

**ANNEX B**



# CabinetOffice

## Strategic Communication

Major Projects Authority **Project Assessment Review (PAR)**

<b>Programme or project:</b>	<b>High Speed Two (HS2)</b>
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<b>Review date:</b>	24 <sup>th</sup> November to 5 <sup>th</sup> December 2014
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<b>Previous review and date:</b>	PAR September 2013

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## 1. Executive Summary

### 1.1 Delivery Confidence Assessment (DCA)

- 1.1.1 The Review Team has developed its DCA based on the evidence seen and heard and the extent to which this supports the delivery of the October 2013 Outline and Strategic Outline Business Phase 2 used are defined below.
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- Cases for Phase 1 and respectively. The criteria further in section 7.1
- 1.1.2 HS2 is a key element of the Government's National Infrastructure Plan to build a stronger, more balanced economy capable of supporting lasting growth and widely shared prosperity.
- 1.1.3 HS2 Ltd and DfT have developed a formal framework within which to manage the ongoing delivery of Phase 1 and the development of the Phase 2 programme. They have been successful in recruiting a high calibre senior team with significant relevant experience who have started to address operational requirements. These are outlined in further in Section 1.3 below, and elsewhere in the document.
- 1.1.4 However, successful delivery of Phase 1 is contingent upon resolving a small number of major issues and risks that impact the December 2026 target delivery date. The risks particularly relate to Euston, the parliamentary process and the ability of the construction schedule to build in appropriate float. These are covered in more detail in Section 1.2 below.
- 1.1.5 These risks and issues have become evident as a result of the detailed activity that took place as part of HS2 Ltd's development of a 'Baseline 4' schedule. It is recognised that Baseline 4 has a low probability of delivery as a result of the risks identified above, and without significant management attention to the issues raised would indicate an Amber/Red confidence for the programme.
- 1.1.6 However, these issues have been recognised by the programme and significant activity is underway to resolve and to mitigate them via changes to the Delivery Strategy and action on Euston. HS2 Limited and DfT have and are bringing in a number of people with in-depth experience to resolve these by March 2015 – accepting that there will be residual parliamentary risks.
- 1.1.7 Whilst delivery risks will remain throughout the design and build phases, the actions on Euston and construction float are being acted upon promptly and a significantly increased schedule confidence is feasible by March 2015.
- 1.1.8 Therefore, the review team sees Phase 1 as being provisionally Amber, and recommends that a focused assurance exercise in Spring 2015 is required to validate that the revised schedule is realistic and to confirm the DCA. This review should be informed by a detailed piece of work commissioned from the P-Rep which assesses the constructability, sequencing and float of the new schedule (Recommendation 12b). It should be noted that the next key decision point is Review Point 1 under the Development Agreement.
- 1.1.9 Phase 2 is at an earlier stage of development and significant changes are under consideration to the scope and there is significant cost pressure on the funding envelope. The project recognises that significant work needs to be done to address emerging

strategic aims and objectives. The DCA for Phase 2 is Amber/Red and consequently that is the DCA for the programme as a whole.

## 1.2 Areas of concern

### Phase 1

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- 1.2.1 The current low probability with 2026 opening. The schedule currently has little float and there remain a number of significant risks on the critical path, which could significantly impact on the ability to deliver the project, as defined in the OBC, to time or budget. These are discussed in detail in the report's findings and include:
- Baseline 4 schedule has a respect to a December
- 1.2.1.1 The lack of schedule contingency in the parliamentary process to achieve assent of the Hybrid Bill by December 2016;
  - 1.2.1.2 The requirement to achieve an agreed solution for HS2 at Euston which can fit into an overall development of Euston within budget, in time for incorporation within the parliamentary process and allowing sufficient time for design and delivery;
  - 1.2.1.3 The clearing of the site at Old Oak Common is on the critical path and, amongst a number of complex interactions, there is a need to secure the agreement of and compensation for the relocation of the Great Western depot;
  - 1.2.1.4 In addition to the parliamentary process in 2015 there are a series of approvals (RP1, 2 & 3) and negotiations for SR15, which will present a significant challenge to the programme being able to prepare for and procure the start of design and construction in time to meet the planned opening;
  - 1.2.1.5 The existing outline construction schedule has little float in both the delivery of Euston station and the railway infrastructure to Birmingham (Baseline 4).
- 1.2.2 These challenges have been recognised by the new senior management team and a major review of the construction schedule (excluding Euston) is underway with the aim of building schedule float.
- 1.2.3 The current cost estimate contains an allowance for efficiency gains of [REDACTED] excluding contingency, which at the time of the review had not yet been evidenced or validated.
- 1.2.4 As mentioned above both HS2 and DfT are expanding to cope with the challenge, however a substantial part of the resources required have still be recruited and this will have to be achieved at the same time as dealing with the challenges outlined above.

### Phase 2

- 1.2.5 Since the SOBC significant changes of scope have been raised for consideration following the Sir David Higgins' reviews and policy announcements on a Northern transport strategy, which could have a radical impact on the business case. Changes currently being considered include:

[Redacted]

[Redacted]

[Redacted] **ANNEX B** [Redacted]

[Redacted]

[Redacted]

[Redacted]

**1.3 Areas that are Working Well**

**1.3.1 Focusing on the 2026+ Railway**

Whilst the project is clearly a significant engineering undertaking, HS2 Limited is ensuring that operability and the passenger experience are at the heart of the design and development of the railway. This is evidenced through the organisational focus being brought to bear at this early stage with the creation of an MD Operations business unit and the passenger panel which is independently chaired by Passenger Focus. Systems integration is at the centre of designing and delivering the 2026+ railway – an approach that has not always been taken on complex railway projects until later in the life cycle.

**1.3.2 Building HS2 Capability with Real Delivery Experience**

HS2 Limited has made big steps in recent months to grow its capability and is clearly in a transitional phase. The company faces a significant challenge to ramp up the capability it needs to meet the growing demands of the project and delays in agreeing the pay flexibility approach has made that ramp up steeper in the coming months.

Senior appointments have been made into the key roles of Chief Executive, MD Construction Phase 1, Programme & Strategy Director and more recently, the MD Operations. The early impact of senior leaders who have demonstrable delivery experience of major, complex projects can be seen in the approach being taken to get to grips with the schedule and develop a constructability approach that seeks to create float at both ends of the project – enabling more detailed design up front and space for contingency and dynamic testing at the end. Additionally, the new management team is developing the company’s approach to

<sup>1</sup> Subject to final decisions by Ministers on the route for Phase 2 which have not yet been taken. The same caveat applies to all discussion of Crewe in this report.

delivery – its ‘Delivery Strategy’. This strategy sets the organisational framework and approach to delivery. This is now focusing on more in-house design work prior to letting of contracts with less consultancy help and HS2 Ltd acting as the ‘systems integrator’.

1.3.3 Establishing Clear Segregation of DfT

A Development 7.8) has been put in

baselines for the sponsor’s requirements, funding and delegations of authority, cost and schedule control, management reporting, and roles and responsibilities of both DfT and HS2 Ltd. This has been in shadow running for several months. This provides a very clear definition of the Phase 1 railway deliverables and requirements, and also provides for development work being done on behalf of DfT for Phase 2. As HS2 Ltd capability is proven a phased increased in delegations from DfT to HS2 is expected during 2015/16 and after Royal Assent subject to Cabinet Office and HMT assurance and agreement (See also Section 7.9.8).



Governance and and HS2 Ltd roles

Agreement (see Section place and sets out the

1.3.4 Learning from other Major Projects

The project is clearly open to learning lessons from other major projects in the UK and abroad. HS2 Limited has brought in people who have real delivery experience from Crossrail, London 2012, Thameslink and other major projects. Examples include:

- the early adoption of a Managing Director, Operations to inform design and delivery, building on Crossrail’s experience,
- real-time understanding of high speed rail projects from the East Japan Railway and the current Tours –Bordeaux scheme, and
- a planned study on the opportunities to improve construction techniques from comparable international experiences.

1.3.5 Early Supply Chain Engagement

Delivering HS2 innovatively, safely and to time and budget requires a supply chain that can provide the right skills at the right time, optimising new and innovative techniques. The full HS2 programme offers billions of pounds of opportunities to 2033 and beyond. HS2 Limited is getting its message out that the supply chain needs to gear up now – in recent months this has included two supply chain conferences in Manchester and London and significant communication efforts through its website.

1.3.6 Focusing on Longer Term Skills and Engagement

HS2 is supporting the STEM agenda across primary, secondary and tertiary education through work experience placements, learning materials and events in schools. HS2 recognises the long-term skills needs of the project and the challenges of pull-through that is seen in STEM subjects and is seeking to be part of effecting change in that area. HS2 is also supporting the BIS-funded HS2 Skills College.

Another positive step has been taken with the creation of a skills working group with senior figures from the rail industry, chaired by the DfT’s Permanent Secretary. The railway faces significant skills challenges across a number of disciplines and this forum demonstrates senior level engagement with the issues.

1.3.7 Ensuring Innovative Techniques are Used to Best Effect

HS2 needs to  
techniques to  
programme as  
Challenge



exploit innovative  
deliver its challenging  
identified by the Efficiency  
Programme. The project is

taking a leading role in utilising BIM as a means of driving efficiencies and lean production. Other innovative techniques could be identified through the international benchmarking study that has been initiated.

1.3.8 Widening Engagement

HS2 will not be a standalone railway - the impacts and interfaces with the National Rail Network need to be understood and managed. A good step has been made to create the independently chaired Tri-partite Co-operation Board which brings together HS2, Network Rail and DfT (HS2 and Rail Executive) at a senior level, creating space for engagement.

1.3.9 Focusing on Organisational Effectiveness Throughout the Project Life Cycle

HS2 Limited has developed a matrix based organisational design with the core business units of Phase 1 Construction, Phase 2 Development and Operations supported by a range of functions (including Programme & Strategy, Finance, Technical, and Commercial). One of the functional areas that HS2 Limited has designed in is "Organisational Effectiveness" – this upfront commitment to keeping the structures, skills and shape of the organisation under review through the different project phases is a strong example of focusing on organisational design and development throughout the life cycle.

1.3.10 Legislation Progressing in the House of Commons

The HS2 (West Midlands) Bill is the largest bill to be placed before Parliament (the Environmental Statement is over 50,000 pages) and good progress has been made with the resounding majority on the Second Reading in the House. The Bill Petitioning team have put in place resources, governance and contingency management arrangements which are supporting good early progress being made. We do note that the petitioning process is still at an early stage and is forecasting to progress at a rate far quicker than Crossrail managed although progress to date has met the project's forecast. To date that has been achieved. The review team also notes that the Select Committee is considering re-ordering the petitioning process.

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## 2. Additional comments from the SRO

The external challenge and thorough review process that the MPA provides continues to be of great help to the programme. I would like to thank Andrew Callander and the review team for their professional approach to this review and the open and productive relationship we enjoyed with the team.

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I am pleased that the review team recognised the good progress that the Department and HS2 Ltd have jointly made since the last Project Assessment Review. I am grateful for the constructive recommendations they have made which I endorse.

I note the recommendations are not only for DfT and HS2 Ltd but also will also require action from colleagues across Government. We appreciate the scale of the challenges ahead and look forward to working with HM Treasury to resolve issues around the Euston scheme, wider programme issues, project cost reporting and programme funding flexibility; and with the MPA and assurance providers in agreeing a forward looking assurance programme to support successful delivery.

## 3. Scope of the Review

3.1. This Project Assessment Review has a wide remit, covering:

- I. Core issues around scope, cost and timetable that were discussed at the 29th October meeting,
- II. Progress against the recommendations made at the 25th March MPRG meeting, including on capability and parliamentary strategy; and
- III. Other fundamental programme issues including Phase 2 route design, governance and stakeholder engagement.

3.2. The resulting Delivery Confidence Assessment RAG rating for this PAR review should be based on an assessment of the successful delivery of the business case and the transition into the delivery phase.

3.3. In addition to the high-level remit outlined above the Review Team were given a number of detailed issues to probe under the following headings:

- 3.3.1. Scope
- 3.3.2. Cost
- 3.3.3. Funding
- 3.3.4. Risk
- 3.3.5. Phase 1 timetable
- 3.3.6. Capability
- 3.3.7. Governance

3.3.8.Stakeholder Engagement and Communications

3.3.9.Hybrid bill

3.3.10. Phase 1 Projects

3.3.11. Phase 2 Route and Timetable

3.3.12. Transition to Delivery

3.3.13. Growth and

Regeneration.

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3.4. 72 specific

questions were posed by

MPA and HMT as part of the remit for this review. The DfT and HS2 Ltd have provided answers to all 72 and these combined Q&A are attached at Annex C. This document identifies relevant document references and responsible individuals and cross references as appropriate to the body of this PAR report.

3.5. This report is a snapshot review of the programme reflecting the conclusions of an independent assurance team. It is based on information from project documents reviewed and from interviews carried out within a short timeframe and is delivered to the SRO and MPRG at the conclusion of the review.

4. Summary of Recommendations

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No	Section Ref.	Recommendation (extract from the body of the report)	Criticality (high/med/low)	Do by when? (date)
	7.2.4	The joint Euston team need to develop a clear plan which is agreed with all the key stakeholders and which identifies the route to a decision, the assurance that will be undertaken and how stakeholders will be engaged.	High	January 2015
2.	7.3.1, 7.3.7 & 7.3.20	Improve project cost reporting to ensure a common understanding of key project parameters by wider stakeholders	High	Urgently
3.	7.3.4	HMT, HS2 Limited and DfT need to resolve funding flexibilities for construction spend before or as part of CSR15	High	CSR15 or earlier
4.	7.3.10	HMT, HS2 Limited and DfT need to agree a handling strategy relating to a) the uplift from Q2 2011 prices and b) construction inflation	High	Pre-election to inform Ministerial discussions and CSR15 preparations
5.	7.4.7	HS2 Limited in developing a new higher confidence Phase1 delivery and procurement schedule ('Baseline 5') needs to optimise different scenarios and sequencing around the key 2015 and 2016 milestones including the provision of schedule float.	High	To inform finalising Baseline 5 in Spring 2015
6.	7.5.8	DfT should produce a plan which identifies all the key development work required on Phase 2a, Phase 2, Northern Transport Strategy, HS3	Medium	Pre-election 2015
7.	7.5.11 to 7.5.15	HS2 Limited should set out how cost savings opportunities will be realised and reconciled	Medium	By CSR15

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		with cost estimates and the appropriate level of contingency/OB		
8.	7.5.18	DfT should produce a route map of interfaces and investment decisions between HS2, National Rail and other modes	Medium	By CSR15
9.	7.5.18 & 7.6.5	████████████████████ ████████████████████████████████████ ██ ████████████████████████████████████	Medium	In preparation of SOBC
10.	7.8.6	Expedite implementation of Integrated Programme Management Office	High	As soon as possible
11.	7.8.12	Government needs to agree which wider projects are considered to be part of a wider programme related to, but not essential for the delivery of, HS2 and put in place appropriate governance	High	By CSR15
12	7.9.6 to a. 7.9.8	HS2 Limited and DfT should map out, agree with stakeholders and implement an integrated assurance map	High	By Spring 2015 (as part of finalising the Delivery Strategy)
12	Exec Summary 1.1.8	A focused assurance exercise should be undertaken in Spring 2015 to validate that the revised schedule is realistic and to confirm the DCA. This review should be informed by a detailed piece of work commissioned from the P-Rep which assesses the constructability, sequencing and float of the new schedule.	High	Post completion of Baseline 5 scheduling activity
13.	7.10.	MPA and IUK should look across the current construction landscape to map out capability needs across the sector with reference to HS2	Medium	During 2015 and on-going

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## 5. Summary of the Programme or Project

### 5.1. Background and Context

High Speed Two is a programme to build a Y-shaped high-speed rail network linking London to Birmingham, Manchester and Leeds, and allowing through-running trains to reach other cities through links onto the West Lines. The proposed stops in the East Midlands Yorkshire. Further

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Coast and East Coast Main network would also include and South consideration will be given

to establishing a direct link to Heathrow Airport, subject to the findings of the Airports Commission. The aim is to enhance capacity and connectivity between many of the UK's largest cities and major international gateways. The project features in both the Coalition Agreement and the government's Business Plan.

