Sixty-third report of Session 2022-23

Department for Transport

HS2 Euston

Introduction from the Committee

Euston will be the London terminus for High Speed Two (HS2), a new high-speed, high-capacity railway between London, the West Midlands, and the north of England. The HS2 station also forms part of a wider Euston programme, with the redevelopment of the Euston conventional station by Network Rail and 'over-site' housing and commercial development in and around the two stations also taking place on the site. The Department for Transport is the sponsor of all three projects and HS2 Ltd is responsible for delivering the HS2 programme including Euston station.

Following recommendations from the Oakervee Review in 2020 on the HS2 programme, the department instructed HS2 Ltd to move to a simpler design for the Euston station. However, three years later in March 2023 the department announced that it would be pausing new construction work at Euston for the next two years. This pause followed on from HS2 Ltd.'s latest cost estimate in March 2023 of £4.8 billion (in 2019 prices) to build the station compared to its original £2.6 billion budget, alongside inflationary cost pressures across the Department's capital programme. The Department and HS2 Ltd plan to use the pause at Euston to give them more time to develop an affordable and deliverable design.

Based on a report by the National Audit Office, the Committee took evidence on Monday 24th April 2023 from the Department for Transport. The Committee published its report on 7th July 2023. This is the government's response to the Committee's report.

Relevant reports

- NAO report: High Speed Two: Euston – Session 2022-23 (HC 1201)
- PAC report: HS2 Euston – Session 2022-23 (HC 1004)

Government response to the Committee

1. PAC conclusion: Despite spending over eight years on planning and designing the HS2 Euston station, the Department still does not know what it is trying to achieve with the station.

1. PAC recommendation: The Department needs to use the current construction pause to finally establish the design and expectations for the station against what it is willing to spend.

1.1 The government agrees with the Committee's recommendation.

Target implementation date: Summer 2025

1.2 The government has commenced the Euston Reset Programme, which aims to develop an affordable Euston campus that maximises delivery of benefits against prioritised outcomes within available funding. The overall ambition for the Reset Programme is to confirm an updated scheme covering the scope of the HS2 station, first phase of Redevelopment of the Conventional Rail Station (RECS), and any development enabling works, which is affordable and deliverable, by April 2025.

1.3 The Programme is being led by the Department for Transport (the department), with The Euston Partnership (TEP) fulfilling the role of programme manager and HS2 Ltd, Network

Rail and Lendlease, (the Master Development Partner) involved in development work. HS2 Ltd is undertaking work in order to understand the key cost drivers of the current station design and the reasons why the station cost increased following the move to a 10-platform single-stage build design in 2021. The department is also working with Camden Council, Transport for London, and the Greater London Authority in order to carefully prioritise requirements and to consider compromises on transport and wider development requirements.

1.4 The Reset Programme has been designed to consider a broad range of potential early options for the Campus – adopting an approach to design that encourages all previously held assumptions, requirements, and constraints to be challenged with a view to securing as many benefits as can be afforded.

2. PAC conclusion: The £2.6 billion budget set in 2020 proved to be completely unrealistic for what the Department wanted to deliver.

2. PAC recommendation: The Department needs to be much clearer to Parliament and the public that the revised budget it sets is realistic and the station design it approves is affordable and deliverable with timescales for construction before it restarts construction work at Euston.

2.1 The government agrees with the Committee's recommendation**.**

Target implementation date: Summer 2025

2.2 The objective of the Euston Reset Programme is to ensure that the scope of the HS2 station design is affordable and provides value for money to the taxpayer and that the programme is set up appropriately for HS2 Ltd to manage cost risk. The Euston Reset Programme will include the setting of a realistic budget range and assessment of maturity for the updated station design that is adopted and a new delivery-into-service date will be provided in due course.

3. PAC conclusion: The Department does not yet know the costs and impacts of pausing construction.

3. PAC recommendation: We expect departments to have identified the costs associated with decisions on pausing projects so that Ministers can make fully informed decisions and so that departments can manage these costs effectively.

