

Revealed: HS2's £33bn budget already derailed before a track is laid

Flawed IT and design rethinks are adding to the high-speed line's woes

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High Speed Two (HS2), the controversial rail link that will carve through hundreds of miles of countryside from London to Manchester and Leeds, is in crisis over its £33bn budget four years before construction even starts.

Ahead of a judicial review decision expected this Friday – which could result in the whole project being re-examined – an IoS investigation can reveal that HS2 is plagued by flawed IT systems, rising construction costs and huge design rethinks.

The Government's flagship transport project has already cost more than £250m, new figures have revealed. The cost is expected to soar beyond its existing budget, forcing a Department for Transport-backed team in charge of preparatory work – HS2 Ltd and its private sector partner, London Olympics programme manager CH2M Hill – to set up a committee to slash costs as they scramble to keep the project under control.

Yesterday, the HS2 chief executive, Alison Munro, conceded: "We are seeking to design HS2 within the published estimates, but we know that construction here is more expensive than in other countries. We have set up an Efficiency Challenge group that is working with Infrastructure UK to explore ways of reducing the cost of delivering a high-speed rail network that will provide an engine for growth."

HS2 would use 225mph trains, so that journey times from London to Manchester would be slashed by an hour, while 60,000 jobs would be created in the Midlands and the North alone. However, a coalition of campaigners and MPs have questioned the environmental costs and the financing in a time of supposed austerity.

The scale of the crisis is revealed at a point when cabinet ministers are in open revolt about cuts to their departmental spending, ahead of the Budget later this month. Voters will also find the hundreds of millions spent so far difficult to swallow when they are facing rising living costs and a squeeze on household budgets.

The former cabinet minister Cheryl Gillan, whose constituency of Chesham and Amersham will be heavily affected by the line, has uncovered that more than £250m has already been spent on contracts for engineers, PR firms, property agents and market research outfits. HS2 and the Department for Transport (DfT) have allotted a maximum budget of £224m for 2012-13, amounts that Mrs Gillan said were unjustified given that the "benefits have not yet been proven".

Documents in the House of Commons Library show that out of the £253m already spent, £16.8m has been paid to Fujitsu for HS2's IT system. In 2008, the Japanese corporate giant was fired by the Department of Health for "non-performance" in an £896m contract to upgrade NHS systems. Ms Munro has confirmed that the rail link's IT is suffering from "teething problems".

Industry sources claimed that the problems are much more severe . . . Ms Munro said she

was keeping the IT programme "under review". The Cabinet Office is also looking into the spending, though HS2 argued that this was "standard practice".

Last week, the Labour MP Frank Dobson revealed that HS2's plans for the revamp of Euston station, which is in his constituency of Holborn and St Pancras, have been massively scaled down after officials discovered they had underbudgeted by 30 to 40 per cent.

Industry insiders think that the professional services contracts could be around 15 per cent over budget. Arup, the engineering firm famous for its work on Sydney Opera House, has already been paid nearly £10.1m to redesign the station. However, the group will now have to largely start again with more modest ambitions.

Arup is one of a number of engineering firms that has already been paid double-digit millions of pounds for designing swathes of HS2.

For example, Atkins, which was involved in the West Coast Mainline franchise fiasco, was appointed at the end of April on a £13.3m contract that includes designing tunnels under the Chilterns. However, nearly £14m had been spent by January. The contract is due to run until the Hybrid Bill needed to get HS2 on to the statute books is put before Parliament towards the end of this year.

Other contracts appear to be similarly overspent against the budgets announced when they were awarded 11 months ago. A senior rail source argued: "That's an awful lot of money for a year's work – over £1m a month – and this is probably just preliminary designs as you wouldn't get into detail until HS2 gets royal assent."

David Cameron and George Osborne are understood to be 100 per cent committed to the high-speed line, convinced that it is the answer to rebalancing the country's economy away from the South-east.

Yet there is scepticism that, without a beefed-up rail infrastructure in the North, HS2 will not do anything to encourage businesses to move out of the capital. A "paving Bill" is expected in the Queen's Speech in May as, despite the cross-party political backing for HS2, there has been no formal legislation approving the project. The Bill will allow work to be accelerated and more money to be released to the project.

Mrs Gillan added: "At a time when we are all being asked to tighten our belts it is questionable that so much money is being ploughed into a project when its benefits have not yet been proven."

Penny Gaines, chair of the Stop HS2 campaign group, said: "There is mounting evidence that costs will escalate beyond the £33bn budget. They've cancelled the next round of community forums, much to the disgust of communities who are being blighted. They've dropped the spur to Heathrow from the HS2 plans, without dropping the budget."

The DfT paid a public relations company called Westbourne Communications, which provided support for January's announcement of the routes in the northerly second phase of HS2, nearly £61,000. Between February 2011 and January 2012 Westbourne ran an independent campaign to win public support for HS2, which was backed by 1,000 businesses and had a battle bus.

Introduced by Westbourne founder James Bethell at a dinner last November, the transport minister Simon Burns said the campaign's efforts were "highly regarded and greatly appreciated". Mr Bethell was a Tory candidate in Tooting in 2005. Mr Bethell stressed that his company was a broad political church and said: "Westbourne has a considerable transport practice and is highly qualified to deliver these kinds of services to a very high quality."

A DfT spokesman said: "The recent announcement of proposals for the second phase of HS2 required additional effort which HS2 Ltd specified and obtained appropriately in the market. Westbourne's role has been to fulfil that contract."

A judicial review into HS2 by Lord Justice Ouseley will be handed down in the High Court on Friday. The rail line is a risk to the Chancellor as the second Y-shaped link will carve through his Tatton seat in Cheshire – although it is avoiding the more affluent, Conservative-voting areas, sparking accusations of hypocrisy.

Earlier this year, The IoS revealed that Mr Osborne's father-in-law, Lord Howell, is being paid as an adviser to the Japanese high-speed rail firm JR Central, which could win lucrative contracts for HS2.