Department for Transport

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Sir Geoffrey Clifton-Brown MP
Chair, Public Accounts Committee
House of Commons
London
SW1A 0AA

[Sent via email]

Dear Sir Geoffrey,

Thank you for your letter dated 3 July on the cost estimate for the Bat Mitigation Structure at Sheephouse Wood, responding to our previous letter of 20 June.

We think there has been some confusion relating to these figures, and we will therefore attempt to clarify the position now.

Your previous letter of 5 June asked us to provide a 'full updated forecast for the total cost of the tunnel and all costs to date'. This is what our letter of 20 June aimed to provide. We provided this information in 2019 prices because that is the price-base that we use for the HS2 project as a whole. Currently, all HS2 management information provided to the Department is presented in 2019 prices. Using a fixed price-base in this way is standard practice in large multi-year infrastructure projects because it enables performance to be measured in a clear and consistent way across the programme, and makes it easier to see where there are 'real terms' cost increases (i.e. cost increases that are over and above inflation).

That said, in light of wider feedback from your Committee, we are in the process of augmenting our reporting of historic programme expenditure with nominal prices (i.e. the cost at the time the expenditure was incurred) in addition to 2019 prices. This will be reflected in the next Parliamentary Report.

The i article of 26 June to which you refer used information released by HS2 Ltd in response to a request under the Environmental Information Regulations 2004 ('EIR'). HS2 Ltd and the Department for Transport are separate public authorities under freedom of information legislation, and therefore deal with EIR requests independently of each other. The Department for transport was not involved in answering the request in question and, whilst there has not been an exhaustive search, it does not appear that the information released by HS2 Ltd was held by the Department.

We have since been informed that the EIR request asked specifically for the latest cost estimate that HS2 Ltd held which accounted for inflation. The specific nature of this request led to HS2 Ltd release an estimate it held that had been produced in March 2023 prices.

However, given that the Committee's letter of 5 June asked for an updated cost breakdown in response to media reports that the cost had increased, and claims that this was a real terms cost increase, we did not consider that it would have been helpful to provide costing information using a different price-base compared to all previous estimates. As illustrated by these recent media articles, the typical effect of doing so is to confuse, rather than aid understanding.

As the Committee knows, inflation does not represent real terms cost increase. We have confirmed within HS2 Ltd that the c.£95m figure (2019 prices) provided in our letter of 20 June represents the same cost as the c.£114.8m figure (2023 prices) released by HS2 Ltd and used in the i article. The only difference is that HS2 Ltd has applied a series of weighted inflation rates to various components of the latter figure in order to reflect the differentiated rates of inflation affecting different parts of the bat structure construction work.

Our position therefore remains – as set out in our June 20 letter – that recent media articles simply reflect the same material cost estimate, without any real terms cost increase.

Furthermore, the approach to inflation adjustment used by HS2 Ltd is more precise than relying on economy-wide measures such as the Retail Prices Index, Consumer Prices Index or other generic metrics. This cruder approach appears to have been the one used by the Financial Times in their earlier article, and by the i in their more recent one (i.e. in order to convert the £114.8m figure into their £125m estimate in 2025 prices). Whilst the latter article reported these figures as an "updated HS2 forecast which has not been published before", the difference actually just reflects their own estimates for inflation, and does not – as implied – signify any real terms cost increases. We suggest that any future media articles that claim to uncover cost increases by inflating the 2019 price base are treated with caution.

Your latest letter requests a "full and detailed breakdown of all the specific costs relating to the mitigation structure in 2025 figures". Such a figure can be produced if necessary, but we would like to stress that it will not provide a more accurate reflection of the true cost of the structure than the figures already provided. Indeed, it will likely result in a figure that is less accurate and also higher than the actual cost in nominal terms, because such an approach will also inflate costs which have already been incurred and invoiced since construction began some years ago.

We understand the Committee’s interest in the bat mitigation structure, which has rightly received significant scrutiny and attention, both from within HS2 Ltd, wider government and from the media and public. We are happy to commit to informing the Committee if there is any real terms cost increase for the structure in the future. Such an increase could - for example - be incurred as a result of increased labour, increased quantities, or inefficient delivery by the supply chain. Such an outcome would result in a real terms cost increase (i.e. the £95m cost figure itself would increase, if expressed in 2019 prices).

The impact of inflation on expenditure is a complex subject, particularly as funding for the project is allocated on a cash basis (i.e. nominal), while HS2 Ltd’s costs are often deflated to a fixed 2019 price base to track cost increases over time, excluding the effects of inflation. Presenting costs incurred in alternative and more up-to-date prices can therefore risk indicating additional non-inflationary cost pressures when the only variable that has changed is the price base. We believe identifying any material real terms non-inflationary cost increase, should it occur, and informing the Committee of it will be preferable to inflating or deflating existing costs and incorrectly presenting them as an actual change. The cost of the entire railway is being revaluated through the fundamental reset of the programme that HS2 Ltd is currently undertaking with Government.

We hope this explanation has helped to clarify the situation. For the avoidance of doubt, we should add that the information above predates the work currently underway in relation to the programme reset, and as you know, it is our long stated intention to update the price base for programme reporting once the HS2 reset is complete and a new baseline agreed.

Yours sincerely,

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Permanent Secretary
Department for Transport

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