

Transport for the North Board – Item 4.5

Subject: HS2 Review Updates

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Sponsor: Barry White, Chief Executive

Meeting Date: Thursday 12 September 2019

1. Purpose of the Report:

1.1 To provide an update on recent HS2 announcements.

2. Executive Summary:

2.1 The report provides information on two recent announcements relating to HS2:

- A Written Ministerial Statement on the cost and timescale for HS2.
- The establishment of an independent, cross-party review whether and how HS2 should proceed.

3. HS2 Cost and Timescale Update:

3.1 On 3 September 2019, the Government issued an update on HS2.

3.2 In a Written Statement, the Secretary of State for Transport Grant Shapps has said that the first phase of the HS2 high-speed railway between London and Birmingham will be delayed by up to five years. That section of the line was due to open at the end of 2026, but it could now be completed between 2028 and 2031

3.3 HS2's total cost has also risen from £62bn to between £81bn and £88bn. The second phase to Manchester and Leeds has also been delayed. This was due to open in 2032-33, but has been delayed to 2035-2040.

3.4 Phase 2b Bill appears, for the moment, to still be on track for June 2020 introduction as planned. The 2b delivery date is actually an indicative 2035-2040 window. The report does not say 2040 directly:

“The emerging schedule for Phase 2b (an as-yet-unassured post-CP2 development activity) allows for the currently assumed Bill deposit date of June 2020, parliamentary timescales informed by experience from Phase One, and a schedule that takes into account a view of likely construction constraints and resources. This gives an earliest delivery into service date – without any float or allowance for additional scope expected to be instructed by DfT – in the mid 2030s. It is therefore more appropriate at this stage of development to indicate that Phase 2b could be opened between 2035 and 2040.”

- 3.5 There is recognition that: “Transport for the North, Northern Powerhouse Rail and Midlands Connect have all come into existence since HS2 was originally conceived. They too must be fully integrated in how, collectively, we plan and deliver a future rail network..... There remains a gap in the strategic development and planning of future railway systems that needs to be addressed in order to create a coherent delivery model that maximises the benefit both to individual regions and the country as a whole and delivers that model in the most cost-effective way. That gap needs to be closed as a matter of some urgency.”
- 3.6 Phase 2b is now to be re-conceived as a rolling programme of work, integrated with other midlands/northern projects with the report stating that “much work has been done to date to ensure NPR and HS2 work cohesively together. Elements of the HS2 design incorporate several NPR touchpoints. NPR could use c.80km of HS2 lines into Manchester and Leeds as part of its current designs. This represents more than 50% of the total new lines needed for NPR.”
- 3.7 The report states that “HS2 stands ready to lead on a 3-month strategic study outlining these types of interfaces and opportunities between HS2 and NPR, as well as TfN, Midlands Connect and Network Rail. The study will also assess the potential to approach Phase Two into smaller delivery areas and set out the priority in which elements of the scheme can be assessed without impacting the hybrid Bill deposit date. By closer alignment of HS2 with NPR, we can consider how the Northern cities can be connected to achieve the best balance of cost between the two. The study outputs will include a proposal for a strategic rolling programme of works.”
- 3.8 A copy of the full Written Statement is included as Appendix 1.

4. Oakervee Review of HS2:

- 4.1 The government announced on 21 August 2019 an independent, cross-party review led by Douglas Oakervee into whether and how HS2 should proceed. The review will consider its affordability, deliverability, benefits, scope and phasing, including its relationship with Northern Powerhouse Rail.

- 4.2 The review will be chaired by Doug Oakervee. The deputy chair will be Lord Berkeley. There will also be a panel consisting of Michele Dix, Stephen Glaister, Patrick Harley, Sir Peter Hendy, Andrew Sentance, Andy Street, John Cridland and Tony Travers. Each will focus on a specific area of interest; they will feed in to and be consulted on the report's conclusions, without having a right of veto in the event that consensus cannot be reached.
- 4.3 The full terms of reference for the review are included as Appendix 2.

5. Recommendation:

- 5.1 It is recommended that the Board notes the HS2 Update and Terms of Reference for the Oakervee Review.

6. Appendices:

- 6.1 Appendix 1 – Written Ministerial Statement on HS2
- 6.2 Appendix 2 – Terms of Reference for the Oakervee Review

List of Background Documents:

There are no background papers to this report.

