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Commercial Director

Good morning

I'm delighted to be with you today at our second Supply Chain Conference.

Our first conference in November last year was a landmark moment for us.

It was the first time that we saw the supply chain mobilising for HS2.

We learnt a lot about you that day - about your capabilities and your concerns. We asked you to tell us what you really think -- NOT what you think we wanted to hear.

Just out of interest, can I ask for a show of hands from those of you who were either present at last year's conference or have been involved in the market engagement activities since then?

If you were involved in both, then raise both hands. Welcome back.

Since the first conference, we have met with hundreds of you at our face-face meetings, industry workshops and regional events.

Some of you were hesitant. We had more than one phone call from people who didn't want to be in workshops with their competitors. Usually, they changed their minds when they realised that we were going to meet their competitors anyway.

We found that once you were at the events, you always impressed us with your contributions and collaborations.

We want more of that. Not just up and down the supply chain - but across it too.

You really demonstrated those behaviours that we talked about at the last supply chain conference. You've showed us that you're open to this way of working. Your response to our request for feedback on our approach to the market has been impressive too. Many of you contributed considerable time and energy.

Our strategy for delivering this railway has gathered momentum. It is much stronger than it was a year ago because of your involvement. We appreciate the part you have all played enormously.

We couldn't have made this much progress so quickly without you. So thank you.

Today, I'm going to share with you what we've learnt from you during the Market Engagement Process.

Then, I'm going to explain:

- What we'll be buying
- How we'll be buying it, and
- How we'll be choosing our suppliers

At this stage, I encourage you to think about what you need to do now to become a HS2 supplier - find out what it is you need to know.

We want you to be involved early, to influence our approach and help us to deliver success.

What we have done during the past year

As many of you will know, before I joined HS2, I spent 8 years at Transport for London.

I spent much of that time unpicking PFI and PPP contracts because they hadn't worked well for TfL or its suppliers.

I learnt a lot about the relationship between clients and suppliers - about what works well and what doesn't work at all. I learnt many lessons about how to buy things - and, more importantly, how not to buy them. I am applying this learning at HS2.

Simon and Jim Crawford, our Managing Director for Phase 1 Infrastructure, can talk about what has and has not been successful in their relationships with suppliers at Network Rail. All of our executive team shares a deep commitment to building relationships of mutual benefit with our suppliers.

HS2 is very clear about how it wants to work with you - our supply chain.

We want to buy what the market wants to sell.

We want to be your favourite client - the client you target

- not because we're easy money
- not because we're the biggest project and you feel that you have to target us
- but because we are good to work with
- because we're collaborative, fair and consistent.

This doesn't mean that we won't be demanding or challenging. But it does mean working with us will be a positive experience.

In return, we want your A Team, your best people. We want the individuals who will bring us a leading, world-class approach to safety -

- to collaboration
- to innovation
- to sustainability.

We want them throughout the delivery - not just during your pitch.

That's why we have engaged with the market early - earlier than any previous capital works programme. We know that in order to get your A-Teams, we need to provide you with packages that your A-Teams will want to work on.

Our Market Engagement Programme

After the first Supply Chain Conference last year, we conducted a programme of Market Engagement Activities, because we had two important questions for you.

1. We wanted to hear your detailed feedback on our proposed approaches to procurement - including how we plan to package and contract our scope of work.
2. And we wanted to know about your likely appetite to compete for HS2 work.

Together, the companies that we engaged with employ a quarter of a million people and have a collective turnover of some £1 trillion.

All the market feedback has been analysed carefully.

It's been considered along with the views of key HS2 people, the Department for Transport and other stakeholders - as well as the recommendations from The Growth Task Force Report and the findings in the Higgins report.

Of course, our approach to procurement will continue to develop as we get into the details of each package. And we'll need to respond to changing market conditions. So we remain open to your feedback. And we'll continue to use your input to shape our approach.

Towards the end of this year, we will develop individual work procurement plans within each category of spend. These plans will have more detail on scope and schedule. Then, we will meet with you again at our industry days and market soundings - beginning with tunnelling.

