



ANNEX C

Major Projects Authority
Project Assessment Review (PAR)

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Programme or project:	High Speed Two (HS2)
Version number:	v.FINAL
Date of issue:	20 April 2015
Organisation:	Department for Transport & HS2 Limited
Senior Responsible Owner (SRO)	David Prout
Chief Executive, HS2 Ltd	Simon Kirby
Programme/Project Director (or equivalent)	Michael Hurn, Martin Capstick, Jonathan Sharrock, Paul Rodgers, Nick Bisson
Business Case stage reached:	Outline Business Case (OBC) - Phase 1 Strategic Outline Business Case (SOBC) - Phase 2 (as combined in the Business Case published October 2013)
Decision/approval point this report informs:	MPRG Panel – 29 April 2015
Review date:	13 -17 April 2015
Review Team Leaders:	Marion Price, Rob Holden
Review Team Members/s:	Brendan Crean
Departmental Review Team Member:	Anthony Ferguson
Previous review and date:	PAR December 2014

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1. Executive Summary

Both DfT and HS2 Limited have identified a number of areas where they need to grow their capability in order to deliver the programme in a cost effective and efficient manner. Significant planning has been undertaken and the challenge over the coming months is to turn these plans into concrete capability.

There is a risk that achieving Review Point 1 (currently scheduled for October 2015) is seen as a goal in itself rather than an enabler towards achieving Review Point 3 (currently scheduled for first quarter 2017).

Ownership of the wider programme is not yet agreed at the highest level with the risk that the full potential benefits of HS2 will not be realised.

Delivery Confidence Assessment (DCA)

This review is not accompanied by a formal Treasury decision or approval point and this report does not result in a formal “delivery confidence” RAG rating for the programme. It forms part of the ongoing external assurance provided by MPA.

Areas of concern

- The evaluation criteria and the measures required to achieve Review Point 1 need further work and clarification.
- The understanding and experience to operate as an effective intelligent client needs to be further developed within the DfT.
- The current governance arrangements are under review to facilitate effective decision-making but this work needs to be accelerated.
- Network Rail’s role in the programme needs to be further clarified and accepted by all parties.
- Network Rail needs to appoint a single point of contact for the programme.
- The integration of the wider programme and the core HS2 programme needs to be taken forward with urgency given the limited time available to reach agreement before SR15.
- Continuing heavy dependence on a small number of key individuals.

Areas that are working well

- The DfT, in moving to the five director model, recognises the need to broaden its capability to include delivery alongside policy.
- The appointment of the CEO for HS2 Limited and his senior delivery team is moving the organisation from an enabling entity to a delivery entity.
- DfT and HS2 Limited work well together, largely through strong personal relationships.
- Both DfT and HS2 recognise they are on a journey to becoming an effective delivery organisation for this programme. They are actively addressing the areas where they need to grow their capability.
- The High Speed Rail Group and the Rail Executive have established effective working relationships.
- The Tripartite Cooperation Board is working well.

Additional comments from the SRO

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

I am grateful for the productive recommendations the review team have made, which I endorse, and I am pleased that the review team recognised the strong progress that the Department and HS2 Ltd continue to make.

As the review team recognises, a lot of the work set out in their recommendations is already underway, but the report is very helpful in that it identifies areas that require greater prioritisation or where understanding across all three tripartite bodies needs more work

2. Scope of the Review

Terms of reference:

Purpose

To follow up on key actions from the last MPRG meeting and provide a focused review of the capability, governance and assurance surrounding the HS2 programme.

There are other key elements of the HS2 programme for which special attention is still required, including Euston and the Delivery Strategy. A separate review process will be developed for these.

Scope

The review will address the following key questions on capability, governance and assurance and make recommendations in these areas.

