



Department
for Transport

HS2 Phase 2a Strategic Outline Business Case Commercial Case

Moving Britain Ahead

January 2016

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1. Introduction and Scope

- 1.1 HS2 is a new high speed rail network for the UK, connecting London with major cities in the Midlands and the North of England. It is a Y-shaped network that will be delivered in several stages. Trains will also run beyond the “Y” network to serve places such as Liverpool, Warrington, Newcastle and on to Scotland.
- 1.2 Phase One of HS2 will see a new high speed line constructed from Euston to north of Birmingham, where it will re-join the existing West Coast Main Line (WCML), allowing fast, direct services to destinations including Crewe, Manchester, Liverpool, Preston and Glasgow. New high speed trains will serve Birmingham city centre and an interchange station designed to serve the wider West Midlands. At Old Oak Common in West London, a new interchange will be built connecting HS2 with Crossrail and the Great Western Main Line. Phase One will be built and operational by 2026 (subject to Parliamentary approval of the Phase One hybrid Bill).
- 1.3 The proposals for Phase Two extend the line to the north-west and north-east, to Manchester with connections to the WCML at Crewe and Golborne, and to Leeds with a connection to the East Coast Main Line approaching York. There will be new stations in Manchester and Leeds, with intermediate stations to serve the East Midlands and Sheffield. Phase Two will be completed seven years after Phase One, in 2033.
- 1.4 This document sets out the Commercial Case for the HS2 route between Fradley (at the point at which Phase One joins the WCML) and Crewe, and for accelerating delivery of this section of HS2 Phase Two (the “Phase 2a” scheme).
- 1.5 Phase 2a is a 37 mile railway starting at Fradley at its southern end. At the northern end it connects with the WCML south of Crewe to allow HS2 services to join and call at Crewe Station. North of this junction with the WCML, Phase 2a continues to a tunnel portal south of Crewe, thereby providing passive provision for completing Phase Two, as set out in the 2013 Route Consultation¹ (in other words, trains would only start travelling up to the tunnel portal once the next part of the Phase Two route was built).
- 1.6 Phase 2a also includes an Infrastructure Maintenance Depot located in the Basford area south of Crewe. The alignment is as consulted in 2013, with some route refinements made in response to consultation.
- 1.7 The 2013 Strategic Case² set out a proposed train service pattern that would run once Phase One opens in 2026. This assumes that six trains per hour run through Crewe (with two services stopping there) and one train per hour runs through Stoke-on-Trent (without stopping). For the purposes of modelling, we have assumed that this service pattern continues to run once Phase 2a opens in 2027. When the rest of

¹ <https://www.gov.uk/government/consultations/hs2-phase-two-proposed-line-of-route-from-west-midlandsto-manchester-and-leeds>

² <https://www.gov.uk/government/publications/hs2-strategic-case>

Phase Two opens in 2033, we have assumed that the Phase Two train service pattern will run across the network, as set out in the 2013 Strategic Case.

- 1.8 We are continuing to work on developing the best service pattern for Crewe and the wider North West. We have modelled a number of alternative service patterns as part of the economic analysis (set out in more detail in the Economic Case and Strategic Case for Phase 2a). In addition, both consultation responses and Sir David Higgins have recommended that HS2 serve a new high speed hub station at Crewe. The Government supports the vision for a Crewe Hub, and intends to make further announcements on the way forward in 2016. We are working with Network Rail and local stakeholders to understand how best to develop options which are affordable and deliver value for money.
- 1.9 The Commercial Case is one of the five cases making up the Government's Strategic Outline Business Case (SOBC) for Phase 2a. The five cases are:
 - Strategic Case
 - Economic Case
 - Financial Case
 - Commercial Case
 - Management Case
- 1.10 The SOBC stage of developing a major project outlines the high level outcomes which the project intends to deliver. It sets out the need for intervention and how this will further Ministers' aims and objectives. It provides suggested or preferred ways forward and presents the evidence for decision, including the costs and benefits.
- 1.11 The scope, costs and schedule are refined as the project moves to an Outline Business Case (OBC), which is then further refined to give greater confidence in delivery by the time a final investment decision is taken at the Full Business Case (FBC) stage. As a result, the train service specification (TSS) and designs set out in this SOBC are intended to give Government confidence in the intentions and outputs of the project, but will continue to be refined and may change as the project develops.

