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Committee of Public Accounts

HS2: Update following the Northern leg cancellation

Tenth Report of Session 2024–25

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Committee of Public Accounts

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Summary

The High Speed Two (HS2) programme has become a casebook example of how not to run a major project. It is unacceptable that over a decade into the programme we still do not know what it will cost, what the final scope will be, when it will finally be completed or what benefits it will deliver. It remains to be seen whether the fundamental reset of the programme will be any more successful than the Department for Transport (the Department) and High Speed Two Limited's (HS2 Ltd's) previous attempts to break out of a cycle of repeated failure.

The Department and HS2 Ltd have failed to work together effectively, which is starkly illustrated by their continued disagreement on how much it will cost to complete Phase 1. The Department's estimated range in November 2023 is £45 billion to £54 billion compared with HS2 Ltd's latest estimate of £54 billion to £66 billion in June 2024. With their competing cost estimates still in 2019 prices, then once adjusted for inflation the total programme costs might be close to £80 billion.

There are also significant risks to the redevelopment of Euston station and its surroundings. The government confirmed that HS2 would terminate at London Euston in the Autumn 2024 budget. However, the Department does not yet have a plan for the work at Euston which includes: the HS2 station, the existing Network Rail station, the underground station, and the commercial and housing developments near the station. In addition, the Department intends the work to be substantively privately funded, but it is unclear how achievable this goal is.

Although Phase 2 of HS2 has been cancelled, there are still crucial areas that need to be addressed. Questions remain around how the Department will dispose of the land it no longer needs and the Department must still address future issues around capacity on the West Coast Mainline. The Department and HS2 Ltd will also need to reorganise how they oversee and deliver the programme, including ensuring that they have the right skills and capability to do so.

The Department has failed in its oversight and financial control over one of our most important public sector projects and there is now a reputational risk to the UK. Previous warnings from the Public Accounts Committee on the lack of oversight by the Department were not heeded, leaving us with little confidence that the steps being taken now to control costs will make a significant difference. The Department and HS2 Ltd must not waste this latest opportunity to reset the programme properly, learning lessons from past mistakes and maximising for the taxpayer what value they can from this huge investment. The Department must demonstrate to Parliament through this Committee how proper scrutiny will now be implemented on this important national project.

Introduction

The High Speed Two (HS2) programme aimed to construct a high-speed, high-capacity railway between London and Manchester via Birmingham. Phase 1 (London to Birmingham) was most advanced of the stages, with that section of the railway under construction. The Department for Transport (the Department) is the programme's sponsor, responsible for funding and overseeing delivery. High Speed Two Limited (HS2 Ltd), an arm's-length body of the Department, is responsible for delivering an operational railway

In October 2023, the then government announced significant changes to the HS2 programme. The government stated that Phase 1 would still be completed. However, all further stages of the programme would be cancelled (all sections of Phase 2) and that the HS2 station at London Euston would be smaller, with construction funded by private investment.

Prior to the announcement, the Department expected Phase 1 to cost between £45 billion and £54 billion (in 2019 prices), against a funding envelope of £44.6 billion. HS2 Ltd's latest estimate in June 2024 is £54 billion to £66 billion, although the Department reports that it does not consider this estimate reliable.

Following the October 2023 announcement, the Department and HS2 Ltd began work to understand the implications for the programme. This work included revising the scope of Phase 1, identifying how HS2 Ltd would close down Phase 2, and establishing how the Department would fund and deliver the HS2 station at Euston.

Conclusions and recommendations

1. **The Department and HS2 Ltd share responsibility for repeated failures on the HS2 programme, which now needs a fundamental reset.** It is unacceptable that 13 years since government confirmed HS2 would go ahead, we still do not know what it will cost, what the final scope will be, when it will finally be completed or what benefits it will deliver. We have seen the same issues time and again, with a reset of the programme already needed in 2020 due to escalating costs and delays to the schedule. The fact that another reset is now needed less than five years later points to a failure of governance and oversight. The Department needs to adopt a significantly different approach to its oversight and radically improve its cost and control of HS2 as part of a "fundamental reset" of the programme. The Department and HS2 Ltd expect to complete the reset, including establishing revised costs and benefits, by around mid-2026 but is likely to revise governance and oversight arrangements much sooner.

RECOMMENDATION

a. The Department and HS2 Ltd should write to the committee before the 2025 summer recess, setting out the key components of how they are undertaking the reset of the programme, including the actions, milestones and outcomes.

b. The Department should write to the committee before the 2025 summer recess, setting out what changes it will make to substantively improve its oversight and financial control of the programme and report regularly to this Committee on the effectiveness of these measures.

2. **The Department and HS2 Ltd's failure to work together effectively is starkly illustrated by them not being able to agree how much HS2 will cost.** The Department and HS2 Ltd have still not agreed on how much it will cost to complete Phase 1. They are yet to reach agreement on the methodology and assumptions that underpin their cost estimates. This has been exacerbated by HS2 Ltd failing to ensure it receives reliable data from its supply chain. The existing budget, set in 2019, is no longer viable. With the estimates for completing Phase 1 now as high as £66bn in 2019

prices and inflation adjustments potentially representing an additional £10bn, the total programme costs could be close to £80bn. Only when the Department and HS2 Ltd are able to agree on cost estimates will they be able to agree a budget with HM Treasury. In the interim, the Department is agreeing annual budget settlements for HS2 Ltd, a short-term funding approach that provides poor value for money for the delivery of any long-term infrastructure project.

RECOMMENDATION

Alongside its Treasury Minute response, the Department should write to the committee, setting out details of the agreed cost estimate methodology. The Department should also include in its next six-monthly update to Parliament when it will update programme costs into current prices and how frequently it will do this in the future.