Required Considerations

Equalities:

Age	Yes	No
Disability	Yes	No
Gender Reassignment	Yes	No
Pregnancy and Maternity	Yes	No
Race	Yes	No
Religion or Belief	Yes	No
Sex	Yes	No
Sexual Orientation	Yes	No

Consideration	Comment	Responsible Officer	Director
Equalities	A full Impact assessment has not been carried out because the report is for noting.	Strategic Rail Director	Strategic Rail Director

Environment and Sustainability

Yes	No
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Consideration	Comment	Responsible Officer	Director
Sustainability / Environment – including considerations regarding Active Travel and Wellbeing	A full impact assessment has not been carried out because the report is for noting.	Strategic Rail Director	Strategic Rail Director

Legal

Yes	No
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Consideration	Comment	Responsible Officer	Director
Legal	TfN Legal Team has confirmed there are no legal implications.	Julie Openshaw	Director of Business Capabilities

Finance

Yes	No
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Consideration	Comment	Responsible Officer	Director
Finance	TfN Finance Team has confirmed there are no financial implications.	Ian Craven	Finance Director

Resource

Yes	No
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Consideration	Comment	Responsible Officer	Director
Resource	TfN HR Team has confirmed there are no resource implications.	Dawn Madin	Director of Business Capabilities

Risk

Yes	No
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Consideration	Comment	Responsible Officer	Director
Risk	A risk assessment has not been carried out as it reporting government announcements for noting.	Strategic Rail Director	Strategic Rail Director

Consultation

Yes	No
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Consideration	Comment	Responsible Officer	Director
Consultation	A consultation has not been carried out because the report is for noting.	Strategic Rail Director	Strategic Rail Director

Appendix 1 – Written Ministerial Statement on HS2

The Prime Minister and I have been clear about the potential for transport investment to drive growth, redistribute opportunity and support towns and cities across the UK. But we have been equally clear that the costs and benefits of those investments must stack up.

The government announced on 21 August 2019 an independent, cross-party review led by Douglas Oakervee into whether and how HS2 should proceed. The review will consider its affordability, deliverability, benefits, scope and phasing, including its relationship with Northern Powerhouse Rail. I have published the terms of reference in full on GOV.UK.

The Chair will be supported by a Deputy Chair, Lord Berkeley, and a panel of experts from business, academia and transport to ensure an independent, thorough and objective assessment of the programme. Panellists will provide input to, and be consulted on, the report's conclusions.

The review will report to me this autumn. I will discuss its findings with the Prime Minister and Chancellor of the Exchequer. Its recommendations will inform our decisions on our next steps.

HS2 is the single largest project of this government. One important aspect of the panel's work is to consider whether both the costs, and the benefits, of the scheme have been correctly identified. HS2's business case has been founded on increasing capacity on our constrained rail network, improving connectivity, and stimulating economic growth and regeneration. The current budget was established in 2013 and later adjusted to 2015 prices. Since that time, significant concerns have been raised.

I want the House to have the full picture. There is no future in obscuring the true costs of a large infrastructure project – as well as the potential benefits.

The recently appointed Chairman of HS2 Ltd, Allan Cook, provided his advice to me on the cost and deliverability of the current scheme shortly after my appointment as Transport Secretary – and I want the House to have the full details at the earliest opportunity. I am determined to set out everything that is currently known, so I have today placed a copy of the advice in the libraries of both Houses. This has only been redacted where commercially necessary, and the Oakervee Review panel will of course see the report in full.

Colleagues will see that the Chairman of HS2 does not believe that the current scheme design can be delivered within the budget of £55.7 billion, set in 2015 prices. Instead he estimates that the current scheme requires a total budget - including contingency - in the range of £72 to £78 billion, again in 2015 prices.

Regarding schedule, the Chairman does not believe the current schedule of 2026 for initial services on Phase One is realistic. In line with lessons from other major transport infrastructure projects, his advice proposes a range of dates for the

start of service. He recommends 2028 to 2031 for Phase One - with a staged opening, starting with initial services between London Old Oak Common and Birmingham Curzon Street, followed by services to and from London Euston later. He expects Phase 2b, the full high-speed line to Manchester and Leeds, to open between 2035 and 2040.

He has also suggested that Phase 2a, West Midlands to Crewe, could be delivered to the same timetable as Phase 1, subject to Parliamentary approval. Finally, he is of the view that the benefits of the current scheme are substantially undervalued. HS2 Ltd continues to refine its estimates of cost, benefits and schedule. All these will be considered within the scope of the Oakervee review.

I said when I announced the independent review into HS2 that I now want Doug Oakervee and his panel to assess independently these findings from the Chairman of HS2 Ltd and other available evidence. That review will provide independent recommendations on whether and how we proceed with the project.

Furthermore, the costs and benefits of HS2 have been quoted in 2015 prices since the last Spending Review. While this allows a stable set of numbers to compare against, it also risks being misconstrued and understating the relative cost of the project, and indeed its benefits.

I therefore think it is worth also updating the House in current prices. Adjusting by construction cost inflation, the range set out in Allan Cook's report is equivalent to £81 to £88 billion in 2019 prices, against a budget equivalent to £62.4 billion.

To be clear, these additions do not represent an increase in the project's underlying costs, and are largely a point of presentation. Nonetheless, I will discuss with the Chancellor the case for updating the costs and benefits of HS2 to current prices to ensure transparency. Again, this is another reason for an independent review.

During the short period in which the independent review completes its work I have authorised HS2 Ltd to continue the current works that are taking place on the project. This will ensure we are ready to proceed without further delay for the main construction stage of Phase 1 in the event that the government chooses to continue. Similarly, I intend to continue to progress the next stages of the hybrid Bill for Phase 2a, West Midlands to Crewe, in the House of Lords while the review is ongoing.

