

**ANNEX A**



## Major Projects Authority Project Assessment Review (PAR)

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**Version number:**

**Date of issue:** 25 September 2013

**Programme or project:** High Speed 2

**Organisation:** Department for Transport

**Senior Responsible Owner (SRO)** David Prout

**Programme/Project Director (or equivalent)** N/A

**Business Case stage reached:** Outline Business Case (OBC) (Phase 1) /Strategic Outline Business Case (SOBC) (Phase 2)

**Decision/approval point this report informs:** MPRG Panel

**Review dates:** 18-25 September 2013

**Review Team Leader:** Marion Price

**Review Team Members:** Christopher Hix, Darren Tierney

**Departmental Review Team Member:** John Dowie

**Previous review:** June 2012

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### About this Report

This report is a snapshot review of a programme or project, reflecting the conclusions of an independent Assurance Review Team. It is based on information from project documents reviewed and from interviews carried out within a short timeframe (normally over 3 to 5 days) and is delivered to the Senior Responsible Owner for the programme or project at the conclusion of the review.

**This Project Assessment Review was arranged and managed by:**

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More information about the Major Projects Authority, and guidance for central government bodies on the requirements for integrated assurance and approvals from April 2011, is available from:  
<http://www.cabinetoffice.gov.uk/content/major-projects-authority>

## 1. Executive Summary

### Delivery Confidence Assessment (DCA)

The delivery confidence of the project at this point is: **Amber**.

As agreed with both the MPA and the SRO, and as set out in the Terms of Reference, the Review Team has assessed delivery confidence with reference to the likelihood of readiness for successful transition from the preparation and introduction of the Bill phase, to the implementation phase. In our opinion delivery of that milestone is feasible subject to a number of issues.

These are the work required to gear up for transition to a delivery organisation; the lack of time contingency in the overall schedule; the scale of the task of controlling costs through the next phase of planning, consultation and legislation; and the complex challenge of communicating and gaining stakeholder acceptance of the value-for-money case.

There are also issues which are outside the control of the project and the department, such as the unpredictability of the Parliamentary timetable and the risk of weakening of the current cross-party consensus. The Review Team consider that these issues can better be handled through successfully addressing the areas of concern.

### Areas of concern

**Resourcing:** Since the last PAR there has been a significant scaling up of the resource devoted to the project. Important gaps remain and there is over-reliance on a small number of key people with scarce skills. Some succession planning has begun and this needs to be driven forward with urgency.

**Timescales:** The timescales are extremely tight with little or no contingency. There is limited ability to control the complex Hybrid Bill process (once the Bill enters Parliament).

**Affordability and costs:** While the overall budget has been agreed and HS2 Ltd is confident it can manage within it, there remains a level of uncertainty about costs. The full procurement strategy is not yet in place; the Bill process may bring changes and/or delays; designs for both Phase 1 and Phase 2 will continue to develop; inflation and VAT are both excluded from the headline cost number.

**Value for Money:** The core of the VFM analysis is based on the standard DfT approach, which demonstrates an acceptable position. However, the argument for HS2 is also partly being made on additional economic benefits, some of these are increasingly established and accepted; others substantially less so.

**Transition to delivery:** There is a key need to drive forward the transition as quickly as possible, with firm decisions being made as soon as possible on governance, structures and recruitment. This is important both to facilitate effective delivery but also to ensure delivery risks are identified and managed.

Governance arrangements will need to reflect the transition to the new stage in the lifecycle of the project. For the chosen delivery vehicle to operate effectively, and regardless of the formal status, it will need greater freedom of action than is currently available to HS2 Ltd.

**Communications and stakeholder engagement:** Current communications activity seems appropriate but the positive effect is not yet as evident as it needs to be and the project will need to mobilise stakeholders at all levels in support of a shared message. A relentless focus will be required going forward.

There are complex messages to be conveyed in relation to the economic case, costs and benefits. Consistency and clarity of message are essential and support from key opinion formers should be sought and secured.

### **Areas that are working well**

Considerable progress has been made over the last 12 months.

The department has significantly increased the level of resources devoted to the project and HS2 Ltd has built key skills in important areas. Staff are committed and passionate despite the level of stretch in the project and the negative media commentary.

The project now has an agreed and realistic Spending Review settlement and budget which is consistent with current cost estimates and appropriate levels of contingency.

There is an agreed and clearly structured high-level framework for managing and delegating costs and contingency.