The line would be capable of allowing speeds up to 250mph. The Government is committed to providing a strong basis for long-term and sustainable economic growth by creating the right environment for private enterprise to flourish and by re-balancing the UK economy. High Speed Rail is intended to play a key strategic role in delivering these objectives. It could deliver a significant increase in rail capacity to meet the rising demand for long-distance rail travel and ease overcrowding on existing railways. High speed rail could also have the potential to play a central role in promoting long-term and sustainable economic growth.

The programme is being led by a combination of teams within the Department for Transport, HS2 Ltd, a Non-Departmental Public Body and Network Rail.

### 5.2. Aims and objectives

The objectives are stated in the Strategic Case as:

The most important task in Government is to build a stronger, more balanced economy capable of supporting lasting growth and widely shared prosperity.

And we know that effective transport infrastructure is an essential driver of economic growth. Our overriding objective is for a transport system that supports our growth priorities and helps improve our lives.

Government has identified two principal objectives, which support our overarching goal:

- The **capacity** objective is to create sufficient space to meet long term demand and improve network resilience and reliability for people and for freight
- The **connectivity** objective is to make travel quicker, easier, more convenient, and more reliable, helping passengers change between different transport modes more easily, including at major airports, for international travel, and widening their travel choices

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6. Project Data

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Phase One



Gross point estimate	
Targeted savings (unvalidated to date)	
Net point estimate	
P(50) forecast	
P(95) forecast	

(Baseline 4 figures)

Phase Two



Gross Point Estimate (excluding Golborne)	£23.89 bn
Targeted savings (unvalidated to date)	£5.68 bn
Proposed scope changes	£1.35 bn
Total estimate including contingency	£23.75 bn

Shortfall to SR13 utilising RS contingency	
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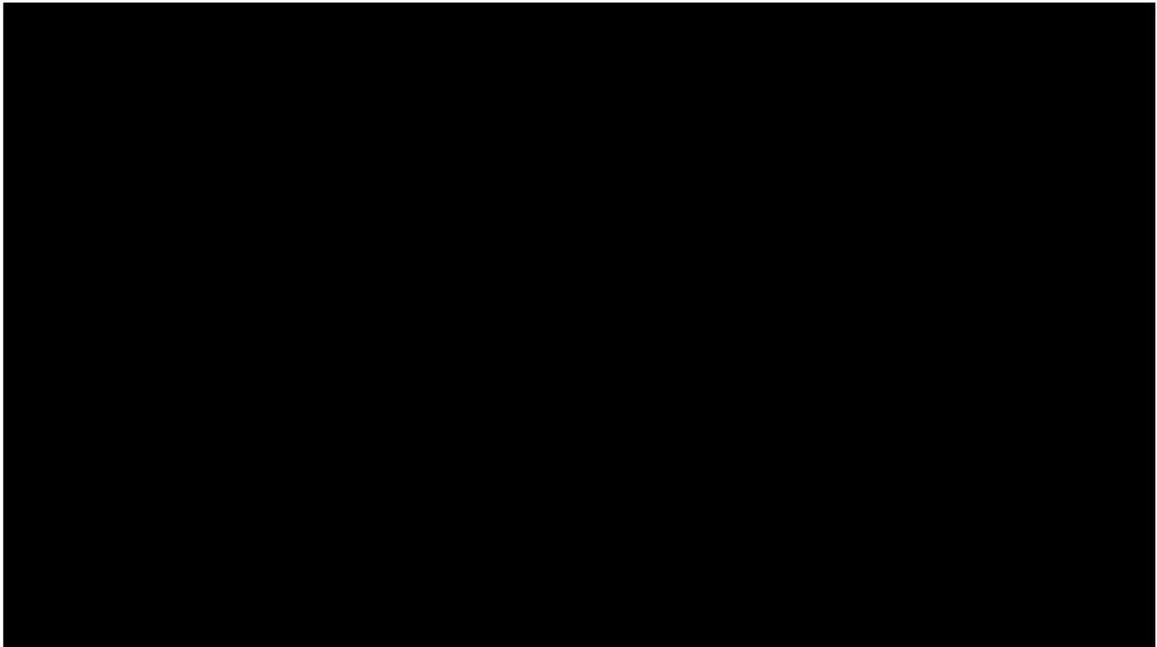
(Figures as per Sir David Higgins' Phase Two letter, October 2014)

Phase One and Phase Two rolling stock

Original SR13 P(95)	£7.5 bn
Current Rolling Stock and Depot Forecast P(95)	

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**Contractual commitments already in place with suppliers**

<b>Contract Value</b>	<b>Spend to date</b>	<b>2014/15</b>	<b>2015/16</b>
£373,061,845	£276,757,700	£98,765,029	£28,120,027

The figures in the above table do not sum because HS2 Ltd have assumed that if they were to instruct cessation of all contracts today, they would still be liable for a proportion of commitments already made by PSCs to their supply chain and also for legally binding contract close-out costs on PSC contracts. The figures represent a best estimate of these commitments.

**Land and Property costs**

	<b>Expenditure to date</b>	<b>Future commitments</b>
<b>Total</b>	£301.6m	£161.4m

## 7. Review Team Findings

7.1. In undertaking this review, the review team has made their assessment against the following bases:

### Phase 1

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#### 7.1.1. Outline

Business Case dated

October 2013 provides the scope, costs, delivery dates and benefits parameters for the Phase 1 element:

7.1.2. The detailed Baseline 4 Schedule identifies a number of milestones including Royal Assent in December 2016 and Phase One opening in December 2026:

7.1.3. The funding envelope for Phase 1 is based on the CSR13 settlement and is in Q2 2011 prices. The CSR13 funding envelope was based on the Baseline 3 schedule:

7.1.4. Since the October 2013 business case, modifications have been made to scope including the removal of the HS2 –HS1 link and some minor changes as a result of Hybrid Bill petitions.

### Phase 2

7.1.5. Strategic Outline Business Case dated October 2013 provides the scope, costs, delivery dates and benefits parameters for the Phase 2 element:

7.1.6. The review team saw no evidence of a current outline schedule for Phase 2:

7.1.7. The funding envelope for Phase 2 is based on the CSR13 settlement and is in Q2 2011 prices:

7.1.8. Scope is the full Y network as outlined in the SOBC and the line of route consultation dated July 2013 – January 2014.

## Detailed Review Team Findings

### 7.2. Phase 1 Infrastructure Scope

7.2.1. The scope of Phase 1 continues to be refined. As well as those identified as part of the Baseline 4 exercise, there are a number of other potential changes to scope as discussed below. Some of these potential changes are driven by the petitioning process whilst others are project or sponsor driven.

#### Petitioning

7.2.2. We recognise that the petitioning process is at an early stage. To date only minor changes have been conceded [REDACTED]

#### Euston

7.2.3. More significant scope changes could be required at Euston. Whilst a design for Euston was lodged with the Hybrid Bill, this does not have stakeholder buy-in. In response to this, a more substantial redevelopment of the Euston station area was considered during Summer/Autumn 2014. However, this scheme was deemed unaffordable. As a result, a process has commenced to re-evaluate work done over the last 5 years with a view to outlining a plan for Euston for February 2015. This is

recognised as a challenge however it is not clear that this can be achieved without risk to cost and schedule. The review team also had a concern that they could not see a clear plan for achieving the necessary assurances and approvals leading to either a confirmation of the Hybrid Bill design or an Additional Provision. Or whether this approach will provide stakeholders with enough comfort that will allow the petitioning risk around Euston to be mitigated.

7.2.4. In the time taking place,

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that this review has been the Government has

announced that it is funding the development of a full business case for Crossrail 2 for consideration as part of CSR15. There are a number of dependencies with wider TfL aspirations and plans that could result in potential scope changes at Euston.

**RECOMMENDATION 1: The joint Euston team need to develop a clear plan which is agreed with all the key stakeholders and which identifies the route to a decision, the assurance that will be undertaken and how stakeholders will be engaged.**

Old Oak Common

7.2.5. There was a clear indication that the relocation of the HEX and FGW depots were in scope for Phase 1. However, there are other developments being considered e.g. Western Rail Access to Heathrow (WRATH) which could lead to a change in scope by requiring additional WRATH scope at Langley. DfT has identified this future-proofing element as being outside the core scope and funding of the HS2 project.

**7.3. Phase 1 Costs**

7.3.1. HS2 and DfT have a clear basis for the cost estimates for Phase 1 and 2. However, these are expressed in a number of variations dependent upon audience and purpose (e.g.: net point estimates, gross point estimates, target costs, P50 funding envelope, P80 forecast, P95 funding envelope, Infrastructure Class 2 Changes). While each is well defined and understood by relevant project personnel, they do not lend themselves to a clear and common understanding of costs amongst all stakeholders. Current presentations meet selected requirements of HS2 Limited and DfT oversight of the Development Agreement. The “baseline” terminology is potentially confusing when reporting latest forecasts against HMT and published business case figures and in the use of ‘baselines’ to refer to schedules as well as costs. The review team is confident from the evidence it has seen that HS2 Limited and DfT have control over, and can audit, the changes and approved uses of contingency.

**RECOMMENDATION 2: Improve project cost reporting to ensure a common understanding of key project parameters by wider stakeholders (See also Section 7.3.7 and 7.3.20)**

Baseline 4/Emergent Baseline 5

7.3.2. The Phase 1 Costs were reviewed by the Project Representative (P-Rep) in autumn 2014 as part of the validation of Baseline 4. A new, bottom up cost model was not created as part of the Baseline 4 process. Instead, a number of additions and deductions were made to the Baseline 3 costs that had been used for CSR13.

7.3.3. Changes to costs and vice identified the integrated

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schedule could impact on versa and HS2 Limited has need to implement an cost model to support the

programme. This will be beneficial for future base-lining activities as well as regular management information provision. A further bottom up consideration of costs will require more design work to have been carried out. Whilst the review team understands that a Baseline 5 is currently in development, it has been said that this will not include such a bottom-up review. Baseline 5 is expected to be the schedule and costs that are used to inform Ministers post-election and the CSR15 process.

Funding and Contingency Management

7.3.4. The Review Team notes that HS2 and the P-Rep have identified that the programme assumes that funding is available as needed. And we understand that discussions are on-going with HMT about flexibilities. These flexibilities and the profile of costs will need to be clear at CSR15 if not sooner. A fixed profile without sufficient flexibilities could lead to difficulties in delivering a large infrastructure project of this nature.

**RECOMMENDATION 3: HMT, HS2 Limited and DfT need to resolve funding flexibilities for construction spend before or as part of CSR15**

7.3.5. As part of the CSR15 process, DfT, HMT and HS2 Limited will need to agree budgets which reflect the different types of spending in the project (C-Del, R-Del and Admin) which are appropriate for the upcoming project phases.

7.3.6. The recently signed Development Agreement (DA) between HS2 Ltd and DfT identifies how contingency will be managed and drawn down. The DA assumes that HS2 Ltd is responsible for delivering the agreed scope within a target price of [19.4bn] which covers both infrastructure and rolling stock for Phase 1.

7.3.7. The Review Team is concerned there could be a difference between HMT's fiscal position and the expectations of the programme. HMT is clear that the funding envelope is restricted to P50 @ CSR13 settlement and does not hold a specific HS2 contingency above that level. However, cost reporting frequently shows out-turn against the P95 position.

**RECOMMENDATION 2: Improve project cost reporting to ensure a common understanding of key project parameters by wider stakeholders (See also Section 7.3.1 and 7.3.20)**

Updating Cost Bases

7.3.8. All parties recognise that the CSR13 envelope will need to be reflat from current Q2 2011 prices at some point.

7.3.9. Reflating the cost base of HS2 will have significant handling challenges. The review team heard about the importance of getting this right. It will need careful

consideration  
Ministers  
the CSR15  
are handled



as part of: briefing  
post-election, progressing  
process and in how PQQs  
for upcoming tenders.

7.3.10. Currently the effects of construction inflation are not accounted for in the CSR13 settlement, the review team understands this was an item that was not concluded at CSR13. There has been some discussion about a specific index being created for construction inflation and that this will need to be concluded prior to ITTs being issued. This large project will coincide with a number of other significant infrastructure initiatives e.g. the nuclear energy programme which could have a significant impact on the marketplace.

**RECOMMENDATION 4 - HMT, HS2 Limited and DfT need to agree a handling strategy relating to a) the uplift from Q2 2011 prices and b) construction inflation**

Current Outlook Against P95

7.3.11. The Baseline 4 cost forecast reflected a number of changes to costs and scope including the removal of the HS1 link and a transfer of Washwood Heath scope from infrastructure to rolling stock.

7.3.12. It should be noted that the current forecast relies upon a significant level of savings, [REDACTED] (excluding contingency) based on “value engineering opportunities” as well as realising the Efficiency Cost Programme. The Review Team has not seen evidence of progress in implementing and realising these savings. A report on potential savings from worldwide lessons learned is not scheduled for completion before Spring 2015.

7.3.13. As well as the core scope for HS2 Limited, there have been movements in the Contingency budget as well. The most significant pressures relate to Land and Property with an additional £521m pressure identified within the Contingency budget.

7.3.14. The review team has heard that the P95 forecast input includes [REDACTED] for Euston plus [REDACTED] of contingency. This forecast reflects the Hybrid Bill design for Euston. The current process of refining the Euston proposition has been remitted to work within that envelope. The refinement could put pressure on that cost forecast as could any subsequent petition to the Select Committee if the proposed February 2015 solution is not accepted by key stakeholders.

The project has identified that its net position is still within the P95 forecast.

7.3.15. It was unclear from the evidence and interviews how impacts on the classic rail network have been treated in the forecasts e.g. lack of clarity on scale of funding for disruption and relocation to existing services and facilities.

Third Party Funding

7.3.16. At this stage of project development, the project is fully funded from Government expenditure. Some work has previously been commissioned from the Royal Bank of Canada looking at opportunities for different funding models. There could be future potential for looking at this again e.g. funding and leasing arrangements for rolling stock, concession and franchise models for infrastructure and train operation or third party investment in stations.

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Cost Reporting

7.3.17. This is a very large and complex project. Nevertheless the review team would have expected to be able to understand the overall cost parameters of the project with greater ease than they in fact experienced.

7.3.18. Cost reporting is at an embryonic stage. The quality of cost reporting will be improved with the imminent introduction by HS2 of a new finance system. For a project of this scale, manual compilation of data is limiting and increases the risks of error. This risk is amplified by the difficulty that the review team and stakeholders have found in engaging with what is actually happening.

7.3.19. The introduction of this new finance system is a step in the right direction however, the project will need to keep this under review as the Sapphire system may be fit for purpose now but as the project gathers pace, there needs to be appropriate systems underpinning all activities.

**RECOMMENDATION 2: Improve project cost reporting to ensure a common understanding of key project parameters by wider stakeholders** (See also Section 7.3.1 and 7.3.7)

**7.4. Phase 1 Schedule**

7.4.1. The Baseline schedule that informed the CSR13 settlement was Baseline 3. During 2014, this was updated and a new Baseline 4 schedule developed between May – September. Baseline 4 is used as the reference baseline for the Development Agreement between HS2 Limited and DfT.

7.4.2. Baseline 4 is seen as a low confidence schedule – with interviewees telling the team it had a low probability of delivering the December 2026 opening.

7.4.3. New senior leaders at HS2 Limited are grasping the schedule and deliverability challenge and the review team saw evidence of significant effort being put into re-casting the schedule to create a Baseline 5 for Spring 2015. HS2 Limited is focusing on creating float at the front and back end of the schedule (see section on Areas that are Going Well). Such a structural approach to scheduling will need to reflect on other risks which could emerge as a result e.g. commercial risks associated with the timeframe allowed for negotiating a target price with a two-stage contracting approach.

