



**ANNEX E**

## Major Projects Authority Project Assessment Review (PAR)

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<b>Programme or project:</b>	<b>High Speed Two (HS2)</b>
<b>Version number:</b>	V1.0
<b>Date of issue:</b>	21/07/15
<b>Organisation:</b>	Department for Transport & HS2 Limited
<b>Senior Responsible Owner (SRO)</b>	David Prout
<b>Chief Executive, HS2 Ltd</b>	Simon Kirby
<b>Programme/Project Director (or equivalent)</b>	Michael Hurn, Jonathan Sharrock, Paul Rodgers, Nick Bisson
<b>Business Case stage reached:</b>	Outline Business Case (OBC) - Phase 1 Strategic Outline Business Case (SOBC) - Phase 2 (as combined in the Business Case published October 2013)
<b>Decision/approval point this report informs:</b>	MPRG Panel – 17 September 2015
<b>Review date:</b>	06 -10 July 2015
<b>Review Team Leader:</b>	Charles Frankland
<b>Review Team Members/s:</b>	Marion Price, Rob Holden,
<b>Departmental Review Team Member:</b>	David Purkiss
<b>Previous review and date:</b>	Not Applicable

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## **1. Executive Summary**

Both DfT and HS2 Limited have demonstrated a high level of commitment to achieving the PQQ and ITT issue dates and currently they are on course to achieve this. However, the RT is concerned that there is a significant amount of work to be done in the short term as well as continuing to develop the team structures, capability and culture. There is a risk that in meeting these short term objectives the full potential of a successful procurement may not be fully realised.

The Delivery, Commercial and Procurement strategies consider a number of viable options to undertake the programme. The selected approaches appear to be valid for a programme as complex as HS2 but will be dependent on the degree of HS2 Limited's experience and capability to be achieved.

### **Delivery Confidence Assessment (DCA)**

Amber - reflecting the need to deliver this key stage against a demanding timetable

#### **Areas of concern**

- Demanding timetable with little float for a programme of this size and complexity
- Meeting this demanding timetable whilst building a coherent team
- Timetable should not compromise necessary quality
- Engaging key stakeholders ensuring support for a complex procurement strategy against tight timescales
- Need to establish the criteria to assess the capability of HS2 to undertake the selected options within the delivery, commercial and procurement strategies
- Some key PQQ/ITT inputs (balanced scorecard, incentivisation) require early completion

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

- Team commitment and enthusiasm
- Achieved milestones to date
- Successful recruitment of experienced senior team
- Good working relationship between the DfT high speed rail team and HS2
- Exemplary market engagement

### **Additional comments from the SRO**

I would like to thank Charles, Rob, David and Marion for their hard work and collaborative attitude. I am grateful for their report, and agree the Delivery Confidence Assessment and the recommendations

## **2. Scope of the Review**

The Review Point 1 assurance has been split into two elements to enable the release of PQQs in September 2015. The purpose of this Pre-RP1 PQQ PAR review is to assess the robustness of the three main strategies and the supporting processes. The Delivery Confidence will assess the soundness and the readiness of plans and will ONLY apply to the Pre-RP1 PQQ stage.

The PAR will be followed by an MPRG in early September to facilitate HMT approval of the PQQ releases. Note that further assurance on procurement plans and PQQ fit-for-purpose will be required at this stage.

### **Terms of reference:**

- 1) Provide assurance that the Delivery Strategy, the Commercial strategy and the Procurement Strategy are fit-for-purpose and provide a clear framework for the issue of the PQQs
- 2) Provide assurance that HS2 Ltd have the capability to issue the PQQ's and the capacity to manage the process to ITT. Provide assurance on the DfT client capability for oversight of the PQQs.
- 3) Provide assurance of the readiness of plans i.e. that there is a plan in place to take forward the responses to PQQs and move towards ITT.

