to get to a point where we get to both a design that could be consented for planning permission, and a cost that we can live with. In essence, to Ms Olney's question, that is where we got to with our construction partner at the end of last year.

Q11 **Mr Djanogly:** Mr Over, is the process that we have just had explained by Mr Thurston standard for large infrastructure projects, or were there differences in the way that HS2 was done from most projects?

Alan Over: It is a standard approach on large construction projects where you have significant unknown risk and you need to get to that higher maturity on the design before you can sensibly set a target. That target price is incentivised, so there is an incentive on the delivery organisation to deliver under it, and that will give it and the taxpayer a gain.

The point of doing that is to find out these problems before you commit to a design and begin construction. It is clearly disappointing that we have had two rounds of this with the same company and not reached a point at which it is affordable, but the point is not to agree a target price that we are not comfortable with.

Q12 **Mr Djanogly:** I am just trying to understand whether, under these contracts, there is any risk to the contractors for failing to perform to time or to cost.

Mark Thurston: Once we lock the costs of the second stage, that number becomes, to Mr Over's point, the number that they are incentivised on. They then have cost, risk and opportunity on that number. There is an element of an incentive around that number that rests with the contractor.

Q13 **Mr Djanogly:** Have we got to that stage with any of the contracts so far?

Mark Thurston: Yes. All our civils contracts, for example, are in that same place.

Q14 **Mr Djanogly:** To what extent under those contracts are the contractors sharing some of the loss?

Mark Thurston: They are.

Q15 **Mr Djanogly:** Can you just explain what that would mean in practice?

Mark Thurston: We agree an annual plan with the contractors for the civils contracts, which are quite big. We agree an annual work plan and an annual budget for that. They are then incentivised to deliver in terms of schedule and cost against that budget. Where they do not deliver against that, their fee—effectively, their margin—is moderated up or down accordingly.

Q16 **Mr Djanogly:** Could you give the Committee some figures later on? That would be helpful.

Mark Thurston: Some of that is commercially confidential, so I need to think about that.

Mr Djanogly: That is why I am not asking you to say it now.

Mark Thurston: I will explain in more detail for our civils contracts, where we have experience. I will happily write on that.

Chair: Some of this will come into the reporting to Parliament, but this level of detail will not. We can discuss the terms on which we share it.

Q17 **Mr Djanogly:** I will tell you where I am coming from here. This sounds to me like it is basically pitched against the interests of the taxpayer. This whole set-up is pitched to encourage low bidders who might know that they are going to get the contracts on the basis of low bids. They get the contract and then put their prices up at a later date. What would you say to that?

Mark Thurston: That is not quite true. That is not the basis at all. The whole point of a two-stage approach is to make sure that we do not get low bids first off. We run, effectively, a competition to select the right partner and then we work with that partner. We have full transparency of their costs and we do not move into the second stage, which is the detailed design and construction, until we get to a point of affordability. We are running that process now for many of our contracts at HS2.

Q18 **Mr Djanogly:** Mr Over, in terms of where we are at the moment, would you say that any of the under-bidders who lost out have possible claims against the Department or, indeed, against the delivery company?

Alan Over: The contracts are with HS2 Ltd, but I do not think so. It has been run in line with the procurement process that was set out. The point of having the end of the first-stage design process is to have this difficult discussion now between us, HS2 Ltd and the delivery company, and to make sure that we can agree on a reasonable target price. If we cannot, it is the right thing not to proceed and, unfortunately, that is where we have got to.

On some of our other contracts, we have been looking at approaches to maintain more competition in that first stage of the design, and that is something that we will be considering moving forward on other stations, including Euston.

Q19 **Mr Djanogly:** Did any of these under-bidders originally come in at less than what the contractors are now asking for?

Mark Thurston: When we selected the partner, we had not asked them to price the full job. The job was not sufficiently designed, which comes back to the question around why we set the budget where we did. There was a whole series of criteria that we used to select the right construction partner, and only then did we start working on what it would cost to deliver the project.

Q20 **Mr Djanogly:** If that is the case, do we not come back to Ms Olney's point of whether this station was ever affordable within the original envelope?

Mark Thurston: That is a great question and it has proven not to be the case. We took a view at the time, and our best view of an estimate was £3 billion in 2019 prices. That was a base estimate of £2.3 billion and £700 million of contingency. As I said earlier, we knew that we would probably have to reassess that at some point, when the design was complete and we understood the full extent of the over-site development that we would need to accommodate on the site, and once we had brought a construction partner on board.

The reality with all of HS2—and it is the same across the sector and across Government—is that you do not really know what a lot of these big projects are going to cost the taxpayer until the marketplace has priced it. You are in the hands of the market, and our job at HS2 is to select the right contractors with the right capability, and then work with them to get to a point where we have a price that we can live with, to Mr Over's point.

We were working towards being on the cusp of that on Euston, but we now have a number that we cannot live with and are thinking about what we do next. The pause that is being driven by the wider fiscal challenges, of which Euston is one, does now give us an opportunity to draw breath and think about where we go next.

Q21 **Mr Djanogly:** Dame Bernadette, listening to that, can you see why I may think that taxpayers may think that they are being taken for a ride on this?

Dame Bernadette Kelly: I disagree that the contracting process has done that. As Mr Over rightly said, it is the company that carries these contracting processes out and they are extremely complex. I would say that, in the Department's oversight of those processes, we are always trying to ensure that taxpayers' interests are being properly reflected in the process. There is always this trade-off between risk and certainty with very complex projects like this.

As I say, it is for Mr Thurston to correctly answer, as he has, for the precise commercial and contracting model that HS2 Ltd has selected. Within the Department, we certainly have an accountability for ensuring that the overall delivery of the project is aligned with the interests of taxpayers, and we work very hard to do that.

Q22 **Mr Djanogly:** Indeed you do. The earlier question that you were asked was whether you were early enough in acting, and you have answered that question. The Committee will need to think about the response that you gave, but, ultimately, we have something that was coming in at £2.2 billion and is now £4.8 billion only two or three years later, for one less platform. Something has gone wrong, and a lot of people are thinking, "Who takes accountability for this?" Has anyone been fired for this? Apparently, this is now the most expensive station in the world by a mile.

Dame Bernadette Kelly: We are not building a station at £4.8 billion, and that is why we have paused the work to address a more affordable design. To your point about acting early, what the NAO Report accurately reflects is a consistent and determined effort over three years, through two designs and through a number of actions and steps, both by the Department and by the company, to try to arrive at a design for Euston that is affordable and deliverable.

That goes through the initial £4.4 billion estimate that emerged in 2020, an SRO study carried out by Mr Over's predecessor, which identified a number of options, a decision to select one of those options and instruct the company to proceed on that basis, and then further work with the design partner over a period of time to really understand the complexity of the design work and what that would cost.

I do not deny that it is a long time and a very disappointing result, but it has been as a result of a conscious effort throughout that period to try to get to the best outcome, both for the project and the benefits it needs to deliver for passengers and for London, and also for the taxpayer.

Q23 **Mr Djanogly:** I would suggest that it is a failure of delivery on a massive scale. Has anyone been held accountable for this in your Department or, indeed, in HS2?

Dame Bernadette Kelly: We have now got to a point where we have a better understanding of the complexity of the current design and its cost. We will need to proceed from here to try to work out what the right next step is, what the right options are to consider and how we get to a better outcome.

Mr Djanogly: I take that as a no.

Mark Thurston: I will just make a point. We have spent £2 billion at Euston to date. We have spent what I would call no-regrets investments. All the investment made in Euston today in preparatory work, enabling works and all the works in the surrounding area has always been what we would call no-regrets work. We were always planning to get to a point at the end of last year where we had an estimate that we could endorse to move to the second stage. We do not have an estimate that we can live with and endorse, and so, as Ms Kelly said, we have more work to do.

We have not spent £4.8 billion. We have spent only £2 billion, and that is what we were always going to spend to acquire the land and prepare the site for construction. As the Committee saw when visiting, we have made some good strides in enabling the site so that it is ready for the next stage.

Q24 **Nick Smith:** I would like to take us back to some remarks that you made earlier, Dame Bernadette. When you were talking about initial funding of HS2 overall, I think you said something like the Government had a contingency of £3 billion as well. Did you say that?

Dame Bernadette Kelly: No. What I said is that the funding envelope includes a Government-held contingency of, in fact, £4.3 billion that sits above the target cost and the company-held contingency, which is held by HS2 Ltd.

Q25 **Nick Smith:** Implicit in that, I read that you thought you could, if necessary, look to that contingency—

Dame Bernadette Kelly: It is implicit. I would not be explicit, because we have never reached any formal view or agreement on what basis that contingency would be drawn down on. What we were seeking to do when we set up the funding envelope was to recognise that there is a lot of uncertainty and complexity in a project of this sort in order to ensure that the company was incentivised to manage costs and contingency tightly, but we recognised that it was appropriate for Government too to hold contingency, given all of that. That is probably one of the features of how we have set HS2 up, which is probably more sophisticated than is often the case with Government projects, which are funded to a single point estimate.