There is evidence that the progress of design and planning work is further ahead than comparable major infrastructure projects.

The Economic Case effectively addresses some concerns from previous analysis, such as the value of time for business travellers.

The project is well set for the introduction of the Bill. Plans to manage the Bill through Parliament, including the critical public and private committee stages, are at an appropriate level for this stage of the work.

## **2. Additional comments from the SRO**

The external challenge and thorough review process that the MPA provide continues to be of great value, and we continue to enjoy an open and constructive relationship with the review team.

I'm grateful to Marion Price and the review team for their professional approach to this review and for the helpful and constructive recommendations.

I am pleased that the team recognises the progress that the Department and HS2 Ltd have jointly made since the last Project Assessment Review.

Neither the Department nor HS2 Ltd underestimate the scale and complexity of the project going forward.

David Prout  
25/09/13

### 3. Scope of the Review

This Project Assessment Review is designed to inform the MPRG scrutiny process. The MPRG provides formal advice to the Chief Secretary on affordability, value for money and deliverability before he considers approval of the Government decision to introduce the Hybrid Bill for High Speed 2 in the House based on the Outline Business Case for the first phase of High Speed 2.

The review will examine and assess the HS2 Programme, by providing independent assurance of the completeness and robustness of the Outline Business Case for Phase One, the programme's readiness for the introduction of the Phase One Hybrid Bill, and assess progress to date for the Strategic Outline Case for Phase Two. Particular areas of focus are:

#### **Affordability**

- Is the process for estimating costs robust?
- Does the cost estimate provide confidence that the programme cost projections are realistic?
- Are governance arrangements developed to maintain control over costs and deliver the programme within the affordability envelope?
- Is it clear what the contingency and optimism bias allowance cover and what management controls are in place to manage the release funds as the programme progresses?

#### **Value for Money**

- Has the programme provided a robust economic case and strategic case setting out its value for money, including a cost : benefit analysis?

#### **Deliverability**

- Is there confidence that the programme's governance structure is appropriate, right-sized and populated with suitably experienced, empowered, and committed staff?
- Does this include sufficient focus on major programme, commercial and contract management expertise?
- Are the key/influencing stakeholders being actively managed?
- Is the programme set up for delivery of the next phase including critical path analysis: in particular is the programme ready for the introduction of the Hybrid Bill in late November?
- Are the plans to manage the Hybrid Bill process, once it is introduced, robust and sufficiently mature for this stage of the programme?

#### 4. Summary of Recommendations

Ref	Recommendation	Report Section/s (where more detail can be found)	Criticality Urgent/High/Medium/ Low
01	Succession plans should be developed for all key posts	7.1	Urgent
02	The SRO should reassure himself that the contingency framework is sufficiently resilient and robust for the Parliamentary process	7.3	High
03	Procurement resources need to be scaled up to allow the full procurement strategy to be developed	7.3	High
04	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	7.4	Medium
05	Agree and establish the delivery vehicle and complete the Development Agreement (Urgent), which must include HMT and Cabinet Office agreement on essential freedoms (High)	7.5	High
06	Complete and implement the Tripartite Agreement	7.5	High
07	Review and update the governance arrangements to reflect transition to the delivery phase	7.5	High
08	The communications strategy now needs to be implemented in a proactive and responsive manner to help the project to move forward	7.6	High

## 5. Summary of the Project

### 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 Coast and East Coast Main Lines. The proposed network would also include stops in the East Midlands and South Yorkshire, as well as a link to the HS1 line. Further 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, and HS2 Ltd, a Non-Departmental Public Body.

### 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



## Key Milestones up to the introduction of Phase 1 trains service

Industry Engagement	November 2013
Deposit Phase 1 Hybrid Bill	November 2013
Delivery Model Agreed	by Spring 2014
Select Committee Stage of Phase 1 bill	Mid 2014
Operation Model Agreed	Late 2014
Ministerial decision on Phase 2 Route	Late 2014
Maintainer Procurement Starts*	[2015]
Operator Procurement Starts*	[2015]
Rolling Stock Procurement starters*	[2015]
Initial Delivery Contracts let	2014
Enabling works starts	Mid 2015 (post Royal Assent)
Main works starts	2017
Operator and Maintainer input	2019
New rolling stock delivery starts	2024
Main works complete	2025
Start of Phase 1 service	2026
<i>*timing and grouping dependent on the outcomes of the Delivery and Operation Models</i>	

