

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

Programme Title: High Speed 2 (HS2)

MPA ID: 02922 – HS2

Privacy Marking: UNCLASSIFIED

MPA Project Assessment Review (PAR) Report **High Speed 2 (HS2)**

Version number: 1.1

Date of issue to SRO: 4th November 2011

SRO: Steve Gooding

Department: DfT

Agency or NDPB: HS2 Ltd

Review dates: 31st October to 4th November 2011

Review Team Leader:

Peter O'Dowd

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<u>Delivery Confidence Assessment</u>	Rating Amber/Red
<p>In reaching our assessment of delivery confidence we have considered both (a) the readiness of the programme to be able to present sufficient information to allow decision makers to make an informed decision on the merits of the case for High Speed Rail in general and the London to West Midlands project in particular and (b) the timetable for the subsequent delivery of Royal Assent of the Hybrid Bill by Spring 2015. Whilst all the requisite information to make the decision to proceed to the development stage is not available at the time of this Review, we believe that the Secretary of State should be able to make an informed decision by 14 December, provided the considerable amount of work outstanding is completed to schedule. The project team is well aware of the scale of the task and is working extremely hard to meet these challenging timescales.</p> <p>However there is very limited time available to gain broader Government agreement and in particular for proper scrutiny and challenge of this major decision. At this point it is likely that MPRG will be missing key elements of the business case at the scheduled review date.</p> <p>The Review Team has significant concerns over the readiness of the project to move into the development phase, subject to a positive decision, in particular the immaturity of the governance and management arrangements necessary for the development phase. The Review Team acknowledges that considerable thinking is on going in this regard, however this has not yet been concluded and documented. The Review Team considered a decision to proceed could however be made based on high level principles, provided these are formally agreed, documented and followed up soon after the decision with detailed implementation plans.</p> <p>The timetable through to Royal Assent in 2015 is considered to be extremely challenging, in particular the external risks that exist in the parliamentary approval phase are outside the project team’s control. This significantly impacts our delivery confidence. If the decision were to proceed at a slower pace to Royal Assent then the Review Team would have assessed the programme as having an amber delivery confidence.</p> <p>Given the cost of the full programme and fact that the bulk of the cost would be incurred well beyond the current spending review period, we cannot comment usefully on the overall affordability of the programme.</p>	

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The Delivery Confidence assessment RAG status should use the definitions below.

<u>RAG</u>	<u>Criteria Description</u>
Green	Successful delivery of the project/programme to time, cost and quality appears highly likely and there are no major outstanding issues that at this stage appear to threaten delivery significantly
Amber/Green	Successful delivery appears probable however constant attention will be needed to ensure risks do not materialise into major issues threatening delivery
Amber	Successful delivery appears feasible but significant issues already exist requiring management attention. These appear resolvable at this stage and if addressed promptly, should not present a cost/schedule overrun
Amber/Red	Successful delivery of the project/programme is in doubt with major risks or issues apparent in a number of key areas. Urgent action is needed to ensure these are addressed, and whether resolution is feasible
Red	Successful delivery of the project/programme appears to be unachievable. There are major issues on project/programme definition, schedule, budget required quality or benefits delivery, which at this stage do not appear to be manageable or resolvable. The Project/Programme may need re-baselining and/or overall viability re-assessed

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Summary of Report Recommendations

The Review Team makes the following recommendations, which are prioritised using the definitions below.

Ref. No.	Recommendation	Critical/ Essential/ Recommended
1	The team should focus on completing the strategic and economic cases to enable the SoS to make an informed decision on the merits of the proposal and ensure that the remaining cases demonstrate sufficient maturity to give confidence that the next stage can commence and clear plans exist for how they will be completed.	Critical
2	The team should complete the stakeholder analysis, identify the critical stakeholders, agree and document a management plan.	Essential (<2 months)
3	HS2 Ltd and DfT need to ensure that they have a comprehensive document control procedure which is consistently applied and which would stand up to the scrutiny of any judicial review challenge.	Critical
4	DfT and HS2 Ltd need to complete and agree a project development agreement that sets out clearly the respective roles and responsibilities of each party and what rights and powers each holds. The agreement should set out clearly the matters for which HS2 needs approval from the department and how these will be obtained.	Critical
5	DfT needs to develop and implement revised programme governance arrangements setting out clearly which bodies need to approve which matters and how such decisions will be taken. Revised terms of reference for the relevant DfT approval bodies, including the HSR Programme Board, should make clear what matters they need to consider and what needs to be escalated and who is required to attend for such decisions to be taken.	Critical
6	As part of the proposed project development agreement, DfT needs to develop a clear financial control framework for the programme, consistent with the governance arrangements, that allocates budgetary responsibility to relevant parties, including ownership of any contingency elements. This needs to cover	Essential < 2 months

