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31 March 2025

Dear Secretary of State,

Thank you for your letter dated 18 December 2024 and our subsequent meetings. As I made clear to the Public Accounts Committee on 19 December, the position I have inherited in HS2 Ltd is unacceptable; the organisation has failed in its mission to control costs and deliver to schedule. We must intervene to regain control of the programme and reset it to deliver at the lowest feasible cost, while maintaining safety and value for money. HS2 remains a critical national infrastructure project, and it must be delivered competently and transparently.

Introduction, method and approach

In my first 100 days as CEO, I have worked to understand the causes of HS2's cost increases and set a new path forward. To that end, I have met many of the 31,000 highly skilled and hard-working people from the 3,000 UK businesses who are delivering HS2. I have visited many sites along the route and met the CEOs of the supply chain and the professional services companies supporting HS2 Ltd. I have met with you, Lord Hendy and officials (notably the SRO and Permanent Secretary). I have engaged with HM Treasury officials, the Chief Secretary to the Treasury and the Ministerial Taskforce. I have also sought the views of wider industry experts (including the NIC) and those who have undertaken recent external reviews of the programme (e.g. James Stewart and the IPA), as well as key delivery stakeholders (e.g. Natural England, National Highways). Naturally, I have worked closest with HS2 Ltd colleagues.

I have undertaken a thorough assessment of the programme. In line with your request, I am writing to provide my initial assessment, the reasons for persistent delays and cost escalations, and an overview of the path forward. This initial assessment represents a moment in time and in the coming months I will provide further clarity on our revised cost and schedule estimates, as well as greater detail on how HS2 should be set up to deliver the railway. All costs in this letter are in Q3 2019 prices.

The current situation

Despite the evident challenges, it is worth noting the progress that has been made to date. Highlights include completion of the UK's longest rail bridge, the 2.1-mile Colne Valley viaduct, building 38 miles of tunnels, including HS2's longest, the twin 10-mile Chiltern tunnels. We have awarded the main rail systems contracts for track, signalling, communications and power supplies. However, despite the impressive progress, the overall situation with respect to cost, schedule and scope is unsustainable.

My initial assessments of schedule and cost are based on an independent top-down model. As I have set out previously, it will take several months to re-establish a robust bottom-up baseline underpinned by reliable data, against which we can measure and drive progress and make the case for the reset cost and schedule ranges. Ahead of that I am conscious that your Department and HM Treasury will need to make difficult decisions regarding HS2 through the Spending Review, based on imperfect information.

Schedule. The Programme Assessment has found that based on the current railway scope and testing sequence, the initial opening of the railway between Old Oak Common and Birmingham Curzon Street (known as Configuration State C) is not deliverable in the current window of 2029 – 2033. There are two reasons for this:

1. It is now five years since the approval of Notice to Proceed for the Main Works Civils Contracts (MWCC) and the casting of the current baseline (Baseline 7.1). In that time there has been significant slippage in the civil engineering activities against the original plans. HS2 Ltd has no reliable overall earned value measure, however my programme assessment has estimated completion to be around a third. According to Baseline 7.1, the programme should be three quarters complete at this point. Too much ground has been lost.
2. The durations allowed for activities still to come has been underestimated. We have yet to develop an integrated schedule for the deployment of railway systems and rolling stock. For example, the time allocated to test the railway (14 months) is insufficient. A duration of up to 36 months has been assessed as more realistic based on equivalent completed projects.

Costs. Baseline 7.1 provided a maximum cost estimate at completion of £44.6bn (£42.9bn if the cost of Euston is excluded), since this point cost estimates have regularly been revised upwards. In June 2024, HS2 Ltd's estimate of the maximum cost was £61.8bn excluding Euston. Since the last estimate we have now completed a full bottom up forecast of the MWCC, the first for two years, which has resulted in significant additional financial pressure. For the last year, HS2 Ltd has been attempting to stabilise the MWCC without success, and the nature of the contracts is such that the programme bears the vast majority of the financial risk.

