

Meeting minutes

HS2 Ltd Board

Meeting date Wednesday, 26 June 2019
Meeting location Room 6.1, Two Snowhill, Birmingham
Meeting time 09:00 – 15:05

Members	Attendees	Apologies
Allan Cook Non-Executive Chairman	Jim Crawford (Item 06, 07 and 08) Managing Director Phase 1	Stephen Hughes Non-Executive Director
Michael Bradley Executive Director	Section 40 Director of Commercial Strategy and Rolling Stock Procurement	
Richard Brown Non-Executive Director	Nicole Geoghegan General Counsel	
Mel Ewell Non-Executive Director	Section 40 Programme Director – Change Programme	
Judith Hackitt Non-Executive Director	Tom Kelly (14:40 onwards) Strategic Director Stakeholder Engagement	
Roger Mountford Non-Executive Director	Section 40 DfT Observer	
Richard Robinson Chief Operating Officer	Non Owen Company Secretary	
Ed Smith (11:30 onwards) Non-Executive Director	Section 40 Procurement & Supply Chain Director	
Mark Thurston Chief Executive Officer		

Signed

Chair Allan Cook

Date

1 Welcome, Declarations of Interests and Values Moment

- 1.1 The Board noted apologies from Stephen Hughes and that Ed Smith and Tom Kelly would not attend until after the meeting had started due to prior commitments.
- 1.2 There were no additional declarations of interest to record on the register.

- 1.3 The Board received a values moment from Richard Robinson on leadership following the success of the all staff events and particularly the quality of the values moment resonating in the organisation.
- 1.4 The Board welcomed Judith Hackitt to her first Board meeting.
- 1.5 The Board acknowledged Richard Brown and thanked him for his involvement and contribution to the organisation since his joining the organisation in 2012 and ahead of his contract end date on 30 June 2019.
- 1.6 The Board noted that there had been formalisation of the Company Secretary role on 10 June 2019.

2 Minutes of the previous meeting and matters arising (HS2B_19-030 and HS2B_19-031)

- 2.1 The Board agreed the minutes of the meeting 29 May 2019 as a true record.
- 2.2 The Board noted the status of the actions.
- 2.3 It was agreed that actions 18/089 and 18/092 could be combined.

3 Chair Report and Chair Assessment (HS2B_19-033)

- 3.1 The Chairman gave the Board an overview of his engagement activities over the month, including but not limited to:
 - 3.1.1 Engagement with DfT and wider stakeholders on the interim draft Stocktake;
 - 3.1.2 Discussion regarding strategic rail investment. Discussions continue as to how strategic opportunities can be capitalised and include the Midlands and the North;
 - 3.1.3 Meetings with HM Treasury and Nusrat Ghani MP; and
 - 3.1.4 A meeting involving several High Speed Rail Industry leaders.
- 3.2 The Chairman advised that meetings in previous weeks have indicated support for HS2 Ltd and it is key for the organisation to be proactive on communications and effectively co-ordinate the company messages.
- 3.3 Following the interim draft submission of the Stocktake to the Department for Transport (DfT) there has been feedback provided.
- 3.4 The Board discussed the status of the Stocktake, the letter of response received from the DfT and the feedback from discussions between the Executive Committee.