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	decisions that affect both direct spend within the SR period but also decisions that impact the overall programme outturn cost, including the role of the cost challenge working group and the role of IUK.	
7	DfT needs to agree, as part of the Corporate Planning process, a detailed year by year budget for the Development Phase of the programme reflecting both DfT and HS2 costs that is consistent with the project development agreement and revised timetable.	Recommended
8	DfT and Treasury should continue to monitor the ultimate affordability of the project through the development phase.	Recommended
9	Additional review points, to consider specifically the timetable, should be added in the programme for June 2012 and Summer 2013.	Recommended
10	The Department should ensure that the SOBC covers the key principles of the Management Case and sets out how and when the detail will be fully developed.	Critical

Critical (Do Now) – To increase the likelihood of a successful outcome it is of the greatest importance that the programme/project should take action immediately

Essential (Do By) – To increase the likelihood of a successful outcome the programme/project should take action in the near future. [Note to review teams – whenever possible Essential recommendations should be linked to project milestones e.g. before contract signature and/or a specified timeframe e.g. within the next three months.]

Recommended – The programme/project should benefit from the uptake of this recommendation. [Note to review teams – if possible Recommended recommendations should be linked to project milestones e.g. before contract signature and/or a specified timeframe e.g. within the next three months.]

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Background

The driving force and aims of the programme:

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 direct links to the HS1 line and to Heathrow Airport. In addition to enhancing capacity and connectivity between many of the UK's largest cities and major international gateways, this could form the foundation for a broader national network, in line with the statement in the Coalition's Programme for Government:

"We will establish a high speed rail network as part of our programme of measures to fulfil our joint ambitions for creating a low carbon economy. Our vision is of a truly national high-speed rail network for the whole of Britain. Given financial constraints, we will have to achieve this in phases."

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 can play a key strategic role in delivering these objectives. It would deliver a huge increase in rail capacity to meet the rising demand for long-distance rail travel and ease overcrowding on existing railways. It would slash journey times between cities. High speed rail also has 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.

It is proposed that the high-speed rail network would be delivered in two stages:

- **Stage 1:** London to West Midlands, including links to Crossrail and HS1, and connecting back to the West Coast Main Line (operational 2026). This is sometimes referred to as LWM.
- **Stage 2:** Birmingham to Manchester and Leeds; and Heathrow link (operational 2032). This is sometimes referred to as BLM, with the completed network referred to as "the Y" due to the shape of the line.

For the purposes of the consultation the completed network was estimated to cost £32bn to construct. The initial section from London to West Midlands is estimated at £16.8 bn.

In addition, the National Infrastructure Plan commits the Government to explore with the Scottish Government the options to "continue development of the high-speed rail network and rail connections between the North and South of the country to further reduce journey times to Glasgow and Edinburgh.

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The programme to deliver the London to West Midlands line (Stage 1) comprises five phases:

- **Pre-Development phase** (*to December 2011 – The Secretary of State's decision point*) – The consultation and preliminary work to identify a line of route and assess its feasibility
- **Development phase** (*to Spring 2015 – Bill Royal Assent*) The further development of the line of route and costings, through presentation of a hybrid bill to Parliament (Autumn 2013) to Royal Assent to the Bill (Mid 2015)
- **Pre-delivery phase:** (*2015-2017*) Focuses on preparations for the delivery phase
- **Delivery phase** (*from mid 2017 to 2026*) Construction of the necessary infrastructure to deliver HS2 into operation
- **Operational phase:** The line is scheduled to be operational from 2026 (to Birmingham Stage 1) and from 2032/33 (to Leeds/Manchester Stage 2)

The immediate decision-making timetable is as follows:

- **MPRG Panel** – 17 November: to consider Strategic Outline Business Case.
- **DfT Board Investment and Commercial Subcommittee** – 22 November: Decision to consider the SOBC and make recommendations to SoS.
- **SoS Decision** – by 14 December. The SoS decision is expected to cover the strategy for the whole network (Stages 1 and 2) and the route for the first phase to Birmingham.

The SOBC is expected to come to MPRG in Autumn 2013.

In the Development phase HS2 Ltd would be taking forward the development of phase 1 and embarking on consultation for Stage 2.

Current position regarding MPA Reviews:

An initial Project assessment Report was made on 17 June 2011 giving a delivery confidence rating to the project of amber. A follow-up AAP review took place 6 weeks later giving a delivery confidence rating of amber red. The progress on the actions from the last review are shown in **Appendix A**.