A full programme reset is needed to stabilise these costs, they will continue to rise without intervention. The Programme Assessment has identified that further cost pressure is likely, for example, those related to Config D north of Birmingham. I cannot yet be certain that all cost pressures have been identified.

We have worked with officials in your Department to provide our best view of cash requirements over the Spending Review period, reflecting these pressures and opportunities to defer non-critical work to reduce the impact on your Department's wider budget.

Scope. Although there have been significant changes in the scope of the HS2 railway since Baseline 7.1, major scope decisions for Phase One are now behind us, including your steers that we should plan to retain the spurs to the former Phase 2a and 2b sections. The work needed now is to define the sequence of incremental operating stages that will take the railway from its day one opening configuration between Old Oak Common and Curzon Street, to the final configuration, with trains running from Euston across Handsacre Junction north of Birmingham and on to the existing West Coast Main Line.

Over the coming months we will work with officials in your Department to define these stages in a way that balances the lowest overall cost, earliest opening dates for a coherent service and the realisation of benefits. Several opportunities will be explored to bring back the date for initial services and to open the railway as soon as possible, although my assessment shows any opening before or during 2033 will be challenging. We will provide advice to support these decisions on the technical scope by June 2025 and we welcome your rapid decision making on these. Based on those decisions, definitive advice on the likely cost and timescale to deliver Phase One will be provided in the autumn. As is best practice, ranges of time and cost will be used. We will work with colleagues in your Department to reflect constraints from the existing and likely future funding arrangements in the cost ranges. It is my ambition to commence measurement of performance against a new baseline schedule in April 2026.

The three persistent, compounding reasons for escalating costs and delays to schedule

To bring confidence to any revised schedule and cost estimates, it is critical to understand the root causes of the persistent delays and cost escalations. There is no single root cause, but it is the accumulation of compounding vulnerabilities over time, plus the lack of timely intervention to address known challenges, which set the conditions for the systemic failure we see today.

There have undoubtedly been external factors that have directly contributed to this challenge, notably: the COVID-19 pandemic, EU Exit and the Russia-Ukraine war. However, I believe there are three primary issues within the programme that have existed since the Notice to Proceed and continue to have an enduring effect, that must be addressed and taken away as fundamental lessons for other projects:

1. **Construction commenced too soon**, without the conditions to enable productive delivery, such as stable and consented designs. From the start, the cost and schedule estimates were optimistic with inadequate provision for risk and the programme has been inefficiently driven to hold to unrealistic schedules. Estimates contained unvalidated efficiency overlays and the assurance process at key points failed. This limited productivity from the start and led to the delivery schedule being out of sequence. These issues and their effects endure. For example, while design has progressed, there are still gaps (e.g. only 55% of one Joint Venture's design drawings had been issued for construction as of December 2024).
2. **The contracting model has not driven performance**. The MWCC were approved by the appropriate bodies and awarded at a scale never seen before in UK infrastructure. The commercial strategy put almost all risk on HS2 Ltd, effectively turning the contracts into cost-plus arrangements. At that time the construction risks could not be quantified by the contractors, however, as a result, contractors have not been sufficiently incentivised to hit cost targets, and HS2 Ltd failed to establish an effective contract management model. The contracts incentivised the prioritisation of short-term schedule over managing overall cost. This must be reset so that risk is more appropriately shared with the supply chain.
3. **HS2 Ltd is not set up to actively manage delivery**. The local Integrated Project Team structure adopted by HS2 Ltd required hands-on, commercially astute contract management. Despite its large headcount, HS2 Ltd is currently ill-equipped to perform this role, with insufficient capability and capacity in key commercial and technical functions. To compound this, the corporate functions have expanded. These delivery model challenges endure and must be rectified as part of the reset.

Our Operating Environment within Government is beyond the scope of this letter, but issues related to decision making, political pressures, scope changes on northern sections, annual funding constraints and assurance have been highlighted in other reports. Critically, the instability in the scope and funding has made it difficult to lock down credible plans, and we will need to work together on this to align going forward.