Q26 **Nick Smith:** Mr Thurston, I heard you say that the original budget was based on your preliminary view of what the project would look like, but then you had a joined-up analysis that gave you the higher budget estimate. That is really at the nub of what has occurred here, is it not?

Mark Thurston: At its simplest, yes. The original estimate of £3 billion that we came up with, £2.6 billion of which went into the target, was based on a very high-level concept design and, as I say, a recognition that we would need to reappraise that at some point when we had a much better definition of exactly what the station and all the surrounding area entailed. That work is the work that concluded last year.

Q27 **Nick Smith:** Big picture, that was your estimate of what it would probably cost.

Mark Thurston: Yes, at the start.

Q28 **Nick Smith:** Dame Bernadette, how did the Department take on board this high-concept initial budget? How did you challenge that? It seems to me that you have accepted what seemed to be a very low-ball budget.

Dame Bernadette Kelly: I do not think that is true. Mr Over was possibly more closely involved in some of the detailed discussions at that point. We are talking about the time at which baseline 7.1 was set in 2020.

Q29 **Nick Smith:** It is 150% over the top if it is going to be about £4.5 billion, is it not?

Dame Bernadette Kelly: No, because we are not proceeding with that plan.

Q30 **Nick Smith:** We will see. Perhaps Mr Over could answer that question, then. Mr Over, you have a very experienced background in large-scale infrastructure projects. It seems to me that this was a very low-ball estimate of what was a high-concept idea. How much push-back did you give Mr Thurston and his colleagues at the time?

Alan Over: At the time, the challenge was focused at the whole-phase level, so what we were pushing on was whether the point estimate for the whole of phase 1 had been set sensibly.

Q31 **Nick Smith:** What do you mean by "whole phase"?

Alan Over: The whole of phase 1—the £40.3 billion and the £44.6 billion. That was the level at which the discussion was being had.

Nick Smith: It was very big picture, then.

Alan Over: Yes, in terms of setting the funding envelope and the target cost. On individual elements, we have our own advisers who act independently. We used them to challenge whether these were reasonable estimates. They did not endorse that this was a fully funded design, but they did point out that it was a stretch target, as Mr Thurston has acknowledged.

As that design has been developed through the first-stage design, we had reasons to be confident that the interventions that were being suggested to change to 10 platforms and to a single stage were plausible as opportunities to reduce that cost from the £4.4 billion. We took some comfort that that would take it down, although not necessarily to £2.6 billion, and we would have been prepared to use Government contingency if necessary, but we were surprised that progress was not made and that that discovery of the £4.8 billion cost came late in the process.

Q32 **Nick Smith:** Just to unpick that a bit more, we understand that there was this difference over the design, but it still seems to me that the idea that something that was originally expected to cost £2 billion could come in at 150% more than that is a big oversight by the Department in terms of challenging the company about this particular part of this nearly £50 billion project. Given your experience, understanding that this is a very tight site and one that is very complicated, where you are working with a bunch of partners, I do not understand why there was not greater push-back initially with that £2 billion estimate and the real likely cost of redeveloping Euston.

Alan Over: The debate was around £3 billion versus £2.6 billion. You are right that, with hindsight, they are figures that look very low in comparison with the bids that have come back from the market. I accept that. When we look at it in comparison with other stations that we are building or have priced on the route, you can take some comfort from those levels.

What has happened is that, as we have sought to meet the accumulation of requirements from all of the interested parties and presented those to HS2 Ltd and to its construction partner, when it comes to aggregating all of those requirements on an unprioritised basis, we get to a cost that we cannot afford. What we need to look at moving forward is to make some more difficult choices.

We know now very definitely that, if we add our conventional rail requirements to our high-speed rail requirements, to the London Underground requirements and to the Camden and GLA requirements, we get to a complex design that we cannot afford. As we move forward and have a third go at this, which is regrettable, we need to ask everyone to look at prioritising those requirements so that we can have a hierarchy of need and get to a position where, while we will not meet all of those requirements, we can do it at a more reasonable cost to the taxpayer.

Q33 **Nick Smith:** Just to be clear, your Department did not have, at the time, an assessment of what the accumulation of requirements, as you call them, would be and the cost of it.

Alan Over: It is reasonable that we have to go through a process, which is that those requirements are aggregated. They are passed to HS2 Ltd. There is an iteration between HS2 Ltd and us as the funder about whether we can meet those requirements at that cost. That is what we were looking for through the two design iterations that we have had.

The first time it was done, on an 11-platform, two-stage basis, the answer was, "We cannot meet that under a cost envelope that you have proposed." We worked with HS2 Ltd and Mace Dragados to try to find ways to bring it down. That is what happened to the second design and it did not work, Mr Smith. I acknowledge that.

Q34 **Sarah Olney:** Just very quickly, Dame Bernadette, what is the Department doing to manage the high levels of inflation on High Speed 2?

Dame Bernadette Kelly: I might invite Mr Thurston to set out the steps that he is taking with his supply chain to mitigate and to manage those impacts within the company as effectively as possible.

Within the Department, what we have had to do—in a sense, this was the essence of the written ministerial statement and the decisions made at the spring Budget—is to acknowledge that the cash annual spend on HS2 is significantly higher than we anticipated at the time that our budgets were set in spending review 2021, because at that point nobody was anticipating the inflationary spike that we have seen.

Chair: I remember from our visit to Buckinghamshire that steel was one of the big increases in costs.

Dame Bernadette Kelly: Construction materials have been particularly hard hit by some of that inflationary impact. Again, I am sure that Mr Thurston can say more than I can about this.

All of this is happening at the same time as a very determined effort by the Government to balance the books and manage within existing spending limits right across Government, meaning that the opportunities to flex budgets in order to allow for inflation were extremely limited. What we have sought to do is, first and foremost, to protect phase 1 core delivery of HS2. That is the most expensive, but also the most vital piece of the construction that is currently under way. That is the 350 sites and the 30,000 people currently working. The decisions that Ministers have taken, including to pause the work on Euston, have been intended primarily to protect the delivery of that part of the programme. We have also had to look more widely at impacts and how we balance those out.

The work that we have been doing has been focused on ensuring, as I say, that, with unexpected excess inflation and cash limits, we are making the best possible choices that we can within those difficult circumstances. We continue to have, I have to say, an interesting conversation with the Treasury about the treatment of inflation in projects of this sort, which the NAO Report also acknowledges as an issue that we need to think about in terms of the broader reset of the programme post all of the Euston decisions, and I would agree with that, but, as I say, that is bit of a broader issue on Government finances.

Q35 **Sarah Olney:** Just quickly on these interesting conversations with the Treasury, are you asking it for additional cash to help you manage inflation?

Dame Bernadette Kelly: Our budgets have been set. We have had our negotiation. In the context of that, we will always argue our case, but, as I say, our budgets have been set. There is some acknowledgement that we have with Treasury that, in the context of a programme like HS2, where it is almost impossible—and certainly impossible in a way that is consistent with value for money—to put the brakes on expenditure mid-year, if I can put it that way, we have had some sensible conversations about how we will deal with any issues that may arise later in the year.

What we have all recognised in the context of those discussions is that the Government have a determination to maintain tight fiscal discipline, which means that we and other Departments and programmes have to manage within our budgets.

Q36 **Chair:** Mr Thurston, do you want to give us some specific examples of the trade-offs that you are having to consider, in the light of Ms Olney's questions?

Mark Thurston: If you go back a year, it was things like steel and aggregates. Oil went up hugely, so that affected the price of diesel. We are a huge consumer of some of these things. What we are able to do is work with our supply chain and pull the economies of scale that come with being such a big programme.

We have been able to secure electricity at 10% less than what otherwise we would have paid individually across our contract. We are working with the Crown Commercial Service in Government in the way we secure electricity. We are moving away from diesel at many of our sites. Diesel has dropped back now. We now have 10 sites that are diesel-free and have committed to have all our sites diesel-free by 2029.

We can use the buying power of the supply chain to get better value from things like steel. We did some deep dives into things like steel, aggregates and piling, for example. We cannot offset all of these pressures, because it is not an HS2 issue; that is an issue for the construction sector more broadly. Where we can, we have worked hard with our tier 1 partners to find ways of reducing that cost.

Q37 **Nick Smith:** Dame Bernadette, I understand that there is lots of sunk cost in this investment already, and I understand at the same time that the Government do want to make progress on the big picture of delivering the project. I absolutely get that. However, what is the estimated cost of pausing these works at Euston now? It is going to cost money just to stop, review, reflect, replan and redesign, is it not? What is that real cost going to be, please?