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Purposes and conduct of the MPA PAR Review

Purposes of the PAR Review

The PAR has been designed to be flexible and is now applied when a standard gateway process is not the most suitable form of assurance. PARs will predominantly be used on major programmes/projects within government and should not be seen as a replacement for all other assurance. The scope and areas of enquiry are determined before the start of the review, and can include some aspects from a particular Gateway e.g. a Gateway 3 if the project is just about to award a contract. However, other aspects, which are particular to a project, can also be explored. As the Major Projects Authority (MPA) begins to take shape, it is expected that PARs, along with Starting Gates, will be a practical piece of assurance applied to major projects before the project submits their Business Case to Treasury or where there are concerns around the deliverability of the project.

Appendix B defines the scope of this Review

Conduct of the PAR Review

This MPA PAR was carried out from 31 October to 4 November 2011 at DfT's offices, Great Minster House, 33 Horseferry Road, London SW1 4DR. The team members are listed on the front cover.

The people interviewed are listed in **Appendix C**.

The Review Team would like to thank the programme team and all interviewees for their support and openness, which contributed to the Review Team's understanding of the Programme and the outcome of this Review.

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Findings and recommendations

1: Business Case and Stakeholders

The HS2 Programme is currently in the “Pre-Development” phase, completing the consultation stage for Stage 1 and culminating with the Secretary of State’s (SoS) decision currently scheduled by 14 December 2011.

The lifecycle stage of the Programme is Gate 1 – *business justification*, meaning the business case produced should be a Strategic Outline Business Case (SOBC) which demonstrates that the recommended way forward meets business need, is affordable, achievable with appropriate options explored and delivers good value for money.

The DfT high-speed team and HS2 Ltd, with the support of the wider Department, have and continue to work together in an exemplary fashion to complete the consultation and prepare the responses to the consultee points raised.

The Review Team (RT) feel that the huge effort of undertaking such a sizable consultation exercise and responding to the large number of objections/issues raised should be commended.

A strong focus of the work since the completion of the consultation exercise has been on updating the Economic case. It was clear to the RT that a considerable amount of discussion and debate had been undertaken on the plans for delivery of the next phase, however these discussions have not concluded and firm plans have not been documented in the business case. At the time of consultation the BCR, including wider economic benefits, for the whole network was 2.6 and 2.0 for the London to West Midlands section. We understand that there may be some downward pressure on these figures, including arising from current economic conditions. We have not been given any updated figures however we have been informed that the figures are not expected to be fundamentally different.

At the time of the review the business case was incomplete and a considerable amount of work was still required to get it to an acceptable level before commencement of the extensive approval steps prior to submission to the SoS.

The strategic case is well developed and is fit for purpose for this decision stage. However a current economic case was not available at the time of the review. This makes it very difficult for the RT to offer a view at this point on the economic viability of the Programme. At the very least this will put extreme pressure on both Departmental and Treasury approval processes within the current decision timetable. However the RT felt that considerable progress had been made and although the

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updated case was not available the substantial work required to complete the economic case was nearing completion and DfT internal assurance processes had commenced.

At this stage of the lifecycle the Financial case should cover the DfT's and/or Government's ability to fund the totality of the scheme (affordability), how it will be funded, the cash-flow requirements and the level of contingency provided. Apart from the overall programme affordability issue the RT believe that the DfT have covered all the above items, and subject to successfully articulating this in the final document, believe that this will be covered to an acceptable level.

A Commercial case should explain the strategy for securing the appropriate skills to enable HS2 Ltd to undertake the necessary design development, environmental and project management work in readiness for the Hybrid Bill and confirm the Market's interest in bidding for the work. It should also cover the commercial viability of HS2, clearly articulating the fact that this scheme will not provide a commercial return on the capital investment but the ticket revenue will cover the operating cost. It should also cover other commercial revenue or capital generating opportunities being considered at this stage. The RT felt from the interview process that whilst this case is not yet properly documented, the above strategy is well understood and, with support from the DfT Major Projects Group, can be covered to an acceptable level.

The Management Case should set-out the plans for the next phase explaining how DfT will sponsor the Programme and act as an intelligent client, with HS2 Ltd moving from an advisory role to a development role. This should include clear decision making processes, plans for programme control and protocols for managing cost and contingency. At present the documented case lags behind the emerging thinking presented to the RT. However although numerous options are being considered no agreed position has yet been reached.

Considering the SOBC as a whole, significant work still needs to be done however both the DfT and HS2 Ltd teams are highly motivated towards completing the work in time for the SoS review. The RT finds the determination and motivation of the teams reassuring but believes that completing ALL 5 cases of the business case to the requisite standard and getting ALL the necessary approvals in the time available is going to be extremely difficult.

