

House of Lords paper

From Lord Berkeley
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Chairman,
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Date...

The final draft HS2 Report

Thank you for allowing me to read this draft last Thursday. As I mentioned afterwards, I cannot support its conclusions or recommendations, and have serious problems with its lack of balance. The lack of balance is reflected in the apparent acceptance of information provided by HS2 Limited and a failure to scrutinise the involvement of HM Treasury and the Department for Transport in the development of the project.

The involvement of these Departments of State is highlighted in the letter dated 11th May 2016 from the Rt Hon Patrick McLoughlin MP, then Secretary of State for Transport, to the Rt Hon George Osborne MP, then Chancellor of the Exchequer which sought to persuade the Treasury that DfT had the budget well under control so that the Treasury did not need to worry when, in fact, internal memos from within HS2 indicated a serious concern among senior managers that the budget could not be adhered to and that a figure of at least £84 to £86 bn was accepted within HS2 Ltd higher management in the Autumn/Winter 2016, and there are reports that, at a conference held at the Said Business School at Oxford at the same time, attended by officials from HM Treasury, the Department for Transport and HS2 directors, there was discussion that the ultimate costs at 4th Quarter 2015 prices could be as high as £100 bn.

In summary, my concerns are twofold, about the process of the report's preparation and its outcome.

The process meant that we had to complete the work in a very short time, and the secretariat was generally helpful in obtaining documentation and arranging meetings. However, as Deputy Chair I would have expected to be able to attend the meetings that you had with ministers, officials and HS2 from non-execs downwards. There was also a marked reluctance from officials and/or you to delve more deeply into the costs of the project, with long delays in arranging meetings with HS2, something I asked for in my first week on the Review.

I also detected a trend in many of the discussions to accept that HS2 will go ahead, so that every effort should be made to minimise costs and maximise revenue, rather than look at the pros and cons of alternative options with a view to reducing costs but still giving as many benefits to those who need them most - in the regions. This trend is evident in many parts of the Review report, such as the omission of arguments in favour of terminating at Old Oak Common as well as those against, or noting that alternatives exist that could provide similar benefits at lower costs in many places in the text, as well as in the options section. In summary, the Review does not seem to answer the many issues in the Terms of Reference in a fair manner.

Secondly, on costs, you will be aware of the great concern that politicians and ministers have had over the rising costs, and their attempts to keep these from public scrutiny until the project was too far advanced to change. I suggested that Michael Byng's expertise and experience in examining HS2 costs for a number of years would enable the Review to obtain an independent view of HS2's cost estimates, but in spite of his offering to sign an NDA confirmed in a letter to you dated 17 September 2019, officials prevented this from being done on the spurious excuse that Michael was representing petitioners. As a result, officials prevented a proper comparison between the estimates of HS2 and Michael Byng.

Thus, the comment in the draft report that 'The Panel did not have enough time to develop its own bottom up estimate of costs on the HS2 Project' is incorrect. Officials prevented it from happening until it was

much too late to have meaningful discussions. On this basis, I believe that the Review should have suggested that a capital cost of £103 bn as suggested by Michael Byng after he reconciled the figures contained in the Chairman's Stocktake Report with his independent estimate.

It is also important for the Review to say that Michael Byng's estimate was a 'bottom up estimate', using the industry standard methodology – the "Rail Method of Measurement" – which should have been compared with HS2 Limited Review. I am surprised that HS2 Limited did not appear to have a structured estimate for external scrutiny either by KPMG or our Review but, if no structured estimate exists, then what did the Company get for the £11.4m it admits it spent on quantity surveying and cost engineering services to 31st December 2018?

I question whether HS2 Ltd, HM Treasury and the Department for Transport, working together are really 'fit for purpose' to take such a project forward. You appear to be happy that the company has turned over a new leaf, having spoken to senior directors and non-execs, but the company's track record in controlling costs is very bad, starting at £32 bn in 2011 to £103 bn today. This is an increase of 221% even before any permanent construction work has started. Compare this with the criticism of Crossrail which is 'only' 25% over budget. (From £14.8 funding envelope in 2010 to around £18.35bn today for opening in 2021).

During the period 2009 to 2019, HS2 has spent, to date, approximately £750 million in professional fees, of which a large sum circa £15 million, has been spent on quantity surveying/cost engineering. Their failure to deliver a robust estimate of cost and a compliant business case is damning. The Company's current negotiations on the main Civil Works contracts are also of worry, as the Review states. There is still a risk of delay and cost overrun here, especially on the contracts around Euston and that many of the contracts appear to be more like cost-plus ones, putting even more risk on the taxpayer.

The Review is equivocal on the number of trains per hour. Whereas it states that it would be prudent to adopt 14 trains per hour per direction because HS2 report that no other high speed rail line in the world currently operates more than this number (except one in Japan which operates 15 at peak hours), when it comes to the BCR the Review provides detailed BCR information and suggestions for improving it to achieve a BCR of between 1.1 to 1.8. A later option offers 16 tph, pointing out that, although the costs reduce by around 6% the benefits are estimated to fall by around 24%.

Nowhere does the Report provide a BCR on the basis of 14tph and a cost estimate of £103bn, probably resulting in a BCR of less than 1. To me, this is very misleading and dishonest.

Please therefore take this letter as a formal notice that I do not support the Review Report. I reserve the right to publish my own alternative report in due course.

Lord Berkeley
Deputy Chair, Oakervee Review into HS2