Dame Bernadette Kelly: I cannot give you a figure for the redesign cost or for the detailed costs of the further work that we will now need to do at Euston, because we simply have not done the work yet.

Chair: The pause.

Dame Bernadette Kelly: The pause is intended to help us to find a more affordable solution.

Q38 **Nick Smith:** Will there be any costs related to this pause?

Dame Bernadette Kelly: What we and HS2 are seeking to do is to mitigate the costs of any pause. A lot of the work that Mr Thurston has already referred to on enabling works and so on is no-regrets work that we would expect to be relevant to any future design. We do not yet know, as I say, what the cost of a pause will be, but we hope and expect that it will be offset by steps towards a more affordable design.

I accept that the reasonable assumption around most projects—I know that the NAO Report identifies this—is that stopping work and starting it again does carry some inherent cost, but I cannot give you figures. That is still work that is under way.

Q39 **Nick Smith:** That is a shame. I would have hoped that you would have known that before the Government made the decision. It would have been important to be mindful of that. Mr Thurston, do you have any idea of the cost of the pause?

Mark Thurston: What I can tell you is that, in the financial settlement that we have with the Department for the next two years, we still need to spend in excess of £200 million on Euston, completing the work that we have started, which we have said, and winding the job down safely and doing works, as some of the Committee, to make sure—

Q40 **Nick Smith:** That is a good and important step, but that is not the question that I asked. What is the cost of the pause, please?

Mark Thurston: We have yet to work that out. Among other things, we have to work out what version of the station is going to come out of the other side of this. To the point that Mr Over made, we have an unaffordable version of Euston at the moment, so we need to—

Q41 **Nick Smith:** Do you have an assessment of the costs?

Mark Thurston: No. You have to remember that the pause was agreed only in the last few weeks. We concluded the cash settlement for the company and HS2 with the Department and the Treasury only at the back end of March.

Q42 **Chair:** You are head of this major project, spending billions of pounds of taxpayers' money, and the Government make a decision like this. Did anyone from the Department or the Treasury come to you to ask, "If we do this, what is the impact going to be?"

Mark Thurston: Yes, absolutely. The work on this started after the autumn Budget statement. When the Chancellor declared a commitment to HS2 back in November, we were then working with the Department for four months, right up until the end of March, on various funding scenarios for the next two years, with a high, low and medium point.

Q43 **Chair:** Did that include the pause?

Mark Thurston: That was the point. We had to work out a whole series of options around where best value for the programme is over the next two years, what we can reasonably pause, what we do not want to start that we might otherwise have started in the two years, and what work we can defer. We concluded on a scenario and agreed that with the Department just before the third week in March. So absolutely, we were involved in—

Q44 **Nick Smith:** Mr Over, do you have any analysis or assessment of what the pause is costing?

Alan Over: We will not know what the pause at Euston will cost until we find out how much of the redesign we can make reuse of from the first two designs. We are at the starting stages of that process, so not yet. The value for money question that we had to consider was whether it was plausible that having a third go at this would save the taxpayer more than it would cost to have a third go at it. That is the equation that we used to justify why this was the right thing to do.

You will have to judge us on our results against that, but we cannot afford to proceed with £4.8 billion. I would expect the additional costs of the worst-case design to be comparable with those that we spent on the two goes that we have already had, and I would hope for them to be significantly less. Mr Thurston's accounts disclose the write-off on the first-stage design, so that was our upper bound of what we would expect to have to spend on a third go.

Q45 **Nick Smith:** What do you mean by "significantly less"?

Alan Over: I cannot define that, but I would expect us to have to take a substantial amount out of the £4.8 billion estimate to get this down to an affordable position. I am not able to give you an exact figure on that until we have done the diagnosis of the cost drivers and examined how we are going to solve it, but it is very plausible in my mind that we will take out more cost than the additional work will cost us to do a third go at getting an affordable design, and that is the right value for money decision for the taxpayer.

Q46 **Chair:** Is there any prospect that any of the other partners involved will have to contribute more money as a result of the decision? A lot of this is funded directly from central Government.

Dame Bernadette Kelly: What do you mean by "other partners"?

Chair: Network Rail, TfL and possibly Camden Council.

Dame Bernadette Kelly: One of the factors, of course, that the pause is assisting us on in some ways is thinking about the integrated station design as between HS2 and the conventional Euston station, because that has always been lagging some way behind HS2 in terms of its maturity. There is an opportunity there—again, the NAO Report flags this—for us to use the pause to think in a more closely aligned way about the integration of those two stations.

Chair: We will come to the detail of that later.

Dame Bernadette Kelly: Frankly, I would much prefer that we had an affordable design and were cracking on with it, but that is not the world that we are in.

Q47 **Chair:** It is about who would be on the hook for the money. We visited an underground tunnelling moving a substation that had been done. That was something that TfL will need in future for the underground, but it was funded by HS2, partly because the works of HS2 have forced the pace on it. Are you looking at any of those costs falling on other parties?

Dame Bernadette Kelly: We also have cost for the conventional station approved in the spending review. One significant element of the cost estimate for Euston was the associated TfL improvements needed to manage the passenger flows. We will want to look at all elements of that design to see where the opportunities are to deliver something that prioritises passenger benefits and wider benefits of the scheme, but also reduces costs. We will have to look at that as part of the redesign.

Chair: We will come to who makes these decisions a little later, but that is interesting and helpful.

Q48 **Nick Smith:** I want to pick up on one of those related points. Dame Bernadette, how confident is the Department that the Network Rail station can still be developed at a cost of £1.3 billion to £1.5 billion?

Dame Bernadette Kelly: That is the budget that we currently have. It is at an earlier stage of maturity than the most recent Euston design.

Q49 **Nick Smith:** It is at an earlier stage of maturity.

Dame Bernadette Kelly: It is, yes. Unless you want to correct me on that, Mr Over, it is considerably earlier.

Alan Over: No, that is correct.

Dame Bernadette Kelly: It does not necessarily mean that the same scale of problem will emerge, because it is not as complicated a proposition as the HS2 station.

Q50 **Nick Smith:** Are you confident that it will come in between £1.3 billion and £1.5 billion?

Dame Bernadette Kelly: I will never say, on any project, that I am 100% confident that it is going to be delivered within budget at this stage of the work, but what we will need to do now is to work with Network Rail, alongside working with HS2, to ensure that both of those elements of an integrated project are brought in at an affordable cost.

Q51 **Nick Smith:** I have to put the same question to Mr Over. While I am not sure that you will want to contradict your boss, if the Network Rail station cost was estimated even before the Euston station railway cost, it seems to an ordinary observer like us that that is going to have a big question mark over it, is it not?

Alan Over: I would never contradict my boss, as you say, but there is an evolution of knowledge about how much something is going to cost over time. One of the opportunities here is to bring the conventional station design up to a greater maturity, so that we can have more confidence in the cost range.

What we need to go back to, though, is that there are choices in how many requirements we make and how we meet those requirements. If we want to meet everybody’s requirements, we put them on the table and you get to a big number. There is another way of doing it, which is to say, “Here is our budget. What can you do within that budget in meeting as many of those requirements as is possible?” Some of those requirements are irreducible: you need to give a decent passenger experience; you need to have sufficient platforms.

There are choices, though, in how much you go beyond that, and we are going to have to confront some of those choices. To say that we have to assume that there is going to be the same sort of cost escalation that we saw in the HS2 estimate on the Network Rail estimate is not valid, but it is equally true to say that we cannot have confidence in the Network Rail estimate or, indeed, our own until we have done more work on what the third approach is to resolve it.

Q52 **Nick Smith:** Mr Thurston, is HS2 confident that you can devise an affordable and deliverable station design by March 2025?

Mark Thurston: I would say a couple things. One is that we are certainly confident in the product that we now have, because we have the station with all the requirements that the Department has set in a full 3D model. That is a big step forward to understand what the full extent of those requirements will cost. To Mr Over’s point, on the basis that that is not affordable, as we start to pare back what does and does not stay in the scope of the Euston station project for HS2, working away from the £4.8 billion, I think we can be confident that whatever number we come up with—assuming we can integrate that design, we have a good place to be confident around that number. But there is a lot of work to do, now that we have got to this point.

Q53 **Nick Smith:** You do not sound very confident.

Mark Thurston: No, I am confident. To Mr Over’s point, the Department has to decide. There are some difficult decisions to be made about what requirements stay and what requirements go, because, at the moment, what we have designed has all the requirements in and, as we have already discussed, that is not affordable.

Q54 **Nick Smith:** What did you learn, if anything, from the King’s Cross development 1,000 metres to the east of Euston, which was equally complicated and involved introducing a new train line, a new tube station, platforms and a big over-site—

Chair: It is a similar thing for HS2.