Given the current state of development of the SOBC the RT believes that the DfT team should now prioritise resources on the key aspects of the 5 cases necessary to allow the SoS to make an informed decision by 14 December 2011. Whereas a comprehensive Strategic and Economic case is essential at this business justification stage, the other 3 cases need to be at a level to give comfort to the approval bodies that sufficient thinking has been undertaken and steps are in place to allow the programme to be taken forward to the next stage with confidence.

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If the case is prioritised in this way then the RT believes that the DfT with the support of HS2 Ltd could develop the SOBC to an adequate standard to allow the SoS to make an informed decision by 14 December 2011. The timetable is however very demanding and this may mean that HM Treasury/MPA do not have as much time for scrutiny of the completed business case as they would expect. With this in mind it would be wise for the DfT team to engage further with the Treasury team as soon as possible to gain buy-in and support to facilitate the approval process.

Recommendation 1: The team should focus on completing the strategic and economic cases to enable the SoS to make an informed decision on the merits of the proposal and ensure that the remaining cases demonstrate sufficient maturity to give confidence that the next stage can commence and clear plans exist for how they will be completed. (Critical)

The RT did not see a documented stakeholder management plan for the programme, however a mind map of the expected stakeholders was available and it was clear from the interviews that work on stakeholder engagement had begun in earnest. This programme will have a significant number of stakeholders due to the level of interest and objection to the scheme. The DfT High-Speed team need to undertake a more detailed stakeholder analysis and grade the stakeholders into groups by level of importance and support (or objection) for the scheme. Once the priority stakeholders have been identified then a plan for engagement for each of the major groups can be agreed. The team can then prioritise time on the critical stakeholders and be assured that they are being dealt with effectively.

The RT were also concerned that although some key stakeholders (e.g. Network Rail and TfL) had been identified and were being engaged, there was no agreed plan as to how they would be consulted or their level of engagement. This is covered in the *Plans for Next Stage* section.

Recommendation 2: The team should complete the stakeholder analysis, identify the critical stakeholders, agree and document a management plan. (Essential within the next 2 months)

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2: Consultation and Judicial Review

The RT found the private sector stakeholder engagement and communications for the current consultation process to be of a high standard. The team and their legal counsel are taking steps to prepare for any judicial review challenge. While a programme such as this cannot fully immunise itself against possible action, and the risk that this may pose to the timetable remains real, we believe that the manner in which the consultation has been conducted in itself should mitigate against any judiciary review being successful. One area, which must be tightened up however, is documentary labelling and control. This remains an outstanding action from the last PAR and accordingly our recommendation on this point remains the same, as follows.

Recommendation 3: HS2 Ltd and DfT need to ensure that they have a comprehensive document control procedure which is consistently applied and which would stand up to the scrutiny of any judicial review challenge. (Critical)

3: Governance

The SOBC summarises the current governance of the programme. For the Department this comprises 2 main elements:

- the HSR Programme Board which provides advice and support to the SRO and brings experience from various areas across the Department including Crossrail, Thameslink and broader commercial capability; and
- the Board Investment and Commercial sub-Committee which deals with formal approvals and major investment decisions, such as the procurement of the HS2 Development Partner and shortly will consider approval of the SOBC.

For HS2 Ltd, its Board is responsible for controlling the delivery of its advice to the Department. These structures have enabled HS2 Ltd to deliver and assure its own deliverables/advice to DfT and allowed the SRO to receive advice from the broader expertise of DfT to supplement the dedicated DfT sponsorship team. At the time of this Report, the scrutiny of the SOBC by the BICC is scheduled for 22 November with reviews of each element of the case being carried out in advance.

If a decision to proceed is taken, the nature of the programme will evolve from one primarily of analysis and advice to one of development and delivery. All the parties we have interviewed recognise that the governance will need to evolve to reflect the changing nature of the programme. At present the revised governance arrangements that are fit for purpose for the next phase have not been agreed and documented.

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A number of parties stressed to the RT the importance of clear delegation and decision-making protocols between the respective parties for the next phase. The decisions taken during this phase will have the potential to commit significant project cost and set key precedents such as environmental mitigation standards. In the next phase HS2 Ltd would expect to incur average expenditure of £140m p.a. and its delegation levels and control mechanisms will need to be revised to reflect this.

To date the DfT HSR Programme Board has operated primarily as an advisory rather than decision-making body and does not include any economic/analysis expertise. Its current Terms of Reference do not set out which members need to attend for it to be quorate. Looking forwards the nature of decisions that will need to be taken by the department will change and therefore a robust programme management and decision-making forum are essential.