7.4.4. Re-scheduling the project at intervals is a key feature of the HS2 Limited Delivery Strategy; thinking has already started about how a subsequent Baseline 6 could take advantage of further design work. It should be noted that Baseline 5 will not have any significant new design work informing its logic, but will benefit from a clearer strategy on constructability and sequencing. The ability to re-schedule to optimise delivery is essential in a project of this scale, and section 7.3.4 appropriate place to highlights the need for funding flexibilities to be in support that. HS2 Limited should ensure that re-scheduling and re-baselining do not become conflated as terms to avoid needless governance activities being expected when they are carrying out normal project scheduling activities.

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7.4.5. This Baseline 5 schedule will form the basis of briefing Ministers post-election and the CSR 2015 discussions. There are a number of items already identified on the Critical Path such as Royal Assent in December 2016, Euston and Old Oak Common where some interviewees expressed concern about deliverability and the knock on impacts for the schedule. Further consideration is given in sections 7.2.3 and 7.2.4 on the issues surrounding a decision on Euston. Further work is needed to review the critical path as part of the Baseline 5 activity as there could be further activities that should be on that path once proximity and scale as well as schedule sequencing are taken into consideration. The current Critical Path analysis highlights the following areas:

- 7.4.5.1. Hybrid Bill parliamentary process
- 7.4.5.2. Euston station and the August 2017 blockade
- 7.4.5.3. Old Oak Common
- 7.4.5.4. Northolt Tunnel and Delta Junction consents

2015 Schedule

7.4.6. There is a significant amount of activity and decision making that inter-relate in the coming months and will have a profound effect on the project. This includes not only the potential impacts post-Election from a policy and CSR15 settlement, but also in how HS2 Limited's capability is assured prior to delegation via the Review Point process set out in the Development Agreement.

7.4.7. As part of the Baseline 5 schedule activity, DfT and HS2 should test different scenarios regarding the timing of the CSR15 process, the issue of PQQs and ITTs for design, the pace of the Select Committee on petitioning post-Election, the timing of passing RP1, the decision on Euston, and the negotiations surrounding Old Oak Common. HS2 Ltd need to increase the confidence of the schedule by including schedule float. This scheduling work will also help inform the recommended handling strategy identified in Section 7.3.10.

**RECOMMENDATION 5: HS2 Limited in developing a new higher confidence Phase1 delivery and procurement schedule ('Baseline 5') needs to optimise different scenarios and sequencing around the key 2015 and 2016 milestones including the provision of schedule float.**

**7.5. Phase 2 – Infrastructure Scope**

7.5.1. The Strategic Outline Business Case for Phase 2 was published in October 2013. The SOBC is based upon the continuation of the railway from Phase 1, delivering a Y-shaped network serving Manchester, East Midlands, Sheffield and Leeds direct and enabling onward journey opportunities via the National Rail network and this route forms the cost estimate for Phase 2.



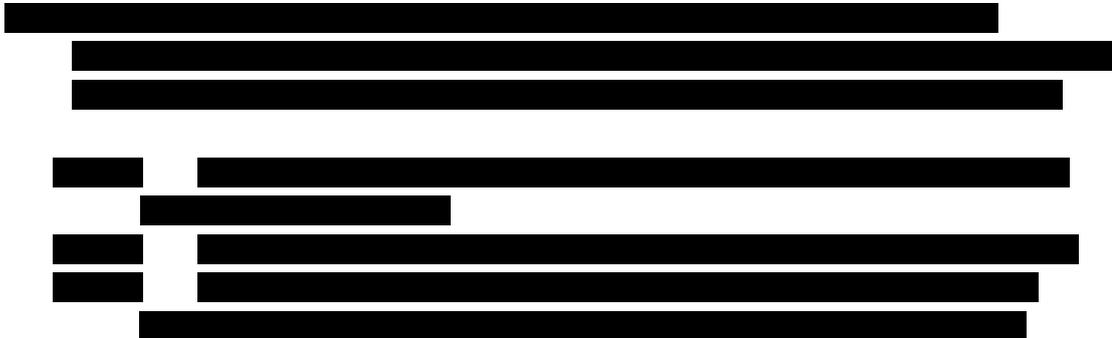
basis of the P95 £21.2bn and the CSR13 settlement

7.5.2. Between July 2013 and January 2014 a consultation was undertaken on the proposed route. The “HS2-plus” report in March 2014 confirmed HS2 Limited’s view of the Y-shaped network.

7.5.3. Phase 2 is circa 3 years behind Phase 1 in terms of its project maturity, which is not unexpected as Phase 2 is not scheduled to open until 2033.

Reviewing the Strategy for Phase 2 and Beyond

7.5.4. Since the publication of the SOBC and the consultation on the line of route, Government has indicated a broader strategic approach to high speed rail in the north as part of the “Northern Powerhouse” policy direction. As a result, DfT has brought in additional resource to its HS2 Group to develop a Northern Transport Strategy, this includes working closely with Network Rail on the development of a proposed HS3 (Manchester-Leeds).



7.5.6. As a result of that work led by Sir David Higgins, the Secretary of State launched a consultation in November 2014 to safeguard the route to Crewe, with a strategic view to being able to accelerate the route to Crewe to enable operation from 2027, should SofS so decide in due course.

7.5.7. The CSR13 envelope is the baseline against which DfT and HS2 Limited are designing solutions, but that envelope relates to a specific scope that, given the items outlined above, is unlikely to be the reference point for CSR15 discussions.

Schedule

7.5.8. The review team has been advised that there is, but has not seen, a decision and approval map and outline schedule for Phase 2. This outline schedule should be developed to inform discussions with stakeholders on both Phase 2a, the wider Phase 2 and the development work for a Northern Transport Strategy/potential HS3.

**RECOMMENDATION 6: DfT should produce a plan which identifies all the key development work required on Phase 2a, Phase 2, Northern Transport Strategy and HS3.**

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[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

7.5.15. For this stage of design maturity, a more sophisticated model of contingency/OB application has been applied than the standard Green Book approach and the review team heard that this has resulted in a lower than standard level of contingency. As the work progresses on refining Phase 2/developing Phase 2a/the wider Northern Transport Strategy, the DfT and HS2 Limited are incorporating lessons learned from Phase 1. However, there should be recognition of the greater level of design maturity that Phase 1 has.



7.6.1. The project is bringing rolling stock needs into focus early in the project. The value of systems integration is widely understood within the project and sponsor teams – both in terms of optimising operability in design development and whole life costs.

7.6.2. Benchmarking analysis has been conducted by HS2 Limited to look at a range of fleet size options and there is confidence in capability and the funding envelope. This confidence has seen the project revise down its view of the costs associated with rolling stock. As the work on the rolling stock strategy proceeds, there are choices to be made about the type of trains to be ordered e.g. the balance between captive and classic compatible trains.

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7.6.3. A tendering exercise is due to commence for advisors to support the further development of the rolling stock strategy including the commercial approach, with advisors expected to be in place from Spring 2015. There are a number of choices that could be made on the size and timing of order(s).

7.6.4. It should be noted that as part of the Baseline 4 exercise the rolling stock scope has been expanded: most of the scope relating to Washwood Heath depot has been transferred into the rolling stock part of the envelope.

7.6.5 [REDACTED]

**Recommendation 9: DfT and HS2 Limited should develop a detailed plan to explain all of the activities associated with developing [REDACTED] a [REDACTED] business case for Crewe**

**7.7. Benefits of the Core Programme (Phases 1 and 2) and the Wider High Speed Programme**

7.7.1. Whilst the project is progressing through the legislative process and gearing up for construction, it is important that the benefits expected in the business case are kept in focus. The review team heard from both HS2 Limited and DfT colleagues that the continuing refinement of scope and schedule triggers a review of the benefits and that there is a significant and challenging on-going workload for both HS2 and DfT analysts. There will also be substantial analytical requirements in the coming year to support the development of the Full Business Case for Phase 1, [REDACTED] and/or the restated SOBC for the full Phase 2 scheme and any work that is commissioned to support the emerging Northern Transport Strategy.

7.7.2. The Business Case utilises the Department for Transport’s Business Case methodology – it focuses on transport benefits and certain wider economic impacts, as defined by the standard DfT appraisal methodology. The review team has not conducted an audit of the business case, but has been assured by the documentation provided and

interviews held that the Department has not included wider economic benefits (e.g. regeneration and skills) in its business case.

7.7.3. Therefore there could be a number of wider economic benefits which could be seen as a result of HS2, but they do not form part of the current business case, either from a cost or perspective.  economic value  
understands other The review team that there are a number of activities which are badged

as High Speed Rail across wider Government (e.g. £30m investment into the Skills College from BIS, the development of HS2 Growth Strategies led by DCLG, RegenCo) but that these are outside the business case and current HS2 Limited-DfT governance arrangements. Further consideration is provided in the Governance finding of this report (see 7.8).

7.7.4. The scale of the capacity intervention that HS2 provides will have a significant impact on the commercial and operational delivery of the National Rail network. The lead times for investments and interventions on the National Rail network can be significant, and DfT should have an early focus on how HS2 capacity and pricing strategies will impact upon analytical and appraisal tools that are also relied upon by the wider industry. The review team heard evidence that dis-benefits from disruption and other investment impacts (e.g. IEP) have been included in the business case.

7.7.5. It should be noted that there was a lack of shared understanding with some interviewees about the extent to which the current OBC (Phase 1) and SOBC (Phase 2) reflect costs, benefits and dis-benefits to the National Rail network, both in terms of construction and future released capacity. A shared understanding of these is essential as the DfT has upcoming investment decisions that it will need to prioritise that interact with both the HS2 business case and other strategic priorities across transport modes – e.g. CP6 and CP7, the second Roads Investment strategy, and various franchise replacements. However, the review team has not conducted an audit of the benefits case.

## 7.8. Governance

### Development Agreement (DA)

7.8.1. As the project is transitioning towards delivery, HS2 Limited and DfT are formalising their governance arrangements for delivering the project. As was seen on the Crossrail project, a DA has been structured to provide a clear set of requirements, obligations and the funding and schedule parameters on both parties. As with Crossrail, the intention is to increasingly enable the project to operate within its own governance structures; an “earned autonomy” approach to approvals as the project progresses through its life cycle. The DA currently focuses primarily on Phase 1.

7.8.2. This requires HS2 Limited to demonstrate its capabilities at 3 Review Points under the DA. The first of these Review Points is expected to take place in 2015 and enable PQQs to be issued for 2-stage contracts across the breadth of the Phase 1 preparation and construction programme. The challenges relating to the timing of this are identified in section 7.9.8.

7.8.3. Putting in place the DA signals a psychological shift in the Phase 1 project. Clear expectations are set on which organisation is responsible for which activities and creates timeframes for decisions around change control and contingency drawdown. As a result, both DfT and HS2 Limited are planning to ramp up their capability to deliver their responsibilities under the DA.

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DfT Governance

7.8.4. In the past few weeks, the HSR Group in DfT has undergone a significant organisational change. The Group has moved from a 3 to a 5 director model under the SRO, this has led to new responsibilities being introduced (Northern Transport Strategy, Phase 2/2a, HS3) and a new focus on delivering responsibilities under the DA. It is recognised that work is underway to update how that new organisation will bed in and that changes to the governance structures will need to be agreed. Part of this will need to ensure that there is clarity about responsibilities, that this is reflected in how governance bodies are constituted and that this is clearly communicated.

7.8.5. In creating a contractual relationship with HS2 Limited, and moving towards the delivery phase, the DfT needs to bring in different capabilities to manage risks and relationships which are different to the skills and capabilities that have been deployed in the development phase. The DfT acknowledges the difficulties it has in attracting and retaining project and commercial capabilities and is currently out to tender for project and commercial support (valued at £2m) for two of its HSR Group directorates. The DfT will need to develop a forward look of capability and resources that are needed as part of its preparation for CSR15.

7.8.6. Currently programme management is not integrated across the project, raising issues about mis-matches in understanding and presentation of project materials and the risks they bring in a project of this scale and complexity. Outline agreement has been reached for an Integrated Programme Management Office to be implemented however, interviewees also told the review team that this is the third attempt to put in place an IPMO and that it is probably about 6 months away.

**RECOMMENDATION 10: Expedite implementation of Integrated Programme Management Office**

7.8.7. Steps have been taken to improve the integration between High Speed Rail and other rail activities in DfT and the wider industry and these are welcomed but it is currently embryonic. Elsewhere in this report (sections 7.7.4 and 7.7.5) we identify issues and recommendations relating to ensuring there is shared understanding of the impacts of the HS2 business case and that steps are taken to consider how to enhance rail

integration in advance of significant investment decisions. One area of concern from this review is the resources and responsibilities around delivering a cleared site at Old Oak Common to meet the Phase 1 schedule critical path. There needs to be greater clarity and agreement about the split of activities between HSR Group and Rail Executive in delivering the SOS Dependency identified in the Development Agreement. As evidence of that there was **ANNEX B** address the this, the review team heard a shortage of resource to issues at Old Oak Common.

#### HS2 Governance for Phase 1 Delivery

7.8.8.HS2 Limited is organising itself as both an “intelligent client” and a delivery body for design and planning of key elements of the project. In this context, HS2 Limited is developing a Delivery Strategy for the organisation. This is clearly a work in progress but is demonstrating a positive direction of travel: and will be an essential part of the discussions around RP1. HS2 Limited’s approach to its responsibilities under the DA are clearly shaped and governed by this emerging Delivery Strategy.

7.8.9.HS2 Limited is going through a step change. In the last few months, a new senior leadership team has started to be populated and a difference is already being seen in driving forward the project as it transitions to delivery. However, there are a significant number of vacancies throughout the organisation and talented individuals appear to be having to hit the ground sprinting rather than running. The ramping up in recruitment as significant deliverables loom clearly presents a risk, and HS2 Limited will need to take care to induct people well and leave sufficient space for management and leadership activities as it looks to build a sustainable culture. The recent agreement on pay flexibilities from HMT has no doubt helped.

7.8.10. The Review Team noted that the MD, Construction Phase 1 currently has approximately 100 staff. This is scheduled to increase to 300 by mid-2015 and ultimately will be in excess of 800. Of the 19 senior members of HS2 Limited interviewed as part of this review process, 13 joined during 2014 and 5 in the last 3 months.

#### Clarity on the Wider Programme

7.8.11. As referenced in section 7.7.3, there is uncertainty about the scope and governance of the wider programme of works relating to HS2. DfT will be tabling a wider costs paper to the MPRG on 16 December which identifies four distinct areas:

- Core Programme Costs: HS2/DfT (Buckets 1 and 2)
- Wider Programme Costs: Additional Transport, Growth and Regeneration (Buckets 3 and 4).

7.8.12. There is currently no one Department or person in which the progress and impacts against the “four buckets” comes together. Clarity is needed on these governance arrangements so that Government can have a clear line of sight about all high speed rail activities and investments being under-taken.

**RECOMMENDATION 11: Government needs to agree which wider projects are considered to be part of a wider programme related to, but not essential for the delivery of, HS2 and put in place appropriate governance**

**7.9. ASSURANCE**

7.9.1. This PAR

which was

That PAR had

the hybrid bill

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follows on from a PAR

held in September 2013.

a specific remit to consider

passage. This PAR does not

relate to any specific milestone or approval point and as a result it can only be a

snapshot of activity on a project which is currently transitioning through early parts of

the project life-cycle.

7.9.2. A project of the scale, complexity, cost and duration of HS2, needs a well-structured assurance regime. Not least as the project rightly garners significant interest and oversight needs to be timely, appropriate and proportionate.

7.9.3. Different stakeholders and funders will need assurance at different levels at key parts of the project. Not just at the classic gateway points of a programme or at the proposed RP1 to 3 gates that the Development Agreement has set out as the mechanisms by which HS2 Limited can increase its autonomy within its project control framework.