## 6. Financial Data

**Whole life cost of full programme: £50.1bn (2011 prices, excl VAT)**  
(Based on preferred option)

**Start Date:** March 2010 (Ministerial decision to proceed with Phase 1)

**End Date:** 2026 (Phase 1), 2033 (Phase 2)

**Overall budget profile:**

	Total	Pre 2011/12	11/12	12/13	13/14	14/15	Post 2015
R DEL £m	953	24	36	182	263	289	160
CDEL £m	49,075	34	20	31	104	154	48,732

**Contractual commitments already in place with suppliers:**

	Contract Value £m	End Date	Spend to date £m	11/12 £m	12/13 £m	13/14 £m	14/15 £m	Post 2015 £m
A	6.0	08/2016	1.3	0	0.8	2.4	2.4	0.5
B	79.0	11/2013	70.9		47.5	23.4		
C	13.2	11/2013	10.2		7.0	3.2		
D	67.7	11/2013	60.9	0.9	35.0	25.0		
E	5.0	11/2013	4.4		2.7	1.7		
F	29.0	11/2013	24.0	1.5	14.0	8.5		
G	6.4	03/2015	4.3			4.3		
H	2.4	03/2015	1.5			1.5		
I	16.0	Various – PO raised	None			None – spend in year		

- A: Project Representative contract
- B: Phase 1 Lot 1 (Preliminary Civil Design)
- C: Phase 1 Lot 2 (Systems Preliminary Design)
- D: Phase 1 Lot 3 (Environmental)
- E: Phase 1 Lot 4 (Land Referencing)
- F: Phase 1 Development Partner
- G: Phase 2 Engineering
- H: Phase 2 Environmental
- I: Live Purchase Orders not included above

HS2 Ltd contract commitments are as follows:

- 1 ) Work for the Hybrid Bill – up to 25 November 2013 (end date Dec 13 – includes demobilisation if required)

- a) Professional Service Contracts Service Delivery Plan 1 (Phase 1- London to Birmingham) total £165m being:

Lot 1 (Preliminary Civil Design)	£79.2m
Lot 2 (Systems preliminary Design)	£13.2m
Lot 3 (Environmental)	£67.65m
Lot 4 (Land Referencing)	£4.95m

- b) Development Partner CH2MHill (Service Delivery Plan 1) £29m

- 2) Phase 2 work contractually obliged to do (up to March 2015). At present the Leeds Manchester and Heathrow Team are on consultation which runs through to Jan 2014.

Engineering	£6.4m
Environmental	£2.38m

Of this the work to Jan 14 (up to the end of consultation) would be:

Engineering	£5m
Environmental	£2m

Current spend to date:

Professional Service Contracts (Phase 1- London to Birmingham) total £146.4m being:

Lot 1 (Preliminary Civil Design)	£70.9m
Lot 2 (Systems preliminary Design)	£10.2m
Lot 3 (Environmental)	£60.9m
Lot 4 (Land Referencing)	£4.4m

Development Partner CH2MHill £24m

- 3) Live Purchase Orders (multiple) not including above £16m

## 7. Detailed Review Team Findings

### **7.1 Resourcing**

Since the last PAR there has been a significant scaling up of the resource devoted to the project. The DfT itself has created a DG-led Group of up to 100 people (of whom some 80 are in post compared with 35 in July 2012) tasked with delivering HS2. HS2 Ltd has increased staff numbers from 100 to more than 500 over 18 months and has attracted high-calibre people drawing on experience from Crossrail and other infrastructure projects. However important gaps remain in both organisations and there is over-reliance on a small number of key people with scarce skills (including PPM, commercial and sponsorship). Some succession planning has begun and this needs to be driven forward with urgency.

***Recommendation 1: Succession plans should be developed for all key posts (Urgent)***

### **7.2 Timescales**

The improved resourcing has been a key factor in achieving the milestones and quality required for the challenge of submitting the Hybrid Bill by the required date. The Bill is expected to be laid a month before the publicly-announced commitment date, with the “pens-down” date a month earlier.

Notwithstanding this relatively comfortable position now on the laying of the Bill, the timescales beyond that are extremely tight with little or no contingency and limited ability to control the complex Hybrid Bill process.

### **7.3 Affordability and costs**

The project now has an agreed and realistic Spending Review settlement and budget which is consistent with current cost estimates and appropriate levels of contingency.