Failure to revise the governance arrangements is likely to lead to delay to the project through slow or absent decisions, could lead to additional cost being introduced without appropriate challenge or justification or could lead to too lax an oversight process for a major, high profile project.

Recommendation 4: DfT and HS2 Ltd need to complete and agree a project development agreement that sets out clearly the respective roles and responsibilities of each party and what rights and powers each holds. The agreement should set out clearly the matters for which HS2 needs approval from the department and how these will be obtained. (Critical).

Recommendation: 5: DfT needs to develop and implement revised programme governance arrangements setting out clearly which bodies need to approve which matters and how such decisions will be taken. Revised terms of reference for the relevant DfT approval bodies, including the HSR Programme Board, should make clear what matters they need to consider and what needs to be escalated and who is required to attend for such decisions to be taken. (Critical).

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4: Financial

Cost Estimation

The overall costs of the London to West Midlands infrastructure are currently estimated to be £16.8 bn (excluding rolling stock), including an allowance of 64% for construction risk and optimism bias. These estimates have been developed by HS2 Ltd and are subject to a number of reviews and challenges by external and independent parties bringing rail technical expertise as well as departmental experience from current major infrastructure projects (e.g. Thameslink and Crossrail).

At the time of this Report, cost estimates and optimism bias allowances for the SOBC are still being finalised to reflect these reviews but the RT recognise that significant effort has been put in to developing and testing the underlying cost and risk estimates.

Nevertheless the estimation of costs for a project of this scale at this stage of maturity relies on significant judgement and contains an inherent degree of uncertainty. This is evidenced by the inclusion of £6.5bn for optimism bias and risk.

In moving to the next phase the Department recognises the need to continue to challenge costs in line with the Infrastructure UK Cost Review principles and is proposing to establish a Cost Challenge Working Group to ensure that the optimism bias inclusive cost, which is already publicly declared, does not automatically become a real project cost. The role of IUK themselves, as authors of the Cost Review, is not defined.

Recommendation 6: As part of the proposed project development agreement, DfT needs to develop a clear financial control framework for the programme, consistent with the governance arrangements, that allocates budgetary responsibility to relevant parties, including ownership of any contingency elements. This needs to cover decisions that affect both direct spend within the SR period but also decisions that impact the overall programme outturn cost, including the role of the cost challenge working group and the role of IUK. (Essential, within 2 months).

Affordability

DfT has a development phase budget of £573m resource funding and £200m capital funding (for land purchase) to allow for the project to reach Royal Assent in 2015 and for preliminary development work on the wider network. This funding has been agreed as part of the Spending Review process in 2010. The vast majority of the programme cost arises in the delivery phase and falls beyond the current Spending Review period.

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As referred to in 1 above the long-term role of Network Rail is yet to be determined. As significant parts of the infrastructure could be delivered and funded by NR through its regulated asset base the quantum and profile of the costs that need to be met with public money through the delivery phase could vary. Similarly the procurement and funding of rolling stock is not yet determined.

Given these circumstances, the RT considers that the Department cannot judge with a high degree confidence that the delivery of the London to West Midlands project is affordable. It is important that further work between DfT and Treasury continues on the ultimate affordability of the project through the development phase.

The profile of spend in the SR period assumes that the current timetable is achieved. HS2 Ltd has developed a forward resource plan and the Department is seeking to secure appropriate administration funding through the current Corporate Planning process for its sponsor team.

Recommendation 7: DfT needs to agree, as part of the Corporate Planning process, a detailed year by year budget for the Development Phase of the programme reflecting both DfT and HS2 costs that is consistent with the project development agreement and revised timetable. (Recommended).

Recommendation 8: DfT and Treasury should continue to monitor the ultimate affordability of the project through the development phase. (Recommended).

5: Risk Management

The DfT high-speed rail team and HS2 Ltd both have a formal, documented Risk Management process. There are also comprehensive Risk Registers for HS2 Ltd and DfT. The RT was happy that risk management was being applied at both the DfT level and within HS2 Ltd. There was also a good common understanding of the key risks to the Programme. Although the RT did not see the detail we were informed that a comprehensive Quantified Risk Assessment had been carried out to determine the level of contingency for Phase 1. The RT however did not see evidence that the Risks were being dealt with in a systematic way at the DfT HSR Programme Board. It is essential as the programme moves into the development phase that the Board takes a risk based approach to decision making.

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6: Proposed Timetable

There remains significant work to be done completing the economic case, updating other parts of the SOBC, and preparing other papers necessary for the Secretary of State to make her decision by 14 December. While our expectation is that these could be completed there is a risk that the pressing timetable could impact on the comprehensiveness of the papers. Very little time is allowed for HM Treasury to scrutinise the economic case or ask for further sensitivity studies and there is effectively no time for “push back” by any of the approval bodies. Not having the economic case ready at this stage therefore presents a risk to the timetable.