1. Do the key organisations (HS2 Ltd, DfT, NR) have, or are on track to have, the right capabilities to deliver the programme effectively?
2. Are there effective relationships and clear areas of responsibility and accountability between the key organisations?
3. Are there effective governance structures in place to manage both the core HS2 programme and the wider programme?
4. Is there a clear plan for how organisational relationships and governance will change as the programme moves into construction?
5. Is there currently effective assurance taking place and an appropriate assurance plan for the programme going forward?

The review will also look at progress against the key actions in the outcome letter from the last MPRG meeting (Sharon White to Philip Rutnam, 22nd December 2014)

Resource

The reviewer should be someone with experience of delivering major infrastructure programmes, both commercially and in the public sector.

To provide continuity across the various HS2 assurance points in 2014-15, a member of the November PAR team should assist the Spring Refresh reviewer.

Outputs

The reviewer should produce a short report including recommendations on how to improve capability, governance and assurance.

The review is not accompanied by a formal Treasury decision or approval point and the report will not result in a formal 'delivery confidence' RAG rating for the programme.

3. Summary of Recommendations

No	Recommendation (extract from the from body of the report)	Criticality (high/med/low)	Do by when? (date)
1.	DfT should accelerate the EY/Nichols work on developing the intelligent client capability in order to allow sufficient time to action its findings.	High	Immediate
2.	The HSR team should recruit additional capacity with recent and relevant client-side programme delivery experience to enhance the intelligent client capability.	High	Immediate
3.	The board of HS2 Limited requires another experienced non-executive director with mega project delivery experience to provide challenge and guidance.	Medium	In the next quarter
4	Network Rail's role in the programme needs to be further clarified and accepted by all parties to establish it as the third delivery partner with DfT and HS2 Limited.	High	In the next quarter
5	To maximise the role of Network Rail as a delivery partner and building on the good experience of previous projects such as Crossrail and Thameslink, a senior single point of contact for the programme should be appointed by Network Rail.	Medium	In the next quarter
6	Given the dependency on key individuals highlighted in our report, Dft and HS2 Limited should develop succession plans to mitigate risk to the successful delivery of the programme.	Medium	Before Review Point 1
7	The KPMG report on governance arrangements (including the wider programme) should be accelerated so that its findings can be agreed and implemented prior to Review Point 1 (RP1).	High	Immediate
8.	DfT should clarify the specific measures that will be used to assess HS2 Limited's achievement of RP1.	High	Immediate

4. Summary of the Programme or 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. 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, HS2 Ltd, a Non-Departmental Public Body and Network Rail.

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

Milestone	Date
Select Committee Stage of the Phase One Bill	Started (July 2014)
SR15 Process	June-Dec 2015
Ministerial Decision on Phase Two route	Proposed: 2a Q3 FY 2015 (TBC) 2b by end 2016 (TBC)
Royal Assent for first hybrid Bill	Dec 2016

Insert Security Classification

ID1903

Phase One main works starts	Q4 2017 (Euston) and Q1 2018 (First civils at Northolt Tunnel)
Start of Phase One service	2026
Start of Phase Two service	2a 2027-2030 (TBC) 2b 2033 (TBC)

5. Detailed Review Team Findings

5.1 Capability

The DfT has engaged EY/Nichols to assess the department's requirements and readiness to act as an intelligent client. This work is due to report its findings later in the year, which appears to allow only limited time to take forward any actions prior to Review Point 1 and the DfT's need to start functioning as an intelligent client itself.

The DfT High Speed Rail (HSR) team has evolved from a three director led delivery model to a five director led delivery model. This has strengthened the capability during the programme to date which has been predominantly policy led. However, as the role of the DfT HSR team changes it will need to understand and define its role as an intelligent client. The skill sets of the leadership team will need to reflect the new demands on it as programme expenditure increases with the emphasis moving from policy to delivery.

In finalising the delivery strategy, based on the current proposal of an insourcing model, the DfT needs to ensure that it has the correct capability to function as an intelligent client. The HSR team needs to be supplemented now by additional capability with recent and relevant client-side programme delivery experience.