HS2 Ltd has created a sound process to develop robust cost estimates and there is evidence that these are as good as or better than comparable projects at this stage. This has involved the use of professional advice and challenge and bottom up Quantified Risk Assessment (QRA), with itemised risks and probability estimates, which gives greater confidence than the use of a standardised percentage optimism bias.

HMT, DfT and HS2 Ltd have agreed a structured framework for managing and delegating costs and contingency, with pain share arrangements between HMT and DfT in place, complemented by a Cost and Risk group. This is an important tool for the future which is currently in an early stage of operation. The SRO will need to reassure himself that the governance is sufficiently resilient and flexible to manage the Parliamentary process, striking an appropriately robust balance between pace and the handling of petitions in the Bill phase.

Several factors contribute to a level of uncertainty about costs. The full procurement strategy is not yet in place and construction contracts have yet to be procured; the Bill process may bring changes and/or delays; Phase 1 design will be further developed before construction begins; Phase 2 planning is less well advanced and depends on a second Bill; inflation will add to the nominal value of outturn costs; and it is not clear to what extent unrecoverable VAT will add to the final values.

Final decisions on the delivery vehicle have yet to be taken. When they are, it is essential that there is clarity about the alignment of objectives and incentives at multiple levels, in order to drive down costs.

***Recommendation 2: The SRO should reassure himself that the contingency framework is sufficiently resilient and robust for the Parliamentary process (High)***

***Recommendation 3: Procurement resources need to be scaled up to allow the full procurement strategy to be developed (High)***

## **7.4 Value for Money**

The necessary decision to rewrite the strategic case in response to extensive negative media comment has extended the timetable and in consequence at the time of writing the document is not finalised. We saw an advanced draft but work remained to be done to provide a final (or near final) version to the MPRG for consideration. The version of the Strategic Case the Review Team saw begins to set out a well-considered and coherent narrative. The Economic Case does effectively address some of the concerns from previous analysis, such as the value of time for business travellers. The net impact of changes from the previous version of the headline BCR numbers is in the end minimal. The project on standard DfT economic analysis shows a BCR of 1.4/1.7 for Phase 1 (without/with Wider Economic Impacts) and the whole project delivers a BCR of 1.7/2.25. Sensitivity analysis has been carried out indicating that a “low” BCR for the whole project is unlikely.

There are a number of potential upsides to the standard DfT analysis, for example, relaxing the standard practice to cap passenger number growth (which in the case of HS2 means growth is assumed to stop 3 years after the opening of Phase 2); alternative “willingness-to-pay” measures for the value of time. The argument for HS2 is also partly being made on the additional economic benefits, some of these are increasingly well established (for example Wider Economic Impacts or agglomeration effects) but are still quoted separately. Other analysis as for example set out in the recent KPMG report (discussing productivity and locational effects) are much less well developed and includes network benefits beyond HS2. DfT needs to invest time and effort in developing and communicating a clearer and more widely accepted methodology in this field to benefit Phase 2 and future economically significant projects.

The case being made for HS2 is rightly highlighting the opportunities for enhanced services in the existing rail network, but the next phase of work needs to test the affordability and viability of both existing and new services under different scenarios.

***Recommendation 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 (Medium)***

## **7.5 Transition to delivery**

Developing the case for HS2 and preparing the Hybrid Bill have understandably been the recent main focus of the department and HS2 Ltd. Work has commenced on necessary structures and processes for delivery, with the preferred delivery model being an SPV based on HS2 Ltd but other options are being considered. This report assumes for the purpose of making recommendations that HS2 Ltd will be the vehicle. We identify a key need to drive forward the transition more aggressively, with firm decisions being made as soon as possible. This is important both to facilitate effective delivery but also to ensure delivery risks are identified and managed.

Rapid progress is now needed in several areas. A decision on the delivery vehicle following the completion of the options analysis at the end of September will allow completion of the DfT/HS2/Network Rail Tripartite Agreement and the Development Agreement. The procurement strategy and credible market engagement can be taken forward more effectively following appointment of the delivery agent. The appointment of key delivery staff also critically depends on clear decisions about roles and responsibilities. The time required for recruitment, particularly for key posts, is likely to be significant.

This will also mean that governance arrangements will need to reflect the transition to the new stage in the lifecycle of the project. This may require extension of the expertise and experience available on the High Speed Rail Programme Board to further reinforce this focus on delivery. There is also scope for further delineation of the division of the roles of the DfT and HS2 Ltd, for example with regard to regeneration and growth.