The subsequent timetable for the Development Phase is very tight. 21 months (ending Autumn 2013) is allowed for completing all work necessary for submission of the bill in Autumn 2013. 18 months is allowed for passage of the bill through Parliament with Royal Assent scheduled for Spring 2015. This is considered a key date (being the date by which this Government’s term will come to an end and a general election will be held).

The 21 months for preparatory work is generally considered to be very challenging but doable, since the majority of risks in this period can be managed by DfT and HS2 Ltd. The risk however of a serious judicial review challenge in this period, based on known strength of opposition to the project, is significant and it is possible that this could impact the timetable. Any slippage is likely to affect the Spring 2015 end date since there is no “slack” built into the timetable.

The 18 months allowed for successful passage of the Bill through Parliament is considered more challenging and subject to factors outside the control of the team in particular (a) political risk (outlined below) and (b) risk of the bill becoming “bogged down” beneath modifications required to meet the likely host of objections that will be raised during its passage. Confidence in hitting the Spring 2015 deadline for passing of the bill is therefore medium to low. We cannot at this stage usefully comment on timetable for future stages of the programme.

A high profile Programme such as HS2, requiring the passage of a hybrid Bill through Parliament, is dependent on a high level of political sponsorship and support for its success. It is a Government Commitment for the coalition and currently enjoys support from the opposition. If this were to change however the risk to the project, and in particular its timetable, would be significant.

Particular risks that could impede the challenging timetable include:

- Labour party opposition to all or some aspects of the project or its route, or using delaying tactics, interrupting the passage of the Bill

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- Pressure groups petitioning parliament or lobbying individual MPs on particular aspects of route or design or mounting high profile opposition campaign or causing back-bench revolt
- Loss of budget control if objections are “bought off” through design changes and pressure of time compromises full negotiations
- The run-up to the next general election (and strength of public opinion) affects political sponsorship or causes unrest in constituencies
- Interaction with Parliamentary process/timetable and other calls on Parliamentary time
- Mayoral elections
- Interactions with Network Rail (and any change of function for them) and TfL.

Recommendation 9: Additional review points, to consider specifically the timetable, should be added in the programme for June 2012 and Summer 2013. (Recommended).

7: Readiness for next phase

Section 1 recommended that the SOBC should focus on the information required to enable the SoS to make an informed decision by 14 December 2011. Although the Management Case does not need to be in a detailed state for the decision it is essential that the detailed plans for management of the development phase are agreed as soon as practicable after the decision (should the decision be affirmative).

It was clear that extensive discussions had taken place in recent months about how the next phase should be delivered, however clear, documented and agreed plans were not in place at the time of the review. It is critical that these plans are given the emphasis they deserve, as failure to get this right will have serious repercussions later. The RT ascertained during the interviews that agreement had been reached within DfT and HS2 Ltd and with the previous SoS that the delivery approach would have DfT in a “Sponsoring” or Client role and HS2 Ltd in a “Delivery” or development role.

The areas where discussion had taken place but no clear plans were evident included the following:

Governance

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The RT had concerns about the plan for governance and these are covered in section 3 above.

Sponsorship

The DfT recognised the need to move into a sponsorship role in the next phase. They will of course continue to require the policy and strategy skills utilised during the current phase however they will need to strengthen the client sponsorship role. The team will need to be supplemented by personnel with commercial and Programme & Project management capability with experience of challenging experienced private sector project professionals. It is essential that between DfT and HS2 Ltd an “Intelligent Client” is established. The RT believe that this capability can only be delivered through a combination of Sponsorship role of DfT and the Delivery capability of HS2 Ltd.

The RT were concerned that with a number of priorities competing for management attention existing management could become overstretched.

Organisational Design

The RT were presented with an organisational structure for HS2 Ltd however there were varying views as to the skills profile and scale of the organisation required. The RT recognises that some elements are iterative: it is not possible to be precise about some details until they are decided with the development partner (when appointed). But it would be better if there was greater clarity at this stage, otherwise there is a risk that the iterative elements will hold up the development of clear organisational design.

The DfT team demonstrated that they had commenced discussions about the most appropriate structure for the next phase but at the time of writing no decision had been made on the preferred structure.

Structure usually follows strategy in organisational development and the RT felt that the organisational design was stalling due to the lack of clarity over the delivery strategy going forward. The teams need to focus on designing and agreeing the organisational strategies and how they interface with each other. This will then allow the appropriate structure to be confirmed and plans for implementation to be commenced.