The strategic objectives and rationale for Phase 2a are set out in the Strategic Case of the SOBC.

Scope of the Commercial Case

- 1.12 This Commercial Case sets out the resource requirements and how HS2 Limited is intending to manage the programme of works for this project.
- 1.13 In this Commercial Case, we consider:
 - what would need to be procured at different stages in the life-cycle of the project: development, delivery, operations
 - how this is to be procured

- whether the approach planned will manage the supply chain effectively to balance deliverability against price / value for money
- whether HS2 Limited has the appropriate capacity, capability and skill level to deliver the necessary development and delivery work

1.14 At this stage, due to the level of maturity of design and development, the Commercial Case is focused on the development stage of the project, and on HS2 Limited's ability to meet the above requirements and provide to Parliament a hybrid bill for the project. Nevertheless, it provides some initial thinking on the delivery stage of the project and end state operation, drawing upon Phase One of the project. This will continue to be developed as part of the business planning process.

HS2 Context

1.15 As set out in the HS2 Strategic Case³, HS2 is a new north-south railway for Britain with an objective of contributing to rebalancing economic productivity across England.

1.16 The 2013 Business Case for HS2 sets out Government's intention at the time for HS2 to be built in two phases, with the outputs for Phase One being delivered in 2026, and in 2033 for Phase Two. Since then, Government has set out its vision of delivering benefits of HS2 sooner where possible. An SOBC for Phase 2a has been developed as a result to inform a decision by Ministers.

1.17 HS2 is the biggest infrastructure project in Europe and will have a significant direct impact on the relevant markets, particularly in engineering and construction. The budget for the whole network, at £55.7bn for infrastructure, plus around £7bn for rolling stock (2015 prices), is over four times that of the London 2012 Olympics. Phase One alone involves 140 miles of new infrastructure including four new stations, with the Phase 2a route providing a further 37 miles of infrastructure.

1.18 Phase 2a is relatively uncomplicated compared to Phase One and the rest of Phase Two. The route will have an infrastructure maintenance depot south of Crewe, near Basford, but does not have any stations within the works.

1.19 In bringing this route forward, effective management of the supply chain is needed to ensure that value for money is achieved and that the programme delivers according to the necessary timescales.

³ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/260525/strategic-case.pdf

2. Development, Delivery and Operations

Business Case Development

- 2.1 From this point in the business case process, further work will follow to confirm the detailed scope of the design and to develop plans for construction so that there will be a high level of confidence in both the schedule and the cost. We will complete this work and publish an Outline Business Case (OBC) in 2017. Completing this work will enable the deposit in Parliament of a Bill for this part of Phase Two in the same year. This will be followed by a Full Business Case (FBC) in 2019. Below is our indicative timetable of the key stages of the process:



Phase 2a Development - Professional Service Contracts

- 2.2 We will further develop the scope and evidence base for Phase 2a through the development stage of the programme and ensure that the commercial aspects of the project are secured ahead of depositing the hybrid Bill before Parliament.
- 2.3 There are some actions that we have been able to take early. In November 2015 HS2 Limited procured suppliers under Professional Service Contracts (PSCs) to develop an understanding of the land requirements, the geological requirements, railway systems, and environmental issues that will shape the design of the route and infrastructure requirements. This will support the work needed to finalise the design and environmental statements in 2016 to enable the deposit of a hybrid bill.
- 2.4 There will also be a number of further outputs needed, between the OBC and FBC, in order to achieve Royal Assent.
- 2.5 A full list of outputs will be developed as the project evolves from the development stage following the deposit of the bill, however, the outputs at this stage are expected to be:
- Bill Scheme Design
 - Environmental Statements