With the exceptions of the CFO and the phase 2 programme director, HS2 has recruited its senior leadership team and has the ambition to become a high performing organisation. Some of this team has the benefit of having variously worked together on previous projects: whilst this has benefits it may limit the ability of the company internally to challenge themselves. This issue needs to be recognised by the non-executive directors of the HS2 board, which would benefit from the addition of another experienced non-executive director with mega project delivery experience to provide challenge and guidance.

There is a risk that HS2 Limited, at executive level, underestimates the need of government to remain very sighted on progress and issues throughout the life of the programme. HS2 Limited will need to act on the need for this.

A key contribution to the successful delivery of HS2 will be the active involvement of Network Rail as one of the three key delivery partners. There is a risk that this will not be achieved: (a) at the present time HS2 forms a relatively small part of Network Rail's overall commitments and may not be given sufficient priority, (b) the uncertainty within Network Rail about the operation of HS2 as part of the national network, or not, and (c) the depletion of Network Rail's skilled resources to other national projects. We recognise the uncertainty about the future operation of HS2 will be an important consideration for Network Rail in its approach to the programme.

To maximise the role of Network Rail as a delivery partner and building on the good experience of previous projects such as Crossrail and Thameslink, a senior single point of contact for the programme should be appointed by Network Rail.

An important factor in the progress that has been made to date between DfT, HS2 Ltd and Network Rail has been good quality personal working relationships. These depend on a relatively small number of key individuals and there is a risk of overreliance on these people. With the proposed insourced delivery strategy it is essential that these organisations address the need for succession planning to mitigate risk to the successful delivery of the programme.

<p>Recommendation 1: DfT should accelerate the EY/Nichols work on developing the intelligent client capability in order to allow sufficient time to action its findings.</p>

Recommendation 2: DfT should recruit additional capability with recent and relevant client-side programme delivery experience to enhance the intelligent client capability of the HSR team.

Recommendation 3: The board of HS2 Limited requires another experienced non-executive director with mega project delivery experience to provide challenge and guidance.

Recommendation 4: Network Rail's role in the programme needs to be further clarified and accepted by all parties to establish it as the third delivery partner with DfT and HS2 Limited.

Recommendation 5: To maximise the role of Network Rail as a delivery partner and building on the good experience of previous projects such as Crossrail and Thameslink, a senior single point of contact for the programme should be appointed by Network Rail.

Recommendation 6: Given the dependency on key individuals highlighted in our report, DfT and HS2 Limited should develop succession plans to mitigate risk to the successful delivery of the programme.

5.2 Governance

The consensus from interviewees is that the Tripartite Cooperation Board is working well. Even though not a decision-making body, it provides a forum at which strategic issues are discussed and progressed by senior representatives of the three key delivery partners. Given its value to the programme, we see an ongoing role for this board.

It is generally recognised that the governance arrangements for the programme, which have developed over time, now need review and revision to be fit for the delivery phase. KPMG has been appointed to carry out this task, which, for the sake of clarity, will not include the internal governance within HS2 Limited. This will be subject to a separate assurance process as part of RP1. The timetable for the KPMG review appears rather long given the commonly-held view that this overly bureaucratic and sequential system urgently needs change. It would be advantageous to have new arrangements in place and operating ahead of RP1. In considering new governance arrangements, it will be important to recognise the importance of involving external expertise to provide challenge and know how.

The scope of the wider programme as set out in High Speed 2: Get Ready (the Deighton Report) is understood by all parties. The Cross Whitehall HS2 Growth Programme Board has recently been established to maximise the wider benefits that HS2 enables. The board has wide representation from across central and local government.

In the current governance review for HS2 consideration will need to be given to correctly aligning governance arrangements meeting both the requirements of the HS2 programme and the wider programme. This is now urgent given the need to be ready for SR15.