The RT were also concerned about the maturity of the design of the HS2 Ltd resource mix. HS2 Ltd has identified certain areas where it considers roles must be filled with its own employees, but there seemed to be mixed opinion amongst interviewees as to whether HS2 Ltd was to operate as a “Thin Client” and whether, in order to become an Intelligent “technical” Client it needed internal resource or whether the use of consultants was acceptable. A clearly articulated rationale needs to be available for the organisational design. In this time of austerity there will be considerable scrutiny of resource size and the best use of the same.

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HS2 Transition from Advisor to Delivery Partner – Cultural Change

There was a common acceptance amongst the interviewees that there needs to be a significant cultural change for HS2 Ltd to move to its new role. Once the organisational design and skill requirements are finalised a clear plan needs to be put in place and delivered. The risk of a mature, experienced supplier joining an organisationally immature client organisation does not bode well for effective working. This activity should be led by a strong client.

HS2 Leadership

The team (DfT and HS2 Ltd) were clear that the programme (or at least the London West Midlands Project) is moving into a new phase and therefore the role and size of HS2 Ltd needs to change. It is essential to get the leadership of this new team right. It was recognised that the Chairman of the changed HS2 Ltd will need excellent political skills, with experience of working with and influencing Politicians and other senior stakeholders. The size of this role could mean that he/she would have minimal time available for downward influence meaning the CEO would need to be a strong delivery focussed individual who could understand the engineering environment, lead the organisational change and drive delivery to a demanding timescale. The CEO and Chairman will need to be supported by a strong Non Executive cadre.

The Department also needs to ensure that, in the current austerity constrained environment, HS2 is not limited in its ability to attract the best resources in the market. This will be difficult if constraints on salaries are in place or approval processes result in extended delays.

Whatever decisions are made on the shape of the new leadership team for HS2 Ltd it is essential that the existing corporate memory is not lost in the process. The existing team has accumulated extensive knowledge over the past few years and this must not be lost in the rush to change the organisation.

Roles and Responsibilities definition

The roles of DfT and HS2 Ltd have been discussed and are loosely agreed. This needs to be formally documented, communicated and agreed. Once the organisational roles are clear then the individual roles and responsibilities can be defined and documented and a recruitment and/or training plan can commence. This is covered in more detail in the Governance section above.

It is proposed that the Development Partner is remunerated 100% on a time cost basis with an additional 10% incentive for performance over and above that described in the pre-agreed service delivery plan. The RT was happy that this approach is appropriate for the development phase and had been arrived at after considerable advice and input from a broad range of experts.

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Key Stakeholder Roles

The team appeared to be well aware that Network Rail has a key role to play in the Programme. However the responsibility of Network Rail, i.e. should they be “Consulted” or are they an “Approver”, seemed to be less clear across the interviewees. There was also a concern whether there are other key stakeholders who should be involved (as approver or consultee, e.g. TfL and/or London Underground). It is critical that the responsibility of these key stakeholders, with respect to the development phase, is agreed and documented at an early stage so as to avoid nugatory work. However, bearing in mind the long term nature of the project, it is important to ensure that the involvement of others is done in a way which allows the project to be effectively managed in a co-ordinated way.

In summary a large number of the above key management plans have been discussed but clear agreed plans are not in place.

The RT was also concerned about the IT Strategy for the growing HS2 Ltd organisation. The IT system is not scheduled to be operational for 6 to 12 months. There is a plan for an “interim” system however the RT could not confirm the efficacy of this temporary system and whether its use, or the necessary migration of data to the new system, would have any implications on the operational ability of the growing HS2 Ltd team.

As discussed in Section 1 above the RT does not believe there is sufficient time and resource in the current timetable to resolve fully all these issues, before the Ministerial decision is made on whether to proceed with the project. The RT therefore believes that the SOBC needs to cover the key principles of the Management Case and set out how and when the detail will be agreed.

Recommendation 10: The Department should ensure that the SOBC covers the key principles of the Management Case and sets out how and when the detail will be fully developed.(Critical).

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APPENDIX A: Progress against previous recommendations (June 2011)

Varying degrees of progress has been made against each of these recommendations, however outstanding actions have been addressed in the main body of this report.