7.9.4. With the recent appointment of the Project & Strategy Director, HS2 Limited has made good progress on creating its delivery strategy, framed around a recognised 3 lines of defence model. DfT's model has 4 lines of defence – reflecting the additionality that the DfT has as the sponsor for the HS2 project. This will need to be co-ordinated.

7.9.5. A key part of the assurance that takes place for the project is the Project Representative (P-Rep) function. DfT recognises that it does not have the detailed capability in-house to fulfil the intelligent client role for particularly technical elements of the project. The value of the P-Rep function can be seen in the detailed work that they have done on assuring Baseline 4 which generates not just a scrutiny report but a continuous improvement plan for the project: a genuine example of value-adding assurance activity.

7.9.6. Mapping out a properly integrated approach to assurance which is signed off and agreed by stakeholders such as Internal Audit, MPA, HMT and NAO is essential to ensure that the project has appropriate assurance without a paralysis of assurance activities.

7.9.7. In carrying out that integrated assurance mapping, there are a number of areas that the HS2 project could consider including:

7.9.7.1. Embedding an Integrated Assurance function within the project which includes wider stakeholder interests

7.9.7.2. Reviewing the P-Rep remit to widen the assurance activity and/or audience for their work

7.9.7.3. Developing assurance products which can be relied upon by external stakeholders, rather than automatically turning to assurance processes such as PARs

benefit

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7.9.7.4. Identifying the milestones which would from short, sharp external assurance activity e.g. from

the MPA suite of assurance products

7.9.7.5. Developing a strategy for how assurance and oversight will work post-RP3 well in advance of that milestone.

7.9.8. In the near term, the project faces a significant challenge in gearing up for RP1 under the Development Agreement. The timing of RP1 is inextricably linked with a number of other inter-locking activities in 2015 and the subsequent PQQ activities for ECI contracting. The review team is aware that the CST has written to the Secretary of State for Transport setting out his expectations for satisfying RP1 and that a working group has been set up to focus on that key deliverable. The project needs to agree with HMT how it will satisfy their needs and test different scenarios of timing for RP1 in its preparation for CSR15.

**RECOMMENDATION 12: HS2 Limited and DfT should map out, agree with stakeholders and implement an integrated assurance map**

7.9.9. The other significant near term issue that the project faces is in how they proceed to a decision on Euston station. It was unclear from the interviews and documentation that the choreography of when an actual decision was being taken, by whom and how and when it would be assured was understood by people across the project or stakeholders.

**7.10. Supply Chain Capability and Future Skills Capabilities**

7.10.1. The capability of the supply chain to support delivery of HS2 is a critical issue. At its height, 34,000 people are forecast to be delivering HS2.

7.10.2. A range of issues such as skills shortages in certain technical areas, demographic challenges, competing demands of other projects and the need for the supply chain to embrace innovative solutions to deliver the challenging programme to the funding envelope are all at the forefront of senior leaders' minds – both inside HS2 and DfT.

7.10.3. In section Areas that are Going Well, the review team identifies some of the activities around supply chain and the skills agenda engagement that are already underway and are examples of good practice for a project of this duration at this stage of development.

7.10.4. The project will not be able to manage these issues by itself, but it can make a significant contribution to reframing large scale construction activities. There could be value in looking across the current construction landscape, both public and private

sector, to map out the capability ask for construction projects over the next 15-20 years. Both MoD and DECC are already looking at the skills shortage impact on project delivery and what can be done to address it.

**RECOMMENDATION 13: MPA and IUK should look across the current construction landscape to map the sector with** **ANNEX B** **out capability needs across reference to HS2**

**7.11. Wider Stakeholder Engagement**

7.11.1. Due to the intensive nature of this review and its wide remit, the Review Team has had only limited engagement with stakeholders who fall outside the HS2 Limited/DfT High Speed Rail family.

7.11.2. There was a recognition that the greater engagement on integration issues across rail both within and outside DfT is beneficial however, some interviewees also reflected on some “stop/start” engagement where they feel engaged for a period but then neglected. This causes concern with some stakeholders that they are not being taken along and with the upcoming challenges on Euston in particular, this could lead to greater risks associated with integrating rail and/or petitioning.

7.11.3. As identified in section 7.9, mapping assurance activities should give regard to shorter, external reviews which have a particular purpose in mind. The HS2 project may wish to consider an activity where an external review focuses on the wider stakeholder community, at a timing which benefits the project.

**8. Additional Information for the MPRG panel**

The following issues could be considered by the MPRG Panel on 16 December

**Issue 1**

Cost: Achievement of cost savings

Evidence and findings

The point estimates for infrastructure construction have been modified to reflect savings of ~£8bn (see 7.5.13), excluding contingency, for both Phase 1 and 2 to arrive at the latest forecast costs.

Further work on learning from elsewhere in the world has been commissioned.

Continued pressure on costs is expected from inflation, the aggregation of demand on engineering and construction capability from elsewhere within the government’s programme, and due to fiscal constraints.

See Sections: 1.2.3, 1.2.7, 7.3.11, 7.3.12, 7.4, 7.5.11 through 7.5.15 and Recommendation 7

Suggested lines of enquiry

How will the opportunities that have been identified for cost reductions be achieved during design and construction?

Are the savings realistic and achievable within the supply chain?

Have the savings from 'new' construction methods (e.g.: offsite manufacture, BIM) already been accounted for in the cost estimates?

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**Issue 2**

Scope: Wider transport investment decisions, impact and dependencies

Evidence and findings

Major changes to the scope of Phase 2 are being considered.

Northern transport strategy and HS3 are expected to have a major impact on HS2 benefits, timing and vice versa.

Network Rail Investment programmes (CP6 & CP7) decisions will be impacted by both considerations of Crewe hub, East Midlands interchanges, Leeds station and the timing of links to WCML, MML, ECML.

Use of released capacity from HS2 on the existing network to support freight and commuter services interacts with roads investment, rail regulation, and Network Rail investments.

See Sections: 1.2.5, 1.2.6, 7.5.18 and Recommendations 6, 8 and 9

Suggested lines of enquiry

Is there an appropriate benefits realisation strategy and management of dependencies?

How will investment prioritisation and programmes be optimised to provide value for money in the wider context?

Is there an appropriate high level coordinating and governance framework?

**Issue 3**

Schedule for Phase 1

Evidence and findings

The current schedule for HS2 Phase1 has a very low probability of achieving a December 2026 opening.

Major work is taking place to develop plans with greater schedule float for Phase 1.

Old Oak Common and Euston remain on the critical path despite plans to increase float elsewhere on the route.

Key dependencies on early decisions exist despite uncertainty about the parliamentary progress.

See Sections: 1.2.1, 1.2.2, 7.4

Suggested lines of enquiry

Are the right assumptions being used to determine dates for analysis and recommendations?

Is sufficient work being done to build schedule contingency?



done to build schedule

Does the developing

sufficient time for a practical and realistic procurement schedule for all the elements of the project?

delivery strategy allow

**Issue 4**

Euston:

Evidence and findings

The schemes for Euston are being reconsidered by joint NR, DfT, and HS2 Ltd team.

Euston development, even using the current minimum Hybrid Bill proposals, is on the critical path for HS2.

The redevelopment at Euston will increase operational risks to the existing WCML and London Midland services, including a blockade and the removal of a major operational contingency route.

Major objections to the current scheme have been outlined in relation to the Euston Area Plan.

See Sections: 1.2.1, 7.2.3, 7.2.4 and Recommendation 1

Suggested lines of enquiry

How is DfT developing and assuring the options for Euston redevelopment?

How will wider stakeholders concerns and fiscal constraints be managed to enable work on Euston to be optimised and started?

How long is realistic and when is the right time to confirm a way forward for Euston?

How is the impact of delays in reaching certainty about Euston being mitigated by the HS2 programme?

**Issue 5**

Governance: Resourcing within DfT

Evidence and findings

HS2 Ltd will, de facto, become the 'intelligent client' for Phase 1 and assume accountability for the funding at P50 at 'RP3'.

HS2 Ltd is providing the majority of resources to determine Phase 2 options and benefit cases although DfT retain accountability.

Consultancy resource to help DfT manage Euston, Old Oak Common, and Franchising has been agreed and 2 additional DfT directors have been assigned to the HSR group.

See Sections: 7.8.4, 7.8.5



and 7.8.7

Suggested lines of enquiry

How will accountability and assurance for Phase 1 be optimised and avoid duplication?

Is there sufficient capacity in DfT to manage Phase 1 dependencies in the wider Rail Network?

**Issue 6**

Integrated Assurance:

Evidence and findings

The scale of the HS2 programme has many multi-billion pound elements that need assurance at HMG level.

The timing and maturity of projects within the HS2 programme vary enormously.

The complexity of elements and technical knowledge required for the assurance; some of these may require long term dedicated resource.

*See Section: 7.9 and Recommendation 12*

Suggested lines of enquiry

How will assurance across the programme be optimised and avoid duplication?

How will knowledge and understanding be propagated across several years of the programme?

**Issue 7**

Delivery: Industry and Market Capability

Evidence and findings

HS2 Ltd has suggested that a significant amount of the UK construction industry's capability is required for HS2.

The lack of engineering skills in the UK has been highlighted.

There are other major construction and engineering programmes within the UK government programme (e.g.: Nuclear Energy, Submarine SEPP) that require similar resources and have collaborative arrangements with industry

A large number of complex procurements are expected to be launched during 2015/16 for HS2.

*See Sections: 1.3.4 through 1.3.7, 7.10 and Recommendation 13*

Suggested lines of enquiry

How will a coordinated approach to market demand and capability be managed?

How will the very large number contracts be effectively launched and managed across government?

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**Annex A – Progress against Previous Review Recommendations**

<b>Recommendations &amp; Actions</b> <b>From Previous PAR (Sep 13)</b>	<b>Progress against actions</b>
<p>1. Succession plans should be developed for all key posts.</p> <p><b>Action</b></p> <ul style="list-style-type: none"> <li>• <b><i>Identify key posts in both HS2 and DfT and agree a contingency/succession plan for each.</i></b></li> </ul>	<p><b>DfT</b></p> <ul style="list-style-type: none"> <li>• First draft of succession plan signed off by DG and directors. Awaiting outcome of wider DfT Internal Audit review of succession planning expected in December 14 before taking this work any further forward.</li> <li>• SCSPB1, Grade 6 and Grade 7 talent management exercise to be undertaken in January 15 following issuing of revised guidance by DfT HR Capability team later this month.</li> <li>• Capability review using adapted IUK route map assessment tool completed in April 14. Now implementing main recommendation to strengthen our intelligent client function.</li> <li>• Directorate resource plans fully updated and being used by People and Management Group that meets monthly</li> <li>• New flexible resourcing pool set up in Sept 14 to enable us to redeploy resources around the</li> </ul>

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	<p>programme to meet both changing business as well as personal development needs.</p> <ul style="list-style-type: none"><li>• New Workforce Planning and Development team set up earlier this year to provide a much clearer focus to people issues across the programme. Have recently recruited a dedicated SEO Programme Resource Manager that will have day to day management responsibility for resource planning and deployment.</li><li>• Group external recruitment campaign successfully completed in Sept 14 with 15 new high quality HEO/EO staff joining the Group. A similar campaign is currently underway and is expected to conclude in March 15.</li><li>• All staff have recently completed a half day resilience training workshop, including the SMT. Currently developing proposals for a longer term health and well-being programme.</li><li>• Currently developing a Capability Strategy that will put the 'intelligent client' function at the heart of all our workforce planning and development activities. This will be completed by March 15.</li></ul> <p><b>HS2 Ltd</b></p> <ul style="list-style-type: none"><li>• Succession planning was completed in Q1/14, the findings are now being implemented.</li><li>• We introduced a management development programme and a leadership development programme will be introduced in 2015.</li><li>• Utilise targeted/ selective pay awards for high risk individuals – <i>subject to DfT and Cabinet Office approval.</i></li><li>• Commence recruitment for successors to key roles – Immediate. Subject to approvals on high level pay from Cabinet Office and HM.</li></ul>
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	<ul style="list-style-type: none"> <li>Implement competitive pay and benefits programme to improve attraction/retention – Subject to business case approval by Cabinet Office and HMT (submitted 5/13).</li> </ul>
<p>2. The SRO should reassure himself that the contingency framework is sufficiently resilient and robust for the Parliamentary process</p> <p><b>Actions</b></p> <ul style="list-style-type: none"> <li><i>Revise contingency control framework in light of latest decisions by BICC.</i></li> <li><i>Carry out test runs on delegation process using range of scenarios (likely environment in which decisions will need to be made, key personnel likely to be required to make decisions, and availability plan including empowered deputies).</i></li> </ul>	<ul style="list-style-type: none"> <li>The framework for managing petitioner contingency, arrangements for prompt decision making within the Department and approach to bearing down costs was approved by BICC on 8 August 2014 see 140721 BICC paper HS2 petitioner contingency.</li> <li>The approach is working effectively with forecast expenditure within the contingency level see Dashboard.</li> <li>As part of the contingency arrangements, HMT to set out their key personnel likely to be required to make decisions in line with the likely timescales above the Department’s delegation including an availability plan with empowered deputies.</li> </ul>
<p>3. Procurement resources need to be scaled up to allow the full procurement strategy to be developed.</p> <p><b>Action</b></p> <ul style="list-style-type: none"> <li><i>Agree plan for deployment of procurement resources as part of work on delivery model structure (Development Agreement)</i></li> </ul>	<ul style="list-style-type: none"> <li>Work Force Planning has been undertaken to align the procurement resources to the emerging Baseline 5 plans</li> <li>Construction procurement resources are beginning to be on-boarded and will continue to ramp up during the latter part of this year and thru 2015</li> <li>The recruitment process for Head of Construction Procurement is in its final stages</li> </ul>

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	<ul style="list-style-type: none"> <li>• Work Force Planning identifies that the construction procurement team will increase to 33 by the end of FY14/15</li> <li>• The key elements of the outline procurement strategy, since the extensive industry engagement, were presented at the Supply Chain Conferences and well received.</li> <li>• The Procurement Strategy will be a supporting document to the Delivery Strategy.</li> </ul>
<p>4. DfT needs to develop and communicate a clearer and more widely accepted methodology for additional economic benefits to help in making the case for Phase 2 and future economically significant projects.</p> <p><b>Action</b></p> <p><i>We intend to publish a position statement regarding our appraisal framework (including setting out our research programme and plans for developing guidance). Use the position statement to start engagement with stakeholders before finalising next steps.</i></p>	<ul style="list-style-type: none"> <li>• In October 2013 the Department published the Understanding and Valuing the Impacts of Transport Investment paper, which set out our intention to undertake a comprehensive survey of the latest theoretical and empirical evidence for the potential growth impacts of nationally significant infrastructure and programmes of expenditure.</li> <li>• DfT commissioned research to further understanding of the impact of transport infrastructure on economic performance. The report seeks to boost the quality of the public debate around transport infrastructure by producing a trusted and reliable report.</li> <li>• This is an independent academic report undertaken by; Professor Tony Venables, Professor Henry Overman, and Dr James Laird.</li> <li>• DfT have reviewed the expert team’s study report and are preparing the Department’s Response to the recommendations. The Response document will set out the next phase of work and will be published alongside the report. The current plan is to publish before the end of 2014.</li> <li>• DfT also held a stakeholder workshop “Understanding and Valuing Impacts of Transport Investment” held on 13 December 2013. This was attended by 50 external experts and academics.</li> </ul>