3. **HS2 Ltd's construction contracts are unacceptable to the public purse and it is imperative that HS2 Ltd deliver on its assurances to us that it can renegotiate these and deliver significant cost savings.** The terms and operation of these contracts provide extremely poor value for money. HS2 Ltd did not heed the warnings that the previous Public Accounts Committee made in 2020 that, in bearing more of the risk of cost increases, it would need to ensure the contracts were managed carefully and accepts that it has not done so effectively. HS2 Ltd is now seeking to renegotiate these contracts on more favourable terms. However, we are unconvinced that there are incentives for the contractors to make significant changes and deliver significant cost savings. There is also a risk that the main contractors pass any financial consequences down the supply chain to small and medium-sized enterprises who may find it more difficult to absorb such changes.

RECOMMENDATION

a. The Department's six-monthly progress updates to Parliament should include progress on contract renegotiations and the level of savings made.

b. HS2 Ltd should write to the committee before the 2025 summer recess, setting out what steps it will take if the contracts cannot be negotiated on more favourable terms.

4. **HS2 Ltd's efforts to reduce the environmental impact of HS2 are not delivering value for money, with the c.£100 million cost of a protective 'bat tunnel' more than doubling the cost of that section of railway alone.** The Committee does not consider that the right balance has been struck between protecting the landscape and wildlife and the burden this places

on taxpayers in relation to large public infrastructure projects such as this. The most striking example of this is the 1 kilometre long 'bat tunnel' that HS2 Ltd is building at a cost of c.£100 million (in 2019 prices) to reduce the impact of the railway in that area on a protected species of bat. This is in addition to the £73 million cost of building the underlying stretch of railway and the time and effort taken by DfT, HS2 Ltd and other bodies involved to agree the design and planning permission for the structure. The fact that the Department and HS2 Ltd chose this solution leaves us concerned that the cost to the public purse was not properly front and centre to their decision making. The Department acknowledged that the laws in this area for national infrastructure should be reviewed and while we welcome the recent announcements from government to reduce such burdens on infrastructure projects, through a Nature Restoration Fund, it is not clear to what extent this would reduce costs and delays for major projects such as HS2.

RECOMMENDATION

In its letter to us before the 2025 summer recess, the Department should set out how it will work with the Department for Environment, Food and Rural Affairs to assess what impact the new nature restoration fund would have had on the section of the line where the bat tunnel is, and use that case study to help refine the operation of the fund.

5. **The Department and HS2 Ltd do not have the skills and capabilities needed to successfully deliver the programme.** The Public Accounts Committee has repeatedly raised concerns over the Department and HS2 Ltd having the skills and capability they need. Following the cancellation of Phase 2, HS2 Ltd now needs to reinforce its capability, such as in commercial management, and focus its culture on the singular purpose of delivering Phase 1 for the lowest feasible cost. The company now has new leadership in Mark Wild, who brings experience of delivering Crossrail and is tasked with delivering the programme's reset. There are also likely to be changes in advance of the reset to how the Department engages with HS2 Ltd as well as how it organises itself internally following the conclusion of the Major Transport Project Governance and Assurance Review. However, we are not convinced that the Department has sufficiently considered how it could bring fresh thinking to its own leadership of HS2, or whether it has the right skills and capabilities in place to lead the programme effectively and credibly.

RECOMMENDATION
The Department should, alongside the reset of the programme, set out how gaps in skills and capabilities, such as in leadership and other key areas, will be addressed to secure the successful delivery of HS2. This should include the performance measures or indicators that leaders will be reviewed against.

6. **The Department's plans for Euston carry huge risks given the uncertainties about its scope, cost, funding, schedule and delivery model.** In the 2024 Autumn budget, the government confirmed that HS2 would terminate at London Euston rather than Old Oak Common in West London, but the scope of the work needed at Euston is unclear. The task at Euston is significant as there is not only the construction of the HS2 station and potential allowance for future expansion, but also redevelopment of the existing Network Rail station, the underground station and the surrounding area, all within an extremely tight space. The Department has not yet decided on the final delivery model for work at Euston and how this connects with possible commercial development. Its current ambition is also for the approximately £6 billion cost at Euston to be funded through significant contributions from the private sector. However, there is not yet a clear plan for this and we are sceptical that the private sector will provide this level of contribution. In the meantime, local businesses, residents and passengers will continue to face significant disruption at Euston for many years to come.

RECOMMENDATION
The Department should include in the six-monthly update to Parliament an update on its progress on Euston, including progress in establishing a delivery model and private financing for the works; how it is managing risks; and latest figures for both the spend to date and total cost estimate.

7. **Things are moving too slowly on making decisions on the disposal of land and property purchased as part of the programme.** The Department has yet to determine what land and property can be disposed of following the cancellation of Phase 2, and what land it will retain ownership of for the purpose of potential future work. In February 2024, the previous Public Accounts Committee stressed the need for the Department and HS2 Ltd to develop a strategy for the disposal of land and property, and to balance this with the needs of those who have been affected. Very little progress has been made and people who previously owned property that is no longer needed, and who may welcome the opportunity to buy it back, are still waiting for clear timeframes and answers. This includes properties that were already no longer required from changes to the HS2 route in

2021. We expect HS2 Ltd and the Department to consider these cases as sympathetically and rapidly as possible within the framework of the Crichel Down Rules, particularly when it was someone's home. Some of this land and property may be required as part of government plans to improve rail connectivity in the north of England. Furthermore, having cancelled Phase 2, the Department will also still need to address capacity issues on the West Coast Main Line, given it is expected to reach capacity by the end of the 2030s.