Recommendation 7: **The KPMG report on governance arrangements (including the wider programme) should be accelerated so that its findings can be agreed and implemented prior to Review Point 1 (RP1).**

5.3 Assurance

HS2 Limited is at the early stages of establishing itself as a delivery organisation.

We were provided with a draft, detailed plan for integrated assurance and approvals (IAAP), which runs from January 2015 to March 2017 and includes internal and external assurance, including MPRG oversight. The creation of the IPMO (integrated programme management office) is a recognised step but is yet to be established in practice. There is a schedule of MPA PAR reviews running to the end of RP3, in early 2017.

The current focus is on formally adopting Baseline 5 (an integrated cost and programme schedule) for the end of May 2015. This needs to be followed by the creation of Baseline 6 as this will provide a greater degree of confidence in the delivery plan. Ideally this should be done before SR15.

A key role in the assurance of the programme was the appointment of the Project Representative (P-Rep). His role is to act as DfT's agent in monitoring management, development and delivery of the project as well as providing technical expertise to DfT and maintaining appropriate demarcation between the DfT in its role as sponsor and HS2 Limited as the project delivery company.

HS2 Limited has now recruited its internal sponsor who will manage operation of the development agreement from the perspective of the company.

Both the DfT and HS2 Limited have worked on the criteria that will be used to assess RP1 and we have seen evidence to support this. Nevertheless, there is currently some uncertainty around the specific measures that will be used to assess whether RP1 has been achieved.

Our assessment is that the key principles behind both the delivery and procurement strategies need to be agreed between the major parties ahead of RP1. Evidence of the IPMO functioning effectively is a key input to RP1.

Recommendation 8: DfT should clarify the specific measures that will be used to assess HS2 Limited's achievement of RP1.

6. Additional Information for the MPRG panel or Treasury Approval Point

Issue 1 - The DfT's Intelligent Client Capability

This capability is essential for the DfT to undertake their role effectively as sponsor for the HS2 programme: to protect the interests of the taxpayer and enable HS2 Limited to deliver the programme successfully.

Evidence and findings

The DfT recognises the need for this and understands that it has some way to go to be able to carry out the role. EY/Nichols has been appointed to assess the DfT's requirements and readiness to act as an intelligent client and is also providing skills transfer as well as expert resources to the team. There is a high level of dependence on a small number of key individuals.

Suggested lines of enquiry

- When do you see the DfT being in a position to be the effective intelligent client? How will this capability be demonstrated?
- What is the route map to achieving this?
- How do you plug the gap in the meantime?
- How will you overcome any perceived obstacles to recruiting the right calibre of people?
- How will you manage changes amongst the senior management teams and what succession plans are in place?

Issue 2 – Network Rail

Network Rail has been identified as a key delivery partner although issues remain about its willingness and capability to undertake this role effectively.

Evidence and findings

Network Rail remains uncertain about its role in operating HS2 as part of the national network. To date Network Rail appears to be too remote from the programme. Additionally Network Rail has huge pressures from its CP5 obligations which have implications for the prioritisation of HS2 within its portfolio.

Suggested lines of enquiry

- What are your plans for the operation of HS2 in the context of the national network?
- How will you manage the consequences of the above to engage Network Rail as an effective partner?
- How will you incentivise Network Rail to prioritise their work on the HS2 programme?
- How can you protect HS2 against any underperformance by Network Rail?

Issue 3 – Programme Governance

The current governance arrangements have grown organically and no longer facilitate effective decision making. A review is under way by KPMG. Any revision to the governance arrangements is expected in early November 2015.

Evidence and findings

There is a consensus that the current arrangements are not appropriate to support efficient delivery of the programme. If they are not appropriate now, they will be even less appropriate after Review Point 1.

Suggested lines of enquiry

- Are you happy with the timetable proposed or should this be completed more quickly?
- What can be done in advance to ease the governance constraint?

Issue 4 – The wider programme’s governance

There remains a lack of clarity over the ownership of the wider programme at the most senior level.