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<p>5. Agree and establish the delivery vehicle and complete the Development Agreement (Urgent), which must include HMT and Cabinet Office agreement on essential freedoms (High)</p> <p><b>Actions</b></p> <p><b><i>Heads of Terms for Development Agreement to be in place by end of Dec with DA in place by 31/07/14</i></b></p> <p><b><i>Joint DfT/ HS2 Ltd workstream to identify desired freedoms for the delivery vehicle and prepare a “package” for negotiation with CO/HMT</i></b></p>	<ul style="list-style-type: none"> <li>• The Development Agreement was agreed between HS2 Ltd and DfT on 22 August 2014 and has been ‘shadow run’ since that date. Formal implementation has been held to allow finalisation of a new baseline (BL4). The final details of that baseline are in negotiation between HS2 Ltd and DfT (with anticipated resolution in w/c 17 November) and the DA will be signed promptly on completion of the baseline (formally coming in to force on the date of signature). The DA was signed on 8 December 2014.</li> <li>• Presentation outlining key flexibilities required has been drafted and priority areas have been agreed including IT, Funding and Pay and Reward. The HS2 Ltd Framework Document has been updated to accompany the Development Agreement, including increasing the pay and appointment delegation to HS2 Ltd.</li> </ul>
<p>6. Complete and implement the tripartite agreement</p> <p><b>Action</b></p> <p><b><i>Agree Tripartite Cooperation Agreement between DfT, HS2 Ltd, Network Rail</i></b></p>	<ul style="list-style-type: none"> <li>• The Tripartite Cooperation Agreement was signed on 21 January at the first meeting of the Tripartite Corporation Board that will meet monthly.</li> </ul>
<p>7. Review and update the governance arrangements to reflect transition to the delivery phase.</p> <p><b>Action</b></p> <p><b><i>Agree changes required to programme and internal governance for delivery phase in context of Development Agreement</i></b></p>	<ul style="list-style-type: none"> <li>• New Governance arrangements have been developed to formalise tripartite working arrangements and support the transition to delivery. Board structures have been reviewed and formalised. The revised arrangements are summarised in the governance manual. The changes include:             <ul style="list-style-type: none"> <li>• A Development Agreement to formalise the scope of DfT’s client role and HS2 Ltd’s role in delivery has been developed and is in shadow running.</li> </ul> </li> </ul>

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	<ul style="list-style-type: none"> <li>• A new client board, chaired by the SRO has been put in place to manage the performance of Hs2 Ltd against the Development Agreement.</li> <li>• A co-ordinated approach to implementing the new governance arrangements alongside the organisational development changes, including the switch to the new delivery structures has taken place. HS2 Ltd will be fully operational under the new governance arrangements by the end of January 2015.</li> </ul>
<p>8. The communications strategy now needs to be implemented in a proactive and responsive manner to help the project to move forward.</p> <p><b>Action</b></p> <p><i>Continue to deliver against the strategy and take checkpoints to assess progress.</i></p>	<ul style="list-style-type: none"> <li>• A near-term comms campaign, led by Tom Kelly, HS2 Ltd Strategic Communications Advisor, was set up from 6 January to work towards second reading of the Hybrid Bill and beyond.</li> <li>• This was succeeded by a high-level strategy designed to last through to mid-2015</li> <li>• Through careful planning, communications have been maximised around key project milestones over the past year, including publication of the HS2 strategic case, Hybrid Bill deposit, Hybrid Bill second reading, announcement of compensation packages and key reports by Sir David Higgins.</li> <li>• Key influencers and other stakeholders have been successfully engaged and many have lent their vocal support to the project.</li> <li>• As a result of this programme the Hybrid Bill met with a successful Second Reading with a large majority (Yes:452, No:41)</li> <li>• Stakeholder and cross-party support was demonstrated at the recent Rebalancing Britain report launch attended by the Prime Minister, Chancellor of the Exchequer, Secretary of State for Transport, Shadow Secretary of State for Transport,</li> </ul>

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	<p>and numerous Leaders of Labour held Local Authorities.</p> <ul style="list-style-type: none"><li>• Under the terms of the Development Agreement a full communications strategy is now being developed that will support the project through to the 2015 General Election and Beyond.</li></ul>
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**Annex B – List of Interviewees**

The following people were interviewed during the review:

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<b>Name</b>	<b>Role/title</b>	<b>Organisation</b>
Philip Rutnam	Permanent Secretary	DfT
Sir David Higgins	Chairman	HS2 Ltd
David Prout	SRO and Director-General of HS2	DfT
Simon Kirby	CEO	HS2 Ltd
Vanessa Howlison	Group Finance Director	DfT
Martin Capstick	Director, Policy and Legislation	DfT
Michael Hurn	Director, Major Projects	DfT
Jonathan Sharrock	Director, Strategy and Engagement	DfT
Paul Rodgers	Director, Finance and Commercial	DfT
Nick Bisson	Director, Phase 2	DfT
██████████	██████████	██████████
Alison Munro	Managing Director, Development	HS2 Ltd
Andrew McNaughton	Technical Director	HS2 Ltd
Jim Crawford	Phase 1 Director	HS2 Ltd
Kieran Rix	Finance Director	HS2 Ltd

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Janine Mantle	Corporate Affairs Director	HS2 Ltd
Beth West	Commercial Director	HS2 Ltd
Rupert Walker	Euston Director	HS2 Ltd
[REDACTED]	[REDACTED]	[REDACTED]
Alistair Kirk	Programme and Strategy Director	HS2 Ltd
Ian Jordan	Phase 2 Director	HS2 Ltd
Roger Hargreaves	Hybrid Bill Delivery Director	HS2 Ltd
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
Cavendish Elithorn	Director, Network Rail Sponsorship, Rail Executive	DfT
Alun Hughes	Deputy Director, Growth and Regeneration	DfT
Richard Bennett	Deputy Director, High Speed Rail Programme and Assurance	DfT
Dave Buttery	Deputy Director, High Speed Rail	DfT

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	Legislation and Environment	
[REDACTED]	[REDACTED]	[REDACTED]
Caroline Botwood	Head of Cost and Funding	DfT
Steve Brundle	Project Representative	
Mark Carne	Chief Executive	Network Rail
Stephen Dance	Head of Infrastructure Delivery	IUK, HM Treasury
Peter Wilkinson	Director, Passenger Services, Rail Executive	DfT
Michele Dix	Managing Director of Planning	TfL
Michael Colella	HS2 Lead	TfL
Dan Micklethwaite	Deputy Director, Transport Regulation and Competition	HM Treasury
[REDACTED]	[REDACTED]	[REDACTED]

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## Annex C – Review Team Terms of Reference

### Combined Q&A

This document is a combination of the questions raised by Cabinet Office and HMT and the Department for Transport and HS2 Limited's responses.

Where the Review Team considers that there is wider consideration than indicated in the DfT and HS2 Limited responses, we

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believes there is wider indicated in the DfT and have inserted a cross-reference to the relevant section of the PAR report. These exceptions are highlighted in blue.

Note that Paul Plummer and Clare Moriarty are included in the interviewees in this section but were not interviewed.

## 1 Scope

### 1.1 Are there clear boundaries defining the HS2 programme, including a shared terminology between key players?

Answer:

- It is recognised that the HS2 programme sits within a wider programme of work. The (draft) Delivery Strategy describes the interrelationship between the different parties including DfT, HS2 Ltd, Network Rail, HMT, wider government and the supply chain.
- The TCM and TCB (Tripartite Cooperation Memorandum and Board) define the relationship between DfT, HS2 Ltd and Network Rail.
- The DA (Development Agreement) sets out the respective key roles of the SoS, HS2 Ltd, the Project Representative, the Client Board and the HS2 Ltd Board.
- A cross-government group chaired by the Cabinet Secretary, Sir Jeremy Heywood, was established in October 2013 to co-ordinate a joint response to the recommendations of the HS2 Growth Taskforce.

Documentation:

- Tripartite Cooperation Memorandum
- The High Level Delivery Strategy (additional documents)

Interviewee(s):

- David Prout
- Simon Kirby

*Review Team Comment – See Section 7.7*

### 1.2 How do Baseline 4 categories, e.g. temporary exclusions or DfT wider risks, relate to the key terms in the Development Agreement, e.g. 'Project' or 'HS2 Programme'?

Answer:



Interviewee(s):

- Michael Hurn
- Paul Rodgers

**1.4 Where do associated 'essential for the depot relocation and**

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**items that are deemed delivery of HS2' (such as the Crossrail extension) sit?**

Answer:

- Items that are essential to deliver the HS2 business case are included within the core HS2 programme.
- Depot relocations are within the scope of Baseline 4 and an estimate of cost is included within the Point Estimate (plus associated risks entered into the risk register).
- All projects to be included will need to have an outline business case which demonstrates stand-alone benefit as well as benefit to the overall business case for HS2.
- The Crossrail extension is not currently deemed essential – work on the business case and need (in relation to Euston) is ongoing.

Documentation:

- Baseline 4 presentation

Interviewee(s):

- Michael Hurn
- Paul Rodgers
- Jim Crawford

**1.5 Are there clear boundaries defining what items DfT, HS2 Ltd and Network Rail are each responsible for delivering?**

Answer:

- It is recognised that the core HS2 programme sits within a wider programme of work. The (draft) Delivery Strategy describes the interrelationship between the different parties including DfT, HS2 Ltd, Network Rail, HMT, wider government and the supply chain.
- The Development Agreement (DA) sets out the respective key roles of the Secretary of State, HS2 Ltd, the Project Representative, the Client Board and the HS2 Ltd Board.
- Further detail is included in the Project Documents and in the Undertakings, Assurances and Requirements.
- The respective roles of DfT, HS2 Ltd and Network Rail are set out in the Tri-partite Co-operation Memorandum, which exists in parallel to the DA. The HS2 Programme sits within a wider programme of work, the boundaries of which are set out in the Delivery Strategy, along with associated roles and responsibilities.

Documentation:

- DA
- Tri-partite Co-operation Memorandum
- Governance diagram
- Delivery Strategy

Interviewee(s):

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- David Prout
- Simon Kirby
- Paul Plummer

*Review Team Comment – See Sections 7.7.5 and 7.8.7*

**1.6 Is it clear who has ownership of wider HS2-related items that are outside of the core programme, e.g. Regeneration Company, local HS2 growth strategies, the HS2 skills college?**

Answer:

- Yes. The Skills College is owned by BIS, local growth strategies are owned by the relevant Local Authority.
- The RegenCo work is currently owned by DfT as policy under development but HS2 Ltd and LCR have been working on the business case for the Regeneration Company.

Documentation:

- Skills College Papers (HS2 Ltd paper describing their contribution and a client specification from NSARE setting out what the College needs to deliver)
- Case for Regeneration Body (sub to Secretary of State)
- Curzon St HS2 Growth Strategy (overview document)
- Old Oak Common Mayoral Development Corporation consultation paper

Interviewee(s):

- David Prout
- Jonathan Sharrock

*Review Team Comment – See Section 7.7*

## 2 Cost

### 2.1 Does the Baseline 4 cost estimate when combined with the Baseline 4 identified exclusions account for the entire costs of delivering the benefits in the HS2 business case?

Answer:

- Baseline 4 (which together with its costs and risks) of delivering the Sponsor's Requirements in relation to Phase 1. **ANNEX B** covers Phase 1 only) exclusions (i.e. DfT held accounts for the entire cost
- The Sponsor's Requirements have been set at a level to deliver the benefits of the HS2 Business Case.
- The assurance provided on Baseline 4 (by HS2 Ltd and P-Rep) confirms that the infrastructure costs of Phase 1 can be delivered within the cost envelope set at Spending Review 2013.

Documentation:

- Baseline 4 presentation and Project Representative report

Interviewee(s):

- Paul Rodgers
- Caroline Botwood
- Jim Crawford
- Alison Munro

*Review Team Comment – See Section 7.3*

### 2.2 Have the full range of wider HS2-related items (both the growth/regeneration items mentioned above and items such as franchise compensation) been identified and costed?

Answer:

- Core programme costs which are required to deliver the Sponsor's Requirements in the Development Agreement have been identified and costed (Baseline 4, Rolling Stock and Phase Two estimates).
- In relation specifically to Train Operating Company (TOC) compensation, HS2 Ltd have included an assessment of schedule 4 disruption costs. Additionally, DfT have added in an estimate for loss of revenue due to franchise amendment. This falls within the current envelope.
- Growth and regeneration are different as they are not required to deliver the core programme business case benefits. It is a choice for government to capitalise on the opportunities presented by HS2 and we are supporting Local Authorities and key parts of Government involved in housing, planning, regeneration, skills and industry, and transport to do so.
- Projects such as an integrated Leeds station, the Skills College, Crewe Hub and East-West connectivity could all have significant wider social and economic benefits, but there is a debate on what costs Government would incur to achieve them and they would require their own business case.

Documentation:

- Wider Costs paper

Interviewee(s):

- Caroline Botwood
- Paul Rodgers

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**2.3 What is the latest assessment of how much cost petitioning is likely to add? What arrangements have been put in place to bear down on costs?**

Answer:

- The cost of petitioning is forecast to be below [REDACTED]
- The arrangements in place to manage down costs in the petitioning period are set out in the Parliamentary Strategy and BICC paper – [REDACTED] The Major Organisations and Complex Agreements Negotiation Plan and Process, and the Communities and Individuals Negotiation Plan and Process set out how these principles are delivered through negotiations with different kinds of petition.
- Progress to date on petitioner management has been very positive. The two Community Forum Areas where we have completed hearing petitions (CFAs 26 and 25) had [REDACTED] [REDACTED] While we are still awaiting the Committee’s view on those petitioners that they heard informal sounds from the Committee suggest that there is unlikely to be significant, if any, additional cost in these CFAs.
- While progress to date has been positive there is a constant focus on managing cost throughout the negotiations.

Documentation:

- Hybrid Bill Dashboard
- Parliamentary strategy (additional documents)
- Major Organisations and Complex Agreements Negotiation Plan and Process (additional documents)
- BICC paper on petitioner management (additional documents)
- Communities and Individuals Negotiation Plan and Process (additional documents)

Interviewee(s):

- Paul Rodgers
- Martin Capstick

*Review Team Comment – See Section 7.2*

**2.4 Does Baseline 4 contain sufficient levels of contingency for a project at this stage of design maturity? How has the level of contingency been arrived at?**

Answer:

- Baseline 4 contains a P95 risk provision of [REDACTED] for the defined scope (this excludes any provision for DfT risk). However, value, high probability Point Estimate, [REDACTED] [REDACTED] It compares [REDACTED] with 25% for Thameslink at the time of signing the Thameslink protocol in 2007 although that was at a P80 level and at a somewhat greater level of maturity so we need to be cautious in making direct comparisons.
- We are satisfied that a robust and independently validated process has produced this level of the contingency required and therefore that it is an appropriate envelope within which to manage the scope of the project. This is particularly the case given the prudent approach to accounting for high value, high probability risks and Sir David Higgins’s assertion, from his report in March this year, that (including Rolling Stock) ‘we have reached the firm conclusion that the budget is enough to deliver Phase One in total’.

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Documentation:

- Baseline 4 Presentation and Project Representative Report

Interviewee(s):

- Simon Kirby
- Jim Crawford
- Steve Brundle

*Review Team Comment – See Section 7.3*

**2.5 What progress has been made so far on Baseline 5? How does this differ from baseline 4?**

Answer:

- Baseline 5 is in the process of being commissioned with a view to getting revised costs in time to advise new Ministers and support a subsequent Spending Round. Part of the commission will include a set of pre-agreed scenarios, which for Phase 1 will be predominantly around the impact of changes to the assumed Royal Assent date, schedule and date for start of operations.
- Work is already underway within HS2 Ltd to develop Baseline 5.

Documentation:

- Plan and presentation for SR15 activity (additional documents)

Interviewee(s):

- Jim Crawford
- Caroline Botwood
- Paul Rodgers

**2.6 What is the latest cost estimate for Phase 2? What work is underway to bring the costs within the envelope set at SR13?**

Answer:

- The SR13 settlement for Phase Two P50 and £21.2bn at if you remove the costs and relocate the East Midlands station it would leave the project within 10% of the agreed budget.
- Sir David believes that this far out from construction and with the prospect to learn from the additional Phase One experiences, and possibly further scope changes in due course, there is no reason to change the Phase Two budget at this stage, and Ministers have accepted that view.
- Decisions on budget, scope, or timing/phasing of Phase Two will be considered in SR15, and work is in hand to better understand the costs and options in advance of that. Our basic approach is that we will 'design to budget'.