For the chosen delivery vehicle to operate effectively, and regardless of the formal status, it will need greater freedom of action than is currently available to HS2 Ltd. Efficiency disciplines and cost control have an important purpose, but a distinction needs to be made between civil service functions and a commercial delivery organisation which needs a different, more responsive control framework. We have heard repeated evidence of existing controls inhibiting the recruitment of key commercial and procurement staff from the private sector; the acquisition of fit-for-purpose finance and HR systems; and timely approval of marketing spend. HS2 Ltd has had to work within these constraints in the current phase but this is unlikely to be sustainable in the future. Senior management time should not unnecessarily be diverted to these administrative issues.

The project is well set for the introduction of the Bill. Plans to manage the Bill through Parliament, including the critical public and private committee stages, are at an appropriate level for this stage of the work.

***Recommendation 5: Agree and establish the delivery vehicle and complete the Development Agreement which must include HMT and Cabinet Office agreement on essential freedoms (High)***

***Recommendation 6: Complete and implement the Tripartite Agreement (High)***

***Recommendation 7: Review and update the governance arrangements to reflect transition to the delivery phase (High)***

## **7.6 Communications and stakeholder engagement**

Communications and stakeholder engagement are critical activities for this project. This is recognised by the project team, and from before the problematic summer, steps have clearly been taken to widen and deepen activity from the most senior levels of government down. The activity seems appropriate but the positive effect is not yet as evident as it needs to be and the project will need to mobilise stakeholders at all levels in support of a shared message. A relentless focus will be required going forward, and this will in part be delivered by the more recent attention that HS2 Ltd has given to broader external engagement as well as focus on local consultations.

There are complex messages to be conveyed in relation to the economic case, costs and benefits. Consistency and clarity of message are essential and support from key opinion formers should be invaluable.

Particular attention should be given to stakeholders who are influential and open to evidence-based discussion, whose views may be helpful in informing media and public opinion. A successful communications process is also likely to bolster the morale of staff.

***Recommendation 8: The communications strategy now needs to be implemented in a proactive and responsive manner to help the project to move forward (High)***

## 8. Additional Information for the Major Projects Review Group (MPRG) Panel

### ISSUE 1: Resourcing and timetable (see paragraphs 7.1 and 7.2)

Resourcing has improved but it is still a struggle to keep pace with the needs of a project of this complexity, pace and intensity.

#### Evidence and findings

- Important gaps remain in both DfT and HS2 Ltd and there is over-reliance on a small number of key people with scarce skills
- Although some succession planning has begun this needs to be driven forward with urgency
- The timescales are extremely tight with little or no contingency and limited ability to control the complex two-part Parliamentary process.

#### Suggested lines of enquiry for the MPRG Panel

- Is there a resourcing plan to fill the current vacancies?
- What can be done to free up recruitment?
- What are your succession plans for key senior individuals?
- How do you plan to retain and recruit the critical people?
- How would you manage and mitigate the impact of delay in achieving Royal Assent for the Bill?

### ISSUE 2: Affordability and costs (see paragraph 7.3)

Whilst the overall budget has been agreed, there remains a level of uncertainty about costs

#### Evidence and findings

There is a range of possible cost risks;

- No construction contract has yet been let and therefore tested in the market
- The full procurement strategy is not yet in place;
- The Bill process may bring changes and/or delays;
- Designs for both Phase 1 and Phase 2 will continue to develop;
- Inflation and VAT are both excluded from the headline cost number

#### Suggested lines of enquiry for the MPRG Panel

- How confident are you in the delegation/contingency framework when under pressure? How will that deal with pressures from the Hybrid Bill Parliamentary stage?
- What are the future plans for sharpening incentives?
- When will the full procurement strategy be in place?

### **ISSUE 3: Value for Money (see paragraph 7.4)**

VFM has been a key issue of debate and challenge.

#### **Evidence and findings**

- The core of the VFM analysis is based on the standard DfT approach, which provides an acceptable position.
- However, the argument for HS2 is also partly being made on additional economic benefits, some of these are increasingly well founded and accepted; others less so.

#### **Suggested lines of enquiry for the MPRG Panel**

- What are your plans for handling the publication of the Strategic and Economic cases in order to maximise stakeholder acceptance?
- What are the plans for improving the credibility of VFM analysis of both wider and additional economic benefits for the remainder of the project?
- How will the public argument be made on the case for HS2 compared with the alternatives?