RECOMMENDATION

a. HS2 Ltd should carry out as soon as possible an assessment of residential property to identify what is surplus to requirements and give former owners the right to buy it back. It should report back to the Committee the results of the assessment and report regularly on progress in returning the property to former owners.

b. The Department should also include in its six-monthly update to Parliament:

- the timetable for both decision-making regarding all property no longer needed and their disposal.
- its approach to addressing future West Coast Main Line capacity issues and rail connectivity in the North.

8. **Over the last decade the Department and HS2 Ltd have repeatedly said they are learning lessons but there is little evidence that lessons have been applied effectively and mistakes avoided.** Since 2013, the Department and HS2 Ltd have told the Committee that they have been learning lessons. This has included areas such as around management of costs and schedule. The Department and HS2 Ltd say that they are still drawing on work already completed on HS2 to learn lessons for future delivery and have worked with HM Treasury and the Infrastructure and Projects Authority to consider all the lessons to date. However, escalating costs, programme delays and rescoping demonstrate that the Department and HS2 Ltd have not implemented these lessons effectively.

RECOMMENDATION
Alongside its Treasury Minute response, the Department should write to the committee setting out the key lessons they have drawn and then, in its six-monthly update, explain how those lessons have been put into practice.

1 Resetting the HS2 programme

Introduction

1. On the basis of a report by the Comptroller and Auditor General, we took evidence from the Department for Transport (the Department) and High Speed Two Limited (HS2 Ltd) on the current state of the High Speed Two (HS2) programme.[1] The Department is the programme's sponsor, responsible for funding and overseeing delivery. HS2 Ltd, an arm's-length body of the department, is responsible for delivering an operational railway.[2]

2. In October 2023, the government at the time announced significant changes to the HS2 programme, which aimed to construct a high-speed, high-capacity railway between London and Manchester via Birmingham. While HS2 would continue from Euston to Birmingham (Phase 1), the government would not continue with the other phases (Phases 2a, 2b and East). At that point the phases of HS2 were at different stages of development, with Phase 1 most advanced and under construction and the rest in design or planning.[3] The government stated its intention to sell land and property no longer needed along the route. Furthermore, the HS2 station at London Euston would be smaller, reflecting the fewer train services planned, and construction would be funded by private investment.[4] Prior to the announcement, the Department expected Phase 1 to cost between £45 billion and £54 billion (in 2019 prices), against a funding envelope of £44.6 billion. HS2 Ltd had a higher estimate of £49 billion to £57 billion.[5]

3. Following the October 2023 announcement, the Department and HS2 Ltd began work to understand the implications for the programme. This work included revising the scope of Phase 1, identifying how HS2 Ltd would closedown Phase 2, and establishing how the Department would fund and deliver the HS2 station at Euston. At the end of September 2024, the Department and HS2 Ltd had spent over £32.8 billion (in 2019 prices) in total on the programme.[6]

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1 C&AG's Report, HS2: update following cancellation of Phase 2, Session 2024–25, HC 128, 23 July 2024
2 C&AG's Report, para 1
3 C&AG's Report, para 2
4 C&AG's Report, para 2
5 C&AG's Report, para 3
6 C&AG's Report, para 4; Department for Transport, HS2 6-monthly report to Parliament: December 2024, 17 December 2024

Resetting programme management and oversight

4. Over a year on from the significant changes announced in October 2023 there remains a great deal of uncertainty around the programme:

- the Department and HS2 Ltd told us that they do not yet have an accurate, robust and agreed total estimated cost to complete the programme;[7]
- the Department and HS2 Ltd were unable to confirm when HS2 trains will run from London Euston as the eventual London terminus, although HS2 services are expected to start operating from Old Oak Common in west London between 2029 and 2033 in the interim;[8]
- the Department told us that Ministers still have some decisions to make on two small areas to finalise the scope of Phase 1, which relate to how the Phase 1 railway would have linked to the now-cancelled Phase 2 sections;[9] and
- with the October 2023 decisions reducing the scale of benefits that can be realised by the programme, the Department is re-evaluating what the expected benefits may be as part of revising its programme business case. This includes considering how it may capture potential wider benefits, such as those from changes in land use around stations, but which are more uncertain.[10]

5. The Public Accounts Committee has reported regularly on the HS2 programme, raising concerns on the strategic case for HS2, the cost and schedule challenges, and achieving the intended benefits. For example, following the Department's reset of the programme in 2020 due to cost increases and schedule delays, the previous Committee concluded in May 2020 that:

> "The High Speed Two programme has gone badly off-course […] We are unconvinced that there will not be further cost increases, such as those we have seen in Crossrail and many other programmes, especially given that the route and forecast cost of the northern sections of the proposed railway are still very uncertain and will remain so for years to come. Passengers will not see the benefits from Phase One between London and the West Midlands until 2029 at the earliest, compared to the original plan of 2026, with passengers in

7 Qq 1, 7
8 Qq 81–86
9 Q 4
10 Qq 37–38; Letter from DFT to PAC dated 10 January 2025

> the North having to wait much longer while the Government decides the future of the northern sections of the railway. […] Now that the Government has given the programme the green light, things must change and there must be much greater transparency in future.”[11]

6. The previous Committee’s last report in February 2024, which examined the October 2023 changes to the HS2 programme, concluded that:

> “This Committee has been reporting its concerns on how High Speed 2 (HS2) has been managed for over a decade, but recent events have left us more concerned about the HS2 programme than ever before. The cancellation of the latter stages of the HS2 programme and operating just Phase 1, from London to the West Midlands will achieve poor value for money for the taxpayer, as the Department for Transport (the Department) acknowledged to us. […]
>
> Even before the cancellation of Phases 2a, 2b and East, the costs of HS2 continued to escalate, […]. Poor cost management indicates a failure of governance and oversight across both HS2 Ltd and the Department. This is of great concern given the scale of the challenge they face in resetting the programme to complete Phase 1 and manage the closedown of the other phases, for example in disposing of land and property no longer needed. […]”[12]