Recommendation 1: Greater clarity should be brought to the roles and functions of the Department, HS2 Ltd and other relevant stakeholders as appropriate. This clarity could then usefully be developed into a governance agreement, which the different parties sign up to. Particular reference should be paid to the approvals processes and the ability to make timely decisions to meet the tight programme requirements. **[Critical]**

Recommendation 2: The Department and HS2 Ltd dedicate more attention to planning the structure that will be needed should the Secretary of State decide to proceed with the development of the high speed network. This will need to address both the ongoing consultative and advisory functions needed for phase 2 of the programme (Birmingham to Manchester and Birmingham to Leeds) and the new development work required for phase 1 of the programme (London to Birmingham). **[Critical]**

Recommendation 3: The outstanding elements of the business case need to be developed with commercial and management being the immediate priority. This will enable the team to present appropriate information to facilitate the approval of the imminent procurements and position HS2 Ltd for the demands that will arise should the Secretary of State decide to proceed. **[Essential, by end of August 2011]**

Recommendation 4: HS2 Ltd and DfT need to ensure that they have a comprehensive document control procedure which is consistently applied and which would stand up to the scrutiny of any judicial review challenge. **[Essential, within 3 months]**

Recommendation 5: HS2 Ltd and DfT undertake detailed planning together for activities within 2011 focussing particularly on dependencies, interfaces and decision points. **[Essential, in the next 4 weeks]**

Recommendation 6: Both HS2 and DfT recruit urgently a small number of people to meet their current identified needs and produce longer term recruitment plans which should in particular deal with the resourcing and support needed as the programme enters into its development stage. **[Critical]**

Recommendation 7: DfT and HS2 Ltd identify and agree their priorities both for the immediate critical 6 week period prior to procurement and for the remainder of the year, in particular focussing on the management challenge of moving HS2 Ltd from an advisory body to one which can also take forward the stage post Secretary of State decision. **[Critical]**

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Appendix B: Scope of MPA PAR

1) Project governance

Is the project's governance structure appropriate for a project of the size and complexity of HS2?

Is the programme documentation of acceptable quality and in particular is the Business Case is likely to meet the requirements of the Treasury Approval Process (5 case model)?

- Is a Strategic Risk Plan in place and are risk management processes (monitoring, escalation and mitigation) effective and updated regularly?
- Is the proposed high speed rail network designed to ensure that it captures all the economic benefits? (e.g. integration with existing infrastructure, interdependencies and related opportunities)
- Is the commercial/delivery model robust and mature enough? Does it include current consultancy procurement plans?
- Is the critical path properly understood and is the Integrated Assurance and Approvals Plan agreed by all stakeholders and of appropriate quality?
- Is the programme team sufficiently resourced and are team capabilities in place to bridge transition from project planning/marketing into project delivery mode?

2) Cost challenge

Have initial project cost estimates undergone robust challenge and scrutiny from DfT and independent advisers?

Will contractors be sufficiently incentivised and actively managed, by a strong client function in DfT, in order to ensure a continual focus on reducing costs through the entire development period?

What level of contingency and optimism bias should be included in cost estimates at this stage of the project's development?

Where should the project contingency and optimism bias sit and what processes are in place for access and draw down arrangements?

3) Deliverability to programme timetable

Are programme plans realistic and deliverable to the current timetable?

4) Consultation Process

Is communication with stakeholders effective and is it geared to meet possible scepticism of the general public?

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APPENDIX C – Interview List

Name	Role
Martin Capstick	Programme Director (DfT)
Jill Adam	Deputy Director, HSR Consultation and Legislation (DfT)
Helen Clarke	Strategic Communications (DfT)
Phil Graham	Deputy Director, HSR Strategy (DfT)
Sir Brian Briscoe	Chairman (HS2 Ltd)
Andrew McNaughton	Chief Engineer (HS2 Ltd)
Alison Munro	Chief Executive (HS2 Ltd)
Hussein Kaya	Head of Rail Projects, Legal (DfT)
Keith Berryman	Director, Hybrid Bill Planning (HS2 Ltd)
Mark Jones	Head of Procurement (HS2 Ltd)
Steve Gooding	SRO and Director General, Domestic Group(DfT)
Ian Jordan	Director, Project Sponsorship (HS2 Ltd)
Mike Fuhr	Commercial Advisor, Major Projects (DfT)
Mark Bayley	Commercial Director (HS2 Ltd)
Kate Mingay	Director, Commercial and Technical Services (DfT)
Kate Cohen	Infrastructure UK
Mike Welton	HS2 Ltd Non-Executive
Michael Hurn	Deputy Director, Major Projects (DfT)
Paul Plummer	Group Strategy Director, Network Rail
Martin Buck	Commercial Director, Crossrail
Tracey Waltho	Chief Economist (DfT)
	Transport, Regulation and Competition team, HMT
	Policy Advisor, Transport, Regulation and Competition team, HMT
Miranda Carter	Director, Consultation and Communications (HS2 Ltd)
Peter Schofield	Director, Enterprise and Growth Unit, HMT