Evidence and findings

The benefits to Government are more than a railway project. This is understood and DfT and DCLG are jointly leading the work. A programme board has now been established with wide representation across central and local government.

Suggested lines of enquiry

- Does the wider programme need a single point of accountability?
- If so, how would this be achieved?

ISSUE 5 - Review Point Assurance

HS2 Limited has only recently started to develop into a delivery focussed organisation. Much of its senior team has only recently been recruited. Processes and systems are still being developed. Over the next two years it has to move through three review points to demonstrate capability to deliver and be given delegated authority to deliver the core programme.

Evidence and findings

HS2 Limited has developed a framework which is going to be subject to internal and external review. This is being done in conjunction with DfT. There remain some concerns about the standards any deliverables will need to meet.

Suggested lines of enquiry

- How will HS2 demonstrate that it has developed into a coherent organisation?
- How quickly does this need to happen?
- Will the processes and systems be in place in time to support the programme?
- How can the DfT support this happening?
- When does Review Point 1 actually need to happen?

Annex A – Progress against previous review recommendations

Recommendation	Summary of progress
The joint Euston team need to develop a clear plan which is agreed with all the key stakeholders and which identifies the route to a decision, the assurance that will be undertaken, how stakeholders will be engaged.	Complete: High level route to decision shared with MPA on 30 January 2015, and the plan was walked through with MPA on 19 February 2015. The plan was approved by BICC on 9 March 2015.
Improve project cost reporting to ensure a common understanding of key project parameters by wider stakeholders	Complete: Following early work to agree format with HMT and MPA, the contents list of the semi-annual report (which is in line with the DA) has been agreed by the client board. The first report will be produced during April, after which MPA will be invited to give further comments on reporting format.
HMT, HS2 and DfT need to resolve funding flexibilities for construction spend before or as part of SR15	On track: Programme of fortnightly HMT/IUK/DfT/HS2 Ltd engagement in working groups with a view to reaching a recommended position on flexibilities by April 15 to inform new Ministers. A formal submission to CST/CHX will be made as part of the SR15 process.
HMT, HS2 and DfT need to agree a handling strategy relating to a) the uplift from Q2 2011 prices and b) construction inflation	On track: An Initial output from Infrastructure UK's National Infrastructure Pipeline - inflation model was received in February 2015. DfT has also commissioned a parallel work stream from KPMG looking at HS2 specific inflation for the end of April 2015. DfT submitted a proposal on how to manage inflation risk to a HMT/IUK/DfT working group formed to handle this issue. A recommended position will be reached by 7 May to inform new Ministers.
HS2 Limited in developing a new higher confidence Phase1 delivery and procurement schedule ('Baseline 5') needs to optimise different scenarios and sequencing around the key 2015 and 2016 milestones including the provision of schedule float	On track: The re-baseline of the schedule for Phase One Infrastructure, including Rolling Stock, is complete. HS2 Ltd is now conducting its internal assurance of the baseline. P-Rep has also commenced assurance. Assurance is due to complete by the end of May, to inform the SR bid.
DfT should produce a plan which identifies all the key development work required on Phase 2a, Phase 2, Northern Transport Strategy, HS3	On Track: A high-level plan has been created setting out milestones for key deliverables and development work for phase 2A and Phase 2B. Oversight of this plan is maintained by the Phase Two Strategic Programme Board.

