



National Audit Office

Department for Transport

The completion and sale of High Speed 1

Detailed methodology

MARCH 2012

Detailed methodology

Introduction

1 This document accompanies the Comptroller and Auditor General's report *The Department for Transport: The completion and sale of High Speed 1*, published in March 2012. It adds further detail to the description of the methodology in Appendix One of the main report.

Study scope

2 The report examines whether the Department for Transport (the Department) achieved value for money in the second phase of construction of the high speed railway and through the sale of HS1 Limited, a company with the rights to operate the line for 30 years.

3 The report follows up our previous reviews of the project (formerly known as the Channel Tunnel Rail Link) in 2001 and 2005 which are available on the website of the National Audit Office:

- *The Channel Tunnel Rail Link*, Session 2000-01, HC 302, National Audit Office, March 2001; and
- *Progress on the Channel Tunnel Rail Link*, Session 2005-06, HC 77, National Audit Office, July 2005.

Methodology

4 Our methodology consisted of five main elements:

- Review of documents held by the Department, London & Continental Railways (LCR) and the National Audit Office as a result of our two previous reports on the project.
- Interviews with current and former officials at the Department and LCR including its subsidiaries, other stakeholders involved with the project and advisers on the restructuring and sale.
- Analysis of cost, performance and passenger data obtained from the Department, LCR, Southeastern, Eurostar and the Office of Rail Regulation.
- A review of published literature on high speed rail projects across the world and other significant rail infrastructure projects in the UK.
- Comparison of our findings against good practice identified by the National Audit Office on managing major projects and the sale of commercial assets.

- 5** The methods summarised above allowed us to identify:
- whether the railway was built to time and budget;
 - whether risks for the taxpayer were reduced during construction, and the subsequent restructuring of LCR and sale of HS1 Limited; and
 - the likely benefits and costs to the taxpayer of the projects.

Document review

6 We identified and reviewed a number of documents relating to second phase of construction of the high speed line, the restructuring of LCR and the sale of HS1 Limited. We reviewed the documents to identify:

- performance against the cost, time and specification criteria for the project;
- changes in passenger demand forecasts during the project;
- the Department's approach to monitoring the benefits delivered by the project;
- the Department's objectives and basis for decision making during the restructuring of LCR and sale of HS1 Limited;
- governance of LCR during construction of the high speed line, the sale process and following the restructuring; and
- allocation and management of risk during the construction of the project, and changes in the risk allocation following the restructuring and sale.

7 We also reviewed documents and data obtained for our previous reports on the project and which related to the early stages of the contract and the first phase of construction.

Interviews and workshop

8 We held semi-structured interviews with current and former employees at the Department and LCR, their advisers and project managers who were involved in delivering the project, restructuring LCR, and selling the HS1 concession. We interviewed the four final bidders for the HS1 concession and the two main train operators on the line: Eurostar and Southeastern. We also spoke to the Office of Rail Regulation, Network Rail and officials at HM Treasury.

9 We used the semi-structured interviews to confirm and contextualise the findings of our document review and explore the following issues in more detail:

- the chronology of events for the construction of the project, the restructuring of LCR and the sale of HS1 Limited;
- the reason behind additions to the construction scope and for restructuring LCR; and
- the handling of the sale process once the chosen method had been established.

10 We also conducted a workshop involving the key parties from the construction of the railway, including individuals from the Department, LCR and its subsidiaries. The aim of the workshop was to identify what worked well on the project, what delegates would have done differently given the opportunity, and what the consequences are for current and future major infrastructure projects.

Financial and quantitative analysis

11 We analysed:

- outturn cost data for the project against the agreed contract targets and overall funding;
- data on the performance against time and specification compared to targets agreed in the contract;
- grant payments and other costs incurred by the Department on the construction, the restructuring of LCR and sale of HS1 Limited;
- proceeds received by the Department from the sale of HS1 Limited;
- the future liabilities retained by the Department after the sale, for example the project debt;
- passenger numbers against forecasts;
- punctuality and reliability data for the high speed line compared to other parts of the network; and
- the valuation of benefits delivered by the project.

Assessment of benefits and costs

12 Much of this analysis has been incorporated into our assessment of benefits and costs, the result of which is given in Figure 13 in our report. We used the Department's latest guidance for transport appraisals for our assessment. More information on the method that we used for our assessment can be found at Appendix Four (available on the National Audit Office website at www.nao.org.uk/hs1-2012).

Literature review

13 We undertook a literature review of other high speed rail infrastructure projects to provide context to our findings. We contacted Supreme Audit Institutions of other countries who have invested in high speed rail to help identify published information on comparator projects.

14 We drew upon the National Audit Office's recent financial audit work and a number of value for money studies including:

- The Channel Tunnel Rail Link;
- Progress on the Channel Tunnel Rail Link; and
- The Modernisation of the West Coast Main Line.

15 Copies of National Audit Office reports are available on our website (www.nao.org.uk/publications).

Expert input

16 We used the following expertise and good practice guidance:

- in-house experts on cost benefit analysis, corporate finance and the rail industry provided advice to the study team; and
- we used the National Audit Office option appraisal toolkit to evaluate the quality of the Department's appraisals of restructuring options.

17 To review the sale of HS1 Limited we used in-house guidance on the sale of commercial assets. This included benchmarking the sale against the following headings:

- establishing the objectives;
- establishing the team;
- planning how to manage the long-term outcomes; and
- preparing the business for sale.

18 Further detail on this guidance can be found in Appendix Five (available on the National Audit Office website at www.nao.org.uk/hs1-2012).