3.5 The following key points were raised and noted:

- 3.5.1 The next iteration of the Stocktake will be further refined in a shortened timescale to respond to the letter from Bernadette Kelly. Recommendations should be made more granular and robust to acknowledge the critical situation surrounding the escalation in cost and schedule.
- 3.5.2 The Board remain responsible and accountable for the Stocktake and the recommendations therein. The Executive Committee will be held accountable for the implementations of the agreed recommendations.
- 3.5.3 Consideration will be given to assigning a Non-Executive Director to proposed actions/ recommendations;
- 3.5.4 The Board Observer re-emphasised the importance of taking a more ambitious response – especially regarding the need to continually challenge the costs associated with Phase 1. The Chairman thanked the Board Observer for his input to the letter of response from the Permanent Secretary;
- 3.5.5 The Board noted the level of activity in the organisation on projects such as the capability assessments, scope option reviews and Baseline 7 etc. Wherever possible we should avoid nugatory work and duplication of effort;
- 3.5.6 It was recognised that the HS2 narrative must be made bolder and stronger in identifying the short, medium and long-range benefits of the programme. This would significantly improve the Benefit to Cost Ratio (BCR) and the strategic benefits of HS2 to the UK economy;
- 3.5.7 It is essential that data provided in the stock-take is accurate and validated. This is particularly important to the board in understanding and providing appropriate challenge to the Executive for cost and schedule;
- 3.5.8 The current draft iteration indicates a better level of assurance on costs than schedule;
- 3.5.9 The current draft iteration indicates a more mature position on Phase 1 than on Phase 2b;
- 3.5.10 The Board and the Executive Committee should consider the next steps and adequacy of the responses provided to the Stocktake;
- 3.5.11 There should be consideration for inclusion of a statement/ summary of activity for ~~--Section 36(b)(ii)--~~ and what mechanisms are being considered for Notice to Proceed;
- 3.5.12 It was noted that there is a review of the governance arrangements underway for the organisation post Notice to Proceed;
- 3.5.13 The Board discussed the scale and complexity of the programme. Euston is a huge project in its own right with numerous dependencies, interfaces and

complexities. The Board may wish to consider its role in managing the organisation as the scale and complexity continues to grow and what mechanisms/ changes it might make to adapt and evolve with this;

3.5.14 There are further steps to take with the interim draft in light of the impending changes to political leadership and documentation should incorporate the comments made at the meeting which will include bolder, more robust and quantified comments around the programme. Ultimately this document **COULD** be used to support DfT briefing material for a Secretary of State following the election of a new leader of the Conservative Party and subsequently a new Prime Minister;

3.5.15 The Board referenced the changing political landscape since the Chairman chose to conduct the Stocktake exercise. The document is presented and intended as a 'snapshot' at a moment in time;

3.5.16 Responses and actions to recommendations should be tangible, robust and deliverable;

3.5.17 The Board discussed the timing of the next iteration/ response to the Stocktake. It was agreed that the Company Secretary would convene an out of cycle board meeting to review the next iteration of the stock-take;

Action: Non Owen

3.5.18 The Board agreed that there should be a level of urgency for agreement of next steps however this should not force rash decisions;

3.5.19 The Board discussed the level of capability and bandwidth in the organisation to support this work;

3.5.20 The response/ next iteration of the Stocktake should also reference the structure, timeline and recruitment activity over the coming years;

3.5.21 The Chairman asked the Board Observer to support this activity by providing resource at an agreed stage of the process; and

3.5.22 The Board discussed the complexity of collaboration and co-operation between organisations such as NPR; TfN; Network Rail and Midlands Connect. Bernadette Kelly has already engaged with some of the groups and HS2 to attempt to create a more co-ordinated approach.

3.6 The Board noted the update.

4 CEO Report (HS2B_19-034)

4.1 The Board noted the report from the CEO for activity over June 2019.

4.2 The following key points were raised and noted:

- 4.2.1 There has been continuation of important engagement with political stakeholders through the month;
- 4.2.2 HS2 Ltd will appear at a Major Projects Review Group on 28 June 2019. The Board noted that the meeting is not for any decision and is more of a pre-cursor to Baseline 7;
- 4.2.3 Work continues to review lessons from Crossrail and other major programmes;
- 4.2.4 The Health and Safety Performance Indicator continues to improve;

4.2.5 -----Section 31-----

4.2.6 The Board discussed spend in the reporting month following an update from the CFO.

4.2.7 The request for budget and investment authority at the June Board meeting would need resolution prior to a robust quarter forecast being set by Management – but they did not wish to pre-empt the Board decision on this;

4.2.8 The Board noted that there has been a decision made on the application of VAT and this is in line with Management’s expected response. The Board noted that this position has been reflected in the Annual Report and Accounts;

4.2.9 The Board noted the scheduled level of planned activity for Land and Property in July;

4.2.10 Rolling Stock tenders have been received on 05 June 2019 -----
-----Section 43-----. The Board noted contract award is scheduled for March 2020;

4.2.11 The Board discussed the legally privileged paper regarding an active litigation matter. The Board approved the paper subject to any comments from the Department for Transport (DfT).