### **ISSUE 4: Transition to delivery (see paragraph 7.5)**

There is a key need to drive forward the transition more aggressively, without which delays may be encountered further down the line.

#### **Evidence and findings**

- Firm decisions need to be made as soon as possible on governance, structures and recruitment.
- Governance arrangements will need to reflect the transition to the new stage in the lifecycle of the project.
- For the chosen delivery vehicle to operate effectively, and regardless of the formal status, it will need greater freedom of action than is currently available to HS2 Ltd.

#### **Suggested lines of enquiry for the MPRG Panel**

- What is the evidence that the control framework is inimical to effective delivery?
- When do you plan to refresh and reinforce the governance for the next phase?
- How confident are you that you will be able to attract the necessary talent in advance of Royal Assent, and given on-going uncertainty about the project?



## **ISSUE 5: Communications and stakeholder engagement (see paragraph 7.6)**

HS2 may continue to attract stakeholder attention for the next 20 years.

### **Evidence and findings**

- Current communications activity seems appropriate but the positive effect is not yet as evident as it needs to be
- The project will need to ensure that it is able to mobilise stakeholders at all levels in support of a shared message.
- A relentless focus will be required going forward.
- There are complex messages to be conveyed in relation to the economic case, costs and benefits.
- Consistency and clarity of message are essential and support from key opinion formers should be invaluable.

### **Suggested lines of enquiry for the MPRG Panel**

- What needs to be done to ensure that the communications team is fully equipped for the challenges ahead?
- How are you going to leverage the value of the available positive voices outside government?
- How will you ensure a sustained and proactive focus on communications?

**ANNEX A – Progress against previous review recommendations**

Ref	Recommendation	Criticality (High/Med/ Low)	Update
01	DfT and HS2 need to agree appropriate delegation and decision making protocols ensuring these are clearly embedded at all levels below the HSR board in DfT and HS2. DfT should also clearly articulate and set out the key areas of focus where it expects maximum transparency in its role as sponsor.	High	<p><b>DfT comment:</b> The spending round which concluded in June 2013 established the following delegations as set out in the most recent letter to HS2 Ltd.</p> <ul style="list-style-type: none"> <li>• HS2 Ltd - a target price for Phase 1 of £17.16 billion. This represents the point estimate for delivery of the railway of £15.6bn plus a 10% contingency.</li> <li>• DfT – budget cover up to the P50 level of delivery confidence (£19.4bn for Phase 1)</li> </ul> <p>The spending round also provided a funding envelope for Phases 1 and 2 £42.6 billion, to be managed by HM Treasury and set at the P95 level of delivery confidence. HMT have applied a ‘pain share’ principle in the event the Department requires to access contingency funds above the delegation set out above for Phase 1.</p> <p>The detailed process to manage change against the delegation is currently being finalised by DfT and HS2.</p> <p><b>PAR team comment: Done but more work required to embed</b></p>
02	DfT should continue to seek active engagement with HM Treasury, providing transparency around development of the business case, BCR, cost estimates and contingencies and controlling of costs to help build a common understanding and shared confidence in these areas.	Medium	<p><b>DfT comment :</b> Treasury are represented at a senior level on the High Speed Rail board providing oversight and transparency. DfT HS2 officials also have regular meetings with Treasury colleagues, in addition to engaging on specific issues. This is beneficial and we are committed to continuing with this approach.</p> <p>The newly established Cost and Risk Group will oversee a programme of work expected to focus on the following:</p> <ul style="list-style-type: none"> <li>• Ensuring a shared detailed understanding of costs, risks and contingency from a delivery and controls standpoint.</li> <li>• Ensuring a continued focus on cost reduction and control by overseeing a programme of work to ensure clear and transparent arrangements for handling cost and contingency are in place at key points in the project including during the passage of the Bill and in the run up to letting contracts for construction,</li> </ul>

