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Cameron looks to new HS2 chief to cut construction cost

By Mark Odell and Jim Pickard

The budget of the £50bn high-speed rail line could fall by at least 10 per cent if the new head of the project delivers on fresh government cost-cutting targets.

Sir David Higgins, chief executive of Network Rail and the former head of the London 2012 Olympic Delivery Authority, has already started work on identifying areas of potential savings in the programme, before he takes over as chairman of HS2 in January.

David Cameron sought to ease concerns on Monday that the cost of the line between London and the north was running out of control by pointing to Sir David's record of delivering big projects under budget.

The rising cost of the line has threatened to shatter cross-party support with Ed Balls, shadow chancellor, appearing increasingly hostile towards the project.

Sir David has already said he believes the line could come in "substantially" under budget but is not expected to spell out potential savings until he delivers his report to ministers by March next year.

He has, however, warned politicians that the project would fail without cross-party consensus.

Patrick McLoughlin, transport secretary, will on Tuesday warn that Labour's wavering support threatens to undermine efforts to cut costs. "If companies are more confident that it is happening they can gear up their operations and deliver at a better price," said one coalition aide.

Ministers have challenged HS2 to deliver the first phase of the line from London to Birmingham for £4.2bn less than the current £21.4bn budget, according to targets revealed in the government's newly updated business case for the project.

That would produce a saving of almost 10 per cent on the £42.6bn figure for the whole line with further savings expected from the second stage to Manchester and Leeds.

On top of that, the cost of the trains, previously put at £7.5bn, has fallen to £6.9bn, further chipping away at the overall bill.

There are a number of reasons why officials are optimistic that, for once, they could put a dent in the costs of a big government programme. They point out that the £8bn budget rise over the summer resulted in large part from the Treasury's insistence on an increased contingency fund.

Experts said the £42.6bn budget was unusually conservative with a £14.4bn contingency built in to give a 95 per cent degree of confidence that the project would come in at that level.

"It is a very high and conservative standard to use to assess the cost of a project at an early stage," said Peter Dawson, head of civil infrastructure at Bechtel, the engineering group that led the project to build the high-speed line between London and the Channel Tunnel, known as HS1, as well as the tunnel project itself.

"Commercial customers would need a level of between [75 and 80 per cent confidence] to go ahead with an investment decision. It is rare for a private investment to require [95 per cent] before giving the go-ahead"

Mr Dawson praised Sir David's track record and said he expected costs to come down as the scope of the project is fixed and risks are better understood. He said cutting the time it takes to build the line is also key.

Sir David has already said he would look at accelerating construction, currently expected to take 15 years.

Officials caution, however, that costs could rise again depending on what happens during the parliamentary process, which is due to start at the end of this month, to approve the first phase.

Additional reporting by Elizabeth Rigby

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