Nick Smith: Yes, pretty much, but bigger.

Mark Thurston: I was not personally involved, so—

Nick Smith: Are there any learnings from that?

Mark Thurston: I think one of the big takeaways is looking at the station as an integrated campus. That is really important for us. You cannot look at any one piece of the station in isolation. I am sure that, if there were colleagues here who worked on the King's Cross St Pancras station, they would say that one of the things that was a success was looking at it in the totality. That plays to Mr Over's point. That is what we now need to do, now that we have a good model and a good cost estimate, and we understand the quantities and some of the trade-offs. That stands us in good stead now to move the scheme forward in this period of pause.

Q55 **Nick Smith:** Would you describe your model of working to be as well integrated and as successful as that at King's Cross St Pancras?

Mark Thurston: In terms of the technology in the industry, using digital models and understanding cost benchmarks, we are in a much better place than they would have been back in the early days of the design and requirements of the King's Cross St Pancras terminus that were determined. We are in better shape and, to your point, there is learning coming out of that, but there is a starting position now, going into the pause, where we can take comfort in where we have got to.

Q56 **Chair:** I am still grappling with something here. Mr Smith helpfully highlighted King's Cross. Although it is a very complex site, you knew that there was going to be a Network Rail station, a High Speed 2 station and the tube. You are dealing with London clay and all the archaeology of London. We have finally just had Crossrail launched. You knew what you were going to have to do. Which bits were unpredictable when you started working on the station design? You were talking a lot, Mr Thurston, about the 3D model. You may have the model now, but you must have had the modelling on what was going to be there and necessary as part of this huge project that you committed to deliver.

Mark Thurston: To the point that Mr Over made, we started the design on the 10-platform station in the spring of 2021. We knew that it was going take us somewhere between a year and 18 months to do that work, and that is the work that concluded in the autumn of last year.

Until we had what we would call a federated model and really understood the quantities—I can quote some of the quantities and the costs, but it was only when we had worked those bottom up, having moved away from what we call a top-down, high-level assessment of the design, that we could have the high degree of detail that we now have. As Mr Over touched on, we have benchmarked a lot of those costs and estimates against the market prices, because, on HS2 now, we are in the ground at Old Oak Common. We have bid and we have a partner selected for Curzon Street, so the civils are now 40% complete.

We have a lot of real cost data from our supply chain against which we can make comparisons for this station. Candidly, it was only until we really got to the autumn of last year—of course, we knew that we needed to provide an interchange to the underground system; of course, we knew that we needed to provide a provision for the over-site development. The requirements in the way that you have described them were absolutely part of the scheme, but until you have designed the scheme and had a contractor price it, you do not know what it is going to cost. That is the position that we have now got to.

Q57 **Chair:** It sounds like we have something that, from what you are saying or what we are all saying, is not necessarily gold-plated but is going to have to be trimmed down a lot. Did you consider having various options? I know that it is difficult when you are doing a project and that you have to focus on one route, but can you give us any idea of what might have to drop off the edges in order to make this affordable? Presumably, it is not fewer buildings above, because that will be rental income that will help pay for it. What are we looking at removing from this design?

Mark Thurston: Ultimately, that might be a question for the Department. What I can say is that the over-site development is not funding the station, so that is not part of the financial model for the station. To your point around it not being gold-plated, we have done, going back two years, a whole series of affordability challenges and sprints, and have been on the hook, rightly so, to report back to the Department's investment committee at least twice a year. We have probably generated somewhere between £300 million and £500 million of efficiencies out of the scheme we have. Through this design process, we have already generated a significant amount of efficiencies and savings, notwithstanding the final numbers.

Q58 **Chair:** Efficiencies and savings are not going to take out £2.2 billion.

Mark Thurston: That is the point. We have got to the end of this detailed design process, and we have a number we cannot live with. That plays to your second question. Where are some of the trade-offs? How are we going to bring the cost down?

Q59 **Chair:** Dame Bernadette, what are we going to lose here?

Dame Bernadette Kelly: The next phase of rapid work will need to look at a range of options. Some of those options will be about opportunities to simplify because—you are right—we are not going to find this quantum of savings through magical efficiencies. We are going to have to look at scope; we are going to have to look at the extent of our requirements; we are going to have to look at whether and where it may be appropriate to make some trade-offs to get to something that is more affordable.

One thing the Secretary of State has asked us to do, for example, is test whether all of our assumptions about passenger flows are right, given that the ones that have informed much of this design work inevitably predate the last couple of years and the changes in behaviour post pandemic. There is a whole series of questions we are going to have to look at there.

Q60 **Chair:** To be clear, passenger flows have definitely dipped now, but this is a 100-year project.

Dame Bernadette Kelly: That is the point. That is exactly the right point. I agree. You would not redesign for an adjustment in passenger flow that was going to disappear over time. It is a reasonable question to ask, and that is work we are going to have to do. As I say, we will have to look at the totality of the requirements and we may have to be prepared to make some decisions about the prioritisation of those.

To the point about King's Cross, there is also an interesting set of ideas—I know some of the members of the Select Committee were interested in this during the visit—about where the value in this is, the one-campus approach and whether we could do more of that at Euston. Clearly, I am not going to overstate my optimism about that. As the NAO Report correctly identifies, we have not been using the receipts from over-site development to fund the station. That was a decision that was taken within Government following discussions with the Treasury.

We do need to learn the lessons from King's Cross and elsewhere and ensure that we are making decisions that ultimately deliver value as well as affordability. I hope we can do rapid work to assess the opportunities that look across the piece before we take decisions.

Q61 **Chair:** Mr Over, you want to come in. If you could give us any indication of what might be in a reduced design for Euston station, that would be very helpful.

Alan Over: We have to go through the process of ascertaining what the cost drivers are. The work Mr Thurston has described on the bottom-up cost model will be very helpful in doing that. We have to run a quick thought experiment that looks at two options before we can come to the right solution. We have to start looking at the minimum station we could offer that would support passenger services and meet our requirements. That will give us one side of the arc.

Then we can look at the other side of the arc, which is about the equation that would try to maximise value. That might involve investing more in an integrated station and more in over-site development to increase the amount of value we get out of it. That would take the cost up as well, and you have to look at that gap. I want to explore both of those using the data we have from the two designs we have already. Then we will know where the art of the possible lies. It will probably be between those elements. That is the work we have to do quickly.

As I say, the only way of getting to a position that will meet some of everybody's requirements is for each party to prioritise those requirements and be prepared to make those compromises. In the example of a minimum station, we might have to look at cutting back on over-site development, even though that would not be welcome in terms of economic regeneration, which is really one part of the aims.

Q62 **Chair:** Presumably that could be added later. Are you looking at that as well?

Alan Over: As long as you made the enabling investment, yes. We will have to make those sorts of difficult choices. Is the London Borough of Camden able to look at different proportions of affordable housing, different densities or different over-site developments in order to get more of a positive return from the financial investment we are making in the over-site? That is an example. How do we combine the operating requirements of the conventional station and the high-speed station in a way that maximises the potential operational synergies?

These are the questions we need to look at quickly. Two years may seem some time to work this through, but it is not. We need to make decisive progress on this soon.

Q63 **Chair:** Before I go back to Mr Smith, Dame Bernadette, do you wish there had been a less certain figure out there, given what we are hearing about the uncertainties of this station? It was a bit of a shock to everyone when it was paused suddenly and, as other colleagues have highlighted, the difference between the money available and the cost had increased to such an extent. Do you wish you had presented the figures and information differently? As Mr Djanogly says, it seems like a very big gap.

Dame Bernadette Kelly: Do I wish we had presented the information about cost differently?

Chair: Yes. There was a belief that there was a budget and that the budget was as the budget was. There are always risks and contingencies, but this has gone way beyond that contingency.

Dame Bernadette Kelly: It has. I was as disappointed and dismayed as anybody when suddenly a figure of £4.8 billion emerged so incredibly late in the work. That was a surprise. It coincided, of course, with the point at which decisions were having to be made within Government about our overall investment programme alongside the investment programme of the whole of Government.

It was a combination of that very unexpectedly large number and the acknowledgment that we had a real-terms cash management issue for our investment programmes that led to the decision to pause. I would have liked to have seen a more benign set of circumstances, but we have to work within the circumstances and contexts we have.

Q64 **Chair:** We have grappled before about how this is reported to Parliament and therefore to the taxpaying public. Knowing what you know now about the difference between the original plans and the current cost, would you think about reporting this differently?

Dame Bernadette Kelly: I have looked back on this because I knew the question about the £0.4 billion reporting was on the Committee's mind. I come back to the point that, right up until September, a month before the last parliamentary report, we were looking at a point estimate and a range that, though difficult, was, broadly speaking, if not bang on budget then something that it would have been possible to accommodate within the budget and the contingency we have within the programme.