- c. Undertakings and Assurances
 - d. Third Party Agreements
 - e. Funding Programme
 - f. A Procurement Strategy for the Delivery Phase
 - g. An Operating Concept - a high level proposal on how the line is likely to operate, including options for a regulatory regime (which is likely to follow Phase One)
- 2.6 The PSCs are focussed on services needed to support the development of a hybrid bill. That includes ground investigations, environmental surveys, and archaeological surveys. These will inform a better understanding of the work sites which will enable HS2 Limited to further develop the design, schedule and cost estimate. The PSCs also support HS2 Limited's engagement with landowners, to enable the procurement of land to build the route.
- 2.7 As the Phase One hybrid Bill progresses, HS2 Limited has learnt a significant amount. HS2 Limited will use these learnings in the development phase of 2a, and the remaining aspects of the Phase 2 programme of works.
- 2.8 The work packages that have been procured at this stage will reflect this learning, enabling the project to proceed more efficiently to the delivery stage, after the hybrid bill has secured Parliamentary approval. The appointment and mobilisation of the professional service contracts now enables work to start in early 2016 and the bill to be deposited on schedule in 2017, with the passage of the bill through Parliament expected by 2019.
- 2.9 By approaching the market at this time, HS2 Limited will also be able to draw on the views and expertise of the industry for the hybrid bill stage, delivery and operations. The commercial contracts for PSCs are a combination of cost for task and day rates.
- 2.10 Following the work building to the OBC, HS2 Limited will support the Department for Transport (DfT) in developing the FBC alongside the passage of the bill through Parliament. At the point of Royal Assent, the FBC will have been developed and contracts will be ready to be signed to enable the construction work to commence.

Parliamentary Agents

- 2.11 Parliamentary Agents are required by Parliamentary Standing Orders for developing and managing the Phase 2a hybrid bill (the hybrid bill will seek the necessary powers to enable Phase 2a of HS2 to be constructed and operated). We plan to have Parliamentary Agents in place by January 2016. The invitation to tender (ITT) was issued October 2015.
- 2.12 As there are no agents employed by Government, it is necessary to procure from the commercial market (although there is no benefit in running a wider based competition as only approved "Roll A" Parliamentary Agents are acceptable to the House Authorities). There are seven firms within the UK that are "Roll A" Parliamentary Agents who act for the promoters of private legislation or can assist in opposing it in Parliament.

2.13 The Parliamentary Agents for the Phase 2a hybrid bill are procured by the DfT as the Department is responsible for the legislative activities. Should there be conflicts of interest, there are plans in place to manage these responsibly, e.g. by way of Information Barriers, the suitability of which has been approved by HS2 Limited and the DfT in the earlier promotion of Phase One.

Phase 2a Delivery

- 2.14 Although the construction of the route for Phase 2a would not commence until 2020, decisions made in the development phase, such as the design of the route and the details within a hybrid bill, will have an impact on the how the delivery phase is managed. Decisions have purposely not been taken at this stage where this would lead to unnecessary restrictions in the delivery phase, and potentially, affect the commercial prospects of delivering the route.
- 2.15 Based on this and the broader alignment of the remaining route of Phase Two, at a strategic level, the key areas that will be prioritised in the development phase include:
- the organisational structures and governance arrangements for delivery
 - the potential regulatory regimes and the impacts on the operating structures
 - the commercial strategy for realising value from HS2 (including how wider spatial planning affects the value proposition)
 - cost control through the construction period, although, again, many lessons from the Phase One programme will be implemented/embedded into the programme of works for Phase 2a.
- 2.16 At this stage there may be an opportunity for construction of Phase 2a to be included within the remit of Phase One, given the extent of the route and the fact that the TSS remains consistent with Phase One. We expect this to be under review and be in a position to finalise this approach before the hybrid bill is deposited
- 2.17 In September 2015 Government launched its Pre-Qualification Questionnaire (PQQ) stage of procurement for Phase One construction. This explicitly includes an option to build Phase 2a. We therefore have flexibility in the delivery phase where we can seek efficiencies from the market and in construction. Assuming 2a proceeds, it is our intention that the exercise of this option would be conditional on the efficient delivery of the (much bigger) Phase One, so providing an additional incentive to the contractors.
- 2.18 In terms of construction of Phase 2a, the current elements which make up delivery are set out below with indicative costs in millions:

Element	Description	From SR15 2Q11
Tunnels	Running tunnels, cross-passages, vent shafts and tunnel systems	222
Civil Engineering	Earthwork, retaining walls, structures, and highways	1601
Stations	There are currently no stations within the scope of Phase 2a. Work will continue to evolve with Network Rail on the potential development of a Crewe Hub station, which Phase 2a may need to align with	0
Depots and Stabling	Depot buildings and facilities for the proposed Infrastructure maintenance depot	138
Railway Systems	Permanent way, switches and crossings, overhead line equipment, and train control systems	672
On-Network Works	Works related to existing infrastructure (included in Railway Systems above)	0
Land and Property	Property disturbance, severance and resale values within the planned corridor	241
Indirect Costs	Costs for the management and oversight of delivery of the project	500
Rolling Stock	Provision for additional rolling stock is not necessary within Phase 2a of the programme	0

Notes

1) Figures are at 2Q11 prices and include all VM and OB

2.19 The detail of how work will be packaged for the delivery phase will be developed, taking into account lessons emerging on Phase One and in conjunction with the market. We anticipate this being an ongoing process within the development phase and will be designed for the OBC stage of the project, at which time the hybrid Bill will be deposited.

- 2.20 As outlined in the Infrastructure Cost Review 4 Recommendations for planned procurement activities, HS2 Limited intends to engage early with the industry to ensure:
- the market's capabilities can be assessed against the requirements for the HS2 programme
 - that industry can advise on how work can be packaged to minimise risk and maximise efficiency
 - that industry is able to deliver requirements within an affordable envelope and is value for money
- 2.21 Building on the work underway for Phase One, the work on Phase 2a will need to be an ongoing dialogue between HS2 Limited and industry so that there is a high level of transparency and confidence over the pipeline of forward work.
- 2.22 In addition to the work that will need to take place in the development of the construction requirements for the route, the Department has made the assumption that it will be procuring a Franchise Operator in accordance with the wider industry model. We would expect to procure a Franchise Operator to work with HS2 Limited in the testing and commissioning of the railway, and ensure that the operations were in place to operate from the principal change date in 2027.

Phase 2a Operations

- 2.23 Phase 2a will be operational by the principal change date in December 2027, and will look to continue operating the Phase One TSS, by the operator(s) procured for Phase One. The continuation of the Phase One TSS will be on the basis that this is for a limited period of time until the remainder of Phase Two is delivered. If this is not the case, we would expect HS2 Limited to work with the rail industry to further optimise the train service.
- 2.24 Our working assumption at this stage of the project is that the operations aspects of the railway will fall within a franchise, and that services continued under Phase 2a will be merged within the same contracts as Phase One. We would expect the maintenance and renewals to similarly fall within the same maintenance organisation as that of Phase One.
- 2.25 Phase 2a is not anticipated to need additional rolling stock over and above Phase One. On this basis, we expect operation, maintenance and renewal of Phase 2a to be included within Phase One contracts. We will seek to achieve this as a priced option in the Phase One procurements to avoid subsequent bespoke change.