	<p>The Northern Transport Strategy report and Government response was published on schedule in March 15. We are now considering how to take forward recommendations. DfT will commission the next phase of work during May 15.</p>
<p>HS2 should set out how cost savings opportunities will be realised and reconciled with cost estimates and the appropriate level of contingency/OB</p>	<p>On Track HS2 Ltd has provided a narrative of the efficiency assumptions used and how these are to be delivered as part of the UPCE deliverable. The company is developing a plan to progress the efficiency challenge programme into processes within the business. This approach will be formalised within the strategies being produced to prepare for Review Point 1.</p>
<p>DfT should produce a route map of interfaces and investment decisions between HS2, National Rail and other modes</p>	<p>On track: A first draft of the investment decision map was received by DfT on 11 March 2015 from HS2 Ltd. This document has been shared with Rail Executive and work is ongoing to produce the next draft.</p>
<p>DfT and HS2 should develop a detailed plan to explain all of the activities associated with developing and decoupling a Phase 2a business case for Crewe</p>	<p>On track: We have produced a plan setting out milestones for key deliverables and development work for phase 2A which sets out the route to approval of splitting the Phase 2 hybrid Bill, the creation of the business case, deposit of a Bill and Royal Assent.</p> <p>The plan is kept under review at the Acceleration Project Board and Phase Two Strategic Programme Boards.</p>
<p>Expedite implementation of Integrated Programme Management Office</p>	<p>On track: HS2 Ltd Board, Client Board and TCB have endorsed the IPMO operating model proposal and outlined next steps. The interview process for the permanent Director of the IPMO has concluded and a permanent Director has been identified. Appointment of other key staff including senior roles is underway.</p>
<p>Government needs to agree which wider projects are considered to be part of a wider programme related to, but not essential for the delivery of, HS2 and put in place appropriate governance</p>	<p>On track: DfT has identified which wider projects, including transport projects, are related to, but not essential for the delivery of, HS2 and is in the process of establishing appropriate governance arrangements. The updated arrangements are set out in the Governance manual.</p>
<p>HS2 and DfT should map out, agree with stakeholders and implement an integrated assurance map</p>	<p>On track: A programme for major (MPA) assurance events for the year was shared and discussed with the MPA team at the end of January 2015. A draft IAAP has been produced and an early version reviewed by the Integrated Assurance Group. A further version is in</p>

	development to set out the lower levels of assurance at project level.
A focused assurance exercise should be undertaken in Spring 2015 to validate that the revised schedule is realistic and to confirm the DCA. This review should be informed by a detailed piece of work commissioned from the P-Rep which assesses the constructability, sequencing and float of the new schedule.	Complete. MPA Focussed Review is taking place 13 – 17 April 2015 for which the Terms of Reference have been agreed. P-Rep assessment of new schedule is in progress with an initial, draft report due on 14 April.
MPA and IUK should look across the current construction landscape to map out capability needs across the sector with reference to HS2	Ongoing: MPA (Charlotte Madum) has agreed IUK will take work forward to map out capability needs. MPA/IUK to confirm whether any input is required from HS2 Programme.

Annex B – List of Interviewees

The following stakeholders were interviewed during the review:

Name	Role/title	Organisation
Philip Rutnam	Perm Sec	DfT
Sir David Higgins	Chairman	HS2 Ltd
David Prout	SRO and Director General, High Speed Rail Group	DfT
Simon Kirby	CEO, HS2 Ltd	HS2 Ltd
Paul Rodgers	Director, Finance and Commercial	DfT
Michael Hurn	Director, Major Projects	DfT
Jim Crawford	Managing Director, Phase One Infrastructure	HS2 Ltd
Beth West	Commercial Director	HS2 Ltd
Alistair Kirk	Programme and Strategy Director	HS2 Ltd
Nina Cope	Organisational Effectiveness Director	HS2 Ltd
Jonathan Sharrock	Director, Strategy and Engagement	DfT
Peter Schofield	Director General, Neighbourhoods	DCLG
Dan Micklethwaite	Deputy Director for Transport, Regulation and Competition	HMT
Paul Plummer	Group Strategy Director	NR
Peter O'Dowd	MPA Advisor	HS2 Ltd
Peter Gregory	HR Director	HS2 Ltd
Steve Brundle	Project Representative	N/A
Claire Moriarty	Director General, Rail Executive	DfT
Rupert Walker	Euston Development Director	NR
Stephen Dance	Head of Infrastructure Delivery	IUK