4.2.12 The Phase 2b Design Refinement Consultation (DRC) was launched on 06 June 2019 giving opportunity for stakeholders to comment on the 11 proposed amendments to design. It was agreed a summary of these amendments will be shared with the Board.

Action: Non Owen

4.2.13 Phase 2b is being reviewed in light of the Chairman’s Stocktake and what the core scope for this Phase is. Timing for a briefing to the Board will be agreed.

Action: Non Owen

4.2.14 A briefing and timing will be agreed for the Board on Section 36(b)(ii) and/or Project Atlas. The Board noted that there is good progress being made

but as these projects align to the Stocktake, the timing for an update has yet to be agreed.

Action: Non Owen

4.2.15 The Board noted that as a result of -----Section 36 and section 43-----

The Board approved delegation to the
Executive Committee for any -----
-----Section 36 and section 43-----

4.2.16 -----
-----Section 36 and section 43-----

4.2.17 -----
-----Section 36 and section 43-----

4.2.18 The Board made the above approvals subject to confirmation that the
organisation has not made any wider external commitments at the Public
Accounts Committee where -----Section 36-----

Action: Mark Thurston

4.2.19 The Board referenced the improved level of confidence in the organisation to
enable the Board to delegate this activity back to the Executive;

4.3 The Board received and noted the Management Information for May 2019. Project Atlas
activity was noted as to how to improve and streamline Management Information
without taking away any important information.

5 Report from Extraordinary Remuneration Committee 29 May 2019 (HS2B_19-036)

5.1 The Board received a verbal update from the Chair of the Remuneration Committee
following the meeting on 29 May 2019.

5.2 The Board noted that the Committee had considered recommendations for approvals
of:

5.2.1 Specific adjustments to the remuneration packages of those on the Executive
team (excluding the CEO) as part of the FY18/19 performance process;

- 5.2.2 Approval to finalise the bonus payments due to the CFO and COO respectively for the FY18/19 performance period (based on their performance against specific objectives agreed previously by the Committee);
- 5.2.3 Approval to the performance objectives for the CFO and COO respectively for the FY19/20 performance period;
- 5.2.4 Approval to appoint a new Phase 2 Managing Director, in line with the remuneration package recommended;
- 5.2.5 A proposal with respect to the distribution of salary adjustments for HS2 staff (eligible for an adjustment, other than the Executive); and
- 5.2.6 Approval from the Committee to three matters:
 - 5.2.6.1. The yearly salary adjustment for the HS2 CEO;
 - 5.2.6.2. The CEO's performance against the FY18/19 objectives (and hence the bonus entitlement); and
 - 5.2.6.3. The CEO's objectives for FY19/20
- 5.3 The Board noted that the Chairman had attended the meeting in an observatory capacity.
- 5.4 The Board discussed the reputational issues and scrutiny which can be associated with approvals of pay and bonuses however noted confirmation from the Committee of the detail and rigour to support the decisions made.
- 5.5 The Committee received an update on the progress of the Remuneration Review with DfT and HM Treasury which is a work in progress.
- 5.6 The Committee had considered the HR dashboard, attrition and absence data noting that there is now a process to understand reasons for staff resignations.
- 5.7 The Board noted the update.