⁴ http://www.hm-treasury.gov.uk/iuk_cost_review_index.htm

3. Phase 2a Delivery Model

- 3.1 The Department has delegated responsibility for the design, development and construction of HS2 to HS2 Limited. Phase One is currently proceeding through Parliament, with a view of achieving Royal Assent by December 2016.
- 3.2 It is the Government's intention that a hybrid bill for Phase 2a will be laid before Parliament in 2017. This allows the Government and HS2 Limited the opportunity to learn lessons from the hybrid Bill for Phase One. Officials leading on both Phase One and Phase 2a within HS2 Limited will work closely together as an integrated delivery team. This will help to ensure that the route aligns and the technical requirements fit, and help to deliver the sponsor requirements placed on HS2 Limited from the Department.
- 3.3 The proposed delivery model sees HS2 Limited continue in its capacity as the delivery agent for the project. This includes delivering Phase 2a, Phase One and continuing to support the Department on the development of the wider high speed programme, particularly for the remaining aspects of Phase Two.
- 3.4 The delivery model includes a formal relationship between HS2 Limited and the Department with a contractual Development Agreement, which will be extended for Phase 2a. This agreement, which is currently in place for Phase One (although provision is made for development work for Phase Two), will be amended during 2016. The Development Agreement will specify the scope of the works, the agreed budget, funding to meet the budget, and the rights and obligations of both parties.
- 3.5 The delivery model will also bring Network Rail into a strategic role in the programme, specifically reflecting the requirements in and around Crewe. This will build on the Tripartite Cooperation Agreement, which was agreed during 2014.
- 3.6 Phase One has target price defined in the Development Agreement and, once a quantified risk assessment is completed, we expect to agree a target price for Phase 2a. The Target Price is intended to be challenging and should at this early stage of design be set below a P50 probability level.

Capabilities and Resourcing

- 3.7 HS2 Limited was created in 2009. Since then, the organisation has developed its capabilities and strengthened its resources, particularly since the development stage of Phase One. This means that the organisation is in a significantly more mature position than when preparing the SOBC for Phase One.

HS2 Limited has set up a specific team to lead on the development work for Phase 2a. This team has grown in capability in parallel to the wider progress of the

organisation. The senior management team structure of HS2 Limited⁵ shows that the organisation has adapted to reflect the development of the programme thus far.

- 3.8 We plan that the HS2 Limited team will continue to develop to take account of the Parliamentary business requirements, the environmental and engineering works necessary and the development work on integrating Phase 2a infrastructure with Phase One.
- 3.9 HS2 Limited expects to continue to work within a matrix management structure to ensure that it continues to take on board emerging lessons and that Phase 2a works closely with Phase One of the programme. This approach ensures that best practice is promulgated within the organisation and that HS2 Limited is effective and agile in response to the needs of the programme.
- 3.10 We expect that the team within HS2 Limited will continue to have a mix of permanent staff, contractors, and secondees from public and private sector organisations. This will ensure that the team is well placed to deliver Phase 2a and align its objectives with Phase One. We expect that the team will be suitably resilient and recruitment has started with a view of deploying those resources flexibly to manage the upcoming requirements, for example in order to ensure that the transition to a new head office location in Birmingham is managed, and that work is appropriately resourced within that transition period.
- 3.11 Unlike Phase One, the approach currently in place on Phase 2a has not included the implementation of an organisational structure designed to support fully integrated working alongside a Delivery Partner. On Phase One HS2 Limited has CH2M Hill in place to support their programme. HS2 Limited is currently focussing on delivering Phase 2a on a thick client base, without a delivery partner. The company will revisit this policy again, should the need arise. The rationale for this decision is that the Phase One project is based on five areas for the route, and the need to have integration with the different areas. The size of the Phase 2a route is equivalent to one of the areas on Phase One so does not warrant this approach.
- 3.12 What this means is that the team within HS2 Limited will fulfil the requirements that would have otherwise been undertaken by a delivery partner.
- 3.13 The DfT has also strengthened its capabilities and resources to reflect the requirements placed on it in delivering a project of this magnitude.
- 3.14 The Department expects to maintain its current levels of resource throughout development and delivery process for Phase One, Phase 2a, and the rest of Phase Two. The Department has project teams to work with HS2 Limited, ensuring that appropriate levels of engagement are maintained and that requirements are appropriately developed and initiated with HS2.
- 3.15 The Department has been developing its intelligent client functionality over the last year, ensuring that it has the right capability and credentials for managing project of this magnitude.