			<p>providing an advisory and challenge function.</p> <ul style="list-style-type: none"> <li>• Ensuring this work takes account of best practice in other projects.</li> <li>• Recommending to the SRO if and when independent reviews may be appropriate</li> </ul> <p>The Cost and Risk Group will have representatives from HMT and IUK in addition to the DfT and HS2 Ltd. The first meeting of this group is scheduled for 13<sup>th</sup> September.</p> <p><b>PAR team comment: HMT confirmed that there has been significant improvement in engagement</b></p>
03	<p>DfT should review where the programme may be susceptible to resource vulnerability and develop appropriate contingency plans.</p>	Medium	<p><b>DfT comment:</b> Since the last PAR the DfT programme team has increased from 35 to almost 80 permanent staff, and implemented a strengthened governance structure.</p> <p>The programme now benefits from a full-time Director General as SRO, and three Directors responsible for leading programme activity. The programme has also been strengthened in key areas, such as project and programme management. In addition to permanent staff, the DfT programme team is also making greater use of temporary resource such as contractors, summer interns, and secondees for short periods to work on discrete pieces of work.</p> <p>A Resource Manager has recently been appointed to the programme to enable a more strategic approach to planning of resources within the Group. A resource plan has been prepared for the current phase. This will be continuously updated, and further refined and developed going forward to (i) enable the SRO and Directors to effectively identify and address resource issues and risks; and (ii) to take an informed long term view of resource requirements for the delivery of future objectives, and plan more effectively for future stages of the programme.</p> <p>The resource plan will also be supported by a people strategy, setting out how planning and management of capacity and capability will support effective programme management. This strategy will be in place by February 2013.</p> <p><b>PAR team comment: some progress but remains a critical issue, see para 7.1</b></p>

04	Further consideration and communication of desired overall outcomes, both tangible and intangible, is needed to help to quantify the broader strategic aspirations, whilst maintaining an appropriate set of specific delivery targets for HS2 Ltd.	Medium	<p><b>DfT comment :</b> The strategic case will clearly articulate the core objectives for HS2 in response to the identified capacity challenge on our rail network. The capacity objective is to create sufficient rail network capacity to provide for long term demand, to improve network resilience and service reliability and contribute to meet industry safety and environmental standards. There is also a connectivity objective, to improve connections in terms of journey times, reliability and convenience. These support an overarching economic objective to assist economic growth and regeneration. Alongside those, there are wider socio-economic and environmental objectives. The objectives set out in the strategic case will flow through the business case, other key documents and communications.</p> <p>The management case also includes our benefits realisation and monitoring strategy. This strategy sets out how we will identify in more detail the expected outcomes of HS2, both tangible and intangible. The strategy will also set out how we intend to monitor and evaluate these outcomes. At this stage of the project the strategy is at an early stage of development, but we are aware of the need to be well advanced and collecting baseline data before the first benefits are realised – which in some cases such as additional jobs could be felt even before construction begins. The strategy will set out the steps we intend to take between now and Full Business Case for Stage 1, which we will produce to support Royal Assent of the Hybrid Bill.</p> <p><b>PAR team comment: significant work done, further work in progress to complete Strategic Case</b></p>
05	DfT consider the governance and resourcing of the cost challenge and consider, with their stakeholders, a strategy to ensure the cost challenge is shared across wider Government.	High	<p><b>DfT comment :</b> The Cost and Risk group has been established, and will have its first meeting on 13 September. Outline Terms of Reference have been developed (see above). This group will have representatives from HMT, IUK, DfT and HS2 Ltd.</p> <p>HS2 in collaboration with DfT, IUK and HMT began the efficiency challenge programme in September 2012.</p> <p>Phase 1 which completed in December 2012 carried out scoping works and identified [REDACTED] rising to [REDACTED] of efficiencies was achievable against baseline 1 costs.</p> <p>Phase 2 (analysis and application) is due to complete in Autumn 2013 and has identified</p>