That work was neither completed nor assured. I am not sure it is very helpful to be reporting publicly on work that has not been verified and assured in a proper way.

Q65 **Chair:** We were concerned that it came as a surprise even to us, and we look at these figures—

Dame Bernadette Kelly: As I say—I will repeat it—the £4.8 billion figure was a very significant surprise that arrived well after the last parliamentary report.

Chair: It just gives so little confidence to taxpayers about how things are run.

Q66 **Nick Smith:** I am still dwelling on this business of why you did not get a ground-up design and budget done earlier, which would have given you a better estimate of the likely figure you would have to work with. I know you are going to say, "We were still unsure whether it was going to be 10 or 11 platforms," but I am not sure that is at the bottom of why it is 150% of the budget. Are you?

Dame Bernadette Kelly: I was just as confused by the figures. As I say, we were working on a point estimate of £3.3 billion and a range of £2.6 billion to £3.6 billion. Those are the figures I would start with. We then saw a figure of £4.8 billion emerge at the point at which the bottom-up work was done during the final three months of the last calendar year. That was what was most surprising.

I would have to ask Mark perhaps to describe some of the factors that drove that and why it was the bottom-up modelling that exposed those numbers.

Mark Thurston: If I understand your question, it is about why we did not get there quicker.

Q67 **Nick Smith:** Yes. Why did you not understand what the real likely costs were going to be? Why did not you do the design work that you talked about being so important because it was bottom up, more granular and gave you better figures? We all understand that. The question is why you did not do it two and a half or three years ago.

Mark Thurston: We started it as soon as we re-baselined the project. At the time we baselined the project, in 2019-20, we had a provisional estimate based on a very high-level concept design. Again, it is great to be able to say, with hindsight, "Did we make enough contingency provision?"

If you think about the point estimate at that time, £2.3 billion, we would have said, "There is still a lot to do on Euston. We do not know the full extent of over-site; there are all these interface issues." If we had doubled that number, we would not be far away from where we have ended up three years later. Hindsight and foresight are wonderful things, but we did assert and we did—

Q68 **Nick Smith:** It is literally your job to work out what the budget is going to be.

Mark Thurston: Yes, but, as Mr Over has said, there was pressure to drive the overall HS2 cost to what was deemed to be an affordable point at that point in time. We did assert and agree with DfT that, of all the elements that sat inside the budget we agreed in 2019-20, Euston was the one we would have to come back and revisit because there was lots of uncertainty around it.

Chair: That was perhaps not clear enough to the wider public.

Mark Thurston: No, that may be so. The other point I would make is we did design the station to RIBA level 3 with 11 platforms, but of course the Oakervee review came out and asked the Department to reappraise the whole of the Euston scheme, including how it was interfacing to the other modes, whether it was maximising the opportunity of over-site and whether an 11-platform station was the right solution for the long-term requirements of the railway. The conclusion of that work was that we should move to a 10-platform station, so we designed it again.

As Mr Over has said, I impaired some money in our accounts last year because that work was abortive. We have redesigned it again over the last 18 months and we have now got to a position of real clarity, but it is not affordable.

Dame Bernadette Kelly: Can I just be clear on one point? At the point at which the baseline was set, it was set on the basis of the cost estimate HS2 Ltd had provided, which was a £3 billion cost estimate. We set a budget of £2.6 billion. As I have said, that was intended to consciously provide stretch but within a target cost that sat within a funding envelope. That is quite an important point. I am disturbed that the questioning could give the impression that we set a budget of £2.6 billion against an estimate of £4.8 billion. That is not the case.

Chair: No, we are really clear about that.

Dame Bernadette Kelly: It was consciously done, but at that stage we did not know what—

Q69 **Nick Smith:** No, but you thought it was £2.6 billion earlier on. Now it has come out at £4.8 billion.

Dame Bernadette Kelly: Yes.

Q70 **Nick Smith:** That is the key point we are concentrating on. Mr Over, I have two more questions for you. I listened carefully to what you had to say. I could not see where you are going to find this £2 billion by paring things back. How are you really going to save this money?

Alan Over: There are choices that you could pare back, if you are prepared to make difficult ones. We might need to do that. I have tried to illustrate some examples in relation to the extent of over-site development, the extent to which we are reworking the underground station and the extent to which we could look at different approaches to maximising value there.

There is some complexity in the current design. That is evident in the models we have. There are some opportunities to take that out. I am not going to sit here and promise you that I can take out £2.2 billion. I need to do the work on what the cost drivers are and then we need to consider those different approaches and see where we get to. That may require the Government deciding to spend more than £2.6 billion.

We have to discover what the cost of meeting the minimum requirement is, and then we can make decisions over and above that. If the cost of making that minimum requirement is £4 billion-plus, we have a different sort of problem. That is what I have to be able to demonstrate, working with Mr Thurston.

Q71 **Nick Smith:** I think there was a suggestion that there might be a combination of working between the HS2 station and the Network Rail station. Could you talk a bit more about that, please?

Alan Over: Yes, the model we have at the moment is a semi-integrated approach where we would develop the HS2 station for 10 platforms in a single go alongside reworking the campus and a shared underground solution for both the Network Rail station and the HS2 station.

That is the first stage of the Network Rail development. There would be subsequent potential Network Rail developments alongside over-site developments across the whole campus. If you matured the thinking on the Network Rail design and took a more integrated approach, there would be opportunities, looking campus-wide, to get to a better value result. That might require additional funding across the two programmes, and it might require additional over-site development to bring in sufficient income to justify it. That is why I was talking about the other end of the arc, which is a more fully integrated approach.

These are thought experiments. I do not want to give anyone the impression that we will necessarily end up with one or the other, but it is the right way of examining the problem.

Q72 **Nick Smith:** I understand that. It is fair comment, but had you had that thought about the integration between the two stations before? Was it worked out previously?

Alan Over: The integrated approach was pointed out by the Oakervee review. We started off down that channel along the second route to the design. The question is whether we can go further on that, if we look at the two in a more fundamentally integrated way. That is what we have to examine.

Q73 **Chair:** One of the things we touched on when we came to visit was the impact of the supply chain on this work that has paused. Suddenly a pause is announced. Mr Thurston, you had contractors lined up and ready to go and now there is a two-year pause. What are you doing about that? Will you be providing any of them with compensation if they walk away?

Mark Thurston: We have instructed the changes to the construction partner in Euston. As I said earlier, they have quite a bit of work to do over the coming months to complete the work they have. The full extent of the impact on them and their subcontractors we have not fully understood yet. That is for them to determine.

We have a bit more work to do through the summer and into the autumn before we can really shut the site down. We will know more about what it means for them by the time we get to the other side of the summer. Of course, we still have a lot of work to do at HS2; 2022, 2023, 2024 and 2025 are our peak years.

Q74 **Chair:** There will be some contractors that will no longer be working or will stop working on the site.

Mark Thurston: To be really clear, ultimately we are going to shut the Euston job down. It is just going to take us some time to do that.

Q75 **Chair:** You have very big contractors, but in the supply chain you have smaller SMEs.

Mark Thurston: Yes, exactly.

Q76 **Chair:** Some of them would have had a significant interest. Their books would have been loaded with the work at Euston.

Mark Thurston: They would.

Q77 **Chair:** Can you give us a sense of how many companies will be very badly hit by this pause?

Mark Thurston: Most of those organisations are working in the broader HS2 supply chain anyway. Our first port of call will be to work with the tier 1 contractor, Mace Dragados, and their tier 2, many of whom we know, to redeploy those resources on to other parts of the programme. We are still not at peak. We have to mobilise at Curzon Street up in Birmingham. We have a big civils programme.

Q78 **Chair:** You are sitting here confidently telling me that the lot of them will continue to work for HS2, but just not at Euston.

Mark Thurston: Exactly, yes. Many of them are already working for HS2. Our intent would be to work with them to redeploy as much of that resource as we can to other parts of the programme.

Q79 **Chair:** Who was going to be doing the other parts of the programme before? Are you just going to just move a contract straight over? Do they have to tender for that work?

Mark Thurston: Many of the tier 2s and tier 3s you referred to—the SMEs—already have contracts with our tier 1 contractors in the civils area, which is the big part of where the work is. As I say, the other new project that is emerging is to build Curzon Street in the centre of Birmingham. There is Interchange station, for which we have appointed, just near Solihull. There is more work to do in the next two to three years. Our intent would be to work with our existing suppliers to recycle as much of that resource as we can back into other parts of the project.

Q80 **Chair:** What percentage will be recycled?

Mark Thurston: We have not worked that out yet.

Q81 **Chair:** When Ministers were making this decision, Dame Bernadette, were they looking at the impact on British business?