⁵ <http://reference.data.gov.uk/gov-structure/organogram/?pubbod=high-speed-ltd>

Continuous Improvement and Lessons Learnt

- 3.16 Embedding a culture of continuous improvement and ensuring that the programme takes account of lessons learned from other recent major infrastructure projects is vital for securing value for money. This has been an integral part of the project so far, with HS2 Limited processes maturing as the development of the Phase One aspect of the Programme progresses.
- 3.17 A key component of continuous improvement will be ensuring that work is undertaken to identify lessons from Phase One and ensure relevant ones are implemented for Phase 2a and the rest of Phase Two. Within the assurance process, HS2 Limited is undertaking lessons learnt exercises to ensure that they continue to learn from the project.
- 3.18 As with other major projects, the Department, alongside its own assurance and approvals cycle, seeks further assurance from the Major Projects Authority (MPA) to review the delivery of the programme at key stages of the project.
- 3.19 Following the development stage on Phase One, the lessons that we have jointly learnt from the programme have been embedded within the respective organisations. In particular, the lessons highlighted by the MPA concerning organisational capability have been incorporated into the company, along with its capability learning structure, ensuring that training is focussed on ensuring that the organisations have the right skills at the right time.

4. Phase 2a Procurement Approach and Contracting Strategy

- 4.1 HS2 Limited currently anticipates making use of the Utilities Contracts Regulations 2006 (UCR) to achieve optimal value for money.
- 4.2 The remit for HS2 Limited aligns with the definition of contracting authority within the UCR. It was issued by the Secretary of State on 26 July 2011 and required HS2 Limited to develop proposals for Phase Two of the HS2 programme.
- 4.3 The Department expects to issue further directions and remits to HS2 to cover the requirements Phase 2a, although this will largely be done through the amendments anticipated to the Development Agreement. This will confirm HS2 Limited's role in leading the delivery of the project through the development phase and therefore in the business of promoting a railway.

Procurement Strategy

- 4.4 We recognise that there are a number of pressures that will give rise to risks for securing an affordable and value for money proposition from the supply chain. This is particularly the case within a market that is being stretched through the type of work being procured, and the level of demand for this, given the broader level of infrastructure works currently also being progressed within the UK (including the Phase One projects). It is important to take note of the procurement and delivery timescales of the HS2 programme in this context.
- 4.5 In Phase One, the market engagement activities undertaken have developed HS2 Limited's relationship with the market, ensuring that they were aware of the objectives and requirements. This level of pre-engagement activity gave rise to positive responses from the market. A similar approach is being taken for Phase 2a.
- 4.6 Additionally, and building on the activities undertaken by HS2 Limited, there are a number of reasons why suppliers will no doubt be drawn to HS2, including the following:
 - the timing of the different phases of the HS2 programme, including the timing of Phase One and Phase 2a. This will need to consider whether that clashes with other major transport infrastructure projects. The design of Phase One of HS2 will have been completed, as will the Crossrail and Thameslink schemes, so the industry should be well placed to deliver Phase 2a, although we will need to assess the impacts of other planned projects e.g. Crossrail 2 and wider rail enhancement schemes

- HS2, even in its proposition state, has sparked significant international interest. Being part of a prestigious project would help the reputation of suppliers and improve their wider contract prospects. In addition, contractors may feel that early entry into the HS2 programme may provide them with knowledge that could help increase their chances of gaining further contracts in the remaining phase of the HS2 programme
- experience from other major transport schemes shows that there has not been any issues in attracting market leading organisations

- 4.7 The Outline Procurement Strategy (OPS) for Phase One has already been developed. We anticipate using this as the overarching approach for Phase Two, and the basis upon which HS2 Limited demonstrate to the Department its capability of meeting the requirements under the Development Agreement in meeting the Review Point One.
- 4.8 The development of the Procurement Strategy process is iterative and the version developed for the FBC will take into account the views of a wide range of stakeholders including the supply chain, industry groups and associations, leaders from other major projects and other Government departments. The final version will be agreed after a period of industry engagement.
- 4.9 While the work to date focuses on Phase One, the principles and approaches are likely to be equally applicable to this phase of the programme (Phase Two), except to the extent that HS2 Limited will be managing the enhancements for Phase 2a within its own organisation, rather than seeking a Delivery Partner. The Management Case details more information about the way in which the project will be delivered.