We hope many of you will continue to engage with us as these events.

Market feedback – what you told us

Your response to our planned approach to policies, packaging and contracting has been overwhelmingly positive.

You were in broad consensus with us on our high-level packaging and contracting principles.

So we'll be minimising interfaces across contracts as much as possible - while making sure the packages are not too large to be uncompetitive.

On civil engineering works, you confirmed our view that big, geographically-based packages would work best. We have reviewed our specific packages to ensure they are the right size - with the right interfaces for each category.

You told us Early Contractor Involvement (ECI) was the right approach - but you needed more details. And we're providing more information about it in this presentation, in our ECI briefing note and online.

You told us you wanted to know where you could find supply chain opportunities. So we have produced a Supplier Guide which we will give you today and we have launched our new business-dedicated section of the website. Because quite frankly, I couldn't find the information on our website either.

You had questions for us too.

You'll hear the answers to some of your questions in the presentations today. And you'll find more answers in our FAQ guide in our supplier pack. The guide includes our views on joint ventures and consortiums, SME engagement, prompt payment etc. This is available via the business section of our website - we'll send you the link.

Procurement categories

Your feedback has helped us to develop our strategy across our categories of spend - especially where there was broad consensus from the market.

For the enabling works, it was recognised that we need flexibility and that the work packages would be much smaller than the main packages, so we will be procuring some new frameworks.

For bored tunnels, - the consensus view from the market was for packages in the region of £1 billion, incorporating elements of surface route in close proximity.

For the surface route, your view was that packages 20-50km with values up to around £1bn would work best; incorporating cut and covers tunnels where appropriate.

Our Phase One strategy now includes large, geographical civil engineering packages split across two tranches:

- **Tranche 1** includes 5 large packages which encompass bored tunnels, valued from around £500m to £1bn. We intend to pre-qualify contractors for this whole tranche and subsequently issue an invitation to tender for each individual package.
- **Tranche 2** includes 4 to 5 packages comprising surface route sections and the Birmingham stations, all valued from £500m to £1bn. The Birmingham stations may be combined into one large package, if tenders show that provides best value for money. Again, we intend to pre-qualify contractors in one go for these works and subsequently issue ITTs for the individual packages.

This approach responds to your desire for large geographical, multidisciplinary packages and also responds to your request for the minimisation of pre-qualification.

We do still have more work to do. We will continue to develop our position and refine our plans on some areas, including Euston station and our approach to logistics.

We also need to determine how we wish to buy our railway systems and trains. These assets are different from civil engineering assets so we may wish to procure them differently, as they don't necessarily fit into the same mould.

For railway systems, you said that your preference was for large, route-wide functional packages, which we agree with and are taking account of this in formulating our approach.

And we are considering exactly what the best form of delivery we would like, considering that some systems - like communications equipment -- have particularly short lifecycles - especially compared with big tangible assets like tunnels.

We are considering whether or not it is preferable to procure systems as a service rather than just as kit so we can take into account whole life cost issues at contract award. But for all our systems, we'll think through the best way to maintain them - and guard against technological obsolescence.

We'll make these procurement decisions later in collaboration with you. But we're making provisions for them now by developing an understanding of when will be the right time to buy.

Rolling stock

Over the past year, HS2 Ltd has been given the responsibility for procuring rolling stock.

When we asked you about rolling stock, you told us we should allow more time in our procurement process. Specifications for our high-speed trains will take longer than a standard high speed train that runs on dedicated track because of our need to run onto the classic network.

So, we've already started building a specialist rolling stock team. They will ramp up our efforts so we can start the procurement process sooner.

We've begun looking at the best way to package our requirements:

- How we package in-cab and lineside signalling - together or separately from each other and the rolling stock
- And how we package the design and construction of the depot and how we procure long term maintenance.

Over the next 15 months, we'll be working intensely to develop our strategy for rolling stock. Then we'll be able to start procurement shortly thereafter.