This update is intended to provide colleagues with the information they require about the current status of the HS2 programme. An independent review is now underway to give us the facts about the costs of the HS2 project. I want to be clear with colleagues that there is no future for a project like this without being transparent and open, so we will be candid when challenges emerge.

Therefore, as soon as I have a clear sense of the costs and benefits from Doug Oakervee's review I will update the House.

In the same spirit, my Permanent Secretary has today written to the National Audit Office, offering my department's support – in their inquiry already underway – in auditing not only the project's cost and schedule pressures, but the steps taken in response to these.

We all in this House know we must invest in modern infrastructure to ensure the future prosperity of our country and its people. We look back to past achievements with a sense of pride – from the canals and railways that ensured the UK led the world into the Industrial Revolution, to the space ports and launch sites we are now considering that will make the UK a global leader in space.

These endeavours both inspire and improve the quality of our everyday lives. It is therefore right that we subject every project to the most rigorous scrutiny; and if we are to truly maximise every opportunity, this must always be done with an open mind and a clean sheet of paper.

Appendix 2 – Terms of Reference for the Oakervee Review

Purpose

The Prime Minister has stated his wish to review “whether and how we proceed” with HS2 ahead of the ‘Notice to Proceed’ decision for Phase 1 (London-West Midlands) due by the end of 2019. The review will assemble and test all the existing evidence in order to allow the Prime Minister, the Secretary of State for Transport and the government to make properly-informed decisions on the future of Phases 1 and 2 of the project, including the estimated cost and schedule position.

For the whole HS2 project, the review should rigorously examine and state its view on:

- whether HS2 Ltd is in a position to deliver the project effectively, taking account of its performance to date and any other relevant information;
- the full range of benefits from the project, including but not limited to:
 - capacity changes both for services to cities and towns on HS2 and which will not be on HS2;
 - connectivity;
 - economic transformation including whether the scheme will promote inclusive growth and regional rebalancing;
 - environmental benefits, in particular for carbon reduction in line with net zero commitments; and
 - the risk of delivery of these and other benefits, and whether there are alternative strategic transport schemes which could achieve comparable benefits in similar timescales.
- the full range of costs of the project, including but not limited to:
 - whether HS2 Ltd’s latest estimates of costs and schedule are realistic and are comparable to other UK infrastructure;
 - why any cost estimates or schedules have changed since the most recent previous baselines;
 - whether there are opportunities for efficiencies;
 - the cost of disruption to rail users during construction;
 - whether there are trade-offs between cost and schedule; and whether there are opportunities for additional commercial returns for the taxpayer through, for example, developments around stations, to offset costs; and
 - what proceeding with Phase 1 means in terms of overall affordability, and what this means in terms of what would be required to deliver the project within the current funding envelope for the project as a whole.
- whether the assumptions behind the business case, for instance on passenger numbers and train frequencies, are realistic, including the location and interconnectivity of the stations with other transport systems, and the

implications of potential changes in services to cities and towns which are on the existing main lines but will not be on HS2;

- for the project as a whole, how much realistic potential there is for cost reductions in the scheme as currently planned through changes to its scope, planned phasing or specification, including but not limited to:
 - reductions in speed;
 - making Old Oak Common the London terminus, at least for a period;
 - building only Phase 1;
 - combining Phases 1 and 2a; and
 - different choices or phasing of Phase 2b, taking account of the interfaces with Northern Powerhouse Rail.
- the direct cost of reprioritising, cancelling or de-scoping the project, including but not limited to: contractual penalties; the risk of legal action; sunk costs; remediation costs; supply chain impact; and an estimate of how much of the money already spent, for instance on the purchase of land and property, could be recouped;
- whether and how the project could be reprioritised; in particular, whether and, if so how, Northern Powerhouse Rail (NPR) (including the common sections with HS2 Phase 2b) could be prioritised over delivering the southern sections of HS2;
- whether any improvements would benefit the integration of HS2, NPR and other rail projects in the north of England or Midlands; and
- any lessons from the project for other major projects.

Review team and support

The review will be chaired by Doug Oakervee. The deputy chair will be Lord Berkeley. There will also be a panel consisting of Michele Dix, Stephen Glaister, Patrick Harley, Sir Peter Hendy, Andrew Sentance, Andy Street, John Cridland and Tony Travers. Each will focus on a specific area of interest; they will feed in to and be consulted on the report's conclusions, without having a right of veto in the event that consensus cannot be reached.

Support will be provided by the Department for Transport. Sufficient support will be needed to allow a searching and rigorous review in a relatively short time. The review team will be provided with any papers and persons they request. Undertakings of confidentiality will be entered into with the Chair, Deputy Chair, panel, and others as necessary.

Reporting and publication

The review will report to the Secretary of State for Transport with oversight from the Prime Minister and the Chancellor of the Exchequer. It should produce a written report suitable for publication.

Timing

The review should submit its final report in autumn 2019.