Dame Bernadette Kelly: There was a separate affordability concern about Euston, but, in the decisions that were taken in the spring Budget on the overall management of our capital investment programme, we absolutely flagged up choices and potential risks, where there were risks, to supply chain confidence if work was paused or deferred.

That was a part of the analysis, but it was a difficult process with difficult choices. The decision Ministers made was to keep the main phase 1 core delivery work intact and to continue to invest £15 billion over two years in HS2, which was significantly more than was anticipated at the time of the spending review because of inflation.

In the balance, the decisions Ministers were trying to make were about trying to protect the supply chain as far as they could, but that does not mean there are zero impacts on the supply chain. I can certainly assure you that this was an important part of the advice that was being given to Ministers as they considered their options.

Q82 **Chair:** I am sure we will get more information about this—and we will be keen to pursue it—as you begin to wind it down because there is going to be a big gap in the work programme of some of those companies.

I wanted to touch on some of the issues around the local area. This is a big, disruptive building site. It will be a huge hole in the ground with lots of noisy work going on. Some of this will now be delayed, once you have run it down by the autumn or so. This is going to extend the disruption for many residents. What engagement have you had with local residents so far on this?

Mark Thurston: We have and continue to have a lot of interaction with Camden and Camden residents. We have done since we have been on site on the project. We are going to complete the substation; we are going to complete the skills centre; we are going to complete the facilities block for the station. They will be there regardless.

One of the things we are doing is looking at how we can reopen some of the road closures. We have had some local roads closed due to utility diversions. The intent would be to finish that work and get those roads back open as soon as we can for local use. As we shrink the site down and complete the work, we want to reduce, as much as we can, some of the hoarding lines. If anything, we are going to reduce the physical footprint of the station.

The other thing we are starting to explore, in engagement with Camden, the local authority, and residents, is how we can open up some areas for some meanwhile use. That is about how we can work with the local community to give some land and areas back so the local communities get the benefit—

Q83 **Chair:** I am tempted to say that you could wait for it to rain and that big hole at the front would become a swimming pool for local residents. You say that, but you have got half-done work. Can you give us an example of what you might be able to hand back to the local communities?

Mark Thurston: For example, one of the pieces of work we want to complete is the taxi rank. You will remember when we took you to the site. We are going to move the taxi rank again. The area where the existing taxi rank is will ultimately become part of what will be the London underground interchange and a new ticket hall for Euston. Once we move the taxis over, could we do something with the existing taxi rank for the local community? Could we make that an area for the local community to use?

Chair: It could be a temporary public square.

Mark Thurston: Yes, exactly. This is temporary public space that we could use. The local community absolutely needs to have a voice in helping us understand what would be useful.

Q84 **Chair:** Talking about voice, the Drummond Street traders have sent us useful evidence on this. They particularly highlight the water main, which we have seen. We saw that work being done in both our recent visits to Euston—we also, of course, visited last summer. They are saying that the current main is old, fragile and at risk of bursting. HS2 has currently dug up Cobourg Street and the end of Drummond Street for part of the replacement water main, restricting access and doing damage to their businesses. They are really asking whether you are going to finish the work on the water main before you draw stumps on the project for the time being. A lot of money has already gone into that water main.

If you could answer that now, it would be helpful. It is a good example of the challenge of pausing a major project. It also happens to be causing major disruption to local businesses and individuals.

Mark Thurston: My understanding is that we are looking to complete all the utility works that are in progress because it makes a lot of sense to do that. Frankly, the statutory utility would not really want us to have half-finished work. My expectation is that we will complete it, but I will confirm.

Q85 **Chair:** I am not sure whether you have seen the evidence.

Mark Thurston: I have not seen it.

Q86 **Chair:** We can make sure we get the evidence to you. It would be very helpful to have a specific response on that, as they have raised that very specifically and it seemed to us a good example of some of the issues.

You mentioned the construction academy. What will a successful closed-down site look like for you, Mr Thurston? You are saying that by the autumn you will have done some of this work and put things on ice. You may have shrunk the site and got some space at the front for residents to use. What will it look like? What will it be like for local residents?

Mark Thurston: It is a good question. I do not have a visual image in my mind. First and foremost, it needs to be safe and secure. We have done a lot of work with Camden around the impact it has had on the Regent's Park estate. We have had a lot of issues with the movement of people in and around the area.

Recognising that we have a difficult job to put the project on ice for two years—it is certainly going to be the best part of 18 months by the time we finish work—my hope is that we can find a compromise with both the local authority and the local residents to make this as amenable as it can be. That is our task. We certainly want to give local residents a chance to help influence what the interim solution looks like so it is as palatable as possible for local people, local businesses and travellers, of course, because Euston is also an important railway station, while we come back and think about the things Mr Over mentioned.

Q87 **Chair:** We have talked about the pause. The decision was made in March, and the pause is for two years. What you are saying, Mr Thurston, is that you will not have made things safe—i.e. sorted out water mains, utilities and all those sorts of things—until around the autumn.

Mark Thurston: It is safe now. All I am saying is that, at the point we fully demobilise off the site, it is about making it as pleasant as—

Q88 **Chair:** That will be around the autumn.

Mark Thurston: Yes, that is our intent.

Q89 **Chair:** That takes us six months or so into the two years. Is it an 18-month pause, in effect, then, or is it two years? Does the clock start ticking from October?

Mark Thurston: From a cash point of view, we have agreed a funding provision with the Department that starts as of April. As I said already, we have allowed over £200 million in the cash settlement to finish all that work because, first, from a value for money perspective it makes sense to complete that work, and, secondly, to your question, we want to leave the site in as acceptable a condition as we can for local people until we start work again.

Q90 **Chair:** Just to be clear, it will be 18 months after October. You will come back in 18 months. That is the aim. This two-year pause will end then.

Mark Thurston: Our expectation is that we will bring funding back on stream in the spring of 2025 after the two years. It needs to be a scheme, as Mr Over has already said, that we can afford. Then there will be a mobilisation phase for construction. It will probably start a little bit before spring of 2025, and then our hope is that through 2025 and 2026 we will start the work at Euston again in earnest.

Q91 **Chair:** It would be very helpful to the Committee—I direct this mainly at Dame Bernadette, but it is to all of you—if we could have a detailed breakdown of the cost of effectively mothballing the site after finishing off the critical works. It is pretty critical. If you look at big infrastructure projects, were this to happen again, it is really important that Ministers and others know exactly what the total costs are of this effective mothballing.

We are hearing that a lot of complex work needs to be done. Mr Thurston hopes it will be done by the autumn. This is complex work. I guess it is difficult for you to be absolutely sure about this, sitting here right now, but 18 months later it is all going to be reopened. That is a lot of work. It would be helpful to know how much more nugatory spending there will be, but I do not think you can tell us yet, can you, Mr Thurston? There will be some, will there not?

Mark Thurston: We have to do the work, as Mr Over has said, but it is clearly—

Chair: Even moving hoardings will have a cost on a site that size. This is not small change, though it is small change in terms of the overall project.

Alan Over: We can give the undertaking that we will make sure that we account for this properly. We can give an estimate in advance and then a reconciliation against that, because it will be good benchmarking for further exercises, should they be required.

Q92 **Chair:** At the very least, let us try to get some crumbs of comfort from this.

I have one last question. When we visited sites before, you talked to us about the challenge of dealing with people living in tunnels, activists getting into tunnels and the security issues around that. With the site closed up like this, how are you going to make sure it is safe and that does not happen again? Is there any update on that issue? Have you now resolved that?

Mark Thurston: This plays to my earlier point. The site needs to be safe and secure. The contractor will remain responsible for the site. We have and we will continue to have security and surveillance on site for the duration of the pause.

Of course, trespassing and theft are going to be a big concern for us. We are seeing that across HS2 more broadly. The construction industry suffers with that generally in relation to materials, and particularly in the current climate, going back to the earlier point we made around the cost of materials. We need to make sure we remove everything from the site that we do not need and we secure the site as best we can to make sure we do not compromise what we leave behind. More importantly, we do not want to attract problems into the area for the local people.

Q93 **Mr Djanogly:** I just want to clarify one point that came up before on the supply chain in the context of the pause. When we talk about a pause, we are talking about cancelling contracts. Mr Thurston, you said that it is going to be sorted out by the contractors getting work elsewhere on the project and that is going to make things easier. There are concerns that there could presumably be contractual claims. Do you have any idea what they could be? Are you working on that?

Mark Thurston: Yes, of course we are working on that. We effectively now have to agree with the incumbent contractor how we can put the works on pause and agree the mechanism by which we do that and the mechanism by which we would resurrect the work when the funding comes back on stream. My team are on that now.

Q94 **Mr Djanogly:** Are you getting notifications from contractors saying that they intend to make claims?

Mark Thurston: No, we are not. We reimburse contractors by paying their costs. We need to agree a reasonable set of costs they need to incur to wind the project up and finish the work I have already referred to. Then effectively we would put the contract on pause and agree terms with the contractor by which we can then restart the project in the future.