7. We heard in evidence from both HS2 Ltd and the Department that the programme is now in need of a ‘fundamental reset’ to break the cycle of cost escalation. We were told this would involve creating a new performance baseline that can be properly assured and measured against; re-contract with the supply chain and bear down on costs; and profoundly change HS2’s culture to be more focused on the singular task of delivering Phase 1 at the lowest feasible cost.[13]

8. We challenged the Department over how, as the programme’s sponsor, it would ensure it has better control, particularly over costs, of the programme. The Department acknowledged that, despite the governance and oversight it has put in place, it has not “delivered, ultimately the outcome and the level of cost control that we need to see on this programme”. It told us that an independent Major Transport Project Governance and Assurance Review review, commissioned by the new government and led by James Stewart, was being concluded for consideration by Ministers very early in the new year. The Department

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11 Committee of Public Accounts, High Speed 2: Spring 2020 update, Third Report of Session 2019–21, HC 84, 17 May 2020

12 Committee of Public Accounts, HS2 and Euston, Tenth Report of Session 2023–24, HC 67, 7 February 2024

13 Qq 5, 71

expects the review to make a number of recommendations over the oversight and sponsorship of the programme, including how the Department's own boards are organised and for how the Department works with HS2 Ltd. The Department told us that any changes, where considered needed, will be implemented as quickly as possible.[14]

9. We were told by HS2 Ltd that it would take time to implement the changes needed as part of the programme's fundamental reset, with all of 2025 needed to ensure the organisation's activities are all orientated towards delivering Phase 1. HS2 Ltd estimated that the reset would not be complete, with an "assured contractualised baseline" that can be properly measured against, until mid-2026. The Department also explained that the reset will include a re-evaluation and refreshing of the business case and a revised benefit-cost ratio.[15]

Revising cost estimates

10. The Department and HS2 Ltd still disagree on the estimated total costs for completing the programme. Despite using the same data, the Department and HS2 Ltd told us that estimates differ because they disagree over a range of technical factors relating to the methodology used for the estimates and assumptions used, for example over the value of remaining risks on the programme and productivity savings.[16] HS2 Ltd also had limited cost information from the supply chain, which reduced its ability to assess which cost increases were necessary.[17]

11. Both the Department and HS2 Ltd told us that they were working together to reach an agreed methodology including drawing on third-party technical advice on cost estimation and, to ensure that the underpinning assumptions of future estimates are agreed, establishing an oversight group with HM Treasury representation.[18] The Department expressed confidence that there would be agreement on the methodology in the coming two to three months.[19]

12. Prior to the October 2023 announcement, HS2 Ltd estimated that the total costs of Phase 1 would be £49 billion to £57 billion. The Department's estimate was lower, at £45 billion to £54 billion but still above the funding envelope of £44.6 billion set in 2019. These estimates were all calculated

14 Qq 72–73
15 Qq 5, 37, 39
16 Qq 1, 6–7, 12
17 C&AG's Report, Figure 8
18 Qq 6, 9, 13
19 Q 12

using 2019 prices.[20] HS2 Ltd has continued to assess the cost of the programme and provided an even higher estimate to its Board in June 2024 of £54 billion to £66 billion, again still in 2019 prices. HS2 Ltd told us that this was based on new information and data from the supply chain. The Department reported that this estimate had been included in its six-monthly report to Parliament for the purposes of transparency. However, it was highly uncertain and subject to further assurance, and had not been approved by the HS2 Ltd Board or by the Department. Also, the estimate did not take into account work as part of resetting the programme and any private financing.[21]

13. We expressed to the Department how unsatisfactory we found it that the cost estimates for completing the programme are still in 2019 prices. The Department agreed, telling us that it expects that any funding agreed at the spending review will be in current prices. It also explained that this will produce an increase in the estimated total programme cost in cash terms given that the adjustment will cover a period of time that has seen very high inflation, particularly in the construction sector.[22] HS2 Ltd, in January 2024 evidence to the Transport Committee, estimated that bringing its estimate in 2019 prices up to 2023–24 prices would add a further £8 billion to £10 billion to the cost of Phase 1.[23] With HS2 Ltd's latest estimate for completing Phase 1 now £54 billion to £66 billion even in 2019 prices, the total programme costs might therefore be close to £80 billion in current prices.[24]

14. The Department confirmed that as well as agreeing a revised cost for the programme with HS2 Ltd, there will also be challenge from HM Treasury before a revised budget for the programme can be set. It told us that HM Treasury is already closely engaged and an important step in determining the eventual cost of the programme will be the upcoming spending review. As part of that, the Department will need to agree with the Treasury what the funding profile for the programme will be for the remainder of this Parliament.[25]

15. The Department emphasised the need for a long-term spending profile for the completion of HS2, acknowledging to us that agreeing annual budget settlements was really poor for long-term infrastructure delivery.[26]

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20 C&AG's Report, para 4.6 and 4.7; Department for Transport, HS2 6 monthly report to Parliament: October 2020, 13 October 2020

21 Q 7; Department for Transport, HS2 6-monthly report to Parliament: December 2024, 17 December 2024

22 Qq 23–25

23 Transport Committee, Oral evidence: HS2: progress update, HC 85, Q 408

24 Department for Transport, HS2 6-monthly report to Parliament: December 2024, 17 December 2024

25 Qq 14, 19

26 Q 21

However, ahead of the programme's reset and spending review and the longer-term certainty they should provide, the Department reported that it is having to manage HS2 Ltd's delivery through annual funding and delivery targets for this year and the next. HS2 Ltd told us that it recognised this as a necessary short-term intervention.[27]