Securing Value for Money

- 4.10 All procurement activity will comply with the requirements of the Utilities Contracts Regulations (UCR). The aim of the Procurement Strategy is to support the achievement of value for money, which means delivering the objectives and commitments for the least outlay over the whole life of the railway. This does not always mean minimising up front prices. An 'HS2 Limited scorecard' will be used to ensure that all relevant factors are considered in reaching value for money contract awards. This approach builds on the work that HS2 Limited is doing with regard to the whole life cost model for infrastructure investment.
- 4.11 The HS2 Limited scorecard ensures that all relevant factors (objectives, strategic themes, etc.) are considered in reaching value-for-money contract awards. The development of an HS2 Limited scorecard for Phase One will be completed once the strategic themes have been firmly established and agreed and embedded within the approach on Phase Two.

Packaging Strategy

- 4.12 The key requirements for the packaging strategy (the way in which works are to be procured) which will secure the works for Phase 2a include:
- the scope is packaged in a way that the market can efficiently deliver
 - the packages can be effectively and efficiently managed by the client
 - the risks can be clearly identified and managed as appropriate
 - the supply chain is able to bid for the delivery of the package scope
- 4.13 An outline Packaging and Contracting Strategy will be assumed for the purposes of the market engagement exercise that is under preparation and is expected to take place during early 2016. The proposed approach will be developed and refined using the industry feedback attained.

Contracting Strategy

- 4.14 HS2 Limited does not propose to develop the design for the Phase 2a route beyond the preliminary design stage before deposit of the hybrid bill. This is in line with the principles adopted for Phase One. Following the production of the preliminary design, performance specifications will be developed and it is intended that the design for each work package will be developed and detailed by the appointed contractor and designer team under an Early Contractor Involvement (ECI) contract.
- 4.15 In order to achieve the preliminary design, the contracts that are anticipated to be entered into following the route announcement for the professional service contractors will enable work to deliver a preliminary design.

Proposed Contract Lengths

- 4.16 It is envisaged that all contracts, with the exception of rolling stock and maintenance contracts which are not applicable for the route works, will be entered into for the duration of the respective work packages. These will vary according to the work package requirements, but it is not anticipated that HS2 Limited has any residual contracts with construction partners beyond the delivery stage of the programme.
- 4.17 The PSC contracts have been entered into for the duration of development, so that the appropriate resource and expertise can be drawn upon throughout the development of a hybrid bill, to securing Royal Assent.
- 4.18 The depot works / requirements are limited to the Infrastructure Maintenance Depot in Crewe, which is expected to be owned by the eventual Infrastructure Manager (IM) of the High Speed 2 network. It is expected that the depot is not financed, so HS2 Limited is expected to retain ownership and lease the depot to the IM to maintain the infrastructure.

Proposed Payment Mechanisms

- 4.19 Payment terms and mechanisms will be determined in accordance with the eventual contract developed for suppliers. Through the lessons that we have learnt on Phase One of the programme, we intend to ensure that the contractors are sufficiently incentivised to deliver works. Accordingly, payment terms and provisions under the contracts are expected to reflect this.
- 4.20 We expect HS2 Limited to develop contracts with Network Rail in view of the requirements between HS2 and Network Rail, particularly where the HS2 network is intended to connect with the classic network. Because of the complexities of the classic rail network, particularly where each of the relevant parties are regulated, we are considering how best to frame the requirements we procure through Network Rail and how best to maintain the appropriate incentives to ensure delivery.