- ***For Euston, the Department should produce an interim report in three months on how they and HS2 Ltd are managing the costs of the pause, exactly how much has already been spent including costs associated with Network Rail and how much more they expect to spend to complete the project. This should include the cost of settling contractual obligations. HS2 Ltd should also include in that update the proportion of the supply chain at Euston, in particular small and medium sized enterprises, that have been re-employed elsewhere on the HS2 programme. The Department should also report on how much of the design work for the revised projects had been done and how much remains to be completed.***

3.1 The government disagrees with the Committee's recommendation.

3.2 The department did consider the projected costs of pausing the work but was not in a position to continue even had it wished to give the scale of the affordability pressure. It is working with HS2 Ltd to ensure that the costs of the pause are being managed effectively.

HS2 Ltd is demobilising construction activities at Euston in a controlled manner. It is noted that, whilst most work on the station site has stopped, some activities are continuing to complete certain 'no regrets' assets that were underway, such as the construction of the replacement London Underground traction substation.

3.3 The department will write to the Committee to set out the spend to date on the HS2 station (including spend on adjusting Network Rail infrastructure to enable construction of the HS2 station) once this information is available from HS2 Ltd and its suppliers, along with details of the costs of settling contractual obligations and the extent to which the supply chain has been re-employed elsewhere on the HS2 project. Details of further spend to complete the station, including further design work, will necessarily follow after completion of the Euston Reset Programme when the design of the station to be implemented has been confirmed.

4. PAC conclusion: The Department and HM Treasury have not reached a clear understanding about how they would manage high levels of inflation on the HS2 programme, including accessing Government-held contingency.

4a. PAC recommendation: The Department should agree with HM Treasury and report back to the Committee in six months on how they will manage the continued consequences of high inflation.

4.1 The government agrees with the Committee's recommendation.

Target implementation date: January 2024

4.2 HM Treasury's standard approach, as set out in Consolidated Budget Guidance and reaffirmed in the 2022 Autumn Statement, is that departments must absorb inflationary pressures within their existing budgets in the first instance. This means that in the first instance, pressures have to be managed within the DfT capital portfolio, which is particularly difficult given the size of the HS2 programme. As is also standard, HM Treasury is open to considering the case for additional funding for such pressures if there is clear evidence of how they have arisen, of the steps that have been taken to manage them, and that they are clearly unavoidable, unforeseeable, and unabsorbable.

4.3 To manage these effects, HM Treasury agreed to defer expenditure across a number of transport capital programmes prior to Spring Budget 2023. DfT and HM Treasury have been discussing how they might manage future cost pressures on the programme in order to best protect value for money for taxpayers, including by giving DfT sufficient flexibility to manage HS2's budgets as effectively as possible, and will report back to the Committee in six months.

4b. PAC recommendation: HM Treasury should set out to the Committee how it will work with all departments to manage the consequences of high inflation on major capital programmes.

4.4 The government agrees with the Committee's recommendation.

Recommendation implemented

4.5 HM Treasury note that inflation is impacting scheduling as well as costs. To manage these effects, HM Treasury agreed to defer expenditure across a number of transport capital programmes prior to Spring Budget 2023. As mentioned at the recent Committee session on Resetting Government Programmes, projects and programmes will also have the opportunity to reforecast and reassess their costs and benefits at their scheduled review points. HM Treasury may need to make further trade-offs across the portfolio to manage the impact of inflation. This will happen, if necessary, at the next spending review.

4c. PAC recommendation: The Department should also establish and set out to the Committee the requirements to access the government contingency on the HS2 Programme.

4.6 The government agrees with the Committee's recommendation**.**

Target implementation date: January 2024

4.7 The Development Agreement established between the department and HS2 Ltd outlines the principles for accessing the government-held contingency on HS2. Before accessing government-held contingency, HS2 Ltd must consider the use of its existing funds, including making use of its flexibility rights and delegated contingency. The exception is any Secretary of State Retained Risk events, which results in a material and adverse impacts on HS2 Ltd.'s ability to deliver the programme, that cannot reasonably be mitigated by HS2 Ltd. These include the COVID-19 pandemic and any applicable changes to legislation, such as relevant tax reforms. Provision of government-held contingency in these scenarios remains subject to appropriate scrutiny and collective agreement by the department and HM Treasury. The department will provide an update to the Committee in six months.

5. PAC conclusion: The Department's reports to Parliament on the HS2 Programme did not reflect the significant level of uncertainty in its estimated cost of Euston station.

5a. PAC recommendation: The Department should provide, as part of its six-monthly updates to Parliament on the HS2 programme, clear explanations of the maturity of its cost estimates and the risks that could result in material changes to provide greater transparency.