Renegotiating contracts

16. In July 2017, HS2 Ltd let contracts with four joint venture companies for the main civil construction work on Phase 1. However, in 2020, once the cost of building the railway became clearer, it revised the terms of the contracts in an attempt to ensure an affordable programme at that time. Contractors would no longer be liable for cost increases above a fixed target price. Instead HS2 Ltd would be responsible for funding increases above the estimated cost although contractors would lose a proportion of their fee for building the railway if they did not meet performance indicators on cost and schedule.[28]

17. However, the previous Public Accounts Committee was clear on the risk of these changes and that HS2 Ltd needed to closely manage these contracts. In its May 2020 report it warned that:

> "Now that it is bearing more of the risk of cost increases, HS2 Ltd also needs to ensure that it has the right commercial skills to manage its revised contractual arrangements with its main construction contractors." [29]

18. HS2 Ltd acknowledged that it has not managed these contract risks in an optimal or coherent way.[30] In September 2023, HS2 Ltd estimated that the forecast cost of main civil construction work alone had increased by £6 billion (2019 prices) since 2020.[31]

27 Q 35; Department for Transport, HS2 6-monthly report to Parliament: December 2024, 17 December 2024

28 C&AG's Report, High Speed Two: A progress update, Session 2019–20, HC 40, 24 January 2020

29 Committee of Public Accounts, High Speed 2: Spring 2020 update, Third Report of Session 2019–21, HC 84, 17 May 2020

30 Q 5

31 C&AG's Report, para 4.6

19. HS2 Ltd told us that it is now seeking to renegotiate these contracts.[32] It considers that the current contracts are unproductive and that reset provides the opportunity for a fair allocation of risk and an opportunity to find different ways of commercially incentivising the outcomes that it wants, rather than the ones that it is getting at the moment.[33]

20. We challenged HS2 Ltd on the feasibility of renegotiating existing contacts to deliver significant cost savings given the lack of incentives for the contractors to change terms. It told us that all major contractors have expressed willingness to discuss and work through a renegotiation as there was recognition from the private sector that better alignment of incentives between the taxpayer and the delivery of the works was necessary to reduce long-term risk. HS2 Ltd also emphasised that the major contractors would want to work on future rail and wider government infrastructure programmes and so would want to help successfully deliver HS2.[34]

21. We expressed our concern to HS2 Ltd for the potential for the large main contractors to pass any financial consequences of contract renegotiations down the supply chain to the small and medium-sized enterprises, of which HS2 Ltd told us there were around 2,400, who may find it more difficult to absorb such changes. HS2 Ltd acknowledged this issue, telling us that it will take this into account as part of its renegotiations and commercial management.[35]

Environmental obligations

22. We challenged the Department on the balance in legislation that needs to be taken between meeting environmental obligations and costs, raising the example of the £100 million cost of a protective ‘bat tunnel’.[36] In order to mitigate HS2’s impact on nearby bat habitats, the Sheephouse Wood Bat Protection Structure is being constructed near Calvert in Buckinghamshire. The structure will be a combination of concrete arches and mesh inserts and around 1km in length and up to 10m high.[37] The Department explained that under the Wildlife and Countryside Act 1981, the Habitats and Species Regulations 2017 and the International Convention on the Conservation of European Wildlife and Natural Habitats, HS2 Ltd was legally required to mitigate the damage or harm to protected species, such as the bats that lived in the area of that section of railway. Both the Department and HS2 Ltd told us that they understood the public concern over the cost of the

32 Q 30
33 Qq 40–41
34 Qq 40–41
35 Q 43
36 Qq 15–16, 18
37 HS2 Ltd, Sheephouse Wood Bat Protection Structure Information Boards, October 2022

structure but emphasised that it was a considerable engineering structure, built to last 120 years.[38] We note that the enabling legislation for both Phase 1 and 2a passed ahead of the Environment Act 2021 which required developers to achieve a 10% biodiversity net gain. Government will need to ensure that these legislative requirements do not lead to decisions which disproportionately add to the cost of major public infrastructure projects resulting in poor value for money.

23. HS2 Ltd confirmed that it was its decision to build the structure and not one required by Natural England. However, the Department and HS2 Ltd told us that, despite its cost, that they had concluded the 'tunnel' structure was the most efficient and appropriate way to protect the bats out of the 15 options considered.[39] Other options were rejected because of either "excessive cost, technical infeasibility or ecological ineffectiveness". Their assessment included "robust challenge" from HM Treasury, a review by Arup on whether the solution could be delivered more efficiently and work with the Department for Environment, Food and Rural Affairs and Natural England to test whether the structure would provide the legal compliance and whether there were any better solutions that also reduced costs.[40]

24. The Department strongly agreed, however, about how the balance between compliance and cost should be considered when delivering national infrastructure in the future.[41] HS2 Ltd also recognised that it was a complex issue and a sensitive area, telling us that the structure needed local planning permission from Buckinghamshire Council which led to at least a four-year delay which was eventually resolved by the planning inspector.[42]

25. In follow-up evidence, the Department confirmed that the total cost of building the structure will be £95 million (in 2019 prices). The Department also reported that the cost of building that section of the railway, irrespective of any mitigation works, would have been £73 million, meaning that the bat structure more than doubled the costs of that section of railway to £168 million.[43]

26. HS2 Ltd does not monitor how much in total it spends on environmental mitigation. For example, we asked HS2 Ltd how much it was spending on wildlife migration schemes such as for the great crested newt at Halse Copse. In its follow-up letter, HS2 Ltd told us that it was not able