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agreed a budget envelope infrastructure of £19.0bn at P95. Sir David believes that for the WCML connection

Documentation:

- Higgins Reports 1 and 2 plus responses
- Letter from Sir David Higgins to the Secretary of State on Phase 2 Cost Estimates

Interviewee(s):

- Alison Munro
- Nick Bisson
- Paul Rodgers

**2.7 What progress has been made on the review commissioned by the Chancellor in October to learn lessons from abroad to bring down the costs of high speed rail in the UK?**

Answer:

- HS2 Ltd has started to scope the work and has convened a weekly group to drive forward and monitor progress.
- We expect to bring in external consultants to help and the project will likely have three strands:
  - Internal cost review to ensure like for like comparison
  - External/international benchmarks
  - Pulling together of existing work already done in this area by HS2 Ltd
- HS2 Ltd are currently exploring the scope of a report on international high speed rail comparisons, and the DfT will be formally commissioning HS2 Ltd to produce such a report by the end of the year.

Interviewee(s):

- Simon Kirby
- Jim Crawford
- Alistair Kirk

- Paul Rodgers

**2.8 What level of contingency is currently being applied to the Phase 2 estimate? How does this compare to other major rail projects at a similar stage of design?**

Answer:

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- The level of contingency (expressed as optimism bias) that HS2 Ltd are applying to Phase 2 costs is 41%, post efficiency and target cost. This is relatively low for a scheme at this stage of development. As a consequence DfT and HMT may be required to hold additional contingency budgets.
- HS2 Ltd are conducting an exercise to benchmark HS2 cost against similar projects elsewhere, following a commission for CHX. This exercise is intended to provide further justification for efficiency savings for both Phase One and Phase Two.
- Ministers understand and are content with Sir David Higgins views and P-REP advice. It is critical we maintain consensus about the Phase Two vision in order to progress the whole project and intend to commission work on further options for SR15.

Interviewee(s):

- Alison Munro
- Nick Bisson
- Paul Rodgers

**2.9 What are the latest rolling stock cost estimates? How have these been calculated and what benchmarking has been done?**

Answer:

- The target price for Phase One includes a rolling stock and depots cost estimate for Phase One of £3Bn. This is based on the rolling stock quantities and unit prices used in the March 2014 Higgins report.
- HS2 Ltd is currently developing updated rolling stock and depots cost estimates for Baseline 5. Outputs from this work will be available in December.
- The benchmarking of capital costs for rolling stock against recent high speed train projects is described in the background note "Derivation of rolling stock costs"

Documentation:

- Higgins Reports 1 and 2 plus responses.
- Derivation of rolling stock costs (additional documents)

Interviewee(s):

- Michael Hurn
- [REDACTED]

### 3 **Funding**

**3.1 What elements of associated items are unfunded and identify funding options for these?**

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**the HS2 programme, or essential for its delivery, what work is ongoing to**

Answer:

- No elements of the HS2 Programme relating to delivery of the Business Case benefits are unfunded.
- There are, however, a number of additional transport investment opportunities facilitated by the HS2 programme that are out with the £50.1bn spending envelope secured at Spending Round 2013 including:
  - the proposed Crewe Hub (where this differs from the Phase Two scheme as consulted)
  - the East-West connectivity recommendations in David Higgin's report 'Rebalancing Britain,' including a new integrated station at Leeds
  - connectivity around HS2 station sites
- There are also non-transport, growth and regeneration schemes which HS2 provides a catalyst for including the Skills College and RegenCo.
- Work to quantify these non-core programme costs better is ongoing, alongside the benefits they generate.

Documentation:

- Wider costs paper

Interviewees:

- Paul Rodgers
- Caroline Botwood

**3.2 What are the funding arrangements for wider HS2-related items, e.g. on growth and regeneration?**

Answer:

- Local Enterprise Partnership (LEPs) and local partners are developing HS2 Growth Strategies to identify the investment need and potential sources of funding and financing required to facilitate regeneration and growth. This is in line with the recommendations of the HS2 Growth Task Force.
- Once each HS2 location has developed its HS2 Growth Strategy, we will work with them to consider how we support local implementation.

- Funding options will be determined by the requirements of the particular scheme but are likely to include attracting private investment, use of local funding and aligning local plans with existing national capital spending (for example Growth Deals, or funding via Highways Agency or Network Rail).
- The Department is also examining the potential to secure additional funding (a ceiling of £25m p/a (2015/16 and assets, and reviewing to support local investing in strategic forward development at station sites.

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16/17), using existing LCR the arrangement at SR15) regeneration plans by land acquisitions to bring

Documentation:

- Wider costs paper

Interviewees:

- Alun Hughes

**3.3 What impact will HS2, including items such as Crewe Hub and WCML link, have on future Network Rail control periods?**

[Redacted]

[Redacted]

[Redacted]

[Redacted]

Interviewees:

- Claire Moriarty
- Paul Plummer
- Nick Bisson
- [Review Team Comment – See Sections 7.7.5 and 7.8.7](#)

**3.4 What work has been done to re-evaluate the possibility of securing private sector funding or financing to pay for HS2?**

Answer:

- The case for HS2 has been calculated on the basis of full public funding for the project, though the Department is continuing to explore the possibility of private finance for specific elements of the HS2 project.
- A February 2013 study commissioned by the Department from Royal Bank of Canada indicated that securing significant private finance for HS2 was unlikely, due to the nature, scale, and complexity of the project.

- The Department is seeking updated advice on market conditions and the scope for private finance (e.g. for specific elements of HS2), to be delivered in spring 2015.

Documentation:

- Bank of Canada report (additional documents)
- Bid documents for documents) 

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 financial advice (additional
- Presentation to finance (additional documents) Baroness Kramer on private

Interviewee(s):

- Caroline Botwood
- Paul Rodgers
- Beth West
- [Review Team Comment – See Section 7.3.17](#)

### **3.5 What work is ongoing in preparation for SR15? What HS2 funding issues will need to be resolved at that point?**

Answer:

- HS2 Ltd will be commissioned in December to deliver an Updated Programme Cost Estimate (UPCE) for spring 2015. This will include an updated Baseline 5 (including Rolling Stock) for the core Phase One works, further work on the estimates for Phase Two, and wider programme costs.
- HS2 Ltd are to deliver a bespoke modelling tool to run different SR15 scenarios by the end of January 2015.
- There are a number of funding issues that require resolution including inflation – where we are working with IUK to deliver a new set of modelling tools in spring 2015 – and flexibilities/incentives – where we are working with Treasury, IUK and HS2 Ltd through the funding working group.

Key documentation:

- Plan and presentation for SR15 activity (additional documents)

Interviewees:

- Caroline Botwood
  - Kieran Rix
- [Review Team Comment – See Section 7.3.4 to 7.3.10](#)

#### 4 Risk

##### 4.1 What are the key risks to the programme as a whole? Is there a shared understanding of these across Government?

Answer:

- At a strategic level we we pay particular include: 

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 have several key risks that attention to and these
  - Cost, programme and funding. Developing and understanding the optimal schedule and milestones to deliver the programme working within the constraints of the programme.
  - Political risk. We have a comprehensive engagement strategy on this and have seen a number of successes here this year
  - Capability. Getting the right people on the job is a fundamental requirement which is why securing the right freedoms for HS2 Ltd to hire and remunerate has been so important
  - Sponsorship and agreements. Putting in place the appropriate arrangements to govern and manage the programme
- Current high risks in the risk register (current exposure rated at 20 or higher) include: Additional Provisions delaying the Select Committee process; delays to the Hybrid Bill process; development and approval of an option for Euston station; Old Oak Common land not released in time to support HS2 construction; and growth in scope of Land and Property budget.
- Within DfT, risks scoring 15 and above are included in the HSR Group Performance Report and those risks with a current exposure level of 20 or higher are automatically escalated to the DfT Board.
- A quarterly update on programme risks is included in our return to IUK for inclusion on the Major Infrastructure Top 40 Risk Card.

Key documentation:

- Programme Risk Dashboard – October and November

Interviewees:

- Alistair Kirk
- Richard Bennett
- Jeremy Harrison

##### 4.2 Are appropriate mitigation plans in place to address key risks, with specific time-bound actions and owners?

Answer:

- Yes. We have detailed risk registers containing specific mitigations which are reviewed and updated regularly.
- HSR Group has its own internal governance structure to support David Prout in his role as Senior Responsible Owner and to allow senior management oversight of the programme. The weekly Hub room meeting allows the senior management team to focus collectively on risks, issues, milestones achieved and/or missed.

- DfT HSR Directors and HS2 Ltd have been delegated the responsibility for identifying, assessing and managing risks by the SRO for their own work areas or within any Project Boards or working groups they chair. Decision making at these Boards is underpinned and informed by risk in terms of its likelihood and impact.
- HS2 Ltd has a governance structure that has recently been reviewed to support the transition to delivery. Risks are the delivery boards to Board before and then submitted to Programme and Investment Board (PIB). These risks are captured on the Risk dashboard and can be challenged at every stage. The maturing of this approach will increase the focus and effectiveness of programme risk management.

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reported internally through the Programme Review submission to the Executive the DfT-HS2 Client Board or

Key documentation:

- Governance diagram

Interviewees:

- Alistair Kirk
- Richard Bennett

**4.3 How are high impact, low probability risks being managed? Is it clear who is responsible for managing these?**

Answer:

- An assessment of impact and probability of risk is included on risk registers with a named owner in every case. Work is currently underway with the HS2 Ltd Exec and Board to understand and plan for major events arising from the political, economic, social, environmental and technological environments, through scenario analysis. These are events that could create significant shocks or opportunities for the programme.
- An example is that HS2 Ltd has recently begun to formalise its business continuity capability to respond to major shocks to its business operations and thereby protect the ability to deliver the programme.

Key documentation:

- HS2 Ltd Risk Management Strategy (Additional Documents)

Interviewees:

- Alistair Kirk
- Richard Bennett

**4.4 Is there a comprehensive integrated risk register and risk management process in place across DfT and HS2 Ltd?**

Answer:

- Yes. We have detailed and comprehensive risk registers across both organisations. Both organisations have clear risk management processes in place.
- The dashboard is the central tool for the SRO to control the programme and the Programme and Investment Board (PIB) to oversee progress against the plan and budget, and to consider risk.
- At its monthly meeting, integrated programme the dashboard, the against plan, monitors exposure to the 

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 PIB reviews the HS2 dashboard. In its review of Board examines progress costs, issues and risk programme, and takes decisions where required to move the programme forward or take corrective action. This includes escalating and/or reporting risks and issues as appropriate to DfT's Board Investment and Commercial Committee (BICC) and/or Executive Committee (ExCo).
- The risk management strategy for HS2 has been developed jointly by DfT and HS2 Ltd. The strategy outlines roles and responsibilities in managing risk, as well as how risks are identified, assessed, addressed and escalated through the programme's governance framework. The strategy includes risks both as threats to be managed and opportunities to be exploited.

Key documentation:

- HS2 Ltd Risk Management Strategy (Additional Documents)
- Project Dashboard – October and November

Interviewees:

- Alistair Kirk
- Richard Bennett

*Review Team Comment – See Section 7.8*

#### **4.5 What progress has been made to move to a fully integrated Quantitative Risk Assessment (QRA)?**

Answer:

- DfT and HS2 Ltd are working collaboratively to plan Baseline 5 to deliver better integration of risk analysis, with the Development Agreement and Review Points providing the platform to improve the allocation and profiling of risk.
- HS2 Ltd is also engaged internally to establish an enterprise wide risk management framework to provide improved alignment and integration of risk management and analysis.

Interviewees:

- Alistair Kirk
- Jim Crawford

#### **4.6 On Phase 2, why has there been a move back to using Optimism Bias instead of a QRA?**

Answer:

- The level of design development for the Phase Two scheme is not sufficiently mature for a QRA to be carried out, this is in keeping with Green Book guidance.
- The 2013 estimate for the Phase Two costs used a mixture of OB and a QRA to derive an overall view of OB.
- A systematic process to analysis of base exposure for the underway for a number undertaken through a cost and risk workshops to ensure better alignment and robustness with the design and cost base. Phase Two design is at an early stage of development, and the cost risk analysis is being treated as a draft product until such time that the design is 'baselined' to allow for final cost and risk estimates to be aligned and provided.

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establish 'bottom-up' construction costs and risk delivery phase has been of months. This has been set of integrated scope,

Interviewees:

- Alison Munro

**5 Phase 1 Timetable**

**5.1 What is the new Phase 1 Royal Assent date that can be achieved with reasonable confidence given the petitioning process and number of petitions received?**

Answer:

- The current planning assumption for Royal Assent is December 2016.

Key documentation:

- Hybrid Bill programme plan

Interviewees:

- Martin Capstick
- Roger Hargreaves
- Alison Munro

**5.2 What are the assumptions underlying the new Royal Assent date and how realistic are these? How do they compare to other hybrid Bills, e.g. Crossrail?**

Answer:

- The assumptions that sit behind the Royal Assent date are based on experience from previous hybrid Bills including Crossrail. For example, the proportion of petitioners we predict to settle their petition and not appear is based on the proportion that settled for Crossrail.
- Overall we believe the assumptions are realistic. Early experience in Committee supports this with us having received fewer petitions than originally assumed (1,918 v 2,500); more sitting days a week than assumed (3 1/2 v 3); a settlement rate in line with our assumption [REDACTED] and a rate of progress in line with our assumptions.

Documentation:

- Assumptions behind the Select Committee (additional documents)
- Hybrid Bill Dashboard

Interviewees:

- Martin Capstick
- Roger Hargreaves
- Alison Munro

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**5.3 What are the risks to the schedule from petitioners who behave as protestors rather than rational economic actors?**

Answer:

- The risk to the schedule from petitioners behaving as protestors is limited. The Select Committee has already expressed and demonstrated their desire for brevity from both petitioners and the promoter.
- In addition, as this is a quasi-judicial process, acting as a protestor is likely to undermine the petitioner's case and so be counter-productive even for those opposed to the railway. Both the main opposition groups (Stop HS2 and HS2 Action Alliance) have already appeared before the Committee and have not sought to act as a protestor.

Interviewees:

- Dave Buttery
- Roger Hargreaves

**5.4 What decisions are being driven by the new Royal Assent date, e.g. decisions on Euston, Old Oak Common? What are the risks (financial, political, and technical) of taking decisions on these issues too quickly?**

Answer:

- Maintaining the new Royal Assent date is a key driver in our decision-making not least because it is milestone which is challenging but achievable and provides a good focal point and momentum.
- We balance all decisions which potentially affect Royal Assent against the risk of additional cost, and against importing unwarranted political and technical risk.
- We are currently working through a number of decisions on the layout of Euston station which balance the programme against passenger and operational needs, local community aspirations, political aspirations and affordability within the HS2 budget. We will support these decisions with evidence and ensure that any imported risk is within acceptable limits.
- Getting the right Euston solution is most important so we will not pursue the Bill timetable at the cost of getting the right scheme. If the Additional Provision slips beyond September, then delay to Royal Assent is likely.

Interviewees:

- Michael Hurn

- Martin Capstick
- Rupert Walker (Euston)

*Review Team Comment – See Section 7.2*

**5.5 What is the realistic to what extent is this Assent date? Is activities it is legally undertake prior to Royal Assent?**

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**Phase 1 opening date and affected by the Royal there clarity on what and politically possible to**

Answer:

- Based on the current level of development of the programme and design we are confident of maintaining a Phase 1 opening date in 2026.
- Royal Assent is a key driver for completion date and on the basis of the current schedule and the challenges expected around the construction schedule at Old Oak Common and Euston, we would expect that delay to RA would translate into a delay to opening of the railway. However, we can utilise our paving act powers to get key early works done to minimise the risk of delay.
- The activities which we currently anticipate will happen prior to Royal Assent are well-within legal and political limits (such as utilities works and ground investigation). We have legal advice on this.
- If we consider any further pre-Royal Assent works, such as enabling or signalling works on the existing railway, this would be tested on a case-by-case basis to ensure that we are not working outside acceptable permissions.