Q95 **Mr Djanogly:** If I were a contractor, I would have known about this for about a month now. I would have made contact with you.

Mark Thurston: We have been in conversations with our contractors all this year. I was very clear about this with the supply chain. When the Secretary of State made the statement in the House on 7 or 8 March, I had a call with all of the tier 1 supply chain to make it very clear to them what that meant and what it meant in practice to them. Our team have been engaging with the supply chain initially, before that point, on a confidential basis. Once the ministerial statement was out, we knew exactly what the likely funding settlement would be. We have been in conversation with our contractors for the last six weeks—those who are affected by the pause—so we can fully understand how we can slow down, pause and defer that work and protect public money.

Q96 **Mr Djanogly:** Mr Thurston, did you say that Ministers already know what the likely cost is going to be?

Mark Thurston: No, I was saying that, when the Secretary of State made the statement to the House, that effectively gave us clearance from the Department to engage with our contractors on what the consequences would be.

Q97 **Mr Djanogly:** When will you know the cost?

Mark Thurston: That is what we are working through now. That is what we have already said. We are working on that.

Q98 **Chair:** Have you set aside any contingent liability for potential legal action?

Mark Thurston: In the funding settlement we have agreed with the Department for the next two years, we have taken a view on what cost we will need to wind up the affected contracts.

Q99 **Chair:** If there had been no pause, Mr Thurston, where would you have been in terms of the works by the spring of 2025? How much would it have been on the actual new station design, and how much would it have been on the basic groundworks that have to take place whatever happens?

Mark Thurston: Euston is particularly problematic, of course, because we had a product that was coming from the partner anyway at the end of last year—that is the £4.8 billion estimate we have—so we would have had to have appraised the scope and the requirements of the station because, as we have already discussed in this Committee, that is an unaffordable position. As much as we would have looked to continue with what we would call critical-path or no-regrets work, there is no way we could have proceeded with the full station based on an estimate of four and a half billion pounds.

Q100 **Chair:** As you say, a lot of the work you are doing now will have to happen whatever—moving sewers, moving substations and all that—which is not really relevant to the station design. It is simply the works that have to happen. How far beyond that would you have gone by 2025, if you had been able to continue?

Mark Thurston: Offhand, I could not tell you. Certainly, we were getting to the point where we would want to move the contract to the second stage, to your earlier question. We cannot do that now anyway. Most of the work over the next six months we will have done regardless.

We were starting to get ready to do the piling work for the platforms. Again, that is what you would consider no-regrets work for a 10-platform station. To the earlier point that Mr Over made, we now need to reappraise what all the requirements of the station are before we can proceed. The pause gives us the time.

Q101 **Chair:** I love the way you are putting such a positive spin on the pause. Can you tell me how much it will cost every week or every month to manage the security around the site?

Mark Thurston: No, I do not know what that will be over the life of the pause.

Q102 **Chair:** Can you give us an order of magnitude?

Mark Thurston: There is no point in me guessing. I will happily set that out for you. We will understand what that will be.

Chair: We know it will not be cheap.

Mark Thurston: We will need to make sure it is value for money. The reality is, once we shut the job down and effectively lock the gates, we need to make sure that we have the appropriate level of security to keep the local area secure for local people and for what is left on the site, and that children and other trespassers do not get into the site. We are doing a lot of this type of work anyway.

Chair: If you could give us an idea, it would be helpful.

Mark Thurston: Absolutely, yes. I can write to the Committee with a little more detail on that.

Q103 **Chair:** I just want to touch on the management of it. You have the Euston Partnership, of course, which is there to help integrate this. Who is making the ultimate decision? Is it HS2 or is it the Department? This is the Department's decision to pause, but when it comes to the decisions around integration with the partnership, who is making the final decision on everything?

Dame Bernadette Kelly: The final decisions on the way forward for the integrated plan for HS2 station and Euston conventional station will rest with the Department and with Ministers. We have a single SRO in the form of Mr Over and we have a joint team. As I say, decisions flow through the Department.

The Euston Partnership joint venture, as the NAO Report sets out, is an unincorporated joint venture. It is there to advise and to ensure that actions are identified to ensure there is collaboration, integration and joining up. It is not an accountable entity. That accountability continues to rest with the Department.

Alan Over: The permanent secretary correctly talks about the big strategic integration coming together with me, the Department and our Ministers. That is on the cross-campus decisions about what scope we wish to proceed with, what budget we wish to apply to that and what the programme approach for delivering it is.

Downstream, when it comes to constructing an effective station of whatever form, be it two with the over-site or one that is more integrated, we do have to rely on our delivery partners and construction companies to do that practical and operational integration. We are keen to make sure we have the best model to do that as well. The Euston Partnership was helping with the previous approach. We will have to review that in line with whatever delivery approach we conclude is affordable and maximises benefits for passengers and the local community.

Q104 **Chair:** You see the Euston Partnership continuing, but you are saying its focus or remit might change slightly depending on the new design.

Alan Over: We need it to continue until we resolve that something else would be better or that it would not be required. That is not the case. The Euston Partnership is going to provide a vital role in doing the work we spoke about earlier. There is the possibility that, in terms of taking a different construction approach, we might need different downstream integration arrangements. We will make sure we take that into our assessment.

Dame Bernadette Kelly: The NAO Report identifies a number of areas that are really important to a successful integration plan, including around decision making and collaborative behaviours. Again, we will take the opportunity of the pause to make sure the governance we have is as effective as it needs to be in driving decision making and behaviours.

Q105 **Chair:** Part 3 of their report is particularly useful in that respect. As you know, Mr Over, we have looked many times at other rail projects and their integration. Crossrail is a good example of that, where the tunnelling was the relatively straightforward bit, but the integration of all the different systems was difficult. What are the current challenges at Euston on that integration? What are you doing to make sure that, although the pause is here, the lessons from Crossrail are learned?

Alan Over: Mr Thurston can talk about the close working with Crossrail at a practical level, but we are also very focused on that at departmental level. Our own work has assessed the importance of clarity around the systems integration responsibilities. We have had that very clearly with HS2 Ltd.

In any station, the challenges are to do with making sure the station control systems and infrastructure integrates with the line of route control systems and infrastructure. Problems have occurred there on Crossrail and many other rail projects. Both Mr Thurston and the Department are very focused on making sure those lessons are learned and that we do as good a job as possible.

The whole line of route systems are being looked at collectively across phase 1 and phase 2a. The approach is to make sure they are plugged into the station where the platforms lead to, but the complexity experienced on some Crossrail stations was also about making sure those line of route control systems integrated with the station systems. The approach HS2 Ltd has sensibly taken is to procure those station control systems across all four stations for phase 1. Mr Thurston might be able to amplify that.

Q106 **Chair:** Mr Thurston, we have seen this first hand at Crossrail. The Committee has visited there a few times. There were some big challenges.

Mark Thurston: Yes, there is some really good learning coming out of that, which we have documented. There is a clear audit trail inside HS2 Ltd about how we are demonstrating that we have learned and applied management practice and other things to ensure that, as HS2 Ltd, we are the programme and system integrator. It is our job to be the guiding mind for the final railway. That is certainly the role we are playing for everything from Old Oak Common into Curzon Street.

Q107 **Chair:** At Euston, you have to deal with Network Rail and so on.

Mark Thurston: That is the point I was going to come on to make. To the earlier question, the Department remains that guiding mind for the full Euston campus because it is the sponsor for our station, the sponsor for Network Rail's station and the client for the over-site development.

To Mr Over's point, as we go through the exercise over the next few weeks and months to work out how we move the whole of the Euston campus to a more affordable position, those governance arrangements—the NAO made some good observations in their report—and who becomes the guiding mind for the integrated station are things for us all to think about.

Q108 **Chair:** Culturally, there were challenges within the Crossrail project. Different contractors had different cultures in relation to how they worked together. You have three big and quite different organisations that have to work together, let alone the external organisations like Camden Council and the GLA that also have some oversight. How are you working through those arrangements to ensure that, culturally, you are working in the same direction?

We were interested to hear that your team on site at Euston were very proud of the safety record. They felt that, because you are a big purchaser and a big customer, you had pushed some higher safety standards in construction. That is on the construction side. I am not saying you are necessarily a force for good on everything, Mr Thurston, but with a project this complex there is an opportunity for you to bring some good working practices to bear. How are you doing that with the partners concerned?

Mark Thurston: I agree. To Dame Bernadette's point, that is why the Euston Partnership has been a force for good. The Euston Partnership, with an independent chair, has brought all the relevant parties together and brought a level of coalition and consensus on what we are trying to achieve at Euston. In that regard, it has served its purpose.