38 Qq 15–16, 18; Letter from DfT on cost breakdown of the HS2 bat mitigation structure at Sheephouse Wood, dated 31 January 2025
39 Qq 15–16, 18
40 Q 18; Letter from DfT on cost breakdown of the HS2 bat mitigation structure at Sheephouse Wood, dated 31 January 2025
41 Qq 15–16, 18
42 Q 16
43 Letter from DfT on cost breakdown of the HS2 bat mitigation structure at Sheephouse Wood, dated 31 January 2025

to provide that information as the provision and maintenance of habitat migration forms part of 'integrated work packages' and HS2 Ltd had set no requirement in these contracts to segregate the cost of mitigation schemes.[44]

27. In January 2025, the government announced that it will look to change how infrastructure projects meet their environmental obligations as part of its forthcoming Planning and Infrastructure Bill. It set out that this would include a Nature Restoration Fund which will pool contributions from developers to fund larger strategic interventions by, for example, Natural England. In many cases this should enable infrastructure builders to make a single payment to enable development to proceed. The government considers that this approach should be quicker and less burdensome than the current requirement of needing to secure mitigation or compensation for environmental harm before planning permission can be granted on an individual site or project basis.[45]

Ensuring the right skills and capability

28. The Public Accounts Committee has repeatedly raised concerns over whether the Department and HS2 Ltd have had the necessary skills and capability to deliver HS2 successfully. In 2020 the previous Committee cautioned that it was not yet convinced that the Department and HS2 Ltd had the skills and capability they needed either then, now or in the future.[46]

> "In 2013 and 2016, previous Public Accounts Committees identified the challenges the Department has faced in securing the skills it needs for High Speed Two as well as its wider programme portfolio. A lack of capability continues to be an issue […], it still has gaps in key areas such as risk management and assurance, project management and project controls.[…]Both organisations will need to ensure that they secure the right skills, at the right time, as the programme progresses."

29. HS2 Ltd also acknowledged in evidence to the previous Committee in November 2023 that it that it needed to think about its capacity and capability throughout the company to deliver the task ahead.[47] While HS2 Ltd's focus in recent years has been on civil engineering, it has been

44 Q17; Letter from HS2 Ltd dated 10 January 2025

45 Ministry of Housing, Communities and Local Government and Department for Environment, Food & Rural Affairs, Planning proposals to unblock vital infrastructure and drive nature's recovery, 22 January 2025

46 Committee of Public Accounts, High Speed 2: Spring 2020 update, Third Report of Session 2019–21, HC 84, 17 May 2020

47 Committee of Public Accounts, HS2 and Euston, Tenth Report of Session 2023–24, HC 67, 7 February 2024

shifting its focus to the delivery of railway systems, bringing the railway into operation and managing how it will integrate with the wider railway network. HS2 Ltd began making changes to its organisation in January 2024, including establishing a new role of Chief Railway Officer, with responsibility for integration and focusing programme decisions on how to best deliver the railway, rather than individual component projects.[48]

30. HS2 Ltd now has new leadership, with Mark Wild appointed as the new Chief Executive Officer and taking up the role in December 2024. He brings his experience of delivering Crossrail into operation and is tasked with delivering the programme's reset.[49] He told us that the three things that he needs to do with HS2 Ltd are: reinforce its capability, particularly commercial management in the teams that are managing the contractors, bear down on costs and drive productivity; create an organisation that will operate the railway in the future; and focus HS2 Ltd's culture on the singular purpose of delivering Phase 1 at the lowest feasible cost.[50] The Department also told us that it would expect changes to how it would sponsor and oversee HS2 Ltd following the conclusion of the Major Transport Project Governance and Assurance Review early in 2025.[51]

48 C&AG's Report, para 4.4
49 Qq 1–3, 5
50 Qq 42, 71
51 Qq 72–73

2 Delivering Euston station

31. In the October 2023 announcement, the government at the time set out that the HS2 station itself would be planned to be smaller, reflecting the lower number of train services expected to operate following the cancellation of Phase 2. However, the scope of the Euston programme would now be larger, incorporating more commercial development and new housing beyond the boundary of the station site.[52] The Department set out for us the four key elements that now need to be brought together as a result of the increased scope of works at Euston, both at the station site and surrounding area, all of which are situated in a tight urban environment.

- The construction of a new station for HS2 which, although now smaller, is being planned to be future-proofed for potential further expansion.
- The redevelopment of the existing Network Rail station at Euston, which is ageing and showing operational problems.
- The redevelopment of the underground station to ensure sufficient capacity and improve performance.
- The development of commercial property and housing above and around the two stations and in the wider Euston quarter.[53]

The October 2023 announcement also set out that a new delivery company, separate from HS2 Ltd, would be appointed to deliver the station and a new development corporation would be created to support the wider development of the area.[54]

32. The Department told us that the new approach to Euston is now a holistic one, seeking to build consensus between stakeholders and as a unified delivery rather than the ineffective attempts of the past to try to solve each part separately and hope that they fit together.[55] The Department expects to progress with the delivery model and set up of the delivery company over the next year.[56] It also told us that, on the development corporation,

52 C&AG's Report, para 3.3 and 3.5
53 Qq 45, 47, 49; Committee of Public Accounts, High Speed 2: Spring 2020 update, Third Report of Session 2019–21, HC 84, 17 May 2020
54 C&AG's Report, para 3.3
55 Q 45
56 Qq 46–48

there are two models being considered–one mayoral-led and one led by the London Borough of Camden. The Department is talking to both the Greater London Authority and Camden Council about which would be preferred.[57]

33. We challenged the Department over the necessity and added risk of establishing an additional delivery body to oversee the works at Euston and its surroundings. The Department recognised that setting up new organisations is far more complex and difficult than is often thought, and that its experience with HS2 Ltd demonstrates that it is difficult to set up high-functioning new organisations delivering extremely complex infrastructure. However, the Department told us that the task at Euston is quite different to HS2 Ltd's core mission of building a railway. The Department explained that the challenge at Euston is more complex, with more moving parts and different opportunities within it, such as attracting private investment, which is a different skill set and poses a different set of technical challenges.[58]