Documentation:

- High level plan

Interviewees:

- Michael Hurn
- Jim Crawford

*Review Team Comment – See Section 7.4*

**5.6 How realistic are the assumptions on early works, e.g. that utilities works can commence early at Euston six months before Royal Assent, or that Ground Investigations can start early in 2015 in the context of the General Election?**

Answer:

- We are proceeding through approvals to conduct these works through DfT and HM Treasury.
- The assumption within the Baseline 4 programme is that utilities works and ground investigation surveys will commence before Royal Assent, under their own powers. Utilities works are currently programmed to start in July 2016, six months prior to the planned Royal Assent date.
- We are very aware of the need to keep momentum on the ground investigations and utilities works through the general election but will balance this against political risk which may impact the scheme as a whole. We believe it is possible to take this work forward in a sensitive manner,

thus enabling the project to gain necessary information while also respecting political sensitivities.

Interviewees:

- Michael Hurn
- Martin Capstick

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## **6 Capability**

### **6.1 What steps are being taken to further develop HS2 Ltd's capacity in preparation for the delivery stage of the project? What progress has been made to date?**

Answer:

- HS2 Ltd is currently undertaking a very significant level of activity to prepare it for delivery, this is a key priority for management and steps include:
  - Development of the Delivery Strategy that defines how we will operate as a businesses in order to ensure accountabilities and processes are clearly defined and fit for a project like HS2
  - Several Senior level appointments and a recruitment drive to hire 36 key posts.
  - Use of the Development Partner (CH2M Hill) to populate a further 100 posts
- On phase 2, we would manage a Phase 2a bill with in house resource (if a phase 2a bill is confirmed)
- Freedoms & Flexibilities will enable HS2 Ltd, over time, to build effective internal capability at lower cost

Key documentation:

- HS2 Ltd Organogram
- Delivery Strategy

Interviewees:

- Simon Kirby
- Jim Crawford
- Alistair Kirk

### **6.2 What mechanisms have been put in place to manage the risk of public sector wage inflation and to ensure there is enough skilled resource to deliver both HS2 and other Government transport priorities?**

Answer:

- The Department has set up a CEO Group, comprising the CEOs of Network Rail, HS2 Ltd, Crossrail, the Highways Agency, the MD of London Underground and London Rail, TfL, and the DfT Permanent Secretary to progress ways of working together on recruitment, retention and talent development in line with the Statement of Principles.
- This sets out the aims and principles for these organisations to be proactive in managing their resources; to recognise that they are competing in a global market for the best talent whilst

ensuring appropriate use of public funds; and, to encourage and develop both an existing and future pool of talent to ensure that the Parties build a larger, more diverse workforce attracting skilled people from outside rail and outside the UK, and develop the talent pipeline for the future so that the transport sector can continue to be an engine for economic growth.

- The Permanent Secretary has recently sent the signed Statement of Principles to the Chief Secretary of the Treasury, with a personal commitment to this **ANNEX B** agenda.
- In addition, progress is also being made through a HR Directors Group supporting the CEO Group. Recent progress includes: a research study into the feasibility of a joint recruitment campaign across these organisations, funded by Network Rail and led by TMP Worldwide; agreeing a common structured approach to work placements across these organisations; and, seeking to address the risk of leadership instability.
- Within this overall context, and in order to ensure that there is enough skilled resource to deliver transport priorities, the Chief Secretary has recently agreed to HS2 Ltd pay freedoms, representing a major step forward in enabling the company to meet its objectives and providing a framework to work effectively within costs constraints.

Documentation:

- Statement of principles (additional documents)

Interviewees:

- Simon Kirby
- Paul Rodgers

### **6.3 What capability analysis has been carried out to assess the adequacy of DfT's current 'intelligent client' function and identify any gaps?**

Answer:

- DfT and HS2 Ltd undertook a joint capability review of the HS2 programme, facilitated by Infrastructure UK, in April 2014. The final report set out six recommendations to support DfT in strengthening its 'intelligent client' capability and HS2 Ltd to establish a delivery focused organisation.

Key documentation:

- IUK Routemap Capability report (April 2014)

Interviewee(s):

- David Prout
- Richard Bennett

**6.4 What is the right mix of skills and experience needed to steer the project effectively without duplicating the work of HS2 Ltd? E.g. what level of commercial expertise does the client team need? What immediate steps are being taken to secure this mix?**

Answer:

- The Department is client capabilities, with Agreement clearly and HS2 Ltd during the 

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 increasingly focusing on the the Development separating the roles of DfT delivery phase.
- Traditional civil service policy development skillset is still important on this project, particularly with regard to Phase Two, RegenCo, and development of longer term options (HS3, reducing journey times to Scotland).
- Two experienced Directors have been transferred from Rail Executive to strengthen DfT's capability to client the development of Phase Two and to lead the management of delivery through HS2 Ltd.
- We have reshaped our organisation to separate the sponsorship of the programme overall and the projects within it. Paul Rodgers is leading overall sponsorship of the Programme and Michael Hurn is leading on sponsorship of the many major projects which make up the programme, such as Euston and Old Oak Common, and providing technical and commercial support to the petition management process, to ensure that scope and costs are carefully managed, and that the outputs required to deliver the benefits are secured. This additional senior capability significantly widens the Team's mix of skills and releases capacity at senior level to sponsor the major change projects (eg Euston, Old Oak Common).
- The Sponsorship Directorate has procured the services of four specialist commercial or project management interim staff strengthen the Directorate's capability and capacity in the area of cost scrutiny and change control. We are also in the process of appointing a high-calibre team of commercial and project specialists who will greatly improve its Intelligent Client and management capability, streamlining the systems and processes used bringing world class best practice to bear. In particular the new team will strengthen the capacity to support the development of technical and commercial solutions at Euston and Old Oak Common; define and issue tender documentation; provide commercial support to the Bill team during Select Committee to ensure robust cost control; and negotiate strong commercial agreements with partners. Such expertise embedded alongside permanent staff with allow for knowledge transfer across teams, pump-priming the skills available to provide a stronger clienting capability.

Key documentation:

- DfT Organogram

Interviewee(s):

- David Prout
- Richard Bennett

**6.5 What plans are in place, in the medium/long term, to minimise the need for consultancy services and instead build up in-house capability? What changes are necessary to facilitate this?**

Answer:

- A new Workforce team has been set up to recent in-house order to deliver a more management and development of our resources. This includes making sure that we have a systematic programme of knowledge transfer in place to learn from specialist contractors currently working on the programme.
- We are also currently developing a Capability Strategy that will put the 'intelligent client' function at the heart of our future workforce planning and development activities. A key element of this will be not only how we can learn from our contractors, but also our other delivery partners such as HS2 Ltd and Network Rail.
- These changes will greatly enhance and focus our work to build an in-house capability that can deliver both the DfT client function and the wider programme.

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Planning and Development bring together a number of capability initiatives in strategic approach to the

Interviewee(s):

- David Prout

**7 Governance**

**7.1 Is there an effective governance structure in place that is suitable for a project of this scale?**

Answer

- DfT High Speed Rail Group, HS2 Ltd and Network Rail have agreed a tripartite structure to oversee the programme at sponsor-level, ensuring that the needs of the existing railway and the new high speed railway are given due consideration by the Department.
- In preparation for the delivery phase of the programme a Development Agreement is being put in place between the Department and HS2 Ltd with the Client board at the heart of governance.
- The HS2 Development Agreement is being implemented approximately two years earlier in the programme than was achieved for Crossrail, taking and building on best practice recognised by the NAO.
- HS2 Ltd is implementing a new internal governance model based on best practice from other projects.

Documentation:

- DfT Governance Manual
- HS2 Ltd Governance Manual

Interviewee(s):

- David Prout
- Richard Bennett
- Alistair Kirk

- Caroline Botwood (DA)

**7.2 Is the governance fit for the delivery phase of the programme or are there plans to change it?**

Answer

- A governance structure the HS2 programme programme evolves and to delivery to construction.
- The Development Agreement, the overarching document, recognises the different phases of the programme and has an approach that evolves as we progress through them.
- The new HS2 Ltd internal governance arrangements are designed to recognise and manage the differing phases of the programme the Company is managing.

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has been put in place for which can adapt as the progresses, from planning

Key documentation:

- DfT Governance Manual
- HS2 Ltd Governance Manual

Interviewee(s):

- David Prout
- Richard Bennett
- Alistair Kirk

*Review Team Comment – See Section 7.8*

**7.3 Are there clear lines of responsibility and accountability including escalation routes, trickier events and investment decisions?**

Answer

- The HSR Group Governance Manual provides a control framework through which the programme will deliver its strategic objectives and remain within corporate visibility and control. It sets out the terms of reference for all of the Board structures which form part of governance structure, including management and approval bodies. A complementary Manual exists for HS2 Ltd internal governance.
- The Programme and Investment Board (PIB) determines and sets strategy for the programme, including managing the cross-Whitehall interfaces and exercising Tier 2 delegated investment authority. When investment decisions are required within its delegated authority the PIB meets in 'investment mode'. Tier 1 investment decisions are taken by the DfT Board Investment Commercial Committee (BICC)..

Key documentation:

- DfT Governance Manual
- HS2 Ltd Governance Manual

Interviewee(s):

- David Prout

- Richard Bennett
- Alistair Kirk

**7.4 Are the roles of different working groups, such as the cost and risk group, sufficiently clear with agreed forward work plans?**

Answer:

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- Terms of reference are in place for all working groups and set out in the Governance manual. Each board maintains a forward look of its business. A consolidated forward look of all meetings involving the HSR senior management team is maintained and updated weekly by the PMO.

Key documentation:

- DfT Governance Manual
- HS2 Ltd Governance Manual

Interviewee(s):

- David Prout
- Richard Bennett
- Alistair Kirk

**7.5 Are key stakeholders outside of DfT and HS2 Ltd sufficiently included in the governance process where necessary?**

Answer:

- At a strategic steering level, the Tripartite Cooperation Board (TCB) brings together the senior executives from DfT (acting on behalf of the Secretary of State) as Sponsor for the Programme, HS2 Ltd as delivery agent for the programme and Network Rail as owner and operator of the existing network and HM Treasury as the ultimate funder.
- We recognise the clear value from involving stakeholders at every stage of the policy-making process.
- Key interfacing stakeholders are involved in the governance process where appropriate. For example, TfL is represented on the Old Oak Common Board and the relevant train operating companies on the Euston Steering Group.

Key documentation:

- DfT Governance Manual
- HS2 Ltd Governance Manual

Interviewee(s):

- David Prout
- Michael Hurn
- Richard Bennett

- Alistair Kirk

*Review Team Comment – See Section 7.8.11 and 7.8.12*

## **8 Stakeholder Engagement and Comms**

**8.1 Are the concerns of understood and including work with party consensus?**

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**key stakeholders fully being actively managed, MP's to maintain cross**

Answer:

- The opinions of stakeholders are sought and tracked in HS2 Ltd through a senior contact programme which provides a proactive series of engagement meetings for the Chairman, Chief Executive and the Managing Director for Development.
- This is supported and informed by the wider programmes of stakeholder engagement undertaken by HS2 Ltd and corresponding teams at the Department for Transport and Network Rail.
- DfT maintains a programme of senior management engagement and Ministerial meetings
- Engagement is managed and coordinated at a regular Stakeholder Intelligence Group meeting, attended by representatives from each of the three organisations and a number of different departments within HS2 Ltd.

Key documentation:

- HS2 Ltd Communications Objectives, Goals, Strategies and Plans 2014 document plus forward look grid and supporting narrative

Interviewee(s):

- Jonathan Sharrock
- [REDACTED]
- Janine Mantle

**8.2 Is there continued support from stakeholders and are there plans in place to maintain and increase this support?**

Answer:

- Stakeholder responses to Sir David Higgins' second report shows continued and growing support from our key stakeholders, with comments made in both private meetings and public statements clearer and more unequivocal than previously, including at the launch of the first report in March 2014.

- The principal plan in place to continue to manage continuing positive relationships with stakeholders is through the senior contact programme, allied with growing working level relationships with stakeholder organisations.
- More broadly, communications programmes are further being developed to help create an environment that enables ongoing stakeholder support.

Key documentation:

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- HS2 Ltd Objectives, Goals, document plus forward look grid and supporting narrative

Communications Strategies and Plans 2014

Interviewee(s):

- Jonathan Sharrock
- [REDACTED]
- Janine Mantle

**8.3 Is there a clear communications strategy in place which looks ahead and pre-empts key points in the project when comms activity will be critical?**

Answer:

- HS2 has a clear communications programme designed to meet the organisations key objective for 2014. That is to support delivery of the legislative powers and moral permissions required to build HS2, and build and maintain a strong, positive reputation for HS2 Ltd as the competent delivery body of choice.
- This programme of communications has focused on maximising the impact of key project milestones with the media, political audiences and wider stakeholder. These milestones include, but are not exclusive to, successive Higgins reports, the announcement of a skills academy, and the production high profile and well attended supply chain conferences. The programme also sought, through careful planning, to mitigate potential negative events.
- As part of the development a communications programme for 2015 is currently being developed. This programme will primarily seek to maintain cross-party support in the run up to the General Election, and to garner wider support post-election. Key to this will be managing upcoming milestones through careful communications programme.

Interviewee(s):

- Jonathan Sharrock
- [REDACTED]
- Janine Mantle

*Review Team Comment – See Section 7.3.9*

**8.4 Do stakeholders understand how and when to engage with Government on HS2 issues, for example on growth and regeneration?**

Answer:

- The DfT and HS2 Ltd over recent years have developed engagement with stakeholders on regeneration. Key to this engagement has been focusing on local level organisations along the Phase one route. For example, the OOC MDC, Birmingham and Crewe LA/LEP Boards have regular senior DfT representation.
- HS2 Ltd is working closely with the DfT and local authorities in response to the recommendations of report. The agree that locally led drive growth and HS2. 

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 the Growth Taskforce Government and local areas delivery bodies will help regeneration off the back of
- Further to this, HS2 Ltd delivered two large scale supply chain conferences in Manchester and London respectively. These two conferences saw over 1,200 potential supply chain organisations represented by over 1,500 delegates.

Interviewee(s):

- Jonathan Sharrock
- Alun Hughes

## 9 Hybrid Bill

### 9.1 What progress has been made so far in select committee in terms of number of petitioners seen? How does this compare to the forecast rate of petitioners underpinning the 2016 royal assent date?

Answer:

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- As of 7 November 2014 been dealt with through locus challenges, petitioners settling and petitions being heard in Committee. a total of 90 petitions have a combination of successful
- We have agreed deals with Birmingham City Council, CENTRO, Staffordshire City Council and Lichfield District Council each of whom we were expecting to take a significant amount of Committee time. A further 12 petitions have been deferred as we expect to agree a deal that would mean they would not appear.
- We are on-track with the forecast petitioner rate that underpin a December 2016 Royal Assent date.

Key documentation:

- Hybrid Bill Dashboard
- Assumptions behind Bill Programme to Dec 2016.

Interviewees:

- Martin Capstick
- Alison Munro

### 9.2 Does the programme team have productive working relationships with the select committee members?

Answer:

- The Committee sits in a quasi-judicial basis and so the relationship with the Committee needs to reflect this. Within this context we have developed a productive working relationship with the Committee, we have received good feedback from the Committee, via the Clerk, on the route visits we have organised, the operation of the Committee room (presentation of exhibits etc) and the progress that we have made in settling with petitioners to allow them to focus on genuinely difficult issues.
- The Committee are being treated as an important stakeholder so that when there are Government announcements affecting HS2 (e.g. Higgins 2 and the consultation on safeguarding the route to Crewe) Ministers call the Committee chair personally.