### 3. Summary of Recommendations

No	Recommendation (extract from the from body of the report)	Criticality (high/med/low)	Do by when? (date)
1.	The outstanding areas of the procurement strategy, including incentivisation, balanced score card and key principles relating to the target cost mechanism, needed to be further developed to the extent that they can be sufficiently articulated for the PQQs and the wider stakeholder management and governance process.	High	End July
2.	Milestones and measures of achievement need to be developed for each of the critical success factors in the strategies.	Medium	To be in place for RP1
3.	The DfT should identify the criteria against which the capability of HS2 Ltd to deliver the chosen delivery and procurement strategies will be assessed.	Medium	In time for RP1
4.	DfT and HS2 Ltd need to review their stakeholder engagement plan and tailored briefing material to ensure that confidence is established in the procurement approach to avoid delays in approvals.	High	End July

## 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 (DfT), 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
Additional Provision 3 (AP3) Deposit	Sept 2015
Royal Assent for first hybrid Bill	Dec 2016
Start enabling works	Summer 2016
Start construction	2017
Start station and underground works	2019
Transition to operations	2024
Start of Phase One service	2026

## 5. Detailed Review Team Findings

### Review of Delivery Strategy, Commercial Strategy and Procurement Strategy

The strategies reviewed were all dated July 2015 and have been approved by the HS2 Limited Board and will be shortly submitted to the DfT's Board Investment and Commercial Committee (BICC). The RT was assured that the Delivery Strategy reflects the Sponsor Requirements in the Development Agreement. The Delivery Strategy, in particular, is written at a high level and needs to be read alongside the forty supporting sub-strategies, the majority of which are still in development. The RT understands this is being driven by as many as thirty five strategic challenges.

These strategies have been reviewed as part of the assurance process by P-Rep (Project Representative), IUK, the DfT Procurement Assurance Board (PAB) (for the procurement strategy) and Highways England. The 3 strategies were approved by the DfT HSR Programme and Investment Board (PIB) on 24th June.

Whilst we understand and accept that the Delivery, Commercial and Procurement strategies will evolve during the programme, they are fit for purpose for issuing the Tranche 1 PQQs subject to the satisfactory completion of the outstanding work that has been identified in the work plan through to September 2015. However, for a programme which has significant interdependencies between the three tranches - civil engineering, stations and rolling stock - we would expect the strategies to be further advanced. Taking them forward in the current state risks new information emerging which will either require change or result in a sub-optimal outcome.

We have reviewed the P-Rep summary reports on these strategies and would endorse their observations and recommendations with specific reference to the following:-

- Demonstration that future flexibility is built into the PQQs and ITTs to accommodate decisions that are yet to be made.
- The three strategies in themselves do not adequately address the implications of the decisions inherent in the strategies. The RT has been provided a draft risk strategy and the top key procurement risks. A full risk register and management plan should be produced to demonstrate a comprehensive understanding of the risks that exist.
- Further consideration to be made with regard to availability of industry resources.
- The assumptions being made with regard to Network Rail interfaces and the future infrastructure manager needs further review.
- The incentivisation strategy, including the key principles relating to the target cost mechanism, has yet to be developed albeit it is expected to be included in the category plans to be issued later this month.

<p><b>Recommendation 1: The outstanding areas of the procurement strategy, including incentivisation, balanced score card and key principles relating to the target cost mechanism, need to be further developed to the extent that they can be sufficiently articulated for the PQQs and the wider stakeholder management and governance process. High, end of July.</b></p>
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- The balanced scorecard remains to be developed both for HS2 and its core objectives and for the wider government programme. The strategies include a list of critical success factors which have yet to be developed to include milestones and measures of achievement.

**Recommendation 2: Milestones and measures of achievement need to be developed for each of the critical success factors in the strategies. Medium – to be in place for RP1.**

The delivery, commercial and procurement strategies consider a number of viable options to undertake the programme. The selected approaches appear to be valid for a programme as complex as HS2 but will be dependent on the degree of client experience and capability. A significant task going forward will be to identify the criteria which need to be established to demonstrate that this exists in sufficient depth to ensure successful delivery.

**Recommendation 3: The DfT should identify the criteria against which the capability of HS2 Ltd to deliver the chosen delivery and procurement strategies will be assessed. Medium, in time for RP1.**

Looking further ahead to the RP1 milestone and the further development of the strategies, the RT noted that HS2 Ltd team had a desire to increase their level of confidence in achieving a successful RP1. To this extent we would endorse their thinking that sufficient time should be allowed to undertake the programme of work that they have embarked upon. The risk associated with achieving RP1 has been reduced through removing the link between RP1 and the issue of the PQQs.

## **HS2 Ltd and DfT Capability Review**

The RT acknowledges the success that HS2 Ltd has had in recent months in recruiting a large number of enthusiastic and experienced first and second level managers. The recently recruited Director of Organisational Effectiveness is in place to manage the significant challenge ahead in developing a coherent team with the required shared values. Developing the HS2 Ltd culture to be a collaborative client is vital to achieving a key objective of the procurement strategy.