6 Presentation To Support Items 07 And 08: Investment Authority Requests for Enabling Works Contracts and Main Works Civils Contracts ----- Section 43 -----

- 6.1 The Board received a presentation to provide context for the decisions being requested at items 07 and 08, namely requests for investment authority for Enabling Works and Main Works Civils Contracts to support the journey to Notice to Proceed.
- 6.2 The presentation provided updates to the Board on the Main Works Civils Joint Ventures following cost challenges given to them ----- Section 43 -----

- 6.3 The Board were reminded of the timeline for activity as presented to the 24 April 2019 Board meeting.
- 6.4 The Board received an overview of -----Section 43 ----- noting that two of the four Joint Ventures had been deemed fit to progress to -----Section 43 -----
- 6.5 Two of the four Joint Ventures have provisionally passed subject to executing significant actions.
- 6.6 Ed Smith joined the meeting.
- 6.7 The Board were advised of the process for capability scoring, noting that this was a two stage process.
- 6.8 The Board discussed the concept and scoring, agreeing with the method - however asking Management for detail as to -----Section 43 -----
- 6.9 Management discussed the requirement for the Joint Ventures to have the right teams, behaviours and capabilities as key.
- 6.10 The Board discussed the commitments made by the two Joint Ventures who have actions to address, noting that there have been responses and commitments as to:
-----Section 43 -----;
-----Section 43 -----;
-----Section 43 -----;
- 6.11 The Board discussed the -----Section 43 ----- of the Joint Ventures noting that one of these has made a commitment to -----Section 43 ----- by 01 August 2019.
- 6.12 The Board discussed the level of support and probing which has been required from HS2 Ltd to reach this stage in negotiations however it was agreed that this was good practice to do this as readiness for contract award with alternative options available if required.
- 6.13 The Board turned to discuss the Main Works Civils Contracts Joint Venture cost position following challenges given to the Joint Ventures to:
- 6.13.1 Drive cost opportunities;
 - 6.13.2 -----Section 43 -----
 - 6.13.3 Test appropriateness of the scope and/ or suppliers; and
 - 6.13.4 Document what has been agreed with the parties.

- 6.14 Management advises that the -----Section 43 -----
-----.
- 6.15 In managing the related workstreams to improve the position, -----
-----Section 43 -----.
- 6.16 The Board noted that there are HS2 Ltd assigned owners to the actions within the workstreams and these are monetarised.
- 6.17 It is important that HS2 Ltd remains a lean client and so there needs to be real confidence in the supply chain organisations to deliver.
- 6.18 An opportunity register remains under review and these have not yet been built into the reported numbers.
- 6.19 There are further potential programme wide and taxation opportunities.
- 6.20 The Board noted that subject to their approval of Management recommendations, sequenced negotiations will continue with the Joint Ventures up to September 2019 (subject to successful completion/ close out timed deliverables due before then)
- 6.21 Management summarised the status of the negotiations and recommended to the HS2 Ltd Board that all four Joint Ventures proceed, with two of these subject to -----
-----Section 43 -----.
- 6.22 The Board noted that one of the Joint Ventures has been notified that HS2 Ltd will also in parallel consider -----Section 43 -----
-----.
- 6.23 The Board discussed the outcome of the negotiations and made the following observations and comments:
- 6.23.1 The Board enquired as to whether a sense check had been applied to the -----
-----Section 43 ----- Management responded to advise that the current position and improvement in some cases had been due to the timing of submissions from the Joint Ventures, which have benefited from better maturity over the negotiation time.
- 6.23.2 Management confirmed that they are assured and confident in the reporting position, however more work is still required.
- 6.23.3 The Board commended Management for the quality of work produced and agreed that this should contribute to the Chairman's Stocktake.
- 6.23.4 The Board requested a check on the amber reported cost numbers.

6.23.5 The Board Observer raised a point of clarification on the detail of the Main Works Civils Contract paper. Management clarified that the paper presented to the Board refers to Project Representation review of the -----

-----Section 43 -----

----- Having issued this instruction there has been evidence of the benefit in value engineering.