		<p>█ projects to define the changes that needs to be made. █ █ █</p> <p>Post Autumn phase 3 will seek to embed and review the changes required identified through the █ projects.</p> <p>The Efficiency Challenge Programme comprise of a cross industry team organisationally grouped with the HS2 Commercial Directorate and subject to the Commercial Director's daily supervision.</p> <p>Principle over-watch provided by a Steering Group comprising HS2 Commercial Director (Chair), HS2 Finance Director, HS2 Technical Director, DfT Project Representative and DfT Sponsor. This group meetings monthly, approve the overall work plan and provides guidance as required</p> <p>All key decisions are referred to the HS2 Executive Committee:</p> <ul style="list-style-type: none"><li>• Where appropriate the Executive Committee can take issues forward to the HS2 Ltd Board and hence if required to the HSR Board.</li><li>• All finance / procurement issues related to the Efficiency Challenge Programme's work are taken by the HS2 Contracts Committee.</li></ul> <p>The DfT HSR Sponsorship board also reviews and monitors progress against efficiencies on a monthly basis</p> <p><b>Sharing/collaboration Across Government</b></p> <p>IUK continue to collaborate with DfT and HS2 on the Efficiency Challenge Programme) to ensure that:</p> <ul style="list-style-type: none"><li>• HS2 benefits fully from the Infrastructure Cost Review work.</li></ul> <p>Lessons can be shared between major programmes across government.</p> <p><b>PAR team comment: Significant progress in putting process in place, yet to be</b></p>
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			<b>fully tested</b>
06	A comprehensive budget for phase 1 of the project be drawn up, including all items currently excluded.	High	<p><b>DfT comment</b> : SR 2013 allocated a long-term funding envelope for Phase 1, Phase 2 and rolling stock. The Baseline 3 exercise underpinned the SR outcome for Phase 1, and this took a comprehensive approach to considering exclusions. The SR outcome provides a long-term budget for Phase 1 in regard to its current scope, including contingency up to the P95 level of confidence. As part of the SR 2013 outcome, the DfT has set HS2 Ltd a target price for delivering Phase 1 which includes 10% contingency on top of base costs.</p> <p>As part of the SR 2013 outcome, the DfT has set HS2 Ltd a target price for delivering Phase 1 which includes a percentage of contingency.</p> <p><b>PAR team comment: Done</b></p>
07	HM Treasury and the Department agree a timeline and strategy for taking forward the affordability issue, planning, as a minimum, for a statement that can be made to Parliament for the passage of the Bill.	Medium	<ul style="list-style-type: none"> <li>• <b>DfT comment</b> : This is complete.</li> </ul> <p><b>PAR team comment: Done, resolved in SR 13</b></p>
08	DfT should provide senior level resource to consider the best way to take forward rolling stock options, and the optimum split of responsibilities between DfT and HS2 .	Medium	<p><b>DfT comment</b> : A Deputy Director (Becky Wood) was appointed to this role. Subsequently she has been promoted to Director and plans are in place to appoint an interim successor. A Rolling Stock Strategy is planned to be developed before the end of this year.</p> <p><b>PAR team comment: Director in place since September but lack of depth in team</b></p>

## ANNEX B – Conduct of the Review

The review team thank DfT and HS2 Ltd for their constructive engagement in this review.

## ANNEX C - Project documents reviewed

The following documents were reviewed by members of the Review Team and informed the findings and recommendations in this report:

Business Case (Outline for Phase 1, SO for Phase 2), comprising
<ul style="list-style-type: none"><li>• Strategic Case v2.1, v3 and v4</li></ul>
<ul style="list-style-type: none"><li>• Economic Case</li></ul>
<ul style="list-style-type: none"><li>• HS2 Ltd Economic case</li></ul>
<ul style="list-style-type: none"><li>• Management Case</li></ul>
<ul style="list-style-type: none"><li>• Financial Case</li></ul>
<ul style="list-style-type: none"><li>• Commercial Case</li></ul>
High level summary of costs
HMT SR review settlement letter
Target price, cost control and delegations
High Level consolidated Programme Plan (visio format)
Consolidated plan for next phase (ie 2014/15)
Governance Overview Document
Update on Actions from June 12 PAR
Organisation chart HSR Group DfT
Organisation chart HS2Ltd
Staff engagement survey results HSR Group and DfT
PRESENTATION: Hybrid Bill – Martin Capstick
PRESENTATION: HS2: Integrated Design Development Andrew McNaughton
PRESENTATION: Phase One Project Management– Roy Hill
Table of costs showing development over time
MPA PAR Report template (with finance data drafted)
High Speed Rail: Investing in Britain's Future - decisions and next steps Document (Jan 2012)
Rolling Stock considerations (provided to one reviewer)
QRA





<b>Name</b>	<b>Role/title</b>	<b>Organisation</b>
Rupert Walker	Head of High Speed Rail Development	Network Rail
Stephen Dance	Head of Infrastructure Delivery	IUK
Kieran Rix	Director Finance & Corporate Services	HS2 Ltd
Beth West	Commercial Director	HS2 Ltd
Alan Couzens	Head of Infrastructure Performance and Reporting	IUK
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In addition presentations were given by:

- **Design:** Andrew McNaughton (HS2 Ltd)
- **Environment:** Andrew McNaughton (HS2 Ltd)
- **Cost:** Roy Hill (HS2 Ltd) Michael Hurn (DfT)
- **Hybrid Bill:** Martin Capstick (DfT)