There is clear evidence that HS2 has been achieving its objectives on a “just in time” approach to meet challenging timescales. There is a growing risk that with the number and criticality of issues still to be addressed, maintaining this “just in time” approach does not give sufficient time for full consideration of key issues. The challenge of combining the tight timescales with the development of HS2’s capabilities, resources and culture amplifies this risk.

The DfT has recognised the need to reflect the tight timescale that HS2 Ltd are working to in order to ensure that the wide approvals and governance is in place. The RT believes that the P-Rep is playing a key role in providing assurance and advice and this will become even more important as the project moves into procurement and delivery.

DfT intends to make organisational changes. However, there is a risk that these will not be in place in time for RP1 and subsequent ITT issue.

It is recognised that HS2 is a commercially complex and innovative project, which will require the wider stakeholder community to have a good understanding of the commercial approach. This will demand a significant degree of stakeholder engagement by HS2 Ltd and the DfT to ensure there are no delays in the approvals process. Additional briefing material over and above that contemplated for DfT and the HS2 Ltd Board may be required to establish confidence in the commercial approach.



**Recommendation 4: DfT and HS2 Ltd need to review their stakeholder engagement plan and tailored briefing material to ensure that confidence is established in the procurement approach to avoid delays in approvals. High, end-July.**

## **Review of Readiness of Plans**

There is evidence that both the DfT and HS2 Ltd have plans in place to meet the issue of the PQQ and ITT to the required timetable. HS2 Ltd are working hard to draft the PQQ and this needs to be completed by the end of July 2015 to allow the approvals process to take place for a September 2015 issue. There still remains the option of deferring the issue of the PQQ for a couple of months without impacting on subsequent issue of the ITT.

Interviewees were committed to meeting the current schedule but recognise the significant volume of work that needs to be undertaken. There is a risk that whilst the PQQs will be available to plan, the final documents will not be to the level of detail required in key areas, e.g. incentivisation and balanced scorecard. Care must be taken to ensure that quality is not compromised to meet the timetable, as starting the procurement on the wrong footing will be difficult to recover from.

## 6. Additional Information for the MPRG panel

### Issue 1

A tight procurement timetable as a result of the required in service date of 2026

#### Evidence and findings

HS2 is working on a “just in time” approach to meet challenging timescales introducing risk in a number of areas. There is only a four month float in the overall ten year delivery schedule. The details that follow from key high level principles of the contracting model (e.g. balanced scorecard and incentivisation) need to be finalised by end July 2015 for incorporation in the PQQs.

#### Suggested lines of enquiry

- How have the significant issues like balanced scorecard and incentivisation been addressed?
- What assurance has been undertaken to ensure that the above significant issues are fit for purpose and fully understood by all stakeholders?

### Issue 2

Evolving capability of the delivery teams

#### Evidence and findings

The HS2 team has made significant progress in recruitment at a senior level. The delivery, commercial and procurement strategies describe at length how HS2 wishes to operate but do not sufficiently develop the thinking as to how to achieve this.

#### Suggested lines of enquiry

- How can you demonstrate your capability to deliver the chosen procurement and delivery strategies?

### Issue 3

Continuing strategy development

#### Evidence and findings

DfT and HS2 acknowledge that the Delivery, Commercial and Procurement strategies will continue to evolve but are currently sufficient to support the issue of the PQQs. There are a further 38 Sub-Strategies in development.

#### Suggested lines of enquiry

- How will you mitigate against the risks that the strategies will need to change significantly to address the emerging identification of dependencies from the three tranches of procurement (civil engineering, stations and rolling stock) and development of other sub-strategies?

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

N/A

**Annex B – List of Interviewees**

The following stakeholders were interviewed during the review:

<b>Name</b>	<b>Role/title</b>	<b>Organisation</b>
David Prout	SRO and Director General, High Speed Rail Group	DfT
Simon Kirby	CEO, HS2 Ltd	HS2 Ltd
Chris Rayner	Managing Director, Railway Operations,	HS2 Ltd
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
Steve Brundle	Project Representative	N/A
Paul Mansbridge	Deputy Director, Finance and Commercial	DfT
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Melinda Johnson	Director, Group Commercial Services	DfT
Stephen Dance	Head of Infrastructure Delivery	IUK
Antonia Buckland	Head of High Speed Rail Phase 1	Network Rail