34. The Department also pointed to the need to get the financial incentives right in the new delivery company, including what the shareholding and financial participation would be between the different bodies, so that people consider the collective interest, not just their own interests. The Department reasoned that having that in one delivery body, rather than dispersed across four entities, provides a better chance of producing coherent solutions and effective and efficient delivery.[59]

35. We also challenged the Department on the likelihood of obtaining the more than £6 billion that the station at Euston is estimated to cost from the private sector. The Department suggested that the funding for Euston would likely be a mix of four components: private financing of the HS2 station; development receipts from commercial development; tax increment finance or contributions from local government; and some residual public funding. The Department told us that it had carried out some early market-testing of the potential for private financing and as a result believes it is a viable option. The Department said that once decisions are taken on the delivery model and spatial allocation, and the detailed design of the station has begun, there will be a better understanding of the potential commercial return and likely level of private investment.[60]

36. In the 2024 Autumn Budget, the government confirmed that HS2 would terminate at Euston, announcing that it would fund the work to tunnel from Old Oak Common in west London to Euston.[61] The previous Public Accounts

57 Qq 78–80
58 Q 47
59 Ibid
60 Qq 45–46
61 HM Treasury, Autumn Budget 2024, 30 October 2024.

Committee recommended that a decision on tunnelling was needed urgently to avoid incurring much greater costs from stopping and restarting work.[62] The Department was unable to tell us, however, when the station will be completed and in operation.[63] In the interim however, when it expects HS2 services to begin operating sometime between 2029 and 2033, trains will terminate at Old Oak Common.[64]

37. The Department acknowledged that establishing a clearer plan for the works at Euston and implementing it will take over a decade and that there will be continued disruption to local businesses and communities at Euston. The Department committed to provide transparency and engagement with local residents on its plan.[65]

62 Committee of Public Accounts, HS2 and Euston, Tenth Report of Session 2023–24, HC 67, 7 February 2024

63 Qq 81–86

64 Department for Transport, HS2 6-monthly report to Parliament: December 2024, 17 December 2024

65 Q 51

3 Addressing implications of Phase 2 cancellation

Disposal of land and property

38. Up to the end of March 2024, HS2 Ltd had spent £3.7 billion on buying land and property along the HS2 route, of which £592 million relates to the cancelled Phase 2.[66] The types of land and property include agricultural, commercial and residential, with HS2 Ltd purchasing around a thousand properties and 17 square kilometres of land on the Phase 2 route. HS2 Ltd acts as an agent in purchases and disposals for the Department, with the land and property held as assets of the Department.

39. In February 2024, the previous Public Accounts Committee stressed the need for the Department and HS2 Ltd to develop a strategy for the disposal of land and property, and to balance the need for value for money for the taxpayer with the needs of those who have been affected. The Committee commented that the Department and HS2 Ltd did not yet know when they would dispose of land and property no longer needed.[67] The Department reported in December 2024 that it was developing a programme to dispose of land that is surplus to requirements and has completed a small number of pilot sales.[68]

40. However, the Department told us that overall decisions need to be made on future rail investment first. It explained that the government's long-term strategy being developed for strategic rail investment, including on improvements to rail connectivity in the north of England, may affect what land is bought or sold or safeguarded. It expects the timetable for decisions to be made on the strategy "as a matter of months, not a matter of years". There was some land that it was very confident would not be required under any plausible scheme, and so it would look to release those in a "sensible and sensitive way, so that communities don't suffer that

66 C&AG's Report, para 2.12 and Fig 4

67 Committee of Public Accounts, HS2 and Euston, Tenth Report of Session 2023–24, HC 67, 7 February 2024

68 Department for Transport, HS2 6-monthly report to Parliament: December 2024, 17 December 2024

detriment, and so the Exchequer gets the revenue back" [69] The Department expects that fully disposing of land and property no longer needed will take several years to complete.[70]

41. We pressed the Department to ensure that wherever possible, properties should be offered back to the persons from whom they were purchased, and that requests from people who would like to move back into their former homes be handled sympathetically, given that it can take years for cases to be considered through the Crichel Down rules. We raised the case of properties where decisions were still waiting to be made from earlier changes to the HS2 route, such as around Sheffield which was cancelled in 2021 as part of the Department's *Integrated Rail Plan for the North and Midlands*.[71]

42. The Department told us that it is obliged to secure value for money for the taxpayer and to follow the Crichel Down rules, which require government departments to offer surplus land back to the previous owner at the current market value. However, the Department acknowledged that the rules need to be applied in a way that remembers that there are human beings at the end of the process.[72]

Capacity on West Coast Main Line

43. The HS2 programme was originally intended to improve capacity on the West Coast Main Line. However, with the cancellation of Phase 2, the revised programme will only address capacity between London and Birmingham. The Department is exploring options to run longer HS2 trains north of Birmingham, but this would require additional works at existing stations.[73] Further options for addressing capacity issues include managing demand for rail services or investing in infrastructure such as additional tracks and longer platforms.[74]

44. The Department acknowledged the capacity challenge on the West Coast Main Line as a consequence of not building Phase 2, estimating that it will reach capacity by the late 2030s. These capacity concerns were also raised with us in evidence from Manchester City Council, Transport for Greater Manchester and the High Speed Rail Group.[75] The Department

69 Qq 56–57; Prime Minister's Office, The King's Speech 2024, pages 42–43
70 C&AG's Report, para 2.16
71 Qq 54–57; C&AG's Report, Fig 2
72 Ibid
73 C&AG's Report, para 4.20
74 C&AG's Report, para 4.21
75 HS2U0007, Written evidence submitted by Manchester City Council; HS2U0009, Written evidence submitted by Transport for Greater Manchester; HS2U0005, Written evidence submitted by the High Speed Rail Group

told us that the government is considering what options exist for dealing with capacity north of Birmingham in future years. While there would not be a reinstatement of the northern sections of HS2, the Department said these options could include smaller-scale investments in infrastructure or optimising services using both existing and HS2 trains, although the latter would only delay the problem rather than resolve it.[76]