5.1 The government agrees with the Committee's recommendation**.**

Target implementation date: December 2023

5.2 The HS2 Parliamentary report published in October 2022 set out HS2 Ltd.'s assessment of a £0.4 billion pressure for Euston station above its £2.6 billion budget, which was aligned with the range against which it had incentivised Mace Dragados to deliver the single-stage design, which was £2.6-£3.6 billion. Information regarding the significant additional pressure from the £4.8 billion revised estimate only became available in January 2023. In advance of the subsequent Parliamentary Report, which was published in June 2023, the department disclosed this transparently to Parliament through the National Audit Office.

5.3 The department is committed to upholding transparency in the HS2 programme.

5b. PAC recommendation: We note that our sister committee the Transport Select Committee asked questions at their hearing on the 21 June 2023 (Questions 163 to 167, Oral Evidence) in relation to the six-monthly reports to Parliament. They queried:

- ***Why the existing report was late and contained so little information***
- ***Whether the next six-monthly report would be submitted to Parliament on time.***
- ***Whether the 2019 figures would now be stated on 27 March 2023 report figures?***
- ***Whether the next report would have an up-to-date BCR?***

We fully endorse all of these questions and expect them to be fully covered in the next report.

5.4 The government disagrees with the Committee's recommendation**.**

5.5 External factors affected the department's original plans for an earlier publication of the HS2 Parliamentary Report, which was further delayed as it has taken time to work through the implications of the 2023 Spring Budget. The department remains committed to transparency and providing a timely and accurate update on HS2 in the next Parliamentary Report. Details regarding the cost information reported in the Parliamentary Report provided in October 2022 are outlined in paragraph 5.2 above.

5.6 Reporting progress on the programme in 2019 values does not reflect the significant inflation that has occurred since and the department intend to work with HM Treasury to update the price base, subject to agreement between both parties.

5.7 The department provides Benefit-Cost Ratio (BCRs)s within business cases. This will not be included within the six-monthly reports to Parliament.

5.8 The department expects to publish the next report no later than 6 months after the previous one.

6. PAC conclusion: The Department has not yet learned lessons from managing major rail programmes.

6. PAC recommendation: The department needs to demonstrate to Parliament and the public that they are successfully embedding the lessons from past rail projects and not just repeating the same mistakes. Specifically on Euston the Department and HS2 Ltd should report back to the Committee on:

- ***what measures the Department and contractors took internally to address costs overruns and to identify who was responsible?***
- ***what lessons they have learned from the Euston project and how it will apply them at both Birmingham Curzon Street, Manchester Piccadilly, having done so they will scrutinise the revised costs carefully to avoid further cost occurring in other parts of the HS2 programme?***
- ***and how it will manage the integration of work on the Euston site once it has decided what it wants to achieve there.***

6.1 The government agrees with the Committee's recommendation**.**

Target implementation date: Summer 2025

6.2 The department has a strong culture of learning lessons from managing major rail programmes, which includes working with the Infrastructure and Projects Authority in order to learn lessons from Crossrail. The department made the decision not to proceed to full construction of Euston Station in the next two years due to affordability and profiling issues. It will continue to apply lessons learnt across phases of the HS2 programme.

6.3 A culture of lessons learned is actively encouraged within the department, and specific initiatives are promoted in the individual directorates running each part of the HS2 project, including a structured learning and development programme, peer-to-peer learning, mentoring, and shadowing and facilitated workshops.

6.4 As part of the Euston Reset Programme, the department is working to identify the cost drivers of the previous station cost estimate of £4.8 billion. High Speed Rail Group is learning from the more mature elements of the HS2 programme, including those from Birmingham Curzon Street and other major projects in the department's portfolio. These are being actively shared with projects that are less mature.

6.5 HS2 Ltd are undertaking work in order to understand the key cost drivers of the current station design and the reasons why the station cost increased following the move to a 10-platform single-stage build design in 2021. The department is also keen to understand appropriate lessons to enact as part of the Euston Reset Programme. Learning, both within the department and at HS2 Ltd will be shared with colleagues developing Manchester Piccadilly and Birmingham Curzon Street stations.

6.6 The department is working with delivery partners to complete the optioneering stage of the Euston Reset Programme. Once appropriate options have been identified, the department will undertake a sift process in which only solutions that are deliverable cross-campus will be considered.