Assessment of organisation culture and capability

I have looked at the critical gaps that must be addressed in HS2 Ltd. It should be recognised that there are many highly capable and committed individuals within HS2 Ltd and that the organisational issues faced today stem from the evolution of HS2 Ltd over time (from an enterprise promoting high-speed rail responsible for multiple phases, to a delivery organisation building Phase One at the lowest feasible cost).

However, three key issues have been identified for urgent resolution:

1. The organisation is imbalanced and too big in some functions. Delivery teams lack the resources they need, while the corporate centre has grown excessively.
2. There are critical capability gaps in commercial, technical, assurance, control and finance functions.
3. There is too little focus on the end railway - on delivering and operating the system for passengers, rather than managing the construction programme.

In addition to these capacity and capability gaps, there are some cultural issues that run deep. The organisation is too bureaucratic, process-driven, and risk-averse. It does not operate like an expert builder of a railway. There is a lack of accountability, with individuals feeling disempowered to make decisions or drive change.

Over the coming months, building on steps taken over the last year and a half, HS2 Ltd must become a lean, expert delivery organisation, focused on performance, outcomes, and cost discipline. Crucially, the cost of running the organisation must be reduced. Leadership in the Integrated Project Teams must be strengthened, and the organisation must be reshaped to put delivery first.

The path forward

Addressing these failures, so we can successfully deliver the benefits HS2 promises, requires immediate intervention. These interventions must maximise safe and productive delivery over the coming year, while a comprehensive reset is completed.

The 'reset' is the transformation required to deliver an operable railway on time and in budget. It will set a new programme baseline for the opening railway that can be confidently delivered, predictably and that can provide a solid platform for future operating stages. It will create alignment between your Department, HM Treasury and HS2 Ltd on the time and cost parameters of the new baseline and provide the basis to agree revised funding and schedule ranges.

Adapting the method I applied at the Elizabeth Line to the greater challenges here, I am organising around four priorities.

1. We will develop the optimal operating configurations for HS2. It is my assessment that there is a need to simplify the day one railway, and I am looking at all available levers (e.g. opening at slightly reduced running speeds, removing automatic train operation) while protecting the long-term agility to deliver the full benefits. This staged approach will reduce risk, improve reliability, allow for more certainty around cost, reduce the delay to the railway's opening and enable incremental build-up of the service.
2. We will develop a commercial formula for a successful reset of the supply chain once the new baseline schedule emerges to reward minimising cost, and to ensure risk is more appropriately shared with the supply chain. Regaining control of the MWCC will involve a challenging negotiation and may require robust action in support from Government.
3. We will design and implement a new, cost effective, HS2 Ltd organisation structure to meet the challenge of delivering Phase One. We need to radically simplify the operations of HS2 Ltd. We will address the issues identified around delivery capacity, culture and capability.

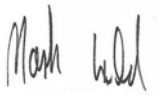
4. We will reset our relationship with Government to establish alignment and enable successful delivery. In my short time in this role, I have been encouraged by the collaborative spirit and working between my team and your officials.

I have considered pausing delivery while the reset is in progress, but this would add further cost and delay. Instead, we will drive productivity to ensure we maximise the output from our funding for Financial Year 2025/26. Immediate action is already underway. I am stopping all activity that does not solely support the reset, in year productivity or essential controls. To aid that focus I have implemented a new Executive structure and have filled some of the key capability gaps in delivery and commercial functions. I have also already significantly reduced the number of non-permanent labour contractors. In addition, no performance related pay increases will be made for senior managers, or bonuses taken by Executives related to financial year 2024/25.

Our commitment to working with you to turnaround the project

The route forward is clear but it is not without challenge. One of the issues of the past has been collective decision making. Over the coming weeks and months, we must take rapid strategic decisions across all stakeholders (government, HS2 Ltd, and the supply chain) if we are to deliver reliably. I look forward to working collaboratively and transparently with you and departmental colleagues to make this a success. I would be pleased to meet you and ministerial colleagues to discuss these initial findings if you would find that helpful.

Kind regards,



Mark Wild
Chief Executive Officer
High Speed Two (HS2) Ltd