6.24 The Board turned to discuss the investment scenarios noting the context for these and Management recommendations.

6.25 The Board were presented with four scenarios with detail of schedule position and impacts.

6.26 -----Section 36 and -Section 43 -----

6.27 Management are running Semi-Quantitative Risk Analysis which includes a staple schedule in the first week of July.

6.28 The Board reviewed the timeline of the programme noting that there was always due to be a big spending decision required to support Notice to Proceed and will be required from the Board in the future due to scale and complexity.

6.29 The long lead, detailed design and mobilisation for example were always envisaged and are included in the current Baseline for Phase 1.

6.30 The Board made the following observations and comments:

6.30.1 The Board agreed that there is even more transparency which can be supplied to support recommendation 1b to show the quantification of the balance post December 2019 and providing transparency on the spend position and continued commitment.

Action: Jim Crawford

6.30.2 The Board noted that there are terminate at will provisions contained in the recommended scenario.

6.30.3 The Board noted that certain scenarios will require formalisation with the Department for Transport in line with the Development Agreement.

6.30.4 An initial Accounting Officer assessment has been requested to provide a Value for Money test. It was agreed that any approvals will be conditional on the Board receiving the assessment.

Action: Mark Thurston

6.30.5 HS2 Ltd have corresponded with the Department for Transport on required levels of any further governance which needs to be formally agreed. It was agreed that any approvals will be conditional on the Board receiving confirmation of approval routes.

Action: Nicole Geoghegan

6.30.6 At the time of the Board meeting, the Board Observer confirmed that the current understanding was the recommended scenario was within the delegations of HS2 Ltd. A copy of the paper should still be taken to the Departments Board Investment and Commercial Committee for information.

Action: Jim Crawford

7 EWC Portfolio (HS2B_19-037)

7.1 Further to and based on the discussion minuted at item 06, the Board approved the adoption of scenario 1b, namely;

7.1.1 Authorisation of additional investment authority of ---Section 43 --- expenditure by the enabling works contractors up to -----Section 43 ----- (Notice to Proceed), as the best overall value for money scenario due to maintaining the BL7 schedule; and

7.1.2 Noting that this additional authority is funded by -----
-----Section 43 -----.

7.1.3 The approval was given subject to:

7.1.3.1. Confirmation of the Accounting Officer assessment of Value for Money;

7.1.3.2. Confirmation of the governance and approvals route; and

7.1.3.3. Sharing a copy of the outcome paper with the Departments Board Investment and Commercial Committee for information.

8 Main Works Civils Contracts -----Section 43 ----- (HS2B_19-038)

8.1 Further to and based on the discussion minuted at item 06, the Board:

8.1.1 Approved the adoption of scenario 1b on the basis that the four Joint Ventures have provided the confidence to pass Gateway 5;

8.1.2 Authorised investment authority of ---Section 43 --- for Main Works Civils Contracts detailed design, long lead items and critical advanced works up to ---

- Section 43 ---- (Noticed to Proceed), as the best overall value for money scenario due to maintaining the BL7 schedule;
- 8.1.3 Authorised additional investment authority for Stage 1 extension costs of ---Section 43 ---- from -----Section 43 -----; and
- 8.1.4 Agreed the additional authority is funded by a -----Section 43 -----
-----.
- 8.1.5 The approval was given subject to:
- 8.1.5.1. Confirmation of the Accounting Officer assessment of Value for Money;
 - 8.1.5.2. Confirmation of the governance and approvals route; and
 - 8.1.5.3. Sharing a copy of the outcome paper with the Departments Board Investment and Commercial Committee for information.

9 Ongoing financial monitoring of suppliers and update on the financial health of Phase 1 MWCC Suppliers (HS2B_19-039)

- 9.1 The Board noted the paper providing the Board with visibility of the ongoing financial monitoring of suppliers and an update on the financial health of the Phase 1 Main Works Civils Contract suppliers.
- 9.2 The following key points were raised and noted:
- 9.2.1 Daily alerts on changes in Failure Scores and Delinquency Scores are received to the business via Dun & Bradstreet (D&B) Supplier Portfolio Manager. These cover Tier 1 contractors and Tier 2/3 critical suppliers awarded or bidding for work in their supply chains. -----
-----Section 43 -----
-----.
 - 9.2.2 These daily alerts should be considered as a sift in a process for HS2 Ltd to further test with the supply chain. A sensibility check should be applied to a process driven tool.
 - 9.2.3 The Board discussed the need to be aware of reporting of parent companies and subsidiaries who may have differing accounting treatments and funding methods.
- 9.3 The Board noted the update.