Rolling Stock

- 4.21 Phase 2a does not require any additional rolling stock to operate the anticipated TSS and will make use of the rolling stock procured for Phase One. Accordingly, this Commercial Case does not include a procurement strategy for the procurement and contracting of rolling stock. Reference should be made to the Phase One Business Case where it sets out the approach to procuring the rolling stock.

Risk Allocation and Transfer

- 4.22 HS2 is publically funded and delivery will be rooted within the public sector through HS2 Limited. As a result the public sector is the ultimate holder of risk on the programme and is therefore best placed to manage and absorb the risk.
- 4.23 To reduce the Government's exposure to risk, every endeavour will be made to ensure that the appropriate level of risk is passed to the appropriate body responsible for delivery under the contracting strategy. We will also ensure that we continuously review the balance of risk to delivery against the price of delivery.
- 4.24 At an individual contractual level, the contracts that HS2 Limited let are intended to have the necessary incentives placed within the contract to drive appropriate incentives for delivery, without the perversity of placing risk on behaviours which may incentivise detriments in quality. Contracts will be separated into work packages to ensure that these are manageable.
- 4.25 The size and nature of the project means that large contract packages will be necessary to avoid creating an unmanageable number of contractual interfaces and increasing commercial risk.
- 4.26 For works affecting the classic rail network, particularly with regard to the infrastructure and systems integration, it is anticipated that Network Rail will be contracted to deliver. HS2 Limited anticipate this being done through a commercial contract, rather than the regulatory framework for which the Office of Rail Regulation is responsible. We are currently investigating a model where the parties work closely

together to ensure that the project requirements are delivered. We are exploring contracting models and anticipate finalising arrangements during the pre-delivery stage of the project when outputs are more clearly defined.

Maximising Commercial Benefits

- 4.27 Once HS2 is operational, other commercial contracts will need to be in place to ensure that HS2 services are run efficiently and effectively and to ensure the right balance of risk between the public and private sectors.
- 4.28 We currently anticipate services being operated under a railway Franchise Agreement, with infrastructure management being let as a concession in a manner akin to the High Speed 1 concession model. HS2 Limited will manage this process to secure best value.
- 4.29 The Department is currently developing plans as to how best align HS2 services with the wider rail network. HS2 is intended to open up new markets through either releasing suppressed opportunities or opening up consequential markets for passengers, allowing a level of 'released capacity'. Therefore we will need to consider ongoing work with other industry partners like Network Rail on their Capacity Plus review / report.
- 4.30 We do not expect to start the procurement process until later in the delivery phase of the programme, but expect to enable the build of HS2 through upcoming franchise competitions, and ensure that the proposition will work in 2027 when the first Phase One train service alongside Phase 2a is expected to operate.
- 4.31 A further and more detailed view will be provided at each gateway through the business case approvals process, but prior to the expected Royal Assent date. In addition the HS2 Growth Taskforce identified that HS2 will improve the competitiveness of all our major cities, particularly in the North and the Midlands, enabling them to punch their weight with cities around the world.
- 4.32 Phase One places (Old Oak Common, Interchange and Curzon) have developed 'HS2 Growth Strategies', outlining plans to maximise the growth potential of HS2 stations. Plans for Euston are also under development. We are supporting HS2 places to align their HS2 plans with wider Strategic Economic Plans and Growth and Devolution deals.
- 4.33 Through the 2015 Spending Review, Government confirmed its support for:
- an Enterprise Zone extension in Birmingham City Centre to enable the LEP to invest in projects which will drive growth around the station. The extension is a key feature of the West Midlands devolution deal, announced on 17 November.
 - a commitment from the Government to bring together the publicly owned land around the Old Oak Common HS2 station into single control
- 4.34 As part of this work, we are encouraging local partners to identify how they can maximise the impact of HS2 as a significant opportunity to secure private sector investment, including from overseas, into regeneration and growth projects across the country. In the Spending Review the Chancellor announced growth funding for the East Midlands LEP. He also confirmed funding for other Phase Two stations as decisions are taken.