Interviewees:

- Martin Capstick
- Alison Munro

**9.3 Is there a clear strategy in place for managing the select committee stage of the Bill?**

Answer:

- Yes. The approach for managing the Select Committee stage is set out in the Parliamentary Strategy and the Petition Management and Minimisation Strategy.

Key documentation:

- Parliamentary Strategy
- Petition Management

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and Minimisation Strategy.

Interviewees:

- Martin Capstick
- Alison Munro

**Is there a stable plan for making changes to the Hybrid Bill through Additional Provisions? What work is being done to prepare for these?**

Answer:

- Additional Provisions (APs) are a standard part and well understood part of the hybrid Bill process. We have already successfully deposited an AP in September 2014 without issue. There is a clear process in place for the production of the next proposed AP in summer 2015. The high level plan for this is set out in HS2-HS2-PC-SCH-000-000020-July 2015 Additional Provision Summary Programme.
- APs originate from a number of sources – changes for design development purposes, changes in response to petitions and changes required by the Committee. As such the timing of these is not wholly within our control.

Key documentation:

- HS2-HS2-PC-SCH-000-000020-July 2015 Additional Provision Summary Programme

Interviewees:

- Martin Capstick
- Alison Munro

**Has engagement with the House of Lords started yet to pave the way for quick passage in the second house?**

Answer:

- We have regular dialogue with the Commons and Lords whips and the clerks from both Houses. This is predominantly focussed on Additional Provisions, as, with the Bill not expected to enter the House of Lords until early 2016, it is too early to have fruitful engagement on the Lords stages. We would expect to start engaging with the House of Lords towards the end of the Commons Select Committee stage.

Interviewees:

- Martin Capstick
- Alison Munro

## 10 Phase 1 Projects

### 10.1 What progress has been made on developing an alternative proposal for Euston? What are the key milestones in that work?

Answer:

- We are working closely develop a scheme that current budget and is deliverable in  with the rail industry to is affordable within the provisions for the project terms of performance impact on the existing railway during the construction phase. Moreover our plans will fit into a wider vision for the longer term redevelopment of the entire station and surrounding area
- As part of this we are working closely with Train Operators on the existing network, using their expertise to find a solution based on passenger demand and capacity needs. This will enable industry agreement to be secured on the acceptability of the number of classic lines required during the construction phase and the resultant number of high speed platforms that will be possible and their phasing.
- We are targeting the end of December to have an initial view of possible functional requirements for Euston based on this industry engagement. From this we can then assess the time needed to prepare an AP. We are targeting the end of February 2015 to have a firm way forward, including the programme for a potential Additional Provision. This way forward will be put to Ministers for approval whereupon we will begin the work needed to prepare the Additional Provision.

Key documentation:

- High level plan
- Next steps on Euston Paper

Interviewee(s):

- Michael Hurn
- Rupert Walker

#### *Review Team Comment – See Section 7.2.3*

### 10.2 To what extent are the expertise of developers being sought on Euston?

Answer:

- The intention is to secure the early appointment of a world class and well-funded property development partner and associated architects.
- To generate international market awareness, a soft marketing campaign will take place during spring/summer of 2015. It is anticipated that it will take approximately 12 months from issue of PQQ to final appointment of a delivery partner
- Initial discussions have taken place with Argent, British Land, Related, Sellar Group and Sir Stuart Lipton.

Interviewee(s):

- Michael Hurn

- Rupert Walker
- Jim Crawford

**10.3 Is there a clear Oak Common? What points impacting on Phase 1?**



**programme of work on Old are the key decisions the overall delivery of**

Answer:

- HS2 Ltd has strategies in place to deliver the new HS2/GWML station complex at Old Oak Common. The programme at Old Oak Common is complex and two of the main elements are the relocation of depot facilities away from the site for both Heathrow Express (HEX) and First Great Western (FGW). This is to allow construction to commence in January 2017 for the new high speed rail station. Further information is provided in the answer below.
- We are also working to address a number of issues that TfL has raised, which mainly focus on its Crossrail depot. We are meeting TfL and Cross rail regularly to discuss these issues to agree satisfactory solutions.

Key documentation:

- Old Oak Common plan (additional documents)

Interviewee(s):

- Michael Hurn

**10.4 Have key issues at OOC such as the relocation of depots been resolved? If not what is being done to expedite a solution on these?**

Answer:

- The key challenge around Old Oak Common is clearing the site of two existing major train depots in time to commence construction on time and to an acceptable cost envelope. This is a complex situation involving multiple stakeholders with commercial interests that affect train operations across the Great Western route. We are confident that we will have a solution by the end of the financial year for both First Great Western and Heathrow Express (HEX) that works from a cost and schedule perspective and enables construction of the station at Old Oak Common to commence on time.
- For HEX, the relocated site identified in the hybrid Bill is at Old Oak Common (known as North Pole East). We have decided that a more suitable location needs to be identified. We have identified that site at Langley, although there is further work needed to resolve a number of design issues and costs. We are planning to submit an Additional Provision (AP) to change the depot's location in July 2015. We will be going to DfT's investment committee (BICC) on 15 December to seek approval to continue developing the proposition. To deliver the AP in July 2015 will require a final approval to proceed in May 2015.
- For FGW, there are a number of interventions required to enable that depot to be closed. These are:
  - Moving the Cornish Sleeper service to Long Rock Depot, at Penzance. A funding agreement has been signed with Cornwall County Council
  - Building a fuelling point at London Midland's Worcester Depot

- Providing a wheel lathe at FGW's Reading Depot
- Re-providing sidings at West Ealing for stabling FGW trains
- Moving FGW's HSTs and Class 180's
- FGW is undertaking feasibility work on the last four points and will be reporting its findings in early 2015 to enable DfT to agree a way forward FGW is working to ensure that the Old Oak Common site is clear by December 2016.

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Key documentation:

- Old Oak Common plan (additional documents)

Interviewee(s):

- Michael Hurn

*Review Team Comment – See Section 7.2.4*

## **11 Phase 2 Route and Timetable**

### **11.1 How advanced is the design work on Phase 2?**

- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]

Interviewee(s):

- Alison Munro
- Nick Bisson

### **11.2 What are the implications of the second Higgins report on the Phase 2 forward work programme?**

Answer:

- It endorses the principles of the 'Y' but detailed Phase Two decisions have yet been taken by the Secretary of State.
- Sir David Higgins second report emphasised that there is strong cross party support for HS2, conditional upon the wider benefits offered by Phase Two. We have been developing revised governance and plans to develop and deliver the Phase Two programme.
- [Redacted]
- [Redacted]

[Redacted]

[Redacted]

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Documentation:

- Higgins Reports 1 and 2 plus responses

Interviewee(s):

- Alison Munro
- Nick Bisson

**11.3 What is the plan for resolving key issues such as where to place the East Midlands hub and whether to have a single integrated station at Leeds?**

[Redacted]

Interviewee(s):

- Alison Munro
- Nick Bisson

**11.4 What progress has been made on accelerating the route to Crewe? What is the lead legislative option and how does this impact on timings of the rest of Phase 2?**

[Redacted]

Interviewee(s):

- Alison Munro
- Nick Bisson

**11.5 How does a decision on a Crewe hub affect the build plan for the route? Is this clearly understood by those working on these issues?**

[REDACTED]

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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Interviewee(s):

- Alison Munro
- Nick Bisson

*Review Team Comment – See Section 7.5.16 to 7.5.18*

**11.6 When are decisions on the whole of Phase 2 likely to be made? Is there a clear path leading up to that point with key milestones identified?**

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Documentation:

- High level integrated programme plan

Interviewee(s):

- Alison Munro
- Nick Bisson

**11.7 What is the overall timetable for Phase 2 delivery? Is this achievable? Is there scope to speed up the rest of Phase 2 as Higgins proposed in his first report?**

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

- [REDACTED]

Interviewee(s):

- Alison Munro
- Nick Bisson

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## **12 Transition to Delivery**

### **12.1 Is the delivery strategy sufficiently developed and robust for a project at this stage of the design?**

Answer:

- Yes. The Delivery Strategy, which is still in development, is written to be appropriate for his stage of the project and recognises that wit will evolve as we move through the programme.
- It contains key decisions on how HS2 Ltd will organise and structure itself to ensure effective delivery.
- HS2 Ltd have been developing proposal through the summer and autumn, and the proposals will now go through a thorough assurance process. This process will ensure that all major decisions are evidence based, that the Delivery Strategy adopts best practice and any deviation from established norms is proposed for clear, robust reasons.
- The bulk of the review is expected to be complete in March 2015, allowing the Delivery Strategy to then go through formal approvals, either ahead, or as part of, the RP1 approvals process.

Key documentation:

- High level Delivery Strategy principles
- Draft Delivery Strategy (additional documents)

Interviewee(s):

- Simon Kirby
- Paul Rodgers
- Alistair Kirk
- Jim Crawford

### **12.2 Is there a clearly thought through procurement and contract management strategy?**

Answer:

- The procurement and contract management strategies are key components of the Delivery Strategy. They will be reviewed and assured in context of the wider strategy for delivering Phase One.
- These two elements of the Delivery Strategy will be central to the RP1 delegations, and so proposals will be scrutinised in detail during the review process.

Key documentation:

- High level Delivery Strategy principles
- Draft Delivery Strategy (additional documents)

Interviewee(s):

- Simon Kirby
- Paul Rodgers
- Beth West

**12.3 Are the desired requirements for identified and**

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**outcomes and Review Point 1 fully understood by key players?**

Answer:

- The intention of RP1 is to provide increased delegations to HS2 Ltd, to allow them to proceed with procurement (but not contract award) on Phase One. This is well understood.
- The themes against which HS2 Ltd will need to demonstrate competence are set out in the Development Agreement at a high level.
- We are further refining these to ensure clarity on between parties on what is expected at RP1
- This is being done alongside the development of the Delivery Strategy to ensure consistency of expectations.

Documentation:

- Development agreement
- High level Delivery Strategy principles
- Draft Delivery Strategy (additional documents)

Interviewee(s):

- Simon Kirby
- Paul Rodgers
- Alistair Kirk

**12.4 Is there a clear programme of work to prepare for RP1? Are realistic assumptions being made about what can be achieved and by when?**

Answer:

- A programme of work is underway in order to demonstrate the capabilities needed for RP1 by July 2015.
- This target date is being pursued in order to maintain the option for new ministers to proceed with RP1 ahead of the Spending Review if that is their desire. However, it is recognised that it is possible that ministers will want to conclude the spending review before RP1 is agreed and we are therefore developing a 'plan B' to ensure we are able to proceed with procurement on a time table that maintains the schedule..

Interviewee(s):

- Paul Rodgers
- Alistair Kirk

*Review Team Comment – See Section 7.4.7*

**12.5 What decisions are necessary, for example on programme scope and funding issues, before RP1?**

Answer:

- As RP1 will not be until after the election, the new government will need to reconfirm, or amend, the project (i.e. the sponsor's and target delivery
  - The key ministerial respect to resolving the appetite for continuing with Phase One while later phases remain at an early stage.
- fundamentals for Phase One requirement, target price date).  
decisions will be with proposition at Euston and

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Interviewee(s):

- Paul Rodgers

**13 Growth and Regeneration**

**13.1 Is there an ongoing plan with clear timings for delivering against the recommendations made by the Growth taskforce? How is this being monitored?**

Answer:

- Yes. In July 2014, we produced a Comprehensive Government response, 'Getting Set', with actions against 18 of the 19 recommendations.
- Progress is being monitored by a central 'tracking' document, which outlines each recommendation and the progress each relevant agency is making towards implementation. This document is refreshed regularly to keep it up-to-date.
- In addition, we meet with Sir Jeremy Heywood quarterly to update him on progress against the recommendations.

Documentation:

- Growth taskforce report and response

Interviewee(s):

- Jonathan Sharrock
- Alun Hughes

**13.2 Is there clear ownership in Government of the overall programme of work? Is there clear ownership of distinct recommendations where relevant?**

Answer:

- Yes. Other Government Departments have taken responsibility for implementation of particular recommendations. Each action has a named government or HS2 Ltd lead, and we work closely with colleagues to monitor their progress. This is summarised in the tracking document, which is used to update Sir Jeremy Heywood.

Key documentation:

- Growth Taskforce recommendations tracker

Interviewee(s):

- Jonathan Sharrock
- Alun Hughes

*Review Team Comment – See Section 7.8.11 and 7.8.12*

**13.3 What progress has been made on local Hs2 growth strategies and the establishment of local delivery bodies, e.g. an MDC at Old Oak Common?**

Answer:

- The Greater (GBS) LEP and Greater provide interim Growth and Old Oak Common by the end of November, with the interim Strategy for the Interchange at Solihull expected by the end of December. Full Growth Strategies are to be completed by April 2015.
- Solihull, Birmingham and Old Oak Common have established HS2 Growth Strategy Programme Boards. The Secretary of State attended the launch of the Curzon Street Board in July. It is currently in shadow form, but will be fully operational once the Growth Strategy is complete (expected April 2015). Solihull have recently established their Board in shadow format, and hope to have it operational by April 2015. The GLA have already consulted on their MDC and are working with DCLG to pass the legislation needed to establish it by April 2015.

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Birmingham and Solihull London Authority (GLA) will Strategies for Curzon Street

Key documentation:

- Solihull Growth Strategy (additional documents)
- Curzon Street HS2 Growth Strategy (additional documents)

Interviewee(s):

- Jonathan Sharrock
- Alun Hughes

**13.4 What thinking is being done around how Government will respond to local plans? What role will the growth deals process play?**

Answer:

- Government's role is to support local areas to deliver their visions for HS2 led growth and regeneration.
- Growth Deals are integral to our localist approach. In July 2014, in the first round of Deals, we secured a good deal for Greater Birmingham and Solihull to support their HS2 plans. The £357m investment in 34 schemes included a metro extension linking Curzon Street into the regeneration areas of Digbeth and Southside. It also included £2.5m towards their LEP-wide HS2 growth strategy to accelerate work and help establish the local delivery bodies for Curzon and Interchange.
- We have also:
  - submitted proposals to HMT to establish central regeneration capability – led by LCR, in partnership with HS2 Ltd and HCA.
  - began engaging colleagues in HMT, IUK, UKTI, DCLG, Cities, BIS, HS2 Ltd, LRC and CO in considering how we maximise the opportunities HS2 enables by supporting the delivery of HS2 growth strategies. This is the Peter Schofield's Cross-Whitehall Oversight Group, which will develop specific proposals for SR15.
  - started scoping out the role of wider DFT policies in supporting delivery of H2 Growth Strategies. (Aka our "option development project").

Interviewee(s):

- Jonathan Sharrock

- Alun Hughes

**13.5 Has a convincing case been made for a HS2 regeneration company? What further work is needed in this area?**

Answer:

- A business case has the case for creating a company to support production of this 

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 been developed, making central regeneration local areas. Following the business case, DfT agreed with the need for central government intervention but decided that a new body would not be required at this stage as the work could be led by existing organisations. This arrangement will be reassessed in 2017 with the experience of two years of operation.
- Further work will be undertaken to develop a business plan, put in place an investment criteria for acquisitions, and develop a business case for each acquisition

Interviewee(s):

- Jonathan Sharrock
- Alun Hughes
- Beth West

**13.6 What is the plan for getting the HS2 skills college open asap?**

Answer:

- NSARE, HS2 Ltd, BIS and both Birmingham and Doncaster are working together to develop the two sites for the new college.
- A Shadow Board will be established to take responsibility for governing and directing the work on the development of the college in the period before its incorporation, which is expected to be in early 2015.

Interviewee(s):

- Jonathan Sharrock
- Alun Hughes
- Beth West