10 Approval of the Corporate Plan (HS2B_19-040)

- 10.1 The Board received and discussed the 2018-2022 Corporate Plan.

- 10.2 The document had been released to the Board earlier than other papers to allow Board Members to provide any detailed comments in advance.
- 10.3 Detailed comments from Board Members had been received with no material issues identified by Board Members. The document will be updated with comments and shared with the Department for Transport and wider stakeholders.
- 10.4 The Board noted the document and some of its deliverables as requirements under the Framework Document.
- 10.5 The Board approved the 2018-2022 Corporate Plan which will be formalised/ agreed with the Department at the Shareholder Board meeting.

11 Report from the Audit and Risk Assurance Committee 03 June 2019 including Committee Chair Annual Opinion (HS2B_19-041)

- 11.1 The Board received the report from the Chair of the Audit and Risk Assurance Committee summarising the activities of the Audit and Risk Assurance Committee (ARAC) during 2018/19.
- 11.2 The report noted and supports the year end findings of both the Internal and External Auditors to DfT and makes recommendation to the HS2 Ltd Board and Accounting Officer to approve the Annual Financial Statements for laying in Parliament.
- 11.3 The Board received the report and findings, commenting that there could be more detail/ expansion on the improvements which might be sought
- 11.4 The Board discussed the areas of targeted improvements for the next financial year including strengthening controls leading to compliance based audit, stronger and continuous improvements of financial controls and improvements to operational controls around procurement and contracting.
- 11.5 The Board noted the update.

12 2018/2019 Annual Report and Accounts (HS2B_19-042)

- 12.1 The Board received the Annual Report and Accounts for financial year 2018/19, for signature by the Accounting Officer, and for onward submission to the Secretary of State for sign-off, prior to laying in Parliament and external publication.
- 12.2 The Board received the 'Letter of Representation' for signature by the Accounting Officer.

- 12.3 The Board noted the Going Concern Statement, the rationale for the statement and the key drivers to support the decision.
- 12.4 The Chair of the Audit and Risk Assurance Committee had agreed with the Chief Financial Officer an additional sentence related to going concern: As is the case for all capital projects funded by central government, future funding allocations for the period after 2021 are expected to be confirmed in an upcoming Spending Review (currently expected in 2019).
- 12.5 The Board approved the 2018/19 Annual Report and Accounts for signature by the Accounting Office and approved the letter of representation for signature by the Accounting Officer.

13 Strategic & Stakeholder Engagement Report (HS2B_19-043)

- 13.1 The Board noted the key activities of the Strategic and Stakeholder Engagement Department over the month.

14 Priorities for July Board to be agreed with the Chair and CEO (HS2B_19-044)

- 14.1 The Board noted the forward look of topics to be considered by the Board. Content for the July Board will be considered and agreed with the Chairman.
- 14.2 The Board noted that there will be a session on 30 July 2019 to consider strategic risks.

15 Any Other Business

- 15.1 The Board noted the upcoming Board Effectiveness Review. Remit of this review will be shared with the Board Members prior to its commencement.
- 15.2 The Board noted the status of the HS2 Improvement programme. It will be agreed with the Chairman as to whether an update is briefed at the July Board meeting.
- 15.3 Tom Kelly joined the meeting.
- 15.4 **The Board received a verbal update on the political strategic landscape. It was agreed that there would be a lines to take document shared with the Board.**

Action: Tom Kelly

- 15.5 The Board noted that the Department for Transport are also making preparations for any potential political changes including a summary of programmes with actions and next steps.