45. The Department told us it is also carrying out development work on how to improve the east-west rail connectivity in the north of England. It said that this may well now be considered as a series of programmes and choices "rather than a big totemic thing" as originally envisaged by Northern Powerhouse Rail.[77]

76 Qq 66–68
77 Q 70

4 Learning lessons

46. Since 2013, the Department and HS2 Ltd have told the Public Accounts Committee that they have been learning lessons from other major programmes to apply to how they are managing the HS2 programme. For example, in 2019, the Department and the Infrastructure and Projects Authority published a 'Lessons for the sponsorship of major projects' report that drew from the Department's experiences, and the Department told the previous committee that it was embedding the 24 lessons across its portfolio. It pointed to lessons such as using realistic ranges for costing and schedules rather than fixed points, taking action to reset the programme rather than continuing and hoping it is brought back under control, and using benchmarking to test and assure cost estimates.[78] More recently, in November 2023, HS2 Ltd also told the previous committee that it was strengthening its governance, with a particular focus on controlling costs.[79]

47. However, the Committee has needed to recommend repeatedly that the Department and HS2 Ltd improve the degree they reflect on past or current experiences and implement any lessons. In 2020, the previous Committee made clear its dissatisfaction: [80]

> "Given the repeated emergence of issues across the Department's major programmes, we are not satisfied that the Department is yet embedding the lessons it has learned to date."

48. The previous Public Accounts Committee also concluded in its 2023 report on HS2 Euston that it was another example of the Department making the same mistakes and failing to learn lessons from its management of other major rail programmes, highlighting the need for more work on cost estimation, the treatment of contingency and managing the integration of complex projects.[81]

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78 Committee of Public Accounts, High Speed 2: Spring 2020 update, Third Report of Session 2019–21, HC 84, 17 May 2020

79 Committee of Public Accounts, HS2 and Euston, Tenth Report of Session 2023–24, HC 67, 7 February 2024

80 Committee of Public Accounts, High Speed 2: Spring 2020 update, Third Report of Session 2019–21, HC 84, 17 May 2020;

81 Committee of Public Accounts, HS2 Euston, Sixty-third Report of Session 2022–23, HC 1004, 7 July 2023

49. The Department told us that, together with HS2 Ltd, it has worked with HM Treasury and the Infrastructure and Projects Authority to consider all the lessons to date from the HS2 programme but is continuing to 'mine' the lessons learned from HS2. The Department also expects the Major Transport Project Governance and Assurance Review to identify lessons from the programme.[82]

50. The Department reflected that a key lesson from the experience of HS2, and which needs to inform all the Department's future infrastructure plans, is that the Department needs to be very clear when it sets out on a large project what it is there to achieve. Changing the scope significantly when a project is already underway has a financial cost to it and the Department told us that the escalation of costs seen with HS2 reflects an obvious lesson of "to have a plan and stick to it."[83]

51. The Department also suggested to us that the delivery of infrastructure has been too focused on "grand projects or big schemes that are binary—you do them or you don't do them" as opposed to setting a long-term intent and delivering it in smaller incremental stages. The Department explained that in such circumstances it can be easier to commit to each stage, is more controllable as a project, you can learn the lessons from each stage and reapply them to subsequent stages and it is likely to bring passenger benefits and economic benefits sooner, as they are not relying on the whole thing.[84]

82 Q 63
83 Qq 27, 63
84 Q 64

Formal minutes

Monday 10 February 2025

Members present

Sir Geoffrey Clifton-Brown, in the Chair

Mr Clive Betts

Nesil Caliskan

Luke Charters

Sarah Hall

Lloyd Hatton

Chris Kane

Sarah Olney

Michael Payne

HS2: Update following the Northern leg cancellation

Draft Report (*HS2: Update following the Northern leg cancellation*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 51 read and agreed to.

Summary agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Resolved, That the Report be the Tenth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available (Standing Order No. 134).

Adjournment

Adjourned till Thursday 13 February at 9.30 a.m.

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Thursday 19 December 2024

Dame Bernadette Kelly DCB, Permanent Secretary, Department for Transport; **Alan Over**, Director General, Major Rail Projects Group, Senior Responsible Owner for High Speed 2 Programme, Department for Transport; **Mark Wild**, Chief Executive Officer, HS2 Ltd; **Alan Foster**, Chief Financial Officer and Interim CEO, HS2 Ltd Q1-86

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

HS numbers are generated by the evidence processing system and so may not be complete.

1	Balaam, Mr Robert	HS2U0008
2	High Speed Rail Group	HS2U0005
3	Manchester City Council	HS2U0007
4	Spencer, MR Richard	HS2U0001
5	Staffordshire County Council; and Stoke-on-Trent City Council	HS2U0006
6	Transport for Greater Manchester (TfGM)	HS2U0009

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

Session 2024–25

Number	Title	Reference
11th	Excess votes 2023/24	HC 719
9th	Tax evasion in the retail sector	HC 355
8th	Carbon Capture, Usage and Storage	HC 351
7th	Asylum accommodation: Home Office acquisition of former HMP Northeye	HC 361
6th	DWP Customer Service and Accounts 2023-24	HC 354
5th	NHS financial sustainability	HC 350
4th	Tackling homelessness	HC 352
3rd	HMRC Customer Service and Accounts	HC 347
2nd	Condition and maintenance of Local Roads in England	HC 349
1st	Support for children and young people with special educational needs	HC 353