We will continue to engage with you on rolling stock. In particular, we'll work with you to develop the right performance specifications, the right length of maintenance contract and the right performance incentives.

We'll make sure that the rolling stock we procure has the highest possible levels of performance.

When will we be buying

The high-level schedule behind me highlights the periods in which we will be buying each category of civil engineering works.

In 2015, we aim to commence pre-qualifications for tranches 1 and 2.

This will be followed in 2016 with the individual invitations to tenders for each package of works as well as the first main works ECI contract awards.

We expect that the first spade in the ground on our first main works ECI contract will be in early 2018.

We recognise that there could be a little bit of confusion with the diagram on page 10 of the Supplier Guide.

What we've tried to show here is the procurement and construction process of each category of spend, not each contract.

The dotted line shows the earliest indicative start of procurement for all the contracts within each category. And this includes the period of contract award and ECI Stage 1.

The solid line shows the indicative start of construction for each category. The later contracts in each category will obviously start construction later than this.

How we plan to buy

So that was what and when we are going to buy. Now onto how.

One of the key elements of our collaborative approach to working with you was our intention to use an Early Contractor Involvement.

This approach received overwhelmingly positive support from you during our engagement process.

ECI is a straightforward contracting approach. It enables improved team working, innovation and planning. This will help us to deliver the best value for money.

We will use ECI for our civil engineering contracts. We'll use it for other contracts where possible and appropriate. This is how ECI will work on HS2.

Before we start the tendering process, we will prepare the specification and develop the design sufficiently so that we can clearly set out the contract requirements and establish the contract budget.

But this is not a "one-size fits all" approach.

Some work packages will be taken to a more mature level of design than others. The tender process will not require any design development.

But we will be looking for you to demonstrate your ability to deliver world class solutions:

- How you will approach innovation in your bids.
- How you will utilise BIM.
- How you'll employ off-site manufacturing.
- And what techniques you can utilise to minimise the logistical challenges that we have.

At the end of the tender process, we'll award the contract to the team with the best people, the highest levels of safety, the right collaborative culture and the ability to deliver value for money.

We'll be appointing an integrated contractor and designer team under an incentivised two-stage contract.

In Stage 1, the contractor will have three main tasks:

1. First, they'll develop and optimise the design in a way that's aligned to HS2's objectives.
2. Second, they'll plan the construction - develop and incorporate opportunities for innovation, off-site manufacture and engaging the supply chain.
3. And third, they'll develop a target price which offers the best value and is deliverable.

At the end of Stage 1, the contract is theirs to lose.

Often, in similar types of contracts, under-performance is tolerated because it is too difficult to re-procure - usually because of time constraints.

This will not be the case on HS2. We will measure our contractors' performance and assess the target cost. If the performance has been sub-optimal or the target cost is too high, we will seek to re-procure.

We will design re-procurement mechanisms that can be deployed easily so that we have them if we need them - but our strong preference is that we never need them and never use them.

In Stage 2, we want the contractor to complete the detailed design and construct the works.

And, of course, we will be expecting consistent performance throughout Stage 2.

If you'd like more information about ECI, you'll be able to find it on our ECI Briefing Note, which is available on the business section of our website.

Forms of contract

Forms of contract often take on a life of their own -- and in certain organisations can sometimes create far more complexity than is needed to deliver the job.

HS2 itself is complicated enough, so we want to use forms of contract that will be simple to implement - not ones that add complexity - and those that foster collaboration.

You told us that NEC3 should be used for the procurement of our key civil engineering categories. And we agree.

The NEC3 suite is designed to facilitate collaboration. It will incentivise success. It will allocate risk appropriately. And it will enable integration throughout the supply chain.

We will actively promote the use of NEC3 for our tier 1 suppliers' own sub-contracts. We expect similar terms and conditions to be cascaded down the supply chain.

We intend to implement the NEC3 with the minimal use of Z clauses.

We know this is what the market wants. And we know this is what most clients say they'll do - but we are committed to deliver this.