I also agree with Mr Over that, in the light of the affordability challenge we have and the fact we are going to have to take some tough decisions on what requirements do and do not stay in whatever version of Euston goes forward, we need to reappraise whether the Euston Partnership in its current form is the right model and we need to think about whether we need an alternative one. That will be part of our thinking in the work that follows on from now. I think my colleagues in the Department would agree.

Dame Bernadette Kelly: Yes, absolutely.

Q109 **Sarah Olney:** Just quickly, Dame Bernadette, we have been talking about the increase of the HS2 budget and how much extra the Department is spending. What impact is that having on the DfT's wider responsibilities? Are you having to pull back spending that you might otherwise have planned on other projects? At the top of the session I mentioned my own personal favourite. What are the implications of this for other spending?

Dame Bernadette Kelly: We have gone through quite an extensive process of deliberation between the autumn statement, when the Chancellor set out clearly that Departments were going to be held to their existing spending plans with expectations of flat cash subsequently, and the spring Budget in terms of what that meant for the Department as a whole.

That has been very challenging because—we are not alone in this—all across our transport investments we are seeing inflationary pressures, just as the whole of Government is seeing inflationary pressures. We have sought, wherever possible, to manage those pressures where they fall. We are saying to our mayoral combined authorities that they need to live within their city region sustainable transport settlements, although there is some positive news there going forward as well.

In terms of the main implications, it means we have had to make hard choices. As a Department with a large capital spend and a Department where HS2 is in full construction, this has been particularly challenging. The key decisions we have had to take were the ones set out in the written ministerial statement back in March, which relate to the pause at Euston and other elements of the programme, the pause in some of our road-building programme and some of the other choices that have had to be made.

I acknowledge that it has not been an easy process. When you are taking these difficult decisions, you are constantly looking at impact on the public, the traveling public, the wider benefits, value for money for the taxpayer and getting to the best set of decisions possible within a challenging environment. That is what we have had to do.

I would emphasise that we are still investing £20 billion a year in capital in the transport system. That is significantly more than in previous periods. As I say, we also have to acknowledge that inflation has had an impact on all of those budgets, which we are now needing to work through.

Q110 **Sarah Olney:** Does the Treasury continue to prioritise transport? Are you finding a sympathetic ear?

Dame Bernadette Kelly: We would always like Treasury to be more sympathetic and to prioritise transport more highly, as every single one of my permanent secretary colleagues would say of their own spending programmes. It has been a challenging process of negotiation, but Treasury fully understands the importance of transport as a driver of growth and as something that is vital to delivering on levelling up, net zero and other environmental outcomes.

We continue to make the case, and Treasury has recognised the important part that transport plays in the Government's overall priorities and programme of delivery. I would always wish for more generosity from the Treasury, but that is a universal truth.

Sarah Olney: I hope they are tuned in.

Q111 **Chair:** I just want to go back to a local issue—it is partly a local issue, but also an environmental issue. When the HS2 Act was put through, there was a very strong commitment that spoil would be removed by rail. When we went to visit, we saw that was part of the plan. Despite the pause to Euston, the work going on with the Euston approach to Old Oak Common is going to continue.

Mark Thurston: Some of it will continue.

Q112 **Chair:** What is the plan about removing spoil from the site? Is it still going to be done by rail, or are there going to be more lorries on the road?

Mark Thurston: We will have to reappraise. In terms of getting spoil away from the construction of Euston station, most of it was going to end up having to go by road. To be fair, the pause shines a light on a number of issues, not just the scope and the cost but also the logistics and what we do with the existing platform 16 at Euston station. That is something we are going to have to come back and look at.

Further up the road at Old Oak Common, with the tunnelling contractor, SCS, we have built a major conveyor system that is taking all the material on to a conveyor and then out on to the depot at Willesden. Ultimately, that will take thousands of lorries off the road. If we can find a way of bringing freight trains into Euston station and moving a lot of the spoil away in that way, of course we will.

Q113 **Chair:** It was an important assurance in the passage of the Act.

Mark Thurston: Yes, exactly.

Q114 **Chair:** That assurance is not on the face of the Bill, as I understand it.

Mark Thurston: It is an undertaking in the Act.

Q115 **Chair:** Imagine you are talking to the residents around Euston station. Could you perhaps be a bit firmer in the comfort you are giving?

Mark Thurston: We will always try to minimise, for all sorts of reasons, the impact on local roads, local people, invariably cost and certainly the environmental impact. Where we can, we move material by rail or by other means, or in fact recycle the material into the site, as you have seen at the south portal, a bit further north, where we take no material away from the site and it is all reprofiled into the local area. Whenever we can do that, we will. That absolutely should be part of our consideration in the reassessment of what we do next at Euston.

Q116 **Chair:** Finally, there are lessons learned from Euston. We are very keen to watch your numbers and see what it costs to pause, what it costs to redesign and how you will trim that down. We will follow this over time, but, of course, you are building other stations. You have Curzon Street; you have Manchester Piccadilly. What lessons are you taking forward there? I suppose that is to you, Mr Thurston, or maybe to Dame Bernadette.

Mark Thurston: I just want to be clear because there are two questions there. We are at a point where we are at the end of the first stage of the contract on Curzon Street. We are pretty close to getting that away, frankly. We are not there yet but we are pretty close.

Chair: You are confident about that.

Mark Thurston: Yes. We can be much more confident about that. Of course, the design is much further developed and we have much more certainty around cost.

Manchester Piccadilly is the really important one. If you take what has happened at Euston, you have an interface with the existing station, an important planning authority and an interface to other modes. We have a tram system at Manchester that we have to accommodate.

As the Bill takes its passage through the House—the Select Committee is going to hear petitions around the Piccadilly solution sometime before summer recess; the initial hearings are in June—we will find out what version of Piccadilly we end up having to pursue. That will absolutely warrant us thinking about the right set-up and how we organise ourselves as HS2, the Department, the Manchester transport authority and Network

Rail in the light of what has played out with Euston. We will want to set ourselves up early on and include local ambition for over-site development and what we will do to regenerate that part of Manchester in the same way Euston will ultimately regenerate that part of London. It is certainly going to be a key learning point for us.

Alan Over: One of the advantages of this programme as a whole having repeat phases is the opportunity to learn lessons, go up the learning curve and get better. There are going to be more complex stations, like Piccadilly, Old Oak Common and Euston, and then there are going to be more hopefully straightforward ones, like Curzon Street and Interchange station. They are all giving us better information about how, procedurally, to construct sensibly, how to manage our requirements, and, importantly, how to estimate accurately by looking at the actual outturn costs of what we are constructing.

We are really keen to see that learning playing through in a multi-phase project with a view to doing better on future phases. We want to drive a better schedule, better efficiency and better estimating accuracy a priori, based on the information we are getting. There is fertile ground there.

Chair: There is hope for Mancunians, even if those around Euston are going to face a bit of a delay.

Alan Over: I am sure we will have challenges with our northern colleagues as well as our southern colleagues, I say as a midlander.

Chair: You have two other Mayors along the route who might have strong views on this.

Dame Bernadette Kelly: Can I just make a point on learning lessons? I strongly agree with what both Mr Thurston and Mr Over have said, as you might expect. As someone who, like yourself, Chair, and other members of this Committee, has gone through all of this on Crossrail as well, one of the interesting reflections I have is the observation that we are identifying the challenges and pressures in HS2 at a far earlier stage than occurred on Crossrail.

Chair: We had a date for Her late Majesty to open it.

Dame Bernadette Kelly: We were three months from opening when we realised that was not going to happen and that the costs were, as we learned, far greater than had been estimated. While Euston is obviously a very challenging and difficult situation, I would also observe that—

Chair: I do love the way mandarins put it. "Suboptimal" would be another word.

Dame Bernadette Kelly: It would be.

Chair: It is not good.

Dame Bernadette Kelly: No, it is not good, but we are identifying the challenges and problems with the programme earlier. That gives us the opportunity to act earlier and more decisively and to tackle them in a more effective way than has been the case historically.

There are definitely more lessons to learn. There are lessons on cost estimation and the treatment of contingency. Those have come out of this. Certainly, there are lessons on how we handle the integration of these big and complex stations. As you have alluded to, we will learn something from the next two years around the challenges of pausing a programme and then continuing it.

I would also not want to leave the Committee with the impression that we have not already learned and are not embedding lessons. As difficult as the situation may be, it also reflects that learning.

Chair: Thank you for that. We will be repeatedly returning to HS2, along with our sister committee, the Transport Committee. Thank you to our witnesses, Dame Bernadette Kelly, Mark Thurston of HS2, and Alan Over, director general at the Department, for their time. The transcript of this session will be up on the website uncorrected—thank you to our colleagues at *Hansard*—in the next couple of days. We will be producing a report on this in May or June—even we cannot give you a precise date on a small report. Thank you very much indeed for your time.