However, NEC3 is unlikely to be suitable for all categories of procurement - for example, rolling stock.

But on all the forms of contract we use, the terms will be designed to facilitate collaboration across and down the supply chain.

There are 2 areas I would specifically like to draw your attention to - one is fair payment and the other is performance and incentives.

Fair payment

Once again, it was reported just last week, that more than 90% of specialist contractors still have to wait more than 30 days to get paid on public sector contracts.

The way we pay you is one of the key elements of managing risk and ensuring the right types of behaviours.

Many of you - in big companies and small - had questions about payment. Let me address your key concerns.

HS2 will implement fair payment principles in all its contracts.

On our Tier 1 contracts, we do not intend to withhold retention.

For the smaller and medium-sized organisations throughout our supply chain, we are discussing how we can ensure fair payment.

We're considering the possibility of direct payment to sub-contractors where main contractors are failing to do so in the timescales that we require.

Fair payment is one of the key ways that we will meet the challenge that Lord Deighton set us to make opportunities accessible for businesses of all sizes in the HS2 Growth Taskforce report.

There is a place for all tiers of the industry in the delivery of HS2.

Performance and incentives

Turning to performance and Incentives, we are developing a three pronged approach to incentives that rewards performance at a programme, geographic and project level.

We are developing contract incentives that will encourage innovation and reward collaboration.

We have been developing incentives based around the package budgets and the overall programme itself. We will ensure that the contract incentives are appropriately cascaded to key members of the supply chain - including designers and sub-contractors.

Our incentives will maximise rewards for innovation and risk management which is developed during the design and construction planning in ECI Stage 1 - and then delivered as planned in ECI Stage 2.

They will reward collaboration between geographical clusters of suppliers which minimises overall costs to Hs2 - for example, by managing interface risks. And they will reward wider collaboration across the entire Phase One project.

All our programme or area level incentives will be self-funding. They will be linked to savings against an established budget.

And let me be clear: on the programme level incentives, the budget will be the budget.

The budget will not increase just because we have had a target cost increase in one of the packages.

This policy is designed to facilitate high levels of innovation and collaboration - both in our relationships with our suppliers, and, in-turn, in their relationships with each other. We know the market is capable of both in the design and delivery phases.

How we will be choosing our suppliers

Last year, we told you that we were going to use a Balanced Scorecard to choose our suppliers.

So when we receive your bids, we will look for specific deliverables which will help us achieve our over-arching goals. They will - of course - need to be measurable so we can monitor progress.

Safety, the environment, being on time and on budget will obviously appear in all our contracts. But we may not have deliverables for each strategic goal in every contract. Each contract will include the appropriate goals.

We'll also be assessing other factors in your bids - including your:

- health and safety
- past performance
- capability
- collaboration
- approach to work including innovation
- ability to use BIM
- ability to cost the job
- commercials - risk, overhead and projected profit.

Supplier guidance and information

Our market engagement programme will continue over the next few years.

We will keep facilitating engagement and collaboration throughout our supply chain. We'll be hosting many events so businesses can meet each other and work together.

Soon, we will run category industry days, beginning with tunnelling.

And we'll hold market soundings so you can continue to give us your feedback.

Next steps

The relationship between HS2 and the Supply Chain has got off to a tremendous start.

The feedback and ideas that you contributed during our Market Engagement Process have strengthened our approach to procurement considerably.

At our events, we saw you beginning to collaborate with each other. We heard you talk about possible innovations that you could make on HS2.

We are already on our way to building the strong capable supply chain we need.

When you come to our workshops and events, you'll learn a lot about our requirements and we will continue to learn about yours. You'll know exactly what we need when you are bidding for our work.

We ask that you continue to engage with us. We want to keep working hand in hand with all parts of the supply chain.

You're all here today because you're interested in HS2 - you can all bring something to HS2.

Start speaking with each other - form the teams and relationships you will need to succeed.

Figure out what you don't know so that you can start communicating with the partners that you'll need to be successful in winning work with us.

We are looking forward to working with you.

We are ready to be impressed.